WHOLESALE BASE PROSPECTUS

GAS NATURAL FENOSA FINANCE B.V.

(Formerly Union Fenosa Finance B.V.; incorporated with limited liability in The Netherlands and having its statutory domicile in Amsterdam)

and

GAS NATURAL CAPITAL MARKETS, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

Guaranteed by

GAS NATURAL SDG, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

---

euro 14,000,000,000
Euro Medium Term Note Programme

Under this €14,000,000,000 Euro Medium Term Note Programme (the ***Programme***), Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance B.V. (each an ***Issuer***, and together the ***Issuers***) may from time to time issue notes in bearer form (the ***Notes***) guaranteed by Gas Natural SDG S.A. (the ***Guarantor*** or ***Gas Natural SDG*** and, together with its consolidated subsidiaries, ***Gas Natural Fenosa*** or ***the Group***). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €14,000,000,000 (or its equivalent in other currencies). The Issuers and the Guarantor may decide to increase the amount of the Programme.

Application has been made to the Commission de Surveillance du Secteur Financier (***CSSF***) in its capacity as the competent authority under *loi relative aux prospectus pour valeurs mobilières du 10 juillet 2005* (the Luxembourg law on prospectuses for securities of 10 July 2005), as amended by the Luxembourg law of 3 July 2012 (the ***Luxembourg Act***) for the purpose of Article 5.4 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended (the ***Prospectus Directive***) and relevant implementing measures in Luxembourg for approval of this base prospectus (the ***Base Prospectus***) as a base prospectus issued in compliance with the Prospectus Directive and the Luxembourg Act for the purpose of giving information with regard to the issue of the Notes under the Programme described in this Base Prospectus during the period of twelve months after the date hereof, which according to the particular nature of each 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 each Issuer and the Guarantor. The CSSF assumes no responsibility as to the economic and financial soundness of the transaction and the quality or solvency of the Issuer in line with the provisions of article 7(7) of the Luxembourg Act. This Base Prospectus constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. For the purposes of the Transparency Directive 2004/109/EC, Gas Natural Fenosa Finance B.V. has selected Luxembourg as its 'home member state' and Gas Natural Capital Markets, S.A. has selected United Kingdom as its 'home member state'. The 'home member state' of the Guarantor for such purposes is Spain.

Application has also been made to the Luxembourg Stock Exchange for the Notes issued within twelve months from the date hereof to be listed on the official list of the Luxembourg Stock Exchange and to be admitted to trading on the Luxembourg Stock Exchange's regulated market (which is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC). Application may also be made to list such Notes on such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuers and the Guarantor. Unlisted Notes may also be issued by Gas Natural Fenosa Finance B.V. but not by Gas Natural Capital Markets, S.A. According to the Luxembourg Act, the CSSF is not competent for (i) approving prospectuses for the listing of money market instruments having a maturity at issue of less than twelve months and complying with the definition of securities or (ii) the issue of unlisted notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*" on pages 6 to 20 below.

Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the ***CRA Regulation***) will be disclosed in the relevant Final Terms. A list of rating agencies registered under the CRA Regulation can be found at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs. A rating is not a recommendation to buy, sell or hold Notes and may be subject to suspension, change or withdrawal by the assigning rating agency.

Arranger

Barclays

Dealers

Banca IMI	Banco Bilbao Vizcaya Argentaria, S.A.
Barclays	BNP PARIBAS
CaixaBank	Citigroup
Crédit Agricole CIB	HSBC
ING	J.P. Morgan
MUFG	Santander Global Corporate Banking
Société Générale Corporate & Investment Banking	The Royal Bank of Scotland

The date of this Base Prospectus is 2 December 2016.

Each of the Issuers and the Guarantor accepts responsibility for the information contained in this Base Prospectus and any applicable Final Terms (as defined below). Having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of the knowledge of each of the Issuers and the Guarantor, in accordance with the facts and contains no omission likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with all documents that are deemed to be incorporated herein by reference in it (see "*Documents Incorporated by Reference*" on pages 21 to 25 below).

References herein to ***Conditions*** are to the Terms and Conditions of Notes issued by Gas Natural Fenosa Finance B.V. or to the Terms and Conditions of Notes issued by Gas Natural Capital Markets, S.A., as the case may be.

To the fullest extent permitted by law, none of the Dealers or the Arranger accepts any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuers, the Guarantor, or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Base Prospectus or any such statement.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information provided in connection with the Programme or any 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 this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuers, the Guarantor or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the affairs, and its own appraisal of the creditworthiness, of the Issuers and/or the Guarantor. Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes constitutes an offer by or on behalf of the Issuers and/or the Guarantor or any of the Dealers to any person to subscribe for or to purchase any Notes.

The delivery of this Base Prospectus does not at any time imply that the information contained herein concerning the Issuers and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuers and/or the Guarantor during the life of the Programme. Investors should review, *inter alia*, the most recent financial statements of the Issuers and the Guarantor when deciding whether or not to purchase any of the Notes.

The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. The Issuers, the Guarantor, the Arranger 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, the Arranger or the Dealers that would permit a public offering of any Notes or distribution of this document 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. In particular, the Notes and the obligations of the Guarantor under the Deed of Guarantee have not been and will not be registered under the United States Securities Act 1933, as amended (the ***Securities Act***), or with any securities regulatory authority of any state or other jurisdiction of the United States and include Notes in bearer form that are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (***Regulation S***)) unless the Notes are registered under the Securities Act, or an exemption from such registration requirements is available. There are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, The Netherlands and Spain) and Japan, see "*Subscription and Sale*" on pages 164 to 169.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING 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. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to ***U.S. dollars*** *and* ***U.S.$*** *are to the currency of the United States of America, references to* ***Yen*** *are to the currency of Japan, references to* ***Brazilian Real*** *and* ***BRL*** *are to the currency of Brazil, references to* ***Chilean peso*** *and* ***CLP*** *are to the currency of Chile, references to* ***Colombian peso*** *are to the currency of Colombia and references to* ***Sterling*** *are to the currency of the United Kingdom. References to* ***euro*** *and to* ***€*** *are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. Conversions into euro of amounts expressed in currencies other than euro in this Base Prospectus are provided for convenience only and, unless indicated otherwise, represent an estimate of such euro amounts based on publicly available conversion rates as at 30 June 2016. No representation is made that these amounts could have been, or could be, converted into euro at that rate or any other rate.*

ALTERNATIVE PERFORMANCE MEASURES

The financial data incorporated by reference in this Base Prospectus, in addition to the conventional financial performance measures established by IFRS, contains certain alternative performance measures (***APMs***) that are presented for the purposes of a better understanding of Gas Natural Fenosa's financial performance, cash flows and financial position, as these are used by Gas Natural Fenosa when making operational or strategic decisions for the Group. The relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method, see "*Key Performance Indicators*" on page 170.

Such measures should not be considered as a substitute for those required by IFRS.

TABLE OF CONTENTS

RISK FACTORS

Prospective investors should carefully consider all the information set forth in this Base Prospectus, the applicable Final Terms and any documents incorporated by reference into this Base Prospectus, as well as their own personal circumstances, before deciding to invest in any Notes. Prospective investors should have particular regard to, among other matters, the considerations set out in this section of this Base Prospectus. The following is not intended as, and should not be construed as, an exhaustive list of relevant risks. There may be other risks that a prospective investor should consider that are relevant to its own particular circumstances or generally.

Each of the Issuers and the Guarantor believes that each of the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and none of the Issuers or 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 as at the date of this Base Prospectus, but the inability of the relevant 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 relevant Issuer and the Guarantor based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus, including the descriptions of the Issuers and the Guarantor, as well as the documents incorporated by reference, and reach their own views prior to making any investment decisions. Additional risk factors regarding the Guarantor are incorporated by reference in this Base Prospectus.

Before making an investment decision with respect to any Notes, prospective investors should consult their own stockbroker, bank manager, lawyer, accountant or other financial, legal and tax advisers and carefully review the risks entailed by an investment in the Notes and consider such an investment decision in the light of the prospective investor's personal circumstances.

Risks Relating to the Issuers

The risk factors relating to the Issuers are the same as those relating to the Guarantor, as set forth in this section below.

Risks Relating to the Guarantor's Business

The Uncertain Macroeconomic Climate

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty following the very severe dislocation of the financial markets that began in August 2007 and considerably worsened in the following years. This dislocation has severely restricted general levels of liquidity and the availability of credit and the terms on which credit is available. It has also increased the financial burden on Gas Natural Fenosa's domestic and institutional customers, downgrading their credit quality, reducing their spending capacity and negatively affecting consumer demand.

This market dislocation has also been accompanied by continuing periods of recessionary conditions and trends in many economies throughout the world, including Spain.

On 10 October 2012, Standard & Poor's cut Spain's sovereign credit rating by two full notches. Following such downgrade, Standard & Poor's placed the current ratings assigned to the Guarantor and to certain other Spanish corporates on Credit Watch Negative and downgraded certain corporates' credit rating citing that meeting such corporates' refinancing needs could prove increasingly challenging or onerous to achieve due to Spain's tough economic and financial conditions.

On 23 May 2014, Standard & Poor's raised Spain's sovereign credit rating by one notch, to BBB (Outlook Stable), citing the moderate growth in GDP and the gradual recovery in employment. In addition, on 2 October 2015, Standard & Poor's raised Spain's sovereign credit rating by one notch, to BBB+ (Outlook Stable), referring to the government labour market reforms that improved the country's economic prospects and on 30 September

2016, Standard & Poor's confirmed such rating. Nevertheless, severe challenges remain, such as large sovereign debt leverage and extremely low inflation, which, in turn, could have a material adverse effect on the business, prospects, financial condition and results of operations of Gas Natural Fenosa given the Group's business is regarded by credit rating agencies as having a "high" exposure to Spain's risk profile.

Despite the achievement of a third rescue package for Greece announced on 13 July 2015, there continue to be concerns surrounding Greece's creditworthiness and its ability to implement the economic reforms demanded by its creditors, which could have a material adverse impact on the financial markets and, consequently, Gas Natural Fenosa's ability to obtain financing on commercially acceptable terms or at all. In addition, political uncertainty in Spain is also increasing due to the appearance of new parties supporting similar policies to Greece's Syriza.

On 23 June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union-derived laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets.

Despite the recent improvement in the European financial markets and the recovery of Spain's economy, further instability cannot be ruled out in the coming months or in 2017, particularly in light of the Spanish general election result and the forming of a minority government.

Deterioration in the Spanish and other economies throughout the world negatively affects business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, the state of the equity, bond and foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in key markets and the liquidity of the global financial markets, all of which could have a material adverse effect on the business, prospects, financial condition and results of operations of Gas Natural Fenosa.

Gas Natural Fenosa is not able to predict how the economic cycle is likely to develop in the short term or the coming years or whether there will be a return to a recessive phase of the global economic cycle. Any further deterioration of the current economic situation in the markets in which Gas Natural Fenosa operates could decrease revenues, increase bad debt exposure, increase the financing costs of the Group and might affect the reasonable value of financial assets and liabilities, all of which could give rise to an impairment of the goodwill, intangible or tangible fixed assets of Gas Natural Fenosa, which may in turn have a material adverse effect on the business, prospects, financial condition and results of operations of Gas Natural Fenosa.

Business Strategy

Given the risks to which Gas Natural Fenosa is exposed and the uncertainties inherent in its business activities, Gas Natural Fenosa can provide no assurance that it will be able to implement its business strategy successfully. Were Gas Natural Fenosa to fail to achieve its strategic objectives, or if those objectives, once attained, did not generate the benefits initially anticipated, its business, prospects, financial condition and results of operations may be adversely affected, perhaps significantly. Gas Natural Fenosa's ability to achieve its strategic objectives is subject to a variety of risks, including, but not limited to, the following specific risks:

- an inability to increase the number of connection points in Europe and Latin America, preventing Gas Natural Fenosa from expanding its distribution networks in these countries in line with its strategic plan;
- a stagnation in the number of customers due to a lack of success in the marketing campaigns targeted at gas and electricity consumers;

- an inability to achieve the desired level of flexibility and diversification in gas supplies and access to gas reserves;
- the inclusion of "take-or-pay" clauses in supply contracts, potentially imposing an obligation on Gas Natural Fenosa to pay for a larger volume of gas than it requires;
- the possibility of a new recession in the Spanish or European economy, or the actual or threatened default by any major economy on its sovereign debt, which would negatively affect the performance of the Group's businesses;
- an inability to successfully manage the requirements of regulatory frameworks if stricter-than-expected regulatory measures were to be imposed in relation to the international distribution of European gas and electricity generation; and
- an inability to consolidate Gas Natural Fenosa's multi-service business strategy or to increase the current rate of multi-product contracts per customer.

Regulatory Risk

Gas Natural Fenosa and its subsidiaries are obliged to comply with legal rules and regulations applying to the natural gas and electricity sectors. In particular, gas and electricity distribution are regulated businesses in most of the countries in which Gas Natural Fenosa carries out these activities.

The laws and regulations governing the natural gas and electricity sectors in the countries where Gas Natural Fenosa operates are typically subject to periodic review by the regulatory authorities. Following such reviews, or as a result of the approval of new regulations, the regulatory frameworks prevailing in those jurisdictions, along with the interpretation of the applicable rules, may be modified, and such modifications may be significant in certain instances. The introduction of such modifications may impact the existing remuneration scheme for regulated activities, as well as operating, capital and raw material costs and efficiency incentives, amongst other fundamental factors, all of which could have a material adverse effect on Gas Natural Fenosa's subsidies, business, prospects, financial condition and results of operations.

In particular, the Spanish government has undertaken an ambitious overhaul of the regulatory framework applicable to the entire Spanish electricity sector. The main driver of the reform was the determination to reduce and, eliminate the so-called "tariff deficit", which is the difference between the regulated costs and the income of the electricity system. As of the date of this Prospectus, the total outstanding electricity tariff deficit amounts to approximately €25 billion, all of which has been securitised. As a result of the Spanish electricity reform, 2013 was the last year with a tariff deficit, with a tariff surplus of income over costs of the electricity system of €550 million having been recorded in 2014 and €469 million in 2015. The measures adopted by the government to tackle the tariff deficit include Royal Decree-Law 9/2013, of 12 July, which established a new remuneration scheme for renewable, waste and cogeneration, distribution and transportation activities, which will be referenced to a "reasonable rate of return". It was followed by the publication at the end of 2013 of Law 24/2013, of 26 December, on the Electricity Sector (the "**Electricity Act**"), confirming the same principles for the remuneration of regulated activities established in Royal Decree-Law 9/2013. The Electricity Act also includes a stability rule: every new cost should be accompanied by a new source of revenues, and any deficit exceeding certain limits should be automatically compensated by a tariff increase. Royal Decrees establishing the remuneration methodology for transmission and distribution were also approved and published by the end of 2013. The Ministerial Orders including the reference unit costs for capital and operational expenditure were approved in December 2015 and the new methodology was first applied in Ministerial Order IET/980/2016 establishing the remuneration of distribution activities for 2016 and Ministerial Order IET/981/2016 establishing the remuneration of transmission activities for 2016 that were published in June 2016.

Royal Decree 413/2014 and Ministerial Order IET/1045/2014 establishing the detailed parameters of the new remuneration scheme for renewable, cogeneration and waste were approved in June 2014. The parameters are established for the first regulatory period that ends in December 2019. However, a revision of certain of these parameters is foreseen at the end of the first half of this first regulatory period, which is reached on 31 December 2016. Principally, the revision would be in order to consider the real price of the market during the first half of the first regulatory period and to guarantee a reasonable return within the lifetime of the installations. Detailed regulation on capacity payments and the possibility of mothballing of general facilities are still pending.

With regard to the natural gas sector, the Spanish government approved in July 2014 the main lines of the gas regulatory reform also aimed at cutting the accumulated gas tariff deficit. According to the last provisional settlement (14/2015) approved by the CNMC (*Comisión Nacional de los Mercados y la Competencia*), the provisional annual gas tariff deficit corresponding to the year 2015 amounted to €23 million due to the mild weather at the end of 2015. The reform was included in Royal Decree-Law 8/2014, of 21 May, subquently converted into Law 18/2014, of 17 October, modifying, as from its entry into force in July 2014, the remuneration scheme for regulated activities: transmission, regasification, storage and distribution. Similar to what occurred in the electricity sector, Law 18/2014 also includes a stability rule and a principle of economic sustainability, so that any deficit exceeding certain limits should be automatically eliminated through increases in the access tariffs. It also includes the recovery of part of the outcome of the arbitration proceedings of the Algerian contract of natural gas supply through the Maghreb pipeline. This means that the gas access tariffs are recovering, over a period of five years, which commenced in 2015, an amount of €163,790,000 as well as the payments of market interest rates to be established by the Ministry of Energy, Trade and Tourism, which will be reimbursed to Gas Natural Fenosa as the owner of the Algerian contract. Ministerial Orders establishing the remuneration for transmission and distribution activities for the second half of 2014 and 2015 were approved by the end of 2014, applying the new methodology established in this legislation.

Law 18/2014 also established, pursuant to the Energy Efficiency Directive, a national system for energy efficiency obligations which assigns to each obligated subject (suppliers of gas and electricity, wholesale petroleum operators and wholesale GLP operators) an obligation of annual savings with two alternatives for compliance: contribution to a National Energy Efficiency Fund (*Fondo Nacional de Eficiencia Energetica*) (***FNEE***) managed by the Institute of Diversification and Energy Saving (*Instituto para la Diversificación y Ahorro de la Energía*) (***IDEA***) and alternatively an accreditation system of energy savings through the issuance of Certificates of Energy Saving (***CAEs***). However, as the regulatory development of the CAES is still pending, the only possibility to fulfill the obligations of savings for 2014, 2015 and 2016 is through contribution to the FNEE.

In May 2015, Law 8/2015 was published amending the Hydrocarbons Sector Law, primarily to contemplate the creation of an organised gas market (gas hub), the introduction of other measures to promote competition in the Hydrocarbons sector, and the adoption of tax measures with regards to the exploration and production of hydrocarbons.

Although Gas Natural Fenosa considers that it is, in all material respects, in compliance with the laws governing its activities, it is subject to a complex set of laws across various jurisdictions. If the competent public or private sector bodies were to interpret or apply such laws in a manner contrary to Gas Natural Fenosa's interpretation of them, such compliance could be questioned or challenged and, if any non-compliance were to be alleged or proven, it could have a material adverse effect on Gas Natural Fenosa's subsidies, business, prospects, financial condition and results of operations.

Furthermore, given the regulated nature of some of the gas and electricity sectors in which Gas Natural Fenosa operates, some of its activities are subject to obtaining the relevant concessions, licences or other administrative authorisations, which generally take a long time to obtain. Operating without obtaining necessary permits can be penalised with sanctions.

The return on, and performance of, Gas Natural Fenosa's investments in regulated jurisdictions are therefore conditional on obtaining and maintaining the relevant administrative concessions authorisations in the medium and long term, which, in many cases, is outside of Gas Natural Fenosa's control. Any new political, social or economic conditions in these jurisdictions could affect the stability of Gas Natural Fenosa's contracts, concessions, licences or other administrative authorisations, as well as have unforeseeable consequences for Gas Natural Fenosa's business plan and materially adversely affect the remuneration of Gas Natural Fenosa's regulated activities (and return on investment) in such jurisdictions.

In addition, it should be noted that many of Gas Natural Fenosa's concessions are subject to the fulfilment of certain commitments which, if not met, can lead to sanctions, reductions in remuneration, revocation of the concessions and enforcement of any guarantees or surety bonds provided, which could materially adversely impact the return on Gas Natural Fenosa's investments and, as a result, its business, prospects, financial condition and results of operations.

Level of Competitiveness in Supply Activities in the Gas and Electricity Market

Gas Natural Fenosa operates in a highly competitive environment with respect to its positioning in the gas and electricity markets in the different countries in which it carries on its business. In particular, the liberalisation processes that have taken place in energy markets both in Spain and in other key markets have had a negative impact on energy prices and on the market share of retail supply, especially in the gas business. Gas Natural Fenosa may continue to lose market share due to the entry of new suppliers into the market (such as *Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures s.p.a.* (***Sonatrach***) or other participants in Medgaz, S.A. (***Medgaz***) or to existing suppliers. A further decline in market share could have a significant adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations.

In the electricity industry, liberalisation has led to increased competition as a result of consolidation and the entry of new market participants in the European Union electricity markets, including the Spanish electricity market. The liberalisation of the electricity industry in the European Union has also led to lower electricity prices in some market segments as a result of the entry of new competitors and cross-border energy suppliers and the establishment of European electricity exchanges, which in turn has led to increased liquidity in the electricity markets. This liberalisation of the electricity market means that many areas of Gas Natural Fenosa's business must develop in a more competitive environment. If Gas Natural Fenosa were unable to adapt to or manage adequately this competitive market, its business, prospects, financial condition and results of operations could be materially adversely affected.

Increased Competition Following Execution of Divestments

On 11 February 2009, the Spanish National Competition Commission ("*Comisión Nacional de Competencia*" or ***CNC***) authorised Gas Natural SDG's acquisition of Unión Fenosa, S.A. (***Unión Fenosa***) subject to certain undertakings presented by Gas Natural SDG and accepted by the CNC. The conditions published by the CNC considered a divestment of 1,600 MW of installed capacity of combined cycle technology and a total of 900,000 gas distribution connection points, that were accomplished during 2010 and 2011. Initially, Gas Natural Fenosa agreed to sell approximately 600,000 distribution connection points in Madrid, and in 2011, Gas Natural Fenosa complied with the condition to sell an additional 300,000 distribution connection points, with the customers corresponding to such connection points. On 12 July 2010, Gas Natural Fenosa agreed to sell 400 MW of the combined cycle gas turbine (***CCGT***) at Plana del Vent to Analp Gestión, S.A.U. and Alpiq Energía España, S.A.U., with a two-year usage right and an option to acquire a further 400 MW (which has been recently extended until 2017). On 28 July 2011, Gas Natural Fenosa completed the divestment of 800 MW of CCGT capacity at Arrubal.

The rationale behind, and the express purpose of, the conditions imposed by the CNC was to create effective competition in the Spanish gas and electricity markets in relation to Gas Natural Fenosa's market share. Accordingly, and following the recent fulfilment of these conditions, Gas Natural Fenosa could face increased competition in these markets, and may not be successful in retaining all of those customers that it did not transfer as part of the required divestments. Any loss of market share in the gas and electricity markets in Spain, Gas Natural Fenosa's primary markets, could have a material adverse effect on its business, prospects, financial condition and results of operations.

Operating Risks

Gas Natural Fenosa's operations are subject to certain inherent risks, including pipeline ruptures, breakdowns affecting its electricity generation assets and liquefied natural gas (***LNG***) tankers, explosions, pollution, release of toxic substances, fires, adverse weather conditions, failure by gas and fuel suppliers or other third parties to fulfil contractual obligations, sabotage, accidental damage to its gas distribution network or electricity generation assets and other hazards and force majeure events, any of which could result in personal injury and/or damage to, or the destruction of, Gas Natural Fenosa's facilities and other properties or an interruption in gas supply and/or electricity generation. Additionally, Gas Natural Fenosa may be subject to civil liability claims for personal injury and/or other damages caused in the ordinary pursuit of its activities, such as failures in its distribution network, gas explosions, pollution or toxic spills or incidents with its generating plants. Such claims could result in the payment of compensation under the laws of certain countries where Gas Natural Fenosa operates, which could, to the extent the Group's civil liability insurance policies do not cover the damages, have a material adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations. Furthermore, if operations at compression stations on the Europe-Maghreb pipeline were to be interrupted, suppliers may notify Gas Natural Fenosa of a reduction in supply levels or seek to enforce *force majeure* provisions with a view to terminating the corresponding supply agreements. Gas Natural Fenosa is not generally able to predict the occurrence of these or similar events and they may cause unanticipated interruptions in its gas supply and electricity generation activities. While Gas Natural Fenosa seeks to obtain insurance cover for risks such as damage to property and loss of profit, its financial condition and results of operations may be adversely affected to the extent any losses are uninsured, exceed the applicable limitations under its insurance policies or are subject to the payment of an excess towards the insured amount or to the extent the premiums payable in respect of such policies are increased as a result of insurance claims.

Gas Natural Fenosa enters into long-term gas supply contracts and, consequently, its gas supply is subject to the risk of non-fulfilment by its contractual counterparties. In the event that sufficient gas is not supplied to Gas Natural Fenosa due to the failure of a counterparty to deliver contracted amounts of gas or for any other reason, Gas Natural Fenosa could be required to seek alternative sources of gas in order to ensure continued supply. This may require purchases on the 'spot' market (a non-organised market aimed at short-term commercialisation in gas, primarily LNG), to acquire the gas required. Such 'spot' purchases may only be available on more expensive terms than under the current supply contracts to which Gas Natural Fenosa is party, and this cost may not be recoverable under such contracts. Gas Natural Fenosa cannot provide any assurance that, in such circumstances, it would be able to acquire the gas needed to guarantee supply on reasonable terms, or at all, and any failure to do so could have a negative effect on its business, prospects, financial condition and results of operations.

Risks Relating to Litigation and Arbitration

The sectors in which Gas Natural Fenosa operates have in recent years grown more litigious, as a result of the volatility of fuel and natural gas prices and greater competition in the liberalised market, amongst other factors. Gas Natural Fenosa and its subsidiaries are currently involved in a number of judicial, arbitration and regulatory proceedings. Given the nature of Gas Natural Fenosa's business and the sectors in which it operates, the amounts involved in such proceedings can be significant.

An adverse outcome in one or more of those proceedings (including out-of-court settlements) could have a material adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations.

See "*Description of Gas Natural SDG, S.A.—Litigation and Arbitration*" on pages 148 to 149 below.

Gas Natural Fenosa is Exposed to Price Variations in Crude Oil, Natural Gas and Electricity

A significant portion of Gas Natural Fenosa's operating expenses relate to the purchase of natural gas and LNG for commercialisation in the regulated and deregulated markets in which it operates and for fuelling its CCGT plants for electricity generation. Although the prices that Gas Natural Fenosa charges its gas customers generally reflect the market price of natural gas, in highly volatile market conditions the adjustments it makes to its sale prices may not fully reflect the changes in the cost of natural gas supplies. In addition to increasing the costs in Gas Natural Fenosa's natural gas business, higher gas prices can also inflate its electricity generation costs, as natural gas is used to fuel its CCGT plants.

The prices for such commodities have historically fluctuated and Gas Natural Fenosa cannot be certain that prices will remain within projected levels. Despite the fact that the annual average price of a barrel of Brent crude oil was stable in preceding years, at U.S.$111.3 in 2011, U.S.$111.6 in 2012 and U.S.$108.7 in 2013, prices are now highly volatile, falling to an average of U.S.$99.1 in 2014 to U.S.$52.5 in 2015 and to U.S.$41.8 in 2016 up to the end of the third quarter (source: *BP Trading Conditions Update—Crude oil and natural gas markets archive*). Crude oil and natural gas prices are also influenced by geopolitical factors, including but not limited to, demand in China, India and Japan due to nuclear shutdown, oversupply of crude oil, the strong U.S. dollar and general market volatility. Additionally, new procurement contracts from the US (Sabine Pass and Corpus Christi) are exposed to the Henry Hub index, which is also highly volatile, with the annual average price of one million British Thermal Units (BTU) in USD for the last three years, at U.S.$ 3.65 in 2013, U.S.$ 4.42 in 2014 and U.S.$ 2.66 in 2015 (source: *NYMEX New York Mercantile Exchange*).

The price of electricity in Spain is also highly volatile due to the market share of renewable technologies and their dependence on climate conditions. The average price per kWh of electricity fell from €47.25 in 2012 to €44.19 in 2013 and to €41.97 in 2014 and rising again to €50.02 in 2015 and falling significantly to €34.02 for the first three quarters of 2016 (source: *OMIE*), mainly due to the good performance and increase in dispatching of renewable energy (hydro and wind).

Gas Natural Fenosa's business activities include wholesale natural gas sales to electricity producers and others. With respect to such transactions, its results of operations are likely to depend largely upon prevailing market prices in regional markets and other competitive markets. These market prices may fluctuate substantially over relatively short periods of time. As a result, Gas Natural Fenosa's natural gas wholesale business is exposed to risks of fluctuating commodity prices and movements in the price of electricity.

There can be no assurance that Gas Natura Fenosa will be able to pass on increases in generation and operating costs to its gas and electricity customers (in the case of commodity price increases) or to negotiate a decrease in wholesale prices with its suppliers (in the case of commodity price decreases), or otherwise offset such variations through hedging arrangements and other risk management techniques.

Additionally, long-term gas purchase contracts typically provide for regular price revision mechanics: the parties have the right to request a review of the gas purchase price in certain circumstances, and in the event the parties were unable to reach agreement, such contracts provide for an independent system of setting such price formula. Gas Natural Fenosa is periodically subject to such procedures.

Any such variations in commodity prices could have a material adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations.

Gas Volume Risks

Most purchases of natural gas and LNG are made pursuant to long-term contracts with clauses (commonly known as "take-or-pay" clauses) that require Gas Natural Fenosa to purchase a certain amount of natural gas and LNG during specified contract periods. Pursuant to these contracts, even if Gas Natural Fenosa requires less than the minimum contracted amount, it is still contractually bound to pay for the minimum contracted amount, thereby paying for an amount of gas or LNG that is greater than its operational needs. When Gas Natural Fenosa enters into "take-or-pay" contracts, it negotiates the minimum contracted amount based on forecasts of its anticipated future needs. Such forecasts are based on previous experience and the information then available to Gas Natural Fenosa, but actual volume requirements may prove to be lower than those projected at the time the contracts are entered into. Any significant variation in the forecast levels of demand could result in Gas Natural Fenosa being required to pay for quantities of natural gas that exceed its actual needs, regardless of whether it elects to take delivery of the excess quantities of gas, which could, in turn, have a material adverse effect on Gas Natural Fenosa's operational costs and, as a result, its business, prospects, financial condition and results of operations.

Environmental Protection Regulations

Gas Natural Fenosa is subject to extensive environmental protection regulations that require, among other things, the preparation of environmental impact studies, the maintenance of relevant authorisations, licences and permits and the fulfilment of certain other requirements. Amongst others, Gas Natural Fenosa is subject to the risk that:

- its environmental protection studies may not be approved by the regulatory authorities;
- required environmental authorisations and licences may not be granted or may be revoked due to a breach of the conditions imposed by such authorisations;

- public opinion may not be in favour of projects proposed by Gas Natural Fenosa, which may lead to the projects suffering delays or being cancelled; and/or
- applicable regulations or their interpretation by regulatory authorities may undergo modification or change, which could result in increased costs or time required to ensure compliance.

In recent years, environmental protection laws have become more onerous in many countries in which Gas Natural Fenosa operates. Although Gas Natural Fenosa considers that it has carried out all necessary actions to comply with applicable laws, any modification to, or unforeseen application of, such laws may require significant investments for continued compliance, may increase the operational cost of CCGT plants and may have an adverse effect on Gas Natural Fenosa's industrial customers that purchase gas for their businesses, with the possible consequence of declining consumption of gas and electricity.

Should any of these risks materialise, they could have a material adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations.

In addition, since 2002, certain European directives have been implemented into Spanish law that have affected Gas Natural Fenosa's activities (in particular, its electricity generation activities) by limiting emissions of atmospheric pollutants from large-scale power plants in Spain.

Regarding the EU-ETS (Emission Trading Scheme), in 2013 and beyond, there will be no emission rights allocations at no cost for the majority of European power plants. In order to comply with the EU-ETS for the period post Kyoto or Phase III (2013-2020), Gas Natural Fenosa manages its portfolio in an integrated manner by acquiring the emission allowances (EUAs) necessary through its active participation in the secondary market.

Currency and Interest Rate Risks

Fluctuations in interest rates modify the fair value of the Group's assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and accordingly, affect the Group's equity and profitability, respectively. Gas Natural Fenosa's floating-rate debt is primarily subject to fluctuations in the Europe Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR) and the indexed rates in Argentina, Brazil, Colombia, Chile, Mexico and South Africa.

Gas Natural Fenosa is also exposed to risks associated with variations in currency exchange rates. Variations in exchange rates can affect, among other things, the value of Gas Natural Fenosa's earnings and borrowings denominated in currencies other than the euro and its operations that generate non-euro revenue, as well as the exchange value of commodity purchases denominated in currencies other than the euro.

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

Construction and Development of New Infrastructure

The construction and development of natural gas supply and distribution infrastructure and the exploration, production and sale of LNG, as well as electricity generation and distribution projects, can be time-consuming and highly complex. Any increase in the costs of, cancellation of and/or delay in the completion of, Gas Natural Fenosa's projects under development and projects proposed for development could have a material adverse effect on its business, prospects, financial condition and results of operations. In particular, if Gas Natural Fenosa were unable to complete projects under development, it may not be able to recover the costs incurred and its profitability, and, as a result, its business, prospects, financial condition and results of operations, could be materially adversely affected.

Impact of Weather Conditions

The demand for electricity and natural gas is closely related to climate. Generally, natural gas demand is higher during the cold weather months of October through March in Europe and Mexico (or April through September in Argentina and Chile and, to a lesser extent, Brazil) and lower during the warm weather months of

April through September in Europe and Mexico (or October through March in Argentina and Chile and, to a lesser extent, Brazil). A significant portion of demand for natural gas in the winter months relates to the production of electricity and heat and, in the summer months, to the production of electricity for air-conditioning systems. The revenues and results of operations of Gas Natural Fenosa's natural gas operations could be negatively affected by periods of unseasonable warm weather during the autumn and winter months. Likewise, electricity demand may decrease during mild summers as a result of reduced demand for air-conditioning, having a negative impact on revenues generated from Gas Natural Fenosa's electricity generation and distribution businesses and its commercialisation of natural gas.

