

Terms and Conditions of the Bonds

The issue of the €721,100,000 2.625 per cent. Guaranteed Secured Exchangeable Bonds due 2018 (the "**Bonds**") of ACS Actividades Finance B.V. (the "**Issuer**") was authorised by a resolution of the Board of Directors of the Issuer passed on 25 September 2013. The giving of the guarantee by ACS, Actividades de Construcción y Servicios, S.A. (the "**Guarantor**") on the terms contained in the Trust Deed referred to below (the "**Guarantee**") and, of the Pledge (as defined below) by Funding Statement, S.A. (the "**Pledgor**") was authorised by (i) resolutions of the General Shareholders Meeting of the Guarantor held on 25 May 2009 and of the Board of Directors of the Guarantor passed on 4 July 2013 and (ii) the decision of the nominated representative of the sole administrator of the Pledgor. The Bonds are constituted by a trust deed (as modified and/or restated from time to time in accordance with its terms) (the "**Trust Deed**") dated 22 October 2013 and made between the Issuer, the Guarantor, the Pledgor and Citibank, N.A., London Branch (the "**Trustee**", which term shall, where the context so permits, include all other persons for the time being appointed as trustee for the Bondholders) as trustee for the Bondholders. The Issuer has entered into a paying, transfer and exchange agency agreement (the "**Agency Agreement**") with the Trustee, the Guarantor, the Pledgor, Société Générale Bank & Trust, S.A. as registrar and as principal paying, transfer and exchange agent. The registrar and the principal paying, transfer and exchange agent and the other paying, transfer and exchange agents for the time being are referred to below, respectively, as the "**Registrar**", the "**Principal Paying, Transfer and Exchange Agent**" and the "**Paying, Transfer and Exchange Agents**" (which expression shall include the Principal Paying, Transfer and Exchange Agent). The Pledgor has entered into the Pledge Agreement (as defined below) with the Issuer, the Trustee and the Custodian (as defined below). The statements in these terms and conditions of the Bonds (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Bonds. The Issuer, the Pledgor and the Guarantor have also entered into a Calculation Agency Agreement relating to the Bonds dated 22 October 2013 (the "**Calculation Agency Agreement**") with Conv-Ex Advisors Limited (the "**Calculation Agent**" which expression shall include any successor as calculation agent appointed by the Issuer, at its expense, from time to time) whereby the Calculation Agent has been appointed to make certain calculations in relation to the Bonds.

Copies of the Trust Deed, the Agency Agreement, the Pledge Agreement and the Calculation Agency Agreement are available for inspection by Bondholders at the registered office of the Trustee being at the date hereof at 33 Canada Square, Canary Wharf, London E14 5LB and at the specified office(s) of the Paying, Transfer and Exchange Agents. The Bondholders are entitled to the benefit of the Trust Deed and the Pledge Agreement (as defined below) and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Pledge Agreement and the Calculation Agency Agreement applicable to them.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination, Status, Title and Guarantee

(a) Form and Denomination

The Bonds are in registered form in the principal amount of €100,000 each and integral multiples thereof (the "**authorised denomination**").

(b) Status

The Bonds constitute direct, general, unsubordinated and unconditional obligations of the Issuer which are secured in the manner provided in Condition 2 and the Pledge Agreement (as defined in Condition 2). The Bonds shall at all times rank *pari passu* and rateably without any preference among themselves.

(c) Title

Title to the Bonds passes by transfer and registration as described in Condition 4. The holder (as defined below) of any Bond will (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 interest in it, or theft or loss of it or that of the related certificate, as applicable) or anything written on it or the certificate representing it (other than a duly executed transfer thereof) and no person will be liable for so treating the holder.

(d) Guarantee

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed (i) the due and punctual payment of all sums payable by the Issuer under the Trust Deed and the Bonds and (ii) the due and punctual performance by the Issuer of all of its obligations under the Trust Deed and the Bonds.

The obligations of the Guarantor under the Guarantee constitute direct, unsubordinated and unconditional obligations of the Guarantor, secured in the manner provided in Condition 2 and the Pledge Agreement. The Guarantor has not created and will not create any security over any of its property or assets to secure its obligations under the Trust Deed or the Guarantee and accordingly on a liquidation, dissolution or winding-up of the Guarantor, its obligations under the Trust Deed and the Guarantee will rank equally (subject to any obligation preferred by any applicable law) with all other unsecured (subject as aforesaid) and unsubordinated obligations of the Guarantor (present and future).

The obligations of the Pledgor under the Bonds and the Trust Deed constitute direct, unsubordinated and unconditional obligations of the Pledgor, secured in the manner provided in Condition 2 and the Pledge Agreement.

The obligations of the Guarantor under the Guarantee and of the Guarantor and the Pledgor under the Trust Deed shall remain in full force and effect in accordance with their respective terms notwithstanding any action taken in relation to the enforcement of the Pledge or the appropriation of any Exchange Property pursuant to and in accordance with Condition 2(d), the Trust Deed and the Pledge Agreement.

2 Security

(a) Pledge

The obligations of the Issuer under the Bonds and the Trust Deed, of the Pledgor under the Bonds and the Trust Deed and of the Guarantor under the Guarantee and the Trust Deed together with (but without limitation) any costs and expenses that the Trustee may incur in connection with the enforcement of the Pledge (together, the "**Secured Obligations**" and each a "**Secured Obligation**") are secured in favour of the Trustee for the benefit of itself and the Bondholders by first ranking pledges (referred to herein as the "**Pledge**") on the Exchange Property (including, without limitation, any Offer Consideration) and on the Cash

Account pursuant to a pledge agreement governed by Spanish law between the Pledgor (acting as pledgor), the Issuer, Banco Santander, S.A. acting as custodian (the "Custodian") and the Trustee dated 22 October 2013 (the "Pledge Agreement").

The property specified above in this Condition 2, together with any other property or assets held by and/or charged or pledged in favour of and/or assigned to the Trustee in accordance with these Conditions and the Trust Deed and pursuant to and in accordance with the Pledge Agreement and/or any deed or document supplemental thereto, is referred to in these Conditions as the "Secured Property" and the security created thereby is referred to as the "Security".

(b) Further Security

At the Closing Date, the Secured Property comprises 125,000,000 Iberdrola Shares. Forthwith following any changes in the composition of the Exchange Property and/or any other property that is, or is required to be, the subject of the Security (other than upon the release of any Exchange Property and other cash or assets from the Security as provided in these Conditions or any of the Transaction Documents), the Pledgor (failing whom, the Issuer and the Guarantor) will procure that security interests in a form satisfactory to the Trustee are created over any such property which is not already, to the satisfaction of the Trustee, secured by or pursuant to the security arrangements described above, in each case in favour of the Trustee for the benefit of itself and the Bondholders as security for the Secured Obligations.

(c) Release from Security

The Transaction Documents contain provisions for the partial or, as the case may be, full release from the Security. Secured Property shall be released from the Security as provided below:

- (i) the *pro rata* share of the Exchange Property required to be delivered to a Bondholder on an exercise of Exchange Rights, the exercise by the Issuer of the Share Redemption Option or following any redemption or purchase and cancellation of the Bonds;
- (ii) where a Cash Alternative Amount shall have been paid to Bondholders in respect of an exercise of Exchange Rights, the Exchange Property that would otherwise have been required to be delivered to the relevant Bondholders upon exercise of such Exchange Rights in the absence of a Cash Election;
- (iii) any Cash Dividend other than to the extent comprising a Capital Distribution standing to the credit of the Cash Account and/or the Securities Account, subject to and in accordance with Condition 8(a);
- (iv) Relevant Securities comprising Exchange Property for the purposes of taking up any rights pursuant to a Rights Issue, subject to and in accordance with Condition 8(b);
- (v) any cash amount or securities or other property to be sold or used to purchase Equity Share Capital in accordance with Condition 8(e); and
- (vi) Relevant Securities comprising Exchange Property for the purposes of acceptance of an Offer in respect of such Relevant Securities, subject to and in accordance with Condition 9.

(d) Enforcement of Security

The Security may be enforced by the Trustee upon the Bonds becoming immediately due and payable in accordance with Condition 14.

If the Security becomes capable of enforcement, the Trustee may at its discretion and without further notice or formality and shall, if so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds then outstanding (as defined in the Trust Deed) or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) enforce all or any of the Security, subject to and in the manner provided in the Trust Deed and the Pledge Agreement, and provided that the Trustee shall not be required to take any action or step or proceedings that would involve any personal liability or exposure without first being indemnified and/or secured and/or prefunded to its satisfaction and provided that if a Bondholder who has submitted an Exchange Notice so elects by notice in writing to the Trustee (without any liability on the Trustee as to the consequences of such election and without having regard to the effect of such election on Bondholders or on the beneficial owners of the Bonds), to the extent such Bondholder has submitted an Exchange Notice in accordance with Conditions 7(a) and 7(b) and the Trustee has notice of such Exchange Notice prior to the expiry of the Relevant Period, the Trustee shall, as far as reasonably practicable, exclude such of the Secured Property as shall relate to such Exchange Notice for the purposes of permitting those Bondholders to exchange their Bonds for Shares and the Trustee shall realise only the Security relating to the remaining Secured Property (unless and until the Trustee subsequently has notice that there has been a default in respect of the Issuer, the Guarantor or the Pledgor's obligations with regard to the exercise of Exchange Rights with respect to such Bonds).

3 Covenants of the Issuer, the Guarantor and the Pledgor

So long as any Bond remains outstanding, and unless otherwise approved by the Trustee or by an Extraordinary Resolution of Bondholders or pursuant to or as expressly permitted by the Bonds, the Pledge Agreement, the Trust Deed or these Conditions:

- (i) neither the Issuer, the Guarantor nor the Pledgor will and the Guarantor will procure that neither the Issuer nor the Pledgor will transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of the Secured Property;
- (ii) save as set out in Condition 2(c), the Pledgor, the Issuer and the Guarantor will procure that (1) all moneys received by any of them or by the Custodian from time to time in respect of the Secured Property shall be credited to the Cash Account and (2) all securities received by any of them or by the Custodian from time to time in respect of Secured Property shall be credited to the Securities Account;
- (iii) the Issuer and the Pledgor will not engage in any business activity or undertake any other activity or enter into any transaction, except any activity which is contemplated by or ancillary to the performance of their respective obligations pursuant to the Transaction Documents; and
- (iv) the Guarantor will not take or permit to be taken by any of its Subsidiaries any action for the winding-up, dissolution or administration or anything analogous thereto of or in respect of the Issuer or the Pledgor.

4 Registration and Transfer of Bonds

(a) *Registration*

The Issuer will cause a register (the "Register") to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and exchanges of Bonds.

(b) *Transfer*

A holding of Bonds may, subject to the terms of the Trust Deed and Agency Agreement and to Conditions 4(c) and 4(d), be transferred in an authorised denomination by lodging the relevant certificate (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer and Exchange Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days, in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond, register the relevant transfer and deliver a new certificate to the transferee (and, in the case of a transfer of part only of a holding of Bonds, deliver a certificate for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) *Formalities Free of Charge*

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar (and as initially set out in the Agency Agreement).

(d) *Closed Periods*

Neither the Issuer nor the Registrar will be required to register the transfer of any holding of Bonds (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to the Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 11(b); (ii) in respect of which an Exchange Notice has been delivered in accordance with Condition 7(b); (iii) in respect of which the holder has exercised its right to require redemption pursuant to Condition 11(c); or (iv) during the period of 15 days ending on (and including) any Record Date in respect of any payment of interest on the Bonds.

5 Definitions

For the purpose of these Conditions, the following words and phrases shall have the following meanings:

"Additional Exchange Property" has the meaning set out in Condition 7(b)(ii);

"Authorised Officers" has the meaning provided in the Trust Deed;

"Bondholder" and "holder" means the person in whose name a Bond is registered in the Register (as defined in Condition 4(a));

"Bondholder Share Redemption Notice" has the meaning set out in Condition 11(g);

"business day" means, in relation to any place, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments generally in such place;

"Capital Distribution" means:

- (a) any Non-Cash Dividend (which, for the avoidance of doubt, excludes any issue or delivery of Relevant Securities issued under the Iberdrola *Dividendo Flexible* scheme and any replacement or successor scheme on similar terms, such issue or delivery of Relevant Securities being deemed to be a Cash Dividend); or
- (b) in relation to Iberdrola Shares comprised in the Exchange Property, any Cash Dividend (which, for the avoidance of doubt, includes any issue or delivery of Relevant Securities issued under the Iberdrola *Dividendo Flexible* scheme and any replacement or successor scheme on similar terms) (the "Relevant Iberdrola Dividend") paid or made in respect of any Relevant Year if and to the extent that the sum of:
 - (i) the Fair Market Value of the Relevant Iberdrola Dividend per Iberdrola Share; and
 - (ii) the aggregate of the Fair Market Value per Iberdrola Share of any other Cash Dividend per Iberdrola Share paid or made in respect of such Relevant Year (disregarding for such purpose any amount previously determined to be a Capital Distribution in respect of such Relevant Year),

such sum being the "Current Year's Iberdrola Dividends", exceeds €0.20 (the "Iberdrola Reference Amount"), and in such case the amount of the relevant Capital Distribution shall be the lesser of:

- (1) the amount by which the Current Year's Iberdrola Dividends exceeds the Iberdrola Reference Amount; and
- (2) the Fair Market Value of the Relevant Iberdrola Dividend,

multiplied by the number of Iberdrola Shares comprised in the Exchange Property and entitled to the Relevant Iberdrola Dividend; or

- (c) in relation to any Equity Share Capital (other than Iberdrola Shares) comprised in the Exchange Property, any Cash Dividend (the "Relevant Equity Share Dividend") paid or made in respect of any Relevant Year if and to the extent that the sum of:
 - (i) the Fair Market Value of the Relevant Equity Share Dividend per share; and

- (ii) the Fair Market Value of any other Cash Dividend per share paid or made in respect of such Relevant Year (disregarding for such purpose any amount previously determined to be a Capital Distribution in respect of such Relevant Year),

such sum being the "Current Year's Equity Share Dividends" exceeds the Equity Share Reference Amount relating to the Relevant Equity Share Dividend, and in such case the amount of the relevant Capital Distribution shall be the lesser of:

- (1) the amount by which the Current Year's Equity Share Dividends exceeds the Equity Share Reference Amount as determined in respect of the Relevant Equity Share Dividend; and
- (2) the Fair Market Value of the Relevant Equity Share Dividend,

multiplied by the number of such Equity Shares comprised in the Exchange Property and entitled to the Relevant Equity Share Dividend;

For the purposes of the above, "Relevant Year" means each successive period of 12 months ending on and including 31 December, commencing with the period ending on and including 31 December 2013.

