Listing Memorandum

Unión Fenosa Preferentes S.A. (Sociedad Unipersonal)

(incorporated with limited liability under the laws of Spain)

Series 1 Euro 750,000,000 Non-Cumulative Perpetual Guaranteed Floating Rate Preferred Securities

irrevocably and unconditionally guaranteed to the extent set forth herein by

Unión Fenosa, S.A.

(incorporated with limited liability under the laws of Spain)

Issue price: 100%

Series 1 Euro 750,000,000 Non-Cumulative Perpetual Floating Rate Guaranteed Preferred Securities (*Participaciones Preferentes*) of an initial Liquidation Preference (as defined on page 14) of Euro 50,000 each (the "**Preferred Securities**") issued by Unión Fenosa Preferentes S.A. (Sociedad Unipersonal) (the "**Issuer**") on 30 June 2005 (the "**Closing Date**").

The Preferred Securities entitle holders to receive (subject to the limitations described under "Conditions of the Preferred Securities") non-cumulative cash distributions ("**Distributions**") accruing from the Closing Date up to and including 30 June 2015 at a rate of 0,65 % per annum above three month EURIBOR of the then current Liquidation Preference, thereafter at a rate of 1,65 % per annum above three month EURIBOR of the then current Liquidation Preference, payable quarterly in arrear on 30 September, 30 December, 30 March and 30 June in each year (each a "**Distribution Payment Date**").

In certain circumstances the Issuer may pay a non-cash distribution (the "**Non-Cash Distribution**") by increasing the nominal value of the Preferred Securities, instead of paying the Cash Distribution.

The Preferred Securities are redeemable, at the option of the Issuer subject to certain conditions, in whole or in part, on any Distribution Payment Date falling on or after 30 June 2015, at the then current Liquidation Preference per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption.

In the event of the liquidation of the Issuer or Unión Fenosa, S.A., holders of Preferred Securities will be entitled to receive (subject to the limitations described under "Conditions of the Preferred Securities"), in respect of each Preferred Security, the then current Liquidation Preference, plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.

The payment of Distributions and payments upon liquidation or redemption with respect to the Preferred Securities are irrevocably and unconditionally guaranteed by Unión Fenosa, S.A. on a subordinated basis to the extent described under "The Guarantee". Unión Fenosa, S.A. and its consolidated subsidiaries are referred to herein as the "Group".

The Preferred Securities have been issued in bearer form and are represented by a global Preferred Security deposited on 30 June 2005 with a common depositary for Euroclear Bank S.A./N V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**" together with Euroclear, the "**Clearing Systems**").

Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange. This Listing Memorandum constitutes a prospectus for the purposes of the application for listing on the Luxembourg Stock Exchange.

The Preferred 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.

30 June 2005

The Issuer and the Guarantor accept responsibility for the information contained in this Listing Memorandum. To the best of the knowledge and belief of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Listing Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Listing Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Listing Memorandum shall be read and construed on the basis that such documents are incorporated and form part of this Listing Memorandum.

The Managers (as defined in "Subscription and Sale") have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Listing Memorandum or any other information provided by the Issuer or the Guarantor in connection with the Preferred Securities or their distribution.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Preferred Securities other than as contained in this Listing Memorandum 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 Managers.

The delivery of this Listing Memorandum or delivery of any Preferred 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 Listing Memorandum.

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

In particular, the Preferred 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, Preferred Securities may not be offered, sold or delivered in the United States or to U.S. persons.

*In this Listing Memorandum, unless otherwise specified, references to "**€**", "**EUR**" or "**Euro**" are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.*

This Listing Memorandum may only be used for the purposes of which it has been published.

No person is authorised to give information other than that contained herein and in the documents referred to herein and which are made available for inspection by the public at the specified office of each Paying Agent.

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15%, in the case of: (a) individual holderswho are resident in Spain; (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5th July) (c) holders in respect of whom the Issuer or the Guarantor does not receive certain details (which may include a tax residence certificate) concerning their identity which it is required pursuant to Spanish law to submit to the Spanish tax authorities and (d) corporate holders who are resident in Spain and non-resident holders with a permanent establishment in Spanish territory, on the basis of the current interpretation of the law held by the Spanish tax authorities (see "Taxation and Disclosure of

Holder Information in Spain in connection with Distributions – 2. Legal Entities with Tax Residency in Spain" on page 68) . Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases. (See "Conditions of the Preferred Securities – Taxation" on page 25 and "Taxation and Disclosure of Holder Information in Spain in connection with Distributions" on page 68).

The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the Principal Paying Agent (as defined on page 15) in the collection of the details referred to above from holders of the Preferred Securities. If the Clearing Systems are, in the future, unable to facilitate the collection of such information, they may decline to allow the Preferred Securities to be cleared through the relevant Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see "Conditions of the Preferred Securities" on page 25). The procedures agreed and fully described in the Paying Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.

TABLE OF CONTENTS

Documents Incorporated by Reference

The following documents shall be deemed to be incorporated in, and to form part of, the Listing Memorandum:

(1) the published annual audited financial statements (on both a consolidated basis and a non- consolidated basis) of the Guarantor for the years ending 31st December 2004, 31st December 2003 and 31st December 2002;

(2) the unaudited interim consolidated financial statements of the Guarantor for the three months ended 31st March 2005; and

(3) the By-Laws of the Issuer.

The Issuer will, at the specified offices of the Paying Agents, provide, free of charge, upon oral or written request, a copy of this Listing Memorandum (or any document incorporated by reference in this Listing Memorandum). Written or telephone requests for such documents should be directed to the specified offices of any Paying Agent or the specified office of the Listing Agent in Luxembourg.

Summary

The following summary has been extracted without material adjustment from, and is qualified in its entirety by, the more detailed information included elsewhere in this Listing Memorandum with which it should be read in conjunction. Spanish law and regulations may differ from laws and regulations in other jurisdictions, and investors should therefore not assume that the Preferred Securities have the same features as preference shares or other similar instruments in any other jurisdiction.

Issuer:	Unión Fenosa Preferentes, S.A. (Sociedad Unipersonal)
Guarantor:	Unión Fenosa, S.A.
Issue size:	Euro 750,000,000.
Issue details:	Series 1 Euro 750,000,000 Non-Cumulative Perpetual Non-voting Floating Rate Guaranteed Preferred Securities (*Participaciones Preferentes*) (the ‘‘**Preferred Securities**’’), each with an initial liquidation preference of Euro 50,000.
Liquidation Preference:	Initially Euro 50,000 per Preferred Security. This amount may be increased by a non-cash distribution payment.
Use of Proceeds:	The proceeds of the issue of the Preferred Securities, after have paid all issue expenses, are, in accordance with Law 13/ 1985 of 25th May on investment ratios, capital adequacy and information requirements for financial intermediaries *(Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros)* as amended (**"Law 13/1985"**) deposited on a permanent basis with the Guarantor in a subordinated irregular deposit that will be used for the Group’s general corporate purposes and that will allow the Issuer to fulfil its payments obligations in relation to the issuance of the Preferred Securities. The funds raised from the issue of the Preferred Securities and so deposited will be available to absorb losses of Unión Fenosa, S.A. or its Group if and when they occur once there is a reduction in the shareholder's equity to zero and its reserves have been exhausted.
Distributions:	The Preferred Securities entitle holders to receive non-cumulative cash or non-cash distributions (the "**Distributions**"), as the case may be, from the Closing Date subject to the limitations on distributions described under “Limitations on Distributions”.
Cash Distribution:	Distributions accrue from the Closing Date and are payable quarterly in arrears in respect of the period from the Closing Date until the date falling ten years thereafter at a variable interest rate of three month EURIBOR plus a margin of 0,65% (the “**Initial Floating Rate**”), subject to the limitations on distributions described below, out of the Issuer’s own legally available resources and distributable items.

Thereafter, Distributions will be payable quarterly in arrears at a variable interest rate of three month EURIBOR plus a margin of 1,65% (the "**Final Floating Rate**"), subject to the limitations on distributions described below, out of the Issuer's own legally available resources and distributable items.

Non-Cash Distribution: If Distributable Profits (as defined on page 13) exist and the Guarantor does not pay dividends to its ordinary shareholders and/or does not pay any remuneration against reserves to any holder of any securities ranking junior to the Preferred Securities, then the Issuer may, but is not obliged to, pay a non-cash distribution (the "**Non-Cash Distribution**") by increasing the nominal value of the Preferred Securities instead of paying the Cash Distribution as long as, (i) the Guarantee extends to the increased amount on the same terms and conditions as the previous amount and (ii) the Issuer and the Guarantor have all the necessary corporate authorizations. The amount of such increase will be equal to the Initial Floating Rate or the Final Floating Rate, as applicable, over the Liquidation Preference that the Preferred Securities may have at the time of the increase. When according to the applicable laws or regulations, withholding for or on account of any present or future taxes imposed or levied by or on behalf of the Kingdom of Spain must be made on the Non Cash Distributions (exclusively), the Issuer or (as the case may be) the Guarantor shall deliver to the Spanish Tax authorities on behalf of the Holders of the Preferred Securities an amount equal to the applicable withholding in such way that the Holders of the Preferred Securites will receive the Non Cash Distributions as would have been received by them if no such withholding had been required.

Limitations on Distributions: Distributions shall be payable to the extent that the aggregate of such Distributions and any other distributions previously paid during the then-current Fiscal Year (as defined on page 14), together with any other distributions proposed to be paid during the then-current Distribution Period, in each case in respect of Senior Parity Securities (as defined on page 15) and Parity Securities (as defined on page 15) including the Preferred Securities do not exceed the Distributable Profits from the previous Fiscal Year.

If Distributable Profits obtained in a Fiscal Year are insufficient to pay the entire amount of the Distributions, the payment procedure will be as follows:

Firstly, distributions relating to any Senior Parity Securities issued by any Subsidiary. Secondly, any remaining amount shall be paid *pro rata* among any Parity Securities including the Preferred Securities. The amounts not paid on the Preferred Securities will be non-cumulative.

Non-payment of Distributions: If Distributions are not paid or are only partially paid on or prior to a Distribution Payment Date (as defined on page 13) as a

consequence of the above Limitations on Distributions, the rights of the holders of the Preferred Securities to receive such Distributions from the Issuer or the Guarantor, as the case may be, in respect of the relevant Distribution Period will be extinguished. In this regard, once the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for the prior Fiscal Year has been audited, the Guarantor will calculate an estimate of the total amount that should be paid as Distribution to the Preferred Securities together with any other distributions that should be paid to the Senior Parity Securities and to any Parity Securities from the approval of such profit and loss account until the approval of the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for the then current Fiscal Year.

If the estimated amount of such distributions exceeds the Distributable Profits of the prior Fiscal Year, the Board of Directors of the Guarantor shall not propose to the General Shareholders' Meeting the approval and payment of, and the Issuer shall not pay, dividends on their ordinary shares or on any other class of shares capital or securities that rank junior to the Preferred Securities as to participations in profits and assets of the Issuer or the Guarantor, as the case may be, until the approval, by the General Meeting of Shareholders of the Guarantor, of the consolidated profit and loss account of the Group or the profit and loss account of the Guarantor, as the case may be, for a subsequent Fiscal Year where enough Distribuible Profits to pay the Distribution to the Preferred Securities together with any other distributions that should be paid to the Senior Parity Securities and to any Parity Securities exists.

Notwithstanding the above, the Guarantor and/or the Issuer may approve any distributions in the form of the shares of the Issuer or shares of the Guarantor or other class of shares of the Guarantor or the Issuer ranking junior to the Preferred Securities or to the obligations of the Guarantor under the Guarantee, as the case may be.

Guarantee: The payment of Distributions, the Liquidation Distribution (as defined below) and the Redemption Price (as defined in page 15), are irrevocably and unconditionally guaranteed by the Guarantor, subject in the case of Distributions, to the Limitations on Distributions described above. In addition, the Guarantee is subject to the limitations described under "Liquidation Rights" below.

For a full description of the Guarantee, see ''The Guarantee'' on pages 28 to 36.

Ranking of the Guarantee: The obligations of the Guarantor under the Guarantee rank (a) junior to all liabilities of the Guarantor (including subordinated liabilities and the Senior Parity Securities); (b) *pari passu* with any Parity Securities issued by the Guarantor and any obligations assumed by the Guarantor under any guarantee in

	favour of holders of any Parity Securities issued by any Subsidiary; and (c) senior to the Guarantor's ordinary shares.
Ranking of the Preferred Securities:	The Preferred Securities rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Issuer and (c) senior to the Issuer's ordinary shares.
Maturity:	Perpetual
Optional Redemption:	Notwithstanding the perpetual nature of the Preferred Securities, they may be redeemed at the option of the Issuer, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 30 June 2015. The Preferred Securities do not grant their holders pre-emption rights over such shares, preferred securities or any other securities.
Liquidation Distribution:	The Liquidation Distribution payable in relation to each Preferred Security shall be its Liquidation Preference per Preferred Security plus, if applicable, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.
Liquidation Rights:	Except as described under ''Conditions of the Preferred Securities – Distributions'' on pages 15 to 20, the Preferred Securities confer no right to participate in the profits or surplus assets of the Issuer. Even if the Issuer has sufficient assets to pay the Liquidation Distribution to the holders of the Preferred Securities, the rights of such holders shall be affected by the existence of (i) a process of liquidation or voluntary or involuntary dissolution of the Guarantor; (ii) a reduction of capital of the Guarantor according to article 169 of the Spanish Corporations Law, and, (iii) a reduction of capital of the Guarantor to compensate losses or to endow the legal reserve according to article 168 of the Spanish Corporations Law. In such circumstances, the Liquidation Distribution will be distributed as follows: - If at the time of the Liquidation Distribution, liquidation, voluntary or involuntary dissolution procedures of the Guarantor have already been commenced, the amount of the Liquidation Distribution will be calculated by adding together the following liquidation distributions: i) those corresponding to the Preferred Securities;

ii) those corresponding to those preferred securities issued by a Subsidiary of the Guarantor that rank *pari passu* with the Preferred Securities, and

iii) those corresponding to Parity Securities of the Guarantor.

- The aggregate of the liquidation distribution to be paid to holders of the Preferred Securities and any preferred securities of any Subsidiary ranking *pari passu* with the Preferred Securities and Parity Securities of the Guarantor will not exceed the liquidation distribution that would have been paid by the Guarantor if all such securities i) had been issued by the Guarantor and ii) had ranked in the following order:

  i) senior to the ordinary shares of the Guarantor,

  ii) *pari passu* with Parity Securities (if any) of the Guarantor, and

  iii) junior to Senior Parity Securities and all liabilities of the Guarantor,

after payment in full in accordance with Spanish law of all creditors of the Guarantor, including holders of subordinated debt, but excluding holders of any guarantee of any contractual right expressed to rank *pari passu* with or junior to the obligations of the Guarantor under the Guarantee.

If proceedings for the liquidation or dissolution of the Guarantor are commenced, the Issuer shall be liquidated by the Guarantor and holders of Preferred Securities will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them and subject to the limitations described above.

Except as described above, the Guarantor shall not liquidate or procure a liquidation of the Issuer.

Pre-emptive rights: The Preferred Securities do not grant their holders any pre-emption rights in respect of any possible future issues of preferred securities.

Voting Rights: The Preferred Securities do not confer an entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Issuer. Notwithstanding the above, the holders of the Preferred Securities have the right, under certain circumstances, to participate in the adoption of certain decisions in the Preferred Securities General Assembly. See ‘‘Conditions of the Preferred Securities – Exercise of rights by holders of Preferred Securities’’ on page 22.

Withholding Tax: Save as set out below, all payments of Distributions and other amounts in respect of the Preferred Securities and payments

under the Guarantee will be made free and clear of withholding taxes of the Kingdom of Spain, subject to customary exceptions.

The payment of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be subject to Spanish withholding taxes, in the circumstances described below. In such circumstances, neither the Issuer nor the Guarantor will pay any additional amounts to holders of Preferred Securities. When according to the applicable laws or regulations, withholding or payment for or on account of any present or future taxes imposed or levied by or on behalf of the Kingdom of Spain must be made on the Non Cash Distributions (exclusively), the Issuer or (as the case may be) the Guarantor shall deliver to the Spanish Tax authorities on behalf of the Holders of the Preferred Securities an amount equal to the applicable withholding or payment on account in such way that the Holder of the Preferred Securities will receive the Non Cash Distributions as would have been received by them if no such withholding or payment on account had been required.

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15%, in the case of: (a) individual holders who are resident in Spain; (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5th July); (c) holders in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such holder's identity and tax residence as it may require in order to comply with Spanish law; and (d) resident holders who are subject to corporate income tax in Spain and non-resident holders operating through a permanent establishment in Spain on the basis of the current interpretation of the law held by the Spanish tax authorities (see "Conditions of the Preferred Securities - Taxation").

Disclosure of identity of holders:

Under Law 13/1985, the Guarantor is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of certain holders of the Preferred Securities.

The Clearing Systems are expected to follow certain procedures to facilitate the collection of details referred to above from holders of the Preferred Securities (see "Taxation and disclosure of Holder Information in Spain in connection with Distributions" on page 68). If the Clearing Systems are, in the future, unable to comply with any requirements which may be imposed upon them, whether by law, regulation or otherwise, they may refuse to allow the Preferred Securities to be cleared through the Clearing Systems and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities.

Form:

The Preferred Securities have been issued in bearer form and are represented by a single global Preferred Security deposited

	with a common depositary for Euroclear and Clearstream, Luxembourg. Accordingly, for so long as the Preferred Securities are so deposited, holders have no direct rights against the Issuer or the Guarantor and such rights will only be exercisable via the relevant clearing system. Definitive Preferred Securities will only be issued directly to holders in exceptional circumstances. See ‘‘Conditions of the Preferred Securities – Form and Status’’ on page 26.
Governing Law:	The Preferred Securities and the Guarantee are governed by the laws of Spain.
Listing:	Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange.

Conditions of the Preferred Securities

The Preferred Securities have been issued by virtue of resolutions of the shareholders' meeting of the Issuer, held on 13 June 2005 and the giving of the Guarantee (as defined below) has been authorised by the meeting of the Board of Directors of the Guarantor (*Consejo de Administración*) held on 22 February 2005 (together, the "**Corporate Resolutions**") and in accordance with Second Additional Disposition of the Law 13/1985, of 25th May, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*) as amended ("**Law 13/1985**").

The Preferred Securities have been created by virtue of a public deed registered with the Mercantile Registry of Madrid on 14 June 2005 (the "**Public Deed of Issuance**").

*Paragraphs in italics are a summary of certain procedures of Euroclear Bank S.A./N.V. as operator of the Euroclear System (''**Euroclear**'') and Clearstream Banking, société anonyme (''**Clearstream, Luxembourg**'' together with Euroclear, the ''**Clearing Systems**'') and certain other information applicable to the Preferred Securities and do not form part of the Conditions of the Preferred Securities. The Clearing Systems may, from time to time, change their procedures.*

1. Definitions

For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

''**Agent Bank**'' means JPMORGAN CHASE BANK and includes any successor agent bank appointed in accordance with the Paying Agency Agreement;

''**CET**'' means Central European Time;

''**Closing Date**'' means 30 June 2005;

''**Distributions**'' means the non-cumulative cash and/or non-cash distributions determined in accordance with section 2 below;

''**Distribution Amount**'' means the Initial Floating Rate Distribution Amount or the Final Floating Rate Distribution Amount.

