



# Iberdrola + Energy East Delivering non-organic growth

September 11, 2008



**IBERDROLA**

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**Introduction**

**Iberdrola repositioning**

**Energy East transaction**

**Conclusions**

## Company's Strategic guidelines

Growth

Efficiency

Internationalisation

Profitability

## Investing Eur +24 Bn in three years

**Organic**

**Eur +18,000  
MM**

By region:  
Atlantic Area

By business  
Core business

*Spain*  
*USA & Canada*  
*UK*  
*Latin America*

*Renewables*  
*Distribution*  
*Generation*

**Low risk  
profile**

**Non organic**  
**Eur 6,200 MM**

**Energy East**

**Eur +18 Bn organic investment & Energy East acquisition**

## Iberdrola 2001-2008: Execution & delivery

Strategic Plan 2001-06	✓
Scottish Power	✓
Iberdrola Renovables	✓
Energy East	✓

**Strategic Plan 2008-10 on track**

**Introduction**

**Iberdrola repositioning**

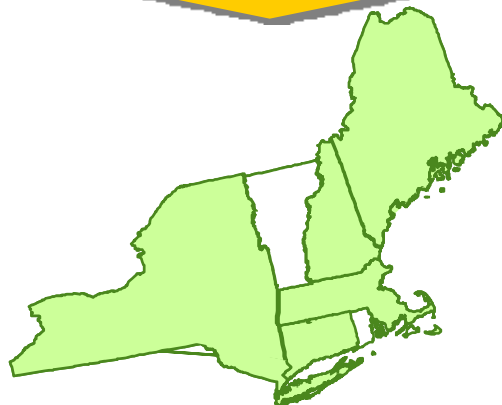
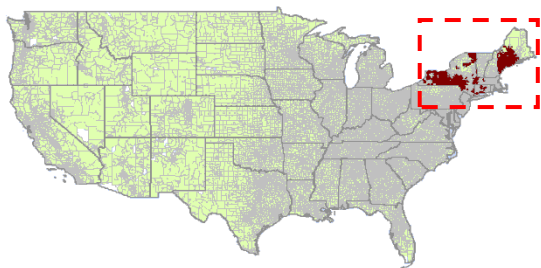
**Energy East transaction**

**Conclusions**



# Description of Energy East: Operations

## Energy East is a gas and electricity utility in the US



### ELECTRICITY (2007)

Regulated points of supply	1,832,000
Unregulated customers	182,000
Electricity sold (GWh)	39,314
Transmission network (km)	13,243
Distribution network (km)	126,647
Installed capacity (MW)	134
•Hydro	110
•Gas (non NY retained)	24
•Russell Station site (to be divested)	257
•Gas (to be divested)	167

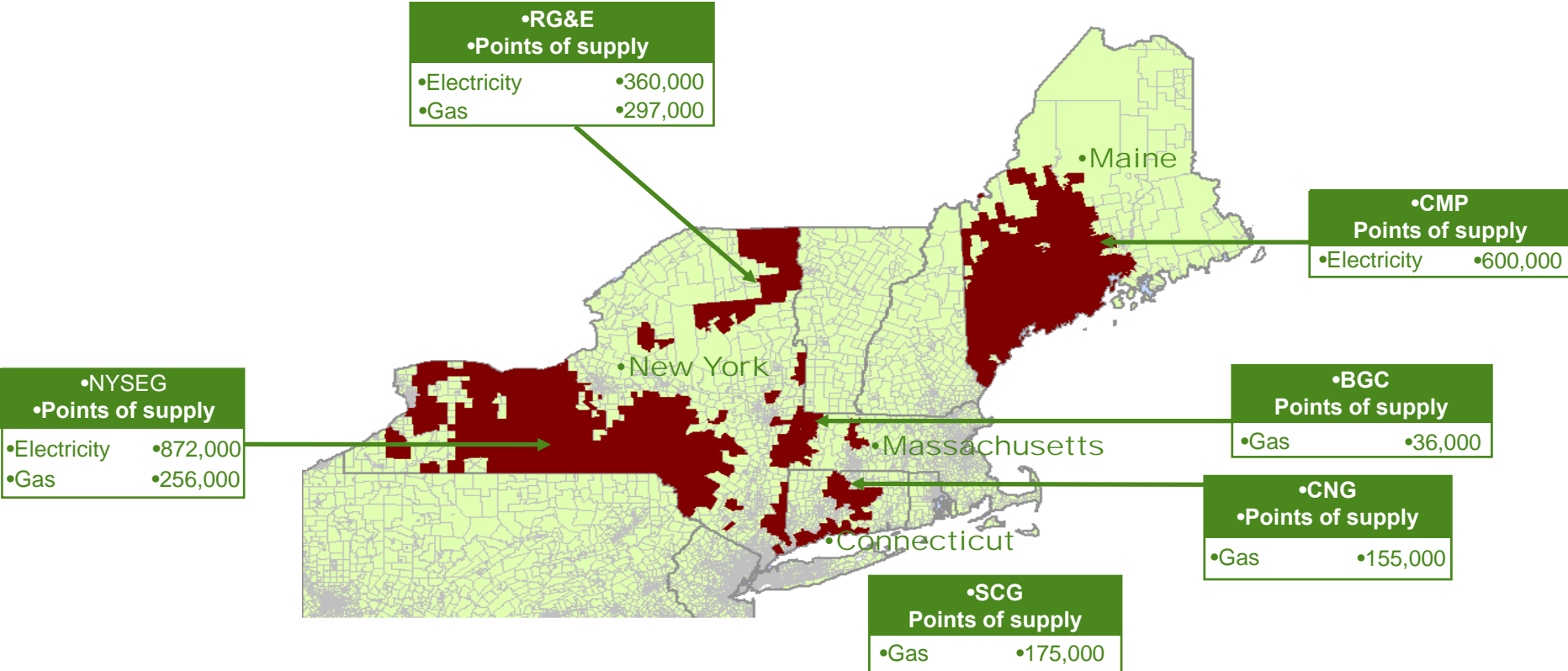
### GAS (2007)

