

Offering Circular



**Santander Central Hispano**

## **Santander Perpetual, S.A. Unipersonal**

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

### **Series 1 Euro 750,000,000 Guaranteed Perpetual Step-Up Subordinated Notes**

irrevocably and unconditionally guaranteed to the extent set forth herein by

## **Banco Santander Central Hispano, S.A.**

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

The issue price of the Series 1 Euro 750,000,000 Guaranteed Perpetual Step-Up Subordinated Notes (the "Notes") of Santander Perpetual, S.A. Unipersonal (the "Issuer") is 99.295 per cent. of their principal amount.

The Notes have no fixed maturity date and the Issuer shall only have the right to repay them in accordance with the terms and conditions set out on page 6 (the "Terms and Conditions") and subject to the prior consent of the Bank of Spain. The Notes may be redeemed (i) at the option of the Issuer (subject, among other conditions, to the prior consent of the Bank of Spain and the Guarantor, as described below), in whole but not in part, at their principal amount together with accrued interest (if any) thereon (including any Deferred Interest and any Additional Interest Amounts (each as defined in the Terms and Conditions)) on 10th December 2014 and on any Interest Payment Date (Floating) (as defined in the Terms and Conditions) thereafter, and (ii) on or after 10 December 2014 or otherwise permitted by the Bank of Spain, in the event of certain changes affecting taxation in the Kingdom of Spain. See "Terms and Conditions of the Notes – Redemption and Purchase".

The Notes will bear interest from, and including, 10th December 2004 (the "Closing Date") to but excluding 10th December 2014 at the rate of 4.375 per cent. per annum payable in arrear on 10th December in each year. The first interest payment will be payable on 10th December 2005. The Notes will bear interest from, and including 10th December 2014 at the rate of 1.60 per cent. per annum above the three month EURIBOR payable quarterly in arrear commencing on the Interest Payment Date (Floating) falling on 10th March 2015. Banco Santander Central Hispano, S.A. (the "Guarantor" or "Bank") will unconditionally and irrevocably guarantee, on a subordinated basis, the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

The Issuer shall not be obliged or make any payment of the interest accrued on the Notes on any Interest Payment Date, if either the non-consolidated or consolidated audited profit and loss account (*cuenta de resultados*) of the Guarantor or, as the case may be of the Guarantor and its consolidated subsidiaries (the "Group"), for the financial year immediately preceding any Interest Payment Date does not show a Profit (as defined in the Terms and Conditions), and any failure to pay the interest accrued on the Notes under such circumstances shall not constitute an Event of Default. See "Terms and Conditions – Interest".

The Notes are expected, upon issue, to be assigned an A1 rating by Moody's Investors Services, Inc. ("Moody's"), an A+ rating by Fitch IBCA Limited ("Fitch IBCA") and an A- rating by Standard & Poor's Rating Services, a division of the McGraw Hill Companies Inc, ("S&P"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

**Potential holders are alerted to the statements on page 2 and 3 regarding the tax treatment in Spain of income in respect of the Notes and to the disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of certain holders of the Notes. In particular, income in respect of the Notes will be subject to withholding tax if certain information regarding holders is not received by the Guarantor on time as described herein.**

The Notes will be issued in bearer form and will be represented by a global Note deposited on or about the Closing Date with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg", together with Euroclear the "Clearing Systems"). For so long as the Notes trade through the Clearing Systems and the Clearing Systems so permit, the Notes will trade in minimum amounts of Euro 100,000 and incremental amounts of Euro 1,000 thereon. The Notes will be initially issued and subsequently traded in aggregate principal amounts of not less than Euro 100,000. Accordingly, any investor in the Notes will not be permitted to acquire or trade Notes in an aggregate principal amount of less than Euro 100,000.

Application has been made to list the Notes on the Luxembourg Stock Exchange. This Offering Circular constitutes a Prospectus for the purposes of the application for listing on the Luxembourg Stock Exchange.

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.

**Credit Suisse First Boston**

**Goldman Sachs International**

**UBS Investment Bank**

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

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

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

*Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Offering Circular 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.*

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

*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.*

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

*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; and (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 Notes – Taxation” on page 14 and “Taxation and Disclosure of Noteholder Information in connection with Interest Payments” on page 50.)*

*The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the principal paying agent in the collection of the details referred to above from holders of the Notes. 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 a case, to be represented by definitive Notes. 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. Holders of Notes 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 51).*

**In connection with the issue of the Notes, Goldman Sachs International (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 interim unaudited financial statements of the Guarantor (on a consolidated basis) for the nine month period ending 30th September 2004.

A copy of this Offering Circular (or any document incorporated by reference in this Offering Circular) is available free of charge at the specified offices of the Paying Agents. Written or oral 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 NOTES

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

The Series 1 Euro 750,000,000 Guaranteed Perpetual Step-Up Subordinated Notes (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (Further issues) and forming a single series therewith) of Santander Perpetual S.A. Unipersonal (the “**Issuer**”) are the subject of (a) an *escritura pública* to be registered with the Mercantile Registry of Madrid on or prior to 10th December 2004 (the “**Public Deed**”); (b) a deed of covenant dated 7th December 2004 executed by the Issuer (the “**Deed of Covenant**”) (c) a deed of guarantee dated 7th December 2004 (the “**Deed of Guarantee**”) executed by Banco Santander Central Hispano, S.A. (the “**Guarantor**”) and (d) a Fiscal Agency Agreement dated 7th December 2004 (as amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) entered into between the Issuer, the Guarantor and JPMorgan Chase Bank, N.A. as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and J.P. Morgan Bank Luxembourg S.A. as Luxemburg paying agent (together with the Fiscal Agent, the “**Paying Agents**”). Certain provisions of these Conditions are summaries of the Public Deed, the Deed of Covenant, the Deed of Guarantee and the Fiscal Agency Agreement and subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Public Deed, the Deed of Covenant, the Deed of Guarantee and the Fiscal Agency Agreement applicable to them. Copies of the Public Deed, the Deed of Covenant, the Deed of Guarantee and the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

### 1. FORM, DENOMINATION AND TITLE

The Notes are serially numbered and in bearer form in the denomination of Euro 1,000 with Coupons and talons (each, a “**Talon**”) for further Coupons attached at the time of issue. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or 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.

*For so long as the Notes trade through the Clearing Systems and the Clearing Systems so permit, the Notes will trade in minimum amounts of Euro 100,000 and incremental amounts of Euro 1,000 thereon. The Notes will be initially issued and subsequently traded in aggregate principal amounts of not less than Euro 100,000. Accordingly, any investor in the Notes will not be permitted to acquire or trade Notes in an aggregate principal amount of less than Euro 100,000.*

### 2. STATUS OF THE NOTES

- (a) The Notes and Coupons relating thereto constitute direct, unconditional, subordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and with all other present and future undated subordinated indebtedness of the Issuer. In the event of insolvency (*concurso*) of the Issuer, the rights and claims of Noteholders under the Notes and Coupons relating thereto will rank in right of payment after all ordinary debt and, to the extent permitted by applicable Spanish law, after dated subordinated indebtedness of the Issuer, *pari passu* with the rights and claims of holders of all other undated subordinated indebtedness of the Issuer and in priority to the rights and claims of shareholders of the Issuer.
- (b) The Issuer and the Guarantor agree that, for so long as the Notes and Coupons relating thereto are outstanding, they will not issue or guarantee any preferred securities or undated subordinated debt instruments ranking senior to their obligations under the Notes and the Deed of Guarantee, respectively.

### 3. STATUS OF THE GUARANTEE

The Guarantor has unconditionally and irrevocably guaranteed, on a subordinated basis, the due and punctual payment of all sums expressed to be payable by the Issuer under the Notes and Coupons relating thereto and the Deed of Covenant. The obligations of the Guarantor



under the Deed of Guarantee, including those in respect of Deferred Interest (as defined in Condition 4(g)(i) below), constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor. In the event of insolvency (*concurso*) of the Guarantor, the rights and claims of the Noteholders under the Deed of Guarantee shall rank in right of payment after all ordinary debt of the Guarantor and, to the extent permitted by applicable Spanish law, after dated subordinated indebtedness of the Guarantor, *pari passu* with the rights and claims of holders of all other undated subordinated indebtedness of the Guarantor and shall rank in priority to the rights and claims of Holders of Tier 1 Securities.

**“Holders of Tier 1 Securities”** means ordinary shareholders of the Guarantor, creditors of the Guarantor which are characterised as holders of equity (*Otros Acreedores a Título Asimilable al de Aportación de Capital*) including, but not limited to, holders of preferred securities, if any, of the Guarantor, and holders having the benefit of a guarantee of the Guarantor in respect of preference shares or preferred securities issued by any subsidiary of the Guarantor.

*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.*

#### 4. INTEREST

##### (a) Fixed Rate Period

The Notes bear interest from, and including, 10th December 2004 (the **“Issue Date”**) to, but excluding 10th December 2014 (such period, the **“Fixed Rate Period”**) at the rate per annum of 4.375 per cent. (the **“Rate of Interest (Fixed)”**) payable in arrear on 10th December in each year subject as provided in Condition 8 (Payments) (each an **“Interest Payment Date (Fixed)”**) and, together with each Interest Payment Date (Floating), as defined below, an **“Interest Payment Date”**). Each period beginning on, and including, the Issue Date and ending on, but excluding, the first Interest Payment Date (Fixed) and each successive period beginning on, and including, an Interest Payment Date (Fixed) and ending on, but excluding, the next succeeding Interest Payment Date (Fixed) is called an **“Interest Period (Fixed)”** and, together with each Interest Period (Floating) (as defined below), an **“Interest Period”**.