The Group's operations involve hydroelectric generation in Spain and Central America and, accordingly, the Group is dependent upon hydrological conditions prevailing from time to time in the geographic regions in which its hydroelectric generation facilities are located. If hydrological conditions result in droughts or other conditions that negatively affect Gas Natural Fenosa's hydroelectric generation business, Gas Natural Fenosa's business, prospects, financial condition and results of operations could be materially adversely affected.

Development of Gas Natural Fenosa's Electricity Activities

The success of Gas Natural Fenosa's electricity sector projects could be adversely affected by factors beyond the control of Gas Natural Fenosa, including, but not limited to, the following:

- increases in the cost of generation, including increases in fuel costs;
- reduced competitiveness with other technologies due to an increase in the cost of electricity generation from natural gas;
- the possibility of a reduction in the projected rate of growth in electricity usage as a result of factors such as economic or weather conditions;
- the implementation of energy conservation schemes;
- risks incidental to the operation and maintenance of electricity generation facilities;
- the increasing price volatility that has resulted from deregulation and changes in the market;
- surplus electricity generation capacity in the markets served by the electricity plants Gas Natural Fenosa owns or in which it has an interest;
- the imposition of new requirements by the regulatory authorities resulting from the ongoing deregulation of the electricity sector in the jurisdictions in which Gas Natural Fenosa operates; and
- alternative sources and supplies of energy becoming available due to new technologies and increasing interest in renewable energy and cogeneration.

Should any of these risks materialise, they could have a material adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations.

Geographical Exposure

Gas Natural Fenosa has interests in countries with varied political, economic and social environments, focused on two main geographical areas:

(a) Latin America

A significant portion of Gas Natural Fenosa's operating income is generated by its Latin American subsidiaries. Operations and investments in Latin America are exposed to various risks that are inherent to the region, including, but not limited to, risks relating to the following:

- significant governmental influence over local economies;
- substantial fluctuations in economic growth;
- high levels of inflation;
- devaluation, depreciation or over-valuation of local currencies;

- exchange controls or restrictions on expatriation of earnings;
- volatile domestic interest rates;
- changes in governmental, fiscal, economic or tax policies;
- unexpected changes in governmental regulation;
- expropriation of assets or businesses;
- social unrest; and
- general political and macro-economic instability.

Most or all of these factors have arisen at various times in the last two decades in the most important Latin American markets, such as Argentina, Brazil, Colombia and Mexico. See also "*Description of Gas Natural SDG S.A.—Recent Developments*" for a description of the temporary intervention by the Colombian government in Electricidad del Caribe E.S.P., S.A., a subsidiary of the Guarantor.

(b) Middle East and the Maghreb

Gas Natural Fenosa has both proprietary assets and significant gas supply contracts in various countries in the Middle East, mainly in Egypt, and the Maghreb. Political instability in the area can result in physical damage to assets of companies in which Gas Natural Fenosa participates as well as in obstructing the operations of these or other companies causing interruption in gas supply.

Gas Natural Fenosa is not able to predict the occurrence of any of these risks or other risks related to the Group's operations and interests in Latin America or the Middle East and the Maghreb, or the magnitude of their impact, and any such risks could have a negative impact on Gas Natural Fenosa's subsidiaries, business, prospects, financial condition and results of operations.

Risks related to acquisitions, investments and disposals

As part of the Group's strategy, the Group may engage in acquisitions, investments and disposals of interests. There can be no assurance that the Group will identify suitable acquisition opportunities, obtain the financing necessary to complete and support such acquisitions or investments, acquire businesses on satisfactory terms, or that any acquired business will prove to be profitable. In addition, acquisitions and investments involve a number of risks associated with unanticipated events, including difficulties in relation to the operational integration of such new businesses in the Group and risks arising from provisions in contracts that are triggered by a change of control of an acquired company. Any disposal of interest may also adversely affect the Group's financial condition if such disposal results in a loss to the Group. See "*Description of Gas Natural SDG, S.A.—Recent Developments*" for an overview of the Group's most recent acquisitions, investments and disposals.

Any of the above factors could have an adverse impact on Gas Natural Fenosa's business, prospects, financial condition and results of operations.

Credit Risk

Gas Natural Fenosa is exposed to credit risk insofar as its counterparts, such as customers, suppliers, financial institutions and partners may default on their contractual payment obligations by failing to make payments on time or at all. The energy retail business, despite having procedures for the selection of clients, is exposed to defaults in its commercial portfolios due to both the deterioration of existing portfolios and the decreased quality of new customers as a result of current economic and financial conditions. In business in which aside from the supply of energy the clients are offered consumer financing for the acquisition of ancillary products, the unpaid invoices are greater and there is less incentive to repay than where only the supply payment is due. Business activity which requires a prior investment in assets is especially sensitive to default risk because, in the event of default, these assets might not be recoverable nor reusable. On the other hand, customers to which supply is obligatory by law and cannot be interrupted in the event of default may hinder risk management and increase losses.

There is an international consensus that in order to determine credit quality, the ratings provided by rating agencies are to be taken into account. This leads to the risk that following a deterioration in the rating of the Guarantor, especially below BBB- (or equivalent), all purchase transactions would increase its guarantee requirements which would entail an increase in financial costs which could even lead to transaction restrictions if not enough bank guarantees were provided to all counterparties.

Restrictions on the Repatriation of Profits Obtained by Overseas Subsidiaries

Any payment of dividends, distributions, loans or advances to Gas Natural Fenosa by its foreign subsidiaries could be subject to restrictions on, or taxation of, dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which such subsidiaries operate. Furthermore, some of Gas Natural Fenosa's Latin American subsidiaries have entered into loan agreements that contain certain restrictions on the payment of dividends and other distributions by such subsidiaries, limiting Gas Natural Fenosa's ability to freely repatriate the earnings of those companies. If Gas Natural Fenosa were unable to repatriate the earnings of its subsidiaries, its ability to pay dividends and/or manage cash within the Group, for example to redeploy earnings in other jurisdictions where they could be used more profitably, could be adversely impacted.

Risks Relating to Spanish Withholding Tax

Gas Natural Capital Markets, S.A. considers that, pursuant to the provisions of Royal Decree 1145/2011, 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 a tax resident in Spain. The foregoing is subject to certain information procedures having been fulfilled. These requirements/procedures are described in "*Taxation and Disclosure of Information in Connection with the Notes*" on page 152 below.

According to Royal Decree 1145/2011, which amends Royal Decree 1065/2007, any interest paid 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 and Disclosure of Information in Connection with the Notes—Taxation in Spain—Disclosure of Information in Connection with the Notes*" on page 161 below. Gas Natural Capital Markets, S.A. considers that the Notes meet the requirements referred to in (i) and (ii) above and that, consequently, payments made by Gas Natural Capital Markets, S.A. to Noteholders should be paid free of Spanish withholding tax notwithstanding the information obligations of Gas Natural Capital Markets, S.A. under general provisions of Spanish tax legislation by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities.

However, 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, Gas Natural Capital Markets, S.A. will inform the Noteholders of such information procedures and of their implications, as Gas Natural Capital Markets, S.A. may be required to apply withholding tax on interest payments under the Notes if the Noteholders would not comply with such information procedures.

Risks Relating to the Procedures for the Collection of Noteholders' Details

It is expected that Gas Natural Capital Markets, S.A., the Guarantor, the Agent, the common depositary for the Notes and Euroclear and Clearstream, Luxembourg (the ***Clearing Systems***) will follow certain procedures to comply with the information procedures described in section "*Taxation and Disclosure of Information in Connection with the Notes*" on page 152 below. An overview of these procedures is set out in a schedule to the Agency Agreement and should be read together with "*Taxation and Disclosure of Information in Connection with the Notes*". Such procedures may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations, and the operational procedures of the Clearing Systems. While the Notes are represented by one or more global Notes, Noteholders must rely on such procedures in order to receive payments under the Notes free of any withholding, if applicable. Noteholders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of Gas Natural Capital Markets, S.A., the Guarantor, the

Arranger, the Dealers, the Paying Agents or the Clearing Systems assumes any responsibility in relation to this requirement.

Risks Relating to Spanish Insolvency Law

Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the Insolvency Law), which came into force on 1 September 2004, supersedes all pre-existing Spanish provisions regulating the bankruptcy and insolvency (including suspension of payments) proceedings, including the ranking of creditors in an insolvency scenario.

The Insolvency Law provides, among other things, that: (i) any claim may become subordinated if it is not evidenced in the debtor's records or if it is not reported to the receivers (*administradores concursales*) within one month from the day following the publication of the court order declaring the insolvency in the Spanish Official Gazette (*Boletín Oficial del Estado*), (ii) provisions in a contract granting one party the right to terminate as a result of the counterparty's declaration of insolvency would, on its own, not be enforceable, (iii) interest (other than any interest accruing under secured liabilities to the extent and up to the amount covered by the security interest) shall cease to accrue as from the date of the declaration of insolvency and any amount of interest accrued up to such date (other than any interest accruing under secured liabilities to the extent and up to the amount covered by the security interest) shall become subordinated.

Certain provisions of the Insolvency Law could affect the ranking of claims relating to (i) the Notes issued by Gas Natural Capital Markets, S.A. on an insolvency of such company or (ii) the guarantee of the Notes granted by Gas Natural SDG on an insolvency of the Guarantor.

Pursuant to the Insolvency Law, creditors whose rights derive from a Spanish public deed (*escritura pública*) do not rank ahead of other creditors in an insolvency scenario.

Risks Relating to the Notes

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 relevant Issuer and the Guarantor. Although applications have been made for the Notes issued under the Programme to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Regulated Market 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.

The Notes may be redeemed prior to maturity

In the case of any particular Tranche of Notes, the relevant Final Terms of which specify that the Notes are redeemable at the relevant Issuer's option (for example pursuant to Condition 6(c) (*Redemption at the Option of the Issuer*), Condition 6(d) (*Residual Maturity Call Option*), Condition 6(e) (*Redemption following a Substantial Purchase Event*) or Condition 6(f) (*Make-Whole Redemption*)), in certain circumstances the relevant Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Tranche of Notes.

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

Notes issued under the Programme may be represented by one or more global Notes. Such global Notes will be deposited with a common depositary or safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the global Notes.

While the Notes are represented by one or more global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more global Notes, the relevant Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuers and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global Notes.

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

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 herein, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold Notes and may be subject to suspension, change or withdrawal by the assigning rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009, as amended (the ***CRA Regulation***) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms.

Risks Related to the Denominations of the Notes

In relation to any issue of Notes which under the Conditions have a minimum denomination of euro 100,000 plus a higher integral multiple of another smaller amount (or, where the specified currency is not euro, its equivalent in the specified currency) (each, a ***Specified Denomination***), it is possible that Notes may be traded in the clearing systems in amounts in excess of euro 100,000 (or its equivalent in the specified currency). In such a case, should definitive Notes be required to be issued, a holder who, as a result of trading, holds a principal amount of less than euro 100,000 (or its equivalent in the specified currency) in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes, and consequently may not be able to receive interest or principal in respect of all of his entitlement, unless and until such time as his holding becomes an integral multiple of a Specified Denomination. Furthermore, at any meeting of Noteholders while Notes are represented by a Permanent Global Note, any vote cast shall only be valid if it is in respect of a minimum of euro 100,000 (or its equivalent in the specified currency).

Risks Related to the Structure of a Particular Issue of Notes

A wide 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 of 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 the relevant 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 may also be true prior to any redemption period.

The relevant 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 would generally 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 the relevant Issuer may elect to convert from a fixed rate to a floating rate or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since such relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than 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 the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the prevailing rates on the Notes prior to such conversion.

Calculation Agent

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

Notes issued at a substantial discount or premium

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

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the ***Commission's proposal***) for a Directive for a common financial transactions tax (***FTT***) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the ***Participating Member States***). However, Estonia has since stated that it will not participate and has already pulled out of the FTT.

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

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

On 28 October 2016, the Council of the European Union published document No. 13608/16 concerning the status of the FTT at that time, according to which a certain degree of progress in the FTT negotiations have been observed. However, further work at the Council and its preparatory bodies will be required before a final agreement can be reached among the Participating Member States that respects the competences, rights and obligations of the Member States not participating in the FTT.

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

DOCUMENTS INCORPORATED BY REFERENCE

The documents set out below, which have been previously published and which have been filed with the CSSF, shall be deemed to be incorporated by reference in, and to form part of, this Base Prospectus. As long as any of the Notes are outstanding, this Base Prospectus, any Supplement to the Base Prospectus (as defined below) and each document incorporated by reference into this Base Prospectus will be available for inspection, free of charge, at the specified offices of the Issuers, at the specified office of the Agent, during normal business hours, and on the website of the Luxembourg Stock Exchange at www.bourse.lu. The page references indicated for each document are to the page numbering of the electronic pdf copies of such documents as available at www.bourse.lu.

Information incorporated by reference	Page references
(A) The sections listed below of the Annual Report 2015 of Gas Natural SDG, S.A., including the audited consolidated annual accounts for the year ended 31 December 2015 together with the audit report thereon:	
(a) *Independent Auditors' report on the consolidated annual accounts*	**2-3**
(b) *Consolidated annual accounts of Gas Natural SDG, S.A. and subsidiary companies comprising the Gas Natural SDG, S.A. Group for the financial year 2015:*	**4-144**
- Consolidated balance sheets at 31 December 2015 and 2014	5
- Consolidated income statements for the years ended 31 December 2015 and 2014	6
- Consolidated statements of comprehensive income for the years ended 31 December 2015 and 2014	7
- Statements of changes in consolidated net equity for the years ended 31 December 2015 and 2014	8
- Consolidated cash flow statements for the years ended 31 December 2015 and 2014	9
- Notes to the consolidated annual accounts for 2015	10-128
- Appendices	129-144
(c) *Consolidated Directors' Report 2015*	**145-195**
(B) The sections listed below of the Annual Report 2014 of Gas Natural SDG, S.A., including the audited consolidated annual accounts for the year ended 31 December 2014 together with the audit report thereon:	
(a) *Independent Auditors' report on the consolidated annual accounts*	**1**
(b) *Consolidated annual accounts of Gas Natural SDG, S.A. and subsidiary companies comprising the Gas Natural SDG, S.A. Group for the financial year 2014:*	**2-127**
- Consolidated balance sheets at 31 December 2014 and 2013	3
- Consolidated income statements for the years ended 31 December 2014 and 2013	4
- Consolidated statements of comprehensive income for the years ended 31 December 2014 and 2013	5
- Statements of changes in consolidated net equity for the years ended 31 December 2014 and 2013	6

(C) The condensed consolidated interim financial statements of Gas Natural SDG, S.A. in relation to the six-month period ended 30 June 2016, together with the auditors' limited review report and directors' report thereon:

(D) The unaudited consolidated interim financial information of Gas Natural SDG, S.A. in relation to the nine-month period ended 30 September 2016:

The information incorporated by reference that is not included in the cross-reference list, is considered as additional information and is not required by the relevant schedules of Commission Regulation (EC) No 809/2004, as amended. Certain information incorporated by reference into this Base Prospectus has been translated from the original Spanish. Each such translation constitutes a direct and accurate translation of the Spanish language text. The English language information has been provided for information purposes only and in the event of a discrepancy, the Spanish version shall prevail.

Any statement contained in a document that is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. To the extent that any document or information incorporated by reference to this Base Prospectus itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this Base Prospectus for the purposes of the Prospectus Directive, except where such information or documents are stated within this Base Prospectus as specifically being incorporated by reference or where this Base Prospectus is specifically defined as including such information.

SUPPLEMENT TO THIS PROSPECTUS

If at any time the Issuer shall be required to prepare a supplement to this Base Prospectus pursuant to Article 13 of the Luxembourg Act, the Issuer(s) and the Guarantor shall prepare and make available an appropriate supplement to this Base Prospectus or a further base prospectus, which, in respect of any subsequent issue of Notes to be listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market, shall constitute a ***Supplement to the Base Prospectus***, as required by Article 13 of the Luxembourg Act.

GENERAL DESCRIPTION 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. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of Notes issued by Gas Natural Fenosa Finance B.V." or "Terms and Conditions of Notes issued by Gas Natural Capital Markets, S.A.", as applicable, below shall have the same meanings in this overview.

Issuers:	Gas Natural Fenosa Finance B.V. and Gas Natural Capital Markets, S.A.
Guarantor:	Gas Natural SDG, S.A.
Description:	Euro Medium Term Note Programme
Arranger:	Barclays Bank PLC
Dealers:	Banca IMI, S.p.A. 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 HSBC Bank plc ING Bank N.V. J.P. Morgan Securities plc MUFG Securities EMEA plc Société Générale The Royal Bank of Scotland plc and any other dealer appointed from time to time by the Issuers either in respect of the Programme generally in or in relation to a particular Tranche (as defined below) of Notes only.
Agent:	Citibank, N.A., London Branch
Amount:	Up to euro 14,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) aggregate principal amount of Notes outstanding at any time. The Issuers and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Subject to applicable selling restrictions, Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer including but not limited to euro, U.S. dollars, Yen and Sterling. Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time.
Maturities:	Such maturities as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer and as indicated in the applicable final terms for such issue of Notes (the ***Final Terms***), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer, the Guarantor or the relevant Specified Currency. Unless permitted by then current laws and regulations, 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 by the relevant Issuer.
Issue Price:	Notes may be issued at an issue price which is at par or at a discount to, or premium over, par. The issue price and the nominal amount of the relevant tranche of Notes will be determined before filing of the relevant Final Terms of each Tranche on the basis of the prevailing market conditions.
Form of Notes:	Each Tranche of Notes will initially be represented by a temporary global note (***Temporary Global Note***) which will: (i) if the global Notes are intended to be issued in new global note (***NGN***) form, as stated in the applicable Final Terms, be delivered on or prior to the relevant Issue Date to a common safekeeper (the ***Common Safekeeper***) for

Euroclear Bank SA/NV (***Euroclear***) and Clearstream Banking, SA (***Clearstream, Luxembourg***); or

(ii) if the global Notes are not intended to be issued in NGN form, be delivered on or prior to the relevant Issue Date to a common depositary (the ***Common Depositary***) for Euroclear and Clearstream, Luxembourg.

Interests in each Temporary Global Note will be exchanged either for interests in a permanent global Note (***Permanent Global Note***) or definitive Notes (as indicated in the applicable Final Terms) in either case not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership as required by U.S. Treasury Regulations.

Each Permanent Global Note will be exchangeable, unless otherwise specified in the applicable Final Terms, in whole but not in part for definitive Notes in accordance with its terms. Any interest in a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and for any other agreed clearance system as appropriate.

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined either:

(i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer,

as indicated in the applicable Final Terms.

The Margin (if any) relating to such Floating Rate Notes will be agreed between the relevant Issuer, the Guarantor and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate, or both (as indicated in the applicable Final Terms).

	Interest on Floating Rate Notes in respect of each Interest Period, as selected prior to issue by the relevant Issuer, the Guarantor and the relevant Dealer(s), will be payable on the first day of the next Interest Period or, in the case of the final Interest Payment Date, on the Maturity Date specified in the applicable Final Terms and will be calculated in accordance with the relevant Day Count Fraction or as otherwise indicated in the applicable Final Terms.
Interest Periods for Floating Rate Notes:	Such period(s) as the relevant Issuer, the Guarantor and the relevant Dealer may agree (as indicated in the applicable Final Terms).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.
Redemption:	Unless previously redeemed or purchased and cancelled, each Note will be redeemed by the relevant Issuer, failing which the Guarantor at its Final Redemption Amount on the Maturity Date (in the case of a Note other than a Floating Rate Note) or on the Specified Interest Payment Date falling in the Redemption Month (in the case of a Floating Rate Note). Such Final Redemption Amount in respect of any Note shall be its principal amount or such higher amount as may be specified in the relevant Final Terms. The Final Terms relating to each Tranche of Notes will indicate either that such Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below)) or for taxation reasons or following an Event of Default) or that such Notes will be redeemable prior to their stated maturity at the option of the relevant Issuer and/or the Noteholders. The Final Terms may provide that such Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms. Notes which have a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "Maturities" above.
Denominations of Notes:	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms, save that: (i) the minimum denomination of each Note will be such amount as may be allowed or required, from time to time, by the relevant regulatory authority or any laws or regulations applicable to the relevant Specified Currency; and (ii) 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 that require the publication of a prospectus under

the Prospectus Directive will be euro 100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only (a) if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency)", in the authorised denomination of euro 100,000 (or its equivalent in another currency) and integral multiples of euro 100,000 (or its equivalent in another currency) thereafter, or (b) if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency) and integral multiples of euro 1,000 (or its equivalent in another currency) in excess thereof", in the minimum authorised denomination of euro 100,000 (or its equivalent in another currency) and higher integral multiples of euro 1,000 (or its equivalent in another currency), notwithstanding that no definitive Notes will be issued with a denomination above euro 199,000 (or its equivalent in another currency).

Taxation on Notes issued by Gas Natural Fenosa Finance B.V.:	Subject to certain exceptions, all payments in respect of Notes issued by Gas Natural Fenosa Finance B.V. will be made without deduction for or on account of withholding taxes. See Condition 10 (*Taxation*), "*Taxation and Disclosure of Information in Connection with the Notes—Taxation in The Netherlands—Issues by Gas Natural Fenosa Finance B.V.*" and "*Taxation and Disclosure of Information in Connection with the Notes—Taxation in Spain—Payments under the Guarantee*".
Taxation on Notes issued by Gas Natural Capital Markets, S.A.:	All payments in respect of the Notes issued by Gas Natural Capital Markets, S.A. 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, Gas Natural Capital Markets, S.A. or, as the case may be, the Guarantor, will, save in certain circumstances provided in Condition 10 (*Taxation*), be required to pay additional amounts to cover any amounts so deducted.

Gas Natural Capital Markets, S.A. considers that, according to Royal Decree 1145/2011, 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 and Disclosure of Information in Connection with the Notes*" on page 152 below, 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, Gas Natural Capital Markets, S.A. will inform the Noteholders of such information procedures and of their implications, as Gas Natural Capital Markets, S.A. 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 Royal Decree 1145/2011, please refer to "*Risk Factors—Risks in Relation to Spanish Withholding Tax*".
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the Negative Pledge referred to below) unsecured obligations of each Issuer and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the relevant Issuer.
Status of the Guarantee:	The Notes will be unconditionally and irrevocably guaranteed by the Guarantor pursuant to a deed of guarantee (the ***Deed of Guarantee***).
	The obligations of the Guarantor under the Deed of Guarantee will constitute direct, unconditional unsubordinated and (subject to Condition 4 (*Negative Pledge*)) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions) will rank at least *pari passu* with all other present and future outstanding, unsecured and unsubordinated obligations of the Guarantor.
Cross-Default:	The Notes will contain a cross-default in respect of Relevant Indebtedness (as defined in Condition 4 (*Negative Pledge*)) of the relevant Issuer or the Guarantor and certain of their subsidiaries.
Negative Pledge:	The Notes will have the benefit of a negative pledge in respect of Relevant Indebtedness of the relevant Issuer, the Guarantor and certain of their subsidiaries. The negative pledge is subject to permitted security interests which include, but are not limited to, certain security interests created in respect of the project finance activities of the Group. For the details of the negative pledge provision, please refer to Condition 4 (*Negative Pledge*) of the relevant terms and conditions (as set out in this Base Prospectus).

Rating:	Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation on credit rating agencies will be disclosed in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold Notes and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Listing and Admission to Trading:	Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the official list of the Luxembourg Stock Exchange or as otherwise specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may be unlisted. Unlisted Notes may only be issued by Gas Natural Fenosa Finance B.V. but not by Gas Natural Capital Markets, S.A. The Final Terms relating to each issue will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed.
Governing Law:	Save as defined in the paragraph below, the conditions of the Notes will be governed by, and construed in accordance with, English law. In relation to Notes issued by Gas Natural Fenosa Finance B.V., Condition 3 (Status of the Deed of Guarantee) will be governed by Spanish law. In relation to Notes issued by Gas Natural Capital Markets, S.A., Condition 2 (*Status of the Notes*) and Condition 3 (*Status of the Deed of Guarantee*) will be governed by Spanish law. In addition, the Notes will be issued in accordance with the formalities prescribed by Spanish law.
Selling Restrictions:	There are local and worldwide selling restrictions in relation to the laws of the United States, the European Economic Area (including the United Kingdom, France, the Republic of Italy, Spain and The Netherlands) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*" on pages 164 to 169 below. The Notes are Category 2 for the purposes of Regulation S under the Securities Act.

	The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("***TEFRA D***") unless the Notes are issued other than in compliance with TEFRA D but in circumstances in which the Notes will not constitute "*registration—required obligations*" under the United States Tax Equity and Fiscal Responsibility Act of 1982 (***TEFRA***), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.
Redenomination:	Certain Notes may be redenominated in euro. See Condition 7 (*Payments*).

TERMS AND CONDITIONS OF NOTES
ISSUED BY GAS NATURAL FENOSA FINANCE 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 endorsed on each Note in definitive form issued by Gas Natural Fenosa Finance B.V. under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described in the Base Prospectus dated 2 December 2016 relating to the Notes, under "Form of the Notes".

Gas Natural Fenosa Finance B.V. and Gas Natural Capital Markets, S.A. have established a Euro Medium Term Note Programme (the ***Programme***) for the issuance of up to Euro 14,000,000,000 in aggregate nominal amount of Notes (the ***Notes***) guaranteed by Gas Natural SDG, S.A.

Notes issued under the Programme are issued in series (each a ***Series***) and each Series may comprise one or more tranches (each a Tranche) of Notes. Each Tranche is the subject of final terms (the ***Final Terms***) which completes these terms and conditions (the ***Conditions***). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. The Notes are the subject of an amended and restated agency agreement dated on or about 2 December 2016 (the ***Agency Agreement***, which expression shall include any further amendments or supplements thereto) and made between Gas Natural Fenosa Finance B.V. (the ***Issuer***), Gas Natural Capital Markets, S.A., Gas Natural SDG, S.A. as Guarantor (the ***Guarantor***), Citibank, N.A., London Branch in its capacity as Agent (the ***Agent*** or ***Calculation Agent***, which expressions shall include any successor to Citibank, N.A., London Branch in its capacity as such) and the Paying Agents named therein (the ***Paying Agents***, which expression shall include the Agent and any substitute or additional Paying Agents appointed in accordance with the Agency Agreement). The Notes, the Receipts and the Coupons (each as defined below) also have the benefit of a deed of covenant (the ***Deed of Covenant***, which expression shall include any amendments or supplements thereto) dated on or about 2 December 2016 executed by the Issuers in relation to the Notes. The Guarantor has, for the benefit of the holders of the Notes from time to time (the ***Noteholders***), executed and delivered a deed of guarantee (the ***Deed of Guarantee***) dated on or about 2 December 2016 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.

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (***Coupons***) and, if indicated in the applicable Final Terms, talons for further Coupons (***Talons***) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (***Receipts***) for the payment of the instalments of principal (other than the final instalment) attached on issue.

Copies of the Deed of Covenant, the Agency Agreement, the Deed of Guarantee and the Final Terms applicable to the Notes are available for inspection during normal business hours at the specified office of each of the Paying Agents, save that any Final Terms relating to an unlisted Note of a Series will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its identity. 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. All persons from time to time entitled to the benefit of obligations under any Notes are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Deed of Covenant, the Agency Agreement, the Deed of Guarantee and the applicable Final Terms, which are binding on them.

Words and expressions defined in the Deed of Covenant, the Agency Agreement, the Deed of Guarantee or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered in the Specified Currency and the Specified Denomination(s), 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 euro 100,000 (or its equivalent in any other currency as at the date of issue of those Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Denomination.

So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only (*a*) *if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency)", in the authorised denomination of euro 100,000 (or its equivalent in another currency) and integral multiples of euro 100,000 (or its equivalent in another currency) thereafter, or* (*b*) *if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency) and integral multiples of euro 1,000 (or its equivalent in another currency) in excess thereof", in the minimum authorised denomination of euro 100,000 (or its equivalent in another currency) and higher integral multiples of euro 1,000 (or its equivalent in another currency), notwithstanding that no definitive Notes will be issued with a denomination above euro 199,000 (or its equivalent in another currency).*

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. Subject as set out below, the Issuer, the Guarantor, and any Paying Agent may deem and treat (and no such person will be liable for so deeming and treating) the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note, each person who is for the time being shown in the records of Euroclear Bank SA/NV (***Euroclear***) or of Clearstream Banking, SA (***Clearstream, Luxembourg***) as the holder of a particular nominal amount of Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such nominal amount of Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be deemed to be the holder of such nominal amount of Notes in accordance with and subject to the terms of the relevant global Note (and the expressions ***Noteholder*** and ***holder of Notes*** and related expressions shall be construed accordingly). Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Notes issued in NGN form, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer, the Guarantor and the Agent.

2. Status of the Notes

The Notes and the relative Receipts and Coupons (if any) are direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

3. Status of the Deed of Guarantee

The payment of principal and interest together with all other sums payable by the Issuer in respect of the Notes has been unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under the Deed of Guarantee constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions) rank *pari passu* with all other present and future outstanding, unsecured and unsubordinated obligations of the Guarantor.

In the event of insolvency (concurso) of the Guarantor, under the Insolvency Law, claims under the Guarantee relating to Notes (unless they qualify by law as subordinated credits under Article 92 of the Insolvency Law) will be ordinary credits (créditos ordinarios) as defined in the Insolvency Law. Ordinary credits rank below credits against the insolvency estate (créditos contra la masa) and credits with a privilege (créditos privilegiados). Ordinary credits rank above subordinated credits and the rights of shareholders.

4. Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement):

(a) neither the Issuer nor the Guarantor shall create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of any Relevant Indebtedness; and

(b) the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of any Relevant Indebtedness,

without at the same time or prior thereto (i) securing the Notes and/or, as the case may be, the Guarantor's obligations under the Deed of Guarantee, equally and rateably therewith or (ii) providing such other security for the Notes and/or, as the case may be, the Guarantor's obligations under the Deed of Guarantee, as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

In these Conditions:

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

(i) any obligation to purchase such Indebtedness;

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

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

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

Indebtedness means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

Permitted Security Interest means:

(i) in relation to the Issuer or any of its Subsidiaries:

(A) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or any of its Subsidiaries which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches; and

(B) any Security Interest that does not fall within sub-paragraph (A) above and that secures Relevant Indebtedness which, when aggregated with Relevant Indebtedness secured by all other Security Interests permitted under this sub-paragraph, does not exceed euro 50,000,000 (or its equivalent in other currencies); and

(ii) in relation to the Guarantor or any of its Subsidiaries:

(A) any Security Interest in existence on 29 October 1999 to the extent that it secures Relevant Indebtedness outstanding on such date;

(B) any Security Interest arising by operation of law and in the ordinary course of business of the Guarantor or any of its Subsidiaries which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches;

(C) any Security Interest to secure Project Finance Debt;

(D) any Security Interest created in respect of Relevant Indebtedness of an entity that has merged with, or has been acquired (whether in whole or in part) by, the Guarantor or any of its Subsidiaries, provided that such Security Interest:

(i) was in existence at the time of such merger or acquisition;

(ii) was not created for the purpose of providing security in respect of the financing of such merger or acquisition; and

(iii) is not increased in amount or otherwise extended following such merger or acquisition other than pursuant to a legal or contractual obligation (x) which was assumed (by operation of law, agreement or otherwise) prior to such merger or acquisition by an entity which, at such time, was not a Subsidiary of the Guarantor, and (y) which remains legally binding on such entity at the time of such merger or acquisition; and

(E) any Security Interest that does not fall within sub-paragraphs (A), (B), (C) or (D) above and that secures Relevant Indebtedness which, when aggregated with Relevant Indebtedness secured by all other Security Interests permitted under this sub-paragraph, does not exceed euro 50,000,000 (or its equivalent in other currencies);

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

Project Finance Assets means the assets (including, for the avoidance of doubt, shares (or other interests)) of a Project Finance Entity;

Project Finance Entity means any entity in which the Guarantor or any of its Subsidiaries holds an interest whose only assets and business are constituted by: (i) the ownership, creation, development, construction, improvement, exploitation or operation of one or more of such entity's assets, or (ii) shares (or other interests) in the capital of other entities that satisfy limb (i) of this definition;

Project Finance Debt means any Relevant Indebtedness:

(i) incurred by a Project Finance Entity in respect of the activities of such entity or another Project Finance Entity in which it holds shares (or other interests); or

(ii) any Subsidiary formed exclusively for the purpose of financing a Project Finance Entity,

where, in each case, the holders of such Relevant Indebtedness have no recourse against the Guarantor or any of its Subsidiaries (or its or their respective assets), except for recourse to (y) the Project Finance Assets of such Project Finance Entities; and (z) in the case of (ii) above only, the Subsidiary incurring such Relevant Indebtedness.

Relevant Indebtedness means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

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

Subsidiary means, in relation to any Person (the ***first Person***) at any particular time, any other Person (the ***second Person***):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, fully consolidated with those of the first Person.

5. Interest

(a) *Interest on Fixed Rate Notes*

(i) Each Fixed Rate Note shall bear interest on its nominal amount from, and including, the Interest Commencement Date (which shall be the date of issue thereof or such other date as may be specified in the relevant Final Terms) in respect thereof at the rate per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the relevant Final Terms and on the Maturity Date specified in the relevant Final Terms if that date does not fall on an Interest Payment Date.