''**Distribution Payment Date**'' means any 30 March, 30 June, 30 September and 30 December, commencing on 30 September 2005;

''Distribution Period'' means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next Distribution Payment Date;

''**Distributable Profits**'' means in respect of any Fiscal Year of the Guarantor the lower of the reported net profit of (i) the Group and (ii) the Guarantor, determined in each case after tax and extraordinary items for such year, as derived from the consolidated audited profit and loss account of the Group or the audited profit and loss account of the Guarantor, as the case may be, approved by the Guarantor's general shareholders' meeting, prepared in accordance with generally applicable accounting standards in Spain in the case of the audited profit and loss account of the Guarantor and in accordance with the IFRS in the case of the consolidated audited profit and loss account of the Group. In the event that on any Distribution Payment Date, the profit and loss accounts (whether individual or consolidated), have not been audited,

the Distributable Profits shall be determined by reference to the most recent audited individual or consolidated profit and loss account approved by the general shareholders' meeting of the Guarantor;

"**Euro-zone**" means the region comprised of member states of the European Union which adopt the Euro in accordance with the Treaty establishing the European Community, as amended;

''**Fiscal Year**'' means the accounting year of the Issuer or the Guarantor, as the case may be, as set out in its By-Laws;

''**Initial Floating Rate Distribution Amount**'' means the amount payable in respect of each Preferred Security for any Initial Floating Rate Distribution Period;

''**Final Floating Rate Distribution Amount**'' means the amount payable in respect of each Preferred Security for any Final Floating Rate Distribution Period;

''**Group**'' means the Guarantor and its consolidated subsidiaries (in accordance with Articles 42 to 49 of the Spanish Commercial Code (*Código de Comercio*);

Should UNIÓN FENOSA become included in another group apt for consolidation during the term of the issuance of the Preferred Securities, the references made to the Distributable Profit shall be deemed to be made to the lower of: (i) the individual net profit of the Spanish or foreign controlling company, of the group in which UNIÓN FENOSA (and, therefore, the Company) is included and (ii) the consolidated net profit of the controlling company of the group in which UNIÓN FENOSA and the Company, and their controlled companies, are included, in both cases after taxes and extraordinary items for that fiscal year, resulting from the individual profit and loss account of such controlling company or the consolidated profit and loss account of the controlling company and its controlled companies, as appropriate, audited and approved by the General Meeting of Shareholders of the controlling company. For such purposes, references made to the group and to the controlling company shall be construed pursuant to article 42 of the Commercial Code.

Should the Spanish or foreign controlling company of the group in which the Company and the Guarantor are included not be a Spanish limited liability company ("*sociedad anónima*"), lacking ordinary shareholders, then the appropriate amendments shall be made to the terms of the relevant issues of preferred securities to record the conditions that, considering the legal form of the controlling company, have an equivalent economic effect on the holders of preferred securities pursuant to the provisions initially established.

''**Guarantee**'' means the guarantee dated 13 June 2005 and given by the Guarantor in respect of the Issuer's obligations under the Preferred Securities for the benefit of holders of Preferred Securities;

''**Liquidation Distribution**'' means, subject to the limitation set out under sections 2.8 and 3.2 below, the Liquidation Preference per Preferred Security plus, if applicable, pursuant to section 2.8 and 3.2 below, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution;

''**Liquidation Preference**'' means the Initial Euro 50,000 per Preferred Security, plus the amount (if any) of any increase or reduction of the nominal value of the Preferred Securities pursuant to a Non-Cash Distribution payment or pursuant to a partial redemption, as the case may be, as described in pages 18 and 21;

''**Listing Memorandum**'' means the Listing Memorandum dated 30 June 2005 relating to the Preferred Securities;

‘‘**Parity Securities**’’ means (as the case may be) any preferred securities (*participaciones preferentes*) or other securities or instruments equivalent to preferred securities issued by the Issuer or by any other Subsidiary of the Guarantor which are entitled to the benefit of a guarantee of the Guarantor on the same terms and conditions of the Preferred Securities and ranking *pari passu* with the Preferred Securities (excluding for the avoidance of doubt the preferred capital securities issued by Unión Fenosa Services, LLC which will rank senior), or issued by the Guarantor and ranking *pari passu* with the Guarantor's obligations under the Guarantee;

‘‘**Paying Agency Agreement**’’ means the paying agency agreement dated 14 June 2005 relating to the Preferred Securities;

‘‘**Paying Agents**’’ means the Principal Paying Agent and the other agents named therein and includes any successors thereto appointed from time to time in accordance with Clause 12 (Changes in Agents) of the Paying Agency Agreement;

‘‘**Payment Business Day**’’ means a day on which banks in the relevant place of presentation are open for presentation and payment of bearer securities and for foreign exchange dealings and on which TARGET is operating;

‘‘**Preferred Securities**’’ means the preferred securities (*Participaciones Preferentes*) described in this Listing Memorandum;

‘‘**Principal Paying Agent**’’ means JPMORGAN CHASE BANK (or any successor Principal Paying Agent appointed by the Issuer from time to time and notice of whose appointment is published in the manner specified in section 7 below);

‘‘**Redemption Price**’’ means the Liquidation Preference plus accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption per Preferred Security;

‘‘**Representative’’** means the representative of the holders of the Preferred Securities appointed according to the By-Law of the Issuer;

‘‘**Senior Parity Securities**’’ means any preferred securities *(participaciones preferentes)* or other securities or instruments equivalent to preferred securities issued by the Issuer or by any other Subsidiary of the Guarantor on similar terms and conditions as the Preferred Securities and ranking senior to the Preferred Securities (including the preferred capital securities issued by Union Fenosa Financial Services USA LLC);

‘‘**Subsidiary**’’ means any entity over which the Guarantor may have, directly or indirectly, control in accordance with Article 4 of the Securities Market Act (*Ley del Mercado de Valores*);

‘‘**Preferred Securities General Assembly”** means the assembly of holders of Preferred Securities of the Issuer;

“**TARGET Settlement Day**” means a day on which the TARGET System is open;

“**TARGET System**” means the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system.

2. Distributions

2.1 *Accrual of Initial Floating Rate Distributions*: Subject to section 2.8 below, Distributions are payable on the Preferred Securities from (and including) the Closing Date to (but

excluding) 30 June 2015 (the "**Final Floating Rate Commencement Date**") in accordance with Condition 2.2 on 30 March, 30 June, 30 September and 30 December in each year (each, a "**Initial Floating Rate Distribution Payment Date**"); *provided, however, that*, if any Initial Floating Rate Distribution Payment Date would otherwise fall on a date which is not a TARGET Settlement Day, it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) the Closing Date or any Initial Floating Rate Distribution Payment Date and ending on (but excluding) the next Initial Floating Rate Distribution Payment Date is herein called an "**Initial Floating Rate Distribution Period**".

2.2 *Initial Floating Rate*: The rate applicable to the Preferred Securities for each Initial Floating Rate Distribution Period pursuant to Condition 2.1 (the "**Initial Floating Rate**") will be determined by the Agent Bank on the following basis:

(i) the Agent Bank will determine the rate for deposits in Euro for a period equal to the relevant Initial Floating Rate Distribution Period which appears on the display page designated EURIBOR01 on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11:00 a.m., (Brussels time), on the second TARGET Settlement Day before the first day of the relevant Initial Floating Rate Distribution Period (the "**Initial Determination Date**");

(ii) if such rate does not appear on that page, the Agent Bank will:

(A) request the principal Eurozone office of each of five major banks in the Eurozone interbank market (as elected by the Issuer and the Agent Bank) to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Initial Determination Date to prime banks in the Eurozone interbank market for a period equal to the relevant Initial Floating Rate Distribution Period and in an amount that is representative for a single transaction in that market at that time; and

(B) disregarding the highest and the lowest quotations received (or, in the case of repeated highest and/or lowest quotations, only one of such repeated highest and/or lowest quotations) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred- thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and

(iii) if fewer than three such quotations are provided as requested, the Agent Bank will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Eurozone, selected by the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Initial Floating Rate Distribution Period for loans in Euro to leading European banks for a period equal to the relevant Initial Floating Rate Distribution Period and in an amount that is representative for a single transaction in that market at that time,

and the Initial Floating Rate for such Initial Floating Rate Distribution Period shall be the sum of 0,65% per annum and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Initial Floating Rate Distribution Period, the Initial Floating Rate applicable to the Preferred Securities during such Initial Floating Rate Distribution Period will be the sum of 0,65% per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Preferred Securities in respect of a preceding Initial Floating Rate Distribution Period.

Calculation of Initial Floating Distribution Amount: The Agent Bank will, as soon as practicable after the Initial Determination Date in relation to each Initial Floating Rate Distribution Period, calculate the Initial Floating Rate Distribution Amount payable in respect of each Preferred Security. The Initial Floating Rate Distribution Amount will be calculated by applying the Initial Floating Rate for such Initial Floating Rate Distribution

Period to the principal amount of such Preferred Security, multiplying the product by the actual number of days in such Initial Floating Rate Distribution Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

2.3 *Accrual of Final Floating Rate Distributions*: Subject to section 2.8 below, Distributions will be payable on the Preferred Securities in accordance with Condition 2.4 from (and including) the Final Floating Rate Commencement Date, payable on 30 March, 30 June, 30 September and 30 December in each year (each, a "**Final Floating Rate Distribution Payment Date**"); *provided, however, that*, if any Final Floating Rate Distribution Payment Date would otherwise fall on a date which is not a TARGET Settlement Day, it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) the Final Floating Rate Commencement Date or any Final Floating Rate Distribution Payment Date and ending on (but excluding) the next Final Floating Rate Distribution Payment Date is herein called a "**Final Floating Rate Distribution Period**".

2.4 *Final Floating Rate*: The rate applicable to the Preferred Securities for each Final Floating Rate Distribution Period pursuant to Condition 2.3 (the "**Final Floating Rate**") will be determined by the Agent Bank as for the Initial Floating Rate.

The Final Floating Rate for such Final Floating Rate Distribution Period shall be the sum of 1,65% per annum and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Final Floating Rate Distribution Period, the Final Floating Rate applicable to the Preferred Securities during such Final Floating Rate Distribution Period will be the sum of 1,65% per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Preferred Securities in respect of a preceding Final Floating Rate Distribution Period.

Calculation of Final Floating Distribution Amount: The Agent Bank will, as soon as practicable after the determination of the Final Floting Rate in relation to each Final Floating Rate Distribution Period, calculate the Final Floating Rate Distribution Amount payable in respect of each Preferred Security. The Final Floating Rate Distribution Amount will be calculated by applying the Final Floating Rate for such Final Floating Rate Distribution Period to the principal amount of such Preferred Security, multiplying the product by the actual number of days in such Final Floating Rate Distribution Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

Publication: The Agent Bank will cause each Initial or Final Floating Rate and each Initial or Final Floating Rate Distribution Amount determined by it, as the case may be, together with the relevant Initial or Final Floating Rate Distribution Payment Date, to be notified to the Issuer, the Guarantor, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Preferred Securities have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but in any event not later than the first day of the relevant Initial or Final Floating Rate Distribution Period, as the case may be. Notice thereof shall also promptly be given to the holders of the Preferred Securities. The Agent Bank will be entitled to recalculate any Initial or Final Floating Rate Distribution Amount (on the basis of the foregoing provisions) in the event of an extension or shortening of the relevant Initial or Final Floating Rate Distribution Period.

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

Distribution after redemption: Distributions will cease to accrue from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case Distributions will continue to accrue in accordance with this Condition 2 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Preferred Security up to that day are received by or on behalf of the relevant holders of the Preferred Securities and (ii) the day which is seven days after the Agent Bank has notified the holders of the Preferred Securities that it has received all sums due in respect of the Preferred Securities up to such seventh day (except to the extent that there is any subsequent default in payment).

2.5 If Distributable Profits exist and the Guarantor does not pay dividends to its ordinary shareholders and/or does not pay any remuneration against reserves to any holder of any securities ranking junior to the Preferred Securities, then the Issuer may, but is not obliged to, pay a non-cash distribution (the "**Non-Cash Distribution**") by increasing the nominal value of the Preferred Securities instead of paying the Cash Distribution as long as, (i) the Guarantee extends to the increased amount on the same terms and conditions as the previous amount and (ii) the Issuer and the Guarantor have all the necessary corporate authorizations. The amount of such increase will be equal to the Initial Floating Rate or the Final Floating Rate, as applicable, over the Liquidation Preference that the Preferred Securities may have at the time of the increase. When according to the applicable laws or regulations, withholding or payment for or on account of any present or future taxes imposed or levied by or on behalf of the Kingdom of Spain must be made on the Non Cash Distributions (exclusively), the Issuer or (as the case may be) the Guarantor shall deliver to the Spanish Tax authorities on behalf of the Holders of the Preferred Securities an amount equal to the applicable withholding or payment on account in such way that the Holder of the Preferred Securities will receive the Non Cash Distributions as would have been received by them if no such withholding or payment on account had been required.

2.6 If any Non-Cash Distribution is to be made, then

(i) by close of business on or before the 10th business day prior to the relevant Distribution Payment Date, the Issuer shall notify the Agent Bank, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Preferred Securities have been admitted to listing, trading and/or quotation of the amount of the Non-Cash Distribution per Preferred Security and in aggregate to be made on such Distribution Payment Date (the "**Amount of the Non-Cash Distribution**"); and

(ii) the Issuer, and failing whom, the Guarantor, shall (a) enter into such documents as are required to ensure that the nominal value of the Preferred Securities (as the same may have been increased from time to time) be increased by the Amount of the Non-Cash Distribution, and (b) shall procure that such increase in nominal value of each Preferred Security is registered at the relevant Spanish Mercantile Registry on or prior to the relevant Distribution Payment Date.

2.7 The Issuer will be discharged from its obligations(s) to pay Distributions declared on the Preferred Securities by payment to the Agent Bank for the account of the holder of the relevant Preferred Securities on the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the Agent Bank.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, it will be postponed to the next Payment Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Payment Business Day. In neither case will any further interest accrue.

In order to facilitate compliance with Law 13/1985, Royal Decree 2281/1998 as amended by Royal Decree 1778/2004, Royal Decree 4/2004 and Order of 22nd December 1999, the Issuer, the Guarantor, the Principal Paying Agent, the Clearing Systems and their respective participants have initially established certain procedures to ensure that each payment (where applicable subject to withholding or payment on acount in accordance with section 6 (Taxation)) shall be received for the account of the relevant holder as the Clearing Systems or their respective participants, as the case may be, have certified such holder to be the beneficial owner ("titular") of the relevant Preferred Security as of the Distribution Payment Date in accordance with the procedures described in the Paying Agency Agreement. (See also "Taxation and Disclosure of Holder Information in Connection with Payments of Distributions" on page 68).

The Preferred Securities are represented by a global Preferred Security in bearer form for the total number of the Preferred Securities. Such global Preferred Security has been delivered into the physical custody of a common depositary for the Clearing Systems on 30 June 2005. *The Clearing Systems will make payment of any amounts received by them to their accountholders in accordance with their published rules and regulations.*

2.8 The Issuer will not be obliged to make any payment in respect of Distributions (including accrued and unpaid Distributions relating to the Redemption Price or Liquidation Distribution) on any Preferred Securities to the extent that such Distributions together with the aggregate of (i) the Distributions paid during the current Fiscal Year and (ii) any other distributions previously paid during the then-current Fiscal Year and (iii) any distributions proposed to be paid during the then-current Distribution Period, in each case on or in respect of any Senior Parity Securities and any Parity Securities, including the Preferred Securities, would exceed the Distributable Profits of the immediately preceding Fiscal Year.

Except for the limitations set out above, Distributions will be payable, on each Distribution Payment Date, out of the Issuer's own legally available resources and distributable items.

2.9 If the Issuer does not pay a Distribution with respect to a Distribution Period (as contemplated herein) other than as a result of the limitations set out in section 2.8 above, the Issuer's payment obligation in respect thereof will be satisfied if and to the extent that the Guarantor pays such Distribution pursuant to the Guarantee.

2.10 Distributions are non-cumulative. Accordingly, if Distributions are not paid on a Distribution Payment Date in respect of the Preferred Securities as a result of the limitations set out in section 2.8 above or are paid partially then the right of the holders of the Preferred Securities to receive a Distribution or an unpaid part thereof in respect of the relevant Distribution Period will be extinguished and neither the Issuer nor the Guarantor will have any obligation to pay the Distribution accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions are paid in respect of any future Distribution Period.

2.11 If in accordance with section 2.8 above, the Distributable Profit obtained in a Fiscal Year is insufficient to satisfy in full the Distributions, the payment procedure will be as follows:

(i) Firstly, the distribution regarding any Senior Parity Securities, and

(ii) Secondly, the remaining amount, as the case may be, will be paid partially, to the extent of the Distributable Profit. This amount will be distributed pro rata among the Preferred Securities and any Parity Securities. Distributions

will be non-cumulative, therefore the right of the Holders to receive any unpaid Distributions shall extinguish.

2.12 If Distributions are not paid or are only partially paid on the Preferred Securities on or prior to a Distribution Payment Date, as a consequence of the limitations on Distributions, the rights of the holders of the Preferred Securities to receive a Distribution from the Issuer or the Guarantor, as the case may be, in respect of the relevant Distribution Period will be extinguished.

In this regard, once the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for the prior Fiscal Year has been audited, the Guarantor will calculate an estimate of the total amount that should be paid as Distribution to the Preferred Securities together with any other distributions that should be paid to the Senior Parity Securities and to any Parity Securities from the approval of such profit and loss account until the approval of the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for the then current Fiscal Year.

If the estimated amount of such distributions exceeds the Distributable Profits of the prior Fiscal Year, the Board of Directors of the Guarantor shall not propose to the General Shareholders' Meeting the approval and payment of, and the Issuer shall not pay, dividends on their ordinary shares or on any other class of shares capital or securities that rank junior to the Preferred Securities as to participations in profits and assets of the Issuer or the Guarantor, as the case may be, until the approval, by the General Meeting of Shareholders of the Guarantor, of the consolidated profit and loss account of the Group or the profit and loss account of the Guarantor, as the case may be, for a subsequent Fiscal Year where enough Distribuible Profits to pay the Distribution to the Preferred Securities together with any other distributions that should be paid to the Senior Parity Securities and to any Parity Securities exists.

Notwithstanding the above, the Guarantor and/or the Issuer may approve any distributions in the form of the shares of the Issuer or shares of the Guarantor or other class of shares of the Guarantor or the Issuer ranking junior to the Preferred Securities or to the obligations of the Guarantor under the Guarantee, as the case may be.

2.13 Save as described in this Condition 2, the Preferred Securities confer no right to participate in the profits of the Issuer.

3. Liquidation Distribution

3.1 Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the Preferred Securities will confer an entitlement to receive out of the assets of the Issuer available for distribution to holders of Preferred Securities, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of ordinary shares or any other class of share capital or securities of the Issuer ranking junior to the Preferred Securities.

The payment of the Liquidation Distribution is guaranteed by the Guarantor.

3.2 Notwithstanding the availability of sufficient assets of the Issuer to pay the Liquidation Distribution to the holders of the Preferred Securities, the rights of such holders shall be affected by the existence of (i) a process of liquidation or voluntary or involuntary dissolution of the Guarantor; (ii) a reduction of capital of the Guarantor according to article 169 of the Spanish Corporations Law, and, (iii) a reduction of capital of the

Guarantor to compensate losses or to endow the legal reserve according to article 168 of the Spanish Corporations Law.

In these cases, the Liquidation Distribution will be distributed as follows:

If at the time of the Liquidation Distribution, liquidation, voluntary or involuntary dissolution procedures of the Guarantor have already commenced the amount of the Liquidation Distribution will be calculated by adding together the following liquidation distributions:

i) those corresponding to the Preferred Securities;

ii) those corresponding to those preferred securities issued by a Subsidiary of the Guarantor that rank *pari passu* with the Preferred Securities, and

iii) those corresponding to Parity Securities of the Guarantor.

The aggregate of the liquidation distribution to be paid to holders of the Preferred Securities and any preferred securities of any Subsidiary ranking *pari passu* with the Preferred Securities and Parity Securities of the Guarantor will not exceed the liquidation distribution that would have been paid by the Guarantor if all such securities i) had been issued by the Guarantor and ii) had ranked in the following order:

i) senior to the ordinary shares of the Guarantor,

ii) *pari passu* with Parity Securities (if any) of the Guarantor, and

iii) junior to Senior Parity Securities and to all liabilities of the Guarantor,

after payment in full in accordance with Spanish law of all creditors of the Guarantor, including holders of subordinated debt, but excluding holders of any guarantee of any contractual right expressed to rank *pari passu* with or junior to the obligations of the Guarantor under the Guarantee.

3.3 If proceedings for the liquidation or dissolution of the Guarantor are commenced, the Issuer shall be liquidated by the Guarantor and holders of Preferred Securities will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them and subject to the limitations described above. Except as provided in this section, the Guarantor undertakes not to permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer.