The amount of interest payable on each Interest Payment Date (Fixed) shall be Euro 43.75 in respect of each Note of Euro 1,000 denomination. If interest is required to be paid in respect of a Note on any other date during the Fixed Rate Period it shall be calculated by applying the Rate of Interest (Fixed) to the principal amount of such 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 Interest Payment Date (Fixed) to (but excluding) the next Interest Payment Date (Fixed).

##### (b) Floating Rate Period

The Notes bear interest at the Rate of Interest (Floating) (as defined below) from, and including, 10th December 2014 payable in arrear on 10th March, 10th June, 10th September and 10th December in each year (each an **“Interest Payment Date (Floating)”**); provided however, that, if any Interest Payment Date (Floating) 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, 10th December 2014 and ending on, but excluding, the next Interest Payment Date (Floating) and each successive period beginning on, and including, an Interest Payment Date (Floating) and ending on, but excluding, the next Interest Payment Date (Floating) is herein called an **“Interest Period (Floating)”**.

The rate of interest applicable to the Notes (the “**Rate of Interest (Floating)**”) for each Interest Period (Floating) will be determined by the Fiscal Agent on the following basis:

- (i) the Fiscal Agent will determine the rate for deposits in Euro for a period equal to the relevant Interest Period (Floating) 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 (Floating) (the “**Interest Determination Date**”);
- (ii) if such rate does not appear on the relevant page, the Fiscal Agent will:
  - (A) request the principal Euro-zone office of each of four major banks in the Euro-zone 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 Euro-zone interbank market for a period equal to the relevant Interest Period (Floating) 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;
- (iii) if, on any Interest Determination Date, only two or three rates are so quoted, the Fiscal Agent will determine the arithmetic mean (rounded as aforesaid) of the rate so quoted; or
- (iv) if fewer than two such quotations are provided as requested, the Fiscal Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone, selected by the Fiscal Agent at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period (Floating) for loans in Euro to leading European banks for a period equal to the relevant Interest Period (Floating) and in an amount that is representative for a single transaction in that market at that time, and the Rate of Interest (Floating) for such Interest Period (Floating) shall be the sum of the Margin, and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) so determined: provided, however, that if the Fiscal Agent is unable to determine a rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) in accordance with the above provisions in relation to any Interest Period (Floating), the Rate of Interest (Floating) applicable to the Notes during such Interest Period (Floating) will be the sum of the Margin, and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) last determined in relation to the Notes in respect of a preceding Interest Period (Floating).

In these Conditions:

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

“**Margin**” means 1.60 per cent.;

“**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.

- (c) The Fiscal Agent will, as soon as practicable after determining the Rate of Interest (Floating) in relation to each Interest Period (Floating), calculate the amount of interest (the “**Interest Amount (Floating)**”) payable in respect of each Note for the relevant Interest Period (Floating). The Interest Amount (Floating) will be calculated by applying the Rate of Interest (Floating) for such Interest Period (Floating) to such principal amount, multiplying the product by the actual number of days in such Interest Period (Floating) divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).



- (d) At 11:00 a.m. (Brussels time) on the first day of each Interest Period the Fiscal Agent shall determine the Additional Interest Amount (as defined in Condition 4(g)(i) below) in respect of any amount(s) of Deferred Interest (as defined in Condition 4(g)(i) below) for such Interest Period, if any.

Such Additional Interest Amount shall be calculated:

- (i) during the Interest Period (Fixed) by applying the Rate of Interest (Fixed) to the relevant amount of Deferred Interest and multiplying the product by the Day Count Fraction (as defined in Condition 4(a)) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards); and
  - (ii) during the Interest Period (Floating) by applying the Rate of Interest (Floating) to the relevant amount of Deferred Interest, multiplying the product by the actual number of days in the relevant Interest Period (Floating) divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (e) The Fiscal Agent will cause each Rate of Interest (Floating), Interest Payment Date (Floating), Interest Amount (Floating), Additional Interest Amount (if any) or other item determined or calculated by it to be notified to the Issuer, the Guarantor, the other Paying Agent and the Luxembourg Stock Exchange as soon as practicable after such determination or calculation but in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Fiscal Agent will be entitled to amend any amount of interest, Additional Interest Amount (if any) or Interest Payment Date (or to make appropriate alternative arrangements by way of adjustment) without prior notice in the event of the extension or shortening of the relevant Interest Period or of notice being given by the Issuer pursuant to Condition 4(g)(iv)(B) or 4(g)(v) and such amendment will be notified in accordance with the first sentence of this Condition 4(e).
- (f) The determination by the Fiscal Agent of all items falling to be determined by it pursuant to these Terms and Conditions shall, in the absence of manifest error, be final and binding on all parties.

(g) **Interest Deferral**

- (i) Without prejudice to the provisions of Conditions 2(a) and 3 above, the Issuer shall not be obliged to make any payment of interest accrued on the Notes on any Interest Payment Date if either the non-consolidated or consolidated audited profit and loss account (*cuenta de resultados*) of the Guarantor or, as the case may be, of the Guarantor and its consolidated subsidiaries (the “**Group**”) for the financial year immediately preceding such Interest Payment Date does not show a Profit (as defined below) and any failure to pay the interest accrued on the Notes under such circumstances shall not constitute an Event of Default.

All interest not so paid shall, so long as the same remains unpaid, constitute “**Deferred Interest**”. Deferred Interest shall itself bear interest as if it were principal of the Notes, at the rate concurrently applicable to the principal amount of the Notes, or, if no principal amount is then outstanding, which would have been applicable if principal were then outstanding. The interest accrued on Deferred Interest in respect of any Interest Period calculated as provided in Condition 4(d) (“**Additional Interest Amount**”) shall, for the purpose of the accrual of interest, be added to such Deferred Interest on the last day of such Interest Period and itself shall become Deferred Interest.

For the avoidance of doubt, during any period on which Deferred Interest accrues, the Notes shall continue to accrue interest at the relevant rate on their original principal amount.

- (ii) Deferred Interest and any Additional Interest Amounts, provided the event set out in Condition 4(h) below does not occur, shall become due and payable on whichever is the earliest of:
- (A) seven (7) Business Days following the date upon which there is next made available to the Fiscal Agent and to the Bank of Spain or otherwise published an audited non-consolidated or consolidated profit and loss account of the Guarantor or the Group, as applicable, for the most recent financial year showing a Profit (as defined below);

- (B) in respect of any Notes being redeemed pursuant to Condition 5 (Redemption and Purchase) below, the date of redemption of such Notes;
- (C) the occurrence of any of the events set out under Condition 6(c); and
- (D) the payment of any distribution by the Guarantor on any class of share capital including subscribed capital and preference shares or preferred securities other than distributions made with ordinary shares, preferred shares or preference securities or any other security ranking junior to the Notes;

provided that, in the case of sub-paragraph (A) only:

- (a) the total amount of Deferred Interest and Additional Interest Amount payable in respect of all the Notes shall be limited such that the sum of all amounts payable by the Guarantor and its consolidated subsidiaries on the basis of the Profit of the Guarantor or, as the case may be, the Group in respect of interest accrued in prior periods (including further interest thereon, where applicable) on all Subordinated Interest Deferred Indebtedness (as defined below) converted into Euros (as provided in sub-paragraph (b) below), shall not exceed an amount (the **"Pay-Out-Amount"**) equal to the Profit of the Guarantor for such latest financial year;
- (b) if the Pay-Out-Amount is not sufficient to satisfy all Deferred Interest and Additional Interest Amount for the Notes and all the corresponding amounts due under the Subordinated Interest Deferred Indebtedness, the total amount of Deferred Interest and Additional Interest Amount payable in respect of the Notes on the basis of such Profit shall be such proportion of the Pay-Out-Amount which corresponds to the proportion which the aggregate principal amount of the Notes outstanding bears to the aggregate principal amount outstanding of all Subordinated Interest Deferred Indebtedness (each principal amount to be determined as at the first day of the seven Business Day period referred to in sub-paragraph (A) above (the **"Pay-Out Determination Date"**), and where any such principal amount is not denominated in Euros such amount shall (for the purposes of this calculation) be expressed in Euros using the spot rate of exchange quoted by the Fiscal Agent (or such other bank as the Fiscal Agent may determine) for the purchase of Euros with the relevant currency as at 11.00 a.m (Brussels time) on the Pay-Out Determination Date, or if no such spot rate is quoted on that date, the spot rate which was quoted by the Fiscal Agent (or such other bank as the Fiscal Agent may determine) most recently prior to such date); provided that, in respect of any such Subordinated Interest Deferred Indebtedness, if the principal amount thereof then outstanding is less than the principal amount upon which, in the case of the Notes, Deferred Interest and Additional Interest Amount, or, in the case of other Subordinated Interest Deferred Indebtedness, amounts corresponding to Deferred Interest and Additional Interest Amount, shall have accrued, by reason of such principal amount having become due and payable (but upon terms that such Deferred Interest and Additional Interest Amount or amounts corresponding thereto shall be deferred or continue to be deferred), the principal amount outstanding for the purposes of the calculation of the relevant proportions pursuant to this paragraph (b) shall be the principal amount actually outstanding on the Pay-Out Determination Date or if none, the principal amount upon which such Deferred Interest and Additional Interest Amount or corresponding amounts shall have accrued;
- (c) if, pursuant to sub-paragraphs (a) and (b) above, the total amount of Deferred Interest and Additional Interest Amount is not paid in full out of the Pay-Out-Amount attributable to a certain period, the amount of Deferred Interest and Additional Interest Amount pending payment shall be paid out of the Pay-Out-Amount attributable to any subsequent period, whether falling before, on or after the due date of redemption of Notes, until such total amount of Deferred Interest and Additional Interest Amount has been paid in full;