(ii) The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date and, if the period between the Interest Commencement Date and the first Interest Payment Date is different from the periods between Interest Payment Dates, will amount to the initial Broken Amount specified in the relevant Final Terms. If the Maturity Date is not an Interest Payment Date, interest from, and including, the preceding Interest Payment Date (or from the Interest Commencement Date, as the case may be) to, but excluding, the Maturity Date will amount to the final Broken Amount specified in the relevant Final Terms.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

If a Fixed Coupon Amount or a Broken Amount is specified in the applicable Final Terms, 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.

(iii) If interest is required to be calculated for a period of other than a full year, such interest shall be calculated using the applicable Day Count Fraction pursuant to Condition 5(e).

(b) *Interest on Floating Rate Notes*

(i) ***Specified Interest Payment Dates***

Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date specified in the applicable Final Terms and such interest will be payable in arrear on each interest payment date (each a ***Specified Interest Payment Date***) which (save as otherwise mentioned in these Conditions or the applicable Final Terms) falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Specified Interest Payment Date or, in the case of the First Interest Payment Date, after the Interest Commencement Date.

If a business day convention is specified in the applicable Final Terms and if any Specified Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below), then, if the business day convention specified is:

(1) in any case where Interest Periods are specified in accordance with Condition 5(b)(i) above, the Floating Rate Convention, such Specified Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Specified Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Specified Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Specified Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Specified Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Specified Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Specified Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Specified Interest Payment Date shall be brought forward to the immediately preceding Business Day.

Business Day means:

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

(B) in the case of euro, a day on which the TARGET System (as defined in Condition 5(b)(iv)) is operating (a ***TARGET Business Day***); and/or

(C) 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 indicated, generally in each of the Business Centres.

(ii) ***Rate of Interest for Floating Rate Notes***

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(iii) ***ISDA Determination for Floating Rate Notes***

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (iii), ***ISDA Rate*** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Calculation Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (the ***ISDA Definitions***), and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period equal to that Interest Period; and

(C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (***LIBOR***) (or, in the case of Notes denominated or payable in euro, the Eurozone interbank market (***EURIBOR***)) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

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

Where this sub-paragraph (iii) applies, in respect of each relevant Interest Period, the Calculation Agent will be deemed to have discharged its obligations under paragraph (g) below in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (iii).

(iv) ***Screen Rate Determination for Floating Rate Notes***

Where so specified in the applicable Final Terms, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page (as indicated in the applicable Final Terms)), expressed as a percentage rate per annum; or

(B) the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) of the offered quotations (expressed as a percentage rate per annum), for deposits in the Specified Currency for that Interest Period which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00a.m. (London time or, where the Reference Rate is EURIBOR, Brussels time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent. If five or more 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) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three of such offered quotations appear, in each case as at such time, the Calculation Agent shall request the principal London office of each of the Reference Banks (as defined below) or, in the case of the determination of EURIBOR, the principal office of each of four EURIBOR Reference Banks (as defined below) to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period to leading banks in the London inter-bank market (or, in the case of the determination of EURIBOR, where the Reference Rate of EURIBOR is used for Notes denominated or payable in euro, the Eurozone interbank market) as at 11.00a.m. (London time or, where the Reference Rate is EURIBOR, Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks or, as the case may be, EURIBOR Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded as provided above) of such offered quotations plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

If on any Interest Determination Date one only or none of the Reference Banks or, as the case may be, EURIBOR Reference Banks, provides the Calculation Agent with such an offered quotation as provided above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded as provided above) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or, as the case may be, EURIBOR Reference Banks, or any two or more of them, at which such banks were offered, as at 11.00a.m. (London time or, where the Reference Rate is EURIBOR, Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for the relevant Interest Period by leading banks in the London inter-bank market (or, in the case of the determination of EURIBOR, where the Reference Rate of EURIBOR is used for Notes denominated or payable in euro, the Eurozone interbank market) plus or minus (as indicated in the applicable Final Terms) the Margin (if any) or, if fewer than two of the Reference Banks or, as the case may be, EURIBOR Reference Banks, provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for the relevant Interest Period, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for the relevant Interest Period, at which, 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 the London inter-bank market (or, in the case of the determination of EURIBOR, the Eurozone interbank market) (or, as the case may be, the quotations of such bank or banks to the Calculation Agent) plus or minus (as indicated in the applicable Final Terms) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this sub-paragraph (iv), the Rate of Interest shall be the sum of the Margin and the offered rate or (as the case may be) the arithmetic mean of the offered Notes last determined in relation to the Notes in respect of the preceding Interest Period.

In this Condition, the following expressions shall have the following meanings:

Reference Banks means, in the case of (A) above, those banks whose offered rate was used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of (B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared;

EURIBOR Reference Bank means a major bank operating in the Eurozone interbank market and ***EURIBOR Reference Banks*** shall be construed accordingly;

Interest Determination Date means, with respect to a Rate of Interest and Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Period if the Specified Currency is Sterling or (ii) the second Business Day in London prior to the commencement of such Interest Period if the Specified Currency is neither Sterling nor euro or (iii) the second TARGET Business Day prior to the commencement of such Interest Period if the Specified Currency is euro; and

TARGET system means the Trans-European Automated Real-time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007, or any successor thereto.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified as being other than the London inter-bank offered rate (or, in the case of Notes denominated or payable in euro, the Eurozone interbank market offered rate), the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the due date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon (as well after as before any demand or judgement) at the rate then applicable to the principal amount of the Notes or such other rate as may be specified in the relevant Final Terms until the date on which, upon (except in the case of any payment where presentation and/or surrender of the relevant Note is not required as a precondition of payment) due presentation of the relevant Note, the relevant payment is made or, if earlier (except in the case of any payment where presentation and/or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which the Agent having received the funds required to make such payment, notice is given to the Noteholders in accordance with Condition 15 of that circumstance (except to the extent that there is failure in the subsequent payment thereof to the relevant Noteholder).

(d) *Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specify a Minimum Rate of Interest for any Interest Period then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the applicable Final Terms specify a Maximum Rate of Interest for any Interest Period then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(e) *Determination of Rate of Interest and Calculation of Interest Amount*

With respect to Floating Rate Notes, the Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the amount of interest (the ***Interest Amount***) payable in respect of any Notes in respect of each Calculation Amount (as specified in the relevant Final Terms) for the relevant Interest Period.

Each Interest Amount for Fixed Rate Notes and Floating Rate Notes shall be calculated by applying the Rate of Interest to each Calculation Amount multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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 as being applicable, 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 as being applicable, the actual number of days in the Calculation Period divided by 365;

(iii) if ***Actual/360*** is specified in the relevant Final Terms as being applicable, 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 as being applicable, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

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

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

where:

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

(vi) if ***30E/360 (ISDA)*** 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:

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

where:

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 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 D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) such day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D_2 will be 30; and

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

(a) 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 (1) the actual number of days in such Calculation Period; and (2) the number of Determination Periods in any period of one year; and

(b) 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 (1) the actual number of days in such Determination Period; and (2) 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 (1) the actual number of days in such Determination Period; and (2) the number of Determination Periods in any period of one year.

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

(f) *Change of Interest Basis*

If Change 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.

(g) *Notification of Rate of Interest and Interest Amount*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date or Specified Interest Payment Date, as the case may be, to be notified to the Issuer, the Guarantor and, if the Notes are listed on a stock exchange, quotation system or other relevant authority and the rules of such exchange, quotation system or other relevant authority so require, to any such relevant exchange, quotation system and/or other relevant authority, and to be published in accordance with Condition 15 as soon as possible after their determination but (i) in no event later than the first day of the relevant Interest Period thereafter, if determined prior to such time or (ii) in all other cases, as soon as practicable but in no event later than the fourth Business Day after such determination. Each Interest Amount and Interest Payment Date or Specified Interest

Payment Date, as the case may be, so notified 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 are listed on a stock exchange, quotation system or other relevant authority and the rules of such exchange, quotation system or other relevant authority so require, any such amendment will be promptly notified to any such relevant exchange, quotation system and/or other relevant authority.

(h) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the Paying Agents and all Noteholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor or the Noteholders shall attach to the Agent in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

6. Redemption and Purchase

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer, failing which the Guarantor at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms (in the case of a Note other than a Floating Rate Note) or on the Specified Interest Payment Date falling in the Redemption Month specified in the applicable Final Terms (in the case of a Floating Rate Note). Such Final Redemption Amount in respect of any Note shall be its principal amount or such higher amount as may be specified in the relevant Final Terms.

(b) *Redemption for Tax Reasons*

If, in relation to any Series of Notes (i) as a result of any change in the laws or regulations of The Netherlands or the Kingdom of Spain, as applicable, or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the date of issue of such Notes or any earlier date specified in the Final Terms the Issuer or the Guarantor, as applicable, would be required to pay additional amounts as provided in Condition 10 and (ii) such circumstances are evidenced by the delivery by the Issuer or the Guarantor, as applicable, to the Agent of a certificate signed by four managing directors of the Issuer or two directors of the Guarantor, as applicable, stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Notes which bear interest at a floating rate, on a day upon which interest is payable) to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Notes comprising the relevant Series at their early tax redemption amount (the ***Early Redemption Amount Tax***) (which shall be their principal amount (or at such other Early Redemption Amount Tax) as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Note, the aggregate amount of all instalments that shall have become due and payable in respect of such Note prior to the date fixed for redemption under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with accrued interest (if any) thereon, provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Notes which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period applicable to the Notes plus 60 days) prior to the earliest date on which the Issuer or the Guarantor, as applicable, would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

If a Call Option is specified in the relevant Final Terms as being applicable, the Issuer may, having (unless otherwise specified in the applicable Final Terms) given not more than 60 nor less than 30 days' notice to the Agent and, in accordance with Condition15, the Noteholders (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). In the event of a redemption of some only of the Notes, such redemption must be of a nominal amount being the Minimum Redemption Amount or a Maximum Redemption Amount, both as indicated in the applicable Final Terms. In the case of a partial redemption of definitive Notes, the Notes to be redeemed will be selected individually by lot, subject to compliance with applicable law and the rules of 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, not more than 60 days prior to the date fixed for redemption and a list of the Notes called for redemption will be published in accordance with Condition 15 not less than 30 days prior to such date. In the case of a partial redemption of Notes which are represented by a global Note, the relevant Notes will be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).

(d) 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 in accordance with Condition 15 (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 comprising the relevant Series at their principal amount together with interest accrued to, but excluding, the date fixed for redemption, which shall be no earlier than (i) three months before the Maturity Date in respect of Notes having a maturity of not more than ten years or (ii) six months before the Maturity Date in respect of Notes having a maturity of more than ten years.

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

(e) *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 Agent, and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem the Notes comprising the relevant Series in whole, but not in part, in accordance with these Conditions at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the 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.

a ***Substantial Purchase Event*** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Notes of the relevant Series originally issued (which for these purposes shall include any further Notes of the same Series issued subsequently) is purchased by the Issuer, the Guarantor or any Subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(e));

(f) *Make-Whole Redemption*

If a Make-Whole Redemption is specified in the relevant Final Terms as being applicable, then the Issuer may, subject to compliance with all relevant laws, regulations and directives and on giving not less than 15 nor more than 30 days' notice to the Agent, and, in accordance with Condition 15, the Noteholders redeem the Notes comprising the relevant Series, in whole or in part, at any time or from time to time (but no later than the Residual Maturity Call Option Redemption Date (as defined in Condition 6(d) above) if applicable), prior to their Maturity Date (the ***Make-Whole Redemption Date***) at their Make-Whole Redemption Amount (as defined below).

In the case of a partial redemption of Notes, the Notes to be redeemed (***Redeemed Notes***) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount), in each case of (i) and (ii) above, always subject to compliance with any applicable laws and stock exchange requirements. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

Make-Whole Redemption Amount means in respect of any Notes to be redeemed an amount, calculated by, at the election of the Issuer, the Agent or a leading investment, merchant or commercial bank appointed by the Issuer for the purposes of calculating the relevant Make-Whole redemption amount, and notified to the Noteholders in accordance with Condition 15, equal to the greater of (x) 100 per cent. of the nominal amount of the Notes so redeemed and, (y) the sum of the then present values of the remaining scheduled payments of principal and interest on such Notes (not including any interest accrued on the Notes to, but excluding, the relevant Make-Whole Redemption Date) discounted to the relevant Make-Whole Redemption Date on an annual basis at the Make-Whole Redemption Rate (specified in the relevant Final Terms) plus a Make-Whole Redemption Margin (specified in the relevant Final Terms), plus in each case of (x) and (y) above, any interest accrued on the Notes to, but excluding, the Make-Whole Redemption Date.

(g) *Redemption at the Option of the Noteholders*

If a Put Option is specified in the relevant Final Terms as being applicable, upon any Noteholder giving to the Issuer and the Guarantor in accordance with Condition 15 not more than 60 nor less than 30 days' notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem subject to, and in accordance with, the terms specified in the applicable Final Terms in whole (but not in part) such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(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 and a Change of Control occurs and, during the Change of Control Period, a Rating Downgrade occurs (together, a ***Change of Control Event***), 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 Change of Control Redemption Date at the Change of Control Redemption Amount.

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

control means: (a) the acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of the Guarantor; or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor's Board of Directors or other governing body, whether obtained directly or indirectly, 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 on which the relevant Change of Control occurs or the date of the first relevant Potential Change of Control Announcement, whichever is the earlier, and ending on the date which is 90 days after the date of the occurrence of the relevant Change of Control.

Potential Change of Control Announcement means any public announcement or statement by the Issuer or any actual or bona fide potential bidder relating to any potential Change of Control.

Rating Agency means any of the following: (a) Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. (***S&P***); (b) Moody's Investors Service Limited (***Moody's***); (c) Fitch

Ratings Ltd (***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, within the Change of Control Period, the rating previously assigned to the Guarantor is lowered by at least two full rating notches (by way of example, BB+ to BB-, in the case of S&P) (a ***downgrade***) or withdrawn, in each case, by the requisite number of Rating Agencies (as defined below), and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) to its earlier credit rating or better, such that there is no longer a downgrade or withdrawal by the requisite number of Rating Agencies. For these purposes, the ***requisite number of Rating Agencies*** shall mean (i) at least two Rating Agencies, if, at the time of the rating downgrade or withdrawal, three or more Rating Agencies have assigned a credit rating to the Guarantor, or (ii) at least one Rating Agency if, at the time of the rating downgrade or withdrawal, fewer than three Rating Agencies have assigned a credit rating to the Guarantor.

Notwithstanding the foregoing, no Rating Downgrade shall be deemed to have occurred in respect of a particular Change of Control if (a) following such a downgrade, the Guarantor is still assigned an Investment Grade Rating by one or more of the Rating Agencies effecting the downgrade, or (b) the Rating Agencies effecting the downgrade or withdrawing their rating do not publicly announce or otherwise confirm in writing to the Issuer that such 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.

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); (3) with respect to Fitch Ratings, any of the categories from and including AAA to and including BBB- (or equivalent successor categories); and (4) with respect to any other credit rating agency of equivalent international standing specified from time to time by the Issuer, a rating that is equivalent to, or better than, the foregoing.

Change of Control Redemption Amount means an amount equal to par plus interest accrued to but excluding the Change of Control Redemption Date.

Promptly upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice (a ***Change of Control Event Notice***) to the Agent, the Paying Agents and the Noteholders in accordance with Condition 15 specifying the nature of the Change of Control 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 Change of Control 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 Paying Agent specified in the Put Option Notice for the account of the Issuer within the period (the ***Put Period***) of 45 days after the Change of Control 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 section.

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 Paying 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 ***Change of Control Redemption Date***). Payment in respect of any Note so transferred will be made in the relevant Specified Currency to the holder to the relevant Specified Currency denominated bank account in the Put Option Notice on the Change of Control Redemption Date via the relevant account holders.

If 80 per cent. or more in principal amount of the Notes outstanding of a Series at the beginning of the Change of Control Period have been redeemed or purchased pursuant to the foregoing provisions of this Condition 6(h), the Issuer may, at its option, on not less than five nor more than 10 Business Days' notice to the Noteholders given in accordance with Condition 15 within 60 days after the Change of Control Redemption Date, redeem or, at its option, purchase (or procure the purchase of) all (but not some only) of the remaining Notes of that Series, each at par together with (or, where purchased, together with an amount equal to) interest accrued to (but excluding) the date of such redemption or purchase.

(i) *Early Redemption Amounts*

For the purposes of paragraph (b) above and Condition 10, Zero Coupon Notes will be redeemed at an amount equal to the sum of:

(A) the Reference Price specified in the applicable Final Terms; and

(B) the product of the Accrual Yield specified in the applicable Final Terms (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable,

or such other amount as is provided in the applicable Final Terms.

Where any calculation of an early redemption amount is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(j) *Instalments*

If the Notes are repayable in instalments, they will be repaid in the Instalment Amounts and on the Instalment Date specified in the applicable Final Terms.

(k) *Purchases*

The Issuer, the Guarantor or any Subsidiary of the Guarantor may at any time purchase Notes (together, in the case of definitive Notes, with all unmatured Receipts and Coupons appertaining thereto) in any manner and at any price. In the case of a purchase by tender, such tender must be made available to all Noteholders alike. The Issuer, the Guarantor or any Subsidiary of the Guarantor will be entitled to hold and deal with Notes so purchased as the Issuer, the Guarantor or the relevant Subsidiary of the Guarantor thinks fit.

(l) *Cancellation*

All Notes which are redeemed in full will forthwith be cancelled and Notes which are purchased by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Guarantor may, at the election of the Issuer, be cancelled (together in each case with all unmatured Receipts and Coupons attached thereto or delivered therewith). Notes purchased by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Guarantor may not be reissued or resold other than to the Issuer, the Guarantor or any Subsidiary of the Guarantor.

(m) *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (d) or (e) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e) above as though the references therein to the date fixed for redemption or the date upon which the Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

(1) the date on which all amounts due in respect of the Zero Coupon Note have been paid; and

(2) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 15.

7. Payments

(a) *Method of Payment*

Subject as provided below:

(i) payments in a currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

(ii) payments in euro will be made by transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in the principal financial centre of any Participating Member State of the European Communities.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10.

In these Conditions:

Eurozone means the zone comprising the Participating Member States;

Participating Member State means a Member State of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with the Treaty; and

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

(b) *Presentation of Notes, Receipts, Coupons and Talons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of definitive Notes and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments (if any) of principal, other than the final instalment, will (subject as provided below) be made against presentation and surrender of the relevant Receipt. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Notes to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) appertaining thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons) failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 14) or, if later, five years from the date on which such Coupon would otherwise have become due. Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date or a Specified Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or Specified Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant global Note, against presentation or surrender, as the case may be, of such global Note (if it is not intended to be issued in NGN form), at the specified office of the Agent. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by the Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of the relevant global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of Notes must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of the relevant global Note. No person other than the holder of the relevant global Note shall have any claim against the Issuer or, as the case may be, the Guarantor in respect of any payments due on that global Note.

Payments of interest in respect of the Notes will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment at such specified offices outside the United States of the full amount of interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer.

(c) *Redenomination*

The Issuer may, without the consent of the Noteholders or the holders of related Receipts or Coupons on giving at least 30 days' prior notice to the Noteholders in accordance with Condition15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro. The election will have effect as follows:

(i) each Specified Denomination will be deemed to be denominated in such amount of euro as is equivalent to its denomination in the Specified Currency at the Established Rate, subject to such provisions (if any) as to rounding (and payments in respect of fractions consequent on rounding) as the Issuer may decide, and as may be specified in the notice;

(ii) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons will be made solely in euro, including payments of interest in respect of periods before the Redenomination Date, as though references in the Notes to the Specified Currency were to euro; and

(iii) such changes shall be made to these Conditions as the Issuer may decide and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro or to enable the Notes to be consolidated with one or more issues of other notes, whether or not originally denominated in the Specified Currency or euro.

(d) *Exchangeability*

The Issuer may without the consent of the Noteholders or the holders of related Receipts or Coupons, on giving at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date or such later date for payment of interest under the Notes as it may specify in the notice, the Notes shall be exchangeable for Notes expressed to be denominated in euro in accordance with such arrangements as the Issuer may decide and as may be specified in the notice, including arrangements under which Receipts and Coupons unmatured at the date so specified become void.

In this Condition, the following expressions have the following meanings:

Established Rate means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 109(4) of the Treaty; and

Redenomination Date means any date for payment of interest under the Notes specified by the Issuer which falls on or after the date on which the country of the Specified Currency participates in European Economic and Monetary Union pursuant to the Treaty.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, unless otherwise specified in the applicable Final Terms, ***Payment Day*** means any day which is both:

(i) a day (other than a Saturday or a Sunday) on which banks are open for business in

(A) the relevant place of presentation; and

(B) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to Notes denominated in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the relevant Specified Currency (if other than London and which if the Specified Currency is Australian dollars shall be Melbourne) or (2) in relation to notes denominated in euro, a day on which the TARGET System (as defined in Condition 5(b)(iv)) is operating.

(f) *Interpretation of Principal and Interest*

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 10;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in instalments, the Instalment Amounts; and

(vi) any premium and any other amounts which may be payable under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10.

8. Agent and Paying Agents

The names of the initial Agent and the initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system;

(ii) there will at all times be a Paying Agent with a specified office acting in continental Europe;

(iii) there will at all times be an Agent; and

(iv) each of the Issuer and the Guarantor will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 7(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15 provided that no such variation, termination, appointment or change shall take effect (except in the case of insolvency) within 15 days before or after any Interest Payment Date or Specified Interest Payment Date, as the case may be.

9. Exchange of Talons

On and after the Interest Payment Date or the Specified Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Notes to which it appertains) a further Talon, subject to the provisions of Condition13. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date or the Specified Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

10. Taxation

All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or the Kingdom of Spain, as the case may be, or any political subdivision thereof or any authority or agency therein or thereof having power to tax, 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, failing which the Guarantor, will pay such additional amounts as may be necessary in order that the net amounts receivable by any Noteholder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Noteholder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Notes or Coupon:

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

(ii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Noteholder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or

(iii) in case of unlisted notes, where such withholding or deduction of taxes, duties, assessments or governmental charges of whatsoever nature is imposed, withheld or deducted by reason of the Noteholder failing to comply with the Guarantor's request addressed to the Noteholder to provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the Noteholder (or any other form of declaration, claim, certificate, document or other evidence required by the relevant taxing authority from time to time), which the Noteholder is required to provide by the applicable tax laws and regulations of the relevant taxing authority as a precondition to exemption from deduction or withholding of, taxes, duties, assessments or governmental charges of whatsoever nature imposed by such relevant taxing authority; or

(iv) 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, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

For the purposes of these Conditions, the ***Relevant Date*** means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Noteholders, notice to that effect shall have been duly given to the Noteholders of the relevant Series in accordance with Condition 15.

If the Issuer or the Guarantor, as the case may be, becomes subject at any time to any taxing jurisdiction other than or in addition to The Netherlands or the Kingdom of Spain, as the case may be, references herein to The Netherlands and the Kingdom of Spain respectively shall be read and construed as references to The Netherlands or the Kingdom of Spain, as the case may be, and/or to such other jurisdiction.

Any reference in these Conditions to principal, redemption amount and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 10.

11. Events of Default

The following events or circumstances (each an ***Event of Default***) shall be acceleration events in relation to the Notes of any Series, namely:

(a) ***Non-payment***: the Issuer fails to pay any amount of principal in respect of the Notes within 7 days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 14 days of the due date for payment thereof; or

(b) ***Breach of other obligations***: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Guarantee and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the specified office of the Agent; or

(c) ***Cross-default of the Issuer, the Guarantor or a Principal Subsidiary***: (i) any Relevant Indebtedness (as defined in Condition 4) of the Issuer, the Guarantor or any of their respective Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any such Relevant Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Principal Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Relevant Indebtedness; or (iii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Relevant Indebtedness, provided that the amount of Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds euro 50,000,000 (or its equivalent in any other currency or currencies); or

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

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

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

(g) ***Winding up etc***: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) (otherwise than, in the case of a Principal Subsidiary of the Issuer (if any) or a Principal Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(h) ***Analogous event***: any event occurs which under the laws of The Netherlands or the Kingdom of Spain has an analogous effect to any of the events referred to in paragraphs (d) to (g) above including, but not limited to, *surseance van betaling* and *concurso* respectively; or

(i) ***Failure to take action etc***: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Receipts, the Coupons and the Guarantee admissible in evidence in the courts of The Netherlands and the Kingdom of Spain is not taken, fulfilled or done; or

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

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

(l) ***Controlling shareholder***: the Issuer ceases to be wholly-owned and controlled by the Guarantor.

If any Event of Default shall occur in relation to any Series of Notes, any Noteholder of the relevant Series may, by written notice to the Issuer and the Guarantor, at the specified office of the Agent, declare that such Note and (if the Note is interest-bearing) all interest then accrued on such Note shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the ***Early Termination Amount***) (which shall be its principal amount or such other Early Termination Amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Note, the aggregate amount of all instalments that shall have become due and payable in respect of such Note under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Notes to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Notes of the relevant Series shall have been cured.

In these Conditions:

Gas Natural Fenosa Group means the Guarantor and its Subsidiaries from time to time; and

Principal Subsidiary means, at any time, a Subsidiary of the Guarantor whose total assets, income before taxes or sales (excluding intra-group items) then equal or exceed ten per cent. (10%) of the total assets, income before taxes or sales of the Gas Natural Fenosa Group (on a consolidated basis) and, for this purpose:

(i) the total assets, income before taxes and sales of a Subsidiary of the Guarantor will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest annual audited financial statements of the Gas Natural Fenosa Group have been based;

(ii) if a Subsidiary of the Company becomes a member of the Gas Natural Fenosa Group after the date on which the latest audited financial statements of the Gas Natural Fenosa Group have been prepared, the total assets, income before taxes and sales of that Subsidiary will be determined from its latest annual financial statements;

(iii) the total assets, income before taxes and sales of the Gas Natural Fenosa Group will be determined from its latest annual audited financial statements, adjusted (where appropriate) to reflect the total assets, income before taxes and sales of any company or business subsequently acquired or disposed of; and

(iv) if a Principal Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Guarantor, the disposing Subsidiary will immediately cease to be Principal Subsidiary and the other Subsidiary (if it is not already) will immediately become a Principal Subsidiary and, for the avoidance of doubt, the subsequent financial statements of those Subsidiaries and the Gas Natural Fenosa Group will be used to determine whether those Subsidiaries are Principal Subsidiaries or not.

A report by the Directors of the Guarantor that, in their opinion, a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, accompanied by a report by the Auditors addressed to the Directors of the Guarantor as to proper extraction of the figures used by the Directors of the Guarantor in determining the Principal Subsidiaries of the Guarantor and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on the Noteholders.

12. Meetings of Noteholders

The Agency Agreement contains provisions (which shall have effect as if incorporated by reference herein) for convening meetings of the Noteholders of any Series to consider any matter affecting their interests, including (without limitation) the modification by Extraordinary Resolution (as defined below) of these Conditions. An Extraordinary Resolution passed at any meeting of the Noteholders of any Series will be binding on all Noteholders of such Series, whether or not they are present at the meeting, and on all holders of Coupons relating to Notes of such Series.

Extraordinary Resolution means a resolution passed at a meeting of the Noteholders duly convened and held by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75 per cent. of the votes given on such poll.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal value of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in a single document or in several documents in the same form, each signed by or on behalf of one or more Noteholders.

13. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent in London (or such other place as may be notified to the Noteholders), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 10) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 14 or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

15. Notices

All notices regarding the Notes shall be valid if published in one or more leading English language daily newspapers with circulation in the United Kingdom (which is expected to be the *Financial Times*) and (so long as the Notes are listed on the official list of the Luxembourg Stock Exchange and the rules of that stock exchange so require) published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication shall not be practicable, in an 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 first date on which publication is made.

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 the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any Noteholder to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) with the outstanding Notes and so that the same shall be consolidated and form a single series with the outstanding Notes.

17. Substitution of the Issuer

(a) The Issuer and the Guarantor may with respect to any Series of Notes issued by the Issuer (the ***Relevant Notes***) without the consent of any Noteholder, substitute for the Issuer any other body corporate incorporated in any country in the world as the debtor in respect of the Notes and the Agency Agreement (the ***Substituted Debtor***) upon notice by the Issuer, the Guarantor and the Substituted Debtor to be given by publication in accordance with Condition 15, *provided that:*

(i) neither the Issuer nor the Guarantor are in default in respect of any amount payable under any of the Relevant Notes;

(ii) the Issuer, the Guarantor and the Substituted Debtor have entered into such documents (the ***Documents***) as are necessary to give effect to the substitution and in which the Substituted Debtor has undertaken in favour of each Noteholder of the Relevant Notes to be bound by these Conditions and the provisions of the Agency Agreement as the debtor in respect of such Notes in place of the Issuer (or of any previous substitute under this Condition 17);

(iii) if the Substituted Debtor is resident for tax purposes in a territory (the ***New Residence***) other than that in which the Issuer prior to such substitution was resident for tax purposes (the ***Former Residence***) the Documents contain an undertaking and/or such other provisions as may be necessary to ensure that each Noteholder of the Relevant Notes has the benefit of an undertaking in terms corresponding to the provisions of Condition 10, with, where applicable, the substitution of references to the Former Residence with references to the New Residence;

(iv) the Guarantor guarantees the obligations of the Substituted Debtor in relation to outstanding Relevant Notes;

(v) the Substituted Debtor, the Issuer and the Guarantor have obtained all necessary governmental approvals and consents for such substitution and for the performance by the Substituted Debtor of its obligations under the Documents and for the performance by the Guarantor of its obligations under the Guarantee as they relate to the obligations of the Substituted Debtor under the Documents;

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

(vii) a legal opinion shall have been delivered to the Agent (from whom copies will be available) from lawyers of recognised standing in the country of incorporation of the Substituted Debtor, confirming, as appropriate, that upon the substitution taking place (A) the requirements of this Condition 17, save as to the giving of notice to the Noteholders have been met and (B) the Notes, Coupons and Talons are legal, valid and binding obligations of the Substituted Debtor enforceable in accordance with their terms;

(viii) Moody's Investors Service Limited and Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies (or any other rating agency which has issued a rating in connection with the Relevant Notes) shall have confirmed that following the proposed substitution of the Substituted Debtor, the credit rating of the Relevant Notes will not be adversely affected; and

(ix) if applicable, the Substituted Debtor 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 England arising out of or in connection with the Relevant Notes and any Coupons.

(b) Upon the execution of the Documents and the delivery of the legal opinions, the Substituted Debtor shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Relevant Notes and the Agency Agreement with the same effect as if the Substituted Debtor had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Relevant Notes and under the Agency Agreement.

(c) After a substitution pursuant to Condition 17(a), the Substituted Debtor may, without the consent of any Noteholder, effect a further substitution. All the provisions specified in Condition 17(a) and 17(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 Substituted Debtor.

(d) After a substitution pursuant to Condition 17(a) or 17(c) any Substituted Debtor may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.

(e) The Documents shall be delivered to, and kept by, the Agent. Copies of the Documents will be available free of charge at the specified office of each of the Agents.

18. Governing Law; Submission to Jurisdiction

The Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save for Condition 3 which shall be governed by, and shall be construed in accordance with, Spanish law. The Issuer and the Guarantor irrevocably agree for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes (together ***Proceedings***), which may arise out of, or in connection with, the Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Notes and, for such purpose, irrevocably submit to the jurisdiction of such courts.

The Issuer and the Guarantor irrevocably and unconditionally waive and agree not to raise any objection which any of them may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agree that a judgement in any Proceedings brought in the courts of England shall be conclusive and binding upon each of them and may be enforced in the courts of any other jurisdiction. Nothing in this Condition shall limit any right to take Proceedings against the Issuer and/or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

The Issuer and the Guarantor irrevocably and unconditionally appoint Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as agent for service of process in England in respect of any Proceedings in England and undertake that in the event of it ceasing so to act the Issuer and the Guarantor will forthwith appoint a further person as their agent for that purpose and notify the name and address of such person to the Agent and agree that, failing such appointment within fifteen days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Agent. Nothing contained herein shall affect the right of any Noteholder to serve process in any other manner permitted by law.

19. Rights of Third Parties

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

TERMS AND CONDITIONS OF NOTES
ISSUED BY GAS NATURAL CAPITAL MARKETS, S.A.

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 endorsed on each Note in definitive form issued by Gas Natural Capital Markets, S.A. under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described in the Base Prospectus dated 2 December 2016 relating to the Notes, under "Form of the Notes".

Gas Natural Fenosa Finance B.V. and Gas Natural Capital Markets, S.A. have established a Euro Medium Term Note Programme (the ***Programme***) for the issuance of up to Euro 14,000,000,000 in aggregate nominal amount of Notes (the ***Notes***) guaranteed by Gas Natural SDG, S.A.

Notes issued under the Programme are issued in series (each a Series) and each Series may comprise one or more tranches (each a Tranche) of Notes. Each Tranche is the subject of final terms (the ***Final Terms***) which completes these terms and conditions (the ***Conditions***). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. The Notes are the subject of an amended and restated agency agreement dated on or about 2 December 2016 (the ***Agency Agreement***, which expression shall include any further amendments or supplements thereto) and made between Gas Natural Fenosa Finance B.V., Gas Natural Capital Markets, S.A. (the ***Issuer***), Gas Natural SDG, S.A. as Guarantor (the ***Guarantor***), Citibank, N.A., London Branch in its capacity as Agent (the ***Agent*** or ***Calculation Agent***, which expressions shall include any successor to Citibank, N.A., London Branch in its capacity as such) and the Paying Agents named therein (the ***Paying Agents***, which expression shall include the Agent and any substitute or additional Paying Agents appointed in accordance with the Agency Agreement). The Notes, the Receipts and the Coupons (each as defined below) also have the benefit of a deed of covenant (the Deed of Covenant, which expression shall include any amendments or supplements thereto) dated on or about 2 December 2016 executed by the Issuer in relation to the Notes. The Guarantor has, for the benefit of the holders of the Notes from time to time (the ***Noteholders***), executed and delivered a deed of guarantee (the ***Deed of Guarantee***) dated on or about 2 December 2016 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. If so required by Spanish law, the Issuer will execute an *escritura pública* (the ***Public Deed***) before a Spanish Notary Public in relation to the Notes and will register such Public Deed with the Mercantile Registry of Barcelona on or prior to the issue date of the Notes. The Public Deed contains, among other information, the terms and conditions of the Notes.

