

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of

Case 07-M-0906

Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS  
Energy Group, Inc., Green Acquisition Capital, Inc., New York  
State Electric & Gas Corporation and Rochester Gas and Electric  
Corporation for Approval of the Acquisition of Energy East  
Corporation by Iberdrola, S.A.

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January 2008

Attachment 3 to DPS-11 - IBER-0011  
(w/o contract attachment)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**Energy East Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- |     |  |
|-----|--|
| (1) | Title of each class of securities to which transaction applies:<br>Common Stock, \$0.01 par value per share  |
| (2) | Aggregate number of securities to which transaction applies:<br>158,278,536 shares of Company common stock including 1,058,030 shares of restricted common stock; 3,843,549 options to purchase shares of Company common stock with exercise prices below \$28.50 per share; and 109,606 stock equivalent units.   |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):<br>The filing fee was determined based upon the sum of (A) 158,278,536 shares of Company common stock (including 1,058,030 shares of restricted common stock) multiplied by \$28.50 per share, (B) 3,843,549 options to purchase shares of Company common stock with exercise prices below \$28.50 per share multiplied by \$4.423782 (which is the difference between \$28.50 and the weighted average exercise price per share), and (C) 109,606 stock equivalent units multiplied by \$28.50 per share. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.0000307 by the sum of the preceding sentence. |
| (4) | Proposed maximum aggregate value of transaction:<br>\$4,531,065,070  |
| (5) | Total fee paid:<br>\$139,104   |
- Fee paid previously with preliminary materials.  
 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- |     |   |
|-----|---|
| (1) | Amount Previously Paid:                       |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party:                                 |
| (4) | Date Filed:                                   |

**ENERGY EAST CORPORATION**  
**52 Farm View Drive**  
**New Gloucester, ME 04260**

Dear Energy East Stockholders:

You are cordially invited to attend a special meeting of the stockholders of Energy East Corporation, which will be held on \_\_\_\_\_, 2007, at [9:00] A.M. (Eastern Daylight Time) at the Citi Auditorium, 27<sup>th</sup> Floor, 388 Greenwich Street, New York, New York, unless adjourned to a later date. The special meeting is being called to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of June 25, 2007, among Energy East, Iberdrola, S.A., and Green Acquisition Capital, Inc., a wholly-owned subsidiary of Iberdrola, whereby Green Acquisition Capital, Inc. will merge with and into Energy East with Energy East becoming a wholly-owned subsidiary of Iberdrola.

If the merger is completed, Energy East stockholders will receive \$28.50 in cash, without interest, for each share of Energy East common stock owned by them as of the closing of the merger.

After careful consideration, the Energy East Board of Directors unanimously determined that the merger and the merger agreement with Iberdrola are advisable and in the best interests of Energy East and its stockholders and directed that the merger agreement be submitted to Energy East's stockholders for adoption. Energy East's Board of Directors unanimously recommends that you vote **FOR** adoption of the merger agreement.

The Board of Directors considered a number of factors in evaluating the merger and consulted with its legal and financial advisors. Included in the attached proxy statement are the opinions of our financial advisors, Greenhill & Co., LLC and JPMorgan Securities, Inc., related to the fairness, from a financial point of view, to the holders of our common stock of the \$28.50 per share consideration offered in the merger. This proxy statement also provides detailed information about the merger agreement and the merger. We encourage you to read this proxy statement carefully, including its annexes.

**Your vote is important regardless of the number of shares of Energy East common stock you own. Because the adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of common stock of Energy East entitled to vote, a failure to vote will have the same effect as a vote "against" the merger. Accordingly, even if you plan to attend the meeting, we hope that you will read the proxy statement and the voting instructions on the enclosed proxy card, and then vote.** Stockholders of record have three ways to vote their shares by proxy: (i) via the Internet, (ii) by telephone and (iii) by mail. To vote via the Internet or by telephone, you should follow the instructions on the enclosed proxy form. To vote by mail, you should complete and return the enclosed proxy card in the envelope provided; the envelope requires no postage if mailed in the United States.

Yours sincerely,

Wesley W. von Schack  
*Chairman of the Board*

This proxy statement is dated [ \_\_\_\_\_ ], 2007, and is first being mailed to stockholders on or about [ \_\_\_\_\_ ], 2007.

**ENERGY EAST CORPORATION**  
52 Farm View Drive  
New Gloucester, ME 04260

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**  
To be held \_\_\_\_\_, 2007

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To the holders of common stock of  
Energy East Corporation:

A special meeting of Stockholders of Energy East Corporation will be held on \_\_\_\_\_, 2007, at [9:00] A.M. (Eastern Daylight Time) at the Citi Auditorium, 27<sup>th</sup> Floor, 388 Greenwich Street, New York, New York for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of June 25, 2007, among Energy East, Iberdrola, S.A. and Green Acquisition Capital, Inc., a wholly-owned subsidiary of Iberdrola, whereby (a) Green Acquisition Capital, Inc. will merge with and into Energy East with Energy East becoming a wholly-owned subsidiary of Iberdrola and (b) each outstanding share of Energy East common stock par value \$0.01 per share will be converted into the right to receive \$28.50 in cash, without interest;
2. To consider and vote upon any proposal to adjourn the special meeting to a later date, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to adopt the above proposal;

and for the transaction of any other business properly brought before the special meeting or any reconvened meeting following an adjourned special meeting.

