Gas Natural Fenosa Finance B.V.

(*incorporated with limited liability under the laws of The Netherlands and having its statutory domicile in Amsterdam*)

€1,000,000,000 UNDATED 8 YEAR NON-CALL DEEPLY SUBORDINATED GUARANTEED FIXED RATE RESET SECURITIES

unconditionally and irrevocably guaranteed on a subordinated basis by

Gas Natural SDG, S.A.

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

The €1,000,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") are issued by Gas Natural Fenosa Finance B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed on a subordinated basis by Gas Natural SDG, S.A. (the "**Guarantee**", and the "**Guarantor**" or "**Gas Natural SDG**", respectively).

Pursuant to the terms and conditions of the Securities as described in "*Terms and Conditions of the Securities*" (the "**Conditions**"), the Securities will bear interest on their principal amount (i) at a fixed rate of 4.125 per cent. per annum from (and including) the Issue Date to (but excluding) the First Reset Date (as defined in the Conditions) payable annually in arrear on 18 November in each year, with the first Interest Payment Date (as defined below) commencing on 18 November 2015; and (ii) from (and including) the First Reset Date (as defined in the Conditions), at the applicable 8 year Swap Rate in respect of the relevant Reset Period, plus: (A) in respect of the period commencing on the First Reset Date to (but excluding) 18 November 2024, 3.353 per cent. per annum; (B) in respect of the period commencing on 18 November 2024 to (but excluding) 18 November 2042, 3.603 per cent. per annum; and (C) from and including 18 November 2042, 4.353 per cent. per annum, all as determined by the Agent Bank (as defined in the Conditions), payable annually in arrear on 18 November in each year (each, an "**Interest Payment Date**", as defined in the Conditions), commencing on 18 November 2023.

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

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

The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves, all as more particularly described in "*Terms and Conditions of the Securities—Status and Subordination of the Securities and Coupons*". The payment obligations of the Guarantor under the Guarantee will constitute direct, unsecured and subordinated obligations of the Guarantor and will at all times rank *pari passu* and without any preference among themselves. In the event of the Guarantor being declared in insolvency under Spanish Insolvency Law (as defined below), the rights and claims of Holders (as defined in the Conditions) against the Guarantor in respect of or arising under the Guarantee will rank, as against the other obligations of the Guarantor, in the manner more particularly described in "*Terms and Conditions of the Securities—Guarantee, Status and Subordination of the Guarantee*".

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

Application has been made to the Commission de Surveillance du Secteur Financier (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, as amended (the "**Luxembourg Act**"), for the approval of this Prospectus for the purposes of Directive 2003/71/EC, as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "**Prospectus Directive**"). The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Luxembourg Act. This Prospectus constitutes a prospectus for the purposes of Article 5.3 of the Prospectus Directive and the Luxembourg Act.

Application has been made to the Luxembourg Stock Exchange for the Securities 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) and to be listed on the official list of the Luxembourg Stock Exchange.

The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Securities are being offered outside the United States by the Joint Bookrunners (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

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

The Securities are expected to be rated BB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Ba1 by Moody's Investors Service Limited ("**Moody's**") and BBB– by Fitch Ratings Limited ("**Fitch**").

Each of S&P, Moody's and Fitch is established in the European Union and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

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

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

Joint Bookrunners

Banco Bilbao Vizcaya Argentaria, S.A.	**Barclays**
BNP PARIBAS	**CaixaBank**
JP Morgan	**Nomura**
Santander Global Banking & Markets	
Banca IMI	**ING**
Citigroup	**MUFG**
Société Générale Corporate & Investment Banking	

13 November 2014

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IMPORTANT NOTICES

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import. Information appearing in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The business, prospects, financial condition and results of operations of the Issuer and the Guarantor may have changed since such date.

Each of the Issuer (in respect of itself) and the Guarantor (in respect of itself and the Issuer) has confirmed to the Joint Bookrunners named under "*Subscription and Sale*" below (the "**Joint Bookrunners**") that this Prospectus contains all information regarding the Issuer, the Guarantor and the Securities which is (in the context of the issue of the Securities) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions and intentions expressed in this Prospectus on the part of the Issuer or the Guarantor (as the case may be) are honestly held or made; and that there are no other facts the omission of which would make this Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect and that the Issuer and the Guarantor (as applicable) have made all reasonable enquiries to ascertain all facts material for the purposes aforesaid.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Securities other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Joint Bookrunners.

Neither the Joint Bookrunners nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Securities.

The distribution of this Prospectus and the offering, sale and delivery of Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Securities and on distribution of this Prospectus and other offering material relating to the Securities, see "*Subscription and Sale*".

In particular, the Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to U.S. persons.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**U.S.$**" are to United States dollars, the lawful currency of the United States of America, references to "**£**" are to the currency of the United Kingdom and

references to "**euro**" or "**€**" are to the currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

As used in this Prospectus, "**Gas Natural Fenosa**" or "**the Group**" mean Gas Natural SDG and its consolidated subsidiaries, unless the context requires otherwise.

The Securities are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters, and may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

(ii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the potential investor's currency;

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

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

Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities, and the impact this investment will have on the potential investor's overall investment portfolio.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein. Potential investors should not construe anything in this Prospectus as legal, tax, business or financial advice. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Securities.

In connection with the issue of the Securities, Barclays Bank PLC (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over allot Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

RISK FACTORS

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

Each of the Issuer and the Guarantor believes that each of the following factors may affect its ability to fulfil its obligations under the Securities. All of these factors are contingencies which may or may not occur and none of the Issuer 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 the Securities are also described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Securities as at the date of this Prospectus, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with the Securities may occur for other unknown reasons and none of the Issuer or the Guarantor represents that the statements below regarding the risks of holding the Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus, including the descriptions of the Issuer 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 Prospectus.

Before making an investment decision with respect to the Securities, 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 Securities and consider such an investment decision in the light of the prospective investor's personal circumstances.

Risks relating to the Issuer and the Guarantor

The risk factors set out below are applicable to the Issuer as a member of the Group, and the Guarantor.

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 2013, 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. 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.

Further, the continued concern about the fiscal positions of the governments of the affected countries has also raised concerns regarding the exposures of banks to such countries, especially banks domiciled within Europe. These concerns may lead to such banks being unable to obtain funding in the interbank market or interbank funding may become available only at elevated interest rates, which may cause such banks to suffer liquidity stress and potentially insolvency. If this were to happen, the flow of credit to businesses could be severely disrupted, thereby worsening the recessionary conditions and trends.

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, which the government intends to complete during the forthcoming months. The main driver of the reform has been the determination to reduce and, eliminate the so-called "tariff deficit", which is the difference between the costs and the income of the electricity system. As of May 2013, the Spanish "electricity tariff deficit" was reported to amount to more than €26 billion, out of which approximately €5.6 billion had been incurred during the course of 2012. As of the date of this Prospectus, the total electricity tariff deficit amounts to approximately €30.5 billion, out of which €3.2 billion had been incurred in 2013. The aim of the reform outlined by the Spanish government is to cap the accumulated deficit and, eventually, to eliminate the entire tariff deficit. 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. They will apply once the Ministerial Orders including the

reference unit costs for capital and operational expenditure are approved, which is expected to take place by the end of 2014.

A Royal Decree and a Ministerial Order establishing the detailed parameters of the new remuneration scheme for renewable, cogeneration and waste were approved in June 2014. 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 gas tariff deficit, which according to the Ministry of Industry, will have reached €800 million by the end of 2014. The reform was included in Royal Decree-Law 8/2014, 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, Royal Decree-Law 8/2014 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 will recover, over a period of five years, an amount of €164 million as well as the payments of interests, which will be reimbursed to Gas Natural Fenosa as the owner of the Algerian contract. Ministerial Orders establishing the remuneration for transmission and distribution for the second half of 2014 are still pending and are expected to be approved before the end of 2014, applying the new methodology established in Royal Decree-Law 8/2014.

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, 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, a reduction 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. On 17 February 2009, the Spanish Ministry for Economy and Taxation resolved not to refer the matter to the Spanish Council of Ministers and the authorisation from the CNC therefore became definitive and binding on that date. On 3 February 2011, the CNC published new conditions over the initial material divestments to be made by Gas Natural Fenosa, and required that it divest 1,600 MW of installed capacity of combined cycle technology and an additional 300,000 gas distribution connection points.

On 12 July 2010, Gas Natural Fenosa had already 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 was extended for two years until 2015). On 28 July 2011, Gas Natural Fenosa completed the divestment of 800 MW of CCGT capacity at Arrubal to Contourglobal La Rioja, S.L. Gas Natural Fenosa complied with the condition to sell an additional 300,000 distribution connection points in Madrid through a sale to Madrileña Red de Gas, S.A.U., Madrileña Red de Gas II, S.A.U., GALP Energía and Madrileña Servicios Comunes, S.L. and the clients corresponding to such connection points to Endesa.

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. 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.

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.

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, 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 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 "*Litigation and Arbitration*" on pages 86 to 87 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 has been stable for the last three 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, rising from an average of U.S.$108.2 for the first quarter of 2014 to U.S.$109.7 for the second quarter of 2014 and decreasing again to U.S.$102.4 for the third quarter of 2014 (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, increased demand in China, India and Japan due to nuclear shutdown, and the uncertainty of supply associated with the continuing political instability in certain parts of the Middle East.

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 for the year 2012 to €44.19 for the year 2013, and to €39.54 for the nine months ended 30 September 2014 (source: *OMEL*).

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.

Variations in commodity prices could have a material adverse effect on Gas Natural Fenosa's business, prospects, financial condition and results of operations to the extent it is not 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 to 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.

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 cost of starting up 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) and the credits (CERs or ERUs) necessary through its active participation in the secondary market as well as in the primary 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, 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, 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, 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.

(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 the Group—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 Withholding

Risks in relation to Spanish Taxation

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

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

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

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (currently 21 per cent.) from any payment of interest in respect of the relevant Securities. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

The Fiscal Agency Agreement provides that the Fiscal Agent will, to the extent applicable, comply with the relevant procedures to deliver the required information concerning the Securities to the Guarantor in a timely manner.

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

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

In the event that neither the Issuer nor the Guarantor have been provided with the information detailed above, according to Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, the Issuer or the Guarantor, or the Paying Agent acting on the Issuer's behalf, would be required to withhold tax from the relevant interest payments at the general withholding tax rate (currently, 21%).

Risks related to the structure of the Securities

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

The Issuer's obligations under the Securities will be unsecured and subordinated obligations of the Issuer and will rank junior to the claims of unsubordinated and other subordinated creditors of the Issuer, except for subordinated creditors whose claims are expressed to rank *pari passu* with the Securities. See Condition 2 (*Status and Subordination of the Securities and Coupons*). By virtue of such subordination, payments to a Holder of Securities will, in the event of an Issuer Winding-up (as described in the Conditions) only be made after, and any set-off by a Holder of Securities shall be excluded until, all obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder of Securities may therefore recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer. Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities and each Holder shall, by virtue of being the Holder of any Security, be deemed to have waived all such rights of set-off. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

The Guarantee is a subordinated obligation

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

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

There are no events of default under the Securities

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

The Securities are undated securities

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

The Issuer may redeem the Securities under certain circumstances

Holders should be aware that the Securities may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount (plus any accrued and outstanding interest and any outstanding Arrears of Interest) on the First Reset Date and on any Interest Payment Date thereafter (in each case, as defined in the Conditions).

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

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

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

The interest rate on the Securities will be reset on the First Reset Date and on every Reset Date thereafter, which may affect the interest payments and the market value of the Securities

While the Securities will earn interest at a fixed rate of 4.125 per cent. up to (but excluding) the First Reset Date, thereafter the interest rate will be adjusted on each Reset Date pursuant to the 8 year Swap Rate (as defined in the Conditions) in respect of the relevant period, therefore the interest payment on such Securities may also change. Holders should be aware that movements in these market interest rates could adversely affect the price of the Securities and could lead to losses for the Holders if they sell the Securities.

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

The net proceeds of the issue of the Securities will be on-lent by the Issuer to the Guarantor pursuant to a Subordinated Loan (as defined in the Conditions). The Issuer may redeem the Securities in certain circumstances, including if, as a result of a Tax Law Change (as defined in the Conditions), in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in The Netherlands or in the Kingdom of Spain (as the case may be), or such entitlement is materially reduced.

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

Tax consequences of holding the Securities

Potential investors should consider the tax consequences of investing in the Securities and consult their tax advisers about their own tax situation. See the section of this Prospectus titled "Taxation" below.

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

The Issuer may, at its discretion, elect to defer (in whole or in part) any payment of interest on the Securities. Any such deferral of interest payment shall not constitute a default for any purpose. See Condition 5 (*Optional Interest Deferral*). Any interest in respect of the Securities the payment of which is deferred will, so long as the same remains outstanding, constitute Arrears of Interest. Arrears of Interest will be payable as outlined in Conditions 5(b) and 5(c). While the deferral of payment of interest continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Securities or, in certain limited circumstances, on certain instruments ranking *pari passu* or junior to the Securities (as further set out in Condition 5(c)). In such event, the Holders are not entitled to claim immediate payment of interest so deferred.

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

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

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

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

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

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

Fixed rate securities have a market risk

The Securities will bear interest at a fixed rate from (and including) the Issue Date to (but excluding) the First Reset Date (each as defined in the relevant Conditions). A Holder of a security with a fixed interest rate such as the Securities is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of such security to change. If the Market Interest Rate increases, the price of such security typically falls. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Securities and can lead to losses for the Holders if they sell the Securities.

Interest rate reset may result in a decline of yield

A holder of securities with a fixed interest rate that will be reset during the term of the securities (as it is the case of the Securities) is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of such securities in advance.

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

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

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

Risks arising in connection with the Dutch Insolvency Law

Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "**EU Insolvency Regulation**"), the court that shall have jurisdiction to open insolvency proceedings in relation to a company will be the court of the EU Member State (other than Denmark) where the company concerned has its "centre of main interest" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its "centre of main interest" is a question of fact on which the courts of the different EU Member States may have differing and even conflicting views.

Furthermore, the term "centre of main interest" is not a static concept and may change from time to time. Although there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that any such company has its "centre of main interest" in the Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "centre of main interest" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and is therefore ascertainable by third parties. In that respect, factors such as where board meetings are held and the perception of the company's creditors as regards the centre of the company's business operations may all be relevant in the determination of the place where the company has its "centre of main interest".