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (Coupons) and, if indicated in the applicable Final Terms, talons for further Coupons (Talons) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (Receipts) for the payment of the instalments of principal (other than the final instalment) attached on issue.

Copies of the Deed of Covenant, the Agency Agreement, the Deed of Guarantee and the Final Terms applicable to the Notes are available for inspection during normal business hours at the specified office of each of the Paying Agents, save that any Final Terms relating to an unlisted Note of a Series will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its identity. 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. All persons from time to time entitled to the benefit of obligations under any Notes are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Deed of Covenant, the Agency Agreement, the Deed of Guarantee and the applicable Final Terms, which are binding on them.

Words and expressions defined in the Deed of Covenant, the Agency Agreement, the Deed of Guarantee or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered in the Specified Currency and the Specified Denomination(s), 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 euro 100,000 (or its equivalent in any other currency as at the date of issue of those Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Denomination.

So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only (a) if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency)", in the authorised denomination of euro 100,000 (or its equivalent in another currency) and integral multiples of euro 100,000 (or its equivalent in another currency) thereafter, or (b) if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency) and integral multiples of euro 1,000 (or its equivalent in another currency) in excess thereof", in the minimum authorised denomination of euro 100,000 (or its equivalent in another currency) and higher integral multiples of euro 1,000 (or its equivalent in another currency), notwithstanding that no definitive Notes will be issued with a denomination above euro 199,000 (or its equivalent in another currency).

Definitive Notes are issued with Coupons attached.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. Subject as set out below, the Issuer, the Guarantor, and any Paying Agent may deem and treat (and no such person will be liable for so deeming and treating) the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note, each person who is for the time being shown in the records of Euroclear Bank SA/NV (***Euroclear***) or of Clearstream Banking SA (***Clearstream, Luxembourg***) as the holder of a particular nominal amount of Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such nominal amount of Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be deemed to be the holder of such nominal amount of Notes in accordance with and subject to the terms of the relevant global Note (and the expressions ***Noteholder*** and ***holder of Notes*** and related expressions shall be construed accordingly). Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Notes issued in NGN form, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer, the Guarantor and the Agent.

2. Status of the Notes

The Notes and the relative Receipts and Coupons (if any) are direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

Holders of Notes acknowledge that all Notes issued or to be issued by the Issuer under the Programme shall rank *pari passu* among themselves regardless of their respective issue date.

In the event of insolvency (concurso) of the Issuer, under the Insolvency Law, claims relating to Notes (unless they qualify by law as subordinated credits under Article 92 of the Insolvency Law) will be ordinary credits (créditos ordinarios) as defined by the Insolvency Law. Ordinary credits rank below credits against the insolvency estate (créditos contra la masa) and credits with a privilege (créditos privilegiados). Ordinary credits rank above subordinated credits and the rights of shareholders.

3. Status of the Deed of Guarantee

The payment of principal and interest together with all other sums payable by the Issuer in respect of the Notes has been unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under the Deed of Guarantee constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions) rank *pari passu* with all other present and future outstanding, unsecured and unsubordinated obligations of the Guarantor.

In the event of insolvency (concurso) of the Guarantor, under the Insolvency Law, claims under the Guarantee relating to Notes (unless they qualify by law as subordinated credits under

Article 92 of the Insolvency Law) will be ordinary credits (créditos ordinarios) as defined in the Insolvency Law. Ordinary credits rank below credits against the insolvency estate (créditos contra la masa) and credits with a privilege (créditos privilegiados). Ordinary credits rank above subordinated credits and the rights of shareholders.

4. Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement):

(a) neither the Issuer nor the Guarantor shall create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of any Relevant Indebtedness; and

(b) the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of any Relevant Indebtedness,

without at the same time or prior thereto (i) securing the Notes and/or, as the case may be, the Guarantor's obligations under the Deed of Guarantee, equally and rateably therewith or (ii) providing such other security for the Notes and/or, as the case may be, the Guarantor's obligations under the Deed of Guarantee, as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

In these Conditions:

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

(i) any obligation to purchase such Indebtedness;

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

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

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

Indebtedness means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

Permitted Security Interest means:

(i) in relation to the Issuer or any of its Subsidiaries:

(A) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or any of its Subsidiaries which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches; and

(B) any Security Interest that does not fall within sub-paragraph (A) above and that secures Relevant Indebtedness which, when aggregated with Relevant Indebtedness secured by all other Security Interests permitted under this sub-paragraph, does not exceed euro 50,000,000 (or its equivalent in other currencies); and

(ii) in relation to the Guarantor or any of its Subsidiaries:

(A) any Security Interest in existence on 17 November 2005 to the extent that it secures Relevant Indebtedness outstanding on such date;

(B) any Security Interest arising by operation of law and in the ordinary course of business of the Guarantor or any of its Subsidiaries which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches;

(C) any Security Interest to secure Project Finance Debt;

(D) any Security Interest created in respect of Relevant Indebtedness of an entity that has merged with, or has been acquired (whether in whole or in part) by, the Guarantor or any of its Subsidiaries, provided that such Security Interest:

(i) was in existence at the time of such merger or acquisition;

(ii) was not created for the purpose of providing security in respect of the financing of such merger or acquisition; and

(iii) is not increased in amount or otherwise extended following such merger or acquisition other than pursuant to a legal or contractual obligation (x) which was assumed (by operation of law, agreement or otherwise) prior to such merger or acquisition by an entity which, at such time, was not a Subsidiary of the Guarantor, and (y) which remains legally binding on such entity at the time of such merger or acquisition; and

(E) any Security Interest that does not fall within sub-paragraphs (A), (B), (C) or (D) above and that secures Relevant Indebtedness which, when aggregated with Relevant Indebtedness secured by all other Security Interests permitted under this sub-paragraph, does not exceed euro 50,000,000 (or its equivalent in other currencies);

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

Project Finance Assets means the assets (including, for the avoidance of doubt, shares (or other interests)) of a Project Finance Entity;

Project Finance Entity means any entity in which the Guarantor or any of its Subsidiaries holds an interest whose only assets and business are constituted by: (i) the ownership, creation, development, construction, improvement, exploitation or operation of one or more of such entity's assets, or (ii) shares (or other interests) in the capital of other entities that satisfy limb (i) of this definition;

Project Finance Debt means any Relevant Indebtedness:

(i) incurred by a Project Finance Entity in respect of the activities of such entity or another Project Finance Entity in which it holds shares (or other interests); or

(ii) any Subsidiary formed exclusively for the purpose of financing a Project Finance Entity,

where, in each case, the holders of such Relevant Indebtedness have no recourse against the Guarantor or any of its Subsidiaries (or its or their respective assets), except for recourse to (y) the Project Finance Assets of such Project Finance Entities; and (z) in the case of (ii) above only, the Subsidiary incurring such Relevant Indebtedness.

Relevant Indebtedness means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

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

Subsidiary means, in relation to any Person (the ***first Person***) at any particular time, any other Person (the ***second Person***):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, fully consolidated with those of the first Person.

5. Interest

(a) *Interest on Fixed Rate Notes*

(i) Each Fixed Rate Note shall bear interest on its nominal amount from, and including, the Interest Commencement Date (which shall be the date of issue thereof or such other date as may be specified in the relevant Final Terms) in respect thereof at the rate per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the relevant Final Terms and on the Maturity Date specified in the relevant Final Terms if that date does not fall on an Interest Payment Date.

(ii) The first payment of interest will be made on the Interest Payment Date next following the Interest Commencement Date and, if the period between the Interest Commencement Date and the first Interest Payment Date is different from the periods between Interest Payment Dates, will amount to the initial Broken Amount specified in the relevant Final Terms. If the Maturity Date is not an Interest Payment Date, interest from, and including, the preceding Interest Payment Date (or from the Interest Commencement Date, as the case may be) to, but excluding, the Maturity Date will amount to the final Broken Amount specified in the relevant Final Terms.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

If a Fixed Coupon Amount or a Broken Amount is specified in the applicable Final Terms, 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.

(iii) If interest is required to be calculated for a period of other than a full year, such interest shall be calculated using the applicable Day Count Fraction pursuant to Condition 5(e).

(b) *Interest on Floating Rate Notes*

(i) ***Specified Interest Payment Dates***

Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date specified in the applicable Final Terms and such interest will be payable in arrear on each interest payment date (each a ***Specified Interest Payment Date***) which (save as otherwise mentioned in these Conditions or the applicable Final Terms) falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Specified Interest Payment Date or, in the case of the First Interest Payment Date, after the Interest Commencement Date.

If a business day convention is specified in the applicable Final Terms and if any Specified Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below), then, if the business day convention specified is:

(1) in any case where Interest Periods are specified in accordance with Condition 5(b)(i) above, the Floating Rate Convention, such Specified Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Specified Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Specified Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Specified Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Specified Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Specified Interest Payment Date

shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Specified Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Specified Interest Payment Date shall be brought forward to the immediately preceding Business Day.

Business Day means:

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

(B) in the case of euro, a day on which the TARGET System (as defined in Condition 5(b)(iv)) is operating (a ***TARGET Business Day***) and/or

(C) 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 indicated, generally in each of the Business Centres.

(ii) ***Rate of Interest for Floating Rate Notes***

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(iii) ***ISDA Determination for Floating Rate Notes***

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (iii), ***ISDA Rate*** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Calculation Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (the ***ISDA Definitions***), and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period equal to that Interest Period; and

(C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) (or, in the case of Notes denominated or payable in euro, the Eurozone interbank market (EURIBOR)) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

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

Where this sub-paragraph (iii) applies, in respect of each relevant Interest Period, the Calculation Agent will be deemed to have discharged its obligations under paragraph (g) below in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (iii).

(iv) ***Screen Rate Determination for Floating Rate Notes***

Where so specified in the applicable Final Terms, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page (as indicated in the applicable Final Terms)), expressed as a percentage rate per annum; or

(B) the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) of the offered quotations (expressed as a percentage rate per annum),

for deposits in the Specified Currency for that Interest Period which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00a.m. (London time or, where the Reference Rate is EURIBOR, Brussels time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent. If five or more 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) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three of such offered quotations appear, in each case as at such time, the Calculation Agent shall request the principal London office of each of the Reference Banks (as defined below) or, in the case of the determination of EURIBOR, the principal office of each of four EURIBOR Reference Banks (as defined below) to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period to leading banks in the London inter-bank market (or, in the case of the determination of EURIBOR, where the Reference Rate of EURIBOR is used for Notes denominated or payable in euro, the Eurozone interbank market) as at 11.00a.m. (London time or, where the Reference Rate is EURIBOR, Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks or, as the case may be, EURIBOR Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded as provided above) of such offered quotations plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

If on any Interest Determination Date one only or none of the Reference Banks or, as the case may be, EURIBOR Reference Banks, provides the Calculation Agent with such an offered quotation as provided above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded as provided above) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or, as the case may be, EURIBOR Reference Banks, or any two or more of them, at which such banks were offered, as at 11.00a.m. (London time or, where the Reference Rate is EURIBOR, Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for the relevant Interest Period by leading banks in the London inter-bank market (or, in the case of the determination of EURIBOR, where the Reference Rate of EURIBOR is used for Notes denominated or payable in euro, the Eurozone interbank market) plus or minus (as indicated in the applicable Final Terms) the Margin (if any) or, if fewer than two of the Reference Banks or, as the case may be, EURIBOR Reference Banks, provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for the relevant Interest Period, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for the relevant Interest Period, at which, 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 the London inter-bank market (or, in the case of the determination of EURIBOR, the Eurozone interbank market) (or, as the case may be, the quotations of such bank or banks to the Calculation Agent) plus or minus (as indicated in the applicable Final Terms) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this sub-paragraph (iv), the Rate of Interest shall be the sum of the Margin and the offered rate or (as the case may be) the arithmetic mean of the offered Notes last determined in relation to the Notes in respect of the preceding Interest Period.

In this Condition, the following expressions shall have the following meanings:

Reference Banks means, in the case of (A) above, those banks whose offered rate was used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of (B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared;

EURIBOR Reference Bank means a major bank operating in the Eurozone interbank market and ***EURIBOR Reference Banks*** shall be construed accordingly;

Interest Determination Date means, with respect to a Rate of Interest and Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Period if the Specified Currency is Sterling or (ii) the second Business Day in London prior to the commencement of such Interest Period if the Specified Currency is neither Sterling nor euro or (iii) the second TARGET Business Day prior to the commencement of such Interest Period if the Specified Currency is euro; and

TARGET system means the Trans-European Automated Real-time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007, or any successor thereto.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified as being other than the London inter-bank offered rate (or, in the case of Notes denominated or payable in euro, the Eurozone interbank market offered rate), the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the due date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon (as well after as before any demand or judgement) at the rate then applicable to the principal amount of the Notes or such other rate as may be specified in the relevant Final Terms until the date on which, upon (except in the case of any payment where presentation and/or surrender of the relevant Note is not required as a precondition of payment) due presentation of the relevant Note, the relevant payment is made or, if earlier (except in the case of any payment where presentation and/or surrender of the relevant Note is not required as a precondition of payment), the seventh day after the date on which the Agent having received the funds required to make such payment, notice is given to the Noteholders in accordance with Condition 15 of that circumstance (except to the extent that there is failure in the subsequent payment thereof to the relevant Noteholder).

(d) *Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specify a Minimum Rate of Interest for any Interest Period then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the applicable Final Terms specify a Maximum Rate of Interest for any Interest Period then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(e) *Determination of Rate of Interest and Calculation of Interest Amount*

With respect to Floating Rate Notes, the Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the amount of interest (the ***Interest Amount***) payable in respect of any Notes in respect of each Calculation Amount (as specified in the relevant Final Terms) for the relevant Interest Period.

Each Interest Amount for Fixed Rate Notes and Floating Rate Notes shall be calculated by applying the Rate of Interest to each Calculation Amount multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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 as being applicable, 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 as being applicable, the actual number of days in the Calculation Period divided by 365;

(iii) if ***Actual/360*** is specified in the relevant Final Terms as being applicable, 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 as being applicable, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

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

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

where:

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

(vi) if ***30E/360 (ISDA)*** 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:

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

where

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 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 D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) such day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D_2 will be 30; and

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

(a) 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 (1) the actual number of days in such Calculation Period; and (2) the number of Determination Periods in any period of one year; and

(b) 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 (1) the actual number of days in such Determination Period; and (2) 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 (1) the actual number of days in such Determination Period; and (2) the number of Determination Periods in any period of one year.

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

(f) *Change of Interest Basis*

If Change 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.

(g) *Notification of Rate of Interest and Interest Amount*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date or Specified Interest Payment Date, as the case may be, to be notified to the Issuer, the Guarantor and, if the Notes are listed on a stock exchange, quotation system or other relevant authority and the rules of such exchange, quotation system or other relevant authority so require, to any such relevant exchange, quotation system and/or other relevant authority, and to be published in accordance with Condition 15 as soon as possible after their determination but (i) in no event later than the first day of the relevant Interest Period thereafter, if determined prior to such time or (ii) in all other cases, as soon as practicable but in no event later than the fourth Business Day after such determination. Each Interest Amount and Interest Payment Date or Specified Interest Payment Date, as the case may be, so notified 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 are listed on a stock exchange, quotation system or other relevant authority and the rules of such exchange, quotation system or other relevant authority so require, any such amendment will be promptly notified to any such relevant exchange, quotation system and/or other relevant authority.

(h) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the Paying Agents and all Noteholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor or the Noteholders shall attach to the Agent in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

6. Redemption and Purchase

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer, failing which the Guarantor at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms (in the case of a Note other than a Floating Rate Note) or on the Specified Interest Payment Date falling in the Redemption Month specified in the applicable Final Terms (in the case of a Floating Rate Note). Such Final Redemption Amount in respect of any Note shall be its principal amount or such higher amount as may be specified in the relevant Final Terms.

(b) *Redemption for Tax Reasons*

If, in relation to any Series of Notes (i) as a result of any change in the laws or regulations of the Kingdom of Spain or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the date of issue of such Notes or any earlier date specified in the Final Terms the Issuer or the Guarantor, as applicable, would be required to pay additional amounts as provided in Condition 10 and (ii) such circumstances are evidenced by the delivery by the Issuer or the Guarantor, as applicable, to the Agent of a certificate signed by a director of the Issuer or two directors of the Guarantor, as applicable, stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Notes which bear interest at a floating rate, on a day upon which interest is payable) to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Notes comprising the relevant Series at their early tax redemption amount (the ***Early Redemption Amount Tax***) (which shall be their principal amount (or at such other Early Redemption Amount Tax) as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Note, the aggregate amount of all instalments that shall have become due and payable in respect of such Note prior to the date fixed for redemption under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with accrued interest (if any) thereon, provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Notes which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period applicable to the Notes plus 60 days) prior to the earliest date on which the Issuer or the Guarantor, as applicable, would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

If a Call Option is specified in the relevant Final Terms as being applicable, the Issuer may, having (unless otherwise specified in the applicable Final Terms) given not more than 60 nor less than 30 days' notice to the Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). In the event of a redemption of some only of the Notes, such redemption must be of a nominal amount being the Minimum Redemption Amount or a Maximum Redemption Amount, both as indicated in the applicable Final Terms, and shall be carried out in accordance with applicable Spanish law requirements. In the case of a partial redemption of definitive Notes, the Notes to be redeemed will be selected individually by lot, subject to compliance with applicable law (including applicable Spanish law requirements) and the rules of 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, not more than 60 days prior to the date fixed for redemption and a list of the Notes called for redemption will be published in accordance with Condition 15 not less than 30 days prior to such date. In the case of a partial redemption of Notes which are represented by a global Note, the relevant Notes will be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).

(d) *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 in accordance with Condition 15 (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 comprising the relevant Series at their principal amount together with interest accrued to, but excluding, the date fixed for redemption, which shall be no earlier than (i) three months before the Maturity Date in respect of Notes having a maturity of not more than ten years or (ii) six months before the Maturity Date in respect of Notes having a maturity of more than ten years.

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

(e) *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 Agent, and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem the Notes comprising the relevant Series in whole, but not in part, in accordance with these Conditions at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the 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.

a ***Substantial Purchase Event*** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Notes of the relevant Series originally issued (which for these purposes shall include any further Notes of the same Series issued subsequently) is purchased by the Issuer, the Guarantor or any Subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(e));

(f) *Make-Whole Redemption*

If a Make-Whole Redemption is specified in the relevant Final Terms as being applicable, then the Issuer may, subject to compliance with all relevant laws, regulations and directives and on giving not less than 15 nor more than 30 days' notice to the Agent, and, in accordance with Condition 15, the Noteholders redeem the Notes comprising the relevant Series, in whole or in part, at any time or from time to time (but no later than the Residual Maturity Call Option Redemption Date (as defined in Condition 6(d) above) if applicable), prior to their Maturity Date (the ***Make-Whole Redemption Date***) at their Make-Whole Redemption Amount (as defined below).

In the case of a partial redemption of Notes, the Notes to be redeemed (***Redeemed Notes***) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount), in each case of (i) and (ii) above, always subject to compliance with any applicable laws and stock exchange requirements. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

Make-Whole Redemption Amount means in respect of any Notes to be redeemed an amount, calculated by, at the election of the Issuer, the Agent or a leading investment, merchant or commercial bank appointed by the Issuer for the purposes of calculating the relevant Make-Whole redemption amount, and notified to the Noteholders in accordance with Condition 15, equal to the greater of (x) 100 per cent. of the nominal amount of the Notes so redeemed and, (y) the sum of the then present values of the remaining scheduled payments of principal and interest on such Notes (not including any interest accrued on the Notes to, but excluding, the relevant Make-Whole Redemption Date) discounted to the relevant Make-Whole Redemption Date on an annual basis at the Make-Whole Redemption Rate (specified in the relevant Final Terms) plus a Make-Whole Redemption Margin (specified in the relevant Final Terms), plus in each case of (x) and (y) above, any interest accrued on the Notes to, but excluding, the Make-Whole Redemption Date.

(g) *Redemption at the Option of the Noteholders*

If a Put Option is specified in the relevant Final Terms as being applicable, upon any Noteholder giving to the Issuer and the Guarantor in accordance with Condition 15 not more than 60 nor less than 30 days' notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice, redeem subject to, and in accordance with, the terms specified in the applicable Final Terms in whole (but not in part) such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(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 and a Change of Control occurs and, during the Change of Control Period, a Rating Downgrade occurs (together, a ***Change of Control Event***), 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 Change of Control Redemption Date at the Change of Control Redemption Amount.

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

control means: (a) the acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of the Guarantor; or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor's Board of Directors or other governing body, whether obtained directly or indirectly, 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 on which the relevant Change of Control occurs or the date of the first relevant Potential Change of Control Announcement, whichever is the earlier, and ending on the date which is 90 days after the date of the occurrence of the relevant Change of Control.

Potential Change of Control Announcement means any public announcement or statement by the Issuer or any actual or bona fide potential bidder relating to any potential Change of Control.

Rating Agency means any of the following: (a) Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. (***S&P***); (b) Moody's Investors Service Limited (***Moody's***); (c) Fitch Ratings Ltd (***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, within the Change of Control Period, the rating previously assigned to the Guarantor is lowered by at least two full rating notches (by way of example, BB+ to BB-, in the case of S&P) (a ***downgrade***) or withdrawn, in each case, by the requisite number of Rating Agencies (as defined below), and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) to its earlier credit rating or better, such that there is no longer a downgrade or withdrawal by the requisite number of Rating Agencies. For these purposes, the ***requisite number of Rating Agencies*** shall mean (i) at least two Rating Agencies, if, at the time of the rating downgrade or withdrawal, three or more Rating Agencies have assigned a credit rating to the Guarantor, or (ii) at least one Rating Agency if, at the time of the rating downgrade or withdrawal, fewer than three Rating Agencies have assigned a credit rating to the Guarantor.

Notwithstanding the foregoing, no Rating Downgrade shall be deemed to have occurred in respect of a particular Change of Control if (a) following such a downgrade, the Guarantor is still assigned an Investment Grade Rating by one or more of the Rating Agencies effecting the downgrade, or (b) the Rating Agencies effecting the downgrade or withdrawing their rating do not publicly announce or otherwise confirm in writing to the Issuer that such 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.

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); (3) with respect to Fitch Ratings, any of the categories from and including AAA to and including BBB- (or equivalent successor categories); and (4) with respect to any other credit rating agency of equivalent international standing specified from time to time by the Issuer, a rating that is equivalent to, or better than, the foregoing.

Change of Control Redemption Amount means an amount equal to par plus interest accrued to but excluding the Change of Control Redemption Date.

Promptly upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice (a ***Change of Control Event Notice***) to the Agent, the Paying Agents and the Noteholders in accordance with Condition 15 specifying the nature of the Change of Control 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 Change of Control 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 Paying Agent specified in the Put Option Notice for the account of the Issuer within the period (the ***Put Period***) of 45 days after the Change of Control 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 section.

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 Paying 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 ***Change of Control Redemption Date***). Payment in respect of any Note so transferred will be made in the relevant Specified Currency to the holder to the relevant Specified Currency denominated bank account in the Put Option Notice on the Change of Control Redemption Date via the relevant account holders.

If 80 per cent. or more in principal amount of the Notes outstanding of a Series at the beginning of the Change of Control Period have been redeemed or purchased pursuant to the foregoing provisions of this Condition 6(h), the Issuer may, at its option, on not less than five nor more than 10 Business Days' notice to the Noteholders given in accordance with Condition 15 within 60 days after the Change of Control Redemption Date, redeem or, at its option, purchase (or procure the purchase of) all (but not some only) of the remaining Notes of that Series, each at par together with (or, where purchased, together with an amount equal to) interest accrued to (but excluding) the date of such redemption or purchase.

(i) Where any calculation of an early redemption amount is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(j) *Instalments*

If the Notes are repayable in instalments, they will be repaid in the Instalment Amounts and on the Instalment Date specified in the applicable Final Terms.

(k) *Purchases*

The Issuer, the Guarantor or any Subsidiary of the Guarantor may at any time purchase Notes (together, in the case of definitive Notes, with all unmatured Receipts and Coupons appertaining thereto) in any manner and at any price. In the case of a purchase by tender, such tender must be made available to all Noteholders alike. The Issuer, the Guarantor or any Subsidiary of the Guarantor will be entitled to hold and deal with Notes so purchased as the Issuer, the Guarantor or the relevant Subsidiary of the Guarantor thinks fit.

(l) *Cancellation*

All Notes which are redeemed in full will forthwith be cancelled and Notes which are purchased by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Guarantor may, at the election of the Issuer, be cancelled (together in each case with all unmatured Receipts and Coupons attached thereto or delivered therewith). Notes purchased by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Guarantor may not be reissued or resold other than to the Issuer, the Guarantor or any Subsidiary of the Guarantor.

7. Payments

(a) *Method of Payment*

Subject as provided below:

(i) payments in a currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

(ii) payments in euro will be made by transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in the principal financial centre of any Participating Member State of the European Communities.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10.

In these Conditions:

Eurozone means the zone comprising the Participating Member States;

Participating Member State means a Member State of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with the Treaty; and

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

(b) *Presentation of Notes, Receipts, Coupons and Talons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of definitive Notes and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments (if any) of principal, other than the final instalment, will (subject as provided below) be made against presentation and surrender of the relevant Receipt. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Notes to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) appertaining thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons) failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 14) or, if later, five years from the date on which such Coupon would otherwise have become due. Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date or a Specified Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or Specified Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant global Note, against presentation or surrender, as the case may be, of such global Note (if it is not intended to be issued in NGN form) at the specified office of the Agent. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by the Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of the relevant global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of Notes must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of the relevant global Note. No person other than the holder of the relevant global Note shall have any claim against the Issuer or, as the case may be, the Guarantor in respect of any payments due on that global Note.

Payments of interest in respect of the Notes will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment at such specified offices outside the United States of the full amount of interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer.

(c) *Redenomination*

The Issuer may, without the consent of the Noteholders or the holders of related Receipts or Coupons on giving at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro. The election will have effect as follows:

(i) each Specified Denomination will be deemed to be denominated in such amount of euro as is equivalent to its denomination in the Specified Currency at the Established Rate, subject to such provisions (if any) as to rounding (and payments in respect of fractions consequent on rounding) as the Issuer may decide, and as may be specified in the notice;

(ii) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons will be made solely in euro, including payments of interest in respect of periods before the Redenomination Date, as though references in the Notes to the Specified Currency were to euro; and

(iii) such changes shall be made to these Conditions as the Issuer may decide and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro or to enable the Notes to be consolidated with one or more issues of other notes, whether or not originally denominated in the Specified Currency or euro.

(d) *Exchangeability*

The Issuer may without the consent of the Noteholders or the holders of related Receipts or Coupons, on giving at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date or such later date for payment of interest under the Notes as it may specify in the notice, the Notes shall be exchangeable for Notes expressed to be denominated in euro in accordance with such arrangements as the Issuer may decide and as may be specified in the notice, including arrangements under which Receipts and Coupons unmatured at the date so specified become void.

In this Condition, the following expressions have the following meanings:

Established Rate means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 109(4) of the Treaty; and

Redenomination Date means any date for payment of interest under the Notes specified by the Issuer which falls on or after the date on which the country of the Specified Currency participates in European Economic and Monetary Union pursuant to the Treaty.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, unless otherwise specified in the applicable Final Terms, ***Payment Day*** means any day which is both:

(i) a day (other than a Saturday or a Sunday) on which banks are open for business in:

(A) the relevant place of presentation; and

(B) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to Notes denominated in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the relevant Specified Currency (if other than London and which if the Specified Currency is Australian dollars shall be Melbourne) or (2) in relation to notes denominated in euro, a day on which the TARGET System (as defined in Condition 5(b)(iv)) is operating.

(f) *Interpretation of Principal and Interest*

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 10;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in instalments, the Instalment Amounts; and

(vi) any premium and any other amounts which may be payable under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10.

8. Agent and Paying Agents

The names of the initial Agent and the initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system;

(ii) there will at all times be a Paying Agent with a specified office acting in continental Europe;

(iii) there will at all times be an Agent; and

(iv) each of the Issuer and the Guarantor will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 7(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15 provided that no such variation, termination, appointment or change shall take effect (except in the case of insolvency) within 15 days before or after any Interest Payment Date or Specified Interest Payment Date, as the case may be.

9. Exchange of Talons

On and after the Interest Payment Date or the Specified Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include

Coupons to (and including) the final date for the payment of interest due in respect of the Notes to which it appertains) a further Talon, subject to the provisions of Condition 13. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date or the Specified Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

10. Taxation

All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, 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, failing which the Guarantor, will pay such additional amounts as may be necessary in order that the net amounts receivable by any Noteholder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Noteholder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Notes or Coupon:

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

(ii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Noteholder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or

(iii) to, or to a third party on behalf of, a Noteholder who does not provide the information concerning such Noteholder’s identity and tax residence to the Issuer or the Guarantor or an agent acting on behalf of the Issuer or the Guarantor as may eventually be required (i) in order to comply with any new procedures that may be implemented as a consequence of an amendment, modification or interpretation of Royal Decree 1145/2011; or (ii) in case the Notes are represented by definitive Notes; or

(iv) 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, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

For the purposes of these Conditions ***Relevant Date*** means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Noteholders, notice to that effect shall have been duly given to the Noteholders of the relevant Series in accordance with Condition 15.

If the Issuer or the Guarantor, as the case may be, becomes subject at any time to any taxing jurisdiction other than or in addition to the Kingdom of Spain, references herein to the Kingdom of Spain shall be read and construed as references to the Kingdom of Spain, and/or to such other jurisdiction.

Any reference in these Conditions to principal, redemption amount and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 10.

11. Events of Default

The following events or circumstances (each an ***Event of Default***) shall be acceleration events in relation to the Notes of any Series, namely:

(a) ***Non-payment***: the Issuer fails to pay any amount of principal in respect of the Notes within 7 days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 14 days of the due date for payment thereof; or

(b) ***Breach of other obligations***: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Deed of Guarantee and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by the Commissioner (as defined in Condition 12) or, failing whom, any Noteholder, has been delivered to the Issuer and the Guarantor or to the specified office of the Agent; or

(c) ***Cross-default of the Issuer, the Guarantor or a Principal Subsidiary***: (i) any Relevant Indebtedness (as defined in Condition 4) of the Issuer, the Guarantor or any of their respective Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any such Relevant Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Principal Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Relevant Indebtedness; or (iii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Relevant Indebtedness, provided that the amount of Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds euro 50,000,000 (or its equivalent in any other currency or currencies); or

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

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

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

(g) ***Winding up etc.***: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) (otherwise than, in the case of a Principal Subsidiary of the Issuer (if any) or a Principal Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(h) ***Analogous event***: any event occurs which under the laws of the Kingdom of Spain has an analogous effect to any of the events referred to in paragraphs (d) to (g) above including, but not limited to, *concurso*; or

(i) ***Failure to take action etc***: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Receipts, the Coupons and the Guarantee admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done; or

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

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

(l) ***Controlling shareholder***: the Issuer ceases to be wholly-owned and controlled by the Guarantor.

If any Event of Default shall occur in relation to any Series of Notes, any Noteholder of the relevant Series may, by written notice to the Issuer and the Guarantor, at the specified office of the Agent, declare that such Note and (if the Note is interest-bearing) all interest then accrued on such Note shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the ***Early Termination Amount***) (which shall be its principal amount or such other Early Termination Amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Note, the aggregate amount of all instalments that shall have become due and payable in respect of such Note under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Notes to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Notes of the relevant Series shall have been cured.

In these Conditions:

Gas Natural Fenosa Group means the Guarantor and its Subsidiaries from time to time; and

Principal Subsidiary means, at any time, a Subsidiary of the Guarantor whose total assets, income before taxes or sales (excluding intra-group items) then equal or exceed ten per cent. (10%) of the total assets, income before taxes or sales of the Gas Natural Fenosa Group (on a consolidated basis) and, for this purpose:

(i) the total assets, income before taxes and sales of a Subsidiary of the Guarantor will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest annual audited financial statements of the Gas Natural Fenosa Group have been based;

(ii) if a Subsidiary of the Company becomes a member of the Gas Natural Fenosa Group after the date on which the latest audited financial statements of the Gas Natural Fenosa Group have been prepared, the total assets, income before taxes and sales of that Subsidiary will be determined from its latest annual financial statements;

(iii) the total assets, income before taxes and sales of the Gas Natural Fenosa Group will be determined from its latest annual audited financial statements, adjusted (where appropriate) to reflect the total assets, income before taxes and sales of any company or business subsequently acquired or disposed of; and

(iv) if a Principal Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Guarantor, the disposing Subsidiary will immediately cease to be Principal Subsidiary and the other Subsidiary (if it is not already) will immediately become a Principal Subsidiary and, for the avoidance of doubt, the subsequent financial statements of those Subsidiaries and the Gas Natural Fenosa Group will be used to determine whether those Subsidiaries are Principal Subsidiaries or not.