These items are described in the accompanying proxy statement which we urge you to read carefully. Only stockholders who owned shares of Energy East at the close of business on [ ], 2007, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting and any adjournment of it. You may also obtain more information about Energy East from documents we have filed with the Securities and Exchange Commission.

Stockholders are reminded that their shares cannot be voted unless they return a signed proxy card, they vote via the Internet or by telephone, or they make other arrangements to have their shares represented at the meeting. You may revoke your proxy at any time before the vote is taken by voting again via the Internet or by telephone, by delivering to the Vice President—General Counsel of Energy East a written revocation or a proxy with a later date or by oral revocation in person to any of the persons named on the enclosed proxy card at the special meeting.

By Order of the Board of Directors,

Paul K. Connolly, Jr.  
*Vice President—General Counsel*

Dated: \_\_\_\_\_, 2007

**Please mark, sign and date the enclosed proxy and return it in the envelope enclosed for your convenience or follow the instructions on the enclosed proxy form to vote via the Internet or by telephone.**

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## QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

*The following questions and answers address briefly some commonly asked questions you may have regarding the special meeting of the stockholders of Energy East Corporation, which we refer to as the special meeting, and the proposed merger described in this proxy statement. They do not include all the information that may be important to you. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement which we have filed with the Securities and Exchange Commission. In this proxy statement, the terms “Energy East,” “Company,” “we,” “our,” “ours,” and “us” refer to Energy East Corporation.*

**Q: What is the proposed transaction that I am being asked to vote on?**

A: The proposed transaction is the acquisition of Energy East by Iberdrola, S.A., which we refer to as Parent or Iberdrola, pursuant to an Agreement and Plan of Merger, dated as of June 25, 2007, which we refer to as the merger agreement, among Parent, Green Acquisition Capital, Inc., a wholly-owned subsidiary of Iberdrola, which we refer to as Merger Sub, and us. Once the merger agreement has been adopted by our stockholders, we have received the necessary regulatory approvals and the other closing conditions under the merger agreement have been satisfied or waived, Merger Sub will merge with and into us, which transaction is referred to as the “merger.” Energy East will be the surviving corporation in the merger, or the “surviving corporation,” and will become a wholly-owned subsidiary of Iberdrola.

**Q: What will I receive in the merger?**

A: Upon completion of the merger, you will receive \$28.50 in cash, without interest, in exchange for each share of our common stock that you own. For example, if you own 100 shares of our common stock, you will receive \$2,850.00 in cash in exchange for your shares of our common stock.

**Q: When do you expect the merger to be completed?**

A: We are working toward completing the merger as soon as possible, and we intend to complete it during the first half of 2008. In order to complete the merger, we must obtain stockholder approval, and we and Parent must obtain regulatory approvals and satisfy the other closing conditions under the merger agreement. See “The Merger Agreement—Conditions to the Merger” beginning on page 58.

**Q: Should I send in my stock certificates now?**

A: No. Shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to the paying agent in order to receive the merger consideration. You should use the letter of transmittal to exchange stock certificates for the merger consideration to which you are entitled as a result of the merger. **DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY.** Registered stockholders who hold their shares in book-entry form will receive payment directly from the paying agent without further action. See “Exchange and Payment Procedures” beginning on page 47.

**Q: What vote of our stockholders is required to adopt the merger agreement?**

A: For us to complete the merger, stockholders holding at least a majority of the shares of our common stock outstanding at the close of business on the record date must vote “**FOR**” the adoption of the merger agreement. Accordingly, failure to vote or an abstention will have the same effect as a vote against adoption of the merger agreement.

**Q: How does Energy East’s Board of Directors recommend that I vote on the merger?**

A: The Board of Directors, which we sometimes refer to as the Board, unanimously recommends that our stockholders vote “**FOR**” the adoption of the merger agreement. You should read “The Merger—

Reasons for the Merger and Recommendation of the Company's Board of Directors" for a discussion of the factors that the Board of Directors considered in deciding to recommend the adoption of the merger agreement.

**Q: Do any of Energy East's directors or officers have interests in the merger that may differ from those of Energy East's stockholders?**

A: Yes. We and Parent have entered into an amended employment agreement with our Chief Executive Officer that becomes effective upon the completion of the merger. In addition, all employee stock options, including those held by our officers, will be cancelled in exchange for an amount equal to the excess, if any, of the merger consideration over the exercise price, and all restricted stock held by our employees, including our officers will vest immediately prior to the effective time and be eligible to receive the merger consideration. Certain of our officers may receive severance benefits in the case of certain terminations of employment or constructive discharges following the merger, in each case pursuant to the terms of their individual employment or change-in-control agreements that were in place prior to the execution of the merger agreement. Several directors of the Company will be invited to serve on an advisory board following the merger and the Company's directors and officers will be indemnified by the Company as the surviving corporation in the merger and covered by the Company's existing directors' and officers' insurance policy (or similar substitute policy) for a period of six years following the merger. See "The Merger—Interests of the Company's Directors and Executive Officers in the Merger" beginning on page 37.