If the "centre of main interest" of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings with respect to the company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one EU Member State under the EU Insolvency Regulation are to be recognised in the other EU Member States (other than Denmark), although secondary proceedings may be opened in another EU Member State. If the "centre of main interest" of a debtor is in one EU Member State (other than Denmark), under Article 3(2) of the EU Insolvency Regulation, the courts of another EU Member State (other than Denmark) have jurisdiction to open "territorial proceedings" only in

the event that such debtor has an "establishment" in the territory of such other EU Member State. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other EU Member State. If the company does not have an establishment in any other EU Member State, no court of any other EU Member State has jurisdiction to open territorial proceedings with respect to such company under the EU Insolvency Regulation.

In the event that the Issuer experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer.

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

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

Under Dutch law secured creditors (and in the event of suspension of payment, also preferential creditors (including tax and social security authorities)) may enforce their rights against assets of the company to satisfy their claims as if there were insolvency proceedings. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. Consequently, a creditor's potential recovery could be reduced in Dutch insolvency proceedings.

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

In a suspension of payments and bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding on all unsecured and non-preferential creditors if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50 per cent. of the amount of the claims that are admitted for voting purposes, and (ii) subsequently ratified (*gehomologeerd*) by the Dutch courts. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the Holders of the Securities to effect a restructuring and could reduce the recovery of a Holder of Securities.

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

accruing after the date on which insolvency proceedings are opened cannot be verified. Where interest accrues after the date of opening of the proceedings, it can be admitted *pro memoria*.

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

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

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

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

Risks arising in connection with the Spanish Insolvency Law

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

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

The following is a brief description of certain aspects of the Spanish Insolvency Law which may be relevant in respect of the Guarantee given by the Guarantor.

Declaration of insolvency

In the event of insolvency of the debtor, insolvency proceedings can be initiated either by the debtor or by the creditors. In the event that the debtor files the insolvency petition, a "voluntary" insolvency (*concurso voluntario*), the debtor shall provide evidence of the situation of insolvency. The directors of the company shall request the insolvency within two months from the moment they knew, or ought to have known, of the insolvency situation.

The debtor may file for insolvency (or file with the insolvency court a communication under 5 Bis of Spanish Insolvency Law informing that it has commenced negotiations with its creditors to agree a refinancing agreement or an advanced proposal of settlement agreement (*convenio*), to obtain an additional period of three months to negotiate with its creditors) as a protective measure in order to avoid the attachment of its assets or suspension of certain enforcement actions that could be taken by its creditors.

An insolvency petition may be filed in relation to more than one company on a coordinated basis where, for instance, such companies belong to the same group of companies.

Upon receipt of the insolvency petition, the insolvency court may issue provisional interim measures to protect the assets of the debtor and may request a guarantee from the petitioning creditor asking for the adoption of such measures to cover damages caused by the preliminary protective measures.

The insolvency court will issue a court order either rejecting the petition or declaring the insolvency. In the event of declaration of insolvency, the insolvency court order will appoint a court administrator or receiver (*administración concursal*) ("receiver") and will order the publication of such declaration of the insolvency in the State Official Gazette (*Boletín Oficial del Estado*). The declaration of insolvency shall be also filed with the Commercial Registry (*Registro Mercantil*) and the Public Registry of Insolvency Resolutions (*Registro Público de Resoluciones Concursales*).

Certain effects of the insolvency declaration

The general rule is that the declaration of insolvency shall not affect the continuity of the business activity of the company other than in the terms expressly set out in the Spanish Insolvency Law.

In case of voluntary insolvency (*concurso voluntario*), the debtor will usually maintain administrative control of the company, however, the management decisions will be subject to the receiver's authorisation. In case of necessary insolvency (*concurso necesario*), the receiver will usually assume the administration of the company, unless the insolvency court decides otherwise.

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

The debt (including any claim under the Guarantee) will cease to accrue interest from the declaration of insolvency, except for such debt secured with security rights *in rem*, and up to, the amount obtained from the enforcement of the security.

Judicial or non-judicial enforcements proceedings (*ejecuciones singulares*) cannot be initiated from the declaration of insolvency and the enforcement of *in rem* security (e.g. pledges or mortgages) will be suspended unless the insolvency court considers that the assets are not related or necessary to the continuance of the professional activity of the company. However, such suspension is limited to a period ending either (i) with the approval of a settlement agreement (*convenio*) which does not affect the right to enforce or (ii) one (1) year elapses from the declaration of insolvency provided the liquidation phase has not started.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings. When compatible, in order to protect the interests of the debtor and creditors, the law extends the jurisdiction of the court dealing with insolvency proceedings, which is, then, legally authorised to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labour or administrative law).

Classification of the company's debts – Contractual subordination

The court order declaring the insolvency of the debtor shall contain an express request for the creditors to communicate and declare to the receivers any debts owed to them, within a one-month period, providing original documentation to justify such credits. Based on the documentation provided by the creditors, the insolvency receivers draw up a list of acknowledged creditors and classify them according to the categories established under Spanish Insolvency Law as follows: (i) debts against the insolvency estate, (ii) debt benefiting from special privileges, (iii) debt benefiting from general privileges, (iv) ordinary debt and (v) subordinated debt:

(i) Debts against the insolvency estate (*créditos contra la masa*): which are not subject to ranking and will be paid out of the insolvent company's assets (other than those attached to the specially privileged debts) with preference to any other debt. Debts against the insolvency estate may include, among others, (i) certain employees claims, (ii) costs and expenses of the insolvency proceedings, (iii) certain amounts arising under reciprocal contracts, (iv) certain claims deriving from the exercise of a clawback action (except in cases of bad faith), (v) certain amounts arising from obligations created by law or from the non-contractual liability of the insolvent debtor after the declaration of insolvency and until its conclusion, (vi) 50 per cent. of the new funds granted within the context of certain refinancing agreement meeting the requirements set out under of Spanish Insolvency Law and (vii) certain debts incurred by the debtor following the declaration of insolvency.

(ii) Debts benefiting from special privileges, representing attachments on certain assets (basically *in rem* security). These privileges may entail separate proceedings over the related assets, subject to certain restrictions (including a waiting period that may last up to one year unless the security qualifies as financial collateral subject to Royal Decree 5/2005 on financial collateral). However, the insolvency court may authorise the sale of the assets/business of the insolvent company before the settlement/liquidation phases subject to certain specific payment rules which do not necessary entail the full recovery of the secured debt.

(iii) Debts benefiting from general privileges, including, among others, certain labour debts, certain taxes, debts arising from non-contractual liability, up to 50% of the debt owed to the creditor who applied for insolvency or new money granted pursuant to a refinancing agreement that comply with

certain requirements set out under the Spanish Insolvency Law in the amount not admitted as a debt against the insolvency estate (*crédito contra la masa*).

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

(v) Subordinated debts (thus classified by virtue of law). Subordinated debts include, among others, (A) credits which have been contractually subordinated (as the Securities); and (B) those credits held by parties in special relationships with the debtor: in the case of an individual, his/her relatives; in the case of a legal entity, the receivers and any shareholders holding more than 5 per cent. (for companies which have issued securities listed on an official secondary market) or 10 per cent. (for companies which have not issued securities listed on an official secondary market) of the share capital and companies pertaining to the same group as the debtor and their common shareholders, provided that such shareholders meet the minimum shareholding requirements set forth before. Subordinated creditors (as the holder of the Securities) are second-level creditors; they cannot vote on a settlement agreement (but are bound by the contents of the settlement agreement) and will be paid only if and after all privileged and ordinary debts have been fully satisfied.

The Spanish Insolvency Law has been recently amended by virtue of Royal Decree-Law 4/2014, of 7 March and Royal Decree-Law 11/2014, of 5 September (the "**recent amendments**") whereby, *inter alia*, a new regime for certain pre-insolvency refinancing agreements and settlement agreements have been set forth. In particular, according to such recent amendments, certain judicially-sanctioned refinancing agreements and settlement agreements (*convenio*) reached by the debtor in an insolvency scenario are capable of binding dissenting (including absentee) unsecured and secured creditors of financial indebtedness (dissenting creditors) vis-à-vis the debtor. Whether dissenting creditors are bound by a judicially-sanctioned refinancing agreement or a settlement agreement depends on the level of support received from the various types of creditors.

Claw back regime

The acts performed and agreements entered into by the company within the two (2) years immediately preceding the declaration of insolvency may be set aside by the court upon the petition of the receivers or the creditors if such acts are considered to be prejudicial to the company's asset base. The burden of proof is on the receivers or the creditors, as the case may be, alleging that such acts were prejudicial. However:

(A) certain acts and agreements are presumed to be prejudicial to the company's assets base, without any possibility for the parties to file evidence against this presumption (this is the case of gifts and early payments of unmatured debts which are not secured with a right *in rem*).

(B) in respect of certain acts and agreements (such as, for instance, the creation of security in respect of pre-existing obligations other than certain real estate security, contracts entered into with certain related persons, or early payments of unmatured debts secured with a right *in rem*) the burden of proof is reversed, and the burden of proof is on the creditor(s) to rebut, to the court's satisfaction, the presumption that the company's asset base was prejudiced through those acts and agreements; and

(C) transactions made within the company's ordinary course of business cannot be rescinded on the basis of being prejudicial to the company's asset base.

The main consequence of the rescission is that the reciprocal obligations must be restored and the receivable of the creditor (if any) will be classified as a debt of the insolvency estate (please see paragraph (i) above) unless the court finds that the creditor acted in bad faith, in which case its claim will be classified as a subordinated debt.

The above remedy is without prejudice to the possibility to rescind those acts and contracts entered into by the company (i) in fraud of creditors during the previous four (4) years or (ii) as null and void (*acción de nulidad*) being this later action, as a declarative one, subject to no statute of limitation period.

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

Holders should be aware (i) of the effects of a declaration of insolvency (declaración de concurso) of the Guarantor set out above, (ii) that their claims against the Guarantor would be subordinated to all the secured and ordinary debts of the Guarantor and (iii) that subordinated creditors may not vote on a settlement agreement (convenio) and (iv) that they have very limited chances of collection in an insolvency scenario, according to the ranking established by law.

Risks related to the Securities generally

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

Majority decisions bind all Holders

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

Change of law

The Conditions are based on law (including tax law) and administrative practice in effect at the date of this Prospectus, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this Prospectus, which change might impact on the Conditions and the expected payments of interest and repayment of principal.

In particular, as of the date of issuance of the Securities, a new Draft Corporate Income Tax Bill (*Proyecto del Ley del Impuesto sobre Sociedades*) has been presented by the Spanish Government to the Spanish Parliament to follow parliamentary process. After parliamentary process, this new Corporate Income Tax Bill is expected to have effects for all tax periods commencing after 1 January 2015. Although the draft legislation has been reviewed to ensure that, under its current reading, it doesn't affect the expected tax treatment of all Spanish relevant entities, the Issuer and the Guarantor cannot assure that the draft legislation will be finally implemented in its current form (nor whether the administrative practice is going to interpret the provisions of the new legislation differently). Therefore, the new Spanish Corporate Income Tax Bill might have an impact on the business, financial position and results of operations of the Group and on the Conditions and the expected payments of interest and repayment of principal.

The proposed European financial transactions tax

The European Commission published in February 2013 a proposal for a Directive for a common financial *transaction* tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain *dealings* in the Securities (including secondary market transactions) in certain circumstances.

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

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of *legal* challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and Member States mentioned above may decide not to participate. Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

There is no active trading market for the Securities

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

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

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

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

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

EU Savings Directive on the taxation of savings income

Under Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States *are* required to provide to the tax authorities of another Member State details of payments of

interest (or similar income) paid by a person within its jurisdiction (or secured for) to an individual resident (or certain entities established) in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest (or similar income) may request that no tax be withheld.

On 24 March 2014, the European Council formally adopted a Council Directive amending the Directive (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

On 18 March 2014, the Luxembourg Ministry of Finance filed a bill with the Luxembourg parliament to introduce, on 1 January 2015 and within the scope of the Directive, the automatic exchange of information for all interest payments made by Luxembourg financial operators to individuals resident in another Member State. This will replace the 35 per cent. withholding tax.

A number of non EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or withholding) in relation to payments of interest (or similar income) made by a person within their jurisdiction to (or secured for), an individual resident (or certain entities established) in a Member State. In addition, the Member States have entered into provision of information or withholding arrangements with certain of those dependent or associated territories in relation to payments of interest (or similar income) made by a person in a Member State to (or secured for), an individual resident (or certain entities established) in one of those territories.

Exchange rate fluctuations may affect the value of the Securities

The Issuer will pay principal and interest on the Securities in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Securities, (2) the Investor's Currency-equivalent value of the principal payable on the Securities and (3) the Investor's Currency-equivalent market value of the Securities.

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. Any of the foregoing events could adversely affect the price of the Securities.

OVERVIEW OF THE SECURITIES

This overview must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the "Terms and Conditions of the Securities" below have the same meanings in this overview.

Issuer:	Gas Natural Fenosa Finance B.V.
Guarantor:	Gas Natural SDG, S.A.
Description of the Securities:	€1,000,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**"), to be issued by the Issuer on 18 November 2014 (the "**Issue Date**").
Joint Bookrunners:	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, ING Bank N.V., J.P. Morgan Securities plc, Mitsubishi UFJ Securities International plc, Nomura International plc and Société Générale.
Fiscal Agent:	Citibank, N.A., London Branch.
Issue Price:	100 per cent. of the principal amount of the Securities.
Issue Date:	18 November 2014.
Maturity Date:	Undated.
Interest:	The Securities will bear interest on their principal amount: (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 4.125 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 18 November 2015; and (ii) from (and including) the First Reset Date, at the applicable 8 year Swap Rate in respect of the relevant Reset Period plus: (A) in respect of the period commencing on the First Reset Date to (but excluding) 18 November 2024, 3.353 per cent. per annum; (B) in respect of the period commencing on 18 November 2024 to (but excluding) 18 November 2042, 3.603 per cent. per annum[1]; and

[1] Step-up of 25 basis points 10 years after the Issue Date

(C) from and including 18 November 2042, 4.353 per cent. per annum[2],

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 18 November 2023, subject to Condition 5.

All as more particularly described in Condition 4 (*Interest Payments*).

Interest Payment Dates: Interest payments in respect of the Securities will be payable annually in arrear on 18 November in each year, commencing on 18 November 2015.

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

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

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

Guarantee and Status of Guarantee: Payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons will be unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis.

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

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

[2] Step-up of 75 basis points 28 years after the Issue Date

holders of all Junior Obligations of the Guarantor.

Optional Interest Deferral: The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in "*Terms and Conditions of the Securities—Optional Interest Deferral*". Non-payment of interest so deferred shall not constitute a default by the Issuer or Guarantor under the Securities or the Guarantee or for any other purpose. Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest.

