

Offering Circular



Santander Central Hispano

## Santander Issuances, S.A. Unipersonal

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

### Series 1 €500,000,000

### Guaranteed Fixed to Floating Rate Subordinated Notes due 2019

and

### Series 2 €500,000,000

### Guaranteed Floating Rate Subordinated Notes due 2014

each guaranteed by

## Banco Santander Central Hispano, S.A.

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

The issue price of the Series 1 €500,000,000 Guaranteed Fixed to Floating Rate Subordinated Notes due 2019 (the "**2019 Notes**") of Santander Issuances, S.A. Unipersonal (the "**Issuer**") is 99.55% of their principal amount. The issue price of the Series 2 €500,000,000 Guaranteed Floating Rate Subordinated Notes due 2014 (the "**2014 Notes**") and together with the 2019 Notes, the "**Notes**") of the Issuer is 99.857% of their principal amount.

Unless previously redeemed or cancelled, the 2019 Notes will be redeemed at their principal amount on the interest payment date falling in September 2019 and the 2014 Notes will be redeemed on the interest payment date falling in September 2014. Subject to Bank of Spain consent (and in any event no earlier than five years after the Closing Date) the Notes are subject to redemption in whole at their principal amount at the option of the Issuer (a) in the event of certain changes affecting taxation in Spain; or (b) on the interest payment date falling in (i) September 2014 (in the case of the 2019 Notes) and; (ii) September 2009 (in the case of the 2014 Notes) and thereafter on any interest payment date.

The 2019 Notes will bear interest from (and including) 30th September 2004 (the "Closing Date") to (but excluding) 30th September 2014 at the rate of 4.5% per annum payable in arrear on 30th September in each year. From (and including) 30th September 2014, the 2019 Notes will bear interest at the rate of 0.86% per annum above three month EURIBOR payable quarterly in arrear. The 2014 Notes will bear interest from (and including) 30th September 2004 at the rate of 0.25% per annum above three month EURIBOR and from (and including) the interest payment date falling in September 2009 at the rate of 0.75% per annum above three month EURIBOR, in each case payable quarterly in arrear.

**Potential holders are alerted to the statements on page 3 regarding the tax treatment in Spain of income in respect of Notes and to the disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of certain Noteholders. In particular, income in respect of the Notes will be subject to withholding tax if certain information regarding Noteholders is not received by the Guarantor as described herein.**

Application has been made to list the Notes on the Luxembourg Stock Exchange.

Each of the 2019 Notes and the 2014 Notes will be in bearer form and in the denomination of €100,000 each. Each of the 2019 Notes and the 2014 Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around the **Closing Date** with a common depositary for Euroclear Bank, S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**", and together with Euroclear the "**Clearing Systems**"). Each Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. Each Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of €100,000 each and with interest coupons attached. See "Summary of Provisions Relating to the Notes in Global Form".

Citigroup

Goldman Sachs International

JPMorgan

Each of the Issuer and Banco Santander Central Hispano, S.A. (the “**Guarantor**” or the “**Bank**”) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. References herein to the “**Offering Circular**” are to this document.

The Issuer and the Guarantor confirm that the Offering Circular is true and accurate in all material respects and not misleading; there are no other facts in relation to the information contained or incorporated by reference herein the omission of which would, in the context of the issue of the Notes, make any statement herein misleading in any material respect; and all reasonable enquires have been made to verify the foregoing. The Issuer and the Guarantor have further confirmed to the managers named herein under “Subscription and Sale” (the “**Managers**”) that the Offering Circular contains all such information as investors and their professional advisers would reasonably require, and reasonably expect to find, for the purposes of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Guarantor and of the rights attaching to the Notes.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor, the Guarantor and the companies whose accounts are consolidated with those of the Guarantor (together, the “**Group**”) or the Notes other than as contained in this Offering Circular or as contained in any of the documents incorporated by reference herein, or as contained in any of the documents incorporated by reference herein, or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Offering Circular.

No representation or warranty is made or implied by the Managers or any of their respective affiliates, and neither the Managers nor any of their respective affiliates make any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in the Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

This Offering Circular may only be used for the purpose for which it has been published. No person is authorised to give information other than that contained herein and in the documents referred to herein and which are made available for inspection by the public at the specified office of the Fiscal Agent and the Luxembourg Paying Agent.

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

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

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

*In this Offering Circular, unless otherwise specified, references to: “€” or “euro” are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; and “U.S. dollars” or “Dollars” are to United States dollars.*

*Under Spanish law, income in respect of the Notes will be subject to withholding tax in Spain, currently at the rate of 15%, in the case of (a) individual holders who are resident in Spain; or (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5th July). The Guarantor is required pursuant to Spanish law, to submit to the Spanish tax authorities certain details relating to holders of the Notes. Holders in respect of whom such information is not provided, in accordance with procedures described herein, to the Guarantor will receive payments subject to Spanish withholding, currently at the rate of 15%. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases (See “Terms and Conditions of the 2019 Notes – Taxation”, “Terms and Conditions of the 2014 Notes – Taxation” on pages 11 and 20, respectively and “Taxation – Disclosure of Noteholder Information in Connection with Interest Payments” on page 60).*

*The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the Fiscal Agent (as defined on page 6) in the collection of the details referred to above from Noteholders. If any Clearing System is, in the future, unable to facilitate the collection of such information it may decline to allow the Notes to be cleared through such Clearing System and this may affect the liquidity of the Notes. Provisions have been made for the Notes, in such case, to be represented by definitive Notes (See “Terms and Conditions of the 2019 Notes” and “Terms and Conditions of the 2014 Notes” on pages 6 and 16, respectively). The procedures agreed and fully described in the Fiscal Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.*

*The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Offering Circular is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Noteholders must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. None of the Issuer, the Guarantor, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.*

*The Issuer and the Guarantor, as applicable, may, in the future, make a withholding on payments to holders of Notes who are subject to corporation tax in Spain if currently held opinions of the Spanish tax authorities change (see “Taxation and Disclosure of Noteholder Information in Connection with Interest Payments – 2. Legal Entities with Tax Residency in Spain” on page 61).*

*Under Spanish law, the Issuer is required to appoint a commissioner (comisario) (the “Commissioner”) in relation to the Notes. The Commissioner owes certain obligations to the Syndicate of Noteholders (as described in “The Regulations”), in particular, the Commissioner is required to defend the common interests of the Noteholders. However, prospective investors should note that the Commissioner will be an individual appointed by the Issuer and such individual may also be an employee or officer of the Issuer or the Guarantor.*

*In connection with the issue of the Notes, J.P. Morgan Securities Ltd. (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.*

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## **Documents Incorporated by Reference**

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

- (1) the published annual audited financial statements (on both a consolidated basis and a non-consolidated basis) of the Guarantor for the years ending 31st December 2003, 31st December 2002 and 31st December 2001; and
- (2) the published semi-annual interim audited financial statements of the Guarantor (on a consolidated basis) for the six month period ending 30th June 2004; and
- (3) the published semi-annual interim unaudited financial statements of the Guarantor (on a consolidated basis) for the six month period ending 30th June 2003.

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

## Terms and Conditions of the 2019 Notes

*The following is the text of the Terms and Conditions of the 2019 Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:*

The euro 500,000,000 Guaranteed Fixed to Floating Rate Subordinated Notes due 2019 (the **"2019 Notes"**, which expression includes any further notes issued pursuant to Condition 12 (*Further issues*) of Santander Issuances, S.A. Unipersonal (the **"Issuer"**)) are the subject of (a) an *escritura pública* dated 28th September 2004 (the **"2019 Public Deed"**), (b) a deed of guarantee dated 28th September, 2004 (as amended or supplemented from time to time, the **"Deed of Guarantee"**) entered into by Banco Santander Central Hispano, S.A. (the **"Guarantor"**) and, (c) a fiscal agency agreement dated 28th September 2004 (as amended or supplemented from time to time, the **"Agency Agreement"**) between the Issuer, the Guarantor, JPMorgan Chase Bank as fiscal agent (the **"Fiscal Agent"**, which expression includes any successor fiscal agent appointed from time to time in connection with the 2019 Notes) and the paying agents named therein (together with the Fiscal Agent, the **"Paying Agents"**, which expression includes any successor or additional paying agents appointed from time to time in connection with the 2019 Notes) and JPMorgan Chase Bank as agent bank (the **"Agent Bank"**, which expression includes any successor agent bank appointed from time to time in connection with the 2019 Notes). Certain provisions of these Conditions are summaries of the 2019 Public Deed, the Deed of Guarantee and the Agency Agreement and subject to their detailed provisions. The holders of the 2019 Notes (the **"2019 Noteholders"**) and the holders of the related interest coupons (the **"2019 Couponholders"** and the **"2019 Coupons"**, respectively) are bound by, and are deemed to have notice of, all the provisions of the 2019 Public Deed, the Deed of Guarantee and the Agency Agreement applicable to them. Copies of the 2019 Public Deed, the Deed of Guarantee and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

### 1. Form, Denomination and Title

The 2019 Notes are serially numbered and in bearer form in the denomination of euro 100,000 with 2019 Coupons and talons (each, a **"2019 Talon"**) for further 2019 Coupons attached at the time of issue. Title to the 2019 Notes and the 2019 Coupons and the 2019 Talons will pass by delivery. The holder of any 2019 Note, 2019 Coupon or 2019 Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the 2019 Notes under the Contracts (Rights of Third Parties) Act 1999.

### 2. Status and Guarantee

- (a) *Status of the 2019 Notes:* The 2019 Notes constitute direct, subordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and *pari passu* with all other present and future subordinated obligations of the Issuer except for certain subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the 2019 Notes. In the event of insolvency (*concurso*) of the Issuer, under *Ley 22/2003 de 9 de julio, concursal* (**"Law 22/2003"**), claims relating to the 2019 Notes will fall within the category of "subordinated debts" (as defined in Law 22/2003). The obligations of the Issuer under the 2019 Notes, whether on account of principal, interest or otherwise, are subordinated to all other unsecured and unsubordinated obligations of the Issuer. After payment in full of unsubordinated debts but before distributions to shareholders, under article 92 of Law 22/2003, the Issuer will meet such subordinated debts in the following order and *pro rata* within each class: (i) late or incorrect claims; (ii) contractually subordinated debt (such as the 2019 Notes); (iii) interest (such as interest due on the 2019 Notes accrued and unpaid until the commencement of the insolvency proceedings (*concurso*)); (iv) fines; (v) claims of creditors which are related to the Issuer; and (vi) detrimental claims against the Issuer where a



Spanish court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*).

- (b) *Guarantee of the 2019 Notes*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the 2019 Notes. This guarantee (the "**Guarantee**") constitutes direct unsecured and subordinated obligations of the Guarantor which will at all times rank *pari passu* with all other present and future subordinated obligations of the Guarantor except for certain subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the Guarantor's obligations under the Guarantee. In the event of insolvency (*concurso*) of the Guarantor, under Law 22/2003, claims relating to the Guarantee will fall within the category of "subordinated debts" (as defined in Law 22/2003). After payment in full of unsubordinated debts but before distributions to shareholders, under article 92 of Law 22/2003, the Guarantor will meet such subordinated debts in the following order and *pro rata* within each class: (i) late or incorrect claims; (ii) contractually subordinated debt (such as the claims under the Guarantee); (iii) interest; (iv) fines; (v) claims of creditors which are related to the Guarantor; and (vi) detrimental claims against the Guarantor where a Spanish court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*).

*The Guarantor shall apply to Banco de España for the subscription amount of the Notes to qualify as capital for capital adequacy purposes in compliance with the provisions of Royal Decree 1343/1992, of 6th November implementing Law 13/1992, of 1st June on own funds and supervision of financial entities on a consolidated basis, Bank of Spain Circular 5/1993, of 26th March and subsidiary regulations.*

### 3. Interest

- (a) *Accrual of fixed rate interest*: The 2019 Notes bear interest from (and including) 30th September 2004 (the "**Issue Date**") to (but excluding) 30th September 2014 at the rate of 4.50% per annum (the "**Fixed Rate of Interest**") payable in arrear on 30th September in each year (each, a "**Fixed Rate Interest Payment Date**"), subject as provided in Condition 5 (*Payments*).

The amount of interest payable on each Fixed Rate Interest Payment Date shall be euro 4,500 in respect of each 2019 Note of euro 100,000 denomination. If interest is required to be paid in respect of a 2019 Note on any other date, it shall be calculated by applying the Fixed Rate of Interest to the principal amount of such 2019 Note, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Fixed Rate Interest Payment Date to (but excluding) the next Fixed Rate Interest Payment Date.

- (b) *Accrual of floating rate interest*: The 2019 Notes will bear interest in accordance with Condition 3(c) (*Floating Rate of Interest*) from (and including) 30th September 2014 (the "**Floating Rate Commencement Date**"), payable on each 30th March, 30th June, 30th September and 30th December in each year (each, a "**Floating Rate Interest Payment Date**"), subject as provided in Condition 5 (*Payments*); *provided, however, that*, if any Floating Rate Interest Payment Date would otherwise fall on a date which is not a TARGET Settlement Day (as defined below), it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) the Floating Rate Commencement Date or any Floating Rate Interest Payment Date and ending on (but excluding) the next Floating Rate Interest Payment Date is herein called a "**Floating Rate Interest Period**".

- (c) *Floating Rate of interest:* The rate of interest applicable to the 2019 Notes pursuant to Condition 3(b) (the “**Floating Rate of Interest**”) for each Floating Rate Interest Period will be determined by the Agent Bank on the following basis:
- (i) the Agent Bank will determine the rate for deposits in Euro for a period equal to the relevant Floating Rate Interest Period which appears on the display page designated 248 on the Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11:00 a.m., (Brussels time), on the second TARGET Settlement Day before the first day of the relevant Floating Rate Interest Period (the “**Interest Determination Date**”);
  - (ii) if such rate does not appear on that page, the Agent Bank will:
    - (A) request the principal Eurozone office of each of four major banks in the Eurozone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date to prime banks in the Eurozone interbank market for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time; and
    - (B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
  - (iii) if fewer than two such quotations are provided as requested, the Agent Bank will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Eurozone, selected by the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Floating Rate Interest Period for loans in Euro to leading European banks for a period equal to the relevant Floating Rate Interest Period and in an amount that is representative for a single transaction in that market at that time,
- and the Floating Rate of Interest for such Floating Rate Interest Period shall be the sum of 0.86% per annum and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Floating Rate Interest Period, the Floating Rate of Interest applicable to the 2019 Notes during such Floating Rate Interest Period will be the sum of 0.86% per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the 2019 Notes in respect of a preceding Floating Rate Interest Period.
- (d) *Calculation of Floating Interest Amount:* The Agent Bank will, as soon as practicable after the Interest Determination Date in relation to each Floating Rate Interest Period, calculate the amount of interest (the “**Interest Amount**”) payable in respect of each 2019 Note for such Floating Rate Interest Period. The Interest Amount will be calculated by applying the Floating Rate of Interest for such Floating Rate Interest Period to the principal amount of such 2019 Note, multiplying the product by the actual number of days in such Floating Rate Interest Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (e) *Publication:* The Agent Bank will cause each Floating Rate of Interest and Interest Amount determined by it, together with the relevant Floating Rate Interest Payment Date, to be notified to the Issuer, the Guarantor, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the 2019 Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the 2019 Noteholders. The Agent Bank will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) in the event of an extension or shortening of the relevant Interest Period.
- (f) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Agent Bank will (in the absence of manifest error) be binding on the



Issuer, the Guarantor, the Paying Agents, the 2019 Noteholders and the 2019 Couponholders and (subject as aforesaid) no liability to any such person will attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

- (g) *Interpretation:* In these Conditions:

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

**"TARGET Settlement Day"** means a day on which the TARGET System is open; and

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

- (h) *Interest after redemption:* Each 2019 Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 3 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such 2019 Note up to that day are received by or on behalf of the relevant 2019 Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the 2019 Noteholders that it has received all sums due in respect of the 2019 Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

#### 4. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the 2019 Notes will be redeemed at their principal amount on the Floating Rate Interest Payment Date falling in September 2019, subject as provided in Condition 5 (*Payments*).
- (b) *Regulatory Capital:* Pursuant to Spanish capital adequacy rules, the 2019 Notes may not be redeemed until five years after the Issue Date and, thereafter, may only be redeemed with prior Bank of Spain (*Banco de España*) consent.
- (c) *Redemption for tax reasons:* Subject to Condition 4(b), if (i) as a result of any change in the laws or regulations of The Kingdom of Spain or in either case of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the Issue Date, the Issuer (or, in the case of a demand under the Guarantee, the Guarantor) would be required to pay additional amounts as provided in Condition 6 and (ii) such circumstances are evidenced by the delivery by the Issuer or (as the case may be) the Guarantor to the Fiscal Agent of a certificate signed by two directors of the Issuer or (as the case may be) the Guarantor stating that such circumstances prevail and describing the facts leading thereto, an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail and a copy of the *Banco de España* consent to the redemption, the Issuer may, at its option and having given no less than thirty nor more than sixty days' notice (ending, in the case of a redemption after 30th September 2014, on a Floating Rate Interest Payment Date) to the 2019 Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding 2019 Notes (in accordance with *Banco de España* requirements) at their principal amount, together with accrued interest (if any) thereon provided, however, that no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or (as the case may be) the Guarantor would be obliged to pay such additional amounts were a payment in respect of the 2019 Notes then due.
- (d) *Redemption at the option of the Issuer:* Subject to Condition 4(b), the 2019 Notes may be redeemed at the option of the Issuer in whole, but not in part, on the Fixed Rate Interest Payment Date falling in September 2014 or on any Floating Rate Interest Payment Date thereafter, each, a **"Call Settlement Date"** at a price equal to 100% of their principal amount plus any accrued but unpaid interest on the Issuer's giving not less than 30 nor more than 60 days' notice to the 2019 Noteholders (which notice shall be irrevocable and

shall oblige the Issuer to redeem the 2019 Notes on the relevant Call Settlement Date at such price plus accrued interest to such date).

- (e) *No other redemption:* The Issuer shall not be entitled to redeem the 2019 Notes otherwise than as provided in paragraphs (a) (*Scheduled Redemption*) to (d) (*Redemption at the option of the Issuer*) above.
- (f) *Purchase:* Neither the Issuer, the Guarantor nor any of their respective consolidated subsidiaries may at any time purchase 2019 Notes in the open market or otherwise and at any price.
- (g) *Cancellation:* All 2019 Notes so redeemed by the Issuer, the Guarantor or any of their respective consolidated subsidiaries and any unmatured 2019 Coupons or unexchanged 2019 Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 5. Payments

- (a) *Principal:* Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of 2019 Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by 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 which banks have access to the TARGET System.
- (b) *Interest:* Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured 2019 Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate 2019 Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws:* All payments in respect of the 2019 Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*). No commissions or expenses shall be charged to the 2019 Noteholders or 2019 Couponholders in respect of such payments.
- (d) *Unmatured 2019 Coupons void:* On the due date for redemption of any 2019 Note pursuant to Condition 4(a) (*Scheduled redemption*), Condition 4(c) (*Redemption for tax reasons*), Condition 4(d) (*Redemption at the option of the Issuer*) or Condition 7 (*Events of Default*), all unmatured 2019 Coupons (if any) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (e) *Payments on business days:* If the due date for payment of any amount in respect of any 2019 Note or 2019 Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.
- (f) *Payments other than in respect of matured 2019 Coupons:* Payments of interest other than in respect of matured 2019 Coupons shall be made only against presentation of the relevant 2019 Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments:* If a Paying Agent makes a partial payment in respect of any 2019 Note or 2019 Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (h) *Exchange of 2019 Talons:* On or after the maturity date of the final 2019 Coupon which is (or was at the time of issue) part of a coupon sheet relating to the 2019 Notes (each, a “**2019 Coupon Sheet**”), the 2019 Talon forming part of such 2019 Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further 2019 Coupon Sheet (including a further 2019 Talon but excluding any 2019 Coupons in respect of which

claims have already become void pursuant to Condition 8 (*Prescription*)). Upon the due date for redemption of any 2019 Note, any unexchanged 2019 Talon relating to such 2019 Note shall become void and no 2019 Coupon will be delivered in respect of such 2019 Talon.