**Q: What factors did Energy East's Board of Directors consider in making its recommendation?**

A: In making its recommendation, the Board of Directors took into account, among other things:

- the per share consideration of \$28.50, which represents a 27.4% premium above the closing price of our common stock on June 22, 2007, the trading day immediately prior to announcement of the merger and a premium of approximately 20.2% above the average closing price for the 30-day period ending June 22, 2007;
- the fact that the merger consideration is all cash;
- the business, financial performance and growth prospects of the Company, and the risks of remaining independent;
- the financial and comparative analyses performed by JPMorgan and Greenhill, our financial advisors, and their respective fairness opinions;
- Iberdrola's proven leadership and expertise in, and commitment to, delivering sustainable clean energy, including renewable resources, energy efficiency initiatives and engineering and construction resources at the leading edge of environmental technology, which the Board believes will be very important to enable us to continue to best meet the needs of our customers and the communities that we serve;
- Iberdrola's commitment to honor existing labor agreements and preserve substantially comparable pay and benefits for our employees for at least 18 months after completion of the merger;
- Iberdrola's stated intention that it had no plans to modify our historical charitable contributions and local community support;
- the provisions of the merger agreement that permit the Board, under specified conditions, to terminate the merger agreement prior to its approval by the holders of our common stock in the exercise of its fiduciary duty; and

- the financial capability of Iberdrola to consummate the merger and the fact that Iberdrola's obligations under the merger agreement are not subject to any financing condition.

See "The Merger—Reasons for the Merger and Recommendation of the Company's Board of Directors" beginning on page 26.

**Q: Who is entitled to vote?**

A: Holders of our shares of common stock as of the close of business on \_\_\_\_\_, 2007, the record date, are entitled to vote at the special meeting. Each share of our common stock is entitled to one vote.

**Q: How do I vote and how will my proxy be voted?**

A: If you hold your shares in your name, as a "stockholder of record," you can vote in person at the special meeting or you can complete and submit a proxy by mail, telephone or the Internet, as provided on your proxy card.

The enclosed proxy card contains instructions for mail, telephone and Internet voting. If you are a stockholder of record, you can submit your proxy by telephone by calling the toll-free telephone number on your proxy card 1-866-540-5760 or via the Internet by accessing the website identified on your proxy card [www.proxyvoting.com/eas](http://www.proxyvoting.com/eas). Telephone and Internet voting are available 24 hours a day and will be accessible until \_\_\_\_\_ p.m. on \_\_\_\_\_, 2007. If you are a stockholder of record and choose to submit your proxy by mail, please complete each proxy card you receive, date and sign it, and return it in the prepaid envelope which accompanies that proxy card. If you submit your proxy via the Internet or by telephone, please do not mail your proxy card. Whichever method you use, the proxies identified on the proxy card will vote your shares in accordance with your instructions.

If you submit a proxy card without giving specific voting instructions with respect to any or all proposals, you give the named proxies the authority to vote, in their discretion, on each such proposal. In addition, a properly signed and dated proxy card (or a proxy properly delivered via the Internet or by telephone) gives the named proxies the authority to vote, in their discretion, on any other matter that may arise at the meeting.

If you hold your shares indirectly in the name of a bank, broker or other nominee, as a "street-name stockholder," you will receive instructions from your bank, broker or other nominee describing how to provide instructions in order to vote your shares. If you hold your shares in "street name" and do not provide voting instructions to your broker, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote. Generally, your broker, bank or other nominee does not have discretionary authority to vote on the merger proposal. Accordingly, your broker, bank or other nominee will vote your shares held by it in "street name" only if you provide instructions to it on how to vote. You should follow the directions your broker, bank or other nominee provides. Shares that are not voted because you do not properly instruct your broker, bank or other nominee will have the effect of votes against the adoption of the merger agreement.

**Q: Do I have the right to revoke my proxy?**

A: Yes. You can revoke your proxy by submitting a new proxy by mail, telephone or Internet; giving written notice to our Vice President—General Counsel prior to the special meeting stating that you are revoking your proxy; or attending the special meeting and voting your shares in person. However, if your shares are held in "street name" through a bank, broker, custodian or other recordholder, you must check with your bank, broker, custodian or other recordholder to determine how to revoke your proxy.

**Q: Who will count the votes?**

A: BNY Mellon Shareowner Services will tabulate the votes and act as inspector of election.

**Q: What if I get more than one proxy card?**

A: Your shares may be registered differently or may be in more than one account. Please sign and return all proxy cards to ensure that all of your shares are voted.

**Q: What constitutes a quorum?**

A: The record date for determining stockholders who are entitled to vote at the special meeting is \_\_\_\_\_, 2007. Each of the approximately [\_\_\_\_\_] shares of our common stock issued and outstanding on that date is entitled to one vote at the special meeting. A majority of the outstanding shares, present or represented by proxy, constitutes a quorum. For purposes of determining the presence of a quorum, shares represented by abstentions and "broker non-votes" will be counted as present. If you vote by proxy card or give a proxy via the Internet or by telephone, you will be considered part of the quorum. In the absence of a quorum, the special meeting may be adjourned.

**Q: What happens if I sell my shares of Energy East common stock before the special meeting?**

A: The record date for the special meeting is earlier than the date of the special meeting and earlier than the date the merger is expected to be completed. If you transfer your shares of Energy East common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will transfer the right to receive the merger consideration.

