



Julián Martínez-Simancas  
General Secretary and Secretary of the Board of Directors

**To the National Securities Market Commission**

Bilbao, January 20, 2011

**Re: Acquisition by IBERDROLA ENERGÍA DO BRASIL, LDA. of ELEKTRO  
ELECTRICIDADE E SERVIÇOS, S.A.**

Dear Sirs,

Reference is made to our notice of significant event of yesterday (official registry number 136,620), relating to the acquisition by IBERDROLA ENERGÍA DO BRASIL, LDA.<sup>1</sup> of the direct and indirect shareholding interest of ASHMORE ENERGY INTERNATIONAL in ELEKTRO ELECTRICIDADE E SERVIÇOS, S.A. (the “**Transaction**”).

In connection thereof, we attach as Annex a presentation of the Transaction.

Yours truly,

General Secretary and Secretary of the Board of Directors

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<sup>1</sup> IBERDROLA, S.A. indirectly holds 99.99% of this company.

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**Annex**  
**Presentation of the Transaction**



**IBERDROLA**

**Acquisition of Elektro**  
**January 20<sup>th</sup>, 2011**

# Legal Notice



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## FORWARD-LOOKING STATEMENTS

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Although Iberdrola, S.A. believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Iberdrola, S.A. shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the documents sent by Iberdrola, S.A. to the *Comisión Nacional del Mercado de Valores*, which are accessible to the public.

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## Overview of Elektro

Strategic fit

Transaction overview

Transaction financing

Conclusions

# Elektro: Operating Overview

## Operating data

Distribution network\* (Km)

105,792

Electricity points of supply\*  
(Millions)

2.17

Distributed energy 2009 (GWh)

11,036

## Location



Elektro is the 9<sup>th</sup> largest distributor in Brazil and the 3<sup>rd</sup> in Sao Paulo state



# Elektro: Financial Overview



	2009		9M 2010	
	R\$ M	€M	R\$ M	€M
EBITDA	752	334	646	287
Net income	486	216	323	143
Net debt	827	367	831	369
CAPEX	271	120	236	105
Net debt / EBITDA	1.1x			

## Regulatory model

### Distribution highlights

- 100% regulated
- Energy contracted in the ACR segment (regulated market)
- Incentive regulation model with a "price cap" that seeks to share productivity improvements with consumers
- Guarantee of "pass through" of non-controllable costs
- Guarantee to maintain the economic and financial stability of the concession

### Tariff adjustments

- The distribution tariffs are adjusted in three ways:
  - a) Tariff review: Occurs every 4 years and recalculates controllable costs (remuneration and O&M) for the next tariff cycle
  - b) Tariff adjustment: Annual adjustment between tariff reviews that performs annual pass through of non-controllable costs and adjusts controllable costs (remuneration and O&M) for annual inflation
  - c) Extraordinary revision: Can occur at any time and restores the economic and financial balance of the concession when there is an extraordinary event

For the remuneration of the net regulatory assets, ANEEL has presented for discussion at a public hearing a WACC of 7.15%

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**1** Reorganization in core businesses ...

Disposal of US gas distribution  
(Connecticut and Massachusetts)



Investment in electricity in the US  
(MPRP project in Maine)

**2** ... and concentrating activities in strategic areas

Sale of businesses  
in non strategic countries  
(Guatemala and Chile)



Elektro investment  
in Brazil

**Reducing exposure in Spain  
and increasing presence in countries and areas of growth**

## **Elektro is a very attractive opportunity**



**Brazil is a market with high growth**

**Regulated business, stable and predictable with low-risk**

**Critical mass and a base for future growth in the country**

# Neoenergia and Elektro key figures

**Neoenergia + Elektro: Among the largest Brazilian electricity companies**

	Neoenergia	Elektro	Neoenergia + Elektro (Pro forma)
Revenues '09 (R\$ M)	10,383	4,035	14,418
EBITDA '09 (R\$ M)	2,647	752	3,399
EBIT '09 (R\$ M)	2,237	622	2,859
Net income '09 (R\$ M)	1,586	486	2,072
Electricity points of supply '09 (M)	8.8	2.1	10.9

**Iberdrola intends to propose the integration of Elektro and Neoenergia<sup>1</sup>**

## Fulfilling the financial criteria set by the company ...

Positive impact on EPS from year 1



Positive impact on cash flow per share



Maintaining financial strength



... honoring the commitment to shareholders

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## Elektro valued at US\$ 2,400 M Equity Value

