

# Roadshow Presentation

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**“A World-Class, Client-Driven Energy Leader”**



April 2003

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# The Next Step in Gas Natural's Strategy

## The Creation of a World Scale Energy Leader

- The transaction accelerates our strategy, effectively advancing the strategic plans of both companies by a number of years and creating a scaled player in a position to take advantage of dynamic changes in the energy sector
- A compelling industrial logic with strong financial benefits from synergies and capital discipline in the near future, and revenue opportunities in the medium term



**The transaction will create faster, more profitable growth from an optimally financed company**

# Transaction Overview

- **Tender Offer for 100% of the share capital of Iberdrola by Gas Natural**
  - **Tender Offer consideration consisting of 60% shares and 40% cash**
    - **€340 in cash plus 29 newly issued Gas Natural shares for every 50 Iberdrola shares, which is equivalent to €6.8 in cash and 0.58 Gas Natural shares for each Iberdrola share**
- **The offer implies a valuation of €17<sup>(a)</sup> per each Iberdrola share, or a premium of**
  - **20% to Iberdrola's closing price on the closing day before the offer**
  - **23% to Iberdrola's last three months average price**
- **The transaction is structured to create value, by joining the complementary resources of both companies in order to achieve the strategic ambitions and potential of the combined entity**

• Based on Gas Natural's share price of €17.61 as of 7 March 2003 (last closing pre-announcement).

# Highlights of the Process Calendar



# The Transaction Accelerates Gas Natural's Long Term Stated Strategy...

## Gas Natural's Stated Strategy

### Operational Targets

<b>Gas Sources</b>	<ul style="list-style-type: none"> <li>Secure flexible and competitive gas sources</li> </ul>
<b>Infras- tructure</b>	<ul style="list-style-type: none"> <li>Efficient use of capital intensive activity</li> </ul>
<b>Gas Distribution</b>	<ul style="list-style-type: none"> <li>Efficiency targets by 2007                             <ul style="list-style-type: none"> <li>Customers employee: 30% improvement</li> <li>15% reduction in opex/customer</li> </ul> </li> <li>1.5m new clients in Spain and 1.5m in LatAm</li> </ul>
<b>Electricity Generation</b>	<ul style="list-style-type: none"> <li>4,800MW in Spain by 2007</li> <li>10% market share in power generation by 2007</li> </ul>
<b>Multiutility</b>	<ul style="list-style-type: none"> <li>&gt;11m customers by 2007</li> <li>&gt;10% market share in electricity supply</li> <li>Increase portfolio products/services</li> </ul>

### Financial Highlights

- ROACE >15% by 2007
- All investments to meet hurdle rate between 300bp and 400bp over WACC

## Impact of the Transaction

### Iberdrola Contribution

- Iberdrola adds 7.5bcm of contracted gas
- Iberdrola acquisition to trigger rationalisation of each company's exposure to infrastructure assets
- Substantial synergies expected to arise from joint commercial management and joint operation of distribution network
- Iberdrola adds 19GW of installed capacity in Spain, representing approximately a 28% market share
- Iberdrola adds 16.2m clients to Gas Natural's 8.1m portfolio
- Iberdrola enjoys a 38% market share in the electricity end-market
- Complementarity of individual customer bases provides new entity with national footprint
- Proforma ROACE target greater than 16% by 2006 with a larger capital base
- Investment above our hurdle rate

# ...As Well As Iberdrola's

## Iberdrola's Stated Strategy

### ● Operational Targets

- Increase generation capacity from 19,000 MW to 30,800 MW by 2006
- A more balanced generation mix
- 20% market share in gas by 2006
- Secure and diversified gas sources
- Leader of liberalised supply market
- Increase Net Sales per customer

### ● Financial Highlights

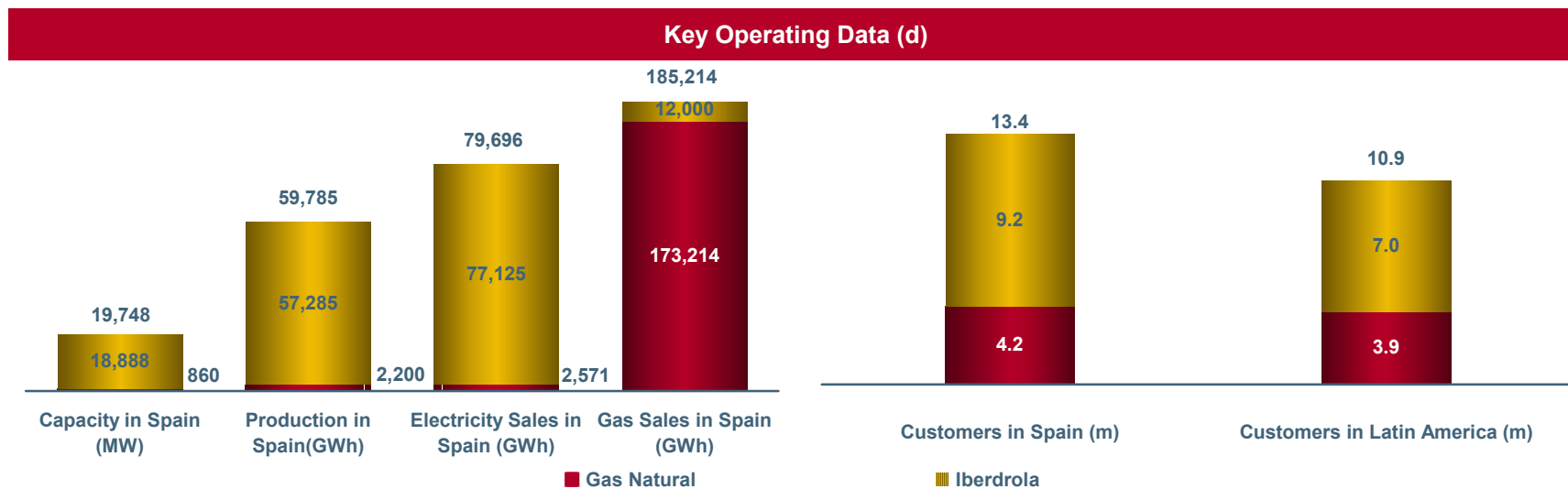
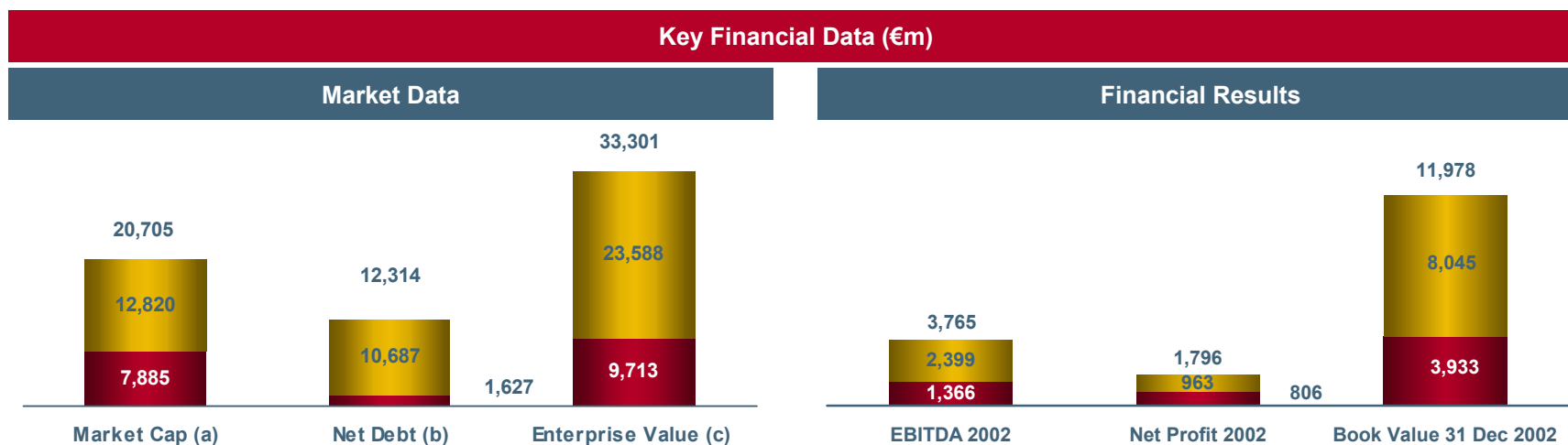
- Net Profit of €1.6bn by 2006
- Maintain financial strength
- Investment hurdle: WACC +2 to 3%

