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## Iberdrola to fund U.S. buy with cash call, shares dip

*By Joe Ortiz*

Spain's Iberdrola said on Tuesday it will make a share issue to help finance its \$4.5 billion cash purchase of U.S. regional gas and electricity supply company Energy East before completing the deal in the second half of 2008.

"It will be financed through an equity issue which will be done before the closing (of the deal) and the timing will depend on market conditions," strategy director Jose Luis del Valle told analysts in a conference call.

Iberdrola shares lost just over 2 percent on Tuesday after the Spanish power group said late on Monday it would buy East Corp., based in the northeast United States, for \$4.5 billion in cash and take on 3 billion euros of debt.

Broker BPI said the deal was negative for Iberdrola, Spain's largest utility by market capitalization.

BPI said Energy East's valuation in the deal – an enterprise value of 9.2 times earnings before interest, depreciation and amortization and a price to earnings multiple of 19 times – was expensive, considering it is mainly a distribution company.

Iberdrola, advised by Banc of America Securities and ABN AMRO, said it was considering financing the deal with a capital increase, debt issues, bank loans, or a combination.

Iberdrola's move comes two months after it closed an 11.6 billion-pound (\$23.2 billion) purchase of Scottish Power. Analysts said it was likely to be interpreted as being defensive and part of Chairman Ignacio Sanchez Galan's continued struggle with the company's biggest shareholder, construction firm ACS.

"Iberdrola has paid a 27 percent premium but that's justified in its defensive strategy to gain size and make it harder to be taken over by third parties," said Jordi Padilla, head of analysis at Atlas Capital.

ACS controls nearly 12 percent of Iberdrola, directly and indirectly, and has long been rumored to want to combine it with rival Union Fenosa, in which ACS owns a 40.5 percent stake.

"In this sense, the operation implies an additional obstacle for ACS in its intention of controlling the utility (Iberdrola)," BPI said in its note.

Iberdrola said the deal would give Energy East an enterprise value of 6.4 billion euros and Iberdrola one of around 83 billion euros.

"The U.S. represents an important growth opportunity, and the acquisition of Energy East is a step forward in our strategy to create an Atlantic platform," said Galan.

Analysts on the conference call expressed concern that Iberdrola will not get an easy ride from regulators in the U.S.

Del Valle said the company had already had preliminary contacts with regulators and stressed that Iberdrola was going into the transaction to invest in the U.S. power system.

"This is not a synergy-based transaction and it's not tax-based," he said. "It's to bring us into the U.S. market with investment – that's what the regulators are interested in."

By 1000 GMT Iberdrola shares were 2.3 percent lower at 41.90 euros – the biggest loser on the Ibex 35 index, which lost 0.3 percent. The DJ Stoxx European utilities sector index stood 0.5 percent lower.