

Gas Natural Group – Year 2003 Results

February 19, 2004



Gas Natural Group



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February 2004

Gas Natural Group

Agenda



- **Overview**
- **Delivering the Strategy**
- **Perspectives for 2004**
- **Financial Review**
- **Conclusions**
- **Appendix – FY03 Results**

Gas Natural Group Overview

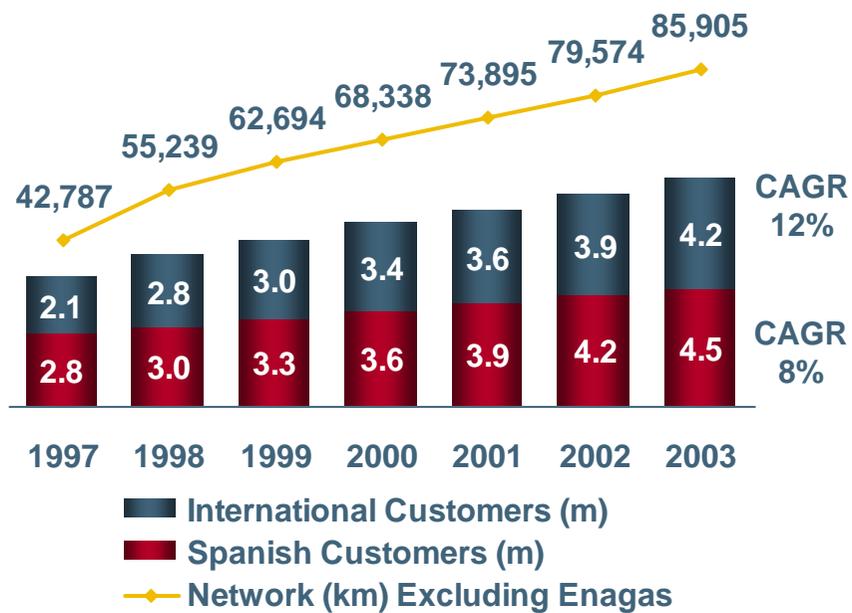


Overview

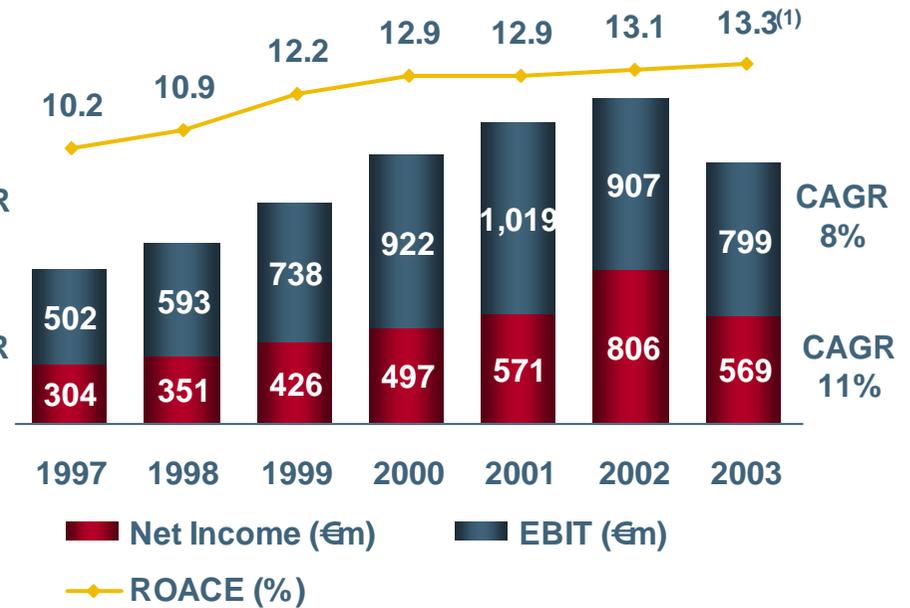
A Solid Track Record



Operating Highlights



Financial Highlights



⁽¹⁾ ROACE 2003: 13.8% excluding work in progress

Gas Natural Group

Delivering the Strategy



Delivering the Strategy

Gas Trading and Transport



Rationale

- Acts as a vital support for our core gas business: managing sourcing of gas supplies while minimising risk and cost:
 - Optimising overall cost of gas.
 - Contributing to security of supply minimising volume and ToP risks.
 - Providing access to new markets.
- Also a business in itself: 23% of total Group EBITDA in 2003.

Main features

- Well-diversified procurement and end markets.
- 50/50 NG/LNG mix.
- #1 LNG operator in the Atlantic.
- Large LNG carrier fleet.
- 73% of Maghreb-Europe pipeline.
- Flexible FOB/CIF mix.

Delivering the Strategy

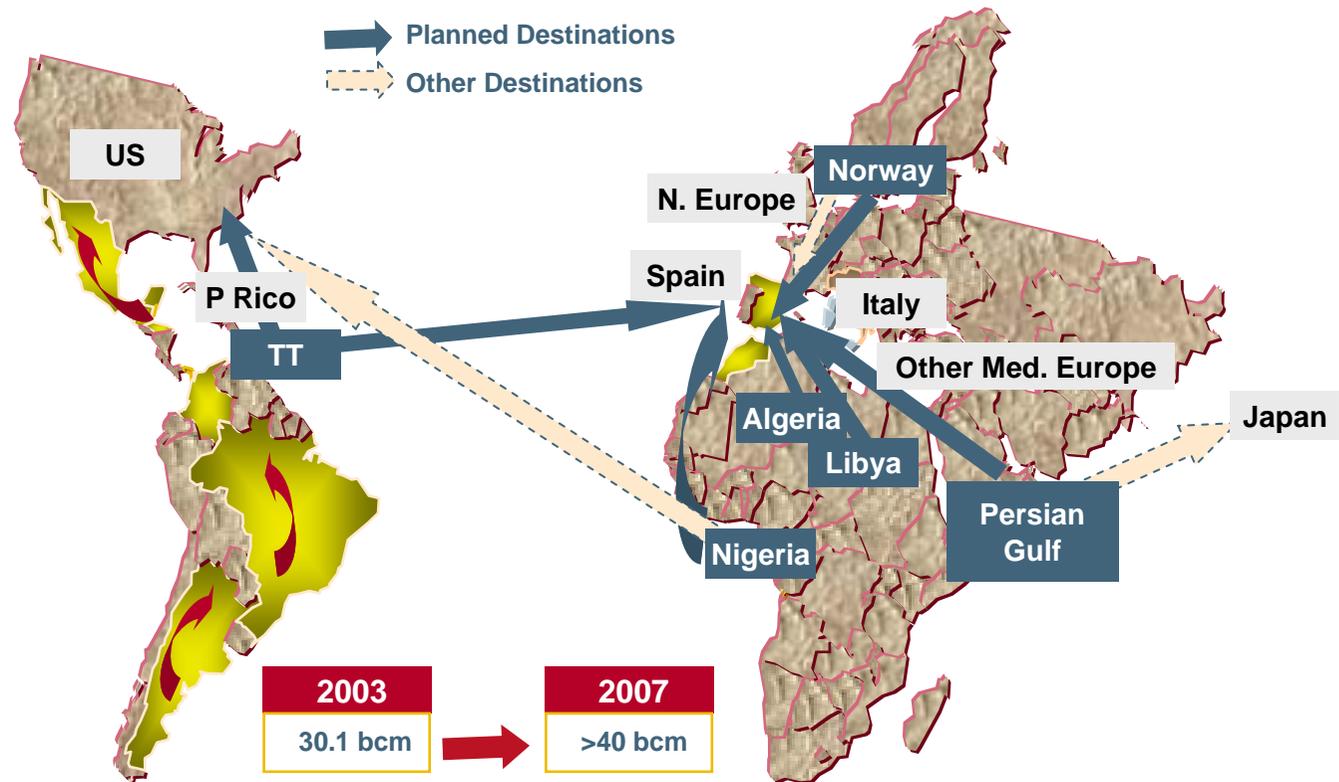
Gas Trading and Transport – Portfolio Structure



Well-Diversified ...

- 15 contracts of supply from 10 different origins
- 9 origins of demand

... and Flexible Contracts



- Efficient, flexible and low cost gas supply on both sides of the Atlantic allows Gas Natural to
 - Exploit growth opportunities
 - Compete effectively on cost
 - Create value through trading

Delivering the Strategy

Gas Trading and Transport – Recent Developments



- Works under progress to expand the capacity of the Maghreb-Europe gas pipeline by 50%, to 11.7 bcm per year:
 - Total investment: \$80 million.
 - Investment to date: \$43 million (\$30 million in 2003).
 - Deadline for completion: 4Q04.

- Delivery of 2 new LNG carriers, each with a 138,000 m3 capacity, thereby adapting the fleet to new origins that require larger and faster vessels.

- New supply contract signed: 2.1 bcm T&T.

- MOU for 2 bcm 20-year contract signed with Qatar.

