

BASE PROSPECTUS



IBERDROLA INTERNATIONAL B.V.

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

IBERDROLA FINANZAS, S.A.U.

(Incorporated with limited liability in the Kingdom of Spain)

Euro 20,000,000,000

Euro Medium Term Note Programme

Guaranteed by

IBERDROLA, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

Under the Guaranteed Euro Medium Term Note Programme (the **Programme**) described in this Base Prospectus (which replaces the Base Prospectus dated 27 July 2007 in respect of the Programme), Iberdrola International B.V. and Iberdrola Finanzas, S.A.U. (each an **Issuer** and together the **Issuers**) may from time to time issue notes (the **Notes**) subject to compliance with all relevant laws, regulations and directives. The payment of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by Iberdrola, S.A. (the **Guarantor**). The aggregate principal amount of Notes outstanding and guaranteed will not at any time exceed Euro 20,000,000,000 (or the equivalent in other currencies).

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities to approve this document as a base prospectus of each Issuer. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Such market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each issue of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer (including, if so agreed, the *AIAF Mercado de Renta Fija (AIAF)*). Iberdrola International B.V. (**Iberdrola International**) may also issue unlisted Notes. Iberdrola Finanzas, S.A.U. (**Iberdrola Finanzas**) may not issue unlisted Notes.

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

This document comprises a base prospectus of each of Iberdrola International and Iberdrola Finanzas, in each case, for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and for the purpose of giving information with regard to each Issuer, the Guarantor and the Notes which, according to the particular nature of each Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of each Issuer and the Guarantor.

The Programme has been rated A- by Standard & Poor's Ratings Services, a Division of the McGraw-Hill companies (**Standard & Poor's**), A3 by Moody's Investors Service Limited (**Moody's**), and A+ by Fitch Ratings (**Fitch**). Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its credit rating may not necessarily be the same as the credit rating applicable to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).

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

Arranger

Barclays Capital

Dealers

Banco Bilbao Vizcaya Argentaria, S.A.

BNP PARIBAS

Fortis Bank

ING Wholesale Banking

Santander Global Banking & Markets

Barclays Capital

CALYON Crédit Agricole CIB

HSBC

Morgan Stanley

The Royal Bank of Scotland

UBS Investment Bank

The date of this Base Prospectus is 4 September 2008

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

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

Potential Noteholders (as defined herein) are alerted to the statements under "Taxation and Disclosure of Noteholder Information" regarding the tax treatment in the Kingdom of Spain of income in respect of Notes issued by Iberdrola Finanzas and to the disclosure requirements imposed on the Guarantor relating to the identity of certain Noteholders. In particular, in the case of Notes issued by Iberdrola Finanzas, income in respect of the Notes will be subject to withholding tax if certain information regarding Noteholders is not received by the Guarantor as described herein.

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

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

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

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

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

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

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

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "Euro", "euro", "€" or "Eur" are to the single currency which was introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the treaty establishing the European Communities, as amended (the **Treaty**), to "U.S. Dollars" or "U.S.\$" are to the lawful currency of the United States of America, to "pounds sterling", "GBP" or "£" are to the lawful currency of the United Kingdom and to "Japanese yen", "yen" or "¥" are to the lawful currency of Japan.

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

Overview of the Programme

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

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004. Words and expressions defined in the "Form of Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this overview.

Issuers:	Iberdrola International B.V. (Iberdrola International) Iberdrola Finanzas, S.A.U. (Iberdrola Finanzas)
Guarantor:	Iberdrola, S.A. (the Guarantor)
Description:	Guaranteed Euro Medium Term Note Programme (the Programme).
Arranger:	Barclays Bank PLC, acting through its investment banking division, Barclays Capital.
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A., Barclays Bank PLC, acting through its investment banking division, Barclays Capital, BNP Paribas, CALYON, Fortis Bank nv-sa, HSBC Bank plc, ING Bank NV, Morgan Stanley & Co. International plc, Banco Santander, S.A., The Royal Bank of Scotland plc and UBS Limited. The relevant Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons which are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent:	The Bank of New York Mellon, London Branch.
Size:	Up to Euro 20,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Issuers and the Guarantor have the option, subject to the fulfilment of certain conditions, to increase the size of the Programme.
Constitution of Notes issued by Iberdrola Finanzas:	Notes issued by Iberdrola Finanzas will be constituted by virtue of a public deed to be executed and registered with the Mercantile Registry of Vizcaya on or prior to the issue date, if so required by Spanish law.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in Euro, U.S. dollars, Australian dollars, Canadian dollars, Danish krone, Hong Kong dollars, New Zealand dollars, Pounds

sterling, Swedish kronor, Swiss francs or Japanese yen or in other currencies if the relevant Issuer, the Guarantor and the Dealers so agree.

Maturities:

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

Specified Denomination:

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealers and as indicated in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the specified currency and save that (a) the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency); and (b) unless otherwise permitted by then current laws and regulations Notes which have a maturity of less than one year from their date of issue will have a minimum denomination of £100,000 (or its equivalent in another currency).

Method of Issue:

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

Form of Notes:

The Notes may be issued in bearer form only (**Bearer Notes**), in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) or in registered form only (**Registered Notes**). Bearer Notes may be issued in new global note (**NGN**) form. Unless otherwise specified in the Final Terms, each Tranche of Bearer Notes having an initial maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note which (a) in each case, will (i) if the Global Notes are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream

Banking, *société anonyme* (**Clearstream, Luxembourg**); and (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg, or (b) in the case of a Tranche intended to be cleared through a clearing system other than or in addition to Euroclear and Clearstream, Luxembourg or delivered outside a clearing system, as agreed between the relevant Issuer and the relevant Dealer. No interest will be payable in respect of a temporary Global Note except as described under "Summary of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System". Interests in temporary Global Notes will be exchangeable for interests in permanent Global Notes or, if so stated in the relevant Final Terms, for definitive Bearer Notes after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership or (in the case of Exchangeable Bearer Notes) definitive Registered Notes at any time after the issue date. If specified in the relevant Final Terms, interests in permanent Global Notes will be exchangeable for definitive Bearer Notes or (in the case of Exchangeable Bearer Notes) definitive Registered Notes as described under "Summary of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System". Registered Notes will be represented by certificates (each a **Certificate**), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes which are held in Euroclear and Clearstream, Luxembourg will be registered in the name of nominees for Euroclear and Clearstream, Luxembourg, or a common nominee for both, and the relevant Certificate(s) will be delivered to the appropriate depositary or, as the case may be, a common depositary.

Issue Price:	Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly-paid Notes may also be issued, the Issue Price of which will be payable in two or more instalments.		
Fixed Rate Notes:	Interest on Fixed Rate Notes will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.		
Floating Rate Notes:	Floating Rate Notes will bear interest set separately for each Series by reference to EURIBOR, LIBOR, LIBID or LIMEAN (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.		
Zero Coupon Notes:	Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.		
Variable Coupon Notes:	Coupon Amount	The Final Terms issued in respect of each issue of variable coupon amount Notes will specify the basis for calculating the amounts of interest payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant Final Terms.	
Interest Rates:	Periods and Interest	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All	

such information will be set out in the relevant Final Terms.

Variable Redemption Amount Notes:	The Final Terms issued in respect of each issue of variable redemption amount Notes will specify the basis for calculating the redemption amounts payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant Final Terms. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year from their date of issue must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes which are redeemable in two or more instalments will set out the date on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, dual currency Notes, reverse dual currency Notes, optional dual currency Notes, partly-paid Notes and any other type of Note which the relevant Issuer, and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the Noteholders and, if so, the terms applicable to such redemption.
Status of the Notes and the Deed of Guarantee:	The Notes and the guarantee in respect of them will constitute unsubordinated and unsecured obligations of the relevant Issuer and the Guarantor, respectively, all as described in "Terms and Conditions of the Notes — Status and Guarantee" of the relevant Issuer.
Negative Pledge:	The Notes will contain a negative pledge as more fully set out in "Terms and Conditions of the Notes — Negative Pledge" of the relevant Issuer. The negative pledge applies to Relevant Indebtedness of the Issuer, Guarantor and each Relevant Subsidiary (each as defined in the Conditions).
Cross Default:	The Notes will contain a cross default as more fully set out in "Terms and Conditions of the Notes — Events of Default" of the relevant Issuer. The cross default applies to any Relevant Indebtedness incurred by the Issuer, Guarantor or any Relevant Subsidiary which becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or Guarantor or which is not paid when due or within any applicable grace period provided that the aggregate amount of Relevant Indebtedness is equal to or exceeds €50,000,000 or its equivalent.
Rating:	The Programme has been rated A- by Standard & Poor's, A3 by Moody's, and A+ by Fitch. Notes issued under the Programme may be rated or unrated. Where an Issue of Notes is rated, its credit rating may not necessarily be the same as the credit rating applicable to the Programme. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Early Redemption: Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the relevant Issuer prior to maturity only for tax reasons.

Taxation (Notes issued by Iberdrola International): All payments of principal and interest in respect of the Notes and the Deed of Guarantee will be made free and clear of any withholding or deduction imposed by The Netherlands or the Kingdom of Spain, as the case may be, subject to customary exceptions, all as described in "Terms and Conditions of the Notes Issued by Iberdrola International — 8. Taxation" below.

Taxation (Notes issued by Iberdrola Finanzas): Payments in respect of Notes will be made free and clear of any withholding or deduction imposed by the Kingdom of Spain, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor will (subject to certain exceptions described below) pay such additional amounts as will result in receipt by the holder of any Note or Coupon of such amounts as would have been received by them had no such withholding or deduction been required.

In addition to certain customary exceptions, no such additional amounts shall be payable to: (a) individual Noteholders who are resident in Spain; (b) Noteholders in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such Noteholder's identity and tax residence as it may require in order to comply with Spanish law; and (c) Noteholders who are subject to corporation tax in Spain if currently held opinions of the Spanish Tax Authorities change (see "Terms and Conditions of the Notes issued by Iberdrola Finanzas — 8. Taxation" below and "Taxation and Disclosure of Noteholder Information — 2. Legal entities with Tax Residency in Spain" below).

Disclosure of Noteholder Information: Under Spanish law, the Guarantor is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity and tax residence of Noteholders in respect of listed Notes.

It is expected that the Issuers, the Guarantor, the Fiscal Agent, the common depositary for the Notes and the clearing systems will follow certain procedures to facilitate the collection of the above details from Noteholders. A summary of those procedures is set out in Schedule 9 to the Agency Agreement and should be read together with "Taxation and Disclosure of Noteholder Information". Such procedures may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations and the operational procedures of the clearing systems. Noteholders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of the Issuers, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars and the clearing systems assume any responsibility therefor.

If any clearing system is, in the future, unable or unwilling to assist with the collection of such information it may decline to clear the Notes through such clearing system and this may affect the liquidity of the Notes. In such circumstances, Notes which are represented by Global

Notes will be exchanged for definitive Notes (See "Summary of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System — 3. Exchange" below).

Governing Law (Notes issued by Iberdrola International): English law.

Governing Law (Notes issued by Iberdrola Finanzas): Save as described below, the Agency Agreement (excluding Part B of Schedule 3 (Pro Forma Regulations) which shall be governed by Spanish law), the Deed of Covenant, the Deed of Guarantee, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

The status of the Notes as described in Condition 3(a), the status of the Guarantee as described in Condition 3(b)(ii), the provisions of Condition 11 relating to the appointment of the Commissioner and the Regulations of the Syndicate of Noteholders are governed by, and shall be construed in accordance with, Spanish law.

Approval, listing and admission to trading: Application has been made to the CSSF to approve this document as a base prospectus of each Issuer. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Official List of the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets agreed between the relevant Issuer, the Guarantor and the relevant Dealer (including, if so agreed, AIAF). Iberdrola International may also issue unlisted Notes. Iberdrola Finanzas may not issue unlisted Notes. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Rule 144A: Offers and sales in accordance with Rule 144A under the Securities Act will be permitted if specified in the relevant Final Terms, subject to compliance with all relevant legal and regulatory requirements of the United States of America.

Selling Restrictions: United States, European Economic Area (in respect of Notes having a denomination of less than €50,000 (or its equivalent in any other currency as at the date of issue of the Notes)), The Netherlands, Spain and Japan. See "Subscription and Sale".

In connection with the offering and sale of a particular Tranche of Notes, additional selling restrictions may be imposed which will be set out in the relevant Final Terms.

Redenomination: The applicable Final Terms will indicate whether the relevant Issuer may elect that, with effect from the Redenomination Date specified therein, the Notes of that Tranche shall be redenominated in Euro.

Substitution: The relevant Issuer and the Guarantor may, subject to the fulfilment of certain conditions, substitute the relevant Issuer. See "Terms and Conditions of the Notes — Substitution of the Issuer" of the relevant Issuer.

RISK FACTORS

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

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

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

Factors that may affect each Issuer's ability to fulfil its obligations under Notes issued under the Programme

The Issuers have minimum share capital

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

Factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee

Business and market risks

The activities of the Iberdrola Group in Spain and the UK, which are the principal markets in which it operates, face various business risks, such as changes in consumer demand, volatility of hydro and wind power resources and other climate conditions. In addition, there are various market risks, such as the cost of fuel used in generating electrical energy, the price of carbon emission allowances and the market price for electricity.

Both in the Spanish market, where Iberdrola has its main operations, and in the UK, its second largest market since the acquisition of Scottish Power, the current mix in electricity generating facilities provides a significant natural range of different production technologies, which can mitigate the business and market risks associated with the production and sale of energy, and in particular the risk arising out of indexing used in the different trading contracts.

The surplus risk, due to fluctuations in products to which fuel is indexed, and exchange rate risk are mitigated through adequate diversification and management of supply contracts. These involve:

- (a) Price indexing, where possible, to indexes that replicate the income variations produced by demand;
- (b) Inclusion of review and renegotiation clauses that allow the prices to be adapted to the changes in the market.

Finally, the risk policies set limits for the resulting open positions, which are managed through hedging operations.

As regards the Mexican market, the Iberdrola Group does not face significant risks in the price of commodities, where key contracts are set up as pass-through contracts.

As regards the gas and electricity trading activities carried on by Iberdrola in other countries, limits have been established for open positions, both in relation to economic price and timeline.

It is worth mentioning that during the financial year 2007, in Spain, Iberdrola managed to keep its level of production fairly stable (down by 2.1 per cent.), compared to the same period in 2006, thanks to significant increases in hydro power production (up 17.7 per cent.) and wind power production (up 6.3 per cent.). These have offset lower thermal and nuclear production. All this took place under circumstances where electricity prices were low (down by 26 per cent.), which resulted mainly from low prices in carbon emission allowances. In the UK, production for the period from April to December remained stable (down by 0.5 per cent.) compared to the same period last year.

In the first half of 2008, it is important to note that there was a widespread increase in electricity prices across the markets where Iberdrola operates as a result of spiralling fuel prices (oil was up to US\$141.90 per barrel at the end of June 2008 (as compared with US\$79.40 at the end of June 2007), coal was up to US\$217.50 per tonne at the end of June 2008 (as compared with US\$80.00 at the end of June 2007)) and the price of carbon allowances, which had increased to EUR 23.97 per tonne at the end of June 2008 (from EUR 1.86 per tonne at the end of June 2007). In Spain this was coupled with a drop in hydro power resources (down by 27.7 per cent.) and a slight increase in demand of 2.4 per cent..

Regulatory risks

The companies in the Iberdrola Group are subject to a complex legal and regulatory framework for tariffs and other aspects of its activities in all the countries in which it operates. The introduction of new legislation and regulations or amendments to existing laws might have a negative impact on our operations, profits and financial position.

Operational risks

In all the Iberdrola Group activities and operations, direct or indirect losses may occur as a consequence of defective internal processes, technological failures, human error, or external events.

In the distribution business in particular, these risks may lead to power cuts, and in general, to a deterioration in the required quality of supply. These may, in turn, lead to administrative actions or sanctions, with the consequent impact on the Iberdrola Group's finances and reputation.

As regards Spain, it is worth mentioning the regulatory risk arising out of the significant pricing shortfall. Despite the fact that the shortfall is acknowledged by the Government in Spain and its recovery is guaranteed for the next few years, the very fact that the shortfall exists means that there is political pressure that could lead to legislation liable to have an adverse effect on this industry.

In 2007, the Spanish National Energy Commission calculated a shortfall of EUR 1.224 billion (liquidación 14) of which Iberdrola, S.A. has financed 35.01 per cent.. The final amount will be determined when the figures for regulated income and expenditure have been gathered, and this will be included in the

final payment. As energy prices are expected to be higher in 2008, the year's shortfall has been estimated by the Ministry of Industry, Tourism and Trade at EUR 4.750 billion for the entire sector.

Environmental risks

The activities of the companies in the Iberdrola Group are subject to a broad range of environmental laws and regulations that, among other things, require performance of environmental impact studies for future projects, applying for licences, permits and other prescriptive approvals, and compliance with the terms of such licences, permits and approvals.

It is worth noting that the Iberdrola facilities are subject to European Union directives on regulation of trading in carbon emission allowances and regulation of emissions of certain atmospheric pollutants from Large Combustion Plants.

- Iberdrola facilities in Spain, including combined heat and power plants, but excluding involvement in the Bay of Biscay and Tarragona Power plants, produced a shortfall in emission allowances in 2007 of 819,645 tonnes. At Scottish Power facilities, the shortfall in emission offsets came to 2,172,338 tonnes in 2007.
- In short, the overall position of the Company in this first period of operations in the trade in emission allowances (2005-2007) resulted in a shortfall of 8,233,684 tonnes. This has been covered by continual purchases in the market, allowing the position of Iberdrola and Scottish Power to be covered and enabling them to comply with established requirements.

As with other risks, it cannot be guaranteed that:

- The authorities will approve the environmental impact studies;
- The necessary licences, permits and approvals will be granted;
- Public opposition will not result in delays or modifications in proposed projects;
- Laws or regulations will not be modified or interpreted in such a way as to increase the cost of compliance or affect the projects, operations or investment plans.

Other environmental risks inherent to the activities of the Iberdrola Group are those arising from the management of residues, effluents, emissions and land in the company's installations, and those affecting biodiversity. Any of these risks may give rise to claims for damages and/or sanctions, with the consequent damage to the Iberdrola Group's image and reputation.

Furthermore, Iberdrola's nuclear power plants in Spain are subject to risks arising out of its operations for processing and storing low level radioactive materials. Laws and regulations in Spain limit the liability of nuclear power plant operators in the event of an accident. These limitations are consistent with international treaties ratified by Spain. Spanish legislation makes provision for a maximum liability of EUR 150.3 million for claims relating to a single nuclear accident. The potential liability from our involvement in nuclear power plants is fully covered by liability insurance of up to EUR 150.3 million. Despite the new law on civil liability for damages relating to nuclear power, these figures might increase significantly as a result of Spain ratifying the Paris convention.

Risks associated with new investments

All investments are subject to a range of market, credit, commercial, regulatory, operational and other risks, which may affect the profitability of the project.

During the investment implementation phase, the most important risks are associated with the construction of new energy generation installations, particularly combined-cycle plants and wind farms, which are lengthy and sometimes complex projects.

Among the risks that could affect our capacity to build these facilities, it is worth noting the following, among others:

- Delays in obtaining permits and approvals, including environmental permits;
- Variations in the price of equipment, materials and labour;
- Opposition to the project from political, social or ethnic groups;
- Adverse changes in the political or regulatory climate during construction;
- Adverse weather conditions that could delay project completion;
- Natural disasters, accidents and other unforeseen events
- Inability to secure financing at satisfactory rates

Any of these risks might cause delays in completing construction or in operation start-up, and consequently increase the costs. If the Iberdrola Group fails to suitably manage such projects, it may not be possible to recover the additional expenditure.

Risks associated with business outside Spain and the UK

- To a greater or lesser degree, depending on their nature, all activities of the Iberdrola Group outside Spain and the UK are also exposed to the above risks (climate, demand, regulations, price of fuel and energy, environment, etc.). There are also other kinds of risks inherent to the country where activities are carried out:
- Changes in regulatory framework or political administration in the country;
- Imposition of monetary and other restrictions on the movement of capital;
- Changes in the commercial climate;
- Economic crises, political instability and social unrest affecting activities;
- State expropriation of assets;
- Exchange rate fluctuations.

All these risks could affect the results and market values for Iberdrola's international subsidiaries, as well as the transfer of results to the consolidated accounts.

Financial risks

In the normal course of operations, Iberdrola is exposed to financial risks represented by interest rate and exchange rate fluctuations, which, if not managed adequately, may have a significant impact on the company's results and financial situation.

Interest rate risk

A number of balance sheet items and associated financial derivatives carry fixed interest rates and are therefore subject to variations in reasonable value as a result of changes in the market interest rate. The Iberdrola Group also incurs a risk with regard to balance sheet items and derivatives carrying variable interest rates, in that variations in the market will affect cash flows.

Exchange rate risk

Exchange rate fluctuations, affecting the currency in which debt is held and in which purchases and sales are made, may have a negative effect on financial expenditure and on results.

