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BASE PROSPECTUS

IBERDROLA INTERNATIONAL B.V.

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

and

IBERDROLA FINANZAS, S.A.U.

(Incorporated with limited liability in the Kingdom of Spain)

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

Guaranteed by

IBERDROLA, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

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

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the **Prospectus Act 2005**) to approve this document as a base prospectus of the Issuers. By approving this Base Prospectus, the CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuers in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. References in this Base Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU, as amended) (**MiFID II**). The requirement to publish a prospectus under the Prospectus Directive (as defined below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each issue of Notes will be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer (such other or further stock exchanges or markets to include, if so agreed, the AIAF Mercado de Renta Fija (**AIAF**). Iberdrola International may also issue unlisted Notes.

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

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

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

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

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

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

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Arranger
Barclays
Dealers

Banco Bilbao Vizcaya Argentaria, S.A.
BNP PARIBAS
CaixaBank
Crédit Agricole CIB
HSBC
J.P. Morgan
Morgan Stanley
Santander

Barclays
BofA Merrill Lynch
Citigroup
Deutsche Bank
ING
Mizuho Securities
NatWest Markets
UniCredit Bank

The date of this Base Prospectus is 1 August 2018

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

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

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

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

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Guarantor or any of the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of either of the Issuers or the Guarantor since the date hereof or the date upon which this document has been most recently supplemented or that there has been no adverse change in the financial position of the Issuers or the Guarantor since the date hereof or the date upon which this document has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Arranger and the Dealers have not separately verified the information contained in this Base Prospectus. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuers, the Guarantor, the Arranger or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuers or the Guarantor during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

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

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

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

jurisdictions. The Issuers, the Guarantor and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the United Kingdom, the European Economic Area, The Netherlands, Spain and Japan.

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

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

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

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

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

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

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

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

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

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

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

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the Stabilisation Manager(s)) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (**MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (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 the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, 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 offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

BENCHMARK REGULATION

Amounts payable under the Notes may be calculated by reference to the Euro Interbank Offered Rate (**EURIBOR**) or the London Interbank Offered Rate (**LIBOR**) which are administered by the European Money Markets Institute (**EMMI**) and ICE Benchmark Administration Limited (**ICE**) respectively. As at the date of this Base Prospectus, ICE does appear and EMMI does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**)

pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the **BMR**). As far as the Issuers are aware, the transitional provisions in Article 51 of the BMR apply such that EMMI is not currently required to obtain authorisation or registration.

TABLE OF CONTENTS

	Page
RISK FACTORS	8
OVERVIEW OF THE PROGRAMME	29
DOCUMENTS INCORPORATED BY REFERENCE	35
TERMS AND CONDITIONS OF THE NOTES ISSUED BY IBERDROLA INTERNATIONAL	38
TERMS AND CONDITIONS OF THE NOTES ISSUED BY IBERDROLA FINANZAS	70
USE OF PROCEEDS	102
DESCRIPTION OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM OR WHILE IN THE NAME OF A NOMINEE FOR A CLEARING SYSTEM	103
DESCRIPTION OF THE GUARANTEE	109
DESCRIPTION OF IBERDROLA INTERNATIONAL B.V.	113
DESCRIPTION OF IBERDROLA FINANZAS, S.A.U.	114
DESCRIPTION OF IBERDROLA, S.A.	115
SUBSCRIPTION AND SALE	127
FORM OF FINAL TERMS	131
TAXATION	145
GENERAL INFORMATION	156

RISK FACTORS

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

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

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

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

Each Issuer has minimal share capital

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

Main risk factors associated with the activities of the Iberdrola Group

Credit risk

Iberdrola together with its subsidiaries (the **Iberdrola Group** and the **Group**) is exposed to credit risk arising from its counterparties' (including but not limited to customers, suppliers, financial institutions and partners) default on their contractual obligations. Exposure may arise with regard to unsettled amounts and the cost of substituting products not supplied, as well as, in the case of dedicated plants, to amounts where depreciation of such plants is pending.

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

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

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

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

Financial risk

Interest rate risk

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

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

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

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

The debt structure at 31 December 2017, once the hedge provided by the derivatives traded has been taken into account, is included in Note 5 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017.

Foreign currency risk

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

The following items could be affected by foreign currency risk:

- Collections and payments for supplies, services or equipment acquisition in currencies other than the local or functional currency.
- Income and expenses of certain foreign subsidiaries indexed in currencies other than the local or functional currencies.
- Debt and financial expense denominated in currencies other than the local or functional currency.
- Profit or loss on consolidation of foreign subsidiaries.
- Consolidated carrying amount of net investments in foreign subsidiaries.
- Expense for taxes in Mexico as the functional currency (U.S. dollar) differs from the currency used for calculating corporate taxes (Mexican peso).

The Iberdrola Group reduces these risks by:

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

- As far as possible, hedging the risks of transfer of earnings scheduled for the current year, thereby limiting the ultimate impact on the Group's earnings.
- Mitigating the impact on the consolidated net asset value of a hypothetical depreciation of currencies due to the Group's investment in foreign subsidiaries by maintaining foreign currency debt, as well as through financial derivatives.
- As far as possible, to cover the expense of the exchange rate risk in Mexican corporate taxes, limiting the overall impact on the earnings of the Group's entities in Mexico and of the Group as a whole.

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

The sensitivity of the consolidated profit and equity of the Group to changes in the U.S. dollar/euro, pounds sterling/euro and Brazilian real/euro exchange rates, respectively, is described in Note 5 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017.

Detailed information about interest rates and currencies of the Group's debt can be found in Note 26 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017.

Liquidity risk

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

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

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

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

Country risk

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

- Imposition of monetary and other restrictions on the movement of capital.
- Changes in the trade environment and taxes and administrative policies.
- Changes in the market.
- Economic crises, political instability and social riots which affects operations.
- Nationalisation or expropriation of assets.
- Exchange rate fluctuations.
- The cancellation of operating licences.
- Anticipated termination of government contracts.
- Regulatory changes.

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

The main operations of the Iberdrola Group are concentrated in Spain, the United Kingdom, the United States, Brazil and Mexico, considered to be low to moderate-risk countries, the credit ratings of which are as follows as of 13 June 2018:

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

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

Activity risk

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

The operational data of installed capacity given in this Base Prospectus is as of 31 March 2018, unless otherwise stated.

Regulatory risk

Companies in the Iberdrola Group are subject to laws and regulations concerning prices and other aspects of their activities in each of the countries in which they operate. For further details on the legislative and regulatory context in which the Iberdrola Group operates, see also the section entitled "*Description of Iberdrola – Regulation*" herein. The introduction of new laws and regulations or amendments to the already existing laws and regulations, may have an adverse effect on the Group's operations, annual results and the economic value of its businesses.

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

- <u>Spain</u>

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

- <u>United States</u>

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

- Brazil

  Approvals by the Brazilian regulator ANEEL of the terms of the new regulatory periods for Celpe, on April 2017, valid for a period of four years, and for Coelba and Cosern, on April 2018, valid for a period of five years, in both cases in terms satisfactory for the Group.

- Mexico

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

- United Kingdom

  Recently, the British government has decided to set a maximum price for the gas and electricity tariffs with a model where customers pay a "standard variable tariff". Throughout 2018, the British government will carry out a question and answer procedure on the calculation method of said maximum price, which is not expected to enter into effect until 2019. In any case, the setting of this maximum price is expected to negatively affect the retail business results of the Group in the United Kingdom.

Network business risk

The Iberdrola Group is present, through its network businesses, in Spain, in the United Kingdom, in the United States (through Avangrid Inc.) and in Brazil (through Neoenergia). The regulations in each country in which the Iberdrola Group's network businesses operate establish regularly revised frameworks, guaranteeing that these businesses will receive reasonable and predictable returns. These frameworks include penalties and bonuses for efficiency, service quality and, eventually, for default management, which have a minor, immaterial impact overall. Significant amendments to these regulations could pose a risk to these businesses.

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

The Iberdrola Group's network business in Spain and in the United Kingdom are not exposed to any market risk associated with energy prices.

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

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

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

- Network business in Spain

  The present regulatory model is based on Electric Industry Law 24/2013 of 26 December, establishing six-year regulatory periods and profitability for distribution activity calculated on 10 year government

bonds plus 200 basis points. Profitability was set at 6.5 per cent. for the first regulatory period, finalising in December 2019. Fluctuation of the financial remuneration rate used between two consecutive years may not exceed 50 basis points in absolute value.

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

- Network business in the United Kingdom

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

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

The weighted average cost of capital (**WACC**) is set for each tariff period. The current real WACC after tax recognised for distribution activities was 3.67 per cent. from January to March 2017, and 3.59 per cent. from April to December 2017, whereas for transmission activities it was 4.46 per cent. from January to March 2017 and 4.37 per cent. from April to December 2017.

The current regulatory model for SPD and SPM is based on the RIIO ED1 framework, and on the RIIO T1 framework in the case of SPT. The latest tariff review for electricity distributors (RIIO ED1), including SPD and SPM, is valid from April 2015 to April 2023. The SPT review (RIIO T1) is valid from April 2013 to April 2021.

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

- Network business in the United States

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

- NYSEG, New York, with a 3-year rate tariff valid until 2019 (base return on equity (**ROE**) 9 per cent. for distribution).
- RG&E, New York, with a 3-year rate tariff valid until 2019 (base ROE 9 per cent. for distribution).
- Central Maine Power (**CMP**), Maine, conducting electricity distribution business with an annual extendable rate tariff (base ROE 9.45 per cent. for distribution) and transmission business (base ROE 10.57 per cent.).
- United Illuminating, Connecticut, with rates in force for conducting electricity distribution business (base ROE 9.1 per cent.) and transmission business (base ROE 10.57 per cent.).
- It also has the following natural gas distribution companies: Maine Natural Gas Corporation, Connecticut Natural Gas, Southern Connecticut Gas and Berkshire Gas.

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

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

- Network business in Brazil

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

- Elektro Redes, S.A. (**Elektro**) (in the states of Sao Paolo and Mato Grosso do Sul), current rates until August 2019 and WACC of 8.09 per cent.;
- Companhia de Eletricidade do Estado do Bahia (**Coelba**), operating in the state of Bahía. Rates in force until April 2023 and WACC of 8.09 per cent.;
- Celpe Energetica de Pernambuco S.A. (**Celpe**), operating in the state of Pernambuco. Rates in force until April 2021 and WACC of 8.09 per cent.;
- Companhia Energética do Rio Grande do Norte (**Cosern**), operating in the state of Rio Grande do Norte. Rates in force until April 2023 and WACC of 8.09 per cent.; and
- Several transmission assets with their own regulation.

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

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

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

ANEEL also acknowledges other smaller incentives to minimise default and impairment of quality and customer dissatisfaction that can affect the income statement. Pursuant to current legislation, electricity distribution companies:

a) transfer the cost of supplying electricity to the end customer through the regulated tariff, provided the energy contracted is between 100 per cent. and 105 per cent. of the demand required.

b) face penalties imposed by the regulator ANEEL when the energy contracted is less than 100 per cent. due to the exclusive responsibility of the distributor.

c) face price fluctuations when the energy contracted is above 105 per cent.

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

Renewables Business

The Iberdrola Group is present, through its renewable energy businesses, in Spain, in the United Kingdom, in the United States (through Avangrid Inc.), in Mexico and in Brazil (through Neoenergia). The regulations of each country in which the Group operates establish regulatory frameworks aimed at promoting the development of renewable energies based on formulas which may include premiums, green certificates, tax

or regulated tariff deductions, which allow investors to obtain sufficient and reasonable returns. Any change to the aforementioned regulation may represent a risk for said business.

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

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

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

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

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

- <u>Renewables business in Spain</u>

  The Group currently has a renewable installed capacity in Spain of 15,820 MW: 5,752 MW of wind farms, 9,715 MW of large hydro, 303 MW of mini hydro and 50 MW of solar thermal.

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

  - The reasonable rate of return of the investments is defined on the basis of the average yield on 10 year government bonds plus 300 basis points (that is, 7.4 per cent. for the first six-year period ending on 31 December 2019).

  - This return is readjusted every three years within predetermined bands to cover any possible deviation in market price.

  - The facilities that began operating in 2003 or before have a null premium, and therefore are fully exposed to market risks, similar to large hydro plants, which are not under the scope of the above regulation.

- <u>Renewables business in the United Kingdom</u>

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

envisages producing, and determine the price at which the rest must buy, which in practice amounts to a floor price at the price of the ROCs.

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

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

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

- Renewables business in other European countries

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

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

The Group has been awarded and is currently developing two important wind offshore projects in Germany (Wiking Sud and Baltic Eagle, with a total capacity of 486 MW) and one in France (Saint Brieuc, with a total capacity of 496 MW, of which 70 per cent. belongs to the Group). They are expected to be operating commercially by 2022-2023.

- Renewables business in the United States

The Iberdrola Group conducts its renewables business in the United States through its listed company Avangrid Inc., which has an installed capacity of 6,387 MW in onshore wind plants, 119 MW of large hydro and 119 MW of solar.

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

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

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

- Renewables business in Mexico

In Mexico, the business now has an installed capacity of 367 MW in operational onshore wind plants and 146 MW of solar. The business operates through two sale schemes: a) fixed-price sale to the CFE (*Comisión Federal de Electricidad* or the Federal Electricity Commision) on a long-term contract basis and b) sale to third parties with a discount on the official price published by the CFE. In addition, 325 MW of wind and 270 MW of solar plants are being constructed.

The new tariff methodology approved in December 2017 reduces the business' exposure to market prices of different commodities in international markets.

- Renewables business in Brazil

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

  In Brazil the Group also has 2,174 MW of hydraulic generation, of which approximately 80 per cent. is sold to local electricity distributors through long-term PPA contracts. The rest of the production is sold to qualified customers with an expectation of between one and two years, according to Brazilian market prices.

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

Generation and Retail businesses

The main variable that affects the Group's results in terms of raw materials' market price is the electricity price. However, in many countries, electricity prices are strongly correlated with the price of the fuels used in their production. Therefore, risk studies are carried out on fuel price trends and CO_2 emission trends. These price risks are not only noticeable in the electricity generation and retail business but also in the following activities, with a much lower weight in the business' total results:

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

- Unhedged energy transactions (discretionary trading).