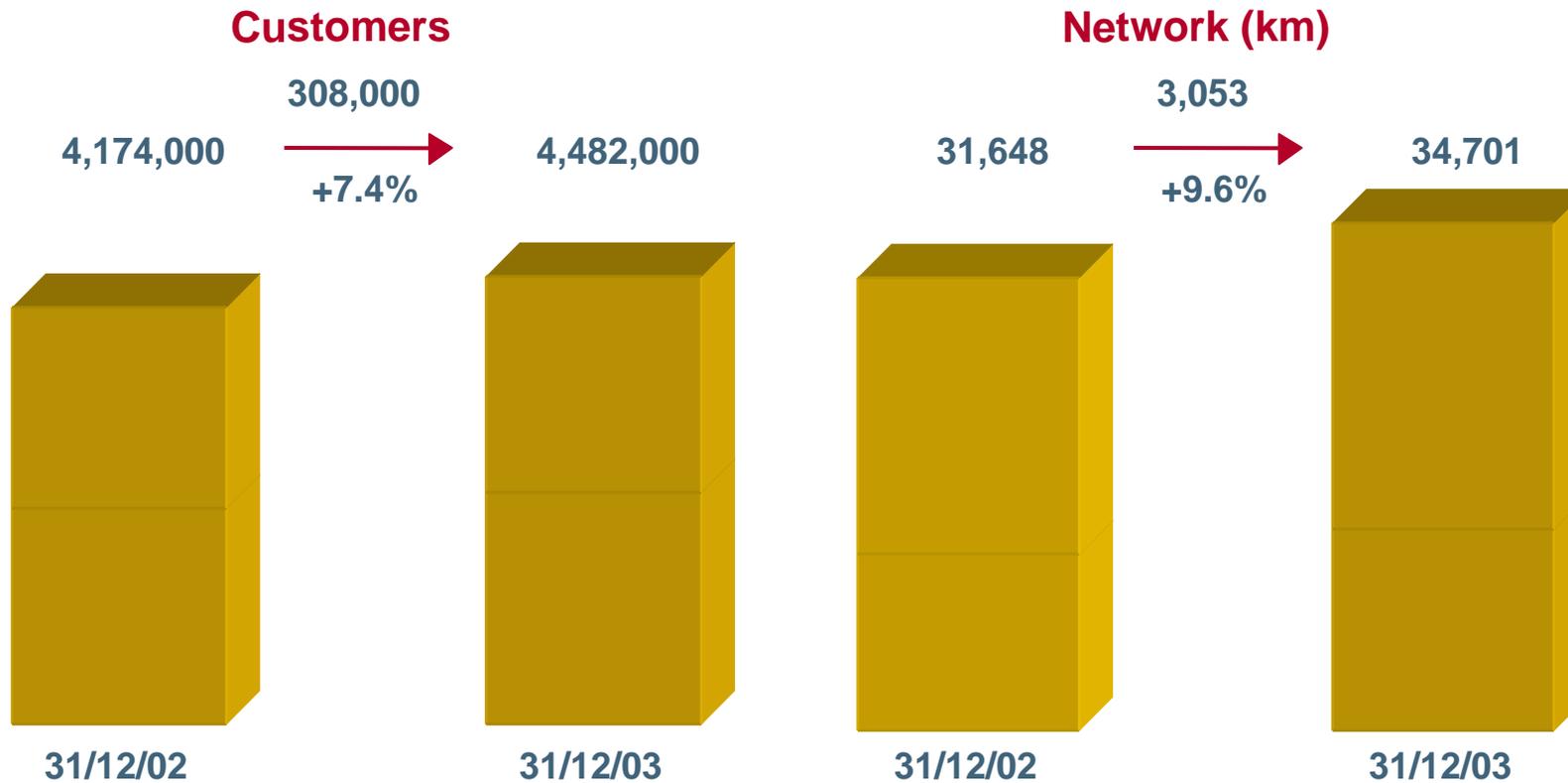
- Extension to 2009 of most of wholesale contracts to USA.

- LNG Flows: 14.4 bcm (last 12 months) → 18 bcm by 2007.

Emphasis on expanding and diversifying sources of supply

Delivering the Strategy

Gas Distribution in Spain



In line with targeted figure of 1.7m new customers for 2003-07

Selective network expansion. Commitment to progressive efficiency improvements

Delivering the Strategy

Gas Distribution in Spain – Regulated Remuneration



Continuity and stability of tariff framework

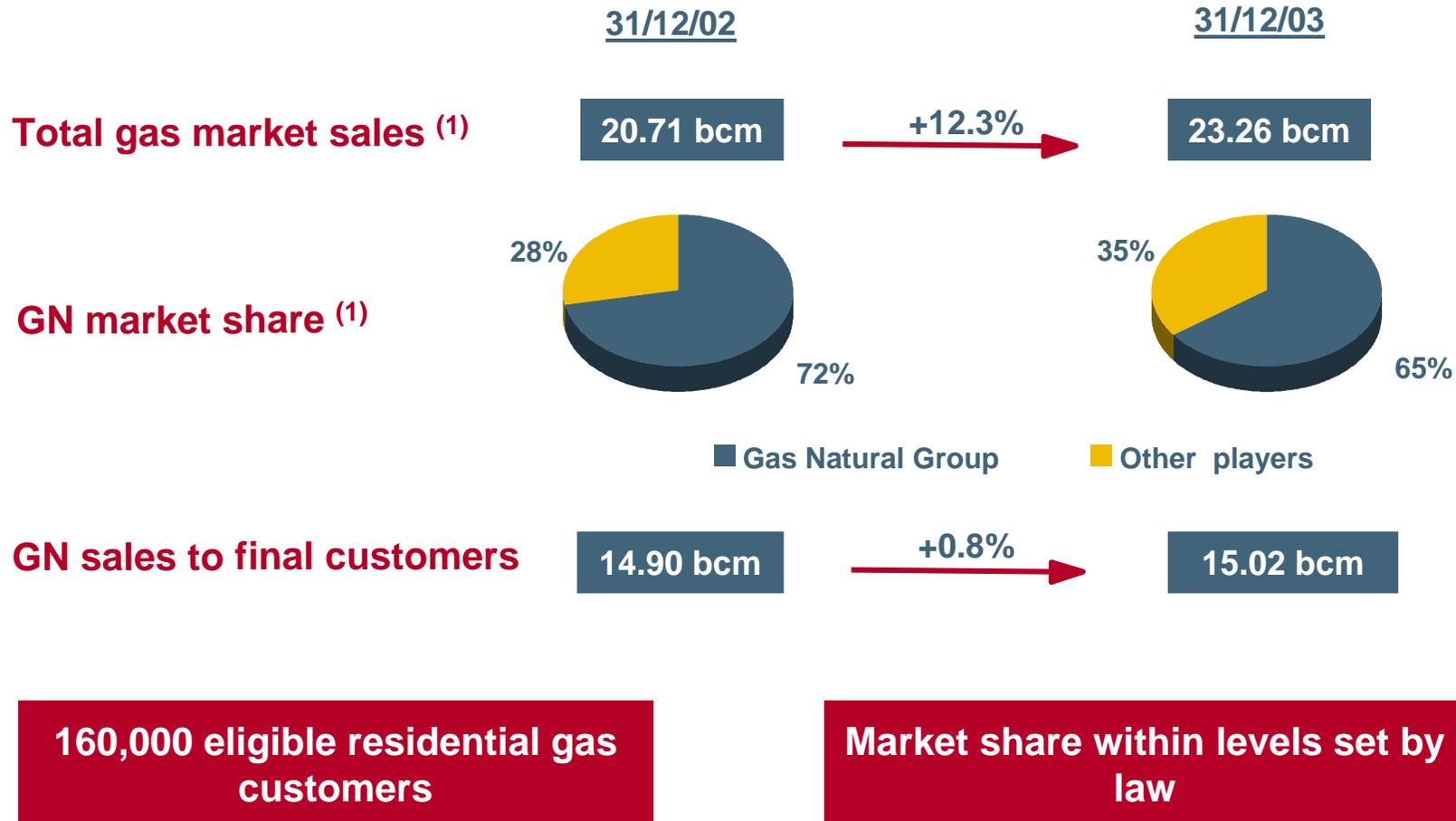
- Efficiency parameters and basis for formulation maintained.
- Remuneration reviews for the year:
 - Distribution: + 5.8% → €928m
 - Transport: + 0.9% → €16.1m

What's new in 2004

- Legislation confirms the remuneration formula; i.e. correction for deviations in activity (customers and demand volumes) between forecast and actual figures from 2004 onwards.
- New specific remuneration for access to new municipalities so that investment projects will be financially feasible. Amount: up to 2% of remuneration for distribution less remuneration for transport. Additional way of expansion to access municipalities maintaining the Group's criteria on returns on investment.