## Impact of the Transaction

### Gas Natural Contribution

- Combination allows for same growth in generation capacity increasing profitability through access to competitive gas and rationalising total investment for the sector
- Presence and plans in CCGT generation allow for an immediate rebalancing
- Strong position in the Spanish gas market, with a circa 70% share
- 28 bcm of gas contracted from multiple diversified sources
- Combination enhances positioning through dual offering. Leader in gas and electricity
- 2 million common customers
  
- EPS accretion of 20% for Iberdrola shareholders by 2006
- Leverage level of combined entity after planned disposals similar to Iberdrola's
- Investment hurdle: WACC +3% to 4%

# A Snapshot of the Combined Entity



- Market Cap as of 7 March 2003.
- Net Debt pre transaction (as of 31 December 2002).
- Includes minority interests as of 31 December 2002, valued at €201m (Gas Natural) and €81m (Iberdrola).
- As of 31 December 2002.



# A World-Class, Client-Driven Energy Leader

## Creation of a Leader in the Energy Sector

- Fifth largest utility in the world by market capitalisation and third-largest in Europe (by market capitalisation and number of electricity and gas customers)
- Rightly sized to exploit scale benefits and future opportunities in Europe's liberalizing energy sector

## Strong Strategic Positioning

- Well-positioned in an attractive and fast-growing market
- Nationwide customer reach allows for successful dual-offer strategy
- Optimal power generation mix
- Sizeable and flexible gas contract position
- Balanced position in LatAm through exposure to above-average assets and growth upside

## Strategic Fit Along the Gas / Power Value Chain

- Transaction effectively advances the Strategic Plans of both Gas Natural and Iberdrola

## Financial Outperformance Through Multiphase Action Plan

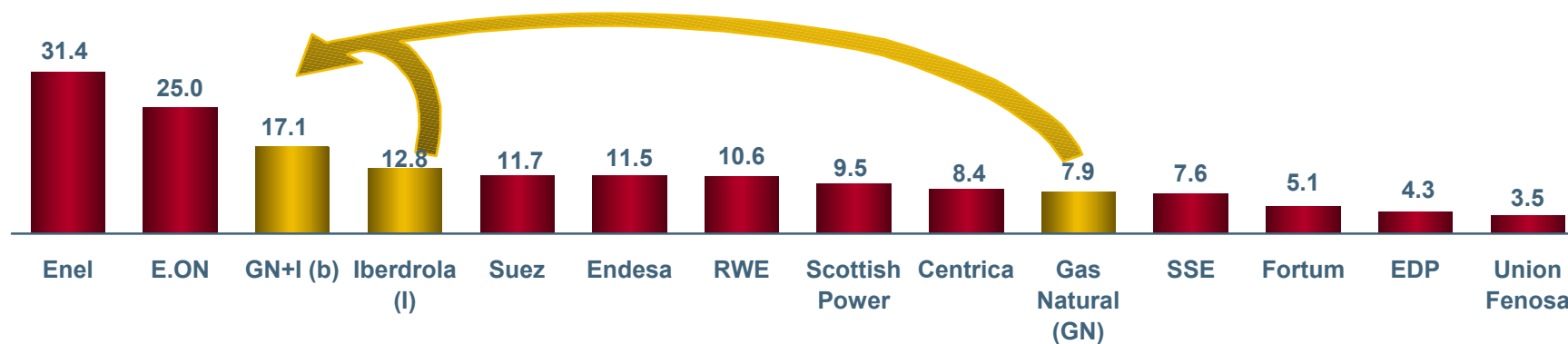
- Capital rationalisation to allow for reduction in capex levels
- Disposals and financial flexibility
- Synergies and cost-cutting potential



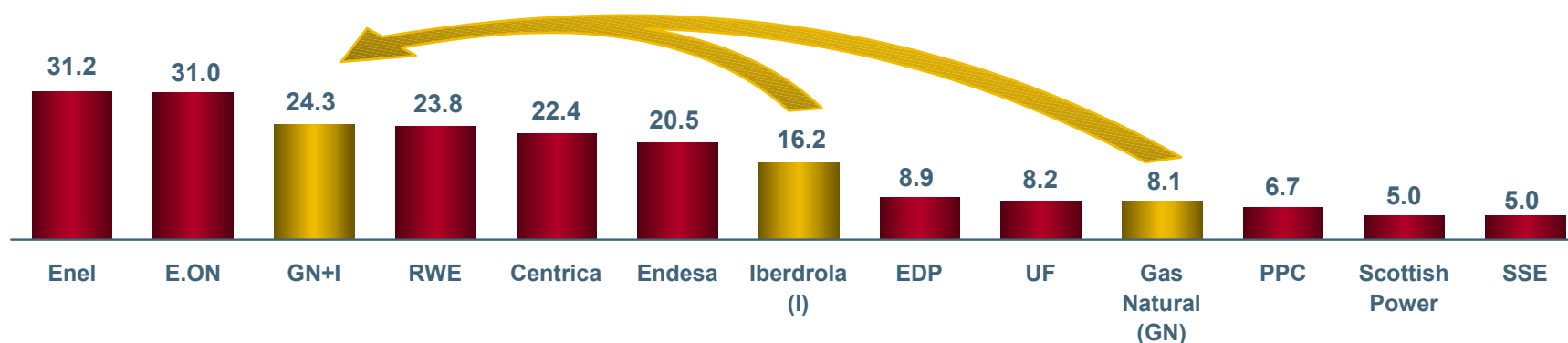
- Acquisition meets target of WACC +3% to 4%
  - Increasing returns
  - Lower cost of capital
- Earnings / dividends accretion

# Creation of a Leader in the Energy Sector

Ranking of European Utilities by Market Capitalisation (€ bn) (a)