4. Optional Redemption

4.1 The Preferred Securities may not be redeemed prior to 30 June 2015. The Preferred Securities may be redeemed in whole or in part at the option of the Issuer, on any Distribution Payment Date falling on or after 30 June 2015 (the ‘‘**Redemption Date**’’), at the Redemption Price per Preferred Security.

In the case of a partial redemption of the Preferred Securities, redemption will be effected on a pro rata basis in relation to the Liquidation Preference and the Liquidation Preference of the Preferred Securities shall be reduced accordingly.

4.2 The decision to redeem the Preferred Securities must be irrevocably notified by the Issuer upon not less than 30 nor more than 60 days’ notice prior to the relevant redemption date in accordance with section 7 below.

4.3 If the Issuer has given notice of redemption of the Preferred Securities, the Issuer shall by 12:00 (London time) on the relevant Redemption Date:

4.3.1 irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price, including the amount of accrued and unpaid Distribution for the then-current Distribution Period to the date fixed for redemption; and

4.3.2 give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the holders of the Preferred Securities.

4.4 If the Issuer has given notice of redemption of the Preferred Securities, and the funds have been deposited as required by section 4.3.1 above, then on the date of such deposit:

4.4.1 Distributions called for redemption shall cease;

4.4.2 such Preferred Securities will no longer be considered outstanding; and

4.4.3 the holders of such Preferred Securities will no longer have any rights as holders except the right to receive the Redemption Price.

4.5 If either (i) the Issuer has given notice of redemption of the Preferred Securities and the funds are not deposited as required by section 4.3.1 above or (ii) if the Issuer or the Guarantor improperly withholds or refuses to pay the Redemption Price, Distributions will continue to accrue at the rate specified from the Redemption Date to the date of actual payment of the Redemption Price.

5. Exercise of Rights by Holders of Preferred Securities

5.1 The Preferred Securities General Assembly

5.1.1 The Preferred Securities General Assembly will be constituted upon the registration of the Public Deed of Issuance with the Mercantile Registry of Madrid by the holders of the Preferred Securities.

5.1.2 The rules governing the functioning of the Preferred Securities General Assembly and the rules governing its relationship with the Issuer are contained in the By-laws of the Issuer.

5.1.3 The convening of the Preferred Securities General Assembly will be carried out in accordance with the rules governing the calling and holding of meetings of holders of each series of preferred securities as set forth in the By-laws of the Issuer. The Preferred Securities General Assembly shall be called by the Board of Directors of the Issuer or by its Representative. In addition the Preferred Securities General Assembly may be called if so solicited in writing by holders of Preferred Securities which represent at least 5% of the outstanding Preferred Securities, in which case the Preferred Securities General Assembly shall be convened within 15 days following the receipt of such request by the Representative. Any call of the Preferred Securities General Assembly shall be made in accordance with article 24 of the By-laws of the Issuer as amended or supplemented from time to time and section 7 below.

5.1.4 The Preferred Securities General Assembly has the power to agree all necessary measures to improve the protection of the legitimate interests of holders of the Preferred Securities as against the Issuer and the Guarantor; remove or appoint the Representative; undertake all appropriate judicial action; approve the costs resulting from the defence of common interests and exercise the rights vested in the

holders of the Preferred Securities by the By-laws of the Issuer and under the Preferred Securities.

5.2 Voting Rights

The holders of the Preferred Securities do not have any voting rights. Notwithstanding the foregoing, the holders of the Preferred Securities do have, in the circumstances set out in sections 5.2.1, 5.2.2, 5.2.3 and 5.2.4 below, the right to participate in the adoption by the Issuer of certain decisions through the Preferred Securities General Assembly.

5.2.1 Failure to pay Distributions for five consecutive Distribution Payment Dates:

a) In the event that neither the Issuer nor the Guarantor (by virtue of the Guarantee) pays full Distributions in respect of the Preferred Securities for five Distribution Payment Dates, the holders of the Preferred Securities may, through the Preferred Securities General Assembly resolve to appoint two further members to the Board of Directors of the Issuer and may also remove or replace such directors, in accordance with the By-Laws of the Issuer

b) In the event that the Issuer and the Guarantor have failed to make any payments to holders or other preferred securities of the Issuer, these rights shall be exercised together with such holders of preferred securities.

c) The Board of Directors of the Issuer, will call a Preferred Securities General Assembly within fifteen days following the fifth consecutive Distribution Payment Dates , on which Distributions have not been paid, as set out in paragraph a) above. If the Board of Directors does not call the Preferred Securities General Assembly within fifteen days, the holders of the Preferred Securities representing at least 5% of the aggregate Liquidation Preference may convene such meeting.

d) The rules governing the convening and holding of Preferred Securities General Assembly are set out in the Issuer's By-Laws.

Immediately following a resolution of a Preferred Securities General Assembly for the appointment or the removal of additional members to the Board of Directors of the Issuer, a Preferred Securities General Assembly shall give notice of such appointment or removal to:

(i) the Board of Directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and

(ii) the shareholders of the Issuer, so that they may hold a universal meeting of shareholders.

The Guarantor, as sole shareholder of the Issuer has undertaken to vote in favour of the appointment or removal of the directors so named by the Preferred Securities General Assembly and to take all necessary measures to approve such appointment or removal. Under the By-laws of the Issuer, the Board of Directors must have a minimum of three members and a maximum of nine.

As at the date of the Listing Memorandum the Board of Directors has four Directors.

The foregoing shall apply, if the Issuer has failed to fulfil its obligations to make Distributions in respect of the Preferred Securities and the Guarantor has not discharged such obligations pursuant to the Guarantee.

Subject to the terms of any other preferred securities of the Issuer in circulation, any member of the Board of Directors appointed pursuant to this section 5.2.1 shall vacate his position if the Distribution Amount in respect of the fifth consecutive Distribution Period immediately following his appointment has been paid in full by the Issuer and/or the Guarantor or, as the case may be.

Both the appointment and the dismissal of directors shall be notified by the Issuer to the holders of Preferred Securities in accordance with section 7 below.

5.2.2 Amendment to the Terms and Conditions of the Preferred Securities and further issuances.

Any amendment to the terms and conditions of the Preferred Securities shall be approved by the holders of the Preferred Securities. Such amendments will be approved on first call by a resolution of at least two-thirds of the holders of the outstanding Preferred Securities as adopted in a Preferred Securities General Assembly. On a second call, such approval may be authorised by a resolution of at least two-thirds of the holders of the Preferred Securities that are present or represented in the Preferred Securities General Assembly.

5.2.3 Dissolution and winding-up of the Issuer.

Any proposal for the dissolution or winding-up of the Issuer shall be approved by the holders of the Preferred Securities unless such dissolution or winding-up is due to (i) a process of liquidation or voluntary or involuntary dissolution of the Guarantor; (ii) a reduction of capital of the Guarantor according to article 169 of the Spanish Corporations Law, and (iii) a reduction of capital of the Guarantor to compensate for losses or to fund the legal reserve according to article 168 of the Spanish Corporations Law. Such proposal will be approved on first call by the majority of the liquidation preference of the preferred securities outstanding. On a second call such proposal will be approved by two-thirds of the liquidation preference of the preferred securities present or represented.

5.2.4 Further issuance of preferred securities

If the Issuer, or the Guarantor under any guarantee, has paid in full the most recent distribution payable on each series of the Issuer’s preferred securities, the Issuer may without the consent or sanction of the holders of its preferred securities: (i) take any action required to issue additional preferred securities or authorize, create and issue one or more other series of preferred securities of the Issuer ranking *pari passu* with the Preferred Securities, as to the participation in the profits and assets of the Issuer, without limit as to the amount; or (ii) take any action required to authorize, create and issue one or more other classes or series of securities of the Issuer ranking junior to the Preferred Securities, as to the participation in the profits or assets of the Issuer.

However, if the Issuer, or the Guarantor under any guarantee, has not paid in full the most recent distribution payable on each series of the Issuer's preferred securities, then the prior consent of the holders shall be required and may be given on first call by a resolution of at least two-thirds of the liquidation preference of the preferred securities outstanding and on a second call, by a resolution of at least

two-thirds of the liquidation preference of the preferred securities present or represented.

5.3 Pre-emptive Rights and other provisions

5.3.1 The Preferred Securities do not grant their holders pre-emption rights in respect of any possible future issues of preferred securities.

5.3.2 Neither the Issuer nor any other Subsidiary nor the Guarantor may issue, or guarantee the issue of, any preferred securities or securities or other instruments equivalent to preferred securities ranking, either directly or via a guarantee senior to the Preferred Securities, unless the Guarantee is amended so as to rank *pari passu* with any such issue or guarantee of senior securities.

5.3.3 No consent of the holders of the Preferred Securities shall be required for the Issuer to redeem and cancel the Preferred Securities.

5.3.4 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described above, neither the Guarantor nor any Subsidiary of the Guarantor, to the extent that it is a holder of preferred securities of the Issuer, shall be entitled to vote at any Preferred Securities General Assembly.

5.3.5 The Preferred Securities may be transferred in accordance with the procedures established by the relevant clearing system.

6. Taxation

6.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities and the Guarantee by the Issuer or the Guarantor (as the case may be) will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, neither the Issuer nor (as the case may be) the Guarantor will pay any additional amounts to holders of Preferred Securities.

Notwithstanding the above, when according to the applicable laws or regulations, withholding or payment for or on account of any present or future taxes imposed or levied by or on behalf of the Kingdom of Spain must be made on the Non Cash Distributions (exclusively), the Issuer or (as the case may be) the Guarantor shall deliver to the Spanish Tax authorities on behalf of the Holders of the Preferred Securities an amount equal to the applicable withholding or payment on account in such way that the Holder of the Preferred Securities will receive the Non Cash Distributions as would have been received by them if no such withholding or payment on account had been required.

In such case, the obligations of the Paying Agent shall be solely limited to providing the relevant Tax certificates (as received by from the holders via the clearing systems), to the Issuer or the Guarantor as the case may be. The Paying Agent shall not have any additional obligation with regards to the Preferred Securities (in particular those related to withholding tax provisions as derived from its condition as Paying Agents regarding the cash Distributions).

A list of the tax havens referred to in section 6.2(vi) as at the date of the Listing Memorandum is set out on page 67 of the Listing Memorandum.

6.2 For the purposes of section 6, the ‘‘**Relevant Date**’’ means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders of Preferred Securities, notice to that effect shall have been duly given to the holders of Preferred Securities in accordance with section 7 below.

See ‘‘Taxation and Disclosure of Holder Information in Connection with Payments of Distributions’’ for a fuller description of certain tax considerations (particularly in relation to holders which are resident in Spain) relating to the Preferred Securities, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of holders of Preferred Securities.

7. Notices

Notices, including notice of any redemption of the Preferred Securities, will be given by the Issuer (i) so long as any Preferred security is listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having a general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (ii) by mail to Euroclear and Clearstream Luxembourg (in each case not less that 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

In accordance with their published rules and regulations, each of Euroclear and Clearstream, Luxembourg will notify holders of securities accounts with it to which any Preferred Securities are credited of any such notices received by it.

8. Form and Status

The Preferred Securities are issued in bearer form.

A global Preferred Security representing the Preferred Securities has been delivered by the Issuer to a common depositary for Euroclear and Clearstream, Luxembourg. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant clearing system. It is anticipated that only in exceptional circumstances (such as the closure of Euroclear and Clearstream, Luxembourg, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from Euroclear and Clearstream, Luxembourg or failure to comply with the terms and conditions of the Preferred Securities by either the Issuer or the Guarantor) will definitive Preferred Securities be issued directly to such accountholders.

The Preferred Securities rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Issuer and (c) senior to the Issuer’s ordinary shares.

Holders of Preferred Securities, by virtue of purchasing Preferred Securities, shall be deemed to have waived any other ranking granted to them by Law 22/2003 (*Ley Concursal)* dated 9 July 2003 or any applicable regulation from time to time.

9. Agents

In acting under the Paying Agency Agreement and in connection with the Preferred Securities, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the holders of the Preferred Securities.

The initial Paying Agents and their initial specified offices are listed in the Paying Agency Agreement. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that if, and for so long as, the Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer and the Guarantor shall maintain a Paying Agent having its specified office in Luxembourg.

Notice of any change in any of the Paying Agents or in their specified offices shall promptly be given to the holders of the Preferred Securities.

10. Prescription

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

11. Governing Law and Jurisdiction

11.1 Governing Law

The Preferred Securities are governed by, and construed in accordance with, Spanish law.

11.2 Jurisdiction

The Issuer hereby irrevocably agrees for the benefit of the holders of the Preferred Securities that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "**Proceedings**") may be brought in such courts. The Issuer irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Issuer 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 competent jurisdictions, whether concurrently or not.

The Guarantee

The following is the text of the Guarantee relating to the Preferred Securities.

THIS GUARANTEE (the "**Guarantee**"), dated 13 the June 2005, is executed and delivered by Union Fenosa, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain ("**Union Fenosa**" or the "**Guarantor**") for the benefit of the Holders (as defined below).

WHEREAS, the Guarantor wishes to procure the issue by Union Fenosa Preferentes, S.A. (Sociedad Unipersonal), a limited liability company *(sociedad anónima)* incorporated under the laws of the Kingdom of Spain (the "**Issuer**") of Euro up to 750.000.000 Non-cumulative Perpetual Guaranteed Non-voting Preferred Securities (the "**Preferred Securities**") and the Guarantor wishes to issue this Guarantee for the benefit of the Holders.

NOW, THEREFORE the Guarantor executes and delivers this Guarantee for the benefit of the Holders.

1. Definitions

As used in this Guarantee, the following terms shall, unless the context otherwise requires, have the following meanings:

"**Guarantor Shares**" means any ordinary shares of Union Fenosa, S.A.;

"**Distributable Profits**" means in respect of any Fiscal Year of the Guarantor the lower of the reported net profit of (i) the Group and (ii) the Guarantor, determined in each case after tax and extraordinary items for such year, as derived from the consolidated audited profit and loss account of the Group or the audited profit and loss account of the Guarantor, as the case may be, approved by the Guarantor's general shareholders' meeting, prepared in accordance with generally applicable accounting standards in Spain in the case of the audited profit and loss account of the Guarantor and in accordance with the IFRS in the case of the consolidated audited profit and loss account of the Group. In the event that on any Distribution Payment Date, the profit and loss accounts (whether individual or consolidated) have not been audited, the Distributable Profits shall be determined by reference to the most recent audited individual or consolidated profit and loss account approved by the general shareholders' meeting or the Guarantor;

"**Distributions**" means the non-cumulative distributions in cash or by increase in nominal value payable per Preferred Security in accordance with the terms thereof;

''**Distribution Amount**'' means the Initial Floating Rate Distribution Amount or the Final Floating Rate Distribution Amount.

"**Distribution Payment Date**" means either an Initial Floating Rate Distribution Payment Date or a Final Floating Rate Distribution Payment Date, as the case may be;

"**Distribution Period**" means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the closing date) to but excluding the next Distribution Payment Date;

"**Fiscal Year**" means the accounting year of the Guarantor as set out in its By-Laws;

"**Initial Floating Rate Distribution Payment Date**" means until and including 30 June 2015, 30 March, 30 June, 30 September and 30 December in each year commencing on 30 September 2005;

"**Final Floating Rate Distribution Payment Date**" means 30 March, 30 June, 30 September and 30 December in each year commencing on 30 September 2015;

"**Guarantee Payments**" means (without duplication) (i) any accrued but unpaid Distribution payable on the Preferred Securities for the most recent Distribution Period; (ii) the Redemption Price payable on the redemption of Preferred Securities; (iii) the Liquidation Distributions due on the Liquidation Date and (iv) any other sums (if any) due but unpaid by the Issuer in respect of the Preferred Securities;

"**Group**" means the Guarantor and its consolidated subsidiaries (in accordance with Articles 42 to 49 of the Spanish Commercial Code (*Código de Comercio*);

Should UNIÓN FENOSA become included in another group apt for consolidation during the term of the issuance of the Preferred Securities, the references made to the Distributable Profit shall be deemed to be made to the lower of: (i) the individual net profit of the Spanish or foreign controlling company, of the group in which UNIÓN FENOSA (and, therefore, the Company) is included and (ii) the consolidated net profit of the controlling company of the group in which UNIÓN FENOSA and the Company, and their controlled companies, are included, in both cases after taxes and extraordinary items for that fiscal year, resulting from the individual profit and loss account of such controlling company or the consolidated profit and loss account of the controlling company and its controlled companies, as appropriate, audited and approved by the General Meeting of Shareholders of the controlling company. For such purposes, references made to the group and to the controlling company shall be construed pursuant to article 42 of the Commercial Code.

Should the Spanish or foreign controlling company of the group in which the Company and the Guarantor are included not be a Spanish limited liability company ("*sociedad anónima*"), lacking ordinary shareholders, then the appropriate amendments shall be made to the terms of the Preferred Securities to record the conditions that, considering the legal form of the controlling company, have an equivalent economic effect on the holders of Preferred securities Pursuant to the provisions initially established.

"**Holder**" means any holder from time to time of any Preferred Security provided, however, that in determining whether the Holders of the requisite percentage of Preferred Securities have given any request, notice or consent or waiver hereunder, Holder shall not include the Guarantor or any Subsidiary (including the Issuer);

"**Liquidation Date**" means the date of final distribution of the assets of the Issuer in the case of any liquidation, dissolution or winding-up of the Issuer (whether voluntary or involuntary);

"**Liquidation Distribution**" means, with respect to each Preferred Security, the Liquidation Preference plus an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment on such Liquidation Distribution;

"**Liquidation Preference**" means the initial Euro 50,000 per Preferred Security, plus the amount (if any) of any increase or reduction of the value of the Preferred Securities pursuant to a non-cash Distribution payment or pursuant to a partial redemption, as the case may be;

"**Parity Securities**" means (as the case may be) any preferred securities (*participaciones preferentes*) or other securities or instruments equivalent to preferred securities issued by the Issuer or by any other Subsidiary of the Guarantor which are entitled to the benefit of a guarantee of the Guarantor on the same terms and conditions of the Preferred Securities and ranking *pari passu* with the Preferred Securities (excluding for the avoidance of doubt the preferred capital securities issued by Union Fenosa Financial Services USA LLC, which will

rank senior), or issued by the Guarantor and ranking *pari passu* with the Guarantor's obligations under the Guarantee;

"**Redemption Price**" means the Liquidation Preference plus accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption per Preferred Security;

"Senior Parity Securities" means any preferred securities *(participaciones preferentes)* or other securities or instruments equivalent to preferred securities issued by the Issuer or by any other Subsidiary of the Guarantor on similar terms and conditions as the Preferred Securities and ranking senior to the Preferred Securities (including the preferred capital securities issued by Union Fenosa Financial Services USA LLC);

"**Spain**" means the Kingdom of Spain;

"**Subsidiary**" means any entity which the Guarantor may, directly or indirectly, control in accordance with Article 4 of the Securities Market Act (*Ley del Mercado de Valores*);

"**Preferred Securities General Assembly"** means the assembly of holders of preferred securities of the Issuer.

2. Guarantee

2.1 Guarantee

Subject to the limitations contained in the following paragraphs of this Clause 2, the Guarantor irrevocably and unconditionally has agreed to pay in full to the Holders, the Guarantee Payments (to the extent not paid by the Issuer), as and when due upon receipt of a notice by any Holder demanding payment, regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is abstract, autonomous and independent (*garantía solidaria* under Spanish law*)* of the Guarantee Payments.

2.2 Limitations to the Guarantee Payments in relation to the Distributions

Notwithstanding Clause 2.1, the Guarantor is not obliged to make any Guarantee Payment in respect of Distributions (including accrued and unpaid Distributions relating to the Redemption Price or Liquidation Distribution) on any Preferred Securities to the extent that: such Distributions together with the aggregate of (i) the Distributions paid during the current Fiscal Year and (ii) any other distributions previously paid during the then-current Fiscal Year and (iii) any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Senior Parity Securities and Parity Securities, including the Preferred Securities, would exceed the Distributable Profits of the immediately preceding Fiscal Year.