Delivering the Strategy

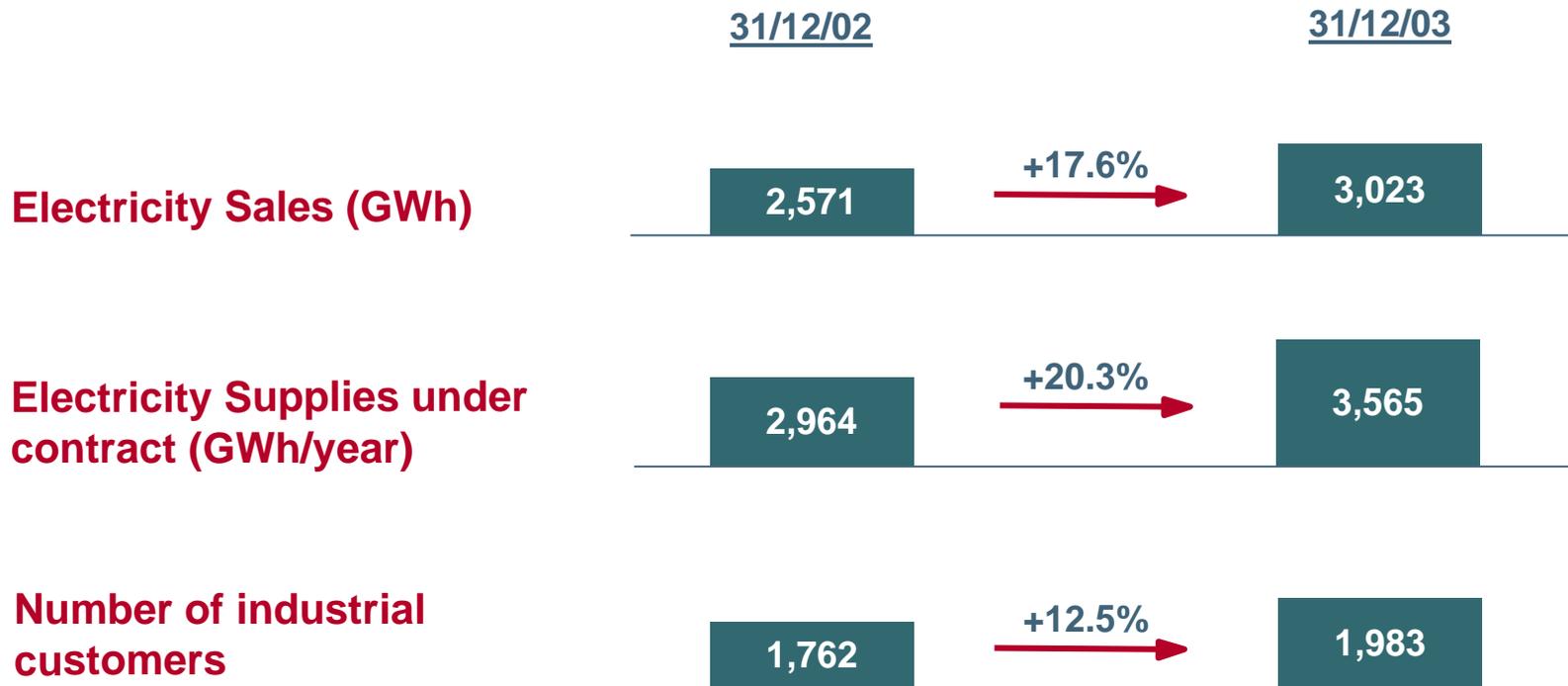
Customers – Gas in Spain



(1) GN estimates

Delivering the Strategy

Customers – Electricity in Spain

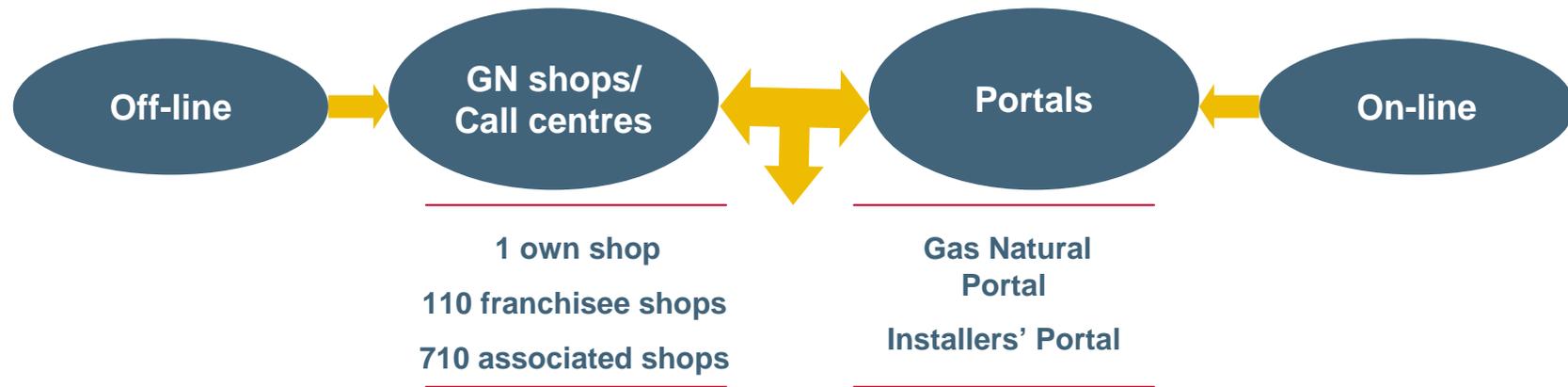


Close to 5% market share in liberalised electricity market

Targets: >10% by 2007 and 2 million customers

Delivering the Strategy

Customers – Multi-Utility Offer in Spain



Integrated services to households (FY03)

Net increase in maintenance contracts	232,900
Central heating installations	47,700
Gas appliance sales	45,000
Total services and products at 31/12	1,263,000
Number of contracts per customer	1.28

37% growth in services and products contracts against FY02

In line with target of 2 contracts per customer by 2007

Delivering the Strategy

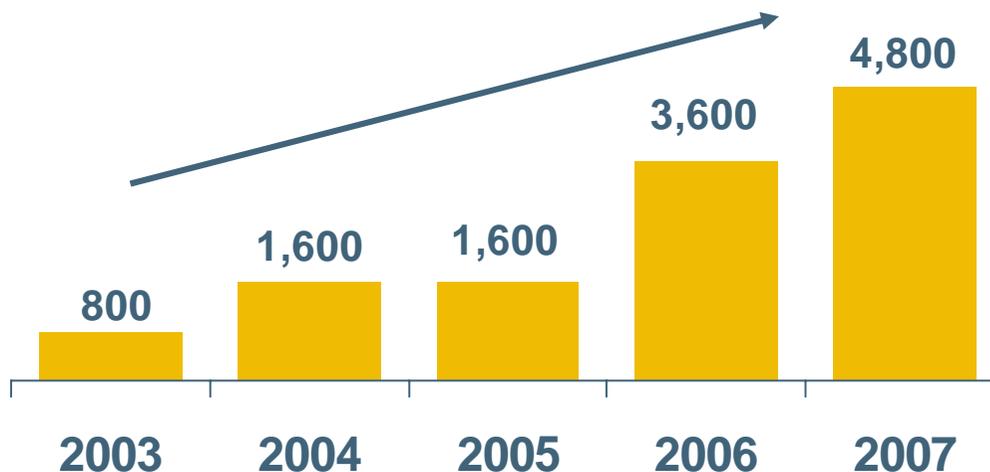
Electricity Generation in Spain



Generation capacity in CCGTs

- 800 MW operational (San Roque and Besós) with 62% load factor.
- 2,000 MW under construction (1,200 MW Cartagena, 800 MW Arrúbal).
- 800 MW pending final permits (Tarragona).
- Other projects under permits (800 MW Barcelona, 400 MW Málaga), all of them with capacity reserve.

Planned commissioning of CCGTs (MW)



28% of new capacity needs as per National Energy Plan

Efficiency of CCGTs.
Part of gas value chain

Delivering the Strategy

Electricity Generation in Spain – CCGT Operation



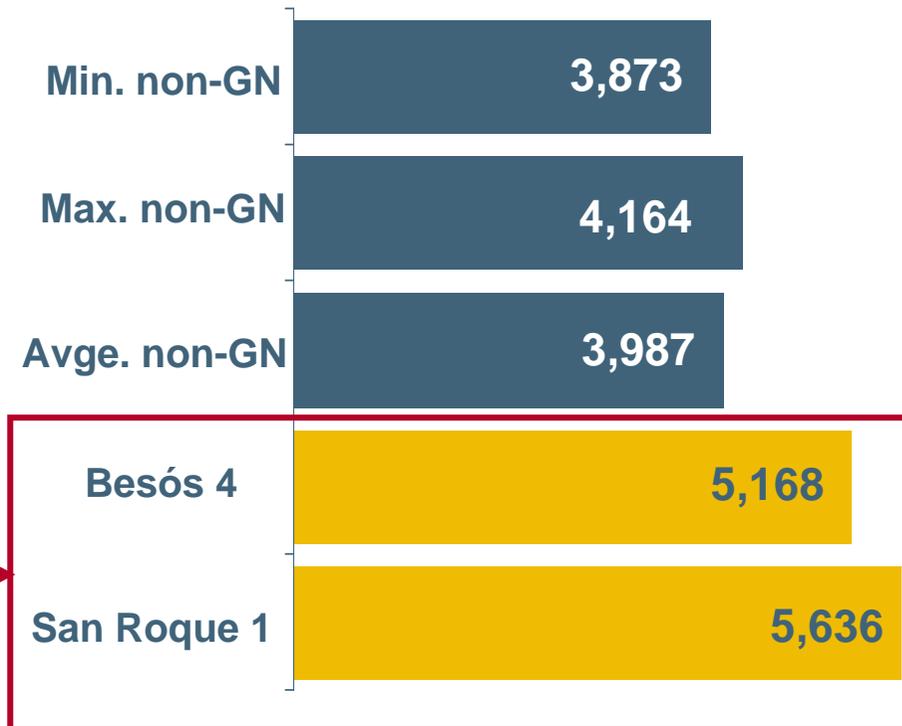
Gas Natural's Competitive Advantage in CCGT Operation

GN is better positioned to profit from the advantages of CCGTs:

- Gas >90% of operating costs.
- Large and diversified contract portfolio: flexibility to maximize returns in a hydrothermal system such as Spain (ToP clauses, carry forward,...).
- The above allows GN to work for longer hours, and in periods of higher unitary margins, which means higher ROACE.