The following items may be affected by exchange rate risks:

- Debt in currencies other than the local or functional currency used by companies in the Iberdrola Group.
- Charges and payments for supplies, services or investments in currencies other than the functional currency.
- Income and expenditure by foreign subsidiaries indexed in currencies other than the functional currency.
- Taxes arising from accounting for tax purposes in currencies other than the functional currency.

Even so, there is a risk implied in the transfer of results for overseas subsidiaries, arising from exposure to adverse currency movements against the euro. This is mitigated by management of this risk with the rest of the Iberdrola Group currency positions.

Liquidity risk

Exposure to adverse events in the debt or capital markets may hinder or prevent the raising of adequate finance for the activities of the Iberdrola Group. The liquidity policy applied by Iberdrola is aimed at ensuring compliance with payment undertakings without having to resort to obtaining funds on less than favourable terms.

Credit risk

Iberdrola is exposed to the credit risk implied by default on the part of a counterparty (customer, provider, partner or financial entity), which might have an impact on results and on the financial situation of the Iberdrola Group. This risk is not significant as the average period for payment from customers is short and risk policies impose limits both on the time frame of open positions and creditworthiness of the counterparties in financial operations.

Risks associated with the Energy East integration agreement

The Boards of Directors of Iberdrola and Energy East, which met on 25 June 2007 in Madrid and New York, respectively, agreed to integrate Energy East into the Iberdrola Group, whereby Iberdrola would acquire a 100 per cent. stake in Energy East. In order to bring about this amicable acquisition, each Energy East share is valued at US\$28.50, giving Energy East an approximate market capitalisation value of US\$4.5 billion, which, added to debt of US\$4 billion, represents a company valuation of US\$8.5 billion.

As of 3 September 2008, the New York State Public Service Commission (the **Commission**) (the relevant regulatory body in the state of New York) voted to authorise the acquisition of Energy East Corporation and its affiliates by Iberdrola subject to certain conditions designed to establish and reaffirm ratepayer protection and set forth service quality performance incentives. Iberdrola is required to file a written statement of acceptance of the Commission's order before any closing of the proposed acquisition. Completion of the operation now is only dependent upon Iberdrola's acceptance of the above mentioned conditions.

During the acquisition, Iberdrola must meet a series of costs associated with this type of operation. If the acquisition is not finally completed, this could lead to the Iberdrola Group suffering a loss.

Additional Risk Factors relating to acquisitions

Ability of Iberdrola to integrate Energy East and other acquisitions

The integration of Iberdrola and Energy East operations could be affected by risks such as a loss of momentum in activities, a loss of key personnel, damaged relationships with customers and employees, and other unforeseen difficulties. In addition, synergies may be obtained at a level other than that predicted.

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

The Notes may not be a suitable investment for all investors

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

There is no active trading market for the Notes

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

admitted or that an active trading market will develop. Accordingly, there can be no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the relevant Issuer

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

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

Index Linked Notes and Dual Currency Notes

The relevant Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the relevant Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The relevant Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

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

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

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

Modification, waivers and substitution

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

Risk relating to the Commissioner

The Noteholders of each Series of Notes issued by Iberdrola Finanzas form a Syndicate, which is represented by a Commissioner. Meetings of the Syndicate, duly convened, are empowered, *inter alia*, to protect the interests of Noteholders as against the Issuer, appoint or substitute the Commissioner, undertake any judicial actions against the Issuer and approve the expenses incurred in the protection of the Noteholders' interests. The Commissioner is the chairman and the legal representative of the Syndicate and may bring or take any actions he considers appropriate to protect the interests of Noteholders. The details of the initial Commissioner appointed in respect of a Series of Notes will be set out in the applicable Final Terms and shall be appointed in the Public Deed (*Escritura de Emisión*) (to the extent a Public Deed is required, or, if not required, in another document). The Issuer intends that the initial Commissioner will be an employee of the Group. Noteholders should be aware of the potential conflicts of interest that the Commissioner may face in his capacities as representative of the Syndicate and as employee of a member of the Group. Since the Syndicate is able to substitute the Commissioner, it may be possible to resolve any such conflicts by appointing a third party (who may be a Noteholder) to act as Commissioner. However, there is no assurance that (a) a third party would be willing to act as Commissioner or (b) if a third party was willing to act, the third party would not require payment of certain fees and expenses before agreeing to so act.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Each of the Issuers is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

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

Risks relating to the Spanish withholding tax regime

Under Spanish law, the Guarantor is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity and tax residence of Noteholders and the amount of interest received by such Noteholders in respect of listed Notes. Euroclear and Clearstream, Luxembourg (the **European ICSDs**) have established procedures to assist entities in complying with the reporting obligations required by Spanish tax law and regulations and to enable Noteholders to obtain a refund of amounts withheld on interest payments. These procedures were implemented by the European ICSDs in response to certain tax rulings made by the Spanish tax authorities (Consultas V 2050-07, V 2051-07, V 0175-08 and V 0179-08). The procedures which the Issuers and other parties expect to follow are stipulated in the global tax procedures published by the European ICSDs, which are also described in the Agency Agreement. In this regard, Noteholders should

also consult announcements in relation to these global tax procedures published on a periodic basis on the websites of the European ICSDs (www.Euroclear.com, www.Clearstream.com).

Risks that payments will be made subject to withholding tax

Under Spanish law, income in respect of Notes issued by Iberdrola Finanzas will be subject to withholding tax in Spain, currently at the rate of 18 per cent., in relation to payments to (a) individual holders who are resident in Spain and (b) holders in respect of whom Iberdrola Finanzas or the Guarantor do 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 Law 13/1985 of 25 May on investment ratios, capital adequacy and information requirements for financial intermediaries, as amended (**Law 13/1985**) and any implementing legislation. Neither Iberdrola Finanzas nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases.

Possible withholding tax to certain Spanish investors in respect of listed Notes initially placed in Spain

In accordance with Section 59(s) of the Corporate Income Tax Regulations, there is no obligation to make a withholding on income obtained by Spanish Corporate Income Tax payers (which, for the sake of clarity, includes Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Where Notes issued by Iberdrola Finanzas are admitted to trading on the regulated market of the Luxembourg Stock Exchange, they will, upon admission to trading, fulfil the requirements legally established for the application of the withholding tax exemption.

The General Directorate for Taxation (*Dirección General de Tributos*), on 20 July 2004, issued a tax ruling indicating that in the case of issues made by entities resident in Spain, as in the case of Iberdrola Finanzas, application of the exemption requires that, in addition to being traded on organised markets in OECD countries the Notes be placed outside Spanish territory in another OECD country. Iberdrola Finanzas intends to require the relevant Dealers to place the Notes outside Spain in the primary market. Consequently, Iberdrola Finanzas will not make any withholding on distributions to Spanish Corporate Income Tax payers that provide the relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, Iberdrola Finanzas will be bound by that opinion and will, with immediate effect, make the appropriate withholding and Iberdrola Finanzas will not, as a result, be under any obligation to pay additional amounts.

Risks relating to procedures for collection of holders' details

Noteholders should be aware that the procedures established by the European ICSDs may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations and the operational procedures of the European ICSDs or in the event that the relevant Notes are not bearer Notes in global form which are held by the Fiscal Agent in its capacity as Common Depositary or, as the case may be, Common Safekeeper for Euroclear and Clearstream, Luxembourg, and, in such circumstances, the parties undertake to use their best endeavours to revise the procedures and, if required by the relevant Issuer, ensure that relevant Noteholders are made aware of such revised procedures. Any revision to the procedures agreed by the relevant Issuer and Fiscal Agent shall be binding on all parties. Noteholders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of the Issuers, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrar and the European ICSDs assumes any responsibility therefor.

Risks arising under the Spanish Insolvency Law

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

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

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

The following persons may be considered especially related to Iberdrola Finanzas and/or the Guarantor:

- (a) shareholders holding 5 per cent. or more of the Guarantor's share capital or 10 per cent. or more of Iberdrola Finanzas's share capital;
- (b) actual or shadow directors (including those who acted as such in the two years leading up to the declaration of insolvency); and
- (c) members of the same group of companies as Iberdrola Finanzas and/or the Guarantor and their shareholders.

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

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

Risk of Noteholders' claims being subordinated as a result of Guarantee

The claims of creditors who benefit from a guarantee may be subordinated on insolvency. Under Article 87.6 of the Spanish Insolvency Law, the classification of such creditors' claims against the debtor is equivalent to the least onerous between those of the guarantor and those of the creditor. Since Iberdrola Finanzas is a wholly owned subsidiary of the Guarantor, the claims of the Guarantor in Iberdrola Finanzas's insolvency will be subordinated and, as a result, Noteholders' claims against Iberdrola Finanzas may also be classified as subordinated. This risk is mitigated by the fact that Iberdrola Finanzas is a special purpose vehicle whose only activity relates to the issue of Notes under the Programme and so excluding Noteholders, has few creditors. Furthermore, certain first instance decisions support the view that the claims of Noteholders should not be classified as subordinated by virtue of Article 87.6 of the Spanish Insolvency Law. This provision of the Spanish Insolvency Law would not affect Noteholders' claims against the Guarantor; even if their claims against Iberdrola Finanzas were reclassified as subordinated on Iberdrola Finanzas's insolvency, the payment obligations of the Guarantor under the Guarantee would continue to be classified as ordinary debts in the event of the Guarantor's insolvency.

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditors report and audited non-consolidated annual financial statements of Iberdrola International for the financial year ended 31 December 2007;
- (b) the auditors report and audited non-consolidated annual financial statements of Iberdrola International for the financial year ended 31 December 2006;
- (c) the auditors report and audited non-consolidated financial statements of Iberdrola Finanzas, S.A.U. for the financial year ending 31 December 2007;
- (d) the auditors report and audited non-consolidated financial statements of Iberdrola Finanzas, S.A.U. for the period from the date of its incorporation (16 February 2005) to 31 December 2006;
- (e) the auditors report and audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2007;
- (f) the auditors report and audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2006; and
- (g) the unaudited consolidated interim financial statements of the Guarantor for the six months ended 30 June 2008.

The information set out in the table below, which is required by Commission Regulation (EC) No. 809/2004, of 29 April 2004, is contained in the documents incorporated by reference:

<i>Information incorporated by reference</i>	<i>Page number</i>
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Iberdrola International B. V.

Annual report for 2007

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Annual report for 2006

Audit report	14-15
Profit and loss account	5
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Iberdrola Finanzas, S.A.U.

Annual report for 2007

Audit report	i
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Annual Report for 2006

<i>Information incorporated by reference</i>	<i>Page number</i>
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Iberdrola, S.A.

Annual report for 2007

Audit report	i
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Annual report for 2006

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Interim report for first half-year 2008

Income statement	5
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<i>Report on limited review of the interim condensed consolidated financial statements for first half-year 2008</i>	1-3
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Any information not listed in the cross reference table above but included in the documents incorporated by reference is given for information purposes only.

Copies of documents incorporated by reference in this Base Prospectus are available, free of charge, from the registered office of the Issuers, the registered office of the Guarantor and from the specified offices of the Paying Agents for the time being in London and Luxembourg.

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

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

TERMS AND CONDITIONS OF THE NOTES ISSUED BY IBERDROLA INTERNATIONAL

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

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

The euro medium term notes (the **Notes**) are issued pursuant to an amended and restated agency agreement (as amended or supplemented from time to time, the **Agency Agreement**) dated 4 September 2008 between Iberdrola Finanzas, S.A.U., Iberdrola International B.V. (the **Issuer**), Iberdrola, S.A. (the **Guarantor**), The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**), paying agent and transfer agent, The Bank of New York (Luxembourg) S.A. as paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the **Paying Agents**, and each a **Paying Agent**) and as transfer agent (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the **Transfer Agent**) and The Bank of New York Mellon, London Branch as registrar (the **Registrar**) and with the benefit of a deed of covenant (the **Deed of Covenant**) dated 4 September 2008 executed by the Issuer in relation to the Notes. The Guarantor has, for the benefit of the Noteholders from time to time, executed and delivered a deed of guarantee (the **Deed of Guarantee**) dated 27 July 2007 under which it has guaranteed the due and punctual payment of all amounts due by the Issuer and Iberdrola Finanzas, S.A.U. under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The Noteholders (as defined below), the Holders of the interest coupons (the **Coupons**) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) and the Holders of the instalment receipts (the **Receipts**) appertaining to the payment of principal by instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them. As used in these Conditions, **Tranche** means Notes which are identical in all respects. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. Form, Specified Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**, which expression includes Notes which are specified to be Exchangeable Bearer Notes), in registered form (**Registered Notes**) or in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) in each case in the Specified Denomination(s) and in the Specified Currency shown in the relevant Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

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

Bearer Notes are issued with Coupons (and, where appropriate, a Talon or Talons) attached, save in the case of Notes which do not bear interest, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupon and Talons in these Conditions are not applicable. Any Bearer Note the principal amount of which is redeemable in instalments is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (**Certificates**), each Certificate representing a holding of one or more Registered Notes by the same Holder.

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

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

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

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

(a) Exchange of Exchangeable Bearer Notes

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

(b) Transfer of Registered Notes

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

a new Certificate representing the enlarged holding shall only be issued against surrender to the Transfer Agent of the Certificate representing the existing holding.

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

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

(d) Delivery of new Certificates

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

(e) Exchange free of charge

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

(f) Closed periods

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

(g) Restricted Securities

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

purchaser of such Note from such Holder, in each case upon request, the information specified in and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

3. Status and Guarantee

(a) Status of Notes

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

(b) Guarantee

- (i) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes, Receipts and Coupons on an unsubordinated basis.
- (ii) The obligations of the Guarantor in respect of Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions) rank *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect (the **Guarantee**) are contained in the Deed of Guarantee.

4. Negative Pledge

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

- (i) neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) (other than Permitted Security) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of or, indemnity in respect of, any Relevant Indebtedness;
- (ii) each of the Issuer and the Guarantor will procure that no other person creates or permits to subsist any Security (other than Permitted Security) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (A) any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Guarantor, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Guarantor or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the Guarantor (which is not the Issuer or a Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect, of any such Relevant Indebtedness; and
- (iii) each of the Issuer and the Guarantor will procure that no person other than the Guarantor gives any guarantee of, or indemnity in respect of, any of its Relevant Indebtedness,

unless, at the same time or prior thereto, the Issuer's obligations under the Notes, Receipts and Coupons or, as the case may be, the Guarantor's obligations under the Guarantee (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical

terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

(b) For the purposes of these Conditions

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

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

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

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

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

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

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

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

(b) Interest on Floating Rate Notes and Index Linked Notes

(i) Interest Payment Dates

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

(ii) Business Day Convention

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

(iii) Rate of Interest for Floating Rate Notes

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

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A)0, **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the relevant Final Terms;
- (y) the Designated Maturity is a period specified in the relevant Final Terms; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms;

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

(B) Screen Rate Determination for Floating Rate Notes

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

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

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

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the relevant Final Terms:

- (y) if the Relevant Screen Page is not available or, if sub paragraph (B)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (B)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the

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

(iv) Rate of Interest for Index Linked Interest Notes

The Rate of Interest in respect of Index Linked Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified in the relevant Final Terms.

(c) Interest on Zero Coupon Notes

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

(d) Interest on Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

(e) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the relevant Final Terms.

(f) Accrual of Interest

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

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

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.
- (ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes **unit** means, with respect to any currency other than Euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to Euro, means 0.01 Euro.

(h) Calculations

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

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

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quote or make any determination or calculation, determine the Rate of Interest and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, the Optional Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes which is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange or other relevant authority and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such

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

(j) Definitions

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

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

- (i) if **Actual/Actual** or **Actual/Actual(ISDA)** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **Actual/365 (Fixed)** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if **Actual/360** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;
- (iv) if **30/360**, **360/360** or **Bond Basis** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

- "Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;
- "Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- "M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
- "M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

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

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Final Terms.

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

Relevant Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or
- (ii) in the case of euro, a day on which the TARGET2 System is operating; and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is specified, generally in each of the Business Centres so specified.

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

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

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

(k) Calculation Agent

The Issuer will procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Period or to

calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, each Note will be redeemed at its Final Redemption Amount (which, unless otherwise provided in the relevant Final Terms, is its principal amount) on the Maturity Date specified on each Note.

(b) Redemption for taxation reasons

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

(c) Purchases

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

(d) Early Redemption of Zero Coupon Notes

- (i) The Early Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(b) or upon it becoming due and payable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note.
- (ii) Subject to the provisions of sub-paragraph (iii) below the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their Issue Price on the Issue Date) compounded annually. Where such calculation is to be made for a

period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.

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

(e) Redemption at the Option of the Issuer

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

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

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

(f) Redemption at the Option of the Noteholder

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

To exercise such option the Holder must deposit such Note with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or

any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Note shall be reduced by the Instalment Amount for all purposes.

(h) Cancellation

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

(i) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the relevant Final Terms.

(k) Other Notes

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

7. Payments and Talons

(a) Bearer Notes

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

(b) Registered Notes

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final instalment Amounts) on Registered Notes will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the Holder (or to the first named of joint Holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the Holder to the specified office of the Registrar or any Transfer Agent before, the Record Date and subject as provided in Condition 7(a) above, such payment of interest may be made by transfer to an account in the specified currency designated by the Holder with a bank in the principal financial centre of the country of that currency.

(c) Payments in the United States

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

(d) Payments Subject to Law, etc

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

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

required by any other stock exchange on which the Notes may be listed and (viii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

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

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

(f) Unmatured Coupons and Receipts and unexchanged Talons

- (i) Upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), should be surrendered for payment together with all unmaturing Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount then due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

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

(h) Non-Business Days

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

- (i) a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business: (A) in, as regards Bearer Notes, the relevant place of presentation, and (B) in such jurisdictions as shall be specified as **Financial Centres** in the relevant Final Terms; and
- (ii) (A) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the specified currency, on which foreign exchange transactions may be carried on in the specified currency in the principal financial centre of the country of such currency; or (B) (in the case of a payment in Euro) where payment is to be made by payment to an account, a day on which the TARGET2 System is operating.

(i) Redenomination, Renominalisation and Reconventioning:

- (i) *Application:* This Condition 7 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.
- (ii) *Notice of redenomination:* If the country of the Specified Currency becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders, Receiptholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the **Redenomination Date**), being an Interest Payment Date under the Notes falling on or after the date on which that country becomes a Participating Member State.
- (iii) *Redenomination:* Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
 - (a) the Notes shall be deemed to be redenominated into Euro in the specified denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however, that*, if the Issuer determines, with the agreement of the Fiscal Agent that market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, Receiptholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

- (b) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the **Euro Exchange Date**) on which the Issuer gives notice (the **Euro Exchange Notice**) to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 7) shall remain in full force and effect;
- (c) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (d) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with a bank in a city in a country in which banks have access to the TARGET2 System.
- (iv) *Interest*: Following redenomination of the Notes pursuant to this Condition 7, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.
- (v) *Interpretation*: In this Condition:

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

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

8. Taxation

(a) Additional Amounts

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

the respective amounts of principal and interest which would have been received in respect of the Notes, Receipts or (as the case may be) Coupons, in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to any payment in respect of any Note, Receipt or Coupon or (as the case may be) under the Deed of Guarantee:

- (i) to, or to a third party on behalf of, a Holder of a Note or Coupon who is liable for taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Kingdom of Spain other than the mere holding of the Note, Receipt or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder thereof would have been entitled to such additional amounts on presenting the same for payment on the thirtieth such day; or
- (iii) in respect of any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Notes to comply with a request of the Issuer, or the Guarantor addressed to the Holder or the beneficial owner of the Notes (a) to provide information concerning the nationality, residence, identity or connection with a Taxing Authority of the Holder or such beneficial owner or (b) to make any declaration or other similar claim to satisfy any information or reporting requirement, which in the case of (i) or (ii), is required or imposed by a statute, treaty, regulation or administrative practice of the Taxing Authority as a precondition to exemption from all or part of such tax assessment or other governmental charge, in each case, within any applicable time limits as may from time to time be imposed by such statute, treaty, regulation, or administrative practice;
- (iv) presented for payment in the Kingdom of Spain;
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (vi) presented for payment by or on behalf of a Holder of a Note or Coupon who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (vii) where such withholding or deduction is imposed on a payment to an individual resident of Luxembourg pursuant to the Luxembourg Law dated 23 December 2005 introducing a withholding tax in full discharge of income tax on certain interest income.

See "Taxation and Disclosure of Noteholder Information" for a description of certain disclosure requirements imposed on the Guarantor relating to the identity of certain Noteholders in the event of an issue of listed Notes by the Issuer.