"Cash Account" means the cash account (named *Contrato de Apertura de Cuenta Personal y Depósito a Plazo*, number 0049 1500 08 2110464885; IBAN ES20 0049 1500 0821 1046 4885) in the name of the Pledgor held with the Custodian;

"Cash Alternative Amount" has the meaning set out in Condition 7(c);

"Cash Dividend" means (i) any Dividend which is to be paid in cash (in whatever currency), but other than falling within paragraph (b) of the definition of "Spin-Off" and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) or paragraph (b) of the definition of "Dividend";

"Cash Election" has the meaning set out in Condition 7(c);

"Cash Election Exercise Date" has the meaning set out in Condition 7(c);

"Cash Settlement Amount" has the meaning set out in Condition 11(g);

a "Change of Control" shall occur if one or more individuals or legal entities, acting individually or in concert, acquires control of the Guarantor; and for the purposes of these Conditions "control" shall mean (i) the acquisition or control of more than 50 per cent. of the voting rights or (ii) the right to appoint and/or remove all or the majority of the members of the board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and "controlled" shall be construed accordingly. For the avoidance of doubt, any agreement or action in concert by two or more Existing Shareholders of the Guarantor that does not give rise to a mandatory Takeover Bid under Spanish law shall not be, or be deemed to be, a Change of Control except when any such parties have previously launched a Takeover Bid but in doing so acquired (combined with their existing stake) less than 50 per cent. of the voting rights;

"Change of Control Notice" has the meaning set out in Condition 11(c)(ii);

"Change of Control Period" means the period commencing on the occurrence of a Change of Control and ending 60 days following the Change of Control or, if later, 60 days following the date on which a Change of Control Notice is given to Bondholders as required by Condition 11(c)(ii);

"Change of Control Put Date" has the meaning set out in Condition 11(c)(ii);

"Change of Control Put Exercise Notice" has the meaning set out in Condition 11(c)(ii);

"Closing Date" means 22 October 2013;

"Dividend" means any dividend or distribution to holders of Relevant Securities (including a Spin-Off), whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to shareholders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes, without limitation, an issue of shares or other securities credited as fully or partly paid up) provided that:

- (a) where a Dividend in cash is announced which is to be, or may at the election of a holder or holders of Relevant Securities be, satisfied by the issue or delivery of Relevant Securities (including, without limitation, any Relevant Securities issued under the Iberdrola *Dividendo Flexible* scheme and any replacement or successor scheme on similar terms) or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a holder or holders of Relevant Securities be, satisfied by the payment of cash, then the Dividend or capitalisation in question shall be treated as a Cash Dividend of an amount equal to (i) the Fair Market Value of such cash amount or (ii) the Fair Market Value of such Relevant Securities or other property or assets, in any such case as at the Effective Date in respect of the relevant Dividend or capitalisation (or, if later, the date on which the number of Relevant Securities (or amount of other property or assets, as the case may be) is determined), the Pledgor being entitled to make such election as it may determine in its sole discretion in respect of any such Dividend or capitalisation by giving notice to the Trustee by not later than the last day on which a holder of the Relevant Securities would be required or entitled to make the relevant election, and failing such notice, the Dividend or capitalisation shall be treated as a Cash Dividend of whichever is the greater of (i) and (ii);
- (b) where there shall be any issue of Relevant Securities by way of capitalisation of profits or reserves where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash dividend equivalent or amount is announced or would otherwise be payable to holders of the Relevant Securities, whether at their election or otherwise), the capitalisation in question shall be treated as a Cash Dividend of an amount equal to the Fair Market Value of such Relevant Securities as at the Effective Date in respect of the relevant capitalisation or, if later, the date on which the number of Relevant Securities to be issued is determined;
- (c) any issue of Relevant Securities falling within Condition 8(b)(i) or 8(b)(iii)(A) shall be disregarded;
- (d) any offer by a Relevant Company of Relevant Securities or other securities or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other securities falling within Condition 8(b)(ii) shall be disregarded;
- (e) a repurchase or redemption of Equity Shares by or on behalf of a Relevant Company shall be disregarded;
- (f) where a Dividend is paid to holders of any Equity Shares pursuant to any plan implemented by the Relevant Company for the purpose of enabling holders of the Equity Shares to elect, or which may require such holders, to receive Dividends in respect of such Equity Shares held by them from a person other than, or in addition to, the Relevant Company, such Dividend shall for the purposes of these Conditions be treated as a Dividend paid to holders

of the Equity Shares by the Relevant Company, and the foregoing provisions of this definition and the provisions of these Conditions shall be construed accordingly; and

(g) a Dividend that is a Spin-Off shall be deemed to be a Non-Cash Dividend;

and any such determination shall be made on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

"Effective Date" means the first date on which the Iberdrola Shares are or, as the case may be, the relevant Equity Share Capital is, traded ex- the relevant Dividend or capitalisation on the Relevant Exchange or, in the case of a Spin-Off, on the first date on which the Iberdrola Shares are or, as the case may be, the relevant Equity Share Capital is traded ex- the relevant Spin-Off on the Relevant Exchange;

"Equity Share Capital" means, in relation to any entity, its issued share capital (or equivalent) excluding any part of that capital (or equivalent) which, neither in respect of dividends nor in respect of capital, carries any right to participate beyond a specific amount in a distribution, and **"Equity Share"** shall be construed accordingly;

"Equity Share Reference Amount" means, in relation to any Relevant Equity Share Dividend, 4.70 per cent. of the average of the Volume Weighted Average Price of the relevant Equity Share Capital on the 5 consecutive Trading Days ending on the Trading Day immediately preceding the Effective Date relating to such Relevant Equity Share Dividend, provided that if on any such Trading Day the Volume Weighted Average Price shall have been based on a price cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of such Relevant Equity Share Capital on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per share as at the Effective Date relating to such Dividend or entitlement;

"Equivalent Amount" has the meaning set out in Condition 7(b)(iii)(a);

"Exchange Date" has the meaning set out in Condition 7(b)(i);

"Exchange Expenses" has the meaning set out in Condition 7(b)(i);

"Exchange Notice" has the meaning set out in Condition 7(b)(i);

"Exchange Period" has the meaning set out in Condition 7(a)(v);

"Exchange Property" has the meaning set out in Condition 8(a);

"Exchange Right" has the meaning set out in Condition 7(a)(i);

"Existing Shareholders" means the shareholders who appear as significant shareholders of the Guarantor in the registry of significant shareholders of the *Comisión Nacional del Mercado de Valores* on the Closing Date;

"Extraordinary Resolution" has the meaning provided in the Trust Deed;

"Fair Market Value" means:

- (a) for the purposes of determining the amount of any Relevant Iberdrola Dividend per Iberdrola Share or the amount of any Relevant Equity Share Dividend per share in circumstances where the Issuer has validly elected to treat the relevant Cash Dividend as having a Fair Market Value equal to its cash amount in accordance with paragraph (a)(i) of the definition of "Dividend" and confirmed the same in writing to the Trustee and the Calculation Agent, the

cash amount of such Cash Dividend per Iberdrola Share or other Equity Share (determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit) as is determined by the Calculation Agent by reference to public statements made by Iberdrola or the issuer of the relevant Equity Share Capital, as applicable; or

- (b) with respect to any property (other than any such Cash Dividend as is referred to in (a) above) as at or on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser; provided that (i) the fair market value of a Cash Dividend paid or to be paid per Iberdrola Share or other Equity Share shall be the amount of such Cash Dividend per Iberdrola Share or other Equity Share (determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit); (ii) where Spin-Off Securities, shares, options, warrants or other securities or rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by such Independent Financial Adviser) the fair market value of such Spin-Off Securities, shares, options, warrants or other securities or rights shall equal the arithmetic mean of the daily Volume Weighted Average Price of such Spin-Off Securities, shares, options, warrants or other securities or rights during the period of 5 Trading Days on the relevant stock exchange or securities market commencing on such date (or, if later, on the first such Trading Day such Spin-Off Securities, shares, options, warrants or other rights are publicly traded) or such shorter period as such Spin-Off Securities, shares, options, warrants or other securities or rights are publicly traded; (iii) where Spin-Off Securities, shares, options, warrants or other securities or rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid) the fair market value thereof shall be determined by such Independent Financial Adviser on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per share, the dividend yield of a share, volatility, prevailing interest rates and the terms of such Spin-Off Securities, shares, options, warrants or other securities or rights,

in each case converted into the currency in which the Iberdrola Shares (where such determination relates to the Iberdrola Shares) or such other Equity Shares (where such determination relates to such other Equity Shares) are traded on the Relevant Exchange (if expressed in a currency other than such currency) at the Screen Rate on such date (or, in the case of (b)(ii), at the average of the Screen Rate on each Trading Day in the relevant period);

"Final Maturity Date" means 22 October 2018;

"First Call Date" has the meaning set out in Condition 11(b);

"Free Float" means, in relation to any entity, all issued and outstanding Equity Share Capital of such entity, less the aggregate of such Equity Share Capital held or controlled by any person or persons associated with such person or acting in concert (as defined in the Takeover Code of the United Kingdom on Takeovers and Mergers) with such person and holding more than 5 per cent. of such shares and less the aggregate of such Equity Share Capital held by or controlled by such entity or any Subsidiary of such entity;

"Iberclear" means the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.*);

"Iberdrola" means Iberdrola, S.A.;

"Iberdrola Shares" means fully paid ordinary shares, having as at the Closing Date a par value of €0.75 each, in the capital of Iberdrola and all other (if any) shares or stock resulting from any subdivision, consolidation or reclassification of those shares which, as between themselves, have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Iberdrola;

"Independent Financial Adviser" means an independent financial institution of international repute or financial adviser with appropriate expertise, which may be the Calculation Agent, appointed as soon as practicable and, in any event, in time to enable the proper operation of the relevant provisions of these Conditions by and at the expense of the Issuer and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee (without liability for doing so) following notification to the Issuer, the Guarantor and the Pledgor;

"Interest Payment Date" has the meaning set out in Condition 6(a);

"Interest Period" has the meaning set out in Condition 6(a);

"Material Subsidiary" means, at any relevant time, a Subsidiary of the Guarantor:

- (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues) at any relevant time represent no less than 5 per cent. of the total consolidated assets or gross consolidated revenues, respectively, of the Guarantor and its Subsidiaries, as calculated by reference to the then latest consolidated audited annual accounts or consolidated semi-annual reports of the Guarantor and the latest annual accounts or semi-annual reports of each relevant Subsidiary (consolidated or, as the case may be, unconsolidated) prepared in accordance with International Financial Reporting Standards, provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest consolidated audited annual accounts or consolidated semi-annual reports of the Guarantor relate, then for the purpose of applying each of the foregoing tests, the reference to the Guarantor's latest consolidated audited annual accounts or consolidated semi-annual reports shall be deemed to be a reference to such accounts or reports as if such Subsidiary had been shown therein by reference to its then latest relevant financial statements, adjusted as deemed appropriate by the auditors of the Guarantor for the time being after consultation with the Guarantor; or
- (b) to which is transferred all or substantially all of the assets and undertaking of a Subsidiary which, immediately prior to such transfer, is a Material Subsidiary;

"Non-Cash Dividend" means any Dividend which is not a Cash Dividend;

"Offer" has the meaning set out in Condition 9(g);

"Offer Consideration" has the meaning set out in Condition 9(b);

"Offer Consideration Date" has the meaning set out in Condition 9(g);

"Optional Redemption Date" has the meaning set out in Condition 11(b);

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"Pledge" has the meaning set out in Condition 2(a);

"Pledge Agreement" has the meaning set out in Condition 2(a);

"Predominant Exchange Security" means, if at any time there is more than one type or series of Relevant Securities in the Exchange Property, such type or series of Relevant Securities which in the determination of an Independent Financial Adviser represents the largest proportion or weighting by value in the Exchange Property at such time;

"*pro rata share*" means, for each Bond at any time, a fraction of the Exchange Property the numerator of which shall be the principal amount of such Bond and the denominator of which shall be the aggregate principal amount of all the Bonds (including the Bond to which the *pro rata share* relates) which are outstanding at such time (excluding for this purpose the principal amount of any Bonds in respect of which Exchange Rights have been exercised by a Bondholder but the Exchange Property or the relevant Cash Alternative Amount, as the case may be, has not yet been delivered or paid and excluding from the Exchange Property such *pro rata share* of the Exchange Property in relation to such Bonds);

"Realisation Proceeds" means the proceeds of sale (after the deduction of costs and expenses of such sale) of the relevant Exchange Property (in the case of Condition 7(b)(ii)), the Relevant Exchange Property (in the case of Condition 11(g)) or the relevant dividends or other income or distributions or rights (in the case of Condition 7(b)(iii)(b)) carried out by an independent broker or investment bank selected by the Issuer or the Guarantor and approved by the Trustee, on an arm's length basis (converted if necessary into euro at the Screen Rate on the date of receipt of such proceeds);

"Record Date" has the meaning set out in Condition 12(c);

"Register" has the meaning set out in Condition 4(a);

"Registered Securities" has the meaning set out in Condition 7(b)(ii);

"Registration Date" means in respect of any Registered Securities comprised in the Exchange Property to be delivered to a Bondholder upon exercise of Exchange Rights, the date on which the relevant Bondholder is registered as the holder of such Registered Securities;

"Relevant Bond" has the meaning set out in Condition 6(c);

"Relevant Company" means Iberdrola, and any corporation or company derived from or resulting or surviving from the merger, consolidation, amalgamation, reconstruction or acquisition of Iberdrola with, into or by such other corporation or company, and any other entity, all or part of the share capital of which is, or all or some of the securities of which are, at the relevant time included in the Exchange Property;

"Relevant Date" means, in respect of any Bond, whichever is the later of:

- (a) the date on which payment in respect of it first becomes due; and
- (b) if any payment is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given by or on behalf of the Issuer or the Guarantor to the Bondholders in accordance with Condition 19 that, upon further presentation of the relevant Bond, where required pursuant to these Conditions, being made, such payment will be made, provided that such payment is in fact made as provided in these Conditions;

"Relevant Equity Share Dividend" has the meaning set out in the definition of "Capital Distribution" above;

"Relevant Event" has the meaning set out in Condition 8(b)(iii);

"Relevant Exchange" means:

- (i) in the case of the Iberdrola Shares, Madrid Stock Exchange (*Bolsa de Valores de Madrid*) or, if the Iberdrola Shares are no longer admitted to trading on the Madrid Stock Exchange, the principal stock exchange or securities market on which the Iberdrola Shares are then listed, admitted to trading or quoted or dealt in; or
- (ii) in the case of any other Equity Shares or Relevant Securities, the principal stock exchange or securities market on which such Equity Shares or Relevant Securities are then listed, admitted to trading or quoted or dealt in;

"Relevant Exchange Property" has the meaning set out in Condition 11(g);

"Relevant Indebtedness" means any present or future indebtedness (whether being principal, interest or other amounts) in the form of or evidenced by notes, bonds, debentures or other similar debt instruments, whether issued for cash or in whole or in part for a consideration other than cash, and which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in or traded on any recognised stock exchange, over-the-counter or other securities market;

"Relevant Percentage" has the meaning set out in Condition 11(g);

"Relevant Period" has the meaning set out in Condition 7(a)(iii);

"Relevant Securities" means any securities which at the relevant time are included in the Exchange Property;

"Rights Issue" has the meaning set out in Condition 8(b)(ii);

"Screen Rate" means, on any day, and, in respect of the conversion of one currency into another currency, the rate of exchange between such currencies appearing on or derived from the relevant Bloomberg page as at or about 12 noon (Madrid time) on that day, or, if that page is not available or that rate of exchange does not appear on that page at that time on that day, the rate of exchange between such currencies appearing on such other screen or information service, or determined in such other manner, as the Issuer shall reasonably determine;

"Secured Property" has the meaning set out in Condition 2(a);

"Security" has the meaning set out in Condition 2(a);

"securities" means shares or other securities (including without limitation any options, warrants, convertible bonds, evidence of indebtedness or rights to subscribe or purchase shares or other securities);

"Securities Account" means the securities account (named *Contrato de Custodia y Administración de Valores*, number 0049-1500-09-4004845345) in the name of the Pledgor held with the Custodian and into which shall be deposited the Exchange Property and such other Relevant Securities comprising Secured Property from time to time;

"Settlement Date" means (i) in the case of the exercise of Exchange Rights (other than where a Cash Election is made) the date falling 7 Trading Days after the relevant Exchange Date and (ii) in

the case of a delivery of Exchange Property upon redemption following exercise of the Share Redemption Option, the relevant due date for redemption of the relevant Bonds;

"Share Redemption Option" has the meaning set out in Condition 11(g);

"Share Redemption Option Annulment" has the meaning set out in Condition 11(g);

"Share Redemption Option Notice" has the meaning set out in Condition 11(g);

"Spin-Off" means:

- (a) a distribution of Spin-Off Securities by Iberdrola to holders of Iberdrola Shares as a class or, as the case may be, by any Relevant Company to the holders of its Equity Share Capital as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than Iberdrola or, as the case may be, the Relevant Company) to holders of Iberdrola Shares as a class or, as the case may be, by any Relevant Company to the holders of its Equity Share Capital as a class pursuant to any arrangements with Iberdrola or any of its Subsidiaries or, as the case may be, with the Relevant Company or any of its Subsidiaries;

"Spin-Off Securities" means Equity Share Capital of an entity other than Iberdrola, or as the case may be, the Relevant Company or options, warrants or other rights to subscribe for or purchase Equity Share Capital of an entity other than Iberdrola, or as the case may be, the Relevant Company;

"Sub-division, Consolidation or Redenomination" has the meaning set out in Condition 8(b)(i);

"Subsidiary" means in relation to any person at any time, a company, body corporate, corporation, association or other business entity (a) 50 per cent or more of the Voting Rights of which is at the relevant time directly or indirectly owned or controlled by such person or (b) whose affairs and policies at such time such person controls or has the power to control, whether by ownership of Voting Rights, share capital, contract, the power to appoint and remove members of the board of directors or others governing body or otherwise or (c) whose financial statements are at such time, in accordance with applicable law and generally accepted accounting principles, consolidated with such person's financial statements;

"Takeover Bid" means any offer by one or more persons to acquire all of the issued and outstanding share capital of the Guarantor;

"TARGET Business Day" means a day (other than a Saturday or Sunday) on which the TARGET System is operating;

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) system which was launched on 19 November 2007 or any successor thereto;

"Trading Day" means in respect of Iberdrola Shares or any Relevant Security, Spin-Off Securities or other shares or options, warrants or other rights, a day on which the Relevant Exchange is open for business, other than, in any such case, a day on which the Relevant Exchange is scheduled to or does close prior to its regular closing time, provided that for the purposes of determining the Cash Alternative Calculation Period or any date on which payment of any amount or delivery of any

Exchange Property is to be made, "Trading Day" will be the Trading Day applicable to the Predominant Exchange Security;

"Transaction Documents" means the Trust Deed, the Agency Agreement, the Pledge Agreement and the Calculation Agency Agreement, as the same may be amended, modified, supplemented and/or restated from time to time;

the "Value" of any Exchange Property on any day means the aggregate of:

- (i) the value of publicly traded securities included in such Exchange Property, which shall be deemed to be the Volume Weighted Average Price of such securities on such day, provided that if such day is not a day on which the Relevant Exchange is open for business or, if there is no such Volume Weighted Average Price, then the value of such publicly traded securities shall be the Volume Weighted Average Price on the immediately preceding such day, converted (if necessary) into euro at the Screen Rate on such day; and
- (ii) the value of all other assets (other than cash) and of publicly traded securities for which a value cannot be determined pursuant to (i) above included in such Exchange Property, which shall be deemed to be the value on such day (converted (if necessary) into euro as aforesaid) as certified by an Independent Financial Adviser and notified to the Calculation Agent; and
- (iii) the value of cash shall be deemed to be the amount thereof (converted (if necessary) into euro as aforesaid),

provided that (A) if on any day any such publicly traded securities are quoted on the Relevant Exchange cum any dividend or other entitlement, or any assets or publicly traded securities the value of which is to be determined pursuant to (ii) above have the benefit of, or are entitled to, or carry the right to, any dividend or other entitlement, in any such case which a Bondholder would not be entitled to pursuant to these Conditions on exercising Exchange Rights on the last day permitted pursuant to these Conditions, then the value of any such assets or publicly traded securities on such day shall be reduced by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the value (as determined by an Independent Financial Adviser) of any entitlement or dividend where that is other than cash and (B) if on any day any such publicly traded securities are quoted or traded on the Relevant Exchange ex any dividend or other entitlement, or any assets or publicly traded securities the value of which is to be determined pursuant to (ii) above do not have the benefit of, or are not entitled to, or do not carry the right to, any dividend or other entitlement, in any such case which a Bondholder would be entitled to pursuant to these Conditions on exercising Exchange Rights on the last day permitted pursuant to these Conditions, then the value of any such assets or publicly traded securities on such day shall be increased by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the value (as determined by an Independent Financial Adviser) of any entitlement or dividend where that is other than cash less the amount (if any) in respect of any such dividend, entitlement or, as the case may be, value to which the Bondholder is otherwise entitled pursuant to any other provision of these Conditions;

"Valuation Date" has the meaning set out in Condition 11(g);

"Volume Weighted Average Price" means, in respect of any Trading Day:

- (i) in the case of Iberdrola Shares, the order book volume weighted average price of an Iberdrola Share published by or derived from Bloomberg page "VAP" (or any successor page from time to time) in respect of such Trading Day; and

- (ii) in the case of any other Relevant Security, Spin-Off Securities, shares, options, warrants or other rights, the order book volume weighted average price published by or derived from the relevant Bloomberg page in respect of such Trading Day or, if not able to be so determined, the volume weighted average price as obtained or derived from the Relevant Exchange on that Trading Day,

or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser on such Trading Day, provided that if on any such Trading Day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Iberdrola Share or, as the case may be, any other Relevant Security, Spin-Off Security, share, option, warrant or other right in respect of such Trading Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined;

"Voting Rights" means the right generally to vote at a general meeting of shareholders of the relevant entity (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency) or to elect the majority of the members of the board of directors or other governing body of the relevant entity;

"Written Resolution" has the meaning set out in Condition 16(a); and

"€" and **"euro"** means the 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.

For the purposes of the definition of Capital Distribution, **"Fair Market Value"** (subject as provided in paragraph (a) of the definition of **"Dividend"** and in the definition of **"Fair Market Value"**) shall be determined as at the Effective Date in respect of the relevant Dividend.

In making any calculation of a Capital Distribution, such adjustments (if any) shall be made, including in respect of the Iberdrola Reference Amount or, as the case may be, the Equity Share Reference Amount, as the Calculation Agent or an Independent Financial Adviser may consider appropriate to reflect any Sub-division, Consolidation or Redenomination of the Iberdrola Shares or any other Equity Share Capital or any change in the number of Iberdrola Shares or shares comprising the relevant Equity Share Capital, as the case may be, in issue in relation to any fiscal year, or any adjustment to the Exchange Property.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

6 Interest

(a) Interest Rate

The Bonds bear interest from (and including) the Closing Date at the rate of 2.625 per cent. per annum calculated by reference to the principal amount thereof and payable quarterly in arrear on 22 January, 22 April, 22 July and 22 October in each year (each an **"Interest Payment Date"**) in equal instalments, commencing on 22 January 2014.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an **"Interest Period"**.

The amount of interest payable in respect of any period which is shorter than an Interest Period shall be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the product of (1) the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Closing Date) to (but excluding) the next Interest Payment Date and (2) the number of Interest Periods normally ending in any year.

(b) *Accrual of Interest*

Each Bond will cease to bear interest (i) where the Exchange Right shall have been exercised in respect thereof, from, and including, the Interest Payment Date immediately preceding the relevant Exchange Date or, if none, the Closing Date (subject in any such case as provided in Condition 6(c)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 11 or Condition 14, from, and including, the due date for redemption or repayment unless:

- (i) upon due presentation thereof, payment of the full amount due is improperly withheld or refused; or
- (ii) the Issuer fails duly to perform its obligations to deliver the relevant Exchange Property; or
- (iii) following any election by the Issuer to exercise the Cash Election, the Issuer fails duly to perform its obligations to make payment of the Cash Alternative Amount; or
- (iv) following any election by the Issuer to exercise the Share Redemption Option, the Issuer fails duly to perform its obligations to deliver the relevant Exchange Property and make payment of the Cash Settlement Amount (if any) and any other accrued interest due in accordance with Condition 11(g),

in which event such Bond shall continue to bear interest at the rate specified in Condition 6(a) (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the day seven days after the Trustee or the Principal Paying, Transfer and Exchange Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day except to the extent that there is any subsequent default in payment to the relevant Bondholder or, as the case may be, until such delivery of the relevant Exchange Property and/or payment of the Cash Alternative Amount (if any) or Cash Settlement Amount (if any) and any other accrued interest due shall have been made in accordance with Condition 11.

(c) *Interest upon Exchange prior to Early Redemption*

If:

- (i) any notice requiring the redemption of any Bonds is given pursuant to Condition 11(b) on or after (or within 15 days before) the record date or other due date for the establishment of entitlement in respect of any dividend, distribution or interest payable in respect of the Iberdrola Shares (or other Relevant Securities comprising on such date more than one-quarter by Value of the Exchange Property);
- (ii) such notice specifies a date for redemption falling on or before (or within 14 days after) the Interest Payment Date next following such record date; and

- (iii) the Exchange Date in respect of any Bond which is the subject of any such notice (a "Relevant Bond") falls after such record date or other due date for the establishment of entitlement and on or before the Interest Payment Date next following such record date or other due date for the establishment of entitlement,

then interest shall accrue on each Relevant Bond from, and including, the preceding Interest Payment Date (or, if the relevant Exchange Date falls on or before the first Interest Payment Date, from, and including, the Closing Date) to, but excluding, the relevant Exchange Date.

Any such interest shall be paid by the Issuer not later than 14 days after the relevant Exchange Date by transfer to a euro account with a bank in a city in which banks have access to the TARGET System in accordance with instructions given by the relevant Bondholder in the relevant Exchange Notice.

7 Exchange Right

(a) *Exchange Period, Exchange Rights and Cash Election*

- (i) Subject to the right of the Issuer to make a Cash Election, each Bondholder shall have the right to have all or any of its Bonds redeemed at any time during the Exchange Period referred to below by exchange for a *pro rata* share of the Exchange Property as at the relevant Exchange Date. Such redemption of a Bond in exchange for a *pro rata* share of the Exchange Property (and/or, as the case may be, for payment of the Cash Alternative Amount) is referred to herein as an "exchange" and the right of a Bondholder to require an exchange is herein referred to as the "Exchange Right". Upon exercise of Exchange Rights, the Pledgor shall (subject to the right of the Issuer to make a Cash Election) and the Issuer and the Guarantor shall procure that the Pledgor shall deliver the relevant *pro rata* share of the Exchange Property as provided in this Condition.
- (ii) Subject to applicable law and as provided in Condition 7(a)(iii) and save as provided in these Conditions, the Exchange Right relating to any Bond may be exercised by the holder thereof, at any time up to (and including) the close of business (at the place where the Bond is deposited for exchange) on the date which falls 20 days prior to the Final Maturity Date or, if such Bond is to be redeemed pursuant to Condition 11(b) prior to the Final Maturity Date, then up to (and including) the close of business (at the place aforesaid) on the date which falls 14 days prior to the date fixed for redemption thereof, unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the Exchange Right shall extend (the "Extension Period") up to (and including) the close of business (at the place aforesaid) on the date on which the full amount of such payment has been received by the Trustee or the Principal Paying, Transfer and Exchange Agent and notice thereof has been duly given in accordance with Condition 19 or, if earlier, the Final Maturity Date, provided that, in each case, if such final date for the exercise of Exchange Rights is not a business day at the place aforesaid, then the period for exercise of Exchange Rights by Bondholders shall end on the immediately preceding business day at the place aforesaid.