- (d) for the purposes of any calculation pursuant to sub-paragraph (b) above, any Subordinated Interest Deferred Indebtedness incurred by a consolidated subsidiary of the Guarantor shall be taken into account once only irrespective of the form of such Subordinated Interest Deferred Indebtedness, including cases where the Guarantor has guaranteed the consolidated subsidiary's obligations or has taken a deposit or loan from the consolidated subsidiary which matches the Subordinated Interest Deferred Indebtedness of the consolidated subsidiary.
- (iii) If amounts in respect of Deferred Interest and Additional Interest Amount become partially payable:
  - (A) all unpaid amounts of Deferred Interest (for this purpose only, not including any Additional Interest Amount whether or not, for the purposes of accrual of interest on amounts of Deferred Interest, the same shall have become Deferred Interest) shall be payable before any Additional Interest Amount;
  - (B) Deferred Interest accrued for any period shall not be payable until full payment has been made of all Deferred Interest that has accrued during any earlier period;
  - (C) the order of payment of Additional Interest Amount shall follow that applicable to the Deferred Interest on which the same has accrued; and
  - (D) as between Noteholders the amounts so payable shall be paid pro rata to the amounts of Deferred Interest or Additional Interest Amount accrued in respect of any period owed to them.
- (iv) The Issuer shall give not more than 21 nor less than 14 days' prior written notice to the Paying Agents and to the Noteholders in accordance with Condition 15 (Notices):
  - (A) of any Interest Payment Date on which interest will be deferred pursuant to this Condition 4(g); and
  - (B) of any date upon which amounts in respect of Deferred Interest and/or Additional Interest Amounts shall become payable pursuant to sub-paragraph (ii)(A) of this Condition, giving, in the case of any Deferred Interest and/or Additional Interest Amount which have become partially payable, such details as may be required by the Paying Agents.
- (v) The Issuer shall as soon as practicable give written notice to the Paying Agents and to the Noteholders in accordance with Condition 15 (Notices) of any date upon which amounts in respect of Deferred Interest and/or Additional Interest Amounts have become payable pursuant to sub-paragraphs (ii)(C) and (ii)(D) of this Condition 4(g).

For the purposes of this Condition:

The term "**interest**" includes, unless the context requires otherwise, Deferred Interest and Additional Interest Amount;

"**Profit**" in respect of any period means net profits before income taxes but after extraordinary items, as derived from the unaudited or audited, as the case may be, non-consolidated or consolidated profit and loss account of the Guarantor or its Group, for such period; and

"**Subordinated Interest Deferred Indebtedness**" means any and all financing arrangements of the Issuer, the Guarantor or any of its consolidated subsidiaries containing provisions similar to those included in this Condition 4(g), including the Notes.

#### (h) **Loss Absorption**

In the event the Guarantor incurs Losses (as defined below), and, in particular, in the event of a reduction in shareholder's equity of the Guarantor pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the Issuer or, as the case may be, the Guarantor, shall allocate the principal of the Notes together with the Deferred Interest and Additional Interest Amount thereon to offsetting such Losses provided that own funds in the form of its total paid up capital, general reserves, nonvoting shares, preference shares and preferred securities of any member of the Group have been previously allocated to meet such Losses.

Such allocation shall be made as follows:

- (a) Deferred Interest and Additional Interest Amounts accrued but unpaid relating to the Notes shall be allocated in chronological order as they fell due. As between Deferred Interest and Additional Interest Amounts which fell due at the same time, it shall be allocated to offsetting Losses pro rata, if sufficient to offset losses.
- (b) If no Deferred Interest and Additional Interest Amounts remain to be so allocated, principal of the Notes to be so allocated shall be allocated as between Noteholders pro rata to the aggregate of the principal amounts then outstanding.

The amounts of the principal of the Notes and, where appropriate, the Deferred Interest and Additional Interest Amount thereon allocated to offsetting the said Losses, may not be claimed by the Noteholders affected and therefore shall not give rise to any payment obligation from the Issuer or, as the case may be, the Guarantor to such Noteholders in respect of such amounts.

For the purpose of this Condition:

“**Losses**” in respect of any period means net losses before income taxes but after extraordinary items as derived from the audited non-consolidated profit and loss account of the Guarantor for such period.

(i) **Accrual of Interest**

Where any principal in respect of any Note is to be repaid in accordance with these Conditions interest (save for interest on any outstanding Deferred Interest thereon) on such Note will cease to accrue from the due date for repayment thereof unless, upon due presentation or surrender of such Note, payment in full of the principal amount is improperly withheld or refused or default is otherwise made in the payment thereof. In such event interest shall continue to accrue thereon (as well after as before any demand or judgment) at the rate then applicable to the principal amount of the Notes until the earlier of (i) the date on which, upon due presentation of the Note, the payment is made or (ii) the seventh day after the date on which notice is given to Noteholders in accordance with Condition 15 (Notices) that the Fiscal Agent has received the funds required to make such payment (except to the extent there is failure in the subsequent payment thereof to the Noteholder).

## **5. REDEMPTION AND PURCHASE**

The Notes have no fixed maturity date and the Issuer shall only have the right to redeem the Notes in accordance with this Condition 5 and subject to the prior consent of the Bank of Spain.

(a) **Early Redemption for Taxation Reasons**

Subject as set out below, if, (i) as a result of any change in the laws or regulations of the Kingdom of Spain or 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 become effective on or after the Issue Date, the Issuer (or, if the obligations of the Guarantor under the Deed of Guarantee have been called, the Guarantor) would be required to pay additional amounts as provided in Condition 7 (Taxation) 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 the said 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 Bank of Spain 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 an Interest Period (Floating), on a day upon which interest is payable) to the Noteholders in accordance with Condition 15 (Notices) (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Notes (in accordance with the requirements of the Bank of Spain) at their principal amount, together with accrued interest (if any) thereon (including any accrued Deferred Interest and Additional Interest Amount pursuant to Condition 4(g) above) provided, however, that (i) no such notice of redemption may be given earlier than ninety days (or a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period (Floating) applicable to the Notes plus sixty 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 Notes then due and (ii) the Bank of Spain consents to the redemption of the Notes.

Redemption for taxation reasons may not take place prior to 10th December 2014 unless otherwise permitted by the Bank of Spain.

**(b) Optional Early Redemption (Call)**

The Issuer may on 10th December 2014 (and on any Interest Payment Date (Floating) thereafter) (subject to the prior consent in writing of the Bank of Spain and the Guarantor having given not less than thirty nor more than forty-five days' notice (in accordance with Condition 15 (Notices) below)), redeem all of the Notes at their principal amount together with accrued interest (if any) thereon (including any accrued Deferred Interest and Additional Interest Amount pursuant to Condition 4(g) above) on the date specified in such notice.

**(c) Purchase**

None of the Issuer, the Guarantor and any of their consolidated subsidiaries may purchase or otherwise acquire any of the Notes at any time without the prior consent in writing of the Bank of Spain and if permitted in accordance with applicable law.

**(d) Cancellation**

All Notes which are redeemed, purchased or otherwise acquired and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

**6. EVENTS OF DEFAULT**

If any of the following events (each an "**Event of Default**") shall have occurred and is continuing:

**(a) Payment Obligations**

Save as provided in Condition 4(g) above, a default is made for more than seven (7) days in the payment of any principal due in respect of any of the Notes or fourteen (14) days or more in the payment of any interest due in respect of any of the Notes; or

**(b) Insolvency of the Issuer**

If proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or similar laws or an order is made or a resolution is passed for the dissolution or winding up of the Issuer (except in any such case for the purpose of a reconstruction or a merger or amalgamation which has been previously approved by a resolution of the Syndicate of the Noteholders or which has been done in a manner which ensures that all of the assets and liabilities of the Issuer will be transferred to another solvent legal entity by effect of law so that such other legal entity will become the obligor in respect of the Notes); or

**(c) Insolvency of the Guarantor**

If proceedings are initiated against the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or similar laws or an order is made or a resolution is passed for the dissolution or winding up of the Guarantor (except in any such case for the purpose of a reconstruction or a merger or amalgamation which has been previously approved by a resolution of the Syndicate of the Noteholders or a merger with another financial institution in this case even without being approved by a resolution of the Syndicate of the Noteholders provided that any entity that survives or is created as a result of such merger is given a rating by an internationally recognised rating agency at least equal to the then current rating of the Guarantor at the time of such merger);

then following a resolution of the Syndicate of the Noteholders, the Commissioner in respect of all Notes (or any Noteholder in respect of its Notes only provided that such Noteholder does not act in contravention of the resolution of the Syndicate (if any)) may, by written notice addressed to the Issuer or, as the case may be, the Guarantor, and delivered to the Issuer or, as the case may be, the Guarantor or to the Specified Office of the Fiscal Agent, declare such Notes (when permitted by the applicable Spanish law) to be immediately due and payable, whereupon they shall become immediately due and payable, subject to the loss absorption provisions set out



under Condition 4(h), at their principal amount together with accrued interest (including any Deferred Interest and Additional Interest Amount) provided that, if the Notes have been declared due and payable pursuant to sub-paragraphs (a) and (b) above, such accrued interest shall be payable only if either the most recent audited non-consolidated profit and loss account of the Guarantor for a full year or the audited or unaudited non-consolidated profit and loss account of the Guarantor for the first half or, as the case may be, the second half of its financial year prior to the date upon which the Notes become due and payable, show a Profit. If such profit and loss account does not show a Profit, the due date for payment of such accrued interest shall be deferred and the relevant amounts shall be deemed as Deferred Interest and, accordingly, Condition 4(g) shall apply to such Deferred Interest.

