

Iberdrola USA-UIL merger



February 2015



IBERDROLA

Legal Notice



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Additional Information and Where to Find It

Iberdrola USA, Inc. will file with the United States Securities and Exchange Commission ("SEC") a registration statement on Form S-4, in which a proxy statement will be included as a prospectus, and other documents in connection with the proposed merger. The UIL proxy statement/prospectus will be sent to the stockholders of UIL Holdings. INVESTORS AND SECURITYHOLDERS OF UIL ARE URGED TO READ THE PROXY STATEMENT/PROSPECTUS, AND ANY OTHER FILINGS THAT MAY BE MADE WITH THE SEC IN CONNECTION WITH THE MERGER WHEN THEY BECOME AVAILABLE, AS THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE MERGER. The registration statement and proxy statement/prospectus and other documents which will be filed by Iberdrola USA with the SEC, when filed, will be available free of charge at the SEC's website at www.sec.gov, or from Iberdrola USA, Inc. at www.iberdrolausa.com. Such documents are not currently available. You may also read and copy any reports, statements and other information filed by Iberdrola USA and UIL Holdings with the SEC at the SEC public reference room at 100 F Street N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at (800) 732-0330 or visit the SEC's website for further information on its public reference room. Certain executive officers and directors of UIL Holdings have interests in the proposed transaction that may differ from interests of stockholders generally, including benefits conferred under retention, severance and change in control arrangements and continuation of director and officer insurance and indemnification. This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to appropriate registration or qualification under the securities laws of such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Introduction

