

Federal Ministry of Finance

Non-binding English Translation of the
Issuance terms and conditions for
inflation-linked Federal bonds and inflation-linked Federal notes

The Federal Republic of Germany (hereinafter referred to as the “German Government”) issues inflation-linked Federal bonds and inflation-linked Federal notes subject to the following terms:

§ 1
General Provisions

(1) Placing.

The inflation-linked Federal bonds and inflation-linked Federal notes will be issued by auction through the Bund Issues Auction Group (*Bietergruppe Bundesemissionen*). Such auctions are governed by the “Auction rules for the issue of Federal Bonds, five-year Federal notes, Federal Treasury notes and Treasury discount paper”. The terms and conditions of the individual issues and any deviations from the said terms and conditions are as stated in the relevant invitation to bid announced by the Deutsche Bundesbank by press release.

(2) Aggregate Principal Amount and Denomination.

The aggregate principal amount of an issue is fixed in each case by the German Government at the end of the auction process and is divided into securities in the denomination of Euro 0.01 each (the “Securities”). The German Government reserves the right to increase the aggregate principal amount further during the time to maturity of the Securities by reopening the issue.

(3) Form and Custody.

The Securities will be constituted by entry of a collective debt register claim into the Federal Debt Register (*Bundesschuldbuch*) in the name of Clearstream Banking AG, Frankfurt am Main (“CBF”), acting as fiduciary for the Bondholders of the Securities (together the “Bondholders” and each of them the “Bondholder”). Such collective debt register claim will be administered by CBF for financial institutions that are accountholders with CBF (“CBF-acountholders”). Throughout the whole life of the Securities, Bondholders may have the amounts purchased registered as an individual debt register claim in the Federal Debt Register kept by the Federal Republic of Germany – Finance Agency (*Bundesrepublik Deutschland – Finanzagentur GmbH*), Frankfurt am Main. No certificates will be issued throughout the time up to maturity.

(4) Business Day.

For the purpose of these terms and conditions, “Business Day” means any day (other than a Saturday or a Sunday) on which the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) and CBF are operational.

§ 2
Interest

(1) Interest.

For Securities interest is paid annually on the aggregate principal amount from (and including) the date announced in the relevant invitation to bid (“Interest Commencement Date”). Payment of interest ends at the end of the day prior to the date of maturity.

(2) Due Date.

Interest shall be payable annually in arrears on the relevant interest date. The interest date and the date of the first or next interest payment shall be as announced in the relevant invitation to bid (each an “Interest Payment Date”).

(3) Interest Amount.

On the fifth Business Day prior to the relevant Interest Payment Date (the “Calculation Date”) the Calculation Agent (as defined below) will calculate the applicable index-linked rate of interest (the “Index-linked Interest Rate”) and the applicable amount of interest payable on the Securities (the “Interest Amount”). The Index-linked Interest Rate is calculated by multiplication of the rate of interest as announced in the relevant invitation to bid with the indexation coefficient to be calculated in relation to the relevant Interest Payment Date. The Interest Amount will be determined by multiplication of the nominal amount of interest with the indexation coefficient to be determined for the relevant Interest Payment Date. The nominal amount of interest is calculated by multiplication of the aggregate principal amount of the Securities with the rate of interest as announced in the relevant invitation to bid.

“Indexation Coefficient_{Interest Payment Date}” means, in relation to each Interest Payment Date:

$$\frac{\text{Value of the Reference Index on the Interest Payment Date}_t}{\text{Base Index}}$$

The “Value of the Reference Index on the Interest Payment Date_t” shall be calculated, in relation to each Interest Payment Date, by linear interpolation in accordance with the following formula:

$$\text{HICP}_{M-3} + \frac{d_t^M - 1}{D^M} (\text{HICP}_{M-2} - \text{HICP}_{M-3})$$

where:

HICP:

means the non-revised Harmonised Index of Consumer Prices (HICP) in the Euro Zone – all items excluding tobacco – calculated monthly by the Statistical Office of the European Communities (“EUROSTAT”) and published on the internet page <http://epp.eurostat.ec.europa.eu> or its successor page (the “Reference Index”).

HICP_{M-3}:

means, in relation to each Interest Payment Date, the value of the Reference Index of the third month preceding the month in which the Interest Payment Date falls.

HICP_{M-2}:

means, in relation to each Interest Payment Date, the value of the Reference Index of the second month preceding the month in which the Interest Payment Date falls.

d_t^M :

the actual number of days of the month in which the Interest Payment Date falls from the first day of the month to the Interest Payment Date (inclusive in each case).

D^M :

the actual number of days of the month in which the Interest Payment Date falls.

