

Unión Fenosa Financial Services USA, L.L.C.

**Interim Financial Statements
June 30, 2010 and 2009**

Unión Fenosa Financial Services USA, L.L.C
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June 30, 2010 and 2009

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Unión Fenosa Financial Services USA, L.L.C
Balance Sheets
June 30, 2010 and 2009

(In euros)

Assets	30-jun-10	31-dic-09
Assets:		
Cash and cash equivalents	€ 308,978	181,035
Loan receivable from affiliate	609,244,650	609,244,650
Deferred loan fees	(14,198,308)	(16,685,541)
Loan receivable from affiliate, net	<u>595,046,342</u>	<u>592,559,109</u>
Accrued interest receivable from affiliate	3,030,789	3,030,789
Prepaid fees	124,391	124,387
Other assets	—	610
Total assets	€ <u>598,510,500</u>	<u>595,895,930</u>
Liabilities and Securityholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	€ 15,544	17,800
Common securities dividends payable	—	—
current account with group companies	—	—
Total liabilities	<u>15,544</u>	<u>17,800</u>
Securityholders' equity:		
Preferred capital securities; noncumulative, 24,369,786 securities issued and outstanding; authorized liquidation preference of €25per share, with an aggregate liquidation preference of up to € 750million	609,244,650	609,244,650
Issuance costs – preferred capital securities	<u>(49,259,455)</u>	<u>(49,259,455)</u>
Preferred capital securities, net of issuance costs	559,985,195	559,985,195
Common capital securities; 10 securities issued and outstanding	79	79
Retained earnings	<u>38,509,682</u>	<u>35,892,856</u>
Total securityholders' equity	<u>598,494,956</u>	<u>595,878,130</u>
Total liabilities and securityholders' equity	€ <u>598,510,500</u>	<u>595,895,930</u>

The accompanying notes are an integral part of these financial statements.

Unión Fenosa Financial Services USA, L.L.C
Statements of Operations
June 30, 2010 and 2009

(In euros)

	<u>30-jun-10</u>	<u>30-jun-09</u>
Revenue:		
Interest income	€ <u>15,793,136</u>	<u>16,174,564</u>
	<u>15,793,136</u>	<u>16,174,564</u>
Expenses:		
Commissions and fees	456,930	456,933
Other	46,822	68,239
Exchange differences	<u>270</u>	<u> </u>
	<u>504,022</u>	<u>525,172</u>
Net income	€ <u>15,289,114</u>	<u>15,649,392</u>

The accompanying notes are an integral part of these financial statements.

Unión Fenosa Financial Services USA, L.L.C
Statements of Changes in Securityholders' Equity
June 30, 2010 and 2009

(In euros)

	<u>Preferred capital securities</u>	<u>Common capital securities</u>	<u>Retained earnings</u>	<u>Total securityholders' equity</u>
Balance, December 31, 2008	€ 559,985,195	79	30,848,394	590,833,668
Dividends declared	—	—	(25,831,974)	(25,831,974)
Net income	—	—	30,876,436	30,876,436
Balance, December 31, 2009	€ 559,985,195	79	35,892,856	595,878,130
Dividends declared	—	—	(12,672,288)	(12,672,288)
Net income	—	—	15,289,114	15,289,114
Balance, June 30, 2010	€ <u>559,985,195</u>	<u>79</u>	<u>38,509,682</u>	<u>598,494,956</u>

The accompanying notes are an integral part of these financial statements.

Unión Fenosa Financial Services USA, L.L.C
Statements of Cash Flows
June 30, 2010 and 2009

(In euros)

	<u>30-jun-10</u>	<u>31-dic-08</u>
Cash flows from operating activities:		
Net income	€ 15,289,114	15,649,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan fees	(2,487,233)	(2,610,027)
Changes in operating assets and liabilities:		
Accrued interest receivable from affiliate	—	291,160
Prepaid fees	(4)	(2,370)
Other assets	610	—
Common securities dividends payable	—	
Current account with group companies	—	
Accounts payable and accrued expenses	(2,256)	86
Net cash provided by operating activities	<u>12,800,231</u>	<u>13,328,241</u>
Cash flows from financing activities:		
Dividends paid	<u>(12,672,288)</u>	<u>(30,338,535)</u>
Net cash used in financing activities	<u>(12,672,288)</u>	<u>(30,338,535)</u>
Net decrease in cash and cash equivalents	127,943	(17,010,294)
Cash and cash equivalents, beginning of period	<u>181,035</u>	<u>141,100</u>
Cash and cash equivalents, end of period	<u>€ 308,978</u>	<u>(16,869,194)</u>

The accompanying notes are an integral part of these financial statements.

Unión Fenosa Financial Services USA, L.L.C

Notes to Financial Statements

June 30, 2010 and 2009

1. Description of Business

Unión Fenosa Financial Services USA, L.L.C (the "Company") was formed under the laws of the State of Delaware on February 3, 2003. The Company was established as a special-purpose entity for the purpose of issuing Preferred Capital Securities. The proceeds from the sale of these securities were used to enter into loan agreements with Unión Fenosa Finance B.V., an affiliated entity.