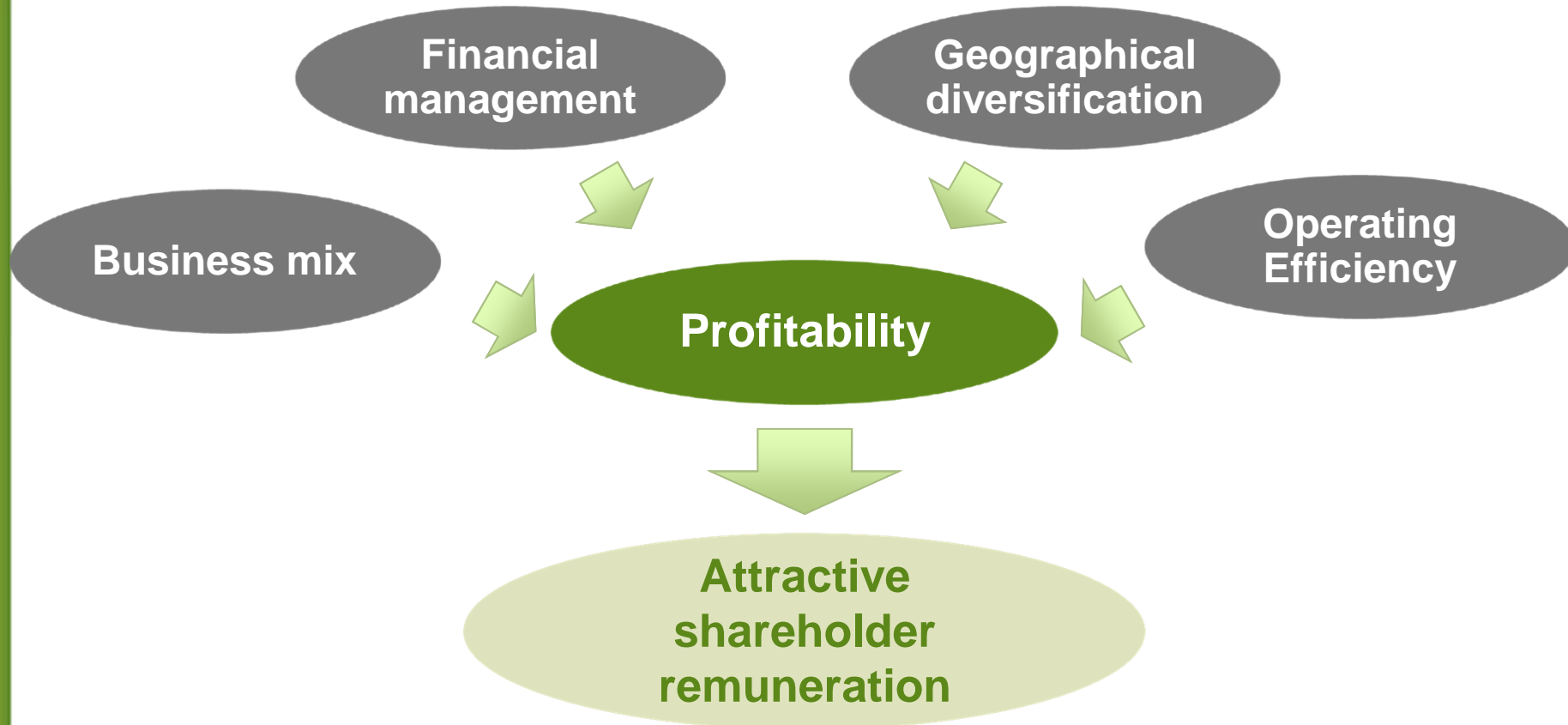
Strategic fit and valuation

Transaction timetable

Annex: UIL Overview

Introduction

A further step based on the principles of the Company ...



... in order to create and crystallise value for our stakeholders

The transaction fulfils all Iberdrola requirements

Strategic

- ✓ Increase exposure to the US
- ✓ Increase the weight of regulated business
- ✓ Geographical proximity

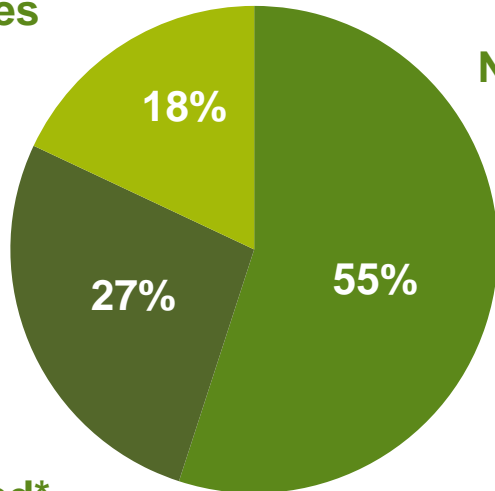
Financial

- ✓ No capital increase
- ✓ No change in the financial structure
- ✓ Positive impact on EPS and Cash Flow per share

The transaction enhances Iberdrola regulated business contribution in 4 pp ...

2014e EBITDA proforma

Renewables

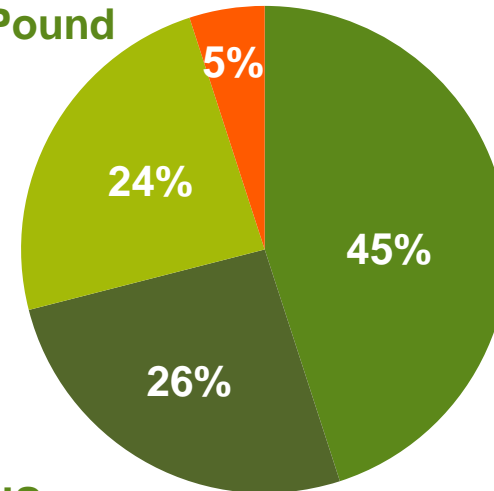


Networks

Liberalised*

Real

Pound



Euros

US Dollar

... and increases exposure to US and US Dollar

* Includes Mexico contracted generation

Introduction



Merger agreed on a friendly basis of two companies with similar culture and aligned strategy ...

**Iberdrola to own 81.5% of the combined company
UIL shareholders to receive 18.5% of the combined company
plus a cash payment of USD 597 M**

Combined entity will be listed on the NYSE

**Dividend policy to remain consistent with IBE Group:
65%-75% pay-out ratio**

... in order to create one of the largest US Utilities

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Key Transaction Elements



Iberdrola USA and UIL to merge ...