The Issuer shall give notice of any such declaration promptly to the Noteholders.

## **7. TAXATION**

- (a) All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Notes, the Coupons and the Deed of 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 (subject to paragraph (b)) pay such additional amounts as will result in receipt by the Noteholders or Couponholders 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 7(a) in relation to any payment in respect of any Note or Coupon:
- (i) to, or to a third party on behalf of, a Noteholder or Couponholder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Kingdom of Spain, other than the mere holding of such Note or Coupon; or
  - (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer or the Guarantor, or the Paying 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 13/1985 (as defined below), Royal Decree 2281/1998 of 23 October, as amended by Royal Decree 1778/2004 of 30th July, Royal Legislative Decree 4/2004 of 5th March and Order of 22nd December 1999; or
  - (iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Noteholder or Couponholder 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 7(a), above, 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 26-27th 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 Noteholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
  - (vi) to, or to a third party on behalf of, individuals 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 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.



- (c) For the purposes of these Terms and 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 Paying Agent on or prior to such due date, it means the first date on which the full amount of such moneys having been so received and being available for payment to Noteholders and Couponholders, notice to that effect shall have been duly given to the Noteholders in accordance with Condition 15 (Notices).

## **8. PAYMENTS**

### **(a) Principal**

Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent.

### **(b) Interest**

Payments of interest shall, subject to paragraph (f) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent.

### **(c) Payments subject to fiscal laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (Taxation). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

### **(d) Unmatured Coupons void**

Upon the date on which any Note becomes due and payable, all unmatured Coupons and Talons relating thereto (whether or not still attached) shall become void and no payment will be made in respect of such Coupons or Talons.

### **(e) Payments on business days**

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the Noteholder or the Couponholder 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 business in such place of presentation.

### **(f) Payments other than in respect of matured Coupons**

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent.

### **(g) Partial payments**

If a Paying Agent makes a partial payment in respect of any Note or 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 Talons**

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a “**Coupon Sheet**”), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (Prescription)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

### **(i) Business days**

For the purposes of Condition 4(g)(ii)(A) and Condition 4(g)(ii)(b), “**Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the city in which the Fiscal Agent has its Specified Office.

## 9. PRESCRIPTION

Claims against the Issuer for payment of principal and interest in respect of Notes will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest five years after the Relevant Date (as defined in Condition 7(c)) for payment thereof.

## 10. REPLACEMENT OF NOTES, COUPONS AND TALONS

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and to the Luxembourg 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 Notes, Coupons or Talons must be surrendered before replacements will be issued.

## 11. PAYING AGENTS

In acting under the Fiscal Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or 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 and additional or successor paying agents; provided, however, that the Issuer and the Guarantor shall at all times maintain a paying agent in Luxembourg and a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to Directive 2003/48/EC or any other Directive implementing the conditions of the ECOFIN Council meeting of 26-27th November 2000 or any other law implementing or complying with, or introduce 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 Noteholders.

## 12. SYNDICATE OF NOTEHOLDERS

The Noteholders shall meet in accordance with the regulations for the Syndicate of 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 Public Deed.

The temporary Commissioner is Jesús Merino Merchán. Upon the subscription of the 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 Noteholders.

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

## 13. USE OF PROCEEDS

The proceeds of the issue of the Notes, after paying any issue expenses, will be deposited on a subordinated permanent basis with the Guarantor or with another credit entity (*entidad de crédito*) of the Group and will be available to absorb losses of the Guarantor if and when they occur once there is a reduction in the shareholder's equity to zero and its reserves have been exhausted in accordance with Law 13/1985 of 25 May on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*) as amended by Law 19/2003 of 4 July on foreign capital movements and financial transactions and on certain measures to prevent money laundering (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales*) (“**Law 13/1985**”). The proceeds of the issue of the Notes will be used for the Group's general corporate purposes.

#### 14. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

#### 15. NOTICES

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times), and for so long as the Luxembourg Stock Exchange so requires, 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 and a copy thereof shall be given to the Commissioner of the Syndicate of Noteholders. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

#### 16. CURRENCY INDEMNITY

Euro (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer in respect of the 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 Noteholder or 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 Noteholder or Couponholder 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 Noteholder or Couponholder in respect of such Note or Coupon the Issuer shall indemnify such Noteholder or Couponholder against any loss sustained by such Noteholder or Couponholder as a result. In any event, the Issuer shall indemnify each such Noteholder or Couponholder 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 Noteholder or 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 Notes or any judgment or order. Any such loss as aforesaid shall be deemed to constitute a loss suffered by the relevant Noteholder or Couponholder and no proof or evidence of any actual loss will be required by the Issuer.

#### 17. WAIVER AND REMEDIES

No failure to exercise, and no delay in exercising, on the part of the Noteholder or Couponholder, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

#### 18. GOVERNING LAW AND JURISDICTION

- (a) The issue of the 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 for the Syndicate of Noteholders shall be governed by Spanish law. Save as mentioned above, the Conditions and all matters arising from or connected with the Notes, the Deed of Covenant, the Deed of Guarantee and the Fiscal Agency Agreement are governed by, and shall be construed in accordance with English law.
- (b) The Issuer and the Guarantor irrevocably agree for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings,

and to settle any disputes, which may arise out of or in connection with the Notes (respectively, “**Proceedings**” and “**Disputes**”) and, for such purposes, irrevocably submit to the jurisdiction of such courts.

- (c) 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 agree not to claim that any such court is not a convenient or appropriate forum.
- (d) 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 to such other person on whom, and at such other place at which, process may from time to time be served on the Issuer and 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 18(d) ceases to be effective, 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 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 Noteholder to serve process in any other manner permitted by law.
- (e) The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Noteholder 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 currently or not) if and to the extent permitted by applicable law.

#### **19. RIGHTS OF THIRD PARTIES**

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

## THE REGULATIONS

*The following is an English translation of the Regulations of the syndicate of Noteholders (the "Syndicate") as attached to the 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 Notes and the holders of the Notes.*

### 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 Perpetual, 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 Perpetual, 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 Perpetual, 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 Perpetual, 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 Perpetual, 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 Perpetual, 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 General Meetings.*

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The 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 €1,000 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 6 (*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 7th December 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 15 (*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 15 (*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*).

For so long as the Notes trade through the Clearing Systems and the Clearing Systems so permit, the Notes will trade in minimum amounts of Euro 100,000 and incremental amounts of Euro 1,000 thereon. The Notes will be initially issued and subsequently traded in aggregate principal amounts of not less than Euro 100,000. Accordingly, any investor in the Notes will not be permitted to acquire or trade Notes in an aggregate principal amount of less than Euro 100,000.

## USE OF PROCEEDS

The net proceeds of the issue of the Notes (net of the combined selling, management and underwriting commission) are expected to amount to Euro 740,962,500 and, after the deduction of the expenses of the issue of the Notes, will be deposited by the Issuer with the Guarantor or with another credit entity (*entidad de crédito*) of the Group and will be used for general corporate purposes of the Group.

## SANTANDER PERPETUAL, S.A. UNIPERSONAL

Santander Perpetual, S.A. Unipersonal, which is a wholly owned subsidiary of the Guarantor, was incorporated by a public deed executed on 24 November 2004, and registered in the Mercantile Registry of Madrid on 26 November 2004 as a private company (*sociedad anónima*) with unlimited duration and with limited liability under the laws of Spain. The share capital of Santander Perpetual, S.A. Unipersonal is Sixty Thousand Two Hundred (60,200) Euros divided into 602 ordinary shares of par value 100 Euros each, all of them issued and fully paid and each of a single class. Santander Perpetual, S.A. Unipersonal is a financing vehicle for the Group and Santander Perpetual, S.A. Unipersonal has no subsidiary companies.

The Board of Directors of Santander Perpetual, S.A. Unipersonal consists of the following:

Name	Business Address	Position	Other position in the Group
José Antonio Álvarez Álvarez	Ciudad Grupo Santander, Edificio Encinar Avenida de Cantabria, s/n 28660 Boadilla del Monte, Madrid, Spain	Chairman	General Manager of the Guarantor
José Antonio Soler Ramos ...	Ciudad Grupo Santander Edificio Encinar Avenida de Cantabria, s/n 28660 Boadilla del Monte Madrid, Spain	Vice-chairman of the Issuer	Senior Vice-president of the Guarantor
Iñigo Barrera Amann .....	Ciudad Grupo Santander, Edificio Encinar Avenida de Cantabria, s/n 28660 Boadilla del Monte, Madrid, Spain	Director	Vice-president of the Guarantor
Antonio Torío Martín.....	Ciudad Grupo Santander, Edificio Encinar Avenida de Cantabria, s/n 28660 Boadilla del Monte, Madrid, Spain	Director	Vice-president of the Guarantor
José María García Tubío.....	Ciudad Grupo Santander Edificio Amazonia Avenida de Cantabria, s/n 28660 Boadilla del Monte, Madrid, Spain	Director and member of the Auditing Committee	Senior Vice-president of the Guarantor
Jesús Cepeda Caro .....	Ciudad Grupo Santander Edificio Amazonia Avenida de Cantabria, s/n 28660 Boadilla del Monte, Madrid, Spain	Director and member of the Auditing Committee	Senior Vice-president of the Guarantor
Marta Elorza Martin .....	Ciudad Grupo Santander, Edificio Marisma Avenida de Cantabria, s/n 28660 Boadilla del Monte, Madrid, Spain	Director and member of the Auditing Committee	Senior Vice-president of the Guarantor

The directors of Santander Perpetual, S.A. Unipersonal do not have any significant functions outside the Group.