Exchange Rights may not be exercised in respect of a Bond where the holder shall have exercised its right to require redemption pursuant to Condition 11(c) unless there is default by the Issuer in redeeming the relevant Bonds. In such circumstances

Exchange Rights in respect of such Bond shall extend for the Extension Period in the manner *mutatis mutandis* prescribed in this Condition 7(a)(ii).

- (iii) If the Trustee shall give notice to the Issuer, the Guarantor and the Pledgor declaring the Bonds to be immediately due and repayable pursuant to Condition 14, the Issuer shall and the Guarantor shall procure that the notice of such fact shall forthwith be given by or on behalf of the Issuer to the Bondholders in accordance with Condition 19 and each Bondholder shall (whether or not the Exchange Right attaching to its Bond is then otherwise exercisable) be entitled, at any time during the period (the "Relevant Period") commencing on the date on which the Bonds become so due and repayable (the "Due Date") until the date being the last day of the period of two weeks after the Due Date (but not thereafter), to elect (by delivering in accordance with the provisions of this Condition 7 a duly signed and completed Exchange Notice, together with the relevant Bond, to the specified office of any Paying, Transfer and Exchange Agent) in lieu of having his Bond repaid, to exercise the Exchange Right in respect of such Bond as at the Due Date (and references to the Exchange Date shall be construed as being the Due Date), save that no such election may be made in respect of a Bond which has been presented for payment on or after the Due Date (provided that payment in full of all amounts then due on the relevant Bond is made upon such presentation). Save as provided in this Condition 7, Exchange Rights shall lapse in the event that the Trustee shall give notice to the Issuer that the Bonds are immediately due and repayable.
- (iv) Save where a notice of redemption is given by the Issuer in circumstances provided in Condition 6(c) above, Exchange Rights may not be exercised by a Bondholder in circumstances where the relevant Exchange Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).
- (v) The period during which Bondholders shall be entitled to exercise Exchange Rights pursuant to these Conditions is referred to as the "Exchange Period".
- (vi) Other than where a Cash Election is made by the Issuer and in respect of the Exchange Property to which such Cash Election relates, upon a due exercise of Exchange Rights the relevant Bondholder shall be entitled to receive a *pro rata* share of the Exchange Property calculated as at the relevant Exchange Date.
- (vii) No fraction of a Relevant Security or any other property comprised in the Exchange Property which is not divisible shall be delivered on exercise of the Exchange Rights and the Issuer shall not be under any obligation to make any payment to Bondholders in respect of any such fraction and any such fraction will be rounded down to the nearest whole multiple of a Relevant Security or unit of any such other property.
- (viii) If more than one Bond is to be exchanged by a Bondholder pursuant to any one Exchange Notice, the Exchange Property to be delivered and any sum payable to that Bondholder (including, where applicable, any Cash Alternative Amount) shall be calculated on the basis of the aggregate principal amount of such Bonds.

(b) Procedure for exercise of Exchange Rights

- (i) Exchange Rights may be exercised by a Bondholder during the Exchange Period by delivering the relevant Bond to the specified office of any Paying, Transfer and

Exchange Agent, during its usual business hours, accompanied by a duly completed and signed notice of exchange (an "**Exchange Notice**") in the form (for the time being current) obtainable from any Paying, Transfer and Exchange Agent.

Exchange Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying, Transfer and Exchange Agent to whom the relevant Exchange Notice is delivered is located.

If such delivery is made after the end of normal business hours or on a day which is not a business day in the place at the specified office of the relevant Paying, Transfer and Exchange Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

An Exchange Notice, once delivered, shall be irrevocable.

Any determination as to whether any Exchange Notice has been duly completed and properly delivered shall be made by the relevant Paying, Transfer and Exchange Agent (following consultation with the Issuer) and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee, the Paying, Transfer and Exchange Agents and the relevant Bondholder.

A Bondholder exercising Exchange Rights will be required to certify in the relevant Exchange Notice (a "**U.S. Certification**") that such exchange is being made outside of the United States (as such term is defined in Regulation S under the United States Securities Act of 1933). If such U.S. Certification is not provided, the relevant Exchange Notice shall be void.

Exchange Rights may only be exercised in respect of an authorised denomination. Where Exchange Rights are exercised in respect of part only of a holding of Bonds, the old certificate shall be cancelled and a new certificate for the balance thereof shall be issued in lieu thereof without charge but upon payment by the holder of any taxes, duties and other governmental charges payable in connection therewith and the Registrar will within seven business days, in the place of the specified office of the Registrar, following the relevant Exchange Date deliver such new certificate to the relevant Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary mail, at the expense of the Bondholder) mail the new certificate by uninsured mail to such address as the Bondholder may request.

The exchange date in respect of a Bond (the "**Exchange Date**") in respect of which the Exchange Right shall have been exercised by a Bondholder will be the Madrid business day immediately following the date of the delivery of the Exchange Notice and the relevant Bond as provided in this Condition 7(b).

The Pledgor (failing whom the Guarantor), will pay any stamp, registration, documentary, transfer or other similar taxes or duties (including penalties) arising on the transfer or delivery of any Exchange Property to or to the order of a Bondholder pursuant to the exercise of any Exchange Rights or, as the case may be, on exercise of a Share Redemption Option ("**Stamp Taxes**") which are payable or imposed in the Kingdom of Spain, The Netherlands and the jurisdiction in which the relevant Exchange Property is situated (and for this purpose any securities in registered form comprising

Exchange Property shall be deemed to be situated in the jurisdiction in which the register (or in the case of more than one register, the principal register) on which title to and transfers of such securities are recorded or maintained) is located) or imposed or payable by virtue of the place of incorporation, domicile or tax residence of the issuer of any Relevant Securities comprised in the relevant *pro rata* share of the Exchange Property, and all other costs, fees and expenses in connection with the transfer or delivery of Exchange Property on exercise of Exchange Rights, including the costs, fees and expenses of any custodian, depository, agent or other entity facilitating the relevant transfer or delivery (together "Exchange Expenses").

Subject to the above, a Bondholder exercising Exchange Rights must pay directly to the relevant authorities any other taxes and capital, stamp, issue, registration, documentary, transfer or other duties (including penalties) arising in any jurisdiction not mentioned above on exchange and/or on the transfer, delivery or other disposition of Exchange Property arising on exercise of Exchange Rights or, as the case may be, on exercise of a Share Redemption Option.

Neither the Trustee nor the Principal Paying, Transfer and Exchange Agent shall be responsible for determining whether any Exchange Expenses are payable or the amount thereof and it shall not be responsible or liable for any failure by the Issuer to pay such Exchange Expenses.

If the Issuer shall fail to pay any Exchange Expenses for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse each such Bondholder in respect of the payment of such Exchange Expenses and any penalties payable in respect thereof.

Each Bondholder must pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with the exercise of Exchange Rights by it.

- (ii) Other than where a Cash Election is made by the Issuer and in respect of the Exchange Property to which such Cash Election relates, Pledgor shall (and the Guarantor and the Issuer shall procure that the Pledgor shall), as soon as practicable, and in any event not later than the Settlement Date:
 - (1) in respect of Iberdrola Shares comprising the relevant *pro rata* share of the Exchange Property, effect delivery of such Iberdrola Shares through Iberclear to the person designated for the purpose in the relevant Exchange Notice;
 - (2) in respect of any Relevant Securities (other than Iberdrola Shares) comprising the relevant *pro rata* share of the Exchange Property, effect delivery of such Relevant Securities through the principal clearing system (if any) in which transfers of such Relevant Securities are at the relevant time cleared and settled to the person designated for the purpose in the relevant Exchange Notice or otherwise procure that such Relevant Securities are transferred into such name as the Bondholder shall direct pursuant to the Exchange Notice and shall procure that forms of transfer and certificates (if certificates for the Relevant Securities are then generally being issued) together with all other documents of title and evidence of ownership and all other documents necessary to transfer or evidence the transfer of such Relevant Securities will be despatched by mail,

and free of charge (but uninsured and at the risk of the person entitled thereto), to such address, subject to applicable securities laws, as the Bondholder may request (as specified in the relevant Exchange Notice); and

- (3) procure that such documents of title and evidence of ownership of any other Exchange Property to be delivered on exercise of Exchange Rights shall be despatched and that payment of any part of the Exchange Property comprising cash to be delivered on exercise of Exchange Rights (converted if necessary into euro at the Screen Rate on the relevant Exchange Date) shall be made, in each case in accordance with directions given by the relevant Bondholder in the Exchange Notice.

Notwithstanding the above, in the event that the Issuer, the Guarantor or the Pledgor delivers a certificate to the Trustee signed by an Authorised Officer to the effect that Iberclear (or, where the Exchange Property is comprised of Relevant Securities other than Iberdrola Shares and certificates for such Relevant Securities are not then generally being issued, the clearing system through which the transfer of such Relevant Securities is required to be effected) has been closed for a continuous period of two or more days (excluding Saturdays and Sundays and save by reason of holidays, statutory or otherwise) in the period from (and including) the Exchange Date to (but excluding) the Settlement Date, then the Issuer shall notify (and the Guarantor will procure that the Issuer notifies) the relevant Bondholder in accordance with Condition 19 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the date for such delivery shall be the later of the Settlement Date and the earliest practicable date on which the relevant Exchange Property may be delivered by or through Iberclear or, as the case may be, the relevant clearing system.

The Issuer, the Guarantor and the Pledgor shall not be responsible or liable to any person for any delay in the delivery of any property comprising Exchange Property following exercise of Exchange Rights arising as a result of a failure by the relevant Bondholder to supply all information and details as required by the relevant Exchange Notice.

Notwithstanding the above, if, after the relevant Exchange Date, the Exchange Property has changed in whole or in part as a result of an Offer or as a result of the compulsory acquisition of any Equity Share Capital, in each case as provided in Condition 9, then the Issuer shall notify and the Guarantor will procure that the Issuer notifies) the relevant Bondholder in accordance with Condition 19 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the time for such delivery shall be the longer of such period set out above and the day falling 10 Madrid business days after the Offer Consideration Date.

If, at any time when the transfer or delivery of any Exchange Property (other than cash) to a Bondholder is required, such transfer or delivery would, as certified to the Trustee by one Authorised Officer of the Issuer, the Guarantor or the Pledgor, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer shall notify (and the Guarantor will procure that the Issuer notifies) the relevant Bondholder in accordance with Condition 19 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the Issuer will make a

cash payment to the relevant Bondholder equal to the aggregate of the Realisation Proceeds in respect of the relevant Exchange Property in lieu of the delivery of such Exchange Property to such Bondholder. The Issuer will pay any such amount to the relevant Bondholder not later than 10 TARGET Business Days after the relevant Settlement Date.

Without prejudice to Condition 7(c), if:

- (A) the Exchange Date in respect of any Bond shall be on or after the date of any public announcement affecting the composition of any part of the Exchange Property (other than Iberdrola Shares or other securities in registered form ("**Registered Securities**") in circumstances where the relevant entitlement is determined by reference to a record date in respect thereof), but before the date on which such change is effective; or
- (B) the Exchange Date in respect of any Bond shall be on or after the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Sub-division, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Exchange Property but before the date on which any resulting adjustment of the Exchange Property becomes effective in accordance with Condition 8(b); or
- (C) the Exchange Date in respect of any Bond shall be on or before the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Sub-division, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Exchange Property in circumstances where the Registration Date in respect of such Registered Securities is after such record date or other due date for the establishment of the relevant entitlement and the relevant Bondholder would not otherwise receive the relevant entitlement but the Issuer has received or is entitled to receive such entitlement,

then the relevant Bondholder, (other than where a Cash Election applies to the relevant exercise of Exchange Rights and in respect of the Exchange Property to which such Cash Election relates, in which case the provisions of Condition 7(c)(ii) shall apply) shall be entitled to receive, in respect of the exercise of the relevant Exchange Rights, such *pro rata* amount or, as the case may be, further *pro rata* amount of the Exchange Property ("**Additional Exchange Property**") as would have been receivable had the relevant Exchange Date occurred immediately after the date on which such change in the composition of the Exchange Property became effective or, as the case may be, had the relevant Registration Date in respect of such Registered Securities been immediately before such record date, and such Additional Exchange Property shall be delivered to the relevant Bondholder in accordance with instructions contained in the relevant Exchange Notice as soon as practicable following the relevant adjustment to the Exchange Property or the receipt by the Issuer of the relevant Additional Exchange Property.

- (iii) Unless a Cash Election is made by the Issuer and in respect of the Exchange Property to which such Cash Election relates, the relevant Bondholder (or the person designated in the relevant Exchange Notice) will be the owner of the *pro rata* share of the Exchange Property to be delivered upon exchange with effect from (and including)

the relevant Exchange Date and will be entitled to all rights, distributions or payments in respect of such Exchange Property from (and including) such Exchange Date and, in respect of any related Additional Exchange Property, will be entitled to all rights, distributions or payments in respect of such Additional Exchange Property from (and including) such Exchange Date.

Subject as provided herein, Exchange Property delivered on exercise of Exchange Rights shall not include any dividends, interest or other income payments and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date or other due date for the establishment of the relevant entitlement falling prior to the relevant Exchange Date.

Exchange Property (and, where appropriate, any Additional Exchange Property) delivered or transferred or to be delivered or transferred upon exchange shall rank for and be entitled to all dividends, interest and other income, payments and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date or other due date for the establishment of entitlement falling on or after the relevant Exchange Date.