Seven regulated utility companies operating in four states

Rate Base over USD 8 bn

Total customer base of 3.1 M

38.7 TWh of distributed energy and 6.7 GW of installed capacity

2nd largest wind operator in the US

Pro-forma EBITDA of USD 2 bn and Net Income of USD 570 M

... creating a leading utility in the US
with an attractive combination of growth and yield

Combined Entity Overview

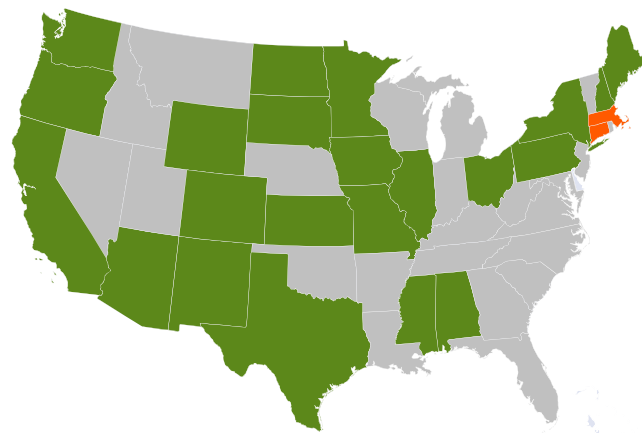
Financial Figures

	Iberdrola USA	UIL	Iberdrola USA + UIL
EBITDA 2014 (USD M)	1,576	438	2,014
Recurring Net Profit 2014 (USD M)	433	123	556
Rate Base (USD Bn)	6.1	2.2	8.3

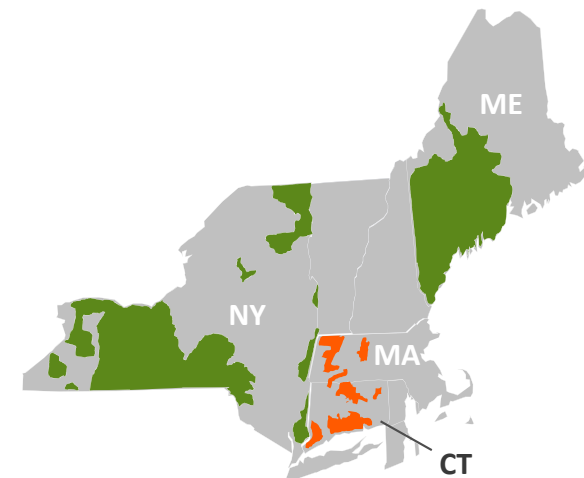
Operational Figures

	Iberdrola USA	UIL	Iberdrola USA + UIL
Total Customers (M)	2.4	0.7	3.1
Distributed Energy 2014 (TWh)	33.3	5.4	38.7
Installed Capacity (MW)	6,479	205	6,684

