

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

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

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

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

1. **Form, Specified Denomination and Title**

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

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

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

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

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

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

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

(a) Exchange of Exchangeable Bearer Notes

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

(b) Transfer of Registered Notes

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

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

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

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

(d) Delivery of new Certificates

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

(e) Exchange free of charge

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

(f) Closed periods

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

(g) Restricted Securities

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

3. Status and Guarantee

(a) Status of Notes

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

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

(b) Guarantee

- (i) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes and Coupons on an unsubordinated basis.
- (ii) The obligations of the Guarantor in respect of Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions and unless they qualify by law as subordinated credits under Article 92 of the Spanish Insolvency Law) rank *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect (the **Guarantee**) are contained in the Deed of Guarantee.

4. Negative Pledge

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

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

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

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

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

- (b) For the purposes of these Conditions

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

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

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

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

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

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

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

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

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

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

(ii) Business Day Convention

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

(iii) Rate of Interest for Floating Rate Notes

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

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

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

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

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

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

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

(C) Linear Interpolation

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

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

(c) Interest on Zero Coupon Notes

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

(d) Accrual of Interest

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

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

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

(f) Calculations

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

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

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

(h) **Definitions**

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

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

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

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

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:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Relevant Business Day means:

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

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

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

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

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

(i) Change of Interest Basis

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

(j) Calculation Agent

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

6. Redemption, Purchase and Options

(a) Final Redemption

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

(b) Redemption for taxation reasons

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

(c) Purchases

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

(d) Early Redemption of Zero Coupon Notes

- (i) The Early Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date upon redemption of such Note pursuant to Condition 6(b), Condition 6(e), Condition 6(f), Condition 6(g), Condition 6(h), Condition 6(i), or upon it becoming due and payable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note.
- (ii) Subject to the provisions of sub-paragraph (iii) below the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their Issue Price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.
- (iii) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(b), Condition 6(e), Condition 6(f), Condition 6(g), Condition 6(h), Condition 6(i), or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (both before and after judgment), until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 5(d).

(e) Redemption at the Option of the Issuer

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

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

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

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

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

In these Conditions:

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

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

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

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

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

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

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

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

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

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

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

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

(f) Residual Maturity Call Option

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

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

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

(g) Redemption following a Substantial Purchase Event

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

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

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

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

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

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

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

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

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

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

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

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

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

Optional Redemption Amount means an amount equal to par.

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

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

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

(i) Redemption at the Option of the Noteholder

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

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

(j) Cancellation

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

(k) Other Notes

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

7. Payments and Talons

(a) Bearer Notes

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

(b) Registered Notes

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

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

(c) Payments in the United States

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

(d) Payments Subject to Law, etc

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

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

(e) Appointment of Agents

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

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

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

(f) Unmatured Coupons and unexchanged Talons

- (i) Upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes, should be surrendered for payment together with all unexpired Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired 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, unexpired 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 unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented, where applicable, for redemption without all unexpired coupons and any unexpired Talon relating to it, and where any Bearer Note is presented, where applicable, for redemption without any unexpired Talon

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

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

(g) Talons

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

(h) Non-Business Days

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

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

(i) Redenomination, Renominalisation and Reconditioning

- (i) *Notice of redenomination:* If the country of the Specified Currency becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the **Redenomination Date**), being an Interest Payment Date under the Notes falling on or after the date on which that country becomes a Participating Member State.
- (ii) *Redenomination:* Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
 - (a) the Notes shall be deemed to be redenominated into Euro in the specified denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however,*

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

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

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

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

8. Taxation

(a) Additional Amounts

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

- (i) to, or to a third party on behalf of, a Holder of a Note or Coupon who is liable for taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Kingdom of Spain other than the mere holding of the Note or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder thereof would have been entitled to such additional amounts on presenting the same for payment on the thirtieth such day; or
- (iii) to, or to a third party on behalf of, a Holder or Noteholder in respect of whom the Issuer (or an agent acting on behalf of the Issuer) has not received such information as may be necessary to allow payments on such Note to be made free and clear of withholding tax or deduction on account of any taxes imposed by a Tax Jurisdiction, including when the Issuer (or an agent acting on behalf of the Issuer) does not receive such information concerning such Noteholder's identity and tax residence as may be required in order to comply with the procedures that may be implemented to comply with the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007 eventually made by the Spanish Tax Authorities; or
- (iv) presented for payment in the Kingdom of Spain; or
- (v) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement).

(b) Tax Credit Payment

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

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

(c) **Tax Credit Clawback**

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

(d) **Tax Affairs**

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

(e) **Definitions**

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

9. Prescription

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

10. Events of Default

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

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

- (a) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent by any Noteholder; or
- (c) *Cross-Default*: (i) subject as provided below, any Relevant Indebtedness incurred by the Issuer or the Guarantor becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or the Guarantor, as the case may be, or, provided that no event of default on such Relevant Indebtedness, however described, has occurred, at the option of any person entitled to such Relevant Indebtedness, or (ii) any Relevant Indebtedness of the Issuer or of the Guarantor is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or the Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of any Relevant Indebtedness, provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €125,000,000 or its equivalent in other currencies.

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

- (d) *Enforcement Proceedings*: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or
- (e) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (f) *Insolvency, etc*: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it, or (iv) any other proceeding is commenced in respect of the Issuer or the Guarantor or any Relevant Subsidiary which requires the application of priorities provided by any applicable Spanish laws; or

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

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

11. Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

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

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

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

(b) Modification of Agency Agreement

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

12. Replacement of Notes, Certificates, Coupons and Talons

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

13. Further Issues

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

14. Notices

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

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

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

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

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

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

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

15. Substitution of the Issuer

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

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

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

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

16. Currency Indemnity

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

17. Governing Law and Jurisdiction

(a) Governing Law

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

(b) English courts

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

(c) Appropriate forum

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

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

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

(e) Process Agent

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

18. Rights of Third Parties

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