(1) Source: OMEL. Excludes CCGTS not in operation in 2003

CCGTs' Hours of Operation at Full Capacity in 2003 (1)



GN's two units show longest time of operation in 2003

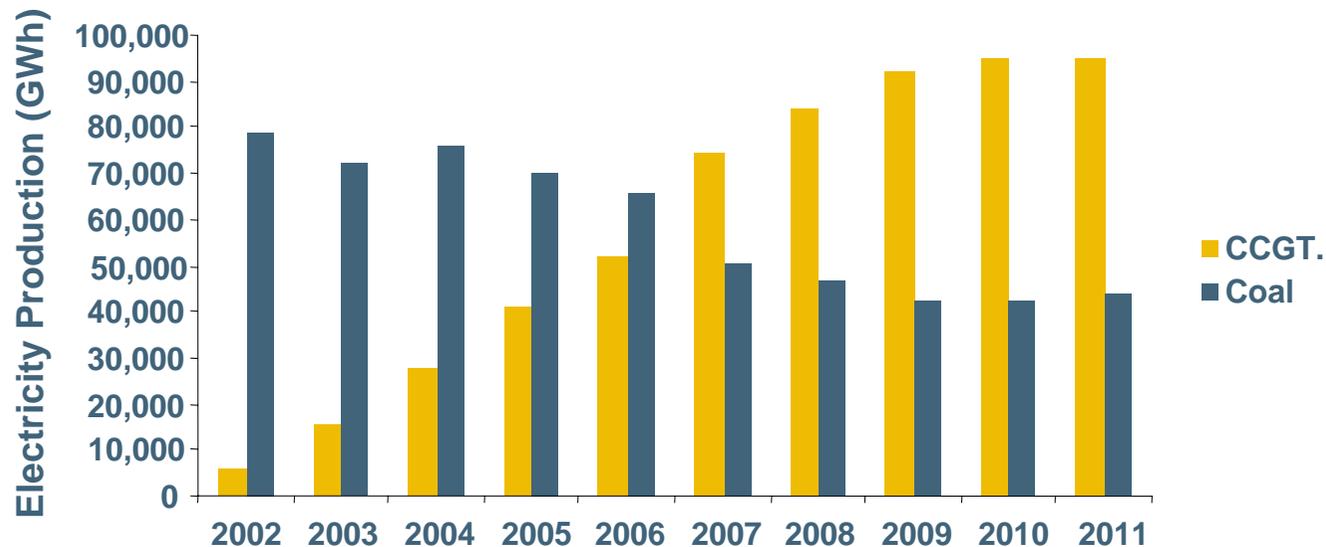
Delivering the Strategy

Electricity Generation in Spain – CO2 (I)



- Reduction of greenhouse gases to meet Kyoto Protocol targets to be achieved mainly through the commissioning of CCGTs (at least 14,800 MW to 2011 according to the National Energy Plan).
- Gas Natural's 4,800 MW CCGT will greatly contribute to the achievement of that target.

**Electricity production coal/CCGT
estimated for 2002-2011**



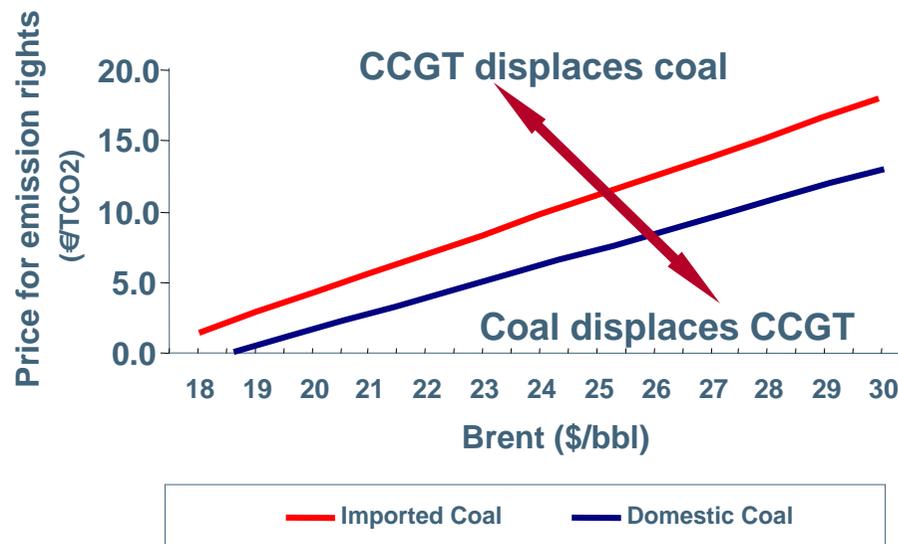
Delivering the Strategy

Electricity Generation in Spain – CO2 (II)



- The allocation of free emission rights should be based on the use of the most efficient technology as well as on the likeliest estimates of future energy demand.
- In 2011 gas is expected to represent 44% of output in Spain.

Marginal costs: CCGT vs coal with CO2 effect



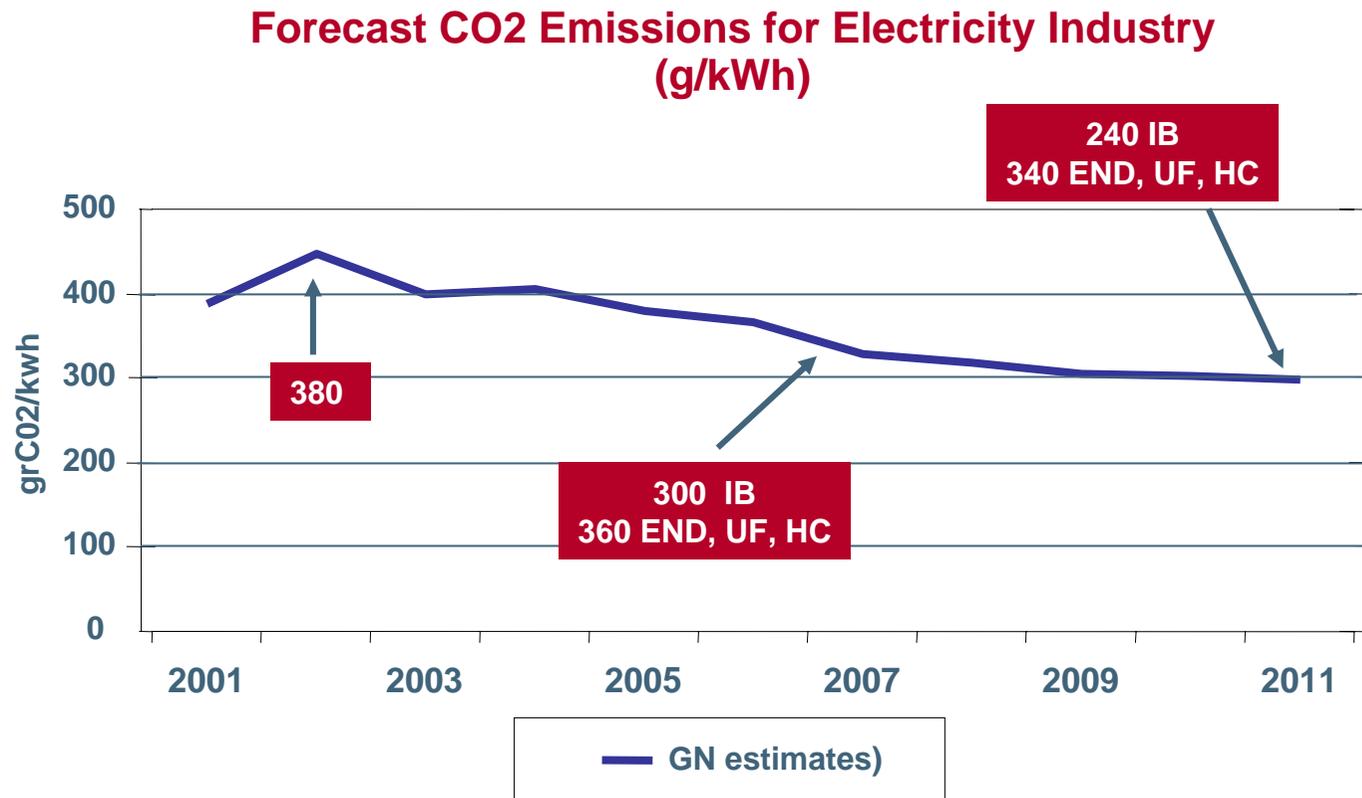
CCGT's competitiveness vis-à-vis coal is evident for the most likely future price scenarios for Brent and emission rights

Delivering the Strategy

Electricity Generation in Spain – CO2 (III)