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

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

- Generation and retail businesses in Spain

  The Group in Spain accounts for a total of 10,114 MW, of which 3,177 MW are nuclear, 5,695 MW are combined cycle capacity, 368 MW are cogeneration and 874 are coal capacity.

  Commodity price risk

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

The price of CO_2 emission allowances influences the cost of production in coal-fired power plants. With carbon prices around 15 euro/tonne, a 5 per cent. change in the prices could give rise to an impact of ±8 million euro on operating results.

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

Demand risk

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

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

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

Risks in connection with nuclear power plants

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

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

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

- <u>Generation and retail business in the United Kingdom</u>

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

Commodity price risk

In a market like the British one, geared towards thermal power generation, the clean spark spread has become the appropriate index to follow the uncertainty of the margins of gas-fired power plants. Despite the fact that commodities (coal, CO_2 and electricity) are listed separately, the uncertainty of the unit margin is studied since it has been detected that it is a better indicator of the uncertainty of the results. With clean spark spread levels around 4 GBP/MWh, a 5 per cent. change in the spreads could give rise to an impact of ± 7 million euro on operating results, but a greater or sudden fluctuation could have an adverse effect on the Group's operations, annual results and the economic value of its businesses.

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

Demand risk

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

- <u>Generation and retail business in Mexico</u>

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

Commodity price risk

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

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

The remaining energy is sold to customers at a price linked to the official tariffs published by the CFE. Said tariffs depend on the cost of the inherited contracts (originating before the recent reform of the electricity sector) and on the market price of electricity.

Demand risk

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

- <u>Generation and retail business in Brazil</u>

The Group had 533 MW of combined cycle capacity in Brazil, of which approximately 100 per cent. was sold under long-term PPA contracts with local electricity distributors. The rest of the production is

sold to qualified customers with an expectation of between one and two years, according to Brazilian market prices. With market prices in the area of 220 R$/MWh, a price fluctuation of 5 per cent. would affect the results by some 4 million euro.

- Gas supply operations

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

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

  Gas supply in Mexico is secured through long-term agreements with PEMEX and CFE at a price linked to international natural gas prices in the US or contracting in the United States and, therefore, at a price that depends on the same gas prices in that country.

- Discretionary trading

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

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

Operational risks

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

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

- Risk of malfunctions, explosions, fire, toxic spillages or polluted emissions in gas and electricity distribution networks and generating plants.

- Risks concerning extreme meteorological conditions and other instances of force majeure.

- Risk of sabotage and/or terrorism.

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

Although many of these risks are unpredictable, the Iberdrola Group mitigates them by carrying out the necessary investments, implementing operation and maintenance procedures and programmes (supported by

quality control systems), planning appropriate employee training, and taking out the required insurance covering both material damages and civil liability.

In relation to the insurance cover, the Iberdrola Group has international insurance programmes to cover equity (insurance for material damages, machinery breakdowns, loss of profits, damages from natural disasters and risks arising from construction work) and third-party liabilities (general civil liability, liability for environmental risks, professional civil liability, cybersecurity, etc.). However, this insurance does not completely eliminate operational risk, since it is not always possible, or it is not in the Iberdrola Group's interest to pass such risk on to insurance companies. In addition, the insurance coverage is always subject to certain limitations.

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

Environmental and climate change risks

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

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

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

- More extreme climate situations that impact the generation and distribution assets, such as greater operation and maintenance costs, and insurance premiums.

- Fluctuations in wind and hydraulic resources.

- Fluctuation in the gas and electricity demand levels (due to the effects of temperatures).

- Decrease of the profits forecasted for existing thermal plants (due to regulatory restrictions, CO_2 prices, operational events etc.).

- Impact on the wholesale electricity market due to massive development of renewables.

- Legislative and regulatory changes.

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

Operational risk of operations in markets

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

This risk is mitigated by following the operational risk policy when trading on the market based on a robust risk control culture, a proper segregation of duties, the publication of clear processes and policies and secure

and flexible information systems. This policy sets specific thresholds and guidelines applicable to all trades performed in accordance with the principle of proportionality.

Risks in connection with cybersecurity

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

These risks are managed in accordance with the basic principles of the cybersecurity policy, which takes the necessary measures to guarantee secure usage of information and communications systems and other cyber-assets, bolstering detection, prevention, defence and response capacities to counter cyberattacks. In order to further mitigate the cybersecurity risks, the Group currently has specific insurance protection against cyber risks under the terms allowed by the market, which will be regularly reviewed in view of the rapid evolution and extensive variety of cyber risks.

Legal risks

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

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

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union (referred to as **Brexit**) and on 29 March 2017, the United Kingdom formally served notice to the European Council of its desire to withdraw. This process is unprecedented in European Union history and one that could involve years of negotiation to agree a withdrawal agreement in accordance with Article 50 of the Treaty on European Union. At the date of this Base Prospectus the final result of the negotiations is unknown.

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

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

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

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

There is no active trading market for the Notes

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

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the relevant Issuer

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

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

Fixed/Floating Rate Notes

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

Notes issued, if any, as "Green Bonds" may not be a suitable investment for all investors seeking exposure to green assets

In connection with the issue of "Green Bonds" under the Programme, a sustainability rating agency or sustainability consulting firm may be requested to issue a second-party opinion confirming that the Eligible Green Projects (as defined under "*Use of Proceeds*" below) have been defined in accordance with the broad categorisation of eligibility for green projects set out by the International Capital Market Association (ICMA) Green Bond Principles (GBP) and/or a second-party opinion regarding the suitability of the Notes as an investment in connection with certain environmental and sustainability project (any such second-party opinion, a **Second-party Opinion**). A Second-party Opinion may not reflect the potential impact of all risks

related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes or the projects financed or refinanced toward an amount corresponding the net proceeds of the relevant issue of Notes in the form of "Green Bonds". A Second-party Opinion would not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is released. In addition, although the Guarantor may agree at the time of issue of any Green Bonds to certain reporting and use of proceeds (including in the case of certain divestments described under "*Use of Proceeds*") it would not be an event of default under the Notes if the Guarantor were to fail to comply with such obligations. A withdrawal of the Second-party Opinion may affect the value of such Notes and/or may have consequences for certain investors with portfolio mandates to invest in green assets. Notes issued, if any, as "Green Bonds" may not be a suitable investment for all investors seeking exposure to green assets.

The regulation and reform of benchmarks may adversely affect the value of Notes referencing such benchmarks

Interest rates and indices, such as the London Interbank Offered Rate (**LIBOR**) and the Euro Interbank Offered Rate (**EURIBOR**), which are deemed to be "benchmarks" are the subject of recent national and international 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, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

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

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

Following the implementation of any potential reforms, benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of LIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes referencing such benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes referencing a benchmark. In particular, prospective investors should be aware that in relation to Floating Rate Notes relating to LIBOR or any other such benchmarks where Screen Rate Determination is specified, the Notes contain the fallback provisions described under Condition 5(b)(*Interest on Floating Rate Notes*) of the Notes (see "*Terms and Conditions of the Notes*"). The operation of such provisions, being dependent in part upon the provision by the Reference Banks of offered quotations, is subject to market circumstances and the availability of rates information at the relevant time. If such quotations are not available, the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date and, if LIBOR or any other relevant benchmarks are discontinued, the same Rate of Interest may continue to be the Rate of Interest for each successive Interest Accrual Period until the maturity of the Notes so that the Notes will, in effect, become Fixed Rate Notes utilising the relevant benchmark rate last available. Any of the foregoing could have an adverse effect on the value or liquidity of and return on any Floating Rate Notes which reference such benchmarks.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is a "LIBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate determined on the basis of quotations from certain banks. If LIBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the BMR reforms in making any investment decision with respect to any Notes referencing a benchmark.

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

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

Modification, waivers and substitution

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

Change of law

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

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

Iberdrola Finanzas considers that, pursuant to the provisions of Foral Decree of the territory of Vizcaya 205/2008, of 22 December (**Foral Decree 205/2008**) and Royal Decree 1065/2007, it is not obliged to withhold taxes in Spain on any interest paid under the Notes to any Noteholder, irrespective of whether such Noteholder is tax resident in Spain or not. The foregoing is subject to the fulfilment of certain information procedures described in "*Taxation in Spain - Disclosure of Information in Connection with the Notes*" below.

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

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

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

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

The Proposed Financial Transaction Tax (FTT)

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

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the 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.

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

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

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

Risks arising under the Spanish Insolvency Law

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

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

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

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

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

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

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

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

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

Risks related to the market generally

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

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

OVERVIEW OF THE PROGRAMME

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

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

Issuers:	Iberdrola International B.V. and Iberdrola Finanzas, S.A.U. (each an **Issuer** and together, the **Issuers**)
Iberdrola International Legal Entity Identifier (**LEI**):	549300ZMLFJKWC63XN87
Iberdrola Finanzas LEI:	5493004PZNZWWBOUV388
Guarantor:	Iberdrola, S.A. (the **Guarantor**)
Description:	Guaranteed Euro Medium Term Note Programme (the **Programme**).
Arranger:	Barclays Bank PLC.
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, CaixaBank, S.A., Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc, NatWest Markets Plc and UniCredit Bank AG. The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons which are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent:	The Bank of New York Mellon, London Branch.
Size:	Up to Euro 20,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Issuers and the Guarantor have the option, subject to the fulfilment of certain conditions, to increase the size of the Programme.
Currencies:	Subject to compliance with all relevant laws, regulations and directives,

Notes may be issued in Euro, U.S. Dollars, Australian dollars, Canadian dollars, Danish krone, Hong Kong dollars, New Zealand dollars, pounds sterling, Swedish kronor, Swiss francs or Japanese yen or in other currencies if the relevant Issuer, the Guarantor and the Dealers so agree.

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

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

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

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

Form of Notes: The Notes may be issued in bearer form only (**Bearer Notes**), in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) or in registered form only (**Registered Notes**). Bearer Notes may be issued in

new global note (**NGN**) form. Unless otherwise specified in the Final Terms, each Tranche of Bearer Notes having an initial maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note which (a) in each case, will (i) if the Global Notes are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**); and (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg, or (b) in the case of a Tranche intended to be cleared through a clearing system other than or in addition to Euroclear and Clearstream, Luxembourg or delivered outside a clearing system, be deposited as agreed between the relevant Issuer and the relevant Dealer. No interest will be payable in respect of a temporary Global Note except as described under "Description of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System". Interests in temporary Global Notes will be exchangeable for interests in permanent Global Notes or, if so stated in the relevant Final Terms, for definitive Bearer Notes after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership or (in the case of Exchangeable Bearer Notes) definitive Registered Notes at any time after the issue date. If specified in the relevant Final Terms, interests in permanent Global Notes will be exchangeable for definitive Bearer Notes or (in the case of Exchangeable Bearer Notes) definitive Registered Notes as described under "Description of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System". Registered Notes will be represented by certificates (each a **Certificate**), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series and may be represented by a Global Certificate. Registered Notes which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Certificate is not to be held under the new safekeeping structure (**NSS**), in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee or (ii) if the Global Certificate is to be held under the NSS, in the name of a nominee of the Common Safekeeper, and the relevant Certificate(s) will be delivered to the appropriate depositary, common depositary or Common Safekeeper, as the case may be.

Issue Price: Notes may be issued at their principal amount or at a discount or premium to their principal amount. The Issue Price will be specified in the relevant Final Terms.

Fixed Rate Notes: Interest on Fixed Rate Notes will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

Floating Rate Notes: Floating Rate Notes will bear interest set separately for each Series by reference to EURIBOR or LIBOR as adjusted for any applicable margin as specified in the applicable Final Terms.

Zero Coupon Notes: Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.

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

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

	further stock exchanges or markets, to include, if so agreed, the AIAF). Iberdrola International may also issue unlisted Notes. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Rule 144A:	Offers and sales in accordance with Rule 144A under the Securities Act will be permitted if specified in the relevant Final Terms, subject to compliance with all relevant legal and regulatory requirements of the United States of America.
Selling Restrictions:	United States, European Economic Area, United Kingdom, The Netherlands, the Kingdom of Spain and Japan. See "Subscription and Sale". In connection with the offering and sale of a particular Tranche of Notes, additional selling restrictions may be imposed which will be set out in the relevant Final Terms.
Substitution:	The Issuers and the Guarantor may, subject to the fulfilment of certain conditions, substitute the relevant Issuer. See Condition 15 (*Substitution of either Issuer*).

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola International for the financial year ended 31 December 2017;

(b) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola International for the financial year ended 31 December 2016;

(c) an English translation of the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola Finanzas for the year ended 31 December 2017;

(d) an English translation of the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola Finanzas for the financial year ended 31 December 2016;

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

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

(g) an English translation of the unaudited consolidated interim financial statements of the Guarantor for the six months ended 30 June 2018;

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

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

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

(k) the Terms and Conditions of the Notes set out on pages 31 to 94 (inclusive) of the Base Prospectus of Iberdrola International and Iberdrola Finanzas dated 22 June 2016 prepared by Iberdrola International and Iberdrola Finanzas in connection with the Programme; and

(l) the Terms and Conditions of the Notes set out on pages 34 to 97 (inclusive) of the Base Prospectus of Iberdrola International and Iberdrola Finanzas dated 28 July 2017 prepared by Iberdrola International and Iberdrola Finanzas in connection with the Programme.

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

Information incorporated by reference	*Page number*
Iberdrola International B.V.	
Annual report for 2017	
Independent auditor's report	34-40

Directors' report	3-8
Balance sheet	10
Profit and loss account	11
Accounting policies and explanatory notes	13-32

Annual report for 2016

Independent auditor's report	28-33
Directors' report	3-6
Balance sheet	8
Profit and loss account	9
Accounting policies and explanatory notes	11-25

Iberdrola Finanzas, S.A.U.