The “Base Index” is as announced in the relevant invitation to bid.

The Value of the Reference Index on the Interest Payment Date_t and the Indexation Coefficient will be, if so required, truncated to the sixth decimal place and then rounded to the nearest fifth decimal place.

If on any Calculation Date the value of the Reference Index was published on a provisional basis only, the Interest Amount and the Index-linked Interest Rate shall be calculated on the basis of such provisional value of the Reference Index, and no adjustment of such Interest Amount and the Index-linked Interest Rate shall be made upon publication of the definitive value of the Reference Index.

Any revision of, or amendment to, the Reference Index after its initial publication shall not prejudice the determination of the respective Interest Amount payable, except in the case of a revision of the Index Reference Period, meaning the period for which the Reference Index is set at 100 (“Base Year Revision”). In such case, the Interest Amount shall be determined on the basis of the index as so revised, and the Calculation Agent shall make all adjustments which in its opinion are suitable to ensure that the Indexation Coefficient after such Base Year Revision corresponds to that prevailing before the Base Year Revision. Any Base Year Revision shall have no effect on any Interest Amounts which have previously been payable.

If at any time the Reference Index is corrected after its publication due to an obvious error, the Calculation Agent shall apply the Reference Index as so corrected in the determination of the Interest Amount. Any such correction shall have no effect on any Interest Amounts which have previously been payable.

(4) Substitute Reference Index.

If neither a provisional nor a definitive value of the Reference Index can be determined on any Calculation Date and if no substitute index pursuant to subsection (5) has been determined, the Calculation Agent will calculate a “Substitute Reference Index” (eHICP_p) in accordance with the following formula:

$$\text{HICP}_{P-1} * \left(\frac{\text{HICP}_{P-1}}{\text{HICP}_{P-13}} \right)^{\frac{1}{12}}$$

where:

P:

means the month for which the value of the Reference Index cannot be determined.

HICP_{P-1}:

means the value of the Reference Index of the last preceding month during which the Reference Index was published by EUROSTAT.

HICP_{P-13}:

means the value of the Reference Index of the thirteenth preceding month during which the Reference Index was published by EUROSTAT.

Upon publication of a provisional or definitive value of the Reference Index, such value shall apply as from the date following such publication, and the Substitute Reference Index shall from then on cease to apply.

Following the determination of a Substitute Reference Index all references to the Reference Index shall be taken as references to the Substitute Reference Index.

(5) Substitute Index.

“Substitute Index” means an index which is calculated in accordance with the following provisions:

(a) Successor Index. If on any Calculation Date the Reference Index (i) is no longer calculated and published by EUROSTAT but by a successor body acceptable to the Calculation Agent or (ii) has been replaced by EUROSTAT or a successor body with a successor index, the calculation of which is based, in the opinion of the Calculation Agent, on the same or substantially the same formula and method of calculation, the index so calculated and published shall be deemed to be the Reference Index.

(b) Replacement. If on any Calculation Date the Reference Index is no longer published and subsection (5) (a) is not applicable, the Calculation Agent shall determine an alternative consumer price index which, in the opinion of the Calculation Agent, comes economically closest to the Reference Index, and the index so determined shall then be deemed to be the Reference Index.

(6) Notices.

The Calculation Agent shall give notice by publication in accordance with § 6 subsection (2) of the respective Interest Amount payable on any Interest Payment Date and the Index-linked Interest Rate underlying such Interest Amount as soon as practicable upon the calculation of the Interest Amount, but in no event later than on the Business Day preceding the relevant Interest Payment Date. If the Calculation Agent bases the determination of the Interest Amount and the Index-linked Interest Rate on the Substitute Reference Index pursuant to subsection (4) or on a Substitute Index pursuant to subsection (5) (a) or (b), it shall specify such fact together with the notice pursuant to sentence 1.

(7) Determinations Binding.

All determinations of Interest Amounts and all other determinations, opinions and decisions of the Calculation Agent for the purposes of this § 2 shall be binding on the German Government and on the Bondholders.

(8) Accrued Interest.

If it is necessary to compute interest for a period of other than a full year (“Calculation Period”), it shall be calculated on the basis of the days actually completed in the Calculation Period divided by the actual number of days in the Interest Period (as defined below) (365 or 366) (Actual/Actual). “Interest Period” means a period from the Interest Commencement Date or the last preceding Interest Payment Date (inclusive) to the next following Interest Payment Date (exclusive).

§ 3

Maturity; Redemption Amount; Repurchase

(1) Maturity.