(b) Tax Credit Payment

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

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

(c) Tax Credit Clawback

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

(d) Tax Affairs

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

(e) Definitions

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

9. Prescription

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

10. Events of Default

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

- (a) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent by any Noteholder; or
- (c) *Cross-Default*: (i) any Relevant Indebtedness (A) incurred by the Issuer or the Guarantor or any Relevant Subsidiary on or after 27 July 2007 or (B) incurred by the Issuer or the Guarantor or any Relevant Subsidiary before 27 July 2007 otherwise than as a result of the occurrence of an Event of Default in respect of a Subsidiary which is not a Relevant Subsidiary, becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or, as the case may be, the Guarantor, or (ii) any Relevant Indebtedness of the Issuer or of the Guarantor or of any Relevant Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Relevant Indebtedness provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €50,000,000 or its equivalent in other currencies; or
- (d) *Enforcement Proceedings*: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or
- (e) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (f) *Insolvency, etc*: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent (including bankrupt — *failliet* — or in moratorium of payments — *surséance van betaling*) or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it, (iv) the entry of a decree, judgment or order by a court having jurisdiction adjudging the Issuer to be in a situation requiring special

measures (*bijzondere voorzieningen*) in the interest of all creditors as referred to in Chapter X of the Act on the Supervision of Credit Institutions 1992 (*Wet toezicht Kredietwezen 1992*) or (v) any other proceeding is commenced which requires the application of priorities provided by any applicable Spanish laws; or

- (g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution (*ontbinding*) or administration of the Issuer or the Guarantor or any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or the Guarantor or another Relevant Subsidiary or (iii) to comply with any mandatory requirements set forth by any regulation, directives or rules issued by the Spanish government or the relevant administrative authority in connection with the reorganisation of the Spanish electricity sector; or
- (h) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of The Netherlands or the Kingdom of Spain is not taken, fulfilled or done; or
- (i) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or
- (j) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs including, but not limited to, *concurso*; or
- (k) *Guarantee*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (l) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Relevant Subsidiaries.

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

11. Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interest, including modification by Extraordinary Resolution of the Notes

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

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

(b) Modification of Agency Agreement

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

12. Replacement of Notes, Certificates, Receipts, Coupons and Talons

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

13. Further Issues

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

14. Notices

Notices to the Holders of Registered Notes will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. With respect to Registered Notes listed on the Luxembourg

Stock Exchange (so long as such Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange and the rules of that exchange so require), any notices must also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

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

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

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

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

15. Substitution of the Issuer

- (a) The Issuer and the Guarantor may at any time, without the consent of the Noteholders or the Couponholders, substitute for such Issuer any company which is wholly-owned by the Guarantor (the **Substitute**) upon notice by such Issuer, the Guarantor and the Substitute to be given in accordance with Condition 14 and, in the case of Notes listed on the Luxembourg Stock Exchange, to such exchange, provided that:
 - (i) no Event of Default has occurred in respect of the Notes;
 - (ii) no payment in respect of the Notes, the Receipts or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;
 - (iii) the Substitute shall, by means of a deed poll in the form scheduled to the Agency Agreement as Schedule 8 (the **Deed Poll**), agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;

- (iv) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;
 - (v) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;
 - (vi) the Substitute shall have become party to the Agency Agreement with any appropriate consequential amendments, as if it had been an original party to it;
 - (vii) legal opinions shall have been delivered to the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (iii) above, in Spain and in England as to the fulfilment of the requirements of this Condition 15 and the other matters specified in the Deed Poll and that the Notes, Receipts, Coupons and Talons are legal, valid and binding obligations of the Substitute;
 - (viii) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be listed on such stock exchange;
 - (ix) Standard & Poor's and/or Moody's and/or Fitch, as the case may be, shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected;
 - (x) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings in the courts of England arising out of or in connection with the Notes; and
 - (xi) in the case of Notes listed on the Luxembourg Stock Exchange, a prospectus supplement is filed with such exchange.
- (b) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Agency Agreement.
 - (c) After a substitution pursuant to Condition 15(a), the Substitute may, without the consent of any Noteholder, effect a further substitution. All of the provisions specified in Conditions 15(a) and 15(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.
 - (d) After a substitution pursuant to Conditions 15(a) or 15(c) any Substitute may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.
 - (e) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.

16. Currency Indemnity

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

17. Governing Law and Jurisdiction

(a) Governing Law

The Notes, the Receipts, the Coupons and the Talons and all matters arising from or connected therewith, including any non-contractual obligations arising from or connected therewith, are governed by and shall be construed in accordance with, English law.

(b) English courts

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

(c) Appropriate forum

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

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

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

(e) Process Agent

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Iberdrola Engineering and Construction UK Ltd., Wellington House, Suite 8, Starley Way, Birmingham

International Park, Solihull B37 7HE or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

18. Rights of Third Parties

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

TERMS AND CONDITIONS OF THE NOTES ISSUED BY IBERDROLA FINANZAS

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

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

The euro medium term notes (the **Notes**) are issued pursuant to an amended and restated agency agreement (as amended or supplemented from time to time, the **Agency Agreement**) dated 4 September 2008 between Iberdrola International B.V., Iberdrola Finanzas, S.A.U. (the **Issuer**), Iberdrola, S.A. (the **Guarantor**), The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**), paying agent and transfer agent, The Bank of New York (Luxembourg) S.A.] as paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the **Paying Agents**, and each a **Paying Agent**) and as transfer agent (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the **Transfer Agent**) and The Bank of New York Mellon, London Branch as registrar (the **Registrar**) and with the benefit of a deed of covenant (the **Deed of Covenant**) dated 4 September 2008 executed by the Issuer and Iberdrola International B.V. in relation to the Notes. The Guarantor has, for the benefit of the Noteholders from time to time, executed and delivered a deed of guarantee (the **Deed of Guarantee**) dated 27 July 2007 under which it has guaranteed the due and punctual payment of all amounts due by the Issuer and Iberdrola International B.V. under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The Issuer will, if so required by Spanish law, execute a public deed (the **Public Deed**) before a Spanish notary public in relation to the Notes and will register such Public Deed with the Mercantile Registry of Vizcaya on or prior to the issue date of the Notes. The Public Deed shall contain, among other information, the terms and conditions of the Notes.

The Noteholders (as defined below), the Holders of the interest coupons (the **Coupons**) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) and the Holders of the instalment receipts (the **Receipts**) appertaining to the payment of principal by instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them. As used in these Conditions, **Tranche** means Notes which are identical in all respects. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. Form, Specified Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**, which expression includes Notes which are specified to be Exchangeable Bearer Notes), in registered form (**Registered Notes**) or in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) in each case in the Specified Denomination(s) and in the Specified Currency shown in the relevant Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

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

Bearer Notes are issued with Coupons (and, where appropriate, a Talon or Talons) attached, save in the case of Notes which do not bear interest, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupon and Talons in these Conditions are not applicable. Any Bearer Note the principal amount of which is redeemable in instalments is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (**Certificates**), each Certificate representing a holding of one or more Registered Notes by the same Holder.

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

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

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

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

(a) Exchange of Exchangeable Bearer Notes

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

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred together with the form of transfer endorsed on such Certificate duly completed and executed, at the specified office of the Registrar or any Transfer

Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate in respect of the balance not transferred will be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a Holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender to the Transfer Agent of the Certificate representing the existing holding.

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

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

(d) Delivery of new Certificates

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

(e) Exchange free of charge

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

(f) Closed periods

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

(g) Restricted Securities

For so long as any Registered Note is outstanding and is a "*restricted security*" (as defined in Rule 144(a)(3) under the United States Securities Act of 1933 (as amended) (the **Securities Act**)) and during any period in relation thereto during which it is neither subject to Sections 13 or 15(d) of the

United States Exchange Act of 1934 (as amended) (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, the Issuer and the Guarantor will make available on request to each Holder of such Note in connection with any resale thereof and to any prospective purchaser of such Note from such Holder, in each case upon request, the information specified in and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

3. Status and Guarantee

(a) Status of Notes

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

(b) Guarantee

- (i) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes, Receipts and Coupons on an unsubordinated basis.
- (ii) The obligations of the Guarantor in respect of Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions) rank *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect (the **Guarantee**) are contained in the Deed of Guarantee.

4. Negative Pledge

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

- (i) neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) (other than Permitted Security) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of, or indemnity in respect of, any Relevant Indebtedness;
- (ii) each of the Issuer and the Guarantor will procure that no other person creates or permits to subsist any Security (other than Permitted Security) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (A) any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Guarantor, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Guarantor or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the Guarantor (which is not the Issuer or a Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect of, any such Relevant Indebtedness; and
- (iii) each of the Issuer and the Guarantor will procure that no person other than the Guarantor gives any guarantee of, or indemnity in respect of, any of its Relevant Indebtedness,

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

(b) For the purposes of these Conditions

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

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

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

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

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

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

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

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

(b) Interest on Floating Rate Notes and Index Linked Notes

(i) Interest Payment Dates

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

(ii) Business Day Convention

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

(iii) Rate of Interest for Floating Rate Notes

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

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph 0, **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

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

- (y) the Designated Maturity is a period specified in the relevant Final Terms; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

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

(B) Screen Rate Determination for Floating Rate Notes

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

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

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

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the relevant Final Terms:

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

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

(iv) Rate of Interest for Index Linked Interest Notes

The Rate of Interest in respect of Index Linked Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified in the relevant Final Terms.

(c) Interest on Zero Coupon Notes

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

(d) Interest on Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

(e) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the relevant Final Terms.

(f) Accrual of Interest

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

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

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.
- (ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes **unit** means, with respect to any currency other than Euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to Euro, means 0.01 Euro.

(h) Calculations

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

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

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

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

(j) Definitions

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

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

- (i) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **Actual/365 (Fixed)** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if **Actual/360** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;
- (iv) if **30/360**, **360/360** or **Bond Basis** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

- "M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- "D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and
- "D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and
- (vii) if **Actual/Actual (ICMA)** is specified in the relevant Final Terms:
- (a) where the Calculation Period is equal to or shorter than the Determination Period during which it falls, the actual number of days in the Calculation Period divided by the product of (A) the actual number of days in such Determination Period and (B) the number of Determination Periods in any year;
 - (b) where the Calculation Period is longer than one Determination Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the actual number of days in such Determination Period and (2) the number of Determination Periods in any period of one year; and
 - (B) the actual number of days in such Calculation Period falling in the Determination Period divided by the product of (1) the actual number of days in such Determination Period and (2) the number of Determination Periods in any period of one year,

where:

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

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

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

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

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

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

Interest Determination Date means, with respect to an Interest Rate and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of

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

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

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

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

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

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Final Terms.

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

Relevant Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or
- (ii) in the case of euro, a day on which the TARGET2 System is operating; and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is specified, generally in each of the Business Centres so specified.

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

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

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

(k) Calculation Agent

The Issuer will procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent

performing its duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, each Note will be redeemed at its Final Redemption Amount (which, unless otherwise provided in the relevant Final Terms, is its principal amount) on the Maturity Date specified on each Note.

(b) Redemption for taxation reasons

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

(c) Purchases

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

(d) Early Redemption of Zero Coupon Notes

- (i) The Early Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(b) or upon it becoming due and payable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised

Face Amount equal to the issue price of the Notes if they were discounted back to their Issue Price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.

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

(e) Redemption at the Option of the Issuer

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

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

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

(f) Redemption at the Option of the Noteholder

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

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

(g) Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Note shall be reduced by the Instalment Amount for all purposes.

(h) Cancellation

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

(i) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the relevant Final Terms.

(j) Other Notes

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

7. Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipts are presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the Holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency and, in the case of Euro, by

cheque drawn down or by transfer to, a Euro account to which Euro may be credited or transferred as specified by the payee.

(b) Registered Notes

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final instalment Amounts) on Registered Notes will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the Holder (or to the first named of joint Holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the Holder to the specified office of the Registrar or any Transfer Agent before, the Record Date and subject as provided in Condition 7(a) above, such payment of interest may be made by transfer to an account in the specified currency designated by the Holder with a bank in the principal financial centre of the country of that currency.

(c) Payments in the United States

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

(d) Payments Subject to Law, etc

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

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

rules of such exchange so require) in relation to Registered Notes, (d) a Calculation Agent where the Conditions so require one, (e) Paying Agents having a specified office in at least two major European cities (including Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require), (f) a Paying Agent having a specified office in a city in Continental Europe outside the European Union, (g) such other agents as may be required by any other stock exchange on which the Notes may be listed and (h) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

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

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

(f) Unmatured Coupons and Receipts and unexchanged Talons

- (i) Upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), should be surrendered for payment together with all unmaturing Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount then due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable

on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

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

(h) Non-Business Days

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

- (i) a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business: (A) in, as regards Bearer Notes, the relevant place of presentation; and (B) in such jurisdictions as shall be specified as "Financial Centres" in the relevant Final Terms; and
- (ii) (A) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the specified currency, on which foreign exchange transactions may be carried on in the specified currency in the principal financial centre of the country of such currency; or (B) (in the case of a payment in Euro) where payment is to be made by payment to an account, a day on which the TARGET2 System is operating.

(i) Redenomination, Renominalisation and Reconventioning:

- (i) *Application:* This Condition 7 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.
- (ii) *Notice of redenomination:* If the country of the Specified Currency becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders, Receiptholders and Couponholders, on giving at least 30 days' prior notice to the Commissioner, the Noteholders and the Paying Agents, designate a date (the **Redenomination Date**), being an Interest Payment Date under the Notes falling on or after the date on which that country becomes a Participating Member State.
- (iii) *Redenomination:* Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
 - (a) the Notes shall be deemed to be redenominated into Euro in the specified denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however, that*, if the Issuer determines, with the agreement of the Fiscal Agent that market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly

notify the Noteholders, Receiptholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

- (b) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the **Euro Exchange Date**) on which the Issuer gives notice (the **Euro Exchange Notice**) to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 7) shall remain in full force and effect;
- (c) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (d) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with a bank in a city in a country in which banks have access to the TARGET2 System.
- (iv) *Interest*: Following redenomination of the Notes pursuant to this Condition 7, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.
- (v) *Interpretation*: In this Condition:

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

Treaty means the Treaty establishing the European Community as amended.

8. Taxation

(a) Additional Amounts

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons by the Issuer or (as the case may be) the Guarantor under the Deed of Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any authority therein or thereof having power to tax (a **Taxing Authority**), unless the withholding

or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and the Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes, Receipts or (as the case may be) Coupons, in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to any payment in respect of any Note, Receipt or Coupon or (as the case may be) under the Deed of Guarantee:

- (i) to, or to a third party on behalf of, a Holder of a Note or Coupon who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Kingdom of Spain other than the mere holding of such Note or Coupon; or
- (ii) to, or to a third party on behalf of, a Holder 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 Law 13/1985 and any implementing legislation; or
- (iii) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on the thirtieth such day; or
- (iv) where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a Holder of a Note or Coupon who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (vi) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish Corporate Income Tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made; or
- (vii) where such withholding or deduction is imposed on a payment to an individual resident of Luxembourg pursuant to the Luxembourg Law dated 23 December 2005 introducing a withholding tax in full discharge of income tax on certain interest income.

See "Taxation and Disclosure of Noteholder Information" for a fuller description of certain tax considerations (particularly in relation to Noteholders who are resident in Spain) relating to the Notes, the formalities which Noteholders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Guarantor relating to the identity of Noteholders.

(b) Tax Credit Payment

If any additional amounts are paid by the Issuer or, as the case may be, the Guarantor under this Condition for the benefit of any Holder and such Holder in its sole discretion, determines that it has obtained (and has derived full use and benefit from) a credit against, a relief or remission for, or

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

(c) Tax Credit Clawback

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

(d) Tax Affairs

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

(e) Definitions

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

9. Prescription

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

10. Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing, (i) the relevant Commissioner, acting upon a resolution of the relevant Syndicate of Noteholders, in respect of all the Notes of the relevant Series, or (ii) the Holder of a Note of the relevant Series, in respect of such Note and provided that such Noteholder does not contravene the resolution of the relevant Syndicate of Noteholders (if any), may give written notice to the Fiscal Agent at its specified office that such Note or Notes is immediately repayable, whereupon the Early Redemption Amount of such Note or Notes, together with accrued interest to the date of payment, shall become immediately due and payable:

- (a) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by the Commissioner (failing whom, any Noteholder); or
- (c) *Cross-Default*: (i) any Relevant Indebtedness (A) incurred by the Issuer or the Guarantor or any Relevant Subsidiary on or after 27 July 2007 or (B) incurred by the Issuer or the Guarantor or any Relevant Subsidiary before 27 July 2007 otherwise than as a result of the occurrence of an Event of Default in respect of a Subsidiary which is not a Relevant Subsidiary; becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or, as the case may be, the Guarantor, or (ii) any Relevant Indebtedness of the Issuer or of the Guarantor or of any Relevant Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Relevant Indebtedness provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €50,000,000 or its equivalent in other currencies; or
- (d) *Enforcement Proceedings*: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or
- (e) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (f) *Insolvency, etc*: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement

or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it or (iv) any other proceeding is commenced which requires the application of priorities provided by any applicable Spanish laws; or

- (g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by a resolution of a Syndicate of Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or the Guarantor or another Relevant Subsidiary or (iii) to comply with any mandatory requirements set forth by any regulation, directives or rules issued by the Spanish government or the relevant administrative authority in connection with the reorganisation of the Spanish electricity sector; or
- (h) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done; or
- (i) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or
- (j) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs including, but not limited to, concurso; or
- (k) *Guarantee*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (l) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Relevant Subsidiaries.

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

11. Syndicates of Noteholders and Modification

The Noteholders of the relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Noteholders (the **Regulations**). The Regulations shall contain the rules governing the functioning of each Syndicate of Noteholders and the rules governing its relationship

with the Issuer and shall be attached to the relevant Public Deed. A set of pro forma Regulations is included in the Agency Agreement.

A temporary Commissioner will be appointed for each Syndicate of Noteholders. Upon the subscription of the Notes, the temporary Commissioner will call a general meeting of the Syndicate of Noteholders to ratify or reject the acts of the temporary Commissioner, confirm his appointment or appoint a substitute Commissioner for him and to ratify the Regulations.

Provisions for meetings of Syndicates of Noteholders will be contained in the Regulations relating to the relevant Series and in the Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Fiscal Agent and the relevant Commissioner, but without the consent of the Holders of the Notes, Receipts, Coupons or Talons of any Series amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Notes to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Noteholders.

For the purposes of these Terms and Conditions,

- (i) **Commissioner** means the *comisario* as this term is defined under the Spanish Corporations Law (*Ley de Sociedades Anónimas*) of each Syndicate of Noteholders; and
- (ii) **Syndicate of Noteholders** means the *sindicato* as this term is described under the Spanish Corporations law (*Ley de Sociedades Anónimas*).

Noteholders shall, by virtue of purchasing Notes, be deemed to have agreed to the appointment of the temporary Commissioner for the relevant Series named in the relevant Final Terms and to have become a member of the relevant Syndicate of Noteholders.

12. Replacement of Notes, Certificates, Receipts, Coupons and Talons

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

13. Further Issues

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

14. Notices

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

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

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

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

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

Copies of any notice given to any Noteholders will be also given to the Commissioner of the Syndicate of Noteholders of the relevant Series.

15. Substitution of the Issuer

- (a) The Issuer and the Guarantor may at any time, without the consent of the Noteholders or the Couponholders, substitute for such Issuer any company which is wholly-owned by the Guarantor (the **Substitute**) upon notice by such Issuer, the Guarantor and the Substitute to be given in accordance with Condition 14 and, in the case of Notes listed on the Luxembourg Stock Exchange, to such exchange, provided that:
 - (i) no Event of Default has occurred in respect of the Notes;
 - (ii) no payment in respect of the Notes, the Receipts or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;

- (iii) the Substitute shall, by means of a deed poll in the form scheduled to the Agency Agreement as Schedule 8 (the **Deed Poll**), agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;
 - (iv) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;
 - (v) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;
 - (vi) the Substitute shall have become party to the Agency Agreement with any appropriate consequential amendments, as if it had been an original party to it;
 - (vii) legal opinions shall have been delivered to the Commissioner and the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (iii) above, in Spain and in England as to the fulfilment of the requirements of this Condition 15 and the other matters specified in the Deed Poll and that the Notes, Receipts, Coupons and Talons are legal, valid and binding obligations of the Substitute;
 - (viii) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be listed on such stock exchange;
 - (ix) Standard & Poor's and/or Moody's and/or Fitch, as the case may be, shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected;
 - (x) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings in the courts of England arising out of or in connection with the Notes; and
 - (xi) in the case of Notes listed on the Luxembourg Stock Exchange, a prospectus supplement is filed with such exchange.
- (b) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Agency Agreement.
- (c) After a substitution pursuant to Condition 15(a), the Substitute may, without the consent of any Noteholder, effect a further substitution. All of the provisions specified in Conditions 15(a) and 15(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.

- (d) After a substitution pursuant to Conditions 15(a) or 15(c) any Substitute may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.
- (e) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.
- (f) For so long as Law 13/1985 applies to the Notes, the Guarantor shall maintain direct or indirect ownership of the whole of the voting rights in respect of the shares of the Issuer or, following a substitution in accordance with Condition 15(a), the relevant Substitute.

16. Currency Indemnity

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

17. Governing Law and Jurisdiction

(a) Governing Law

Save as described below, the Agency Agreement (excluding Part B of Schedule 3 (Pro Forma Regulations) which shall be governed by Spanish law), the Deed of Covenant, the Deed of Guarantee, the Notes, the Receipts, the Coupons and the Talons, and any non-contractual obligations arising from or in connection therewith, are governed by, and shall be construed in accordance with, English law. The status of the Notes as described in Condition 3(a), the status of the Guarantee as described in Conditions 3(b)(ii), the provisions of Condition 11 relating to the appointment of the Commissioner and the Regulations of the Syndicate of Noteholders are governed by, and shall be construed in accordance with, Spanish law.