Annual report for 2017

Independent audit report	Cover pages
Balance sheet	2
Income statement	3
Statement of changes in equity	4-5
Cash flow statement	6
Notes to the financial statements	7-26
Directors' report	27-28
Proposed application of losses	29

Annual report for 2016

Independent audit report	Cover pages
Balance sheet	2
Income statement	3
Statement of changes in equity	4-5
Cash flow statement	6
Notes to the financial statements	7-25
Management report	26
Proposed appropriation of income	27

Iberdrola, S.A.

Annual report for 2017 (including audited consolidated annual financial statements)

Audit report	Cover pages
Consolidated statements of financial position	5-6
Consolidated income statements	7
Consolidated statements of comprehensive income	8
Consolidated statements of changes in equity	9-10
Consolidated statements of cash flow	11
Notes to audited consolidated annual financial statements	12-185
Appendix II — Industry regulation and functioning of the electricity and gas system	201-254

Annual report for 2016 (including audited consolidated annual financial statements)

Audit report	Cover pages
Consolidated statements of financial position	5-6
Consolidated income statements	7
Consolidated statements of comprehensive income	8
Consolidated statements of changes in equity	9-10
Consolidated statements of cash flow	11
Notes to audited consolidated annual financial statements	12-178

Interim report for first half 2018

Profit and loss	8-9
Balance sheet	6-7

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

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

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

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

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

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

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

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

The euro medium term notes (the **Notes**) are issued pursuant to an amended and restated agency agreement (as amended or supplemented from time to time, the **Agency Agreement**) dated 1 August 2018 between Iberdrola Finanzas, S.A.U., Iberdrola International B.V. (the **Issuer**), lberdrola, S.A. (the **Guarantor**), The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**), paying agent and transfer agent, The Bank of New York Mellon SA/NV, Luxembourg Branch as paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the **Paying Agents**, and each a **Paying Agent**), as transfer agent (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the **Transfer Agent**) and as registrar (the **Registrar**) and with the benefit of a deed of covenant (the **Deed of Covenant**) dated 1 August 2018 executed by the Issuer in relation to the Notes. The Guarantor has, for the benefit of the Noteholders from time to time, executed and delivered a deed of guarantee dated 1 August 2018 (the **Deed of Guarantee**) under which it has guaranteed the due and punctual payment of all amounts due by the Issuer under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The Noteholders (as defined below), the Holders of the interest coupons (the **Coupons**) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are deemed to have notice of all of the provisions of the Agency Agreement applicable to them. As used in these terms and conditions (the **Conditions**), **Tranche** means Notes which are identical in all respects. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

1. Form, Specified Denomination and Title

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

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

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

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

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

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

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

(a) Exchange of Exchangeable Bearer Notes

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

(b) Transfer of Registered Notes

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

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

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

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

(d) Delivery of new Certificates

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

(e) Exchange free of charge

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

(f) Closed periods

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

(g) Restricted Securities

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

3. Status and Guarantee

(a) Status of Notes

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

(b) Guarantee

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

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

4. Negative Pledge

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

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

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

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

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

(b) For the purposes of these Conditions

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

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

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

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

Subsidiary means, at any particular time, any company which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the first person and/or one or more of its subsidiaries. For a company to be “controlled” by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

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

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

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

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

(ii) Business Day Convention

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

(iii) Rate of Interest for Floating Rate Notes

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

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

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

(C) Linear Interpolation

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

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

(c) Interest on Zero Coupon Notes

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

(d) Accrual of Interest

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

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

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

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

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

(f) Calculations

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

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

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

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

(h) Definitions

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Relevant Business Day means:

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

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

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

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

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

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

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

(i) Change of Interest Basis

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

(j) Calculation Agent

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

6. Redemption, Purchase and Options

(a) Final Redemption

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

(b) Redemption for taxation reasons

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

(c) Purchases

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

(d) Early Redemption of Zero Coupon Notes

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

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

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

(e) Redemption at the Option of the Issuer

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

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

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

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

newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort)* a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered. So long as the Notes are listed and/or admitted to trading on any other exchange, notices required to be given to the Holders of the Notes shall also be published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are listed and/or admitted to trading.

In these Conditions:

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

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

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

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

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

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

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

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

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

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

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

Remaining Term Interest means with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined by the Financial

Adviser on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer in accordance with this Condition 6(e).

(f) Residual Maturity Call Option

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

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

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

(g) Redemption following a Substantial Purchase Event

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

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

A **Substantial Purchase Event** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Notes is purchased by the Issuer, the Guarantor or any Subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(j));

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

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

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

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

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

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

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

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

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

Optional Redemption Amount means an amount equal to par.

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

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

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

specified in the Put Option Notice on the Optional Redemption Date via the relevant account holders.

(i) Redemption at the Option of the Noteholder

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

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

(j) Cancellation

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

(k) Other Notes

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

7. Payments and Talons

(a) Bearer Notes

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

(b) Registered Notes

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

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

(c) Payments in the United States

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

(d) Payments Subject to Law, etc

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

(e) Appointment of Agents

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent and to appoint additional or other agents provided that the Issuer and the Guarantor will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent having a specified office in at least two major European

cities (including Luxembourg so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require) in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) Paying Agents having a specified office in at least two major European cities (including Luxembourg so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require), (vi) a Paying Agent having a specified office in a city in Continental Europe outside the European Union and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed.

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

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

(f) Unmatured Coupons and unexchanged Talons

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

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

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

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

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

(g) Talons

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

(h) Non-Business Days

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

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

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

(i) Redenomination, Renominalisation and Reconventioning

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

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

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

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

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

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

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

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

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

(iv) *Interpretation*: In this Condition:

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

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

8. Taxation

(a) Additional Amounts

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or (as the case may be) the Guarantor under the Deed of Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or any authority therein or thereof having power to tax (in the case of the Issuer), or the Kingdom of Spain or any authority therein or thereof having power to tax (in the case of the Guarantor) (each a **Taxing Authority**), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or required pursuant to an agreement described in Section 1471(b) of the Code. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and the Coupon holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes or (as the case may be)

Coupons, in the absence of such withholding or deduction. Notwithstanding this, no additional amounts shall be payable with respect to any payment in respect of any Note or Coupon or (as the case may be) under the Deed of Guarantee:

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

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

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

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

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

(b) Tax Credit Payment

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

(c) Tax Credit Clawback

If any Holder makes any payment to the Issuer or, as the case may be, the Guarantor pursuant to this Condition and such Holder subsequently determines in its sole opinion, that the credit, relief, remission or repayment in respect of which such payment was made was not available or has been

withdrawn or that it was unable to use such credit, relief, remission or repayment in full, the Issuer or, as the case may be, the Guarantor shall reimburse such Holder such amount as such Holder determines in its sole opinion, is necessary to place it in the same after tax position as it would have been in if such credit, relief, remission or repayment had been obtained and fully used and retained by such Holder, such amount not exceeding in any case the amount paid by the Holder to the Issuer or, as the case may be, the Guarantor.

(d) Tax Affairs

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

(e) Definitions

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

9. Prescription

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

10. Events of Default

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

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

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

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

Paragraph (c)(i) shall not apply to Relevant Indebtedness which was incurred before 27 July 2007, provided that this exception shall not be applicable if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

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

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

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

(g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution (*ontbinding en vereffening*) or administration of the Issuer or the Guarantor or any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Relevant Subsidiary or (B)

any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or the Guarantor or another Relevant Subsidiary or (iii) in the case of the Issuer, whereby the undertakings or assets of the Issuer are transferred to or otherwise vested in the Guarantor; or (iv) to comply with any mandatory requirements set forth by any regulation, directives or rules issued by the Spanish government or the relevant administrative authority in connection with the reorganisation of the Spanish electricity sector; or

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

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

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

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

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

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

11. Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

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

Extraordinary Resolution, will only be binding if passed at a meeting of the Noteholders (or at any adjournment thereof) at which a special quorum (provided for in the Agency Agreement) is present.

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

(b) Modification of Agency Agreement

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

12. Replacement of Notes, Certificates, Coupons and Talons

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

13. Further Issues

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

14. Notices

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

Notices to the Holders of Bearer Notes will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times).* With respect to Bearer Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, any notice must be also published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort).* If any such publication is not practicable, notice will be validly given if published in another leading

English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

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

So long as the Notes are listed and/or admitted to trading, notices required to be given to the Holders of the Notes pursuant to these Conditions shall also be published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are listed and/or admitted to trading.

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

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

15. Substitution of the Issuer

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

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

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

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

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

(v) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of

the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;

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

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

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

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

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

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

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

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

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

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

16. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court or any jurisdiction in connection with, the winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the

relevant Note or Coupon which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note or Coupon, the Issuer, failing whom the Guarantor, shall indemnify the Noteholder or Couponholder, as the case may be, against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgment or order.

17. Governing Law and Jurisdiction

(a) Governing Law

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

(b) English courts

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

(c) Appropriate forum

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

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

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

(e) Process Agent

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to SPW Investments Limited, 4th Floor, 1 Tudor Street, London, EC4Y 0AH, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the specified office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any

Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and not to Proceedings elsewhere.

18. Rights of Third Parties

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

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

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

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

The euro medium term notes (the **Notes**) are issued pursuant to an amended and restated agency agreement (as amended or supplemented from time to time, the **Agency Agreement**) dated 1 August 2018 between Iberdrola Finanzas, S.A.U. (the **Issuer**), Iberdrola International B.V., lberdrola, S.A. (the **Guarantor**), The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**), paying agent and transfer agent, The Bank of New York Mellon SA/NV, Luxembourg Branch as paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the **Paying Agents**, and each a **Paying Agent**), as transfer agent (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the **Transfer Agent**) and as registrar (the **Registrar**) and with the benefit of a deed of covenant (the **Deed of Covenant**) dated 1 August 2018 executed by the Issuer and Iberdrola International B.V. in relation to the Notes. The Guarantor has, for the benefit of the Noteholders from time to time, executed and delivered a deed of guarantee dated 1 August 2018 (the **Deed of Guarantee**) under which it has guaranteed the due and punctual payment of all amounts due by the Issuer and Iberdrola International B.V. under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The Noteholders (as defined below), the Holders of the interest coupons (the **Coupons**) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are deemed to have notice of all of the provisions of the Agency Agreement applicable to them. As used in these terms and conditions (the **Conditions**), **Tranche** means Notes which are identical in all respects. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. If so required by Spanish law, the Issuer will execute a public deed (*escritura pública*) (the **Public Deed**) before a Spanish public notary in relation to the Notes and will register the Public Deed with the Commercial Registry of Biscay. The Public Deed will contain, among other information, the terms and conditions of the Notes.

1. Form, Specified Denomination and Title

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

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

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

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

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

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

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

(a) Exchange of Exchangeable Bearer Notes

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

(b) Transfer of Registered Notes

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

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

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

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

(d) Delivery of new Certificates

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

(e) Exchange free of charge

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

(f) Closed periods

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

(g) Restricted Securities

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

3. Status and Guarantee

(a) Status of Notes

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

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

(b) Guarantee

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

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

4. Negative Pledge

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

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

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

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

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

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

(b) For the purposes of these Conditions

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

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

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

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

Subsidiary means, at any particular time, any company which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the first person and/or one or more of its subsidiaries. For a company to be “controlled” by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

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

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

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

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

(ii) Business Day Convention

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

(iii) Rate of Interest for Floating Rate Notes

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

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

(C) Linear Interpolation

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

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

(c) Interest on Zero Coupon Notes

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

(d) Accrual of Interest

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

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

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

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

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

(f) Calculations

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

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

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

(h) Definitions

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Relevant Business Day means:

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

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

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

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

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

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

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

(i) Change of Interest Basis

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

(j) Calculation Agent

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

6. Redemption, Purchase and Options

(a) Final Redemption

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

(b) Redemption for taxation reasons

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

(c) Purchases

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

(d) Early Redemption of Zero Coupon Notes

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

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

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

(e) Redemption at the Option of the Issuer

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

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

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

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

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

In these Conditions:

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

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

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

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

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

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

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

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

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

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

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

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

(f) Residual Maturity Call Option

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

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

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

(g) Redemption following a Substantial Purchase Event

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

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

A **Substantial Purchase Event** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Notes is purchased by the Issuer, the Guarantor or any Subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(j));

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

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

interest accrued to, but excluding the Optional Redemption Date) (both terms as defined below), if a Change of Control occurs and, during the Change of Control Period, a Rating Downgrade occurs (together, a **Put Event**).

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

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

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

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

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

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

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

Optional Redemption Amount means an amount equal to par.

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

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

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

(i) Redemption at the Option of the Noteholder

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

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

(j) Cancellation

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

(k) Other Notes

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

7. Payments and Talons

(a) Bearer Notes

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

(b) Registered Notes

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

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

(c) Payments in the United States

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

(d) Payments Subject to Law, etc

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

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

(e) Appointment of Agents

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

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

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

(f) Unmatured Coupons and unexchanged Talons

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

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

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

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

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

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

(g) Talons

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

(h) Non-Business Days

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

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

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

(i) Redenomination, Renominalisation and Reconventioning

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

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

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

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

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

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

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

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

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

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

(iv) *Interpretation*: In this Condition:

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

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

8. Taxation

(a) Additional Amounts

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or (as the case may be) the Guarantor under the Deed of Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or the Kingdom of Spain or any authority therein or thereof having power to tax (each a **Taxing Authority**), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or required pursuant to an agreement described in Section 1471(b) of the Code. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and the Coupon holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes or (as the case may be) Coupons, in the absence of such withholding or deduction. Notwithstanding this, no additional amounts shall be payable with respect to any payment in respect of any Note or Coupon or (as the case may be) under the Deed of Guarantee:

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

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

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

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

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

(b) Tax Credit Payment

If any additional amounts are paid by the Issuers or, as the case may be, the Guarantor under this Condition for the benefit of any Holder and such Holder in its sole discretion, determines that it has obtained (and has derived full use and benefit from) a credit against, a relief or remission for, or repayment of, any tax, then, if and to the extent that such Holder in its sole opinion, determines that (i) such credit, relief, remission or repayment is in respect of or calculated with reference to the additional amounts paid pursuant to this Condition; and (ii) its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled, such Holder

shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Issuer or, as the case may be, the Guarantor such amount as such Holder shall in its sole opinion, determine to be the amount which will leave such Holder (after such payment) in no worse after tax position than it would have been in had the additional payment in question not been required to be made by the Issuer or, as the case may be, the Guarantor.