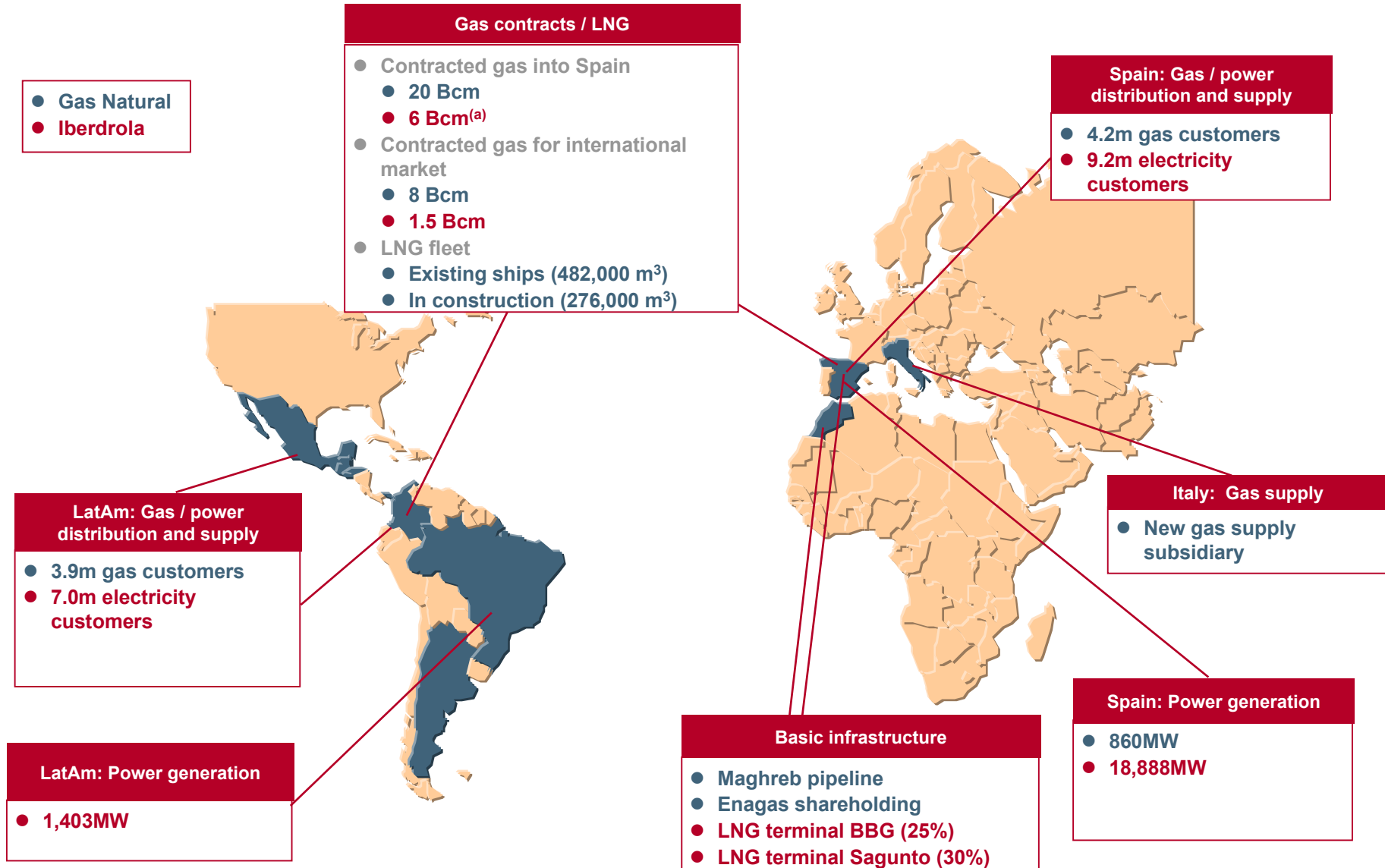


Ranking of European Utilities by Number of Customers (millions) (c)



- As of 7 March 2003.
- Assuming a price per Iberdrola share of €17, 60% paid in shares and that Gas Natural's share price remains unaffected post-transaction.
- Includes gas and electricity customers.

# Creation of a Leader in the Energy Sector



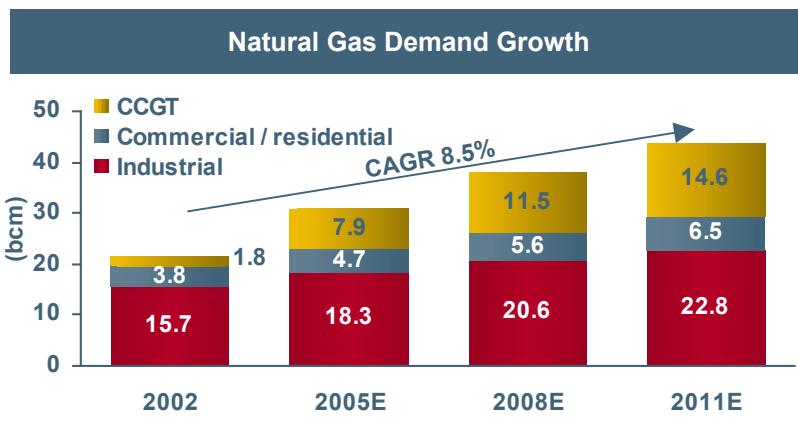
(a) 1.3 Bcm contracted with Iberdrola.

# Strong Strategic Positioning

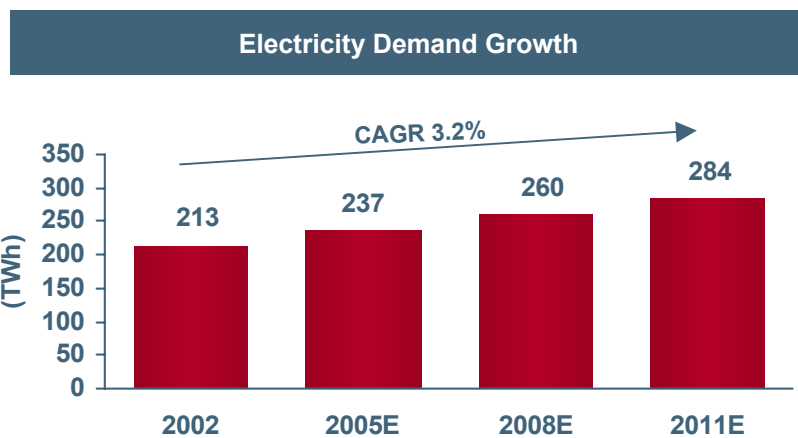
## Privileged Position in an Attractive and Fast-Growing Market

### Demand Growth in Spain

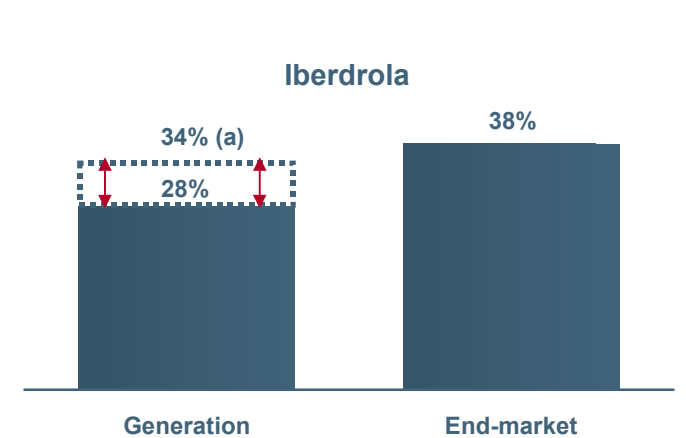
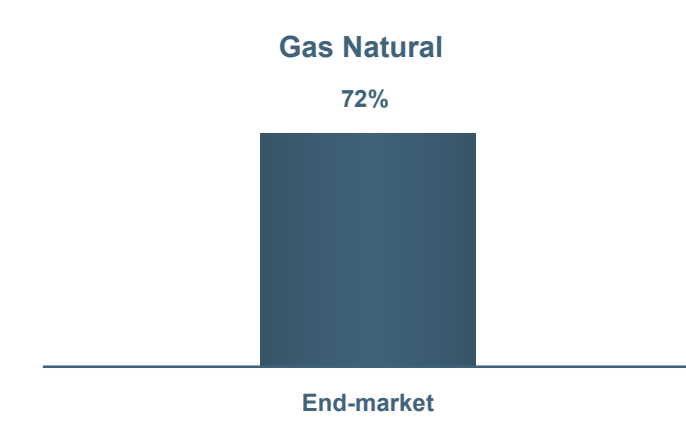
Natural gas