### Capitalisation and indebtedness of Santander Perpetual, S.A. Unipersonal

The following table sets forth the unaudited capitalisation of Santander Perpetual, S.A. Unipersonal as at 30 November 2004:

	Euros
Short term debt . . . . .	0,00
Long term debt . . . . .	0.00
Shareholder's equity	
Shares . . . . .	60,200.00
Shares held by consolidated companies . . . . .	0.00
Reserves . . . . .	0.00
Total shareholder's equity . . . . .	60,200.00
Net consolidated profit for the period – Group . . . . .	0.00
Minority interests . . . . .	0.00
Total Capitalisation . . . . .	60,200.00

There has been no material change to the capitalisation of the Issuer since 30 November 2004.



## CAPITALISATION OF THE GROUP

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

	millions of Euros
Short term debt . . . . .	14,633.7
Long term debt <sup>(1)</sup> . . . . .	47,731.5
Shareholders' equity . . . . .	
Shares, stated value Euro 0.5 . . . . .	2,384.2
Shares held by consolidated companies . . . . .	(222.3)
Reserves <sup>(2)</sup> . . . . .	15,973.5
Net consolidated profit for the period – Group . . . . .	3,168.7
Total shareholders' equity . . . . .	21,304.1
Minority interest <sup>(3)</sup> . . . . .	6,031.7
Total capitalisation <sup>(4)</sup> . . . . .	89,701.0

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

(2) After deduction of €4,588.4 million of prior year losses at consolidated companies.

(3) Of which €406.6 million correspond to the first nine months 2004 consolidated net income attributable to minority interest.

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

- (a) On 4th and 21st October 2004, the Group redeemed €504.9 million of marketable debt securities and €74.8 million of subordinated debt, guaranteed by the bank. The Group redeemed: Sterling Pounds 100 million of marketable debt securities on 18 November 2004; JPY 2,500 million of subordinated debt on 28 November 2004 and JPY 3,000 million of marketable debt securities on 2 December 2004, in each case guaranteed by the Bank.
- (b) On 8th October 2004, the Group issued €200 million of preferred securities in the international markets, guaranteed by the bank.
- (c) On 1st August 2004, the Bank paid a first interim dividend of our 2004 income of €0.083 per share (a total amount of €395.8 million). On 1st November 2004, the Bank paid a second interim dividend out of 2004 income of €0.083 per share (a total amount of €395.8 million).

On 12th November 2004 the Bank issued 1,485,893,636 new shares of €0.50 par value each and a share premium of €7.94 each for an effective amount of €12,540.9 million which were paid in full through the contribution of shares representing all the capital stock of Abbey National plc, in accordance with the resolutions adopted by the Bank's Extraordinary Shareholders' Meeting held on 21st October 2004. (See "Recent Developments – Acquisition of Abbey National plc").

After this transaction, the current share capital of the Bank is €3,127,148,289.50 made up of 6,254,296,579 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.

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

## **BANCO SANTANDER CENTRAL HISPANO S.A. AND ITS GROUP**

Banco Santander, S.A. was incorporated on 3rd March 1856 for an unlimited duration as a limited liability company (sociedad anónima) pursuant to the Commercial Code of 1829.

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 Avenida de Cantabria, s/n, 28660 Boadilla del Monte, Madrid, Spain, telephone: (+) 34-91-259-6920 and Paseo de Pereda 9-12, 39004, Santander, Spain, telephone: (+) 34-94-220-6100.

The Bank's share capital is €3,127,148,289.50 divided into 6,254,296,579 fully paid up ordinary shares of a single series and class, each with a nominal amount of €0.5.

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. The Bank is the parent entity of the Group.

At 30th September 2004 the Group was the third largest banking group in the euro zone by market capitalization with a market capitalization of €37.5 billion, stockholders' equity of €20.9 billion and total assets of €360.0 billion. The Group had an additional €122.4 billion in mutual funds, pension funds and other assets under management at that date. The Group also had 34,336 employees and 4,386 branch offices in Spain and 68,992 employees and 4,881 branches outside Spain at 30th September 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 in The Royal Bank of Scotland Group, 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, Portugal and Santander Consumer.

### **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.

## Activity in the first nine months of 2004

Net ordinary attributable income (before capital gains) amounted to Euros 2,337.4 million in the first nine months, 21.1% more than in the same period of 2003. On a cash-basis (i.e. before ordinary amortisation of goodwill) net ordinary attributable income was Euros 2,686.7 million.

Ordinary earnings per ordinary share for the first nine months on an annualised basis were Euros 0.6536, 21.1% higher than in the same period of 2003. On a cash-basis, the figure was Euros 0.7512 per ordinary share. Return on equity (ROE) was 16.6%, more than two percentage points higher than in the first nine months of 2003. On a cash-basis, ROE was 19.1%.

Net interest revenue rose 8.8% and maintained growth in net fees and commissions of 10%. 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, compared less favourably (16.7% lower than in the first nine months of 2003) and minority interests (sale in the first quarter of 2003 of 24.9% of Santander Serfin). The year-on-year impact of exchange rates was around 4 p.p. on earnings and 2 p.p. on the balance sheet.

## Business performance

All business areas registered high levels of activity, reflected in higher net operating income. Overall, the year-on-year increase in net operating income was 12.9%, spurred by retail activity.

**European Retail Banking** performed well in all units and progress was made in the business model of generating revenues with flat costs. Net operating revenue rose 8.9% while personnel and general expenses only increased 0.9%. As a result, net operating income grew 17.6% and net attributable income 18.7%. The efficiency ratio improved 3.4 points to 42.6%.

- **Santander Central Hispano Retail Banking** 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). This offset the pressure on customer spreads. The 5.7% rise in revenues and slightly lower costs increased net operating income by 12.7% and net attributable income by 11.8%.

This performance was recognised by Global Finance magazine with the award of best bank in Spain, as the Bank had previously been awarded by Euromoney magazine ("**Euromoney**").

- **Banesto** also continued to perform better than other commercial banks as a whole in Spain, particularly in loans (+22%), higher revenues and stable costs. Net operating income rose 17.2% and net attributable income 13.7%.
- In **Portugal**, against a background of an economy still recovering, the Group increased net interest income and net fees and commissions with lower costs. As a result, the efficiency ratio improved and net attributable income was 15.8% higher than in the first nine months of 2003.
- **Santander Consumer** registered noteworthy growth both in earnings and activity. Net attributable income increased 50% to Euros 272.2 million including the new incorporations (100% of Italy's business and consolidation of Polskie Towarzystwo Finansowe S.A., a Polish consumer finance company ("**PTF**") and Elcon) and on a like-for-like basis the rise was 50.0%. This significant growth was backed by a rise in new lending of 44.6%, improved spreads and efficient management of business (efficiency ratio of 35.2%).

A further step was taken in the consolidation of the Santander Consumer franchise with the agreement to acquire the Dutch auto financing company Abfin, which will contribute Euros 285 million in managed assets to the business of the unit.

In **Latin America** Grupo Santander, which was named the region's best bank in 2004 by Euromoney, maintained a high volume of business during the third quarter and registered year-on-year growth in euros in all of its revenue lines.

Basic revenue increased 12.7% over the first nine months of 2003, after improving for the fifth straight quarter, as a result of 13.0% growth in net interest revenue and 11.9% in net fees and commissions. Both income streams reached their highest levels of the last two years because of greater business volumes, a better interest rate environment and the drive in commission-generating

business at a domestic and regional level. The progress made in basic revenue also reflects the preferential emphasis given to the development of the most recurrent businesses.

As a result of the reduced trading gains in the second and third quarters (compared to exceptionally high ones in Q3 2003), net operating income only rose by 4.7%. Net attributable income was 1.3% lower than in the first nine months of 2003 at Euros 1,024.8 million (+8.8% in dollars at US\$1,255.1 million), because of one-off effects in Mexico and the exchange rate impact.

- Brazil's significant growth in retail business came from lending (+32% year-on-year, excluding the exchange rate effect) and mutual funds (+21% 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 21.8%. Net attributable income, however, declined 3.1% to Euros 518.9 million as a result of the lower trading gains and higher costs incurred in business development. In dollars, net attributable income was 6.8% higher at US\$635.5 million.
- Net operating income in Mexico rose 7.6% in euros, spurred by strong growth in lending, particularly to individual customers and to companies, higher commissions and lower personnel and general costs, which offset the effect of lower interest rates and reduced interest revenues.

The release of available loan-loss provisions in 2003 and the larger share of minority interests in 2004 produced a 21.8% decline in net attributable income over the first nine months of 2003 to Euros 257.2 million (-13.7% in dollars to US\$315.1 million).

- The pick-up in Chile, particularly loans, and the rise in net fees and commissions offset the impact of lower interest rates. All revenue lines grew year-on-year. Cost control and a normal level of provisions produced net attributable income of Euros 215.1 million, 29.6% more than the first nine months of 2003 (+42.9% in dollars to US\$263.4 million).
- Of note in other countries were the higher earnings in Puerto Rico, Venezuela and Colombia (+54.4%, +26.1% and +71.1%, respectively, in euros) and the return to profitability in Uruguay and Argentina.