**Q: When and where will the special meeting be held?**

A: The special meeting will be held on \_\_\_\_\_, 2007, at [9:00] a.m. at the Citi Auditorium, 27<sup>th</sup> Floor, 388 Greenwich Street, New York, New York.

**Q: What percentage of stock do the directors and officers own?**

A: Our directors and certain executive officers own approximately \_\_\_\_\_% of our common stock, as of \_\_\_\_\_, 2007.

**Q: Do I have dissenters' rights?**

A: No. Under the New York Business Corporation Law, you will not be entitled to exercise dissenters' rights because our common stock was listed on the New York Stock Exchange on the record date.

**Q: Who can help answer my other questions?**

A: If you have more questions about the merger or the other matters to be considered at the special meeting, need assistance in submitting your proxy or voting your shares, or need additional copies of the proxy statement or the enclosed proxy card, you should contact our proxy solicitor, Innisfree M&A, toll-free at: 877-750-9501. Brokers, banks and other nominees may call collect at 212-750-5833. If your broker, bank or other nominee holds your shares of common stock, you should call your broker, bank or other nominee for additional information.

## SUMMARY

*This summary highlights selected information from this proxy statement and may not include all of the information that may be important to you. To fully understand the proposed merger, and for a more detailed description of the terms and conditions of the merger and certain other matters being considered at the stockholders meeting, you should carefully read this entire proxy statement, its annexes and the documents referred to in this proxy statement that we have filed with the Securities and Exchange Commission. We have included page references parenthetically in this summary in order to direct you to a more detailed description of each topic represented in this summary.*

### **The Special Meeting**

#### ***Date, Time and Place of the Special Meeting (Page 14)***

The special meeting will be held on \_\_\_\_\_, 2007 at \_\_\_\_ a.m., local time at the Citi Auditorium, 27<sup>th</sup> Floor, 388 Greenwich Street, New York, New York.

#### ***Purpose of the Special Meeting (Page 14)***

The purpose of the special meeting is to take action upon the following: (i) a proposal to adopt the merger agreement pursuant to which we will become a wholly-owned subsidiary of Iberdrola; (ii) any proposal to adjourn the special meeting to a later date, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to adopt the above proposal; and to transact any other business properly brought before the special meeting. Our By-Laws provide that no business may be transacted at the special meeting other than as specified in the accompanying notice of the special meeting or as otherwise properly brought before the special meeting by or at the direction of the Board.

#### ***Record Date for the Special Meeting (Page 15)***

The close of business on \_\_\_\_\_, 2007 has been fixed as the record date for determination of stockholders entitled to notice of and to vote at the special meeting.

#### ***Shares Entitled to Vote (Page 15)***

Each stockholder is entitled to one vote at the special meeting for each share of our common stock held by that stockholder at the close of business on the record date. Shares of our common stock held by us in our treasury will not be voted.

#### ***Vote Required (Page 15)***

- Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote, assuming that a quorum is present.
- Approval of any proposal to adjourn the special meeting to a later date requires the affirmative vote of a majority of the votes cast by holders of our common stock entitled to vote, whether or not a quorum is present at the special meeting.

#### ***Voting at the Special Meeting (Page 16)***

If you are a stockholder of record, you may vote in person by ballot at the special meeting or by submitting a proxy. We recommend you submit your proxy even if you plan to attend the special meeting.

If you attend the special meeting, you may vote by ballot, thereby canceling any proxy previously submitted.

***How to Vote by Proxy (Page 16)***

*By Telephone or via the Internet:* If you are a stockholder of record, you can submit your proxy by telephone by calling the toll-free telephone number on your proxy card 1-866 540-5760 or via the Internet by accessing the website identified on your proxy card [www.proxyvoting.com/eas](http://www.proxyvoting.com/eas).

*By Mail:* If you are a stockholder of record and choose to submit your proxy by mail, please complete each proxy card you receive, date and sign it, and return it in the prepaid envelope which accompanied that proxy card.

*Shares Held in Street-Name:* If you hold your shares indirectly in the name of a bank, broker or other nominee, as a "street-name stockholder," you will receive instructions from your bank, broker or other nominee describing how to vote your shares.

***Proxies without Instruction (Page 16)***

If you are a stockholder of record and submit your proxy but do not make specific choices, your proxy will follow the Board of Directors' recommendations.

***Revocation of Proxies (Page 17)***

You may revoke your proxy at any time prior to the time your shares are voted. If you are a stockholder of record, your proxy can be revoked in several ways:

- by entering a new vote via the Internet or by telephone;
- by delivering a written revocation to our corporate secretary that is received prior to the special meeting;
- by submitting another valid proxy bearing a later date that is received prior to the special meeting;  
or
- by attending the special meeting and voting your shares in person.

However, if your shares are held in "street name" through a bank, broker, custodian or other recordholder, you must check with your bank, broker, custodian or other recordholder to determine how to revoke your proxy.