(c) Tax Credit Clawback

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

(d) Tax Affairs

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

(e) Definitions

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

9. Prescription

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

10. Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing, the Holder of a Note of any Series may give written notice to the Fiscal Agent at its specified office that such Note

is immediately repayable, whereupon the Early Redemption Amount of such Note, together with accrued interest to the date of payment, shall become immediately due and payable:

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

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

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

Paragraph (c) shall not apply to Relevant Indebtedness which was incurred before 27 July 2007, provided that this exception shall not be applicable if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

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

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

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

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

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

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

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

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

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

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

11. Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

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

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

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

(b) Modification of Agency Agreement

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

12. Replacement of Notes, Certificates, Coupons and Talons

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

13. Further Issues

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

14. Notices

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

website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort).*

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

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

So long as the Notes are listed and/or admitted to trading, notices required to be given to the Holders of the Notes pursuant to these Conditions shall also be published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are listed and/or admitted to trading.

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

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

15. Substitution of the Issuer

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

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

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

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

been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;

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

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

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

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

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

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

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

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

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

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

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

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

16. Currency Indemnity

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

17. Governing Law and Jurisdiction

(a) Governing Law

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

(b) English courts

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

(c) Appropriate forum

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

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

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

(e) Process Agent

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to SPW Investments Limited, 4th Floor, 1 Tudor Street, London, EC4Y 0AH, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the specified office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and not to Proceedings elsewhere.

18. Rights of Third Parties

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

USE OF PROCEEDS

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

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

(b) to finance and/or refinance, in whole or in part, Eligible Green Projects, in which case the relevant Notes will be identified as "Green Bonds" in the title of the Notes in the applicable Final Terms.

For the purpose of this section:

Eligible Green Projects means Renewable Energy Projects and Transmission, Distribution and Smart Grid Projects which meet a set of environmental and social criteria approved both by the Guarantor and by a reputed sustainability rating agency, according to the Iberdrola Framework for Green Financing (available at https://www.iberdrola.com/wcorp/gc/prod/en_US/inversores/docs/Iberdrola_Framework_for_Green_Financing.pdf).

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

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

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

1. Initial Issue of Notes

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

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

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

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

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

2. Relationship of Accountholders with Clearing Systems

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

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

3. Exchange

3.1 Temporary Global Notes

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

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

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

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

3.2 Permanent Global Notes

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

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

(b) (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or

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

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

3.3 Partial Exchange of Permanent Global Notes

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

3.4 Transfer of Notes Represented by Global Certificates

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

(a) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

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

(c) with the consent of the relevant Issuer,

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

3.5 Delivery of Notes

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

3.6 Exchange Date

Exchange Date means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

4. Amendment to Conditions

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

4.1 Payments

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

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

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

4.2 Notices

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

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

4.3 Prescription

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

4.4 Meetings

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

4.5 Purchase and Cancellation

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

4.6 Default

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

4.7 Issuers' Option

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

4.8 Noteholder's Options

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

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

4.9 NGN nominal amount

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

DESCRIPTION OF THE GUARANTEE

This is a description of the principal terms of the guarantee dated 1 August 2018 given by the Guarantor in respect of this Guaranteed Euro Medium Term Note Programme. It does not restate the Deed of Guarantee in its entirety.

1. Guarantee and Indemnity

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

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

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

1(B) As a separate, additional and continuing obligation, the Guarantor has unconditionally and irrevocably undertaken to each Noteholder and each Relevant Account Holder that, should any amount referred to in Clause 1(A) not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Note, any provision of any Note, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Noteholder or Relevant Account Holder, the Guarantor will, as a sole, original and independent obligor, upon first written demand under Clause 1(A), make payment of such amount by way of a full indemnity in such currency and otherwise in such manner as is provided for in the Notes or the Deed of Covenant (as the case may be) and indemnify each Noteholder and each Relevant Account Holder against all losses, claims, costs, charges and expenses to which it may be subject or which it may incur under or in connection with the terms and conditions of the Notes, the Deed of Covenant or the Deed of Guarantee.

2. Taxes and Withholdings

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

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

3. Preservation of Rights

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

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

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

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

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

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

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

(5) any other act, event or omission which, but for this Clause 3(C), would or might operate to discharge, impair or otherwise affect the obligations of the Guarantor herein contained or any of the rights, powers or remedies conferred upon the Noteholders, the Relevant Account Holders or any of them by the Deed of Guarantee or by law.

3(D) Any settlement or discharge between the Guarantor and the Noteholders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Noteholders, the Relevant Account Holders or any of them by the relevant Issuer or any other person on the relevant Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Noteholders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

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

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

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

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

3(F) The Guarantor has agreed that so long as any amounts are or may be owed by the relevant Issuer under any of the Notes or the Deed of Covenant or the relevant Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:

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

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

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

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

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

4. Law and Jurisdiction

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

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

4(C) **Appropriate forum**: The Guarantor has agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

4(D) **Rights of the Noteholders and Relevant Account Holders:** It is agreed in the Deed of Guarantee that Clause 4(B) (English courts) is for the benefit of the Beneficiaries (as defined in the Deed of Covenant) only. As a result, it has been agreed that nothing in Clause 4 (Law and Jurisdiction) prevents the Noteholders and Relevant Account Holders from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Noteholders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

4(E) **Process agent**: The Guarantor has agreed that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being

delivered to SPW Investments Limited, 4th Floor, 1 Tudor Street, London, EC4Y 0AH, United Kingdom or, if different, its registered office for the time being or at any address of the Guarantor in Great Britain at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor has agreed that it shall, on the written demand of any Noteholder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. The Guarantor has agreed that nothing in this paragraph shall affect the right of any Noteholder or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

5. Contracts (Rights of Third Parties) Act 1999

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

DESCRIPTION OF IBERDROLA INTERNATIONAL B.V.

General information

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

Share capital

As at 30 June 2018, Iberdrola International's issued and fully paid-up share capital was 388,000 euro, divided into 776 ordinary shares of 500 euro each. The whole of the issued and paid-up share capital of Iberdrola International is owned by Iberdrola. There are currently no arrangements in place, the operation of which may at a future date result in a change of control of Iberdrola International. There are no measures in place to ensure that the control of Iberdrola International by Iberdrola is not abused.

Business

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

Management

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

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

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

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

Material contracts

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

DESCRIPTION OF IBERDROLA FINANZAS, S.A.U.

General information

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

Share capital

As at 30 June 2018, the issued and paid-up share capital of Iberdrola Finanzas was 100,061,000 euro, divided into 100,061 ordinary registered shares of 1,000 euro each. The whole of the issued and paid-up share capital of Iberdrola Finanzas is owned by Iberdrola. There are currently no arrangements in place, the operation of which may at a future date result in a change of control of Iberdrola Finanzas. There are no measures in place to ensure that the control of Iberdrola Finanzas by Iberdrola is not abused.

Business

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

Management

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

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

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

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

Material contracts

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

DESCRIPTION OF IBERDROLA, S.A.

General information

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

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

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

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

Share capital and major shareholders

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

As at 30 June 2018, there were 6,240,000,000 shares in issue, all of which are fully subscribed and paid up. The nominal value of each share is 0.75 euro. As at 31 December 2017, the closing price was 6.460 euro, resulting in a market capitalisation of 40,811 million euro. All of Iberdrola's shares are ordinary shares, represented in book-entry form and the book-entry registry is kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear), domiciled at Palacio de la Bolsa, Plaza de la Lealtad, 1, 28014 Madrid, Spain.

According to information available to Iberdrola, no single person (or group of persons) controls Iberdrola. Nonetheless, based on publicly available information, at 31 December 2017 significant shareholders holding more than 3 per cent. of Iberdrola's ordinary share capital were (a) Qatar Investment Authority holding an 8.57 per cent. interest through Qatar Holding Luxembourg II, S.A.R.L.; (b) Norges Bank with a direct interest of 3.21 per cent.; (c) Capital, Research and Management Company with a direct interest of 3.10 per cent.; and (d) Blackrock, Inc. with an indirect interest of 3.03 per cent.

As at the date of this Base Prospectus, the share capital of Iberdrola amounted to 4,798,221,750 euro, corresponding to 6,397,629,000 shares, with a nominal value of 0.75 euro each, as a result of a share capital increase approved by the General Shareholders' Meeting of Iberdrola held on 13 April 2018.

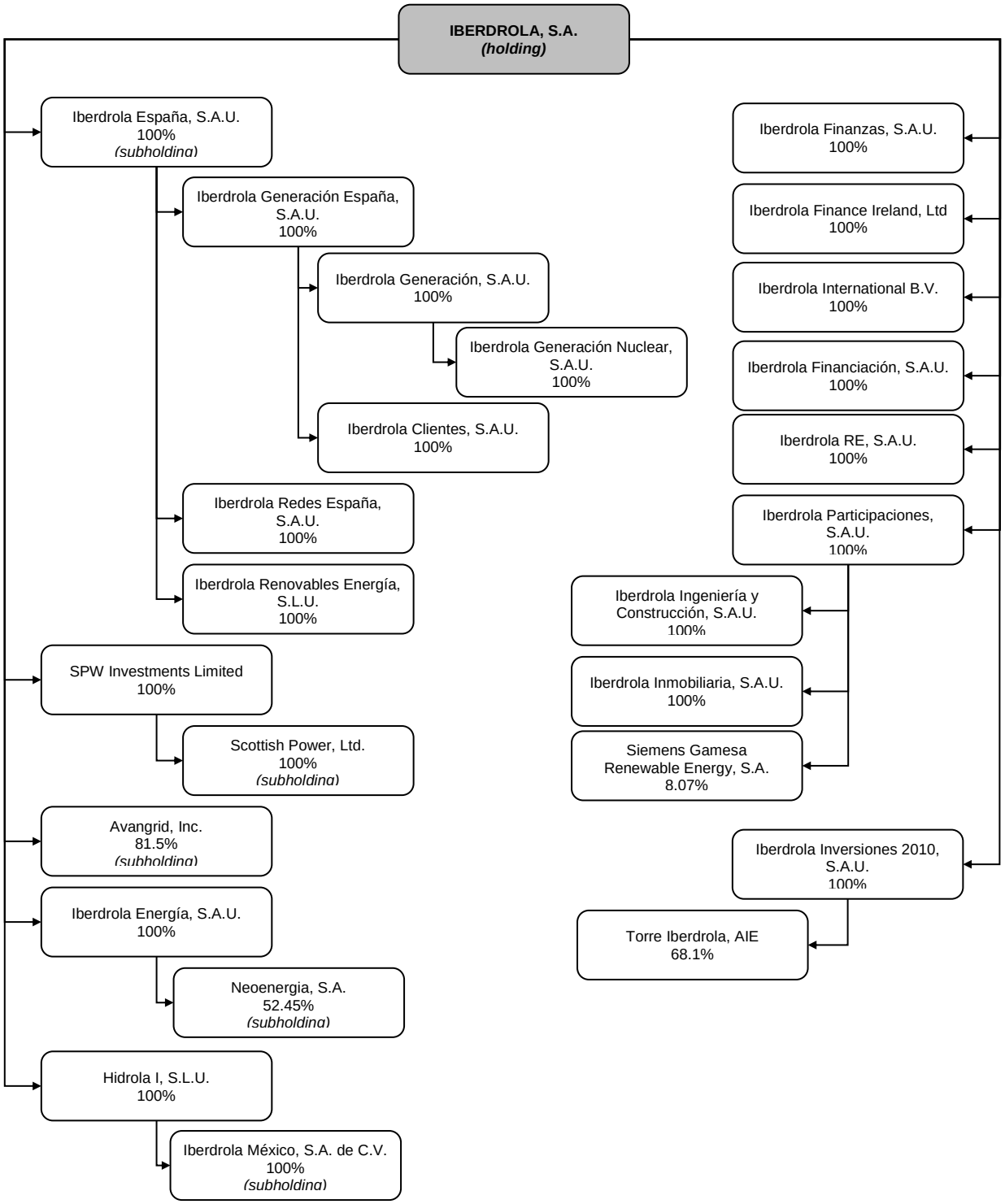
Iberdrola's position within the Group

Regarding the regulatory framework in Spain, Section 8.1 of Law 24/2014, of December 26, on the Electricity Industry characterises the operation of the system, the operation of the market and the transmission and distribution of electricity as regulated activities in the electricity industry. Section 60.1 of Law 34/1998, of October 7, on the Hydrocarbon Industry characterises the activities of regasification, basic

storage, transportation and distribution of natural gas as regulated activities in the hydrocarbon industry. The production and sale of electricity and natural gas are considered as deregulated activities.

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

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



Business

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

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

Network Business

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

Deregulated Business

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

Renewables Business

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

Other Businesses

This is a grouping of the non-energy businesses.

Corporation

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

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

Division	Description	2017 %	2016 %
Network	Includes all of the energy and distribution activities and any other regulated activity originated in Spain, the United Kingdom, the United States and Brazil	57.8%	51.4%
Deregulated	Includes the electricity generation and sales businesses carried on by the Group in Spain and Portugal, the United Kingdom, Mexico and Brazil	21.9%	28.4%

Renewables	Includes activities relating to renewable energies in Spain, the United Kingdom, the United States, Mexico, Brazil and the rest of the world	21.8%	18.9%
Other	Includes the non-energy businesses	0.5%	-0.1%
Corporation		-1.9%	1.3%

In August 2017, Iberdrola acquired control of Neoenergia. Following the integration, Banco do Brasil and Previ own approximately 9.35 per cent. and 38.21 per cent. respectively of the capital of Neoenergia, and Iberdrola now holds 52.45 per cent. indirectly.

The acquisition of Neoenergia should be considered when comparing the figures for 2017 with the 2016 figures.

In 2017, the activities related to engineering and construction meet the requirements to be considered a discontinued activity and was classified within Corporation. Comparative information from the previous year has been restated.