The **global areas** (Asset Management, Private Banking and Global Wholesale Banking) contributed Euros 524.6 million to the Group's net attributable income, 31.6% more than in the first nine months of 2003.

In short, 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 attributable income to be higher, business volumes to increase and also a continued improvement in the level of profitability, efficiency and credit quality.

## Group results

Net interest revenue was 8.8% higher than in the first nine months of 2003 at Euros 6,439.8 million. The increased business volumes and the initiatives to maintain a customer spread offset the fall in interest rates. There was also a rise in dividends received. All areas increased their net interest revenue over 2003.

Net fees and commissions increased 10.2% as compared to the first nine months of 2003. By business areas, European Retail Banking rose 10.8%, Asset Management and Private Banking 8.5% and Retail Banking Latin America 16.2% in euros (+26.7% excluding exchange rate impact). By products, commissions from mutual and pension funds increased 23.7%, insurance 62.5% and cards 13.1%. Those from shares, underwriting and placement continued to decline because of the weak market.

Net trading gains amounted to Euros 700.1 million, 16.7% less than in the first nine months of 2003 because of the impact of the markets in the second quarter of 2004 and the high level of trading gains in the same quarter of 2003.

Total costs (including depreciation, amortisation and other operating income) increased 2.9%, largely due to the general expenses related to the relaunching of business in some countries and the development of corporate projects as personnel costs only rose 1.1%. As a consequence, the efficiency ratio improved 1.7 points to 47.3%.

Net operating income was 12.3% higher at Euros 4,881.7 million. Excluding the exchange rate impact, growth was 16.4%.

Income from equity-accounted holdings (net of dividends) amounted to Euros 446.3 million, 71.2% more than in the first nine months of 2003. This was largely due to the higher contributions from The Royal Bank of Scotland Group, Cepsa, Banque Commerciale du Maroc, Urbis and insurance companies.

Net provisions for loan-losses amounted to Euros 1,284.5 million, 16.4% more than in the first nine months of 2003, because of the larger allocation to generic and statistical provisions, both as a result of growth in lending.

Accelerated amortisation of goodwill amounted to only Euros 2.4 million, down from Euros 699.1 million in the first nine months of 2003 when Euros 681 million of capital gains from the sale of 24.9% of Santander Serfin were recorded.

“Other income” for the first nine months of 2004 was Euros 200.3 million negative, including different provisions to strengthen the balance sheet.

“Other income” for the first nine months of 2003 was Euros 73.5 million positive as a result of the release of a fund of Euros 182 million included in this category. This fund was reclassified to net loan-loss provisions as the level of country-risk coverage for Argentina increased from 50% to 75%, in accordance with Bank of Spain regulations. It had no impact on income.

Income before taxes on a cash-basis (before ordinary amortisation of goodwill) was 5.9% higher than in the first nine months of 2003 at Euros 3,795.2 million. After deducting taxes, minority interests and preferred shares, net attributable income on a cash-basis was Euros 2,686.7 million, 11.6% higher than in the first nine months of 2003.

Excluding ordinary amortisation of goodwill (Euros 349.3 million, 27.0% less than in the first nine months of 2003), net ordinary attributable income was Euros 2,337.4 million, 21.1% higher than in the same period of 2003.

Including the Euros 831.3 million of extraordinary income from capital gains, the Group's net attributable income was Euros 3,168.7 million, a 64.2% increase over the same period of 2003.

### **Group consolidated balance sheet**

Total funds managed by the Group amounted to Euros 482,387 million, 7.0% more than in September 2003. The negative impact of exchange rates was around 2 percentage points.

Gross lending rose 15.4% year-on-year to Euros 200,842 million (excluding the impact of securitisation gross lending rose 16.9% and 21.4% in other resident sectors). Year-on-year growth rose for the seventh straight quarter.

The main growth in Europe occurred in Spain (+19%), Germany (+18%) and Poland, after PTF's consolidation. Latin America registered growth of 17% in local currency. Of note was Brazil (+32%), Mexico, excluding the Fobaproa paper (+17%), Chile (+16%), Colombia (+47%) and Venezuela (+94%).

Growth in Spain in loans to companies and mortgages continued to be high in the third quarter. Loans to the resident sector increased 3.3% over June 2004, while Latin America registered growth of 4.6% excluding the exchange rate effect.

Total managed customer funds increased 11.3% year-on-year to Euros 353,029 million (+13.0% excluding the exchange rate effect).

In Spain, deposits (excluding REPOs), mutual funds and pension plans rose 10.1% in the year to September 2004. Of note, after falling in several quarters, was the stabilisation of time deposits, as well as the increase in sight deposits (+8.4% in demand deposits).

Mutual funds increased 14.9% in the year to September, consolidating the Group's leadership position in Spain with a market share over 27%. Pension plans increased 11.2% year-on-year.

On- and off-balance sheet managed funds in Latin America rose 13% in euros (+19% excluding the exchange rate effect). All countries performed well in local currency terms. Of note, in deposits, was growth of more than 14% in Brazil, Mexico, Chile, Venezuela, Colombia and Uruguay. The rise in mutual funds was 27.6%, excluding the exchange rate effect, with notable growth in Argentina, Brazil, Mexico, Chile and Puerto Rico. All countries registered growth in pension plans (total increase of 14.4% excluding the exchange rate impact).



Goodwill pending amortisation amounted to Euros 7,135 million. The reduction since September 2003 was Euros 1,275 million (-15.2%) and included the early amortisation of Banespa, the reclassification of the goodwill of Sanpaolo-IMI and Commerzbank from the restructuring of the portfolio and the elimination of the goodwill corresponding to the stake sold in The Royal Bank of Scotland. The main increase, meanwhile, arose from the acquisition of Cepsa shares.

The Group's equity, on the basis of BIS criteria, amounted to Euros 29,636 million. The surplus above the minimum requirement was Euros 11,551 million. The BIS ratio was 13.1%, with Tier I of 8.4% and core capital of 6.6%.

In the quarter the Group made three preferred share offerings totalling Euros 1,730 million and two subordinated debt placements of Euros 500 million each.

## **Risk management**

The Group continued to reduce the level of non-performing loans (NPLs) together with an increase in coverage. The NPL ratio dropped to 1.26% from 1.55% in December 2003 and 1.69% in September 2003. NPL coverage rose almost 8 percentage points in the third quarter to 205.1% (165.2% at the end of 2003 and 149.4% in September 2003).

Specific loan-loss provisions, net of recoveries, were 49% lower than a year ago at Euros 324 million.

The Group's NPL ratio in Spain remained at an all-time low of 0.7% and coverage of doubtful loans rose to 315%, 92 percentage points higher than in December 2003 and 97 points above September 2003.

In Portugal, where the economic environment still has room for improvement, the NPL ratio stands at 2.5%, slightly above December 2003. Coverage was 109%, 17 points lower than in December 2003. Santander Consumer's NPL was hardly changed at 2.1% in respect to December and September 2003. Coverage increased to 159%, 9 p.p. more than December 2003 and 13 p.p. above September 2003.

Latin America's NPL ratio fell to 2.7%, largely thanks to the lower balances of bad debts in Argentina, Mexico, Chile and Venezuela. Coverage stood at 161%, 36 points above December 2003 and 41 points more than September 2003.

Regarding market risk management, the VaR (Value at Risk) of trading portfolios remained at the end of the third quarter at levels similar to those in the second quarter. At the beginning of August, due to the rise in Mexico's interest rates and increased volatility, VaR reached a high of US\$22.5 million. Subsequently, after reducing positions in Brazil and Mexico, the VaR reached a low for the quarter of US\$17.7 million and ended the period at US\$20.1 million, similar to the start. The average VaR of the third quarter was US\$19.9 million (US\$14.0 million in the same period of 2003), largely because of Latin America and chiefly Mexico.

## **Dividends**

On August 1, the bank paid its first interim dividend charged to 2004 earnings of Euros 0.083 per ordinary share. As of November 1, a second interim dividend, also of Euros 0.083 per ordinary share, will be paid. In both cases, the payments are 7.1% higher than the equivalent ones in 2003.

## **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 is one of the ten largest banks 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 was approved by the shareholders of each bank at their respective shareholders' meetings held in October 2004. The Acquisition also received the necessary regulatory approvals and clearance from the European Competition Commission, the Spanish regulator and the English regulator.



The Acquisition was effected by way of a scheme of arrangement of Abbey, which was sanctioned by the High Court of England and Wales and became effective on 12th November 2004. Under the terms of the Acquisition, holders of shares in Abbey ("**Abbey Shares**") or American depository shares in Abbey ("**Abbey ADSs**") and together with Abbey Shares, "**Abbey Securities**") were entitled to receive shares of €0.50 in the capital of the Guarantor (the "**New Banco Santander Shares**") or American depository shares each representing one New Banco Santander Share (a "**New Banco Santander ADS**"), as the case may be 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 were 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 6 pence for dividend differential<sup>1</sup>), represented a premium of approximately 28.4 per cent. and valued 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.

As a result of the Acquisition, former Abbey shareholders became entitled to approximately 24 per cent. of the increased share capital of the Bank.