(b) English courts

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

(c) Appropriate forum

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

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

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

(e) Process Agent

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Iberdrola Engineering and Construction UK Ltd., Wellington House, Suite 8, Starley Way, Birmingham International Park, Solihull B37 7HE or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

18. Rights of Third Parties

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

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be on-lent or deposited with the Guarantor (or another member of the Group) and used for the general corporate purposes of the Group. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No. 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM OR WHILE REGISTERED IN THE NAME OF A NOMINEE FOR A CLEARING SYSTEM

1. Initial Issue of Notes

If the Global Notes are stated in the applicable Final Terms to be issued in NGN form, they will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. If the Global Notes in NGN form are intended to be eligible collateral for Eurosystem monetary policy, depositing the Global Notes with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global notes which are issued in CGN form and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the **Common Depositary**) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (**Alternative Clearing System**) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the relevant Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3. Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (a) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see **Subscription and Sale**), in whole, but not in part, for the Definitive Notes defined and described below; and
- (b) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.3 below, in part for Definitive Notes or, in the case of paragraph 3.3 below, Registered Notes:

- (a) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Fiscal Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and
- (b)
 - (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
 - (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only.

3.3 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (a) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (b) for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

3.4 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the relevant Issuer will (a) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (b) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or if the Global Note is a NGN, the relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, **Definitive Notes** means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement/Trust Deed. On exchange in full of each permanent Global Note, the relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.5 Exchange Date

Exchange Date means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

4. Amendment to Conditions

The temporary Global Notes permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(viii) in respect of both Issuers and Condition 8(a)(iv) will apply to the Definitive Notes only. If the Global Note is a NGN, the relevant Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes

recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

4.2 Notices

So long as any Notes are represented by a permanent Global Note and such permanent Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the Holder of the permanent Global Note. Any such notice shall be deemed to have been given to Noteholders on the seventh day after the day on which the said notice was given to the clearing system. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, notices in respect of such Notes shall be published in a daily newspaper having circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

4.3 Prescription

Claims against the relevant Issuer in respect of Notes which are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.4 Meetings

In respect of Notes issued by Iberdrola International, the holder of a permanent Global Note will be treated as being two persons for the purpose of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each minimum Specified Denomination of Notes for which such Global Note may be exchanged.

4.5 Purchase and Cancellation

Cancellation of any Note surrendered for cancellation following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

4.6 Default

Each Global Note and Global Certificate provides that the holder (or, in the case of Notes issued by Iberdrola Finanzas, the Commissioner) may cause such Global Note, or a portion of it, or one or more Registered Notes represented by such Global Certificate to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the principal amount of such Global Note or Registered Notes which is becoming due and repayable. Following the giving of a notice of an Event of Default by or through a common depository for Euroclear and Clearstream, Luxembourg or if the holder of a Global Note so elects, the Global Note or Registered Notes represented by the Global Certificate will become void as to the specified portion and the persons entitled to such portion as accountholders with a clearing system will acquire direct enforcement rights against the relevant Issuer under the terms of the Deed of Covenant.

4.7 Issuer's Option

No drawing of Notes will be required under Condition 0 in the event that the relevant Issuer exercises any option relating to those Notes while all such Notes which are outstanding are

represented by a permanent Global Note. In the event that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with Euroclear or Clearstream, Luxembourg in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion (as the case may be).

4.8 Noteholder's Options

Any Noteholders' option may be exercised by the holder of a Global Note giving notice within the time limits specified in the Conditions to the Fiscal Agent or any Paying Agent (in the case of Bearer Notes) or to the Registrar or the Transfer Agent (in the case of Registered Notes) of the principal amount of Notes in respect of which the option is exercised and at the same time, where the Note is a CGN, presenting such Global Note for endorsement of exercise.

4.9 Partly-paid Notes

The provisions relating to Partly-paid Notes will be contained in the relevant Final Terms and thereby in the Global Notes. For so long as any instalments of the subscription moneys due from the holder of Partly-paid Notes are due, no interest in a Global Note representing such Notes may be exchanged for any interest in a permanent Global Note or for definitive Bearer Notes (as the case may be). In the event that any Noteholder fails to pay any instalment due on any Partly-paid Notes within the time specified, the relevant Issuer may be entitled to forfeit such Notes and shall have no further obligation to their holder in respect of them. Where the Global Note is an NGN, the relevant Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.10 NGN nominal amount

Where the Global Note is an NGN, the relevant Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, shall be entered in the records of the relevant clearing systems and, upon any such entry being made, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

FORM OF GUARANTEE

This is the text of the form of guarantee in respect of this Guaranteed Euro Medium Term Note Programme

THIS DEED is made on 27 July 2007

BY

- (1) **IBERDROLA, S.A.** (the "**Guarantor**")

IN FAVOUR OF

- (2) **THE NOTEHOLDERS** (as defined in the Conditions (as defined in the Deed of Covenant)); and
(3) **THE RELEVANT ACCOUNT HOLDERS** (as defined in the Deed of Covenant described below).

WHEREAS

- (A) Iberdrola International B.V. and Iberdrola Finanzas, S.A.U. (each an "**Issuer**" and together the "**Issuers**") have established a euro medium term note programme (the "**Programme**") in connection with which Programme they have entered into an amended and restated agency agreement (the "**Agency Agreement**") dated 27 July 2007 and made between the Issuers, the Guarantor, The Bank of New York, in its various capacities as set out therein and J.P. Morgan Luxembourg S.A. as paying agent and has executed and delivered a deed of covenant (the "**Deed of Covenant**") dated 27 July 2007.
- (B) The Guarantor has duly authorised the giving of a guarantee in respect of the euro medium term notes to be issued under the Programme and the Deed of Covenant.

THIS DEED WITNESSES as follows:

1. Interpretation

- 1(A) All terms and expressions which have defined meanings in the Conditions, the Dealership Agreement, the Agency Agreement or the Deed of Covenant shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.
- 1(B) Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.
- 1(C) All references in this Deed of Guarantee to an agreement, instrument or other document (including the Conditions, the Dealership Agreement, the Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time. In addition, in the context of any particular Tranche of Notes, each reference in this Deed of Guarantee to the Conditions shall be construed as a reference to the Conditions as supplemented and/or amended by the relevant Final Terms.
- 1(D) Any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.
- 1(E) Any Notes issued under the Programme on or after the date of this Deed of Guarantee shall have the benefit of this Deed of Guarantee but shall not have the benefit of any subsequent guarantee relating to the Programme (unless expressly so provided in any such subsequent guarantee).

1(F) Clause headings are for ease of reference only.

2. Guarantee and Indemnity

2(A) The Guarantor hereby unconditionally and irrevocably guarantees:

- (1) to each Noteholder the due and punctual payment of any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to any Note as and when the same shall become due and payable and agrees unconditionally to pay to such Noteholder, forthwith upon demand by such Noteholder and in the manner and currency prescribed by the Conditions for payments by the relevant Issuer thereunder, any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to such Note and which the relevant Issuer shall have failed to pay at the time such demand is made; and
- (2) to each Relevant Account Holder the due and punctual payment of all amounts due to such Relevant Account Holder under the Deed of Covenant as and when the same shall become due and payable and agrees unconditionally to pay to such Relevant Account Holder, forthwith on demand by such Relevant Account Holder and in the manner and in the currency prescribed the Conditions for payments by the relevant Issuer thereunder, any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to the Deed of Covenant and which the relevant Issuer shall have failed to pay at the time demand is made.

2(B) As a separate, additional and continuing obligation, the Guarantor unconditionally and irrevocably undertakes to each Noteholder and each Relevant Account Holder that, should any amount referred to in Clause 2(A) not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Note, any provision of any Note, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Noteholder or Relevant Account Holder, the Guarantor will, as a sole, original and independent obligor, upon first written demand under Clause 2(A), make payment of such amount by way of a full indemnity in such currency and otherwise in such manner as is provided for in the Notes or the Deed of Covenant (as the case may be) and indemnify each Noteholder and each Relevant Account Holder against all losses, claims, costs, charges and expenses to which it may be subject or which it may incur under or in connection with the terms and conditions of the Notes, the Deed of Covenant or this Deed of Guarantee.

3. Taxes and Withholdings

In the event that any payments made by the Guarantor under this Deed of Guarantee are or become subject to withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any authority therein or thereof having power to tax, the Guarantor undertakes to the Noteholders and the Relevant Account Holders that it will use its best endeavours, subject to all applicable laws, regulations and guidelines and for so long as it is required to make any such withholding or deduction, to effect payment under this Deed of Guarantee to the Noteholders and Relevant Account Holders through the relevant Issuer, or in such other manner so as to ensure that no such withholding or deduction is required.

If payments made to the Noteholders or the Relevant Account Holders under this Deed of Guarantee through the relevant Issuer or in such other manner so as to ensure that no such withholding or deduction is required, are or become illegal or contrary to the then applicable regulations or

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

4. Law 13/1985

For so long as Law 13/1985 applies to the Notes, the Guarantor shall maintain direct or indirect ownership of the whole of the voting rights in respect of the shares of Iberdrola Finanzas, S.A.U. or, following a substitution in accordance with Condition 15(a), the relevant Substitute.

5. Preservation of Rights

- 5(A) The obligations of the Guarantor herein contained shall be deemed to be undertaken as sole or principal debtor.
- 5(B) The obligations of the Guarantor herein contained shall constitute and be continuing obligations notwithstanding any settlement of account or other matters or things whatsoever and, in particular but without limitation, shall not be considered satisfied by any partial payment or satisfaction of all or any of the relevant Issuer's obligations under any Note or the Deed of Covenant and shall continue in full force and effect in respect of each Note and the Deed of Covenant until final repayment in full of all amounts owing by the relevant Issuer thereunder and total satisfaction of all the relevant Issuer's actual and contingent obligations thereunder.
- 5(C) Neither the obligations of the Guarantor herein contained nor the rights, powers and remedies conferred upon the Noteholders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:
- (1) the winding-up or dissolution (*ontbinding*, in the case of Iberdrola International, B.V.) of the relevant Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or
 - (2) any of the obligations of the relevant Issuer under any of the Notes or the Deed of Covenant being or becoming illegal, invalid or unenforceable in any respect; or
 - (3) time or other indulgence being granted or agreed to be granted to the relevant Issuer in respect of its obligations under any of the Notes or the Deed of Covenant; or
 - (4) any amendment to, or any variation, waiver or release of, any obligation of the relevant Issuer under any of the Notes or the Deed of Covenant; or
 - (5) any other act, event or omission which, but for this Clause 5(C), would or might operate to discharge, impair or otherwise affect the obligations of the Guarantor herein contained or any of the rights, powers or remedies conferred upon the Noteholders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law.
- 5(D) Any settlement or discharge between the Guarantor and the Noteholders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Noteholders, the Relevant Account Holders or any of them by the relevant Issuer or any other person on the relevant Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Noteholders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

- 5(E) No Noteholder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:
- (1) to make any demand of the relevant Issuer, other than (in the case of the Holder of a Bearer Note) the presentation of the relevant Note; or
 - (2) to take any action or obtain judgment in any court against the relevant Issuer; or
 - (3) to make or file any claim or proof in a winding-up or dissolution (ontbinding) of the relevant Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Note, presentment, demand and protest and notice of dishonour.
- 5(F) The Guarantor agrees that so long as any amounts are or may be owed by the relevant Issuer under any of the Notes or the Deed of Covenant or the relevant Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:
- (1) to be indemnified by the relevant Issuer; and/or
 - (2) to claim any contribution from any other guarantor of the relevant Issuer's obligations under the Notes or the Deed of Covenant; and/or
 - (3) to take the benefit (in whole or in part) of any security taken pursuant to, or in connection with, any of the Notes or the Deed of Covenant issued by the relevant Issuer, by all or any of the persons to whom the benefit of the Guarantor's obligations are given; and/or
 - (4) to be subrogated to the rights of any Noteholder or Relevant Account Holder against the relevant Issuer in respect of amounts paid by the Guarantor pursuant to the provisions of this Deed of Guarantee.
- 5(G) The obligations of the Guarantor hereunder will at all times rank as described in Condition 3.

6. Deposit of Deed of Guarantee

This Deed of Guarantee shall be deposited with and held by the Fiscal Agent for so long as the Programme remains in effect and thereafter until the date which is two years after all the obligations of each Issuer under or in respect of the Notes (including, without limitation, its obligations under the Deed of Covenant) have been discharged in full. The Guarantor hereby acknowledges the right of the Commissioner and every Beneficiary to the production of this Deed of Guarantee.

7. Stamp Duties

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

8. Currency Indemnity

If any sum due from the Guarantor under this Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under this Deed of Guarantee or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Guarantor,

(b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to this Deed of Guarantee, the Guarantor shall indemnify each Noteholder and Relevant Account Holder on demand against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder or Relevant Account Holder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Guarantor and shall give rise to a separate and independent cause of action.

9. Deed Poll; Benefit of Guarantee

- 9(A) This Deed of Guarantee shall take effect as a Deed Poll for the benefit of the Noteholders and the Relevant Account Holders from time to time and for the time being.
- 9(B) The Guarantor hereby acknowledges and covenants that the obligations binding upon it contained herein are owed to, and shall be for the benefit of, each and every Noteholder and Relevant Account Holder, and that each Noteholder and each Relevant Account Holder shall be entitled severally to enforce the said obligations against the Guarantor.
- 9(C) The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of the Guarantor on terms approved by an Extraordinary Resolution of the Noteholders (in the case of Notes issued by Iberdrola International B.V.) or a resolution of the relevant Syndicate of Noteholders (in the case of Notes issued by Iberdrola Finanzas, S.A.U.) or to comply with any mandatory requirements set forth by any regulation, directives or rules issued by the Spanish government or the relevant administrative authority in connection with the reorganisation of the Spanish electricity sector.

10. Provision of Information

The Guarantor hereby covenants in favour of each Prospective Purchaser (as defined in the Deed of Covenant) that it will duly perform and comply with the obligations expressed to be undertaken by it in Condition 2(g) (*Restricted Securities*).

11. Provisions Severable

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

12. Notices

Notices to the Guarantor will be deemed to be validly given if delivered at Iberdrola, S.A., Departamento de Financiación, C. Gardoqui 8, 48008 Bilbao, Spain (or at such other address and for such other attention as may have been notified to Noteholders in accordance with the terms and conditions of the Notes), or sent by fax (fax no: +34 944 16 6701). A notice or communication will be deemed received (if by fax) when a transmission report shows the fax has been sent, (if by telex) when a confirmed answer is received at the end of the transmission and (if by writing) when delivered, provided that any notice or communication which is received outside business hours or on a non-business day in Madrid shall be deemed received at the opening of business on the next following business day in Madrid.

13. Law and Jurisdiction

- 13(A) **Governing Law:** This Deed and all matters arising from or connected with it are governed by and shall be construed in accordance with English law.
- 13(B) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with this Deed of Guarantee (including a dispute regarding the existence, validity or termination of this Deed of Guarantee) or the consequences of its nullity.
- 13(C) **Appropriate forum:** The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- 13(D) **Rights of the Noteholders and Relevant Account Holders:** Clause 13(B) (English courts) is for the benefit of the Beneficiaries only. As a result, nothing in this Clause 13 (Law and Jurisdiction) prevents the Noteholders and Relevant Account Holders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Noteholders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.
- 13(E) **Process agent:** The Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Iberdrola Engineering and Construction UK Ltd., Wellington House, Suite 8, Starley Way, Birmingham International Park, Solihull B37 7HE or, if different, its registered office for the time being or at any address of the Guarantor in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Noteholder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Noteholder or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

This Deed has been duly executed on the date stated at the beginning.

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

DESCRIPTION OF IBERDROLA INTERNATIONAL

General information

Iberdrola International, a wholly-owned subsidiary of Iberdrola, S.A. (**Iberdrola**), was incorporated as a private company with limited liability (*besloten vennootschap*) on 10 September 1992 under the laws of The Netherlands. The registered office of Iberdrola International is Jan van Goyenkade 8, 1075 HP Amsterdam – The Netherlands, with telephone number + 31 20 579 21 24. Iberdrola International is registered in the Commercial Register at the Amsterdam Chamber of Commerce under number 33241226. Iberdrola International was incorporated for an indefinite period.

Share capital

Iberdrola International's issued and paid-up share capital is 388,000 euro, divided into 776 ordinary shares of 500 euro each. The whole of the issued and paid-up share capital of Iberdrola International is owned by Iberdrola. There are currently no arrangements in place, the operation of which may at a future date result in a change of control of Iberdrola International. There are no measures in place to ensure that the control of Iberdrola International by Iberdrola is not abused.

Business

Iberdrola International is a finance company which is authorised to raise funds by issuing negotiable instruments in the capital and money markets. The net proceeds from the issuance of these instruments will be used to prepay maturing debt and for the general corporate purposes of the Iberdrola Group. Iberdrola International is dependent on Iberdrola to service its obligations under these instruments.

Management

The members of Iberdrola International's Board of Management are detailed in the following table:

Name	Function
Mr. G.A.R. Warris.....	Managing director
Mr. J.C.M. Veerman.....	Managing director
Mr. G.F. Nicolai.....	Managing director
Mr. R. Orjales Venero	Managing director

The business address of each member of the Board of Management is Jan van Goyenkade 8, 1075 HP Amsterdam – The Netherlands.

No conflict of interest has been notified to Iberdrola International between the duties of the members of the Board of Management and their private interests or other duties. None of the members of the Board of Management performs any significant activities outside Iberdrola International.

Material contracts

The material contracts entered into by Iberdrola International (other than in its ordinary course of business) which are relevant to its ability to meet its obligations in respect of the Programme are the Dealership Agreement, the Agency Agreement and the Deed of Covenant.

DESCRIPTION OF IBERDROLA FINANZAS

General information

Iberdrola Finanzas, a wholly-owned subsidiary of Iberdrola, was incorporated on 16 February 2005 as a corporation (*sociedad anónima*) under the laws of Spain. The registered office of Iberdrola Finanzas is Cardenal Gardoqui 8, Bilbao, Spain, with telephone number +34 94 415 1411. Iberdrola Finanzas is registered at Volume 4525, Book 0, Sheet BI-41875, Folio 89, entry no. 1 in the Biscay Commercial Registry. Iberdrola Finanzas was incorporated for an indefinite period.

Share capital

Iberdrola Finanzas's issued and paid-up share capital is 61,000 euro, divided into 61 ordinary registered shares of 1,000 euro each. The whole of the issued and paid-up share capital of Iberdrola Finanzas is owned by Iberdrola. There are currently no arrangements in place, the operation of which may at a future date result in a change of control of Iberdrola Finanzas. There are no measures in place to ensure that the control of Iberdrola Finanzas by Iberdrola is not abused.

Business

Iberdrola Finanzas's corporate purpose is the issuance of debt securities, whether on a subordinated basis or not, which are to be traded on the Spanish and international markets. The net proceeds from the issuance of the debt securities will be deposited with Iberdrola and used for the general corporate purposes of the Iberdrola Group. Iberdrola Finanzas is dependent on Iberdrola to service its obligations under these debt securities.

Management

Iberdrola Finanzas is managed by two Joint Directors, Mr. Jesús Martínez Pérez and Mr. Juan Carlos Rebollo Liceaga. The business address of each Joint Director is Cardenal Gardoqui 8, Bilbao, Spain.

No conflict of interest has been notified to Iberdrola Finanzas between the duties of the Joint Directors of Iberdrola Finanzas and their private interests or other duties. None of the Joint Directors performs any significant activities outside Iberdrola Finanzas.

Material contracts

The material contracts entered into by Iberdrola Finanzas (other than in its ordinary course of business) which are relevant to its ability to meet its obligations in respect of the Programme are the Dealership Agreement, the Agency Agreement, the Deed of Covenant and each Public Deed entered into in respect of Notes issued under the Programme.

DESCRIPTION OF IBERDROLA

General information

Iberdrola, S.A. (**Iberdrola**) is a listed corporation which was incorporated in the Kingdom of Spain for an indefinite period on 19 July 1901. Iberdrola is registered in book 17 of the Companies Section, folio 114, sheet 901, entry no. 1 in the Biscay Commercial Registry. Its present name was adopted at the General Shareholders' Meeting held on 1 November 1992, formalised in a deed executed on 12 December 1992 and recorded with the Biscay Commercial Registry in volume BI-223 of the General Companies Section, folio 156, sheet BI-167-A, entry no. 923, following the merger of Iberduero and Hidroeléctrica Española, S.A.

Iberdrola (together with its subsidiaries) (the **Iberdrola Group** and the **Group**) is now one of the world's leading private electricity companies in terms of market capitalisation and the number of clients it serves.

Iberdrola's registered offices are in Bilbao (Spain), at: Calle Cardenal Gardoqui, 8; telephone no. +34 94 415 1411.

Share capital and major shareholders

Iberdrola's shares are listed on the Spanish stock exchanges, specifically, the Barcelona Stock Exchange (*Bolsa de Barcelona*), the Bilbao Stock Exchange (*Bourse de Bilbao*), the Madrid Stock Exchange (*Bolsa de Madrid*) and the Valencia Stock Exchange (*Bolsa de Valencia*), and admitted to listing on the Spanish electronic stock market (Spanish Stock Market Interconnection System (SIBE)), energy sector and electricity sub-sector, and are included in the IBEX-35 index. In addition, since 23 June 2003, Iberdrola's shares have been included in the FTSE EuroStoxx 100 index and, since 1 September 2003, in the EuroStoxx 50 index.