A report by the Directors of the Guarantor that, in their opinion, a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, accompanied by a report by the Auditors addressed to the Directors of the Guarantor as to proper extraction of the figures used by the Directors of the Guarantor in determining the Principal Subsidiaries of the Guarantor and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on the Noteholders;

12. Meetings of Noteholders

The Agency Agreement contains provisions (which shall have effect as if incorporated by reference herein) for convening meetings of the Noteholders of any Series to consider any matter affecting their interests, including (without limitation) the modification by Extraordinary Resolution (as defined below) of these Conditions. An Extraordinary Resolution passed at any meeting of the Noteholders of any Series will be binding on all Noteholders of such Series, whether or not they are present at the meeting, and on all holders of Coupons relating to Notes of such Series.

Extraordinary Resolution means a resolution passed at a meeting of the Noteholders duly convened and held by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75 per cent. of the votes given on such poll.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal value of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in a single document or in several documents in the same form, each signed by or on behalf of one or more Noteholders.

13. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent in London (or such other place as may be notified to the Noteholders), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 10) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 14 or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

15. Notices

All notices regarding the Notes shall be valid if published in one or more leading English language daily newspapers with circulation in the United Kingdom (which is expected to be the

Financial Times) and (so long as the Notes are listed on the official list of the Luxembourg Stock Exchange and the rules of that stock exchange so require) published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication shall not be practicable, in an 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 first date on which publication is made.

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 the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any Noteholder to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) with the outstanding Notes and so that the same shall be consolidated and form a single series with the outstanding Notes.

17. Substitution of the Issuer

(a) The Issuer and the Guarantor may with respect to any Series of Notes issued by the Issuer (the ***Relevant Notes***) without the consent of any Noteholder, substitute for the Issuer any other body corporate incorporated in any country in the world as the debtor in respect of the Notes and the Agency Agreement (the ***Substituted Debtor***) upon notice by the Issuer, the Guarantor and the Substituted Debtor to be given by publication in accordance with Condition 15, provided that:

(i) neither the Issuer nor the Guarantor are in default in respect of any amount payable under any of the Relevant Notes;

(ii) the Issuer, the Guarantor and the Substituted Debtor have entered into such documents (the ***Documents***) as are necessary to give effect to the substitution and in which the Substituted Debtor has undertaken in favour of each Noteholder of the Relevant Notes to be bound by these Conditions and the provisions of the Agency Agreement as the debtor in respect of such Notes in place of the Issuer (or of any previous substitute under this Condition 17);

(iii) if the Substituted Debtor is resident for tax purposes in a territory (the ***New Residence***) other than that in which the Issuer prior to such substitution was resident for tax purposes (the ***Former Residence***) the Documents contain an undertaking and/or such other provisions as may be necessary to ensure that each Noteholder of the Relevant Notes has the benefit of an undertaking in terms corresponding to the provisions of Condition 10, with, where applicable, the substitution of references to the Former Residence with references to the New Residence;

(iv) the Guarantor guarantees the obligations of the Substituted Debtor in relation to outstanding Relevant Notes;

(v) the Substituted Debtor, the Issuer and the Guarantor have obtained all necessary governmental approvals and consents for such substitution and for the performance by the Substituted Debtor of its obligations under the Documents and for the performance by the Guarantor of its obligations under the Guarantee as they relate to the obligations of the Substituted Debtor under the Documents;

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

(vii) a legal opinion shall have been delivered to the Commissioner and the Agent (from whom copies will be available) from lawyers of recognised standing in the country of incorporation of the Substituted Debtor, confirming, as appropriate, that upon the substitution taking place (A) the requirements of this Condition 17, save as to the giving of notice to the Noteholders have been met and (B) the Notes, Coupons and Talons are legal, valid and binding obligations of the Substituted Debtor enforceable in accordance with their terms;

(viii) Moody's Investors Service Limited and Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies (or any other rating agency which has issued a rating in connection with the Relevant Notes) shall have confirmed that following the proposed substitution of the Substituted Debtor, the credit rating of the Relevant Notes will not be adversely affected; and

(ix) if applicable, the Substituted Debtor 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 England arising out of or in connection with the Relevant Notes and any Coupons.

(b) Upon the execution of the Documents and the delivery of the legal opinions, the Substituted Debtor shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Relevant Notes and the Agency Agreement with the same effect as if the Substituted Debtor had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Relevant Notes and under the Agency Agreement.

(c) After a substitution pursuant to Condition 17(a), the Substituted Debtor may, without the consent of any Noteholder, effect a further substitution. All the provisions specified in Condition 17(a) and 17(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 Substituted Debtor.

(d) After a substitution pursuant to Condition 17(a) or 17(c) any Substituted Debtor may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.

(e) The Documents shall be delivered to, and kept by, the Agent. Copies of the Documents will be available free of charge at the specified office of each of the Agents.

18. Governing Law; Submission to Jurisdiction

The Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save for Conditions 2 and 3 which shall be governed by, and shall be construed in accordance with, Spanish law. The Issuer and the Guarantor irrevocably agree for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes (together ***Proceedings***), which may arise out of, or in connection with, the Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Notes and, for such purpose, irrevocably submit to the jurisdiction of such courts.

The Issuer and the Guarantor irrevocably and unconditionally waive and agree not to raise any objection which any of them may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agree that a judgement in any Proceedings brought in the courts of England shall be conclusive and binding upon each of them and may be enforced in the courts of any other jurisdiction. Nothing in this Condition shall limit any right to take Proceedings against the Issuer and/or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

The Issuer and the Guarantor irrevocably and unconditionally appoint Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as agent for service of process in England in respect of any Proceedings in England and undertake that in the event of it ceasing so to act the Issuer and the Guarantor will forthwith appoint a further person as their agent for that purpose and notify the name and address of such person to the Agent and agree that, failing such appointment within fifteen days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Agent. Nothing contained herein shall affect the right of any Noteholder to serve process in any other manner permitted by law.

19. Rights of Third Parties

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

FORM OF THE NOTES

Any reference in this section "Form of the Notes" to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Notes issued in NGN form, be deemed to include a reference to any additional or alternative clearance system approved by the Issuers and the Agent.

Delivery

Each Tranche of Notes will be initially represented by a Temporary Global Note without receipts, interest coupons or talons, which will:

(i) if the global Notes are intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the relevant Issue Date to the Common Safekeeper for Euroclear and Clearstream, Luxembourg; or

(ii) if the global Notes are not intended to be issued in NGN form, be delivered on or prior to the relevant Issue Date with the Common Depositary for Euroclear and Clearstream, Luxembourg,

without receipts, interest coupons or talons.

If the Global Notes are stated in the applicable Final Terms to be issued in NGN form, the relevant clearing systems will be notified whether or not such Global Notes 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. This means that the Notes are intended to be deposited with one of the international central securities depositaries (***ICSDs***) as Common Safekeeper and not necessarily 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 Temporary Global Note is not in NGN form, upon the initial deposit of a Temporary Global Note with the Common Depositary, 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 Temporary Global Note is in NGN form, the nominal amount of the Notes represented by such Temporary Global Note shall be the aggregate amount from time to time entered in the records of both Euroclear and Clearstream, Luxembourg. The records of Euroclear and Clearstream, Luxembourg shall be conclusive evidence of the nominal amount of Notes represented by such Temporary Global Note and, for these purposes, a statement issued by either Euroclear or Clearstream, Luxembourg stating the nominal amount of Notes represented by such Temporary Global Note at any time shall be conclusive evidence of the records of Euroclear or Clearstream, Luxembourg, respectively, at the relevant time.

Exchange

A Permanent Global Note will only be issued initially in respect of any Tranche of Notes where certification of non-United States beneficial ownership is not required by U.S. Treasury Regulations. Unless otherwise agreed between the Issuers and the relevant Dealer, if the global Notes are intended to be issued in NGN form (to be eligible as collateral for Eurosystem operations), as stated in the applicable Final Terms, the Permanent Global Note will be delivered on or prior to the relevant Issue Date to the Common Safekeeper. If the global Notes are not intended to be issued in NGN form, the Permanent Global Note will be delivered to the Common Depositary.

On and after the date (the ***Exchange Date***) which is 40 days after the date on which any Temporary Global Note is issued, interests in such Temporary Global Note will be exchanged (free of charge) either for interests in a Permanent Global Note without receipts, interest coupons or talons or for definitive Notes with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms) in each case against presentation of the Temporary Global Note only to the extent that certification of non-U.S. beneficial ownership (in a form to be provided) as required by U.S. Treasury Regulations has been received by Euroclear, Clearstream, Luxembourg and/or any other relevant system, and such clearing system has given a like certification (based on the certifications it has received) to the Agent. In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for definitive Notes, such Notes shall be tradeable only in a principal amount which is an integral multiple of the Specified Denomination.

Holders of interests in any Temporary Global Note shall not (unless, upon due presentation of such Temporary Global Note for exchange for a Permanent Global Note or for delivery of definitive Notes, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Notes represented by such Temporary Global Note which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.

Unless otherwise specified in the applicable Final Terms, a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes, with, where applicable, receipts, interest coupons and talons attached, in the limited circumstances specified in the Permanent Global Note. Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

Payments

Whilst any Note is represented by a Temporary Global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made, against presentation of the Temporary Global Note (if the Temporary Global Note is not intended to be issued in NGN form), only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury Regulations, has been received by Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system has given a like certification (based on the certifications it has received) to the Agent.

Payments of principal and interest (if any) on a global Note not in NGN form will be made through Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system against presentation or surrender (as the case may be of the global Note if not intended to be issued in NGN form), without any requirement for certification. If the global Note is not in NGN form, 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 global Note. If a global Note is in NGN form, the Issuers shall procure that details of such exchange be entered *pro rata* in the records of the Euroclear and/or Clearstream, Luxembourg and the nominal amount of the Notes recorded in the records of Euroclear and/or Clearstream, Luxembourg, as the case may be, and represented by the global Note will be reduced accordingly.

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 "Payment Day" set out in Condition 7(e) (*Payment Day*).

NGN nominal amount

Where the global Note is in NGN form, the Issuers shall procure that any exchange, payment, cancellation or 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 such entry being made, the nominal amount of the Notes represented by such global Note shall be adjusted accordingly.

Acceleration

A Note may be accelerated by the holder thereof in certain circumstances described in "Terms and Conditions of Notes issued by Gas Natural Fenosa Finance B.V.—Events of Default" and "Terms and Conditions of Notes issued by Gas Natural Capital Markets, S.A.—Events of Default". In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his securities account with Euroclear or Clearstream, Luxembourg gives notice that it wishes to accelerate such Note, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, such global Note will become void. At the same time, holders of interests in such global Note credited to their accounts with Euroclear or Clearstream, Luxembourg will become entitled to proceed directly against the relevant Issuer on the basis of statements of account provided by Euroclear and Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the ***Deed of Covenant***) dated on or about 26 November 2012 executed by the relevant Issuer.

Denominations

So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradable only (a) if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency)", in the authorised denomination of euro 100,000 (or its equivalent in another currency) and integral multiples of euro 100,000 (or its equivalent in another currency) thereafter, or (b) if the Specified Denomination stated in the relevant Final Terms is "euro 100,000 (or its equivalent in another currency) and integral multiples of euro 1,000 (or its equivalent in another currency) in excess thereof", in the minimum authorised denomination of euro 100,000 (or its equivalent in another currency) and higher integral multiples of euro 1,000 (or its equivalent in another currency), notwithstanding that no definitive Notes will be issued with a denomination above euro 199,000 (or its equivalent in another currency).

U.S. legend

The following legend will appear on all global Notes, definitive Notes, Receipts, interest Coupons and Talons:

> "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."

The sections referred to in the legend above provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

FORM OF GUARANTEE

The following is the text of the Deed of Guarantee:

THIS DEED OF GUARANTEE is made on [*date*]

____

BY

(1) **GAS NATURAL SDG, S.A.** of Plaça del Gas no.1, 08003 Barcelona, Spain (the ***Guarantor***)

IN FAVOUR OF

(2) **THE HOLDERS AND THE RELEVANT ACCOUNT HOLDERS** (as defined below) (each a ***Beneficiary*** and together, the ***Beneficiaries***)

WHEREAS

(A) Gas Natural Fenosa Finance B.V. and the Guarantor established a euro medium term note programme for the issuance of debt instruments (the ***Programme***) and Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance B.V. have acceded to the Programme, with Gas Natural Fenosa Finance B.V. having substituted Gas Natural Finance B.V. as an issuer thereunder.

(B) Pursuant to the Programme, Gas Natural Fenosa Finance B.V. and Gas Natural Capital Markets, S.A. (the ***Issuers***) may from time to time issue notes (***Notes***) in an aggregate nominal amount of up to euro 14,000,000,000 (subject to adjustment in accordance with the amended and restated programme agreement dated on or about 2 December 2016 relating to the Programme, as amended, supplemented, restated or replaced from time to time);

(C) In connection with the Programme the Issuers have entered into an amended and restated agency agreement dated on or about 2 December 2016 (as amended, supplemented, restated or replaced from time to time, the ***Agency Agreement***) and made between the Issuers, the Guarantor, Citibank, N.A., London Branch as Agent and the other Paying Agents named therein and each Issuer has executed and delivered a deed of covenant (each, a ***Deed of Covenant***) dated on or about 2 December 2016.

(D) The Guarantor has duly authorised the giving of a guarantee in respect of the Notes to be issued under the Programme and each Deed of Covenant.

THIS DEED WITNESSES as follows:

1. INTERPRETATION

1.1 In this Deed of Guarantee:

Conditions means the terms and conditions of Notes issued by Gas Natural Fenosa Finance B.V. or the terms and conditions of Notes issued by Gas Natural Capital Markets, S.A., as the case may be (in each case, as scheduled to the Agency Agreement and as modified from time to time in accordance with their terms) and any reference to a numbered **Condition** is to the correspondingly numbered provision thereof;

Holder in relation to any Note means, at any time, the person who is the bearer of such Note; and

Relevant Account Holder has the meaning given in each Deed of Covenant.

1.2 Clause headings are for ease of reference only.

Terms not otherwise defined herein shall bear the meanings assigned to them in the Conditions and each Deed of Covenant.

1.3 **Benefit of Deed of Guarantee**

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

2. GUARANTEE AND INDEMNITY

2.1 The Guarantor hereby unconditionally and irrevocably guarantees:

(a) to each Holder the due and punctual payment of any and every sum or sums of money which each 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 agrees unconditionally to pay to such Holder, forthwith upon demand by such Holder and in the manner and currency prescribed by such Notes for payments by the relevant Issuer thereunder, any and every sum or sums of money which each 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

(b) to each Relevant Account Holder the due and punctual payment of all amounts due to such Relevant Account Holder under each Deed of Covenant as and when the same shall become due and payable and agrees unconditionally to pay to such Relevant Account Holder, forthwith on demand by such Relevant Account Holder and in the manner and in the currency prescribed pursuant to the relevant Deed of Covenant 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 relevant Deed of Covenant and which the relevant Issuer shall have failed to pay at the time demand is made.

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

3. COMPLIANCE WITH THE CONDITIONS

The Guarantor covenants in favour of each Beneficiary that it will duly perform and comply with the obligations expressed to be undertaken by it in the Conditions.

4. PRESERVATION OF RIGHTS

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

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

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

(a) the insolvency, winding-up, liquidation, dissolution, amalgamation, reconstruction or reorganisation of the relevant Issuer, or analogous proceedings in any jurisdiction or any change in status, function, control or ownership of the relevant Issuer; or

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

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

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

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

4.4 Without prejudice to the generality of the foregoing, any settlement or discharge between the Guarantor and the Beneficiaries or any of them shall be conditional upon no payment to the Beneficiaries or any of them by the relevant Issuer, or any other person on behalf of the relevant Issuer 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 Beneficiaries shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

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

(a) to make any demand of the relevant Issuer other than the presentation of the relevant Note; or

(b) to take any action or obtain judgement in any court against the relevant Issuer; or

(c) to make or file any claim or proof in a winding-up or dissolution 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.

4.6 The Guarantor agrees that so long as any amounts are or may be owed by the relevant Issuer, under any of the Notes or the relevant 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:

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

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

(c) 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 relevant Deed of Covenant, by all or any of the persons to whom the benefit of the Guarantor's obligations are given; and/or

(d) to be subrogated to the rights of any Beneficiary against the relevant Issuer, in respect of amounts paid by the Guarantor pursuant to the provisions of this Deed of Guarantee.

4.7 The Guarantor hereby covenants that its obligations hereunder rank as described in Condition 3.

5. STAMP DUTIES

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

6. DEED POLL; BENEFIT OF GUARANTEE

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

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

6.3 The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder.

7. PROVISIONS SEVERABLE

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

8. CURRENCY INDEMNITY

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

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

9. NOTICES

Notices to the Guarantor will be deemed to be validly given if delivered at Plaça del Gas no.1, 08003 Barcelona, Spain (or at such other address and for such other attention as may have been notified to Holders in accordance with the Conditions) and will be deemed to have been validly given at the opening of business on the next day on which the Guarantor's principal office is open for business.

10. LAW AND JURISDICTION

10.1 Governing law

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

10.2 English courts

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

10.3 Appropriate forum

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

10.4 Rights of the Beneficiaries to take proceedings outside England

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

10.5 Process agent

The Guarantor agrees that the documents which start any Proceedings in England and any other documents required to be served in relation to those Proceedings in England may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, 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 shall, on the written demand of any Beneficiary 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 Beneficiary shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Beneficiary to serve process in any other manner permitted by law.

IN WITNESS WHEREOF this Deed has been executed as a deed by the Guarantor and is intended to be and is hereby delivered on the date first above written.

SIGNED as a **DEED** and **DELIVERED** }
on behalf of **GAS NATURAL SDG, S.A.,**
a company incorporated in Spain, by

____,
being a person who, in accordance with the laws of that territory, is acting under the authority of the Company

USE OF PROCEEDS

Unless otherwise set forth in the relevant Final Terms, the net proceeds from the issue of each Tranche of Notes will be on lent to Gas Natural SDG, S.A. to be used by Gas Natural SDG, S.A. and its consolidated subsidiaries for:

(a) general corporate purposes; and

(b) to finance and/or refinance, in whole or in part, Eligible Green Projects.

For the purpose of this section:

Eligible Green Projects means Renewable Energy Projects, Transmission, Distribution and Smart Grid Projects and Energy Efficiency Projects which meet a set of environmental and social criteria approved both by Gas Natural SDG and by a reputed sustainability rating agency, and which criteria will be made available on Gas Natural SDG's website (www.gasnaturalfenosa.com) in the investor relations section.

Renewable Energy Projects means the financing of, or investments in the development of, 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 of, 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.

Energy Efficiency Projects means projects that contribute to a reduction of energy consumption per unit of output, such as: optimisation and renewal of high efficiency equipment in energy systems (for example, heating systems, cooling systems, lighting systems, hot water systems), district heating, co-generation or improved insulation of buildings.

FORM OF FINAL TERMS

The form of the Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions and the completion of applicable provisions:

Capitalised words and expressions used in a Final Terms shall, save to the extent otherwise defined therein, have the meanings given thereto in the relevant Terms and Conditions and in the Agency Agreement.

[*Date*]

[**Gas Natural Fenosa Finance B.V.**
(Incorporated with limited liability in The Netherlands and having its statutory domicile in Amsterdam)]/
[**Gas Natural Capital Markets, S.A.**
(Incorporated with limited liability in the Kingdom of Spain)]
[**Title] of relevant Tranche of Notes (specifying type of Notes)**] **(the *Notes*)**

Guaranteed by

Gas Natural SDG, S.A.

issued pursuant to the euro 14,000,000,000 Euro Medium Term Note Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions of Notes issued by [Gas Natural Fenosa Finance B.V.]/[Gas Natural Capital Markets, S.A.] set forth in the base prospectus dated 2 December 2016 (the ***Base Prospectus***) [and the Supplement to the Base Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (*Directive 2003/71/EC*) as amended (which includes amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (the ***Prospectus Directive***). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the Supplement to the Base Prospectus] [has/have] been published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

[*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.*]

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of Notes issued by [Gas Natural Fenosa Finance B.V.]/[Gas Natural Capital Markets, S.A.] (the ***Conditions***) set forth in the base prospectus dated [2 December 2008]/[15 December 2009]/[10 November 2010]/[14 November 2011]/[26 November 2012]/[19 November 2013]/[12 December 2014]/[2 December 2015]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (*Directive 2003/71/EC*) as amended which includes amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (the ***Prospectus Directive***) and must be read in conjunction with the Base Prospectus dated 2 December 2016 (the ***Base Prospectus***) [and the Supplement to the Base Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the base prospectus dated [2 December 2008]/[15 December 2009]/[10 November 2010]/[14 November 2011]/[26 November 2012]/[19 November 2013]/[12 December 2014]/[2 December 2015]. 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 dated 2 December 2016 [and the Supplement to the Base Prospectus dated [•]].The Base Prospectus [and the Supplement to the Base Prospectus] [has/have] been published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*]

1.	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
2.	Specified Currency or Currencies:	[●]
3.	Aggregate Nominal Amount of Notes:	[●]
	(i)Series:	[●]
	(ii) Tranche:	[●]
	(iii) Date on which the Notes will become fungible:	[●]/[N/A]
4.	Issue Price:	[●]% of the Aggregate Nominal Amount [plus accrued interest from [●]]
5.	(a) Specified Denominations:	[●]
	(b) Calculation Amount:	[●]
6.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●]/[Issue Date]/[N/A]
7.	Maturity Date:	[●]/[Interest Payment Date falling in or nearest to [●]]
8.	Interest Basis:	[[●]% Fixed Rate]
	(*see Condition 5*)	[[●] month [LIBOR]/[EURIBOR] +/- [●]% Floating Rate]
		[Zero Coupon]
9.	Redemption/Payment Basis: (*see Condition 6*)	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●]% of their nominal amount
10.	Change of Interest Basis: (*see Condition 5*)	[Applicable]/[N/A]

11.	Put/Call Options:	
	(*see Condition 6*)	
		[Call Option]
		[Put Option]
		[Residual Maturity Call Option]
		[Substantial Purchase Event]
		[Make-Whole Redemption]
		[Change of Control Put Option]
12.	Date Board approval for issuance of Notes obtained:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	**Fixed Rate Note Provisions**	[Applicable]/[N/A]
	(*see Condition 5*)	(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	[●]
(ii)	Rate[(s)] of Interest:	[●]% per annum [payable [annually / semi-annually / quarterly / monthly / [•]] in arrear]
(iii)	Interest Payment Date(s):	[●] [and [●]] in each year
(iv)	First Interest Payment Date:	[●]
(v)	Fixed Coupon Amount(s):	[●] per Calculation Amount
(vi)	Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]]/[N/A]
(vii)	Day Count Fraction:	[Actual/Actual]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[360/360]/[Bond Basis]/[30E/360]/[Eurobond Basis]/[30E/360 (ISDA)]/[Actual/Actual (ICMA)]
(viii)	Determination Dates:	[[●] in each year]/[N/A]
14.	**Floating Rate Note Provisions**	[Applicable]/[N/A]
	(*see Condition 5*)	(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[[●] in each year]/[N/A]
(iii)	First Interest Payment Date:	[●]

(iv)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]
(v)	Business Centre(s):	[●]/[N/A]
(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(s) of Interest and Interest Amount(s) (if not the Agent):	[[●] shall be the Calculation Agent]
(viii)	Screen Rate Determination:	
	– Reference Rate:	[LIBOR]/[EURIBOR]
	– Reference Banks:	[●]
	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(x)	Margin(s):	[+/-][●]% per annum
(xi)	Minimum Rate of Interest:	[●]% per annum
(xii)	Maximum Rate of Interest:	[●]% per annum
(xiii)	Day Count Fraction:	[Actual/Actual]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[360/360]/[Bond Basis]/[30E/360]/[Eurobond Basis]/[30E/360 (ISDA)](/[Actual/Actual (ICMA)]

15.	**Zero Coupon Note Provisions** (*see Condition 5*)	[Applicable]/[N/A] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	[●]
(ii)	[Amortisation/Accrual] Yield:	[●]% per annum
(iii)	Reference Price:	[●]

PROVISIONS RELATING TO REDEMPTION

16.	**Call Option**			[Applicable]/[N/A]
	(*see Condition 6*)			(*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)	If redeemable in part:		
		(a)	Minimum Redemption Amount:	[●] per Calculation Amount
		(b)	Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period		[●]
17.	**Put Option**			[Applicable]/[N/A]
	(*see Condition 6*)			(*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:		[●]
18.	**Residual Maturity Call Option**			[Applicable]/[N/A]
	(see *Condition 6*)			
19.	**Substantial Purchase Event**			[Applicable]/[N/A]
	(see *Condition 6*)			

20.	**Make-Whole Redemption**	[Applicable]/[N/A]
	(*see Condition 6*)	(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Make-Whole Redemption Rate:	[The yield to maturity on the [•] Business Day preceding the Make-Whole Redemption Date of the [•] due [•] (ISIN: [•])]/[•]
(ii)	Make-Whole Redemption Margin:	[•] per cent.
21.	**Change of Control Put Option**	[Applicable]/[N/A]
	(*see Condition 6*)	
22.	**Final Redemption Amount of each Note:**	[●] per Calculation Amount
23.	**Early Redemption Amount**	
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption:		[●] per Calculation Amount
	(*see Condition 6*)	

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	
	(*see "Form of the Notes" on page 103*)	
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes in the limited circumstances specified in the Permanent Global Note]
		[Temporary Global Note exchangeable for definitive Notes on the Exchange Date]
		[Permanent Global Note exchangeable for definitive Notes in the limited circumstances specified in the Permanent Global Note]
25.	New Global Note	[Yes]/[No]
26.	Financial Centre(s)	[N/A]/[●]
27.	Talons for future Coupons or Receipts to be attached to definitive Notes (and dates on which such Talons mature):	[Yes]/[No]

28.	Details relating to Instalment Notes: (*see Condition 6*)	[Applicable]/[N/A] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
29.	Consolidation provisions:	[N/A]/[The provisions in Condition 16 (Further Issues) apply]

DISTRIBUTION

30.	If syndicated, names of Managers:	[N/A]/[●]
31.	If non-syndicated, name of relevant Dealer:	[N/A]/[●]
32.	U.S. Selling Restrictions: (*see page 164*)	[Reg. S Compliance Category: TEFRA D/ TEFRA not applicable]

THIRD PARTY INFORMATION

[[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms 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.]

By: ………………………………………….

Signed on behalf of [Gas Natural Fenosa Finance B.V.]/[Gas Natural Capital Markets, S.A.]

Duly authorised

By: ………………………………………….

Signed on behalf of the Guarantor

Duly authorised

– OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Listing: (*see cover page*)	[Application has been made by the Issuer (or on its behalf) for the Notes to be listed on [the **Official List of the Luxembourg Stock Exchange**]/[●].]/[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be listed on [●].]/[Not applicable.]
(ii) Admission to Trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the **Regulated Market of the Luxembourg Stock Exchange**]/[●]] with effect from [●].]/[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●]] with effect from [●].]/[Not applicable.] *(When documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
(ii) Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

Ratings:	[N/A]/[The Notes to be issued [(have been]/[are expected to be]] rated [●] by [●]] [and endorsed by [●]] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) [[●] is established in the European Union and is registered under Regulation (EU) No 1060/2009 (the "CRA Regulation").] [[●] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation").] [[●] is established in the European Union and has applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.] [[●] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation") but the rating issued by it is endorsed by [●] which is

established in the European Union and [is registered under the CRA Regulation]/[has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority].]

[[●] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "CRA Regulation") but is certified in accordance with the CRA Regulation.]

[[●] is not established in the European Union and is not certified under Regulation (EU) No. 1060/2009 (the "CRA Regulation") and the rating given by it is not endorsed by a Credit Rating Agency established in the European Union and registered under the CRA Regulation.]

[A list of rating agencies registered under the CRA Regulation can be found at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.]

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

[N/A]/[Save for (i) any fees payable to the [Managers/Dealers] and (ii) so far as the Issuer is aware, no person involved in the issue/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, the Guarantor and any of their affiliates in the ordinary course of business for which they may receive fees.]/[●]

4. REASONS FOR THE OFFER

Reasons for the offer:	[●]

5. Fixed Rate Notes only — YIELD

Indication of yield:	[N/A]/[●]

6. OPERATIONAL INFORMATION

(i)	ISIN Code:	[●]
(ii)	Common Code:	[●]
(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	[N/A]/[●]
(iv)	Intended to be held in a	[Yes][No][N/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 ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the 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. 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.]
(v)	Names and addresses of initial Paying Agent(s):	[●]
(vi)	Names and addresses of additional Paying Agent(s):	[N/A]/[●]

DESCRIPTION OF GAS NATURAL FENOSA FINANCE B.V.

Incorporation and Status

Union Fenosa Finance B.V. was incorporated on 26 November 1993 and operates under the laws of The Netherlands as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) with its corporate seat in Rotterdam, The Netherlands, for an indefinite period. On 23 March 2012, its articles of association were amended, as a result of which the name changed from Union Fenosa Finance B.V. to Gas Natural Fenosa Finance B.V. (***GNFF***) and GNNF's statutory seat changed from Rotterdam to Amsterdam. The registered office address of GNFF is at Barbara Strozzilaan 201, 1083 HN Amsterdam, The Netherlands and the telephone number is +31 20 421 3290. GNFF is registered with the Trade Register of the Dutch Chamber of Commerce under number 24243533. The articles of association of GNFF were again amended on 17 September 2015.

Share Capital

GNFF's authorised share capital is €90,756.00 divided into 200 ordinary shares of €453.78 each. Its issued and fully paid-up share capital is €90,756.00 and is owned by Gas Natural SDG (the ***Guarantor***). GNFF has no subsidiaries.

Business

GNFF was incorporated to facilitate the raising of finance for the Group.

In order to achieve its objectives, GNFF is authorised to raise funds by issuing subordinated securities, negotiable obligations, commercial paper and other securities on the capital and money markets.

Managing Directors

On 17 September 2015, the Guarantor, in its capacity as the sole shareholder of GNFF, resolved to, among other things, (i) amend the articles of association of GNFF, (ii) establish a Supervisory Board and an Audit Committee out of its members and (iii) accept the resignation of Intertrust B.V. and Mr. Juan José Rivero Aranda as members of the Board of Management of GNFF. The Board of Management now comprises three members. The amendments to the articles of association reflect the creation of the Supervisory Board and the Audit Committee which are aimed to improve the corporate governance of GNFF. The function of the Supervisory Board is to supervise GNFF's Board of Management, the general course of affairs and business of GNFF.

The Board of Management of GNFF has the ultimate responsibility for the administration of the affairs of GNFF. The managing directors, their position in GNFF and their principal activities outside GNFF as at the date of this Base Prospectus are as follows:

Name	Position	Principal activities outside GNFF
Enrique Berenguer Marsal	Managing Director	Head of Financial Management and Planning for the Group
Gunther Axel Reinder Warris	Managing Director	Proxy holder A of Intertrust (Netherlands) B.V.
Silvia Rosina Roger Valles	Managing Director	Managing Director of several Dutch subsidiaries belonging to the Group

The business address of GNFF and the managing directors is Barbara Strozzilaan 201, 1083 HN Amsterdam, The Netherlands.

Members of the Supervisory Board

The Supervisory Board of GNFF has the responsibility of supervising GNFF's Board of Management, the general course of affairs and business of GNFF. The members of the Supervisory Board, their position in GNFF and their principal activities outside GNFF as at the date of this Base Prospectus are as follows:

Name	Position	Principal activities outside GNFF
Irene Velasco Miranda	Supervisory Board member	Head of the Holding and Finance Companies Administration Department
Joan Felip Font	Supervisory Board member	Head of the Administration and Tax department of the Gas Natural Fenosa Group
Martin van Daalen	Supervisory Board member	Managing director of Amstelcorp B.V., a provider of legal, administrative and accounting services to international corporations

The business address of the members of the Supervisory Board is Barbara Strozzilaan 201, 1083 HN Amsterdam, The Netherlands.

Conflicts of Interest

There are no conflicts of interest between any duties owed by the managing directors and the members of the Supervisory Board of GNFF to GNFF and their respective private interests and/or duties.

DESCRIPTION OF GAS NATURAL CAPITAL MARKETS, S.A.

Incorporation and Status

Gas Natural Capital Markets, S.A. (***GNCM***) was incorporated on 23 May 2005 for an indefinite period and operates under Spanish law as a limited liability company (*sociedad anónima*) registered at the Commercial Registry of Barcelona at Volume 37640, Folio 73, Page B310338 (first registration). The registered office of GNCM is at Plaça del Gas no.1, 08003 Barcelona, Spain and the telephone number is +34 93 402 5891.

Share Capital

The authorised share capital of GNCM is €100,000 represented by 1,000 registered shares having a nominal value of €100 each, numbered 1 to 1,000. The share capital of GNCM is fully subscribed and paid up by the Guarantor (in respect of 999 shares), and La Propagadora del Gas, S.A. (in respect of one share). GNCM has no subsidiaries.

Business

GNCM was incorporated to facilitate the raising of finance for the Guarantor.

The objectives of GNCM are to raise funds by issuing debt financial instruments, including ordinary or subordinated debt.

Directors

The sole director of GNCM has the ultimate responsibility for the administration of the affairs of GNCM. The position of the sole director in GNCM and his principal activities outside GNCM as at the date of this Base Prospectus are as follows:

Name	Position in GNCM	Principal activities outside GNCM
Enrique Berenguer Marsal	Sole Director	Finance Manager

The business address of the sole director of GNCM is Plaça del Gas no.1, 08003 Barcelona, Spain.

Conflicts of Interest

There are no conflicts of interest between any duties owed by the sole director of GNCM to GNCM and his private interests and/or duties.

Recent Developments

On 6 June 2016, the extraordinary general shareholder’s meeting of GNCM resolved, among other things, (i) to amend the by-laws of GNCM in order to modify the administrative body of GNCM, replacing the prior system of the Board of Directors with the appointment of a sole director, (ii) the appointment of Mr. Enrique Berenguer Marsal as sole director of GNCM and (iii) for the Audit Committee of Gas Natural SDG to assume the auditing functions for GNCM, as provided by Law 22/2015 of 20 July.