Presence in the US



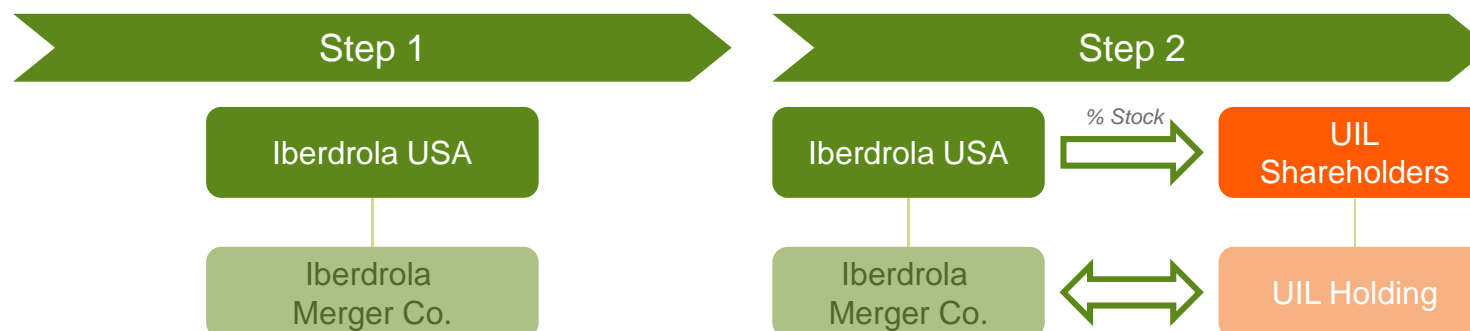
T&D Asset Map



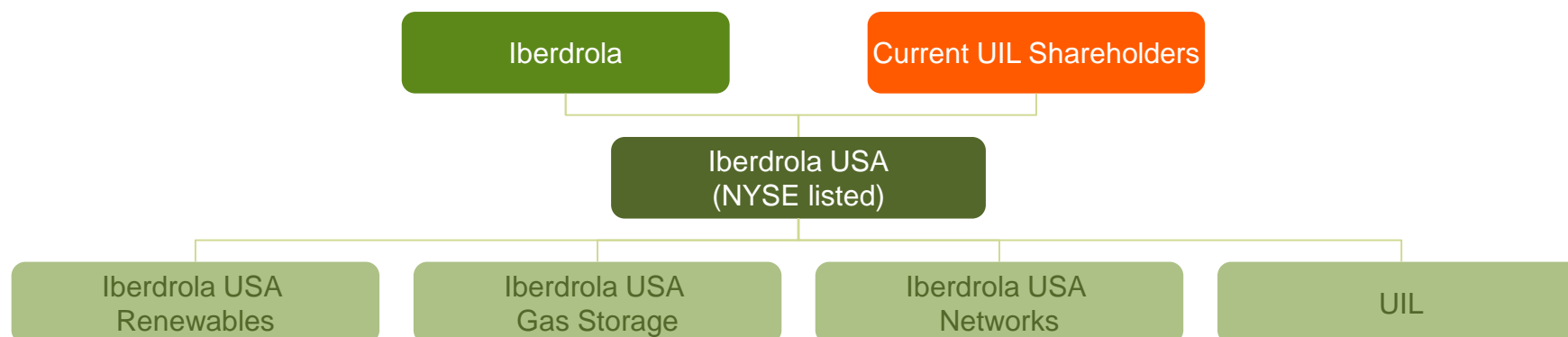
■ Iberdrola USA
 ■ UIL

Transaction Structure

Transaction Steps



Post-transaction Structure



- Transaction recommended by UIL's Board of Directors
- UIL's current CEO to be appointed CEO of the combined company
- The Board will be comprised of 12 members, of which 3 will be from UIL

Transaction Rationale

Transaction satisfies Iberdrola's criteria for non-organic transactions ...

Regulated business profile

- Strengthens and expands IBE regulated business profile, adding low risk and predictable cash flow operations

Geographic fit

- Business proximity and strategic alignment
- Opportunity to jointly promote new projects
- Platform to develop gas distribution projects across the US

Increased exposure to the US and the US dollar

- Increases Iberdrola's US business contribution
- Strong economic outlook and sovereign credit rating AAA¹
- Diversifies currency risk with more US Dollar exposure in addition to the current presence in the US and Mexico