Electricity



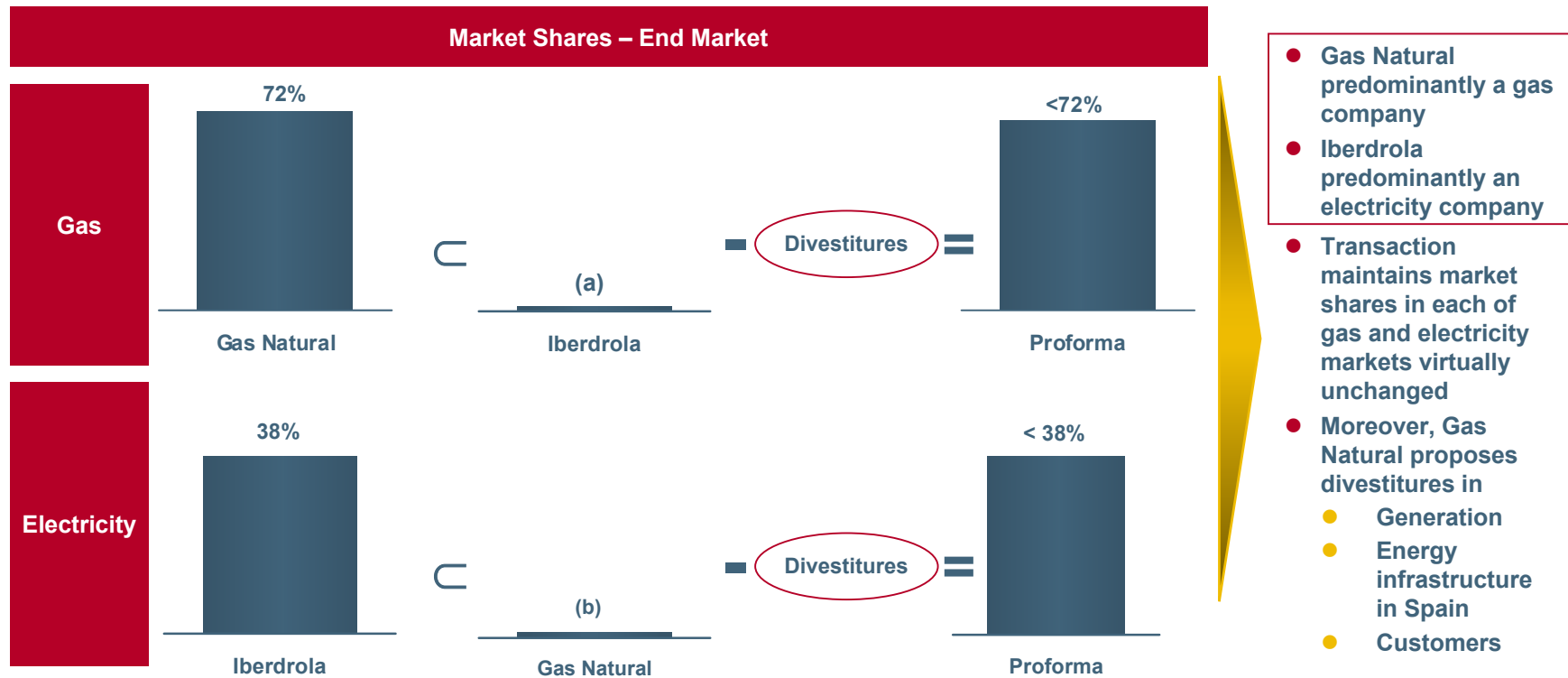
### Market Share (2002)



Source: MINECO  
(a) 2006 target.

# Strong Strategic Positioning

## The Regulatory Perspective

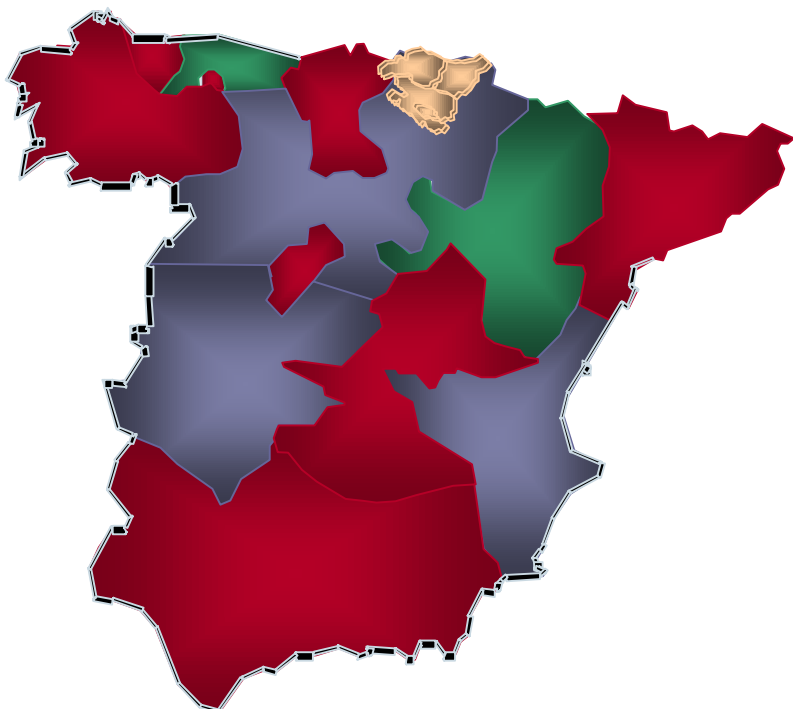


**Ability to compete effectively by making available to customers a superior, cost-efficient product offering and accelerating the full liberalisation of the Spanish gas and electricity markets**

7% in liberalised market.  
4% in liberalised market.