***The Parties to the Merger (Page 18)***

Energy East Corporation  
52 Farm View Drive  
New Gloucester, Maine 04260-5116  
(207) 688-6300

Energy East is a public utility holding company organized under the laws of the state of New York in 1997. Energy East is a super-regional energy services and delivery company with operations in New York, Connecticut, Massachusetts, Maine and New Hampshire. We conduct all of our operations through our wholly-owned subsidiaries including The Berkshire Gas Company, Central Maine Power Company, Connecticut Natural Gas Corporation, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, The Southern Connecticut Gas Company and The Energy Network, Inc. Our

principal business consists of our regulated electricity transmission and distribution operations in upstate New York and Maine and our regulated natural gas transportation, storage and distribution operations in upstate New York, Connecticut, Maine and Massachusetts. We serve approximately two million electricity customers and one million natural gas customers. Our service territories reflect diversified economies, including high-technology firms, insurance, light industry, consumer goods, manufacturing, pulp and paper, ship building, colleges and universities, agriculture, fishing and recreational facilities.

Iberdrola, S.A.  
Tomás Redondo 1.  
28033 Madrid  
Spain  
+34 901 20 20 20

Iberdrola is a corporation (Sociedad Anónima) organized under the laws of the Kingdom of Spain. Iberdrola's shares are publicly traded on the Spanish Stock Exchanges. Iberdrola is a global utility company and one of the largest energy companies in the world with a market capitalization of approximately \$70 billion. Iberdrola provides services to approximately 22 million electric points of supply and 2 million gas points of supply in Europe and the Americas, including 10 million points of supply in Spain, 7.7 million in Brazil, 3.4 million in the United Kingdom, and approximately 1 million in Guatemala and Bolivia. Iberdrola has over 100 years of experience as an electric utility, including extensive experience as a provider of electric transmission and distribution services, with a focus on increasing and maintaining the distribution infrastructure and maximizing service quality. Between 2005 and the end of 2007, Iberdrola will have invested approximately \$4 billion in improvements for its transmission and distribution systems globally. Iberdrola owns a diversified portfolio of approximately 40,000 megawatts (MW) of electric generation worldwide comprised primarily of low emission assets (e.g., hydro, nuclear and gas combined cycle), and it is the largest producer of wind energy in the world with over 6,800 MW of wind capacity. In 2006 alone, Iberdrola invested over \$1.32 billion in renewable technologies and has over 40,000 MW of new renewable resources in the pipeline, including over 20,000 MW in the United States. Iberdrola is also engaged in the natural gas business in Europe and the Americas, as both a gas supplier and developer of gas infrastructure. In Spain, Iberdrola supplied 150 billion cubic feet (bcf) of natural gas in 2006, including 20 percent of Spain's liquefied natural gas supplies. Iberdrola also has significant investments in two Spanish regasification plants and in the MEDGAZ pipeline, which transports supplies from Algeria to Spain. Iberdrola is also the third largest independent operator of natural gas storage in North America, with almost 95 bcf of storage capacity in the western United States and Canada.

Green Acquisition Capital, Inc.  
c/o Uría Menéndez  
Grace Building  
1114 Avenue of the Americas, 34<sup>th</sup> Floor  
New York, New York 10036  
(212) 593-4754

Merger Sub is a New York corporation and a wholly-owned subsidiary of Iberdrola. Merger Sub was organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement. Upon consummation of the merger, Merger Sub will merge with and into us and the separate existence of Merger Sub will cease. We will be the surviving corporation and will become a wholly-owned subsidiary of Iberdrola.

**When the merger will be completed**

We intend to complete the merger during the first half of 2008.

**Board of Directors' Recommendation (Page 28)**

The Board of Directors has unanimously determined that the merger is advisable and in the best interests of the Company and its stockholders. The Board unanimously recommends that our stockholders vote **FOR** adoption of the merger.

**Opinions of our Financial Advisors (Page 29 and Annexes B and C)**

JPMorgan Securities, Inc., which we refer to as JPMorgan, and Greenhill & Co., LLC, which we refer to as Greenhill, each delivered their opinions to the Board of Directors that, as of the date of their opinions and based upon and subject to the factors and assumptions set forth therein, the merger consideration of \$28.50 in cash per share, to be received by our stockholders pursuant to the merger agreement, was fair from a financial point of view to our stockholders.

The opinions of JPMorgan and Greenhill do not constitute recommendations as to how any of our stockholders should vote with respect to the merger agreement. The full texts of the written opinions of JPMorgan and Greenhill, each dated June 25, 2007, which set forth the matters considered and assumptions made in connection with such opinions, are attached as Annexes B and C to this proxy statement. We recommend that you read the opinions carefully.

JPMorgan and Greenhill will each receive a fee from us for their services pursuant to their respective engagement letters. Pursuant to these engagement letters, we agreed to pay separate fees of \$8,500,000 each to JPMorgan and Greenhill. Of such amounts, \$1,700,000 was payable to each upon public announcement of the merger agreement, \$850,000 will be payable to each upon adoption of the merger agreement by our stockholders and \$5,950,000 will be payable to each upon closing of the merger.

