



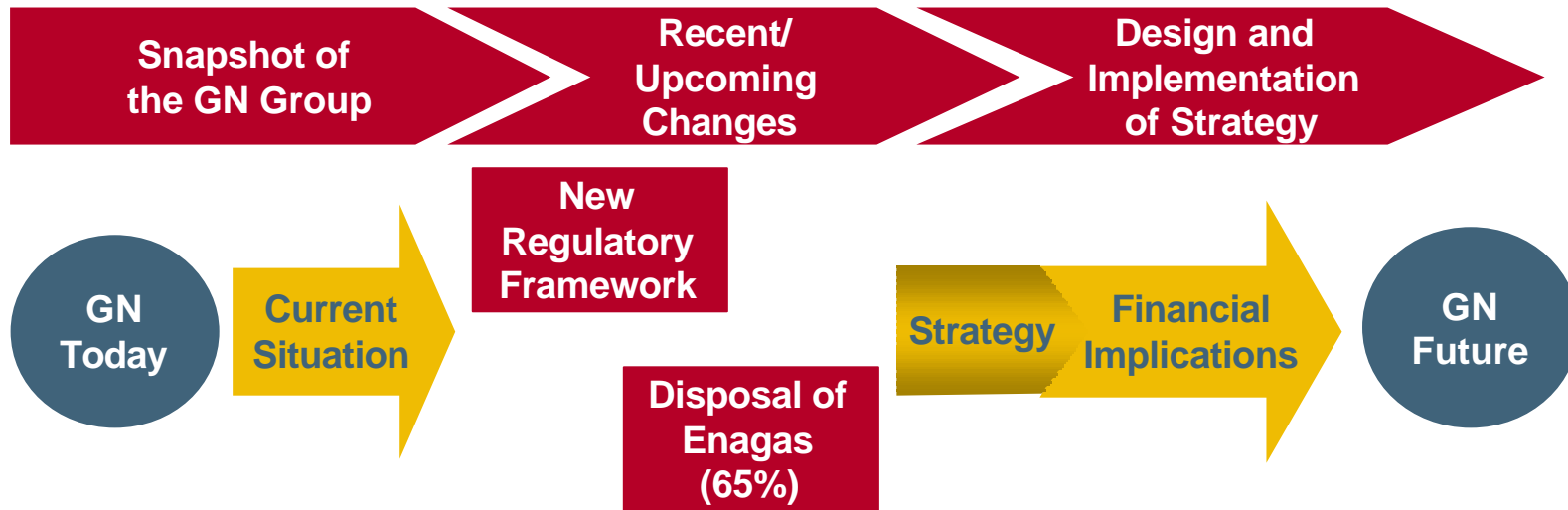
gasNatural

Building Our Customer-focused Strategy Executive Summary

**Gas Natural Group
March 2002**



Today's Agenda



- ✍ Our historical track record
- ✍ GN presence in the gas value chain
- ✍ Incumbent in a fast-growing market

- ✍ “Órdenes Ministeriales” as of 18 February
- ✍ Consolidation of value drivers for the Group
- ✍ Reduction in exposure to regulated business (sale of up to 65% of Enagas)

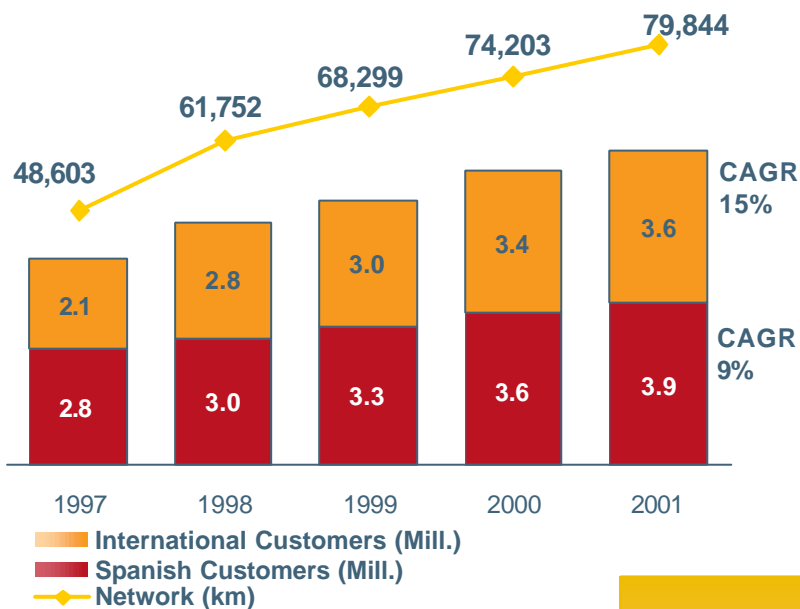
- ✍ Reaffirming our business strategy
- ✍ Shaping a flexible, customer-focused organisation
- ✍ Commitment to foster growth and profitability