If the record date or other due date for the establishment of the relevant entitlement for or in respect of any dividend, interest or other income, payment or distribution or rights on or in respect of such Exchange Property falls on or after the Exchange Date but before the relevant Settlement Date (or any other date from which the relevant Bondholder is treated as the owner of, or entitled to all rights and entitlement to, such Exchange Property) with the effect that the relevant Bondholder is not entitled to such dividend, interest or other income, payment or distribution of rights, the Issuer will (unless it is able to confer on or deliver to the relevant Bondholder an entitlement to receive such dividend, interest or other income, payment or distribution or rights or unless and to the extent that the same is taken into account for the purposes of Condition 7(b)(ii) relating to entitlement to Additional Exchange Property):

- (a) (in the case of dividends, interest or other income, payment or distributions or rights to be paid or made in cash) pay, or procure the payment to, the exchanging Bondholder in lieu of such dividend, interest or other income or distribution or rights, an amount equal thereto, converted if necessary into euro at the Screen Rate on the date of receipt thereof by the Issuer (the "**Equivalent Amount**"). The Issuer will pay the Equivalent Amount, or procure that it is paid, to the relevant Bondholder by not later than 10 TARGET Business Days after the receipt by the Issuer of such dividend, interest or other income, payment or distribution or rights; and
- (b) (in the case of dividends, or other income or distributions or rights to be satisfied or made otherwise than in cash) deliver, or procure the delivery of, the same to the relevant Bondholder not later than 10 TARGET Business Days after the receipt by the Issuer of such dividend or other income or distribution or rights. If, at any time when the delivery of any such dividend or other income or distribution or rights is required, delivery would, as certified to the Trustee by an Authorised Officer of the Issuer, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer will make a cash payment equal to the aggregate Realisation Proceeds of such dividend or other income or distribution

or rights, converted, if necessary into euro at the Screen Rate on the date of receipt by the Issuer of the Realisation Proceeds. The Issuer will pay any such amount to the relevant Bondholders not later than 10 TARGET Business Days after the receipt by the Issuer of such dividend or other income or distribution or rights.

For the purposes of the above, if there is an option to receive the relevant entitlement in the form of a cash amount or otherwise than in cash, the entitlement shall be treated as being paid or made in cash, and accordingly the provision of (a) above shall apply.

- (iv) Upon exercise of Exchange Rights, a Bondholder shall, in the relevant Exchange Notice, specify a euro account with a bank in a city in which banks have access to the TARGET System to which any cash amount payable on or in respect of the exercise of Exchange Rights by that Bondholder shall be credited and the Issuer shall pay such sum to the relevant Bondholder in accordance with any such directions.

(c) Cash Election

- (i) Upon the exercise of Exchange Rights by a Bondholder, the Issuer may make an election (a "Cash Election") by giving notice (a "Cash Election Notice") to the relevant Bondholders by not later than the date (the "Cash Election Exercise Date") falling four Madrid business days following the relevant Exchange Date, to the address (or, if a fax number or email address is provided in the relevant Exchange Notice, that fax number or email address) specified for that purpose in the relevant Exchange Notice, with a copy to the Trustee and Principal Paying, Transfer and Exchange Agent, to satisfy the exercise of the Exchange Right in respect of the relevant Bonds, in whole or in part, by making payment, or procuring that payment is made, to the relevant Bondholder of the Cash Alternative Amount, together with any other amounts payable by the Issuer to such Bondholder pursuant to these Conditions in respect of, or relating to, the relevant exercise of Exchange Rights, including any interest payable pursuant to Condition 6(c).

A Cash Election may be made in respect of the whole or any part of the Exchange Property that would otherwise be deliverable in respect of the relevant exercise of Exchange Rights. The relevant Cash Election Notice shall specify whether the Cash Election is in respect of the whole of such Exchange Property or any part thereof, and if in respect of part, shall specify the relevant part.

A Cash Election shall be irrevocable.

The Issuer will pay the Cash Alternative Amount, together with any other amount as aforesaid, by not later than the Cash Alternative Payment Date by transfer to a euro account with a bank in a city in which banks have access to the TARGET System in accordance with instructions contained in the relevant Exchange Notice.

"Cash Alternative Amount" means a sum in euro equal to the average of the Value on each Trading Day in the Cash Alternative Calculation Period of the relevant *pro rata* share of the Exchange Property which, had a Cash Election not been made, would otherwise fall to be delivered to such Bondholder upon exercise of Exchange Rights in respect of the relevant Bonds.

"Cash Alternative Calculation Period" means the period of 10 consecutive Trading Days commencing on the first Trading Day after the Cash Election Exercise Date.

"Cash Alternative Payment Date" means the date falling 4 TARGET Business Days after the last day of the Cash Alternative Calculation Period.

- (ii) If a Bondholder would otherwise have been be entitled to receive, in respect of the exercise of Exchange Rights, any Additional Exchange Property pursuant to Condition 7(b)(ii) in circumstances where a Cash Election is made in respect of the relevant exercise of Exchange Rights, the Issuer shall, in lieu of delivering such Additional Exchange Property, pay to the relevant Bondholder an amount (the **"Further Amount"**) equal to the Value of such Additional Exchange Property as at the date on which the relevant change in the composition of the Exchange Property is or would be effective (the **"Change Date"**), and such Further Amount shall be paid by transfer to a euro account maintained with a bank in a city in which banks have access to the TARGET System in accordance with the instructions given by the Bondholder in the relevant Exchange Notice by not later than the latest of (a) the date falling five Trading Days after the Change Date (or if that is not a Madrid business day, the next following Madrid business day) and (b) the relevant Cash Alternative Payment Date in accordance with the instructions given by the relevant Bondholder in the relevant Exchange Notice.

(d) Calculation Agent

At any time (i) any Cash Alternative Amount falls to be calculated in accordance with Condition 7(c), (ii) a Premium Compensation Amount falls to be calculated in accordance with Condition 9(d) or (iii) any Relevant Exchange Property or Cash Settlement Amount falls to be calculated in accordance with Condition 11, each such calculation shall be made in good faith by the Calculation Agent on behalf of the Issuer. The Calculation Agent may at the expense of the Issuer obtain the advice or engage the services of any lawyers, accountants, investment banks or other experts whose advice or services the Calculation Agent may deem necessary, and the Calculation Agent may rely upon any advice so obtained. The Calculation Agent is acting exclusively as an agent for the Issuer, and in such capacity does not have any relationship of agency or trust with the Bondholders.

8 The Exchange Property

(a) Initial Exchange Property

The **"Exchange Property"** shall initially comprise 125,000,000 Iberdrola Shares registered and pledged in the Securities Account and shall include such other Relevant Securities and other rights, income, assets and property (including, without limitation, any Offer Consideration, any securities registered in the Securities Account from time to time and all amounts standing to the credit of the Cash Account from time to time but, in the case of the latter, excluding any amounts of interest (if any) generated by amounts standing to the credit of the Cash Account from time to time) deriving from such Relevant Securities as may be deemed or required to comprise all or part of the Exchange Property from time to time pursuant to these Conditions but excluding any such securities, rights, income, assets and property as may be deemed to have ceased to form part of the Exchange Property pursuant to these Conditions. The Exchange Property shall be secured in favour of the Trustee for the benefit of itself and the Bondholders in the manner described in Condition 2.

On the exercise of Exchange Rights, Bondholders will initially be entitled to receive 17,334.6276 Iberdrola Shares for each €100,000 principal amount of Bonds (equivalent to an initial exchange price of €5.7688 per Iberdrola Share) subject to adjustment pursuant to these Conditions.

All Exchange Property transferred or delivered upon exercise of Exchange Rights shall be transferred or delivered with full title guarantee and free from any and all security interests or other adverse interests.

(b) Adjustments to the Exchange Property

If at any time any event occurs which may result in any change in composition of the Exchange Property pursuant to paragraphs (i) to (iii) below the Issuer shall consult with the Calculation Agent, and (without prejudice to Condition 8(g)) the Calculation Agent shall in good faith determine, on behalf of and at the expense of the Issuer, the appropriate adjustment (if any) to be made to the Exchange Property.

(i) Sub-division, Consolidation or Redenomination

If any Relevant Securities comprising the Exchange Property shall be sub-divided or consolidated, re-classified or re-denominated or in any other manner have their par value changed ("**Sub-division, Consolidation or Redenomination**") then the securities resulting from such Consolidation, Sub-division or Redenomination so far as attributable to the Exchange Property, shall be included in the Exchange Property upon receipt by or on behalf of the Pledgor, the Issuer or the Guarantor of such securities.

(ii) Rights Issues

If further Relevant Securities or other securities, or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other securities, shall be offered by way of rights to holders of Relevant Securities (or any of them) (a "**Rights Issue**"), then the Pledgor, the Guarantor or the Issuer shall notify the Trustee and (provided that it is possible to sell such rights under applicable law and/or the terms of the Rights Issue), by not later than the latest day for accepting or taking up any such rights (the "**Election Date**"), the Pledgor, the Issuer or the Guarantor may elect either:

- (A) to procure on an arm's length basis in good faith the sale (as soon as reasonably practicable) by an independent broker or investment bank selected by the Pledgor, the Issuer or the Guarantor of sufficient rights to enable the whole of the balance of such rights to be taken up and procure the application of the proceeds of sale, after the deduction of the costs and expenses of such sale, in the taking up of such rights (with any excess proceeds of sale being added to and forming part of the Exchange Property); or
- (B) to add to the Exchange Property such number of Iberdrola Shares or other securities or options, warrants or rights as would have been subscribed or purchased if sufficient rights had been sold on an arm's length basis in good faith to enable (after the deduction of the costs and expenses of such sale) the whole of the balance of such rights to be taken up together with an amount equal to what would have been any such excess proceeds of sale as aforesaid.

In the absence of any such election being notified to Bondholders in accordance with Condition 19 by not later than the Election Date, paragraph (B) shall apply.

If such rights may not be sold under applicable law and/or the terms of the Rights Issue, the Pledgor, the Issuer and the Guarantor shall use any part of the Exchange Property comprising cash to take up such rights and/or, on an arm's length basis, sell sufficient Relevant Securities to enable (after the deduction of the costs and expenses of such sale) the whole of the balance of such rights to be taken up, with, in any such case, any excess proceeds of sale being added to and forming part of the Exchange Property.

Any Relevant Securities or other securities or options, warrants or rights taken up pursuant to this paragraph and any excess proceeds of sale as aforesaid shall upon receipt by or on behalf of the Pledgor, the Issuer or the Guarantor be added to and form part of the Exchange Property.

(iii) *Bonus Issues, Capital Distributions, Reorganisations and Payments*

If any of the following events occurs (each a "Relevant Event"):

- (A) Relevant Securities or other securities are issued credited as fully paid to holders of Relevant Securities comprised in the Exchange Property by way of capitalisation of profits or reserves or otherwise by virtue of being holders of Relevant Securities (other than where the Relevant Event is determined to constitute a Cash Dividend pursuant to paragraph (a) or (b) of the definition of "Dividend"); or
- (B) any Capital Distribution is paid or made in respect of any Iberdrola Shares or Equity Share Capital comprised in the Exchange Property; or
- (C) a Relevant Company purchases or redeems any Relevant Securities comprised in the Exchange Property; or
- (D) pursuant to any scheme of arrangement, reorganisation, amalgamation, reconstruction, merger, demerger or any like or similar event of any company or companies (whether or not involving liquidation or dissolution), any further Relevant Securities or other securities, property or assets (including cash) are issued, distributed or otherwise made available to holders of Relevant Securities or other securities comprised in the Exchange Property, or
- (E) any cash amount is paid or distributed in whatever manner (including by way of payment of interest, distribution, Dividend, repayment of principal or capital or redemption monies) or any securities or other property is distributed, issued, transferred or delivered in whatever manner, in each case in respect of any Relevant Securities or other property or assets (other than Iberdrola Shares or Equity Share Capital) comprised in the Exchange Property,

then the further Relevant Securities, securities or other property or assets (including cash amounts) received in relation to the Relevant Event, so far as attributable to the Exchange Property or, as the case may be, the relevant Capital Distribution in respect of the Iberdrola Shares or Equity Share Capital comprised in the Exchange Property, shall upon receipt by or on behalf of the Pledgor, the Issuer or the Guarantor be

included as part of the Exchange Property (and, if applicable, applied in accordance with Condition 8(e)).

(c) Notice of Change in Exchange Property

The Issuer shall give notice (and the Guarantor and the Pledgor will procure that the Issuer shall give notice) to the Trustee and to the Bondholders in accordance with Condition 19 and to the Principal Paying, Transfer and Exchange Agent of any change in composition of the Exchange Property as soon as reasonably practicable following such change, and such notice shall include details of the Exchange Property to which the holder of €100,000 principal amount of Bonds would be entitled upon exercise of the Exchange Right in respect of such Bond following such change.

(d) Release from the Exchange Property

Upon delivery of Exchange Property to the relevant Bondholder and/or payment of the Cash Alternative Amount or upon redemption of the Bonds or upon any purchase and cancellation of the Bonds, the *pro rata* share of the Exchange Property or the relevant part thereof attributable to each relevant Bond shall cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly.

(e) Purchase of Equity Share Capital etc.

If at any time Equity Share Capital is comprised in the Exchange Property and any cash amount or securities or other property is comprised in or is to be added to and form part of the Exchange Property pursuant to these Conditions (other than (i) any additional Equity Share Capital of a class already comprised in the Exchange Property or (ii) as included in the Offer Consideration under Condition 9) before the Exchange Rights lapse, then such cash amount shall be applied, and such securities or other property shall be sold by the Pledgor, the Issuer or the Guarantor as soon as reasonably practicable and the proceeds of such sale (net of any costs and expenses incurred in connection with such sale) shall be applied by the Pledgor, the Issuer or the Guarantor, as soon as reasonably practicable following such sale and to the extent possible, in purchasing additional Equity Share Capital of the class then comprised in the Exchange Property (and where at the relevant time the Exchange Property comprises more than one class of Equity Share Capital, in purchasing, on a *pro rata* basis further Equity Share Capital of each such class). Any such additional Equity Share Capital shall be added to and form part of the Exchange Property.

If any cash amount is to be added to and form part of the Exchange Property in circumstances where the Exchange Property comprises solely cash, such cash amount (converted, if necessary, into euro at the Screen Rate prevailing on the date of receipt of such cash amount) shall be, or shall be added to, the Exchange Property and thereafter the Exchange Property shall comprise and remain solely cash. No interest shall accrue on or in respect of any such cash amount.

(f) Voting Rights etc.

Bondholders and the Trustee shall have no voting rights in respect of the Iberdrola Shares or any other part of the Exchange Property prior to their delivery or transfer to the relevant Bondholder (or as it may direct) on the relevant Settlement Date following exercise of Exchange Rights or pursuant to the exercise of the Share Redemption Option.