General

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

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

Installed capacity (MW)	**2017**	**2016**	**MW var. 2017-2016**	**% var. 2017-2016**
Hydroelectric	10,984	10,392	592	5.7%
Nuclear	3,166	3,166	-	-
Thermal Coal	874	874	-	-
Gas combined cycle	14,670	13,778	892	6.5%
Co-generation	299	299	-	-
Renewable energy	16,082	14,768	1,314	8.9%
Total	**46,075**	**43,277**	2,798	6.5%

Installed capacity (MW)	**2017**	**2016**	**MW var. 2017-2016**
Spain	25,607	25,605	2
United Kingdom	4,616	4,522	94
United States	7,009	6,502	507

Mexico	6,242	5,840	402
Brazil	1,640	187	1,453
Rest of World	961	621	340
Total	**46,075**	**43,277**	**2,798**

The main changes during 2017 were:

- 91 MW were deconsolidated (81 MW due to the deconsolidation of Colorado Green and 10 MW due to the sale of the Italian companies)

- Due to the integration of Neoenergia 591 MW in hydroelectric, 533MW in gas combined cycle and 320 MW in renewables were incorporated.

- New capacity in gas combined cycle plants in Mexico (359 MW);

- Renewable energy: new capacity of 94 MW in the United Kingdom, 590 MW in the United States 43 MW in Mexico, 9 MW in Brazil and 350 in Rest of World (Wikinger offshore wind farm in Germany).

Electricity generation decreased during 2017 by 4.6 per cent. compared with 2016 (126,198 GWh in 2017; 132,274 GWh in 2016).

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

Net Production (GWh)	**2017**	**2016**	**% var. 2017-2016**
Spain	50,358	61,725	-18.4
United Kingdom	11,945	13,531	-11.7
United States	17,612	17,436	1.0
Mexico	41,854	37,577	11.4
Brazil	3,047	639	376.8
Rest of World	1,382	1,366	1.2
Total	**126,198**	**132,274**	-4.6

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

Net Production (GWh)	**2017**	**2016**	**% var. 2017-2016**
Hydroelectric	8,659	19,422	-55.4
Nuclear	23.190	24,335	-4.7
Thermal Coal	2,665	3,751	-29.0
Gas combined cycle	55,964	50,973	9.8
Co-generation	2,163	1,876	15.3
Renewable energy	33,557	31,917	5.1
Total	**126,198**	**132,274**	-4.6

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

NETWORK

In 2017, the regulated business obtained consolidated results of 2,766.3 million euro after tax, contributing 98.7 per cent. to the Group's consolidated results.

Spain

The regulated business in Spain obtained consolidated results of 741.3 million euro after tax.

As at December 2017, Iberdrola had distributed 93,289 GWh, 0.5 per cent. decrease compared with the same period of the previous year.

United Kingdom

The regulated business in United Kingdom obtained consolidated results of 389.8 million euro after tax.

As at 31 December 2017, Iberdrola distributed to more than 3.5 million customers. The volume of energy distributed during the year 2017 was 32,772 GWh, representing a decline of 2.1 per cent. in relation to the same period of the previous year.

United States

The regulated business in the United States obtained consolidated results of 1,546.2 million euro after tax.

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

The number of gas users in the United States as at 31 December 2017 was over one million, with 51,440 GWh supplied during the period, 3.8 per cent. less than for the same period of the previous year.

Brazil

The regulated business in Brazil obtained consolidated results of 89.0 million euro after tax.

The increase in power demand of Brazilian distribution companies was 1.8 per cent., and the number of customers served by the distributors as at 31 December 2017 were 14 million and distributed 55,510 GWh.

DEREGULATED

In 2017, the non-regulated business obtained consolidated losses of 62.6 million euro after tax, having a negative effect of 2.2 per cent. on the Iberdrola Group's consolidated results.

Spain

The non-regulated business in Spain obtained consolidated results of 274.8 million euro after tax.

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

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

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

United Kingdom

The non-regulated business in the United Kingdom obtained consolidated loss of 79.3 million euro after tax.

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

With respect to the production deriving from Iberdrola's conventional generation in the United Kingdom, this decreased in 2017 by 25.5 per cent. to 7,792 GWh, from 10,456 GWh in 2016.

Mexico

The non-regulated business in México obtained consolidated results of 285.9 million euro after tax.

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

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

RENEWABLES

In 2017, the renewables business obtained consolidated results of 519.5 million euro after tax, contributing 18.5 per cent. to the Group's consolidated results.

As at the end of 2017, the renewables business division (as described above) reported an installed capacity of 16,083 MW.

Of the 16,083 MW installed at the end of 2017, 63.6 per cent. are placed outside Spain, through geographical diversification process being carried out by Iberdrola.

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

OTHER BUSINESSES AND CORPORATION

In 2017, Other Businesses obtained consolidated results of 29.0 million euro after tax (1 per cent. to the Group's consolidated results), and Corporation and discontinued activities obtained consolidated results of 448.4 million euro loss after tax (-16.0 per cent. to the Group's consolidated results).

REGULATION

The Iberdrola Group operates in a highly regulated environment. An overview of such laws and regulations is available at pages 212 to 272 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017 incorporated by reference herein. Although this overview contains all the information that, as at the date of this Base Prospectus, Iberdrola considers material in the context of the issue of the Notes, it is not an exhaustive account of all applicable laws and regulations. Prospective investors and/or their advisers should make their own analysis of the legislation and regulations applicable to the Iberdrola Group and of the impact they may have on the Iberdrola Group and any investment in the Notes and should not rely on this overview only. See also "*Risk Factors – Main risk factors associated with the activities of the Iberdrola Group – Regulatory risk*" above."

Insurance

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

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

Employees

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

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

Board of Directors of Iberdrola, S.A.

As at the date of this Base Prospectus, the Board of Directors is made up of the following 14 Directors:

Name	Title	Business address	Date of first appointment	Date of last appointment	Type of Director	Principle activity outside of the Board of Directors of the Guarantor
Mr. José Ignacio Sanchez Galán(1)	Chairman and Chief Executive Officer	Bilbao, Plaza Euskadi 5	21.05.2001	27.03.2015	Executive	N/A
Ms. Inés Macho Stadler(1) (4)	Vice-chair	Bilbao, Plaza Euskadi 5	07.06.2006	08.04.2016	Other external	Professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona.
Mr. Íñigo Víctor de Oriol Ibarra(3)(5)	Member	Bilbao, Plaza Euskadi 5	26.04.2006	08.04.2016	Other external	Member of the Board of Directors of Empresa de Alumbrado Eléctrico de Ceuta,

Name	Title	Business address	Date of first appointment	Date of last appointment	Type of Director	Principle activity outside of the Board of Directors of the Guarantor S.A.
Ms. Samantha Barber[(1) (5)]	Member	Bilbao, Plaza Euskadi 5	31.07.2008	08.04.2016	External Independent	Chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group
Ms. Maria Helena Antolín Raybaud[(3)]	Member	Bilbao, Plaza Euskadi 5	26.03.2010	27.03.2015	External Independent	Vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolin Irausa, S.A.
Mr. Ángel Jesús Acebes Paniagua[(1) (3)]	Member	Bilbao, Plaza Euskadi 5	24.04.2012	27.03.2015	External Independent	Chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L.
Ms. Georgina Kessel Martínez[(2)]	Member	Bilbao, Plaza Euskadi 5	23.04.2013	13.04.2018	External Independent	Independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&I.
Ms. Denise Mary Holt[(2)]	Member	Bilbao, Plaza Euskadi 5	24.06.2014	27.03.2015	External Independent	Independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&S Financial Services Ltd.
Mr. José W. Fernández[(2)]	Member	Bilbao, Plaza Euskadi 5	17.02.2015	27.03.2015	External Independent	Partner of Gibson, Dunn & Crutcher, member of the board of directors of the Council of the Americas and of the Center for

Name	Title	Business address	Date of first appointment	Date of last appointment	Type of Director	Principle activity outside of the Board of Directors of the Guarantor
						American Progress.
Mr. Manuel Moreu Munaiz[(1) (4)]	Member	Bilbao, Plaza Euskadi 5	17.02.2015	27.03.2015	External Independent	Chairman of Seaplace, S.L., sole director of H.I. de Iberia Ingeniería y Proyectos S.L. and Howard Ingeniería y Desarrollo S.L., and member of the Board of Directors of Tubacex, S.A.
Mr. Xabier Sagredo Ormaza[(2)]	Member	Bilbao, Plaza Euskadi 5	08.04.2016	08.04.2016	Other external	Chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa, of BBK Fundazioa and of Fundación Eragintza.
Mr. Juan Manuel González Serna[(4)]	Member	Bilbao, Plaza Euskadi 5	31.03.2017	31.03.2017	External Independent	Chairman of the SIRO Group and founding trustee and chairman of Fundación Grupo SIRO
Mr. Francisco Martínez Córcoles	Business CEO	Bilbao, Plaza Euskadi 5	31.03.2017	31.03.2017	Executive	N/A
Mr. Anthony L. Gardner[(5)]	Member	Bilbao, Plaza Euskadi 5	13.04.2018	13.04.2018	External Independent	Senior adviser at the consulting firm Brunswick Group, LLP and Senior Counsel in the law firm Sidley Austin LLP

(1) Executive Committee.
(2) Audit and Risk Supervision Committee.
(3) Appointments Committee.
(4) Remuneration Committee
(5) Corporate Social Responsibility Committee

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

There are no potential conflicts of interest between the Board members' duties to Iberdrola and their private interests or other duties. All potential conflict of interest situations involving the Board members were avoided by operation of the procedures set forth in the applicable rules and regulations described in section IAGC D.6 of the Annual Corporate Governance Report 2017. In particular, Article 44 of the Regulations of the Board of Directors provides that directors who become involved in a conflict of interest (i) shall give

written notice thereof to the Board of Directors, specifically to the Secretary of the Board, and (ii) shall not attend or participate in the deliberation and voting on those matters regarding which the director is involved in a conflict of interest. Additionally, transactions by the Company with directors and significant shareholders shall be subject to the approval of the Board and disclosed in the financial and corporate governance information (Article 48 of the Regulations of the Board of Directors). Also, conflicts of interest and transactions with senior officers are regulated in the Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers.

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

Management Structure

The persons responsible for the day-to-day management of Iberdrola and their functions are as follows:

Function	Management
Chairman & Chief Executive Officer (CEO):	Mr. José Ignacio Sánchez Galán
Business CEO:	Mr. Francisco Martínez Córcoles
Chief Financial and Resources Officer:	Mr. José Sainz Armada
Administration and Control Director:	Mr. Juan Carlos Rebollo Liceaga
Director of Legal Services:	Mr. Santiago Martínez Garrido
Corporate Development Director:	Mr. Pedro Azagra Blazquez
Internal Audit Director:	Ms. Sonsoles Rubio Reinoso(2)

(1) Reporting to the Board of Directors.
(2) Functionally controlled by the Board's Audit and Risk Supervision Committee.

Material contracts

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

SUBSCRIPTION AND SALE

Subject to the terms and conditions contained in an amended and restated dealership agreement dated 1 August 2018 (as amended or supplemented from time to time, the **Dealership Agreement**) between the Issuers, the Guarantor, the Arranger and the Permanent Dealers, the Notes will be offered on a continuous basis by the relevant Issuer, to the Permanent Dealers. However, the Issuers have reserved the right to sell Notes directly on their own behalf to Dealers which are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Dealership Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

The relevant Issuer failing whom, the Guarantor, has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealership Agreement may be terminated in relation to all the Dealers or any of them by the relevant Issuer or, in relation to itself and the relevant Issuer only, by any Dealer, at any time on giving not less than ten business days' notice. The Dealership Agreement provides that the obligation of any Dealer to subscribe for Notes under any such agreement is subject to certain conditions and that, in certain circumstances, a Dealer shall be entitled to be released and discharged from its obligations under any such agreement prior to the issue of the relevant Notes.

United States of America

Regulation S Category 2, TEFRA D (as defined below), unless TEFRA C (as defined below) is specified as applicable in the relevant Final Terms. Rule 144A eligible if so specified in the relevant Final Terms.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933 (as amended) (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit or, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the provisions of U.S. Treasury regulation section 1.163-5(c)(2)(i)(C) (or substantially identical successor U.S. Treasury regulation section including, without limitation, substantially identical regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (**TEFRA C**), the provisions of U.S. Treasury regulation section 1.163-5(c)(2)(i)(D) (or substantially identical successor U.S. Treasury regulation section including, without limitation, substantially identical regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (**TEFRA D**), or neither the provisions of TEFRA C nor TEFRA D (**TEFRA not applicable**) will apply to the issuance of Notes.

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that except as permitted by the Dealership Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (a) as part of their distribution at any time (b) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, or the Fiscal Agent by such Dealer or, in the case of Notes issued on a syndicated basis, the Lead Manager, except in accordance with Rule 903 of Regulation S under the Securities Act or, as provided below, in accordance with Rule 144A thereunder, within the United States or to, or for the account or benefit of U.S. persons, and it will have sent to each Dealer to which it sells Notes a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirement of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act (if available).

Such Dealers as may be specified in the relevant Final Terms may offer and sell Notes in accordance with Rule 144A under the Securities Act (**144A Resale**) subject to compliance with all applicable United States selling restrictions.

In connection with any such 144A Resale, each relevant Dealer will be required to represent and agree that (a) neither it nor any person acting on its behalf has made or will make offers or sales of Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) and (b) if required by law, it will deliver to each qualified institutional buyer purchasing a Note or Notes from it a Base Prospectus.

Each Series of Notes may also be subject to such further United States selling restrictions as the relevant Issuer and the relevant Dealer may agree and as indicated in the relevant Final Terms.

Prohibition of Sales to EEA Retail Investors

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 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:

(i) the expression **retail investor** means a person who is one (or more) of the following:

  (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or

  (b) 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

  (c) not a qualified investor as defined in the Prospectus Directive; and

(ii) 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.