Regulated points of supply	919,000
Unregulated customers	55,000
Transmission network (km)	295
Distribution network (km)	39,642
Gas sold (bcm)	5.7

# Description of Energy East: Operations



## Which operates in key states



**Presence in New York, Maine, Connecticut, Massachusetts and New Hampshire**

# Description of Energy East: Financials



**Energy East will contribute to Iberdrola's financials at all levels**

**Sales '07 (EUR M)**

**3,777**

**EBITDA '07 (EUR M)**

**651**

**EBIT '07 (EUR M)**

**449**

**Net Income '07 (EUR M)**

**183**

**Net Debt<sup>1</sup> (EUR M)**

**2,565**

**Leverage Ratio<sup>1</sup> (%)**

**55.0%**

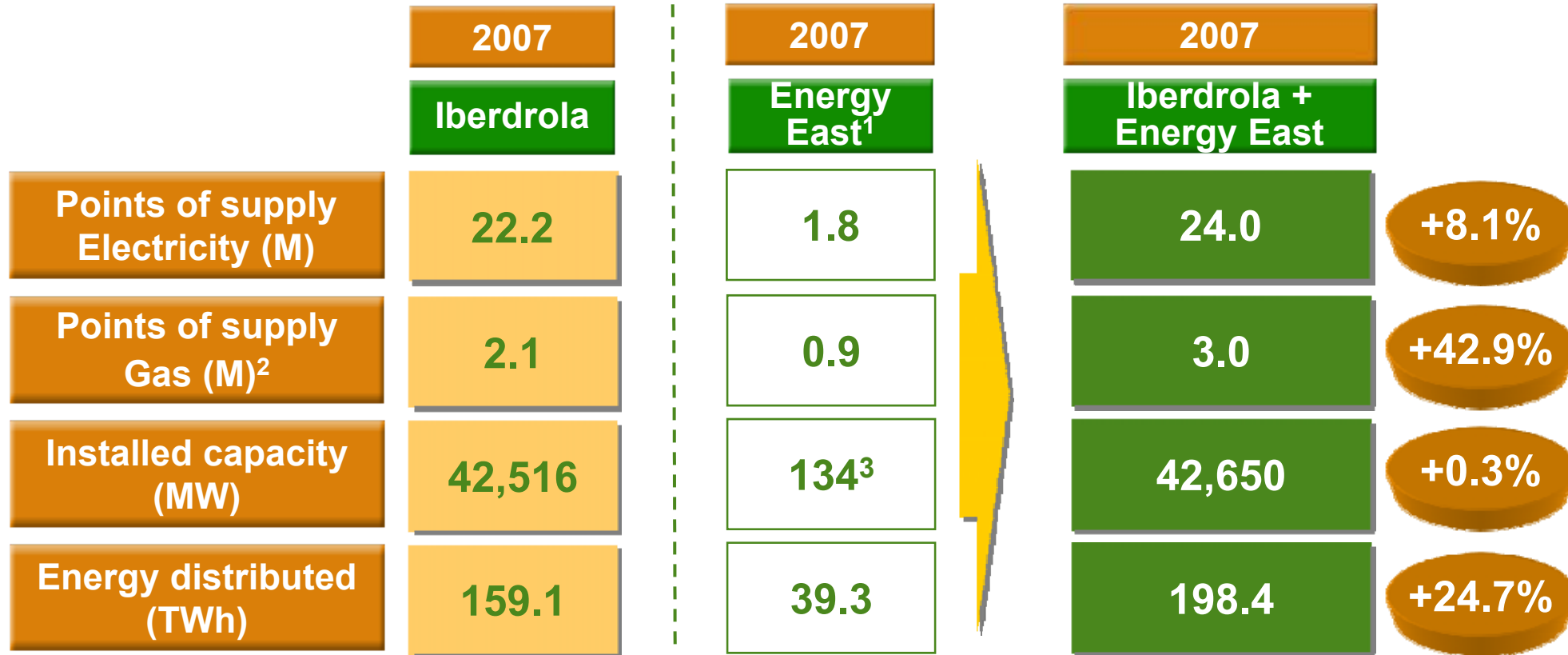
**Final acquisition price of EUR 3.2bn<sup>2</sup>**