Following the merger of Gas Natural SDG, S.A. ("Gas Natural") and Union Fenosa, S.A. (formerly, the Common Capital Securityholder) in June 2009, the Amended and Restated Limited Liability Company Agreement of the Company dated March 7, 2003 (the "LLC Agreement") was amended effective October 20, 2009 in order to reflect the consummation of the merger and the assumption by Gas Natural of the rights and obligations of Union Fenosa, S.A. under the LLC agreement (the "Amendment No. 1 to the LLC agreement"). Accordingly, Gas Natural now owns all Common Capital Securities issued and outstanding.

2. Summary of Significant Accounting Policies and Practices

a. Basis of Presentation

The Company's financial statements are presented in accordance with U.S. generally accepted accounting principles. The Company's functional currency and reporting currency is the Euro.

b. Loan Receivable and Recognition of Interest Income

Loan receivable is stated at the amount of unpaid principal, reduced by deferred loan fees, net of costs. Loan fees, net of costs, are recognized in income using the interest method over the contractual life of the loan, adjusted for actual prepayments. Amortization of deferred fees is discontinued when loans are placed on nonaccrual status.

Interest income is recorded on the accrual basis. Accrual of interest is discontinued on a loan when principal or interest is delinquent for more than 90 days, or when management believes that the borrower's financial condition is such that collection of interest is unlikely. Collection of interest while the loan is on nonaccrual status is generally recognized on a cash basis, unless collection of principal is doubtful; in which case, cash collections are applied to unpaid principal.

The allowance for loan losses is established through provisions charged to expense. Loans are charged off against the allowance for loan losses when management believes that the collectability of the principal is unlikely. There is no allowance for loan losses at June 30, 2010 and 2009.

c. Income Taxes

No provision has been made for income taxes in the accompanying financial statements, since the Company is not directly subject to income taxes in the United States of America and the results of operations are includable in the tax return of the securityholders.

The Company may establish reserve when it believes that certain tax positions are likely to be challenged and may not fully prevail in these challenges. As of June 30, 2010, no reserve has been recorded for uncertain tax positions.

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d. **Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

e. **Cash Equivalents**

The Company considers all amounts held in highly liquid instruments with an original purchased maturity of three months or less to be cash equivalents.

f. **Recently Adopted Accounting Pronouncements**

In May 2009, the Financial Accounting Standards Board ("FASB") issued accounting guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. The guidance requires the disclosure of the date through which the Company has evaluated subsequent events and the basis for that date. Accordingly, the Company's financial statements were issued on September 2, 2010, which is also the date through which subsequent events were evaluated.

In July 2006, the FASB issued Interpretation on accounting for uncertainty in income taxes, which establishes a new model to recognize, measure, present and disclose uncertain tax positions. This applies to all entities, including pass-through entities, so that even normally tax-exempt entities need to consider the effect of this accounting guidance on its financial statements. This requires the Company to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. This interpretation applies to nonpublic companies for fiscal years beginning after December 15, 2008. The adoption did not have a material effect on the Company's results of operations or financial position.

In September 2006, the FASB issued guidance on fair value measurements which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The guidance applies when fair value is required to or permitted to measure assets and liabilities, however, it does not expand the use of fair value measurement. In February 2008, the FASB delayed the effective date of applying fair value accounting for certain non-financial assets and liabilities that are fair valued on a non-recurring basis to fiscal years, beginning after November 15, 2008. The Company adopted the guidance as required on January 1, 2008 for all financial assets and liabilities, and the adoption did not have a material impact on the Company's results of operations or financial position. Effective January 1, 2009, the Company adopted the guidance on all non-financial assets and liabilities, and the adoption did not have a material impact on the Company's results of operations or financial position.

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In February 2007, the FASB issued a guidance that permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. The Company adopted the guidance as required on January 1, 2008, and did not elect the fair value option for any of its existing financial assets and liabilities. The adoption of this statement did not have a material impact on the Company's results of operations or financial position.

3. Loan Receivable, Net

On May 20, 2003, the Company entered into a promissory note agreement by which the Company advanced €609,244,650 to Unión Fenosa Finance B.V., an affiliated entity. The loan bears interest at a rate equal to the three-month Euribor rate plus 0.25% plus a margin of 0.184% per annum, provided, however, that the three-month Euribor rate plus 0.25% shall in no event be less than 4.184% or more than 6.823%. The loan requires quarterly interest payments on February 20, May 20, August 20, and November 20 and matures on May 20, 2013. At June 30, 2010 and 2009, the loan bears interest at 4.184% for both periods. The promissory note agreement requires the principal to be paid at maturity.