## 6. Taxation

- (a) All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the 2019 Notes, the 2019 Coupons and the Guarantee by the Issuer or the Guarantor (as the case may be) will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the 2019 Noteholder or 2019 Couponholder (as the case may be) of such amounts as would have been received by them had no such withholding or deduction been required.
- (b) Neither the Issuer nor the Guarantor shall be required to pay any additional amounts as referred to in Condition 6(a) in relation to any payment in respect of any 2019 Note or 2019 Coupon:
- (i) to, or to a third party on behalf of, a 2019 Noteholder or 2019 Couponholder who is liable for such taxes, duties, assessments or governmental charges in respect of the relevant 2019 Note or 2019 Coupon by reason of his having some connection with The Kingdom of Spain other than the mere holding of such 2019 Note or 2019 Coupon; or
  - (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer or the Guarantor (or the Fiscal Agent on its behalf) does not receive such details concerning such holder's identity and country of residence as it requires in order to comply with Law 19/2003 of 4th July, Royal Decree 1778/2004 of 30th July, Royal Legislative Decree 4/2004 of 5th March and Order of 22 of December 1999; or
  - (iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
  - (iv) where the withholding or deduction referred to in Condition 6(a) is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
  - (v) presented for payment by or on behalf of a holder of a 2019 Note or 2019 Coupon who would have been able to avoid such withholding or deduction by presenting the relevant 2019 Note or 2019 Coupon to another Paying Agent in a Member State of the European Union; or
  - (vi) to, or to a third party on behalf of: an individual resident for tax purposes in The Kingdom of Spain; or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5th July); or
  - (vii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish Corporation Tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27th July 2004 and require a withholding to be made.

*A list of the tax havens referred to in Condition 6(b)(vi) as at the Closing Date is set out on page 63.*

- (c) For the purposes of these Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Fiscal Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders of 2019 Notes and 2019 Coupons, notice to that effect shall have been duly given to the 2019 Noteholders in accordance with Condition 13.
- (d) Unless the context otherwise requires, any reference in these Conditions to “**principal**” shall include any other amounts in the nature of principal payable pursuant to these Conditions and “**interest**” shall include any other amounts in the nature of interest payable under these Conditions.

*See “Taxation – Disclosure of Noteholder Information in Connection with Interest Payments” for a fuller description of certain tax considerations (particularly in relation to holders which are resident in Spain) relating to the Notes, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of holders of Notes.*

## 7. **Events of Default**

If any of the following events occurs and is continuing:

- (a) *Non-payment*: if default is made in the payment of any interest or principal due in respect of the 2019 Notes and such default continues for a period of seven days; or
- (b) *Breach of other obligations*: if the Issuer or the Guarantor fails to perform or observe any of its other obligations under or in respect of the 2019 Notes, the Guarantee or the Fiscal Agency Agreement and (except in any case where such failure is incapable of remedy when no such continuation as is hereinafter mentioned will be required) the failure continues for a period of 30 days next; or
- (c) *Winding up*: if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor (except for the purpose of reconstruction or a merger or amalgamation which has been previously approved by a Resolution of the Syndicate of 2019 Noteholders or a merger with another financial institution (in which case no such approval is required) provided that the surviving entity has or is assigned as soon as practicable after the merger a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer or the Guarantor, as the case may be, immediately before such merger); or
- (d) *Cessation of business*: if the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its business, otherwise than for the purposes of a reorganisation, restructuring, merger or amalgamation previously approved by a resolution of the Syndicate of 2019 Noteholders or a merger with another financial institution (in which case no such approval is required), or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, any of its debts (or any class thereof) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law; or
- (e) *Insolvency proceedings*: if proceedings are initiated against the Issuer or the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or the Guarantor or in relation to the whole or a part of the undertaking or assets of either of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of either of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets or any of them, which in any such case is not discharged within 14 days; or
- (f) *Arrangements with creditors*: if the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition,

reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or

- (g) *Guarantee*: if the Guarantee ceases to be a valid and binding obligation of the Guarantor or it becomes unlawful for the Guarantor to perform its obligations under the Guarantee or the Guarantee is claimed by the Issuer or the Guarantor not to be in full force and effect,

then, following a Resolution of the Syndicate of 2019 Noteholders, the Commissioner in respect of all 2019 Notes (or any 2019 Noteholder in respect of its 2019 Notes only provided such 2019 Noteholder does not act in contravention of the Resolution of the Syndicate (if any)) may, by written notice to the Issuer, at the specified office of the Fiscal Agent, declare that such 2019 Notes and all interest then accrued on such 2019 Notes shall be forthwith due and payable, whereupon the same shall become immediately due and payable at 100% of their principal amount without presentment, demand, protest or other notice of any kind, all of which the Issuer expressly waives.

## 8. **Prescription**

Claims for principal shall become void unless the relevant 2019 Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant 2019 Coupons are presented for payment within five years of the appropriate Relevant Date.

## 9. **Replacement of 2019 Notes, 2019 Coupons and 2019 Talons**

If any 2019 Note, 2019 Coupon or 2019 Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced 2019 Notes, 2019 Coupons or 2019 Talons must be surrendered before replacements will be issued.

## 10. **Agents**

In acting under the Agency Agreement and in connection with the 2019 Notes and the 2019 Coupons, the Paying Agents and the Agent Bank act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the 2019 Noteholders or 2019 Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or agent bank and additional or successor paying agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a fiscal agent and an agent bank, (b) a paying agent in Luxembourg and (c), if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 is brought into force, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the 2019 Noteholders.

## 11. **Syndicate of 2019 Noteholders**

The 2019 Noteholders shall meet in accordance with the regulations for the Syndicate of 2019 Noteholders (the “**Regulations**”). The Regulations shall contain the rules governing the functioning of the Syndicate and the rules governing its relationship with the Issuer and shall be attached to the 2019 Public Deed.

The temporary Commissioner is Jesús Merino Merchán. Upon the subscription of the 2019 Notes, the Commissioner will call a general meeting of the Syndicate, the duty of which shall



be to ratify or oppose the acts of the temporary Commissioner, confirm his appointment or appoint a person to substitute him and to ratify the Regulations. References in these Conditions to the “**Commissioner**” shall mean the trustee (*comisario*) as this term is defined under the Spanish Corporations Law (*Ley de Sociedades Anónimas*), of the Syndicate of 2019 Noteholders.

*The Regulations will be substantially in the form set out on pages 26 to 28 of the offering circular relating to the 2019 Notes.*

Provisions for meetings of the Syndicate of 2019 Noteholders will be contained in the Regulations and the Fiscal Agency Agreement (which shall have effect as if incorporated herein).

## 12. Further Issues

The Issuer may from time to time, without the consent of the 2019 Noteholders or the 2019 Couponholders, create and issue further notes having the same terms and conditions as the 2019 Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the 2019 Notes, provided such further notes comply with Spanish capital adequacy rules in force at the time of their issue.

## 13. Notices

So long as the 2019 Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices to the 2019 Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. 2019 Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the 2019 Noteholders. Copies of any notices given to any 2019 Noteholders shall also be given to the Commissioner.

## 14. Currency Indemnity

The currency in which the 2019 Notes are denominated (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer in respect of the 2019 Notes, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any 2019 Noteholder or 2019 Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such holder 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 that amount is less than the amount in the Contractual Currency expressed to be due to any 2019 Noteholder or 2019 Couponholder in respect of such 2019 Note or 2019 Coupon the Issuer shall indemnify such holder against any loss sustained by such holder as a result. In any event, the Issuer shall indemnify each such holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any 2019 Noteholder or 2019 Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the 2019 Notes or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant 2019 Noteholder or 2019 Couponholder and no proof or evidence of any actual loss will be required by the Issuer.

## 15. Governing Law and Jurisdiction

15.1 The issue of the 2019 Notes, including their legal nature (*obligaciones*) and status as well as the status of the Guarantee, the capacity of the Issuer and the Guarantor, the relevant corporate resolutions, the appointment of the Commissioner and the constitution of the Syndicate of 2019 Noteholders shall be governed by Spanish law. The Conditions and all matters arising from or connected with the 2019 Notes, the Deed of Guarantee, the Fiscal

Agency Agreement and the Deed of Covenant are governed by, and shall be construed in accordance with, English law.

- 15.2 The courts of England have exclusive jurisdiction to settle any disputes, which may arise out of or in connection with the 2019 Notes (respectively, "**Proceedings**" and "**Disputes**").
- 15.3 The Issuer and the Guarantor irrevocably waive any objection which they might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.
- 15.4 The Issuer and the Guarantor agree that the process by which any proceedings in England are begun may be served on them by being delivered to Banco Santander Central Hispano, S.A., London Branch at Santander House, 100 Ludgate Hill, London EC4M 7NJ or such other person on whom, and at such other place at which, process may from time to time be served on the Issuer or the Guarantor in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If the appointment of the person mentioned in this Condition 15.4 ceases to be effective, each of the Issuer and the Guarantor shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within fifteen days, any 2019 Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Fiscal Agent. Nothing contained herein shall affect the right of any 2019 Noteholder to serve process in any other manner permitted by law.
- 15.5 The submission to the exclusive jurisdiction of the courts of England is for the benefit of the 2019 Noteholders only and therefore shall not (and shall not be construed so as to) limit the right of the 2019 Noteholders or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

*There will appear at the foot of the Conditions endorsed on each 2019 Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.*

## Terms and Conditions of the 2014 Notes

*The following is the text of the Terms and Conditions of the 2014 Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:*

The euro 500,000,000 Guaranteed Floating Rate Subordinated Notes due 2014 (the “**2014 Notes**”) of Santander Issuances, S.A. Unipersonal (the “**Issuer**”) are the subject of (a) an *escritura pública* dated 28th September 2004 (the “**2014 Public Deed**”), (b) a deed of guarantee dated 28th September, 2004 (as amended or supplemented from time to time, the “**Deed of Guarantee**”) entered into by Banco Santander Central Hispano, S.A. (the “**Guarantor**”) and, (c) a fiscal agency agreement dated 28th September 2004 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Guarantor, JPMorgan Chase Bank as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the 2014 Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the 2014 Notes) and JPMorgan Chase Bank as agent bank (the “**Agent Bank**”, which expression includes any successor agent bank appointed from time to time in connection with the 2014 Notes). Certain provisions of these Conditions are summaries of the 2014 Public Deed, the Deed of Guarantee and the Agency Agreement and subject to their detailed provisions. The holders of the 2014 Notes (the “**2014 Noteholders**”) and the holders of the related interest coupons (the “**2014 Couponholders**” and the “**2014 Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the 2014 Public Deed, the Deed of Guarantee and the Agency Agreement applicable to them. Copies of the 2014 Public Deed, the Deed of Guarantee and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

### 1. Form, Denomination and Title

The 2014 Notes are serially numbered and in bearer form in the denomination of euro 100,000 with 2014 Coupons and talons (each, a “**2014 Talon**”) for further 2014 Coupons attached at the time of issue. Title to the 2014 Notes and the 2014 Coupons and the 2014 Talons will pass by delivery. The holder of any 2014 Note, 2014 Coupon or 2014 Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the 2014 Notes under the Contracts (Rights of Third Parties) Act 1999.

### 2. Status and Guarantee

- (a) *Status of the 2014 Notes*: The 2014 Notes constitute direct and subordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and *pari passu* with all other present and future subordinated obligations of the Issuer except for certain subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the 2014 Notes. In the event of insolvency (*concurso*) of the Issuer, under *Ley 22/2003 de 9 de julio, concursal* (“**Law 22/2003**”), claims relating to the 2014 Notes will fall within the category of “subordinated debts” (as defined in Law 22/2003). The obligations of the Issuer under the 2014 Notes, whether on account of principal, interest or otherwise, are subordinated to all other unsecured and unsubordinated obligations of the Issuer. After payment in full of unsubordinated debts but before distributions to shareholders, under article 92 of Law 22/2003, the Issuer will meet such subordinated debts in the following order and *pro rata* within each class: (i) late or incorrect claims; (ii) contractually subordinated debt (such as the 2014 Notes); (iii) interest (such as interest due on the 2014 Notes accrued and unpaid until the commencement of the insolvency proceedings (*Concurso*)); (iv) fines; (v) claims of creditors which are related to the Issuer; and (vi) detrimental claims against the Issuer where a Spanish court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*).

- (b) *Guarantee of the 2014 Notes*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the 2014 Notes. This guarantee (the “**Guarantee**”) constitutes direct, unsecured and subordinated obligations of the Guarantor which will at all times rank *pari passu* with all other present and future subordinated obligations of the Guarantor except for certain subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the Guarantor’s obligations under the Guarantee. In the event of insolvency (*concurso*) of the Guarantor, under Law 22/2003, claims relating to the Guarantee will fall within the category of “subordinated debts” (as defined in Law 22/2003). After payment in full of unsubordinated debts but before distributions to shareholders, under article 92 of Law 22/2003, the Guarantor will meet such subordinated debts in the following order and *pro rata* within each class: (i) late or incorrect claims; (ii) contractually subordinated debt (such as the claims under the Guarantee); (iii) interest; (iv) fines; (v) claims of creditors which are related to the Guarantor; and (vi) detrimental claims against the Guarantor where a Spanish court has determined that the relevant creditor has acted in bad faith (*rescisión concursal*).

*The Guarantor shall apply to Banco de España for the subscription amount of the Notes to qualify as capital for capital adequacy purposes in compliance with the provisions of Royal Decree 1343/1992, of 6th November implementing Law 13/1992, of 1st June on own funds and supervision of financial entities on a consolidated basis, Bank of Spain Circular 5/1993, of 26th March, and subsidiary regulations.*

### 3. Interest

- (a) *Accrual of interest*: The 2014 Notes will bear interest from 30th September 2004 (the “**Issue Date**”), payable on each 30th March, 30th June, 30th September and 30th December in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 5 (*Payments*); *provided, however, that*, if any Interest Payment Date would otherwise fall on a date which is not a TARGET Settlement Day (as defined below), it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called a “**Interest Period**”.

Each 2014 Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such 2014 Note up to that day are received by or on behalf of the relevant 2014 Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the 2014 Noteholders that it has received all sums due in respect of the 2014 Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

- (b) *Rate of interest*: The rate of interest applicable to the 2014 Notes (the “**Rate of Interest**”) for each Interest Period will be determined by the Agent Bank on the following basis:
- (i) the Agent Bank will determine the rate for deposits in Euro for a period equal to the relevant Interest Period which appears on the display page designated 248 on the Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m., (Brussels time), on the second TARGET Settlement Day before the first day of the relevant Interest Period (the “**Interest Determination Date**”);
  - (ii) if such rate does not appear on that page, the Agent Bank will:
    - (A) request the principal Eurozone office of each of four major banks in the Eurozone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the

Interest Determination Date to prime banks in the Eurozone interbank market for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time; and

- (B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the Agent Bank will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Eurozone, selected by the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be:

- (i) in relation to all Interest Periods (A) from and including the Issue Date (B) to but excluding the Interest Payment Date falling in September 2009, the sum of 0.25% per annum and the rate or (as the case may be) the arithmetic mean so determined; and
- (ii) in relation to all Interest Periods (A) from and including the Interest Payment Date falling in September 2009 (B) to but excluding the Interest Payment Date falling in September 2014, the sum of 0.75% per annum and the rate or (as the case may be) the arithmetic mean so determined;

*provided, however, that* if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the 2014 Notes during such Interest Period will be the sum of the relevant margin pursuant to paragraphs (i) and (ii) above and the rate or (as the case may be) arithmetic mean last determined in relation to the 2014 Notes in respect of a preceding Interest Period.

- (c) *Calculation of Interest Amount:* The Agent Bank will, as soon as practicable after the Interest Determination Date in relation to each Interest Period, calculate the amount of interest (the “**Interest Amount**”) payable in respect of each 2014 Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such 2014 Note, multiplying the product by the actual number of days in such Interest Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (d) *Publication:* The Agent Bank will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, to be notified to the Issuer, the Guarantor, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the 2014 Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the 2014 Noteholders. The Agent Bank will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) in the event of an extension or shortening of the relevant Interest Period.
- (e) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Agent Bank will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the 2014 Noteholders and the 2014 Couponholders and (subject as aforesaid) no liability to any such person will attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.



- (f) *Interpretation:* In these Conditions:

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

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

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

#### 4. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the 2014 Notes will be redeemed at their principal amount on the Interest Payment Date falling in September 2014, subject as provided in Condition 5 (*Payments*).
- (b) *Regulatory Capital:* Pursuant to Spanish capital adequacy rules, the 2014 Notes may not be redeemed until five years after the Issue Date and, thereafter, may only be redeemed with prior Bank of Spain (*Banco de España*) consent.
- (c) *Redemption for tax reasons:* Subject to Condition 4(b), if (i) as a result of any change in the laws or regulations of The Kingdom of Spain or in either case of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the Issue Date, the Issuer (or, in the case of a demand under the Guarantee, the Guarantor) would be required to pay additional amounts as provided in Condition 6 and (ii) such circumstances are evidenced by the delivery by the Issuer or (as the case may be) the Guarantor to the Fiscal Agent of a certificate signed by two directors of the Issuer or (as the case may be) the Guarantor stating that such circumstances prevail and describing the facts leading thereto, an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail and a copy of the *Banco de España* consent to the redemption, the Issuer may, at its option and having given no less than thirty nor more than sixty days’ notice (ending on an Interest Payment Date) to the 2014 Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding 2014 Notes (in accordance with *Banco de España* requirements) at their principal amount, together with accrued interest (if any) thereon provided, however, that no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or (as the case may be) the Guarantor would be obliged to pay such additional amounts were a payment in respect of the 2014 Notes then due.
- (d) *Redemption at the option of the Issuer:* Subject to Condition 4(b), the 2014 Notes may be redeemed at the option of the Issuer in whole, but not in part, on the Interest Payment Date falling in September 2009 or on any Interest Payment Date thereafter, (each, a “**Call Settlement Date**”) at a price equal to 100% of their principal amount plus any accrued but unpaid interest on the Issuer’s giving not less than 30 nor more than 60 days’ notice to the 2014 Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the 2014 Notes on the relevant Call Settlement Date at such price plus accrued interest to such date).
- (e) *No other redemption:* The Issuer shall not be entitled to redeem the 2014 Notes otherwise than as provided in paragraphs (a) (*Scheduled Redemption*) to (d) (*Redemption at the option of the Issuer*) above.
- (f) *Purchase:* Neither the Issuer, the Guarantor nor any of their respective consolidated subsidiaries may at any time purchase 2014 Notes in the open market or otherwise and at any price.
- (g) *Cancellation:* All 2014 Notes so redeemed by the Issuer, the Guarantor or any of their respective consolidated subsidiaries and any unmatured 2014 Coupons or unexchanged 2014 Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 5. Payments

- (a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of 2014 Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by 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 which banks have access to the TARGET System.
- (b) *Interest*: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured 2014 Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate 2014 Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: All payments in respect of the 2014 Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*). No commissions or expenses shall be charged to the 2014 Noteholders or 2014 Couponholders in respect of such payments.
- (d) *Unmatured 2014 Coupons void*: On the due date for redemption of any 2014 Note pursuant to Condition 4(a) (*Scheduled redemption*), Condition 4(c) (*Redemption for tax reasons*), Condition 4(d) (*Redemption at the option of the Issuer*) or Condition 7 (*Events of Default*), all unmatured 2014 Coupons (if any) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (e) *Payments on business days*: If the due date for payment of any amount in respect of any 2014 Note or 2014 Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.
- (f) *Payments other than in respect of matured 2014 Coupons*: Payments of interest other than in respect of matured 2014 Coupons shall be made only against presentation of the relevant 2014 Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any 2014 Note or 2014 Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (h) *Exchange of 2014 Talons*: On or after the maturity date of the final 2014 Coupon which is (or was at the time of issue) part of a coupon sheet relating to the 2014 Notes (each, a "**2014 Coupon Sheet**"), the 2014 Talon forming part of such 2014 Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further 2014 Coupon Sheet (including a further 2014 Talon but excluding any 2014 Coupons in respect of which claims have already become void pursuant to Condition 8 (*Prescription*)). Upon the due date for redemption of any 2014 Note, any unexchanged 2014 Talon relating to such 2014 Note shall become void and no 2014 Coupon will be delivered in respect of such 2014 Talon.