Overview of Gas Natural Group

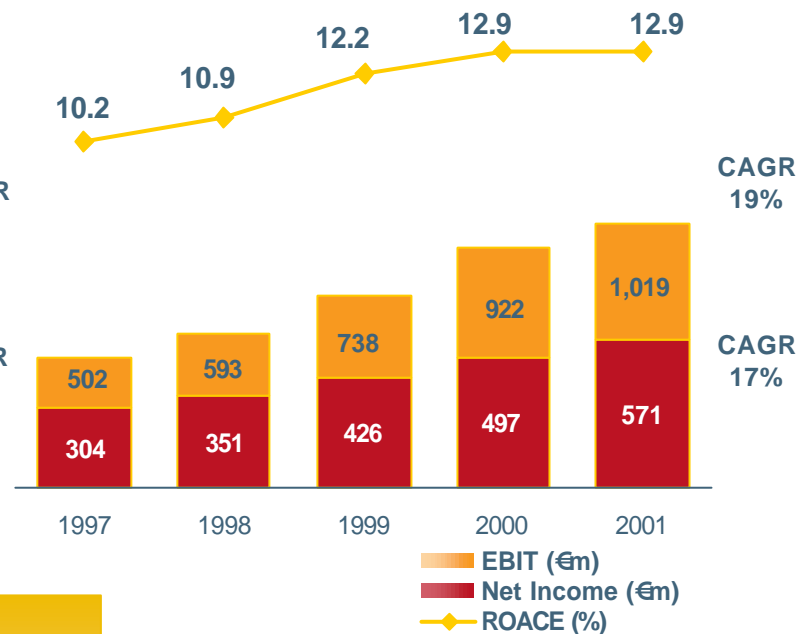
A Solid Track Record



Operating Highlights



Financial Highlights



Skills

Management of transition to maturity and improved efficiency

Integrated Business model to take advantage of CCGT and LNG Trading

Creation and Development of a brand and a multi-product offering

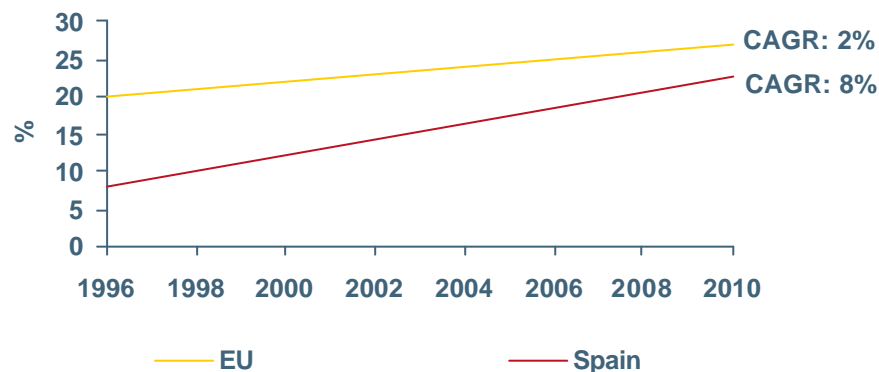
Ability to develop immature markets internationally