2.3 Limitations to the Guarantee Payments in relation to the Liquidation Distributions

Notwithstanding the availability of sufficient assets of the Issuer to pay the Liquidation Distribution to the Holders of the Preferred Securities, the rights of such Holders shall be affected by the existence of (i) a process of liquidation or voluntary or involuntary dissolution of the Guarantor; (ii) a reduction of capital of the Guarantor according to article 169 of the Spanish Corporations Law (iii) a reduction of capital of the Guarantor to compensate losses or to fund the legal reserve according to article 168 of the Spanish Corporations Law. In these cases, the Liquidation Distribution will be distributed as follows:

> If at the time of the Liquidation Distribution, liquidation, voluntary or involuntary dissolution procedures have already commenced the amount of the Liquidation Distribution will be calculated by adding together the following liquidation distributions:

i) those corresponding to the Preferred Securities;

ii) those corresponding to those preferred securities issued by a Subsidiary of the Guarantor that rank *pari passu* with the Preferred Securities, and

iii) those corresponding to Parity Securities of the Guarantor.

The aggregate of the liquidation distribution to be paid to holders of the Preferred Securities and any preferred securities of any Subsidiary ranking *pari passu* with the Preferred Securities and Parity Securities of the Guarantor will not exceed the liquidation distribution that would have been paid by the Guarantor if all such securities i) had been issued by the Guarantor and ii) had ranked in the following order:

i) senior to the Guarantor Shares,

ii) *pari passu* with Parity Securities (if any) of the Guarantor, and

iii) junior to Senior Parity Securities and to all liabilities of the Guarantor,

after payment in full in accordance with Spanish law of all creditors of the Guarantor, including holders of subordinated debt, but excluding holders of any guarantee of any contractual right expressed to rank *pari passu* with or junior to the obligations of the Guarantor under the Guarantee.

2.4 Pro Rata Payments

If as stated in clause 2.2 above, the Distributable Profit obtained in a Fiscal Year were insufficient to satisfy in full the Distributions, the payment procedure will be as follows:

(i) Firstly, the distribution regarding any Senior Parity Securities shall be paid, and

(ii) Secondly, the remaining amount, as the case may be, will be paid partially, to the extent of the Distributable Profit. This amount will be distributed pro rata among the Preferred Securities and any Parity Securities. Distributions on the Preferred Securities will be non-cumulative, therefore the right of the Holders to receive any unpaid Distribution will extinguish.

2.5 Ranking of the Guarantee

The Guarantor has agreed that subject to applicable laws, the Guarantor's obligations hereunder constitute unsecured obligations of the Guarantor and rank and will at all times rank (a) junior to all liabilities of the Guarantor (including subordinated liabilities); (b) *pari passu* with any Parity Securities issued by the Guarantor and any obligations assumed by the Guarantor under any guarantee in favour of holders of any Parity Securities issued by any Subsidiary; and (c) senior to the Guarantor Shares.

2.6 Acceptance of the Guarantee

The mere subscription of Preferred Securities will be deemed for all purposes to constitute the plain and full acceptance of this Guarantee.

3. Characteristics of the Guarantor's obligations under the Guarantee

3.1 Waiver

The Guarantor waives any right or benefit to which it may be entitled under Spanish law with regard to objecting to make any payment by virtue of the Guarantee.

The obligations of the Guarantor are independent of those of the Issuer. The Guarantor shall remain liable as the principal and sole debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee, and shall not be able to demand that the Holders of the Preferred Securities exhaust any of their rights or take any legal action against the Issuer prior to taking action against the Guarantor.

3.2 Obligations and Commitments of the Guarantor

The obligations and commitments of the Guarantor are not affected by any of the following circumstances:

3.2.1 the waiver by the Issuer, either by the application of a legal provision or for any other reason, to fulfil any commitment, term or condition, whether implicit or explicit, in relation to the Preferred Securities; or

3.2.2 the extension of the Distribution Payment Date, the Liquidation Date or the date for payment of the Redemption Price with regard to the Preferred Securities or the extension granted for the fulfilment of any other obligation related to the Preferred Securities; or

3.2.3 any breach, omission or delay by the Holders in exercising the rights granted by the Preferred Securities; or

3.2.4 the liquidation, dissolution, or sale of any asset given as a guarantee, temporary receivership, bankruptcy, receivership proceedings or renegotiation of debt affecting the Issuer; or

3.2.5 any defect in or invalidity of the Preferred Securities; or

3.2.6 transactions involving any obligation guaranteed by this Guarantee or undertaken by virtue of this Guarantee.

The Holders of Preferred Securities are not obliged whatsoever to notify the Guarantor of the occurrence of any of the aforementioned circumstances, nor to obtain their consent in relation to the same.

3.3 Subrogation

The Guarantor shall be subrogated to any and all rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Guarantor under this Guarantee. The Guarantor shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If any amount shall be paid to the Guarantor in violation of the preceding sentence, the Guarantor agrees to pay over such amount to the Holders.

3.4 Deposit of the Guarantee

This Guarantee shall be deposited with and held by JPMORGAN CHASE BANK as Principal Paying Agent until all the obligations of the Guarantor have been discharged in full. The Guarantor hereby acknowledges the right of every Holder to the production of, and the right of

every Holder to obtain a copy of, this Guarantee. A Holder may enforce this Guarantee directly against the Guarantor, and the Guarantor waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Guarantor. Subject to Clause 3.1, all waivers contained in this Guarantee shall be without prejudice to the Holder's right to proceed against the Issuer. The Guarantor agrees that this Guarantee shall not be discharged except by payment of the Guarantee Payments in full and by complete performance of all obligations of the Guarantor under this Guarantee.

4. Other obligations of the Guarantor under the Guarantee

4.1 No further issues

The Guarantor will not issue any preferred securities or other instruments equivalent to preferred securities, ranking senior to its obligations under this Guarantee or give any guarantee in respect of any preferred securities or securities or other instruments equivalent to preferred securities, issued by any Subsidiary, if such guarantee would rank senior to this Guarantee (including, without limitation, any guarantee that would provide a priority of payment with respect to Distributable Profits) unless in each case, this Guarantee is amended so that it ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment of Distributable Profits as, any such other preferred securities or securities or other instruments equivalent to preferred securities or other such guarantee.

4.2 Non-Payments

If Distributions are not paid or are only partially paid on the Preferred Securities on or prior to a Distribution Payment Date, as a consequence of the limitations on Distributions, of Condition 2.2, the rights of the holders of the Preferred Securities to receive a Distribution from the Guarantor under the Guarantee, in respect of the relevant Distribution Period will be extinguished.

In this regard, once the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for the prior Fiscal Year has been audited, the Guarantor will calculate an estimate of the total amount that should be paid as Distribution to the Preferred Securities together with any other distributions that should be paid to the Senior Parity Securities and to any Parity Securities from the approval of such profit and loss account, until the approval of the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for the then current Fiscal Year.

If the estimated amount of such distributions exceeds the Distributable Profits on the prior Fiscal Year, the Guarantor undertakers that the Board of Directors of the Guarantor shall not propose to its the General Shareholders' Meeting the approval and payment of dividends on its ordinary shares or on any other class of shares capital or securities that rank junior to the Preferred Securities as to the Gurantor's obligations under these Guarantee, until the approval, by the Guarantor's General Shareholders' Meeting, of the consolidated profit and loss account of the Group and the profit and loss account of the Guarantor, as the case may be, for a subsequent Fiscal Year where enough Distribuible Profits to pay the Distribution to the Preferred Securities together with any other distributions that should be paid to the Senior Parity Securities and to any Parity Securities exists.

Notwithstanding the above, the Guarantor and/or the Issuer may approve any distributions in the form of the shares of the Issuer or shares of the Guarantor or other class of shares of the Guarantor or the Issuer ranking junior to the preferred Securities or to the obligations of the Guarantor under the Guarantee, as the case may be.

4.3 Ownership

The Guarantor undertakes to hold (directly or indirectly) 100% of the ordinary shares of the Issuer so long as any Preferred Securities of the Issuer shall remain outstanding, and not to permit or take any action to cause the liquidation, dissolution or winding up of the Issuer except as provided in section 3.3 of the conditions of the Preferred Securities.

4.4 Voting Rights

The Guarantor undertakes in connection with the right of the Holders to participate in the adoption by the Issuer of certain decisions in the Preferred Securities General Assembly as contemplated in the terms and conditions of the Preferred Securities:

4.4.1 to vote, in the corresponding general meeting of shareholders of the Issuer, in favour of the appointment or removal of the directors so named by the Preferred Securities General Assembly and to take all necessary measures in such regard;

4.4.2 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the Preferred Securities General Assembly with respect to the dissolution and winding-up of the Issuer; and

4.4.3 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the Preferred Securities General Assembly with respect the issuance of further Preferred Securities or of other preferred securities where the Issuer has not duly made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

4.5 Compliance with the Preferred Securities

The Guarantor agrees to comply with any obligations expressed to be undertaken by it under the conditions of the Preferred Securities.

5. Termination of the Guarantee

This Guarantee shall terminate and be of no further force and effect upon payment of the Redemption Price or purchase and cancellation of all Preferred Securities or payment in full of the Liquidation Distributions, provided, however, that this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Preferred Securities or this Guarantee must be restored by a Holder for any reason whatsoever.

6. General

6.1 Successors and Assigns

Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor and shall inure to the benefit of the Holders, each of whom shall be entitled severally to enforce this Guarantee against the Guarantor. The Guarantor shall not transfer its obligations hereunder without the prior approval of the Holders of not less than two-thirds in Liquidation Preference of the Preferred Securities then outstanding or by resolution of a Preferred Securities General Assembly approved by the Holders of Preferred Securities representing at least two-thirds of the Liquidation Preference then outstanding on first call, or on a second call, by a resolution of at least two-thirds of the holders of the Preferred Securities that are present or represented in the Preferred Securities General Assembly, provided, however, that the foregoing shall not preclude the Guarantor from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets to any entity permitted by applicable laws without obtaining any approval of such Holders. The convening and holding of the Preferred Securities General

Assembly shall be done in accordance with section 5.1 of the conditions of the Preferred Securities.

The Guarantor shall notify (i) any request for approval from the Holders and (ii) any merger, consolidation, transfer or assignment, each as referred to in this Clause 6.1, in accordance with Clause 6.4 (Notices).

6.2 Transfers

This Guarantee is solely for the benefit of the Holders and is not separately transferable from the Preferred Securities.

6.3 Amendments

Except for those changes (a) required by Clause 4.1 hereof, (b) which do not adversely affect the rights of Holders or, (c) necessary or desirable to give effect to any one or more transactions referred to in the provision to Clause 6.1 (in any of which cases no agreements will be required), this Guarantee shall be changed only by resolution of a Preferred Securities General Assembly held in accordance with section 5.2.2 of the conditions of the Preferred Securities.

6.4 Notices

6.4.1 Any notice, request or other communication required or permitted to be given hereunder to the Guarantor shall be given in writing by delivering the same against receipt therefore or by facsimile transmission (confirmed by mail) addressed to the Guarantor, as follows (and if so given by facsimile transmission), shall be deemed given upon mailing of confirmation, to:

Unión Fenosa, S.A.

Avenida de San Luis, 77
28033 Madrid
Spain

Facsimile: +34 91 201 53 36

Attention: Dirección Financiera y Seguros

The address of the Guarantor may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Guarantor to JPMORGAN CHASE BANK as Principal Paying Agent.

6.4.2 Any notice, request or other communication required to be given by the Guarantor under this Guarantee will be given by it (i) so long as any Preferred security is listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having a general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (ii) by mail to Euroclear and Clearstream, Luxembourg (in each case not less that 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

In accordance with their published rules and regulations, each of Euroclear and Clearstream, Luxembourg will notify holders of securities accounts with it to which any Preferred Securities are credited of any such notices received by it.

6.5 Annual Reports

The Guarantor will furnish any prospective Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by the Guarantor to holders of the Guarantor Shares.

7. Law and Jurisdiction

7.1 Law

This Guarantee is governed by, and construed in accordance with, Spanish law.

7.2 Jurisdiction

The Guarantor hereby irrevocably agrees for the benefit of the Holders that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee and that accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (together referred to as "**Proceedings**") may be brought in such courts.

The Guarantor irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against 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 competent jurisdictions, whether concurrently or not.

THIS GUARANTEE is executed as of the date first above written on behalf of the Guarantor.

UNIÓN FENOSA, S.A.

By: .....

Miscellaneous

Use of Proceeds

The net proceeds of the issue of the Preferred Securities are Euro 697.700.000, after paying any issue expenses, and have been, in accordance with Law 13/ 1985, deposited on a permanent basis with the Guarantor in a subordinated irregular deposit that will be used for the Group's general corporate purposes and that will allow the Issuer to fulfil its payments obligations in relation to the issuance of the Preferred Securities.

The funds raised from the issue of the Preferred Securities and so deposited will be available to absorb losses of the Guarantor or its Group if and when they occur once there is a reduction in the shareholder's equity to zero and its reserves have been exhausted.

Replacement Provision

The Issuer and the Guarantor will redeem the Preferred Securities as described in Section 4 of the Conditions of the Preferred Securities only with an amount sufficient to make such redemption arising from the proceeds raised through the issuance by the Issuer, the Guarantor or any subsidiary 100% owned by the Guarantor - without independent cash flows of the Guarantor - of shares or preferred securities with the same features, except for the economic conditions, to those of the Preferred Securities for an amount at least equal to the aggregate Liquidation Preference of the Preferred Securities to be redeemed or to the aggregate amount of the nominal value by which the Preferred Securities are being reduced. It is the intention of the Issuer and the Guarantor that the replacing shares or preferred securities have the same or more equity-like characteristics as those of the Preferred Securities.

The issuance of shares or preferred securities referred to above must be issued within six months prior to the date of total or partial redemption of the Preferred Securities.

The Preferred Securities do not grant their holders pre-emption rights over such shares, preferred securities or any other securities.

Unión Fenosa Preferentes, S.A. (Sociedad Unipersonal)

The Issuer was incorporated on February, 17th 2004 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at Avenida de San Luis, 77, Madrid, Spain. The Issuer is registered in Volume 19,724, Book 0, Folio 1, Section 8, Sheet M-347052, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries.

The Issuer has not conducted any operations or issued any debt obligations in any form to date. The authorised share capital of the Issuer is Euro 61,000 divided into 610 ordinary shares, each with a par value of Euro 100. The subscribed and fully paid up share capital is Euro 61,000.

The objects of the Issuer are to issue preferred securities pursuant to Law 13/1985 to be traded on national and international markets, as specified in Article 2 of the Issuer's By-Laws (*estatutos*).

The directors of the Issuer are Mr. Juan Antonio Hernández-Rubio Muñoyerro (President of the Board of Directors), Mr. Santos Evaristo Vázquez Hernández (Vice-President of the Board of Directors), Mrs. Paloma Satisteban Moliner (Member of the Board of Directors) and Mrs. Irene Velasco Miranda (Member and Secretary of the Board of Directors). The Board of Directors of the Issuer established an Auditing Committee with the following members: Mr. Santos Evaristo Vázquez Hernández (President of the Auditing Committee), Mrs. Paloma Satisteban Moliner (Secretary of the Auditing Committee) and Mrs. Irene Velasco Miranda. Outside the Issuer, Mr. Juan Antonio Hernández-Rubio Muñoyerro, Mr. Santos Evaristo Vázquez Hernández, Mrs. Paloma Satisteban Moliner and Mrs. Irene Velasco Miranda work principally as executives of Unión Fenosa.

The business address of Mr. Juan Antonio Hernández-Rubio Muñoyerro, Mr. Santos Evaristo Vázquez Hernández, Mrs. Paloma Satisteban Moliner and Mrs. Irene Velasco Miranda and is Avenida de San Luis, 77 Madrid.

The auditors of Unión Fenosa Preferentes, S.A. (Sociedad Unipersonal) are KPMG Auditores, S.L.

Capitalisation of the Issuer

The following table sets out the audited short-term liabilities, long-term liabilities and stockholders' equity of the Issuer as at the date hereof, adjusted to give effect to the issue of the Preferred Securities and the application of the proceeds as described under "Miscellaneous - Use of Proceeds", and is derived from the audited financial statements of the Issuer as at December 31st 2004. There has been no material change in the capitalisation of the Issuer since December 31st 2004, being the date of its incorporation.

NON-CONSOLIDATED BALANCE SHEET OF UNION FENOSA PREFERENTES, S.A. (SOCIEDAD UNIPERSONAL)
AS AT 31 DECEMBER 2004
(before appropiation of results and expressed in euros)

	As at 31 December 2004 (euros)
FIXED ASSETS	
Incorporation expenses	1,717
Long term credits group companies	4,650
	6,367
CURRENT ASSETS	
Cash at banks	52,461
TOTAL ASSETS	**58,828**
CURRENT LIABILITIES	
Current accounts group companies	85
Creditor services provided	6,380
TOTAL LIABILITIES	**6,465**
CAPITAL AND RESERVES	
Share capital	61,000
Profit/(Loss) for the year	(8,637)
TOTAL CAPITAL AND RESERVES	**52,363**

NON-CONSOLIDATED PROFIT AND LOSS ACCOUNT OF UNION FENOSA PREFERENTES, S.A. (SOCIEDAD UNIPERSONAL)
FOR THE YEAR ENDED 31 DECEMBER 2004

	Year ended 31 December 2004 (euros)
DEPREC. INCORPORATION EXPENSES	
Deprec. Incorporation expenses	(429)
GENERAL AND ADMINISTRATIVE EXPENSES	
General and administrative expenses	(12,858)
PROFIT/(LOSS) BEFORE TAXATION	**(13,287)**
CORPORATE INCOME TAX	**4,650**
NET PROFIT/(LOSS) FOR THE YEAR	(8,637)

UNION FENOSA PREFERENTES, S.A. (SOCIEDAD UNIPERSONAL)

Capitalisation Table

Capital and Reserves	(euros)
Capital	61,000
Losses for the period ended 31 December 2004	(8,637)
Total Capital and Reserves	52,363

Unión Fenosa, S.A.

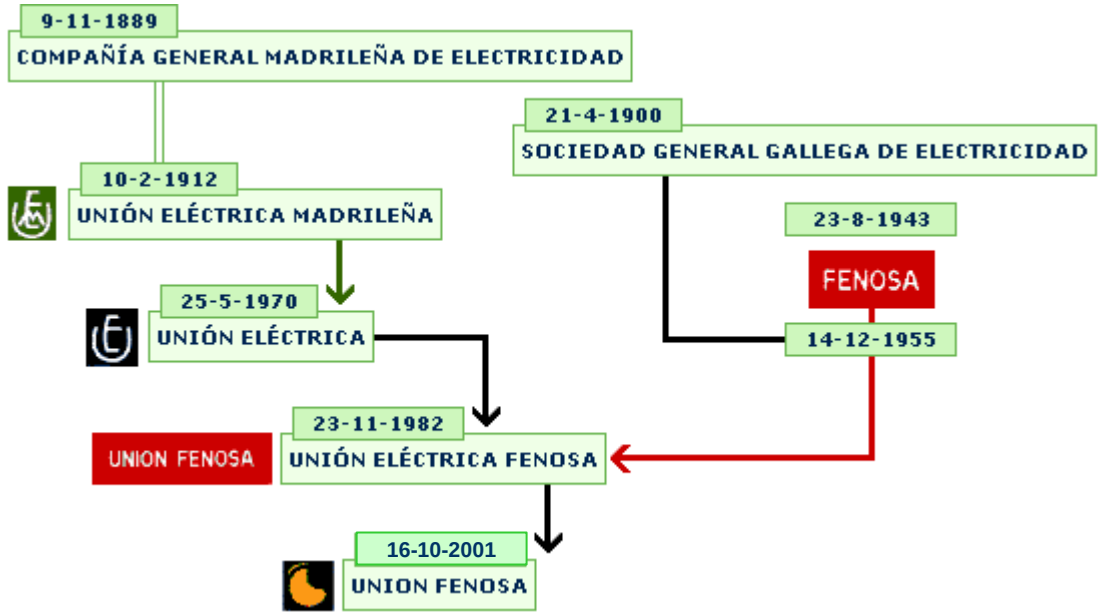
Introduction

Unión Fenosa's primary business is the generation, distribution and transmission of electric power. In 2004, it had a market share of 12.2% of the ordinary regime generation in Spain. It supplies electricity to more than 3.2 million customers throughout Spain, which amounts to approximately 15 percent. of the distribution customers in Spain. In recent years, Unión Fenosa has diversified its activities into different business areas.