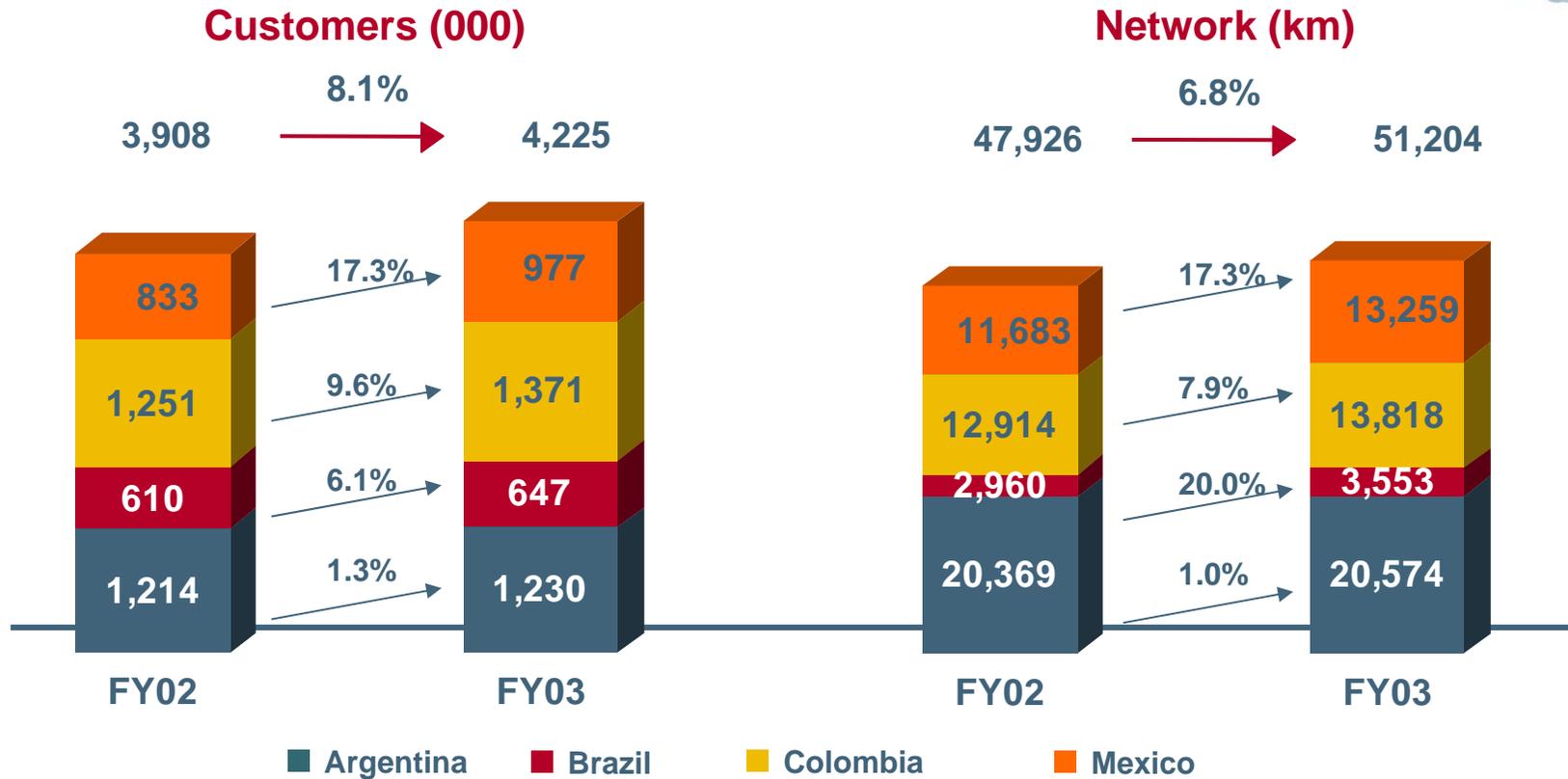


- Gas Natural's estimates of CO2 emissions for the industry are in the midrange of the estimates from the other Spanish utilities.



Delivering the Strategy

Americas – Gas Distribution



In line with targeted figure of 1.8m new customers for 2003-07

Balanced expansion in Americas with main focus on Mexico and Brazil

Delivering the Strategy

Americas - Puerto Rico



Assets acquired

- 47.5% of shares in Ecoeléctrica (50% voting rights):
 - 542 MW CCGT plant.
 - LNG unloading and storage facilities.
- O&M contract.
- 20-year tolling agreement.
- \$22 m subordinated debt.
- Price paid: \$179 million.

Optimal strategic fit

- Increase the activity in the generation and sales of electricity.
- Develop a gas distribution market in undeveloped territory with sizable potential for growth.
- Increase gas sales and optimize the management of the LNG fleet with a market close to T&T.
- Exploit know-how in running CCGT generation assets.

Positive contribution from year 1: EBITDA of €8m in last two months 2003

Delivering the Strategy

Europe - Gas Distribution in Italy



Assets acquired (January 2004)

- 3 gas distribution companies covering 76 municipalities.
- 93,000 current and 50,000 potential customers.
- 1 gas supply company.
- 2 service companies.
- Sales in 2002: 666 GWh.

Financial issues

- Price paid: around €100m.
- Low financial debt assumed (€13m).



**Entry into Italian
gas distribution market**

**Target 2004:
300,000 customers**

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Perspectives for 2004



- **Gas distribution:**
 - Customer growth > 325,000 and investments >€450m.
- Significant progress in liberalised markets of gas and electricity.
- Commissioning of CCGT at Arrúbal (800 MW).
- Enlargement of capacity of Maghreb pipeline to become operational.
- Continued growth in LNG business.
- **Americas:**
 - Customer growth: >350,000.
 - Consolidation of Group's position in Brazil.
 - Operation of 542 MW CCGT plant in Puerto Rico.
- **Europe:**
 - 300,000 distribution customers in Italy.
 - DEPA.
 - Supply company in France.

**Maintaining 2003-04
investment plan**



**Consolidation of sustained
growth**

Financial Review

FY03 Consolidated Results



	FY03	FY02	FY02 ⁽¹⁾	Change ⁽²⁾
Net sales	5,628.0	5,267.9	5,100.8	10.3%
EBITDA	1,201.7	1,366.0	1,201.1	-
EBIT	799.0	906.7	803.5	-0.6%
Net income	568.5	805.9	516.2	10.1%
Net cash flow	856.8	909.5	814.5	5.2%
Average no. of shares (million)	447.8	447.8	447.8	-
EBITDA per share (€)	2.7	3.1	2.7	-
Net income per share (€)	1.3	1.8	1.2	10.1%
Net cash flow per share (€)	1.9	2.0	1.8	5.2%
Investments:	1,361.3	1,067.0	987.0	37.9%
Tangible	778.3	858.1	782.3	-0.5%
Other	583.0	208.9	204.7	-
Net debt (as of 31/12)	1,869.2	1,627.0	1,627.0	14.5%

(€Million)

⁽¹⁾ Proforma results with Enagás consolidated under equity method and excluding capital gains and lower financial expenses

⁽²⁾ FY03 vs FY02 proforma

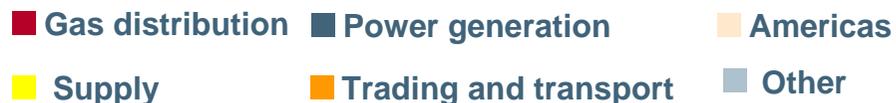
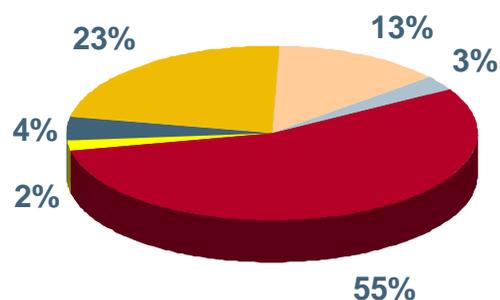
Financial Review

EBITDA and ROACE



EBITDA Contribution

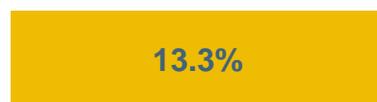
2003: €1,202m



- Diversified EBITDA with new activities: electricity generation
- Consolidation of regulatory framework
- Profitability of investments in Americas

ROACE

2003



- 13.8% ROACE, excluding work in progress
- ROACE target > 15% by 2007

Through more than 10% CAGR in net profit ⁽¹⁾

⁽¹⁾ 2002-07, excluding capital gains on sale of Enagás

Financial Review

Capital Expenditure



Tangible investments in FY03

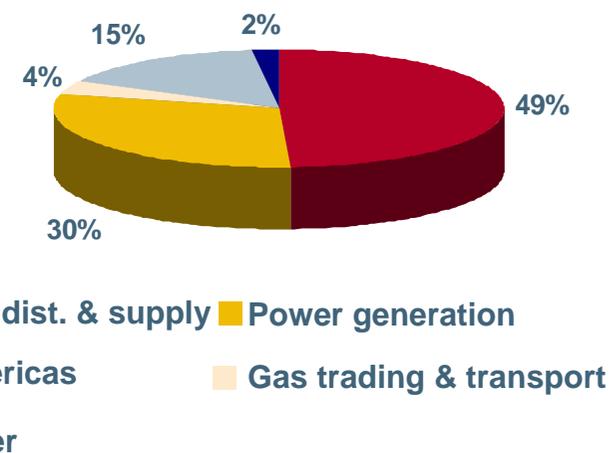
	FY03	FY02 (*)	Change (%)
Gas distribution & supply	383.2	412.4	-7.1
Power generation & trading	230.0	228.7	0.6
Gas trading & transport	30.2	12.2	-
Americas	119.2	111.4	7.0
Other	15.7	17.6	-10.8
Total	778.3	782.3	-0.5

(€Million)

Selective investment in core business

Investments set basis for future profit generation

By activity



Americas by country

Mexico	71.8
Colombia	13.4
Brazil	29.7
Argentina	4.3
Total	119.2

(*) Excluding Enagás

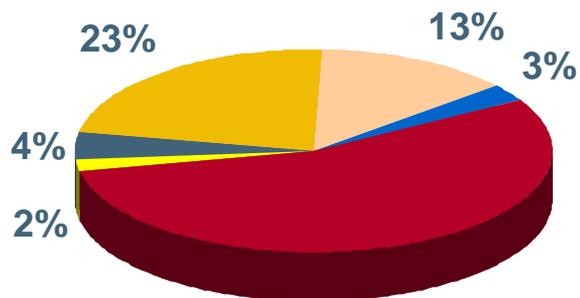
Financial Review

Investments 2004



EBITDA 2003

€1,202m

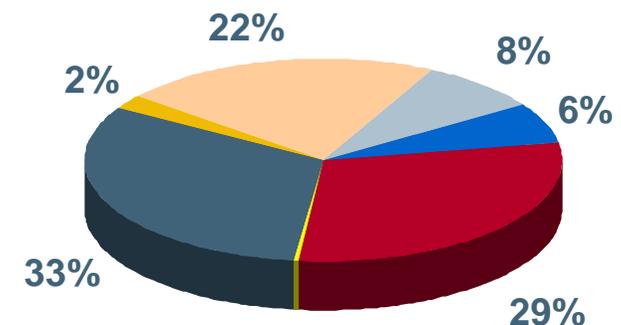


55%

■ Gas distribution ■ Power generation ■ Americas ■ Other
 ■ Supply ■ Trading and transport ■ Italy

Investments 2004

€1,620m (*)