Optional Settlement of Arrears of Interest: Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time upon giving not more than 14 and no less than seven Business Days' notice to the Holders, the Fiscal Agent and the Paying Agents prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date. See Condition 5(b) ("*Optional Settlement of Arrears of Interest*").

Mandatory Settlement of Arrears of Interest: The Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

"**Mandatory Settlement Date**" means the earliest of:

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

(ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the Interest Payment in respect of the relevant Interest Period; and

(iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchase*) or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Default*).

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

(i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made (i) in respect of any of the 2005 Preferred Securities or the 2003 Preferred Securities or (ii) exclusively in Ordinary Shares of the Guarantor); or

(ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations (other than a repurchase, redemption or acquisition of any

	of the 2005 Preferred Securities or the 2003 Preferred Securities). See Condition 5(c) ("*Mandatory Settlement of Arrears of Interest*").
Optional Redemption:	The Issuer may redeem the Securities in whole, but not in part, on the First Reset Date and on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event, the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the prices set out, and as more particularly described, in Condition 6 (*Redemption and Purchase*).
Events of Default:	There are no events of default in respect of the Securities. However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of Spanish Insolvency Law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene an Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon. In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish Insolvency Law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.
Additional Amounts:	Payments in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, taxes of The Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in Condition 8(a) (*Taxation-Additional Amounts*).
Form:	The Securities will be in bearer form and will initially be represented by a Temporary Global Security, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in a Permanent Global Security as set out in the Temporary Global Security. The Permanent Global Security will be

	exchangeable for Definitive Securities in the circumstances set out in the Permanent Global Security. See "*Summary of Provisions relating to the Securities in Global Form*".
Denominations:	The Securities will be issued in denominations of €100,000.
Governing Law:	The Fiscal Agency Agreement, the Deed of Covenant, the Deed of Guarantee, the Securities, and the Coupons and any non-contractual obligations arising out of, or in connection with, them are governed by, and shall be construed in accordance with, English law, other than the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons−Subordination of the Securities)* which are governed by and construed in accordance with the laws of The Netherlands, and the provisions of Condition 3(c) (*Guarantee, Status and Subordination of the Guarantee−Subordination of the Guarantee)*, and the corresponding provisions of the Guarantee, which are governed by and construed in accordance with the laws of the Kingdom of Spain. See Condition 16 (*Governing Law*).
Replacement Intention:	As at 13 November 2014, it is the Guarantor's intention (without thereby assuming any obligation whatsoever) at any time, that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed an amount equal to the aggregate principal amount of securities sold or issued by the Guarantor or any subsidiary of the Guarantor to third party purchasers (other than group entities of the Guarantor) during the 360-day period prior to the date of such redemption or repurchase, which securities are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless: (i) the rating assigned by S&P to the Guarantor is at least "BBB" (or such similar nomenclature then used by S&P) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or (iii) the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or (iv) such redemption or repurchase occurs on or after the Interest Payment Date falling on 18 November 2042.
Rating:	The Securities will be rated BB+ by S&P, Ba1 by Moody's and BBB– by Fitch. Each of S&P, Moody's and Fitch is established in the

	European Union and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and Admission to Trading:	Application has been made to the Luxembourg Stock Exchange for the Securities 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) and to be listed on the official list of the Luxembourg Stock Exchange.
Selling Restrictions:	The United Kingdom, the United States of America, The Netherlands and the Kingdom of Spain. See "*Subscription and Sale*". Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.
Use of Proceeds:	The net proceeds of the issue of the Securities, expected to amount to €994,880,000, will be on-lent to the Guarantor to be used by the Guarantor and its consolidated subsidiaries for general corporate purposes.
Risk Factors:	Prospective investors should carefully consider the information set out in "*Risk Factors*" in conjunction with the other information contained or incorporated by reference in this Prospectus.
ISIN:	XS1139494493.
Common Code:	113949449.

INFORMATION INCORPORATED BY REFERENCE

The information set out in the table below shall be deemed to be incorporated in, and to form part of, this Prospectus **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Fiscal Agent, unless such documents have been modified or superseded, 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 copies of such documents as available at www.bourse.lu.

Gas Natural Fenosa Finance B.V.

The annual financial report for the year ended 31 December 2013 of Gas Natural Fenosa Finance B.V.

The annual financial report for the year ended 31 December 2012 of Gas Natural Fenosa Finance B.V.

Gas Natural SDG, S.A.

The unaudited consolidated interim financial information for Gas Natural SDG, S.A. in relation to the nine-month period ended 30 September 2014:

The condensed consolidated interim financial statements for Gas Natural SDG, S.A. in relation to the six-month period ended 30 June 2014, together with the limited review report and directors' report thereon:

The sections listed below of the Annual Report 2013 of Gas Natural SDG, S.A., including the audited consolidated annual accounts for the year ended 31 December 2013 together with the audit report thereon:

The sections listed below of the Annual Report 2012 of Gas Natural SDG, S.A., including the audited consolidated annual accounts for the year ended 31 December 2011 together with the audit report thereon:

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.

The Issuer produces and publishes only non-consolidated financial statements and does not produce interim financial statements.

TERMS AND CONDITIONS OF THE SECURITIES

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

The issue of the €1,000,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") was authorised by a resolution of the Board of Managing Directors of the Issuer and a resolution of the Sole Shareholder of the Issuer, both dated 2 October 2014 and the guarantee of the Securities was authorised by a resolution of the Board of Directors of the Guarantor dated 18 July 2014. A fiscal agency agreement dated 18 November 2014 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Securities between the Issuer, the Guarantor, Citibank, N.A., London Branch as fiscal agent, Citibank, N.A., London Branch as agent bank and the paying agents named therein. The fiscal agent, the agent bank and the paying agents for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Agent Bank**" and the "**Paying Agents**" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Securities and the coupons relating to them (the "**Coupons**", which expression includes, where the context so permits, talons for further coupons (the "**Talons**")). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The Holders of the Securities and the Holders of the Coupons (each as defined in Condition 1(b) below) (whether or not attached to the relevant Securities) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1. Form, Denomination and Title

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

(b) **Title**: Title to the Securities and Coupons passes by delivery. The holder of any Security or Coupon (a "**Holder**") will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person shall be liable for so treating the Holder.

2. Status and Subordination of the Securities and Coupons

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

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

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

The Issuer does not have any Preferred Shares of the Issuer outstanding and the Issuer's Articles of Association do not provide for the issuance of such shares by the Issuer. For so long as any of the Securities remains outstanding, the Guarantor and the Issuer do not intend to issue any Preferred Shares of the Issuer.

3. **Guarantee, Status and Subordination of the Guarantee**

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

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

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

4. **Interest Payments**

(a) **General**

The Securities bear interest at the Prevailing Interest Rate from (and including) 18 November 2014 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

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

(b) **Interest Accrual**

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

Interest in respect of any Security shall be calculated per €100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each Security on any Interest Payment Date shall be calculated by multiplying the Prevailing Interest Rate for the Interest Period ending immediately prior to such Interest Payment Date by the Calculation Amount and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Interest in respect of any Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a complete year, shall be calculated on the basis of the actual number of days in the relevant

period from (and including) the first day of such period to (but excluding) the last day of such period divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next succeeding Interest Payment Date.

(c) **Prevailing Interest Rate**

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

(i) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 4.125 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 18 November 2015; and

(ii) from (and including) the First Reset Date, at the applicable 8 year Swap Rate in respect of the relevant Reset Period plus:

(A) in respect of the period commencing on the First Reset Date to (but excluding) 18 November 2024, 3.353 per cent. per annum; and

(B) in respect of the period commencing on 18 November 2024 to (but excluding) 18 November 2042, 3.603 per cent. per annum[1]; and

(C) from and including 18 November 2042, 4.353 per cent. per annum[2],

all as determined by the Agent Bank payable annually in arrear on each Interest Payment Date, commencing on 18 November 2023, subject to Condition 5,

and where:

"**8 year Swap Rate**" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ISDAFIX2" (the "**Reset Screen Page**") as at 11:00 a.m. (Frankfurt/Germany time) on the relevant Reset Interest Determination Date.

In the event that the relevant 8 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 8 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate determined by the Agent Bank on the basis of the 8 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 8 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

The "**8 year Swap Rate Quotations**" means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 Day Count

[1] Step-up of 25 basis points 10 years after the Issue Date
[2] Step-up of 75 basis points 28 years after the Issue Date

basis) of a fixed-for-floating euro interest rate swap which (i) has a term of eight years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on the basis of the actual number of days elapsed and a year of 360 days).

(d) **Publication of Prevailing Interest Rates**

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

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

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

The Issuer will maintain an Agent Bank as from the Issue Date and, with effect from the first Reset Interest Determination Date, the Issuer will (or the Agent Bank will in consultation with the Issuer) select the number of Reset Reference Banks provided above where the Prevailing Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank is Citibank, N.A., London Branch and its initial specified office is Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

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

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

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

5. **Optional Interest Deferral**

(a) **Deferral of Interest Payments**: The Issuer may, subject as provided in Conditions 5(b) and 5(c) below, elect in its sole discretion to defer (in whole or in part) any Interest Payment that

is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a "**Deferral Notice**") of such election to the Holders in accordance with Condition 14, the Fiscal Agent and the Paying Agents not more than 14 and not less than 7 Business Days prior to the relevant Interest Payment Date. Any Interest Payment that the Issuer has elected to defer pursuant to this Condition 5(a) and that has not been satisfied is referred to as a "**Deferred Interest Payment**".

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

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

(b) **Optional Settlement of Arrears of Interest**: Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time (the "**Optional Deferred Interest Settlement Date**") following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 14, the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

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

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14, the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Mandatory Settlement Date.

"**Mandatory Settlement Date**" means the earliest of:

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

(ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the Interest Payment in respect of the relevant Interest Period; and

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

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

(i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made (i) in respect of any of the 2003 Preferred Securities or the 2005 Preferred Securities or (ii) exclusively in Ordinary Shares of the Guarantor); or

(ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations (other than a repurchase, redemption or acquisition of any of the 2003 Preferred Securities or the 2005 Preferred Securities),

save, in the case of (a) any such Dividend Declaration or such redemption, repurchase or acquisition that is mandatory under the terms of any such Junior Obligations or Parity Obligations; (b) any Dividend Declaration in respect of any such dividend, distribution or payment by the Issuer to the Guarantor, (c) any Dividend Declaration or repurchase which is required to be validly resolved on, declared, paid or made in respect of, share option, loyalty, share acquisition or free share allocation plan in each case reserved for directors, officers and/or employees of the Guarantor or any of its Affiliates or any associated liquidity agreements or any associated hedging transactions; (d) any purchase of Ordinary Shares of the Guarantor by or on behalf of the Guarantor as part of an intra-day transaction that does not result in an increase in the aggregate number of Ordinary Shares of the Guarantor held by or on behalf of the Guarantor as treasury shares at 8:30 a.m. Central European time on the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred; (e) any repurchase or acquisition of Parity Obligations that is made for a consideration less than the aggregate nominal or par value of such Parity Obligations that are purchased or acquired: (f) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from mandatory obligations or hedging of any convertible securities issued by the Issuer or the Guarantor; or (g) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from the settlement of existing equity derivatives after the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

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

6. Redemption and Purchase

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

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

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

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

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

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

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

(i) deliver to the Fiscal Agent a certificate signed by two directors of the Guarantor or two attorneys duly authorised by the Board of Directors of the Guarantor stating that

the relevant requirement or circumstance giving rise to the right to redeem is satisfied;

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

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

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

Any such certificate, opinion or confirmation referred to in paragraphs (i) to (iv) above shall, absent manifest error, be final and binding on all parties.

(h) **Cancellation**: All Securities redeemed in accordance with Conditions 6(b), 6(c), 6(d), 6(e) and 6(f) and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or re-sold.

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

As at 13 November 2014, it is the Guarantor´s intention (without thereby assuming any obligation whatsoever) at any time, that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed an amount equal to the aggregate principal amount of securities sold or issued by the Guarantor or any subsidiary of the Guarantor to third party purchasers (other than group entities of the Guarantor) during the 360-day period prior to the date of such redemption or repurchase, which securities are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

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

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

(iii) the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or

(iv) such redemption or repurchase occurs on or after the Interest Payment Date falling on 18 November 2042.

7. **Payments**

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

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

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

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

(e) **Payments on business days**: If the due date for payment of any amount in respect of any Security or Coupon is not a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day that is not a Business Day), the Holder thereof shall not be entitled to payment until the next business day in the place of presentation (and, in the case of payment by transfer to a euro account, on the next day that is a Business Day). No further interest or other payment will be made as a consequence of such delay. In this Condition 7, "**business day**" means a day on which commercial banks and foreign exchange markets settle payments and are open in the relevant city.

(f) **Paying Agents**: The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent, (ii) a Paying Agent (which may be the Fiscal

Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

8. **Taxation**

(a) **Additional Amounts:** All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Securities 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 (collectively, "**Taxes**") 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 (each a "**Taxing Authority**") or required pursuant to an agreement described in section 1471(b) of the Code, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

In that event, the Issuer, failing which the Guarantor, will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts receivable by any Holder, or beneficial owner, after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received by such Holder, or beneficial owner, 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 Securities or Coupon or (as the case may be) under the Guarantee:

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

(ii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder 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) presented for payment in The Netherlands or, as applicable, the Kingdom of Spain; or

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

(v) while the Securities are represented by definitive Securities, where such withholding or deduction of Taxes is imposed, withheld or deducted by reason of the Holder or the beneficial owner of any Security or Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to provide a

valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any Security or Coupon, which the Holder or the beneficial owner is required to provide by the applicable tax laws and regulations of the relevant Taxing Authority as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by such relevant Taxing Authority;

(vi) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

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

(viii) 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.

In addition, Additional Amounts will not be payable with respect to (i) any Taxes that are imposed in respect of any combination of the items set forth above and to (ii) any Holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of the relevant Taxing Authority to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had it been the Holder.

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

(c) **Tax Credit Clawback:** If any Holder makes any payment to the Issuer or, as the case may be, the Guarantor pursuant to this clause and such Holder subsequently determines that the credit, relief, remission or repayment in respect of which such payment was made was not available or has been withdrawn or that it was unable to use such credit, relief, remission or repayment in full, the Issuer or, as the case may be, the Guarantor shall reimburse such

Holder such amount as such Holder determines is necessary to place it in the same after tax position as it would have been in if such credit, relief, remission or repayment had been obtained and fully used and retained by such Holder, such amount not exceeding in any case the amount paid by the Holder to the Issuer or, as the case may be, the Guarantor.

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

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.