Note: 1) Based on Energy East filings as of June 30, 2008 using exchange rate of EUR/USD 1.4331

2) Based on 158.8 million shares x 28,50 USD/share = 4.5 USD bn; using a exchange rate of EUR/SUD 1,4331

Source: Energy East figures as reported in SEC filings. 2007 figures based on average exchange rate of 2007 of EUR/USD 1.3709

## Strengthens Iberdrola's position in electric and gas operations



1) Excludes customers from non-regulated businesses

2) Includes the number of gas customers for Iberdrola (0.2 million in Spain and 1.9 million in the United Kingdom)

3) Excludes capacity to be divested

Sources: Iberdrola Results 2007; Energy East figures as reported in SEC filings

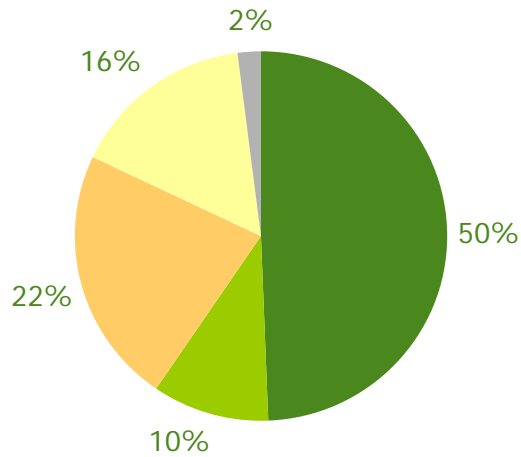
# The acquisition of Energy East increases Iberdrola's scale and provides geographical diversification