# Strong Strategic Positioning

Nationwide Customer Reach Allows for Successful Dual-Offer Strategy



- Ample presence with multiproduct offering
- With more than 11 million customers<sup>(b)</sup>, the combined entity will benefit from a unique base to exploit the opportunities posed by a growing market

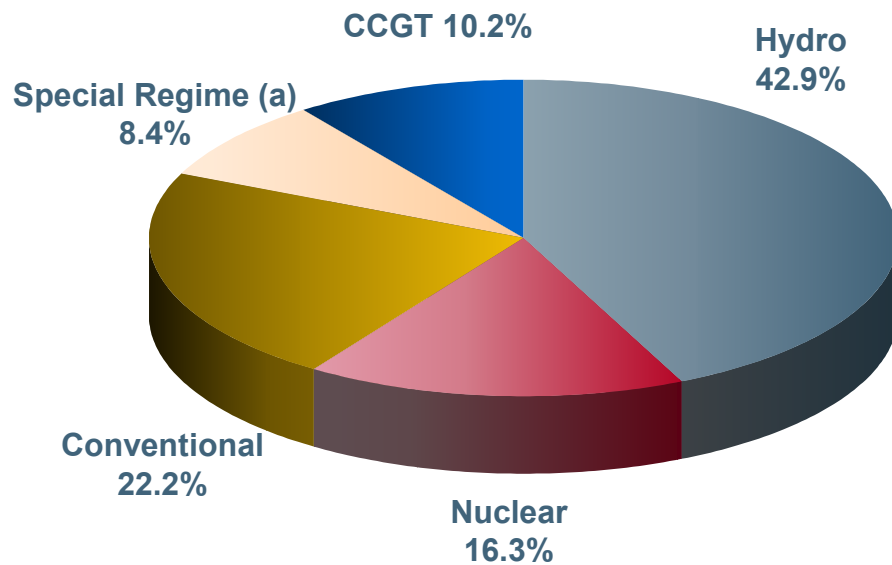
Includes 2 million customers of gas and electricity. Pre-divestitures.

Incumbent areas of Gas Natural and / or Iberdrola		CLIENTS (m):
 Dual-fuel distribution		7.2 <sup>(a)</sup>
 Gas distribution		2.2
 Electricity distribution		1.9
Total existing client base		11.3
Clients in incumbent areas not served by GN nor IBE		8.4
Other regions		
 Multiproduct offering		1.1
<b>Total Market</b>		<b>20.8</b>

# Strong Strategic Positioning

## Optimal Power Generation Mix

### Combined Power Generation Portfolio in Spain 2002



- Current portfolio ensures:
  - Maximum efficiency
  - Privileged position from an environmental standpoint
- In the future, priority given to investments in CCGT and renewables

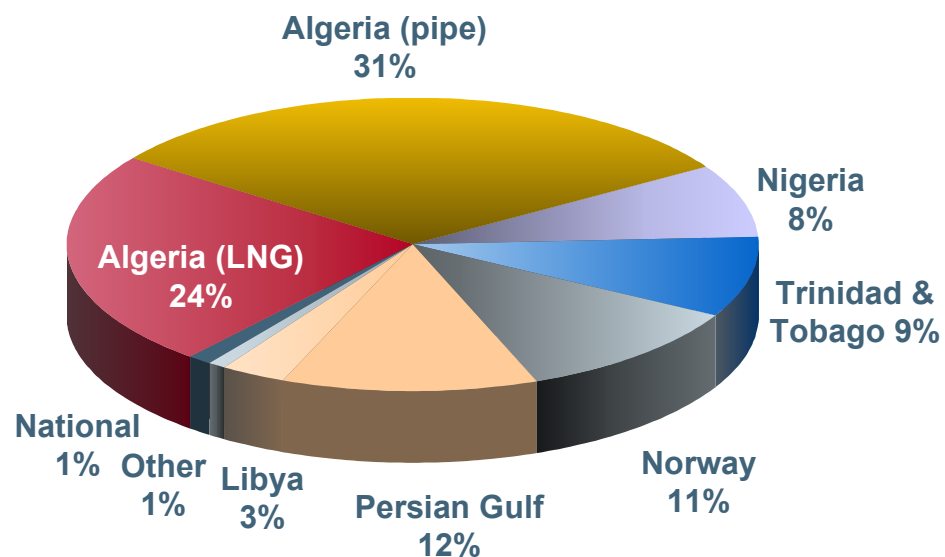
Combined Installed Capacity: 20,028 MW

Optimal generation mix

# Strong Strategic Positioning

## Diversified and Flexible Gas Sourcing

### Gas Contracts Portfolio 2002



- **Sizeable LNG fleet introduces additional flexibility**
- **Existing capacity: 8 ships (482,000 m<sup>3</sup>)**
- **In construction: 2 ships (276,000 m<sup>3</sup>)**

- **Efficient and flexible gas supply, which will allow the combined entity to**
  - **Exploit growth opportunities**
  - **Compete effectively on cost**
  - **Create value through trading**



# Strong Strategic Positioning

## Balanced Position in Latin America

### Above-average Quality Assets

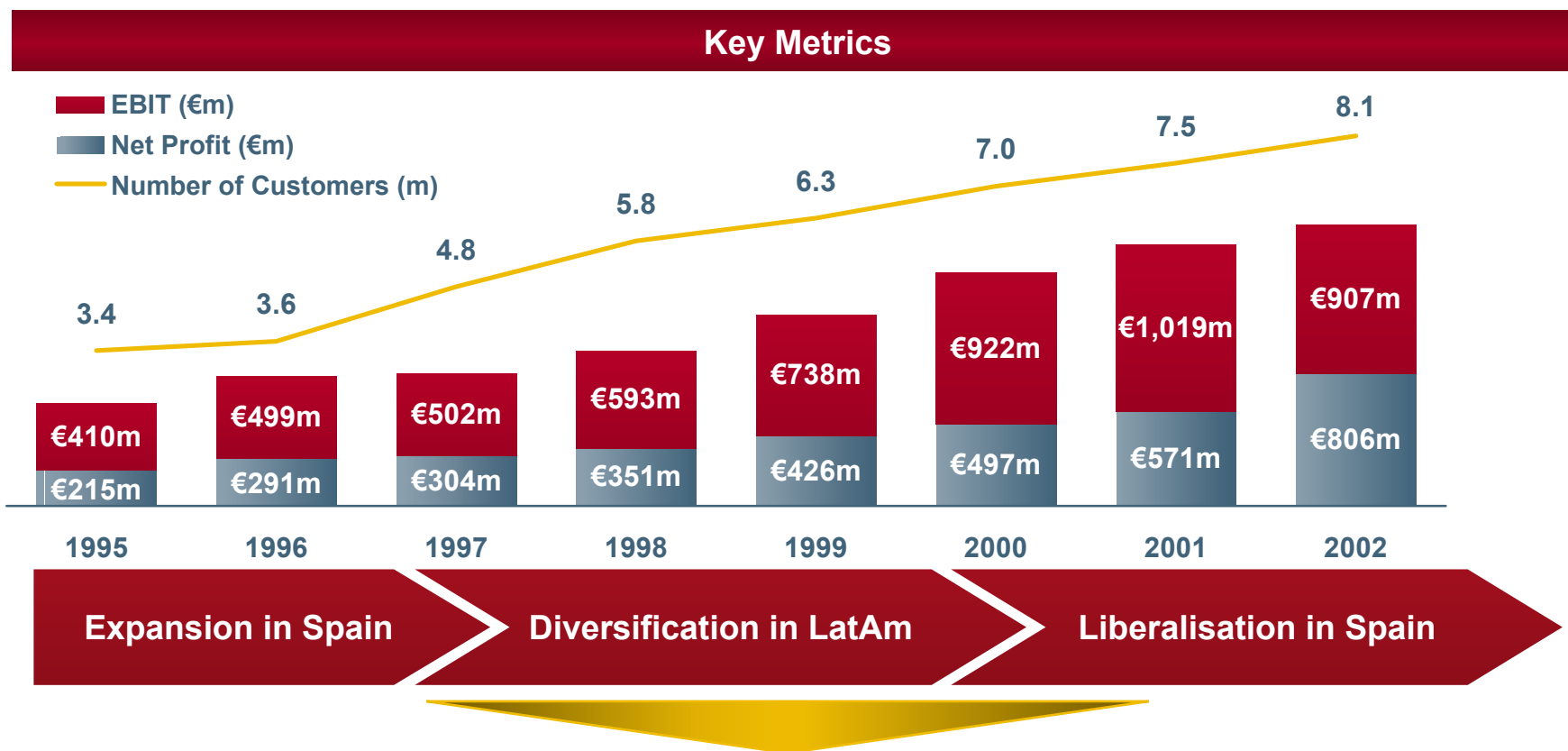


### Strategy

- Cautiously develop presence in selected markets where it is possible to:
  - Achieve scale
  - Extract synergies from integration within the gas/power value chain
- Selective evaluation of non-core assets (\*)
- Generation
  - Priority given to combined cycles
  - Attractive economics
  - Integration with distribution activities
- Distribution
  - Priority given to dual-fuel offering