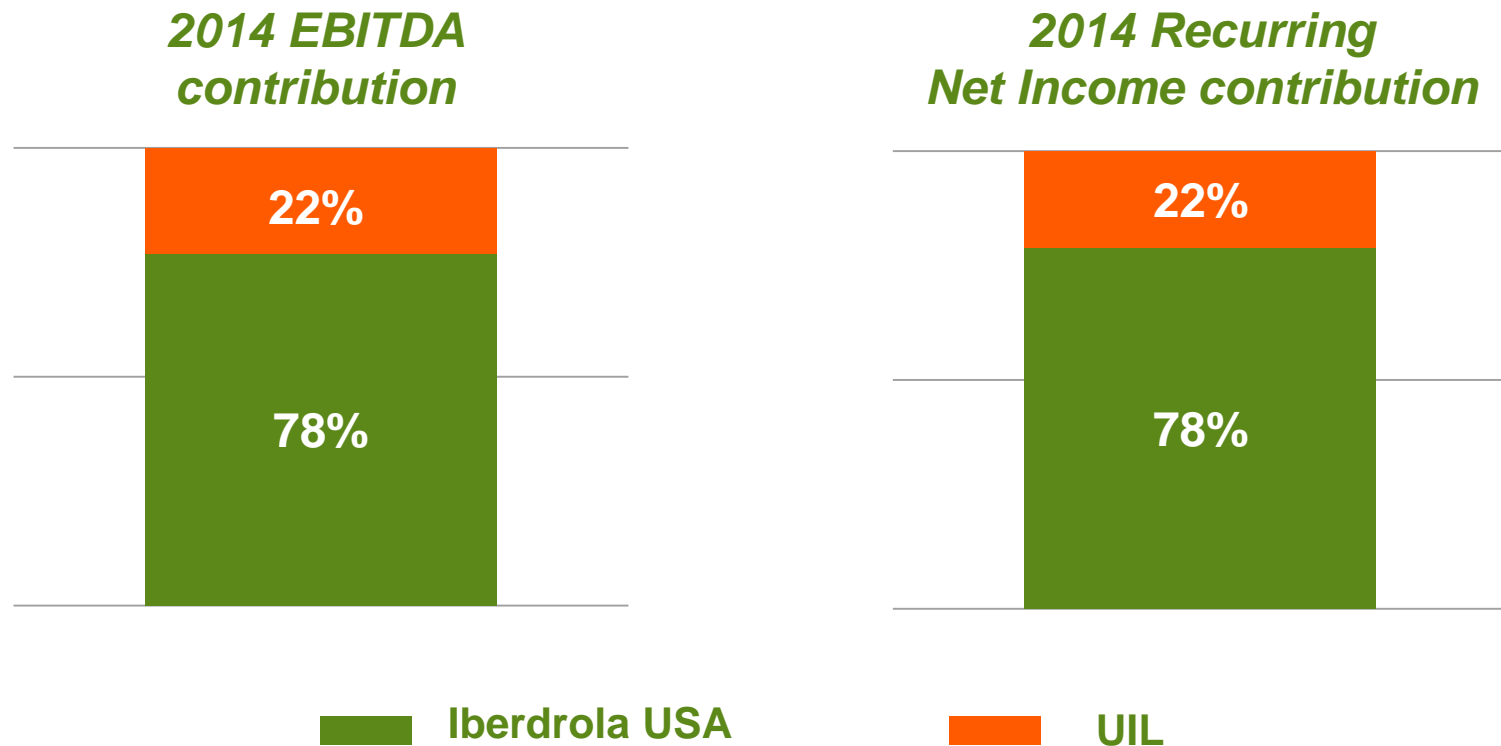
Listed company on the NYSE

- Highlights embedded value without asset divestment
- Creates a new currency
- Allows the company to be compared with its peers in the US

... agreed on a friendly basis

Valuation

**Iberdrola to own 81.5% of the combined company
UIL shareholders to receive 18.5% of the combined company ...**



... plus a cash payment of USD 597 M

Control Premium Analysis



19.5% premium over the last 30 days and 24.8% over the last day, consistent with precedent transactions

Acquirer	Target	30 – Day VWAP ¹	1 – Day Prior
NextEra	Hawaiian	20.9%	18.8%
Exelon	Pepco Holdings	28.9%	24.7%
Fortis	UNS Energy	24.7%	24.3%
	Mean	24.6%	25.0%

The premium over the last 30 days' market price is in line with other comparable transactions