Where a Dividend in cash is announced by a Relevant Company in respect of Equity Shares which may, at the election of a holder or holders of such Relevant Securities, be satisfied by the issue or delivery of Relevant Securities or other property or assets or where a capitalisation of profits or reserves is announced which may, at the election of a holder or holders of such Equity Shares, be satisfied by the payment of cash, the Pledgor shall be entitled to make such election as it may determine in its sole discretion in respect of any such Dividend or capitalisation, provided that notice of such election shall be given to the Trustee by not later than the last day on which a holder or holders of the Relevant Securities would be required or entitled to make the relevant election, and failing such notice, the Dividend or capitalisation shall be treated as a Cash Dividend of whichever is the higher of (i) the Fair Market Value of such cash amount on the Effective Date in respect of the relevant Dividend or capitalisation of such Dividend or capitalisation and (ii) the Fair Market Value, on the Effective Date in respect of the relevant Dividend or capitalisation, of such Relevant Securities or other property or assets.

(g) Other Adjustments to the Exchange Property and Contemporaneous Events

If the Issuer or the Guarantor determines that:

- (i) having first consulted with the Calculation Agent as to whether or not an adjustment might be appropriate, an adjustment should be made to the Exchange Property as a result of one or more events or circumstances not referred to in Condition 8(b)(i), 8(b)(ii) or 8(b)(iii), even if the relevant event is or circumstances are specifically excluded from the operation of Condition 8(b)(i), 8(b)(ii) or 8(b)(iii); or
- (ii) more than one event which gives rise or may give rise to an adjustment to the Exchange Property has occurred or will occur within such a short period of time that a modification to the operation of the adjustment provisions is required in order to give the intended result; or
- (iii) one event which gives rise or may give rise to more than one adjustment to the Exchange Property has occurred or will occur such that a modification to the operation of the adjustment provisions is required in order to give the intended result,

the Issuer shall (and the Guarantor and the Pledgor shall procure that the Issuer), at the expense of the Issuer (which failing, the Guarantor and/or the Pledgor), requests an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Exchange Property is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination the Pledgor, the Issuer and the Guarantor shall procure that such adjustment (if any) shall be made and shall take effect in accordance with such determination provided that such adjustment shall result in an increase to the Exchange Property.

(h) Decision of an Independent Financial Adviser; Calculation by the Calculation Agent

If any doubt shall arise as to whether an adjustment fails to be made to the Exchange Property, or as to the appropriate adjustment to the Exchange Property, or as to when such adjustment shall take effect or be deemed to have taken effect, and following consultation between the Issuer and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect thereof shall be conclusive and binding on the

Issuer, the Guarantor, the Pledgor, the Bondholders and the Trustee, save in the case of manifest error.

If any calculation of any Cash Alternative Amount, Premium Compensation Amount or Cash Settlement Amount or any determination of a *pro rata* share of the Exchange Property or of any Relevant Exchange Property is made by the Calculation Agent on behalf of the Issuer in accordance with these Conditions, such calculation shall be conclusive and binding on the Issuer, the Guarantor, the Pledgor, the Bondholders and the Trustee, save in the case of manifest error.

9 General Offers

(a) Acceptance of Offers

In the event of an Offer for any Equity Shares comprised in the Exchange Property, the Pledgor shall have absolute discretion to accept such Offer (and as to any alternative consideration) or reject such Offer, provided that the Pledgor will not accept such Offer (a) prior to the Specified Date (as defined below) and (b) unless the value of the consideration offered for such Equity Shares pursuant to the Offer or, where there is any alternative consideration, unless the value of the consideration accepted by the Pledgor, is equal to or greater than the value of such Equity Shares.

For the avoidance of doubt, (i) the Pledgor may announce its intention to accept any Offer prior to the Specified Date and (ii) if there are two simultaneous Offers, the Pledgor may accept either Offer (including the Offer which includes the lower consideration) or neither Offer.

The value of such Equity Shares and the value of any consideration will be determined by an Independent Financial Adviser by reference to market values, where applicable, and such other considerations as the Independent Financial Adviser shall consider appropriate.

The Pledgor will not accept (and the Guarantor will procure that the Pledgor will not accept) any Offer in respect of such part of the Exchange Property which would (disregarding for this purpose, any Cash Election) be deliverable to those Bondholders who have exercised Exchange Rights in respect of Bonds where the relevant Exchange Date falls prior to the commencement of any Suspension Period.

Subject to the terms of the Pledge Agreement, the Pledgor shall at all times be entitled at its discretion, in relation to any shares or other securities owned or controlled by it or in respect of which it is entitled to exercise voting rights (whether or not such shares or securities comprise Exchange Property), to vote on, exercise its rights in respect of, or otherwise participate in (or in any such case refrain from doing so), any scheme of arrangement, reorganisation, amalgamation, merger, demerger or reconstruction of any company or companies or other entity or entities (whether or not involving liquidation or dissolution) as it thinks fit.

The Issuer shall give notice (and the Guarantor and the Pledgor shall procure that the Issuer gives notice) to the Trustee and the Bondholders in accordance with Condition 19 as soon as practicable upon becoming aware of the existence of any Offer.

(b) Adjustment to Exchange Property

If the Pledgor accepts such Offer and the Offer becomes unconditional in all respects (or if all the Relevant Securities not tendered in relation to the relevant Offer are subject to compulsory acquisition) then, and in relation to each Bond for which the Exchange Date has not occurred prior to the Final Acceptance Date, with effect from the Offer Consideration Date, the Relevant Securities the subject of such Offer or compulsory acquisition shall be deemed no longer to form part of the Exchange Property and shall be deemed to be replaced by the consideration in respect of the Relevant Securities under the Offer or pursuant to such compulsory acquisition or, if there is alternative consideration, such consideration as the Issuer may elect for the purposes of these Conditions, and if the Issuer shall fail to make such election by not later than the Madrid business day following the Specified Date, that consideration as shall be determined by an Independent Financial Adviser to have the greatest value (the "Offer Consideration"). The Pledgor shall and the Issuer and the Guarantor will procure that all Offer Consideration received or to be received by the Pledgor or on behalf of either of them or the Custodian from time to time shall forthwith be credited to and pledged in the Cash Account or the Securities Account.

(c) Suspension of Exchange Rights

The Exchange Rights shall be suspended during the period from and including (i) the Specified Date until the relevant Offer is withdrawn or the relevant Offer lapses or the Final Acceptance Date and (ii) the date any vote is cast in relation to any applicable scheme referred to in this Condition, which is approved by the required majority, until the same is approved or rejected by any relevant judicial or other authority or otherwise is or becomes or is declared to be effective or the like.

If the Pledgor accepts the relevant Offer and the Offer is or becomes unconditional in all respects, Exchange Rights will also be suspended during the period from the Final Acceptance Date until the Offer Consideration Date.

The period during which Exchange Rights are suspended pursuant to this Condition 9(c) is referred to as the "Suspension Period".

The Issuer will give notice and the Guarantor will procure that notice of any such Suspension Period (including the commencement and termination thereof) be given by the Issuer to the Trustee, the Principal Paying, Transfer and Exchange Agent and to the Bondholders in accordance with Condition 19.

If Exchange Rights are exercised such that the relevant Exchange Date would otherwise fall in the Suspension Period, such exercise shall be null and void.

(d) Premium Compensation Amount

If the Offer Consideration consists wholly or partly of cash or other property (other than Eligible Equity Shares), such cash or such other property shall be added to and form part of the Exchange Property and if the Exchange Date in respect of any Bond falls after the Offer Consideration Date, then the relevant Bondholder shall be entitled to receive, in addition to the relevant *pro rata* share of the Exchange Property pursuant to Condition 7 (or, as appropriate, any Cash Alternative Amount), an amount (the "Premium Compensation Amount") in respect of each €100,000 principal amount of Bonds surrendered for exchange calculated in accordance with the following formula:

$$PC = K^2 * (\text{Principal} - IP) * (T/C) * (CB/(CB+CS))$$

Where:

PC	=	Premium Compensation Amount per Bond
K	=	the lesser of (a) IP/MP and (b) MP/IP
Principal	=	€100,000
IP	=	€74,074.33
CB	=	the Offered Cash Amount
CS	=	the Offered Property Value
MP	=	the Value of the <i>pro rata</i> share of the Exchange Property in respect of a Bond in the principal amount of €100,000 on the Final Acceptance Date
C	=	1826, being the number of days from (but excluding) the Closing Date to (and including) the Final Maturity Date
T	=	the number of days from (but excluding) the Final Acceptance Date to (and including) the Final Maturity Date (which shall be zero if the Final Acceptance Date occurs after such date)

(e) Subsequent Offers

The provisions of this Condition 9 shall apply *mutatis mutandis* to any subsequent Offer, with the result that such Bondholder may become entitled to receive more than one Premium Compensation Amount.

(f) Self tenders

If a tender or other offer is made by or on behalf of the issuer of any Relevant Securities comprised in the Exchange Property (or any person associated with such issuer) to purchase or otherwise acquire, redeem or exchange such Relevant Securities, the Pledgor shall not (and the Guarantor shall procure that the Pledgor shall not) tender or be entitled to be treated as having tendered any such Relevant Securities which are comprised in the Exchange Property or be treated as having accepted any such offer in respect thereof or vote in respect of any such Relevant Securities in relation to any such tender or other offer, nor shall the Pledgor (and the Guarantor shall procure that the Pledgor does not) exercise or be treated as having exercised any option which it may have in connection therewith or otherwise to require the redemption or repayment of such Relevant Securities.

(g) Further definitions

As used in these Conditions:

"**EEA Regulated Market**" means a market as defined by Article 4.1(14) of Directive 2004/39 EC of the European Parliament and of the Council on Markets in Financial Instruments;

"**Eligible Equity Shares**" means Equity Share Capital of the offeror provided that (i) the offeror is a limited liability company (or equivalent) incorporated in or established under the laws of a European Union member state, a state within the European Economic Area or an OECD member state; and (ii) such Equity Share Capital is listed and admitted to trading on an EEA Regulated Market;

"Equity Share Capital" and **"Equity Shares"** have the meaning provided in Condition 5;

"Final Acceptance Date" means, in respect of any Offer, the final date for acceptance of such Offer which, if such Offer is extended prior to becoming unconditional, shall be the final date for acceptance of the extended Offer;

"Offer" means an offer to the holders of any Equity Shares comprising the Exchange Property, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all holders of the applicable Equity Shares (or all or substantially all such holders other than any holder to whom such offer may not be extended pursuant to applicable securities or other laws or who is, or is connected with, or is deemed to be acting in concert with, the person making such offer or to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any stock exchange in any territory, it is determined not to make such an offer);

"Offer Consideration Date" means, in relation to any Offer (or compulsory acquisition), the date upon which the Offer Consideration is made available to the holders of the Relevant Securities;

"Offered Cash Amount" means the cash amount in euro (or, where applicable, translated into euro at the applicable Screen Rate on the Final Acceptance Date) comprising the whole or part of the Offer Consideration for one Relevant Security in the Offer (other than cash paid in respect of fractional entitlements to the Offered Property) provided that if the Offered Property comprises securities or property other than Eligible Equity Shares, such securities or property will be deemed, for the purpose of this definition to form part of the Offered Cash Amount in an amount equal to their Fair Market Value at the close of business on the Final Acceptance Date;

"Offered Property" means the Offer Consideration for one Relevant Security in the Offer excluding the Offered Cash Amount;

"Offered Property Value" means the Fair Market Value of the Offered Property at the close of business on the Final Acceptance Date. In the case of an Offer the Offer Consideration in respect of which is entirely in cash or securities or property other than Eligible Equity Shares, the Offered Property Value shall be zero; and

"Specified Date" means, in relation to any Offer, five Trading Days prior to the Final Acceptance Date.

10 Undertakings

- (a) The Issuer, the Guarantor and the Pledgor each undertake to use all reasonable endeavours to maintain the eligibility for trading of the Bonds on the Open Market (*Freiverkehr*) of the Deutsche Boerse market.
- (b) The Issuer, the Guarantor and the Pledgor each undertake to obtain and/or maintain all applicable consents and approvals which are required for the performance of their respective obligations under the Bonds, the Trust Deed and the Security and to procure that all necessary steps are taken from time to time by the Issuer, the Guarantor and the Pledgor to perfect the Security.

11 Redemption and Purchase

(a) *Final Redemption*

Unless previously exchanged, redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Final Maturity Date.

The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 11(b).

(b) *Redemption at the Option of the Issuer*

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with accrued interest to the relevant date fixed for redemption:

- (i) at any time on or after 12 November 2016 (the "**First Call Date**"), provided that the Value of the *pro rata* share of the Exchange Property attributable to each €100,000 principal amount of Bonds on each of not less than 20 Trading Days in any period of 30 consecutive Trading Days ending not earlier than the seventh Trading Day prior to the date on which the relevant notice of redemption is given by the Issuer to the Bondholders shall have exceeded €130,000; or
- (ii) at any time if, prior to the date on which the relevant notice of redemption is given Exchange Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued.

In order to exercise such option the Issuer shall give not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Bondholders in accordance with Condition 19 specifying the date for redemption (the "**Optional Redemption Date**").

Any Optional Redemption Notice shall be irrevocable.

On the Optional Redemption Date, the Issuer shall redeem the Bonds at their principal amount, together with accrued interest to the relevant Optional Redemption Date.

Any Optional Redemption Notice shall specify (i) the Optional Redemption Date, (ii) the last day on which Exchange Rights may be exercised by a Bondholder and (iii) the Value of the *pro rata* share of the Exchange Property attributable to each €100,000 principal amount of the Bonds as at the most recent practicable date prior to the giving of the relevant Optional Redemption Notice.

(c) *Redemption at the Option of the Bondholders*

(i) *Optional redemption*

The holder of each Bond will have the right to require the Issuer to redeem that Bond on 22 October 2016 (the "**Optional Put Date**") at its principal amount, together with accrued interest up to but excluding the Optional Put Date.

To exercise such right, the holder of the relevant Bond must deliver such Bond to the specified office of any Paying, Transfer and Exchange Agent a duly completed and signed notice of exercise in the form for the time being currently obtainable from the specified office of any Paying, Transfer and Exchange Agent (the "**Optional Put Exercise Notice**") not earlier than 90 days nor less than 45 days prior to the Optional

Put Date.

Payment in respect of any such Bond shall be made by transfer to a euro account with a bank in a city in which banks have access to the TARGET System as specified by the relevant Bondholder in the relevant Optional Put Exercise Notice.

An Optional Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Optional Put Exercise Notices delivered as aforesaid on the Optional Put Date.

