

UNIÓN FENOSA FINANCIAL SERVICES USA, L.L.C.

Interim Financial Statements

June 30, 2008 and 2007

UNIÓN FENOSA FINANCIAL SERVICES USA, L.L.C.

Balance Sheets

(In euros)

Assets	30-Jun-08	31-Dec-07
Assets:		
Cash and cash equivalents	€ 79,759	141,100
Loan receivable from affiliate	609,244,650	609,244,650
Deferred loan fees	(24,194,309)	(26,671,541)
Loan receivable from affiliate, net	585,050,341	582,573,109
Accrued interest receivable from affiliate	3,583,035	3,396,877
Prepaid fees	122,017	122,017
Other assets	64,610	64,610
Total assets	€ 588,899,762	586,297,713
Liabilities and Securityholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	€ 8,289	26,648
Common securities dividends payable	—	120,000
Total liabilities	8,289	146,648
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	(49,259,455)	(49,259,455)
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	28,906,199	26,165,791
Total securityholders' equity	588,891,473	586,151,065
Total liabilities and securityholders' equity	€ 588,899,762	586,297,713

See accompanying notes to financial statements.

UNIÓN FENOSA FINANCIAL SERVICES USA, L.L.C.

Statements of Operations

(In euros)

	<u>30-Jun-08</u>	<u>30-Jun-07</u>
Revenue:		
Interest income	€ 17,604,515	15,877,230
	<u>17,604,515</u>	<u>15,877,230</u>
Expenses:		
Commissions and fees	456,934	456,934
Other	29,000	33,865
	<u>485,934</u>	<u>490,799</u>
Net income	€ <u>17,118,581</u>	<u>15,386,431</u>

See accompanying notes to financial statements.

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Statements of Changes in Securityholders' Equity

Periods ended June 30, 2008 and December 31, 2007 and 2006

(In euros)

	<u>Preferred capital securities</u>	<u>Common capital securities</u>	<u>Retained earnings</u>	<u>Total securityholders' equity</u>
Balance, December 31, 2006	€ 559,985,195	79	20,985,767	580,971,041
Dividends declared	—	—	(26,883,067)	(26,883,067)
Net income	—	—	32,063,091	32,063,091
Balance, December 31, 2007	559,985,195	79	26,165,791	586,151,065
Dividends declared	—	—	(14,378,173)	(14,378,173)
Net income	—	—	17,118,581	17,118,581
Balance, June 30, 2008	€ <u>559,985,195</u>	<u>79</u>	<u>28,906,199</u>	<u>588,891,473</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

(In euros)

	<u>30-Jun-08</u>	<u>30-Jun-07</u>
Cash flows from operating activities:		
Net income	€ 17,118,581	15,386,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred loan fees	(2,477,232)	(2,477,232)
Changes in operating assets and liabilities:		
Accrued interest receivable from affiliate	(186,157)	(95,294)
Prepaid fees	—	—
Other assets	—	2,578
Accounts payable and accrued expenses	(18,359)	(15,190)
Net cash provided by operating activities	<u>14,436,833</u>	<u>12,801,293</u>
Cash flows from financing activities:		
Dividends paid	<u>(14,498,174)</u>	<u>(12,872,289)</u>
Net cash used in financing activities	<u>(14,498,174)</u>	<u>(12,872,289)</u>
Net decrease in cash and cash equivalents	(61,341)	(70,996)
Cash and cash equivalents, beginning of period	<u>141,100</u>	<u>80,018</u>
Cash and cash equivalents, end of period	<u>€ 79,759</u>	<u>9,022</u>

See accompanying notes to financial statements.

UNIÓN FENOSA FINANCIAL SERVICES USA, L.L.C.
Notes to Financial Statements
June 30, 2008 and 2007

(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, S.A., an affiliated entity.

Unión Fenosa, S.A. 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. Loan origination fees, net of related direct costs, are deferred and amortized as an adjustment to interest income on a method that approximates the level-yield basis over the estimated life of the loan.

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 collectibility of the principal is unlikely. There is no allowance for loan losses at June 30, 2008 and December 31, 2007.

(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.

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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.

(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, 2008 and 2007, the loan bears interest at 5.293% and 4.507%. 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 November 20, 2004, Unión Fenosa, S.A., the Common Capital securityholder, assumed all rights and obligations under the promissory note agreement. Effective March 23, 2007, Unión Fenosa Finance B.V. assumed all rights and obligations under the promissory note agreement.

(4) Common Capital Securities

The Company has issued 10 Common Capital Securities to Unión Fenosa, S.A. Common Capital Securities are allocated 100% of all net losses of the Company and all gains and losses resulting from the disposition of assets from the Company (in the event such occurs). The net profits of the Company are allocated to the Preferred Capital Securities until the amount so allocated equals the amount of Preferred Capital Securities dividends declared for the year. Any net profits in excess of the amount allocated to the Preferred Capital Securities are then allocated to the Common Capital Securities.

(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 to 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

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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% 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. Unión Fenosa, S.A. 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 Amended and Restated Limited Liability Company Agreement of Unión Fenosa Financial Services USA, L.L.C. (the 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 to 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 Regulation 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.

(6) Related-Party Transactions

Pursuant to the Agreement, Unión Fenosa, 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 and organizational costs, as well as any costs resulting from any litigation against the Company.

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(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, 2008 and December 31, 2007. 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 30, 2008		December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	€ 79,759	79,759	141,100	141,100
Loan receivable from affiliate, net	585,050,341	585,050,341	582,573,109	582,573,109
Accrued interest receivable from affiliate	3,853,035	3,853,035	3,396,877	3,396,877
Financial liabilities:				
Accounts payable and accrued expenses	8,289	8,289	26,648	26,648
Common securities dividends				

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.