1. Volume Weighted Average Price

Financial strength – Credit Ratios



Small impact on solvency ratios compensated by the improvement of the business and geographical profile as we increase our regulated exposure and in the US

	Iberdrola 2014 proforma*	Combined Entity 2014 proforma*
FFO / Net Debt	21.5%	20.8%
Net Debt / EBITDA	3.6	3.7

This transaction will be finalised by the end of 2015

NOTES: Assuming that funding is through debt. FX used 1EUR = 1.14USD. Ratios considering UIL 2014 Recurring Net Profit.
* Net debt excluding 3rd dividend paid in December 2014

Financial impact

Achieving the financial criteria set by the company ...

Positive impact on EPS from year 1 post closing



Positive impact on cash flow per share



**Maintaining financial strength
without capital increase**



... fulfilling the commitment to shareholders and bondholders

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Regulatory Filings and Approvals



Closing of transaction assumed to take 5-8 months

6-8 Months	4-6 Months	30-90 Days
Massachusetts Department of Public Utilities	Connecticut Public Utilities Regulatory Authority	Committee on Foreign Investment in the United States (CFIUS)
Federal Energy Regulatory Commission (FERC)		Others

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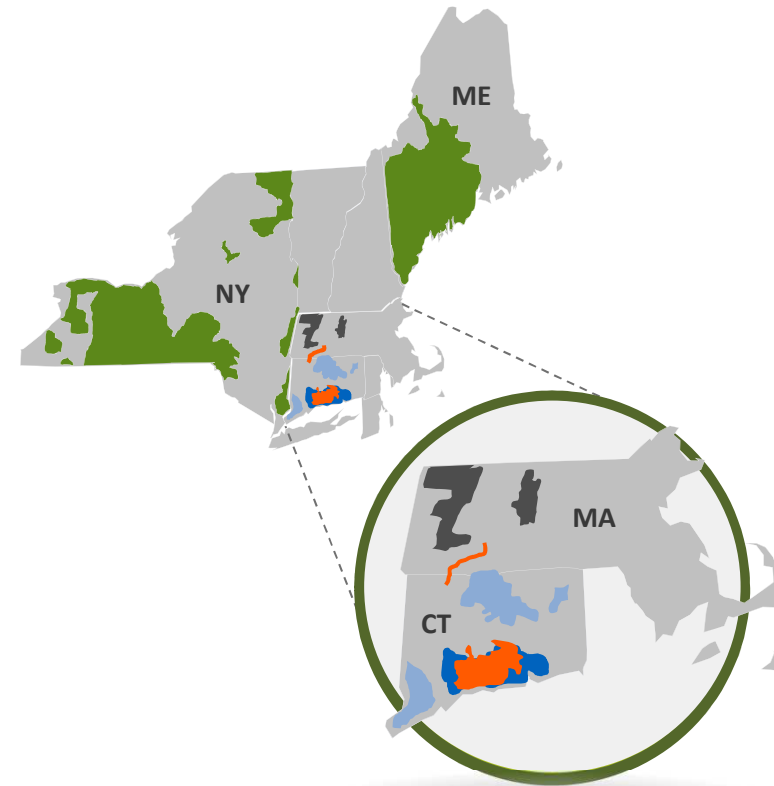
Annex: UIL Overview

UIL Operational Overview



UIL Operating Data

Total Points of Supply (M)	0.7
Electricity (MM)	0.3
Gas (MM)	0.4
Distributed Electricity (GWh)	5,422
Distributed Gas (MM of cubic feet)	77,638
Total Rate Base 2014 (USD bn)	2.2
Electricity Rate Base 2014 (USD bn)	1.3
Gas Rate Base 2014 (USD bn)	0.9
Installed Capacity ¹ (MW)	205



- United Illuminating
- Southern Connecticut Gas
- Iberdrola USA
- Berkshire Gas
- Connecticut Natural Gas