## 6. Taxation

- (a) All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the 2014 Notes, the 2014 Coupons and the Guarantee by the Issuer or the Guarantor (as the case may be) will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will

result in receipt by the 2014 Noteholder or 2014 Couponholder (as the case may be) of such amounts as would have been received by them had no such withholding or deduction been required.

- (b) Neither the Issuer nor the Guarantor shall be required to pay any additional amounts as referred to in Condition 6(a) in relation to any payment in respect of any 2014 Note or 2014 Coupon:
- (i) to, or to a third party on behalf of, 2014 Noteholder or 2014 Couponholder who is liable for such taxes, duties, assessments or governmental charges in respect of the relevant 2014 Note or 2014 Coupon by reason of his having some connection with The Kingdom of Spain other than the mere holding of such 2014 Note or 2014 Coupon; or
  - (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer or the Guarantor (or the Fiscal Agent on its behalf) does not receive such details concerning such holder's identity and country of residence as it requires in order to comply with Law 19/2003 of 4th July and Royal Decree 1778/2004 of 30th July or Royal Legislative Decree 4/2004 of 5th March and Order 22 of December 1999; or
  - (iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
  - (iv) where the withholding or deduction referred to in Condition 6.1 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
  - (v) presented for payment by or on behalf of a holder of a 2014 Note or 2014 Coupon who would have been able to avoid such withholding or deduction by presenting the relevant 2014 Note or 2014 Coupon to another Paying Agent in a Member State of the European Union; or
  - (vi) to, or to a third party on behalf of: an individual resident for tax purposes in The Kingdom of Spain; or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5th July); or.
  - (vii) to, or to a third party on behalf of, a Spanish-resident corporate entity if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27th July 2004 and require a withholding to be made.

*A list of the tax havens referred to in 6(b)(vi) as at the Closing Date is set out on page 63.*

- (c) For the purposes of these Conditions, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Fiscal Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders of 2014 Notes and 2014 Coupons, notice to that effect shall have been duly given to the 2014 Noteholders in accordance with Condition 12.
- (d) Unless the context otherwise requires, any reference in these Conditions to "**principal**" shall include any other amounts in the nature of principal payable pursuant to these Conditions and "**interest**" shall include any other amounts in the nature of interest payable under these Conditions.

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

## 7. Events of Default

If any of the following events occurs and is continuing:

- (a) *Non-payment*: if default is made in the payment of any interest or principal due in respect of the 2014 Notes and such default continues for a period of seven days; or
- (b) *Breach of other obligations*: if the Issuer or the Guarantor fails to perform or observe any of its other obligations under or in respect of the 2014 Notes, the Guarantee or the Fiscal Agency Agreement and (except in any case where such failure is incapable of remedy when no such continuation as is hereinafter mentioned will be required) the failure continues for a period of 30 days next; or
- (c) *Winding up*: if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor (except for the purpose of reconstruction or a merger or amalgamation which has been previously approved by a Resolution of the Syndicate of 2014 Noteholders or a merger with another financial institution (in which case no such approval is required) provided that the surviving entity has or is assigned as soon as practicable after the merger a rating by an internationally recognised rating agency at least equal to the then current rating of the Issuer or the Guarantor, as the case may be, immediately before such merger); or
- (d) *Cessation of business*: if the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its business, otherwise than for the purposes of a reorganisation, restructuring, merger or amalgamation previously approved by a resolution of the Syndicate of 2014 Noteholders or a merger with another financial institution (in which case no such approval is required), or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, any of its debts (or any class thereof) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law; or
- (e) *Insolvency proceedings*: if proceedings are initiated against the Issuer or the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or the Guarantor or in relation to the whole or a part of the undertaking or assets of either of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of either of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets or any of them, which in any such case is not discharged within 14 days; or
- (f) *Arrangements with creditors*: if the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or
- (g) *Guarantee*: if the Guarantee ceases to be a valid and binding obligation of the Guarantor or it becomes unlawful for the Guarantor to perform its obligations under the Guarantee or the Guarantee is claimed by the Issuer or the Guarantor not to be in full force and effect,

then, following a Resolution of the Syndicate of 2014 Noteholders, the Commissioner in respect of all 2014 Notes (or any 2014 Noteholder in respect of its 2014 Notes only provided such 2014 Noteholder does not act in contravention of the Resolution of the Syndicate (if any)) may, by written notice to the Issuer, at the specified office of the Fiscal Agent, declare that such 2014 Notes and all interest then accrued on such 2014 Notes shall be forthwith due and payable, whereupon the same shall become immediately due and payable at 100% of their principal amount without presentment, demand, protest or other notice of any kind, all of which the Issuer expressly waives.

## 8. Prescription

Claims for principal shall become void unless the relevant 2014 Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant 2014 Coupons are presented for payment within five years of the appropriate Relevant Date.

## 9. Replacement of 2014 Notes, 2014 Coupons and 2014 Talons

If any 2014 Note, 2014 Coupon or 2014 Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced 2014 Notes, 2014 Coupons or 2014 Talons must be surrendered before replacements will be issued.

## 10. Agents

In acting under the Agency Agreement and in connection with the 2014 Notes and the 2014 Coupons, the Paying Agents and the Agent Bank act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the 2014 Noteholders or 2014 Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or agent bank and additional or successor paying agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a fiscal agent and an agent bank, (b) a paying agent in Luxembourg and (c), if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 is brought into force, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the 2014 Noteholders.

## 11. Syndicate of 2014 Noteholders

The 2014 Noteholders shall meet in accordance with the regulations for the Syndicate of 2014 Noteholders (the “**Regulations**”). The Regulations shall contain the rules governing the functioning of the Syndicate and the rules governing its relationship with the Issuer and shall be attached to the 2014 Public Deed.

The temporary Commissioner is Jesús Merino Merchán. Upon the subscription of the 2014 Notes, the Commissioner will call a general meeting of the Syndicate, the duty of which shall be to ratify or oppose the acts of the temporary Commissioner, confirm his appointment or appoint a person to substitute him and to ratify the Regulations. References in these Conditions to the “**Commissioner**” shall mean the trustee (*comisario*) as this term is defined under the Spanish Corporations Law (*Ley de Sociedades Anónimas*), of the Syndicate of 2014 Noteholders.

*The Regulations will be substantially in the form set out on pages 26 to 28 of the offering circular relating to the 2014 Notes.*

Provisions for meetings of the Syndicate of 2014 Noteholders will be contained in the Regulations and the Fiscal Agency Agreement (which shall have effect as if incorporated herein).

## 12. Notices

So long as the 2014 Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices to the 2014 Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper



having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. 2014 Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the 2014 Noteholders. Copies of any notices given to any 2014 Noteholders shall also be given to the Commissioner.

### 13. **Currency Indemnity**

The currency in which the 2014 Notes are denominated (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer in respect of the 2014 Notes, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any 2014 Noteholder or 2014 Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such holder 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 that amount is less than the amount in the Contractual Currency expressed to be due to any 2014 Noteholder or 2014 Couponholder in respect of such 2014 Note or 2014 Coupon the Issuer shall indemnify such holder against any loss sustained by such holder as a result. In any event, the Issuer shall indemnify each such holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any 2014 Noteholder or 2014 Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the 2014 Notes or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant 2014 Noteholder or 2014 Couponholder and no proof or evidence of any actual loss will be required by the Issuer.

### 14. **Governing Law and Jurisdiction**

- 14.1 The issue of the 2014 Notes, including their legal nature (*obligaciones*) and status as well as the status of the Guarantee, the capacity of the Issuer and the Guarantor, the relevant corporate resolutions, the appointment of the Commissioner and the constitution of the Syndicate of 2014 Noteholders shall be governed by Spanish law. The Conditions and all matters arising from or connected with the 2014 Notes, the Deed of Guarantee, the Fiscal Agency Agreement and the Deed of Covenant are governed by, and shall be construed in accordance with, English law.
- 14.2 The courts of England have exclusive jurisdiction to settle any disputes, which may arise out of or in connection with the 2014 Notes (respectively, “**Proceedings**” and “**Disputes**”).
- 14.3 The Issuer and the Guarantor irrevocably waive any objection which they might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.
- 14.4 The Issuer and the Guarantor agree that the process by which any proceedings in England are begun may be served on them by being delivered to Banco Santander Central Hispano, S.A., London Branch at Santander House, 100 Ludgate Hill, London EC4M 7NJ or such other person on whom, and at such other place at which, process may from time to time be served on the Issuer or the Guarantor in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If the appointment of the person mentioned in this Condition 14.4 ceases to be effective, each of the Issuer and the Guarantor shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within fifteen days, any 2014 Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Fiscal Agent. Nothing contained herein shall affect the right of any 2014 Noteholder to serve process in any other manner permitted by law.

14.5 The submission to the exclusive jurisdiction of the courts of England is for the benefit of the 2014 Noteholders only and therefore shall not (and shall not be construed so as to) limit the right of the 2014 Noteholders or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

*There will appear at the foot of the Conditions endorsed on each 2014 Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.*

## The Regulations

*The following is an English translation of the Regulations of the syndicate of Noteholders (the "Syndicate") as attached to each of the 2019 Public Deed and the 2014 Public Deed. In the event of any discrepancies between this translation and the Spanish language original, the Spanish version of these Regulations shall prevail. References herein to "Notes" or "Noteholders" shall be deemed to mean the 2019 Notes or the 2014 Notes as the case may be, and the holders of the 2019 Notes or of the 2014 Notes, as the case may be.*

### CHAPTER I

**Article 1. Object.** – The object of this Syndicate is to protect the legitimate interests of Noteholders as against the Issuer, in accordance with current law and these Regulations, by using and preserving such interests collectively and through the representation determined by these Regulations.

**Article 2. Address.** – The address of the Syndicate shall be Plaza de Canalejas 1, 28014 Madrid. The General Meeting may, however, take place at any other location in Madrid for reasons of convenience and such location shall be specified in the relevant notice of meeting.

**Article 3. Duration.** – The Syndicate shall exist until the rights of Noteholders to principal, interest and any other right shall have been fulfilled. The Syndicate shall be automatically dissolved upon the fulfilment of all such rights.

### CHAPTER II

#### Governance of Syndicate

**Article 4. Governance.** – The governance of the Syndicate lies with the General Meeting and the Commissioner.

### CHAPTER III

#### General Meeting

**Article 5. Legal Nature.** – A duly convened and constituted General Meeting is the body that expresses the will of the Syndicate and its resolutions, approved in accordance with these Regulations, binding all Noteholders in the manner established by current law.

**Article 6. Convening General Meetings.** – The General Meeting shall be convened by the Board of Directors of Santander Issuances, S.A. Unipersonal or by the Commissioner, whenever they consider it appropriate. However, the Commissioner shall convene a General Meeting whenever the Noteholders, representing at least one-twentieth of the Notes outstanding, request a General Meeting in writing and specify in such request the aim of such a meeting. In this case, the General Meeting shall be held within thirty days following the date on which the Commissioner receives such request.

**Article 7. Method of Convening General Meetings.** – The General Meeting shall be convened (i) by publication in an English language newspaper in London (which is expected to be the Financial Times) and so long as any Note is listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe; (ii) by mail to Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme, or any other relevant clearing system; (iii) by publication of an announcement, in the Official Bulletin of the Mercantile Registry (*Boletín Oficial del Registro Mercantil*); and (iv) in one of the daily newspapers of greatest circulation in Madrid; in each case not less than 15 days in advance. Such publication shall describe the

relevant circumstances as set out in article 97 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*).

**Article 8. Right of Attendance.** – All Noteholders who have registered in their name in the relevant securities account at least one outstanding Note not less than 5 days prior to the date of the General Meeting shall be entitled to attend such meeting. The Directors of Santander Issuances, S.A. Unipersonal shall be entitled to attend the General Meeting, even if they are not given notice.

The Commissioner or the Issuer may approve the attendance of such experts or other advisers as it may deem necessary.

**Article 9. Proxies.** – All Noteholders with a right to attend the General Meeting shall be entitled to delegate their representation to any third party, who may be a holder of Notes. The right to represent shall be conferred in writing for each General Meeting.

**Article 10. Quorum.** – The General Assembly shall approve valid resolutions with an absolute majority of Notes in attendance and represented, so long as holders representing at least two thirds of Notes outstanding attend.

If such quorum is not achieved, the General Meeting may be convened by publication as described in Article 7 one month after the first meeting and resolutions may then be taken by an absolute majority of the Notes in attendance and represented.

Notwithstanding this Article, the General Meeting shall be convened and validly constituted to deal with any matter, so long as all Notes in circulation are in attendance and the attendants unanimously agree that the General Meeting be held.

The resolutions approved according to this article shall be binding on all Noteholders, including those that do not attend or those that dissent.

**Article 11. Chairman.** – The General Meeting shall be chaired by the Commissioner, who shall direct debates, deem discussions to be ended, as appropriate, and rule, in each case, whenever matters should be subject to a vote.

**Article 12. General Meeting.** – The General Meeting shall be held in Madrid, at the place and on the date set out in the announcement.

**Article 13. Attendance List.** – Before starting the agenda, the Commissioner shall make a list of attendees describing the nature or form of representation of each attendee and the number of Notes owned or held on behalf of another in respect of each attendee, totalling at the end of the list the number of Noteholders in attendance or represented, as well as the number of Notes in circulation.

**Article 14. Right to Vote.** – At the General Meeting, each Note represented (whether by a Noteholder or a third party) shall confer the right to one vote.

**Article 15. Powers of the General Meeting.** – The General Meeting may approve resolutions necessary for the better protection of the legitimate interests of the Noteholders as against the Issuer; modify, in agreement with the Issuer and with the relevant prior official authority, the terms and conditions of the Notes and adopt decisions on other similar matters; remove and appoint the Commissioner; exercise any corresponding judicial proceedings; and approve the expenses incurred in the protection of common interests.

**Article 16. Challenges to Resolutions.** – Resolutions of the General Meeting may be challenged by Noteholders in the circumstances set out in article 115 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*).

**Article 17. Minutes.** – Minutes of a General Meeting may be approved by the General Meeting itself immediately after the meeting, or otherwise within fifteen days following the date of the General Meeting, by the Commissioner and two Noteholders assigned such responsibility by the General Meeting.

**Article 18. Certification.** – The certification of the minute book shall be expedited by the Commissioner.

## CHAPTER IV

### The Commissioner

**Article 19. Legal Nature of the Commissioner.** – The Commissioner is concerned with the legal representation of the Syndicate and to act as the relationship body between the Syndicate and the Issuer.

**Article 20. Appointment and Duration of Post.** – The Commissioner shall be appointed by the General Meeting and shall exercise his post until substituted at a General Meeting.

**Article 21. Powers.** – The powers of the Commissioner shall be:

1. Protecting the common interests of the Noteholders.
2. Calling and chairing General Meetings.
3. Ability to attend, with the right to speak but not vote, the deliberations and meetings of the General Shareholders' Meetings and the Board Meetings of Santander Issuances, S.A. Unipersonal.
4. Informing the Issuer of the resolutions of the Syndicate.
5. Requiring from the Issuer the reports that either himself or the General Meeting determine to be of interest to the Noteholders.
6. Supervising the payment of interest and principal.
7. Reviewing the Issuer's books, personally or by a person delegated by him in writing.
8. Execution of resolutions of the General Meeting.
9. When the Issuer, by a reason imputable to it, postpones for more than six months the repayment of principal and payment of interest, the Commissioner shall have the power to propose to the Board the suspension of any of the directors and to call a General Shareholders' Meeting, if it has not already been called, when it considers that the directors should be substituted.

**Article 22. Responsibility.** – The Commissioner shall be responsible for carrying out his term of office in accordance with title IX of Book IV of the Civil Code.

## CHAPTER V

### General Arrangements

**Article 23. Syndicate Expenses.** – Ordinary expenses resulting from the maintenance of the Syndicate shall be for the account of Santander Issuances, S.A. Unipersonal, but they will not, in any case, exceed 2% of the gross annual interest accrued by the issued Notes.

**Article 24. Accounts.** – The Commissioner shall be responsible for keeping the accounts of the Syndicate and will submit them for approval to the General Meeting and to the Board Meeting of Santander Issuances, S.A. Unipersonal.

**Article 25. Dissolution of the Syndicate.** – If the Syndicate is dissolved for one of the reasons given in Article 3, the Commissioner in charge at the time shall continue with his duties until the dissolution of the Syndicate and shall produce final accounts to the last General Meeting and to the Board of Directors of Santander Issuances, S.A. Unipersonal.

**Article 26. Jurisdiction.** – For the purposes of any issues arising from these Regulations, the Noteholders, by reason only of being such, expressly renounce their own jurisdiction for that of the courts of Madrid.

**Article 27. (Additional).** – The current applicable legislation shall apply to matters for which no provision is made in these Regulations.

*The Fiscal Agency Agreement contains provisions for the convening of the Syndicate.*



## Summary of Provisions Relating to the Notes in Global Form

Each of the 2019 Notes and the 2014 Notes will initially be in the form of a Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under each Temporary Global Note unless exchange for interests in the relevant Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of €100,000 each at the request of the bearer of the relevant Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 7 (*Events of Default*) occurs.

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

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the relevant Permanent Global Note for Definitive Notes; or
- (b) the relevant Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of such Permanent Global Note on the due date for payment,

then such Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the relevant Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of such Permanent Global Note or others may have under a deed of covenant dated 28th September 2004 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the relevant Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

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

*Payments:* All payments in respect of each Temporary Global Note and each Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of such Temporary Global Note or (as the case may be) such Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is

made in respect of a Temporary Global Note or (as the case may be) a Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

*Notices:* Notwithstanding Condition 13 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and such Permanent Global Note is (or such Permanent Global Note and/or such Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however, that*, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

## **Use of Proceeds**

The net proceeds of the issue of the 2019 Notes are expected to amount to €497,750,000 and will be used by the Issuer for general corporate purposes.

The net proceeds of the issue of the 2014 Notes are expected to amount to €499,050,000 and will be used by the Issuer for general corporate purposes.