The Securities shall be redeemed at their redemption amount (the “Redemption Amount”) on the date announced in the relevant invitation to bid (the “Due Date”). Neither the German Government nor any Bondholder shall be entitled to redeem the Securities prior to their maturity.

(2) Redemption Amount.

The Redemption Amount shall be calculated by the Calculation Agent pursuant to the following formula:

$$\text{Aggregate Principal Amount} \times \text{Indexation Coefficient}_{\text{Due Date}}$$

where $\text{Indexation Coefficient}_{\text{Due Date}}$ has the same meaning as $\text{Indexation Coefficient}_{\text{Interest Payment Date}}$ in § 2 subsection (3). § 2 subsections (4) through (7) shall apply *mutatis mutandis*.

Should the Redemption Amount so calculated be less than the aggregate principal amount, the Redemption Amount shall equal the aggregate principal amount.

(3) Repurchase.

The German Government may at any time purchase, hold and resell Securities in the open market or otherwise. Securities held by the German Government for its own account or for account of one of its special funds (*Sondervermögen*) may be cancelled in whole or in part in the Federal Debt Register.

§ 4

Payments

(1) Payments.

Payments of principal of, and interest on, the Securities in the form of a collective debt register claim shall be made in Euro on the relevant payment date (subsection (3)) to, or to the

order of, CBF for credit by CBF of the respective amounts due to CBF-accountholders at the close of business on the relevant record date (subsection (2)). Payments of principal of, and interest on, the Securities made by the German Government to, or to the order of, CBF shall discharge the liability of the German Government under the Securities to the extent of the sums so paid.

(2) Record Date.

The “Record Date” for the purpose of payments of principal and interest shall be, in respect of each such payment, the date determined in accordance with the respectively valid conventions observed by CBF for the entitlement of CBF-accountholders to payments in respect of debt securities denominated in Euro and entered as a collective debt register claim into the Federal Debt Register in the name of CBF.

(3) Payment Date and Due Date.

For the purpose of these terms and conditions, “Payment Date” means the date on which payment is actually to be made, where applicable as adjusted in accordance with subsection (4), and “Due Date” means the payment date provided for, without taking account of any such adjustment.

(4) Business Day Convention.

If any due date for the payment of principal or interest to, or to the order of, CBF is not a Business Day, such payment will not be made until the next day which is a Business Day, and no further interest shall be paid in respect of the delay in such payment.

§ 5

The Calculation Agent

The Federal Republic of Germany – Finance Agency shall be the “Calculation Agent”. The German Government may at any time appoint another entity as Calculation Agent. Notice of any such change of Calculation Agent shall be given by publication in accordance with § 6 subsection (1). Any Calculation Agent in such capacity acts exclusively as agent of the German Government and does not have any legal relationship of whatever nature with the Bondholders. It is not in any event accountable to any Bondholder.

§ 6

Notices / Announcements

(1) Notices.

These terms and conditions and any amendments thereof shall be published in the Federal Gazette (*Bundesanzeiger*).

(2) Other Announcements.

Other announcements concerning the Securities shall be published in the electronic Federal Gazette (*elektronischer Bundesanzeiger*) and in a leading daily newspaper of general circulation in the Federal Republic of Germany authorized for the publication of mandatory stock exchange announcements. Any notice and announcement will become effective for all

purposes on the day following the date of its publication, or, if published more than once or on different dates, on the day following the first date of any such publication.

§ 7

Miscellaneous Provisions

(1) Listing.

The Securities will be listed in the regulated market (*regulierter Markt*) at the Frankfurt Stock Exchange.

(2) Eligibility for Trusts.

The Securities are eligible for trusts pursuant to section 1807 (1) number 2 of the German Civil Code (*BGB*).

(3) Eligibility for Investment in Premium Stock Reserve.

The Securities are eligible for the investment of restricted assets pursuant to section 54 (2) number 2 of the Act on the Supervision of Private Insurance Enterprises (*VAG*).

(4) Eligible Assets.

The Securities are eligible as collateral for the open market and credit operations of the ESCB in accordance with Article 18.1 of the Protocol on the Statute of the ESCB and of the ECB.

(5) Governing Law.

The Securities, both as to form and content, as well as the rights and duties of the Bondholders and the German Government shall be governed by and shall be construed in accordance with German Law.

(6) Jurisdiction.

Any action or other legal proceedings arising out of or in connection with the Securities may exclusively be brought in the District Court (*Landgericht*) in Frankfurt am Main.

(7) Scope of Application.

These terms and conditions shall apply to all inflation-linked Federal bonds and inflation-linked Federal notes of the German Government for which it is stipulated in the relevant invitation to bid that they shall be applicable.