Overview of Gas Natural Group

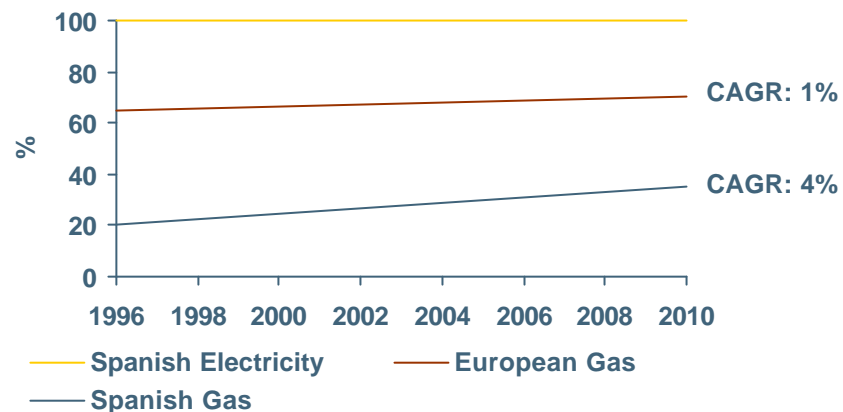
High Growth in Core Spanish Gas Market



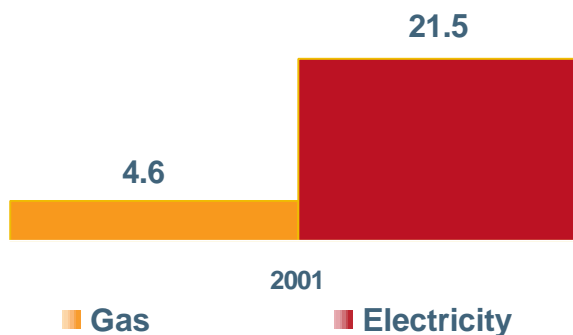
Gas Natural in Primary Energy Consumption



Gas Penetration in Residential Market



Number of Households connected to Gas and Electricity (Millions)

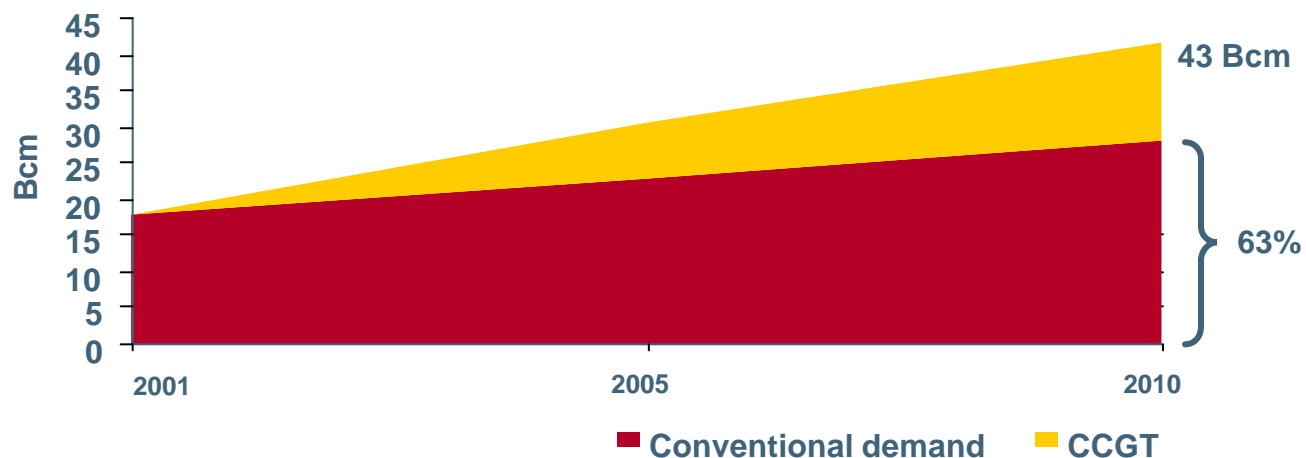


Overview of Gas Natural Group

High Growth in Core Spanish Gas Market



Evolution of Total Gas Demand



At an early stage of development...

- Sixth largest European gas market
- 4.6 million customers, 18 Bcm
- Low penetration (12% in Spain vs. 24% in EU)