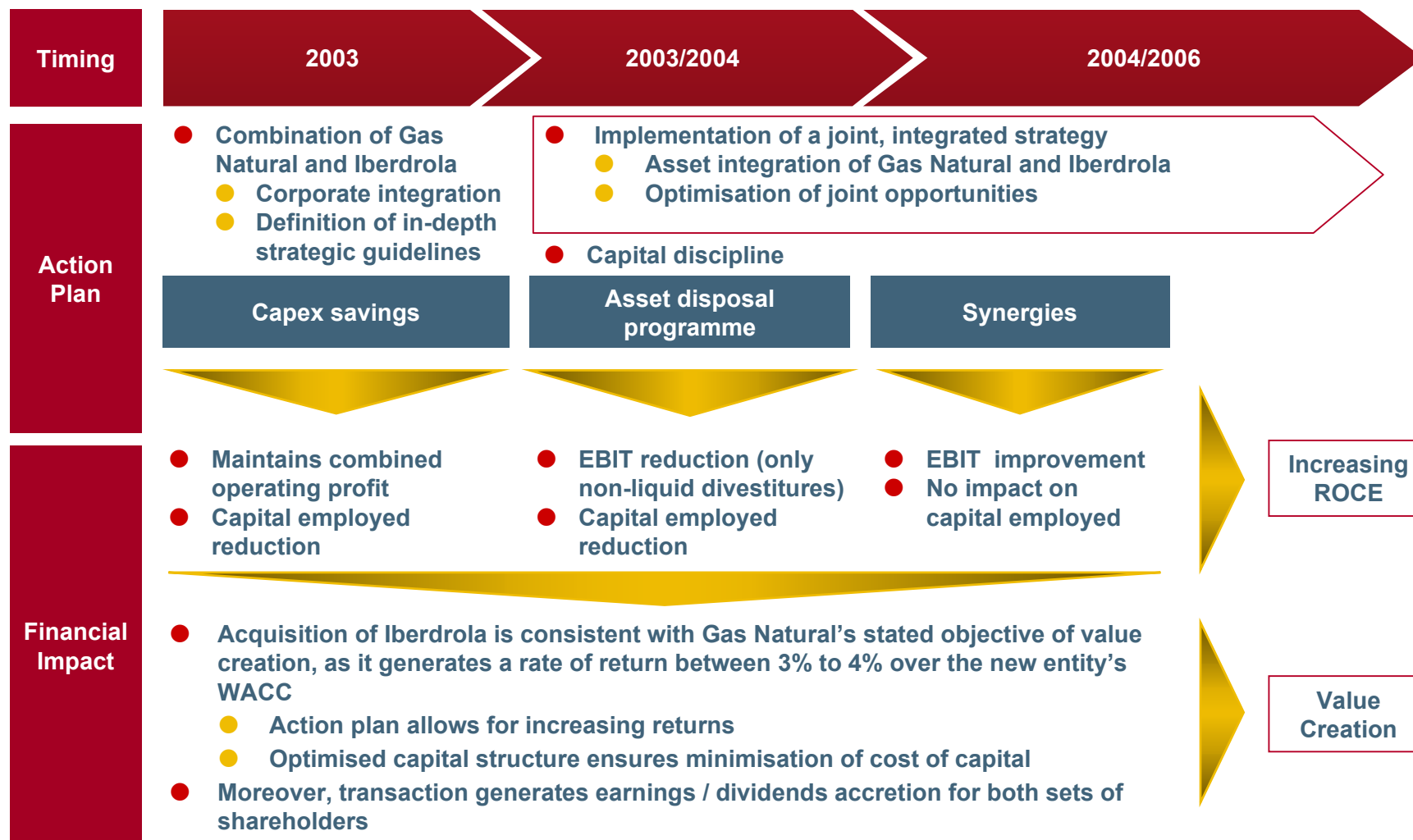
Source of data: 2001 Annual Report for Iberdrola information, and 2002 results announcement for Gas Natural.

# Gas Natural's Track Record



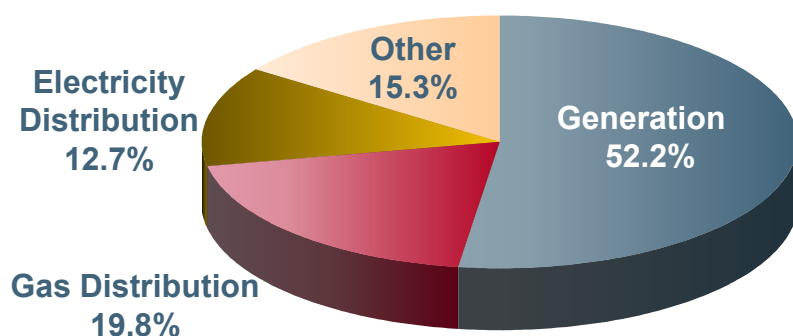
- Early adoption of an integrated gas model, benefiting from opportunities in CCGT and LNG / trading
- Creation and consolidation of a strong brand and a successful multiproduct offering
- Ability to develop presence in international markets

# Financial Outperformance Through Multiphase Action Plan



# Capital Rationalisation Allows For Lower Capex

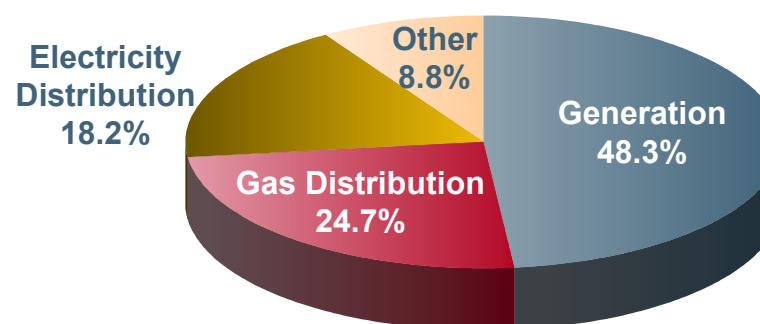
## Proforma Capex Plan (Original) 2003-2006



Total: €13,500 m

Spain: €11,015 m (82%)  
LatAm: €2,485 m (18%)

## Proforma Capex Plan Post-Savings 2003-2006



Total: €9,400 m

Spain : €7,615 m (81%)  
LatAm: €1,785 m (19%)

Capex savings of €4,100m, while maintaining a very competitive position in the market and with no negative impact on operating earnings

- Maintenance of combined operating earnings level with a lower capital base made possible by:
  - Generation
    - New plan implies downward revision of capacity built
    - However, higher efficiency of existing/new CCGT capacity will more than offset income projected to arise from discontinued projects
  - Distribution/Other: savings associated with divested assets and low-return, marginal investments