In connection with the issuance of the loan in 2003, the Company collected a loan fee amounting to €49,544,650. The loan fee has been deferred and is being amortized as an adjustment to interest income on a method that approximates the level-yield basis over the estimated life of the loan.

On October 20, 2009, Gas Natural SDG, S.A, the Common Capital securityholder, assumed all rights and obligations under the promissory note agreement.

4. Common Capital Securities

The Company has issued 10 Common Capital Securities. The profits and losses of the Company for any fiscal year (or portion thereof) are allocated as follows:

- a. All gains and losses resulting from any disposition of assets (in the event such occurs) by the Company shall be allocated 100% to the Common Capital securityholders.
- b. Net profit of the Company is allocated (i) pro rata to the Preferred Capital securityholders until the amount so allocated to each Preferred Capital securityholder equals the amount of the dividends declared for such fiscal year (or portion thereof) with respect to the Preferred Capital Securities held by such securityholder and (ii) thereafter to the Common Capital securityholders.
- c. Net loss of the Company (determined without regard to the amount of any gains and losses described in subparagraph (a) above) is allocated 100% to the Common Capital securityholder.

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5. Preferred Capital Securities

The Company is authorized to issue and sell Preferred Capital Securities having an aggregate initial liquidation preference of €500 million, which may be increased up to €750 million. This amount may be amended or restated by resolution of the board of directors. The initial liquidation preference per Preferred Capital Security is €25. Holders of Preferred Capital Securities are entitled to receive, when, as and if declared by the board of directors out of the Company's net profits, cash dividends that will be paid at the three-month Euribor rate plus an effective annual rate of 0.25%. The dividend rate shall in no event be less than an effective annual rate of 4.25% (based on the Spanish term "Tasa Annual Equivalente" under the rules of the Spanish market) or more than an effective annual rate of 7.00% during the 10 years following the initial issuance (May 20, 2003). Dividends on the Preferred Capital Securities are noncumulative. Gas Natural, pursuant to the amended LLC agreement, is the guarantor of these securities for payments of any amounts due by the Company.

Preferred Capital Securities have no voting rights. However, in the event that the Company fails to pay dividends in full on the Preferred Capital Securities (and the guarantor fails to make a corresponding payment under the guarantee) for five consecutive dividend periods, then the holders of the Preferred Capital Securities have the right to alter the composition of the board of directors as prescribed in the LLC agreement and Amendment No. 1 to the LLC agreement.

The Preferred Capital Securities are not redeemable prior to May 20, 2013. On or after such date, the Company may redeem at its option the Preferred Capital Securities at any time, in whole or from time in part, at a redemption price equal to 100% of the liquidation preference plus an amount equal to the then-current dividend accrued and unpaid to the date fixed for redemption.

Preferred Capital Securities may not be sold or otherwise transferred to a person in the United States of America, except pursuant to sales or other transfers that satisfy the requirements of Regulations S under the Securities Act of 1933 (the Securities Act) or that are otherwise exempt from the registration requirements of the Securities Act.

In the event of any voluntary or involuntary liquidation of the Company, the holders of the Preferred Capital Securities will be entitled to receive, out of the assets of the Company available for distribution to security holders, an amount equal to the liquidation preference per Preferred Capital Security plus accrued and unpaid dividends thereon for the then-current dividend period, if any, to the date of liquidation. This distribution will occur before any distribution of assets is made to holders of Common Capital Securities or any other class of securities ranking junior to the Preferred Capital Securities.

In connection with the issuance of the Preferred Capital Securities, the Company has agreed to pay the underwriter a quarterly liquidity fee equal to 0.15% of the initial issuance of €609,244,650. The fee is payable on February 20, May 20, August 20, and November 20.

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6. Related-Party Transactions

Pursuant to the Agreement, Gas Natural SDG, S.A. is responsible for, and will pay, substantially all expenses of the Company to the extent such expenses are not paid by the Company. The expenses covered by the Agreement include administrative organizational costs, as well as any costs resulting from any litigation against the Company. No expenses were paid on behalf of the Company up to June 2010 and 2009.

As discussed in note 3, the Company's loan to Unión Fenosa Finance B.V. is with a related party.

7. Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at June 30, 2010 and 2009. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	June 2010		December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	€ 308,978	308,978	€ 181,035	181,035
Cash an cash equivalents				
Loan receivable from affiliate, net	595,046,342	595,046,342	592,559,109	592,559,109
Accrued interest receivable from affiliate	3,030,789	3,030,789	3,030,789	3,030,789
Financial liabilities				
Accounts payable and accrued expenses	15,544	15,544	17,800	17,800

The carrying amounts shown in the table are included in the balance sheets under the indicated captions.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, interest receivable from affiliate, and accounts payable and accrued expenses. The carrying amounts approximate fair value because of the short maturity of these instruments.

Loan receivable from affiliate, net: The carrying amount for variable rate loans, approximate fair value due to the repricing frequency of the loan's interest rate to a rate that approximates market interest rates.