As at 31 March 2008, there were 4,993,742,040 shares in issue all of which are fully subscribed and paid up. The nominal value of the shares is €0.75 each. As at 31 March 2008, the closing price was €9.82, resulting in a market capitalisation of €49,039 million. All of Iberdrola's shares are ordinary shares, represented in book-entry form and the book-entry registry is kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear), domiciled at Palacio de la Bolsa, Plaza de la Lealtad, 1, 28014 Madrid, Spain.

According to information available to Iberdrola, no single person (or group of persons) controls Iberdrola. Nonetheless, based on publicly available information, as at 31 December 2007, significant shareholders holding more than 5 per cent. of Iberdrola's ordinary share capital were: ACS Actividades de Construcción y Servicios, S.A. that has an indirect interest through Residencial Monte Carmelo, S.A. (7.221 per cent.); Bilbao Bizkaia Kutxa (7.196 per cent.); and Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja (6.033 per cent.). In addition, at 31 December 2007, ACS held equity derivatives on Iberdrola shares giving it an option on shares equivalent to 5.205 per cent. of Iberdrola's share capital.

Iberdrola's position within the Group

Iberdrola is the parent company of the Iberdrola Group. Under the Electricity Industry Law (Ley 54/1997, de 27 de Noviembre, del Sector Eléctrico), companies carrying out regulated activities in the electricity sector in Spain must carry out those activities separately to their non-regulated activities. Under the Electricity Industry Law, distribution is a regulated activity and supply and generation are unregulated activities.

By means of a resolution adopted at the General Shareholders' Meeting held on 3 April 2000, the Iberdrola Group separated its activities as of 1 July 2000 in order to comply with the Electricity Industry Law. Accordingly, the Group's generation activities are carried out by Iberdrola Generación S.A.U, the Group's

		Spain		
Renewable Energy	Iberdrola Renovables, S.A.	Generates renewable energy from mini hydroelectric and wind	10%	14%
International UK	Scottish Power Ltd.	Generation and distribution and retail of electricity in the UK	24%	0%
International Latam	Iberdrola Energía, S.A.U.	Generation and distribution of electricity internationally, primarily across Mexico and Brazil	16%	18%
Others		Energy consulting, real estate and engineering	9%	10%

Group generation activities (including renewables)

General

As at 31 December 2007, the Group's installed capacity was 42,516 MW. This represented an increase of 39.9 per cent. in installed capacity (+12,132 MW) during 2007. The main contribution to this growth came from new capacity from Gas combined cycle (+4,264 MW), renewable energy sources (+3,270 MW), hydroelectric (+561 MW), coal (+3,456 MW) and from co-generation (+581 MW) in Spain, UK, US and Latin America.

Electricity generation also grew during 2007 by 34.2 per cent. (against 2006 figures) (equivalent to 123,460 MWh during 2007). In this period, generation from hydroelectric generation increased by 20.7 per cent., combined cycle plants increased by 39.4 per cent. and generation from renewable energy by 69.2 per cent. Of the total electricity generated by the Group, 65,893 GWh was generated in Spain (a 2.6 per cent. decrease compared to 2006), 18,279 GWh in UK, 5,321 GWh in US, 32,956 GWh in Latin America (a 39.4 per cent. increase over 2006) and 1,011 in the rest of the world.

The breakdown of the Group's capacity and generation by technology is shown in the following table:

		2007	2006	% Var 07/06
Net Production		123,460	92,011	34.2
Gas combined cycle	GWh	51,152	36,699	39.4
Renewable energy	GWh	13,309	7,867	69.2
Hydroelectric	GWh	15,883	13,154	20.7
Nuclear	GWh	22,216	25,226	-11.9
Thermal Fuel-Oil	GWh	297	1,976	-85.0
Thermal Coal	GWh	16,635	5,088	226.9
Co-generation	GWh	3,968	2,001	98.3
Installed capacity		42,516	30,384	39.9
Gas combined cycle	MW	13,082	8,818	48.4
Renewable energy	MW	7,704	4,434	73.7
Hydroelectric	MW	9,710	9,149	6.1
Nuclear	MW	3,344	3,344	0.0
Thermal Fuel-Oil	MW	2,889	2,889	0.0
Thermal Coal	MW	4,709	1,253	275.8
Co-generation	MW	1,078	497	116.9

Generation — Spain

In 2007 the Group's net generation production was 65,893 GWh (2006 — 67,642 GWh), a decrease of 2.6 per cent. over 2006. The breakdown of the Group's generation by technology in Spain is shown in the following table:

		2007	2006	% Var 07/06
Net Production	GWh	65,893	67,642	-2.6
Gas combined cycle	GWh	13,414	14,818	-9.5
Renewable energy	GWh	7,611	7,161	6.3
Hydroelectric	GWh	13,981	11,874	17.7
Nuclear	GWh	22,216	25,226	-11.9
Thermal Fuel-Oil	GWh	297	1,976	-85.0
Thermal Coal	GWh	6,567	5,088	29.1
Co-generation	GWh	1,807	1,499	20.5

In 2007, the Spanish generation business obtained consolidated pre-tax results of 585 million euros and 373 million euros after tax, contributing 16 per cent. to the Group's consolidated results.

The Group's generation under the ordinary regime (which excludes generation from renewable energy sources and from co-generation plants) totalled 56,475 million kWh in 2007, a 4.3 per cent. decrease on the figure for 2006. During this period, hydroelectric generation was 13,981 million kWh (17.7 per cent. more than 2006); combined cycle generation was 13,414 million kWh (9.5 per cent. decrease on 2006); and nuclear power generation was 22,216 million kWh (11.9 per cent. decrease on 2006).

Renewable energy — Spain

At the end of 2007, the Group had stakes in 4,571 MW of installed capacity in renewable energy facilities (represented by 4,229 MW of wind power and 342 MW in mini-hydroelectric plants). This capacity accounted for 10.7 per cent. of the Group's total installed capacity on 31 December 2007.

Electricity generated by the Iberdrola Group from renewable sources in Spain in 2007 totalled 7,611 million kWh, an increase of 6.3 per cent. over the previous year. This generation level accounted for 6.2 per cent. of the Group's total generation in 2007.

Latin America

In Latin America installed capacity as at 31 December 2007 was 5,553 MW. In 2007, total generation in Latin America rose by 39.4 per cent. (as compared with 2006) to 32,956 GWh. Most of this generation (92.8 per cent.) is attributable to combined cycle plants, primarily in Mexico (Monterrey (1,000 MW), Altamira III and IV (1,037 MW), Altamira V (1,121 MW), Tamazunchale (1,135 MW), La Laguna (500 MW) and Enertek (120 MW)). The remaining combined cycle generation was contributed by the Termopernambuco plant in Brazil. In addition, the Itapebí hydro facility in Brazil contributed 450 MW. The Group holds its Brazilian assets through its 39 per cent. stake in Neoenergia, an electric group owned by the Group with Banco do Brazil and Preví as partners.

The Iberdrola Group intends to consolidate its position as the leading private producer of electricity in Mexico. Its contracted capacity in Mexico, 4,950 MW, is fully operational in 2007, according to the following schedule:

Installed capacity MW Operating.

		% owned	MW	Iberdrola MW
Monterrey	México	100.0%	1,000	1,000
Altamira III y IV	México	100.0%	1,037	1,037
La Laguna	México	100.0%	500	500
Altamira V	México	100.0%	1,121	1,121
Tamazunchale	México	100.0%	1,135	1,135
Enertek	México	100.0%	120	120

Femsa Titan	México	100.0%	37	37
Total Mexico				4,950
Termopernambuco	Brasil	39.0%	520	203
Total Latin America			5,470	5,153

Distribution activities

General

The Iberdrola Group distributed a total of 159,096 GWh in 2007, a 25.15 per cent. increase compared to 2006. Of this total, 102,478 GWh was distributed in Spain (a 3.03 per cent. increase over 2006), 27,256 in UK and the remainder 29,363 in Latin America.

Customers under management rose by 4.6 million in 2007 to reach 23 million as at 31 December 2007.

	2007	2006	%Var
Energy distributed (GWh)	159,096	127,171	25.1
Customers under management (nº mill.)	23.0	18.4	25.0

Spain

In 2007, the Spanish regulated business obtained consolidated results of €506.3 million after tax. For an explanation of this figure, please refer to the section headed "Settlements relating to regulated activities and shortfall in revenue" below.

The Iberdrola Group's distribution network covers more than 190,000 square kilometres in 32 provinces spread over 14 Spanish communities, serving a population of more than 16.7 million.

The Group ended 2007 with 10 million clients and electricity consumption during 2007 amounted to 102,478 million kWh (an increase of 3.0 per cent. over 2006). The Group's share of the mainland distribution market was 39.8 per cent. (source: Red Eléctrica España) and its quality of service decreased by 16.67 per cent. in 2006 (1.89 hours in 2007, compared to 1.96 hours in 2006), as measured by the System Interruption Index ICEIT.

United Kingdom

The Group ended 2007 with 3.3 million clients and electricity consumption during 2007 amounted to 27,256 million kWh.

Latin America

In Latin America, electricity consumption in 2007 was 29,363 million kWh. The Group ended 2007 with 9.3 million clients in Latin America.

Regulation

Both Iberdrola and certain of the fully and proportionally consolidated subsidiaries engage in electricity business activities in Spain and abroad. The following is a description of the main regulations currently in force in Spain, Mexico, Brazil and the United Kingdom, being the principal markets in which the Group operates.

Spain

General

On 11 December 1996, the Ministry of Industry and Energy and the main electric utilities, including Iberdrola, signed a protocol for the establishment of a new regulatory framework for the Spanish electricity system. On 27 November 1997, the Electricity Industry Law (Ley 54/1997, de 27 noviembre, del Sector Eléctrico) was passed. This Law gave statutory force to the principles of this protocol and implemented in Spanish legislation the provisions set forth in Directive 96/92/EC concerning common rules for the internal market in electricity.

The Electricity Industry Law and subsequent implementing legislation established, *inter alia*, the following principles:

(a) Introduction of competition in power generation

Since 1 January 1998, producers of electricity, other than the special cases and exceptions provided for in the Electricity Industry Law, have tendered hourly bids for the selling price of electricity of each of the production units owned by them. The operating order of the production units is established on the basis of the lowest bids made until demand is satisfied in each programming period. The power generated is remunerated in each programming period at the bid price tendered for the last facility whose start-up was required to satisfy demand. The generating facilities also receive remuneration for the capacity guarantee that each of them effectively provides to the system and for the supplementary services required to guarantee adequate supply. The organisation and regulation of the electricity production market was defined and implemented by Royal Decree 2019/1997.

The installation of new generating facilities is deemed to be deregulated, without prejudice to the receipt of the necessary authorisations.

Producers are entitled to use in their generating facilities the primary energy sources that they deem most appropriate, subject to such restrictions in respect of the environment, etc. as might be provided for in current legislation.

The Electricity Industry Law envisages the possibility of giving operating priority to facilities which use Spanish energy sources (Spanish coal, etc.), up to a limit of 15 per cent. of the total amount of primary energy required for electricity production, provided that this is compatible with the free market.

The owners of the electricity production facilities with an installed capacity of less than 50 MW may opt to sell the power to distributors that are connected at the regulated rate or to sell the power freely to the market through the system managed by the Market Operator at the price prevailing in the organised market supplemented by an incentive and, where applicable, by a premium.

(b) Guarantee of the proper functioning of the system

Red Eléctrica de España, S.A. carries on the transmission management and system operation activities which, pursuant to the Electricity Industry Law, have been unbundled for accounting purposes.

The Electricity Industry Law also defines and assigns the responsibility for the economic management of the system to Operador del Mercado Ibérico de Energía — Polo Español, S.A. (OMEL), which is in charge of the mechanisms for receiving bids, matching demand to supply and making the notifications required to establish the production market.

(c) Progressive deregulation of electricity supply and introduction of retailing activity

The Electricity Industry Law provides for the progressive deregulation of electricity supply by progressively allowing the various types of customer to choose their supplier (by becoming **eligible customers**). On 1 January 2003, all levels of electricity consumption were deregulated.

The Electricity Industry Law provides for the right of eligible customers and retailing companies to use transmission and distribution systems and establishes a single fee applicable to the whole of Spain for this purpose, without prejudice to the differing electricity prices based on voltage level, the use made of the systems, or the features of consumption depending on whether transmission or distribution systems are involved. Royal Decree 1164/2001, which established the fees for access to the electricity transmission and distribution systems, was published on 26 October 2001.

Under the Electricity Industry Law, the remuneration of the distribution activity must be based on the costs required to carry on this activity, using a model characterising the various distribution areas, and on other parameters. A Ministry of Industry and Energy Order dated 14 June 1999, established the remuneration of the electricity distribution activity and the means for determining it from 1998 onwards. This overall remuneration is calculated largely on the basis of the remuneration through 31 December 1997, adjusted from 1998 onwards on the basis of the variations in electricity demand and in the Consumer Price Index and of certain efficiency parameters. The remuneration will initially be shared out among the electric utilities on the basis of the percentages of the total remuneration of the system corresponding to each utility under the former remuneration system. These percentages will be adapted progressively (over 16 years) to various parameters, including, *inter alia*, those resulting from the so-called "reference system model", which defines the system based on the geographical areas in which each utility carries on its electricity distribution business.

Remuneration of the transmission activity, which includes the facilities with nominal operating voltage levels equal to or over 220 kV, will basically continue to be governed by the system in place through 1998, based on actual physical units and on standard investment, operating and maintenance costs, and the other costs required to carry on this activity.

On 1 December 2000, Royal Decree 1955/2000, regulating the transmission, distribution, retailing and supply activities and electricity facility authorisation procedures, was approved. The basic aim of this Royal Decree was to establish the measures required to guarantee the supply of power and the authorisation procedures relating to all electricity facilities that are the responsibility of the Spanish government.

(d) Price determination and rate structure

Royal Decrees 2017/1997 and 1432/2002 establish, *inter alia*, the various cost components that must be taken into account when determining the annual average rate, and an objective rate calculation methodology that permits the full eligibility of all consumers, while simultaneously ensuring that the service is provided in adequate conditions and affords the utilities an element of predictability that enables them to make their investments under conditions of relative stability.

In addition, Royal Decree 1634/2006 establishing the electricity tariff from 1 January 2007 was published on 30 December 2006. Among other measures, this Royal Decree set the average increase at 4.30 per cent., providing additionally that on a quarterly basis from 1 July 2007, the Spanish Government, by means of Royal Decree, will amend the tariffs applicable by electricity distributors to electricity sales, reviewing in each instance the costs accrued in undertaking the activities required to supply energy, the system's permanent costs, diversification costs as well as capacity guarantee compensation.

Accordingly, Royal Decree 871/2007 established the electricity tariffs applicable from 1 July 2007 while Order ITC 2794/2007, of 27 September, provided that the tariffs set in Royal Decree 871/2007 would remain applicable by distributors during the fourth quarter of 2007.

(e) Unbundling of activities

The corporate purpose of companies which carry on any of the activities regulated in the Electricity Industry Law (economic and technical management of the system, transmission and distribution) must be confined exclusively to these activities and, accordingly, these companies may not carry on non-regulated activities (e.g. production, retailing to eligible customers, other non-electricity activities or activities abroad), without prejudice to the acknowledged entitlement of distributors to make sales to customers under the rate system.

However, incompatible activities may be carried on within the same group of companies, provided that they are performed by different companies.

(f) Emission Allowances

Royal Decree 1866/2004, amended by Royal Decree 60/2005, established a National Plan for the Assignment of Emission Rights in compliance with the Kyoto Protocol approved on 11 December 1997 within the United Nations Framework Convention on Climate Change in order to reduce greenhouse gas emissions. This three-year Plan came into force on 1 January 2005. Emission allowances allocated free of charge to the Spanish electricity sector for the 2005-2007 period amounted to 268.98 million tonnes, of which 43.02 million tonnes corresponded to facilities of the Iberdrola Group (14.93 and 14.17 million tonnes for 2007 and 2006, respectively).

(g) Iberian Electricity Market:

On 1 of October 2004, Spain and Portugal signed the International Agreement for the constitution of an Electricity Iberian Market between the Spanish Kingdom and the Republic of Portugal.

Several dispositions mentioned before aim at the effective creation for an Iberian Electricity Market.

(h) Settlements relating to regulated activities and shortfall in revenue

In 1998, as a result of the entry into force of Spanish Electricity Industry Law 54/1997 and the related implementing regulations, inter-company settlements were created. These settlements are made by the Spanish National Energy Commission and take the form of collections from or payments to other electricity utilities in order to redistribute tariff revenue, net of energy purchases made to cover demand from customers supplied under the tariff system. Accordingly, each utility receives the revenue corresponding to its regulated activities, including distribution and transmission activities. Tariffs are set annually by Royal Decree.

Royal Decree-Law 3/2006 provided that bids to sell and purchase energy made simultaneously by members of the same corporate group in the daily and intra-daily generation markets and in the same programming period shall be subject to physical bilateral contracts with the market operator in the amounts in which the sales and purchase bids match. As a result, a group may only participate in the resulting matching programme to the extent of its net position as either a net buyer or seller. This Royal Decree-Law also stipulated that for inter-company settlement purposes, the provisional price for distributors would be €42.35/MWh, including adjustment services and the capacity guarantee. It further stipulated that the government would set the definitive price for remunerating the distribution companies for energy purchases made throughout the year in question. As at 31 December 2006 there had been no modification to the provisional price referred to above. Accordingly, "Revenue" in the 2006 consolidated income statement was reduced by €161,369,000 in connection with the

difference between the cost of purchases which were made through bilateral contracts and the value at which these purchases were recognised in the "Comisión Nacional de la Energía" regulated activity settlements, based on the aforementioned price of €42.35/MWh. In this regard, Royal Decree Law 1634/2006 has resolved that for year 2007 the provisional price for bilateral contracts ceases to be €42.35/MWh being assimilated to the market price. Furthermore, on 30 June 2007, the Spanish Government published Royal Decree 871/2007, setting a definitive price of €49.23/MWh for energy purchases made in 2006 and rolled into bilateral contracts. As a result, in 2007 the "Revenues" includes €109,227,000 in connection with the net differential between €49.23/MWh and €42.35/MWh for recognising energy purchased under bilateral contracts in 2006.

Further, Article 2 of Royal Decree-Law 3/2006 provided that from 2 March 2006, an amount equivalent to the value of the CO₂ emission allowances allocated free of charge to the electricity generators will be netted from remuneration for ordinary regime electricity generation. It additionally stipulated that emission rights allocated for the period between 1 January and 2 March 2006 will be deducted from the 2006 tariff revenue deficit. Royal Decree-Law 3/2006 empowers the Ministry of Industry, Tourism and Commerce to develop regulations to enact this article. These have not yet been implemented.

As a result of the above, specifically the lack of implementing regulations to date, the Group has interpreted that Royal Decree-Law 3/2006 implies that all CO₂ emission rights corresponding to its ordinary regime electricity generation facilities granted to it for 2006 under the "Plan Nacional de Asignación de Derechos de Emisión" will entail a cost.

In fact, Order ITC 3315/2007, dated 16 November 2007, stipulated that for 2006 the value of CO₂ emission allocated free of charge would be netted from remuneration for electricity generation. This Order, which enacts Royal Decree-Law 3/2006 in connection with the treatment of emission rights allocated free of charge in 2006, mandates owners of ordinary regime electricity generation facilities – regardless of the technology used and, therefore, regardless of whether or not they are allocated free CO₂ emission rights – to make a payment for 2006. The Order also includes a procedure for calculating this payment, i.e. essentially each facility should net the emission rights a combined cycle plant would have consumed to produce the same amount of energy. The result of this calculation means that:

The amount owed by coal and fuel-oil fired thermal stations will be lower by this calculation than that corresponding to their emission rights consumption as these technologies consume more tonnes of CO₂ than a combined cycle plant.

The amount owed by combined cycle plants will be very much in line with their emission rights usage.

The Iberdrola Group is obliged to make a payment on behalf of its hydro and nuclear stations, facilities that do not consume CO₂ and which were therefore not granted emission rights.

As a result of this Order, and based on the calculations made by the National Energy Commission, the Iberdrola Group was forced to pay a total of €327,343 thousand in this connection, higher than the €218,709 thousand initially mentioned, and by extension, higher than the value of the CO₂ emission rights initially allocated free of charge for 2006. The Iberdrola Group has taken legal proceedings against the provisions contained in Order ITC 3315/2007, based on its belief that they violate the rules governing the electricity generation market with which it has complied meticulously.

Although Royal Decree-Law 3/2006 remains in effect for 2007, the implementing regulations have not been passed, so that for 2007 the Iberdrola Group has assumed similar regulations as those enacted under Order 3315/2007. Accordingly, a charge of €12,522 thousand is recognised for 2007

as a result of applying the same calculation to the power generated by the Iberdrola Group in that year, as is specified in the above Order.