2007 EBITDA by geography

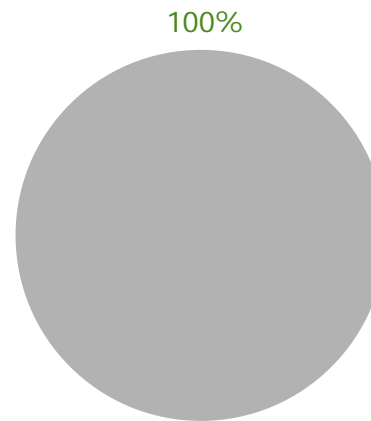
Iberdrola<sup>1,2</sup>

Total: EUR 5,538 M



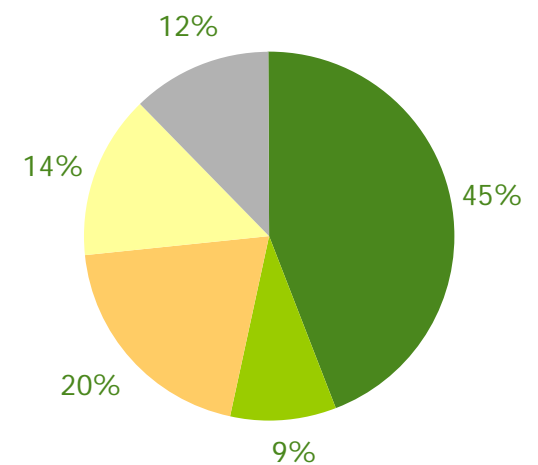
Energy East<sup>3</sup>

Total: EUR 651 M



Iberdrola + Energy East<sup>4</sup>

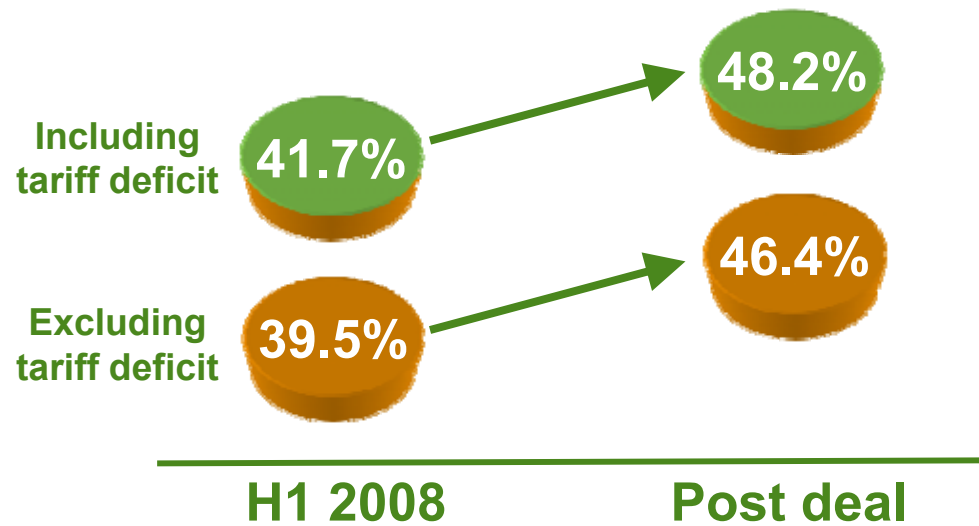
Total: EUR 6,189 M



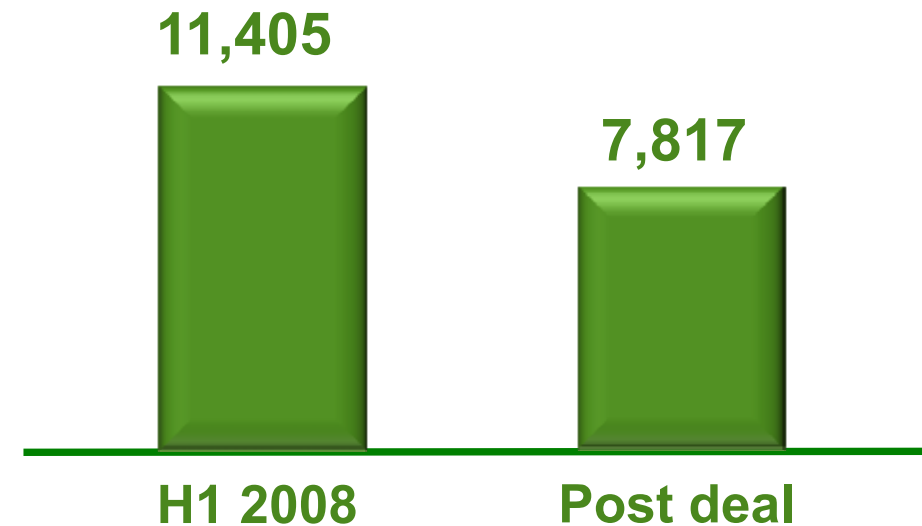
1) Sources: Iberdrola 2007 full year results presentation, Iberdrola 2007 annual report, and Iberdrola Renovables 2007 annual report  
 2) Scottish power and PPM are included from April 2007  
 3) Source: Energy East 2007 10-k report; based on EUD/USD 1.3709 as of average for 2007  
 4) Assuming pro-forma consolidation of Energy East  
 5) Including non-energy businesses

## Financial ratios remain strong: Commitment to “A” rating

### Leverage



### Liquidity (Eur MM)



Excellent liquidity position by the end of 2008:  
> Eur 4 bn

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# Energy East: Calendar of authorizations