Total operating revenues for Unión Fenosa and its subsidiaries (the ''Group'') for the year ended 31 December 2004 was euros 6,076.69 million, an increase of 3.6% over 2003. Operating income for the year ended 31 December 2004 was euros 834.80 million, an increase of 7.6% over 2003.

History

Unión Fenosa (formerly Unión Eléctrica Madrileña, S.A.) was incorporated under the laws of Spain on 10 February 1912, changing its name to Unión Eléctrica, S.A. on 26 May 1970. Following the merger with Fuerzas Eléctricas del Noroeste (Fenosa) on 23 November 1982, the company became Unión Eléctrica Fenosa, S.A. On 16 October 2001, Unión Fenosa changed its name from Unión Eléctrica Fenosa, S.A. to Unión Fenosa, S.A. and its registered address to Avenida de San Luis, 77, 28033 Madrid.



The main activities of Unión Fenosa have traditionally been the generation, distribution and transmission of electrical energy in central and northern Spain. As a direct result of Law 54/1997 of 27 November 1997 requiring regulated electricity activities such as distribution to be carried out within companies independent from those carrying out non-regulated activities such as generation, Unión Fenosa transferred its generation and large customer business to Unión Fenosa Generación, S.A. (''UFG''), and its distribution and transmission business to Unión Fenosa Distribución, S.A. (''UFD'') on 1 June 1999. Unión Fenosa sold 25% of the capital of UFG to National Power plc on 30 June 1999 for euros 567 million. With effect from 1 July 2001, Unión Fenosa approved the repurchase of International Power's 25% shareholding in UFG for euros 604.02 million. As a result of this transaction, Unión Fenosa again owns 100% of

UFG. Unión Fenosa is a Spanish limited liability company *(sociedad anónima)* whose shares are publicly traded on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (the ''Spanish Stock Exchanges''). The major shareholders of Unión Fenosa, include Banco Santander Central Hispano, S.A. (''BSCH''), Caixa Galicia, Banco Pastor, S.A., Caixa Nova and Caja de Ahorros del Mediterráneo, who at the date of the last Shareholder's General Meeting held 23.30%, 7.13%, 3.81%, 3.06% and 3.03%, respectively, of the share capital.

Business

Unión Fenosa is a broad corporate group with activities in diverse business areas. In order to enhance the management and growth of these activities, the corporate structure of the Group has been reorganised under a controlling company (Unión Fenosa, S.A.) with different business divisions. At the moment, the activities of the Group are organised under the following business divisions: electricity generation and commercialisation, gas, networks (electricity distribution and transmission), Soluziona (professional services), international and other businesses. The controlling company determines the general strategies and corporate policies and is responsible for the overall control of all of the Group's activities.

Electricity Generation

Unión Fenosa operates thermal, nuclear and hydroelectric generating facilities through UFG. In 2004, UFG was the third largest generator in Spain with approximately 12.2% share of the ordinary regime generation in Spain. Sales of electricity to customers outside the regulated tariff are made through Unión Fenosa Comercial, S.A. (''UFC''). Net revenues for UFG from its generation and commercialisation activities in 2004 were euros 1,541.07 million.

As at 31 December 2004, the generation plants of Unión Fenosa in the Spanish ordinary regime had an installed capacity of 6,557 MW, representing 12.8% of the total installed capacity of the Spanish ordinary regime in the mainland electricity system. The net output of these plants in 2004 was 24,135 GWh.

Unión Fenosa's hydroelectric output in 2004 was 2,753 GWh, 34.7% lower than in 2003. The nuclear output in 2004 was 5,702 GWh, 4.4% higher than the previous year. The output of Unión Fenosa's conventional fossil and fuel fired plants in 2004 was 14,211 GWh, 3.1% higher than in 2003. Lastly, the output of Unión Fenosa's CCGT plants reached in the year 2004 1,469 GWh. This is the first year that the company has electricity output coming from this technology in Spain, after the entrance in operation of the first three groups of CCGT plants. These three groups correspond to one group of 400 MW in Campo de Gibraltar and two 400 MW in Palos de la Frontera.

Unión Fenosa is planning to increase its generation capacity in the ordinary regime with additional 2,400 MW of CCGT plants up to 2007: one 400 MW unit at the Aceca thermal plant, three 400 MW units at Sagunto, another 400 MW unit at Sabón thermal plant and an additional 400 MW unit at Palos de la Frontera.

Unión Fenosa Energías Especiales, S.A. (''UFEE'') was established by Unión Fenosa to develop renewable energy sources and high efficiency energy systems. These sources receive the most favourable treatment under current Spanish regulations (see ''Electricity Regulation — Regulation of the electricity industry in Spain — Generation'').

On 16 June 2003, Unión Fenosa and Enel announced an agreement regarding the subscription by Enel of an 80% stake in UFEE for an amount of euros 178 million, including a premium of euros 10 million for the construction of at least 300 MW by 2007. Unión Fenosa will also pay to Enel euros 10 million for the option to buy back 30% of its shares in UFEE by 2007. After this agreement UFEE changed its name to Enel Unión Fenosa Renovables, S.A. ("EUFER").

As at 31 December 2004, total operating capacity of Unión Fenosa in renewables, including EUFER plants, was 501 MW, an increase of 14.8% over 2003. Net production amounted to 1,524 million kWh, an increase of 14.5% over 2003.

Commercialisation

On January 1, 2003, the electricity and gas markets in Spain were fully deregulated, providing Unión Fenosa with the opportunity to increase its presence.

Unión Fenosa aims to use its existing customer base to make many of its current products and services more profitable. For this purpose, UFC supplies the entire customer segments with a wide array of products and services, offering comprehensive energy (electricity and gas) solutions. For strategic reasons, the gas retailing activity directed at large manufacturers and CCGT is handled directly Unión Fenosa Gas Comercializadora.

UFC strategy has directed its efforts in the latest years towards securing customer loyalty in the most profitable segments by bolstering its relationship channels, providing personalized advice on energy efficiency, offering multiple products for dual fuel supplies and energy services.

The main market lines of UFC are the following:

- Electricity: For the year ended 31 December 2004, approximately 7,089 million kWh, which implies a 23.2% growth over previous year figure.
- Gas: UFC offered gas in 2001 for the first time to customers in the unregulated market. In the following years UFC has managed to design several gas-marketing tools to offer gas in the unregulated market. Total gas billed in the deregulated market as of 31 December 2004 was 12,769, a 159.7% growth over year 2003 figure.
- Other services: Unión Fenosa has for many years offered personalized solutions to households and companies, creating a wide knowledge base which enables it to manage all aspects of the energy offered to its customers. Unión Fenosa has paid particular attention to counselling its customers on energy efficiency as a differentiating element of its positioning and strategy of achieving durable relationships with its customers.

Gas

In July 2000, the Egyptian government approved an agreement between the Egyptian General Petroleum Corporation and Unión Fenosa for the construction of a liquefied natural gas plant in Egypt and the long-term supply of approximately 4 billion cubic metres of gas per year over 25 years, which can be extended by a further 25 years. Construction of this plant commenced in 2001, starting operation on 15 January 2004. This plant allows Unión Fenosa to retail the gas it produces into Spain and other parts of the world. Unión Fenosa Gas has an 80% stake in the plant the other 20% being owned by the Egyptian oil and gas companies.

As part of its commitment to the development of Spain's energy infrastructure, Unión Fenosa Gas has a 21% holding in a regasification plant (Reganosa). The plant's capacity will be equivalent to 3.6 billion cubic metres per year at the completion of the first phase of construction and 5.4 billion cubic metres at the completion of an eventual second phase. It is expected to be fully operational in 2007.

Unión Fenosa Gas has a 42.5% holding in a project to build a further regasification plant at Sagunto in Valencia. Iberdrola, S.A., Endesa, S.A. and Omán Oil Company hold the other

57.5%. The plant's capacity is expected to be 5.25 billion cubic metres per year and is expected to be operational in 2006.

On 14 March 2003, Unión Fenosa and Eni S.p.A. (''Eni'') entered into an agreement to develop the gas business following the announcement of this alliance in December 2002. By this agreement, Eni acquired a 50% of Unión Fenosa Gas (''UF Gas'') through its subscription of a euros 440 million capital increase by UF Gas that was completed on 24 July 2003.

In addition to its gas commercialisation business, Unión Fenosa has a 62% holding in Gas Directo S.A. (''GD''), the company through which Unión Fenosa distributes and sells natural gas to commercial and industrial clients in Spain. Cepsa is the other shareholder in GD. GD currently operates in the municipalities of Galicia, Madrid, Andalucia, Castilla-León and Castilla-La Mancha.

Electricity Distribution and Transmission

Unión Fenosa distributes and transports electricity to customers through its subsidiary UFD. UFD supplies electricity in an area of Spain covering 81,000 km2, mainly in the autonomous communities of Madrid, Galicia, Castilla-León and Castilla-La Mancha. In 2004, Unión Fenosa had a domestic market share of approximately 15% of the energy distributed in Spain, supplying more than 3.3 million customers. Total energy billed in 2004 amounted to 31,567 GWh, a 4.4% increase over 2003. In 2004, 22,696 GWh of power was sold to the regulated market, an increase of 1.9% from 2003 whereas the power sold to the access rate market totalled 8.871 GWh in 2004, an increase of 11.2% over the preceding year.

The average sale price for the integral tariff market was €cent 6.42/kWh, keeping stable over the precedent year.

In 2004, Unión Fenosa invested approximately euros 236.6 million in its distribution and transmission network which was intended mainly to enhance supply capacity, increase demand and optimise network performance.

Professional Services

The Professional Services division groups together the various consultancy activities of the Group. In January 2000, Unión Fenosa decided to group all these activities under a single company and formed Soluziona.

After the organisational restructure carried during the year 2004, Soluziona's business is currently divided into two main service areas:

- EPC Engineering: Operates in the field of energy engineering, developing EPC infrastructures.
- Telecommunications and Consulting: Focuses on integral consulting and high value added engineering in the sectors of Energy, Telecommunications, Transports and Infrastructure.

As a result of the mentioned organisational restructuring, in 5 November 2004, the former business line of Quality and Environment, which is focused on providing comprehensive engineering and consulting services aimed at improving quality, safety and the environment, reached an agreement of integration with Applus+, an affiliate of Aguas de Barcelona (AGBAR). On 2 February 2005 both parties signed the final agreement. The operation was structured under a capital issue of Applus+. This issue was to be subscribed with the shares of Soluziona Calidad y Medio Ambiente, with a reference value of 130 million of euros. After this operation, Unión Fenosa holds a 25% of Applus+ while AGBAR holds the remaining 75%.

Soluziona has a wide presence in Spain and has experience in more than 40 countries.

In 2004, total operating revenues for Soluziona amounted to euros 804.72 million, an increase of 10.5% over 2003.

International Investments

The international activities of Unión Fenosa include a range of businesses including electricity power generation, electricity distribution and transmission, and airport management, and accounted for 31.9% of the Group's operating revenues in 2004.

The following table sets out the main international investments of Unión Fenosa as at 31 December 2004:

Sector	Company	Country	% owned
Generation			
	Iberafrica Power	Kenya	71.7
	Hermosillo	Mexico	100.0
	Naco Nogales	Mexico	100.0
	Tuxpan	Mexico	100.0
	La Joya	Costa Rica	65.0
	Unión Fenosa Generadora Palamara	Dominican Republic	100.0
	EPSA (also transport and distribution)	Colombia	62.6
Transport and Distribution			
	Edemet — Edechi	Panama	51.0
	Deocsa	Guatemala	90.8
	Deorsa	Guatemala	92.8
	Disnorte — Dissur	Nicaragua	79.5
	Re Sud	Moldova	95.3
	Re Centru	Moldova	95.0
	Re Chisinau	Moldova	93.4
	Meralco	Philippines	9.1
	Electro Costa	Colombia	70.5
	Electro Caribe	Colombia	71.5
Airports			
	Aeropuertos Mejicanos del Pacífico	Mexico	33.3
	Aeropuertos del Pacífico Noroeste	Mexico	49.0

As at 31 December 2004, Unión Fenosa had ownership interests in companies that supply approximately 4.9 million customers outside Spain:

- Mexico: Unión Fenosa is owns three CCGT plants with a total generation capacity of 1,550 MW. Production for the year ended 31 December 2004 amounted to 9,997 million kWh. Unión Fenosa also has a presence in Mexico through its participation in several airports, managing 12 airports in western Mexico.
- Colombia: Unión Fenosa acquired Empresa de Energía del Pacífico (''EPSA'') following a successful bid for 64.2% of the company in December 2000. EPSA generates, distributes and markets electricity in southwest Colombia to approximately 411,000 customers covering an area of 22,142 km2. It has a capacity of 1,038 MW and generated 2,556 million kWh in 2004. The energy billed to customers was 1,507 million kWh. In addition, Unión Fenosa Internacional manages and owns 70.3% and 69.2% of Electro Costa and of Electro Caribe, respectively. Electro Costa and Electro Caribe distribute and market electricity in seven northern regions of Colombia covering 132,239 km2 and manage approximately 1,605,000 customers. Energy billed in 2004 was 6,092 million kWh.

- Guatemala: Distribuidora de Occidente (‘‘Deocsa’’) and Distribuidora de Oriente (‘‘Deorsa’’) distribute electricity to over 1,163,000 customers over an area of 102,000 km2. In 2004, they billed 1,305 million kWh.
- Nicaragua: The distribution companies Disnorte and Dissur service over 569,000 customers covering an area of over 52,000 km2. For the year ended 31 December 2004, they billed over 1,708 million kWh.
- Panama: Distribuidora Eléctrica de Metro Oeste (‘‘Edemet’’) and Distribuidora Eléctrica de Chiriqui (‘‘Edechi’’) manage over 378,000 customers, have 26 MW generating capacity, and service a distribution market covering over 60% of surface area of the country. Energy billed amounted to 2,737 million kWh for the year ended 31 December 2004.
- Moldova: Distributors Red Chisinau, Red Centru and Red Sud operate in central and south Moldova in an area of nearly 22,000 km2 and provide electricity to approximately 747,000 customers. In 2004, they billed 1,746 million kWh.
- Dominican Republic: In February 2001, the La Vega thermal generating plant, with a capacity of 88 MW became operational. This new plant complements the Palamara thermal plant which has a capacity of 102 MW and which became operational in 2000. The two plants, which were integrated in a single company in 2002, produced 854 million kWh in 2004.
- Kenya: Through Iberafrica Power, Unión Fenosa owns Kenya’s first independently operated generating plant with 57 MW of capacity. Production for the year ended 31 December 2004 amounted to 272 million kWh
- Philippines: Unión Fenosa owns 9.16% of Philippine company Meralco, which distributes electricity to over 4 million customers in greater Manila.
- United Kingdom: On 28 April 2004 Unión Fenosa sold its participation in Cambridge Water to the Chinese group Cheung Kong Infrastructure for a total of 77.2 million of euros. Cambridge Water distributes water in the United Kingdom to approximately 120,000 customers and a water distribution network of 2,218 km in the Cambridge area. Unión Fenosa does not have any presence now in the United Kingdom after the sale of the gas and electricity activities of Cambridge Gas in November 2002.
- Uruguay: Also in 2004 Unión Fenosa sold its participation in the Company Conecta to the Brasilian company Petrobras.

Other Business

The other businesses include Unión Fenosa’s investments in telecommunications, industry, mining and real estate management.

Telecommunications

The Telecommunications division groups together Unión Fenosa’s own telecommunications operations and its holdings in private telecommunications operators and in service and infrastructure companies. The companies in which Unión Fenosa has invested operate in broad sectors and service areas of the telecommunications market including direct and indirect access telecommunications, wireless telephony and cable.

In April 2000, Unión Fenosa announced together with the other strategic partners, Endesa S.A. and Telecom Italia the launch of a new holding company for their telecommunications and internet interests in Spain, under the name of Auna Telecomunicaciones, S.A. (‘‘Auna’’) in which Unión Fenosa held a 16.64% stake at 31 December 2001. On 19 December 2001, Unión Fenosa, Endesa S.A. and BSCH reached an agreement to acquire Telecom Italia’s stake in Auna

in 2002 thereby increasing Union Fenosa's shareholding in Auna to its current 18.6%. Unión Fenosa also agreed an option to acquire an additional 4.77% stake in Auna. On 18 January 2005, Unión Fenosa announced its decision no to exercise this option.

Auna has interests in the following business lines:

- Mobile communications: Amena, the third largest wireless telephony operator in Spain by market share, with a market share in 2004 of approximately 24% of the mobile market, amounting to 9.3 million customers.
- Fixed telecommunications: Auna Cable, S.A. the holding company for the cable services operators Madritel, Menta, Super Cable, Able and Canarias Telecom and fixed telephony, with over 1.5 direct access customers.
- Telecommunication services to commercial clients: Auna set up a new division, Auna Grandes Clientes, in September 2002 to provide centralised telecommunications and information technology services to large corporations and public administrations.

Other telecommunications companies in which Unión Fenosa has an investment include R (cable service operator) and Ufinet (corporate telecommunications operator).

On April 2005 Unión Fenosa, Endesa and BSCH announced that they had launched a process for the orderly disposal of their aggregate 83.5% interest in Auna and that they had engaged Merrill Lynch as their advisor for this purpose.

Industry

Unión Fenosa owns a 4.99% stake in Cepsa, the second largest oil and chemicals group in Spain. Unión Fenosa has already made public its intention to sell this stake.

It also has a majority interest in the industrial additives company Compañía Española de Industrias Electroquímicas (CEDIE) and several construction materials companies.

Mining

Unión Fenosa's wholly owned subsidiary Limeisa engages in coal and metal mining operations.

Real Estate

General de Edificios y Solares, a wholly owned subsidiary of Unión Fenosa, was incorporated in 1995 to manage Unión Fenosa's real estate assets. Unión Fenosa is actively looking at opportunities to extract value from its real estate assets. At this respect, operating revenues include sales of development rights to the land surrounding substations in Madrid, for approximately 35 million in the year 2004.

Environment Management

The nature of Unión Fenosa's principal business (electricity generation and distribution) and Unión Fenosa's coal mining activities subject Unión Fenosa to a number of environmental and other laws and regulations affecting many aspects of its operations. These include the regulation of air emissions and waste water discharges, the generation, storage and discharge of various types of waste (including the storage of radioactive materials), land use and reclamation activities. Such laws and regulations generally require Unión Fenosa to obtain and comply with a wide variety of licences, permits and other approvals. Unión Fenosa believes that it is in material compliance with all such laws and regulations. There can be no assurance, however,

that new regulations will not be adopted, which could have an adverse impact on its operations. Unión Fenosa believes that the conservation of the environment is a priority for all of its activities. Consequently it has established its own environmental policy and follows environmentally friendly activities.