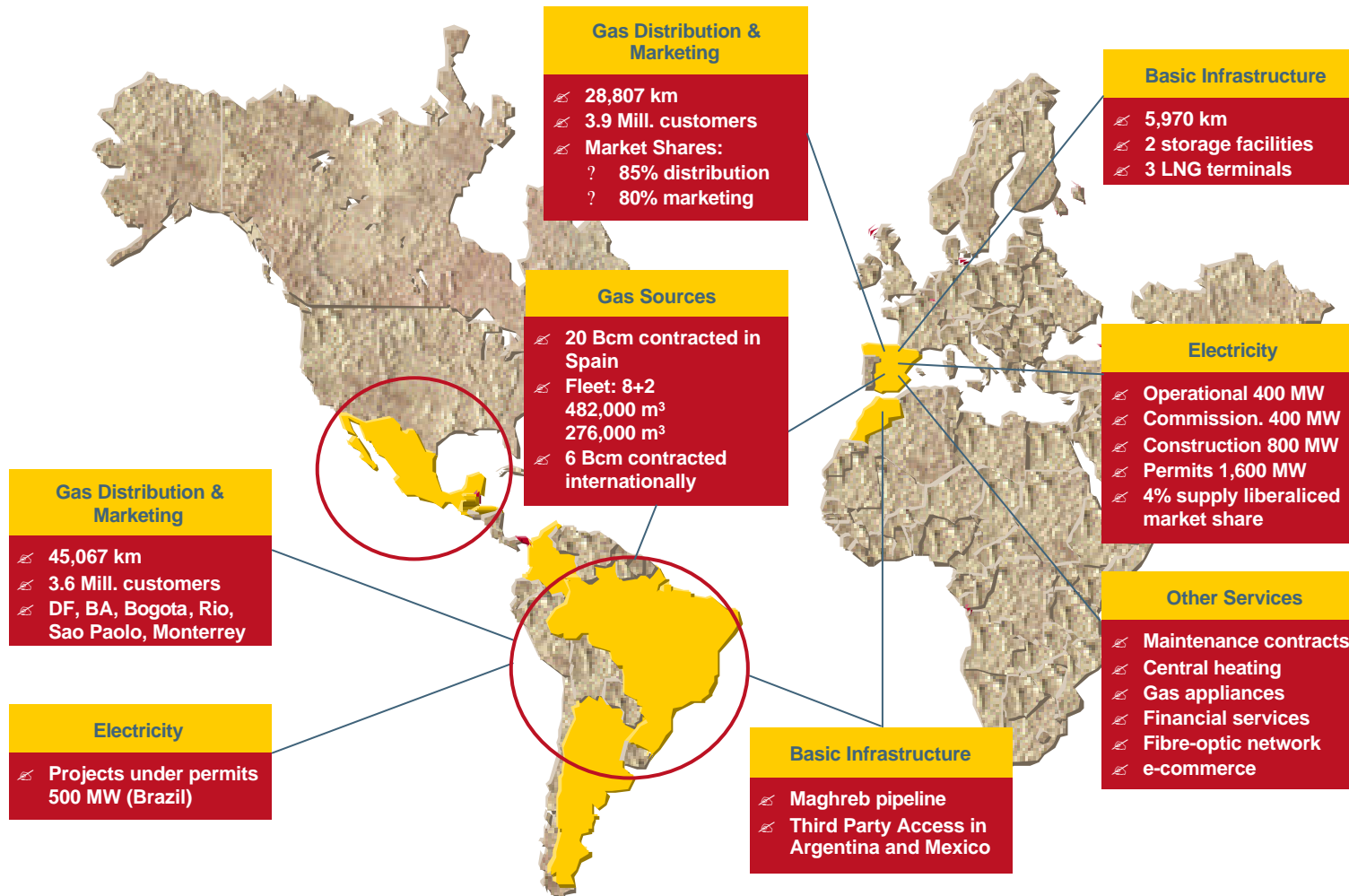
...with strong and visible growth

- Conventional demand growth: Residential 8% p.a., Industrial 6% p.a.
- CCGT capacity to reach 13 GW by 2006 (vs non existing CCGT capacity nowadays)

9% expected CAGR 2000-10

Overview of Gas Natural Group

Strong Positioning of Gas Natural



New Regulatory Framework

A Constructive Regulatory Proposition



The new regulation mirrors the reality of the Spanish gas market



Constructive regulatory framework allows long-term value creation

Note: Regulation Principles as published in “R.D. 949/01” and “Órdenes Ministeriales” as of 18-Feb-2002.