**Interests of the Company's Directors and Executive Officers in the Merger (Page 37)**

Our directors and executive officers may have interests in the merger that are different from, or in addition to, yours, including the following:

- In the aggregate, as of \_\_\_\_\_, 2007, our directors and executive officers beneficially owned approximately \_\_\_\_\_ shares of our common stock. Such shares include shares purchased by such individuals, shares that may be acquired under stock options and shares of restricted stock. Such shares have an aggregate cash value of \$ \_\_\_\_\_. Certain of these shares of common stock will be affected by the completion of the merger as follows:
  - all outstanding options to acquire our common stock owned by our employees will immediately vest on consummation of the merger and the holders of such options shall receive an amount in cash equal to the excess of the merger consideration per share over the exercise price per share applicable to such stock options; and
  - all shares of restricted stock owned by our employees will vest upon consummation of the merger and become entitled to receive the merger consideration;
  - the merger agreement provides for indemnification arrangements for each of our current and former directors and officers that will continue for six years following the effective time of the merger as well as insurance coverage covering his or her service to us as a director or officer;

- in addition to the Company's Chief Executive Officer, at least three other directors of the Company shall be requested to serve on an advisory board to the Company for a period of at least two years following the merger;
- our Chief Executive Officer has entered into an amended and restated employment agreement, dated as of June 25, 2007 with us and Iberdrola that becomes effective if the merger is completed; and
- certain of our officers may receive severance benefits in the case of certain terminations of employment or constructive discharges following the merger, in each case pursuant to the terms of their individual employment or change-in-control agreements that were in place prior to the execution of the merger agreement.

#### **Material United States Federal Income Tax Consequences (Page 41)**

The receipt of cash in the merger by United States Holders (as defined below on Page 41) of our common stock will be a taxable transaction for United States federal income tax purposes. In general, for United States federal income tax purposes, a United States Holder of our common stock will recognize gain or loss equal to the difference between the amount of cash received in exchange for such common stock and the United States Holder's adjusted tax basis in such common stock. If you are a non- United States Holder of our common stock, the merger will generally not be a taxable transaction to you under United States federal income tax laws unless you have certain connections to the United States. You should consult with your own tax advisor for a full understanding of how the merger will affect your taxes. See the discussion under "The Merger—Material United States Federal Income Tax Consequences."

The foregoing is not tax advice and does not purport to be a complete analysis of the potential tax considerations relating to the merger. Tax matters are complicated and the tax consequences of the merger to you will depend upon the facts of your particular situation. Because individual circumstances may differ, we urge you to consult with your tax advisor as to the specific tax consequences of the merger to you, including the applicability of United States federal, state, local, foreign and other tax laws.

#### **Regulatory Approvals and Filings (Page 43)**

As a condition to each party's obligation to consummate the merger, we and Iberdrola must obtain approvals, consents or waivers from, or make filings with a number of United States federal and state public utility, antitrust and other regulatory authorities including (i) the Department of Justice and the Federal Trade Commission pursuant to the Hart-Scott-Rodino Act; (ii) the Federal Energy Regulatory Commission under the Federal Power Act; (iii) the Federal Communications Commission under the Communications Act of 1934, as amended by the Telecommunications Act of 1996, (iv) the United States Committee on Foreign Investment pursuant to the Exon-Florio Amendment to the Defense Production Act, and (v) the following state public utility commissions: (A) the Connecticut Department of Public Utility Control, (B) the Maine Public Utilities Commission, (C) the New Hampshire Public Utilities Commission and (D) the New York Public Service Commission. Additionally, we intend to exchange correspondence with the staff of the United States Nuclear Regulatory Commission to confirm our view that no approval is necessary under the Atomic Energy Act of 1954, as amended. We intend to make all filings and submittals by the end of the third quarter of 2007. Although we believe that we will receive the required consents and approvals necessary to complete the merger, there can be no assurance as to the timing of these consents and approvals or as to our ultimate ability to obtain such consents or approvals (or any additional required consents or approvals which may otherwise become necessary) or that such consents or approvals will be obtained on terms and subject to conditions satisfactory to us and Iberdrola. If additional approvals, consents and filings are required to complete the merger, we contemplate that such consents, approvals and filings will be sought or made.

### **Treatment of Stock Options and Restricted Stock (Page 49)**

At the effective time of the merger, each outstanding option to acquire our common stock issued under our stock option plans, whether or not vested or exercisable, and all tandem stock appreciation rights related thereto, will be canceled, and the holder of each stock option will be entitled to receive, less any required withholding taxes, an amount in cash equal to the product of the excess, if any, of the merger consideration per share over the exercise price per share previously subject to such option, multiplied by the number of shares of our common stock previously subject to such option.

At the effective time of the merger, all shares of restricted stock issued to employees under the Restricted Stock Plan will vest upon completion of the merger and holders of such shares of restricted stock shall become entitled to receive the merger consideration, less any required withholding taxes.

### **Procedure for Receiving Merger Consideration (Page 47)**

As soon as practicable after the effective time of the merger, the paying agent will mail a letter of transmittal and instructions to stockholders whose shares are in certificate form. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration. **You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.**

No action is required by you if the shares you own are in book-entry form. The paying agent will automatically issue a check to you after the effective time of the merger.

### **No Solicitation of Transactions (Page 55)**

The merger agreement restricts our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving the Company. Notwithstanding these restrictions, under certain limited circumstances required for the Board of Directors to comply with its fiduciary duties, the Board of Directors may respond to an unsolicited written bona fide proposal for an alternative acquisition or terminate the merger agreement and enter into an agreement with respect to a superior proposal after paying the termination fee specified in the merger agreement.