## The Issuer

The Issuer, a wholly owned subsidiary of the Guarantor, was incorporated by a public deed executed on 27th February 2004, and registered in the Mercantile Registry of Madrid on 2nd March 2004 as a private company (*sociedad anónima*) with unlimited duration and with limited liability under the laws of Spain. The share capital of the Issuer is 60,200 euro divided into 602 ordinary shares of par value 100 euro each, all of them issued, fully paid up and each of a single class. The Issuer is a financing vehicle for the Group and has no subsidiaries.

The name, business address and other position in the Group of each of the directors of the Issuer are set out below:

<b>Name</b>	<b>Business Address</b>	<b>Position</b>	<b>Other position in the Group</b>
José Antonio Álvarez Álvarez	Ciudad Grupo Santander Edificio Encinar 28660 Boadilla del Monte Madrid, Spain	Chairman	Deputy General Manager of the Guarantor
Iñigo Barrera Amann	Ciudad Grupo Santander Edificio Encinar 28660 Boadilla del Monte Madrid, Spain	Director	Vice-president of the Guarantor
Antonio Torío Martín	Ciudad Grupo Santander Edificio Encinar 28660 Boadilla del Monte Madrid, Spain	Director	Vice-president of the Guarantor
José María García Tubío	Ciudad Grupo Santander Edificio Amazonia 28660 Boadilla del Monte, Madrid, Spain	Director and member of the audit committee	Senior Vice-president of the Guarantor
Jesús Cepeda Cano	Ciudad Grupo Santander Edificio Amazonia 28660 Boadilla del Monte, Madrid, Spain	Director and member of the audit committee	Senior Vice-president of the Guarantor
Marta Elorza Martín	Ciudad Grupo Santander Edificio Marisma 28660 Boadilla del Monte, Madrid, Spain	Director and member of the audit committee	Senior Vice-president of the Guarantor

The directors of the Issuer do not have any significant functions outside the Group.

## Capitalisation and indebtedness of the Issuer

The following table sets forth the unaudited capitalisation of the Issuer as at 30th June 2004 and as adjusted to give effect to the issue of the Notes:

	as at 30th June 2004	
	Actual	Adjusted to give effect to the nominal value of the issue of the Notes
	euros	
<b>Short term debt</b> .....	0.0	0.0
<b>Long term debt</b> .....	0.0	1,000,000,000.00
<b>Shareholder's equity</b>		
Shares .....	60,200.00	60,200.00
Shares held by consolidated companies .....	0.00	0.00
Reserves .....	0.00	0.00
Total shareholder's equity .....	60,200.00	60,200.00
Net profit for the period .....	(4,102.65)	(4,102.65)
Minority interests .....	0.00	0.00
<b>Total Capitalisation</b> .....	56,097.35	1,000,056,097.35

Except for net profit, there have been no material changes to the capitalisation of the Issuer since 30th June 2004, save in respect of the issue of the Notes.



## Capitalisation of The Group

The following table sets forth the consolidated capitalisation of the Group as of 30th June 2004:

	millions of euros
Short term debt .....	14,177.77
Long term debt <sup>(1)</sup> .....	44,561.91
Shareholders' equity	
Shares, stated value Euro 0.5 .....	2,384.20
Shares held by consolidated companies .....	(20.66)
Reserves <sup>(2)</sup> .....	15,855.77
Net consolidated profit for the period – Group .....	1,910.43
Total shareholders' equity .....	20,129.74
Minority interests <sup>(3)</sup> .....	5,559.37
Total capitalisation <sup>(4)</sup> .....	84,428.79

(1) Includes outstanding bonds and debentures and subordinated debt.

(2) After deduction of €4,785.9 million of prior year losses at consolidated companies.

(3) Of which €282.5 million correspond to the first half 2004 consolidated net income attributable to minority interests.

(4) The following are the main changes to the above capitalisation table since 30th June 2004:

- (a) On 5th and 26th July and on 25th August 2004, the Group redeemed €150 million, GBP 100 million (€149.1 million) and €75 million, respectively, of marketable debt securities guaranteed by the Bank. On 29th July, on 6th September and on 15th September 2004, the Bank issued €1,500 million, €200 million and \$931 million respectively of long-term debt.
- (b) On 1st July 2004, the Group redeemed €1,000 million of preference shares guaranteed by the Bank and on 30th July 2004, the Group issued €750 million of preferred securities guaranteed by the Bank. On 8th September 2004 the Bank announced the filing of a prospectus with the Comisión Nacional del Mercado de Valores (the Spanish securities commission) pursuant to which it proposes to act as guarantor in respect of the issue of €500 million preferred securities increasable to €750 million.
- (c) On 1st September 2004, the Group redeemed €332 million of preference shares guaranteed by the Bank.
- (d) In July 2004, the Bank proposed the distribution of a first interim dividend out of 2004 income of €0.083 per share (a total amount of €395.8 million) payable from 1st August 2004.

Except for consolidated net profit and as otherwise noted in the above table, there has been no material change in the capitalisation of the Group since 30th June 2004.

The share capital of the Bank is EUR 2,384,201,471.50 made up of 4,768,402,943 issued and fully paid up ordinary shares of nominal value €0.50 each and of a single class. There are no other classes of shares.

## Banco Santander Central Hispano S.A. and its Group

On 15th January 1999, the boards of directors of Banco Santander, S.A. and Banco Central Hispanoamericano, S.A. agreed to merge Banco Central Hispanoamericano into Banco Santander, and to change Banco Santander's name to Banco Santander Central Hispano, S.A. The shareholders of Banco Santander and Banco Central Hispanoamericano approved the merger on 6th March 1999, at their respective general meetings. The merger and the name change were registered with the Mercantile Registry of Santander, Spain by filing a merger deed. On 17th April 1999, Banco Central Hispanoamericano shares were extinguished by operation of law and Banco Central Hispanoamericano shareholders received new Banco Santander shares at a ratio of three shares of Banco Santander for every five shares of Banco Central Hispanoamericano formerly held. On the same day, Banco Santander changed its legal name to Banco Santander Central Hispano, S.A. The Bank is incorporated under, and governed by the laws of the Kingdom of Spain. The Bank's corporate offices are located at Plaza de Canalejas, 1, 28014 Madrid, Spain, telephone: (+) 34-91-558-1111 and Paseo de Pereda 9-12, 39004, Santander, Spain, telephone: (+) 34-94-220-6100.

The Bank and its consolidated subsidiaries (the "**Group**") are a financial group operating through a network of offices and subsidiaries across Spain, other European countries and Latin America, offering a wide range of financial products. At 30th June 2004 the Group was the second largest banking group in the euro zone by market capitalization with a market capitalization of €40.7 billion, stockholders' equity of €20.1 billion and total assets of €356.7 billion. The Group had an additional €120.1 billion in mutual funds, pension funds and other assets under management at that date. The Group also had 34,769 employees and 4,377 branch offices in Spain and 67,956 employees and 4,842 branches outside Spain at 30th June 2004.

The Group's principal operations are in Spain, Portugal, Germany, Italy, Belgium, Poland and Latin America. It also has significant operations in New York, London and Paris as well as strategic investments in The Royal Bank of Scotland Group (See "*Recent Developments – RBS Relationship*"), and financial investments in Instituto Bancario San Paolo di Torino-IMI and Banque Commerciale du Maroc. In Latin America the Group has majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Puerto Rico and Venezuela.

The Group's business is divided into four principal areas where its retail banking activity is complemented by global businesses: asset management and private banking, corporate banking, investment banking and treasury:

### European Retail Banking

This area covers the banking activities of the different networks and specialized units in Europe, chiefly with individual clients and small and medium sized enterprises ("**SMEs**"), as well as private and public institutions. It includes four units: Santander Central Hispano Retail Banking, Banesto, Santander Consumer Finance and Portugal.

### Retail Banking Latin America

This area covers the Group's universal banking activities in Latin America through its subsidiary banks and finance companies.

### Asset Management and Private Banking

Asset management covers asset management, pension and mutual funds and bancassurance, and private banking activity with clients via the specialized units in Spain and abroad.

### Global Wholesale Banking

This area covers Corporate Banking in Spain, the rest of Europe and New York, the treasury units in Madrid and New York, as well as investment banking throughout the world principally in Spain, Portugal, Latin America and New York.

## Activity in the first half of 2004

During the six month period ending 30th June 2004, the Group generated net attributable income of EUR 1,910.4 million, 47.8% more than in the same period of 2003 (before extraordinary capital gains). Net ordinary attributable income for the first half of 2004 was 20.0% higher than in the same period of 2003 at EUR 1,551.4 million. On a cash-basis (before ordinary amortization of goodwill), net ordinary attributable income was EUR 1,783.9 million.

Ordinary earnings per share for the first half of 2004 on an annualised basis were EUR 0.6507, 20.0% higher than in the same period of 2003. On a cash-basis, the figure was EUR 0.7482 per share. ROE was 16.2%, more than two percentage points higher than in the first half of 2003. On a cash-basis, ROE was 18.7%.

All revenue lines increased, with net interest revenue up 9.7% and net fees and commissions rising for the sixth consecutive quarter. Other positive developments were cost control, the rise in equity-accounted income, diminished needs for specific loan loss provisions, reduced cost of preferred shares and lower ordinary amortisation of goodwill. Trading gains, however, were lower (from high levels in the first two quarters of 2003, while in the second quarter of 2004 they reflect the impact of the markets on some Latin American treasuries) and minority interests were higher (sale in the first quarter of 2003 of 24.9% of the subsidiary Santander Serfin). Lastly, capital gains of EUR 242 million were generated from the sale of a 0.46% stake in Vodafone in the second quarter of 2004 and the inclusion of EUR 117 million, from the release of the fund pending allocation that was created as a consequence of the capital gains obtained after the sale of a 4% stake in Shinsei in the first quarter of 2004.

The impact of exchange rates was around 3 p.p. on earnings and 2.5 p.p. on the balance sheet. This effect was the net result of the strengthening of some Latin American currencies against the dollar, (particularly the Brazilian real and the Chilean peso) and the dollar's slide against the euro (-10% in average exchange rates).

## Business performance

Business areas maintained a high activity level in the first half of 2004, underscored by the growth in their net operating income. All business areas registered increases of more than 10% (Retail Banking Latin America excluding the exchange rate impact) over the first half of 2003.

European Retail Banking performed well in all countries and faithfully reflects the development of the Group's business model: net operating revenue rose 9.6% while personnel and general expenses only increased 0.3%. As a result, net operating income grew 19.9% and fed through to net attributable income (+21.8%), given the stability of the lower part of the income statement. The efficiency ratio improved 4.0 points to 42.8%.

Santander Central Hispano Retail Banking, recognised by *Euromoney* magazine ("Euromoney") as the best bank in Spain, kept up a strong pace of growth in new business, focused on key segments (loans to companies, especially SMEs and micro companies, mortgages, funds and insurance). Of note was the EUR 7,500 million captured by Supergestión funds and almost EUR 6,000 million in Superoportunidad mortgages in the first half. Higher revenues and flat costs increased net operating income by 14.7% year-on-year and net attributable income by 13.9%.

Banesto also continued to perform better than commercial banks as a whole, with strong growth in business volumes (growing 22% in loans), higher revenues and stable costs. Net operating income rose 18.5% and net attributable income 17.1%.

In Portugal, the Group managed its activities in an environment of improved economic growth. Backed by a rise in net interest income and net fees and commissions, and control of costs, the efficiency ratio improved and net attributable income was 14.8% higher than in the first half of 2003. The Group for the third consecutive year was selected as the "Best Bank in Portugal" by *Euromoney*.

Santander Consumer registered noteworthy growth both in business volume and net attributable income. New loans rose 24% compared to the first half of 2003, which together with better spreads, net of provisions, and the improvement in the efficiency ratio to levels of 36% produced growth of 46.7% in net operating income. Net attributable income was 67.9% higher at EUR 180.3 million, partly driven by the acquisition of 100% of Italy's business and the

incorporation of Polskie Towarzystwo Finansowe S.A., a Polish consumer finance company ("PTF") (an increase of 60% on a like-for-like basis).

From the strategic standpoint, the agreement to acquire Poland's PTF was completed with the purchase of its EUR 460 million auto finance portfolio. This gives our Bank in Poland a solid competitive position in the consumer finance market.

In Latin America the Group, which was named the region's best bank in the 2004 Euromoney Awards for Excellence, maintained a high volume of business during the second quarter and for the first time since 2001 registered year-on-year growth in euros in all of its revenue lines. Basic revenue increased 11.4% over the first half of 2003, after improving for the fifth straight quarter, as a result of 10.2% growth in net interest revenue and 13.8% in net fees and commissions.

Net interest revenue has been growing significantly in the past few quarters due to greater business volumes and the easing of the fall in interest rates. Commissions are rising strongly, spurred by the Group's drive in commission-generating business and regional projects. Both income streams reached their highest levels of the last two years in the second quarter of 2004. Backed by this increase in basic revenue, net operating income rose 7.9% as a result of reduced trading gains and higher costs associated with the development of the Group's networks and the launch of local and regional projects.

Net attributable income generated in Latin America was 4.3% lower than in the first half of 2003 at EUR 667.5 million (an increase of 6.4% in dollars at US\$818.5 million), due to one-off effects in Mexico and the exchange rate impact.

Brazil's significant growth in retail business came from lending (an increase of 36% year-on-year, excluding the exchange rate effect) and mutual funds (an increase of 30% without exchange rate impact). As a result, net interest revenue and fees and commissions increased, offsetting the impact of lower interest rates and lifting basic revenue in euros by 21.4%. Net attributable income declined 2.2% to EUR 335.1 million as a result of the higher costs incurred in business development and larger provisions. In dollars, net attributable income was 8.7% higher at US\$410.9 million.

Net operating income in Mexico rose 7.2% in dollars, spurred by higher commissions, lower personnel and general costs and growth in lending (an increase of 20% excluding Fobaproa paper), which offset the effect of lower interest rates.

The release of available loan-loss provisions in 2003 and the larger share of minority interests in 2004 produced a 32.9% decline in net attributable income over the first half of 2003 to EUR 165.8 million (a decline of 25.4% or US\$203.4 million).

Cost control in Chile, the rise in net fees and commissions and a return to a more "normal" level of loan-loss provisions offset the impact of the sharp fall in interest rates on net interest revenue. Net attributable income was EUR 140.7 million, 41.0% more than the first half of 2003 (an increase of US\$172.5 million or 56.7%).

Of note in other countries were the higher earnings in Puerto Rico, Venezuela and Colombia (an increase of 34%, 42% and 30%, respectively, in euros) and the return to profits in Uruguay and Argentina.

The global areas (Asset Management and Private Banking and Global Wholesale Banking) performed well. As a whole they contributed EUR 375.4 million to the Group's net attributable income, 47.1% more than in the first half of 2003.

The earnings of the different units and their business measures resulted in some prizes being awarded. In the first quarter, the Group's private banking units (Banif and International Private Banking) received awards from Euromoney. In the second quarter, Santander Central Hispano Bolsa was recognised in the *Thomson Extel* Pan-European rankings as the best brokerage house in equity research for Spain and Portugal, and second in Latin America in the asset weighted ranking by *Institutional Investor* magazine. Lastly, in the third quarter, we received from Euromoney the prize for the best treasury unit in Latin America.

A detailed analysis by business area underscores the effort made by the Group to boost revenues by strengthening business with clients, while maintaining cost control and improving the quality of risks. This enabled net ordinary attributable income to be higher, attain significant

growth in business volumes and continue to improve the level of profitability, efficiency and credit quality.

### **Group results**

Net interest revenue was 9.7% higher than in the first half of 2003 at EUR 4,309.9 million. The increased business volumes, the policies to defend the customer spread and a rise in dividends received, offset the sharp fall in interest rates.

Net fees and commissions increased 11.5% compared to the first half of 2003, after rising for the sixth straight quarter. By business areas, European Retail Banking rose 10.4%, Asset Management and Private Banking 10.9% and Retail Banking Latin America 18.1% in euros (an increase of 27.3% excluding exchange rate impact). By products, mutual and pension funds increased by 26.0%, insurance increased by 68.3% and guarantees increased by 15.5%.

Net trading gains amounted to EUR 435.3 million, 25.4% less than in the first half of 2003 because of the impact of the markets in the second quarter of 2004 and the high level of trading gains in the second quarter of 2003.

Total costs increased 2.7%, largely due to the general expenses related to the relaunching of business in some countries and the development of corporate projects. As a consequence, the efficiency ratio improved 1.8 points to 47.1% in the first half of 2004 (45.5% in the second quarter of 2004).

Net operating income was 12.7% higher at EUR 3,268 million, continuing the upward quarter-on-quarter trend begun in 2003. Excluding the exchange rate impact, growth was 16.3%. Income from equity-accounted holdings (net of dividends) amounted to EUR 234.6 million, double that of the first half of 2003. This was largely due to the higher contributions from The Royal Bank of Scotland Group, Cepsa, Banque Commerciale du Maroc, Urbis and certain insurance companies.

Net provisions for loan-losses amounted to EUR 753.7 million, 7.4% less than in the first half of 2003, as a result of the reduced provisions for country-risk. The level of country-risk coverage for Argentina increased in the first half of 2003 from 50% to 75%, in accordance with Bank of Spain regulations, which represented EUR 182 million (this figure was recorded in "other funds" and had no impact on income as it was released from "other income"). After deducting this amount, loan-loss provisions increased 19.3% because of the larger allocation to generic and statistical funds, both as a result of growth in lending.

Accelerated amortisation of goodwill amounted to only EUR 2.4 million, down from EUR 691.2 million in the first half of 2003 when EUR 681 million of capital gains from the sale of 24.9% of Santander Serfin were recorded in Group operations.

"Other income" was negative by EUR 181.8 million after the inclusion of various provisions to continue the strengthening of the balance sheet. The figure was positive in 2003 because of the reclassification of Argentina's country-risk. Income before taxes on a cash-basis (before ordinary amortisation of goodwill) was 7.6% higher than in the first half of 2003 at EUR 2,536.5 million. After deducting taxes, minority interests and preferred shares, net attributable income on a cash-basis was EUR 1,783.9 million, 10.9% higher than in the first half of 2003.

Excluding ordinary amortisation of goodwill (EUR 232.6 million, 26.5% less than in the first half of 2003), net ordinary attributable income was EUR 1,551.4 million, 20% higher than in the first half of 2003. Including the EUR 359 million of extraordinary income from capital gains, the Group's net attributable income was EUR 1,910.4 million, a 47.8% increase over the same period of the previous year.

### **Group consolidated balance sheet**

Total funds managed by the Group amounted to EUR 476,955 million, 7.7% more than in June 2003. The negative impact of exchange rates was around 2.5 percentage points. Gross lending rose 13.6% year-on-year to EUR 192,186 million (excluding the impact of securitisation) and 21.4% in other resident sectors. Year-on-year growth rose for the sixth straight quarter.

The main growth in Europe occurred in Spain (with an increase of 19.2%), Germany (with an increase of 12.7%) and Poland, after PTF's consolidation. Latin America registered growth of



14% in local currency. Of note was Brazil (with an increase of 36%), Mexico, excluding Fobaproa paper (with an increase of 20%), Chile (with an increase of 11%), Colombia (with an increase of 57%) and Venezuela (with an increase of 85%).