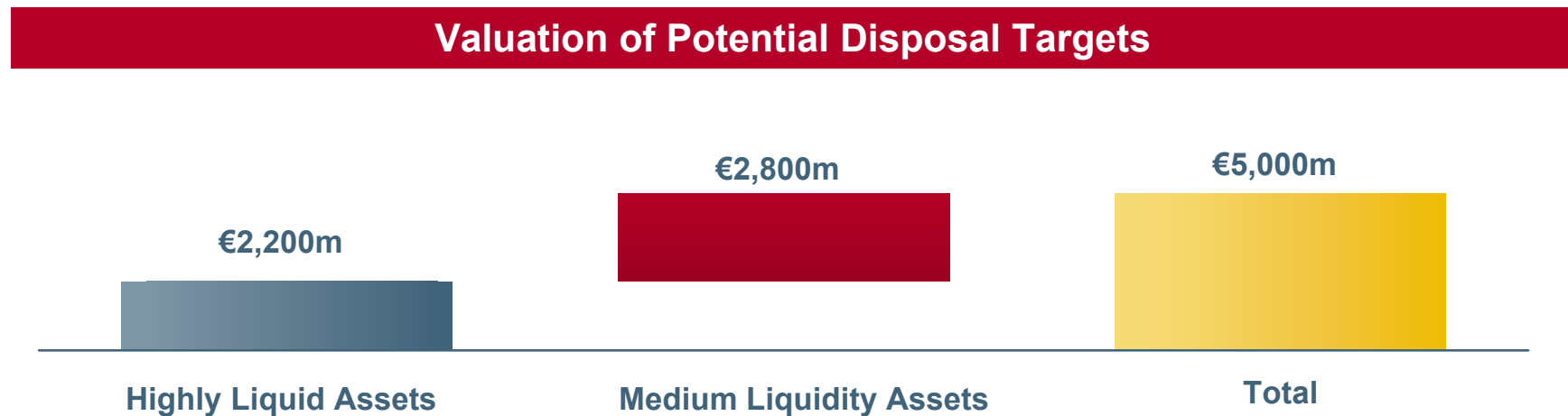
# Higher CCGT Efficiency Driving Improved Generation Profitability

- New combined CCGT capacity planned will be lower than the sum of Gas Natural and Iberdrola's programmes, but it will still be well above the level of each of the two companies separately
- Existing and new CCGTs of the combined Gas Natural / Iberdrola to benefit from two main advantages as opposed to their profile as part of the individual companies
  - Synergies at the gas supply level
  - Added flexibility arising from Iberdrola's optimal generation mix (e.g. substantial hydro generation capacity)

- Ability to operate CCGTs of new company with a higher load factor (circa 70%, representing approximately 1,000 additional hours per year for each plant)
- Improved profitability
  - Lower gas costs and, through higher production volume, ability to average down fixed cost base

# Disposals and Financial Flexibility

- In order to reinstate a more conservative capital structure, the combined entity will implement a disposal plan
  - Energy-related assets
    - Gas and power assets in Spain
    - Financial investments
    - Other energy-related assets
  - Non-core assets