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

9. Enforcement Events and No Events of Default

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

However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent ("*en estado de insolvencia*") pursuant to article 2 of the Spanish insolvency law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene a previously adopted Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency ("*declaración de concurso*") under Spanish insolvency law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

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

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9 shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or

the Guarantee or in respect of any other breach by the Issuer or the Guarantor of any of their respective other obligations under or in respect of the Securities or the Guarantee.

10. **Prescription**

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

11. **Replacement of Securities and Coupons**

If any Security or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and 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 Securities or Coupons must be surrendered before replacements will be issued. In case any such lost, stolen, mutilated, defaced or destroyed Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefor, pay such Coupon when due.

12. **Meetings of Holders of Securities and Modification**

(a) **Meetings of Holders of Securities:** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Securities to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Holders of Securities holding Securities not less than one twentieth in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing at least two thirds of the aggregate principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders of Securities whatever the principal amount of the Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of Securities (whether or not they were present at the meeting at which such resolution was passed) and on all holders of Coupons.

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

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

In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Holders of Securities, to any

such modification unless, in the opinion of the Issuer and the Guarantor, (i) it is of a formal, minor or technical nature; (ii) it is made to correct a manifest error; or (iii) it is not materially prejudicial to the interests of the Holders of Securities.

13. **Further Issues**

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

14. **Notices**

All notices regarding the Securities 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 Securities 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.

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

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

15. **Contracts (Rights of Third Parties) Act 1999**

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

16. **Governing Law**

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

accordance with the laws of The Netherlands, and the provisions of Condition 3(c), and the corresponding provisions of the Guarantee, which are governed by and construed in accordance with the laws of the Kingdom of Spain.

(b) **Jurisdiction**: The Issuer and the Guarantor irrevocably agree for the benefit of the Holders 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 Fiscal Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Securities 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.

(c) **Agent for Service of Process**: 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 Fiscal Agent and agree that, failing such appointment within fifteen days, any Holder 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 Fiscal Agent. Nothing contained herein shall affect the right of any Holder to serve process in any other manner permitted by law.

17. **Definitions**

In these Conditions:

"**2003 Preferred Securities**" means the preferred capital securities issued by Unión Fenosa Financial Services USA LLC on 20 May 2003 for an aggregate principal amount of €609,244,650 (*of which, as at 13 November 2014, €69,090,875 were outstanding*);

"**2005 Preferred Securities**" means the €750,000,000 Non-Cumulative Perpetual Guaranteed Floating Rate Preferred Securities issued by Unión Fenosa Preferentes S.A.U. on 30 June 2005 (*of which, as at 13 November 2014, €750,000,000 were outstanding*);

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

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

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

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

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

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

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

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

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

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

a "**Capital Event**" shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to (i) any amendment to, clarification of, or change in hybrid capital methodology or a change in the interpretation thereof, in each case occurring or becoming effective after the Issue Date; or (ii) the application of a different hybrid capital methodology or set of criteria by the relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the Securities will no longer be eligible for the same or a higher amount of "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date;

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

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

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

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

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

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

"**First Reset Date**" means 18 November 2022;

"**Fitch Ratings**" means Fitch Ratings Limited;

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

"**Guarantor**" means Gas Natural SDG, S.A.;

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

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

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

"**Interest Payment Date**" means 18 November in each year;

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

"**Issue Date**" means 18 November 2014;

"**Issuer**" means Gas Natural Fenosa Finance B.V.;

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

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

"**Junior Obligations of the Guarantor**" means all obligations of the Guarantor issued or incurred directly or indirectly by it, which rank or are expressed to rank junior to the Guarantee, including (i) Ordinary Shares of the Guarantor, and (ii) all present or future series of preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor in accordance with Law 10/2014 or any other law or regulation of Spain or any other jurisdiction applicable from time to time (including, for the avoidance of doubt, the guarantees granted by the Guarantor in connection with the 2003 Preferred Securities and the 2005 Preferred Securities);

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

"**Law 10/2014**" means the Additional Provision One of Law 10/2014 of the Kingdom of Spain (as amended or replaced from time to time);

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

"**Moody's**" means Moody's Investors Service Limited;

"**Ordinary Shares of the Guarantor**" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €1.00 each;

"**Ordinary Shares of the Issuer**" means ordinary shares in the capital of the Issuer, having on the Issue Date a nominal amount of €453.78 each;

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

"**Parity Obligations of the Guarantor**" means any obligations of the Guarantor, issued directly by it or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor, which rank or are expressed to rank *pari passu* with the Guarantee;

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

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

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

"**Proceedings**" has the meaning given to it in Condition 16(b);

"**Rating Agency**" means S&P, Moody's or Fitch Ratings or, in each case, any successor to the rating agency business thereof;

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

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

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

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

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

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

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

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

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited;

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

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

"**Subordinated Loan**" means the subordinated loan made by the Issuer to the Guarantor expected to be dated on or around 18 November 2014, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a "**Substantial Purchase Event**" shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Securities originally issued (which for these purposes shall include any Further Securities) is purchased by the Issuer, the Guarantor or any subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(h));

"**Taxes**" has the meaning given to it in Condition 8(a);

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

For the avoidance of doubt, a Tax Event shall not occur if payments of interest under the Subordinated Loan by the Guarantor are not deductible in whole or in part for Spanish corporate income tax purposes solely as a result of general tax deductibility limits set forth by Article 20 of the consolidated text of the Spanish Corporate Income Tax Law, approved by the Royal Legislative Decree 4/2004, dated 5 March, as at 12 November 2014;

"**Tax Law Change**" means a change in or proposed change in, or amendment to, or proposed amendment to, the laws or regulations of The Netherlands or Spain or, in either case, any political subdivision or any authority thereof or therein having power to tax, including, without limitation, any treaty to which The Netherlands or Spain is a party, or any change in the official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretations thereof that differs from the previously generally accepted position in relation to similar transactions, which change, amendment or interpretation becomes or would become, effective after 12 November 2014;

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

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

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES IN GLOBAL FORM

The Securities will initially be in the form of Temporary Global Securities which will be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg.

The Securities are not intended to be held in a manner which would allow Eurosystem eligibility.

Each Temporary Global Security will be exchangeable in whole or in part for interests in a Permanent Global Security not earlier than 40 days after the later of the commencement of the offering and the Issue Date upon certification as to non-U.S. beneficial ownership. No payments will be made under each Temporary Global Security unless exchange for interests in the corresponding Permanent Global Security is improperly withheld or refused. In addition, interest payments in respect of the Securities cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Security will become exchangeable in whole, but not in part, for Securities in definitive form ("**Definitive Securities**") in the denomination of €100,000 each at the request of the bearer of the relevant Permanent Global Security if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) if principal in respect of any of the relevant Securities is not paid when due and payable.

Whenever a Permanent Global Security is to be exchanged for Definitive Securities, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Securities, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the corresponding Permanent Global Security to the bearer of such Permanent Global Security against the surrender of the relevant Permanent Global Security to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) the relevant Temporary Global Security is not duly exchanged, whether in whole or in part, for the corresponding Permanent Global Security by 5.00 p.m. (London time) on the thirtieth day after the time at which the preconditions to such exchange are first satisfied; or

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

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

then the relevant Global Security (including the obligation to deliver Definitive Securities) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) and (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above), and the bearer of such Global Security will have no further rights thereunder (but without prejudice to the rights which the bearer of the Global Security or others may have under a deed of covenant to be dated on or around 18 November 2014 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the relevant Global Security, will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Global Security becomes void, they had been the holders of Definitive Securities in an aggregate principal

amount equal to the principal amount of Securities they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, each Temporary Global Security and Permanent Global Security will contain provisions which modify the Terms and Conditions of the corresponding Securities as they apply to such Temporary Global Security and Permanent Global Security. The following is a summary of certain of those provisions:

Payments: All payments in respect of each Temporary Global Security and Permanent Global Security will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Security or (as the case may be) the relevant Permanent Global Security to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the relevant Securities. On each occasion on which a payment of principal or interest is made in respect of a Temporary Global Security or (as the case may be) a Permanent Global Security, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of a Temporary Global Security or a Permanent Global Security "**business day**" means any day on which the TARGET System is open.

Notices: While all the Securities of a given series are represented by a Permanent Global Security (or by a Permanent Global Security and/or a Temporary Global Security) and such Permanent Global Security is (or such Permanent Global Security and/or Temporary Global Security are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Holders of such series of Securities may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

FORM OF GUARANTEE

The text of the Deed of Guarantee is as follows:

This Deed of Guarantee is made on [18 November] 2014

BY

(1) GAS NATURAL SDG, S.A. (the "**Guarantor**")

IN FAVOUR OF

(2) THE HOLDERS of any Security or Securities (as defined below) or the coupons relating to them; and

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

WHEREAS

(A) Gas Natural Fenosa Finance B.V. (the "**Issuer**") proposes to issue Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**", which expression shall, if the context so admits, include the Global Securities (whether in temporary or permanent form)) in connection with which, the Issuer and Guarantor have become parties to a fiscal agency agreement (the "**Fiscal Agency Agreement**") dated 18 November 2014 between, *inter alios*, the Issuer, the Guarantor and Citibank, N.A., London Branch in its various capacities as set out therein relating to the Securities, and the Issuer has executed and delivered a deed of covenant (the "**Deed of Covenant**") dated 18 November 2014.

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

THIS DEED WITNESSES as follows:

1. Interpretation

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

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

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

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

1.5 Clause headings are for ease of reference only.

2. Guarantee and Indemnity

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

2.1.1 to each Holder the due and punctual payment of all sums expressed to be payable from time to time by the Issuer in respect of any Security as and when the same become due and payable and accordingly undertakes to pay to such Holder, forthwith upon demand by such Holder in the manner and currency prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Security in accordance with the Conditions of the Securities and which the Issuer has failed to pay; and

2.1.2 to each Relevant Account Holder the due and punctual payment of all sums which become payable from time to time by the Issuer to such Relevant Account Holder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Relevant Account Holder, forthwith on demand by such Relevant Account Holder in the manner and currency prescribed by the Conditions of the Securities for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay to such Relevant Account Holder in respect of the Direct Rights in accordance with the Deed of Covenant and which the Issuer has failed to pay.

2.2 The Guarantor unconditionally and irrevocably undertakes to each Holder and each Relevant Account Holder that, should any amount referred to in Clause 2.1 not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Security, any provision of any Security, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Holder or Relevant Account Holder, the Guarantor will, forthwith upon demand by such Holder or Relevant Account Holder, pay such sum by way of a full indemnity in the manner and currency prescribed by the Securities or (as the case may be) the Deed of Covenant. This indemnity constitutes a separate and independent obligation from the other obligations under this Guarantee and shall give rise to a separate and independent cause of action.

3. Taxes

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

4. Preservation of Rights

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

4.2 The obligations of the Guarantor herein contained shall 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 intermediate payment or satisfaction of all or any of the Issuer's obligations under any Security or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Securities and under the Deed of Covenant have been paid, and all other obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

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

4.3.1 the winding up, bankruptcy, moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or

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

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

4.3.4 any amendment to, or any variation, waiver or release of, any obligation of the Issuer under any of the Securities or the Deed of Covenant; or any other act, event or omission which, but for this Clause 4.3, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein 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 Any settlement or discharge between the Guarantor and the Holders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

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

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

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

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

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

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

4.6.2 to take the benefit, in whole or in part, of any security enjoyed in connection with, any of the Securities or the Deed of Covenant issued by the Issuer, by any Holder or Relevant Account Holder; and/or

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

5. Conditions, Status and Subordination

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

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

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

6. Delivery of Deed of Guarantee

A duly executed original of this Guarantee shall be delivered promptly after execution to the Fiscal Agent and such original shall be held to the exclusion of the Guarantor until the date on which complete performance by the Guarantor of the obligations contained in this Guarantee and in the Securities occurs. A certified copy of this Guarantee may be obtained by any Holder or any Relevant Account Holder from the Fiscal Agent at its specified office at the expense of such Holder or Relevant Account Holder. Any Holder or Relevant Account Holder may protect and enforce his rights under this Guarantee (in the courts specified in Clause 10 below) upon the basis described in the Deed of Covenant (in the case of a Relevant Account Holder) and a copy of this Guarantee certified as being a true copy by a duly authorised officer of the Issue and Paying Agent without the need for production in any court of the actual records described in the Deed of Covenant or this Guarantee. Any such certification shall be binding, except in the case of manifest error or as may be ordered by any court of competent jurisdiction, upon the Guarantor and all Holders and Relevant Account Holders. This Clause shall not limit any right of any Holder or Relevant Account Holder to the production of the originals of such records or documents or this Guarantee in evidence.

7. Deed Poll; Benefit of Guarantee

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

7.2 The obligations expressed to be assumed by the Guarantor herein shall enure for the benefit of each Holder and Relevant Account Holder, and each Holder and each Relevant Account Holder shall be entitled severally to enforce such obligations against the Guarantor.

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

8. Provisions Severable

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

9. Notices

9.1 All communications to the Guarantor hereunder shall be made in writing (by letter, telex or fax) and shall be sent to the Guarantor at:

Address: Plaça del Gas no.1, 08003 Barcelona, Spain

Fax: + 34 934025767

Attention: Carlos J. Álvarez

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

9.2 Every communication sent in accordance with Clause 9.1 shall be effective upon receipt by the Guarantor; and provided, however, that any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the Guarantor.

10. Law and Jurisdiction

10.1 Governing Law: This Deed of Guarantee and all non-contractual obligations arising out of or connected with it shall be governed by, and shall be construed in accordance with, English law, except for the provisions of Condition 3(c) referred to in Clause 5.3, which shall be governed by and construed in accordance with Spanish law.

10.2 Subject to subclause 10.4 below, the Guarantor agrees for the benefit of the Holders and the Relevant Account Holders only that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Deed of Guarantee (including any dispute relating to any non-contractual obligations arising out of or in connection with this Deed of Guarantee) and accordingly submit to the exclusive jurisdiction of the courts of England.

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 The Holders and Relevant Account Holders may take any suit, action or proceedings (including any proceedings relating to any non-contractual obligations arising out of or in connection with this Deed of Guarantee) (together referred to as "**Proceedings**") against the Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions. The Guarantor hereby appoints Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom to accept service of any Proceedings on its behalf 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 Holder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Holder or Relevant Account Holder to serve process in any other manner permitted by law.

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

SIGNED as a **DEED** and **DELIVERED**)
on behalf of Gas Natural SDG, S.A.)
a company incorporated in the Kingdom of Spain)
by:)
being a person who, in accordance with)
the laws of that territory are acting under)
the authority of the company)

USE OF PROCEEDS

The net proceeds of the issue of the Securities, expected to amount to €994,880,000, will be on-lent to the Guarantor to be used by the Guarantor and its consolidated subsidiaries for general corporate purposes.