### Total amount

- US\$ 2,400 M cash payment at transaction closing and debt assumption (369 EUR M as of 30 September 30 2010)
- Implicit multiples<sup>1</sup>: EV/EBITDA LTM 5.8x, PER LTM 9.2x
- Valuation does not consider tax optimization or synergies from Elektro and Neoenergia integration

### Financial Impact

- EPS and CPS accretive from year 1
- No impact on Net Debt / EBITDA

### Calendar

- Closing dependent on ANEEL approval (expected period of 3-6 months)

### Other considerations

- Friendly transaction
- 10% of purchase price to be placed in an escrow account to cover potential indemnities during the first 12-18 months from closing

## Financial growth and electricity enhancing

	Iberdrola	Elektro	Iberdrola + Elektro (Pro forma)		Iberdrola + 39% Elektro (Pro forma)	
Revenues '09 (EUR M)	24,559	1,790	26,348	+7.3%	25,257	+2.8%
EBITDA '09 (EUR M)	6,815	334	7,149	+4.9%	6,945	+1.9%
EBIT '09 (EUR M)	4,509	276	4,785	+6.1%	4,617	+2.3%
Net Income '09 (EUR M)	2,824	216	3,040	+7.6%	2,908	+2.9%
Electricity points of supply '09 (M)*	23.8	2.1	25.9	+8.6%	24.6	+3.4%

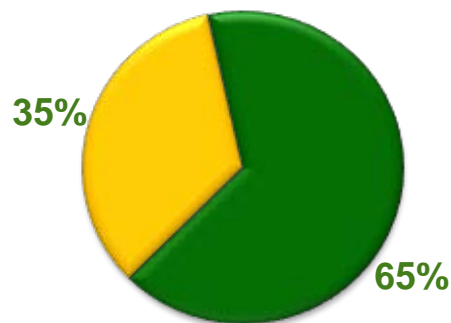
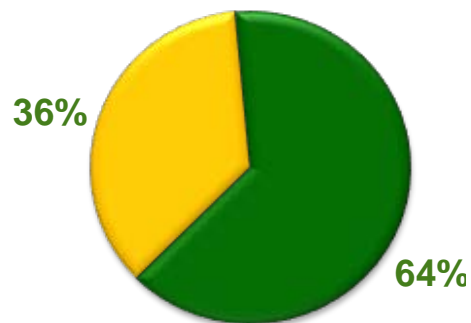
**Estimated positive impact in P&L expected from year 1**

## Enhancing regulated business and geographic diversification

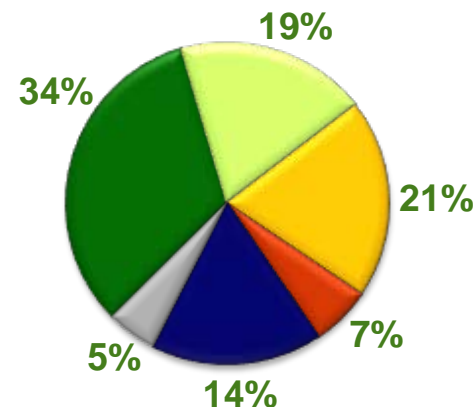
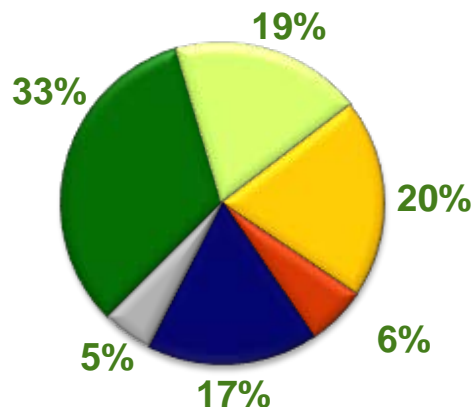
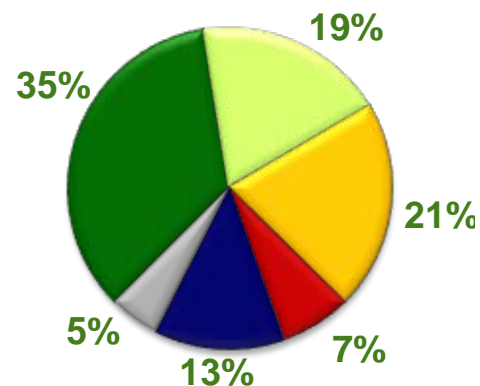
**EBITDA 2009**