Growth in Spain in loans to companies and mortgages continued to be high in the second quarter of 2004. Loans to the resident sector increased 6% over March 2004, while Latin America registered growth of 7% excluding the exchange rate effect. Total managed customer funds increased 9.7% compared to the same period in 2003 to EUR 348,366 million (an increase of 12.3% excluding the exchange rate effect). In Spain, deposits (excluding REPOs), mutual funds and pension plans rose 12.3% in the year to June 2004. Of note was the growth in demand deposits (an increase of 15.4% in current accounts) and the 6.7% fall in time deposits (within the Group's spread management policy). Mutual funds increased 19.5% in the year to June consolidating the Group's leadership position in Spain with a market share around 28%. Pension plans increased 11.1% in the year to June 2004.

On- and off-balance sheet managed funds in Latin America rose 1.6% in euros (an increase of 12% excluding the exchange rate effect). All countries performed well in local currency terms. Of note, in deposits, was growth in Mexico, Uruguay and Venezuela. The rise in mutual funds was 29.6%, excluding the exchange rate effect, with notable growth in Argentina, Brazil, Chile and Puerto Rico. All countries registered growth in pension plans (total increase of 14.7% excluding the exchange rate impact).

Goodwill pending amortisation amounted to EUR 7,323 million. The reduction since June 2003 was EUR 976 million (a decline of 11.8%) and included the early amortisation of Banespa, the reclassification of the goodwill of Sanpaolo-IMI and Commerzbank from the restructuring of the portfolio. The main increase, meanwhile, arose from the acquisition of Cepsa shares.

The Group's equity, on the basis of BIS criteria amounted to EUR 26,218 million. The surplus above the minimum requirement was EUR 8,849 million. The BIS ratio was 12.1%, with Tier I of 8.1% and core capital of 6.4%. Tier I and core capital had slight improvements in the second quarter over the previous.

## **Risk management**

The Group continued to reduce the level of non-performing loans (NPLs) and increased coverage. The NPL ratio dropped 4 basis points in the second quarter to 1.29% compared to 1.55% in December 2003 and 1.67% in June 2003. NPL coverage rose by almost 12 percentage points in the second quarter to 197.1% (165.2% at the end of 2003 and 147.2% in June 2003).

Specific loan-loss provisions, net of recoveries, were 41% lower than a year ago at EUR 195 million.

The Group's NPL ratio in Spain remained at an all-time low of 0.69% and coverage of doubtful loans rose to 296.3%, 73 points higher than in December 2003 and 84 points above June 2003.

The NPL ratio in Portugal inched up to 2.25%, slightly above December 2003. Coverage was 118%, 7.4 points lower than in December 2003 and in line with June 2003.

Santander Consumer's NPL was hardly changed at 1.95% and coverage increased to 161%.

Latin America's NPL ratio fell sharply to 3.0%, largely thanks to the lower balances of bad debts in Mexico, Chile and Argentina. Coverage stood at 147%, 22 points above December 2003 and 26 points more than June 2003.

Regarding market risk management, the VaR of trading portfolios remained in the second quarter at levels similar to those in the first quarter. In April due to the rise in Mexico's interest rates and increased volatility, VaR reached a high of US\$21.1 million. Subsequently, in the face of market uncertainty, we reduced positions in Brazil and Mexico and the VaR reached a low for the quarter of US\$16.3 million. The VaR then rose, chiefly because of position-taking in Mexico, and ended the second quarter at US\$19.9 million. The average VaR of the second quarter was US\$18.8 million (US\$14.2 million in the same period of 2003), largely because of Latin America.

## **Dividends**

The total dividend charged to 2003 earnings, after payment on 1st May of the fourth interim dividend of EUR 0.070408 per share, was EUR 0.3029, 5% more than that charged to 2002 earnings.

The first interim dividend charged to 2004 earnings of EUR 0.083 per share (7.1% more than the same one of 2003) was paid on 1st August.

## **Corporate Governance**

The Group made progress in corporate governance during the second quarter.

The annual general shareholders' meeting held on 19th June 2004 adopted important agreements regarding corporate governance. One of them was to eliminate the requirement of holding 100 shares in order to attend meetings. As well as meeting the demands of some shareholders, this step was also aimed at encouraging greater participation in meetings. Another major agreement was the approval of new Regulations of Shareholders' Meetings which have been brought into line with the new regulatory requirements.

The Chairman also announced the following new measures:

- Establish as a regular practice the participation in the general shareholders' meeting of the Chairman of the Appointments and Remuneration Committee, in addition to the presence of the Chairman of the Auditing and Compliance Committee, as in 2003.
- An external agency will evaluate from time to time the Board's work and functioning.
- The Board will establish a programme of continuous training for directors.
- The possibility of voting by e-mail and delegation of voting by the same means was started at this Meeting.

The meeting also approved the appointment of the Mutua Madrileña Automovilista, a car insurance company, as a nonexecutive (proprietary) director, represented by Mr. Luis Rodríguez Durón, in place of Mr. José Manuel Arburúa Aspiunza. With this appointment and by not covering the vacancy left by the death on 8th May of Mr. Antonio de Sommer Champalimaud, the Board has 20 members and holds around 9% of the capital stock. This is particularly important as it enhances the Board's alignment with shareholders' interests.

The Group's efforts in corporate governance are reflected in the report published in April by Deminor Rating, the independent European agency which rates listed companies in matters of corporate governance. On the basis of a rigorous analysis, Deminor accorded the Bank 8 out of 10. Deminor Rating said the "rating reflects the superior overall performance of the company regarding its current corporate governance structures and functioning. The Bank is one of the leading corporate governance actors in Continental Europe".

## **Corporate Social Responsibility**

The Group's second Annual Report on Corporate Social Responsibility was published in the first half of 2004. The report brings together in a systematic fashion the efforts made in sustainable development, following the recommendations and guidelines of the Global Reporting Initiative ("GRI"), one of the international information standards most commonly accepted by international companies. The report sets out the commitments and activities taken by the Group during 2003.

Corporate social responsibility is one of the strategic priorities of the Group. Graduate studies are a priority and, especially, the Santander Universidades project, a joint venture between business and the academic world.

The Group's relationships with the different interest groups, including a summary of its achievements in 2003 and their economic impact and the 2004 objectives, are described in the report. Total investment in corporate social responsibility amounted to EUR 71.1 million in 2003.

In the second quarter of 2004 the Group signed two new collaboration agreements with universities in Chile, one each in Venezuela and Mexico, four in Argentina, two in Portugal, together with three more with Spanish universities.

In Puerto Rico, in an effort that will benefit the whole student community, work has begun on converting the campus of the Pontificia Universidad Católica into a wireless zone. The new Internet Hall in the University of Santiago de Compostela was inaugurated in the first half of 2004.

Recently, Santander Colombia subscribed the Global Compact, joining Spain, Peru and Chile.

In Peru, the Group signed an agreement with Fe y Alegría, a catholic organisation that takes care of education in poor neighbourhoods. Under it internet capability room at schools will be installed and voluntary work promoted amongst the Group's employees, clients and suppliers.

In Puerto Rico, the campaign "Dale alas a la vida" commenced in benefit of the Association of Muscular Dystrophy.

In Portugal, the Group launched a campaign to collaborate with the nutrition of poor children as part of an agreement with International Medical Aid.

In Spain, the Chairman of the Bank signed a collaboration agreement with the Real Madrid Foundation which seeks to integrate the immigrant population through sports.

The donation of used furniture to different non-profit organizations began in the first half of 2004, coinciding with the transfer of the headquarters from Madrid to Ciudad Grupo Santander.

## Recent Developments

### *Acquisition of Abbey National plc*

On 26th July 2004, the Bank and Abbey National plc ("**Abbey**") announced that they had reached agreement on the terms of a recommended acquisition of the entire issued ordinary share capital of Abbey by the Bank (the "**Acquisition**"). After the Acquisition, the Bank will be the tenth largest bank in the world and the fourth largest in Europe in terms of market capitalisation. The integration of Abbey into the Group will create a premier international banking franchise.

The Acquisition will, subject to the satisfaction or waiver of certain conditions, be effected by way of a scheme of arrangement of Abbey, which is expected to be implemented on 12th November 2004. Under the terms of the Acquisition, holders of shares in Abbey ("**Abbey Shares**") or American depositary shares in Abbey ("**Abbey ADSs**") and together with Abbey Shares, "**Abbey Securities**") will be entitled to receive shares of €0.50 in the capital of the Guarantor (the "**New Banco Santander Shares**") or American depositary shares each representing one New Banco Santander Share (a "**New Banco Santander ADS**"), as the case may be, in exchange for the cancellation of their Abbey Securities on the following basis:

- for each Abbey Share, 1 New Banco Santander Share; and
- for each Abbey ADS, 2 New Banco Santander ADSs.

The terms of the Acquisition are based on the equity market capitalisation of the two companies over the three months prior to 23rd July 2004. Based on the average closing market price for a share of €0.50 in the capital of the Bank (a "**Banco Santander Share**") on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the "**Bolsas de Valores**") of €8.70 and the average closing mid-market price for an Abbey Share on the London Stock Exchange of £4.69, in each case over the three month period up to and including 22nd July 2004 (the date prior to commencement of the offer period), and an exchange rate of €1.5054:£1, the terms of the Acquisition (taking into account a special dividend of £0.25 per Abbey Share to be paid by Abbey to its shareholders (the "**Special Dividend**"), but excluding the 6 pence for dividend differential<sup>(1)</sup>), represent a premium of approximately 28.4 per cent. and value each Abbey Share at £6.03 (£6.09 taking into account the 6 pence for dividend differential) and the entire issued ordinary share capital of Abbey at approximately £8.9 billion.

(1) The 6 pence for dividend differential is intended to compensate the shareholders of Abbey in respect of 2004 only for the fact that, historically, the Bank's dividends have been lower than Abbey's dividends.

Based on the closing market price for a Banco Santander Share on the Bolsas de Valores on 22nd July 2004 (the date prior to commencement of the offer period) and an exchange rate of €1.5054:£1, the terms of the Acquisition (taking into account the Special Dividend but excluding the 6 pence for dividend differential) represent a premium of approximately 17.4% valuing each Abbey Share at £5.79 and the entire issued ordinary share capital of Abbey at approximately £8.6 billion.

On the basis of the closing market price for a Banco Santander Share on the Bolsas de Valores on 3rd September 2004 (the latest practicable date prior to the posting of the offer document relating to the Acquisition) and exchange rates of €1.4734:£1 and €1:\$1.2054, respectively, the terms of the Acquisition (taking into account the Special Dividend but excluding the 6 pence for dividend differential) imply a value on 3rd September 2004 for each Abbey Share of £5.87 and for each Abbey ADS of \$20.85 and value the fully diluted share capital of Abbey at approximately £8.8 billion. These terms represent a premium of approximately 19.1% to the closing mid-market price of an Abbey Share of £4.93 on 22nd July 2004, the last trading day prior to the announcement by Abbey that it had received an approach which might or might not lead to an offer, and a premium of approximately 25.1% on the basis of the average closing mid-market price of an Abbey Share of £4.69 for the three month period up to and including 22nd July 2004. If the Acquisition had become effective on 3rd September 2004, 1,476,917,017 New Banco Santander Shares (1,491,854,223 on a diluted basis) would have been delivered under the Acquisition, representing approximately 23.6% of the issued share capital of the Guarantor as enlarged by the Acquisition.

The New Banco Santander Shares issued and delivered under the Acquisition will rank *pari passu* in all respects with the existing Banco Santander Shares and will be entitled to all dividends and other distributions declared or paid by the Guarantor by reference to a record date.

With effect from 4.30 p.m. (London time) on the effective date of the Acquisition, which is expected to be 12th November 2004, (the “**Effective Date**”), Abbey Securities will cease to trade on any stock exchange.

The New Banco Santander Shares will be issued on the Effective Date. Admission to listing on the Bolsas de Valores will take place on the following business day, effective at the close of market (5.35 p.m. Spanish time), on that day. Trades can take place on that day after 5.35 p.m. (Spanish time) subject to applicable regulations. Dealings in New Banco Santander Shares are expected to commence on the market of the Bolsas de Valores on the second business day following the Effective Date. During the period from the Effective Date until the date on which dealings in the New Banco Santander Shares on the market of the Bolsas de Valores commence, the New Banco Santander Shares will not be listed, nor can they be traded, on any other stock exchange.

Applications will also be made for the New Banco Santander Shares to be listed on the Milan, Lisbon and Buenos Aires Stock Exchanges and the New York Stock Exchange, Inc. (through New Banco Santander ADSs).

The New Banco Santander Shares will not be admitted to the Official List of the UK Financial Services Authority (the “**Official List**”) or to trading on the London Stock Exchange on the Effective Date. However, the Guarantor will make an application for Banco Santander Shares, including the New Banco Santander Shares, to be admitted to the Official List and to trading on the London Stock Exchange’s market for listed securities as soon as practicable after the Effective Date.

In its unaudited interim financial results for the 6 months ended 30th June 2004, Abbey reported personal financial services trading profit before tax of £468 million (6 months ended 30th June 2003: £588 million), Abbey Group (being Abbey and its subsidiary undertakings) profit before tax of £350 million (6 months ended 30th June 2003: loss of £144 million) and an Equity Tier 1 ratio of 7.5% (December 2003: 6.9%) and a Tier 1 ratio of 10.9% (December 2003: 10.1%).

*There can be no assurance that the Acquisition will proceed on the terms described above or at all.*

### **Share Buy Back Programme**

On 26th July 2004, the Group announced that, acting on the authorisation of the Ordinary General Shareholders' Meeting of the Guarantor held on 19th June 2004, the Board of Directors of the Guarantor had authorised a programme for the buyback of the company's own shares (the "**Buy Back Shares**") on substantially the same terms as those authorised by the previous years' shareholders' meetings.

The terms for the purchase of the Buy Back Shares include the following:

- (i) the maximum number of Buy Back Shares that may be acquired is 190,000,000, representing approximately 4% of the share capital of the Guarantor as at the date of this document;
- (ii) the maximum price of the acquisition is 9.77 euros per share, which corresponds to the maximum price of the Guarantor's shares over the last 12 months; and
- (iii) the programme for the purchase of the Buy Back Shares (the "**Buy Back Programme**") will run from 27th July 2004 until the end of the period of exchange of shares carried out in relation to the completion of the Acquisition.

The conditions of the Buy Back Programme, as well as its restrictions and other terms, are governed by the provisions of EC Commission Regulation 2273/2003, of 22nd December 2003.

Since 26th July 2004, the Guarantor has notified the Comisión Nacional del Mercado de valores (the Spanish securities commission) of the details of the transactions carried out by Pereda Gestión, S.A., being the entity named as the acquiring entity for the purposes of the Buy Back Programme.

On 2nd August 2004, the Bank announced that any cancellation in relation to the Buy Back Programme would be subject to an appropriate resolution of its shareholders in general meeting. Any such cancellation will only be in respect of the net balance resulting from the sale and purchase of Buy Back Shares under the Buy Back Programme, as determined at the end of the Buy Back Programme. Accordingly, no such cancellations have taken place at the date of this document.

### **RBS Relationship**

On 9th September 2004, the Bank announced that Merrill Lynch International ("**Merrill Lynch**") had placed, on its behalf, 79 million ordinary shares of 25 pence each in The Royal Bank of Scotland Group plc ("**RBS**") at a price of £15.50 per share with institutional investors. The shares placed represented approximately 2.51% of the issued ordinary share capital of RBS. The Bank will use the proceeds of the placing for general corporate purposes. The capital gain for the Bank arising from the disposal of these shares is €472 million, net of fees and expenses (based on an exchange rate of £1: €1.50545).

Following the share placing, the Bank holds 79.8 million ordinary shares of 25 pence each in RBS (representing approximately 2.54% of the issued ordinary share capital of RBS). The Bank has agreed not to sell any further shares in RBS for a period of 90 days after completion of the share placing except with the prior consent of Merrill Lynch in its capacity as the placing bank.

The Bank also announced on 9th September 2004 that it had reached agreement with RBS to amend certain aspects of the strategic arrangements entered into between them in October and November 1988 (the "**Strategic Arrangements**") relating to co-operation in certain banking and financial services activities in Europe upon the acquisition of Abbey being successfully completed. As part of the Strategic Arrangements, each of the Bank and RBS undertook to invest in each other's share capital and to appoint representatives to each other's board of directors. The Bank and RBS have agreed that the cross-directorships will be terminated with effect from the completion of the acquisition of Abbey by the Bank. The Bank and RBS have also agreed that until the Acquisition has been completed or terminated, their respective representatives on the board of directors of the other will not attend any board meetings of the other. These changes were reflected in the Bank's notification of the recommended offer for Abbey to the European Commission which was filed on 13th August 2004.



As a consequence of these changes to the Strategic Arrangements, the Bank expects that, when it adopts International Accounting Standards (which is expected to be on 1st January 2005), it will no longer be able to account for its shareholding in RBS under the equity accounting method. As a result, it is expected that beginning on 1st January 2005, the Bank's income statement will no longer reflect its share of RBS's earnings and instead will reflect the Bank's share of any dividends paid by RBS.

## **Legal Proceedings**

The resolutions adopted at the Bank's general shareholders' meetings held on 18th January 2000 and on 4th March 2000, approving the capital increases agreed in connection with the exchange offer made by The Royal Bank of Scotland Group plc. with National Westminster Bank plc., and in connection with the Bank's acquisitions of the Portuguese banks Banco Totta & Açores and Crédito Predial Português and the resolution adopted at the Bank's general shareholders' meeting held on 4th March 2000 approving the capital increase necessary to carry out the exchange offers for shares of Banco Rio de la Plata, have been challenged under Spanish law. One plaintiff shareholder, in the case of the resolutions adopted in the first meeting and two plaintiff shareholders, in the case of the resolutions adopted in the second meeting, have challenged these resolutions on the grounds that, among other things, they were provided with insufficient information in connection with the vote on these resolutions and that the resolutions excluding the preemptive rights of shareholders were not validly adopted. In the proceedings, the plaintiffs have requested the court to declare that the above resolutions (and other ones adopted in the same meetings) are null and void. The first claim was rejected by the court in April 2001, and the plaintiff appealed the court's rejection of his claim. The plaintiff's appeal was then rejected by the court on 2nd December 2002. The plaintiff has appealed for redress and the Bank has asked the court not to admit such appeal. The second claim was rejected by the courts of the city of Santander on 29th November 2002 and the plaintiffs appealed. Such appeal was subsequently rejected by the court on 5th July 2004. The plaintiff has announced that it will file an appeal for redress. The Bank cannot anticipate the outcome of these claims. Under Spanish law, if the claims were to prevail, the capital increase resolutions adopted on 18th January 2000, and on 4th March 2000, could be declared null and void. The effect under Spanish law of the declaration of nullity of a listed company's share capital increase is highly uncertain and the Bank is unable to anticipate what would be the outcome for it and its shareholders if these claims were to prevail.

The resolutions adopted at the Bank's shareholders' meeting held on 10th March 2001, have been challenged under Spanish law by three shareholders who filed their claim before the courts of the city of Santander. These shareholders claim that the Bank has not complied with certain provisions of Spanish corporate law with respect to the resolutions adopted in said shareholders' meeting. The challenged resolutions include the approval of the Bank's annual accounts, the approval of a capital increase in exchange of cash, the approval of a capital increase in exchange of shares of Banco Rio de la Plata and BRS Investments and the approval of various issuances of bonds. In their complaints, the plaintiff shareholders asked the Court to declare the resolutions null and void and that the registration of the resolutions in the Commercial Registry are also annulled. The claim was rejected by the court in March 2002. The plaintiff shareholders appealed such rejection and, although the court allowed the admission of new evidence, the claim was again rejected on 13th April 2004. One of the plaintiffs has appealed for redress and the Bank has asked the court that this appeal is not admitted.