Because in 2007 and 2006 the income received by utilities for regulated sales to their customers was not sufficient to remunerate the system's various activities and costs, the utilities themselves were forced to finance the resulting tariff shortfall.

Royal Decree 1634/2006, which establishes the electricity tariff applicable from 1 January 2007, guarantees the recovery of the 2006 tariff deficit independent of future billings.

The Consolidated Balance Sheet at 31 December 2007 includes €371,386 thousand in connection with the portion of the 2007 sector revenue deficit corresponding to the Iberdrola Group. This deficit was guaranteed in its entirety, irrespective of future billings by the Iberdrola Group, in several legal provisions passed in 2007. As with the 2006 deficit, the Iberdrola Group believes it will securitise this receivable throughout the course of 2008.

Mexico

Regulation of the electricity sector in Mexico is contained in Articles 27 and 28 of the Mexican constitution and the Electricity Law (Ley del Servicio Público de Energía Eléctrica). The Mexican constitution classifies the provision of electricity as a public service.

The state organisations entrusted with the generation, transmission, distribution and sale of electricity are the Comisión Federal de Electricidad (CFE), which controls all the Mexican territory except for the central zone, and Lux y Fuerza de Centro (LFC), which controls Mexico DC and part of the states of Mexico, Morelos, Hidalgo and Puebla. The regulatory organisations are as follows:

Secretaría de Energía – This body's principal function is to oversee the country's energy policy. It must plan the medium to long term supply of energy.

Comisión Reguladora de Energía – This is the body entrusted with regulating the activities of public and private operators in the Mexican gas and electricity sector. The CRE requires market operators to obtain licences for, amongst other things, self-generation, co-generation, independent generation, small generation, and importing and exporting energy.

Self-generation	Defined as the generation of electricity for use by persons related to the generator.	Monterrey U3 and 4 – 493MW
Independent generation	Defined as the generation of electricity from a plant whose capacity exceeds 30 MW and the electricity from which is sold exclusively to CFE or LFC or is to be exported.	4,289 MW (preliminary)
Co-generation	Defined as (a) generating electricity through steam or other thermal energy; (b) using thermal energy from other processes to generate electricity; and (c) using combustibles from other processes to generate electricity.	Enertek and Femsa Titán in Monterrey – 164 MW

The majority of the Iberdrola Group's generating capacity in Mexico is effected as independent generation. The relevant entities generating electricity use combined cycle technology and enter into 25 year offtake arrangements with the CFE. These contracts envisage a capacity payment, which is to recompense the relevant entity its investment in the project, its gas costs and its operating and maintenance costs. The gas costs are passed through to the end user, such that the plants operate on a tolling basis. The gas is supplied by Petróleos Mexicanos (PEMEX) or by the CFE.

The projects which are tendered internationally also incorporate an indexation formula. This is fixed for the duration of the contract. As such, the Iberdrola Group's revenues in Mexico from contracts with the CFE are

those that are set out in the contracts and do not depend on resolutions from the CRE, even though generation of electricity is a regulated activity.

In self-generation and co-generation projects, the Group also enters into long term contracts with co-owners. The terms of these contracts are similar to those entered into with the CFE.

Brazil

Currently, generation companies enter into energy sale contracts with their distributors. These are bilateral contracts openly negotiated by the parties. Itapebi and Termope have entered into long term energy sale contracts with members of the Iberdrola Group.

Distributors have tariffs that are set every five years. There are two payment aspects to these tariffs:

Group A costs: Non-manageable costs that the distributor must pass on: energy purchases, surcharges in each sector relating to the tariff and taxes that are ultimately levied upon the client.

Group B costs: Costs derived from distribution, consisting of operation and maintenance costs, repayment of investments (the value of the distribution assets is determined and a rate of yield is applied to it) and a factor determined by reference to the distributor's efficiency.

Once the tariffs are set they form the basis of the charge for a period of five years, and every year the tariffs are updated to ensure that Group A costs are passed on and Group B costs increased in line with inflation and the defined efficiency factor.

Clients who consume large levels of energy can elect to participate in free trade. In this situation, the client buys the energy directly and pays the tariff to the distributor for the use of the distribution system in each zone.

Under a new scheme devised by the Lula government, no new bilateral contracts will be permitted between generators and distributors. The existing contracts will remain in place, but distributors will only be able to buy energy through a centralised public bidding system. The generator that offers the lowest price will win the auction.

Furthermore, distributors are to be responsible for making market projections. In the event that they fail to do so, distributors will be penalised. The reasoning behind this is that these projections will be used by the Government to determine the level of new capacity required to expand the system, and this will form the basis of the bidding process for future generation capacity.

United Kingdom

The principal pieces of legislation forming the regulatory framework for UK are the Electricity Act 1989 (the Electricity Act), the Gas Act 1986 and the Gas Act 1995 (together the **Gas Acts**) as amended by the Utilities Act 2000 (the **Utilities Act**), the Energy Act 2004 and the relevant EU Directives and Regulations.

The Utilities Act introduced a legal framework for energy company licences based on standard, UK-wide conditions and, taken together with requirements of the Department of Trade and Industry (**DTI**) and licence changes introduced by the Regulators, defines the regulatory framework within which electricity and gas businesses must operate. In addition electricity and gas businesses must act in compliance with EU and UK competition law.

The Utilities Act transferred the functions of the previous electricity and gas industry regulators to the Gas and Electricity Markets Authority (the **Authority**) and provided for the appointment of a chairman and other members of the Authority by the Secretary of State for Trade and Industry. The administrative body

supporting the Authority is Ofgem, and the chief executive of the Authority is also the chief executive of Ofgem. Under the Utilities Act, the principal objective of the Secretary of State and the Authority is to protect the interests of customers, wherever appropriate, by promoting effective competition. In carrying out those functions, they are required to have regard to the need to ensure that all reasonable demands for electricity and gas are met, the need to ensure that licence holders are able to finance their functions, and the interest of individuals who are disabled or chronically sick, of pensionable age, with low incomes or residing in rural areas. The Authority exercises, together with the Office of Fair Trading, certain functions relating to merger control and anti-competitive conduct also in relation to UK compliance with the EU's regulatory framework, which has sought to introduce competition in generation and supply and non-discriminatory access to gas transportation and electricity transmission and distribution across the EU.

The Authority is responsible for granting new licences or licence extensions for each participant in the British gas and electricity markets. In the UK, the Group is required by legislation to hold various licences and, through its relevant operating subsidiaries, is licensed to operate generating capacity, can contract in the wholesale market, has access to capacity operated by other licensed generators; to own and maintain the transmission system in central and southern Scotland; to distribute electricity to customers, with the associated customers service activities including customer registration, meter reading, sales and marketing, billing and revenue collection.

The Authority is also responsible for monitoring compliance with the conditions of licences and, where necessary, enforcing them through procedures laid down in the Electricity and Gas Acts.

Under these Acts, as amended by the Utilities Act, licences consist of standard licence conditions, which apply to all classes of licences, and special conditions specific to that licence. The Authority may modify licence conditions by agreement or through a modification reference to the Commission to investigate and report on whether matters specified in the reference in pursuance of a licence modification operate, or may be expected to operate, against the public interest; and if so, whether the adverse public interest effect of these factors could be remedied or prevented by modification of the conditions of the licence. If the Competition Commission so concludes, the Authority must then make such modifications to the licence as it deems necessary for the purpose of remedying or preventing the adverse effects specified in the report, after giving due notice and consideration to any representations and objections.

The Competition Commission has the power to veto any modification.

Licences may be terminated in accordance with the licence conditions (for the major licences, by not less than 25 years' notice given by the secretary of state) and may be revoked in certain circumstances specified in the licence. These include insolvency of the licensee, the licensee's failure to comply with an enforcement order made by the Authority and the licensee's failure to carry on the activities authorised by the licence.

The UK regulatory regime recognises that transmission and distribution businesses are natural monopolies. Companies operating in this sector are regulated through five-year price controls that limit expenses incurred and incentives for efficiency. The group's UK transmission and distribution businesses are subject to price controls that restrict the amount of revenue invoiced to network users. However, companies are able to participate in these price reviews, presenting evidence aimed at influencing the final price established.

United States

The main activity undertaken by the Iberdrola Group in the United States is electricity generation from renewable energy sources. In the US, both the Federal and state governments have passed measures and implemented aid to foster the development of electricity production from renewable sources. The main measures implemented to boost the development of wind powered energy in the US include:

- (a) Renewable Portfolio Standards (RPSs) at the state level;

- (b) Tax incentives at the state level and Production Tax Credits (PTCs); and
- (c) the ability to depreciate wind energy facilities on an accelerated basis – the Modified Accelerated Cost Recovery system (MARCs).

Renewable Portfolio Standards are policies adopted freely in certain States mandating a state to generate a minimum percentage of its electricity from renewable sources such as wind, biomass, mini-hydro, geothermal or solar energy. These percentages vary across states but typically range between targets of 10 per cent. and 20 per cent. by 2010-2015. Currently 26 states and the District of Columbia have implemented the RPS mechanism.

This policy is generally put into practice via Renewable Energy Credits, also known as green tags, a system of tradeable certificates verifying that a kWh of electricity has been generated from a renewable energy source. At year-end, electricity generators need to have sufficient certificates to meet their annual renewable energy quotas. Fines are imposed if they fail to do so.

In 1992, under the Energy Policy Act, the US government implemented a PTC system granting a tax deduction of US\$15/MWh, adjusted by inflation, for wind energy production. By 2007 the PTC was US\$20/MWh for the first 10 years of wind turbine operations. The purpose of the PTCs is to make wind production more competitive relative to fossil fuels and nuclear energy, which benefit from significant US Government grants. The policy has been extended to include other sources of renewable energy and will remain in effect until the end of 2008, although there is currently debate over whether it will be extended to cover projects commissioned after 2008. Once a project has qualified for the PTC, it is valid for 10 years.

Environmental matters

The Group's activities are subject to significant environmental regulation. This requires, amongst other things, that the Group commissions environmental impact studies for future projects and that it obtains the licences, permits and other authorisations required to construct and operate relevant projects. During the last years there has been a significant increase in environmental regulation in Spain and the European Union. These include regulations in relation to carbon dioxide emissions and limitations on pollutant emissions from large installations.

This year Iberdrola has once again been chosen as a member of the 07-08 Dow Jones Sustainability Index, earning the best overall score for the sector with 81 points, as compared to 74 points in 2006.

Nevertheless, upon including ScottishPower, the final score was reduced to 76 points. Iberdrola has improved in all other ratings – economic, environmental and social – over the previous year, getting the best independent rating (without ScottishPower) for the sector in its economic size.

Iberdrola has been included in this index since its creation in the year 2000. Out of the 23 companies in the sector that have at some time been included in the index, only two have appeared continuously.

Iberdrola has been chosen as the best electric utility in the world for its strategy for fighting climate change, according to the Climate Leadership Index, after having been declared Best in Class in its sector worldwide with the highest score possible (100 AAA).

Its inclusion for the third year in a row in this selective index, in which only the 50 best companies in the world appear, follows Iberdrola's participation for the fifth time in the Carbon Disclosure Project (CDP) evaluation process. This study, which has been fostered by 315 international investors who manage assets valued at US\$41 million, evaluates 10 key aspects of the initiatives adopted by companies to stop climate change.

Iberdrola has been evaluated as Best in Class internationally not only for its current strategy, one of the pillars of which is environmental protection and sustainable development, but also due to the adequate evaluation of the risks and opportunities deriving from climate change in its business, as well as because of the quality and effectiveness of its policies geared toward reducing the emission of greenhouse gases.

Insurance

The Group maintains insurance which provides cover against a number of risks, including property damage, fire, flood, third party liability and business interruption.

Employees

The Iberdrola Group had an average of 23,159 employees in 2007. The average number of employees at consolidated level was determined on the basis of Iberdrola's percentage of ownership of the proportionately consolidated jointly controlled entities and includes all the employees at the fully consolidated companies.

Board of Directors of Iberdrola, S.A.

The Board of Directors is currently made up of the following 15 Directors:

Name	Title	Date of first appointment	Date of last appointment	Type of Director
Mr. José Ignacio Sanchez Galán ⁽¹⁾	Chairman/Chief Executive Officer	21.05.2001	18.03.2005	Executive
Mr. Juan Luis Arregui Ciarso ⁽¹⁾⁽³⁾	Vice Chairman	23.05.1995	18.03.2005	External Independent
Mr. Victor de Urrutia Vallejo ⁽¹⁾⁽³⁾	Vice Chairman	17.02.1978	18.03.2005	External Independent
Mr. José Orbegoza Arroyo	Member	17.02.1978	29.03.2007	External Independent
Mr. Lucas Maria de Orio López-Montenegro	Member	31.01.1990	29.03.2007	External Independent
Mr. Ricardo Álvarez Isasi ⁽²⁾	Member	18.10.1990	18.03.2005	External Independent
Mr. José Ignacio Berroeta Echevarría ⁽¹⁾⁽³⁾	Member	10.05.1993	18.03.2005	External Independent
Mr. Julio de Miguel Aynat ⁽²⁾	Member	29.10.2003	18.03.2005	External Independent
Mr. Sebastián Battaner Arias ⁽²⁾	Member	26.05.2004	18.03.2005	External Independent
Mr. Xabier de Irala Estévez ⁽¹⁾	Member	20.04.2005	29.03.2007	External Proprietary (BBK)
Mr. Íñigo Víctor de Oriol Ibarra	Member	26.04.2006	29.03.2007	External
Ms. Inés Macho Stadler	Member	07.06.2006	29.03.2007	External Independent
Mr. Braulio Medel Cámara	Member	07.06.2006	29.03.2007	External Independent
Ms. Samantha Barber	Member	31.07.2008	31.07.2008	External Independent
Mr. José Luis Olivas Martínez ⁽¹⁾	Member	24.07.2007	24.07.2007	External Proprietary (Bancaja)

(1) Executive Committee.

(2) Audit and Compliance Committee.

(3) Nominating and Compensation Committee.

The Secretary of the Board of Directors and General Secretary of the Company is Mr. Julián Martínez-Simancas Sánchez.

All directors have their business address in Spain.

The specific conflict of interest situations of the Board members that arose during 2007 were resolved in accordance with the procedures set forth in the applicable rules and regulations described in section C.5 of annual corporate governance report 2007. These rules, and notably the Restated Procedures for Conflicts of Interest and Related-Party Transactions approved by the Board at the meeting held on 24 April 2007, provide that Directors who become involved in a conflict of interest (a) shall give written notice thereof to the Secretary of the Board and (b) shall not attend or participate in the deliberation and voting on those matters regarding which the Director is involved in a conflict of interest. Additionally, transactions by the Company with Directors and Significant Shareholders shall be subject to the approval of the Board.

The annual corporate governance report 2007 of Iberdrola is available on the internet at www.iberdrola.com. The Company website also provides further information about the Annual Shareholders' Meeting, the updated composition of the Board of Directors and its Committees, as well as the curriculum vitae, other activities developed and interest in the share capital held by each one of the members thereof.

Management Structure

The persons responsible for the day-to-day management of Iberdrola and their functions are as follows:

Function	Management
Chairman & Chief Executive Officer (CEO):	Mr. José Ignacio Sánchez Galán
General Secretary:	Mr. Julián Martínez-Simancas Sánchez ⁽¹⁾
Internal Audit:	Mr. Luis Javier Aranaz Zuza ⁽²⁾
Economic/Financial:	Mr. José Sáinz Armada
Corporate Resources:	Mr. Fernando Becker Zuazua
Strategy and Development:	Mr. José Luis del Valle Doblado
Operations:	Mr. José Luis San Pedro Guerenabarrena ⁽³⁾

(1) Reporting to the Board of Directors.

(2) Functionally controlled by the Board's Audit and Compliance Committee.

(3) Including Administration, Regulation and Control Direction.

Material contracts

The material contracts entered into by Iberdrola (other than in its ordinary course of business) and which are relevant to the its ability to meet its obligations in respect of the Programme are the Dealership Agreement, the Agency Agreement and the Guarantee.

Recent events

Energy East transaction

The Boards of Iberdrola and US company Energy East, meeting on 25 June 2007 in Madrid and New York, respectively, agreed on the integration of Energy East in the Iberdrola Group, whereby Iberdrola will acquire 100 per cent. of Energy East. This friendly transaction values each Energy East share at US\$28.50 (€21.08) and the ordinary share capital at approximately US\$4,500 million (€3,400 million), which, added to a debt of €3 billion, gives Energy East an enterprise value of €6.4 billion.

The transaction could be affected by, among other things, the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement, such as the failure to obtain Energy East shareholder approval or any other failure to satisfy other conditions required to complete the merger, including required regulatory approvals.

Later, at its meeting of 26 June and exercising the powers delegated to it by the General Shareholders' Meeting held on 30 March 2006, the Board of Directors agreed to increase shareholders' equity by a nominal amount of €255 million through the issue and circulation of 85 million shares.

The capital expansion was realised through a private directed placement, exclusively to qualified institutional investors (accelerated bookbuilding) with the exclusion of preferred subscription rights. The placement process ended 27 June 2007. The subscription price for the shares issued was €39.70. On 20 November, the shareholders of Energy East Corporation approved the (agreement and plan of merger) with Iberdrola, by virtue of which Energy East Corporation will be merged with the Iberdrola group.

In addition, the U.S. Federal Energy Regulation Commission (**FERC**) approved that acquisition on 6 December 2007. As of 3 September 2008 the New York State Public Commission (the **Commission**) voted to authorise the acquisition of Energy East Corporation and its affiliates by Iberdrola, subject to certain conditions designed to establish and reaffirm ratepayer protection and set forth service quality performance incentives. Iberdrola is required to file a written statement of the acceptance of the Commission's order before any closing of the proposed acquisition.

Energy East is a company incorporated under New York State law and its shares trade on the New York Stock Exchange. It is the parent company of a group of companies dedicated to the production, distribution and sales of electricity and natural gas in five states in the northeast of the United States: New York, Maine, Massachusetts, New Hampshire and Connecticut.

Energy East has 1,825,000 electric points of supply, a transmission network of 13,243 kilometres and 125,613 kilometres in distribution, and in 2006 it distributed a total of 40,450 GWh. The company has a generation capacity of 555 MW.

Energy East also carries out gas distribution, with 920,300 points of supply. It has a distribution network amounting to 39,657 kilometres and last year distributed 5.20 bcm. It also has a gas transport network of 295 kilometres.

Agreements with Gamesa

On 13 June 2008, Iberdrola Renovables and Gamesa Corporación Tecnológica, S.A.U. (**Gamesa**) signed a contract for the supply of wind turbines, under which Iberdrola Renovables will acquire wind turbines from Gamesa with a total capacity of 4,500 MW. These wind turbines will be used for Iberdrola Renovables' wind energy developments in Spain, the rest of Europe, the United States of America and Mexico between 2010 and 2012.

In addition, on 13 June 2008, Iberdrola Renovables and Gamesa have signed a strategic agreement for (a) the acquisitions by Iberdrola Renovables of Gamesa wind projects in the UK, Mexico and the Dominican Republic, with a total pipeline of 900 MW, for approximately €65 million; and (b) the sharing of the businesses of promotion, development and joint exploitation of wind farms in Spain and certain countries in continental Europe.

In relation to the business sharing aspects, two companies will be established: one in respect of the Spanish operations (which is expected to be 77 per cent. owned by Iberdrola Renovables and 23 per cent. owned by Gamesa) and another in respect of the other operations (which is expected to be 76 per cent. owned by Iberdrola Renovables and 24 per cent. owned by Gamesa). Iberdrola Renovables and Gamesa have pledged not to transfer their participations in the companies until 31 December 2010 and, from 1 January 2011, the parties have granted a series of cross options to each other in respect of these participations.

SUBSCRIPTION AND SALE

Subject to the terms and conditions contained in an amended and restated dealership agreement dated 4 September 2008 (as amended or supplemented from time to time, the **Dealership Agreement**) between the Issuers, the Guarantor, the Arranger and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuers, to the Permanent Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers which are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Dealership Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

Each Issuer failing whom, the Guarantor, has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealership Agreement may be terminated in relation to all the Dealers or any of them by the Issuers or, in relation to itself and the Issuers only, by any Dealer, at any time on giving not less than ten business days' notice.

United States of America

Regulation S Category 2, TEFRA D, unless TEFRA C is specified as applicable in the relevant Final Terms. Rule 144A eligible if so specified in the relevant Final Terms.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933 (as amended) (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that except as permitted by the Dealership Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (a) as part of their distribution at any time (b) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, or the Fiscal Agent by such Dealer or, in the case of Notes issued on a syndicated basis, the Lead Manager, except in accordance with Rule 903 of Regulation S under the Securities Act or, as provided below, in accordance with Rule 144 A thereunder, within the United States or to, or for the account or benefit of U.S. persons, and it will have sent to each Dealer to which it sells Notes a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirement of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act (if available).

Such Dealers as may be specified in the relevant Final Terms may offer and sell Notes in accordance with Rule 144A under the Securities Act (**144A Resale**) subject to compliance with all applicable United States selling restrictions.

In connection with any such 144A Resale, each relevant Dealer will be required to represent and agree that (a) neither it nor any person acting on its behalf has made or will make offers or sales of Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502 (c) under the Securities Act) and (b) if required by law, it will deliver to each qualified institutional buyer purchasing a Note or Notes from it a Base Prospectus.