New Regulatory Framework

Introduction to Key Parameters of the Regulation



Visibility

- ✍ Clear methodology to establish key parameters
- ? Book investment revalued to reflect replacement cost
➔ *Implicit Regulated Asset Base (RAB)*
- ? Standard costs/investments
- ? Allowed Returns

Stability

- ✍ Four year regulatory period (Starting 2003 - 2005)
- ✍ Hydrocarbon Law (1998) vs “Orden Ministerial”
- ✍ Commitment to support investment in the system

Allowed Annual Returns

- ✍ Basic infrastructure
- ? Existing assets and new investments: 10 years gvt. yield + 150 bps
- ? Fully depreciated assets continue to earn the financial return on 50% of asset base and recovery of 100% of OPEX
- ✍ Distribution
- ? Existing Assets 10 gvt. Yield + 150 bps
- ? Return through increase in activity

Incentives to Efficiency

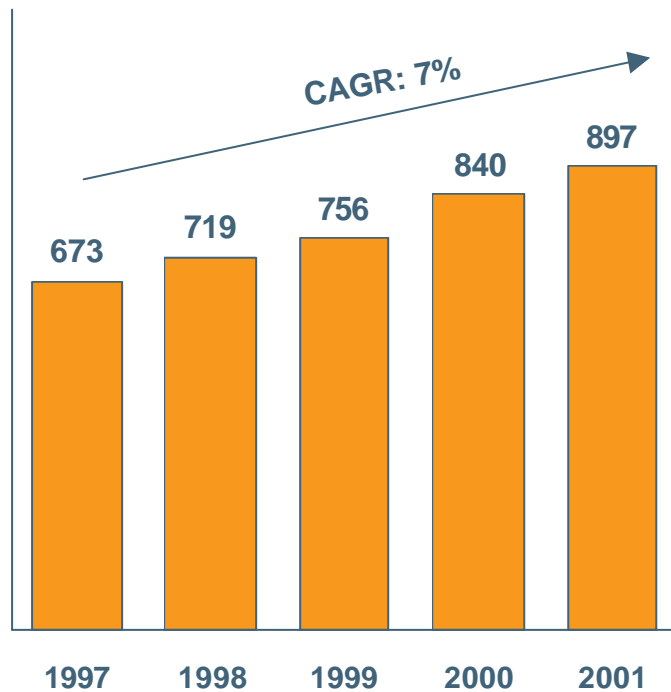
- ✍ Real vs Standard Investments + Standard OPEX

New Regulatory Framework Growth and Profitability

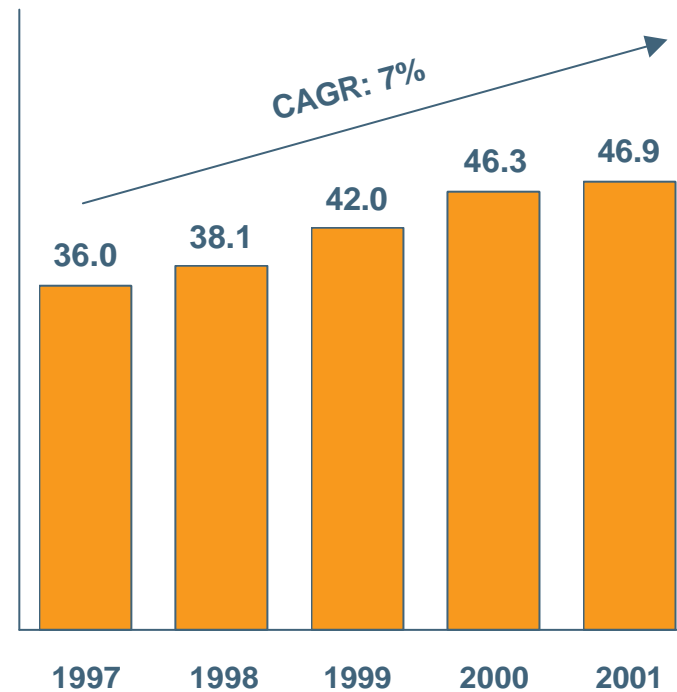


Gas Natural has a real opportunity for value creation through operating efficiency

Customer per Employee



Sales (GWh) per Employee



Note: Figures exclusively based on activity in Spain

The Partial Sale of Enagas



The sale of 65% of Enagas will allow for further value creation

Implied RAB

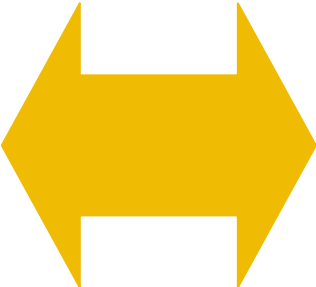
€2,578m

Equity
Debt

42%
58%

Regulated Revenues

€446m



- ✍ Comply with Decree “Medidas Urgentes de Liberalización”
- ✍ Immediate execution (aiming completion by 2H 2002)
- ✍ Targeting a stable, supportive, diversified and high-quality investor base
- ✍ Maximisation of valuation and proceeds for GN