The resolutions adopted at the Bank's shareholders' meeting held on 9th February 2002, have been challenged under Spanish law by one shareholder who has filed his claim before the courts of the city of Santander. The challenged resolutions include the approval of the payment of an interim dividend, the reelection of Arthur Andersen y Cía, S. Com. as the external auditor of the Bank, the approval of a capital increase in exchange of shares of the German Company AKB Holding GmbH and the approval of various issuances of bonds. Among other things, the plaintiff alleges the infringement of the shareholders' rights of participation during the meeting and of receipt of information regarding the different issues to be voted in the meeting; and that the resolutions excluding the preemptive rights of shareholders were not validly adopted. The plaintiff shareholder asked the Court to declare the above resolutions (and others adopted in the same meeting) null and void and that the registration of the resolutions in the Commercial Registry also be annulled. On 9th September 2002 the Court rejected the claim.

The plaintiff appealed the rejection but the court rejected the appeal on 14th January 2004. The plaintiff has appealed for redress and the Bank has asked the Court not to admit such appeal.

The resolutions adopted at the Bank's shareholders' meeting held on 24th June 2002 have been challenged under Spanish law by one shareholder who filed his claim before the courts of the city of Santander. The challenged resolutions include the approval of the Bank's annual accounts and the rejection by the shareholders meeting of the proposals made by the plaintiff shareholder and another shareholder to file a claim requesting the declaration of the Directors' liability in connection with the investments made by the Bank in Argentina, as well as the proposal made by another shareholder for the dismissal of one of the Directors. The Bank responded to the claim on 5th October 2002. During the term to respond to this claim, the Bank was required to respond to another claim, filed by a different shareholder, challenging some of the resolutions adopted at the same meeting. The claim was admitted by the same court of the city of Santander that is in charge of the first proceeding and has been joined to this proceeding, so both proceedings will be carried out jointly. The Bank responded to this second claim on 25th October 2002. The hearing took place on 21st, 22nd and 23rd April 2003, and the court dismissed the claim on 29th May 2003. The plaintiffs have appealed against such decision and the Bank has already answered the appeal.

Since 1992, the Madrid Central Court number 3 has had preliminary investigative court proceedings in progress against the Bank and three of its officers to determine the liabilities which might arise in connection with certain credit assignment transactions (*cesiones de crédito*) carried out by Banco Santander, S.A. from 1987 to 1989. The Bank and its internal and external advisers anticipate that the final result of this litigation will be in the Bank's favor and that no specific reserve is required. On 16th July 1996, the Madrid Central Court number 3 entered a partial dismissal order with respect to certain of the matters in dispute. This dismissal order was not appealed. However, the proceedings with respect to the other matters remained open. On 27th June 2002, the lower court changed the cited proceedings to an Abbreviated Procedure, thereby terminating the investigative phase of the proceedings. The Office of the Public Prosecutor and the Bank appealed this decision. On 23rd June 2003, the appeals court partially reversed the lower court's decision, substantially reducing the scope of the proceedings. Nevertheless, such proceedings against the Bank and three of its officers, although limited in scope, remain open. The indictment proceedings concluded on 1st July 2004 and during these proceedings both the Office of the Public Prosecutor (public criminal complainant) and the Attorney General (sole private criminal complainant) have reiterated their request for dismissal of the case. As a result, the legal action is supported only by a citizen complainant.

In December 1995, the Spanish tax authorities issued an "Acta" (writ) requiring the Bank to pay €26.2 million in back withholding taxes, interest and penalties relating to the Bank's alleged failure to comply with a purported obligation to withhold income tax on payments to clients with respect to certain credit assignment transactions held by such clients. Although a similar case in an amount of €3.8 million was successfully appealed by the Bank in June 2003 (and then appealed in turn by the Regional tax authorities), the Bank's appeal against this writ was rejected. The Bank filed a second appeal which was partially admitted by the court on 30th October 2003. Both the Bank and the State's attorney have appealed such decision before the Supreme Court.

The resolutions adopted at the Bank's shareholders' meeting held on 21st June 2003 have been challenged under Spanish law by three shareholders who filed their claims before the courts of the city of Santander. The three plaintiff shareholders challenged the resolution approving the annual accounts and the management of the Bank and of the Group for 2002. In addition, two out of the three plaintiff shareholders challenged the resolutions approving the profit allocation for 2002 and the regulation of shareholders' meetings. On 10th October 2003, the Bank answered the claims. The preliminary hearing took place on 21st January 2004. On 11th February 2004 the Court decided to suspend the proceedings until the preliminary proceedings 352/2002 being carried out by the Madrid Central Court number 3 (referred to below) are finalized. Additionally, another plaintiff shareholder has challenged the resolutions adopted at the Bank's shareholders' meeting held on 21st June 2003 filing its claim at the courts of the city of Santander. Notice was given to the Bank on 30th July 2004, to answer the claim, which is still pending to be presented.

Lanetro, S.A. filed a suit against Banco Santander Central Hispano S.A., carried out before the Court of 1st Instance no. 34 of Madrid, Complaint of Plenary Suit no. 558/2002, principally alleging that the Bank breached its alleged obligation to subscribe to the increase in capital stock of the plaintiff in the amount of €30,050,605.22. The court rejected the claim on 16th December 2003, but the plaintiff has appealed.

For informational purposes it is also mentioned, although this does not constitute litigation against the Bank, that one shareholder has filed a claim before the courts of the city of Madrid against the persons who were members of the Board of the Bank during 2001. The plaintiff claims that the Bank's investments in Argentina were carried out by the defendants without due diligence, and that the losses derived from these investments have caused a direct damage to him that varies from euro 533.06 to euro 3,005.00. The plaintiff shareholder applies for the compensation of that amount against the Directors, as jointly and severally liable for his alleged damages. The claim was rejected by the court on 9th April 2003, and the plaintiff appealed the court's decision. The appeal was opposed by the defendants. This claim is described for informational purposes only and does not constitute an implied representation that the Bank has described all claims of equal or greater magnitude than this claim.

For the same informational purposes, it is also mentioned that several persons, who allegedly have funds deposited in Banco Río de la Plata, S.A., filed an application for conciliation before the courts of the city of Madrid against the Bank, the persons who were members of the Board of the Bank during 2001 and 2002 and others. According to Spanish Law, this application did not start proper judicial proceedings against the Bank. The claimants only intended that the defendants accept the reality of the facts alleged in their application, regarding the Bank and its directors' claimed obligation to reimburse the funds deposited by the claimants in Banco Río de la Plata, S.A. The conciliation hearing was held on 16th July 2002. The Bank and the members of the Board refused to accept the facts and allegations of the application. This meant the termination of the conciliation. In January 2004, there was a preliminary hearing in connection with a similar case, in which a person who allegedly deposited funds in Banco Río de la Plata, S.A. is claiming USD 8,365.71. The Court has not determined the date for the next hearing yet.

For the same informational purposes, it is mentioned that the Madrid Central Court number 3 is carrying forward preliminary proceedings 352/2002 in connection with complaints filed by two shareholders against the chairman of the Bank, regarding the economic terms of the retirement in August 2001 of the former co-chairman, Mr. José María Amusátegui and the economic terms of the resignation in February 2002 of the former first vice-chairman and chief executive officer, Mr. Angel Corcóstegui. The prosecutor and the defendants requested the dismissal of the case, which was opposed by the plaintiff shareholders. On 16th October 2003 the Court decided to change the cited proceedings to an abbreviated procedure. The public prosecutor and the Chairman of the Bank appealed the decision. The hearing of the appeals took place on 9th February 2004, and on 18th February 2004 the Court decided not to admit such appeals without entering into the merits of the matter. The Chairman of the Bank then appealed to the Constitutional Court. The prosecutor again requested the dismissal of the case. On 26th April 2004, the Madrid Central Court number 3 decided to commence oral evidentiary proceedings. On 10th May 2004, with two dissenting votes, and in spite of the favorable report of the prosecutor, the Constitutional Court decided not to admit the appeal.

On 25th September 2003, the Bank announced that it would launch a public offering in Spain for the acquisition of up to 16% of the share capital of Compañía Española de Petróleos, S.A. ("**Cepsa**"), a Spanish oil and petrochemical company. On 21st October 2003, the Spanish National Securities Commission authorized the Bank to launch the offering. The acceptance term of the offering expired on 24th November 2003. The bid was accepted by shares representing 12.13% of Cepsa's share capital.

The Bank decided to launch the bid for Cepsa once the agreements with the French group Total ("**Total**"), an oil and petrochemical group and major shareholder of Cepsa, to act in concert with respect to the parties' investments in Cepsa had become ineffective after the enactment of Law 26/2003 of 17th July 2003 ("**Ley de Transparencia**"). These agreements included those related to the company Somaen Dos, S.L. ("**Somaen Dos**"), a holding company in which the Bank, Total and Unión Fenosa, S.A. ("**Unión Fenosa**") have participations of approximately 60%, 25% and 15%, respectively. Somaen Dos owns shares representing

33.23% of Cepsa's share capital, of which 19.92% belong to the Bank, 8.31% to Total and 5.00% to Unión Fenosa.

After the Bank's announcement to launch the public offering, Total filed on 13th October 2003 a request for a summary arbitral proceeding with the Netherlands Arbitration Institute seeking the adoption of certain injunctive measures. On 25th November 2003, that arbitration institute made public a ruling that, among other measures, imposed a temporary prohibition of the sale or encumbrance of the Cepsa shares owned by Somaen Dos as well as the Cepsa shares that the Bank had acquired in the bid. Furthermore, the ruling instructed both the Bank and Total to presently respect the supermajority rules contained in the agreements to act in concert in Cepsa and the rules, also established in those agreements, governing the right to appoint Directors of the boards of Cepsa and Somaen Dos.

Additionally, on 20th October 2003, the Total group filed a request for an arbitral proceeding with the Netherlands Arbitration Institute seeking a determination on the merits of its claim that, among others, the Ley de Transparencia did not render their agreements with the Bank ineffective. The Bank responded that it was opposed to such request. Currently, that arbitral proceeding remains open. The decision to be adopted in the proceeding on the merits of the claim will not be conditioned by the above-mentioned ruling which is temporary and which does not constitute a pre-judgment on the merits.

In May 2004, Chadia Limited, S.A. filed a suit against Banco Santander Central Hispano S.A., carried out before the Court of 1st Instance number 48 of Madrid, proceeding number 420/2004, alleging that the Bank breached an alleged agreement for the sale to the plaintiff of certain buildings and seeking damages in the amount of €133 million. The Bank has submitted its response to this claim.

## Management of the Bank

Banco Santander Central Hispano, S.A. is managed by the Board of Directors which as of 30th September 2004 consists of 20 members. In accordance with the Bank's By-Laws (*Estatutos*), the Board shall consist of at least 14 and no more than 30 members. Each member of the Board is elected to a three-year term by the Bank's stockholders at a general meeting, with approximately one-third of the members being elected each year. The members of the Board can be re-elected.

The Board of Directors generally meets eight or nine times annually. In 2003, it met 10 times. It elects the Bank's Chairman and one or several Vice-Chairman for the Bank from among its members, as well as the Chief Executive Officer. In between Board of Directors meetings, lending and other Board powers reside with the Executive Committee (*Comisión Ejecutiva*) and with the Delegated Risk Committee (*Comisión Delegada de Riesgos*). Without detriment to the powers that in this regard belong to the Chairman, day to day supervision of the operations of the Group are carried out by the Executive Officers under the direct supervision and control of the Chief Executive Officer. Ultimate lending authority at the Bank resides with the Board of Directors which delegates such authority to the Executive Committee and the Delegated Risk Committee made up of ten and five Board members, respectively, which meet, generally, once and twice a week, respectively. Executive Officers are appointed and removed by the Board of Directors.

The members of the Board as of 30th September 2004 are as follows:

Name	Director Since	Business Address	Principal Occupation
Emilio Botín-Sanz de Sautuola y García de los Ríos	1960	Plaza de Canalejas 1 Madrid, Spain	Chairman Banco Santander Central Hispano, S.A.
Fernando de Asúa Alvarez	1999	Plaza de Canalejas 1 Madrid, Spain	First Vice Chairman Banco Santander Central Hispano, S.A.
Alfredo Sáenz Abad	1994	Plaza de Canalejas 1 Madrid, Spain	Second Vice Chairman and Chief Executive Officer. Banco Santander Central Hispano, S.A.
Matías Rodríguez Inciarte	1988	Plaza de Canalejas 1 Madrid, Spain	Third Vice Chairman, Banco Santander Central Hispano, S.A.
Manuel Soto Serrano	1999	Monte Esquinza 23, Madrid, Spain	Fourth Vice Chairman, Banco Santander Central Hispano, S.A.
Juan Abelló Gallo	2002	Paseo de la Castellana 40, Madrid, Spain	Businessman
Assicurazioni Generali, S.p.A. (represented by Antoine Bernheim)	1999	Plaza Duca Degli Abruzzi 2, Trieste, Italy	Insurance Company
Antonio Basagoiti Garcia-Tuñón	1999	Plaza de Canalejas 1 Madrid, Spain	Lawyer
Ana Patricia Botín-Sanz de Sautuola y O'Shea	1989	Avda. Gran Vía de Hortaleza 3 Madrid, Spain	Chairwoman Banesto
Emilio Botín-Sanz de Sautuola y O'Shea	1989	Plaza de Manuel Gomez Moreno 2, Madrid, Spain	Businessman
F. Javier Botín-Sanz de Sautuola y O'Shea	2004	Plaza de Manuel Gomez Moreno 2, Madrid, Spain	Businessman
Guillermo de la Dehesa Romero	2002	Francisco Silvela 106, Madrid, Spain	Businessman



Name	Director Since	Business Address	Principal Occupation
Emilio Botín-Sanz de Sautuola y García de los Ríos	1960	Plaza de Canalejas 1 Madrid, Spain	Chairman Banco Santander Central Hispano, S.A.
Rodrigo Echenique Gordillo	1988	Plaza de Canalejas 1 Madrid, Spain	Banker
Antonio Escámez Torres	1999	Plaza de Canalejas 1 Madrid, Spain	Banker
Francisco Luzón López	1997	Plaza de Canalejas 1 Madrid, Spain	Executive Officer of Banco Santander Central Hispano, S.A., Latin America
Elías Masaveu y Alonso del Campo	1996	Cimadevilla 15, Oviedo, Spain	Businessman
Sir George Mathewson	2001	42 St Andrew Square, Edinburgh EH2 2YS United Kingdom	Chairman, The Royal Bank of Scotland plc
Abel Matutes Juan	2002	Avenida Bartolomõ Roselló 18, Ibiza, Spain	Businessman
Luis Alberto Salazar-Simpson Bos	1999	Argensola 6, Madrid, Spain	Businessman
Mutua Madrileña Automovilista (represented by Luis Rodríguez)	2004	Almagro 9, Madrid, Spain	Mutual Insurance Company

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- Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos (*Chairman of the Board of Directors and of the Executive Committee*) is also Director of The Royal Bank of Scotland.
  - Mr. Fernando de Asúa Alvarez (*First Vice Chairman and Chairman of the Appointments and Remuneration Committee*) is also Honorary Chairman of IBM España, S.A., and Director of Técnicas Reunidas, S.A., Air Liquide España, S.A., Constructora Inmobiliaria Urbanizadora Vasco-Aragonesa, S.A. and Compañía Española de Petróleos, S.A. (CEPSA) and the representative Director of FAA e Inversiones, S.A. in Centro Asegurador, S.A.
  - Mr. Alfredo Sáenz Abad (*Second Vice Chairman and Chief Executive Officer*) is also Vice-Chairman of Compañía Española de Petróleos, S.A. (CEPSA).
  - Mr. Matías Rodríguez Inciarte (*Third Vice Chairman and Chairman of the Risk Committee*) is also Chairman of Unión de Créditos Inmobiliarios, S.A. and Director of Banco Español de Crédito, S.A. (Banesto), Financiera Ponferrada, S.A., Grupo Corporativo ONO, S.A. and Cía Operadora del Mercado de Electricidad, S.A. (OMEL).
  - Mr. Manuel Soto Serrano (*Fourth Vice Chairman and Chairman of the Audit and Compliance Committee*) is also Vice Chairman of Indra Sistemas, S.A. and Director of Campofrío Alimentación, S.A., Cortefiel, S.A. and Corporación Financiera Alba, S.A.
  - Mr. Juan Abelló Gallo is also Chairman of Torreal, S.A., Nueva Compañía de Inversiones, S.A., Inversiones Naira SIMCAVF, S.A. and Torreal SCR, S.A. and a representative of the director Nueva Compañía de Inversiones, S.A. and of the director Austral, BV on the boards of Sacyr-Vallehermoso, S.A. and Compañía Vinícola del Norte de España, S.A., respectively.
  - Mr. Antonio Basagoiti García-Tuñón is also Chairman of Unión Fenosa, S.A., Vice-Chairman of Faes Farma, S.A. and Golf La Moraleja, S.A. and Director of Pescanova, S.A., Compañía Española de Petróleos, S.A. (CEPSA) and Sacyr-Vallehermoso, S.A.
  - Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea is also Chairwoman of Banco Español de Crédito, S.A. (Banesto) and Vice Chairwoman of Inmobiliaria Urbis, S.A.
  - Mr. Emilio Botín-Sanz de Sautuola y O'Shea is also the sole Administrator of Puente San Miguel, S.A. and of Jardín Histórico de Puente San Miguel, S.A.

- Mr. Guillermo de la Dehesa is also Chairman of Aviva Vida y Pensiones, S.A. and Director of Unión Fenosa, S.A., Campofrío Alimentación, S.A., Telepizza, S.A., Goldman Sachs Europe Ltd. and Aviva Plc.
- Mr. Rodrigo Echenique Gordillo is also Chairman of the Social Economic Council of the Carlos III University (Madrid) and Director of NH Hoteles, S.A. and Inversiones Inmobiliarias Lar, S.A.
- Mr. Antonio Escámez Torres is also Chairman of Arena Communications España, S.A., and Vice Chairman of Banque Commerciale du Maroc.
- Mr. Francisco Luzón López is also Chairman of the Social Council of the Autonomous Region of Castilla – La Mancha University and Director of Industria de Diseño Textil, S.A. (Inditex, S.A.).
- Mr. Elías Masaveu y Alonso del Campo is also Chairman of Grupo Masaveu, Propiedades Urbanas, S.A. and Tudela Veguin, S.A. and Director of Bankinter, S.A.
- Mr. Abel Matutes Juan is also Director of FCC Construcción, S.A., San Paolo IMI, S.p.A, and Instituto Sectorial Promoción y Gestión Empresas, S.A.
- Mr. Luis Alberto Salazar-Simpson is also Chairman of AUNA Telecomunicaciones, S.A., AUNA Operadores de Telecomunicaciones, S.A., Endesa Diversificación, S.A., Retevisiónn Móvil, S.A. and Constructora Inmobiliaria Urbanizadora Vasco-Aragonesa, S.A., Director of Saint Gobain Cristalería, S.A. and Mutua Madrileña Automovilista.
- Sir George Mathewson is also Chairman of The Royal Bank of Scotland Group Plc. and of the British Banking Association.