Management

The members of the Board of Directors of Unión Fenosa, whose business address is at Avenida San Luis, 77, 28033 Madrid, Spain and their position on the Board of Directors as at 31 December 2004 are as follows:

Title:	**Name**
Honorary Chairpersons:	Carmela Arías y Días de Rábago
	Julio Hernández Rubio
Chairman:	Antonio Basagoiti García-Tuñón
First Deputy-Chairman and CEO:	Honorato López-Isla
Deputy-Chairman:	José María Arias Mosquera
	Antonio Barrera de Irimo
	José Luis Méndez López
Directors:	Miguel Geijo Baucells
	Jaime Terceiro Lomba
	Guillermo de la Dehesa Romero
	José Antonio Olavarrieta Arcos
	Ernesto Gerardo Mata López
	Fernando Fernández-Tapias Román
	Elías Velasco García
	Gonzalo Miláns del Bosch Medina
	Manuel Fernández de Sousa-Faro
	Marcial Portela Alvarez
	Alfonso Porras del Corral
	José B. Terceiro Lomba
	Luis Esteban Marcos
	Julio Fernández Gayoso
	Miguel Canalejo Larrain

The executive officers and their respective titles and functions as at 31 December 2004 are as follows:

Title	Name	Function
Chairman:	Antonio Basagoiti García-Tuñón	Chairman
First Deputy-Chairman and CEO:	Honorato López-Isla	First Deputy Chairman/CEO
Director Assisting the Chairman:	Ernesto Gerardo Mata López	Director Assisting the Chairman
Director and General Manager:	Elías Velasco García	Generation and Gas
Director and General Secretary:	Ramón Novo Cabrera	Legal and Administration
Technical Secretary:	José Antonio de Tomás Alonso	Technical Secretary:
General Managers and General Secretaries:	José María Arraiza Cañedo Argüelles	Regulation Issues
	José Manuel Arrojo Botija	Finance
	Juan José Gonzalez Lopez	Control Issues
	Juan Antonio Hernández-Rubio Muñoyerro	Economic Issues
	Juan Luis López Cardenete	Networks
	Santiago Roura	CEO of Soluziona
		Telecommunications ans Systems
	José María Vázquez-Pena Pérez	Resources
	José Luis Zapata Pinar	Generation
Managers:		
	Miguel Arias Arias	Mining
	Alejandro Sánchez Bustamante	Legal Services
	José Manuel Velasco	Communication

ELECTRICITY REGULATION

General

Electricity Industry Law 54/1997 (the ‘‘Law’’) came into force on 29 November 1997. The Law implemented in Spanish legislation the provisions of Directive 96/92/EC of the European Parliament and Council concerning common rules for the internal electricity market. It also gave statutory force to the principles of the Protocol entered into by the Ministry of Industry and Energy and the main Spanish electricity utilities on 11 December 1996. Within the new deregulatory framework, the basic purpose of the Law is to regulate the electricity industry with the triple objectives of guaranteeing electricity supply, ensuring quality of supply and supplying at the lowest possible cost, without overlooking environmental factors, which take on particular importance. The traditional notion of a public service is replaced by the express guarantee that electricity will be supplied to all consumers demanding the service in Spain.

The operation of the Spanish electricity system is no longer a State-owned public service. Two private-sector companies responsible for the economic and technical management of the system known as the Market Operator and the System Operator, respectively, now undertake the operation of the system. The economic management of the system is based on the decisions of economic agents within the framework of an organised wholesale electricity market. State planning is only binding on the transmission facilities.

Royal Decree 1955/2000, dated 1 December 2000, implements the Law and regulates electricity transmission, distribution, retailing and supply activities, the relationships between the parties carrying on these activities and the procedure for the authorisation of electricity installations. This Decree was published on 27 December 2000 and came into force in 2001. Royal Decree 1432/2002 establishes the methodology for the approval or modification of the average or reference electricity tariff and aims to permit full eligibility for all consumers from 1 January 2003 without interfering in the market and to guarantee that the service is provided under adequate conditions, giving a degree of predictability to companies so that the investment process can be carried on with reasonable stability thereby contributing to the objective of macroeconomic stability.

Article 94 of Law 53/2002, on Tax, Administrative, Labour and Social Security Measures establishes the ‘‘Methodology for the approval or modification of the average or reference electricity tariff for the 2003- 2010 period’’, matters which had not been addressed in the Law such as the possibility of establishing a maximum annual limit for the tariff increase. Article 94 of Law 53/2002 also indicates that for the establishment of the electricity tariff, the forecast of the average electricity price relating to the facilities authorised prior to 31 December 1997 and owned by companies with a right to collect costs of transition to competition will be Euro 0.036061 per kWh. For all other facilities the estimate will be made taking into account the best forecasts of gas prices in the year in question.

Royal Decree 1747/2003, published on 29 December 2003 regulates the electricity peninsular and extra-peninsular systems. This Royal Decree establishes a specific regulatory framework for these territories, being integrated in the liquidation system both distribution and transmission activities as well as the generation activity.

Finally, it will be necessary to transpose to the Spanish regulation the new European Directive 2003/54/CE dated on 26 June 2003, about common regulations for the European electricity market. This transposition should be made before 1 July 2004, although the regulation in force in Spain, Law 54/1997, dated on 27 November 1997 widely incorporates the provisions encompassed by the mentioned Directive in order to continue the development of the European electricity market.

On 28 August 2004 Royal Decree Law 5/2004 is published. It establishes the regime for the commercialisation of CO2 emission rights.

Regulation of the electricity business in Spain

Generation

The right of free installation is recognised with respect to the generation of electricity in Spain. The operation of the generation market is organised in accordance with the free market principle and is based on a system of bids tendered by producers and a system of demand bids made by customers eligible to choose their power supply source. The economic remuneration for this activity is based on a wholesale market system and includes the following aspects:

1. The power generated is remunerated at the marginal price of the last facility required to satisfy demand. In addition, transmission network power losses and the costs resulting from deviations from the normal operation of the bidding system are taken into account in calculating this remuneration.
2. The capacity guarantee provided to the system by each facility is remunerated. The capacity guarantee is defined on the basis of the plant's proven availability and technology, both in the medium and long term and in each scheduling period, and the price is determined on the basis of the system's long-term capacity needs.
3. The supplementary services necessary to guarantee an adequate supply to the consumer are also remunerated. On 1 January 1998, Royal Decree 2019/1997, on the organisation and regulation of the electricity generation market, came into force and set out the basic rules for bilateral purchases and sales of electricity both within and outside the organised market, established the general conditions governing the access of customers to the different segments of the organised market, set out the institutional infrastructure, and established the basic operating rules for the generation market. The purpose of the remuneration for the capacity guarantee is to provide a payment for retaining and installing generating capacity in the electricity system in order to achieve an adequate supply guarantee level. It was established that the Ministry of Industry and Energy, through a Ministerial Order, based on a prior report issued by the National Energy Commission, would establish the procedure for remunerating and apportioning the capacity guarantee, specifying the related terms and conditions and the players obliged to pay and those entitled to collect, taking into account the permanence and management and installation of generating capacity in the system.

The organised market is structured in three divisions: the daily market, the intra-daily market and the supplementary services market. The daily market handles purchase and sale transactions relating to the production and supply of electricity for the following day on an hourly basis. The intra-daily market serves as a means of adjusting the daily programming. The supplementary services market handles the transactions involving the services required to ensure the supply of electricity under the required conditions of quality, reliability and security. Royal Decree 2019/1997 establishes the conditions for access to and the rules for operating in each market.

The Market Operator is responsible for the economic management of the system. This includes accepting bids, matching demand to supply and performing the settlement transactions. The System Operator is responsible for the technical management of the system. This includes administration of energy flows, taking into account exchanges with other interconnected systems, as well as the determination and assignment of transmission losses and the management of supplementary services.

Royal Decree 2019/1997 provides for the conditions under which exchanges between agents both outside and within the organised market must take place, as well as for the regulation of aspects specific to intra-community and international exchanges. Lastly, the safeguards characteristics of the progressive implementation of a new system were incorporated into the system in order to allow the gradual adaptation to the new regulatory framework.

Royal Decree 2818/1998 on electricity production by facilities fuelled with renewable resources and waste and combined heat and power sources came into force on 1 January 1999, to foster the development of such facilities under a special regime (the ‘‘Special Regime’’) by creating a favourable framework and establishing a system of temporary incentives for these facilities so that they are able to compete in a free market.

A Resolution dated 5 April 2001 of the State Department for Economy, Energy and Small and Medium-sized enterprises amended the operating rules relating to the electricity production market. These amendments are based on the regulatory developments, which have taken place since the approval of the old rules on 15 February 1999.

A Ministerial Order dated 29 October 1999, in application of Royal Decree 2017/1997 dated 26 December 1997 and Royal Decree 2820/1998 dated 23 December 1998 established for 1999, the amount of incentives or premiums to be provided to generation plants for their consumption of local coal and the maximum effective output limit arising from this consumption, on which such incentives will be based.

Royal Decree 6/2000, dated 23 June 2000, which implemented measures to intensify competition in the goods and service markets, established a number of measures to increase competition, including the reduction of the capacity guarantee payment for the generators and the establishment of a cap per power plant on the entitlement to the premium for burning local coal. Based on this Royal Decree Law, a Ministerial Order was issued on 21 November 2000 establishing the procedure for generators’ contribution to the deficit in the regulated market and the priority in charging this deficit, where the coal incentive has the same order of priority as distribution and transmission.

This Ministerial Order also stated that the amounts deducted for each generation company to cover the shortfall in revenues in the regulated activities in a given year would be taken into account when calculating, at 31 December of each year, the balance of costs of transition to competition (‘‘CTCs’’).

Royal Decree Law 2/2001, published on 3 February 2001, modified the Sixth Transitional Provision of the Electricity Sector Law (Law 54/1997), dated 27 November 1997. It provides for: the consolidation of the amount of the CTC payment for the electricity sector as previously established in Law 50/1998, dated 30 December 1998; the extension of the CTC payment period until 2010; the removal of the fixed CTCs as a percentage of the tariff; and the readjustment of the percentages of fixed CTCs payable on the basis of the surplus over €0.0361/kWh already collected by each company.

An Order of the State Department for Economy, Energy and Small and Medium-sized enterprises was published on 8 November 2001 which establishes an extraordinary financing plan amounting to €317.881 million with value date 1997 for Elcogas S.A. and which will be charged to the amount allocated to CTCs. The extraordinary financing plan will however be reduced to €96.889 million if the outstanding balances of the CTCs are fully recovered by the electricity companies.

Ministerial Order ECO/1588/2002, published on 27 June 2002, establishes for 2002 and subsequent years the order in which the shortfall from regulated activities will be passed on to the producers, which includes the provisions of the Ministerial Order which, with the same title, was issued on 21 November 2000, including only the modifications necessary to take into account the inclusion of Viesgo Generación, S.L. as a new participant in the settlement procedure.

Royal Decree 1432/2002, published on 31 December 2002, establishes the methodology for the approval or modification of the average or reference electricity tariff, which includes a new cost relating to the shortfall in revenues from regulated activities prior to 2003 and which until 2010 will include as a cost in the tariff the amount relating to the annual instalment necessary for the recovery thereof. The assignment of the shortfall established in the tariff will be distributed among the utilities, which have contributed thereto in the settlements of the regulated activities. For UFG, the rate is 11.70%

Additional Provision Four of Royal Decree 1432/2002 establishes the order of assignment of the maximum overall base amount of the CTC payment as of 31 December of each year, amending paragraph (2.d) of Article 14 of Royal Decree 2017/1997 in which the extraordinary financing plans have priority over the general and specific assignments of the costs of transition to competition.

In 2003 the Order ECO/2714/2003, dated on 25 September 2003, is published. This Order develops the Royal Decree 1432/2002, in what respects to the cession and securitisation of the tariff deficit of the regulated activities previous to 2003 and the additional extra-peninsular costs that allows as well its securitisation.

In the Order ECO/3193/2003, dated on 26 December 2003, by which the premium for consumption of domestic coal for the year 2003 is established, a new distribution among power plants of the reduction of the mentioned premium is established. This comes as a consequence of the decision taken by the European Commission on 25 July 2001.

Royal Decree 436/2004, dated on 12 March 2004 establishes the methodology for the actualisation and systematisation of the legal and economic regime of the electricity energy production under the special regime.

On 28 August 2004 Royal Decree Law 5/2004 is published. It establishes the regime for the commercialisation of CO2 emission rights.

In the Royal Decree 2392/2004, dated on 30 December 2004, by which the new electricity tariff for 2005 is established, the amounts aimed to finance the nuclear moratorium and the second part of the nuclear fuel cycle are reduced for the first time.

Transmission and distribution

Allowing third-party access to the networks deregulated the transmission and distribution activities. Ownership of the networks does not guarantee exclusive access. The price for using the transmission and distribution networks will be determined by fees approved by the government, which will be single maximum fees based on the voltage, use made of the network and consumption in terms of time-band and capacity.

The remuneration of transmission is regulated for each party on the basis of the following criteria: investment costs, operation and maintenance of facilities, and other associated costs required to carry on this activity.

The remuneration of distribution is regulated and will be assigned to each party on the basis of the following criteria: facility investment, operation and maintenance costs, power distributed, a model characterising the various distribution areas, incentives for supply quality and loss reduction, and other associated costs required to carry on this activity.

Royal Decree 2819/1998 regulating electricity transmission and distribution activities came into force on 1 January 1999. This Royal Decree precisely defines what transmission and distribution activities consist of, what the transmission and distribution networks are made up of and the means by which both activities will be remunerated. Subsequently, the Ministerial Order dated 14 June 1999, established the remuneration to be provided to each of the agents who distribute electricity in accordance with Royal Decree 2819/1998.

Royal Decree 1164/2001, published on 8 November 2001, establishes the tariffs for access to the electricity transmission and distribution networks and also the scope of application, the general structure and the conditions for applying the access tariffs in the framework of electricity supply deregulation. The applicable rates for 2004 and 2005 are contained in the Royal Decree 1802/2003 and Royal Decree 2392/2004.

Retailing

Electricity retailing is based on the principles of freedom of contract and supplier choice. A transitional period has been established to promote progressive implementation in order to make freedom of choice a reality for all consumers. Pursuant to the Law, eligible consumers (ie those entitled to choose their power supply source) were from the date on which the law came into force regarded as being railroad companies, including subways, or clients with an annual consumption of over 15 GWh.

These provisions, as well as the timetable provided for in Law 54/1997 for customers to gain the status of eligible customers, were amended by Royal Decree 2820/1998, which classified eligible consumers as those: from 1 January 1999 with an annual consumption of over 5 GWh per supply point or facility; from 1 April 1999, an annual consumption over 3 GWh per supply point or facility; from 1 July 1999, an annual consumption of 2 GWh; and from 1 October 1999, an annual consumption of over 1 GWh. Customers with consumption below these levels are classified as customers supplied under the tariff system.

Royal Decree Law 6/2000 established a new liberalisation calendar so that, from 1 January 2003, all users of electricity will be eligible consumers. Also, on 1 January 2007, the tariffs for high-tension electricity supplies will be abolished.

On 30 December 2002 two resolutions of the General Direction for Energy Policy and Mines are approved. These resolutions establish a transitory calculation procedure for the application of the current access tariff and the different consumption profiles as well as the calculation method with respect to the liquidation of energy. These resolutions, necessary to make effective the full liberalisation of the market, came into force on 1 January 2003.

In addition to this, on 26 December 2003 another resolution of the General Direction for Energy Policy and Mines is approved. This resolution establishes the consumption profiles and calculation method to be applied from 1 January 2004.

Lastly, on 28 December 2004 another resolution of the General Direction for Energy Policy and Mines was approved. This resolution establishes the consumption profiles and calculation method to be applied from 1 January 2005.

In order to carry out the restructuring of the Group’s electricity retailing business, on 1 July 2002, UFG assigned to UFC all the rights and obligations arising from the contracts to supply electricity to customers. This assignment was formalised on 29 May 2002.

Legal unbundling of activities

Law 54/1997 provides for the legal unbundling of regulated activities (transmission and distribution) from non-regulated activities (generation and retailing) for companies which carry out both generation and distribution activities. The government, through Royal Decree 277/2000, established that the legal unbundling should take place before 31 December 2000. For accounting purposes it became obligatory to unbundled regulated activities from non-regulated activities as from the entry into force of the Law. Unión Fenosa, S.A. legally unbundled these activities on 1 June 1999 by transferring its electricity generation and distribution activities to Unión Fenosa Generación S.A. and Unión Fenosa Distribución S.A., respectively.

Royal Decree 277/2000, dated 25 February 2000, established the procedure for the legal unbundling of the activities involved in electricity supply. The criteria applied by Unión Fenosa, S.A. in the contributions referred to above were in accordance with that Decree.

Tariff structure

Royal Decree 1432/2002 established the methodology for the approval or modification of the average or reference electricity tariff, setting forth the process for determining the variation in both supply and access tariff, including the costs relating thereto.

The Royal Decree also established criteria for revising the revenue and cost items that would be affected in the tariff projections for the two previous years derived from variations within certain margins in four variables: demand (if variation > +-1%), interest rate (if variation > +- 50 basis points), the cost of the special regime (if variation > +- 5%) and the price of natural gas (if variation > +- 5%).

The variation in the average or reference electricity rate approved each year cannot exceed 1.40%.

The envisaged variation criteria could give rise to an increase of up to 0.6% or to a decrease.

The Government may take into account any fluctuation in the cost of activities involving the supply of electricity derived from amendments to specific regulations governing the payment of such activities.

The revision of each of the tariffs cannot exceed the variation in the average or reference rate plus 0.6%.

The tariffs to be paid by consumers, with the exception of eligible customers, will be single rates applicable to the whole of Spain. Their structure will include the following items:

- Electricity production costs, determined on the basis of the projected average price of a kWh in the production market over a period determined by the regulation.
- Transmission and distribution costs.
- Retailing costs.
- Ongoing system costs, which include the costs of supplying electricity to island and nonmainland territories that may be integrated into the system, costs of the System Operator and Market Operator, operating costs of the National Energy Commission and the CTCs.
- Diversification and security of supply costs, including premiums for production under the special regime, the costs associated with the nuclear moratorium, the costs of financing the second phase of the nuclear fuel cycle.

Royal Decree 1164/2001 establishing the tariff for access to the electricity transmission and distribution networks was published on November 8, 2001. This Royal Decree established the scope of application, the general structure and the conditions for application of the access tariffs in the framework of the deregulation of the electricity supply. The applicable rates for 2004 and 2005 are contained in the Royal Decree 1802/2003 and Royal Decree 2392/2004.

Royal Decree 2392/2004, published on 31 December 2004, set the electricity rates for 2005 and determined the amount of recognised costs receivable by the electricity companies:

- €936,958 thousand for remuneration of the transmission activity, of which €677,751 thousand related to remuneration of the transmission activity of Red Eléctrica de España, S.A. and €259,207 thousand to the transmission activity of the other companies, settled pursuant to Royal Decree 2017/1997.
- €3,456,334 thousand for remuneration of the distribution activity. A total of €497,073 thousand is payable to UFD.
- €292,441 thousand for remuneration of the retailing activity carried out by the distribution companies.

The aforementioned Royal Decree also established an average increase of 1.71% in the tariffs for sales of electricity and in the prices of power under the special regime.

Fixed remuneration for the transition to competition

The Sixth Transitional Provision of the Law recognised the right of those companies that as at 31 December 1997 owned the generating facilities included within the scope of the Stable Legal Framework, to receive fixed remuneration, expressed in pesetas per kWh, calculated in the manner established in the regulations. The overall base amount of this remuneration at 31 December 1997 values, for all the companies, may not under these regulations exceed euros 11,951,492 thousand.

Article 107 of Law 50/1998 on Tax, Administrative and Social Security Measures, which came into force on 1 January 1999, (''Article 107'') amended the wording of the Sixth Transitional Provision of the Law, establishing a new procedure for recouping the CTCs corresponding to the fixed remuneration whereby 80% of the outstanding CTCs less 20% can be recovered via a 4.5% allocation on electricity billings. Article 107 also allowed for the securitisation of CTCs.

Royal Decree Law 2/2001, dated 2 February 2001, confirmed the maximum amounts established by the previous regulations, extended the recoupment deadline for CTCs to 31 December 2010, established the method of recovery of CTCs by differences and abolished the recoupment via the levy method, thereby ending the possibility of securitising CTCs. Law 9/2001 amending Transitional Provision Six of Electricity Sector Law 54/1997 subsequently replaced this Royal Decree.

Royal Decree 1432/2002 established the recoverability of the contributions made by the generators for the coverage of the shortfall in revenues from regulated activities before 2003. Additional Provision One of this Royal Decree established that the costs relating to the shortfall in revenues from regulated activities before 2003 will be rights analogous to those referred to in Article 2.1, paragraph (a) of Royal Decree 926/1998, which regulates the asset securitisation funds and the securitisation funds management companies for the purposes of the application, if appropriate, by order of the Ministry of Economy, of the procedure envisaged therein.

Regulation of the electricity industry abroad

Outside Spain, the Group has electricity investments in the Philippines, Kenya, Panama, Guatemala, Dominican Republic, Moldova, Mexico, Colombia and Nicaragua. Most of those countries have fully liberalised their electricity industry and have a similar regulatory framework: unbundling of activities, introduction of competition in generation and retailing with retail choice above threshold values, regulated transmission and distribution rates, limits to vertical concentration and the existence of an independent regulator.