The proceeds from the Enagas divestiture will allow Gas Natural financial flexibility for future selective investments

Implementing of Our Strategy

Building on Our Strengths



	Gas Sources	Basic Infrastructure	Gas Distribution	Electricity Generation	Multi-Utility
Current Position	<ul style="list-style-type: none"> 20 Bcm contracted for Spain and 6 Bcm internationally Markets and gas sources (8) on both sides of the Atlantic Large and growing fleet 758,000 m³ 	<ul style="list-style-type: none"> Enagas network and Spanish regasification capacity 	<ul style="list-style-type: none"> 28,807km network in Spain and 45,066km internationally Exclusivity in GN areas until 2005 	<ul style="list-style-type: none"> San Roque (400 MW) operational Immediate start of Besós (400 MW) 	<ul style="list-style-type: none"> Strong brand 7.5 million gas customers 4% market share in unregulated power market in Spain Other products and services
Strategic Course of Action	<ul style="list-style-type: none"> Secure and diversify competitive sources of gas through long-term contracts Leverage on privileged position to trade on both sides of the Atlantic 	<ul style="list-style-type: none"> Maintain 35% of Enagas in the expansion years Network growth Optimize infrastructure management 	<ul style="list-style-type: none"> Selective network expansion Enhance efficiency Leverage for multi-utility strategy 	<ul style="list-style-type: none"> Leverage on competitive and flexible gas sources Back electricity supply business 	<ul style="list-style-type: none"> Leverage on brand and customer access Exporting brand and business models
Strategic Targets	<ul style="list-style-type: none"> Anticipate future needs Balance between contracted supply and demand Double LNG flows by 2006 (10 Bcm ? 20 Bcm) ? increased trading opportunities 	<ul style="list-style-type: none"> Enagas successful partial divestiture 	<ul style="list-style-type: none"> 1.2 Mill. additional customers in Spain and 1.5 Mill. internationally by 2006 Efficiency targets by 2006 <ul style="list-style-type: none"> Customer/ Employee: 30% improvement 15% reduction in Opex/Customer 	<ul style="list-style-type: none"> 4,400 MW by 2006 >10% market share in power generation by 2006 	<ul style="list-style-type: none"> 10-11 Mill. customers by 2006 >10% share of electricity market by 2006 Increase portfolio of products/home financial services

Financial Considerations

Investments and Cashflow Generated 2002 - 2006

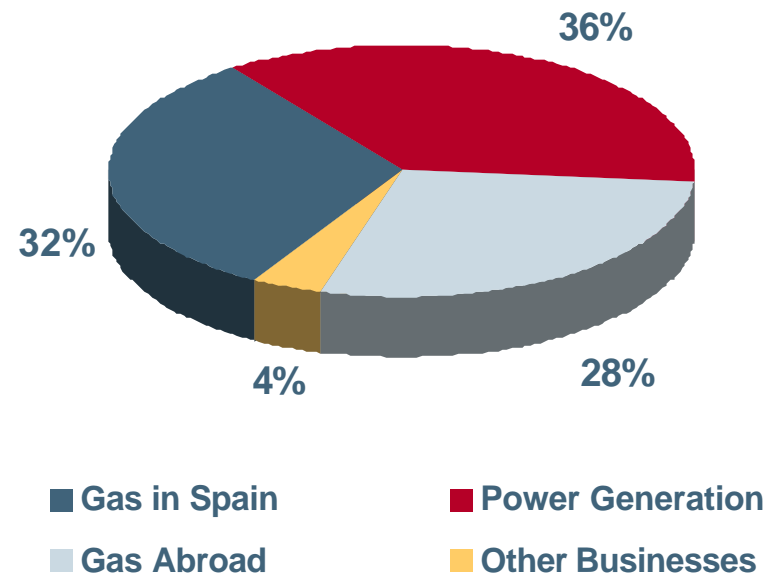


Investments will be based on the net cashflow over the next 5 years and the opportunities that arise in the non-regulated businesses