<b>Granted</b>	<b>Federal</b>	Hart-Scott-Rodino	8 Sep. 2007 <sup>1</sup>	✓
		Federal Communications Commission (FCC)	4 Oct. 2007	✓
		Exon-Florio	29 Oct. 2007	✓
		Federal Energy Regulatory Commission (FERC)	6 Dec. 2007	✓
	<b>States</b>	Connecticut Department of Public Utility Control	28 Nov. 2007	✓
		New Hampshire Public Utilities Commission	28 Dec. 2007	✓
		Maine Public Utilities Commission	7 Feb. 2008	✓
		New York Public Service Commission	3 Sep. 2008	✓

1. An additional Hart-Scott-Rodino clearance was obtained on August 18, 2008 because the previous Hart-Scott-Rodino clearance would have expired after September 7, 2008



# The transaction was completed expeditiously...



Iberdrola / Energy East

15 mo.



COMPLETED

Great Plains Energy / Aquila

17 mo.



COMPLETED

National Grid / KeySpan

18 mo.



COMPLETED

Babcock & Brown / Northwestern Corp



CANCELLED

Exelon / PSEG



CANCELLED

FPL / Constellation



CANCELLED

... becoming one of the few major acquisitions in the last 18 months completed according to announced timetable

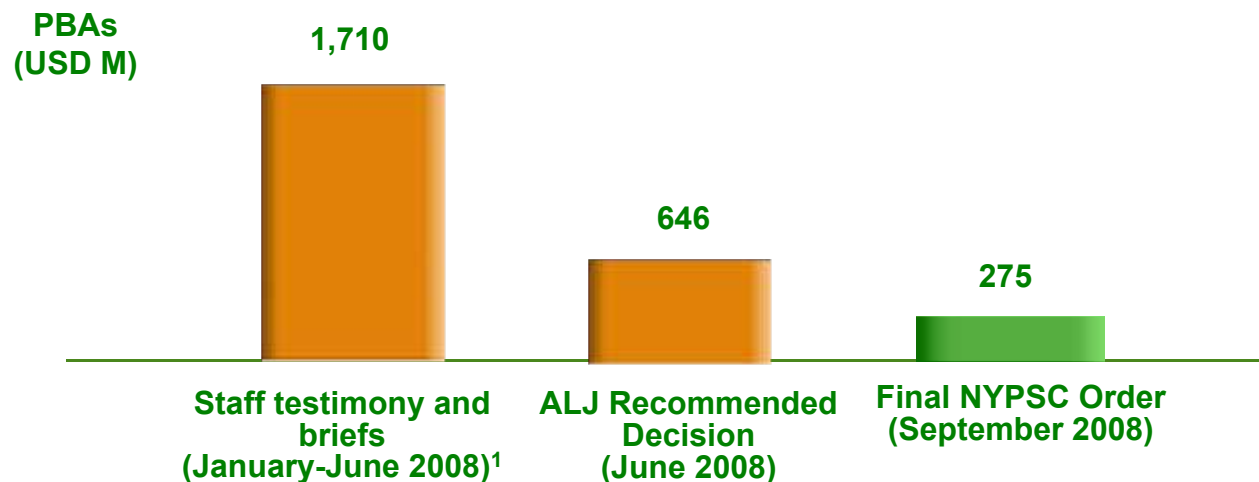
## Unanimous approval by the four Commissioners: terms and conditions in line with conditions proposed by Iberdrola

<b>Rate-Related Conditions</b>	<ul style="list-style-type: none"> <li>• USD 275 M in PBAs</li> <li>• No change to existing rates</li> </ul>
<b>Operating conditions</b>	<ul style="list-style-type: none"> <li>• No restrictions on wind generation ownership/operation throughout NY</li> <li>• No divestiture of renewable generation (wind or hydroelectric)</li> <li>• Divestiture of 167 MW of Energy East fossil generation in NY (no adverse impact) and Russell Station site</li> <li>• Existing quality of service levels to be maintained</li> <li>• Subject to economics, Iberdrola to invest USD 200 M in renewable development in New York<sup>1</sup></li> </ul>
<b>Financial / Governance Protection Conditions</b>	<ul style="list-style-type: none"> <li>• Financial / Governance protections that are customary and consistent with mergers in NY and Maine: Dividend Pay-out no higher than 100%, need of rating, consent right prior to NYSEG/RG&amp;E voluntary bankruptcy filing, etc.</li> <li>• Existing reporting requirements for Energy East, NYSEG and RG&amp;E</li> <li>• IFRS reporting at Iberdrola level (rather than US GAAP)</li> <li>• Update of the code of conduct that regulates the agreements between Energy East and other companies of Iberdrola Group</li> </ul>

1. Subject to no material adverse change to the existing fundamental economics of wind generation development in New York State (PTCs, RPS, and NYISO market pricing). If Iberdrola does not invest the full USD 200 M, then Iberdrola must contribute up to USD 25 M to NYSEG and RG&E economic development funds; however, Iberdrola estimates that its renewable investment in New York is likely to exceed significantly this USD 200 M amount.