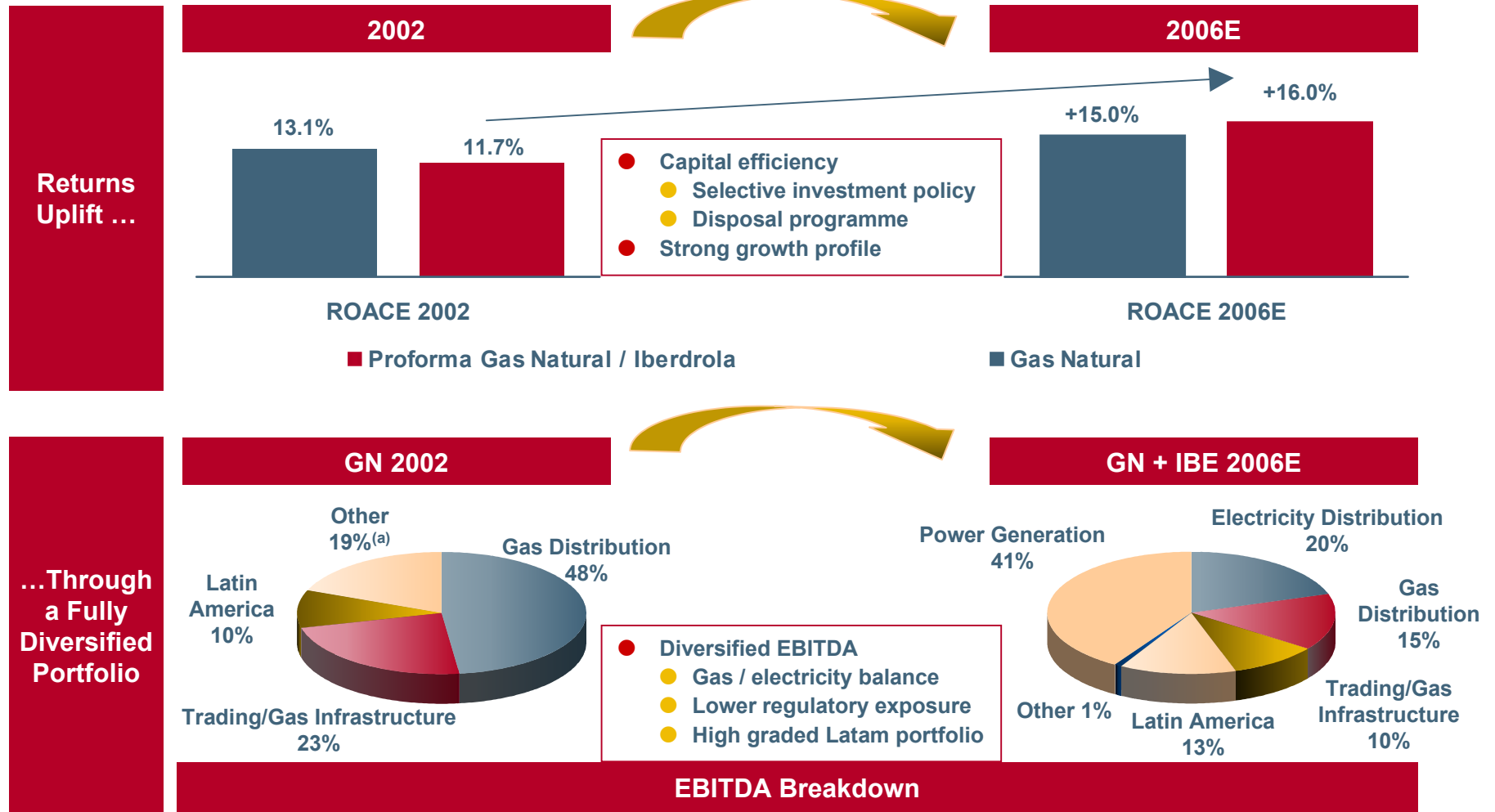


# Synergies and Cost Savings

Area		Comments on Action Plan	% Total Savings
Customer Focus	Joint Commercial Management	<ul style="list-style-type: none"> <li>● Efficiencies within the commercial cycle (meter-reading, billing and collection)</li> <li>● Integration of call-centres and commercial platforms</li> <li>● Efficient use of commercial network in common areas</li> <li>● Capture new clients</li> <li>● Multi-brand strategy</li> </ul>	23%
	Joint Operation of Distribution Network	<ul style="list-style-type: none"> <li>● Integration and standardization of purchase units</li> <li>● Efficiency and economies of scale in                             <ul style="list-style-type: none"> <li>✓ Capex</li> <li>✓ O&amp;M of distribution network</li> </ul> </li> <li>● Shared teams, joint projects</li> <li>● Efficiency in distribution activities</li> </ul>	19%
Optimisation & Centralisation of Support/ Corporate Services		<ul style="list-style-type: none"> <li>● Business integration</li> <li>● Lower overhead and administrative costs</li> <li>● Financing scale</li> <li>● Optimization of real estate space</li> </ul>	27%
IT / Systems		<ul style="list-style-type: none"> <li>● Optimization of IT operations</li> <li>● Lower maintenance costs</li> <li>● Overlap of system development projects</li> </ul>	23%
Others		<ul style="list-style-type: none"> <li>● Overlap in Latin American country organisations</li> <li>● Integration of international and diversification business management</li> </ul>	8%
<b>Total Cost Synergies €415 m(a)</b>			

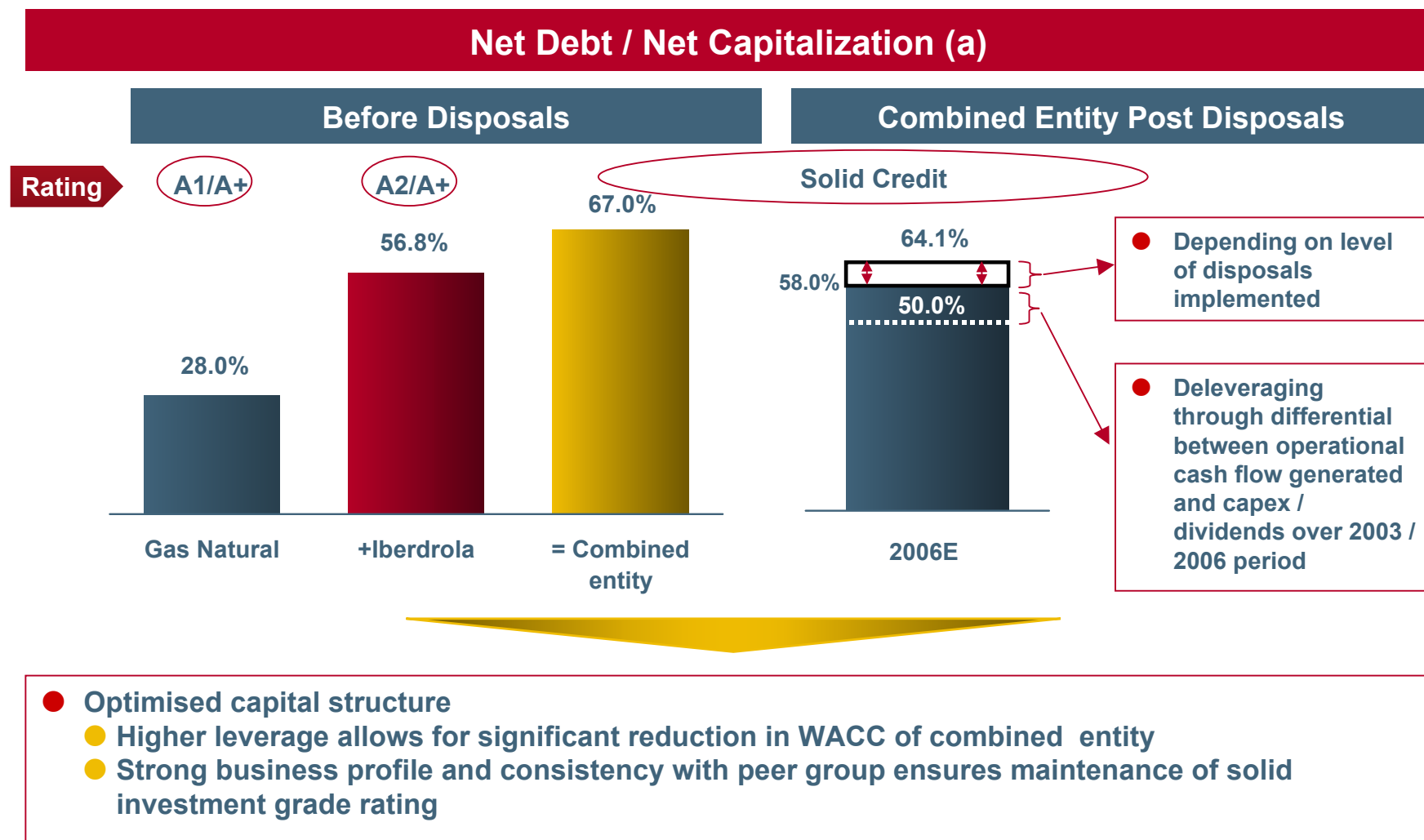
• Annual pre-tax synergies achievable from the fourth year of integration (2006), equivalent to 10% of the combined 2006 EBIT.

# Enhanced Returns With a More Balanced Asset Base





# Additional Value Through Leverage Optimization



• Includes Net Debt, Minorities and Shareholders Equity (Book Value).

# Earnings and Dividends Accretion

<b>Earnings</b>	<b>Cash EPS Impact (a) (b)</b>	<b>Proforma EPS and Cash EPS (a) (b)</b>															
	<ul style="list-style-type: none"> <li>● 8% and 10% accretive in 2003 and 2004, respectively</li> </ul>																
<b>Dividends</b>	<b>EPS Impact (a)</b>	<table border="1" style="margin-top: 10px;"> <caption>Estimated Data from Chart</caption> <thead> <tr> <th>Year</th> <th>Proforma EPS (€)</th> <th>Proforma Cash EPS (€)</th> </tr> </thead> <tbody> <tr> <td>2003E</td> <td>1.42</td> <td>1.55</td> </tr> <tr> <td>2004E</td> <td>1.58</td> <td>1.70</td> </tr> <tr> <td>2005E</td> <td>1.80</td> <td>1.95</td> </tr> <tr> <td>2006E</td> <td>2.15</td> <td>2.25</td> </tr> </tbody> </table>	Year	Proforma EPS (€)	Proforma Cash EPS (€)	2003E	1.42	1.55	2004E	1.58	1.70	2005E	1.80	1.95	2006E	2.15	2.25
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2004E	1.58	1.70															
2005E	1.80	1.95															
2006E	2.15	2.25															
	<ul style="list-style-type: none"> <li>● Slightly dilutive in 2003 (1%)</li> <li>● Accretive from 2004</li> </ul>																
	<ul style="list-style-type: none"> <li>● Shareholders to benefit from dividends accretion due to                             <ul style="list-style-type: none"> <li>● Higher payout ratio (consistent with Iberdrola's)</li> <li>● Earnings accretion</li> </ul> </li> </ul>																

**Positive Impact for both sets of shareholders**

- Source of estimates: IBES consensus (Gas Natural EPS 2003E: €1.44; 2004E: €1.56; 2005E: €1.69; 2006E: €1.82 and Iberdrola EPS 2003E: €1.16; 2004E: €1.32; 2005E: €1.50; 2006E: €1.71).
- Includes synergies and disposals contemplated in the transaction.

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