Source: Company Disclosure

1. UIL has a 50% ownership position in two regulated oil/gas peaking plants via its joint venture with affiliates of NRG ("GenConn"), which receives cost of service recovery in rates via annual revenue requirement filings

UIL Financial Overview



UIL consolidated figures

USD M	2014
EBITDA	438
Recurring Net income*	123
Net income	109
Net debt	1,691
CAPEX	307
Net Debt / EBITDA	3.9x
Rating (S&P/Moody's)	BBB / Baa2

Note: Figures in US GAAP. 2014 UIL's figures exclude approximately (23 USD MM) pre-tax and (14 USD MM) after-tax expenses related to the terminated acquisition of Philadelphia Gas Works

UIL Businesses Overview



Electric Regulated
Businesses



Gas Regulated
Businesses

UIL Holdings

	United Illuminating (UI)	Southern Connecticut Gas (SCG)	Connecticut Natural Gas (CNG)	Berkshire Gas (Berkshire)
State	Connecticut	Connecticut	Connecticut	Massachusetts
Businesses	<ul style="list-style-type: none"> Service territory: 355 sq miles Distribution company 	<ul style="list-style-type: none"> Service territory: 512 sq miles 2,300 network miles 	<ul style="list-style-type: none"> Service territory: 716 sq miles 2,050 network miles 	<ul style="list-style-type: none"> Service territory: 738 sq miles 750 network miles
Points of Supply (000)	317	188	169	39
Rate Base ¹	1,317	460	380	81
Allowed ROE	<ul style="list-style-type: none"> Distribution: 9.15% Trans: Up to 11.74% Generation: 9.95% 	9.36%	9.18%	10.50%
Installed capacity (MW)	205 ²	N.A.	N.A.	N.A.
Workforce	1,895 employees			

Source: UIL 2013 Annual Report and Management Plan

1. 2014E

2. Includes UIL's 50% ownership of GenConn, which consists in 2 gas peaking facilities of 196 MW (regulated), and 6 MW of solar and Hydrogen/Fuel cell projects (not regulated)

UIL Applicable Regulatory Framework



Rate Base Mechanism

- Rates provide an allowed return (ROE) for the utility, taking into account the asset base (rate-based regulation) plus operational costs, taxes and capital costs
- Revenue requirements are typically calculated as follows:
 - Net Income = Rate Base x Equity Component of Capital Structure x ROE
 - Revenue Requirements = Net Income + Interest + Taxes + D&A + O&M Costs + Fuel Costs (pass-through)
- Currently effective rate plans remain in effect until otherwise ordered by the relevant State Commissions

UIL Connecticut Regulatory Highlights

- 100% regulated business
- UI last rate case approved on August 14th 2013:
 - UI Transmission: 10.57% – 11.74% authorized ROE with a 49.60%¹ equity layer
 - UI Distribution: 9.15% authorized ROE with a 50.00% equity layer
 - 50/50 sharing above authorized ROE
- CNG last rate case approved on January 22nd 2014:
 - 9.18% authorized ROE with a 52.52% authorized equity layer
 - 50/50 sharing above authorized ROE
- SCG last rate case approved on July 17th 2009:
 - 9.36% authorized ROE with a 52.00% authorized equity layer
 - No sharing required
- UI has a 50% ownership position in two regulated oil/gas peaking plants via its joint venture with affiliates of NRG (“GenConn”), with an authorized ROE of 9.95%

UIL Massachusetts Regulatory Highlights

- Berkshire last rate case approved on January 31st 2002:
 - 10.50% authorized ROE with a 41.89% authorized equity layer
 - No sharing required