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

On 12th November 2004 (the "**Effective Date**") the Bank issued 1,485,893,636 new shares of €0.50 par value each and a share premium of €7.94 each for an effective amount of €12,540.9 million which were paid in full through the contribution of 1,485,893,636 shares representing all the capital stock of Abbey, in accordance with the resolutions adopted by the Bank's Extraordinary Shareholders' Meeting held on 21st October 2004. On the Effective Date, the capital stock of Abbey was amortized and its shares ceased to trade on the London Stock Exchange and on any other stock exchange. On 15th November 2004, the New Banco Santander Shares were listed on the Bolsas de Valores and were trading as of 16th November 2004.

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 are not currently admitted to the Official List of the UK Financial Services Authority (the "**Official List**") or to trading on the London Stock Exchange. 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 completion of this transaction and in accordance with the agreement between the Bank and The Royal Bank of Scotland Group plc ("**RBS**") to terminate the cross-directorships between the two, Mr. Emilio Botín and Mr. Juan R. Inciarte resigned as Directors of RBS, The Royal Bank of Scotland plc, and National Westminster Bank PLC and Sir George Mathewson resigned as Director of the Bank.

## 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

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<sup>1</sup> 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.

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 plaintiffs have appealed for redress and the Bank has asked the court not to admit such appeal. 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 court dismissed the claim on 29th May 2003. The plaintiffs have appealed against such decision and the Bank has already answered the appeal.

Since fiscal year 1992, the Madrid Central Pre-Trial Investigation Court No. 3 of Madrid has maintained pre-trial investigative proceedings – now summary proceedings – in order to determine liabilities with respect to certain credit assignment transactions (*operaciones de cesión de crédito*) carried out by Banco Santander, S.A. between fiscal years 1987 and 1989. In the opinion of the Bank and its internal and external advisors, the final disposition of this proceeding will be favourable, and does not require a specific additional reserve.

By order of such Court dated 16th July 1996, after a request to such effect by the Attorney General after consultations with the Spanish Tax Authority, the case against the Bank and its managers for the profit arising from such transactions was dismissed. Thereafter, the Attorney General – representative of the Tax Authority – and the Public Prosecutor repeatedly requested the dismissal of the case regarding the Bank and its managers. Notwithstanding the foregoing on 27th June 2002, the court ordered the conversion of the above-referenced pre-trial investigative proceedings into a Summary Proceeding. Such order was appealed by the Public Prosecutor and by the Bank and its managers.

In its Decision of 23rd June 2003, Panel Two of the Criminal Division of the National Criminal and Administrative Court (*Audiencia Nacional*) allowed the appeals in part, explicitly acknowledging that the marketing of the credit assignments had been completely legal, and reducing the number of transactions under scrutiny – and with respect to which the Bank's possible involvement is still being alleged – from 138 to 38 (on the generalities of which the Attorney General and the Public Prosecutor also requested the dismissal of the case and its removal from the docket on the ground that no crime had been committed).

Following the conclusion of the indictment proceedings – with repeated requests by the Public Prosecutor and the Attorney General for the dismissal of the proceedings and their removal from the docket, and for the upholding thereof – and based on the complaint filed by the citizen complainant, *Asociación para la Defensa de Inversores y Clientes* (Investor and Customer Defense Association), the Court, in an order dated 6th October 2004, decreed the commencement of oral evidentiary proceedings against the President of the Bank and three managers for one continuing crime of falsification of an official document, three continuing crimes of falsification of a commercial document, and thirty crimes against the public finance, ordering that a bond be jointly posted for €67.8 million, which amount was later reduced to €40.1 million, as a fine and for costs. The imposition of this bond has been appealed to the National Criminal and Administrative Court. The order designated Panel One of the Criminal Division of the National Criminal and Administrative Court as the competent court to hear the oral evidentiary proceedings.

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. The resolutions adopted at the Bank's shareholder meeting held on 19th June 2004 have been challenged under Spanish law by three shareholders who filed their claims before the courts of Santander. The challenged resolutions include the approval of the Bank's annual accounts, the profit allocation and the approval of the

regulation of the shareholders' meetings. On 30th September 2004 the Bank responded to the claim of one of the shareholders, and currently is preparing the answer to the claims of the two remaining plaintiff shareholders.

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. The Bank has answered the appeal.

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. The defence pleadings have been prepared. The prosecutor has requested the acquittal of those accused on the grounds that the facts do not amount to a criminal offence.

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 and on 15th October 2004 filed the answer to the complaint. 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 at the date hereof consists of 19 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 at the date hereof are as follows:

<b>Name</b>	<b>Director Since</b>	<b>Business Address</b>	<b>Principal Occupation</b>
Emilio Botín Sanz de Sautuola y García de los Ríos	1960	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	Chairman Banco Santander Central Hispano, S.A.
Fernando de Asúa Alvarez	1999	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	First Vice Chairman Banco Santander Central Hispano, S.A.
Alfredo Sáenz Abad	1994	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	Second Vice Chairman and Chief Executive Officer. Banco Santander Central Hispano, S.A.
Matías Rodríguez Inciarte	1988	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	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 García-Tuñón	1999	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	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
Rodrigo Echenique Gordillo	1988	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	Banker
Antonio Escámez Torres	1999	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	Banker
Francisco Luzón López	1997	Ciudad Grupo Santander Edificio Pereda Avenida de Cantabria s/n 28660 Boadilla del Monte	Executive Officer of Banco Santander Central Hispano, S.A., Latin America
Elías Masaveu y Alonso del Campo	1996	Cimadevilla 15, Oviedo, Spain	Businessman
Abel Matutes Juan	2002	Avenida Bartolomé 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. 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. Francisco Javier Botín-Sanz de Sautuola y O'Shea is also director of Capital Advisers, Sociedad de Valores, 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., Retevisión Móvil, S.A. and Constructora Inmobiliaria Urbanizadora Vasco-Aragonesa, S.A., Director of Saint Gobain Cristalería, S.A. and Mutua Madrileña Automovilista.

## 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 nine months ended 30th September 2003 and 30th September 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 nine months ended 30th September 2003 and 30th September 2004

	2004	2003	Variation (%)
	millions of Euros		
<b>Balance sheet</b>			
Total assets . . . . .	359,998.5	345,067.1	4.33
Loans . . . . .	195,193.8	168,935.1	15.54
Total customer funds . . . . .	353,028.5	317,231.4	11.28
On-balance sheet . . . . .	230,639.7	211,375.4	9.11
Off-balance sheet . . . . .	122,388.8	105,856.0	15.62
Shareholders' equity . . . . .	20,908.3	19,256.5	8.58
Total managed funds . . . . .	482,387.3	450,923.2	6.98

	2004	2003
<b>Solvency and NPL ratios (%)</b>		
BIS ratio . . . . .	13.11	12.34
Tier I . . . . .	8.42	8.10
NPL ratio . . . . .	1.26	1.69
NPL coverage . . . . .	205.07	149.43

	2004	2003	Variation (%)
	millions of Euros		
<b>Income statement</b>			
Net interest revenue . . . . .	6,439.8	5,918.6	8.81
Basic revenue . . . . .	9,856.3	9,019.7	9.28
Net operating revenue . . . . .	10,556.4	9,859.9	7.06
Net operating income . . . . .	4,881.7	4,345.9	12.33
Net ordinary attributable income (cash-basis*) . . . . .	2,686.7	2,408.5	11.55
Net ordinary attributable income . . . . .	2,337.4	1,930.0	21.11
Net attributable income (including extra ordinaries) . . . . .	3,168.7	1,930.0	64.18

(\*) Before ordinary goodwill amortization

	2004	2003
<b>Profitability and efficiency (%)</b>		
Efficiency ratio . . . . .	47.31	48.96
ROA . . . . .	1.03	0.96
ROE (cash-basis*) . . . . .	19.05	17.64
ROE . . . . .	16.58	14.14
ROE (including extra ordinaries) . . . . .	22.47	14.14

(\*) Before ordinary goodwill amortization

	2004	2003
<b>Market capitalisation and shares</b>		
Shares outstanding (millions at period end) . . . . .	4,768	4,768
Share price (Euros) . . . . .	7.86	7.28
Market capitalisation (million Euros) . . . . .	37,479.6	34,714.0
EPS ordinary (cash-basis*) annualized (Euros) . . . . .	0.7512	0.6735
EPS ordinary annualized (Euros) . . . . .	0.6536	0.5397
P/E ratio (market capitalisation/net ordinary attributable income annualized) . . . . .	12.03	13.49
EPS (including extra ordinaries) annualized (Euros) . . . . .	0.8860	0.5397
P/E ratio (market capitalisation/net attributable income including extra ordinaries annualized) . . . . .	8.87	13.49
(*) Before ordinary goodwill amortisation		

	2004	2003
<b>Other data</b>		
Shareholders (number) . . . . .	1,108,888	1,088,941
Number of employees . . . . .	103,328	103,307
Spain . . . . .	34,336	35,378
Abroad . . . . .	68,992	67,929
Number of branches . . . . .	9,267	9,112
Spain . . . . .	4,386	4,343
Abroad . . . . .	4,881	4,769

## 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 (%)	millions 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 (Euros) . . . . .	9.39	6.54		9.41
Market capitalisation (millions) . . . . .	44,775.3	31,185.4		43,844.6
EPS (cash-basis*)(Euros) . . . . .	0.6571	0.6139		0.6854
EPS (Euros) . . . . .	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> . . . . .	3,413,601	5,081,124	5,318,056
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> . . . . .	(2,959,515)	(3,208,776)	(3,794,237)
<i>Employee welfare expenses</i> . . . . .	(643,144)	(739,448)	(841,104)
<i>Of which: Pensions</i> . . . . .	(96,603)	(130,054)	(162,910)
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 September 2004 and 2003