0%

78% of investments in Euro area in 2004

Continuing 2003-07 Plan: €7,500m

Investments in CCGT have longer maturities

Acquisitions with immediate positive EBITDA contribution

(*) Not including acquisitions not formalized to date

Financial Review

Capital Structure



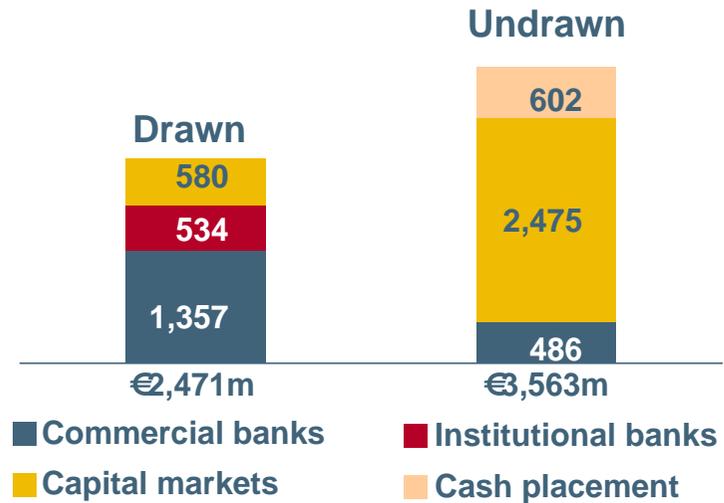
Financial ratios

	31/12/03	31/12/02
EBITDA/Net interest ⁽¹⁾	14.5x	13.4x
Net Debt/EBITDA	1.6x	1.2x
Leverage ⁽²⁾	29.3%	28.0%

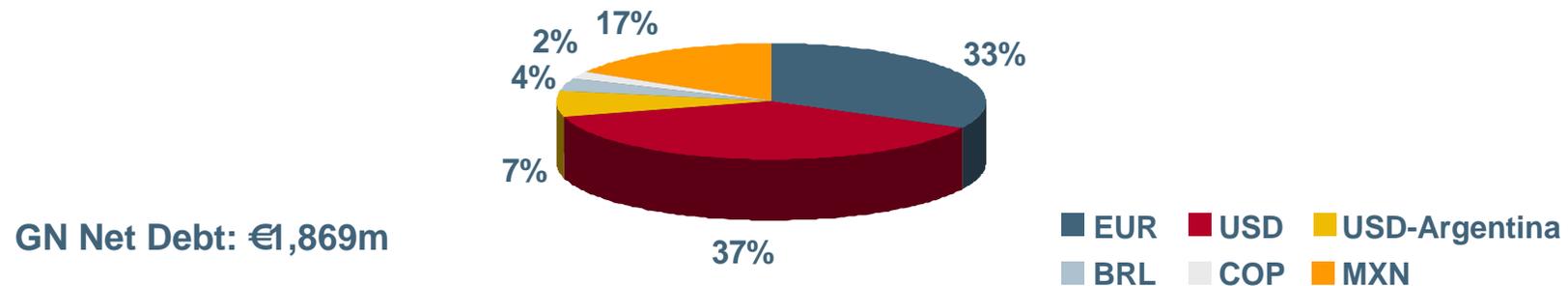
⁽¹⁾ Excluding FX provision for Argentina

⁽²⁾ Net Debt / (Net debt+Minorities+Shareholders' Equity)

Debt facilities as of Dec 31, 2003

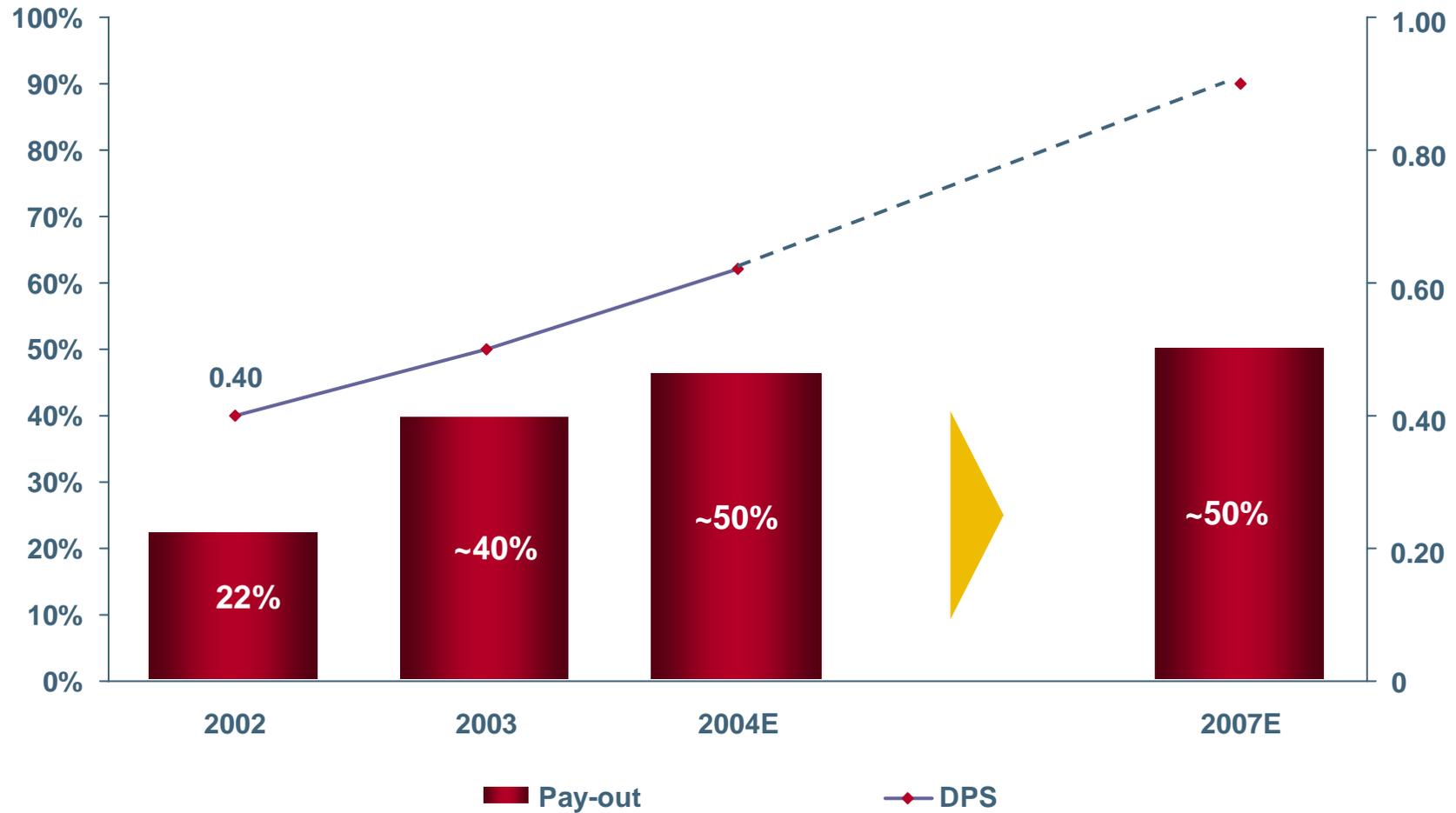


Net debt by currencies as of Dec 31, 2003



Financial Review

Dividend Policy



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Conclusions (I) – Delivering the Strategy



- **Diversifying sources: new contract (2.1 bcm), 2 new LNG tankers to adapt the fleet to new origins requiring larger and faster vessels.**

- **Building generation capacity: 800MW operational and 2,000MW in construction.**

- **Growth in total customer base to 8.7 million and 1.3 contracts per customer in Spain.**

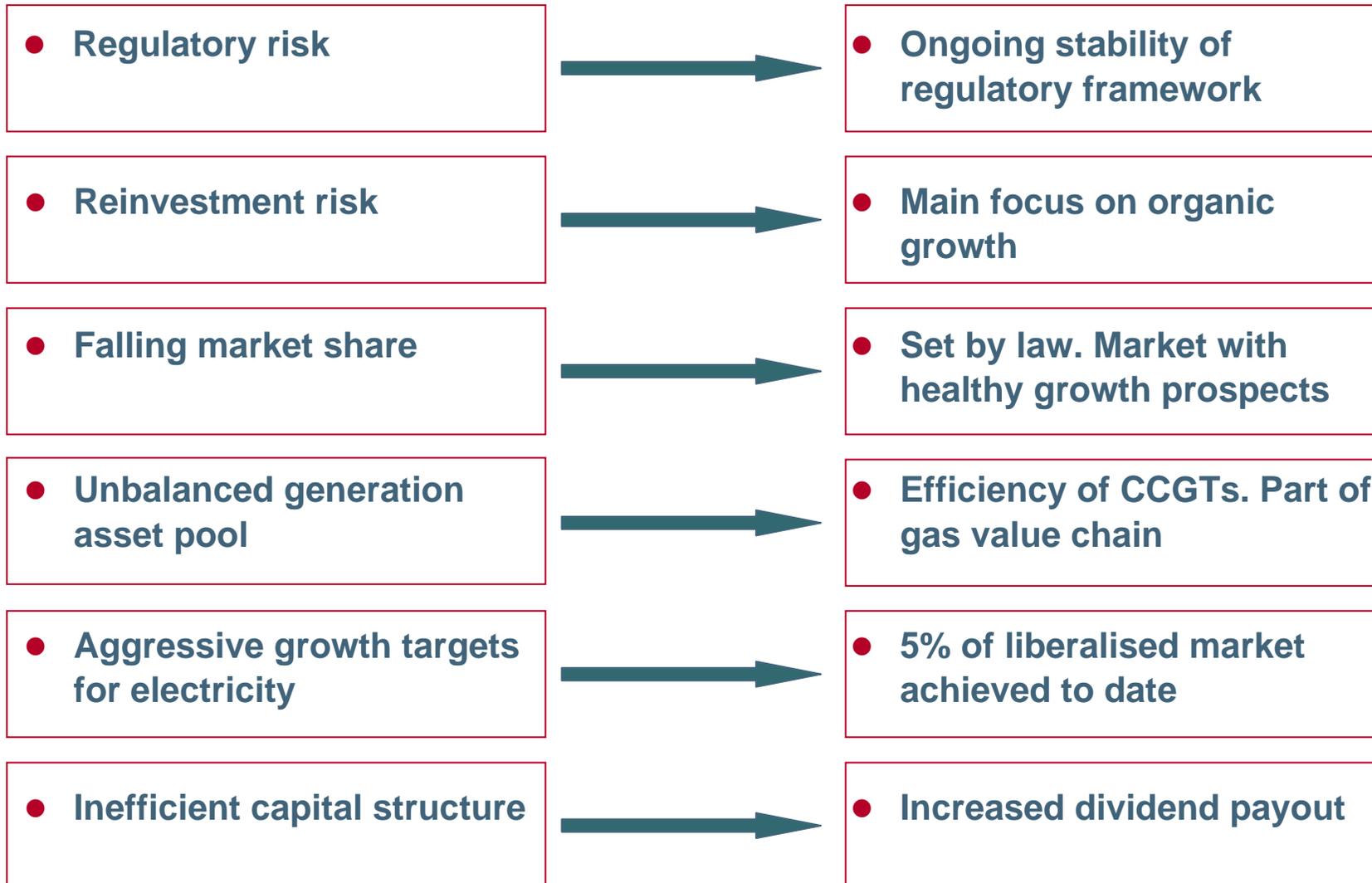
- **308,000 new gas customers in Spain. Market share of 65% of Spanish gas (regulated and eligible).**