DESCRIPTION OF THE ISSUER

Incorporation and Status

Union Fenosa Finance B.V. was incorporated on 26 November 1993 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 Chamber of Commerce under number 24243533.

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 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 negotiable obligations and other securities in the capital and money markets.

Managing Directors

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 Prospectus are as follows:

Name	Position	Principal activities outside GNFF
Enrique Berenguer Marsal	Managing Director	Head of Financial Management and Planning for the Gas Natural Fenosa Group
Juan José Rivero Aranda	Managing Director	Accounts Planning Manager for the Gas Natural Fenosa Group
Jennifer Bartolome Moore	Managing Director	Managing Director of several Dutch subsidiaries for the Gas Natural Fenosa Group
Gunther Axel Reinder Warris	Managing Director	Proxy holder A of Intertrust (Netherlands) B.V.
Intertrust (Netherlands) B.V.	Managing Director	N/A

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

Intertrust (Netherlands) B.V. is registered with the Trade Register of the Chamber of Commerce under number 33144202. The details of the directors of Intertrust (Netherlands) B.V. are registered with the Trade Register of the Chamber of Commerce. The business address of Intertrust (Netherlands) B.V. is Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands.

Conflicts of Interest

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

DESCRIPTION OF THE GROUP

Incorporation and Status

Gas Natural SDG, S.A. ("**Gas Natural SDG**" or the "**Guarantor**") was incorporated on 28 January 1843 for an indefinite period 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 Prospectus, Gas Natural SDG's largest shareholder is "la Caixa" with an aggregate shareholding of 34.4%. The other principal shareholders of Gas Natural SDG are currently Repsol, S.A. with an aggregate shareholding of 30.0%. and Sonatrach (4.0%). Repsol, S.A.'s main shareholders are currently CaixaBank, S.A. (with a shareholding of 11.9%), Sacyr Vallehermoso, S.A. (9.1%) and Temasek (6.1%)

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 Maghreb-Europe 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 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%.

Acquisition of Unión Fenosa

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**") on 26 February 2009, 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 liquefied natural gas ("**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*) plan of action, imposed following the Group's acquisition of Unión Fenosa, through the disposal of certain assets.

Recent Developments

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 current macroeconomic and energy climate, and particularly to the impact of regulatory changes, with realistic criteria and achievable objectives. The Group's strategic priorities for 2013-2015 are aimed at reinforcing the current business model, which is based firmly on boosting and seeking out opportunities for growth overseas and particularly its growing prominence in the global gas market (mainly LNG) which is expected to enable the Group to maintain sound

results. Appropriate management of the businesses all over the world is aimed at enabling Gas Natural Fenosa to prepare for growth from 2015, when the economic recovery in Europe is expected to pick up pace, and thanks to its increased presence in the international LNG markets, with gas sales from new contracts such as the one signed with Cheniere Energy, Inc. ("**Cheniere**") in the United States.

The General Shareholders' Meeting of Gas Natural SDG, held on 11 April 2014, approved a shareholder remuneration of €898 million in cash, representing a 0.3% increase when compared with the previous year, with a resulting payout of 62.1% and a dividend yield of more than 4.8% based on the share price at 31 December 2013 (€18.695). The supplementary dividend for 2013, which amounted to €0.504 per share, was paid on 1 July 2014.

On 27 February 2014, Gas Natural Fenosa issued €500 million of ten-year bonds, with an annual coupon of 2.875%. The issue served to optimise the Group's financial structure, increasing its liquidity and enhancing the importance of the capital market in its sources of finance.

On 2 June 2014, Gas Natural Fenosa signed a new LNG supply agreement with Cheniere with freedom of destination, which means the Group can allocate the gas to the desired destination. Pursuant to the agreement, Gas Natural Fenosa will receive LNG at the Corpus Christi terminal (Texas) from 2019 for a term of 20 years, which is extendable by an additional ten years. According to the new supply contract the American company will supply the Group with 2 bcm per year (1.5 million tonnes per annum).

On 9 June 2014, Gas Natural Fenosa agreed to the sale of its telecommunications subsidiary to Cinven. The operation was agreed for a total value of assets of €510 million and will mean, upon completion, estimated capital gains for the Group of €252 million before tax.

On 16 June 2014, Gas Natural Fenosa and Brazilian company Companhia Energética de Minas Gerais S.A. ("**CEMIG**") signed an agreement to strengthen the development of the natural gas distribution grid in Brazil. Under this agreement, which is subject to certain conditions precedent, both companies will make the necessary efforts in the coming months to create a gas distribution holding company in Brazil with a view to undertaking additional capital expenditure. The holding company, which will have a shareholders' agreement and will be majority owned by Gas Natural Fenosa, will not affect the Group's control of investees in Río de Janeiro and São Paulo. In due time, the agreement will require regulatory and administrative authorisation by the corresponding authorities.

Takeover offer for General de Electricidad, S.A.

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 and which together represent 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.

According to CGE, the company is the leading electricity company in Chile (in terms of sales and number of customers) and the principal distributor of natural gas in the country (in terms of number of customers), with an ample presence in the liquefied petroleum gas sector.

The Group believes that the proposed acquisition of CGE represents the entry in a new key market in Latin America for the Group with immediate access to a market-leading position. The Group also believes that the transaction increases the geographical diversification of the Group and contributes to a more balanced business and risk profile of the Group.

The Group company launching the Takeover Offer will be Gas Natural Fenosa Chile S.p.A. The Takeover Offer will be for 100% of the shares in CGE at a price per share of CLP4,700, to be paid in cash. The Takeover Offer is subject to a minimum acceptance of shares representing at least 51% of CGE's share capital as well as other customary conditions precedent. In the event the Takeover Offer reaches a 100% acceptance level, the acquisition would imply a cost to the Group of approximately U.S.$3.3 billion. In addition, the Group will also assume approximately U.S.$2.3 billion of CGE's net debt. The Group currently believes that the Takeover Offer will be concluded during the second half of November 2014. Referring to the Takeover Offer, Standard & Poor's (on 14 October 2014) and Fitch (on 16 October 2014) affirmed the Guarantor's long-term ratings of BBB (stable) and BBB+ (stable), respectively and Moody's (on 17 October 2014) changed from "positive" to "stable" the outlook on the Guarantor's long-term rating of Baa2.

The Guarantor will publish the results of the Takeover Offer on 14 November 2014 at http://www.gasnaturalfenosa.com/en/shareholders+and+investors/1297076976002/highlights.html.

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: CNE July 2013), operating in over 25 countries and serving close to 20 million customers, around 9 million of which are located in Spain.

The Group is also the leader in the Spanish gas natural market (source: CNE July 2013), operating 5.2 million out of an estimated total of 7.5 million gas supply points in the Spanish market. The Group is also a leading operator in the Atlantic and Mediterranean LNG markets.

From 1 January 2014, the obligatory application of IFRS 11 "Joint Arrangements" led to a change in the method of recognition of Unión Fenosa Gas, Ecoeléctrica L.P, Ltd (a CCGT in Puerto Rico) and Nueva Generadora del Sur S.A. (a CCGT in Spain) and several joint ventures which operate renewable and cogeneration power generation facilities in Spain, which are now recognised by the equity method instead of the proportionate consolidation method.

As a result of applying IFRS 11, the Group's consolidated balance sheets as of 1 January 2013 and 30 June 2013, the Group's consolidated income statement for the first six months of 2013 and the operating figures by business area for the first six months of 2013 have been re-stated for comparison purposes.

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 2014 and 2013, respectively.

	30 June		(%) Variation 2014/2013
	2014	2013	
Gas distribution (GWh)	211,291	220,442	(4.15)
Electricity distribution (GWh)	25,715	25,802	(0.34)
Gas supply (GWh)	159,465	159,361	0.07
Gas transportation/EMPL (GWh)	61,547	65,303	(5.75)
Gas distribution connections (in thousands)	12,101	11,790	2.64
Electricity distribution connections (in thousands)	7,487	7,382	1.42
Installed capacity (MW)	14,552	14,462	0.62
Electricity generated (GWh)	22,577	23,460	(3.76)

The Group is organised across the following five main business areas:

Gas Distribution Europe

- Spain
- Italy

Electricity distribution Europe

- Spain
- Moldova

Gas

- Infrastructures
- Procurement and Supply

Electricity

- Spain
- Kenya

Latin America

- Gas distribution
- Electricity distribution
- Electricity

Gas Distribution Europe

Gas distribution — Spain

This area includes gas distribution, third-party access ("**TPA**") services, and secondary transportation, as well as related distribution activities in Spain.

Sales in the regulated gas business in Spain, which include TPA services and secondary transportation, totalled 87,212 GWh in the first six months of 2014, a 14.3% decrease compared with the same period in 2013, due to the impact of unfavourable weather conditions on the residential market and also due to the decline in demand in the cogeneration market, affected by new regulations.

Secondary transportation sales declined by 43.4% due to the notable decline in consumption by CCGTs and greater renewable energy output.

Gas Natural Fenosa continues to expand its distribution network and to increase the number of supply connections despite scant activity in the new building market.

The distribution network expanded by 422 km during the first six months of 2014, connecting 20 new municipalities to reach a total of 1,119 municipalities as at 30 June 2014.

Order IET/2446/2013, published on 30 December 2013, established the tolls and fees for TPA to gas installations and the remuneration for regulated gas activities for 2014. The remuneration recognised for Gas Natural Fenosa from distribution and transportation activities in 2014 is €1,108 million.

On 5 July 2014, Royal Decree Law 8/2014, of 4 July, on the approval of urgent measures for growth, competitiveness and efficiency was published in the Official State Gazette. It includes a series of adjustments in remuneration for regulated gas activities, effective as of 5 July 2014. The text modified the regulations applicable to the natural gas sector with the goal of updating various parameters and resolving the tariff deficit in this sector.

The adjustments include a modification in remuneration for gas distribution and transportation activities which, in the case of Gas Natural Fenosa, will reduce remuneration by approximately €45 million in 2014 when compared to 2013.

The announced adjustments also include the establishment of a stable and predictable regulatory framework until 2020, which includes a remuneration mechanism for gas distribution that will match remuneration to system revenues and, therefore, maintain the incentive to grow the distribution network and acquire new customers.

Gas distribution — Italy

This area refers to regulated distribution and retail supply of gas in Italy.

A total of 2,192 GWh of gas was distributed during the first six months of 2014, 8.4% less than during the first six months of 2013, and supplies to the retail market declined by 3.1% to 1,781 GWh, mainly due to weather conditions.

The distribution grid expanded by 105 km between 30 June 2013 and 30 June 2014 to 7,005 km.

As at 30 June 2014, Gas Natural Fenosa had 455,662 gas connection points in Italy, a 1.1% increase when compared to 30 June 2013 and 518,410 active retail gas, electricity and services contracts in Italy at 30 June 2014, an increase of 7.5% when compared to 30 June 2013.

On 23 May 2014, the Group was made aware of a decree that was issued by the Court of Palermo within the framework of an investigation initiated by the public prosecutor of Palermo. The investigation was launched to prevent a possible infiltration of organised crime through the use of contractors in the Group's Italian business. The decree is considered to be a preventive measure and is for the temporary judicial intervention of Gas Natural Italia S.p.A., Gas Natural Distribuzione Italia S.p.A. and Gas Natural Vendita S.p.A. The Group is closely cooperating with the Italian authorities. The Group does not currently expect this intervention to have a significant impact on the business and results of operations of such Italian subsidiaries.

Electricity distribution Europe

Electricity distribution — Spain

The Group's electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, including connections and hook-ups, metering and other activities associated with TPA services. The group's electricity distribution activities in Spain have been limited to the management of the distribution networks due to unbundling rules.

On 12 July 2013, the Spanish government approved a package of energy reform measures including Royal Decree-Law 9/2013, adopting "Urgent Measures" to guarantee the financial stability of the electricity system. A new law (Law 24/2013, of 26 December, on the Electricity Sector, the "**Electricity Act**") for the electricity sector was approved, and several Royal Decrees affecting electricity distribution activity. See "*Legislation in Spain—Regulation in the electricity sector*".

Order IET/107/2014, of 1 February, established the remuneration for electricity transmission, distribution and customer management for the Group's electricity distribution subsidiary and the other industry players. The amount corresponding to the Group for 2014 in respect of transmission is €37,423,000, in respect of distribution, €723,395,000 and customer management, €7,687,000.

Electricity supplied fell by 2% during the first six months of 2014 when compared to the corresponding period in 2013, representing a higher decline in demand than in the Spanish distribution network as a whole, which amounted to 119,292 GWh during the first six months of 2014 (120,772 GWh during the first six months of 2013), a 1.2% reduction, according to Red Eléctrica de España (REE).

The number of distribution connections remained stable as at 30 June 2014 with respect to 30 June 2013, at 3,670,000.

As for supply quality, the ICEIT (installed capacity equivalent interrupt time) index during the first half of 2014 was higher than in the corresponding period of 2013 due to adverse weather conditions, but it was in line with the average of recent years because of good performance by the facilities due to the ongoing capital expenditure plans, the grid architecture, and the systematic operation and maintenance plans.

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 (O&M). The plan is achieving its objectives and providing an ongoing improvement in basic operating indicators:

- Electricity supply increased slightly by 2.1% during the first six months of 2014 when compared to the corresponding period in 2013 since the positive effect of loss reduction campaigns was offset by lower consumption due to the milder weather in 2014 compared with 2013.
- Supply connections totalled 852,190 as at 30 June 2014, representing a 1.3% increase when compared to 30 June 2013, due primarily to growth in the real estate sector.
- The network loss ratio performed favourably during the first six months of 2014, enabling the Group to maximise regulated revenues.

Gas

Infrastructures

This area includes operation of the Maghreb-Europe gas pipeline, maritime transportation, development of integrated LNG projects, and hydrocarbon exploration, development, production and storage.

Europe-Maghreb gas pipeline

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 61,547 GWh during the first six months of 2014, a 5.8% decrease when compared to the corresponding period in 2013, as a result of the lower volume of gas shipped to Spain due to lower deliveries by Algeria. Of that figure, 43,866 GWh were shipped for Gas Natural Fenosa through Sagane and 17,681 GWh for Portugal and Morocco.

In 2013, Gas Natural Fenosa acquired a 14.95% stake in Medgaz. Medgaz operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year). The corresponding capacity is attributable to a new supply contract amounting to 0.8 bcm/year. A total of 4,505 GWh was shipped via the Medgaz pipeline for Gas Natural Fenosa during the first half of 2014.