Each Series of Notes may also be subject to such further United States selling restrictions as the relevant Issuer and the relevant Dealer may agree and as indicated in the relevant Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

For the avoidance of doubt, and notwithstanding the above, the Spanish selling restriction for Notes issued by Iberdrola Finanzas still applies for the issue of Notes herein.

United Kingdom

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Issuers;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuers or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

(a) Notes issued by Iberdrola Finanzas

Each Permanent Dealer has represented, warranted and agreed that the Notes (or any interest therein) issued by Iberdrola Finanzas may not, directly or indirectly, be offered, sold, pledged, delivered or transferred in The Netherlands on their issue date or at any time thereafter, and neither this Prospectus nor any other document in relation to any offering of such Notes (or any interest therein) may be distributed or circulated in The Netherlands, other than to professional market parties (**PMPs**) within the meaning of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) (which includes, *inter alia*, qualified investors as defined in the Prospectus Directive such as banks, insurance companies, securities firms, collective investment undertakings and pension funds), provided that these parties acquire the relevant Notes for their own account or that of another PMP.

(b) Notes issued by Iberdrola International or Iberdrola Finanzas

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that in addition and without prejudice to the relevant restrictions set out under (a) above, Zero Coupon Notes (as defined below) in definitive form issued by either Iberdrola International or Iberdrola Finanzas may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of the relevant Issuer or a member of Euronext Amsterdam N.V. in accordance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended). No such mediation is required: (i) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (ii) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof or (iii) in respect of the transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, or (iv) in respect of the transfer and acceptance of such Zero Coupon Notes within, from or into The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in a Zero Coupon Note in global form) of any particular Series are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter. As used herein "Zero Coupon Notes" are Notes that are in bearer form and that constitute a claim for a fixed sum against the relevant Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

Spain

(a) Notes issued by Iberdrola International

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may not be offered or sold in Spain by means of a public offer as defined and construed in Chapter I of Title III of Law 24/1988, of 28 July, on the Securities Act (as amended) and Royal Decree 1310/2005. This Base Prospectus has not been registered with the CNMV and therefore it is not intended for any public offer of Notes in Spain.

(b) Notes issued by Iberdrola Finanzas

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may not be placed in Spain in the primary market. This Base Prospectus has not been registered with the CNMV and therefore it is not intended for any public offer of Notes in Spain.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended: the **FIEL**). Each Permanent Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person, or to others for reoffering or resale, directly or indirectly in Japan or to, or for the benefit of, any Japanese Person except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and other applicable laws, regulations and ministerial guidelines of Japan. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

These selling restrictions may be modified by the agreement of the relevant Issuer, the Guarantor and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes or possession or distribution of the Base Prospectus or any other offering material or any Final Terms in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that, notwithstanding the specific selling restrictions set out herein, it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material, in all cases at its own expense.

Each Dealer has undertaken that it will obtain any consent, approval or permission required by it for the subscription, offer or sale by it of any Notes or possession or distribution by it of the Base Prospectus or any other offering material under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any subscription offer or sale.

FORM OF FINAL TERMS

Final Terms dated [●]

[Iberdrola International B.V.]

(incorporated with limited liability in The Netherlands and having its corporate seat in Amsterdam)/

Iberdrola Finanzas, S.A.U.

(incorporated with limited liability in Spain)]

Issue of

[Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by

Iberdrola, S.A.

Under the EUR20,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of Notes issued by [Iberdrola International B.V./Iberdrola Finanzas, S.A.U.] set forth in the Base Prospectus dated 4 September 2008 [and the prospectus supplement dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the prospectus supplement] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Conditions**) of Notes issued by [Iberdrola International B.V./Iberdrola Finanzas, S.A.U.] set forth in the [Base Prospectus] dated [original date] [and the supplemental [Prospectus] dated [●]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 4 September 2008 [and the prospectus supplement dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Base Prospectus] dated [original date] [and the supplemental [Prospectus] dated [●]] and are attached hereto. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the [Base Prospectuses] dated [original date] and 4 September 2008 [and the supplemental [Prospectuses] dated [●] and [●]]. [The [Base Prospectuses] [and the supplemental [Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

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

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1. (a) [Issuer: [Iberdrola International B.V./Iberdrola Finanzas, S.A.U.]
- (b) [Guarantor: Iberdrola, S.A.]
2. (a) [Series Number: []]
- (b) [Tranche Number: []]
- (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount admitted to trading: []
- (a) [Series: []]
- (b) [Tranche: []]
5. Issue Price: []% of the Aggregate Nominal Amount
6. Specified Denominations: [EUR 50,000/other]
- (If Notes are expressed to be Temporary Global Notes exchangeable for Definitive Notes (see paragraph 24 of these Final Terms), such Notes may only be issued in denominations equal to, or greater than, EUR 50,000 (or equivalent) or integral multiples thereof.)*
7. (a) [Issue Date: []]
- (b) [Interest Commencement Date: []]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
- (If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from*

section 19 of the FSMA must be available.)

9. Interest Basis: [[●] % Fixed Rate]
[[specify reference rate] +/- [●]% Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Other (*specify*)]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (*specify*)]

(N.B. If the Final Redemption Amount is less than 100% of the nominal value, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish a supplement to the Base Prospectus.)
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. (a) [Status of the Notes: [Senior]]
(b) [Status of the Guarantee: [Senior]]
(c) [[Date [Board] approval for issuance of Notes [and Guarantee] obtained: [] [and [], respectively]]]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Rate[(s)] of Interest: [] % per annum
[payable [annually/semi-annually/quarterly/monthly] in arrear]

- (b) Interest Payment Date(s): [] in each year
- (c) Fixed Coupon Amount[(s)]: [] per [] in nominal amount
- (d) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]
- (e) Day Count Fraction: [30/360/Actual/Actual([ICMA]/ISDA)/other]
(Amend if to be based on 2000 ISDA Definitions instead of 2006 ISDA Definitions)
- (f) Determination Dates: [] in each year [(insert regular payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

16. Floating Rate Note Provisions

[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Interest Period(s): []
- (b) Specified Interest Payment Dates: []
- (c) Interest Period Date: []
(Not applicable unless different from Interest Payment Date)
- (d) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (e) Business Centre(s): []
- (f) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
- (g) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent) []
- (h) Screen Rate Determination:
- Reference Rate: []
 - Interest Determination Date(s): []

- Relevant Screen Page: []
 - (i) ISDA Determination:
 - Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
 - (j) Margin(s): [+/-] [●]% per annum
 - (k) Minimum Rate of Interest: []% per annum
 - (l) Maximum Rate of Interest: []% per annum
 - (m) DF Count Fraction: []
(See Condition 5 for alternatives)
(Amend if to be based on 2000 ISDA Definitions instead of 2006 ISDA Definitions)
 - (n) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
- 17. Zero Coupon Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Amortisation Yield: []% per annum
 - (b) Reference Price: []
 - (c) Any other formula/basis of determining amount payable: []
- 18. Index/Formula-linked Note/other variable-linked interest Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Index/Formula: [give or annex details]
 - (b) Calculation Agent responsible for calculating the interest due: []
 - (c) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: []

- (d) Interest Determination Date(s): []
- (e) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
- (f) Interest Periods: []
- (g) Specified Interest Payment Dates: []
- (h) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (i) Business Centre(s): []
- (j) Minimum Rate of Interest: []% per annum
- (k) Maximum Rate of Interest: []% per annum
- (l) Day Count Fraction: []
(Amend if to be based on 2000 ISDA Definitions instead of 2006 ISDA Definitions)

19. Dual Currency Note Provisions

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (a) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (b) Calculation Agent, if any, responsible for calculating the principal and/or interest payable []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. Call Option

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (a) Optional Redemption Date(s): []

- (b) Optional Redemption Amount(s) [[] per Note of [] specified and method, if any, of calculation of such amount(s): denomination/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption [] Amount:
- (ii) Maximum Redemption [] Amount
- (d) Notice period (if other than as set out in the Conditions): []

21. Put Option

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount(s) [[] per Note of [] specified and method, if any, of calculation of such amount(s): denomination/specify other/see Appendix]
- (c) Notice period (if other than as set out in the Conditions): []

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent.)

22. Final Redemption Amount

[[] per Note of [] specified denomination/other/see Appendix]
(N.B. If the Final Redemption Amount is other than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (a) Index/Formula/variable: [give or annex details]
- (b) Calculation Agent responsible for calculating the Final Redemption []

Amount:

- (c) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: []
- (d) Determination Date(s): []
- (e) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
- (f) Payment Date:
- (g) Minimum Final Redemption Amount: []
- (h) Maximum Final Redemption Amount: []

23. Early Redemption Amount

Early Redemption Amount(s) payable on redemption for taxation reasons or on Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 6): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. (a) Form of Notes: Bearer Notes:
- [Temporary Global Note exchangeable for a Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.]
- [Registered Notes]
- (b) New Global Note: [Yes] [No]
25. Financial Centre(s) or other special [Not Applicable/give details]

provisions relating to Payment Dates:

(Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15(b), 16(e) and 18(i) relate)

26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details*]
28. Details relating to Instalment Notes: amount of each instalment date on which each payment is to be made: [Not Applicable/*give details*]
29. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions in Condition 7(i) apply]
30. Consolidation provisions: [Not Applicable/The provisions in Condition 13 apply]
31. Other terms: [Not Applicable/*give details*]
(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

32. (a) If syndicated, names of Managers: [Not Applicable/*give names*]
(b) Stabilising Manager (if any): [Not Applicable/*give name*]
33. If non-syndicated, name of Dealer: []
34. Additional selling restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the EUR20,000,000,000 Euro Medium Term Note Programme of Iberdrola International B.V. and Iberdrola Finanzas, S.A.U. guaranteed by Iberdrola, S.A.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By:

By:

Duly authorised

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (a) [Listing: [Luxembourg/AIAF/other (specify)/None]
- (b) [Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]
[Not Applicable.]
- (c) [Estimate of total expenses related to admission to trading: [●]

2. RATINGS

- Ratings: The Notes to be issued have been rated:
[S & P: []]
[Moody's: []]
[Fitch: []]
[[Other]: []]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

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

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"] in the Base Prospectus, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (a) [Reasons for the offer: [●]
(See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- (b) [Estimated net proceeds: [●]]
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)
- (c) [Estimated total expenses: [●] [Include breakdown of expenses.]]
(Only necessary to include disclosure of net proceeds and total expenses at (b) and (c) above where

disclosure is included at (a) above.)]

5. [Fixed Rate Notes only – YIELD

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. [INDEX-LINKED OR OTHER VARIABLE-LINKED NOTES ONLY – PERFORMANCE OF INDEX/FORMULA/other variable and other information concerning the underlying

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Need to include a description of any market disruption or settlement disruption events that affect the underlying and any adjustment rules in relation to events concerning the underlying (if applicable).]

7. [DUAL CURRENCY NOTES ONLY – PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

8. OPERATIONAL INFORMATION

ISIN Code: []

Common Code: []

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, identification number(s): [Not Applicable/give name(s) and number(s) [and address(es)]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): []

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the International Central Securities Depositories (ICSDs), being Euroclear and Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by

the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[Include this text if "yes" selected in which case the Notes must be issued in NGN form]*

9. GENERAL

Commissioner of Syndicate of Noteholders: [●]
(Applies to Iberdrola Finanzas, S.A.U. only)

Applicable TEFRA exemption: [C Rules/D Rules/Not Applicable]

TAXATION AND DISCLOSURE OF NOTEHOLDER INFORMATION

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

Taxation in Luxembourg

The below does not relate to any form of Luxembourg taxation other than taxation withheld at source:

1. Luxembourg non-residents

Under Luxembourg tax laws currently in effect, and subject to the application of Directive 2003/48/EC regarding the taxation of savings income (the **Savings Directive**), there is no withholding tax for non-residents on payments of principal or interest, or on accrued but unpaid interest, in respect of the Notes, nor is there any Luxembourg withholding tax payable on payments received upon redemption, repurchase or exchange of the Notes.

On 3 June 2003, the European Union adopted the Savings Directive, which has been implemented in Luxembourg by a law dated 21 June 2005. Under the Savings Directive and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (EU), a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another EU Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the exchange of information or for the tax certificate procedure. The same regime applies to payments of interest and other similar income made to certain so-called "residual entities" within the meaning of article 4.2 of the Savings Directive (i.e., an entity without legal personality and whose profits are not taxed under the general arrangements for the business taxation and that is not, or has not opted to be considered as, a UCITS recognised in accordance with Council Directive 85/611/EEC) established in a Member State or in certain EU dependent or associated territories. The withholding tax rate is initially 15 per cent., increasing steadily to 20 per cent. and to 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries (see also **EU Savings Tax Directive**) above.

2. Luxembourg residents

A 10 per cent. withholding tax is levied on interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents. Income (other than interest) from investment funds and from current accounts provided that the interest rate is not higher than 0.75 per cent. is exempt from the withholding tax. Furthermore, interest which is accrued once a year on savings accounts (short and long term) and which does not exceed €250 per person and per paying agent is exempted from the withholding tax. This withholding tax represents the final tax liability for the Luxembourg individual resident taxpayers, receiving the payment in the course of their private wealth.

Taxation in The Netherlands — Issues by Iberdrola International B.V.

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Netherlands tax considerations thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.

This summary is based on the tax legislation, published case law, treaties, regulations and published policy, in force as of the date of this Base Prospectus, though it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Netherlands tax consequences for:

- (a) holders of Notes holding a substantial interest (*aanmerkelijk belang*) in the Issuer. Generally speaking, a holder of Notes holds a substantial interest in the Issuer, if such holder of Notes, alone or, where such holder is an individual, together with his or her partner (*partner*) or certain other related persons, directly or indirectly, holds (i) an interest of 5 percent or more of the total issued capital of the Issuer or of 5 percent or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;
- (b) investment institutions (*fiscale beleggingsinstellingen*); and
- (c) pension funds or other entities that are exempt from Netherlands corporate income tax.

1. Withholding tax

All payments made under the Notes by an Issuer not considered a resident of the Netherlands for Netherlands tax purposes, may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein. With respect to Notes issued by an Issuer that is considered to be resident of the Netherlands for Netherlands tax purposes (a **Netherlands Issuer**), all payments of interest and principal made by a Netherlands Issuer under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that the Notes do not in fact function as equity of the Issuer within the meaning of article 10, paragraph 1, under d of the Netherlands corporate income tax act 1969 (*Wet op de vennootschapsbelasting 1969*).

2. Corporate and individual income tax

2.1 Residents of the Netherlands

If a holder is resident or deemed to be resident of the Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of its enterprise to which the Notes are attributable, income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are generally taxable in the Netherlands (up to a maximum rate of 25.5 per cent.).

If an individual holder is resident or deemed to be resident of the Netherlands for Netherlands tax purposes (including the individual holder who has opted to be taxed as a resident of the Netherlands), income derived from the Notes and gains realised upon the redemption, settlement or

disposal of the Notes are taxable at the progressive rates of the Netherlands income tax act 2001 (up to a maximum rate of 52 per cent.), if:

- (a) the holder has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or
- (b) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance of activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (a) nor condition (b) applies to the holder of the Notes, taxable income with regard to the Notes must be determined on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. At present, this deemed return on income from savings and investments has been fixed at a rate of 4 per cent. of the average of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year and the individual's yield basis at the end of the calendar year, insofar as the average exceeds a certain threshold. The average of the individual's yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Notes less the fair market value of certain qualifying liabilities on 1 January and 31 December, divided by two. The fair market value of the Notes will be included as an asset in the individual's yield basis. The deemed return on income from savings and investments of 4 per cent. will be taxed at a rate of 30 per cent.

2.2 Non-residents of the Netherlands

If a holder is not a resident nor deemed to be a resident of the Netherlands for Netherlands tax purposes (nor has opted to be taxed as a resident of the Netherlands), such holder is not taxable in respect of income derived from the Notes and gains realised upon the settlement, redemption or disposal of the Notes, unless:

- (a) the holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or a permanent representative the Notes are attributable; or
- (b) the holder is entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Notes are attributable; or
- (c) the holder is an individual and such income or gains qualify as income from miscellaneous activities in the Netherlands, which include the performance of activities in the Netherlands with respect to the Notes that exceed regular, active portfolio management.

If the holder is a corporate entity, that corporate entity is subject to a maximum corporate income tax rate of 25.5 per cent.. If the holder is an individual, that holder is subject to a maximum individual income tax rate of 52 per cent..

3. Gift and Inheritance taxes

3.1 Residents of the Netherlands

Generally, gift and inheritance taxes will be due in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or on the death of, a holder that is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

A holder of the Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax, if he or she has been resident in the Netherlands during the ten years preceding the gift or his or her death. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift tax if he or she has been resident in the Netherlands at any time during the twelve months preceding the time of the gift. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

3.2 Non-residents of the Netherlands

No gift or inheritance taxes will arise in the Netherlands in respect of the acquisition of the Notes by way of gift by or as a result of the death of a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax, unless:

- (a) such holder at the time of the gift, or at the time of his or her death, has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which permanent establishment or a permanent representative, the Notes are (deemed to be) attributable; or
- (b) the Notes are (deemed to be) attributable to the assets of an enterprise that is effectively managed in the Netherlands and the donor or the deceased is entitled, other than by way of securities or through an employment contract, to a share in the profits of that enterprise, at the time of the gift or at the time of his or her death; or
- (c) in the case of a gift of the Notes by a holder who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands, such holder dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of the Netherlands.

4. Value added tax

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of the cash payment made under the Notes, or in respect of a transfer of Notes.

5. Other taxes and duties

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

Individuals and Legal Entities with tax residency in Spain

In the case of listed Notes issued by Iberdrola International B.V. and, in accordance with procedures established in the Agency Agreement, the Agent must receive a list of those Noteholders that are Spanish resident specifying the name, address, Tax Identification Number, ISIN code of the Notes, number of Notes held at each interest payment date, gross income and amount withheld. Such information should be delivered substantially in the form attached to the Agency Agreement.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless

during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Each of the Issuers is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Taxation in Spain — Issues by Iberdrola Finanzas, S.A.U.

The information in this section is a general description of certain Spanish tax considerations relating to the Notes. It includes information for (a) individuals who are tax resident in Spain; (b) legal entities who are tax resident in Spain; and (c) individuals and legal entities who are not tax resident in Spain. It also includes information on the disclosure of Noteholder information, as required by applicable Spanish tax legislation and in particular under Law 13/1985, of 25 May on investment ratios, own funds and information obligations of financial intermediaries, as amended by, amongst other laws, Law 19/2003, of 4 July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, and implementing legislation. This information has been prepared in accordance with the Spanish tax legislation in force at the date of this Base Prospectus.

1. Individuals with Tax Residency in Spain

1.1 Principal Legislation

The principal legislation for individuals with tax residency in Spain which are Individual Income Tax (**IRPF**) taxpayers are: (a) Law 35/2006, of 28 November on Individual Income Tax Law; (b) Royal Decree 439/2007, of 30 March promulgating the Individual Income Tax Regulations; (c) Law 19/1991, of 6 June on Wealth Tax; and (d) Law 29/1987, of 18 December on Inheritance and Gift Tax.

1.2 Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Individual Income Tax Law. These income amounts must be included in the savings income of each investor in his tax returns and are taxed at the flat rate of 18 per cent. (or such other rate as may be established by Spanish law from time to time). Both types of income are subject to a withholding at the rate of 18 per cent. (or such other rate as may be established by Spanish law from time to time).

Amounts withheld may be credited against the final Individuals Income Tax liability.

1.3 Wealth Tax (Impuesto sobre el Patrimonio)

Individuals with tax residency in Spain under an obligation to pay Wealth Tax must take into account the amount of the Notes which they hold as at 31 December in each year, when calculating their Wealth Tax liabilities.

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

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable regional or state legislation.

2. Legal Entities with Tax Residency in Spain

2.1 Principal Legislation

The principal legislation for legal entities resident for tax purposes in Spain which are Corporation Tax taxpayers are: (a) Royal Legislative Decree 4/2004, of 5 March promulgating the Consolidated Text of the Corporation Tax Law; and (b) Royal Decree 1777/2004, of 30 July promulgating the Corporation Tax Regulations.

2.2 Corporation Tax (Impuesto sobre Sociedades) – Notes placed outside of Spain

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes, constitute financial income for tax purposes and must be computed as taxable income of legal entities with tax residency in Spain for Corporation Tax purposes.

Under Section 59.s) of the Corporation Tax Regulations, there is no obligation to withhold on income obtained by Spanish Corporation Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Iberdrola Finanzas intends to make an application for the Notes to be traded on the Luxembourg Stock Exchange and, upon admission to trading on the Luxembourg Stock Exchange, the Notes will be financial assets which fulfil the requirements laid down by the legislation to apply this exemption from withholding.

However, the Directorate General for Taxation (*Dirección General de Tributos –DGT*), on 27 July 2004, issued a reply with number 1.500/04 to a consultation indicating that in the case of issues made by entities tax resident in Spain, as in the case of Iberdrola Finanzas, application of the exemption requires that the Notes be placed outside Spain in another OECD country. Iberdrola Finanzas considers that the issue of the Notes will fall within this exemption as the Notes are to be sold outside Spain and in the international capital markets. Consequently, Iberdrola Finanzas will not make any withholding on interest payments to Spanish Corporation Tax taxpayers that provide relevant information to qualify as such - see the procedures described in "Disclosure of Noteholder Information".