- **Strong performance in Americas evidences recovery of market and materialisation of high growth prospects.**

- **International expansion: Puerto Rico, Italy.**

Gas Natural Group - FY03 Results

Conclusions (II) – Addressing Main Market Concerns

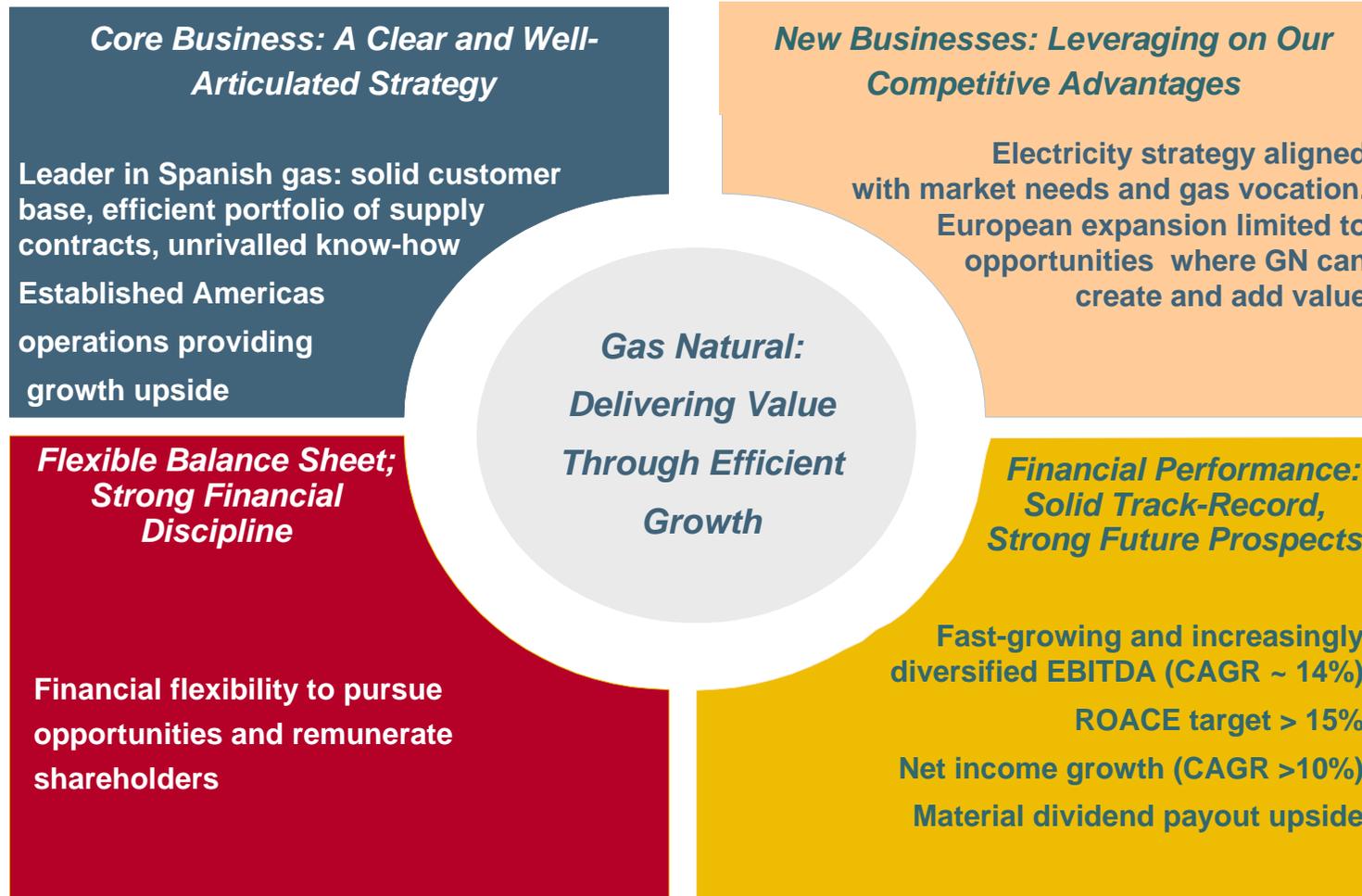


Gas Natural Group

Conclusions (II)



Reaffirming our Customer-Oriented Strategy



Appendix – FY03 Results



Gas Natural Group - FY03 Results

Significant Events in 4Q03



- Acquisition of 47.5% of Ecoeléctrica (and 50% of voting rights) in October.

- Construction of Cartagena CCGT (1,200 MW) commenced in December 2003.

- Payment of interim dividend of 21.25 Euro cent per share on 12 January (+25%).

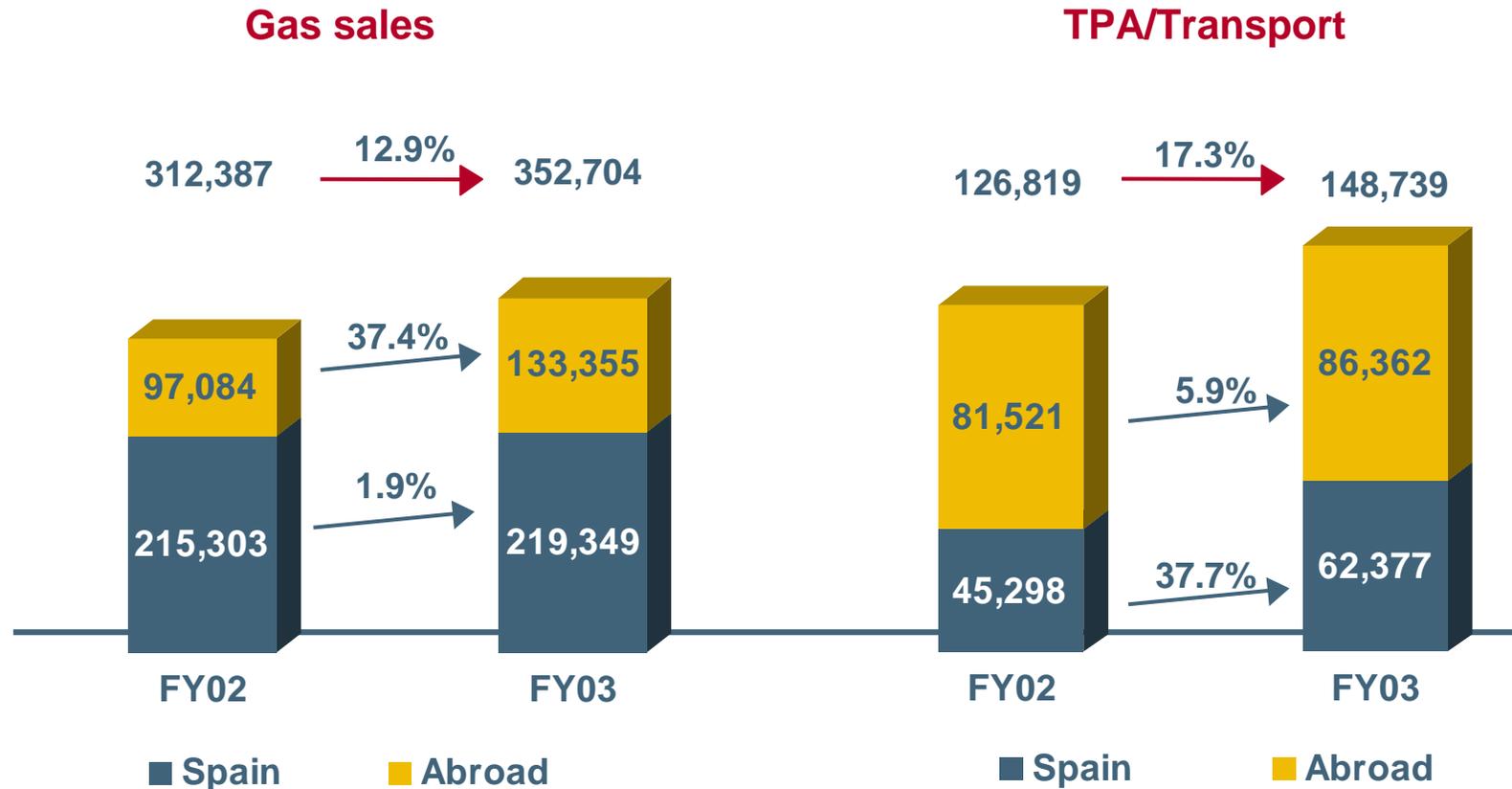
- Acquisition of Brancato Group in Italy on 13 January for around €100m with 93,000 distribution customers.