(ii) *Redemption following a Change of Control*

Within 14 days following the occurrence of a Change of Control, the Issuer shall give notice (and the Guarantor will procure that the Issuer gives notice) thereof to the Trustee and to the Bondholders in accordance with Condition 19 (a "Change of Control Notice"). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights to require redemption of their Bonds pursuant to this Condition 11(c)(ii).

The Change of Control Notice shall also specify:

- (A) the Value of the *pro rata* share of the Exchange Property attributable to each €100,000 principal amount of the Bonds as at the last practicable date prior to the publication of the Change of Control Notice;
- (B) the last day of the Change of Control Period;
- (C) the Change of Control Put Date;
- (D) where the Issuer determines to exercise the Share Redemption Option, that the Share Redemption Option is being exercised in respect of any Bonds to be redeemed at the election of holders pursuant to Condition 11(c)(ii) (and in the event that the Issuer does so specify, the Change of Control Notice shall for the purposes of Condition 11(g) be deemed to constitute a Share Redemption Option Notice); and
- (E) such other information relating to the Change of Control as the Trustee may require.

The Trustee shall not be required to take any steps to ascertain whether any such Change of Control or any event which could lead to such Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

Following the occurrence of a Change of Control, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Change of Control Put Date at its principal amount, together with accrued and unpaid interest up to (but excluding) such date. To exercise such right, the holder of the relevant Bond must deliver such Bond to the specified office of any Paying, Transfer and Exchange Agent, together with a duly completed and signed notice of exercise in the form for the time being current obtainable from the specified office of any Paying, Transfer and Exchange Agent (a "Change of Control Put Exercise Notice"), at any time during the Change of Control Period. The "Change of Control Put Date" shall be the day falling 14 days after the expiry of the Change of Control Period (or if that is not a TARGET Business Day, the

next following TARGET Business Day).

Payment in respect of any such Bond shall be made by transfer to a euro account with a bank in a city in which banks have access to the TARGET System as specified by the relevant Bondholder in the relevant Change of Control Put Exercise Notice.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

(d) Multiple Notices

If more than one notice of redemption is given pursuant to this Condition 11, the first of such notices to be given shall prevail.

(e) Purchase

The Issuer, the Guarantor or any Subsidiary of the Guarantor may at any time purchase Bonds in the open market or otherwise at any price.

(f) Cancellation

Bonds purchased by the Issuer, the Guarantor or any Subsidiary of the Guarantor may be held, re-issued or sold or cancelled. All Bonds redeemed or exchanged will be cancelled and may not be re-issued or resold.

(g) Share Redemption Option

Notwithstanding any provisions of this Condition 11, the Issuer may elect to satisfy its obligation to redeem Bonds pursuant to Condition 11(a) or (c) (but not otherwise) by exercising its option (the "Share Redemption Option") with respect to all, but not some only, of the Bonds to be redeemed on the relevant due date for redemption, provided that:

- (i) the Relevant Securities comprised in the Exchange Property are listed or traded on a recognised national or international stock exchange as at the date the Share Redemption Option Notice (as defined below) is given;
- (ii) the Free Float in respect of each class of Equity Share Capital comprised in the Exchange Property is not less than 25 per cent. on each of the 30 consecutive Trading Days ending not earlier than five Trading Days prior to the date the Share Redemption Option Notice is given; and
- (iii) an Offer shall not be continuing as at the date the Share Redemption Option Notice is given.

The Issuer may not exercise the Share Redemption Option in respect of a redemption of Bonds if any of the conditions set out in (i) to (iii) above (each such event or circumstance being referred to herein as a "Knock Out Event") are not met on the date the relevant Share Redemption Option Notice is given (and, if given, any such exercise of the Share Redemption Option shall be null and void).

To exercise its Share Redemption Option, the Issuer shall give a notice to such effect (the "Share Redemption Option Notice") to the Trustee, the Principal Paying, Transfer and Exchange Agent and to the Bondholders in accordance with Condition 19. The Share Redemption Option Notice shall be given (i) not more than 60 nor less than 45 days prior to

the Final Maturity Date in the case of a redemption of Bonds pursuant to Condition 11(a) or (ii) not less than 45 days prior to the Optional Put Date or the Change of Control Put Date (as the case may be) in the case of a redemption pursuant to Condition 11(c).

Where a Change of Control shall have occurred, the Issuer shall specify in the relevant Change of Control Notice if it is exercising the Share Redemption Option in respect of Bonds required to be redeemed pursuant to Condition 11(c)(ii) (and in such case, the relevant Change of Control Notice shall for the purposes of this Condition 11(g) be deemed to constitute a Share Redemption Option Notice).

A Share Redemption Option Notice shall specify the Relevant Percentage (as defined below), which shall apply in respect of each Bond.

Where the Issuer shall have exercised the Share Redemption Option in respect of the redemption of the Bonds pursuant to Condition 11(a) or (c) the Issuer shall, in lieu of redeeming the relevant Bonds fully in cash, effect redemption in respect of each relevant Bond by:

- (i) delivering to Bondholders on or prior to the Settlement Date the Relevant Percentage of the relevant *pro rata* share of the Exchange Property in respect of the Bonds as at the Valuation Date (the "**Relevant Exchange Property**");
- (ii) making payment in cash to the relevant Bondholder on the relevant due date for redemption of the relevant Bonds of the Cash Settlement Amount (as defined below); and
- (iii) making or procuring payment in cash to the relevant Bondholder on the relevant due date for payment of the relevant Bonds of any accrued and unpaid interest in respect of such Bonds up to the relevant due date for redemption of the Bonds.

"**Cash Settlement Amount**" means, in respect of a Bond, an amount equal to the amount (if any) by which the principal amount of such Bond exceeds (i) in the case of the exercise of the Share Redemption Option pursuant to Condition 11(a) or 11(c)(ii), 99 per cent. or (ii) in the case of the exercise of the Share Redemption Option pursuant to Condition 11(c)(i), 100 per cent. of the arithmetic average of the Value of the Relevant Exchange Property on each of the 10 Trading Days ending on and including the Valuation Date.

"**Relevant Percentage**" means, in respect of any Bond, a percentage between 0 per cent. (exclusive) and 100 per cent. (inclusive) of the *pro rata* share of the Exchange Property in respect of such Bond which is to be delivered pursuant to the Share Redemption Option (as specified in the Share Redemption Option Notice).

"**Valuation Date**" means the date falling three Trading Days prior to the relevant due date for redemption of the Bonds.

If either (a) the Issuer does not deliver a relevant Share Redemption Option Notice in the manner and by the time set out in this Condition 11(g) or (b) the Issuer does so deliver a Share Redemption Option Notice but an event or circumstance constituting a Knock-out Event occurs thereafter but on or prior to the delivery of the Relevant Exchange Property (such circumstances being referred to as a "**Share Redemption Option Annulment**") the relevant Bonds shall be redeemed for cash on the relevant due date for redemption in accordance with the provisions of Condition 11(a) or (c) and payment in respect thereof shall be made in accordance with Condition 12.

If the Issuer elects to exercise the Share Redemption Option, the following provisions shall apply:

- (i) In order to obtain delivery of the Relevant Exchange Property upon redemption, the relevant Bondholder must deliver a duly completed notice, containing a U.S. Certification, substantially in form set out in the Agency Agreement (the "**Bondholder Share Redemption Notice**") a copy of which may be obtained from the specified office of any Paying, Transfer and Exchange Agent, together with the relevant Bonds to the specified office of any Paying, Transfer and Exchange Agent at least 10 business days in the relevant place of delivery of such notice prior to the due date for redemption (the "**Notice Cut-off Date**"). If such delivery is made after the end of normal business hours at the specified office of the relevant Paying, Transfer and Exchange Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following business day in such place.
- (ii) Subject as provided herein, the Relevant Exchange Property will be delivered on or prior to the Settlement Date in accordance with the instructions given in the Bondholder Share Redemption Notice and the Cash Settlement Amount (if any), any remaining principal amount of each Bond not subject to the Share Redemption Option (if any) and any accrued and unpaid interest will be paid in accordance with Condition 12, in each case on the due date for redemption of such Bonds, provided that the Bondholder Share Redemption Notice and the relevant Bonds are delivered not later than the Notice Cut-off Date.
- (iii) If the Bondholder Share Redemption Notice and relevant Bonds are not delivered to a Paying, Transfer and Exchange Agent on or before the Notice Cut-off Date or the Bondholder Share Redemption Notice does not contain a U.S. Certification, then (1) any accrued and unpaid interest will be paid in accordance with Condition 12 on the due date for redemption of such Bonds, (2) on such due date for redemption the Relevant Exchange Property will be delivered to an independent financial institution (the "**Relevant Person**") selected and appointed by the Issuer and (3) on such due date for redemption the Cash Settlement Amount (if any) will be paid in accordance with Condition 12. The Issuer shall procure that all of such Relevant Exchange Property shall be sold by or on behalf of the Relevant Person as soon as practicable based on advice from a reputable independent financial institution, investment or commercial bank or broker selected and appointed by the Issuer and (subject to any necessary consents being obtained and to the deduction by or on behalf of the Relevant Person of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue or registration and transfer taxes and duties (if any) and any fees or costs reasonably incurred by or on behalf of the Relevant Person in connection with the allotment and sale thereof) the net proceeds of such sale shall be paid to the Trustee or as the Trustee may direct and such net proceeds, converted if necessary into euro at such rate as the Relevant Person shall determine to be appropriate on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day which the relevant conversion is effected together with all Cash Settlement Amounts (if any) and any interest in respect of the Bonds paid to the Trustee, shall be held by or on behalf of the Trustee and distributed rateably to the holders of the relevant Bonds in accordance with Condition 12 (or in such other manner and at such time as the Trustee shall determine and notify to the Bondholders in accordance with Condition 19). The amount of such net

proceeds of sale and all Cash Settlement Amounts (if any) and any interest paid as aforesaid in respect of the Bonds payable to a holder pursuant to this sub-paragraph (iii) shall be treated for all purposes as the full amount due from the Issuer in respect of the relevant Bonds.

- (iv) The Trustee shall have no liability whatsoever to the Issuer, any Bondholders or any other person in respect of any sale of any Relevant Exchange Property, whether for the timing of any such sale or sales or the price at which any of the Relevant Exchange Property is sold, or any inability by the Relevant Person to sell any of the Relevant Exchange Property or the rate of exchange at which any amount is converted by the Relevant Person into euro as for the timing of any distributions.
- (v) Without prejudice to any Share Redemption Option Annulment, a Bondholder Share Redemption Notice delivered by or on behalf of a Bondholder shall be irrevocable. Failure properly to complete and deliver a Bondholder Share Redemption Notice and deliver the relevant Bonds may result in such notice being treated as null and void and the Issuer shall be entitled to effect settlement in accordance with sub-paragraph (iii) above. Any determination as to whether such notice has been properly completed and delivered as provided in these Conditions shall be made by the Issuer in its sole and absolute discretion and shall be conclusive and binding on the relevant Bondholders.
- (vi) No fraction of a Relevant Security or any other property comprised in the Relevant Exchange Property which is not divisible shall be delivered upon redemption of the Bonds in accordance with this Condition 11(g) and the Issuer will not make any payment to Bondholders in respect of any such fractions and any such fraction will be rounded down to the nearest whole multiple of a Relevant Security or unit of any such other property.

If more than one Bond is held by the same Bondholder and is the subject of any one Bondholder Share Redemption Notice, the Relevant Exchange Property to be delivered and any sum payable to that Bondholder shall be calculated on the basis of the aggregate principal amount of such Bonds.

- (vii) As soon as practicable, and in any event not later than the Settlement Date, the Issuer shall:
 - (1) in respect of Iberdrola Shares comprising the Relevant Exchange Property, effect delivery of such Iberdrola Shares through Iberclear to the person designated for the purpose in the relevant Bondholder Share Redemption Notice;
 - (2) procure that Relevant Securities (other than Iberdrola Shares) comprising the Relevant Exchange Property to be delivered on exercise of the Share Redemption Option are transferred into such name as the Bondholder shall direct pursuant to the Bondholder Share Redemption Notice and shall procure that forms of transfer and certificates (if certificates for the Relevant Securities are then generally being issued) together with all other documents of title and evidence of ownership and all other documents necessary to transfer or evidence the transfer of such Relevant Securities will be despatched by mail, and free of charge (but uninsured and at the risk of the person entitled thereto) to such address, subject to applicable securities laws, as the Bondholder may request (as specified in the relevant Bondholder Share Redemption Notice); and

- (3) procure that such documents of title and evidence of ownership of any other Relevant Exchange Property to be delivered on exercise of the Share Redemption Option shall be despatched and the payment of any part of the Relevant Exchange Property comprising cash to be delivered on exercise of the Share Redemption Option (converted if necessary into euro at the Screen Rate on the relevant Valuation Date) in accordance with directions given by the relevant Bondholder in the Bondholder Share Redemption Notice.

Notwithstanding the above, in the event that the Issuer delivers a certificate to the Trustee signed by an Authorised Officer of the Issuer to the effect that Iberclear (or, where the Relevant Exchange Property comprises Relevant Securities other than Iberdrola Shares and certificates for such Relevant Securities are not then generally being issued, the clearing system through which the transfer of such Relevant Securities is required to be effected) has been closed for a continuous period of two or more days (excluding Saturdays and Sundays and save by reason of holidays, statutory or otherwise) in the period from (and including) the Valuation Date to (but excluding) the Settlement Date, then the date for such delivery shall be the later of the period above and the earliest practicable date on which the Relevant Exchange Property may be delivered by or through Iberclear or, as the case may be, the relevant clearing system.

The Issuer and the Trustee shall not be responsible or liable to any person for any delay in the delivery of any property comprising Relevant Exchange Property arising as a result of a failure by the relevant Bondholder to supply all information and details as required by the relevant Bondholder Share Redemption Notice.

Notwithstanding the above, if, after the relevant Valuation Date, all or any part of the Relevant Exchange Property has changed in whole or in part as a result of an Offer or as a result of the compulsory acquisition of any Equity Share Capital comprised in or relating to the Relevant Exchange Property, in each case as provided in Condition 9, then the time for such delivery shall be the longer of such period set out above and the day falling 10 Madrid business days after the date on which the consideration is received by the Issuer under the terms of the Offer or, as the case may be, the day falling 10 Madrid business days following the date on which the consideration pursuant to such compulsory acquisition is received by the Issuer.