### **Conditions to the Merger (Page 58)**

Before we can complete the merger, a number of conditions must be satisfied, including:

- our stockholders must adopt the merger agreement;
- there can be no governmental orders that would make the merger illegal or that would otherwise prohibit the closing;
- the necessary regulatory and other approvals specified in the merger agreement must have been obtained;
- our representations and warranties, and Iberdrola's representations and warranties, each must be accurate, except to the extent certain inaccuracies would not constitute a material adverse effect; and
- each of the parties must have performed its covenants as required under the merger agreement.

**Termination (Page 59)**

The merger agreement may be terminated at any time prior to the effective time:

- by mutual written consent of the parties;
- by either us or Iberdrola if:
  - any restraint is in effect and is final and non-appealable that has the effect of making the merger illegal or of otherwise prohibiting the consummation of the merger;
  - our stockholders do not adopt the merger agreement at the special meeting (including any adjournment or postponement thereof); or
  - the merger has not been consummated by June 25, 2008, which we refer to as the outside date, subject to the right of either party to extend the outside date for six months to obtain regulatory approvals;
- by us if:
  - prior to the special meeting, the Board, following notice to Iberdrola, authorizes us to enter into, and we enter into, a definitive agreement concerning a transaction that constitutes a superior proposal, and we pay a termination fee to Iberdrola, as set out below;
  - Iberdrola's or Merger Sub's representations and warranties fail to be true and correct, subject to certain materiality limitations and such breach is not capable of being corrected prior to the outside date; or
  - Iberdrola or Merger Sub fail in any material respect to perform any of their obligations under the merger agreement and such breach is not capable of being corrected prior to the outside date.
- by Iberdrola if:
  - our representations and warranties fail to be true and correct, subject to certain materiality limitations and such breach is not capable of being corrected prior to the outside date;
  - we fail, in any material respect, to perform our obligations under the merger agreement and such breach is not capable of being corrected prior to the outside date;
  - the Board of Directors withdraws or modifies, or publicly proposes to withdraw or modify, its recommendation with respect to the merger agreement or publicly approves or recommends, or publicly proposes to approve or recommend, any alternative takeover proposal;
  - the Board of Directors fails to reaffirm its recommendation within twenty (20) business days of receipt of Parent's written request at any time following an unsolicited takeover proposal;
  - we fail to include the Board of Directors' recommendation of the adoption of the merger agreement in the proxy statement; or
  - we willfully and materially breach the provisions prohibiting the solicitation of competing proposals or other related provisions contained in Section 4.2 of the merger agreement.

**Fees and Expenses (Page 60)**

The parties have agreed that all fees and expenses incurred in connection with the merger shall be paid by the party incurring such fees or expenses.

Under certain circumstances, in connection with the termination of the merger agreement, we will be required to pay to Iberdrola a termination fee of \$45 million. Such fee will be payable if:

- each of the following three conditions are met:
  - a takeover proposal had been made and not withdrawn at the time the merger agreement is terminated;
  - the termination occurs because:
    - the Company's shareholders have not adopted the merger agreement at the special meeting; or
    - the conditions to the closing of the merger were not been satisfied by the outside date; and
  - within three months after the termination date we enter into an agreement with respect to a takeover proposal with any third-party; or within twelve months after the termination date, we enter into an agreement with respect to a takeover proposal with a party who made a takeover proposal prior to the termination of the merger agreement;
- a takeover proposal has been made and not withdrawn at the time of termination and the termination is a result of a willful breach by the Company of its representations, warranties or covenants that is not cured in accordance with the terms of the merger agreement;
- the Board of Directors withdraws or modifies, or publicly proposes to withdraw or modify, its recommendation with respect to the merger agreement or publicly approves or recommends, or publicly proposes to approve or recommend, any alternative takeover proposal;
- the Board of Directors fails to reaffirm its recommendation within twenty (20) business days of receipt of Parent's written request following an unsolicited takeover proposal;
- we fail to include in the proxy statement the Board of Directors' recommendation that the merger agreement be adopted;
- we willfully and materially breach the provisions of the merger agreement prohibiting the solicitation of competing proposals or other related provisions contained in Section 4.2 of the merger agreement; or
- we enter into a definitive agreement with respect to a superior proposal.

**Market Price of Our Stock (Page 62)**

Our common stock is listed and traded on the NYSE under the symbol "EAS." On June 22, 2007, the last trading day before announcement of the merger, the closing price of our common stock on the New York Stock Exchange was \$22.37 per share. On \_\_\_\_\_, 2007, which was the last trading day before the date this proxy statement was printed, the closing price of our common stock was \$\_\_.\_ per share.

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Certain statements included or incorporated by reference herein constitute “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Whenever used in this proxy statement, the words “estimate,” “intend,” “expect,” “believe,” “anticipate,” or similar expressions are intended to identify such forward-looking statements.