DESCRIPTION OF GAS NATURAL SDG, S.A.

Incorporation and Status

Gas Natural SDG, S.A. (***Gas Natural SDG***) was incorporated on 28 January 1843 for an indefinite period and operates under Spanish law as a limited liability company (*sociedad anónima*) registered at the Commercial Registry of Barcelona with reference Volume 22,147, Folio 147, Page B-33172. The registered office of Gas Natural SDG is at Plaça del Gas Nº 1, 08003 Barcelona, Spain and the telephone number is +34 93 402 5897.

Gas Natural SDG is the parent company of the Group.

Share Capital

The authorised share capital of Gas Natural SDG is €1,000,689,341, represented by book entries and forming a single class. The share capital is fully subscribed and paid up.

Principal Shareholders

As of the date of this Base Prospectus, Gas Natural SDG's largest shareholders are: Criteria Caixa, S.A.U. ("**Criteria Caixa**") with an aggregate shareholding of 24.4%, Repsol, S.A. with an aggregate shareholding of 20.0%, GIP III Canary 1 S.à.r.l. with a shareholding of 20.0% and Sonatrach with a shareholding of 4.0%. Repsol, S.A.'s main shareholders are currently CaixaBank, S.A. (with a shareholding of 10.05%), Sacyr Vallehermoso, S.A. (8.34%) and Temasek (4.87%).

History

The history of the Group can be traced back to 28 January 1843, when *Sociedad Catalana para el Alumbrado por Gas* was incorporated with the aim of installing a street lighting system in the city of Barcelona by means of gas manufactured from coal. The company subsequently invested in the electricity market and, after acquiring Central Catalana de Electricidad, S.A. in 1912, changed its name to Catalana de Gas y Electricidad, S.A.

In 1965, Catalana de Gas y Electricidad, S.A. and Exxon, together with three Spanish banks, incorporated Gas Natural, S.A. in order to import, process and distribute natural gas shipped to Spain from Libya. In 1987, the company changed its name to Catalana de Gas, S.A. and, on 31 December 1991, Catalana de Gas, S.A. merged with and absorbed Gas Madrid, S.A. (incorporated in 1921), thus acquiring the piped gas distribution assets of the Repsol group. In March 1992, Catalana de Gas, S.A., the surviving entity from the merger, changed its name to Gas Natural SDG, S.A.

In 1994, during a process of vertical integration within the Spanish gas industry, Gas Natural SDG acquired 91% of Enagás, S.A. (***Enagás***), a company dedicated to gas supply, transportation, regasification and gas storage. The remaining 9% of Enagás was acquired by the Group in 1998. As a consequence of the liberalisation of the Spanish energy market, Gas Natural SDG sold 59.1% of Enagás in June 2002 and has since fully divested its stake, selling its final 5% of the share capital of Enagás on 1 June 2009.

In the 1990s, the Group commenced a process of international expansion. In December 1992, the Group led a consortium that successfully bid for 70% of a concession to distribute natural gas in Argentina, and, in 1996, the Group became the majority shareholder in Metragaz, S.A. (***Metragaz***) and Europe-Maghreb Pipeline Ltd., which maintain and operate the Moroccan section of the Europe-Maghreb gas pipeline, linking the Algerian natural gas deposits of Hassi R'Mel with the Iberian peninsula.

Since 1997, the Group has continued its process of international expansion through the acquisition of gas and electricity assets in Latin America (including Brazil, Colombia, Mexico and Puerto Rico) and Western Europe (principally Italy and France). In 2002, the Group began gas sales and marketing through Gas Natural Vendita S.A. in Italy and, two years later, the Group further expanded its presence in Italy through the acquisition of the natural gas distribution groups, Brancato, Nettis and Smedigas. These acquisitions were complemented on 17 September 2007 by the Group's acquisition of the Italian gas distribution and commercialisation company, Italmeco, which operates in four regions in central and southern Italy.

In 2003, the Group commenced operations at a regasification plant and a combined cycle gas turbine (***CCGT***) plant in Puerto Rico and, in June 2005, the Group also entered the French market, establishing gas sales and marketing activities through Gas Natural Europe S.A.S., which operates in France, Belgium, The Netherlands, Luxembourg and Germany.

On 26 February 2009, pursuant to an agreement signed on 30 July 2008, Gas Natural SDG acquired an additional stake in Unión Fenosa, S.A. (***Unión Fenosa***) from Actividades de Construcción y Servicios, S.A. (***ACS***), increasing its total ownership of Unión Fenosa to 50.0%. Gas Natural SDG then launched a mandatory takeover bid for the remaining Unión Fenosa shares. The takeover offer was successful and the merger process between Gas Natural SDG and Unión Fenosa was completed in September 2009.

Through this acquisition and merger, Gas Natural Fenosa (i) consolidated its strong presence in the gas and electricity markets in Spain and Latin America; (ii) expanded its business significantly in the upstream and midstream business areas; (iii) generated considerable operational and financial synergies for the combined group; and (iv) reinforced its position as a global player in the LNG sector with a leadership position in the Atlantic basin. The acquisition also enhanced the Group's presence in Africa and the Middle East (including Egypt, Oman and Guinea). During 2010 and 2011, Gas Natural Fenosa complied with the Spanish National Competition Commission's (*Comisión Nacional de la Competencia*) (***CNC***) plan of action, imposed following the Group's acquisition of Unión Fenosa, through the disposal of certain assets.

On 24 December 2009, Gas Natural Fenosa reached an agreement to sell part of its power generation business in Mexico to Mitsui & Co. and Tokyo Gas Co. This transaction was part of the Group's internal divestment plan, which is aimed at achieving a more balanced exposure in Mexico. The sale, which was completed on 3 June 2010, included the disposal of a total of 2,233 MW of installed capacity.

On 8 January 2013, Gas Natural Fenosa signed an agreement with Algerian company Sonatrach to acquire 10% of Medgaz (and 10% of its shareholder loan) for €62 million. Medgaz operates the Algeria-Europe subsea gas pipeline connecting Beni Saf (Algeria) with the coast of Almería (Spain), with a capacity of 8 bcm/year.

On 30 July 2013, Gas Natural Fenosa acquired from GDF Suez a 4.9% shareholding in Medgaz, thereby increasing its total stake to 14.9%.

On 5 November 2013, Gas Natural Fenosa presented its revised strategic lines for 2013-2015, and a strategic vision up to 2017, with the aim of adapting them to the macroeconomic and energy climate, and particularly to the impact of regulatory changes, with realistic criteria and achievable objectives.

On 11 October 2014, Gas Natural Fenosa and the majority shareholders of Chilean utility company General de Electricidad, S.A. (***CGE***), comprising the Marín family group, the Almería group and the Pérez Cruz family group which together represented approximately 54.19% of CGE's share capital, entered into a purchase commitment agreement. Pursuant to the agreement, Gas Natural Fenosa agreed to launch a public takeover offer (the ***Takeover Offer***) for the entire share capital of CGE and the majority shareholders irrevocably agreed to sell their shares in the Takeover Offer.

The Group company which launched the Takeover Offer was Gas Natural Fenosa Chile S.p.A. (***Gas Natural Fenosa Chile***). The Takeover Offer was for 100% of the shares in CGE at a price per share of CLP4,700, to be paid in cash. The takeover bid was concluded successfully on 14 November 2014 after shareholders holding a total of 402,122,728 shares, representing 96.5% of the share capital of the company, accepted the offer.

On 18 December 2015, Gas Natural Fenosa, which, through CGE, owned a 56.62% controlling stake in Chilean company Gasco, S.A., signed an agreement with a group of shareholders that owned 22.4% of Gasco, S.A. (the ***Pérez Cruz family***) to demerge Gasco, S.A. into two companies: one called Gas Natural Chile, S.A. focused on the natural gas business (to remain under the control of Gas Natural Fenosa) and the other, to retain the name of Gasco, S.A., focused on the liquefied petroleum gas (***LPG***) business (to be controlled by the Pérez Cruz family). That demerger was approved by an extraordinary shareholders' meeting of Gasco, S.A. on 30 March 2016. Once the split had been completed, on 6 July 2016, each of the parties made a tender offer to acquire 100% of its respective company in order to pursue its respective business independently. On 8 August 2016, Gas Natural Fenosa announced the sale of the shares of Gasco, S.A. which it owned through subsidiaries for a total amount of CLP160,197 million (approximately €220 million), recording a capital gain of €4 million. In addition, Gas Natural Fenosa announced that it had acquired an additional 37.88% of Gas Natural Chile, S.A.'s share capital for a total of CLP223,404 million (approximately €306 million). As a result, as at the date of this Base Prospectus, Gas Natural Fenosa's controlling stake in Gas Natural Chile, S.A. stands at 94.50%.

Recent Developments

On 29 July 2016, Gas Natural Fenosa completed the acquisition of 100% of Vayu Limited (***Vayu***), an Irish gas and electricity supply company, as part of the new strategic plan to expand into the energy supply business throughout Europe. This transaction complements its existing position in other European markets (France, Italy, Belgium, Netherlands, Portugal, Germany and Luxembourg) and will enable it to engage in LNG trading and operations.

On 21 September 2016, Repsol, S.A. and Criteria Caixa signed an agreement with GIP III Canary 1 S.À R.L., a corporation controlled by Global Infrastructure Management LLC, to sell a combined 20% stake in Gas Natural SDG for a total aggregate consideration of €3,802,619,492, subject to the satisfaction of conditions precedent which are standard for transactions of this nature, including various arrangements regarding the corporate governance of Gas Natural SDG. The transfer was completed on 21 September 2016 and each of Repsol, S.A. and Criteria Caixa sold 100,068,934 shares, representing 10% of Gas Natural SDG's share capital, for a consideration of €1,901,309,746 based on a price of €19 per share.

On 15 November 2016, Gas Natural Fenosa announced that the Colombian government, as a temporary and preventative measure, had taken possession of the assets and businesses of Colombian electricity distribution company Electrificadora del Caribe, S.A. E.S.P. (***Electrificadora del Caribe***), in which the Group holds a 85.53% stake.

Electrificadora del Caribe is currently suffering from significant cash flow problems as a result of a high number of unpaid bills by customers, most of whom are mandatory supply customers, and substantial consumption fraud. At 30 September 2016, according to the audited financial statements of Electrificadora del Caribe, unpaid customer bills amounted to 4,050,080 million Colombian pesos (approximately €1,260 million as at such date), approximately 83% of which amount had been provisioned.

In July 2016, Gas Natural Fenosa had already commenced discussions with a view to resolving Electrificadora del Caribe's situation within the framework of the Bilateral Investment Treaty between Spain and Colombia (*tratado de protección recíproca de inversiones*).

In accordance with the proceedings initiated by the Colombian government, the Group continues to fully consolidate Electrificadora del Caribe's accounts and does not currently expect that such temporary intervention will have an adverse impact on the ordinary course operations of Electrificadora del Caribe. Neither does the Group currently expect that the temporary intervention will have an adverse impact on the Group's EBITDA, net income or cash flow.

Business

Gas Natural Fenosa is mainly engaged in the exploration and production, liquefaction, regasification, transportation, storage, distribution and commercialisation of natural gas, as well as the generation, transport, distribution and commercialisation of electricity. Following the acquisition and integration of Unión Fenosa in 2009, Gas Natural Fenosa became Spain's third-largest electricity group by market share (source: *CNMC July 2013*), operating in over 30 countries and serving more than 24 million customers, around 9 million of which are located in Spain.

The Group is also the leader in the Spanish natural gas market (source: *CNMC July 2016*), operating 5.3 million out of an estimated total of 7.7 million gas supply points in the Spanish market. The Group is also a leading operator in the Atlantic and Mediterranean LNG markets.

The following table sets out the main gas and electricity output figures and information for the Group, corresponding to the six-month periods ended 30 June 2015 and 2014, respectively.

	30 June		**(%) Variation**
	2016	**2015**	**2016/2015**
Gas distribution (GWh)	227,534	237,005	(4.0)
Electricity distribution (GWh)	34,685	34,384	0.9
Gas supply (GWh)	160,959	163,225	(1.4)
Gas transportation/EMPL (GWh)	52,299	51,154	2.2
Gas distribution connections (in thousands)	13,361	12,993	2.8
Electricity distribution connections (in thousands)	10,746	10,519	2.2
Installed capacity (MW)	15,416	14,852	3.8
Electricity generated (GWh)	21,424	23,088	(7.2)

The Group is organised across the following five main business areas:

Gas Distribution

- Spain
- Italy
- Latin America

Electricity distribution

- Spain
- Moldova
- Latin America

Gas

- Infrastructures
- Procurement and Supply

Electricity

- Spain
- Global Power Generation

Gas Distribution

Gas distribution — Spain

This area includes gas distribution, third-party access (***TPA***) and secondary transportation, as well as distribution activities that are not charged for under the regulated remuneration regime (e.g. meter rentals, customer connections, among other things) in Spain.

Sales in the regulated gas business in Spain, which include TPA services and secondary transportation, totalled 94,396 GWh in the first six months of 2016, a 3.6% increase compared with the same period in 2015. During the six months ended 30 June 2016, demand for gas distribution at pressures of less than 4 bars increased by 3% or 831 GWh when compared to the first six months of 2015, while demand in the industrial market at pressures of less than 60 bars increased by 2% (835 GWh) and demand of over 60 bars increased by 8% (1,646 GWh).

The distribution network expanded by 2,067 km between 30 June 2015 and 30 June 2016, connecting 27 new municipalities to reach a total of 1,213 municipalities with access to natural gas and 5,302,000 distribution connection points (an increase of 1.0%) as at 30 June 2016.

On 30 September 2015, Gas Natural Distribución SDG, S.A. signed an agreement to acquire piped gas assets from Repsol Butano, S.A. Pursuant to the agreement, Gas Natural Distribución SDG, S.A. will purchase approximately 250,000 distribution connection points in its current distribution territories, enabling them to be connected to the natural gas distribution grid. These assets are expected to accelerate growth and expansion in Gas Natural Fenosa's regulated natural gas business in the coming years.

Gas distribution — Italy

This area includes regulated distribution and retail supply of gas in Italy.

A total of 2,189 GWh of gas were distributed during the first six months of 2016, 11.5% less than during the first six months of 2015 due to less favourable weather conditions.

The distribution grid expanded by 86 km between 30 June 2015 and 30 June 2016 to 7,210 km.

As at 30 June 2016, Gas Natural Fenosa had 458,079 gas distribution connection points in Italy, a slight increase with respect to 30 June 2015.

Gas distribution — Latin America

This division includes regulated gas distribution in Argentina, Brazil, Chile, Colombia, Mexico and Peru.

The three tables below set forth the figures for gas activity sales (for the six months ended 30 June 2016 and 2015, respectively), the extent of the distribution network and the number of gas distribution connection points (both as at 30 June 2016 and 2015, respectively) in each of the Latin American countries in which Gas Natural Fenosa conducts its gas distribution activities (with the exception of Peru where operations have not commenced).

	For the six months ended 30 June		**(%) Variation**
Gas activity sales (GWh)	**2016**	**2015**	**2016/2015**
Argentina	32,584	31,678	2.9
Brazil	35,622	53,417	(33.3)
Chile	23,420	21,081	11.1
Colombia	14,019	12,695	10.4
Mexico	25,304	24,577	3.0
Total	**130,949**	**143,448**	**(8.7)**

Distribution network (km)	As at 30 June 2016	As at 30 June 2015	Variation 2016/2015
Argentina	25,574	24,538	1,036 km
Brazil	7,309	6,951	358 km
Chile	6,897	6,782	115 km
Colombia	21,650	21,130	520 km
Mexico	20,436	19,345	1,091 km
Total	**81,866**	**78,746**	**3,120 km**

Gas distribution connection points (‘000)	As at 30 June 2016	As at 30 June 2015	Variation 2016/2015
Argentina	1,620	1,598	22
Brazil	1,010	959	51
Chile	569	554	15
Colombia	2,802	2,687	115
Mexico	1,600	1,488	112
Total	**7,601**	**7,286**	**315**

There were a total of 7,601,072 distribution connection points as at 30 June 2016. Gas Natural Fenosa added 315,256 distribution connection points year-on-year, mainly in Mexico and Colombia.

Gas activity sales in Latin America, which include both gas sales and TPA services, totalled 130,949 GWh for the first half of 2016, a 8.7% decrease with respect to the same period in 2015.

The distribution grid expanded by 3,120 km (+4.0%) to 81,866 km as at 30 June 2016 compared with 30 June 2015, with Mexico adding 1,091 km.

Argentina

The new government in Argentina, which took office in December 2015, implemented a number of measures to improve the economy. It made progress in the negotiations with creditors that had refused to participate in the restructuring of Argentina’s debt and began restoring the value of public utilities.

Electricity tariffs were increased in February 2016. On 1 April 2016, new gas tariffs were approved, effective from that same date, including full-rate tariffs, tariffs for customers who saved over 15% with respect to the previous year and a social tariff. The Ministry of Energy and Mining instructed the national gas regulator ENARGAS to carry out a comprehensive tariff review (RTI) within a year. The tariff tables that were approved were on account of the forthcoming RTI.

On 7 July 2016, the Federal Court of La Plata issued a ruling having nationwide impact, that annulled the new tariff tables which had entered into force on 1 April 2016 and ordered that the tariffs applying prior to that date be restored.

Finally, on 7 October 2016, the Argentine government officially published a new table of tariffs that is applicable to all customers from that date. At the same time, an application was filed by Gas Natural Fenosa with the government for monetary compensation for the delay in applying the original tariffs, which should have been applied from 1 April 2016.

The Group continues its efforts to contain costs in a context of high inflation (40% per year in 2015).

Brazil

In Brazil, net residential-commercial customer numbers increased by 11.7% between 30 June 2015 and 30 June 2016, with growth in all markets, especially new buildings, due to commercial efforts being brought forward because of the Olympic Games. Revenues declined by 33.3% during the first six months of 2016 when compared to the same period in 2015. Even though residential and commercial markets, which offer the highest margin, expanded by 5.3% and the vehicle natural gas market expanded by 2.9% due to them being more competitive than liquid fuels, the economic crisis in the country reduced sales to the industrial market by 14.1% and to power generation and in TPA services by 43.8% due to lower utilisation of the power plants and higher reservoir levels (56.0% as at 30 June 2016 following the heavy rains in the first quarter of 2016).

Colombia

In Colombia, gas sales and TPA services expanded by 10.4% during the first six months of 2016 when compared to the same period in 2015, due mainly to growth in industrial consumption (+20.3%), particularly higher sales in the secondary market. Residential-commercial customer numbers increased by 57,547 between 30 June 2015 and 30 June 2016, an increase of 10.9%, due mainly to the increase in connections of new buildings and existing buildings.

The unregulated businesses in Colombia performed better during the first six months of 2016 than during the corresponding period in 2015, with the margin rising by 44.0%, particularly in the area of energy solutions, where the number of active contracts increased by 16.3%. Appliance sales in the residential and SME market increased by 42.3% during the six months ended 30 June 2016 when compared to the first six months of 2015.

Mexico

In Mexico, the Group's acceleration plan continues, focusing primarily on Mexico City and the Bajíos area. Gas sales during the first six months of 2016 increased in all markets, including a growth of 2.6% in the residential-commercial market, 5.5% in the industrial market and 1.5% in TPA services, in each case, when compared to the first six months of 2015.

On 26 February 2016, the Mexican energy regulator (*Comisión Reguladora de Energía* or *CRE*) notified Gas Natural Fenosa of the resolutions determining the list of maximum tariffs for the fourth five-year period (2016-2020) of permits for natural gas distribution granted for the distribution territories of Nuevo Laredo, Bajío, Toluca, Saltillo, Monterrey and Mexico City, which came into force in mid-March 2016 in all areas.

Peru

In Peru, the Group continues development work, although additional delays in third-party infrastructure construction projects have postponed commencement of operations in that country until the first quarter of 2017.

As a result of the concession awarded in July 2013, Gas Natural Fenosa will supply energy to an area in south-west Peru that is not yet connected to the gas grid, where it expects to supply natural gas to over 80,000 households.

Chile

During the first six months of 2016, the number of supply connections in Chile increased by 15,078 connections, including growth in the residential-commercial (2.7%) and industrial (2.7%) segments with respect to the first half of 2015. As for gas sales and TPA services, during the first six months of 2016, the strongest growth was observed in the industrial (23%), residential-commercial (17%) and power generation (17%) segments, while TPA increased by 7% year-on-year.

Electricity distribution

Electricity distribution — Spain

The Group's electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, consisting mostly of connections and hook-ups, metering and other activities associated with third-party access to Gas Natural Fenosa's distribution network.

The Ministerial Orders on remuneration for distribution (IET/980/2016) and transmission (IET/981/2016) for 2016, which were issued in June 2016, set the remuneration for distribution and transmission by Gas Natural Fenosa's electricity distributor and the other market participants. That remuneration reflects the amendments made by the Electricity Act and the new methodology for calculating the remuneration for distribution and transmission, set out in Royal Decrees 1048/2013 and 1047/2013, of 27 December.

During the first six months of 2016, electricity amounted to 121,779 GWh in the first half of 2016 meaning supply fell by 1.6% when compared to the same period in 2015. This decline is larger than the decline in demand in the Spanish distribution network as a whole, which fell by 0.3% when compared to the first half of 2015 according to Red Eléctrica de España (REE).

The number of distribution connections increased by 16,520 between 30 June 2015 and 30 June 2016.

During the first six months of 2016, the installed capacity equivalent interrupt time (***ICEIT***) was higher than during the first six months of 2015 due to strong gales and rainstorms in January and the first half of February of 2016 in Galicia, where the terrain is less favourable.

Electricity distribution — Moldova

The Group's business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. Gas Natural Fenosa estimates that it is responsible for 70% of total electricity distribution in Moldova (source: *Government of Moldova*).

Gas Natural Fenosa continues to implement its plan to improve operations in Moldova, focusing on processes linked to energy control in the distribution networks, operating processes associated with the entire customer management cycle and optimisation of facility operations and management. The basic operating indicators for the first half of 2016 were:

- Electricity supplied declined by 3.1% in the first half of 2016 when compared to the first six months of 2015 as milder weather conditions reduced demand, and also because of slower economic growth.

- The number of supply connections totalled 873,062 at 30 June 2016, an increase of 1.4% over the number at 30 June 2015, primarily as a result of growth in the real estate sector.
- Grid losses improved during the first six months of 2016 due to steps taken to reduce them by investing in facilities and combating electricity fraud.

Electricity distribution and transmission — Latin America

This division involves regulated electricity distribution in Argentina, Chile, Colombia and Panama, and electricity transmission in Chile.

The two tables below set forth the figures for electricity distribution for the six months ended 30 June 2016 and 2015, respectively, and the number of gas electricity connection points, both as at 30 June 2016 and 2015, respectively, in each of the Latin American countries in which Gas Natural Fenosa conducts its electricity distribution activities.

	For the six months ended 30 June		(%) Variation
Electric activity sales (GWh)	**2016**	**2015**	**2016/2015**
Argentina	997	938	6.3
Chile	7,300	7,142	2.2
Colombia	6,619	6,389	3.6
Panama	2,519	2,369	6.3
Total	**17,435**	**16,838**	**3.5**

	As at 30 June		Variation
Electric Connection points (‘000)	**2016**	**2015**	**2016/2015**
Argentina	218	213	5
Chile	2,746	2,675	71
Colombia	2,614	2,526	88
Panama	603	568	35
Total	**6,181**	**5,982**	**199**

The increase in sales and connection points reflects the sustained growth in the electricity distribution businesses in Latin America.

	As at 30 June		(%) Variation
Electricity transmission Chile (GWh)	**2016**	**2015**	**2016/2015**
Electricity transmitted (GWh)	7,531	7,446	1.1
Transmission network (km)	3,528	3,495	0.9

Power transmission in Chile increased by 1.1% during the first six months of 2016 when compared to the first six months of 2015, in line with higher electricity demand in 2016. The Group's transmission network reached 3,528 km as at 30 June 2016, 33 km more than at 30 June 2015.

Gas

Gas—Infrastructures

This area includes operation of the Europe-Maghreb gas pipeline, maritime transportation, development of integrated liquefied natural gas (LNG) projects, and hydrocarbon exploration, development, production and storage.

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 52,299 GWh during the first six months of 2016, 2.2% more when compared to the corresponding period in 2015. Of that figure, 32,311 GWh were shipped for Gas Natural Fenosa through Sagane and 19,988 GWh for Portugal and Morocco.

Gas Natural Fenosa owns 14.9% of Medgaz, the company that owns and operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year). That capacity is associated with a new supply contract amounting to 0.8 bcm/year. A total of 3,757 GWh were shipped via the Medgaz pipeline for Gas Natural Fenosa during the first six months of 2016.

In the gas storage business, the Group's operational capacity as at the date of this Base Prospectus is 916 GWh. Processing of paperwork for five exploration, production and storage projects planned for the coming years in the Guadalquivir Valley is currently in different stages.

Gas—Procurement and Supply

This area includes wholesale gas procurement and supply both in the Spanish liberalised market and in other countries, retail supply of gas and other related products and services in the liberalised market in Spain and Italy and supply of gas at the last-resort tariff (***TUR***) in Spain.

Wholesale supply by Gas Natural Fenosa totalled 142,224 GWh during the first six months of 2016, a 0.8% decrease when compared to the first half of 2015, due to supply of natural gas in Spain decreasing.

In a situation of weak demand due to weather conditions, Gas Natural Fenosa supplied 72,836 GWh to end customers in Spain during the first half of 2016, 7.1% less than in the same period of the previous year.

International gas supply continued the trend of previous quarters and reached 69,388 GWh in the first half of 2016, a 6.7% increase compared to the first half of 2015, driven particularly by supply to end customers in other European countries.

The organised market in gas through the Iberian Gas Market (MIBGAS) continues to gain in strength, with DA (day-ahead: next-day delivery) and WD (within day) contracts becoming firmly established and an increase in liquidity driven by the sale of operating gas in the gas system. Gas Natural Comercializadora, S.A. is one of the few active participants in this market. Additionally, the first transaction for physical delivery the following month took place in the second quarter of 2016, and liquidity was increased through the sale of reserve gas for infrastructures and buffer gas to fill the Yela underground store.

The annual auction for underground storage capacity for the period from April 2016 to March 2017 was held. A total of 31.2 TWh were available for both strategic and operational reserves. Gas

Natural Fenosa was awarded 47% of the contracted amount, continuing its commitment to the security of supply to its customers and the Spanish gas system.

In 2016, Gas Natural Europe S.A.S. strengthened its position in natural gas supply in Europe, with a presence in France, Belgium, Luxembourg, the Netherlands and Germany. It is also an active trader in these countries' liquid gas markets, enabling it to optimise Gas Natural Fenosa's position and seize opportunities in European markets.

Sales in France in the first half of 2016 amounted to 22.9 TWh, to customers in numerous segments such as industry, local government and the public sector. Sales in Belgium, Luxembourg, the Netherlands and Germany in the same period amounted to 6.2 TWh.

Gas Natural Fenosa is also active in the wholesale market in Italy, where it sold 3.5 TWh in the period.

The Group continues to diversify into international markets, having sold gas in the Americas and Asia. This strengthens its presence in the main international LNG markets, providing the Group with a medium-term position in growing countries and new markets.

Gas—Unión Fenosa Gas

Gas supplied in Spain by Unión Fenosa Gas amounted to 17,083 GWh during the first six months of 2016, compared with 16,479 GWh for the same period in 2015. Additionally, during the first half of 2016, a total of 10,792 GWh of energy was traded in international markets, compared with 9,588 GWh in the first six months of 2015 (100% aggregates).

Electricity

Electricty—Spain

This area primarily includes power generation in Spain, wholesale and retail electricity supply in the liberalised market in Spain, and electricity supply at the Small Consumer Voluntary Price (PVPC).

The following table sets out certain information in relation to the Group's performance in the Electricity business area in Spain as at 30 June 2016 and 30 June 2015, respectively.

	As at 30 June		(%)
(MW)	**2016**	**2015**	**Variation 2016/2015**
Installed capacity	12,714	12,145	4.7
Generation	11,569	11,226	3.1
Hydroelectric	1,954	1,954	—
Nuclear	604	604	—
Coal	2,010	2,065	(2.7)
Oil/gas	7,001	6,603	6.0
Renewables and Cogeneration	1,145	919	24.6
Wind	977	752	29.9
Small hydroelectric	110	110	—
Cogeneration and other	58	57	1.8

Gas Natural Fenosa generated 12,767 GWh of electricity in mainland Spain during the first six months of 2016, a decrease of 12.9% when compared to the corresponding period in 2015. Of that figure, 11,270 GWh were from conventional sources, a 17.0% decline with respect to the same period last year.

In the watersheds where Gas Natural Fenosa operates, 2016 is proving to be wet, with an exceedance probability as at 30 June 2016 of 27%, notably 16% in May and 18% in June.

Reservoirs in Gas Natural Fenosa's watersheds were at 55% of capacity as at 30 June 2016, seven points more than as at 30 June 2015.

Nuclear output declined by 0.7% during the first six months of 2016 when compared to the first half of 2015, although the figures are affected by changes in the dates of scheduled shut-downs.

Coal-fired output totalled 936 GWh during the first six months of 2016, compared with 2,971 GWh in the corresponding period of 2015, representing a decrease of 68.5%.

CCGT output declined by 25.2% in the first half of 2016 when compared to the corresponding period in 2015, although capacity utilisation as at 30 June 2016 was 16%, double that of the industry as a whole (*source: REE*).

Emissions of CO_2 amounted to 2.9 million tons of CO_2 during the first six months of 2016, 2.6 million tons less than in the same period of 2015.

Under its commitments, during April 2016, Gas Natural Fenosa supplied the European Union's Union Registry with the rights equivalent to the CO_2 emissions certified at its coal-fired and CCGT plants in 2015, a total of 13.5 million tons of CO_2.

Gas Natural Fenosa's generation market share was 15.7% in the first half of 2016, 1.9% less than in the same period of 2015 (source: *calculated with REE data*).

Gas Natural Fenosa Renovables

There have been two significant events in the area of renewables and cogeneration in 2016:

- Gas Natural Fenosa Renovables, S.L. registered 13 wind projects totalling 65 MW within the maximum quota of 450 MW that the Ministry of Industry, Energy and Tourism allowed for the Canary Islands, which will have a special remuneration system (where remuneration will not be directly at market price). This MW represents the largest single share of that quota. Gas Natural Fenosa Renovables has registered 45 MW of capacity in the form of 10 projects on the island of Gran Canaria, the other three being on Fuerteventura. The process to obtain the remaining permits required to build the wind farms is continuing with the goal of commissioning them by 31 December 2018, the deadline for projects in this quota.
- In June 2016, Gas Natural Fenosa Renovables began work to repower the Cabo Vilano wind farm, in the municipality of Camariñas, which involves installing two new 3 MW wind turbines. These two machines will replace the 22 original turbines, which have been decommissioned. This is the first repowering of a wind farm in Galicia. Construction is expected to be completed before the end of 2016.

Renewable and cogeneration output during the first six months of 2016 was 1,497 GWh compared to 1,082 GWh during the first six months of 2015, mainly due to the addition of the wind farms acquired as part of the Gecal Renovables, S.A. (Gecalsa) deal and to the higher levels of precipitation in the second quarter of 2016.

At 30 June 2016, Gas Natural Fenosa Renovables had a total consolidable operational capacity of 1,145 MW, of which 977 MW were wind, 110 MW were small hydroelectric and 58 MW were cogeneration and photovoltaic, including the capacity of cogeneration plants that are being liquidated (43 MW).

Global Power Generation

On 1 October 2014, Gas Natural Fenosa incorporated the company Global Power Generation, S.A.U. (***GPG***) to boost its international power generation business. GPG comprises the power generation assets and businesses of Gas Natural Fenosa outside Europe, and its creation was in line with the goals established in the Group's current strategic plan, which envisages growth in the international market through the development of generation projects, most notably in Latin America and Asia.

This section comprises all the Group's international generation assets and interests in Mexico, Puerto Rico, Dominican Republic, Panama, Costa Rica, Kenya and Australia (wind projects), as well as assets operated for third parties via its subsidiary Operación y Mantenimiento Energy, S.A.

On 30 March 2015, Gas Natural Fenosa and the Kuwait Investment Authority (***KIA***) signed an agreement to conduct a $550 million capital increase in Global Power Generation, to be fully subscribed by KIA.

On 5 October 2015, Gas Natural Fenosa and KIA completed the operation by which the sovereign fund became a partner of Global Power Generation, with a participation of 25%.

On 18 August 2016, Gas Natural Fenosa, through GPG, was awarded two power generation projects in Chile, the Cabo Leones II wind farm (204 MW) and a solar photovoltaic plant in Inca de Varas (120 MW). These are Gas Natural Fenosa's first electricity generation projects in Chile and they are ultimately expected to supply 858 GWh per year. The investment is expected to amount to approximately €325 million. Construction is expected to begin in the third quarter of 2018 and operations are expected to commence in the fourth quarter of 2020.

On 23 August 2016, Gas Natural Fenosa, through GPG, was awarded its first wind farm in Australia, which is located in New South Wales. The 91 MW plant is expected to cost approximately €120 million. Operations are expected to commence in the second half of 2018.

The following table sets out certain information in relation to the Group's performance in the international power generation business as at 30 June 2016 and 30 June 2015, respectively.