## Summary Consolidated Financial Information Relating to the Group

The following tables set out in summary form certain key data, balance sheet and income statement information relating to the Bank. Such information is derived from the unaudited and audited consolidated financial statements of the Bank as at and for the six months ended 30th June 2003 and 30th June 2004, respectively and from the audited consolidated and unconsolidated financial statements of the Guarantor as at and for the years ended 31st December 2001, 31st December 2002 and 31st December 2003.

### Key consolidated data for the six months ended 30th June 2003 and 30th June 2004

	2004	2003	Variation (%)
	millions of euros		
<b>Balance sheet</b>			
Total assets .....	356,684.2	341,998.5	4.35
Loans .....	187,083.4	169,040.2	10.67
Total customer funds .....	348,366.4	317,553.2	9.70
On-balance sheet .....	228,271.9	216,850.2	5.27
Off-balance sheet .....	120,094.5	100,703.0	19.26
Shareholders' equity .....	20,129.7	19,032.7	5.76
Total managed funds .....	476,955.1	442,701.5	7.74

	2004	2003
<b>Solvency and NPL ratios (%)</b>		
BIS ratio .....	12.08	12.73
Tier I .....	8.12	8.37
NPL ratio .....	1.29	1.67
NPL coverage .....	197.15	147.17

	2004	2003	Variation (%)
	millions of euros		
<b>Income statement</b>			
Net interest revenue .....	4,309.9	3,927.9	9.73
Basic revenue .....	6,590.6	5,973.8	10.32
Net operating revenue .....	7,025.9	6,557.7	7.14
Net operating income .....	3,268.0	2,899.2	12.72
Net ordinary attributable income (cash-basis*) .....	1,783.9	1,608.9	10.88
Net ordinary attributable income .....	1,551.4	1,292.7	20.01
Net attributable income (including extra ordinaries) .....	1,910.4	1,292.7	47.78

(\*) Before ordinary goodwill amortization

	2004	2003
<b>Profitability and efficiency (%)</b>		
Efficiency ratio .....	47.09	48.90
ROA .....	1.04	0.97
ROE (cash-basis*) .....	18.66	17.46
ROE .....	16.23	14.03
ROE (including extra ordinaries) .....	19.93	14.03

(\*) Before ordinary goodwill amortization

	2004	2003
	millions of euros	
<b>Market capitalisation</b>		
Shares outstanding (millions at period end) .....	4,768	4,768
Share price (euro) .....	8.53	7.63
Market capitalisation (millions) .....	40,674.5	36,382.9
EPS ordinary (cash-basis*) annualized (euro).....	0.7482	0.6748
EPS ordinary annualized (euro) .....	0.6507	0.5422
P/E ratio (market capitalisation/net ordinary attributable income annualized) .....	13.11	14.07
EPS (including extra ordinaries) annualized (euro) .....	0.8013	0.5422
P/E ratio (market capitalisation/net attributable income including extra ordinaries annualized) .....	10.65	14.07
(*) Before ordinary goodwill amortisation		

	2004	2003
	millions of euros	
<b>Other data</b>		
Shareholders (number) .....	1,100,827	1,093,074
Number of employees .....	102,725	103,473
Spain .....	34,769	35,574
Abroad .....	67,956	67,899
Number of branches .....	9,219	9,087
Spain .....	4,377	4,327
Abroad .....	4,842	4,760

### Key consolidated data for the years ended 31st December 2001, 2002 and 2003

	2003	2002		2001
	millions of euros		Variation (%)	millions of euros
<b>Balance sheet</b>				
Total assets .....	351,790.5	324,208.1	8.51	358,137.5
Loans .....	172,504.0	162,973.0	5.85	173,822.0
Total customer funds .....	323,900.8	304,893.0	6.23	331,378.9
On-balance sheet .....	214,997.9	211,555.1	1.63	236,132.4
Off-balance sheet .....	108,903.0	93,337.9	16.68	95,246.5
Shareholders' equity .....	18,363.7	17,594.2	4.37	19,128.4
Total managed funds .....	460,693.5	417,546.0	10.33	453,384.0

### Solvency and Non Performing Loans ("NPL") ratios (%)

	2003	2002	2001
BIS ratio .....	12.43	12.64	12.04
Tier I .....	8.26	8.01	8.01
NPL ratio .....	1.55	1.89	1.86
NPL coverage .....	165.19	139.94	143.32

	2003	2002		2001
	millions of euros		Variation (%)	million of euros
<b>Income statement</b>				
Net interest revenue.....	7,958.3	9,358.7	(14.96)	10,256.8
Basic revenue.....	12,128.9	13,647.9	(11.13)	14,878.5
Net operating income .....	5,720.7	5,565.8	2.78	5,944.5
Net attributable income (cash-basis*).....	3,133.3	2,902.9	7.94	3,128.6
Net attributable income .....	2,610.8	2,247.2	16.18	2,486.3

(\*) Before ordinary goodwill amortization.

	2003	2002		2001
<b>Profitability and efficiency (%)</b>				
Efficiency ratio (**) .....	49.34	52.28		53.98
ROA.....	0.95	0.81		0.94
ROE (cash-basis*).....	17.37	16.04		17.44
ROE .....	14.48	12.42		13.86

(\*) Before ordinary goodwill amortization.

(\*\*) Personnel & general expenses/Net operating revenue.

	2003	2002		2001
<b>Market capitalisation and the share</b>				
Shares outstanding (millions at period end) .....	4,768	4,768		4,659
Share price (euro) .....	9.39	6.54		9.41
Market capitalisation (millions) .....	44,775.3	31,185.4		43,844.6
EPS (cash-basis*)(euro) .....	0.6571	0.6139		0.6854
EPS (euro) .....	0.5475	0.4753		0.5447
P/E ratio (market capitalisation/net attributable income) .....	17.15	13.88		17.63

(\*) Before ordinary goodwill amortisation.

	2003	2002		2001
<b>Other data</b>				
Shareholders (number) .....	1,075,733	1,092,193		981,408
Number of employees.....	103,038	104,178		115,706
Spain.....	34,968	35,887		40,741
Abroad.....	68,070	68,291		74,965
Number of branches .....	9,199	9,281		9,951
Spain.....	4,369	4,314		4,707
Abroad.....	4,830	4,967		5,244

# Consolidated Statements of Income for the years ended 31st December 2003, 2002 and 2001

	2003	2002	2001
	thousands of euros		
<b>(Debit) Credit</b>			
Interest income .....	17,203,740	22,711,338	28,116,759
<i>Of which: Fixed- income securities .....</i>	<i>3,413,601</i>	<i>5,081,124</i>	<i>5,318,056</i>
Interest expense .....	(9,686,896)	(13,825,855)	(18,408,400)
<b>Income from equity securities</b>			
Common stocks and other equity securities .....	131,987	120,061	124,734
Investments in non- Group companies .....	279,705	311,863	408,165
Investments in Group companies .....	29,801	41,248	15,506
	<b>441,493</b>	<b>473,172</b>	<b>548,405</b>
Net interest income .....	7,958,337	9,358,655	10,256,764
Fees collected .....	5,098,879	5,147,086	5,535,183
Fees paid .....	(928,317)	(857,802)	(913,448)
Gains (losses) on financial transactions .....	998,813	356,250	685,142
<b>Gross operating income .....</b>	<b>13,127,712</b>	<b>14,004,189</b>	<b>15,563,641</b>
<b>Other operating income .....</b>	<b>75,460</b>	<b>128,431</b>	<b>118,700</b>
<b>General administrative expenses:</b>			
Personnel expenses .....	(4,049,372)	(4,521,718)	(5,258,297)
<i>Of which:</i>			
<i>Wages and salaries .....</i>	<i>(2,959,515)</i>	<i>(3,208,776)</i>	<i>(3,794,237)</i>
<i>Employee welfare expenses .....</i>	<i>(643,144)</i>	<i>(739,448)</i>	<i>(841,104)</i>
<i>Of which: Pensions .....</i>	<i>(96,603)</i>	<i>(130,054)</i>	<i>(162,910)</i>
Other administrative expenses .....	(2,428,325)	(2,800,333)	(3,142,686)
	<b>(6,477,697)</b>	<b>(7,322,051)</b>	<b>(8,400,983)</b>
Depreciation, amortization and write down of property and equipment and intangible assets .....	(762,794)	(889,832)	(987,319)
Other operating expenses .....	(241,990)	(354,913)	(349,585)
<b>Net operating income .....</b>	<b>5,720,691</b>	<b>5,565,824</b>	<b>5,944,454</b>
<b>Net Income from companies accounted for by the equity method</b>			
Share in income of companies accounted for by the equity method .....	781,243	706,214	1,102,479
Share in losses of companies accounted for by the equity method .....	(64,474)	(73,205)	(156,930)
Value adjustments due to collection of dividends .....	(309,506)	(353,111)	(423,671)
	<b>407,263</b>	<b>279,898</b>	<b>521,878</b>



	2003	2002	2001
	thousands of euros		
Amortisation of consolidation goodwill .....	(2,241,688)	(1,358,616)	(1,872,952)
<b>Gains on group transactions:</b>			
Gains on disposal of investments in fully consolidated companies	702,113	10,092	7,314
Gains on disposal of investments in companies accounted for by the equity method.....	241,341	1,859,277	1,173,987
Gains on transactions involving parent company shares and Group financial liabilities.....	35,841	702	4,520
	<b>979,295</b>	<b>1,870,071</b>	<b>1,185,821</b>
<b>Losses on group transactions:</b>			
Losses on disposal of investments in fully consolidated companies	(13,502)	(808,498)	(451)
Losses on disposal of investments in companies accounted for by the equity method.....	(4,255)	(35,089)	(5,884)
Losses on transactions involving parent company shares and Group financial liabilities.....	(5,975)	(17,544)	(10,037)
	<b>(23,732)</b>	<b>(861,131)</b>	<b>(16,372)</b>
Write-offs and credit loss provisions (net).....	(1,495,687)	(1,648,192)	(1,586,017)
Write down of long-term Investments (net).....	687	(272)	(751)
Provision to general banking risk allowance .....	85,945	–	–
Extraordinary income .....	1,337,064	1,270,092	3,005,644
Extraordinary loss.....	(668,398)	(1,608,925)	(2,944,400)
<b>Income before taxes .....</b>	<b>4,101,440</b>	<b>3,508,749</b>	<b>4,237,305</b>
Corporate income tax .....	(341,007)	(314,979)	(465,664)
Other taxes .....	(528,427)	(408,130)	(444,732)
<b>Consolidated net income for the year .....</b>	<b>3,232,006</b>	<b>2,785,640</b>	<b>3,326,909</b>
Net income attributed to minority interest .....	621,187	538,463	840,606
<b>Net income attributed to the group .....</b>	<b>2,610,819</b>	<b>2,247,177</b>	<b>2,486,303</b>

## Consolidated Balance Sheets as of 31st December 2003, 2002 and 2001

	2003	2002	2001
	thousands of euros		
<b>Assets</b>			
<b>Cash on hand and deposits at central banks:</b>			
Cash on hand .....	1,639,608	1,808,417	2,472,131
Cash at Bank of Spain .....	3,589,618	775,206	2,109,979
Cash at other central banks .....	3,678,214	3,657,955	5,200,089
	<b>8,907,440</b>	<b>6,241,578</b>	<b>9,782,199</b>
Government debt securities	31,107,864	24,988,493	24,694,890
<b>Due from credit institutions</b>			
Demand deposits .....	1,703,538	3,148,911	5,612,648
Other .....	35,914,299	37,107,479	37,376,642
	<b>37,617,837</b>	<b>40,256,390</b>	<b>42,989,290</b>
Loans and credits .....	172,504,013	162,972,957	173,822,046
<b>Debentures and other fixed- income securities</b>			
Public-sector issuers .....	27,339,738	22,854,792	32,080,620
Other issuers .....	16,937,316	9,231,369	10,223,775
	<b>44,277,054</b>	<b>32,086,161</b>	<b>42,304,395</b>
Common stocks and other equity securities .....	10,064,122	7,866,752	7,807,911
Investment in non-group companies .....	4,266,425	4,769,738	6,661,805
Investments in group companies .....	1,067,771	1,129,393	1,227,351
<b>Intangible assets:</b>			
Incorporation and start-up expenses .....	901	7,675	12,759
Other deferred Charges .....	473,395	635,373	861,022
	<b>474,296</b>	<b>643,048</b>	<b>873,781</b>
<b>Consolidation goodwill</b>			
Fully consolidated companies .....	6,065,632	8,970,164	8,792,711
Companies accounted for by the equity method....	1,319,592	984,571	1,075,986
	<b>7,385,224</b>	<b>9,954,735</b>	<b>9,868,697</b>
<b>Property and equipment</b>			
Land and buildings for own use .....	2,723,142	3,000,385	3,758,784
Other property .....	286,981	280,711	518,637
Furniture, fixtures and other .....	1,573,846	1,659,463	2,076,509
	<b>4,583,969</b>	<b>4,940,559</b>	<b>6,353,930</b>
Treasury stock .....	10,155	14,746	21,378
Other assets .....	17,983,170	17,554,670	21,076,637
Accrual accounts .....	6,919,377	6,353,686	9,126,074
Accumulated losses at consolidated companies .....	4,621,815	4,435,179	1,527,129
<b>Total Assets</b> .....	<b>351,790,532</b>	<b>324,208,085</b>	<b>358,137,513</b>
Memorandum accounts .....	85,264,845	82,480,069	85,606,110

	2003	2002	2001
	thousands of euros		
Liabilities and equity			
Due to credit institutions.....	75,580,312	50,820,719	53,929,789
<b>Customer deposits</b>			
Savings deposits–			
Demand .....	76,613,017	67,644,766	75,481,038
Time.....	46,973,305	52,286,346	52,759,866
Other deposits–			
Demand .....	309,402	408,544	1,137,361
Time.....	35,439,848	47,476,100	52,149,027
	<b>159,335,572</b>	<b>167,815,756</b>	<b>181,527,292</b>
<b>Marketable debt securities</b>			
Bonds and debentures outstanding .....	28,838,892	20,497,329	21,229,154
Promissory notes and other securities.....	15,602,313	10,791,778	20,379,942
	<b>44,441,205</b>	<b>31,289,107</b>	<b>41,609,096</b>
Other liabilities.....	10,429,976	10,811,902	11,254,425
Accrual accounts.....	7,539,896	7,029,998	9,473,748
<b>Provisions for contingencies and expenses</b>			
Pension allowance.....	8,935,148	8,839,081	9,021,366
Other provisions.....	3,792,529	5,008,669	7,895,923
	12,727,677	13,847,750	16,917,289
General risk allowance .....	–	132,223	132,223
Negative difference in consolidation.....	14,040	15,459	17,333
<b>Consolidated net income for the year:</b>			
Group.....	2,610,819	2,247,177	2,486,303
Minority interests .....	621,187	538,463	840,606
	<b>3,232,006</b>	<b>2,785,640</b>	<b>3,326,909</b>
Subordinated debt .....	11,221,088	12,450,228	12,995,991
Minority interest.....	5,439,517	6,036,710	7,433,330
Capital stock.....	2,384,201	2,384,201	2,329,681
Additional paid-in-capital .....	8,720,722	8,979,735	8,651,004
Reserves.....	5,510,846	5,573,390	5,423,738
Revaluation reserves.....	42,666	42,666	42,666
Reserves at consolidated companies.....	5,170,808	4,192,601	3,072,999
<b>Total Liabilities and equity.....</b>	<b>351,790,532</b>	<b>324,208,085</b>	<b>358,137,513</b>

## Consolidated Balance Sheets as of 30th June 2004 and 2003

	2004 audited	2003 unaudited
	millions of euros	
<b>Assets</b>		
Cash and central banks.....	6,137.1	6,618.1
Government debt securities.....	23,251.2	33,640.1
Due from banks.....	36,110.4	37,508.2
Loans.....	187,083.4	169,040.2
Investment securities.....	64,523.8	49,728.1
Fixed income.....	48,892.7	34,592.1
Equity.....	15,631.1	15,136.0
<i>Shares and other securities</i> .....	9,981.9	8,850.1
<i>Equity stakes</i> .....	4,685.4	5,142.2
<i>Equity stakes in Group companies</i> .....	963.8	1,143.7
Tangible and intangible assets.....	5,000.7	5,072.6
Treasury stock.....	20.7	10.9
Goodwill.....	7,322.8	8,298.8
Other assets.....	22,448.3	27,427.0
Prior years' results from consolidated companies.....	4,785.9	4,654.5
<b>Total assets</b> .....	<b>359,674.2</b>	<b>341,998.5</b>
<b>Liabilities</b>		
Due to banks.....	66,852.8	59,738.6
Customer deposits.....	169,532.3	170,560.4
Deposits.....	137,495.1	129,019.7
REPOs.....	32,037.1	41,540.7
Debt securities.....	47,052.0	34,579.1
Subordinated debt.....	11,687.7	11,710.7
Net provisions for risks and charges.....	12,384.2	13,063.8
Minority interests.....	5,276.9	6,385.1
Net consolidated income.....	2,192.9	1,605.1
Capital.....	2,384.2	2,384.2
Reserves.....	20,641.7	20,021.1
Other liabilities.....	18,679.5	21,950.5
<b>Total liabilities</b> .....	<b>356,684.2</b>	<b>341,998.5</b>

## Consolidated Statements of Income for the six months ended 30th June 2004 and 2003

	2004 audited	2003 unaudited
	millions of euros	
Interest revenues.....	8,693.6	8,778.4
Dividends.....	393.5	255.2
Interest expenses.....	(4,777.1)	(5,105.6)
<b>Net interest revenue</b> .....	<b>4,309.9</b>	<b>3,927.9</b>
Net fees and commissions.....	2,280.7	2,045.9
Basic revenue.....	6,590.6	5,973.8
Trading gains.....	435.3	583.9
<b>Net operating revenue</b> .....	<b>7,025.9</b>	<b>6,557.7</b>
Personnel and general expenses.....	(3,308.4)	(3,206.6)
(a) Personnel expenses.....	(2,025.1)	(2,010.0)
(b) General expenses.....	(1,283.2)	(1,196.6)
Depreciation.....	(359.8)	(377.6)
Other operating costs.....	(89.8)	(74.3)
<b>Operating costs</b> .....	<b>(3,757.9)</b>	<b>(3,658.5)</b>
<b>Net operating income</b> .....	<b>3,268.0</b>	<b>2,899.2</b>
Income from equity - accounted holdings.....	234.6	108.3
<i>Less: Dividends from equity - accounted holdings</i> .....	<i>225.0</i>	<i>187.7</i>
Earnings from Group transactions.....	(27.9)	729.1
Net provisions for loan - losses.....	(753.7)	(814.0)
Write down of investment securities.....	(0.2)	0.3
Accelerated goodwill amortization.....	(2.4)	(691.2)
Other income.....	(181.8)	124.6
<b>Ordinary income before taxes (cash-basis*)</b> .....	<b>2,536.5</b>	<b>2,356.3</b>
Corporate tax.....	(470.1)	(435.0)
<b>Net ordinary consolidated income (cash-basis*)</b> .....	<b>2,066.4</b>	<b>1,921.3</b>
Minority interests.....	169.7	144.1
Dividend - preferred shareholders.....	112.7	168.3
<b>Net ordinary attributable income (cash-basis*)</b> .....	<b>1,783.9</b>	<b>1,608.9</b>
Ordinary goodwill amortization.....	(232.6)	(316.2)
<b>Net ordinary attributable income</b> .....	<b>1,551.4</b>	<b>1,292.7</b>
Extraordinary. income from capital gains and extraordinary. allowances.....	359.0	0.0
<b>Net attributable income (including extra ordinaries)</b> .....	<b>1,910.4</b>	<b>1,292.7</b>

(\*) Before ordinary goodwill amortization

## Taxation – Disclosure of Noteholder Information in Connection with Interest Payments

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

### Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Offering Circular:

- (a) of general application, Additional Provision two of Law 13/1985, of 25th May on investment ratios, own funds and information obligations of financial intermediaries, as promulgated by Law 19/2003, of 4th July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, as well as Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
- (b) for individuals with tax residency in Spain which are Individual Income Tax (IRPF) taxpayers, Royal Legislative Decree 3/2004, of 5th March promulgating the Consolidated Text of the Individual Income Tax Law, and Royal Decree 1775/2004, of 30th July promulgating the Individual Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are Corporation Tax taxpayers, Royal Legislative Decree 4/2004, of 5th March promulgating the Consolidated Text of the Corporation Tax Law, and Royal Decree 1777/2004, of 30th July promulgating the Corporation Tax Regulations; and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are non-resident income tax taxpayers, Royal Legislative Decree 5/2004, of 5th March promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30th July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax.