- MOU signed in Qatar for a 20-year 2 bcm p.a. supply agreement from 2005.

- On 19 January, 2004, approval of regulated remuneration for distribution in 2004: +6% to €28m.

Gas Natural Group - FY03 Results

Operational Highlights - Gas Activity (GWh)

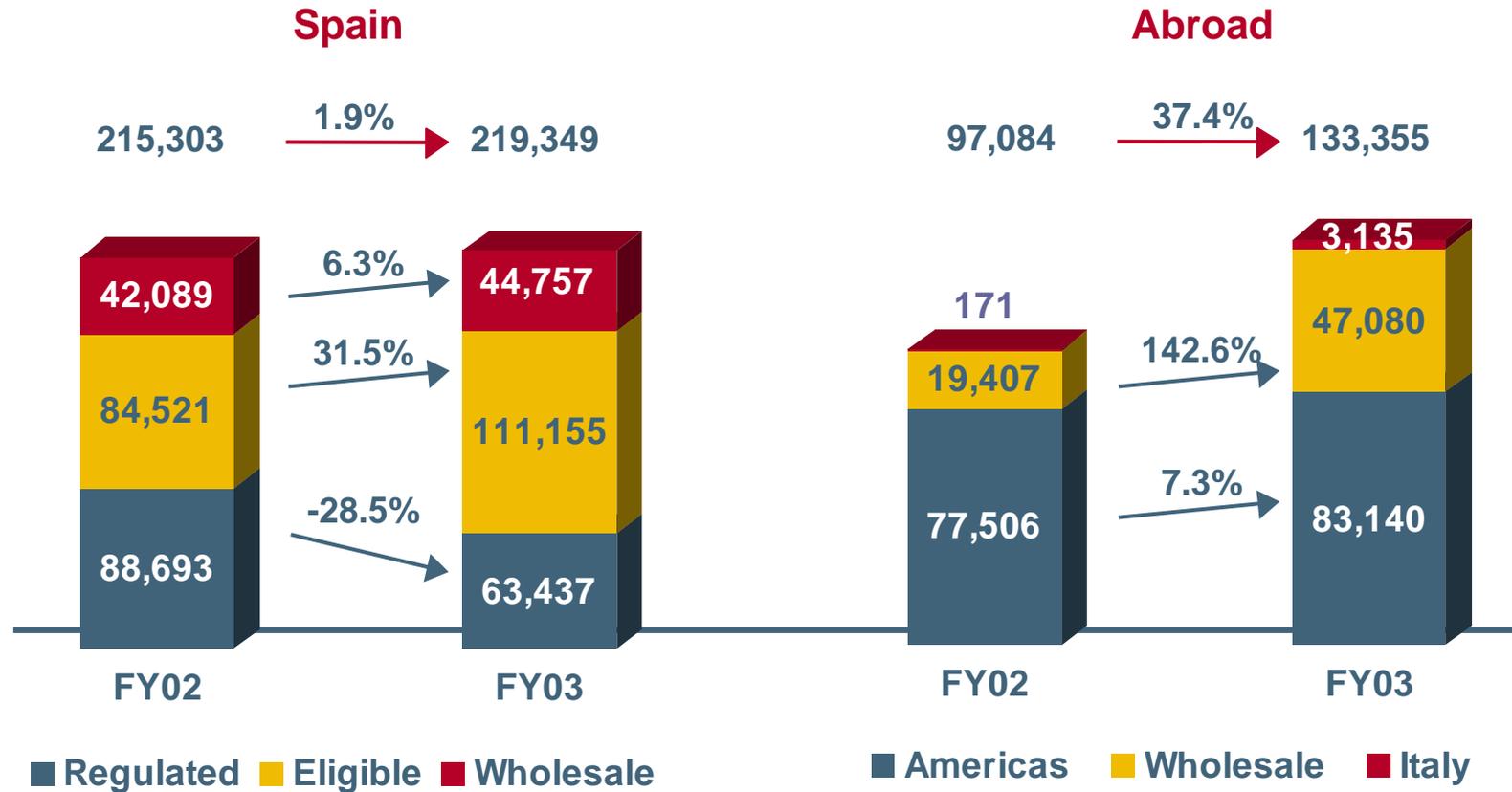


Increase in gas activity sales: 13.8% ⁽¹⁾

⁽¹⁾ Excluding 25% of Algerian contract that is included in gas sales and transport in Spain

Gas Natural Group - FY03 Results

Operational Highlights - Gas Sales (GWh)

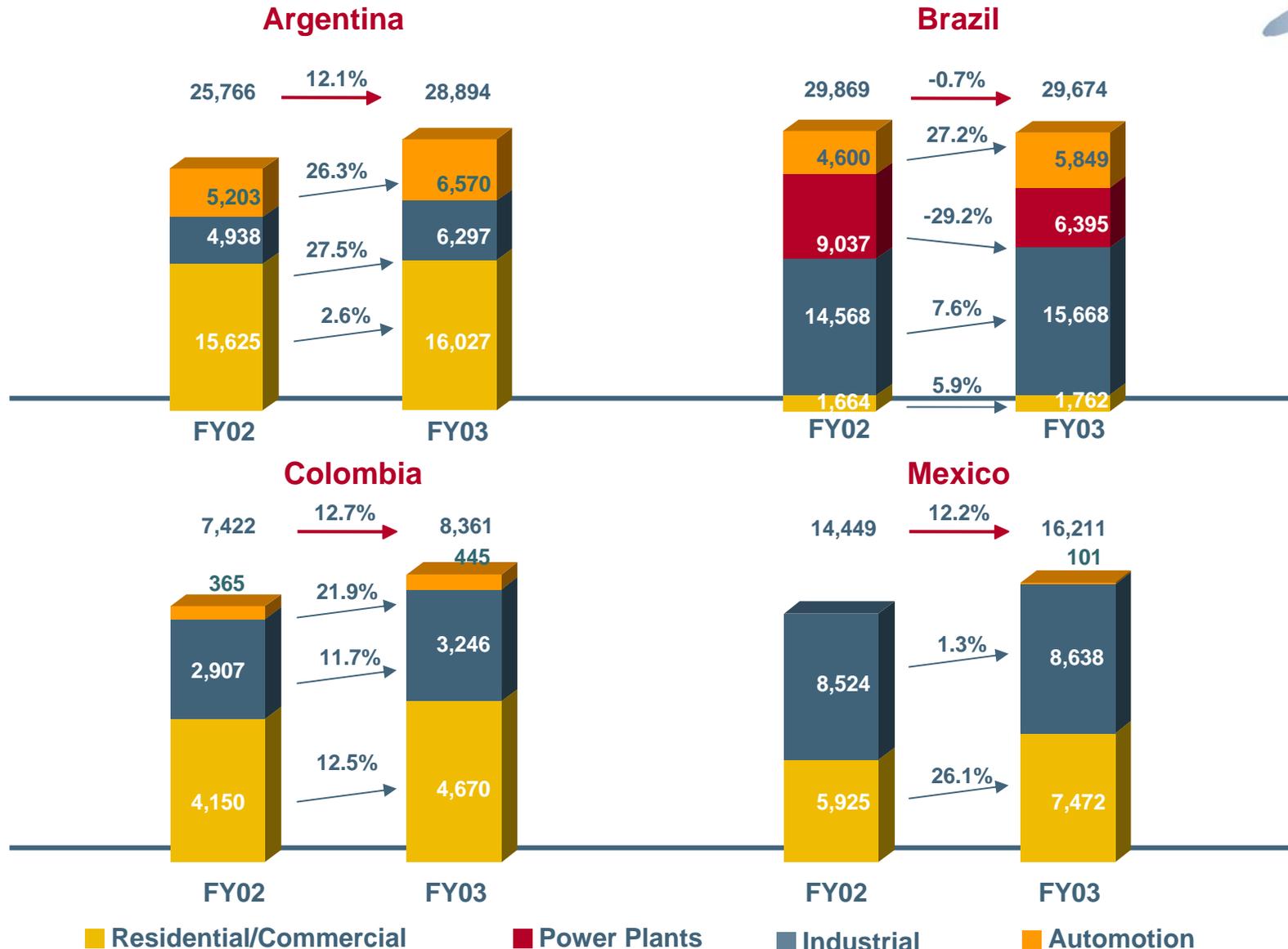


Gas sales in Spain + 1.9% despite unfavorable weather

37.4% growth in sales abroad boosted by wholesale sales

Gas Natural Group - FY03 Results

Operational Highlights - Gas Sales in Americas (GWh)



Gas Natural Group - FY03 Results

EBITDA Analysis



	FY02	Adj. ⁽¹⁾	FY02 ⁽¹⁾ Proforma	FY03	Adj. ⁽²⁾	FY03 ⁽²⁾ Proforma	Chge (%) ⁽³⁾
Gas distribution	660.9	-91.5	569.4	660.0	-	660.0	15.9
Supply	47.0	-	47.0	24.1	-	24.1	-48.7
Power generation & trading	8.1	-	8.1	53.0	-	53.0	-
Gas trading & transport	312.3	-25.3	287.0	272.4	-	272.4	-5.1
Americas	141.1	-28.5	112.6	160.3	-12.9	147.4	30.9
Other	31.8	-	31.8	31.9	-	31.9	-
Group EBITDA w/o Enagas	1,201.1	-145.3	1,055.8	1,201.7	-12.9	1,188.8	12.6
Enagás	164.9	-	164.9	-	-	-	-
Group EBITDA	1,366.0	-	1,220.7	1,201.7	-	1,188.8	-

(€Million)

- (1) Proforma results adjusted for effects of previous regulation and for using homogeneous exchange rates for foreign subsidiaries in the consolidation process
- (2) Proforma results adjusted for changes in the consolidation perimeter
- (3) Change FY03 proforma vs FY02 proforma

Thank you

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