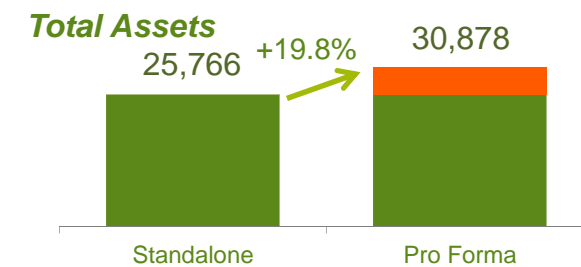
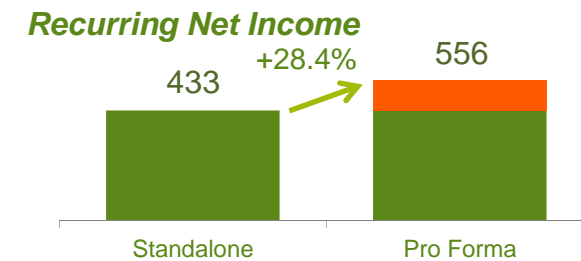
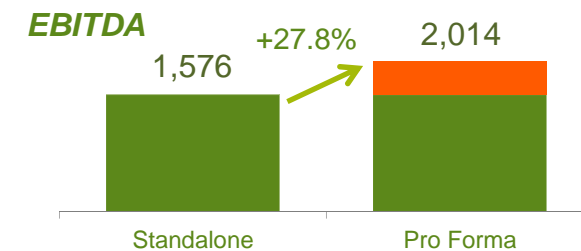
1. Subject to pending FERC ROE cases against all New England transmission owners

IBE USA and UIL: Financial Summary



Pro Forma Analysis 2014E

USD M	Iberdrola USA Standalone	UIL Standalone	Pro Forma
EBITDA	1,576	438	2,014
Recurring Net Income	433	123	556
Net Income	446	109	555
Total Assets	25,766	5,112	30,878
Capex	941	307	1,248
Net Debt/EBITDA	1.6x	3.9x	2.1x



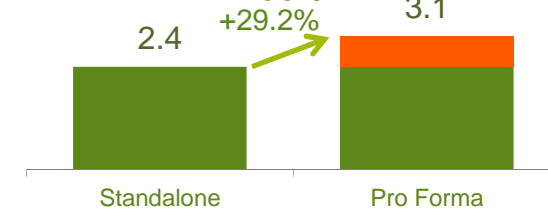
Note: Figures in US GAAP. 2014 figures exclude (\$23 million) pre-tax and (\$14 million) after-tax expenses related to the terminated acquisition of Philadelphia Gas Works
Source: Company Disclosure, Broker Research

IBE USA and UIL: Operational Summary

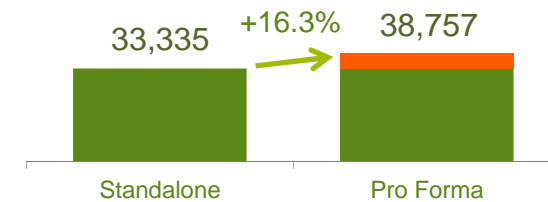
Pro Forma Analysis 2014E

USD M	Iberdrola USA Standalone ¹	UIL Standalone	Pro Forma
Total Points of Supply ¹ (MM)	2.4	0.7	3.1
Points of Electricity Supply ¹ (MM)	1.8	0.3	2.1
Points of Gas Supply ¹ (MM)	0.6	0.4	1.0
Distributed Electricity ² (GWh)	33,335	5,422	38,757
Rate Base ² (USD Bn)	6.1	2.2	8.3
Installed Capacity ² (MW)	6,479	205 ³	6,684

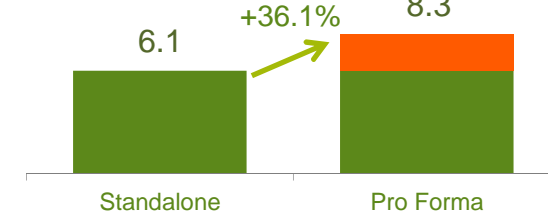
Total Points of Supply



Distributed Electricity



Rate Base



Source: Company Disclosure, Broker Research

1. 3Q 2014

2. FY 2014 (Provisional)

3. MWs attributable to UIL from its 50% interest in GenConn Energy LLC