United Kingdom

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a

contravention of Section 19 of the Financial Services and Markets Act 2000, as amended (the **FSMA**) by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuers or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Zero Coupon Notes (as defined below) in definitive form issued by Iberdrola International may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of the relevant Issuer or a member of Euronext Amsterdam N.V. in accordance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended). No such mediation is required: (i) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (ii) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof or (iii) in respect of the transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, or (iv) in respect of the transfer and acceptance of such Zero Coupon Notes within, from or into The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in a Zero Coupon Note in global form) of any particular Series are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter. As used herein "Zero Coupon Notes" are Notes that are in bearer form and that constitute a claim for a fixed sum against the relevant Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

Spain

Neither the Notes nor this Base Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Notes may not be offered, sold, distributed or re-sold in Spain except (i) in circumstances which do not constitute a public offering of securities in Spain within the meaning of Article 35 of the recast text of the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015 of 23 October (*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 (the **Spanish Securities Market Law**) and Royal Decree 1310/2005 of 4 November on admission to listing of securities on organised secondary markets and public offers of securities and the prospectus required in connection therewith (*Real Decreto 1310/2005 de 4 de noviembre, por el que se desarrolla parcialmente la Ley del Mercado de Valores, en material de admissión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos)* as amended and restated and supplemental rules enacted thereunder or in substitution thereof from time to time; (ii) by institutions authorised to provide investment services in Spain under the aforementioned Spanish Securities Market Law and Royal Decree 217/2008 of 15 February on the Legal Regime Applicable to Investment Services Companies (*Real Decreto 217/2008, de 15 de febrero, sobre el régimen jurídico de las empresas de servicios de inversión y de las demás entidades que prestan servicios de inversión*); and (iii) if the offer of Notes is directed specifically at, or made to, professional clients and eligible counterparties, as defined in Articles 205 and 207 of the Spanish Securities Market Law, respectively.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended: the **FIEA**). Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Items 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended) or to others for reoffering or resale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes or possession or distribution of the Base Prospectus or any other offering material or any Final Terms in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, notwithstanding the specific selling restrictions set out herein, it will comply with all applicable securities laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material, in all cases at its own expense.

Each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, that it will obtain any consent, approval or permission required by it for the subscription, offer or sale by it of any Notes or possession or distribution by it of the Base Prospectus or any other offering material under the applicable laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any subscription offer or sale.

FORM OF FINAL TERMS

MiFID II product governance / Professional investors and ECPs only target market – solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of 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 the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (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 offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Final Terms dated [●]

[**Iberdrola International B.V.**
(incorporated with limited liability in The Netherlands and having its corporate seat in Amsterdam)]
Legal Entity Identifier (LEI): [549300ZMLFJKWC63XN87]/
[**Iberdrola Finanzas, S.A.U.**
(*incorporated with limited liability in the Kingdom of Spain*)]
Legal Entity Identifier (LEI): [5493004PZNZWWBOUV388]

Issue of

[Aggregate Nominal Amount of Tranche] [Title of Notes]
[*Indicate in title if the Notes are green bonds, i.e. if issued to finance Eligible Green Projects*]

Guaranteed by
Iberdrola, S.A.

Under the EUR 20,000,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of Notes issued by [Iberdrola International B.V.]/[Iberdrola Finanzas, S.A.U.] set forth in the Base Prospectus dated 1 August 2018 [and the supplement to the Base Prospectus dated [●] [and [●]] which [together] constitute a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the

combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms have been published on the website of the Luxembourg Stock Exchange at www.bourse.lu. and are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

(*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date. N.B. when using a post – 1 July 2012 approved Base Prospectus to tap a previous issue under a pre – 1 July 2012 approved Base Prospectus, the final terms in the post – 1 July 2012 Base Prospectus will take a different form due to the more restrictive approach to final terms. The Conditions of the original issue being tapped should be reviewed to ensure that they would not require the final terms documenting the further issue to include information which is no longer permitted in final terms. Where the final terms documenting the further issue would need to include such information, it will not be possible to tap using final terms and a drawdown prospectus (incorporating the original Conditions and final terms) will instead need to be prepared.*)

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Conditions**) of Notes issued by [Iberdrola International B.V.]/[Iberdrola Finanzas, S.A.U.] set forth in the Base Prospectus dated [12 June 2013/25 June 2014/26 June 2015/22 June 2016/28 July 2017] which are incorporated by reference in the Base Prospectus dated 1 August 2018. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 1 August 2018 [and the supplement to the Base Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**), save in respect of the Conditions which are extracted from the Base Prospectus dated [12 June 2013/25 June 2014/26 June 2015/22 June 2016/28 July 2017] and incorporated by reference into the Base Prospectus dated 1 August 2018. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and each Base Prospectus dated [12 June 2013/25 June 2014/26 June 2015/22 June 2016/28 July 2017] and 1 August 2018 [and the supplement to the Base Prospectus dated [●]]. The Base Prospectus and the Final Terms have been published on the website of the Luxembourg Stock Exchange at www.bourse.lu and are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

(*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable may be deleted). Italics denote guidance for completing Final Terms.)*

(*When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

1.	(i)	[Series Number:	[ ]]
	(ii)	[Tranche Number:	[ ]]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated, form a single series and be interchangeable for trading purposes with the existing notes with Series number [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [*date*]][Not Applicable]
2.	Specified Currency or Currencies:		[ ]

3.	Aggregate Nominal Amount admitted to trading:	[ ]
	(i) [Series:	[ ]]
	(ii) [Tranche:	[ ]]
4.	Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus [●] corresponding to the accrued interest for the period commencing on and including [●] to, but excluding, the Issue Date].
5.	(i) Specified Denominations:	[●]
	(ii) Calculation Amount:	[●]
6.	(i) Issue Date:	[ ]
	(ii) [Interest Commencement Date:	[●]/[Issue Date]/[Not Applicable]
7.	Maturity Date:	[*Specify date or for Floating rate notes* – Interest Payment Date falling in or nearest to [specify month and year]] [(*NB: The Maturity Date [should not be/may need to be not] less than one year after the Issue Date*)]
8.	Interest Basis:	[[●] per cent. Fixed Rate] (see item 12 below) [[●] Month [LIBOR/EURIBOR] +/- [●] per cent. Floating Rate] (see item 13 below) [Zero Coupon] (see item 14 below) (see paragraph [12]/[13]/[14] below)
9.	Change of Interest Basis:	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [12/13] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [12/13] applies] [Not Applicable]
10.	Put/Call Options:	[Put Option] [Change of Control Put Option] [Issuer Call] [Residual Maturity Call Option] [Substantial Purchase Event] [(see paragraph [15]/[16]/[17]/[18]/[19] below] [Not Applicable]

11.	[[Date [Board] approval for issuance of Notes [and Guarantee] obtained:	[ ] [and [ ], respectively]]] (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate[(s)] of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date.
	(iii)	Fixed Coupon Amount[(s)]:	[ ] per Calculation Amount
	(iv)	Broken Amount(s):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(v)	Day Count Fraction:	[Actual/Actual]/[Actual/Actual(ISDA)]/[Actual/365(Fixed)]/[Actual/360]/[30/360]/[360/360]/[BondBasis]/[30E/360]/[EurobondBasis]/[30E/360(ISDA)]/[Actual/Actual(ICMA)]
	(vi)	Determination Dates:	[ ] in each year][Not Applicable] (only relevant where Day Count Fraction is Actual (Actual (ICMA). In such a case, *insert regular payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA])*]
13.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[[●] [, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
	(ii)	Specified Interest Payment Dates:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]

(iii)	Interest Period Date:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]][Not Applicable] *(Not applicable unless different from Interest Payment Date)*
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
(v)	Business Centre(s):	[ ] [Not Applicable]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
(vii)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent)	[ ]
(viii)	Screen Rate Determination:	
	– Reference Rate:	[●] Month [LIBOR/EURIBOR]
	– Reference Banks	[ ]
	– Interest Determination Date(s):	[ ]
	– Relevant Screen Page:	[ ]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[ ]
	– Designated Maturity:	[ ]
	– Reset Date:	[ ] (In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
(x)	Linear Interpolation:	[Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)/Not Applicable]
(xi)	Margin(s):	[+/-] [●] per cent. per annum
(xii)	Minimum Rate of Interest:	[ ] per cent. per annum
(xiii)	Maximum Rate of Interest:	[ ] per cent. per annum

(xiv)	Day Count Fraction:	[Actual/Actual]/[Actual/Actual(ISDA)]/[Actual/365(Fixed)]/[Actual/360]/[30/360]/[360/360]/[BondBasis]/[30E/360]/[EurobondBasis]/[30E/360(ISDA)]/[Actual/Actual(ICMA)]
14.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Amortisation Yield:	[ ] per cent. per annum
(ii)	Day Count Fraction:	[Actual/Actual]/[Actual/Actual(ISDA)]/[Actual/365(Fixed)]/[Actual/360]/[30/360]/[360/360]/[BondBasis]/[30E/360]/[EurobondBasis]/[30E/360(ISDA)]/[Actual/Actual(ICMA)]

PROVISIONS RELATING TO REDEMPTION

15.	**Call Option**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Optional Redemption Date(s):	[ ]
(ii)	Optional Redemption Amount(s) of each Note:	[[ ] per Calculation Amount][Make-Whole Amount]
(iii)	Make-whole Amount:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Reference Note:	[[●]/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	Redemption Margin:	[●]
	Financial Adviser:	[●]
	Quotation Time:	[●]
	(b) Discount Rate:	[[●]/Not Applicable]
	(c) Make-whole Exemption Period:	[Not Applicable]/[From (and including) [●] to (but excluding) [●]/the Maturity Date]]
(iv)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[ ]
	(b) Maximum Redemption Amount	[ ]
(v)	Notice periods:	Minimum period: [ ] days

		Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*
16.	**Put Option**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Optional Redemption Date(s):	[ ]
(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
(iii)	Notice period:	Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent [or Trustee])*
17.	**Change of Control Put:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Optional Redemption Amount:	[[ ] per Calculation Amount
(ii)	Notice periods:	Minimum period: [ ] days Maximum period: [ ] days (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems* (*which require a minimum of 15 clearing system business days' notice for a put*) *and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)]
18.	**Residual Maturity Call Option**	[Applicable/Not Applicable]
(i)	Notice Period:	[ ]

	(ii) Date fixed for redemption:	[ ]
19.	**Substantial Purchase Event**	[Applicable/Not Applicable]
20.	**Final Redemption Amount**	[[ ] per Calculation Amount]
21.	**Early Redemption Amount**	
	Early Redemption Amount(s) payable on redemption for taxation reasons or on Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 6):	[ ] per Calculation Amount (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	(a) Form of Notes:	Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.] [Temporary Global Note exchangeable for Definitive Notes] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.] [Permanent Global Note exchangeable for Registered Notes in the circumstances specified in the Permanent Global Note.] [Bearer Notes may not be physically delivered in Belgium, except to a clearing system, a depositary or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.] (*Include for Bearer Notes that are to be offered in Belgium*) Registered Notes: [Regulation S Global Note (U.S.$/€ [●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]] [Rule 144A Global Note (U.S.$ [●] nominal

		amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
	(b) New Global Note:	[Yes] [No] [*only applicable to Bearer Notes*]
23.	Financial Centre(s) or other special provisions relating to Payment Dates:	[●] [Not Applicable] *(Note that this paragraph relates to the date and place of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraphs 12(ii))*
24.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
25.	Consolidation provisions:	[Not Applicable/The provisions in Condition 13 apply]

THIRD PARTY INFORMATION

[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirm that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:	Signed on behalf of the Guarantor:
By:	By: .....
Duly authorised	Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing:	[Official List of the Luxembourg Stock Exchange]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange][*other relevant regulated market*] with effect from [●].] [Application is expected to be made for the Notes to be admitted to trading on [*relevant regulated market*] [Not Applicable.] (*Where documenting a fungible issue, indicate that the original Notes are already admitted to trading.*)
(iii)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

Ratings:	[The Notes are not expected to be rated][The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [insert details]] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms]. *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* [*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). [As such [*insert the legal name of the relevant credit rating agency entity*] is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009

(as amended),. [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, and is registered under the CRA Regulation [(and, as such is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation)], disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency*]. While notification of the corresponding final endorsement decision has not yet been provided by the relevant competent authority, the European Securities and Markets Authority has indicated that ratings issued in third countries may continue to be used in the EU by relevant market participants for a transitional period ending on 30 April 2012.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings [[have been]/[are expected to be]] endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation. [As such [*insert the legal name of the relevant EU credit rating agency entity*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.]]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009

(as amended) (the **CRA Regulation**), but it [is]/[has applied to be]certified in accordance with the CRA Regulation[[[EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation] [[OR:] although notification of the corresponding certification decision has not yet been provided by the relevant competent authority and [*insert the legal name of the relevant non-EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

[[*Insert legal name of the relevant credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (as amended), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority [and [*insert the legal name of the relevant credit rating agency*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*][, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority and [*insert the legal name of the relevant EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

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

[So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.] The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*]

4. FIXED RATE NOTES ONLY – YIELD

Indication of yield:	[●]

5. OPERATIONAL INFORMATION

ISIN:	[ ]
Common Code:	[ ]
FISN:	[ ]
CFI Code:	[ ]
Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s) [and address(es)]*]
Names and addresses of additional Paying Agent(s) (if any):	[Not Applicable/*give name(s) and address(es)*]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the International Central Securities Depositaries (ICSDs), being Euroclear and Clearstream, Luxembourg as common safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for registered notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met. [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper][*include this text for registered notes*]. Note that this does not necessarily mean that the Notes will then be

		recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

6. DISTRIBUTION

(a)	Method of distribution:	[Syndicated/Non-syndicated]
(b)	If syndicated, names of Managers:	[Not Applicable/give names] (*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*)
(c)	Date of [Subscription] Agreement:	[ ]
(d)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(e)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(f)	U.S. Selling Restrictions:	[Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of The Netherlands and Spain of acquiring, holding and disposing of Notes and receiving any payments under the Notes. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Taxation in The Netherlands

The following summary outlines the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Netherlands tax considerations in relation thereto. For purposes of Netherlands tax law, a holder of Notes may include an individual or entity who does not have the legal title of these Notes, but to whom nevertheless the Notes or the income thereof is attributed based on specific statutory provisions or on the basis of such individual or entity having an interest in the Notes or the income thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.