Upstream Gas projects

The Group continues to advance the administrative processes for the five exploration, production and storage projects planned for the coming years in the Guadalquivir Valley in Spain (Marismas, Aznalcázar and Romeral areas). In January 2013, the Spanish Secretary of State for the Environment granted the Environmental Impact Assessments ("**EIA**") for the Saladillo, Eastern Marismas and Aznalcázar projects. The Group had previously obtained an EIA for the Western Marismas project. Subsequently, the Government of Andalucía suspended processing of a Combined Environmental Authorisation for the Eastern Marismas and Aznalcázar products, expressing doubts as to whether the synergistic effects between the projects had been evaluated and requesting that the Spanish Secretary of State complete such evaluation prior to issuing the remaining EIAs.

Maritime transportation

The Group has a fleet of ten LNG tankers, making it one of the major global LNG operators.

With regard to the Trieste regasification terminal project that the Group was planning to carry out in the north of Italy (Zaule), on 18 April 2013 a decree was published temporarily suspending the Environmental Impact Assessment (*Valutazione di Impatto Ambientale*) (VIA). As a result of this suspension decree, Gas Natural Fenosa may present an alternative location or, alternatively, the Port Authority may alter its maritime traffic development planning. On 13 June 2013, the Group filed an appeal at the administrative court against the temporary suspension decree and is awaiting a ruling.

Procurement and Supply

This area includes gas procurement and supply (wholesale and retail) in the liberalised market in Spain and other countries, the supply in Spain of other products and services related to retail supply, and supply of gas at the last-resort tariff in Spain.

In a situation of weak demand, the Group supplied 100,021 GWh in the Spanish gas market during the first six months of 2014, representing a 10.3% decline when compared to the first six months of 2013 due to lower sales to final customers (a decrease of 8.7%), mainly as a result of a decline in gas consumption by CCGT plants and in supply to third parties (a decrease of 14.2%).

In Portugal, Gas Natural Comercializadora S.A. reached a gas market share of 13%, according to data published by the Portuguese regulator (*Entidade Reguladora Dos Serviços Energéticos* or ERSE), making it the country's second-ranked operator. The Group believes this consolidates the Group's leadership in the Iberian Peninsula just prior to the creation of the single Iberian market (MIBGAS).

Gas Natural Fenosa arranged 14.0 TWh of underground storage for the period between April 2014 and March 2015, representing over 52% of the storage capacity available to the market. The Group believes this contract highlights its commitment to clients and the Spanish gas system.

Gas Natural Europe S.A.S., the Group's French subsidiary for supply in Europe ("**Gas Natural Europe**") had 2,716 distribution connections at 30 June 2014 in a range of sectors in France, from industrial companies (chemicals, paper mills, and others) to local governments and the public sector, accounting for a total portfolio of 19.9 TWh per year.

Gas Natural Europe strengthened its position in Belgium and Luxembourg with 462 supply points as at 30 June 2014, representing a contracted portfolio of 6.3 TWh per year. In The Netherlands, the Group had 284 supply points at 30 June 2014 and a portfolio of 5.1 TWh per year. The Group began operations in Germany at the end of 2012 and had 145 supply points as at 30 June 2014 and a portfolio of 1.4 TWh per year.

Gas Natural Fenosa is also considering entering into other central European markets in the short term by offering a combination of customised energy consulting with the advantage of a diversified, secure supply.

Gas Natural Vendita Italia S.p.A, the Group's Italian subsidiary, had a portfolio under contract in the Italian wholesale market amounting to 6.4 TWh per year at 30 June 2014.

The Group continues to diversify into international markets, having sold gas in the Americas (Caribbean and South America) and Asia (Japan, India and South Korea). The Group believes this strengthens its presence in the main international LNG markets, providing it with a medium-term position in countries with growth potential and those which are large consumers of LNG.

For example, the Group signed a new LNG sales contract in Chile, expanding the Group's presence in the Pacific Rim. The long-term contract, awarded through a competitive tender, was signed with Chilean company Minera Escondida, operated by BHP Billiton, to which LNG will be supplied for the Kelar CCGT starting in 2016. The first deliveries of LNG to the Mejillones terminal are expected to coincide with the commissioning of the Kelar CCGT, which is currently under construction.

Gas Natural Fenosa also signed a new LNG supply contract with Cheniere, under which Cheniere agreed to provide the Group with 2 bcm/year from its liquefaction plant under construction in Corpus Christi, Texas. The 20-year contract can be extended for an additional ten years, and the first delivery is

expected in 2019, once the second train at the Corpus Christi plant is built and operational. This agreement is conditional on obtaining regulatory authorisation and the funding required to build the plant in Texas.

Natural Gas Vehicles (NGV)

Gas Natural Fenosa continues to develop public service stations for compressed natural gas and LNG. The Group presented the service station for city buses in Guadalajara, which is open to the public and will supply all types of compressed natural gas vehicles, as well as other fuels. Gas Natural Fenosa had 37 automotive gas service stations as at 30 June 2014.

Maintenance contracts

As at 30 June 2014, Gas Natural Fenosa had over 11.3 million active retail gas, electricity and services contracts and more than 1.4 million residential customers had both electricity and gas supply contracts with Gas Natural Fenosa.

Products and services were marketed in all areas of Spain and the Group had 783,000 contracts in the residential market as at 30 June 2014. The new tariff model for electricity customers that opted for the "Small Consumer Voluntary Price" system (*Precio Voluntario para el Pequeño Consumidor* or "**PVPC**", previously known as the last-resort tariff), became effective on 1 April 2014. Gas Natural Fenosa, through its main distribution company, Gas Natural Sur SDG, S.A., had approximately 2.6 million customers using this tariff as at 30 June 2014.

In Spain, the Group launched the Capacity Optimisation Service for the SME market, whereby it provides custom advisory services to each client as to whether their contracted capacity is adapted to their needs. The Group continues to increase market share in Portugal, and had more than 21,000 contracts at 30 June 2014.

Gas Natural Fenosa expanded its residential maintenance contract portfolio to include new services. That portfolio contained more than 2.4 million active contracts as at 30 June 2014, managed with the Group's own operating platform consisting of 136 associated firms connected via an online system, which the Group believes enabled it to improve service performance and quality.

These efforts helped to increase retail contract numbers, which increased by 6% in like-for-like terms between 30 June 2013 and 30 June 2014.

Gas Natural Fenosa continues to add features and users to its online customer management system, enabling customers to acquire products and services online.

The Energy Solutions area continues to expand the portfolio of new value-added products and services and two new energy services were launched in 2014.

Electricity

Spain

This area basically 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.

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 2014 and 30 June 2013, respectively.

(MW)	30 June 2014	30 June 2013	(%) Variation 2014/2013
Installed capacity	12,123	12,033	0.7%
Generation	11,221	11,169	0.5%
Hydroelectric	1,949	1,914	1.8%
Nuclear	604	604	—
Coal	2,065	2,048	0.8%
Oil/gas	6,603	6,603	—
Renewables and Cogeneration	902	864	4.4%
Wind	738	738	—
Small hydroelectric	107	69	55.1%
Cogeneration and other	57	57	—

The change in installed capacity as at 30 June 2014 when compared to 30 June 2013 is due to a 35 MW increase as a result of re-rating several hydroelectric plants and a 17 MW increase in gross capacity of the Meirama power plant, recognised in August 2013.

Gas Natural Fenosa generated 13,716 GWh of electricity in mainland Spain in the first six months of 2014, representing a 4.4% decrease when compared with the corresponding period in 2013. Of that figure, 12,509 GWh related to the "ordinary regime" (a 4.6% decrease over the period). Renewables and cogeneration power output was 1,207 GWh in the first half of 2014 (a decrease of 4.6% when compared to the first half of 2013).

In the first half of 2014, the electricity generated by Gas Natural Fenosa in mainland Spain declined by 4.4%, while its conventional power output declined by 4.6% when compared to the first half of 2013.

Lower precipitation towards the end of the second quarter of 2014, in May and especially in June, resulted in the year first being classified as "wet" but then declining to "average", with an exceedance probability (which is the probability that the relevant year's energy capability will be exceeded, based on the historical record of average energy capability) of 43% at 30 June 2014. Reservoirs in the Gas Natural Fenosa watersheds were at 53.6% of capacity at 30 June 2014, compared with 60.3% at 30 June 2013.

Coal-fired output in the first half of 2014 totalled 1,497 GWh, a 12.1% increase when compared to the first half of 2013.

Gas Natural Fenosa's CCGT output in the first half of 2014 totalled 5,940 GWh, a 9.6% decline when compared with the first half of 2013.

The Group's share of the power generation market as at 30 June 2014 was 17.0%, an 18.6% decrease when compared to 30 June 2013.

The electricity supply area sold 16,884 GWh during the first six months of 2014, including supply to the liberalised market and under the "last resort" tariff. The electricity supply portfolio is in line with Gas Natural Fenosa's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

Under its commitments, during April 2014 Gas Natural Fenosa supplied the Spanish National Register of Greenhouse Gas Emission Rights (RENADE) with the rights equivalent to the CO2 emissions certified at its conventional thermal and CCGT plants in 2013, a total of 11.5 million tonnes of CO2, including emission rights from Clean Development and Joint Implementation mechanisms.

Gas Natural Fenosa applies a comprehensive approach to its portfolio of CO2 emission rights for the post-Kyoto period (2013-2020), acquiring the emission rights and credits needed through active participation in the secondary market as well as through primary projects and carbon funds.

Gas Natural Fenosa Renovables

At 30 June 2014, Gas Natural Fenosa Renovables, S.L. ("**GNF Renovables**") had a consolidated total capacity of 902 MW, of which wind accounted for 738 MW, mini-hydroelectric accounted for 107 MW and cogeneration accounted for 57 MW.

Output during the first six months of 2014 was 1,207 GWh, 2.9% lower than during the corresponding period in 2013 (1,243 GWh). This decline was mainly due to lower output by cogeneration plants (cogeneration and slurry), which fell by 63.4% during the period as a result of the temporary shutdown of cogeneration plants associated with slurry treatment after publication of a draft Ministerial Order resetting the remuneration parameters for their exported electricity. Wind output expanded by 3.0% during the first six months of 2014, due to stronger winds when compared with the corresponding period in 2013. Mini-hydroelectric output increased by 22.7% during the first six months of 2014 as a result of the Belesar II and Peares II power plants becoming operational, which provided 78 GWh in the first half of 2014.

The definitive Ministerial Order IET/1045/2014 on the new remuneration scheme applicable to electricity generation facilities based on renewable energy, cogeneration and waste was published on 16 June 2014. Although the parameters envisioned in previously published drafts were modified, the Group currently expects no major changes in the results of GNF Renovables with respect to those projected on the basis of the earlier drafts.

Kenya

This area refers to power generation in Kenya. The energy conditions in the country during the first half of 2014 and the end of the rainy season (in June) led to an increase in the use of the Group's thermal power plant, resulting in a slight increase of electricity output.

Diesel-fired output in Kenya increased by 0.7% during the first six months of 2014 when compared with the corresponding period in 2013, to 272 GWh. This moderate improvement is due to greater dispatching of plant 2 in that country and its greater efficiency.

Latin America

Gas distribution

This area involves regulated gas distribution in Argentina, Brazil, Colombia, Mexico and Peru.

The three tables below set forth the figures for gas activity sales (for the six months ended 30 June 2014 and 2013, respectively), the extent of the distribution network and the number of gas supply points (both as at 30 June 2014 and 2013, respectively) in each of the Latin American countries in which Gas Natural Fenosa conducts its gas distribution activities.

	Six months ended 30 June		(%) Variation
Gas activity sales (GWh)	**2014**	**2013**	**2014/2013**
Argentina	36,195	35,852	1.0%
Brazil	50,817	47,631	6.7%
Colombia	11,833	9,094	30.1%
Mexico	23,042	23,686	(2.7)%
Total	**121,887**	**116,263**	**4.8%**

	As at 30 June		Variation
Distribution network (km)	**2014**	**2013**	**2014/2013**
Argentina	24,165	23,996	169 km
Brazil	6,550	6,382	168 km
Colombia	20,496	20,012	484 km
Mexico	18,550	17,865	685 km
Total	**67,761**	**68,255**	**1,506 km**

	As at 30 June		Variation
Gas supply points (‘000)	**2014**	**2013**	**2014/2013**
Argentina	1,570	1,536	34
Brazil	915	880	35
Colombia	2,576	2,459	117
Mexico	1,386	1,321	65
Total	**6,447**	**6,196**	**251**

As at 30 June 2014, the Group had 6,447,000 gas distribution connections. Year-on-year growth remains high, as the Group added 251,000 distribution connections (of which Colombia accounted for 117,000 alone).

Sales in the gas activity in Latin America, which include both gas sales and TPA services, totalled 121,887 GWh as at 30 June 2014, a 4.8% increase when compared to 30 June 2013.

The distribution grid expanded by 1,506 km or 2.2% between 30 June 2014 and 30 June 2013, to

69,761 km. Mexico accounted for a notable contribution, adding 685 km.

— Argentina

In Argentina, the energy margin increased in all markets during the first six months of 2014 when compared to the corresponding period in 2013, due mainly to the application of new tariff sheets authorised by the Argentine regulator ENARGAS as from 1 April 2014. These new tariff sheets were intended to restore the economic balance to the sector. However, the tariff increases envisioned in the various components (gas, transportation and distribution) are focused primarily on gas, which is a pass-through, whereas the increase established for distribution is insufficient to cover the needs of the business or actual inflation. The margin also improved due to the exchange rate effect in sales to industrial clients on the deregulated market and due to the penalties applied to transportation and distribution clients with interruptible contracts for consumption during cut-off periods. Interruptible contracts are those contracts where clients pay less but the service can be interrupted. The Group continued to contain expenditure in a complex economic situation with high inflation (around 38%).

— Brazil

The Group's business continued to perform well in Brazil, with an 11.9% net increase in residential/commercial customer numbers between 30 June 2014 and 30 June 2013 and an increase in TPA sales during the first half of 2014 compared to the first half of 2013. Sales in the power generation market during the first six months of 2014 remained in line with the levels of the first six months of 2013 due to ongoing scant precipitation and low reservoir levels. Reservoir levels as at 30 June 2014 stood at 36.3%, representing a decrease of 40.4 percentage points below the eight-year historical average of 76.7% in the southeast/west-central region, which holds 70% of the country's water reserves. The new tariff associated with the third Five-Year Tariff Revision for Compania Distribuidora de Río de Janeiro, S.A. and CEG Río S.A. entered into force on 1 January 2014, with a recognised weighted average cost of capital (WACC) of 9.76%. The Group believes these new tariffs will have a positive impact on its earnings.