Target IRR:
+400 bps over WACC



Investment Breakdown

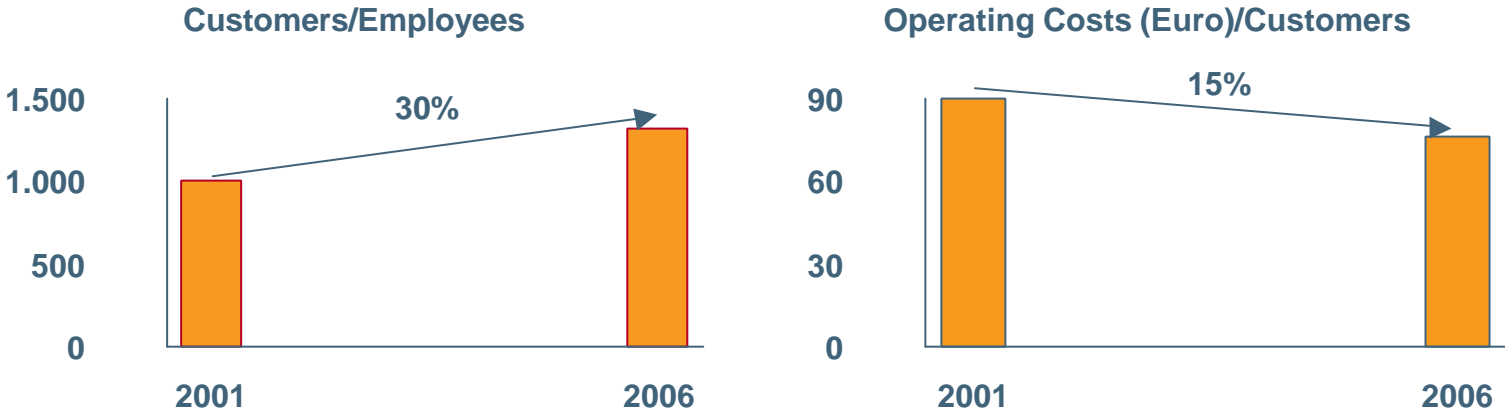


Financial Considerations

Improved Productivity



Gas



Expected growth will allow a 15% overall reduction in operating costs per customer

Electricity

Optimal operating costs and maintenance (0.30 cent Euro/kWh)