	As at 30 June		**(%)**
(MW)	**2016**	**2015**	**Variation 2016/2015**
Installed capacity	2,702	2,707	(0.2)
Mexico (CCGT)	2,035	2,035	—
Mexico (wind)	234	234	—
Costa Rica (hydroelectric)	101	101	—
Panama (hydroelectric)	22	22	—
Panama (oil-fired)	—	5	n.m.
Dominican Republic (oil-fired)	198	198	—
Kenya (oil-fired)	112	112	—

Note:
The table does not include the corresponding data for Puerto Rico as the Group accounts for its operations in Puerto Rico through the equity method.

Output in Mexico increased during the first six months of 2016 when compared to the corresponding period in 2015 since the major overhauls of Tuxpan and Naco lasted longer in 2015, the Tuxpan unit III operated in open cycle, and there were problems with the quality of input gas in the first half of 2015. These effects offset the lower wind output caused by lower winds at Bii Hioxo and reduced production by Durango, which had a major overhaul in 2016. Maintenance work in the various years resulted in higher availability during the first six months of 2016 when compared to the first half of 2015.

Hydroelectric output in Costa Rica during the first half of 2016 was favoured by Torito, which came into service in the second quarter of 2015. The higher availability this year is due to problems with the turbine spiral chambers at Torito in the second quarter of 2015 that caused a lower availability during this period.

Output in Panama during the first half of 2016 was slightly higher than during the first half of 2015 due to higher precipitation in the second quarter of 2016. Availability as at 30 June 2016 decreased when compared to 30 June 2015 due to a major overhaul of the La Yeguada plant.

Output in the Dominican Republic declined by 7.8% during the first six months of 2016 when compared to the corresponding period in 2015 due to higher hydroelectric generation and to the withdrawal of the more efficient plants from the system in 2015.

Diesel-fired output in Kenya increased by 17.7% to 73 GWh during the first six months of 2016 when compared to the corresponding period in 2015. This was due to higher dispatching in 2016 as a result of maintenance shutdowns at several of the country's hydroelectric plants.

Output by Ecoeléctrica L.P.'s CCGT in Puerto Rico (which the Group accounts for through the equity method) was 21.8% higher during the first six months of 2016 when compared to the corresponding period in 2015, since it had a major overhaul in the first quarter of 2015, and the one scheduled for the first quarter of 2016 was brought forward to late 2015 due to damage caused by tropical storm Erika. Its contribution to the Group was lower during the first six months of 2016 when compared to the corresponding period in 2015 because of a reduction in both spot power sales and capacity revenues.

Legislation in Spain

Regulation in the gas sector

The regulation of the natural gas sector is mainly based on Law 34/1998, of 7 October, on the Hydrocarbon Sector (the ***Hydrocarbons Sector Law***) (Ley 34/1998, de 7 de octubre, del Sector de Hidrocarburos) as amended, inter alia, by:

(i) Royal Decree Law 6/2000, of 23 June, on Urgent Measures to Increase Competition in Markets for Goods and Services;

(ii) Law 12/2007, of 2 July, and Royal Decree Law 13/2012, of 30 March, modifying the Hydrocarbons Sector Law to adapt it to the provisions of Directive 2003/55/EC and Directive 2009/73/EC concerning common rules for the internal market in natural gas;

(iii) Law 18/2014, of 15 October, ratifying Royal Decree-Law 8/2014; and

(iv) Law 8/2015, of 21 May, amending the Hydrocarbon Sector Law and certain tax and non-tax measures in connection with the exploration, research and exploitation of hydrocarbons.

The Hydrocarbons Sector Law has subsequently been amended by further legislation and complemented by other regulation. As mentioned above, in July 2014, the Spanish government approved the main provisions of the gas regulatory reform aimed at cutting the tariff deficit, included in Royal Decree-Law 8/2014, subsequently converted into Law 18/2014 and one year later, in May 2015, Law 8/2015 was published amending the Hydrocarbons Sector Law.

The Hydrocarbons Sector Law includes measures to achieve a fully liberalised internal market in natural gas to increase competition and to provide a higher quality of service to consumers. Further to these goals, the law emphasises the correct operation for access to the networks, to ensure transparency, objectivity and non-discrimination in the natural gas sector.

Under article 60 of the Hydrocarbons Sector Law, the gas system is structured around two types of activities: (i) regulated activities, which include transmission (regasification, primary storage and transmission in the strict sense) and distribution of natural gas; and (ii) unregulated activities, which include production, liquefaction and supply of natural gas, as well as non-primary storage. Under the scope of Royal Decree 949/2001, of 3 August, modified by Royal Decree 984/2015, of 31 October 2015, regulating third-party access to gas installations and establishing an integrated economic system for the natural gas industry, which implemented certain criteria and principles in relation to levels of remuneration for regulated activities, the Spanish Ministry of Industry, Energy and Tourism issued a number of Ministerial Orders establishing the remuneration for such regulated activities, as well as tariffs, tolls and royalties payable in respect of the regulated activities of transmission and distribution. These tariffs, tolls and royalties are applied uniformly throughout Spain. The remuneration for providing regulated distribution of natural gas to customers is based upon, among other factors:

- the volume of gas distributed;
- investments and amortisations recognised in the distribution network;
- maintenance and operational costs of the distribution network;
- characteristics of the area of distribution, including length of the network, network pressure and the number of customers serviced;
- security and quality of service; and
- other costs necessary to carry out distribution.

At the end of each year, the Ministry of Industry, Energy and Tourism passes a Ministerial Order establishing the remuneration for each transmission and distribution company.

In July 2014, the Spanish government approved a new regulatory framework for the natural gas sector included in Royal Decree-Law 8/2014, which was subsequently converted into Law 18/2014. This reform was aimed at cutting the accumulated tariff deficit. The main points of this reform include the following:

- Economic sustainability and automatic tariff increases: The system is based on the principle of sustainability, which means that from 2015 onwards the tariff deficit is expected to be gradually eliminated through increases in the access tariff when the annual deficit surpasses 10% of the forecasted system costs, or the cumulative deficit reaches 15% of the estimated system costs.
- Tariff deficit 2014: The cumulative deficit existent at 31 December 2014 will be financed by the companies in proportion to their share in the system costs, and will be reimbursed to the companies over 15 years through an annual payment that has been incorporated as a system cost. Annual reimbursement also includes market interest rates to be established by the Ministry of Energy, Trade and Tourism.
- New remuneration scheme for regulated activities: In relation to distribution, the new regulation is similar to the preceding regulation, based on previous years' revenues and growth in clients and volume. However the updating factors have been eliminated.

  Also, a new remuneration scheme was introduced to encourage growth in new gas areas. In transportation, regasification and storage, the new scheme is based on a combination of "net regulated asset base" (***RAB***) plus "variable remuneration". As in the case of distribution, the updating factor has been eliminated, but an efficiency factor has been introduced which applies in respect of the variable term.
- The regulatory periods will last six years each, except for the first regulatory period, which ends in December 2020.
- The reform also includes the recovery of part of the outcome of the arbitration of the Algerian contract, amounting to €163,790,000.

Law 18/2014 came into force with immediate effect (5 July 2014), which means that the new remuneration scheme affects the second half of 2014. Ministerial Orders establishing the remuneration for transmission and distribution for the second half of 2014 and for the year 2015 were approved by the end of 2014, applying the new methodology established in this legislation. In particular, we refer to Ministerial Order IET/2355/2014, setting the remuneration for regulated gas activities for the second half of 2014, and to IET/2445/2014, setting the remuneration for regulated gas activities as from 1 January 2015. Ministerial Order IET/2445/2014 also included the first annuity of €33 million, plus interest, for the recovery of the €163,790,000 recognised in Law 18/2014 to be recovered and reimbursed to Gas Natural Fenosa, over a period of five years, as part of the outcome of the arbitration proceedings of the Algerian contract of natural gas supply through the Europe-Maghreb pipeline.

The payment of the corresponding interest is pending the approval of the Ministerial Order fixing the amount. Additionally, on 3 October 2014, Royal Decree-Law 13/2014 was passed. It focused on the suspension of operations at the underground storage site "Castor" and fixing the compensation to be paid, by Enagás Transporte, S.A.U. to the concessionaire (namely, Escal UGS, S.L.) amounting €1,350,729,000. Enagás Transporte, S.A.U. is to manage the corresponding gas facilities and has a payment right amounting to the total compensation paid to Escal UGS, S.L., plus a financial consideration for its management responsibilities of the underground storage site Castor. The receivables in favour of Enagás Transporte, S.A.U. are to be paid by the gas system, under the gas system's access tolls and royalties for a period of 30 years.

The new remuneration scheme for regulated activities adopted in the Law 18/2014 has been successful in reducing the deficit. According to the last provisional settlement (14/2015) approved by the CNMC, the provisional gas tariff deficit for 2015 amounted to €23 million, due to the mild weather at the end of 2015.

In May 2015, a new law, Law 8/2015, was published amending the Hydrocarbons Sector Law, primarily to contemplate the creation of an organised gas market (gas hub), the introduction of other measures to promote competition in the hydrocarbons sector, and the adoption of tax measures with regards to the exploration and production of hydrocarbons. On 31 October 2015, Royal Decree 984/2015 was published, establishing detailed rules regulating the functioning and organisation of this secondary organised gas market, as well as some changes in third-party access to gas installations.

Liberalisation and deregulation of the Spanish gas industry

On 1 July 2008, the Spanish gas industry was deregulated with the abolition of the regulated gas supply in line with the requirements of the Second European Gas Directive 2003/55/EC. Pursuant to Law 12/2007, published on 3 July 2007, and Ministerial Order ITC/2309/2007, published on 31 July 2007, the regulated gas market was abolished as from 1 July 2008 and distribution companies ceased to supply at the regulated tariff. Under the new liberalised system, customers are free to elect their gas supplier and those that failed to do so by 1 July 2008 were automatically transferred to the supply company pertaining to their distribution company's group.

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

Royal Decree-Law 6/2009, published on 30 April 2009, designated Gas Natural Servicios, S.A. (a subsidiary of the Guarantor) as one of the five companies designated in Spain as a "last resort" supplier. On 20 May 2009, Gas Natural SUR SDG, S.A. (***Gas Natural SUR***, also a subsidiary of the Guarantor) was designated as a “last resort” supplier (*comercializador de último recurso*) in place of Gas Natural Servicios, S.A.

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

Dominant market position

As from 1 January 2003, no company or group of companies may supply more than 70% of the total gas consumption in Spain (excluding gas consumed by such company or group). As of the date of this Base Prospectus, Gas Natural Fenosa estimates that it accounts for approximately 57.4% of total gas supply in Spain.

Regulation in the electricity sector

The current legal regime for the electricity sector in Spain is laid out in Law 24/2013, enacted in December 2013 (the ***Electricity Act***). Just like its predecessor, Law 54/1997, enacted in December 1997, the Electricity Act defines the following four main types of activities in the electricity system: (1) transmission, (2) distribution, (3) generation, and (4) supply activity. Transmission and distribution are considered as regulated activities and hence they are excluded from the market and their remuneration is defined by the Government, while generation and supply activities operate under a competitive regime in a liberalised market (subject to certain exceptions, as set forth below).

The basic principle underlying the Electricity Act is the right of all consumers to receive high-quality power supply at the lowest possible cost within their national territory, whilst minimising the environmental impact of the electricity industry. The Electricity Act also governs the technical management (carried out through a system operator) and economic management (carried out through a market operator) of the electricity sector in Spain.

To ensure the independence and transparency of regulated activities (including distribution, transmission and the technical and economic management of the system), operators are obliged to separate regulated and unregulated activities. Accordingly, companies that carry out any regulated activity must include such activity as their sole corporate objective in their by-laws. A corporate group may, however, engage in any number of regulated activities provided that these activities are carried out by a different group company. The obligations in relation to functional separation and independent management of regulated activities have been mandatory since 1 January 2008.

The supply market was liberalised in stages, with full eligibility planned, at EU level, for 2007, though in Spain the free choice of electricity supplier was granted to all consumers in January 2003. However, consumers with a contract demand of 10 kW or less are eligible for a tariff called the “Small Consumer Voluntary Price” (*Precio Voluntario para el Pequeño Consumidor* or PVPC) which replaced the former “Tariff of Last Resort”, which had applied for such customers from July 2009 to 2014.

The Electricity Act forms part of the “global electricity reform” initiated by the Spanish government in July 2013 with the aim of eliminating the tariff deficit, which means the shortfall between the regulated costs and the revenues of the electricity system. As of the date of this Base Prospectus, the total outstanding electricity tariff deficit amounts to approximately €25 billion, all of which has been securitised. As a result of the Spanish electricity reform, 2013 was the last year, with a tariff deficit, with a tariff surplus of income over costs of the electricity system of €550 million having been recorded in 2014 and €469 million in 2015. The first measure adopted to tackle the tariff deficit was Royal Decree Law 9/2013, approved in July 2013, to establish the principles of the remuneration for regulated activities, such as transmission, distribution and generation from renewable sources, a reduction of capacity payments for back-up generation and also the funding for the so-called "Social Bonus" (*Bono Social*), which is a discount for the poorest consumers.

The Electricity Act confirmed the same principles for the remuneration of regulated activities established in Royal Decree-Law 9/2013 and included a stability rule: every new cost should be accompanied by a new source of revenues, and any deficit exceeding certain limits should automatically be compensated by a tariff increase.

Prior to this reform, the Spanish government had approved other regulatory measures in order to reduce the tariff deficit such as Royal Decree-Law 13/2012 and Royal Decree-Law 20/2012, pursuant to which it adopted measures to correct the imbalance in the Spanish electricity system. In order to achieve this objective, Law 15/2012 was also adopted in December 2012, which included fiscal measures affecting electricity generation and other energy sectors (natural gas, coal and others) in order to raise new sources of revenues to fund electricity costs.

With regard to the Spanish energy regulator CNE (*Comisión Nacional de Energía*), Law 3/2013 merges most of the regulatory bodies in Spain to create a single regulator. The new body, called the National Market and Competition Commission or CNMC (*Comisión Nacional de los Mercados y la Competencia*), merges the current Spanish Competition Authority or CNC (*Comisión Nacional de Competencia*) with six regulatory bodies for specific markets, including the CNE.

Generation

The electricity generation sector in Spain operates under the principles of a non-regulated activity with free establishment and open competition. Generators principally derive their revenues through sales of the energy they produce, and such sales can be carried out:

- on an organised daily market in which the electricity selling price is set according to a marginal price determined on the basis of demand. All generators in Spain are obliged to offer energy in this spot generation market;
- through forward sales in organised markets, such as markets operated by the Operator of the Iberian Energy Market (*Operador del Mercado Ibérico de Energía* or OMIE);
- through bilateral contracts on terms freely agreed between the contracting parties, complying with certain requirements as to form and minimum content pursuant to applicable laws and regulations.

Remuneration for generation activities also derives from the provision of complementary services and "payment for capacity". Payment for capacity is effected through (i) an investment incentive applicable to post-1998 facilities which have operated under the "ordinary regime" at a capacity of over 50 MW for ten years, as well as to older facilities that have made significant environmental investments, such as in desulphurisation, and (ii) payments for availability, structured through bilateral contracts with the system operator. Royal Decree-Law 9/2013 reduced the amount of the investment incentive while its collection period was extended.

A specific remuneration system also exists for facilities supplied or powered by renewable energy sources, waste and cogeneration. This area has been affected by several regulatory changes in recent years. In January 2012, the Spanish government approved Royal Decree-Law 1/2012 and suspended the registration of new renewable energy projects under the special regime. By taking away new financial incentives, the government sought to limit the costs that these incentives were causing to the electricity system. The decision, which has no retroactive effect, does not affect projects already in operation. Royal Decree-Law 2/2013 also introduced certain changes in the remuneration system of these facilities.

The electricity reform of July 2013 also affected this special remuneration system for facilities supplied or powered by renewable energy sources, waste and cogeneration. Royal Decree-Law 9/2013 established a new model based on the regulatory definition of "reasonable rate of return" over the entire life of the asset. Such reasonable rate of return concept is defined as a 10-year Spanish bond government yield plus 300 basis points on a nominal pre-tax basis. The model is based on efficient standards for capital and operational expenditure. A detailed regulation with specific remuneration parameters was also approved during 2014.

In 2010, a new mechanism was approved in relation to Spanish coal, applicable until 2014, which obliges certain power plants to produce certain volumes of electricity out of Spanish coal through a preferential dispatch mechanism, favouring those Spanish coal power plants over other power plants. This mechanism has been applied from February 2011 until 31 December 2014.

The generation of electricity is subject to a number of new taxes that were created by Law 15/2012 in order to contribute to solving the tariff deficit problem. These taxes, which have been in force since 1 January 2013, include (i) a tax on income from electricity generation from all technologies, and taxes on nuclear waste production and storage and hydroelectric production, (ii) a new tax for natural gas consumption, and (iii) an increase of the current tax on coal, which now also applies when the relevant energy products are used for the generation of electricity.

Distribution

Distribution activity continues to be considered a regulated activity with its remuneration continuing to be regulated and the tariffs for use of the networks to be set by the regulatory authorities.

Royal Decree-Law 9/2013 adopted a new methodology to set the reasonable rate of return for distributors. The model will be based on "efficient standards assets" and will be reviewed every six years. The Electricity Act confirmed this remuneration methodology and Royal Decree 1048/2013 set the current remuneration scheme of the distribution activity together with the Ministerial Order establishing the capital and operational expenditure reference unit values for the first regulatory period approved in December 2015. The new methodology was first applied in Ministerial Order IET/980/2016 establishing the remuneration of distribution activity for 2016 published in June 2016.

This remuneration contains three components:

- Remuneration of investments: the remuneration of investments is based on a regulatory asset base (RAB), which is calculated according to capital expenditure standards and applying a rate of return defined as a 10-year Spanish bond government yield plus a spread based on the activity risk (200 basis points for the first regulatory period).
- Operations and management costs: this component is based on standard operations and management values set for each component of the network.
- Incentives for quality, reduced losses and reduced theft.

As a result of this remuneration structure, distributors' revenues are determined by the remuneration allocated to them through the regulatory system for each year. Receipt of this remuneration is guaranteed through a settlement system managed by the regulator. The regulator also determines the compensation entitlement for the management of access contracts, costs of meter reading, planning, and other regulated activities.

Transmission

Law 17/2007, of 4 July, amending the Spanish Electricity Act of 1997, established a transmission system operator (TSO) model for transmission and operation to be owned and managed exclusively by the Transmission Network Manager and System Operator (Red Eléctrica Corporación, S.A.). However, certain 220kV facilities (the voltage threshold for transmission) may be authorised to be owned by distribution companies, depending on their specific characteristics and functions as it is the case of transmission facilities that are still owned by Union Fenosa Distribución, a subsidiary of the Group.

Royal Decree-Law 9/2013 also modified the remuneration framework for transmission. The model will be based on "efficient standards assets" and will be reviewed every six years. The Electricity Act confirmed this remuneration methodology and Royal Decree 1047/2013 set the current remuneration scheme of the transmission activity together with a Ministerial Order establishing the capital and operational expenditure unit values for the first period approved in December 2015. The new methodology was first applied in Ministerial Order IET/981/2016 establishing the remuneration of transmission activity for 2016 published in June 2016

This remuneration contains three components:

- Remuneration of investments: the remuneration of investments is based on a regulatory asset base (RAB), which is calculated according to capital expenditure standards and applying a rate of return, which is based on the 10-year Spanish bond government yield plus a spread based on the activity risk (200 basis points for the first regulatory period).
- Recovery of operating and management costs: this component is based on standard operations and management values set for each component of the network,.
- Incentives in relation to availability.

Retail supply

The supply market was liberalised progressively, with full eligibility, at EU level, planned for 2007. In Spain, since 1 January 2003, retail customers have had a free choice of electricity supplier. Profit margins in retail electricity supply result from revenues generated through sales to customers (at a price agreed between the customer and the supplier) minus the costs of acquiring the electricity supplied and any applicable levies.

Regulated tariffs for high voltage consumers were eliminated in July 2008 (except for the largest intensive consumers), and remaining regulated tariffs for households that were applied by distributors were eliminated in June 2009.

However, since then an exception (affecting more than 90% of electricity consumers) applies to small consumers (with a power contract of up to 10 kW) who, in addition, can choose to be supplied by "Reference Suppliers" (formerly called "Suppliers of Last Resort") under prices which are set or monitored by the Ministry of Industry, Energy and Tourism. Royal Decree 216/2014, of 28 March, regulates the effective entry into force of the PVPC (formerly called "Tariff of Last Resort") that are applied by the Reference Suppliers. These small consumers can choose, in addition to being supplied under freely-negotiated prices by non-reference suppliers, one of the following price schemes:

- The default option, applied to consumers who do not express any preference, is that consumers are supplied under the PVPC. The PVPC is essentially calculated as the sum of the real-time spot electricity market price in each hour, plus the applicable retail access tariff, plus a retail margin which is defined by the Ministry of Industry, Energy and Tourism. Detailed regulation that allows the effective use of hourly load curve of each consumer on electricity bills was passed in June 2015, making it compulsory from 1 October 2015 for consumers with a smart meter.

- Alternatively, consumers who prefer a fixed price option can choose the “alternative offer” of a “Reference Supplier”, which is set freely by each reference supplier.

In addition, some of the poorest consumers, known as “vulnerable consumers”, are eligible to receive a so-called “Social Bonus” (*Bono Social*), whereby they receive a 25% discount applied to the PVPC. This “Social Bonus” was funded, according to Royal Decree-Law 9/2013 and the Electricity Act, by vertically integrated companies such as Gas Natural Fenosa. However, the Supreme Court has recently declared that this discount is contrary to the Electricity Directive for being discriminatory and therefore, has been declared not applicable. The Supreme Court has also recognised that funding companies may recover all payments that they made for this purpose. Consequently, the Government must return to funding companies all the payments made for this purpose and approve a new method of financing the “Social Bonus” that continues to be applied by the reference suppliers. The Government has however appealed against the judgement before the Supreme Court.

Research and Development

The Group engages in research and development both independently and in collaboration with other Spanish and international companies and bodies. The Group’s research and development focuses mainly on (i) safety in the transportation of natural gas, (ii) methods of reducing environmental impact, (iii) the development of new technologies in the distribution of gas and (iv) the development of new applications for natural gas.

Litigation and Arbitration

The sectors in which Gas Natural Fenosa operates have in recent years grown more litigious, as a result of the volatility of fuel prices and greater competition in the liberalised market, amongst other factors, and Gas Natural Fenosa and its subsidiaries are currently involved in a number of judicial, arbitration and regulatory proceedings. Given the nature of Gas Natural Fenosa’s business and the sectors in which it operates, the amounts involved in such proceedings can be significant. An adverse outcome in respect of one or more of these claims could have a material adverse effect on the Group’s financial condition and results of operation.

In addition, members of the Group may, from time to time, be subject to civil liability claims for damage caused as a result of incidents arising in the Group’s ordinary course of operations. Such incidents may include breakdowns in the gas distribution network, gas explosions or damage caused by the Group’s tankers that transport LNG. Any such claims could result in the payment of damages by the Group in accordance with the legislation applicable in the countries in which the Group operates. While Gas Natural Fenosa seeks to obtain insurance cover for risks related to civil liability claims, its financial condition and results of operations may be adversely affected to the extent any losses are uninsured, exceed the applicable limitations under its insurance policies or are subject to the payment of an excess towards the insured amount or to the extent the premiums payable in respect of such policies are increased as a result of insurance claims.

The main judicial, arbitration and regulatory proceedings of the Group as of the date of this Base Prospectus are set forth below.

Tax claims in Spain

At 30 June 2016, the main tax litigation affecting the Group relates to the tax credit for export activities. As a result of the inspection proceedings on tax periods 2003 to 2008, the Inspectorate has questioned the admissibility of the tax credit for export activities applied by Gas Natural SDG, S.A.; the tax assessments have been contested and appeals have been lodged at the Tax and Treasury Court and the National Court. At 31 December 2015, the assessments, including interest, amounted to €93 million are fully provisioned.

*Claims for Programa de Integración Social (**PIS**) and Contribución para la Financiación de la Seguridad Social (**COFINS**) taxes in Brazil*

In September 2005 the Tax Administration of Rio de Janeiro declared void the recognition that it had previously accepted in April 2003 to compensate the loans for the contributions related to the sale of PIS and COFINS paid by the Group company Companhia Distribuidora de Gás do Rio de Janeiro (***CEG***). The Tax Administration confirmed this resolution in March 2007 and CEG therefore filed an appeal with the administrative courts (Justiça Federal do Rio de Janeiro). On 26 January 2009 notification was received of public civil action against CEG in connection with the same events which are being processed. The total tax administration claims (updated at 31 December 2014), amount to 386 million Brazilian Real. The Court of First Instance issued a decision in November 2015 partially accepting the claim of CEG, reducing the amount to 260 million Brazilian Real (approximately €61 million). CEG will appeal the decision and considers, together with its legal advisers, that even the reduced amount is baseless and it is therefore improbable that the appeal against it will be lost.

Qatar gas supply contracts

In May 2015, Gas Natural Fenosa commenced an arbitration procedure to determine, among other things, the price of the gas supplied by Qatar Liquefied Gas Company Limited under its long-term contract. GNF has requested a price reduction and the supplier has requested a price increase. The parties have presented their claims during 2016.

Environmental Matters

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

Insurance

In line with industry practice, the Group insures its assets and activities worldwide. Among the risks insured are damage to property, business interruption and civil liability to third parties arising in connection with the Group's operations. The Group's insurance policies also include indemnification limits and deductibles. The Group considers its level of insurance coverage to be appropriate for the risks inherent in its business.

The Group has its own reinsurance company, Natural Re, S.A. (***Natural Re***). Natural Re is completely integrated within the risk management of the Group and acts as a centralised global operations tool, providing coverage against Group risks. Natural Re retains part of the risk and purchases reinsurance protection to mitigate its exposure. Furthermore, Natural Re allows the Group to implement its insurance programme consistently across the varying regulatory environments applicable to the countries in which the Group operates.

Employees

At 31 December 2015, Gas Natural Fenosa employed 19,939 persons in Argentina, Brazil, Chile, Colombia, France, Italy, Mexico, Morocco and Spain, among other countries.

The Group has only experienced one industrial action in the past five years, which was limited to the Madrid area. As of the date of this Base Prospectus, Gas Natural SDG is not aware of any material labour dispute, other than disputes within the normal course of business.

Management – Board of Directors

The Board of Directors of Gas Natural SDG has ultimate responsibility for the administration of the affairs of the Group. The directors, their position on the Board of Directors of Gas Natural SDG and their principal activities outside the Group as at the date of this Base Prospectus are as follows:

Name	Position	Principal activities outside the Group
Isidro Fainé Casas	President	President of Criteria Caixa, S.A.U. and of the Patronato Fundació Bancària "la Caixa" and Vice-President of Telefónica, S.A.
Josu Jon Imaz San Miguel	First Vice-President	Chief Executive Officer of Repsol, S.A.
William Alan Woodburn	Second Vice-President	President of Competitive Power Ventures
Rafael Villaseca Marco	Chief Executive Officer	President of the Compañía General de Electricidad, S.A. (Chile) and Vice- President of the Fundación Gas Natural Fenosa
Ramón Adell Ramón	Director	Honorary President of the Asociación Española de Directivos (AED) and Vice- President of the Confederacion Española de Directivos y Ejecutivos (CEDE) and of the Fundación CEDE
Enrique Alcántara-Garcia Irazoqui	Director	—
Xabier Añoveros Trias de Bes	Director	Chief Executive Officer of Digestum Legal, S.L.P. and Vice- President of the Fundación San Francisco Javier
Marcelino Armenter Vidal	Director	General Director of Criteria Caixa, S.A.U. and President of Caixa Capital Risc, S.G.E.C.R., S.A.
Mario Armero Montes	Director	Executive Vice-President of ANFAC Asociación Española de Fabricantes de Automóviles y Camiones
Francisco Belil Creixell	Director	Director of the Abelló Linde, S.A. and of Uriach, S.A. and Vice- President of the Fundación Bertelsmann

Benita María Ferrero-Waldner	Director	President of the Fundación Euroamérica and Director of Munich Re
Alejandro García-Bragado Dalmau	Director	First Vice-President of Criteria Caixa, S.A.U and Vice-President of the Patronato Fundación Bancaria “la Caixa”
Cristina Garmendia Mendizabal	Director	President of the Grupo Genetrix and President of the Patronato Fundación Cotec
Helena Herrero Starkie	Director	President and CEO of Hewlett Packard Spain and Portugal and President of the Fundación I+E Innovación España
Miguel Martínez San Martín	Director	Chief Financial Officer and Corporate Development of Repsol, S.A. and Director of Repsol Petróleo, S.A.
Rajaram Rao	Director	Partner of GIP
Luís Suárez de Lezo Mantilla	Director	Secretary and Director of Repsol, S.A. and Vice-President of the Fundación Repsol

The business address of the members of the Board of Directors is Plaça del Gas, Nº1, 08003 Barcelona, Spain.

Conflicts of interest

There are no conflicts of interest between any duties owed by the members of the Board of Directors to Gas Natural SDG and their respective private interests and/or duties.

TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH THE NOTES

The following is a general description of certain European Union, United States, Dutch and Spanish tax considerations relating to the Notes, Coupons, Talons or Receipts. It does not purport to be a complete analysis of all tax considerations relating to the Notes, Coupons, Talons or Receipts whether in those countries or elsewhere. Prospective purchasers of Notes, Coupons, Talons or Receipts should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes, Coupons, Talons or Receipts and receiving payments of interest, principal and/or other amounts under the Notes, Coupons, Talons or Receipts and the consequences of such actions under the tax laws of those countries. This overview 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 – Issues by Gas Natural Fenosa Finance B.V.

This is a general summary and the tax consequences as described here may not apply to a holder of Notes, Coupons, Talons or Receipts. Any potential investors should consult their own tax advisers for more information about the tax consequences of acquiring, owning and disposing of Notes, Coupons, Talons or Receipts in their particular circumstances.

This taxation summary solely addresses the principal Netherlands tax consequences of the acquisition, the ownership and disposition of Notes, Coupons, Talons or Receipts issued by Gas Natural Fenosa Finance B.V. after the date hereof held by a holder of Notes, Coupons, Talons or Receipts who is not a resident of The Netherlands. It does not consider every aspect of taxation that may be relevant to a particular holder of Notes, Coupons, Talons or Receipts under special circumstances or who is subject to special treatment under applicable law. 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.

This summary is based on the tax laws of The Netherlands as they are in force and in effect on the date of this Prospectus. The Netherlands means the part of the Kingdom of The Netherlands located in Europe. The laws upon which this summary is based are subject to change, potentially with retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect any such change. This summary assumes that each transaction with respect to Notes, Coupons, Talons or Receipts is at arm's length.

Withholding Tax

All payments by Gas Natural Fenosa Finance B.V. under the Notes, Coupons, Talons or Receipts can be made free of withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, provided that (i) the Notes, Coupons, Talons or Receipts have a maturity - legally and de facto - of less than 50 years and (ii) the Notes, Coupons, Talons or Receipts 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 and de facto - of more than 50 years, issued by Gas Natural Fenosa Finance B.V. or any entity related to Gas Natural Fenosa Finance B.V.

Taxes on Income and Capital Gains

A holder of Notes, Coupons, Talons or Receipts will not be subject to any Netherlands taxes on income or capital gains in respect of Notes, Coupons, Talons or Receipts, including such tax on any payment under the Notes, Coupons, Talons or Receipts or in respect of any gain realised on the disposal, deemed disposal or exchange of Notes, Coupons, Talons or Receipts, provided that:

(i) such holder is neither a resident nor deemed to be a resident of The Netherlands, Bonaire, Saint Eustatius or Saba;

(ii) such holder does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands, Bonaire, Saint Eustatius or Saba and to which enterprise or part of an enterprise, as the case may be, Notes, Coupons, Talons or Receipts are attributable;

(iii) if such holder is an individual, neither such holder nor any of the holder's spouse, partner, a person deemed to be the holder's partner, or other persons sharing such holder's house or household, or certain other of such holder's relatives (including foster children), whether directly and/or indirectly as (deemed) settlor, grantor or similar originator (the ***Settlor***), or upon the death of the Settlor, the Settlor's beneficiaries (the ***Beneficiaries***) in proportion to their entitlement to the estate of the Settlor, of a trust, foundation or similar arrangement (a ***Trust***), (a) indirectly has control of the proceeds of Notes, Coupons, Talons or Receipts in The Netherlands, nor (b) has a substantial interest in Gas Natural Fenosa Finance B.V. and/or any other entity that legally or de facto, directly or indirectly, has control of the proceeds of Notes, Coupons, Talons or Receipts in The Netherlands. For purposes of this clause (iii), a substantial interest is generally not present if a holder does not hold, alone or together with the holder's spouse, partner, a person deemed to be such holder's partner, other persons sharing such holder's house or household, certain other of such holder's relatives (including foster children), or a Trust of which the holder or any of the aforementioned persons is a Settlor or a Beneficiary, whether directly or indirectly, (a) the ownership of, certain other rights, such as usufruct, over, or rights to acquire (whether or not already issued), shares representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of a company; (b) the ownership of, or certain other rights, such as usufruct, over profit participating certificates (*winstbewijzen*), or membership rights in a co-operative association, that relate to five per cent. or more of the annual profit of a company or co-operative association or to five per cent. or more of the liquidation proceeds of a company or co-operative association; or (c) membership rights representing five per cent. or more of the voting rights in a co-operative association's general meeting;

(iv) if such holder is a company, such holder has no substantial interest in Gas Natural Fenosa Finance B.V., or if such holder has a substantial interest in Gas Natural Fenosa Finance B.V., (a) such substantial interest is not held with the avoidance of Netherlands income tax or dividend withholding tax as (one of) the main purpose(s), or (b) such substantial interest does not form part of an artificial structure or series of structures (such as structures which are not put into place for valid business reasons reflecting economic reality). For purposes of this clause (iv), a substantial interest is generally not present if a holder does not hold, whether directly or indirectly, (a) the ownership of, certain other rights, such as usufruct, over, or rights to acquire (whether or not already issued) shares representing five per cent. or more of the total issued and outstanding capital (or of the issued and outstanding capital of any class of shares) of a company; or (b) the ownership of, or certain other rights, such as usufruct, over profit participating certificates (*winstbewijzen*) that relate to five per cent. or more of the annual profit of a company or to five per cent. or more of the liquidation proceeds of a company; and

(v) if such holder is an individual, such income or capital gain does not form a "benefit from miscellaneous activities" in The Netherlands (*resultaat uit overige werkzaamheden*) which, for instance, would be the case if the activities in The Netherlands with respect to Notes, Coupons, Talons or Receipts exceed "normal active asset management" (*normaal, actief vermogensbeheer*) or if income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (a "lucrative interest"; *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) in The Netherlands, 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.