In this deregulated electricity industry, the generators negotiate their power sales in a wholesale market, which includes a forward market and a spot market in which the differences between the electricity contracted for and the electricity actually generated and demanded are negotiated. The production of the power plants for the 24 hours of each day is determined in the spot market, based on their variable costs or their supply bids. The price varies from hour to hour and is equivalent to the costs, or the supply bid, of the last facility required meeting demand. An independent operator formed by representatives of all the activities manages the spot market.

In Mexico and Kenya there is no wholesale generation market, since the electricity industry has not been deregulated. In these countries the Group operates as an independent producer and

sells its plants' output under long-term contracts under which the payments for available capacity cover the plants' total fixed costs.

The regulated transmission fee is established for long periods, generally four or five years, so that an efficient company is able to recover it's operating costs and obtains a return on its assets. In each of these four or five year periods the fee is adjusted automatically based on the variations in the following economic indicators: the U.S. dollar exchange rate, the local consumer price index or the consumer price index in the U.S.

In the Dominican Republic, were Unión Fenosa is also present as producer, there is a liberalised market that encompasses the transactions among the generation agents and the distribution companies. Simultaneously, there is long-term power purchase contracts with the distribution companies, that maintain a similar retribution to that previously mentioned in the cases of Mexico and Kenya. In the Dominican Republic, the long-term contracts with distributors account for 80% of the output of the Unión Fenosa Group's power plants.

Distribution remuneration, which is the aggregate distribution value, is set periodically, generally every five years, so that an efficient company can recover its operation costs and earn a return on its investments. A company is understood to be efficient when its network can satisfy customer demand, its operating costs and investments are standard for the type of network it operates and its losses are also standard for this type of network and for the characteristics of its market, considering the losses at the start of the period.

The formulas for calculating, and the procedures for adjustment of, the rates applicable to regulated customers, and of fees applicable to all the eligible customers who opt to purchase at prices different from the full rate are established together with the establishment of the Aggregate Distribution Value. The rate for regulated customers is the sum of the electricity purchase price, the transmission fee and the Aggregate Distribution Value, thereby guaranteeing that the purchase price is passed on to the rates. Sale rates are adjusted automatically, either annually, half-yearly or monthly, in accordance with changes in purchase prices and transmission rates and in their component of distribution subject to changes in economic indicators: the country's inflation, the inflation rate in the U.S., the exchange rate against the U.S. dollar and import duties.

In April 2004, the preliminary studies started for electricity distributors in Nicaragua. In June 2005, and as a consequence of the difficult conditions of the electricity sector due to the sharp increase of the fuel price, the President of the Government proposed to the Assembly two Law-Decrees aimed to allow for a 11,83% increase in the electricity tariff. The relevant Authority has suspended such Law-Decrees.

Gas regulation

On 23 June 2000, the Spanish government approved Royal Decree Law 6/2000 on Urgent Measures to Intensify Competition in the Goods and Services Markets. The measures envisaged for natural gas activities were as follows:

- The System Technical Operator is defined as the Transport Company that owns the bulk of the basic natural gas network installations and will be responsible for technical management of the Basic Network and the secondary transportation networks.
- Gas consumers are redefined both as eligible customers, who acquire gas from retailers in freely arranged conditions, and non-eligible customers who acquire gas from regulated distributors.
- From 1 January 2003, market shares will be limited so that no corporate group can provide over 70% of natural gas for usage in Spain.
- The economic regime of regulated gas activities was agreed. A regime of accredited costs was established and will be defined in a subsequent regulation and a collection system based on charges, tolls and general tariffs was established and will also be defined in such regulation due to come into force on 1 January 2001.

- A transitional provision established that a ministerial order would reduce third party access tolls and charges for natural gas reception, regasification, storage and transportation installations set by the Ministerial Order dated 9 March 2000 by 8%, until the Economic Regime Royal Decree is approved.
- The criteria for determining eligible gas consumers is now as follows:

  (i) When Royal Decree Law 6/2000 comes into force, consumers with an annual consumption of greater or equal to 3,000,000 Nm3.

  (ii) On 1 January 2002, consumers with an annual consumption of greater or equal to 1,000,000 Nm3.

  (iii) On 1 January 2003, all consumers, regardless of consumption.

  (iv) At all times electricity production plants and cogenerators.

Another important regulatory development that affects the approved participants in the gas market is the limit of 35% on the share capital or voting rights of the stake in Enagas, S. A. As a result of the Hydrocarbons Law and Royal Decree Law 6/2000, in 2001 there were new developments in the regulation of the natural gas market. In particular, Royal Decree 949/2001 dated 3 August 2001 and published on 7 September 2001 regulated third party access to gas installations and established an integrated economic system for the natural gas sector.

Ministerial Order ECO/301/2002 (published on 18 February) established the remuneration for regulated activities in the gas industry; ECO/302/2002 established the tariffs for natural gas and piped gases and for meter hire and ECO/303/2002 established the fees and charges for third-party access to gas installations.

These Orders represented further progress in the deregulation of the gas industry since they determine the economic parameters to be used in the remuneration of regulated activities, regasification, storage, transport and distribution and the specific quotas for the System Technical Manager and the National Energy Commission. They also established and quantified the new system of tariffs for the sale of natural gas and calculation of fees and charges for transport and distribution, regasification fees and storage charges for liquefied natural gas and for underground storage which had been defined in Royal Decree 949/2001, regulating third-party access to gas installations and establishing an integrated economic system for the natural gas industry.

Ministerial Order ECO/2692/2002, which was published on 1 November 2002, regulates the procedures for the settlement of the remuneration of regulated activities in the natural gas industry and of the specifically earmarked quotas and establishes the information system, which companies should use.

The most significant regulatory event permitting the establishment at the beginning of 2003 of full eligibility of consumers of gas occurred on 31 December 2002, when Royal Decree 1434/2002 was published, regulating transport, distribution, retailing, supply and authorisation procedures for natural gas facilities. This Royal Decree also establishes the system of authorisation relating to all the facilities linked to gas activities, for which the General State Administration is responsible, and the procedure for registration in the various administrative registers envisaged in Hydrocarbon Sector Law 34/1998.

On January 15, 2004 the Ministerial Orders that currently regulate the retribution, access and selling tariffs of the natural gas are published: Order ECO/31/2004 that updates the retribution of the regulated activities in the gas sector, innovating with the retribution criteria for the regasification, storage, transport and distribution; Order ECO/32/2004 by which the third party access tariffs to the gas installations and the quota for the remuneration of the Technical System Operator and the National Energy Commission are settled; and Order ECO/33/2004 by which the tariffs for natural gas, manufactured canalised natural gas, renting of meters and connection rights for customers connected at pressures equal or below 4 bar are settled.

In August 2004 the Royal Decree 1716/2004 was published. This Royal Decree establishes the obligation for the transport companies that inject gas in the system to maintain minimum reserves for an amount equal to 35 days of its firm sales to the distribution companies for the supply of the regulated market.

The First Final Provision of Royal Decree 1716/2004 is of particular importance because it modifies the RD 949/2001, dated on 3 August 2001 that regulates the third party access to the gas installations and establishes an integrated economic system for the natural gas sector. The access tariff of regasification will include the right of use of the installations necessary for the unloading of vessels, transport to liquefied natural gas tanks, regasification, loading and storage of LNG equivalent to 5 days of the daily contracted capacity. The tariff for transport and distribution will include the right of use of the necessary installations for the gas transport from the point of entrance to the pipeline to the point of supply to the customer, as well as the use of an operative storage equivalent to two days of the total transport and distribution capacity contracted.

CAPITALISATION OF THE GUARANTOR

The following table sets forth the consolidated capitalisation of Unión Fenosa, S.A. as at 31 December 2004 derived from the audited consolidated financial statements of the Group for the year ended 31 December 2004 drafted in accordance with generally accepted accounting principles in Spain. The subscribed capital stock of Unión Fenosa, S.A. is €914.038 million divided into 304,679,326 bearer shares with a nominal value of euros 3 each. All of the shares are issued and fully paid up.

	31 December 2004
	(Euros)
Short-term debt	1,133,570
Long-term debt.....	4,776,494
Total indebtedness	5,910,064
Stockholders' equity	3,290,114
Subscribed.....	914,038
Reserves	2,581,953
Translation differences.....	(520,717)
Income for the year less interim dividend paid in the year……..	314,840
Minority interest	1,001,112
Total capitalisation and indebtedness	10,201,290

There has been no significant change in the consolidated capitalisation and indebtedness of Unión Fenosa, S.A., considering comparable accounting standards, since 31 December 2004.

The Unión Fenosa Group's first complete financial statements drafted in accordance with IFRS will be those corresponding to the year ending on 31 December 2005, although the Guarantor's individual financial statements will continue to be drafted under Spanish GAAP.

Unión Fenosa has recently made public its consolidated financial statements of the first quarter of 2005. The introduction of the IFRS has derived in a gross debt increase mainly due to the consideration of the € 609 million preference shares issued by Unión Fenosa Financial Services USA L.L.C. as debt instead of minority shareholder's, the inclusion of the financing of outsourced pension funds and changes in the consolidation scope of several affiliates. Consequently, the reported figures for indebtedness and total capitalisation and indebtedness as of 31 March 2005 are €7,462,851 thousand and €11,268,367 respectively.

Convertible debt securities, exchangeable debt securities or debt securities with warrants attached

The Guarantor has not issued any convertible debt securities, exchangeable debt securities or debt securities with warrants attached as of the date of the present Guarantee.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS OF THE GUARANTOR

The selected financial information set forth below is derived from and should be read in conjunction with, the audited consolidated financial statements of Unión Fenosa, S.A., incorporated by reference in this Offering Circular.

The following tables set out the consolidated balance sheets and the consolidated profit and loss accounts as at, and for the financial years ended, 31 December 2004, 2003 and 2002 derived from the consolidated financial statements of Unión Fenosa, S.A.

CONSOLIDATED BALANCE SHEETS OF UNIÓN FENOSA, S.A.

AS AT 31 DECEMBER 2004, 2003 AND 2002

Assets	**31.12.04** (Audited)	**31.12.03** Audited	**31.12.02** Audited
	(Thousands of euros)		
Uncalled capital	**19,087**	**3**	**0**
Fixed assets	**12,165,238**	**11,759,694**	**12,474,888**
Start-up expenses	22,018	19,921	27,177
Intangible assets	811,638	649,190	638,369
Rights on leased assets	190,599	31,369	33,494
Other intangible fixed assets	621,039	617,821	604,875
Tangible fixed assets	9,009,537	8,824,893	9,491,016
Long-term financial investments	2,287,424	2,222,632	2,269,917
Shares of the Controlling Company	11,349	20,504	33,051
Long-term operating receivables	23,272	22,554	15,538
Accrued receivables International Electricity	0	0	106,753
Goodwill in consolidation	**453,077**	**514,047**	**640,955**
Deferred charges	**510,976**	**292,508**	**224,509**
Current assets	**2,059,004**	**2,005,037**	**2,359,114**
Inventories	152,276	159,598	178,327
Accounts receivable	1,425,523	1,600,599	1,906,897
Short-term financial investments	316,058	110,515	76,376
Cash	103,978	107,225	178,788
Accrual accounts	61,169	27,100	18,726
Total Assets	**15,207,382**	**14,571,289**	**15,806,219**

Liabilities	31.12.04 (Audited)	31.12.03 Audited	31.12.02 Audited
	(Thousands of euros)		
SHAREHOLDERS´ EQUITY	**3,290,114**	**3,061,452**	**3,128,039**
Capital stock	914,038	914,038	914,038
Additional paid-in-capital	99,156	99,156	99,156
Revaluation reserve	830,044	830,044	830,044
Other reserves of the Controlling Company	1,443,428	1,149,002	1,010,284
Reserves at companies consolidated by the global or proportional integration method	405,811	567,913	362,193
Reserves at companies carried by the equity method	(196,486)	(188,794)	(47,440)
Translation differences	(520,717)	(606,153)	(312,285)
Income attributed to the Controlling Company	397,453	372,754	345,172
Interim dividend paid in the year	(82,613)	(76,508)	(73,123)
MINORITY INTEREST	**1,001,112**	**1,015,308**	**453,168**
NEGATIVE GOODWILL IN CONSOLIDATION	**6,074**	**6,008**	**31,918**
DEFERRED REVENUES	**824,218**	**858,227**	**533,861**
PROVISIONS FOR CONTINGENCIES AND EXPENSES	**869,809**	**725,493**	**769,730**
LONG TERM DEBT	**6,133,788**	**5,675,164**	**7,068,072**
Debentures and other marketable debt securities	1,318,686	1,319,604	1,046,524
Payable to credit entities	3,457,808	3,310,753	4,617,928
Payable to group and associated companies	60,866	10,184	12,190
Other accounts payable	1,295,980	1,034,117	1,389,984
Uncalled capital payments payables	448	506	1,446
CURRENT LIABILITIES	**3,082,267**	**3,229,637**	**3,821,431**
Debentures and other marketable debt securities	401,501	639,495	314,657
Payable to credit entities	796,986	897,545	1,511,054
Payable to Group and associated companies	63,092	46,335	354,987
Trade accounts payable	1,107,160	1,037,043	1,021,477
Other nontrade payables	702,921	600,650	614,148
Operating provisions	1,769	4,659	1,442
Accrual accounts	8,838	3,910	3,666
Total Shareholders´ Equity and Liabilities	**15,207,382**	**14,571,289**	**15,806,219**

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF UNIÓN FENOSA, S.A.

FOR THE THREE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

	31.12.04 (Audited)	**31.12.03** Audited	**31.12.02** Audited
	(Thousands of Euros)		
OPERATING REVENUES	**6,076,692**	**5,862,046**	**6,290,380**
Net revenues	5,803,322	5,560,119	5,831,238
Increase in finished product and work-in-process	2,675	(1,510)	11,796
Cap. expenses of in-house work on fixed assets	198,616	230,340	301,910
Other operating revenues	72,079	73,097	145,436
OPERATING EXPENSES	**(5,241,889)**	**(5,086,524)**	**(5,526,125)**
Purchases	(3,552,922)	(3,377,917)	(3,696,128)
Personnel expenses	(664,726)	(664,624)	(730,969)
Period depreciation and amortization	(475,291)	(525,642)	(567,346)
Variation in operating provisions	(44,832)	(67,537)	(50,342)
Other operating expenses	(504,118)	(450,804)	(481,340)
OPERATING INCOME	**834,803**	**775,522**	**764,255**
FINANCIAL REVENUES	208,004	219,305	297,097
FINANCIAL EXPENSES	(456,056)	(547,115)	(650,636)
Financial and similar expenses	(422,932)	(447,256)	(438,280)
Variation in financial investment provisions	(2,837)	(7,122)	(2,688)
Exchange losses	(30,287)	(92,737)	(209,668)
Financial Loss	**(248,052)**	**(327,810)**	**(353,539)**
Amortization of goodwill in consolidation	(35,685)	(37,423)	(37,580)
Reversal of negative consolidation differences	0	16,194	72,475
Redemption of holdings in companies carried by the equity method	(1,519)	(1,519)	(1,519)
Income of companies carried by equity method	45,689	22,412	(73,722)
INCOME FROM ORDINARY ACTIVITIES	**595,236**	**447,376**	**370,370**
EXTRAORDINARY REVENUES	178,610	575,002	166,766
EXTRAORDINARY LOSS	(223,672)	640,127	320,522
Extraordinary Income/(loss)	(45,062)	(65,125)	(153,756)
CONSOLIDATED INCOME BEFORE TAXES	**550,174**	**382,251**	**216,614**
Corporate tax and others	(104,443)	(1,461)	103,173
CONSOLIDATED INCOME FOR THE YEAR	**445,731**	**380,790**	**319,787**
Income attributed to minority interests	(48,278)	(8,036)	25,385
INCOME ATTRIBUTED TO THE CONTROLLING COMPANY	**(397,453)**	**372,754**	**345,172**

Taxation

The following is a general description of certain tax Spanish considerations relating to the Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Preferred Securities. Prospective purchasers of Preferred 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 Spain and Luxembourg of acquiring, holding and disposing of Preferred Securities and receiving any payments under the Preferred Securities.

This summary is based upon the Spanish law as in effect on the date of this Listing Memorandum and is subject to any change in law that may take effect after such date.

Spanish Taxation

Background

The following information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Listing Memorandum:

(a) Additional Provision two of Law 13/1985, of 25th May on investment ratios, own funds and information obligations of financial intermediaries, as amended by Law 19/2003, of 4th July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, as well as Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferred securities and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules will be of general application;

(b) For individuals resident for tax purposes in Spain, which are subject to the Individual Income Tax (IRPF), Royal Legislative Decree 3/2004, of 5th March promulgating the Consolidated Text of the Individual Income Tax Law, and Royal Decree 1775/2004, of 30th July promulgating the Individual Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax;

(c) For legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (IS), Royal Legislative Decree 4/2004, of 5th March promulgating the Consolidated Text of the Corporate Income Tax Law, and Royal Decree 1777/2004, of 30th July promulgating the Corporate Income Tax Regulations; and

(d) For individuals and entities not resident in Spain for tax purposes, which are subject to the Non-Residents Income Tax (IRNR), Royal Legislative Decree 5/2004, of 5th March promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30th July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax.

Individuals Tax Resident In Spain

Individual Income Tax (*IRPF*)

Both Distributions and Non-Cash Distributions made by the Issuer to individual holders who are resident in Spain for tax purposes, as well as income obtained by such holders deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 23.2 of the Individual Income Tax (IIT) Law, and must be included in the general portion of the investor's IIT taxable income, subject to marginal rates up to 45%.

In case the income deriving from the transfer, redemption or repayment of the Preferred Securities is generated after a two-year holding period, a 40% reduction might be applicable.

Distrution payments and income derived from the transfer, redemption or repayment of the Preferred Securities are subject to withholding tax at the rate of 15%.

In the case of Non-Cash Distributions, the Issuer will make a payment on account of the individual holder´s final IIT liability at the general 15% tax rate. The cost of applying this payment on account will be borne by the Issuer and therefore the individual holder will have to include in his or her IIT taxable base the amount of the payment on account of tax, plus the value of the Non-Cash Distribution.

In any event, the indidual holder may credit the withholding or the payment on account against his or her final IIT liability of the relevant year.

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals who are resident in Spain for tax purposes and hold Preferred Securities on the last day of any year will be subject to the Spanish Net Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the quoted average value of the last quarter of the year of such Preferred Securities, with an amount exempt of Euro 108,182.18.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals who are resident in Spain for tax purposes who acquire by inheritance, gift or legacy the ownership or any other rights over any Preferred Securities, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules. The applicable tax rates, after applying all relevant factors, ranges between 7.65% and 81.6%

Corporate Income Tax (*Impuesto sobre Sociedades*)

Both Distributions and Non-Cash Distributions made by the Issuer to corporate holders who are resident in Spain for tax purposes, as well as income obtained by such holders deriving from the transfer, redemption or repayment of the Preferred Securities are considered as taxable income for Corporate Income Tax purposes and is subject to taxation (at the general tax rate of 35%) in accordance with its regulations.

Regarding withholding duties, Section 59.s) of the Corporate Income Tax Regulations declares exempt from withholding or payment on account of taxes any income obtained by Spanish Legal entities (including Spanish tax resident Investment and Pension Funds) which derive from

financial assets traded on organised markets from OECD countries. Application has been made for the Preferred Securities to be traded on the Luxembourg Stock Exchange and they will therefore, upon admission to be traded there, fulfil the exemption requirements. Nevertheless, the Spanish General Directorate of Taxes (*Dirección General de Tributos* – "DGT"), on a resolution issued on July 27th, 2004,included as an additional requirement for the application of the mentioned exemption the placing of the Preferred Securities outside Spanish territory in another OECD country.

Based on the previous resolution and, as under the current issuance structure, the placing of the Preferred Securities will be mostly made within the Spanish territory, the Issuer shall follow the criteria established by the Spanish Tax Authorities in said Resolution and will therefore make the corresponding withholdings or payments on account of the holders´ final Corporate Income Tax liability. In this connection the Issuer will not be under any obligation to pay additional amounts.