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

### 1. Individuals with Tax Residency in Spain

#### 1.1 Individual income tax (*impuesto sobre la renta de las personas físicas*)

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 23.2 of the Individual Income Tax Law, and must be included in the general portion of the investor's taxable income.

Both types of income are subject to a withholding on account at the rate of 15%.

If the period during which such income is generated exceeds two years a reduction of 40% will be applied, for the effect of both withholdings and inclusion in taxable income.



## **1.2 Wealth tax (*impuesto sobre el patrimonio*)**

Individuals with tax residency in Spain under an obligation to pay Wealth Tax must take into account the amount of the Notes which they hold as at 31st December in each year, when calculating their wealth tax liabilities.

## **1.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)**

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable regional or State rules.

## **2. Legal Entities with Tax Residency in Spain**

### **2.1 Corporation tax (*impuesto sobre sociedades*)**

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the profit and taxable income of legal entities with tax residency in Spain for Corporation Tax purposes in accordance with the rules for this tax.

In accordance with Section 57.s) of the Corporation Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporation Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Application has been made for the Notes to be traded on the Luxembourg Stock Exchange and they therefore fulfil the requirements laid down by the legislation for exemption from withholding. The Directorate General for Taxation (*Dirección General de Tributos – “DGT”*), on 27th July 2004, issued a reply to a consultation indicating that in the case of issues made by entities resident in Spain, as with the Issuer, application of the exemption requires that the Notes be placed outside Spain in another OECD country. The Issuer considers that the issue of the Notes falls within this exemption as the Notes are to be sold outside Spain and in the international capital markets and none of the entities placing the Notes is resident in Spain. Consequently, the Issuer will not make any withholding on interest payments to Spanish Corporation Tax taxpayers that provide relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter however, the Issuer will be bound by that opinion and with immediate effect, make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

In order to implement the exemption from withholding, the procedures laid down in the Order of 22nd December 1999 will be followed. No reduction percentage will be applied. (Please see “Disclosure of Noteholder Information in connection with interest payments” below).

### **2.2 Wealth tax (*impuesto sobre el patrimonio*)**

Legal entities are not subject to Wealth Tax.

### **2.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)**

Legal entities with tax residency in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Notes in their taxable income for Spanish Corporation Tax purposes.

## **3. Individuals and Legal Entities with no tax residency in Spain**

### **3.1 Non-resident income tax (*impuesto sobre la renta de no residentes*)**

#### **(a) With permanent establishment in Spain**

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the legal rules applicable to income deriving from such Notes are the same as those previously set out for Spanish Corporation Tax taxpayers.

*(b) With no permanent establishment in Spain*

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from Public Debt. This exemption is not applicable if such income is obtained through countries or territories classified as tax havens (being those included in Royal Decree 1080/1991, of 5th July), in which case such income will be subject to Non-Resident Income Tax in Spain at the rate of 15% which the Issuer will withhold.

For these purposes it is necessary to comply with certain information obligations relating to the identity of the Noteholders, in the manner detailed under "Disclosure of Noteholder information in connection with interest payments" as laid down in section 12 of Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these information obligations are not complied with in the manner indicated the Issuer will apply a withholding of 15% and the Issuer will not, as a result, be under any obligations to pay additional amounts.

### **3.2 Wealth tax (*impuesto sobre el patrimonio*)**

To the extent that income deriving from the Notes is exempt from Non-Resident Income Tax, individuals who do not have tax residency in Spain who hold such Notes will be exempt from Wealth Tax.

Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally not be subject to Wealth Tax.

If the provisions of the foregoing two paragraphs do not apply, individuals who are not tax residents in Spain will be subject to Wealth Tax to the extent that rights deriving from the Notes can be exercised in Spanish territory.

Non-resident legal entities are not subject to Wealth Tax.

### **3.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)**

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance Tax will be subject to the relevant double tax treaty.

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

Non-resident entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

## **4. Tax Rules for payments made by the Guarantor**

Payments which may be made by the Guarantor to Noteholders, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by the Issuer.

## 5. Tax havens

Pursuant to Royal Decree 1080/1991, of 5th July the following are each considered to be a tax haven:

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

On 3rd June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1st July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

## 7. Disclosure of Noteholder information in connection with interest payments

***The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The following is a summary only and is subject to the Clearing Systems' discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Noteholders must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes. None of the Issuer, the Guarantor, the Managers, the Agents or the Clearing Systems assume any responsibility therefor.***

### 7.1 Legal Entities with tax residency in Spain subject to Spanish Corporation tax

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

## **7.2 Individuals and Legal Entities with no tax residency in Spain**

The information obligations to be complied with in order to apply the exemption are those laid down in Section 12 of Royal Decree 2281/1998 ("**Section 12**"), as promulgated by Royal Decree 1778/2004, being the following:

In accordance with sub-section 1 of such Section 12, a return must be made to the Spanish tax authorities specifying the following information with respect to the Notes:

- (a) the identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and
- (c) details identifying the Notes.

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

- (a) if the non-resident Noteholder acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency in the manner laid down in Annex I of the Order of 16th September 1991, promulgated pursuant to Royal Decree 1285/1991 (See Annex I below), of 2nd August establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment;
- (b) in the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each Noteholder in the manner laid down in Annex II of the Order of 16th September 1991 (See Annex II below);
- (c) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of the Notes in the manner laid down in Annex II of the Order of 16th September 1991 (See Annex II below);
- (d) in other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the State of residency of the Noteholder. These certificates will be valid for one year as from the date of issue.

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

In the case of both paragraph 7.1 and paragraph 7.2 above, in order for a beneficial owner to benefit from an exemption from withholding, the above documentation should be received by the Agent in accordance with the procedures established in the Agency Agreement, which may be inspected during normal business hours at the specified office of the Fiscal Agent.

If the Fiscal Agent does not receive complete documentation in respect of an eligible holder by the interest payment date, such holder may obtain a quick refund of the full amount of

withholding tax by ensuring that the documentation described above is received by the Fiscal Agent no later than 10.00 a.m. (CET) on the 10th calendar day of the month following the relevant interest payment date (or if such date is not a Business Day, the Business Day immediately preceding such date) (the "**Quick Refund Deadline**").

Noteholders entitled to a refund but in respect of whom relevant documentation is not received by the Fiscal Agent on or before a Quick Refund Deadline may seek a full refund of withholding tax directly with the Spanish tax authorities.



Set out below are Annexes I, II and III. Sections in English have been translated from the original Spanish. In the event of any discrepancy, the Spanish version shall prevail.

## Annex I

### Modelo de certificación en inversiones por cuenta propia

#### Form of Certificate for Own Account Investments

(nombre) (name) .....

(domicilio) (address) .....

(NIF) (fiscal ID number) .....

(en calidad de) ....., en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,

(function) ....., in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

#### CERTIFICO:

##### CERTIFY:

- Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is: .....
- Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the ..... Register of .....  
**(país estado, ciudad), con el número**  
(country, state, city), under number .....
- Que la Entidad que represento está sometida a la supervisión de** **(Organo supervisor)**  
that the institution I represent is supervised by ..... (Supervision body)  
**en virtud de** **(normativa que lo regula)**  
under ..... (governing rules).

#### Todo ello en relación con:

All the above in relation to:

#### Identificación de los valores poseídos por cuenta propia

Identification of securities held on own account .....

#### Importe de los rendimientos

Amount of income .....

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

## Annex II

### Modelo de certificación en inversiones por cuenta ajena

#### *Form of Certificate for Third Party Investments*

(nombre) (name) .....

(domicilio) (address) .....

(NIF) (fiscal ID number) .....

(en calidad de) ....., en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,

(function) ....., in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

#### **CERTIFICO:**

##### **CERTIFY:**

- Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is: .....
- Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the ..... Register of .....  
**(país estado, ciudad), con el número**  
(country, state, city), under number .....
- Que la Entidad que represento está sometida a la supervisión de** **(Organo supervisor)**  
that the institution I represent is supervised by ..... (Supervision body)  
**en virtud de** **(normativa que lo regula)**  
under ..... (governing rules).
- Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraísos fiscal de acuerdo con las normas reglamentarias en vigor.**  
That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the amounts and the relevant amounts is accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

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

#### **RELACIÓN ADJUNTA A CUMPLIMENTAR:**

TO BE ATTACHED:

#### **Identificación de los valores:**

Identification of the securities

#### **Listado de titulares:**

List of beneficial owners:

#### **Nombre / País de residencia / Importe de los rendimientos**

Name / Country of residence / Amount of income

## Annex III

**Modelo de certificación para hacer efectiva la exclusion de retencion a los sujetos pasivos del impuesto sobre sociedades y a los establecimientos permanentes sujetos pasivos del impuesto sobre la renta de no residentes (a emitir por las entidades citadas en el art. 12.3.a) del RD 1778/2004)**

***Certificate for application of the exemption on withholding to spanish corporation tax taxpayers and to permanent establishments of non-resident income tax taxpayers (to be issued by entities mentioned under article 12.3.a) of RD 1778/2004)***

**(nombre)** (name) .....

**(domicilio)** (address) .....

**(NIF)** (fiscal ID number).....

**(en calidad de)** ....., **en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59.s) del Real Decreto 1778/2004,**

(function)....., in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1778/2004,

### **CERTIFICO:**

CERTIFY:

- 1. Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is: .....
- 2. Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- 3. Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the ..... Register of.....  
**(país estado, ciudad), con el número**  
(country, state, city), under number.....
- 4. Que la Entidad que represento está sometida a la supervisión de** **(Organo supervisor)**  
that the institution I represent is supervised by ..... (Supervision body)  
**en virtud de** **(normativa que lo regula)**  
under ..... (governing rules).
- 5. Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**  
That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporations Tax taxpayers and permanent establishment in Spain of Non-Resident Income Tax taxpayers, and are recipients of the referred income.
- 6. Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluidos en la relación.**  
That the Entity I represent keeps, at the disposal of the Issuer, a photocopy of the card evidencing the Fiscal Identification Number of the holders included in the attached list.

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

### **RELACIÓN ADJUNTA**

TO BE ATTACHED

### **Identificación de los valores:**

Identification of the securities

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

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

## Subscription and Sale

Citigroup Global Markets Limited, Goldman Sachs International and J.P. Morgan Securities Ltd (the “**Managers**”) have, in a subscription agreement dated 28th September 2004 (the “**Subscription Agreement**”) and made between the Issuer, the Guarantor and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe the Notes at their issue price of 99.55% of their principal amount (in the case of the 2019 Notes) and 99.857% (in the case of the 2014 Notes) less (in the case of the 2014 Notes) a combined management and underwriting commission of 0.047% of their principal amount. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### United States of America

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

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

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has further represented, warranted and undertaken that:

**No offer to public:** It has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

**Financial Promotion:** It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, or, in the case of the Guarantor would not, if it were not an authorised person, apply to the Issuer or the Guarantor; and

**General compliance:** It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### Spain

The Notes will not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law save in compliance with the requirements of the Spanish Securities

Market Law of 28th July 1988, as amended and restated, and Royal Decree 291/1992 of 27th March, on issues and public offers for the sale of securities ("**RD 291/92**"), as amended and restated, and other applicable regulations. Accordingly, the Notes have not been offered and will not be offered to persons in the Kingdom of Spain in any way that would constitute an offer to the public.

This Offering Circular has not been registered with the Comisión Nacional del Mercado de Valores (the Spanish securities commission) and therefore it is not intended for any public offer of the Notes in Spain.

### Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Each Manager has represented and agreed that it will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy except:

- (a) to "**Professional Investors**", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1st July 1998 as amended ("**Regulation No. 11522**"), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998 as amended ("**Decree No. 58**"), or in any other circumstances where an expressed exemption to comply with the solicitation restrictions provided by Decree No. 58 or Article 33.1 of the Italian listing authority (*Commissione Nazionale per la Società e la Borsa*) ("**CONSOB**") Regulation No. 11971 of 14th May 1999 as amended applies, provided, however, that any such offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy must be:
  - (1) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1st September 1993 as amended ("**Decree No. 385**"), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
  - (2) in compliance with Article 129 of Decree No. 385 and the implementing guidelines of the Bank of Italy (*Istruzioni di Vigilanza per le Banche*), pursuant to which the issue or offer of securities in Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities offered in Italy and their characteristics (the "**Bank of Italy Notification**"); and
  - (3) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy; or
- (b) if Italian residents submit unsolicited offers to any of the Managers to purchase the Notes.

### The Netherlands

This offering circular may not be distributed and the notes (including rights representing an interest in a global note) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in the Netherlands ("**Dutch Residents**") other than to the following entities (hereinafter referred to as "**Professional Market Parties**" or "**PMPS**") provided they acquire the notes for their own account:

- (i) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- (ii) banks or securities firms licensed or supervised in a European Economic Area member state (other than the Netherlands) and registered with the Dutch Central Bank (*de Nederlandsche Bank N.V.*: "**DNB**") or the Netherlands Authority for the Financial Markets (*stichting autoriteit financiële markten*) acting through a branch office in the Netherlands;



- (iii) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be licensed under Dutch law;
- (iv) the Dutch government (*de staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, or any international treaty organisations and supranational organisations located in the Netherlands;
- (v) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the notes;
- (vi) Netherlands enterprises, entities or individuals with net equity (*eigen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- (vii) Netherlands subsidiaries of the entities referred to under (i) above provided such subsidiaries are subject to prudential supervision;
- (viii) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (ix) such other Netherlands entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

All Notes (whether or not offered to Dutch residents) shall bear a legend to the following effect, it being understood and agreed that the receipt of the Offering Circular by initial offerees from the Managers shall constitute sufficient notice of the transfer restrictions set out in the legend:

“This note (or any interest herein) may not be sold, transferred or delivered to individuals or legal entities who are established, domiciled or have their residence in the Netherlands (“**Dutch Residents**”) other than to professional market parties within the meaning of the exemption regulation under the Dutch credit system supervision act 1992 (*wet toezicht kredietwezen* 1992) that acquire such notes (or any interest herein) for their own account or for the account of another pmp (“**PMP’s**”).

*Each Dutch resident* by purchasing this note (or any interest herein), will be deemed to have represented and agreed for the benefit of the issuer that it is such a PMP and is acquiring this note for its own account or for the account of another PMP.

*Each holder of this note* (or any interest herein), by purchasing such note (or any such interest), will be deemed to have represented and agreed for the benefit of the issuer that (1) such note (or any interest herein) may not be offered, sold, pledged or otherwise transferred to *Dutch residents* other than to a pmp acquiring for its own account or for the account of another PMP and that (2) the holder will provide notice of the transfer restrictions described herein to any subsequent transferee.”

## General

No action can be taken in any jurisdiction that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular or any other offering material comes are required to comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession, distributes or publishes this Offering Circular or any other offering material relating to the Notes, in all cases at its own expense.

## General Information

1. The creation and issue of the Notes has been authorised by resolutions of the shareholders and of the board of directors of the Issuer each dated 17th September 2004. The giving of the Guarantee of the Notes has been authorised by a resolution of the Executive Committee of the Guarantor dated 20th September 2004.
2. Save as disclosed herein, there are no, nor have there been, any legal, arbitration or administrative proceedings involving the Issuer or the Guarantor or any of its subsidiaries (and no such proceedings are pending or threatened) which have or may have had during the twelve months prior to the date of this Offering Circular a significant effect on the financial position of the Issuer, the Guarantor or the Group taken as a whole
3. Save as disclosed herein, since 27th February, 2004 (in the case of the Issuer, being the date of incorporation of the Issuer) and 31st December 2003 (in the case of the Guarantor and the Group, being the last day of the financial period in respect of which the most recent published audited annual accounts of the Guarantor were prepared), there has, save as disclosed in this Offering Circular, been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of the Issuer, of the Guarantor or of the Group taken as a whole.
4. The financial statements of the Guarantor and of the Group were audited in 2001 by Arthur Andersen, y Cía S.COM and by Deloitte & Touche España, S.L. in 2002 and 2003 (registered in the *Registro Oficial de Adjudicatarios de Cuentas*). The auditors' reports on the non-consolidated financial statements of the Guarantor for the financial years 2001, 2002 and 2003 contained unqualified opinions. The auditors' reports on the consolidated financial statements of the Guarantor for the financial years 2001, 2002 and 2003 contained unqualified opinions.
5. The Guarantor publishes quarterly unaudited consolidated interim financial statements. The Guarantor does not publish unconsolidated interim financial statements. As at the date of this Offering Circular, the Issuer has not published audited financial statements. The Issuer intends to publish unconsolidated audited financial statements on an annual basis. The first financial year end of the Issuer will end on 31st December 2004. The Issuer does not and will not publish interim financial statements.
6. For so long as any of the Notes are outstanding, copies of the following documents (together with English translations where applicable) may be obtained during normal business hours at the Specified Office of each Paying Agent:
  - (a) the deed of incorporation and the by-laws (*estatutos*) of the Issuer and the by-laws (*estatutos*) of the Guarantor;
  - (b) the Fiscal Agency Agreement;
  - (c) the 2019 Public Deed and the 2014 Public Deed;
  - (d) the Deed of Covenant;
  - (e) the Deed of Guarantee;
  - (f) the audited consolidated and unconsolidated financial statements of the Guarantor for the years ending 31st December 2001, 2002 and 2003; and
  - (g) the consolidated financial statements of the Guarantor for the six months ending 30th June 2003 (on an unaudited basis) and 30th June 2004 (on an audited basis).
7. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, copies of the constitutional documents of the Issuer and the Guarantor (together with English translations thereof) and a legal notice relating to the issue of the Notes will be deposited prior to listing with the *Régistre de Commerce et des Sociétés à Luxembourg*, where they may be inspected and copies obtained upon request.
8. The Notes and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in

Sections 165(j) and 1287(a) of the Internal Revenue Code.” The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the 2019 Notes is XS0201169439 and the common code is 020116943. The ISIN for the 2014 Notes is XS0201170106 and the common code is 020117010. The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the Fiscal Agent in the collection of the details referred to above from Noteholders. If any Clearing System is, in the future, unable to facilitate the collection of such information it may decline to allow the Notes to be cleared through such Clearing System and this may affect the liquidity of the Notes. Provisions have been made for the Notes, in such case, to be represented by definitive Notes (See “Terms and Conditions of the 2019 Notes” and “Terms and Conditions of the 2014 Notes” on pages 6 and 16, respectively). The procedures agreed and fully described in the Fiscal Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.

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