## Required rate-related conditions

- USD 275 M PBAs (Positive Benefit Adjustments) to be placed in regulatory deferral accounts until new rates are set
- To be divided among RG&E Electric, RG&E Gas, NYSEG Electric, NYSEG Gas based upon delivery revenues
- No current impact on rates
- Accounts to incur carrying charge until new rates are set
- Rate cases may be filed following 12 months after closing<sup>2</sup>



**Required rate-related conditions substantially less than originally requested; no current impact on rates**

1. Including USD 646 M of PBAs, USD 209 M in one-time adjustments, and USD 855 M in other rate modifications

2. For any utility that has not filed a rate case after 13 months following closing, earnings sharing will change to 80/20 sharing above 10.1% based upon lower of 45% or Iberdrola's consolidated capital structure

## Acceptable terms and conditions consistent with nature of transaction (recognized significant benefits to ME)

Minimal rate/book adjustments (< USD 15 M) and no other impacts on future rate cases<sup>1</sup>

No restriction on renewable generation development

Customary financial protections

## Acceptable terms despite investor concerns

1. These rate/book adjustments were significantly lower than the approximately USD 400 M financial concessions required in the Verizon/Fairpoint transaction approved by the Maine PUC a few weeks prior to approval of the Energy East acquisition

**Acceptable terms and conditions consistent with nature of transaction (recognized significant benefits to CT and NH)**

**No rate/book adjustments or other impacts on future rate cases**

**No restriction on renewable generation development**

**Customary financial protections**

# Broad support for transaction throughout regulatory approval process in each State



## Support for NYPSC approval from

- State Executive Branch (including Governor Paterson, Democrat)
- Support from the Democrat party: Senator Clinton, Senator Schumer, Speaker Silver, Assemblyman Morelle and Assemblyman Cahill
- Support from the Republican party: former Senator Bruno, Senator Alesi, Senator Maziarz, Senator Libous, Senator Skelos and Senator Nozzolio
- Key Republican and Democratic State Legislators
- City of Rochester
- Electric cooperatives and certain municipal electric systems
- Labor Unions
- Key economic development agencies and groups (including Empire State Development Corporation)
- Key environmental agencies and groups (including the NY State Department of Environmental Conservation and the Natural Resources Defence Council)
- Key large NYSEG/RG&E industrial customers (including Corning Incorporated, Kodak and Nucor)

## Maine approval supported by all parties to settlement

- MPUC Staff
- Office of the Public Advocate
- Industrial Energy Consumer Group
- Friends of the Coast
- Independent Energy Producers of Maine

## Others

- Connecticut and New Hampshire approvals supported by each agency's staff, unions and key customers and other constituencies

## Fulfilment of the financial criteria established in the Strategic Plan

Positive impact to EPS from first year



Positive impact to cash flow per share



Post conditions, the transaction remains accretive

## Immediate closing of the transaction



Estimated date	Key step
Day D (September 10, 2008)	Iberdrola accepts the conditions to NYPSC approval order Iberdrola to transfer the funds to the Paying Agent
Day D+3	The Paying Agent to receive the funds from Iberdrola
Day D+4/6	Estimated timeframe for closing of the transaction (Effective Date)

Limited period of time from acceptance to closing



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## Better than expected business performance

Spain



- Higher prices
- Higher production: +5% vs -0.8% in H1

Renovables



- 1,150 MW installed as of Aug '08
- 1,560 MW under construction

ScottishPower



- Higher prices from Sep 1
- Better evolution despite Sterling

Energy East



- Contributing from Q4

Maintaining FY targets at Operating & Net Profit level

## Strategic Plan 2008-10

Confirming  
2008 EPS growth:

~25% ↑

Expected  
2008 DPS growth  
in line with  
2008 EPS growth

Expected  
Financial  
Leverage below  
50%

Iberdrola: Execution and delivery



# Iberdrola + Energy East Delivering non-organic growth

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**IBERDROLA**