This summary is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Base Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

Where this summary refers to The Netherlands, such reference is restricted to the part of the Kingdom of The Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom. Where in this summary English terms and expressions are used to refer to Netherlands concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Netherlands concepts under Netherlands tax law.

Regardless of whether or not a holder of Notes is, or is deemed to be, a resident of The Netherlands, with the exception of the section on withholding tax below, this summary does not address The Netherlands tax consequences for:

(a) investment institutions (*fiscale beleggingsinstellingen*);

(b) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other entities that are exempt from Netherlands corporate income tax;

(c) holders of Notes holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in Iberdrola International and holders of Notes of whom a certain related person holds a substantial interest in Iberdrola International. Generally speaking, a substantial interest in Iberdrola International arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5 per cent. or more of the total issued capital of Iberdrola International or of 5 per cent. or more of the issued capital of a certain class of shares of Iberdrola International, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in Iberdrola International;

(d) persons to whom the Notes and the income from the Notes are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of The Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) and The Netherlands Gift and Inheritance Tax Act (*Successiewet 1956*);

(e) any holder of Notes who is a resident of any non-European part of the Kingdom of The Netherlands; and

(f) individuals for whom Notes or the income there from are attributable to employment activities which are taxed as employment income in The Netherlands.

1. Withholding Tax

All payments made by Iberdrola International under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, provided that (i) the Notes have a maturity – legally and *de facto* - of less than 50 years and (ii) the Notes will not represent, be linked (to the performance of) or be convertible (in part or in whole) into (rights to purchase) (a) shares; (b) profit certificates (*winstbewijzen*); and/or (c) debt instruments having a maturity - legally or *de facto* - of more than 50 years, in each case issued by Iberdrola International or any other entity related to Iberdrola International.

2. Corporate and Individual Income Tax

2.1 Residents of The Netherlands

If a holder of Notes is a resident or deemed to be a resident of The Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax, income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are generally taxable in The Netherlands (at up to a maximum rate of 25 per cent.).

If an individual is a resident or deemed to be a resident of The Netherlands for Netherlands tax purposes, income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are taxable at progressive rates (at up to a maximum rate of 51.95 per cent.), if:

(a) the individual is an entrepreneur (*ondernemer*) and has an enterprise to which the Notes are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Notes are attributable; or

(b) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance of activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*) or if such income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a *lucratief belang*) that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person), whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

If neither condition (a) nor condition (b) applies, an individual who is a resident or deemed to be a resident of The Netherlands for Netherlands tax purposes and holds Notes, must determine taxable income with regard to the Notes on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments is determined on the basis of the amount included in the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year, insofar as the individual's yield basis exceeds a certain threshold (*heffingsvrijvermorgen*). For the 2018 tax year, the deemed income derived from savings and investments ranges from 2.02% up to 5.38% (depending on the individual's yield basis on 1 January

2018). The percentages to determine the deemed income will be reassessed every year. The deemed return on income from savings and investments is taxed at a rate of 30 per cent.

2.2 Non-residents of The Netherlands

If a person is not a resident nor is deemed to be a resident of The Netherlands for Netherlands tax purposes, such person is not liable for Netherlands income tax in respect of income derived from the Notes and gains realised upon the settlement, redemption or disposal of the Notes, unless:

(a) the person is not an individual and such person (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands, a Netherlands enterprise (*Nederlandse onderneming*) to which the Notes are attributable, or (2) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in The Netherlands and to which enterprise the Notes are attributable.

This income is subject to Netherlands corporate income tax at up to a maximum rate of 25 per cent.

(b) the person is an individual and such person (1) has a Netherlands enterprise or an interest in a Netherlands enterprise to which the Notes are attributable, or (2) realises income or gains with respect to the Notes that qualify as income from miscellaneous activities in The Netherlands, which activities include the performance of activities in The Netherlands with respect to the Notes which exceed regular, active portfolio management, or (3) is (other than by way of securities) entitled to a share in the profits of an enterprise which is effectively managed in The Netherlands and to which enterprise the Notes are attributable.

Income derived from the Notes as specified under (b) (1) and (2) is subject to individual income tax at up to a maximum rate of 51.95 per cent. Income derived from a share in the profits as specified under (b) (3) that is not already included under (b) (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under "—*Residents of The Netherlands*"). The fair market value of the share in the profits of the enterprise (which includes the Notes) will be part of the individual's Netherlands yield basis.

3. Gift and Inheritance Tax

3.1 Residents of The Netherlands

Generally, gift and inheritance tax will be due in The Netherlands in respect of the acquisition of the Notes by way of a gift by, or on behalf of, or on the death of, a holder who is a resident or deemed to be a resident of The Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled and is subject to Netherlands gift and inheritance tax if the donor is, or is deemed to be a resident of The Netherlands at that time. If the condition precedent is fulfilled after the death of the donor, the gift is deemed to be made upon the death of the donor

A holder of Netherlands nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax if he or she has been resident in The Netherlands and dies or makes a gift within ten years after leaving The Netherlands. A holder of any other nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift tax if he or she has been resident in The Netherlands and makes a gift within a twelve months period after leaving The Netherlands. The same twelve-month rule may apply to entities that have transferred their seat of residence out of The Netherlands.

3.2 Non-residents of The Netherlands

No gift or inheritance taxes will arise in The Netherlands in respect of the acquisition of the Notes by way of a gift by, or as a result of, the death of a holder who is neither a resident nor deemed to be a resident of The Netherlands for the purposes of Netherlands gift and inheritance tax, unless in the case of a gift of the Notes by, or on behalf of, a holder who at the date of the gift was neither a resident nor deemed to be a resident of The Netherlands, such holder dies within 180 days after the date of the gift, and at the time of his or her death is a resident or deemed to be a resident of The Netherlands. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled. If the condition precedent is fulfilled after the death of the donor, the gift is deemed to be made upon the death of the donor.

4. Value Added Tax

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of a cash payment made under the Notes, or in respect of a transfer of Notes.

5. Other Taxes and Duties

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in The Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

Taxation in Spain

Payments made by Iberdrola Finanzas, S.A.U.

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete overview of tax law and practice currently applicable in Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Notes issued by the relevant Issuer after the date hereof held by a holder of Notes. It does not consider every aspect of taxation that may be relevant to a particular holder of Notes under special circumstances or who is subject to special treatment under applicable law or to the special tax regimes applicable in the Basque Country and Navarra (*Territorios Forales*). Where in this summary English terms and expressions are used to refer to Spanish concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Spanish concepts under Spanish tax law. This summary assumes that each transaction with respect to the Notes is at arm's length.

This overview is based on the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. References in this section to Noteholders include the beneficial owners of the Notes, where applicable.

Any prospective investors should consult their own tax advisers who can provide them with personalised advice based on their particular circumstances. Likewise, investors should consider the legislative changes which could occur in the future.

1. Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this document:

(i) of general application, Additional Provision One of Law 10/2014, of 26 June, on supervision and solvency of credit entities (**Law 10/2014**) as well as Foral Decree 205/2008, of 22 December (**Foral Decree 205/2008**) and Royal Decree 1065/2007 of 27 July (**Royal Decree 1065/2007**), as amended;

(ii) for individuals resident for tax purposes in Spain which are subject to the Personal Income Tax (**PIT**), Law 35/2006, of 28 November, on the PIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended, and Royal Decree 439/2007, of 30 March, passing the PIT Regulations, as amended, along with Law 19/1991, of 6 June, on Net Wealth Tax, as amended, and along with Law 29/1987, of 18 December, on the Inheritance and Gift Tax, as amended;

(iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (**CIT**), Law 27/2014, of 27 November, governing the CIT, and Royal Decree 634/2015, of 10 July, passing the CIT Regulations (**CIT Regulations**), as amended; and

(iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (**NRIT**), Royal Legislative Decree 5/2004, of 5 March, passing the Consolidated Text of the NRIT Law, as amended and Royal Decree 1776/2004, of 30 July, passing the NRIT Regulations, as amended and along with Law 29/1987, of 18 December, on the Inheritance and Gift Tax, as amended.

Whatever the nature and residence of the Noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax passed by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

2. Individuals with Tax Residency in Spain

2.1 Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

Spanish individuals with tax residency in Spain are subject to PIT on a worldwide basis. Accordingly, income obtained from the Notes will be taxed in Spain when obtained by persons that are considered resident in Spain for tax purposes. The fact that a Spanish company pays interest or guarantees payments under a Note will not lead an individual or entity being considered tax-resident in Spain.

Both interest payments periodically received and income derived from the transfer, redemption or exchange of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25 of the PIT Law, and therefore must be included in the investor's PIT savings taxable base pursuant to the provisions of the aforementioned law and taxed at a flat rate of 19 per cent. on the first €6,000, 21 per cent. for taxable income between €6,001 and €50,000, and 23 per cent. for taxable income exceeding €50,000.

As a general rule, both types of income are subject to a withholding tax on account at the rate of 19 per cent.

However, it should be noted that Foral Decree 205/2008 and Royal Decree 1065/2007 established certain procedures for the provision of information which are explained under section "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" below and that, in particular, in the case of debt listed securities issued under Law 10/2014 and initially registered in a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state, as the Notes issued by Iberdrola Finanzas:

(i) it would not be necessary to provide the relevant Issuer with the identity of the Noteholders who are individuals resident in Spain for tax purposes or to indicate the amount of income attributable to such individuals; and

(ii) interest paid to all Noteholders (whether tax resident in Spain or not) should be paid free of Spanish withholding tax provided that the information procedures are complied with.

Therefore, Iberdrola Finanzas understands that, according to Foral Decree 205/2008 and Royal Decree 1065/2007, it has no obligation to withhold any tax amount for interest paid on the Notes corresponding to Noteholders who are individuals with tax residency in Spain provided that the information procedures (which do not require identification of the Noteholders) are complied with.

Nevertheless, Spanish withholding tax at the applicable rate (currently 19 per cent.) may have to be deducted by other entities (such as depositaries or financial entities), provided that such entities are resident for tax purposes in Spain or have a permanent establishment in the Spanish territory.

The amounts withheld, if any, may be credited by the relevant investors against its final PIT liability.

Regarding the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007 and the information procedures, please refer to section "*Risk Factors—Risks Relating to Spanish Withholding Tax in Notes issued by Iberdrola Finanzas*" above.

2.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Net Wealth Tax may be levied in Spain on resident individuals, on a worldwide basis. Though for the years 2011 to 2017 the Spanish Central Government has repealed the 100% relief (*bonificación del 100%)* of this tax, the actual collection of this tax depends on the regulations of each Autonomous Community. Thus, investors should consult their tax advisers according to the particulars of their situation.

Individuals with tax residency in Spain are subject to Net Wealth Tax to the extent that their net wealth exceeds €700,000 generally, although this threshold may be different depending on the relevant Autonomous Community. Therefore, they should take into account the value of the Notes which they hold as at 31 December each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Furthermore, in accordance with article 4 of the Royal Decree-Law 3/2016, of 2 December 2016 adopting measures in the tax field aimed at the consolidation of public finances and other urgent social security measures, as from year 2018, the full relief (*bonificación del 100%*) on Spanish Wealth Tax would apply. However, as per the Spanish General State Budget Bill, the derogation of the exemption is expected to be extended again for year 2018, which should entail that from year 2019 onwards, Spanish individual Holders would be released from formal and filing obligations in relation to this Spanish Wealth Tax (unless the derogation of the exemption is extended again).

2.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals who are resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The applicable tax rates currently range between 7.65 per cent. and 81.6 per cent. depending on a number of factors.

3. Legal Entities with Tax Residency in Spain

3.1 Corporate Income Tax (*Impuesto sobre Sociedades*)

Legal entities with tax residency in Spain are subject to CIT on a worldwide basis.

Both interests periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the profit and taxable income of legal entities with tax residency in Spain and will be subject to CIT at the current general rate of 25 per cent. following the CIT rules.

Pursuant to Section 61.s of the CIT Regulations, there is no obligation to make a withholding on income obtained by taxpayers subject to Spanish CIT (which for the avoidance of doubt, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. However, in the case of Notes held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest and income deriving from the transfer may be subject to withholding tax at the current rate of 19 per cent. Such withholding may be made by the depositary or custodian if the Notes do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities ("*Dirección General de Tributos*") dated 27 July 2004 (that is, placement of the Notes outside of Spain in another OECD country and admission to listing of the Notes on an organised market in an OECD country other than Spain). The amounts withheld, if any, may be credited by the relevant investors against their final CIT liability.

Notwithstanding the above, according to Foral Decree 205/2008 and Royal Decree 1065/2007, in the case of listed debt instruments issued under Law 10/2014 and initially registered in a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state (such as the Notes issued by Iberdrola Finanzas), interest paid to investors should be paid free of Spanish withholding tax. The foregoing is subject to certain information procedures having been fulfilled. These procedures are described in "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" below.

Therefore, Iberdrola Finanzas considers that, pursuant to Foral Decree 205/2008 and Royal Decree 1065/2007, it has no obligation to withhold any tax on interest paid on the Notes in respect of Noteholders who are Spanish CIT taxpayers, provided that the information procedures are complied with.

However, regarding the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007 and the information procedures, please refer to section "*Risk Factors— Risks Relating to Spanish Withholding Tax in Notes issued by Iberdrola Finanzas*" above.

3.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Legal entities who are resident in Spain for tax purposes are not subject to Net Wealth Tax.

3.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Legal entities who are resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax.

4. Individuals and Legal Entities with no Tax Residency in Spain

4.1 Non Resident Income Tax (*Impuesto sobre la Renta de no Residentes*)

(a) ***With permanent establishment in Spain***

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those previously set out for Spanish CIT taxpayers. See "*Taxation in Spain—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*".

(b) ***With no permanent establishment in Spain***

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or legal entities who have no tax residency in Spain, being NRIT taxpayers with no permanent establishment in Spain, are exempt from such NRIT.

In order for such exemption to apply, it is necessary to comply with the information procedures, in the manner detailed under "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" as set out in Article 55 of Foral Decree 205/2008 and Article 44 of Royal Decree 1065/2007.