**EBITDA 2009 (Pro-forma with Elektro)**

**EBITDA 2009 (Pro-forma with 39% Elektro)**



- Regulated
- Unregulated<sup>1</sup>



- Spain
- Renewables
- UK
- USA
- Latam
- Non energy

**Increased contribution from regulated businesses guarantees improved cash flow predictability**

1) Includes non-energy businesses

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**Transaction financing**

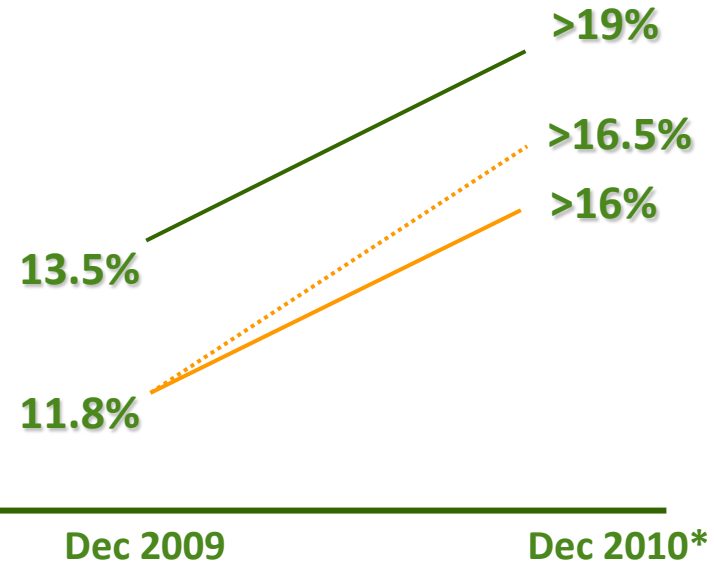
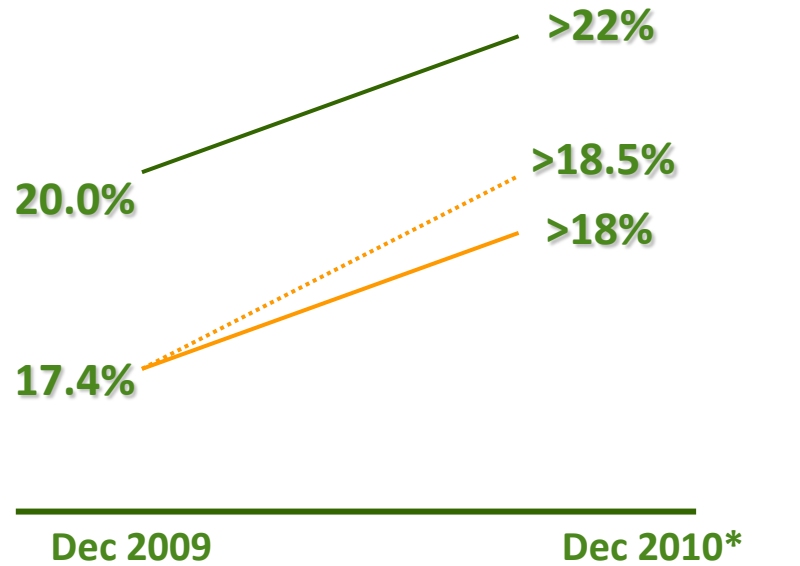
Conclusions

# Estimated financial situation at 2010 year end (pre-transaction)



**FFO<sup>(2)</sup>/Net Debt<sup>(1)</sup>**

**RCF<sup>(3)</sup>/Net Debt<sup>(1)</sup>**



- Including Tariff Deficit
- - - Including Tariff Deficit first tranche securitisation
- Excluding Tariff Deficit

**Financial profile improves even including the tariff deficit impact**

(1) Excluding TEI and Rating Agencies Adjustments / (2) FFO = Net Profit + Amortizations – Equity Income – Non Recurring Results / (3) RCF = FFO – Dividends  
 \* Non-audited forecast of year end closing position

## First tariff deficit securitization now completed

**Eur 2,000 M obtained (600 for IBE)**

**Under the terms of the Royal Decree Eur 13.4 bn  
to be securitized before July 2011**

## Elektro acquisition financed with cashflows and debt

Payment to be executed when ANEEL approval is granted  
(expected in 3-6 months)

Pool of banks interested in joining the financing of the transaction

Financing  
alternatives



Debt in Neoenergia + Deficit securitization

Divestments + Deficit securitization

## Maintaining financial targets

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**The transaction meets all established criteria...**

**Enhances electricity position in Brazil**

**Strengthens regulated and non-regulated business mix**

**Earnings accretive from year 1**

**Maintaining financial strength**

**... improving Iberdrola's position**