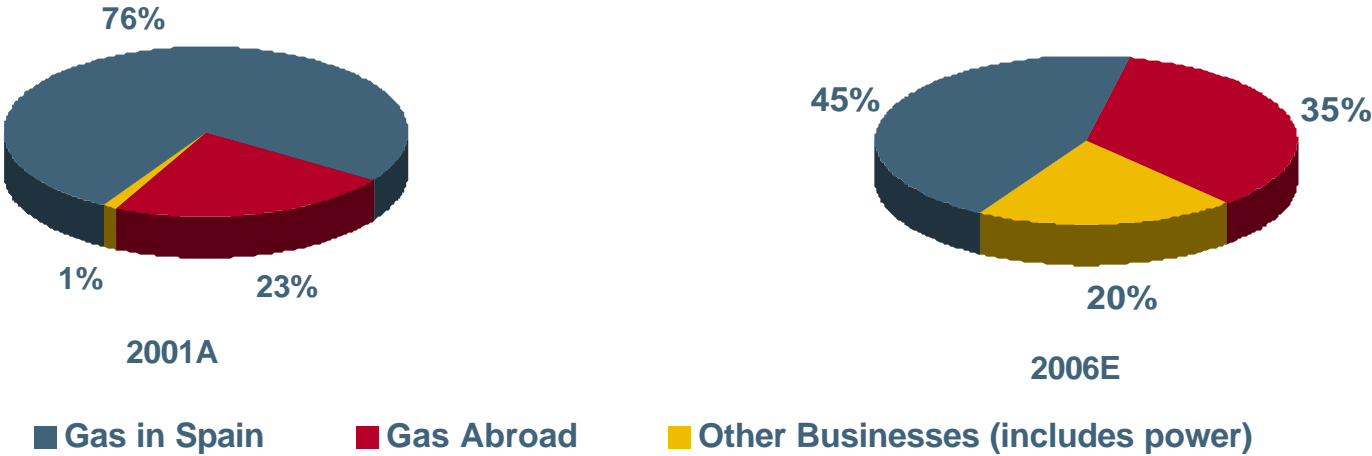
Benefit from Gas-Electricity Synergies

Financial Considerations

Growth Plan



EBIT Contribution



ROACE



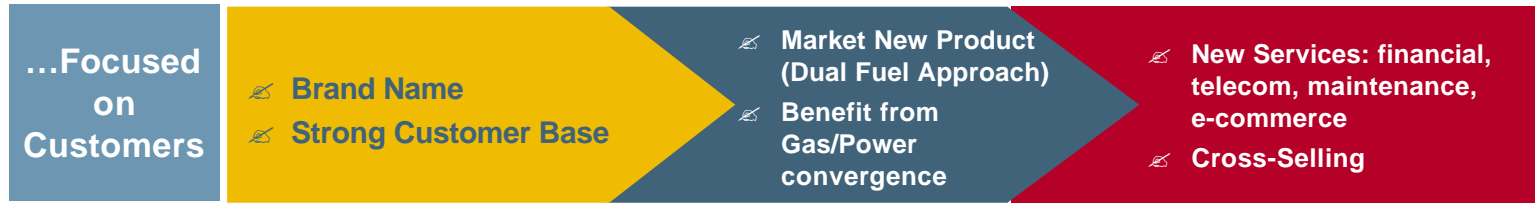
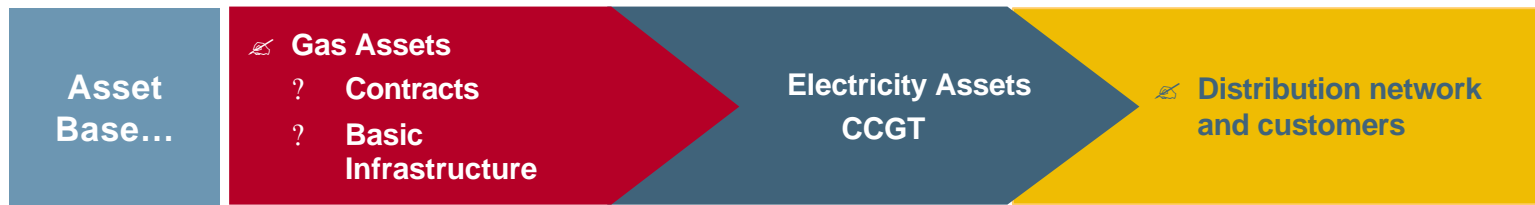
Through more than a 10% increase in annual profits

Conclusions

Building Our Customer-Focused Strategy



Achieving dynamic growth in liberalising markets through customer focus



Definition of a Multi-Utility Strategy leveraging on a solid customer base and highly-regarded brand name

10-11 million Customers by 2006

Conclusions

Commitment to Deliver Profitable Growth



Our Sound Positioning and Solid Track Record (1997-2001) ...

- ✍ Efficiency
 - ? 11.6% CAGR in customers
 - ? 8.5% CAGR in customers/employee
 - ? 7.9% CAGR in GWh/employee
- ✍ Profitability
 - ? 6.0% improve in ROACE
- ✍ Growth
 - ? 16.9% CAGR EPS Growth



... Backed by Highly Favourable Market Conditions ...

- ✍ 7.5 million customers
- ✍ 12% penetration of Spanish gas market (vs 24% in Europe)^(a)
- ✍ 9% expected 10-yr CAGR growth in volumes (vs 4% in Europe) coming from all segments
- ✍ 13GW CCGT plants under construction in Spanish Power Sector

...and a constructive Regulatory Framework

- ✍ Support investments and efficiency
- ✍ Allow fair returns

... Will Ease the Execution of our Customer-oriented Strategy

- ✍ 10-11 million customers
- ✍ >10% market share in power supply
- ✍ Increase portfolio of products/services
- ✍ Secure flexible and competitive gas sources



... Fostering Growth and Profitability for our Shareholders (2002-2006)

- ✍ >10% EPS growth in the next 5 years
- ✍ >15% ROACE target
- ✍ Efficiency Ratios
 - ? 30% improvement in customer/employee
 - ? 15% OPEX/customer reduction

• Penetration defined as % gas demand relative to total primary energy demand

Gas Natural Group



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March 2002

Thank you