A holder of Notes, Coupons, Talons or Receipts will not be subject to taxation in The Netherlands by reason only of the execution, delivery and/or enforcement of the documents relating to an issue of Notes, Coupons, Talons or Receipts or the performance by Gas Natural Fenosa Finance B.V. of its obligations thereunder or under the Notes, Coupons, Talons or Receipts.

Gift, Estate or Inheritance Taxes

No gift, estate or inheritance taxes will arise in The Netherlands with respect to an acquisition of Notes, Coupons, Talons or Receipts by way of a gift by, or on the death of, a holder who is neither resident nor deemed to be resident in The Netherlands for Netherlands inheritance and gift tax purposes, unless in the case of a gift of Notes, Coupons, Talons or Receipts by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

Additionally, for purposes of Netherlands gift and inheritance tax, an individual with The Netherlands nationality will be deemed to be resident in The Netherlands if such individual has been resident in The Netherlands at any time during the ten years preceding the date of the gift or the individual's death.

For purposes of Netherlands gift tax, an individual not holding The Netherlands nationality will be deemed to be resident in The Netherlands if such individual has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

For purposes of Netherlands gift and inheritance tax, a gift that is made under a condition precedent is deemed to have been made at the moment such condition precedent is satisfied. 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.

For purposes of Netherlands gift, estate and inheritance taxes, (i) a gift by a Trust, will be construed as a gift by the Settlor, and (ii) upon the death of the Settlor, as a rule, the Settlor's Beneficiaries, will be deemed to have inherited directly from the Settlor. Subsequently, the Beneficiaries will be deemed the Settlor of the Trust for purposes of The Netherlands gift, estate and inheritance tax in case of subsequent gifts or inheritances.

Value Added Tax

There is no Netherlands value added tax payable in respect of payments in consideration for the issue of the Notes, Coupons, Talons or Receipts, the payment of interest or principal under the Notes, Coupons, Talons or Receipts, or the transfer of the Notes, Coupons, Talons or Receipts.

Other Taxes and Duties

There is no Netherlands registration tax, capital tax, stamp duty or any other similar tax or duty payable in The Netherlands by a holder of a Note, Coupon, Talon or Receipt in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the Notes, Coupons, Talons or Receipts or the performance of the obligations of Gas Natural Fenosa Finance B.V. under the Notes, Coupons, Talons or Receipts.

Residence

A holder of a Note, Coupon, Talon or Receipt will not be treated as a resident of The Netherlands by reason only of the holding of a Note, Coupon, Talon or Receipt or the execution, performance, delivery and/or enforcement of Notes, Coupons, Talons or Receipts.

Taxation in Spain – Issues by Gas Natural Capital Markets, S.A.

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete overview of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Notes issued by the 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 Royal Decree 1065/2007 of 27 July

(***Royal Decree 1065/2007***), as amended by Royal Decree 1145/2011 of 29 July (***Royal Decree 1145/2011***);

(ii) for individuals resident for tax purposes in Spain which are subject to the Personal Income Tax (***PIT***), Law 35/2006 of 28 November, on the PIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended by Law 26/2014 of 27 November, and Royal Decree 439/2007 of 30 March promulgating the IIT Regulations, as amended by Royal Decree 633/2015, of 10 July, along with law 19/1991 of 6 June, on Wealth Tax, along with Law 29/1987, of 18 December on the Inheritance and Gift Tax;

(iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (***CIT***), Act 27/2014, of 27 November governing the CIT, and Royal Decree 634/2015, of 10 July promulgating the CIT Regulations; and

(iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (***NRIT***), Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the NRIT Law, and Royal Decree 1776/2004 of 30 July promulgating the NRIT Regulations, along with Law 29/1987, of 18 December on the Inheritance and Gift Tax.

Whatever the nature and residence of the Noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, *i.e.*, exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

2. Individuals with Tax Residency in Spain

2.1 Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

Spanish individuals with tax residency in Spain are subject to PIT on a worldwide basis. Accordingly, income obtained from the Notes will be taxed in Spain when obtained by persons that are considered resident in Spain for tax purposes. The fact that a Spanish company pays interest or guarantee payments under a Note will not lead an individual or entity being considered tax-resident in Spain.

Both interest payments periodically received and income derived from the transfer, redemption or exchange of the Notes constitute a return on investment obtained from the transfer of a person’s own capital to third parties in accordance with the provisions of Section 25 of the PIT Law, and therefore must be included in the investor’s PIT savings taxable base pursuant to the provisions of the aforementioned law and taxed, as of 1 January 2016, 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 Royal Decree 1145/2011 introduced 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 Gas Natural Capital Markets, S.A.:

(i) it would not be necessary to provide the 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, Gas Natural Capital Markets, S.A. understands that, according to Royal Decree 1145/2011, it has no obligation to withhold any tax amount for interest paid on the Notes corresponding to Noteholders who are individuals with tax residency in Spain provided that the information procedures (which do not require identification of the Noteholders) are complied with.

Nevertheless, Spanish withholding tax at the applicable rate (currently 19 per cent.) may have to be deducted by other entities (such as depositaries or financial entities), provided that such entities are resident for tax purposes in Spain or have a permanent establishment in the Spanish territory.

The amounts withheld, if any, may be credited by the relevant investors against its final PIT liability.

However, regarding the interpretation of Royal Decree 1145/2011 and the information procedures, please refer to section "*Risk Factors—Risks Relating to Withholding Tax*" above.

2.2 **Net Wealth Tax (*Impuesto sobre el Patrimonio*)**

Net Wealth Tax may be levied in Spain on resident individuals, on a worldwide basis. Though for the years 2011 to 2016, the Spanish Central Government has repealed the 100% relief of this tax, the actual collection of this tax depends on the regulations of each Autonomous Community. Thus, investors should consult their tax advisers according to the particulars of their situation.

Individuals with tax residency in Spain are subject to Net Wealth Tax to the extent that their net worth exceeds €700,000. Therefore, they should take into account the value of the Notes which they hold as at 31 December each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

In accordance with Article 66 of of the Law 48/2015, of 29 October, on Spanish General Budget for the year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), during year 2016 the 100% relief of this tax will continue to be repealed but from the year 2017, a full exemption on Net Wealth Tax would apply (*bonificación del 100%*), and therefore, from year 2017 Spanish individual holders will be released from formal and filing obligations in relation to this Net Wealth Tax, unless the derogation of the exemption is extended again under the Spanish General Budget for the year 2017, to be approved before the end of 2016.

2.3 **Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The applicable tax rates currently range between 7.65 per cent. and 81.6 per cent. depending on relevant factors.

3. **Legal Entities with Tax Residency in Spain**

3.1 **Corporate Income Tax (*Impuesto sobre Sociedades*)**

Legal entities with tax residency in Spain are subject to CIT on a worldwide basis.

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the profit and taxable income of legal entities with tax residency in Spain for corporation tax purposes in accordance with the Corporation tax rules. The current general tax rate according to CIT Act is 25 per cent.

Pursuant to Section 61.s of Royal Decree 634/2015 approving the Spanish corporate income tax regulations (the ***Corporate Tax Regulations***), there is no obligation to make a withholding on income obtained by taxpayers subject to Spanish CIT (which for the avoidance of doubt, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. However, in the case of Notes held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest and income deriving from the transfer may be subject to withholding tax at the current rate of 19per cent. Such withholding may be made by the depositary or custodian if the Notes do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities (*Dirección General de Tributos*) (the ***DGT***) dated 27 July 2004 (that is, placement of the Notes outside of Spain in another OECD country and admission to listing of the Notes on an organised market in an OECD country other than Spain). The amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

Notwithstanding the above, according to Royal Decree 1145/2011, 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 Gas Natural Capital Markets, S.A.), 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, Gas Natural Capital Markets, S.A. considers that, pursuant to Royal Decree 1145/2011, it has no obligation to withhold any tax on interest paid on the Notes in respect of Noteholders who are Spanish Corporation Tax payers, provided that the information procedures are complied with.

However, regarding the interpretation of Royal Decree 1145/2011 and the information procedures, please refer to section "*Risk Factors—Risks Relating to Withholding Tax*" above.

3.2 **Net Wealth Tax (*Impuesto sobre el Patrimonio*)**

Legal entities resident in Spain for tax purposes are not subject to Net Wealth Tax.

3.3 **Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax.

Individuals and Legal Entities with no Tax Residency in Spain

3.4 **Non-Resident Income Tax (*Impuesto sobre la Renta de no Residentes*)**

(a) ***With permanent establishment in Spain***

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those previously set out for Spanish CIT taxpayers. See "*Taxation in Spain—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*".

(b) ***With no permanent establishment in Spain***

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or legal entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from Public Debt.

In order for such exemption to apply, it is necessary to comply with the information procedures, in the manner detailed under "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" as set out in section 44 of Royal Decree 1065/2007 (as amended by Royal Decree 1145/2011).

3.5 **Net Wealth Tax *(Impuesto sobre el Patrimonio)***

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Net Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights are located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Net Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Noteholders tax resident in a State of the European Union or of the European Economic Area may be entitled to apply the specific regulation of the autonomous community where their most valuable assets are located and which trigger this Spanish Net Wealth Tax due to the fact that they are located or are to be exercised within the Spanish territory.

In accordance with Article 66 of the Law 48/2015, of 29 October, on Spanish General Budget for the year 2016 (Ley de Presupuestos Generales del Estado para el año 2016), during year 2016 the 100% relief of this tax will continue to be repealed but from the year 2017, a full exemption on Net Wealth Tax would apply (*bonificación del 100%*), unless the derogation of the exemption is extended again under the Spanish General Budget for the year 2017, to be approved before the end of the year.

Non-Spanish resident legal entities are not subject to Net Wealth Tax.

3.6 **Inheritance and Gift Tax *(Impuesto sobre Sucesiones y Donaciones)***

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy will not be subject to Inheritance and Gift Tax in Spain if the country in which such individual resides has entered into a double tax treaty with Spain in relation to Inheritance and Gift Tax. In such case, the individual will be subject to the relevant double tax treaty. In the absence of such treaty between the individual's country of residence and Spain, the individual will be subject to Inheritance and Gift tax in accordance with the applicable regional and state legislation.

Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the state legislation. However, if the deceased or the donee are resident in an EU or European Economic Area member State, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

The tax rate, after applying all relevant factors, ranges between 7.65% and 81.6%.

Non-resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

Taxation in Spain - Payments under the Guarantee

On the basis that payments of principal and interest made by the Guarantor under the Deed of Guarantee should be characterised as an indemnity under Spanish law, such payments may be made free of withholding or deduction on account of any Spanish tax.

However, although there is no precedent or regulation on the matter, if the Spanish tax authorities take the view that the Guarantor has effectively assumed the obligations of the relevant Issuer under the Notes (whether contractually or by any other means) the following tax consequences may derive:

(i) in the case of unlisted Notes issued by Gas Natural Fenosa Finance B.V., the Spanish tax authorities may attempt to impose withholding tax in Spain on any payments made by the Guarantor in respect of interest, unless the recipient is (i) resident for tax purposes in a Member State of the European Union other than Spain (or is a permanent establishment of such resident situated in another Member State of the European Union) and it is not resident in or acting through a territory considered as a tax haven pursuant to Spanish Law (currently as set out in Royal Decree 1080/1991, of 5 July) or through a permanent establishment in Spain or in a country outside the European Union, or (ii) resident for tax purposes in a State with which Spain has entered into a Double Tax Treaty which makes provision for full exemption from tax imposed in Spain on such payment under the Double Tax Treaty, provided that, in either case, such recipient submits to the Guarantor a tax residence certificate duly issued by the tax authorities in its own jurisdiction stating its residence for tax purposes either within the relevant EU Member State or in the relevant country for the purposes of the Double Tax Treaty, such certificate being valid for a period of one year from the date of issue under Spanish law and therefore new certificates needing to be issued periodically; and

(ii) in the case of listed Notes issued by Gas Natural Fenosa Finance B.V. and Notes issued by Gas Natural Capital Markets, S.A., the Spanish tax authorities may determine that interest payments made by the Guarantor, relating to the Notes, will be subject to the same tax rules set out above for payments made by Gas Natural Capital Markets, S.A. Therefore, under this scenario, it would also be necessary to comply with the information procedures, in the manner detailed under "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" below.

Obligation to inform the Spanish Tax Authorities of the Ownership of the Notes

With effects as from 1 January 2013, Law 7/2012, of 29 October, as implemented by Royal Decree 1558/2012, of 15 November, introduced annual reporting obligations applicable to Spanish residents (*i.e.* individuals, legal entities, permanent establishments in Spain of non-resident entities) in relation to certain foreign assets or rights.

Consequently, if the Notes are deposited with or placed in the custody of a non-Spanish entity, Noteholders resident in Spain will be obliged, if certain thresholds are met as described below, to declare before the Spanish Tax Authorities, between 1 January and 31 March every year, the ownership of the Notes held on 31 December of the immediately preceding year (*e.g.* to declare between 1 January 2017 and 31 March 2017 the Notes held on 31 December 2016).

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 44 of Royal Decree 1065/2007 as amended by Royal Decree 1145/2011 and provided that the Notes issued by Gas Natural Capital Markets, S.A.are initially registered for clearance and settlement in Euroclear and Clearstream Luxembourg, the Paying Agent designated by Gas Natural Capital Markets, S.A.would be obliged to provide Gas Natural Capital Markets, S.A. (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 Gas Natural Capital Markets, S.A. (or the Guarantor, as the case may be) on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, Gas Natural Capital Markets, S.A. (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 Gas Natural Capital Markets, S.A.were to fail to provide the information detailed above, according to section 7 of Article 44 of Royal Decree 1065/2007, Gas Natural Capital Markets, S.A. (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 Gas Natural Capital Markets, S.A. were to submit such information, Gas Natural Capital Markets, S.A. (or the Guarantor) or the Paying Agent acting on its behalf would refund the total amount of taxes withheld.

Notwithstanding the foregoing, Gas Natural Capital Markets, S.A. has agreed that in the event that witholding tax were required by law, Gas Natural Capital Markets, S.A., 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 Issued by Gas Natural Capital Markets, S.A.—10. 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, Gas Natural Capital Markets, S.A. would inform the Noteholders of such information procedures and of their implications, as Gas Natural Capital Markets, S.A. (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 Gas Natural Fenosa Finance B.V.

Disclosure of Noteholder Information in Connection with the Redemption or Repayment of Zero Coupon Notes

In accordance with Article 44 of Royal Decree 1065/2007, in the case of Zero Coupon Notes with a maturity of 12 months or less, the information obligations established in Section 44 (see "*Disclosure of Information in Connection with Interest Payments*" above) will have to be complied with upon the redemption or repayment of the Zero Coupon Notes.

If the Spanish tax authorities consider that such information obligations must also be complied with for Zero Coupon Notes with a longer term than 12 months, the Issuer will, prior to the redemption or repayment of such Notes, adopt the necessary measures with the Clearing Systems in order to ensure its compliance with such information obligations as may be required by the Spanish tax authorities from time to time.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the ***Commission's proposal***) for a Directive for a common financial transactions tax (***FTT***) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the ***Participating Member States***). However, Estonia has since stated that it will not participate and has already pulled out of the FTT.

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

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

On 28 October 2016, the Council of the European Union published document No. 13608/16 concerning the status of the FTT at that time, according to which a certain degree of progress in the FTT negotiations have been observed. However, further work at the Council and its preparatory bodies will be required before a final agreement can be reached among the Participating Member States that respects the competences, rights and obligations of the Member States not participating in the FTT.

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

U.S. Foreign Account Tax Compliance Withholding Act

Pursuant to sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the Code), the regulations thereunder and official interpretations thereof, agreements entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (collectively, FATCA), a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting, or related requirements.

Custodians or intermediaries in the payment chain leading to the ultimate investor that are not entitled (or fail to establish eligibility) to receive payments free of withholding under FATCA may be subject to withholding under FATCA. A number of jurisdictions, including Spain and the Netherlands, have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (IGAs), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

The Issuer does not believe payments on the Notes will be subject to FATCA because the relevant Issuer does not believe it is a foreign financial institution for purposes of FATCA. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under “Terms and Conditions—Further Issues”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no additional amounts will be paid in respect of such withholding.

SUBSCRIPTION AND SALE

The Dealers have in an amended and restated programme agreement dated on 2 December 2016 (the ***Programme Agreement***) have agreed with each Issuer and the Guarantor a basis upon which they or any of them individually may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes", "Form of Final Terms" and "Terms and Conditions of Notes issued by Gas Natural Fenosa Finance B.V." and "Terms and Conditions of Notes issued by Gas Natural Capital Markets, S.A." above. However, each Issuer has reserved the right to sell Notes directly on its own behalf to dealers that are not 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 each Issuer through the Dealers, acting as agents of the relevant Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are underwritten by two or more Dealers.

The relevant Issuer will pay each Dealer a commission in respect of Notes subscribed by it as separately agreed between them. Each Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme.

Each of the Issuers and the Guarantor has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

United States

The Notes and the obligations of the Guarantor under the Deed of Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each 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 Programme Agreement, it will not offer, sell or deliver Notes or obligations of the Guarantor under the Deed of Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of all the Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Notes or obligations of the Guarantor under the Deed of Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the obligations of the Guarantor under the Deed of Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes or obligations of the Guarantor under the Deed of Guarantee within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant lead manager) shall determine and notify to the Agent the completion of the distribution by it of the Notes of such Tranche.

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 United States person, except in certain transactions permitted by U.S. Treasury Regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a ***Relevant Member State***), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the ***Relevant Implementation Date***) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in subsections (a) to (c) above shall require either Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an ***offer of Notes to the public*** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression ***Prospectus Directive*** means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant 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 an 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 relevant Issuer 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.

France

The Base Prospectus has not been approved by, or registered or filed with, the French Autorité des Marchés Financiers (the ***AMF***). Each Dealer has represented and agreed that it has not offered, sold or otherwise transferred and will not offer, sell or otherwise transfer, directly or indirectly, the Notes to the public in the Republic of France and that any offers, sales or other transfers of the Notes in the Republic of France will be made only to: (a) qualified investors (*investisseurs qualifiés*) acting for their own account; and/or (b) a restricted circle of investors (*cercle restreint d'investisseurs*) acting for their own account; and/or (c) persons providing portfolio management financial services (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), all as defined, and in accordance with, articles L.411-2, D.411-1, D.411-2 and D.411-4 of the French Code monétaire et financier. The Base Prospectus and any other offering material relating to the Notes are not to be further distributed or reproduced (in whole or in part) by the addressee and have been distributed on the basis that the addressee invests for its own account, as necessary, and does not resell or otherwise retransfer, directly or indirectly, the Notes to the public in the Republic of France other than in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code monétaire et financier.

Spain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(a) neither the Notes nor the Base Prospectus have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and that, therefore, the Base Prospectus is not intended to be used for any public offer of Notes in Spain; and

(b) the Notes may not be offered, sold or distributed in Spain, nor may any subsequent resale of the Notes be carried out or publicity or marketing of any kind be made in Spain in relation to the Notes

(i) except in circumstances which do not constitute a public offering of securities within the meaning of section 35 of the Restated Spanish Securities Market Act approved by Royal Legislative Decree 4/2015, of 23 October 2015 (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores) (the* ***Securities Market Act***), as developed by Royal Decree 1310/2005 of 4 November on admission to listing and on issues and public offers of securities (*Real Decreto 1310/2005 de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, de Mercado de Valores, en materia de admisión a negociación de valores en* *mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*), and supplemental rules enacted thereunder or in substitution thereof from time to time; and

(ii) except by institutions authorised to provide investment services in Spain under the Securities Market Act (and related legislation) 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*).

The Netherlands

Zero Coupon Notes (as defined below) in definitive form of any Issuer may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either such Issuer or a member firm of Euronext Amsterdam N.V. in full compliance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations. No such mediation is required: (a) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (b) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof, or (c) 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 (d) 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 tenure but only at maturity or on which no interest is due whatsoever.

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will not make an offer of Notes which are outside the scope of the approval of this Base Prospectus, as completed by the Final Terms relating thereto, to the public in The Netherlands in reliance on Article 3(2) of the Prospectus Directive (as defined under "European Economic Area" above) unless (i) such offer is made exclusively to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act or (ii) standard exemption wording and logo are disclosed as required by Section 5:20(5) of the Dutch Financial Supervision Act, provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Republic of Italy

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

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 delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Base Prospectus or any other document relating to the Notes in Italy except:

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

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

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

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the ***Banking Act***) and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;

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

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

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the ***Financial Instruments and Exchange Law***) and each Dealer has agreed and each new Dealer appointed under the Programme will be required to agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Laws and all applicable laws, regulations and guidelines promulgated by the relevant governmental and regulatory authorities in effect at the relevant time. For the purposes of this paragraph, ***resident of Japan*** shall mean any person resident in Japan including any corporation or other entity organised under the laws of Japan.

General

Each Dealer has represented and agreed and each new Dealer appointed under the Programme will be required to represent and agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuers nor the Guarantor nor any other Dealer shall have any responsibility therefor.

None of the Issuers, the Guarantor nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the relevant Issuer and the relevant Dealer shall agree.

KEY PERFORMANCE INDICATORS

The Guarantor uses certain financial measures derived from its consolidated accounting records to evaluate period to period changes that are not required by, or presented in accordance with, IFRS and because the Guarantor believes these measures will assist securities analysts, investors and other interested parties in the understanding of the Group's results of operations and financial position. This Base Prospectus contains certain of these financial measures in the documents referred to in paragraphs (A)(c), (B)(c), (C)(c) and (D) of the section "*Documents Incorporated by Reference*" on pages 21 to 25.

These supplemental financial measures derived from the Guarantor's consolidated accounting records and other management sources are not measures of the Group's financial performance or liquidity under IFRS and should not be considered as an alternative to consolidated net income as an indicator of the Group's performance or as an alternative to cash flows from operating activities as a measure of the Group's liquidity. Accordingly, they may differ from similarly-titled measures reported by other companies and may not be comparable. Investors are cautioned not to place undue reliance on these alternative performance measures (contained in the documents referred to in paragraphs (A)(c), (B)(c), (C)(c) and (D) of the section "*Documents Incorporated by Reference*" on pages 21 to 25), which should be considered supplemental to, and not a substitute for, the financial information prepared in accordance with IFRS incorporated by reference in this Base Prospectus.

The Guarantor considers the following metrics to constitute "Alternative Performance Measures" as defined in the European Securities and Markets Authority Guidelines introduced on 3 July 2016 (ESMA Guidelines) on Alternative Performance Measures that are not required by, or presented in accordance with, IFRS:

Metric	Definition
EBITDA	Operating profit plus Depreciation and amortisation plus Period provisions less Other income
Gross Borrowings	Non-current financial liabilities plus Current financial liabilities
Net Borrowings	Gross Borrowings less Cash and cash equivalents and Derivative financial assets
Leverage	Net Borrowings/(Net Borrowings plus Net Equity)
Cost of net borrowings	Cost of borrowings - Interest revenues
Net capital expenditure	Investment in property, plant and equipment, intangible assets and financial assets - Receipts for divestment of property, plant and equipment and intangible assets - Other investing receipts/payments
Cost of net debt	Financial Expense from Borrowings less Interest income
Liquidity Ratio	Current assets/Current liabilities
Solvency Ratio	(Net Equity plus Non-current assets)/Non-current assets
ROE	Net income attributable to Equity holders of the Company[(1)]/ Net Equity attributable to the Equity holders of the Company
ROA	Net income attributable to Equity holders of the Company[(1)]/ Total assets
Atributable equity per share	Net Equity attributable to the Equity holders of the Company/ Number of shares
Dividend per share	Total amount distributed as dividends/Number of shares at the end of period

Note:

(1) *These figures are expressed on an annual basis. In the case that the reference period does not correspond to a full year period, they are annualised as follows: figure of the current reference period plus figure of the precedent year less figure from the same reference period of the precedent year.*

GENERAL INFORMATION

1. The update of the Programme was authorised by the Board of Managing Directors in a meeting held on 23 November 2016, and by written resolutions of the General Meeting of the Sole Shareholder of Gas Natural Fenosa Finance B.V. dated 22 November 2016, by resolutions of the Sole Director of Gas Natural Capital Markets, S.A., passed on 7 November 2016, and by resolutions of the Board of Directors of the Guarantor passed on 28 October 2016.

2. The admission of the Programme to the official list of the Luxembourg Stock Exchange is expected to take effect on or around 2 December 2016. It is expected that each Tranche of Notes which is to be listed on the official list and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange will be so admitted to listing and trading upon submission to the CSSF and the regulated market of the Luxembourg Stock Exchange of the relevant Final Terms, subject in each case to the issue of a Temporary Global Note initially representing the Notes of such Tranche. Transactions will normally be effected for delivery on the third working day in Luxembourg after the day of the transaction.

   However, Notes may be issued by Gas Natural Fenosa Finance B.V. pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the Luxembourg Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the relevant Issuer and relevant Dealer(s) may agree (subject, in the case of Gas Natural Capital Markets, S.A., to the publication of a supplemental prospectus in relation to such Notes).

3. So long as Notes are capable of being issued under the Programme and/or remain outstanding, copies of the following documents (and English translations where appropriate) will, when published, be available during normal business hours from the offices of the Issuers and the Guarantor referred to at the end of this Base Prospectus and from the specified office of the Agent in London:

   (i) the articles of association of each Issuer and the constitutional documents of the Guarantor;

   (ii) the documents referred to in "*Documents Incorporated by Reference*" on pages 21 to 25 above;

   (iii) the Agency Agreement, the Guarantee and the Deed of Covenant;

   (iv) a copy of this Base Prospectus; and

   (v) any supplements to this Base Prospectus and any Final Terms (save that Final Terms relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to the identity of such holder).

   This Base Prospectus, the relevant Final Terms for Notes that are listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and

Clearstream, Luxembourg will be specified in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

5. The Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche. The yield of each Tranche of Notes will be calculated as of the relevant issue date using the relevant issue price and will be specified in the applicable Final Terms. It is not an indication of future yield.

6. Save as disclosed under "*Description of Gas Natural SDG, S.A.—Litigation and Arbitration*" on pages 148 to 159 above, none of the Issuers or the Guarantor or any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any of the relevant Issuer or the Guarantor is aware) during the twelve months before the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of any of the Issuers or of the Guarantor or of the Group.

7.

   (a) There has been no material adverse change in the prospects of Gas Natural Fenosa Finance B.V. since 31 December 2015 nor has there been any significant change in the financial or trading position of Gas Natural Fenosa Finance B.V. since 31 December 2015 (being the date of the latest available financial statements of Gas Natural Fenosa Finance B.V.).

   (b) There has been no material adverse change in the prospects of Gas Natural Capital Markets, S.A. since 31 December 2015 nor has there been any significant change in the financial or trading position of Gas Natural Capital Markets, S.A. since 31 December 2015 (being the date of the latest available financial statements of Gas Natural Capital Markets, S.A.).

   (c) There has been no material adverse change in the prospects of the Guarantor since 31 December 2015 nor has there been any significant change in the financial or trading position of the Group since 30 September 2016 (being the date of the latest available financial information of the Group).

8. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in lending, in investment banking and/or commercial banking transactions with, and may perform services to the Issuers, the Guarantor and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers, the Guarantor and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. 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 the Guarantor, or the Issuers' or the Guarantor's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers or the Guarantor routinely hedge their credit exposure to the Issuers or the Guarantor 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 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. For the avoidance of doubt, in this Base Prospectus the term 'affiliates' includes also parent companies.

9.

(a) The consolidated annual accounts of the Guarantor for the years ended 31 December 2015 and 2014, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (***IFRS-EU***), have been audited by PricewaterhouseCoopers Auditores, S.L., (registered in the *Registro Oficial de Auditores de Cuentas* and members of the *Instituto de Censores Jurados de Cuentas de España*) independent auditors of the Guarantor, and unqualified opinions have been reported thereon.

(b) The condensed consolidated interim financial statements of the Guarantor for the six-month period ended 30 June 2016, which were prepared in accordance with IFRS-EU, have been subject to a limited review by PricewaterhouseCoopers Auditores, S.L.

(c) The unaudited condensed consolidated interim financial information of the Guarantor in relation to the nine-month period ended 30 September 2016 have been prepared in accordance with IFRS-EU.

(d) The non-consolidated financial statements of Gas Natural Fenosa Finance B.V., which were prepared in accordance with IFRS-EU, have been audited for the financial years ended 31 December 2015 and 2014 by PricewaterhouseCoopers Accountants N.V. (registered at the Chamber of Commerce and Industries of Amsterdam and members of the *Nederlandse Beroepsorganisatie van Accountants*), independent auditors of Gas Natural Fenosa Finance B.V., and unqualified opinions have been reported thereon.

(e) The non-consolidated annual accounts of Gas Natural Capital Markets, S.A., which were prepared in accordance with generally accepted accounting principles in Spain (***Spanish GAAP***), have been audited for the financial years ended 31 December 2015 and 2014 by PricewaterhouseCoopers Auditores, S.L., (registered in the *Registro Oficial de Auditores de Cuentas* and members of the *Instituto de Censores Jurados de Cuentas de España*), independent auditors of Gas Natural Capital Markets, S.A., and unqualified opinions have been reported thereon.

10. This Base Prospectus does not incorporate any financial information in relation to Gas Natural Capital Markets, S.A. prepared in accordance with, or reconciled to, IFRS-EU or any description of the differences between IFRS-EU and Spanish GAAP. It is possible that a

reconciliation of financial information prepared in accordance with Spanish GAAP to IFRS-EU or other qualitative or quantitative analysis of differences between these accounting principles would identify material differences that are not otherwise disclosed in this Base Prospectus. You should consult your own accounting advisers for an understanding of the differences between Spanish GAAP and IFRS-EU and how those differences might affect the financial statements and other financial information contained in this Base Prospectus.

11. Freshfields Bruckhaus Deringer LLP has acted as legal adviser to the Guarantor as to English law, Spanish law and Dutch law. Linklaters, S.L.P. has acted as legal adviser to the Dealers as to English law and Spanish law and Linklaters LLP has acted as legal adviser to the Dealers as to Dutch law, in each case in relation to the update of the Programme.

THE ISSUERS

Gas Natural Fenosa Finance B.V.
Barbara Strozzilaan 201
1083 HN Amsterdam
The Netherlands

Gas Natural Capital Markets, S.A.
Plaça del Gas no.1
08003 Barcelona
Spain

THE GUARANTOR

Gas Natural SDG, S.A.
Plaça del Gas no.1,
08003 Barcelona
Spain

AGENT

Citibank, N.A., London Branch
14th Floor, Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

AUDITORS OF GAS NATURAL FENOSA FINANCE B.V.

PricewaterhouseCoopers Accountants N.V.
Fascinatio Boulevard 350
3065 WB Rotterdam
P.O. Box 8800
3009 AV Rotterdam
The Netherlands

AUDITORS OF GAS NATURAL CAPITAL MARKETS, S.A. AND THE GUARANTOR

PricewaterhouseCoopers Auditores, S.L.
Edificio Alta Diagonal
Avinguda Diagonal, 640
08017 Barcelona
Spain

LEGAL ADVISERS

To the Issuers and the Guarantor as to English law and Spanish law
Freshfields Bruckhaus Deringer LLP
Fortuny, 6
28010 Madrid
Spain

To the Issuers and the Guarantor as to Dutch law
Freshfields Bruckhaus Deringer LLP
Strawinskylaan 10
1077 XZ Amsterdam
The Netherlands

To the Dealers as to English law and Spanish law
Linklaters, S.L.P.
Almagro, 40
28010 Madrid
Spain

To the Dealers as to Dutch law
Linklaters LLP
WTC Amsterdam
Zuidplein 180
1077 XV Amsterdam
The Netherlands

DEALERS

Banca IMI S.p.A.
Largo Mattioli 3
20121 Milan
Italy

Banco Bilbao Vizcaya Argentaria, S.A.
Originación de Renta Fija
Ciudad BBVA – Edificio Asia
c/Sauceda 28
28050 Madrid

Spain

Banco Santander, S.A.
Gran Vía de Hortaleza 3
Edificio Pedreña
28033 Madrid
Spain

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

CaixaBank, S.A.
Avda. Diagonal, 621
08028 Barcelona
Spain

Citigroup Global Markets Limited
Citigroup Centre, Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Crédit Agricole Corporate and Investment Bank
12 place des Etats-Unis, CS 70052
92547 Montrouge CEDEX
France

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

ING Bank N.V.
Foppingadreef 7
1102 BD Amsterdam
The Netherlands

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

Société Générale
29 Boulevard Haussmann
75009 Paris
France

The Royal Bank of Scotland plc
250 Bishopsgate
London EC2M 4AA
United Kingdom