4.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals who are resident in a country with which Spain has entered into a double tax treaty in relation to Net Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights are located in Spain, or that can be exercised within the Spanish territory exceed €700,000 on the last day of any year, would be subject to Net Wealth Tax for such year, at the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Noteholders who are tax resident in a State of the European Union or of the European Economic Area may be entitled to apply the specific regulation of the Autonomous Community where their most valuable assets are located and which trigger this Spanish Net Wealth Tax due to the fact that they are located or are to be exercised or must be fulfilled within the Spanish territory.

Furthermore, in accordance with article 4 of the Royal Decree-Law 3/2016, of 2 December 2016 adopting measures in the tax field aimed at the consolidation of public finances and other urgent social security measures, as from year 2018, the full relief (*bonificación del 100%*) on Spanish Wealth Tax would apply. However, as per the Spanish General State Budget Bill, the derogation of the exemption is expected to be extended again for year 2018, which should entail that from year 2019 onwards, Spanish individual Holders would be released from formal and filing obligations in relation to this Spanish Wealth Tax (unless the derogation of the exemption is extended again).

Non-resident legal entities are not subject to Spanish Net Wealth Tax.

4.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy will not be subject to Inheritance and Gift Tax in Spain if the country in which such individual resides has entered into a double tax treaty with Spain in relation to Inheritance and Gift Tax. In the absence of such treaty between the individual's country of residence and Spain, the individual will be subject to Inheritance and Gift tax in accordance with the applicable regional and state legislation.

Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the state legislation. However, if the deceased or the donee are resident in an EU or European Economic Area member State, the applicable rules will be those corresponding to the relevant Autonomous Communities according to the law.

The tax rate, after applying all relevant factors, ranges between 7.65% and 81.6%.

Non-resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

Payments made by the Guarantor

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

However, although no clear precedent, statement of law or regulation exists in relation thereto, in the event that the Spanish Tax Authorities take the view that the Guarantor has validly, legally and effectively assumed all the obligations of the relevant Issuer under the Notes subject to and in accordance with the Guarantee, they may attempt to impose withholding tax in Spain on any payments made by the Guarantor in respect of interest. In this case, should Law 10/2014 be applicable (e.g., in the case of payments to be made by the Guarantor in respect of Notes issued by Iberdrola Finanzas in the form of Global Notes), the Guarantor, in accordance with Law 10/2014, Foral Decree 205/2008 and Royal Decree 1065/2007, would not be obliged to withhold taxes in Spain on any interest paid under the Guarantee to the Noteholders, that (i) can be regarded as listed debt securities issued under Law 10/2014; and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OCDE member state, provided that the Fiscal Agent fulfils with the information procedures described in "*Taxation – Taxation in Spain – Disclosure of Information in connection with the Notes*" below.

On the contrary, payments made by the Guarantor if Law 10/2014 is not applicable to the Notes (e.g. in the case of payments to be made by the Guarantor in respect of Notes issued by (i) Iberdrola International or (ii) Iberdrola Finanzas while represented by Definitive Notes*)*, payment of interest made under the Guarantee to the Noteholders may be subject to Spanish withholding tax at the applicable rate (currently 19%) unless the recipient is either (a) resident for tax purposes in a Member State of the European Union, other than Spain, not acting through a territory considered as a tax haven pursuant to Spanish law (currently set out in Royal Decree 1080/1991, of 5 of July) nor through a permanent establishment in Spain, provided that such person submits to the Guarantor the relevant tax residence certificate, issued by the competent Tax Authorities, each certificate being valid for a period of one year beginning on the date of the issuance, (b) resident in a country which has entered into a Tax Treaty with Spain which provides for the exemption from withholding of interest paid under the Notes, provided that such person submits to the Guarantor the relevant tax resident certificate, issued by the competent Tax Authorities, each certificate being valid for a period of one year beginning on the date of the issuance, or (c) a Spanish Corporate Income Taxpayer, provided that the Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange, as initially envisaged. Tax treaties could reduce this hypothetical withholding taxation.

Obligation to inform the Spanish Tax Authorities of the Ownership of the Notes

With effects as from 1 January 2013, Law 7/2012, of 29 October, as implemented by Royal Decree 1558/2012, of 15 November, introduced annual reporting obligations applicable to Spanish residents (i.e. individuals, legal entities, permanent establishments in Spain of non-resident entities) in relation to certain foreign assets or rights.

Consequently, if the Notes are deposited with or placed in the custody of a non-Spanish entity, Noteholders who are resident in Spain will be obliged, if certain thresholds are met as described below, to declare before the Spanish Tax Authorities, between 1 January and 31 March, the ownership of the Notes held on 31 December of the immediately preceding year (e.g. to declare between 1 January 2019 and 31 March 2019 the Notes held on 31 December 2018).

This obligation would only need to be complied with if certain thresholds are met: specifically, if the only rights/assets held abroad are the Notes, this obligation would only apply if the value of the Notes together with other qualifying assets held on 31 December exceeds €50,000 (with the corresponding valuation to be made in accordance with Wealth Tax rules). If this threshold is met, a declaration would only be required in

subsequent years if the value of the Notes together with other qualifying assets increases by more than €20,000 as against the declaration made previously. Similarly, cancellation or extinguishment of the ownership of the Notes before 31 December should be declared if such ownership was reported in previous declarations.

Taxation in Spain - Disclosure of Information in Connection with the Notes

Disclosure of Information in Connection with Interest Payments

In accordance with section 5 of Article 55 of Foral Decree 205/2008 and section 5 of Article 44 of Royal Decree 1065/2007 and provided that the Notes issued by Iberdrola Finanzas are initially registered for clearance and settlement in Euroclear and Clearstream Luxembourg, the Paying Agent designated by Iberdrola Finanzas would be obliged to provide Iberdrola Finanzas (or the Guarantor in relation to the payments made under the Deed of Guarantee) with a declaration (the form of which is set out in the Agency Agreement), which should include the following information:

(i) description of the Notes (and date of payment of the interest income derived from such Notes);

(ii) total amount of interest derived from the Notes; and

(iii) total amount of interest allocated to each non-Spanish clearing and settlement entity involved.

According to section 6 of Article 44 of Royal Decree 1065/2007, the relevant declaration will have to be provided to Iberdrola Finanzas (or the Guarantor, as the case may be) on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, Iberdrola Finanzas (or the Guarantor) will pay gross (without deduction of any withholding tax) all interest under the Notes to all Noteholders (irrespective of whether they are tax resident in Spain).

In the event that the Paying Agent designated by Iberdrola Finanzas were to fail to provide the information detailed above, according to section 7 of Article 55 of Foral Decree 205/2008 and section 7 of Article 44 of Royal Decree 1065/2007, Iberdrola Finanzas (or the Guarantor, as the case may be) or the Paying Agent acting on its behalf would be required to withhold tax from the relevant interest payments at the general withholding tax rate (currently, 19 per cent.). If on or before the 10th day of the month following the month in which the interest is payable, the Paying Agent designated by Iberdrola Finanzas were to submit such information, Iberdrola Finanzas (or the Guarantor) or the Paying Agent acting on its behalf would refund the total amount of taxes withheld.

Notwithstanding the foregoing, Iberdrola Finanzas has agreed that in the event that withholding tax were required by law, Iberdrola Finanzas, failing which the Guarantor, would pay such additional amounts as may be necessary such that a Noteholder would receive the same amount that he would have received in the absence of any such withholding or deduction, except as provided in "*Terms and Conditions of Notes. 8. Taxation*".

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

The Guarantor is subject to the same reporting requirements in relation to listed Notes issued by Iberdrola International.

Disclosure of Noteholder Information in Connection with the Redemption or Repayment of Zero Coupon Notes

In accordance with Article 55 of Foral Decree 205/2008 and Article 44 of Royal Decree 1065/2007, in the case of Zero Coupon Notes with a maturity of 12 months or less, the information obligations established in Section 44 (see "*—Disclosure of Information in Connection with Interest Payments*" above) will have to be complied with upon the redemption or repayment of the Zero Coupon Notes.

If the Spanish tax authorities considered that such information obligations must also be complied with for Zero Coupon Notes with a longer term than 12 months, the relevant Issuer will, prior to the redemption or repayment of such Notes, adopt the necessary measures with the Clearing Systems in order to ensure its compliance with such information obligations as may be required by the Spanish tax authorities from time to time.

The Proposed Financial Transaction Tax (*FTT*)

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

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the 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.

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

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

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

GENERAL INFORMATION

1. Application has been made to the CSSF to approve this document as a base prospectus of the Issuers. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of MiFID II. However, Notes may be issued pursuant to the Programme which will not be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange nor listed on the official list of the Luxembourg Stock Exchange nor any other stock exchange or which will be listed on such stock exchange as the relevant Issuer, the Guarantor and the relevant Dealer(s) may agree.

2. The update of the Programme and the Issue of the Notes was authorised by a resolution of the board of managing directors of Iberdrola International on 24 July 2018 and by a resolution of the board of managing directors of Iberdrola Finanzas on 13 June 2018. The giving of the guarantee contained in the Deed of Guarantee was authorised by resolutions of the board of directors of the Guarantor passed on 21 June 2018, by a resolution of the shareholders' meeting of the Guarantor passed on 31 March 2017. The Issuers and the Guarantor have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the giving of the guarantee relating to them.

3. Each permanent Bearer Note and definitive Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

4. None of the Issuers, the Guarantor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuers or the Guarantor are aware) in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuers, the Guarantor or the Group.

5. Since 31 December 2017, there has been no material adverse change in the prospects of Iberdrola International nor, since 31 December 2017, has there been any significant change in the financial or trading position of Iberdrola International.

6. Since 31 December 2017, there has been no material adverse change in the prospects of Iberdrola Finanzas nor, since 31 December 2017, has there been any significant change in the financial or trading position of Iberdrola Finanzas.

7. Since 31 December 2017, there has been no material adverse change in the prospects of the Guarantor or the Group nor, since 30 June 2018, has there been any significant change in the financial or trading position of the Guarantor or the Group.

8. Notes will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code and the International Securities Identification Number (ISIN) for each Series of Notes will be set out in the relevant Final Terms along with the Financial Instrument Short Name (FISN) and the Classification of Financial Instruments Code (CFI Code), where applicable. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

9. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions.

10. In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

11. For the period of 12 months following the date of this Base Prospectus, the following documents (with English translations, where appropriate) will be available, during usual business hours on any weekday (public holidays excepted), at the registered offices of the Issuers and the Guarantor and the office of the Fiscal Agent and the Registrar and each of the Paying Agents and Transfer Agents:

    (a) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates in respect of Registered Notes, the Coupons, the Receipts and the Talons);

    (b) the Deed of Covenant;

    (c) the Deed of Guarantee;

    (d) the Issuer-ICSD Agreement;

    (e) the Articles of Association of Iberdrola International and the *Estatutos* of Iberdrola Finanzas and the Guarantor (with English translations, in each case);

    (f) the financial information incorporated by reference, being:

        (i) an English translation of the auditors' report and audited consolidated annual financial statements of the Guarantor for the financial years ended 31 December 2017 and 2016;

        (ii) an English translation of the unaudited consolidated interim financial statements of the Guarantor for the six months ended 30 June 2018;

        (iii) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola International for the financial years ended 31 December 2017 and 2016; and

        (iv) an English translation of the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola Finanzas for the financial years ended 31 December 2017 and 2016;

    (g) the most recent publicly available audited annual financial non-consolidated statements of the Issuers; the Issuers are not required to publish interim financial statements;

    (h) the most recent publicly available audited annual consolidated financial statements of the Guarantor; the most recent publicly available interim unaudited consolidated statements of the Guarantor; the Guarantor publishes unconsolidated and consolidated figures on a quarterly basis;

    (i) this Base Prospectus; and

    (j) any future prospectus supplements, further prospectuses, information memoranda and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder

must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which were admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website (www.bourse.lu).

12. Ernst & Young, S.L. has audited the accounts of the Guarantor in accordance with IFRS for 2016 without qualification. KPMG Auditores, S.L. has audited the consolidated financial statements as at and for the year ended 31 December 2017 of the Guarantor in accordance with IFRS without qualification.

13. Ernst & Young Accountants LLP has audited the accounts of Iberdrola International in accordance with generally accepted accounting principles in The Netherlands for 2016 without qualification. KPMG Accountants N.V. has audited the accounts of Iberdrola International in accordance with generally accepted accounting principles in The Netherlands for 2017 without qualification.

14. Ernst & Young, S.L. has audited the accounts of Iberdrola Finanzas in accordance with IFRS for 2016 without qualification. KPMG Auditores, S.L. has audited the annual accounts as at and for the year ended 31 December 2017 of Iberdrola Finanzas in accordance with the Spanish General Chart of Accounts without qualification.

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

16. KPMG Auditores, S.L. (independent auditors) located at Paseo de la Castellana 259C, 28046 Madrid, Spain, and registered in the Official Registry of Accounting Auditors (*Registro Oficial de Auditores de Cuentas*), was appointed as the new independent auditor of the Guarantor and Iberdrola Finanzas for 2017 (replacing Ernst & Young, S.L.), pursuant to the resolution of the shareholders' meeting of the Guarantor held on 31 March 2017 and the sole shareholder's meeting of Iberdrola Finanzas held on 3 July 2017.

17. KPMG Accountants N.V., independent auditors, with their address at Laan van Langerhuize 1, 1186 DS Amstelveen, The Netherlands is subject to inspection by the *Autoriteit Financiële Markten* (**AFM**). The AFM has granted KPMG Accountants N.V. a license to perform financial statement audits of public interest entities. The auditor who signs on behalf of KPMG Accountants N.V. is a member of the Dutch Professional Organization for Accountants (*Nederlandse Beroepsorganisatie van Accountants*). KPMG Accountants N.V. was appointed as the new independent auditor of Iberdrola International for 2017 (replacing Ernst & Young Accountants LLP), pursuant to the resolution of the shareholders' meeting of Iberdrola International held on 4 July 2017.

18. The Issuers do not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

19. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuers and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and

securities activities may involve securities and/or instruments of the Issuers or Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In addition, potential conflicts of interest may arise between the Calculation Agent (if any) and Noteholders (including when a Dealer acts as a Calculation Agent), including with respect to certain determinations and judgements that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Noteholders during the term of the Notes and upon their redemption.

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