	2004 unaudited	2003 unaudited
	millions of Euros	
<b>Assets</b>		
Cash and central banks . . . . .	7,339.9	10,308.5
Government debt securities . . . . .	20,955.2	32,812.0
Due from banks . . . . .	35,881.8	36,454.9
Loans . . . . .	195,193.8	168,935.1
Investment securities . . . . .	59,617.7	51,286.0
Fixed income . . . . .	45,805.7	36,552.4
Equity . . . . .	13,812.1	14,733.6
<i>Shares and other securities</i> . . . . .	9,119.2	8,245.2
<i>Equity stakes</i> . . . . .	3,709.0	5,418.1
<i>Equity stakes in Group companies</i> . . . . .	983.9	1,070.4
Tangible and intangible assets . . . . .	5,068.6	5,014.1
Treasury stock . . . . .	222.3	31.1
Goodwill . . . . .	7,135.5	8,410.1
Other assets . . . . .	23,995.4	27,223.8
Prior years' results from consolidated companies . . . . .	4,588.4	4,591.6
<b>Total assets</b> . . . . .	<b>359,998.5</b>	<b>345,067.1</b>
<b>Liabilities</b>		
Due to banks . . . . .	65,245.2	69,888.4
Customer deposits . . . . .	168,274.5	160,366.0
Deposits . . . . .	138,568.9	129,201.5
REPOs . . . . .	29,705.6	31,164.6
Debt securities . . . . .	49,921.0	39,269.3
Subordinated debt . . . . .	12,444.2	11,740.1
Net provisions for risks and charges . . . . .	12,494.3	13,095.5
Minority interests . . . . .	5,625.2	5,820.2
Net consolidated income . . . . .	3,575.3	2,405.7
Capital . . . . .	2,384.2	2,384.2
Reserves . . . . .	20,561.9	19,934.5
Other liabilities . . . . .	19,472.8	20,163.2
<b>Total liabilities</b> . . . . .	<b>359,998.5</b>	<b>345,067.1</b>

# Consolidated Statements of Income for the nine months ended 30th September 2004 and 2003

	2004 unaudited	2003 unaudited
	millions of Euros	
Interest revenues . . . . .	13,287.1	13,006.3
Dividends . . . . .	518.4	353.8
Interest expenses . . . . .	(7,365.7)	(7,441.6)
<b>Net interest revenue . . . . .</b>	<b>6,439.8</b>	<b>5,918.6</b>
Net fees and commissions . . . . .	3,416.6	3,101.1
<b>Basic revenue . . . . .</b>	<b>9,856.3</b>	<b>9,019.7</b>
Trading gains . . . . .	700.1	840.2
<b>Net operating revenue . . . . .</b>	<b>10,556.4</b>	<b>9,859.9</b>
Personnel and general expenses . . . . .	(4,994.7)	(4,827.4)
(a) Personnel expenses . . . . .	(3,056.3)	(3,021.8)
(b) General expenses . . . . .	(1,938.4)	(1,805.6)
Depreciation . . . . .	(543.8)	(567.6)
Other operating costs . . . . .	(136.2)	(119.0)
<b>Operating costs . . . . .</b>	<b>(5,674.7)</b>	<b>(5,514.0)</b>
<b>Net operating income . . . . .</b>	<b>4,881.7</b>	<b>4,345.9</b>
Income from equity - accounted holdings . . . . .	446.3	260.7
<i>Less: Dividends from equity - accounted holdings . . . . .</i>	<i>283.5</i>	<i>240.0</i>
Earnings from Group transactions . . . . .	(45.2)	704.4
Net provisions for loan - losses . . . . .	(1,284.5)	(1,103.4)
Write down of investment securities . . . . .	(0.4)	0.7
Accelerated goodwill amortization . . . . .	(2.4)	(699.1)
Other income . . . . .	(200.3)	73.5
<b>Ordinary income before taxes (cash-basis*) . . . . .</b>	<b>3,795.2</b>	<b>3,582.7</b>
Corporate tax . . . . .	(701.9)	(698.5)
<b>Net ordinary consolidated income (cash-basis*) . . . . .</b>	<b>3,093.3</b>	<b>2,884.2</b>
Minority interests . . . . .	252.3	229.2
Dividend - preferred shareholders . . . . .	154.3	246.6
<b>Net ordinary attributable income (cash-basis*) . . . . .</b>	<b>2,686.7</b>	<b>2,408.5</b>
Ordinary goodwill amortization . . . . .	(349.3)	(478.5)
<b>Net ordinary attributable income . . . . .</b>	<b>2,337.4</b>	<b>1,930.0</b>
Extraordinary income from capital gains and extraordinary allowances . . . . .	831.3	0.0
<b>Net attributable income (including extra ordinaries) . . . . .</b>	<b>3,168.7</b>	<b>1,930.0</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 59.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 upon admission they will 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	Channel Islands	Hashemite Kingdom of Jordan
Netherlands Antilles	(Jersey and Guernsey)	Republic of Lebanon
Aruba	Jamaica	Republic of Liberia
Kingdom of Bahrain	Republic of Malta	Principality of Liechtenstein
Sultanate of Brunei	Falkland Islands	Grand Duchy of Luxembourg
Republic of Cyprus	Isle of Man	Area (as regards the income
United Arab Emirates	Marianas Islands	received by the Companies
Gibraltar	Mauritius	referred to in paragraph 1 of
Hong-Kong	Montserrat	Protocol annexed Avoidance
The Island of Anguila	Republic of Nauru	of Double Taxation Treaty,
Islands of Antigua and Barbuda	Solomon Islands	dated 3rd June 1986)
The Bahamas	Saint Vincent & the Grenadines	Macao
The Island of Barbados	Saint Lucia	Principality of Monaco
The Bermuda Islands	Republic of Trinidad and	Sultanate of Oman
Cayman Islands	Tobago	Republic of Panama
The Cook Islands	Turks and Caicos Islands	Republic of San Marino
The Republic of Dominica	Republic of Vanuatu	Republic of Seychelles
Grenada	British Virgin Islands	Republic of Singapore
Fiji Islands	Virgin Islands	
	(of the United States)	

## 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, modificado por el Real Decreto 1778/2004,

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

#### CERTIFICO:

I certify:

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

#### Todo ello en relación con:

All the above in relation to:

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

Identification of securities held for own account.....

#### Importe de los rendimientos

Amount of income.....

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

## Annex II

### Modelo de certificación en inversiones por cuenta ajena

#### Form of Certificate for Third Party Investments

(nombre) (name).....

(domicilio) (address) .....

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

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

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

#### CERTIFICO:

I 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..... (Supervisory 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 amount of corresponding income is accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

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

#### RELACIÓN ADJUNTA A CUMPLIMENTAR:

TO BE ATTACHED:

#### Identificación de los valores:

Identification of the securities

#### Listado de titulares:

List of beneficial owners:

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

Name / Country of residence / Amount of income



### Annex III

**Modelo de certificación para hacer efectiva la exclusión de retención a los sujetos pasivos del impuesto sobre sociedades y a los establecimientos permanentes sujetos pasivos del impuesto sobre la renta de no residentes (a emitir por las entidades citadas en el art. 12.3.a) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004)**

***Certificate for application of the exemption on withholding to spanish 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 Royal Decree 2281/1998, as amended by Royal Decree 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 1777/2004,

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

#### **CERTIFICO:**

I certify:

- 1. Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is:.....
- 2. Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- 3. Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the..... Register of .....  
**(país estado, ciudad), con el número**  
(country, state, city), under number .....
- 4. Que la Entidad que represento está sometida a la supervisión de** (Organo supervisor)  
that the institution I represent is supervised by..... (Supervisory body)  
**en virtud de** (normativa que lo regula).  
under ..... (governing rules).
- 5. Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**  
That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporations Tax 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**

Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and UBS Limited as managers (the “Managers”) have, in a subscription agreement dated 7th December 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 and pay for the Notes at their issue price of 99.295% of their principal amount less a combined management, underwriting and selling commission of 0.5%. 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 will represent, warrant and undertake in the Subscription Agreement to the Issuer and the Guarantor that:

- (a) No offer to public: it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Notes to persons in the United Kingdom 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;
- (b) 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 apply to the Issuer or the Guarantor; and
- (c) General compliance: it has complied and will comply with all applicable provisions of the ESMA with respect to anything done by it in relation to the 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, 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 a public offer.

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

### **General**

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Manager 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 comes are required by the Issuer, the Guarantor and each Manager 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, distribute or publish 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 29 November 2004. The giving of the Guarantee of the Notes has been authorised by a resolution of the Executive Committee of the Guarantor dated 29 November 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 24 November, 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 Cia S.COM and by Deloitte, S.L. in 2002 and 2003 (registered in the *Registro Oficial de Auditores 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 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 unaudited interim financial statements of the Guarantor for the nine months ending 30th September 2004 (on an unaudited 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 "Clearing Systems"). For so long as the Notes trade through the Clearing Systems and the Clearing Systems so permit, the Notes will trade in minimum amounts of Euro 100,000 and incremental amounts of Euro 1,000 thereon. The Notes will be initially issued and subsequently traded in aggregate principal amounts of not less than Euro 100,000. Accordingly, any investor in the Notes will not be permitted to acquire or trade Notes in an aggregate principal amount of less than Euro 100,000. The ISIN is XS0206920141 and the common code is 020692014. 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. The procedures agreed and fully described in the Paying Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.

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