If, at any time when the transfer or delivery of any Relevant Exchange Property (other than cash) to a Bondholder is required, such transfer or delivery would, as certified to the Trustee by an Authorised Officer of the Issuer, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer will make a cash payment to the relevant Bondholder equal to the aggregate of the Realisation Proceeds of the Relevant Exchange Property. The Issuer will pay any such amount to the relevant Bondholders not later than 10 TARGET Business Days after the relevant Settlement Date.

If:

- (A) the Valuation Date in respect of any Bond shall be on or after the date of any public announcement affecting the composition of any part of the Relevant Exchange Property (other than Iberdrola Shares or other Registered Securities)

in circumstances where the relevant entitlement is determined by reference to a record date in respect thereof, but before the date on which such change is effective; or

- (B) the Valuation Date in respect of any Bond shall be on or after the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Sub-division, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Relevant Exchange Property but before the date on which adjustment of the Exchange Property becomes effective in accordance with Condition 8(b); or
- (C) the Valuation Date in respect of any Bond shall be on or before the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Sub-division, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Relevant Exchange Property in circumstances where the Registration Date in respect of such Registered Securities is after such record date or other due date for the establishment of the relevant entitlement, in circumstances where the relevant Bondholder would not otherwise receive the relevant entitlement and the Issuer has received or is entitled to receive such entitlement,

then the relevant Bondholder shall be entitled to receive, in respect of the exercise of the Share Redemption Option, such Additional Exchange Property as would have been receivable by it pursuant to this Condition 11(g) had the relevant Valuation Date occurred immediately after the date on which such change in the composition of the Exchange Property became effective or, as the case may be, had the relevant Registration Date in respect of such Registered Securities been immediately before such record date, and such Additional Exchange Property shall be delivered to the relevant Bondholder in accordance with instructions contained in the relevant Bondholder Share Redemption Notice as soon as practicable following the relevant adjustment to the Exchange Property or the receipt by the Issuer of the relevant Additional Exchange Property or, if a Bondholder Share Redemption Notice and relevant Bonds shall not have been delivered to a Paying, Transfer and Exchange Agent on or before the Notice Cut-off Date, such Additional Exchange Property shall be dealt with as provided in Condition 11(g)(iii).

- (viii) The provisions of Condition 7(b)(iii) shall apply *mutatis mutandis* to this Condition 11(g) (but disregarding references in Condition 7(b)(iii) to "Cash Election"), provided that references in Condition 7(b)(iii) to the "Exchange Date" will be deemed to be references to the Valuation Date and references to the delivery of Exchange Property upon exercise of Exchange Rights shall be deemed to be to the delivery of the Relevant Exchange Property upon redemption.

12 Payments

(a) *Principal and Interest*

Payment of principal in respect of the Bonds (other than pursuant to Condition 11(c)), payment of accrued interest payable on a redemption of the Bonds (other than pursuant to Condition 11(c)) and payment of any interest due on an Interest Payment Date in respect of the Bonds will be made to the persons shown in the Register at the close of business on the Record Date, and, other than in the case of a payment of any interest due on an Interest Payment Date, subject to surrender (or in the case of partial payment only, endorsement) of the relevant Bond, at the specified office of any Paying, Transfer and Exchange Agent.

Payment of all other amounts will be made as provided in these Conditions.

(b) *Method of Payment*

Each payment referred to in Condition 12(a) will be made in euro by transfer to a euro account maintained with a bank in a city in which banks have access to the TARGET System specified by the relevant Bondholder.

(c) *Record Date*

"Record Date" means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

The Bonds on issue will be represented by a global Bond (the "Global Bond") registered in the name of, and held by a nominee or on behalf of, a common depository for Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg").

All payments in respect of Bonds represented by the Global Bond will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

(d) *Agents*

The names of the initial Paying, Transfer and Exchange Agents and their initial specified offices are set out below. The Issuer reserves the right under the Agency Agreement and the Calculation Agency Agreement at any time with the prior written approval of the Trustee to remove any Paying, Transfer and Exchange Agent or the Calculation Agent, and to appoint other or further Paying, Transfer and Exchange Agents, provided that it will at all times maintain (a) Paying, Transfer and Exchange Agents having specified offices in (i) London, (ii) any place required by the rules of any relevant stock exchange if and for so long as the Bonds are listed or admitted to trading on any stock exchange or admitted to listing by any other relevant authority for which the rules require the appointment of a Paying, Transfer and Exchange Agent in any particular place and (iii) in a European Union member state (if any) that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive and (b) a Calculation Agent, which shall be a financial institution of international repute or a financial adviser with appropriate expertise. Notice of any such removal or appointment and of any change in the specified office of any Paying, Transfer and

Exchange Agent will be given as soon as practicable to Bondholders in accordance with Condition 19.

(e) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(f) *Fractions*

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest such unit.

(g) *Delay in payment*

Bondholders will not be entitled to any further interest or other payment for any delay after the due date in receiving any amount due:

- (i) as a result of the due date not being a business day; or
- (ix) if the relevant Bondholder is late in surrendering the relevant Bond (where such surrender is required pursuant to these Conditions as a precondition to payment).

In this Condition 12(g) "**business day**" means a day (other than a Saturday or Sunday) which is a TARGET Business Day and (where surrender of the relevant Bond is required pursuant to these Conditions as a precondition to payment) and which is a business day in the place of the specified office of the Paying, Transfer and Exchange Agent to whom the relevant Bond is surrendered.

13 Taxation

All payments in respect of the Bonds by or on behalf of the Issuer, the Guarantor or the Pledgor shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by applicable laws or regulations. If any such withholding or deduction is so required, the relevant payment shall be made subject to and after any such withholding or deduction and no additional amounts shall be payable by the Issuer, the Guarantor or the Pledgor in respect of any such withholding or deduction.

14 Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter in principal amount of the outstanding Bonds and/or if so directed by an Extraordinary Resolution, shall (subject in each case to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at the Relevant Amount:

- (a) **Non-performance:** a default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal or a Cash Alternative Amount) or any other amount payable in respect of any Bond) in the payment on the due date of any interest, principal, Cash Alternative Amount or any other amount, as the case may be, in respect of any of the Bonds or there is a failure for more than 7 days in the delivery of any Exchange Property (as and

when such Exchange Property is required to be delivered in accordance with these Conditions) or of the performance by the Issuer, the Guarantor or the Pledgor of any of its other obligations in respect of the exercise of Exchange Rights in relation to any of the Bonds; or

- (b) **Breach of Other Obligations:** the Issuer, the Guarantor or the Pledgor does not perform or comply with any one or more of their other obligations in respect of the Bonds, the Transaction Documents or any agreement creating further Security which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days (or such longer period as the Trustee may agree) after written notice of such default shall have been given to the Issuer, the Guarantor or the Pledgor (as applicable) by the Trustee, save that such 30 day remedy period shall not in any circumstances be applicable to the obligations of the Issuer or the Pledgor under the Pledge Agreement, the Pledge or of the Issuer, the Guarantor or the Pledgor under any further Security; or
- (c) **Cross-Acceleration:** (i) any other present or future indebtedness of the Issuer, the Pledgor, the Guarantor or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Pledgor, the Guarantor or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 14(c) have occurred equals or exceeds €25,000,000 or its equivalent in any other currency or currencies; or
- (d) **Insolvency:** the Issuer, the Pledgor, the Guarantor or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, or is declared or a voluntary request has been submitted to a relevant court for the declaration of insolvency or bankruptcy; or
- (e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, the Pledgor, the Guarantor or any of its Material Subsidiaries, or the Issuer, the Pledgor, the Guarantor or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or another of its Subsidiaries; or
- (f) **Distress:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer, the Pledgor, the Guarantor or any Material Subsidiary and is not discharged or stayed within 30 days; or
- (g) **Enforcement of charges:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Pledgor, the Guarantor or any Material Subsidiary becomes enforceable or any step is taken to enforce it (including by the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or

- (h) **Suspension:** the Issuer, the Pledgor, the Guarantor or any Material Subsidiary stops, suspends or threatens publicly to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Pledgor, the Guarantor or any Material Subsidiary; or
- (i) **Illegality:** it is or becomes unlawful for the Issuer, the Pledgor or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds or the Transaction Documents or for the Pledgor or the Issuer to perform or comply with any one or more of their respective obligations under the Pledge Agreement or the Pledge or of any obligor under any further Security; or
- (j) **Invalidity:** the Guarantee (or any part of it) or any of the Transaction Documents ceases to be valid or legally binding for any reason; or
- (k) **Sale or transfer of the Issuer or the Pledgor:** the Issuer and/or the Pledgor ceases to be a wholly owned direct or indirect Subsidiary of and controlled by the Guarantor; or
- (l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has a similar effect to any of the events referred to in the foregoing paragraphs of this Condition 14.

For the purposes of these Conditions, "**Relevant Amount**" means, in respect of each €100,000 principal amount of Bonds, an amount equal to such principal amount, together with accrued interest thereon, save that if the relevant Event of Default occurs as a result of or in connection with a failure by the Issuer to comply with any of its obligations in relation to the exercise of Exchange Rights, it means an amount equal to the higher of:

- (i) the Value of the *pro rata* share of the Exchange Property and any other amounts which would have been payable and/or deliverable on exchange in respect of such principal amount of Bonds had the date of such declaration been the Exchange Date; and
- (ii) such principal amount, together with accrued but unpaid interest.

References in these Conditions and the Trust Deed to the principal amount of the Bonds shall, other than in Condition 6 and unless the context otherwise requires, include the Relevant Amount.

15 Prescription

Claims in respect of the principal amount or interest on Bonds will become void unless made within 10 years (in the case of the principal amount) and five years (in the case of interest from the appropriate Relevant Date in respect thereof).

Claims in respect of any other amounts payable in respect of the Bonds will become void unless made within 10 years following the due date for payment thereof.

16 Meetings of Bondholders, Modification and Waiver, Entitlement of Trustee, Change and Indemnification of Trustee

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provisions of these Conditions or any relevant provisions of the Trust

Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Issuer if requested in writing by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the nominal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change the Final Maturity Date, or the First Call Date (other than deferring the First Call Date) or any date for payment of interest on the Bonds, (ii) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Condition 11(b) or (c), (iii) to reduce or cancel the principal amount of, or any interest on, the Bonds or to reduce the amount payable on redemption or repayment of, the Bonds, (iv) to reduce the rate of interest in respect of the Bonds or to vary the method or basis of calculating the rate of interest or the basis for calculating any other amount payable in respect of the Bonds, (v) to modify or cancel the Exchange Rights (other than an increase in the Exchange Property deliverable on exercise of Exchange Rights), (vi) to vary the currency of the denomination or any payment in respect of the Bonds, (vii) to amend the Guarantee, the Pledge Agreement, the Pledge or any further Security unless such amendment is expressly contemplated by the Transaction Documents or is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, (viii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (ix) to change the governing law of the Bonds, in which case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of holders of not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding (a "Written Resolution") shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a Written Resolution will be binding on all Bondholders whether or not they participated in such Written Resolution. A Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Pledge Agreement, the Pledge, any further Security, the Bonds or these Conditions which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification (except as mentioned in the Trust Deed) to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Pledge Agreement, the Pledge, any further Security, the Bonds or these Conditions, and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the

Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Pledge Agreement, the Pledge, any further Security, the Bonds or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders, and, if the Trustee so requires, such modification shall be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

(c) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

17 Enforcement

The Trustee may at any time, at its discretion and without notice, take such steps, actions or proceedings against the Issuer, the Pledgor (in relation to its obligations under the Trust Deed and/or as pledgor under the Pledge Agreement) or the Guarantor (as guarantor under the Trust Deed) as it may think fit to enforce the provisions of the Trust Deed, the Bonds, the Pledge Agreement, the Pledge and/or any further Security, but it shall not be bound to take any such steps, actions or proceedings or any other action in relation to the Trust Deed, the Bonds, the Pledge Agreement, the Pledge or any further Security unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

18 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants, financial advisers or investment bank, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be obliged to accept and be entitled to rely on any such report, confirmation or certificate or advice where the Issuer or the Guarantor or the Pledgor procures delivery of the same pursuant to its obligation to do so under any provision of these Conditions or

the Trust Deed and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Pledgor, the Trustee and the Bondholders in the absence of manifest error.

The Trustee has no responsibility for delivery of Exchange Property to Bondholders nor for the validity or value of the Exchange Property nor for any insufficiency of the Exchange Property resulting from the Trustee, the Issuer, the Pledgor or the Guarantor being liable for tax in respect of the Exchange Property.

The Trustee shall not be responsible for any loss, diminution in value or theft of all or part of the Exchange Property.

The Trustee shall not be responsible for monitoring or supervising the performance by the Custodian, the Calculation Agent or any other agent of the Issuer and/or the Pledgor and/or the Guarantor of their respective functions, duties and obligations under the Transaction Documents or otherwise. The Trustee shall not be liable to any person for any loss occasioned by any act or omission of the Custodian, the Calculation Agent or any other such agent of the Issuer and/or the Pledgor and/or the Guarantor.

19 Notices

All notices regarding the Bonds will be valid if published in one leading daily newspaper in the United Kingdom (which is expected to be the *Financial Times*) or, if this is not possible, in one other leading English language newspaper with general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner.

However, so long as the Bonds are represented by a global Bond registered in the name of, and held by a nominee or on behalf of, a common depository for Euroclear Bank SA/NV ("Euroclear") or Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") notices to Bondholders shall instead be given by the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg as the case may be.

20 Replacement of Bonds

If any Bond is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Principal Paying, Transfer and Exchange Agent, subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

21 Contracts (Rights of Third Parties) Act 1999

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

22 Governing Law and Jurisdiction

(a) *Governing law*

The Trust Deed, the Agency Agreement, the Calculation Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The Pledge Agreement, the Pledge and any non-contractual obligations arising out of or in connection with them are governed by Spanish law.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds ("**Proceedings**") may be brought in such courts. The Issuer, the Pledgor and the Guarantor have each in the Trust Deed irrevocably submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Agent for Service of Process*

The Issuer, the Pledgor and the Guarantor have irrevocably appointed Law Debenture Corporate Services Limited at its registered office for the time being, currently at Fifth Floor, 100 Wood Street, London EC2V 7EX as their agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.