On 16 June 2014, Gas Natural Fenosa and Brazilian company CEMIG signed an agreement to strengthen the development of the natural gas distribution grid in Brazil. Under this agreement, which is subject to certain conditions precedent, both companies will make the necessary efforts in the coming months to create a gas distribution holding company in Brazil with a view to undertaking additional capital expenditure. The holding company, which will have a shareholders' agreement and will be majority-owned by Gas Natural Fenosa, will not affect the Group's control of investees in Río de Janeiro and São Paulo. In due time, the agreement will require regulatory and administrative authorisation by the corresponding authorities.

— Colombia

In Colombia, gas and TPA sales expanded by 30.1% during the first six months of 2014 when compared to the corresponding period in 2013, due primarily to greater industrial volume (an increase of 73.6% over the period) after signing a new sales contract with major industrial clients and also due to a larger customer base. Net growth in residential/commercial customer numbers increased by 1.8% between 30 June 2013 and 30 June 2014 to around 57,188 customers. As for non-regulated businesses, sales of appliances expanded by 56.7% during the first half of 2014 when compared to the first half of 2013 (particularly space heaters and water heaters, which increased by 44.0% and 42.4%, respectively).

— Mexico

In Mexico, the Group's expansion plan continues, focusing primarily on Mexico City and the Bajios area with a view to maintaining sustained growth. The net increase in customer numbers expanded between 30 June 2013 and 30 June 2014 by 48.1%, while new installations increased by 11.0% over the same period,

due mainly to greater penetration in the Bajios area and containment of customer attrition. The Group recorded a 13.4% increase in gas and TPA sales during the first six months of 2014 when compared to the corresponding period in 2013 due to growth in the residential/commercial sectors as a result of higher unit consumption in the residential market and the broader customer base, and an 8.8% increase in the industrial sector due to greater consumption by large industrial companies in the northern Bajio area, Monterrey and Mexico City.

— Peru

In Peru, progress continues to be made in line with the Group's business plan which served as the basis for the adjudication, with a view to begin providing services from the second half of 2014 onwards. The adjudication refers to when Gas Natural Fenosa won the Peruvian state tender to extend natural gas services to four cities in the south-west of the country in July 2013, including Arequipa, the second largest in the country and the cities of Moquegua, Tacna and Ilo. The initial investment planned for supplying gas to the area will be around U.S.$60 million up to 2020, with the aim of bringing the utility to more than 60,000 homes.

Electricity distribution

This division involves regulated electricity distribution in Colombia and Panama. The sale of the electricity distribution business in Nicaragua led to its deconsolidation from the Group's accounts from 1 February 2013.

Electricity sales totalled 8,372 GWh during the first six months of 2014, an increase of 2.6% when compared to the corresponding period in 2013 despite the fact that the first quarter of 2013 included sales by the Group's distribution companies in Nicaragua (239 GWh in January 2013). Excluding operations in Nicaragua during the period, sales increased by 5.7% during the first six months of 2014 when compared to the first half of 2013 due to growth in demand in Colombia and Panama.

In line with the positive demand performance, customer numbers increased in both countries, by 3.3% overall between 30 June 2013 and 30 June 2014.

Gas Natural Fenosa considers that the performance of basic operating indicators reflects good business management and growth, as envisioned in the plan to reduce grid losses and bad debts. Power loss indicators in Colombia and Panama continued to improve during the first six months of 2014 when compared to the first half of 2013.

Electricity

This area includes electricity generation in Mexico, Puerto Rico, Costa Rica, Panama and the Dominican Republic.

Output in Mexico increased slightly during the first six months of 2014 when compared with the corresponding period in 2013 due to the different schedule of maintenance and reviews between the two periods.

Hydroelectric output in Costa Rica during the first half of 2014 was impacted by the scant precipitation early in the year and to low dispatching.

Output in Panama increased during the first six months of 2014 when compared to the first half of 2013 due to greater production by thermal plants, which were dispatched to compensate for lower hydroelectric output as a result of scant precipitation. Greater utilisation of thermal plants resulted in lower availability due to increased maintenance work on those plants.

Output in the Dominican Republic declined by 43.8% during the first six months of 2014 when compared to the corresponding period in 2013, which had been unusually high, caused by other plants dropping out of the system and by lower hydroelectric output.

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 Royal Decree 6/2000, of 23 June, on Urgent Measures to Increase Competition in Markets for Goods and Services and Law 12/2007, of 2 July, that modifies Law 34/1998, of 7 October, on the Hydrocarbon Sector, to adapt it to the provisions of Directive 2003/55/EC concerning common rules for the internal market in natural gas. The Hydrocarbons Sector Law has subsequently been amended by further legislation and complemented by other regulation.

The Hydrocarbons Sector Law includes measures to achieve a fully liberalised internal market in natural gas to make it more competitive 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 regasification, primary storage, transmission 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, 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 that establish the compensation 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. On 30 December 2013, Ministerial Order IET/2446/2013 was published, setting out the specific remuneration for regulated gas

activities in Spain as from 1 January 2014. According to the Order, the total remuneration allocated to Gas Natural Fenosa's gas distribution activities for 2014 was €1,068 million. The remuneration allocated to Gas Natural Fenosa for the amortisation, financial retribution and fixed operating expenses of its secondary gas transportation assets for the year 2014 was fixed at €39.9 million.

In July 2014, the Spanish government approved a new regulatory framework for the natural gas sector included in Royal Decree-Law 8/2014. This reform was aimed at cutting the tariff deficit, which according to the Ministry of Industry, Energy and Tourism, would have reached €800 million by the end of 2014. 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 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 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 a payment for interest at a rate fixed by the Ministry at market conditions.

- New remuneration scheme for regulated activities:

    - In distribution, the new regulation is similar to the preceding regulation in that it is based on previous year revenues and growth in clients and volume. However the updating factors have been eliminated and an efficiency factor has been introduced (which factor is expected to be neutral until 2021). 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 update factor has been eliminated and an efficiency factor has been introduced that 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.

- It also includes the recovery of part of the outcome of the arbitration of the Algerian contract, amounting to €164 million.

The new regulation came into force with immediate effect (5 July 2014) which means that the new remuneration scheme affects the second half of 2014. However, Ministerial Orders establishing the remuneration for transmission and distribution for the second half of 2014 are still pending and are expected to be approved before the end of 2014.

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 Prospectus, Gas Natural Fenosa estimates that it accounts for approximately 53.6% 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 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 instead 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 its 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 for 2007, though the schedule was reviewed several times and, eventually, eligibility was granted to all consumers in January 2013. 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 "last resort tariff", which had applied for such customers since July 2009.

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 cost of generating, distributing and supplying electricity for regulated markets and the tariffs payable by consumers set by the government. As of May 2013, the tariff deficit was reported to amount to more than €26 billon, out of which approximately €5.6 billion had been incurred during the course of 2012. As of the date of this Prospectus, the total electricity tariff deficit amounts to approximately €30.5 billion, out of which €3.2 billion had been incurred in 2013. 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 for their full available capacity 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 reduces the amount of the investment incentive while its collection period is extended from ten to 20 years.

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 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 2/2012 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.

With regards to Spanish coal, in 2010, a new mechanism was approved, 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 since February 2011.

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, nuclear waste production and storage, 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 that will apply once the Ministerial Order establishing the capital and operational expenditure reference unit values for the next period are approved.

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).

- Recovery of operation and maintenance ("**O&M**") costs: this component is based on standard O&M values set for each component of the network, which are updated based on price indices less an efficiency factor.

- Incentives to 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.

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.

Remuneration of electricity transmission activities is also regulated, and is fixed for each transmitting entity according to its capital expenditure and operational and maintenance costs. Remuneration also incorporates an incentive for available capacity.

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 that will apply once the Ministerial Order establishing the capital and operational expenditure unit values for the next period are approved.

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 O&M costs: this component is based on standard O&M values set for each component of the network, which are updated based on price indices less an efficiency factor.

- Incentives in relation to availability.

Retail supply

The supply market was liberalised progressively, with full eligibility planned for 2007, though the schedule was reviewed several times. Regulated tariffs for high voltage consumers were eliminated in July 2008 (except for the largest intensive consumers), and most remaining regulated tariffs for households were eliminated in June 2009.

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.

The only 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 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, under 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 which replaced the "tariff of last resort", which had applied since July 2009). 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.

- 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" will be funded, according to Royal Decree-Law 9/2013 and the Electricity Act, by vertical integrated companies, such as Gas Natural Fenosa.

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 Prospectus are set forth below.

Tax claims in Spain

As a result of the inspection proceedings, for the years 2003 to 2008, the Inspectorate has questioned the appropriateness of the deduction for exports applied by Gas Natural Fenosa. The assessments raised have been contested and an appeal has currently been filed with the Central Treasury and Tax Court. The total payable, including interest, accumulated at 30 June 2014 that would derive from such assessments amounts to €89 million, which is fully provided for.

Tax claims in Brazil

In September 2005 the Tax Administration of Río 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 Río 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 Río de Janeiro), which is being processed. Subsequently, on 26 January 2009 notification was received of public civil action against CEG in connection with the same events. Gas Natural Fenosa considers, together with CEG's legal advisers, that the actions in question are baseless and it is therefore improbable that these legal actions will be lost. The total tax under dispute, updated at 30 June 2014, amounts to 379 million Brazilian Real (approximately €115 million).

Claim against Edemet and Edechi (Panama)

In April 2012 a non-guilty verdict was issued in the second instance, leaving a judgement in the first instance void which condemned Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A. to indemnity the plaintiff for the amount determined by the experts and up to a maximum of U.S.$84 million (approximately €62 million). Both the plaintiffs and the defendant (Edemet and Edechi) have appealed against this judgement. The damages sought would derive from a tender to purchase energy, which was arranged by the Public Services Authorities and which was awarded to the plaintiff who was finally unable to fulfil the contract owing to its failure to submit the guarantees required in the tender specifications.

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 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 2013, Gas Natural Fenosa employed 16,323 persons in Argentina, Brazil, Colombia, France, Italy, Mexico, Morocco, Puerto Rico and Spain, among other countries.

The Group has only experienced one labour stoppage in the past five years, which was limited to the Madrid area. As of the date of this 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 Prospectus are as follows:

Name	Position	Principal activities outside the Group
Salvador Gabarró Serra	Chairman	Chairman of the Fundación Gas Natural Fenosa and Director of CaixaBank, S.A.
Antonio Brufau Niubó	Vice-Chairman	Chairman and CEO of Repsol,S.A. Chairman of the Fundación Repsol
Rafael Villaseca Marco	Chief Executive Officer	Member of the Advisory Board of Fomento de Trabajo Nacional and Vice-Chairman of the Fundación Gas Natural Fenosa
Ramón Adell Ramón	Director	Honorary Chairman of the Asociación Española de Directivos (AED) and Vice-Chairman 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	Vice-Chairman of the Fundación San Francisco Javier and Director of Digestum Legal, S.A.
Demetrio Carceller Arce	Director	Chairman of S.A. Damm, of Corporación Económica Damm, S.A and of Disa Corporación Petrolífera, S.A.
Santiago Cobo Cobo	Director	Chairman of Donald Inversiones, S.I.C.A.V., S.A., Director and Representative of Compañia Turística Santa María, S.A. and of Abaque Hotelera, S.A.
Nemesio Fernández-Cuesta Luca de Tena	Director	General Manager and Member of the Management Committee and Operations Committee of Repsol, S.A.
Felipe González Márquez	Director	Board member of the Consejo Progreso Global of the Fundación Ideas
Emiliano López Achurra	Director	Chairman of the Advisory Board of the Cátedra de Energía del Instituto Vasco de Competitividad-Universidad de Deusto and of IBIL, S.A.

Name	Position	Principal activities outside the Group
Carlos Losada Marrodán	Director	Director of InnoEnergy, of Suma Capital and of SFL-Société Foncière Lyonnaise (France).
Joan Maria Nin Génova	Director	Chairman of the Fundación Consejo España-Estados Unidos and Director of Repsol, S.A. and of Erste Group Bank AG (Austria).
Heribert Padrol Munté	Director	Chairman of the Consultoria de Innovación y Financiación (IPLUSF).
Juan Rosell Lastortras	Director	Chairman of Confederación Española de Organizaciones Empresariales (CEOE), of Congost Plastic and Director of CaixaBank, S.A.
Luís Suárez de Lezo Mantilla	Director	Secretary and Director of Repsol, S.A. and Vice-Chairman of the Fundación Repsol
Miguel Valls Maseda	Director	Chairman of the Cambra Oficial de Comerç, Indústria i Navegació de Barcelona, of the Cambres de Comerç de Catalunya, of Fichet Industria S.L. and of MC Mutua

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 potential 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

The following is a general description of certain tax considerations relating to the Securities. It does not purport to be a complete analysis of all tax considerations relating to the Securities whether in those countries or elsewhere. Prospective purchasers of the Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of The Netherlands and the Kingdom and Spain of acquiring, holding and disposing of the Securities and receiving payments of interest, principal and/or other amounts under the Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in the Securities, or any person through which an investor holds the Securities, of a custodian, collection agent or similar person in relation to such Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisors in relation to the tax consequences for them of any such appointment.

The Netherlands

The following is a general overview and the tax consequences as described here may not apply to a Holder of Securities (as defined below). Any potential investor should consult his tax adviser for more information about the tax consequences of acquiring, owning and disposing of Securities in his particular circumstances.

This taxation overview solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal of Securities issued on or after the date of this Prospectus. It does not consider every aspect of taxation that may be relevant to a particular Holder of Securities under special circumstances or who is subject to special treatment under applicable law. Where in this overview English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. Where in this taxation overview the terms "The Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of The Netherlands.

This overview is based on the tax law of The Netherlands (unpublished case law not included) as it stands at the date of this Prospectus. The law upon which this overview is based is subject to change, perhaps with retroactive effect. Any such change may invalidate the contents of this overview, which will not be updated to reflect such change.

Where in this section "Taxation—The Netherlands" reference is made to a "Holder of Securities", that concept includes, without limitation:

1. an owner of one or more Securities who in addition to the title to such Securities has an economic interest in such Securities;

2. a person who or an entity that holds the entire economic interest in one or more Securities;

3. a person who or an entity that holds an interest in an entity, such as a partnership or a mutual fund, that is transparent for Dutch tax purposes, the assets of which comprise one or more Securities, within the meaning of 1. or 2. above; or

4. a person who is deemed to hold an interest in Securities, as referred to under 1. to 3., pursuant to the attribution rules of article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting* 2001), with respect to property that has been segregated, for instance in a trust or a foundation.

Withholding tax

All payments under Securities may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority of or in The Netherlands.