Notwithstanding, should the interpretation of the Spanish Tax Authorities regarding the conditions for the application of the withholding exemption vary, on the basis of a consultation filed with the General Directorate of Taxes either by the Issuer or by any third party, so that distributions paid to the Spanish corporate holders become apt for the exemption, the Issuer will immediately cease making such withholdings or payments on account of Spanish taxes.

Therefore, Distrution payments and income derived from the transfer, redemption or repayment of the Preferred Securities are subject to withholding tax at the rate of 15%.

In the case of Non-Cash Distributions, the Issuer will make a payment on account of the corporate holder´s final Corporate Income Tax liability at the general 15% tax rate. The cost of applying this payment on account will be borne by the Issuer and therefore the holder will have to include in its Corporate Income Tax taxable base the amount of the payment on account of tax, plus the value of the Non-Cash Distribution.

In any event, the corporate holder may credit the withholding or the payment on account against its Corporate Income Tax liability of the relevant year.

(Please see "Disclosure of information of the holders of the Preferred Securities in connection with interest payments" below).

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Spanish legal entities are not subject to Wealth Tax.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

The Spanish Inheritance and Gift Tax is a tax of a direct and subjective nature, which does not apply to legal entities resident for tax purposes in Spain. Therefore if such entities acquired the ownership or other rights over the Preferred Securities by inheritance, gift or legacy, such acquisition will not be subject to said tax.

In such case, they will have to include the market value of the Preferred Securities acquired in their taxable income for Spanish Corporate Income Tax purposes.

Individuals and Legal Entities not Resident in Spain for Tax Purposes

Non-Residents Income Tax (*Impuesto sobre la Renta de no Residentes*)

(a) Non-Resident Holders acting through a Permanent Establishment in Spain

Ownership of Preferred Securities by investors who are not tax resident in Spain will not create a permanent establishment in Spain itself.

If Preferred Securities are part of the assets of a non resident individual or legal entity's permanent establishment in Spain, the taxation of income deriving from such Preferred Securities will be, in general terms, the same as the one applicable to entities resident for tax purposes in Spain (See "*Corporate Income Tax (Impuesto sobre Sociedades)*" above).

(b) Non-Resident Holders not acting through a permanent establishment in Spain

Both Distributions and Non-Cash Distributions made by the Issuer, as well as income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who are not resident in Spain and do not act, with respect to the Preferred Shares, through a permanent establishment in Spain, are exempt from such Tax on the same terms laid down for income from Public Debt.

In order to benefit from such exemption, certain information obligations relating to the identity of the holders of Preferred Securities, should be complied with in the manner detailed under "Disclosure of Information of the Holders of the Preferred Securities in connection with Interest Payments" below, as laid down in section 12 of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004. If these information obligations are not complied with in the manner indicated, the Issuer will apply a 15% withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

This exemption is not applicable if such income is obtained through countries or territories classed as tax havens (being those included in Royal Decree 1080/1991, of 5th July), in which case such income will be subject to Non- Resident Income Tax in Spain at a 15% tax rate which will be withheld by the Issuer.

Pursuant to Royal Decree 1080/1991, of 5th July the following are considered to be a tax haven: Principality of Andorra, Netherlands Antilles, Aruba, Kingdom of Bahrain, Sultanate of Brunei, Republic of Cyprus, United Arab Emirates, Gibraltar, Hong-Kong, The Island of Anguila, Islands of Antigua and Barbuda, The Bahamas, The Island of Barbados, The Bermuda Islands, Cayman Islands, The Cook Islands, The Republic of Dominica, Grenada, Fiji Islands, Channel Islands (Jersey and Guernsey), Jamaica, Republic of Malta, Falkland Islands, Isle of Man, Marianas Islands, Mauritius, Montserrat, Republic of Nauru, Solomon Islands, Saint Vincent & the Grenadines, Saint Lucia, Republic of Trinidad and Tobago, Turks and Caicos Islands, Republic of Vanuatu, British Virgin Islands, Virgin Islands (of the United States), Hashemite Kingdom of Jordan, Republic of Lebanon, Republic of Liberia, Principality of Liechtenstein, Grand Duchy of Luxembourg Area (as regards the income received by the Companies referred to in paragraph 1 of Protocol annexed Avoidance of Double Taxation Treaty, dated 3rd June, 1986), Macao, Principality of Monaco, Sultanate of Oman, Republic of Panama, Republic of San Marino, Republic of Seychelles, Republic of Singapore.

In any event, holders not resident in Spain for tax purposes entitled to exemption from Spanish Non-Resident Income Tax who do not provide timely evidence of their tax residency in accordance with the procedure described in detail below, may obtain a refund of the amount withheld from the Spanish Tax Authorities by following the standard refund procedure in accordance with the Spanish tax law.

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

To the extent that income deriving from the Preferred Securities is exempt from Non-Resident Income Tax, individuals not resident in Spain for tax purposes who hold Preferred Securities on the last day of any year will be exempt from the Net Wealth Tax.

Furthermore, individuals resident for tax purposes in a country with which Spain has entered into a double tax treaty in relation to wealth tax that provides for taxation only in the holder´s country of residence will not be subject to such tax.

If the provisions of the foregoing two paragraphs do not apply, individuals not resident in Spain for tax purposes who hold Preferred Securities on the last day of any year will be subject to the Spanish Net Wealth Tax at marginal rates varying between 0.2% and 2.5% of the quoted average value of the last quarter of the year of such Preferred Securities, with no exempt amount.

Legal entities not resident in Spain for tax purposes are not subject to the Spanish Net Wealth Tax.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty regarding inheritance tax will be subject to the provisions of the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable regional and state legislation.

The inheritance and gift tax is a tax of a direct and subjective nature, which does not apply to legal entities not resident in Spain for tax purposes. Therefore if such entities acquired the ownership or other rights over the Preferred Securities by inheritance, gift or legacy, such acquisition will not be subject to said tax.

In such case, they will be considered as capital gains for Non-Resident Income Tax purposes, being subject to the tax regime discussed above under "*Non-Residents Income Tax (Impuesto sobre la Renta de No Residentes*") .

Indirect Taxation

Whatever the nature and residence of the holder of Preferred Securities, the acquisition and transfer of the Preferred Securities will be exempt from indirect taxes in Spain, i.e. exempt from Capital Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24th September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28th December regulating such tax.

Tax Rules for Payments made by the Guarantor under the Guarantee

Payments made by the Guarantor to holders of Preferred Securities, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by the Issuer.

Disclosure of information of the holders of the Preferred Securities in connection with Distribution and Non-Cash Distribution payments

1. Legal Entities with tax residency in Spain subject to Spanish Corporate Income Tax

In accordance with procedures established in the Fiscal Agency Agreement, the Agent must receive a list of those Holders that are Spanish Corporate Income Tax taxpayers specifying the name, address, Tax Identification Number, ISIN code of the Preferred Securities, number of Preferred Securities held at each interest payment date, gross income and amount withheld, substantially in the form set out below (See Annex III below).

2. Individuals and legal entities with no tax residency in Spain.

The information obligations to be complied with are those laid down in Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferred securities and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules being the following.

Amongst such information obligations, sub-section 1 of Section 12 of Royal Decree 2281/1998 as promulgated by Royal Decree 1778/2004, states that the Spanish Parent company of an Issuer of Preferred Securities or other debt instruments must file, each month of January, a return before the Spanish tax authorities specifying the following information of the previous year with respect to the Preferred Securities or other debt instruments:

(a) The identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party;
(b) The amount of income received; and
(c) Details identifying the Preferred Securities.

In accordance with sub-section 3 of such Section 12, for the purpose of preparing the return referred to in sub-section 1 of Section 12, the following documentation must be obtained on each payment of income evidencing the identity and country of tax residency of each holder of Preferred Securities:

a) If the non-resident holder of Preferred Securities acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency in the manner laid down in Annex I of the Order of 16th September 1991, promulgated pursuant to Royal Decree 1285/1991 (see Annex I below), of 2nd August establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment;

b) In the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and country of tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);

c) In the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);

d) In other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the State of residency of the holder of Preferred Securities. These certificates will be valid for one year as from the date of issue.

Finally, sub-section 4 of Section 12 of Royal Decree 1778/2004 states the procedure to be followed for the purpose of implementing the exemption provided for: on the due date of each interest payment the Issuer must transfer the net amount to the entities referred to in paragraphs (a), (b) and (c) resulting from applying the general withholding rate (currently 15%) to the whole of the interest payment. If the certificates referred to are received prior to expiry of the Interest Period, the Issuer will pay the amounts withheld to the extent that they correspond with the information provided.

EU Savings Tax Directive

On 3rd June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1st July 2005, provided that certain non-EU countries adopt similar measures from the same date.

Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%.

The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Annex I

Modelo de certificación en inversiones por cuenta propia

Form of Certificate for Own Account Investments

(nombre)(name).....
(domicilio)(address).....
.....
.....
(NIF) (fiscal ID number) .....
en calidad de ..... **, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004,**
(function)..... in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

CERTIFICO:
CERTIFY:

1. **Que el nombre o razón social de la Entidad que represento es:.....**

   That the name of the Entity I represent is.....

2. **Que su residencia fiscal es la siguiente:.....**

   That its residence for tax purposes is:.....

3. **Que la Entidad que represento está inscrita en el Registro de..... de ..... (país estado, ciudad), con el número**

   That the institution I represent is recorded in the .....Register of .....(country, state, city), under number .....

4. **Que la Entidad que represento está sometida a la supervisión de…… (Órgano supervisor) en virtud de**..... **(normativa que lo regula)**

   That the institution I represent is supervised by .....(Supervision body) under.....(governing rules).

Todo ello en relación con:
All the above in relation to:

Identificación de los valores poseídos por cuenta propia
Identification of securities held on own account
Importe de los rendimientos
Amount of income.....
Lo que certifico en ..... a .....de..... de 20.....
I certify the above in .....on the.....of .....of 20 .....

Annex II
Modelo de certificación en inversiones por cuenta ajena
Form of Certificate for Third Party Investments

(nombre)(name).....
(domicilio)(address).....
.....
(NIF) (fiscal ID number).....
en calidad de....., en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004,
(function)....., in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/ 2004,

CERTIFICO:
CERTIFY:

1. **Que el nombre o razón social de la Entidad que represento es:.....**

   That the name of the Entity I represent is.....

2. **Que su residencia fiscal es la siguiente:.....**

   That its residence for tax purposes is:.....

3. **Que la Entidad que represento está inscrita en el Registro de..... de ..... (país estado, ciudad), con el número**

   That the institution I represent is recorded in the .....Register of .....(country, state, city), under number .....

4. **Que la Entidad que represento está sometida a la supervisión de…… (Órgano supervisor) en virtud de**..... **(normativa que lo regula)**

   That the institution I represent is supervised by .....(Supervision body) under.....(governing rules).

5. **Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraísos fiscales de acuerdo con las normas reglamentarias en vigor.**

   That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the amounts of the corresponding income is accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

Lo que certifico en ..... a ..... de ..... de 20...
I certify the above in .....on the.....of .....of 20 .....

RELACIÓN ADJUNTA A CUMPLIMENTAR:
TO BE ATTACHED:

Identificación de los valores:
Identification of the securities

Listado de titulares:
List of beneficial owners:

Nombre / País de residencia / Importe de los rendimientos
Name / Country of residence / Amount of income

Annex III

Modelo de certificacion para hacer efectiva la exclusión de retención a los sujetos pasivos del Impuesto sobre Sociedades y a los establecimientos permanentes sujetos pasivos del Impuesto sobre la Renta de no Residentes (a emitir por las entidades citadas en el artículo 12.3.a) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004)

Certificate for application of the exemption on withholding to Spanish Corporate Income Tax taxpayers and to permanent establishments of non-resident income tax taxpayers (to be issued by entities mentioned under article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004)

(nombre) (name) .....

(domicilio) (address) .....……

.....

.....

(NIF) (fiscal ID number) .....….

(en calidad de) (function) ..... , en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59.s) del Real Decreto 1777/2004,

in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1777/2004,

CERTIFICO:

I certify:

1. **Que el nombre o razón social de la Entidad que represento es:**

   that the name of the Entity I represent is: .....……

2. **Que su residencia fiscal es la siguiente:**

   that its residence for tax purposes is: .....…….

3. **Que la Entidad que represento está inscrita en el Registro de**

   that the institution I represent is recorded in the .....…….…. Register of .....

   (país, estado, ciudad), con el número

   (country, state, city), under number.....…….....…….

4. **Que la Entidad que represento está**

   sometida a la supervisión de (Organo supervisor)

   that the institution I represent is supervised by .....(Supervision body)

   en virtud de (normativa que lo regula)

   under..... (governing rules).

5. **Que, a través de la Entidad que represento, los titulares incluídos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**

That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporate Income Tax taxpayers and permanent establishment in Spain of Non-Resident Income Tax taxpayers, and are recipients of the referred income.

6. **Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluídos en la relación**.

That the Entity I represent keeps, at the disposal of the Issuer, a photocopy of the card evidencing the Fiscal Identification Number of the holders included in the attached list.

Lo que certifico en a de de 20

I certify the above in ..... on the……..of .....of 20 .....

RELACION ADJUNTA

TO BE ATTACHED

Identificación de los valores:

Identification of the securities

Razón social / Domicilio / Número de identificación fiscal / Número de valores / Rendimientos brutos / Retención al 15%

Name / Domicile / Fiscal Identification Number / Number of securities / Gross income / Amount withheld at 15%.

Subscription and Sale

SANTANDER INVESTMENT SERVICES, S.A., CAIXA DE AFORROS DE VIGO, OURENSE E PONTEVEDRA (CAIXANOVA), GESTIÓN DE ACTIVOS DEL MEDITERRÁNEO, S.V., S.A. and CAJA DE AHORROS Y MONTE DE PIEDEDAD DE MADRID (CAJAMADRID), (together the "**Managers**") entered into an underwriting agreement with the Issuer and the Guarantor (hereinafter the "Underwriting Agreement") on 14 June 2005. Subject to certain conditions, the Managers agreed to procure purchasers for, or absent such procurement, to purchase, the number of Preferred Securities indicated in the following table:

Underwriters	Number of Preferred Securities	% on Preferred Securities underwritten
Santander Investment Services, S.A.	6,300	45
CAIXANOVA	4,400	31.43
Gestión de Activos del Mediterráneo, S.V., S.A.	1,500	10.72
CAJAMADRID	1,000	7.14
Banco Bilbao Vicaya Argentaria, S.A.	800	5.71
TOTAL	**14,000**	**100**

The Preferred Securities were placed in Spain, and Portugal. None of such placements have been consider a public offer of securities under the applicable legislation of each jurisdiction. No Preferred Securities have been placed on tax havens or to investors resident in tax havens.

All the 15,000 Preferred Securities of the Issuance have been sold.

Spain

The Preferred Securities have not been offered in Spain except in circumstances which do not constitute a public offer of securities in Spain within the meaning of the Spanish Securities Market Law and further relevant legislation. Neither the Preferred Securities nor this Listing Memorandum have been verified or registered in the administrative registries of the Spanish Securities Markets Commission *(Comisión Nacional del Mercado de Valores)*.

General

No action has been taken in any jurisdiction by the Issuer, the Guarantor or the Managers that would, or is intended to, permit a public offering of the Preferred Securities, or possession or distribution of this Listing Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Listing Memorandum comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Preferred Securities or has in its possession, distribute or publish this Listing Memorandum or any other offering material relating to the Preferred Securities, in all cases at its own expense.

Liquidity

By virtue of the Liquidity Agreement dated as of 14 June 2005, signed by UNIÓN FENOSA PREFERENTES, S.A Unipersonal and UNIÓN FENOSA, S.A. and the following Companies as providers of liquidity: BANCO SANTANDER CENTRAL HISPANO, S.A., CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID and BANCO BILBAO VIZCAYA ARGENTARIA, S.A. (the Liquidity Providers), since the listing date of the Preferred Securities, the aforementioned companies agree jointly to offer liquidity to the holders of the Preferred Securities, up to a maximum of 10% of the nominal value of the Preferred Securities, upon the terms stated in the agreement, through the quotation of bid and ask prices.

The prices that each one of the Liquidity Providers will quote be determined by the existing market conditions, considering the profitability of the issuance, the fixed income markets situation and the Preferred Securities.

The Liquidity Providers will not be obliged to provide liquidity to individual orders over Preferred Securities with an aggregate nominal value higher than 250.000 Euro.

General Information

1. The creation and issue of the Preferred Securities has been authorised by the shareholders meetings of the Issuer held on 13 June 2005. The giving of the Guarantee of the Preferred Securities has been authorised by a resolution of the Board of Directors of the Guarantor dated 22 February 2005.

2. Save as disclosed herein, there are no legal or arbitration proceedings against or affecting the Issuer, the Guarantor, any of its/their respective subsidiaries, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Preferred Securities.

3. Save as disclosed herein, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the financial condition of the Issuer or the Guarantor since 31 December 2004 that is material in the context of the issue of the Preferred Securities.

4. For so long as any of the Preferred Securities are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:

(a) the By-Laws (*estatutos sociales*) of each of the Issuer and the Guarantor;

(b) the Public Deed of Issuance of the Preferred Securities;

(c) the Guarantee;

(d) the Paying Agency Agreement;

(e) the Liquidity Agreement.

5. For so long as any of the Preferred Securities are outstanding, copies of the following documents may be obtained free of charge during normal business hours at the Specified Office of each Paying Agent:

(a) the audited consolidated and unconsolidated financial statements of the Guarantor for the years ended 31 December 2002, 31 December 2003; and 31 December 2004,

(b) the latest published unaudited interim and audited year-end consolidated and unconsolidated financial statements of the Guarantor,

(c) the audited unconsolidated financial statements of the Issuer for the year ended 31 December 2004, and

(d) the latest published audited year-end unconsolidated financial statements of the Issuer.

6. The Guarantor publishes quarterly unaudited consolidated interim financial statements and semi-annually unconsolidated and consolidated interim financial statements. The Issuer will publish unconsolidated audited financial statements on an annual basis.

7. Deloitte, S.L. have audited the Guarantor's accounts in accordance with generally accepted auditing standards in Spain for the financial years ended 31 December 2004, 2003 and 2002. These auditors' reports were unqualified. KPMG Auditores, S.L. have audited the Issuer's accounts in accordance with generally accepted auditing standards in Spain for the first financial year ended 31 December 2004

8. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0221627135 and the common code is 022162713.

9. In connection with the application for the Preferred Securities to be listed on the Luxembourg Stock Exchange, copies of the constitutional documents of the Issuer and the Guarantor (together with English translations thereof) and a legal notice relating to the issue of the Preferred Securities will be deposited prior to listing with the *Registre de Commerce et des Sociétés à Luxembourg*, where they may be inspected and copies obtained upon request.

10. According to Chapter VI, article 3, point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange the securities shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

THE ISSUER THE GUARANTOR

Unión Fenosa Preferentes, S.A.
(Sociedad Unipersonal)
Avenida de San Luis, 77
28033 Madrid

Unión Fenosa, S.A.
Avenida de San Luis, 77
28033 Madrid

PRINCIPAL PAYING AGENT

JPMorgan Chase Bank, N.A.
Trinity Tower
9 Thomas More Street
London E1W 1YT

PAYING AGENT

J.P. Morgan Bank Luxembourg S.A.
6, route de Treves
L-2633 Senningerberg
Grand Duchy of Luxembourg

LUXEMBURG LISTING AGENT

J.P. Morgan Bank Luxembourg S.A.
6, route de Treves
L-2633 Senningerberg
Grand Duchy of Luxembourg

LEGAL ADVISERS

To the Managers
as to Spanish law
Uría&Menéndez
Jorge Juan, 6
28001 Madrid

To the Issuer and Guarantor as to
Spanish Law
J & A Garrigues
José Abascal 45
28003 Madrid

AUDITORS TO THE ISSUER

KPMG Auditores, S.L.

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

AUDITORS TO THE GUARANTOR

Deloitte, S.L.

Plaza Pablo Ruiz Picasso, 1
Edificio TorrePicasso
28046 Madrid