If the Spanish tax authorities maintain a different opinion on this matter however, Iberdrola Finanzas will be bound by that opinion and with immediate effect, make the appropriate withholding and Iberdrola Finanzas will not, under the terms and conditions of the Notes, be under any obligation to pay additional amounts.

Notwithstanding the above, the amounts withheld, if any, may be credited against the final Corporation Tax liability.

2.3 Corporation Tax (Impuesto sobre Sociedades) – Notes placed in Spain in book entry form and traded on the AIAF market

In accordance with Section 59.q) of the Corporation Tax Regulations, there is no obligation to withhold on income obtained by Spanish Corporation Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets represented by book entries and traded on a Spanish official secondary market. It is not currently intended that Notes be represented by book-entries or traded on a Spanish official

secondary market. Accordingly, the Notes will not fulfil the requirements laid down by the legislation to apply this exemption from withholding.

2.4 Wealth Tax (Impuesto sobre el Patrimonio)

Legal entities are not subject to Wealth Tax.

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

Legal entities with tax residency in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax but must include the market value of the Notes in their taxable income for Spanish Corporation Tax purposes.

3. Individuals and Legal Entities with no tax residency in Spain

3.1 Principal Legislation

For individuals and entities who are not resident for tax purposes in Spain which are Non-resident Income Tax taxpayers are: (a) Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law; (b) Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations; (c) Law 19/1991, of 6 June on Wealth Tax; (d) Law 29/1987, of 18 December on Inheritance and Gift Tax; and (e) Law 13/1985, of 25 May on investment ratios, capital adequacy and information requirements for financial intermediaries, as amended.

3.2 Non-resident Income Tax (Impuesto sobre la Renta de no Residentes)

(a) With permanent establishment in Spain

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain. If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the legal rules applicable to income deriving from such Notes are the same as those previously set out for Spanish Corporation Tax taxpayers – see "Legal Entities with Tax Residency in Spain".

(b) With no permanent establishment in Spain

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax.

In order to be eligible for the exemption mentioned in the preceding paragraph, Noteholders will need to provide (or arrange to be provided on their behalf) certain information relating to the identity and residence of such Noteholders in the manner laid down in section 44 of Royal Decree 1065/2007 (see **Disclosure of Noteholder Information**). If the relevant information is not provided Iberdrola Finanzas, S.A.U. will be obliged by Spanish law to apply withholding tax at the rate of 18 per cent. (or such other rate as may be established by Spanish law from time to time) and Iberdrola Finanzas will not pay additional amounts.

Noteholders who have suffered any such withholding tax may seek a refund of the same directly from the Spanish Tax Authorities. For these purposes, Noteholders should seek their own tax advice.

3.3 Wealth Tax (Impuesto sobre el Patrimonio)

To the extent that income deriving from the Notes is exempt from Non-Resident Income Tax, individuals who do not have tax residency in Spain who hold such Notes on the last day of any year will be exempt from Wealth Tax. Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally not be subject to Wealth Tax. If the provisions of the foregoing two sentences do not apply, individuals who are not tax residents in Spain will be subject to Wealth Tax to the extent that the Notes are located in Spain or the rights deriving from the Notes can be exercised in Spanish territory.

Non-resident legal entities are not subject to Wealth Tax.

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

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to tax in accordance with the relevant double tax treaty. If the provisions of the foregoing sentence do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable state legislation to the extent that the Notes are located in Spain or the rights deriving from the Notes can be exercised within Spanish territory.

Non-resident entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

3.5 Indirect taxes

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

Disclosure of Noteholder Information – for issues made by Iberdrola Finanzas, S.A.U.

1. Tax Reporting Obligations of the Guarantor

The Guarantor, as the parent of Iberdrola Finanzas, S.A.U., is required by Spanish law to file an annual return with the Spanish tax authorities in which it reports on certain information relating to payments made in respect of the Notes. The Spanish tax authorities may rely on such returns in order to assess whether or not Iberdrola Finanzas has correctly withheld tax on payments made by it under the Notes.

The Guarantor must complete each annual return on the basis of the information provided to it by, or on behalf of, Noteholders. The information required by the Guarantor in order to comply with its annual reporting obligations and provide a refund of amounts withheld in respect of the Notes (as described below) is that set out in Section 44 of Royal Decree 1065/2007 (**Royal Decree 1065/2007**).

2. Individuals and Legal Entities without tax residency in Spain

In accordance with sub-section 44(1) of Royal Decree 1065/2007, each annual return filed by the Guarantor with the Spanish tax authorities must include the following information with respect to the relevant Notes:

- (a) the identity and country of residence of the recipient of the income from the Notes or, when such income is received on behalf of the Noteholder by a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and
- (c) details identifying the Notes.

In accordance with sub-section 44(2) of Royal Decree 1065/2007, for the purpose of preparing the return referred to in sub-section 44(1), certain documents with information regarding the identity and country of residence of each non-Spanish resident Noteholder must be received by the Guarantor (or Iberdrola Finanzas on behalf of the Guarantor) at the time of each payment in respect of the Notes.

In particular, the Guarantor (or Iberdrola Finanzas, S.A.U. on behalf of the Guarantor) must obtain the documents described below regarding the Noteholders:

- (a) In the case of transactions in which the Noteholder is (i) a non-Spanish resident which is: (A) a central bank or other public institution or international organisation; (B) a bank, credit institution or financial entity (including collective investment institutions, pension funds and insurance entities) which is resident in an OECD country or in a country with which Spain has entered into a treaty for the avoidance of double-taxation and which is subject to a specific administrative registration or supervision scheme (each a **qualifying entity**) and (ii) acts on its own account, that Noteholder, must certify its name and tax residency in accordance with Annex I of the Order of 16 September 1991 (the **Order**), the form of which is attached to the Agency Agreement.
- (b) In the case of transactions in which any of the qualifying entities acts as an intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each non-Spanish resident Noteholder in accordance with Annex II of the Order, the form of which is attached to the Agency Agreement.
- (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 the law 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 non-Spanish resident Noteholder in accordance with Annex II of the Order, the form of which is attached to the Agency Agreement.

3. Legal Entities with tax residency in Spain subject to Spanish Corporation Tax

Noteholders who are legal entities resident for tax purposes in Spain and subject to Spanish Corporation Tax (and a permanent establishment in Spain of a non-resident subject to Non-Resident Income Tax) may receive payments in respect of the Notes free of withholding provided that they provide (or arrange to be provided on their behalf) accurate and timely information enabling them to qualify for such an exemption from withholding.

In particular, Iberdrola Finanzas, S.A.U. must obtain from any of the suitable entities a list of Noteholders who are subject to Spanish Corporation Tax, specifying each Noteholder's name,

address and Tax Identification Number as well as the ISIN code of the relevant Notes, the number of such Notes held on the relevant payment date, the gross income and the amount withheld. Such information should be delivered substantially in the form attached to the Agency Agreement.

4. Procedures to be complied with to ensure refund of withheld amounts to Noteholders

4.1 General

On each relevant payment date, Iberdrola Finanzas, S.A.U. will pay to (or to the account of) Noteholders an amount equal to the net amounts payable in respect of interest after deduction of Spanish withholding tax at the applicable rate, currently 18 per cent. (the **net amount**) and shall retain the remaining amount due on the relevant payment date (the **withheld amount**). If Iberdrola Finanzas, S.A.U. obtains the documentation and information described under "Individuals and Legal Entities without tax residency in Spain" and "Legal Entities with tax residency in Spain subject to Spanish Corporate Income Tax" in a timely manner, Iberdrola Finanzas, S.A.U. will pay the withheld amount to (or to the account) the relevant Noteholder(s).

The procedures to be complied with by Noteholders to ensure that the withheld amount, as well as the net amount, is paid to them depend on how the Noteholders hold their Notes:

- (a) If a Noteholder holds its Notes (directly or indirectly) through an account with Euroclear or Clearstream Luxembourg and such Notes are held by a common depositary or common safekeeper for or are registered in the name of a common nominee for Euroclear and Clearstream Luxembourg, Noteholders should abide by the procedures described under "Euroclear and Clearstream Luxembourg procedures" below.
- (b) If (a) does not apply, Noteholders are advised to seek advice from their professional advisors as to the procedures to be complied with.

Noteholders who might otherwise have been entitled to a refund but in respect of whom the procedures described are not complied with may seek a refund of Spanish tax withheld directly from the Spanish tax authorities.

4.2 Euroclear and Clearstream, Luxembourg procedures

Euroclear and Clearstream, Luxembourg (the **European ICSDs**) have established procedures to assist entities in complying with the reporting obligations required by Spanish tax law and regulations and to enable Noteholders to obtain a refund of amounts withheld on interest payments. These procedures were implemented by the European ICSDs in response to certain tax rulings made by the Spanish tax authorities (Consultas V 2050-07, V 2051-07, V 0175-08 and V 0179-08). The procedures which the Issuers and other parties expect to follow are stipulated in the global tax procedures published by the European ICSDs, which are also described in the Agency Agreement. These procedures are subject to further modification and to any publications and notifications which may be made by the European ICSDs detailing such procedures (and as amended from time to time). The information below is a summary only of the procedures which are currently followed. In this regard, Noteholders should also consult announcements in relation to these global tax procedures published from time to time on the websites of the European ICSDs (www.Euroclear.com, www.Clearstream.com) and must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. None of the Issuers, the Guarantor, the Arranger, the Dealers, the Fiscal Agent or the European ICSDs assume any responsibility therefor. In relation to Notes which are not initially issued in global form, the procedures will be specified in the relevant Final Terms.

Noteholders' attention is drawn to the risk factor in respect of Spanish tax procedures on page 17 of this Base Prospectus.

Set out below is a summary of certain aspects of the procedures described in the Agency Agreement which Iberdrola Finanzas, S.A.U. and the Guarantor consider most relevant to Noteholders. For the purposes of this section, references to Tax Certificates are to the certificates described in paragraphs 1 to 3 under "Individuals and Legal Entities without tax residency in Spain" and the certificates described under "Legal Entities with tax residency in Spain subject to Spanish Corporation Tax".

- (a) In accordance with the current procedures of the European ICSDs, Noteholders entitled to receive payment on the relevant Interest Payment Date, and accordingly those persons required to comply with the Spanish tax procedures in order to obtain a refund of the relevant withheld amount (as defined below), are those persons holding Notes at close of business on the day preceding the relevant Interest Payment Date. Tax Certificates may therefore not be dated and may not be submitted to the Fiscal Agent as agent for Iberdrola Finanzas, S.A.U. prior to close of business on the day preceding the relevant Interest Payment Date.
- (b) Immediately upon receipt of a notice from the Fiscal Agent, each of the European ICSDs will notify the entities holding accounts with the European ICSDs (Participants and Customers) of the relevant interest payment and that the procedures established under Law 13/1985, Royal Decree 1065/2007, Royal Legislative Decree 4/2004 and Order 22 December 1999 (**Spanish tax procedures**) apply in connection with such interest payment and prepare or (as the case may be) request their Participants and Customers who are qualifying entities provide Tax Certificates and other information by no later than the time on the relevant Interest Payment Date specified by the European ICSDs.
- (c) In order to obtain an immediate refund of the withheld amount, the Participants and Customers who are qualifying entities (or a legal representative acting under a power of attorney on behalf of such Participant or Customer) will have to provide duly completed Tax Certificates by the relevant time. The Fiscal Agent shall verify that the Tax Certificates and other information received by it is in accordance with the Spanish tax procedures and calculate the aggregate net amounts and withheld amounts payable on the relevant Interest Payment Date.
- (d) If a Noteholder would be entitled to receive an immediate refund of the withheld amount on an Interest Payment Date but duly completed Tax Certificates are either not received by the relevant time or are considered by the Fiscal Agent not to be in accordance with the Spanish tax procedures, such Noteholder may obtain a quick refund of the withheld amount by ensuring that duly completed Tax Certificates are received by the Fiscal Agent no later than 10:00 am (CET) on the business day before the 10th calendar day of the month following that in which the relevant Interest Payment Date falls (or if such date is not a business day, the business day immediately preceding such date) (the **Quick Refund Deadline**). Upon receipt and verification of such Tax Certificates, the Fiscal Agent shall pay the relevant withheld amounts to the Noteholder.
- (e) No later than the business day following the Quick Refund Deadline, the Fiscal Agent shall return any remaining withheld amounts to Iberdrola Finanzas, S.A.U. and forward any additional tax certificates received by it in relation to quick refunds claimed up to and including the Quick Refund Deadline.
- (f) Noteholders that do not provide documentation on or before a Quick Refund Deadline may obtain a full refund of the withheld amount directly with the Spanish tax authorities to the extent that they are entitled to such refund.
- (g) Noteholders holding the Notes through Participations and Customers who are not qualifying entities and in respect of whom the European ICSDs do not issue on their own behalf the Tax Certificates

will be unable to obtain an immediate or quick refund and will have to seek their own tax advice to obtain, in its case, a refund from the Spanish Tax Authorities.

Payments under the Guarantee

On the basis that payments of principal and interest made by the Guarantor under the Guarantee are characterised as an indemnity under Spanish law, such payments may be made free of withholding or deduction on account of any Spanish tax. However, although there is no precedent or regulation on the matter, if the Spanish tax authorities take the view that the Guarantor has effectively assumed the obligations of Iberdrola Finanzas under the Notes (whether contractually or by any other means), the Spanish Tax Authorities may determine that payments made by the Guarantor, relating to interest on the Notes, will be subject to the same tax rules set out above for payments made by Iberdrola Finanzas, S.A.U.

ANNEXES FOR SPANISH TAX DISCLOSURE

ANNEX 1

[]

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) (function), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 44.2.a) del Real Decreto 1065/2007,

in the name and on behalf of the Entity indicated below, for the purposes of article 44.2.a) of Royal Decree 1065/2007,

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 (Supervisory body)

en virtud de **(normativa que lo regula)**

under (governing rules).

All the above in relation to:

Identification of securities held for own account

Amount of income

I certify the above in on the of of 20

ANNEX 2

[]

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) (function), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 44.2.b) y c) del Real Decreto 1065/2007,

in the name and on behalf of the Entity indicated below, for the purposes of article 44.2.b) and c) of Royal Decree 1065/2007,

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 (Supervisory body)

en virtud de

(normativa que lo regula)

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.

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 amount of the corresponding income is accurate, and does not include person(s) or institution(s) resident in Spain.

Lo que certifico en _____ **a** _____ **de** _____ **de 20** _____

I certify the above in on the of of 20

RELACION 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 3

[]

Modelo de certificación para hacer efectiva la exclusion de retencion 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 art. 44.2.a) del Real Decreto 1065/2007)

Certificate for application of the exemption on withholding to Spanish Corporate Income Tax payers and to permanent establishments of Non Resident Income Tax payers (to be issued by entities mentioned under article 44.2.a) of Royal Decree 1065/2007)

(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 (Supervisory body)

en virtud de

(normativa que lo regula)

under (governing rules).

5. **Que, a través de la Entidad que represento, los titulares incluidos 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 Corporations Tax payers and permanent establishment in Spain of Non-Resident Income Tax payers, 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 incluidos 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:

[illegible]

Name/Domicile/Fiscal Identification Number/Number of securities/Gross income/Amount withheld at 18 per cent :

[]

Form of Certificate for Investments made by Spanish residents

.....

in the name and on behalf of the Entity indicated below, for the purposes of article 44 of Royal Decree 1065/2007,

I certify:

- that the name of the Entity I represent is:

- that its residence for tax purposes is:

- that the institution I represent is recorded in the Register

..... of

(país estado, ciudad), con el número

(country, state, city), under number

- sometida a la supervisión de** **(Organo supervisor)**

that the institution I represent is supervised by (Supervisory body)

en virtud de **(normativa que lo regula)**

under (governing rules).

- 5. Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta tienen la condición de personas físicas y jurídicas residentes en España y son perceptores de los rendimientos indicados.**

That, through the Entity I represent, the list of holders hereby attached, are Spanish residents and are recipients of the referred income.

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 18 per cent.

Name/Domicile/Fiscal Identification Number/Number of securities/Gross income/Amount withheld at 18 per cent.:

GENERAL INFORMATION

1. Application has been made to the CSSF to approve this document as a base prospectus of each Issuer. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). However, Notes may be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange, or any other stock exchange or which will be listed on such stock exchange as the relevant Issuer, the Guarantor and the relevant Dealer(s) may agree (including, if so agreed, AIAF).
2. The update of the Programme and the Issue of the Notes was authorised by a resolution of the board of managing directors of Iberdrola International on 29 August 2008, a resolution of the shareholders' meeting of Iberdrola Finanzas on 1 September 2008 and a resolution of the several directors ("*administradores mancomunados*") of Iberdrola Finanzas on 1 September 2008. The giving of the guarantee contained in the Deed of Guarantee was authorised by resolutions of the board of directors of the Guarantor passed on 26 June 2007 and 19 August 2008 and by a resolution of the shareholders' meeting of the Guarantor passed on 29 March 2007. Each of the Issuers and the Guarantor has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the giving of the guarantee relating to them.
3. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
4. None of the Issuers, the Guarantor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuers or the Guarantor are aware) in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuers, the Guarantor or the Group.
5. Since 31 December 2007, there has been no material adverse change in the prospects of Iberdrola International or Iberdrola Finanzas nor, since 31 December 2007, has there been any significant change in the financial or trading position of Iberdrola International or Iberdrola Finanzas.
6. Since 31 December 2007, there has been no material adverse change in the prospects of the Guarantor or the Group nor, since 30 June 2008, has there been any significant change in the financial or trading position of the Guarantor or the Group.
7. Notes will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code and the International Securities Identification Number (ISIN) for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
8. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions.

9. For the period of 12 months following the date of this Base Prospectus, the following documents (with English translations, where appropriate) will be available, during usual business hours on any weekday (public holidays excepted), at the registered office of each of the Issuers and the Guarantor and the office of the Fiscal Agent and the Registrar and each of the Paying Agents and Transfer Agents:
- (a) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates in respect of Registered Notes, the Coupons, the Receipts and the Talons);
 - (b) the Dealership Agreement;
 - (c) the Deed of Covenant;
 - (d) the Deed of Guarantee;
 - (e) the Issuer-ICSD Agreement;
 - (f) the Articles of Association of Iberdrola International, the *Estatutos* of Iberdrola Finanzas and the *Estatutos* of the Guarantor (with English translations);
 - (g) the documents incorporated by reference, being:
 - (i) the auditors' report and audited consolidated annual financial statements of the Guarantor for the financial years ended 31 December 2006 and 2007;
 - (ii) the unaudited consolidated interim financial statements of the Guarantor for the six months ended 30 June 2008;
 - (iii) the auditors' report and audited non-consolidated annual financial statements of Iberdrola International for the financial years ended 31 December 2006 and 2007; and
 - (iv) the auditors' report and audited non-consolidated financial statements of Iberdrola Finanzas for the financial years ended 31 December 2006 and 2007.
 - (h) the most recent publicly available audited annual financial unconsolidated statements of each Issuer; the Issuers are not required to publish interim financial statements;
 - (i) the most recent publicly available audited annual consolidated financial statements of the Guarantor; the most recent publicly available interim unaudited consolidated statements of the Guarantor; the Guarantor publishes unconsolidated and consolidated figures on a quarterly basis;
 - (j) this Base Prospectus;
 - (k) any future prospectus supplements, further prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

- (l) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which were admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website (www.bourse.lu).

10. Deloitte, S.L. has audited the accounts of the Guarantor in accordance with IFRS for 2006 without qualification. Ernst & Young, S.L. has audited the accounts of the Guarantor in accordance with IFRS for 2007 without qualification.
11. Ernst & Young, S.L. has audited the account of Iberdrola Finanzas in accordance with generally accepted accounting principles in Spain for 2006 and for 2007 without qualification.
12. Ernst & Young Accountants LLP has audited the accounts of Iberdrola International with generally accepted accounting principles in the Netherlands for both 2006 and 2007 without qualification.
13. Each of Deloitte S.L. and Ernst & Young S.L. is registered in the *Registro Oficial de Auditores de Cuentas* (Official Registry of Auditors). The auditors of Ernst & Young Accountants LLP are members of the Royal NIVRA (*Nederlands Instituut voor Registeraccountants*), the Dutch accountants board. None of Deloitte S.L., Ernst & Young S.L. nor Ernst & Young Accountants LLP has any material interest in the Issuers or the Guarantor.
14. Notes issued by Iberdrola Finanzas will be constituted by virtue of a public deed to be executed and registered with the Mercantile Registry of Biscay on or prior to the Issue Date in respect of each issue of Notes by Iberdrola Finanzas under the Programme, if so required by Spanish law.
15. The Issuers do not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

ISSUERS AND GUARANTOR

Iberdrola International B.V.

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1075 HP
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Iberdrola Finanzas, S.A.U

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Bilbao
Spain

Iberdrola, S.A.

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ING Bank NV

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Morgan Stanley & Co. International plc

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The Royal Bank of Scotland plc

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