Taxes on income and capital gains

The overview set out in this section "Taxes on income and capital gains" applies only to a Holder of Securities who does not have a substantial interest (*aanmerkelijk belang*) in the Issuer pursuant to Chapter 4 of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) and is neither resident nor deemed to be resident in The Netherlands for the purposes of Dutch income tax or corporation tax, as the case may be, and who, in the case of an individual, has not elected to be treated as a resident of The Netherlands for Dutch income tax purposes (a **Non-Resident Holder of Securities**).

Individuals

A Non-Resident Holder of Securities who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of Securities, except if:

1. he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, such enterprise either being managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands and his Securities are attributable to the Netherlands assets of such enterprise; or

2. he derives benefits or is deemed to derive benefits from Securities that are taxable as benefits from miscellaneous activities in The Netherlands *(resultaat uit overige werkzaamheden in Nederland)*, including, without limitation, activities which are beyond the scope of active portfolio investment activities .

Entities

A Non-Resident Holder of Securities, other than an individual, will not be subject to any Dutch taxes on income or capital gains in respect of Securities , except if such Non-Resident Holder of Securities derives profits from an enterprise directly or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, such enterprise either being managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and its Securities are attributable to the Netherlands assets of such enterprise.

Gift and inheritance taxes

If a Holder of Securities disposes of Securities by way of gift, in form or in substance, or if a Holder of Securities who is an individual dies, no Dutch gift tax or Dutch inheritance tax, as applicable, will be due, unless:

1. the donor is, or the deceased was resident or deemed to be resident in The Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, as applicable; or

2. the donor made a gift of Securities, then became a resident or deemed resident of The Netherlands, and died as a resident or deemed resident of The Netherlands within 180 days of the date of the gift.

   For purposes of the above, a gift of Securities made under a condition precedent (*opschortende voorwaarde*) is deemed to be made at the time the condition precedent is satisfied.

Value Added Tax

There is no Dutch value added tax payable in respect of payments in consideration for the issue of Securities, in respect of the payment of interest or principal under Securities, or the transfer of Securities.

Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in The Netherlands in respect of or in connection with (i) the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the documents relating to the issue of Securities, (ii) the performance by the Issuer or the Guarantor of its obligations under such documents or under Securities, or (iii) the transfer of Securities.

Spanish Tax

This is a general summary and the tax consequences as described here may not apply to a holder of Securities. Any potential investors should consult their own tax advisers for more information about the tax consequences of acquiring, owning and disposing of Securities in their particular circumstances.

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Securities issued by Issuer after the date hereof held by a holder of Securities. It does not consider every aspect of taxation that may be relevant to a particular holder of Securities 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 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 is based on the tax laws of Spain as they are in force and in effect on the date of this Prospectus. 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 Securities is at arm's length.

Payments made by the Issuer

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

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

Payments made by the Guarantor

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

or authority thereof or therein having power to tax.

However, although no clear precedent, statement of law or regulation exits in relation thereto, in the event that the Spanish Tax Authorities take the view that the Guarantor has validly, legally and effectively assumed all the obligations of the Issuer under the Securities subject to and in accordance with the Guarantee, they may attempt to impose withholding tax in the Kingdom of Spain on any payments made by the Guarantor in respect of interest.

In such case, Additional Provision One of Law 10/2014 of June 26, on supervision and solvency of credit entities ("**Law 10/2014**"), would apply to the Securities, provided that the Securities are issued by a company which is (i) tax resident in a country within the European Union, other than a tax haven, and (ii) whose voting rights are completely held directly by a Spanish entity.

Should Law 10/2014 be applicable, the Guarantor, in accordance with Law 10/2014 and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011, of July 29 ("**Royal Decree 1065/2007**") (although Royal Decree 1065/2007 makes reference to the previous Law 13/1985, the Guarantor believes that it shall also be applicable in relation to Law 10/2014), would not be obliged to withhold taxes in Spain on any interest paid under the Guarantee to the beneficial owners of the income arising from the Securities (each of them, a "**Holder**", and collectively the "**Holders**"), that (i) can be regarded as listed debt securities issued under Law 10/2014; and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OCDE member state, provided that the Fiscal Agent fulfils with the information procedures described in "*Taxation−Spanish Tax−Disclosure of Information in connection with the Securities*" below.

Therefore, should Law 10/2014 be applicable, the abovementioned exemption from Spanish withholding tax should be applicable (i) while the Securities are represented by Global Securities and the Global Securities are deposited within a common depositary for Euroclear and/or Clearstream, Luxembourg, upon the compliance by the Fiscal Agent of the information procedures. Otherwise, the Issuer or the Guarantor, or the Paying Agent acting on the Issuer's behalf, would be required to withhold tax from the relevant interest payments at the general withholding tax rate (currently, 21%) (ii) while the Securities are represented by Definitive Securities, upon the submission by the Holder to the Guarantor prior to the corresponding payment of interest under the Guarantee of a valid certificate of tax residency duly issued by the tax authority of the country of tax residence of the Holder of each certificate generally being valid for a period of one year beginning on the date of issuance.

If Law 10/2014 was not deemed to be applicable to Definitive Securities, payment of interest made under the Guarantee to the Holders may be subject to Spanish withholding tax at the then applicable rate (currently, 21%), unless the Holder submits to the Guarantor, prior to the corresponding payment of interest under the Guarantee, a valid certificate of tax residence, duly issued by the tax authorities of the country of tax residence, which the Holder is required to provide, in accordance with Royal Decree Law 5/2004, of 5 March, approving the Non-Resident Income Tax Law and Royal Decree 1776/2004, approving the Non-Resident Income Tax Regulations, as a precondition to exemption from withholding tax, or reduction in the withholding tax rate.

Holders entitled to withholding tax exemption, but the payment to whom was not exempt from Spanish withholding tax due to the failure to deliver by the Holder or the Fiscal Agent (as the case may be) of a valid certificate of tax residence of the Holder or certain information relating to the Securities (as the case may be) in a timely manner may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Holders are advised to consult their own tax advisors regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

In connection with Spanish tax resident Holders and Non-Spanish tax resident Holders acting with respect to the Securities through a permanent establishment in Spain, income deriving from the Securities and the Guarantee is subject to tax in Spain. Payments made under the Guarantee which correspond to payments of interest under the Securities may be subject to withholding on account of Spanish taxes.

Disclosure of Information in connection with the Securities

In accordance with section 5 of Article 44 of Royal Decree 1065/2007 and provided that the Securities are initially registered for clearance and settlement in Euroclear and Clearstream, Luxembourg, the Fiscal Agent would be obliged to provide the Guarantor in relation to payments made under the Guarantee with a declaration (the form of which is set out in the Fiscal Agency Agreement), which should include the following information:

(i) description of the Securities (and date of payment of the interest income derived from such Securities);

(ii) total amount of interest derived from the Securities; and

(iii) total amount of interest allocated to each non-Spanish clearing and settlement entity involved.

According to section 6 of Article 44 of Royal Decree 1065/2007, the relevant declaration will have to be provided to the Guarantor on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, the Guarantor will pay gross (without deduction of any withholding tax) all interest under the Securities to all Holders (irrespective of whether they are tax resident in Spain).

In the event that the Fiscal Agent were to fail to provide the information detailed above, according to section 7 of Article 44 of Royal Decree 1065/2007, the Guarantor, or the Fiscal Agent acting on its behalf would be required to withhold tax from the relevant interest payments at the general withholding tax rate (currently, 21%). If on or before the 10th day of the month following the month in which the interest is payable, the Fiscal Agent designated by the Issuer were to submit such information, the Guarantor or the Fiscal Agent acting on its behalf would refund the total amount of taxes withheld.

If Additional Provision One of Law 10/2014 were not deemed applicable to the Securities, the relevant Additional Amounts will be payable according to Condition 8.1 (*Taxation−Additional Amounts*) of the Terms and Conditions of the Securities.

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, the Guarantor would inform the Holders of such information procedures and of their implications, as the Guarantor may be required to apply withholding tax on interest payments under the Securities if the Holders were not to comply with such information procedures.

EU Savings Directive on the taxation of savings income.

Under Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States are required to provide the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction (or secured for) to an individual resident (or certain entities established) in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) subject

to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest (or similar income) may request that no tax be withheld.

On 24 March 2014, the European Council formally adopted a Council Directive amending the Directive (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

On 18 March 2014, the Luxembourg Ministry of Finance filed a bill with the Luxembourg parliament to introduce, on 1 January 2015 and within the scope of the Directive, the automatic exchange of information for all interest payments made by Luxembourg financial operators to individuals resident in another Member State. This will replace the 35 per cent. withholding tax.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or withholding) in relation to payments of interest (or similar income) made by a person within their jurisdiction to (or secured for), an individual resident (or certain entities established) in a Member State. In addition, the Member States have entered into the provision of information or withholding arrangements with certain of those dependent or associated territories in relation to payments of interest (or similar income) made by a person in a Member State to (or secured for), an individual resident (or certain entities established) in one of those territories.

The proposed European financial transactions tax.

In February 2013, The European Commission published a proposal for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances. Under the current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and the Member States mentioned above may decide not to participate. Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

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, ING Bank N.V., J.P. Morgan Securities plc, Mitsubishi UFJ Securities International plc, Nomura International plc and Société Générale (the "**Joint Bookrunners**") have, in a subscription agreement dated 13 November 2014 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Securities. The Joint Bookrunners are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities.

United Kingdom

Each Joint Bookrunner has further represented, warranted and undertaken that:

(a) 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 Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

United States of America

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

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each Joint Bookrunner has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (the "**distribution compliance period**"), within the United States or to, or for the account or benefit of, U.S. persons. Each Joint Bookrunner has further represented and agreed that it will send to each distributor, dealer or person to which it sells any Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Securities within the United States by any distributor, dealer or person (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Netherlands

The Securities are not and may not be offered in the Netherlands other than to persons or entities who or which are qualified investors as defined in Section 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), as amended.

The Kingdom of Spain

Neither the Securities nor the Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Securities may not be offered, sold, distributed or re-sold in Spain except in circumstances which do not constitute a public offering of securities in Spain within the meaning of Article 30-bis of the Spanish Securities Market Law of July 28, 1988 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) as amended and restated and Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005 de 4 de noviembre*), and supplemental rules enacted thereunder or in substitution thereof from time to time.

The Securities may only be offered and sold in Spain by institutions authorised to provide investment services in Spain under Law 24/1988, of 28 July 1988, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*), as amended and restated (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*).

Republic of Italy

The offering of the Securities has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation. Each Joint Bookrunner represents and agrees that any offer, sale or delivery of the Securities or distribution of copies of the Prospectus or any other document relating to the Securities in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Securities or distribution of copies of the Prospectus or any other document relating to the Securities in the Republic of Italy must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and

(ii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Any investor purchasing the Securities in this offering is solely responsible for ensuring that any offer or resale of the Securities it purchased in this offering occurs in compliance with applicable laws and regulations.

General

Each Joint Bookrunner has agreed and undertaken that it will not, directly or indirectly, offer or sell any Securities or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws

and regulations and all offers and sales of Securities by it will be made on the same terms. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or possess, distribute or publish this Prospectus or any other offering material relating to the Securities, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer and a resolution of the Sole Shareholder of the Issuer, both dated 2 October 2014 and the guarantee of the Securities was authorised by a resolution of the Board of Directors of the Guarantor dated 18 July 2014.

Legal and Arbitration Proceedings

2. Save as disclosed on pages 86 and 87 of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor and its subsidiaries.

Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer since 31 December 2013 nor has there been any significant change in the financial or trading position of the Issuer since 31 December 2013 (being the date of the latest available financial statements of the Issuer). There has been no material adverse change in the prospects of the Guarantor since 31 December 2013 nor has there been any significant change in the financial or trading position of the Group since 30 September 2014 (being the date of the latest available financial information of the Group).

Auditors

4. (a) The consolidated annual accounts of the Guarantor for the years ended 31 December 2013 and 2012, 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., (members of the *Registro Oficial de Auditores de Cuentas*) independent auditors of the Guarantor, and unqualified opinions have been reported thereon.

(b) The unaudited condensed consolidated interim financial information of the Guarantor in relation to the six-month period ended 30 June 2014 has been prepared in accordance with IFRS-EU.

(c) The non-consolidated financial statements of the Issuer, which were prepared in accordance with IFRS-EU, have been audited for the financial years ended 31 December 2013 and 31 December 2012 by PricewaterhouseCoopers Accountants N.V. (registered at the Chamber of Commerce and Industries of Amsterdam), independent auditors of the Issuer, and unqualified opinions have been reported thereon.

Documents on Display

5. Copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent and at the registered/head office of the Issuer and the Guarantor for 12 months from the date of this Prospectus:

(a) the constitutional documents of the Issuer (together with English translations thereof);

(b) the constitutional documents of the Guarantor (together with English translations thereof);

(c) copies of the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee; and

(d) the documents set forth on pages 34 to 35 (*Documents Incorporated by Reference*).

Yield

6. From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the Securities will be 4.125 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Legend Concerning U.S. Persons

7. The Securities and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Listing

8. Application has been made to the Luxembourg Stock Exchange for the Securities 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) and to be listed on the official list of the Luxembourg Stock Exchange.

Fees

9. The estimated costs and expenses in relation to admission to trading are €6,160.

ISIN and Common Code

10. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Securities is XS1139494493 and the common code is 113949449.

Joint Bookrunners transacting with the Issuer and the Guarantor

11. Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer, the Guarantor and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their affiliates. Certain of the Joint Bookrunners or their affiliates that have a lending relationship with the Issuer and/or the Guarantor routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, such Joint Bookrunners 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 and/or instruments of the Issuer, the Guarantor or their affiliates, including potentially the Securities. Any such short positions could adversely affect future trading prices of the Securities. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities

or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the avoidance of doubt, the term “affiliates” in this paragraph shall include the relevant parent company.

REGISTERED AND HEAD OFFICE OF THE ISSUER

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London EC2Y 9AJ
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Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

Société Générale
29 boulevard Haussmann
75009 Paris
France

LEGAL ADVISERS

To the Issuer and the Guarantor as to English, Spanish and US law:

Freshfields Bruckhaus Deringer LLP
Fortuny 6
28046 Madrid
Spain

To the Issuer as to Dutch law (other than Dutch tax law):

Freshfields Bruckhaus Deringer LLP
Barbara Strozzilaan 201
1083 HN Amsterdam
The Netherlands

To the Joint Bookrunners as to English and Spanish law:

Linklaters, S.L.P.
Almagro 40
28010 Madrid
Spain

To the Joint Bookrunners as to Dutch law:

Linklaters LLP
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1077 XV Amsterdam
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