In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that involve risks and uncertainties and that could cause actual results to differ materially from those contemplated in any forward-looking statements include but are not limited to, the following:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the outcome of any legal or regulatory proceedings that have been instituted against us, our affiliates or Iberdrola regarding the merger;
- our ability to obtain the approval of the stockholders at the special meeting;
- the failure of the merger to close for any other reason, including the failure to obtain regulatory approvals required for the merger;
- the regulatory approval process relating to the merger, which could delay the merger or result in the imposition of conditions that could have a material adverse effect on the surviving company;
- problems that arise with the ability to successfully integrate our and Iberdrola’s businesses, which may result in the resulting company not operating as effectively and efficiently as expected;
- our ability to compete in the rapidly changing and competitive electric and/or natural gas utility markets;
- regulatory uncertainty and volatile energy supply prices;
- implementation of the Energy Policy Act of 2005;
- increased state and Federal Energy Regulatory Commission regulation;
- the operation of the New York Independent System Operator, which operates the electric transmission system in the state of New York and its retroactive billing adjustments;
- the operation of the New England independent system operator, ISO-NE, as a regional transmission operator and Central Maine Power’s continued participation in ISO-NE;
- our continued ability to recover non-utility generator electric purchases and other costs;
- changes in fuel supply or cost and the success of strategies to satisfy power requirements;
- our ability to expand our products and services, including our energy infrastructure in the Northeast;
- the effect of commodity costs on customer usage and uncollectible expense;
- market risk from changes in value of financial or commodity instruments, derivative or nonderivative, caused by fluctuations in interest rates or commodity prices;
- the ability of third parties to continue to supply electricity and natural gas;
- our ability to obtain adequate and timely rate relief and/or the extension of current rate plans;
- the possible discontinuation or further modification of fixed-price supply programs in New York;
- nuclear decommissioning or environmental incidents;

- legal or administrative proceedings;
- changes in the cost or availability of capital;
- economic growth or contraction in the areas in which we do business;
- extreme weather-related events such as floods, hurricanes, ice storms or snow storms;
- weather variations affecting customer energy usage;
- authoritative accounting guidance;
- acts of terrorism;
- the effect of volatility in the equity and fixed income markets on the cost of pension and other postretirement benefits;
- the inability of our internal control framework to provide absolute assurance that all incidents of fraud or error will be detected and prevented; and
- other considerations that may be disclosed from time to time in our publicly disseminated documents and filings.

The risks included here are not exhaustive. The annual report on Form 10-K, subsequent quarterly reports on Form 10-Q, current reports on Form 8-K and other documents we file with the Securities Exchange Commission, which we refer to as the SEC, include additional factors which could impact the Company's businesses and financial performance. Moreover, the Company operates in a rapidly changing and competitive environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the impact of all risk factors on the Company's or the resulting company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, the Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this proxy statement, except as may be required by law.

## **THE SPECIAL MEETING**

### **General**

This proxy statement is being provided to Energy East stockholders as part of a solicitation by the Energy East Board of Directors for use at the Energy East special meeting and at any adjournment thereof. This proxy statement provides Energy East stockholders with the information they need to vote or instruct their vote to be cast at the Energy East special meeting.

### **Date, Time and Place of the Special Meeting**

The Energy East special meeting will be held on \_\_\_\_\_, 2007 at \_\_\_\_\_ a.m., local time at the Citi Auditorium, 27<sup>th</sup> Floor, 388 Greenwich Street, New York, New York.

### **Purpose of the Special Meeting**

At the special meeting, Energy East stockholders will be asked:

1. to adopt the merger agreement;
2. to approve any adjournments of the Energy East special meeting to a later date, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the above proposal;

and to consider and vote upon other matters that may properly be submitted to a vote at the special meeting or any reconvened meeting following an adjournment of the special meeting.

#### **Record Date for the Special Meeting**

The close of business on \_\_\_\_\_, 2007 has been fixed as the record date for determination of stockholders entitled to notice of and to vote at the special meeting.

#### **Outstanding Shares**

As of \_\_\_\_\_, 2007, the record date for the special meeting, approximately \_\_\_\_\_ shares of our common stock were outstanding.

#### **Shares Entitled to Vote**

Shares entitled to vote at the special meeting are shares of our common stock held as of the close of business on \_\_\_\_\_, 2007, the record date. Each stockholder is entitled to one vote at the special meeting for each share of our common stock held by that stockholder at the close of business on the record date. Shares of our common stock held by us in our treasury are not voted.

#### **Quorum, Abstentions and Broker Non-Votes**

A quorum of our stockholders is necessary to hold a valid meeting. The presence in person or by proxy at the special meeting of holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the meeting is a quorum. Shares held by us in our treasury do not count towards a quorum. Abstentions and broker non-votes count as present for establishing a quorum. A broker non-vote occurs on an item when the broker is not permitted to vote on that item without instruction from the beneficial owner of the shares of our common stock and the beneficial owner gives no instruction as to voting of the shares. Under the rules of the New York Stock Exchange, which we refer to as NYSE, your broker or bank does not have discretionary authority to vote your shares on the proposal to adopt the merger agreement. Without your voting instructions, a broker non-vote will occur. Your broker or bank may vote on adjournments of the special meeting, which is considered discretionary, if you have not provided voting instructions on this proposal to them.

#### **Vote Required**

In voting on the proposal to adopt the merger agreement, you may vote in favor of, or against, or may abstain from voting on such proposal. The vote required to adopt the merger agreement is the affirmative vote of the holders of a majority of the shares of outstanding common stock entitled to vote. With respect to the adoption of the merger agreement, abstentions and broker non-votes will be voted neither "for" nor "against," but will have the same effect as an "against" vote in connection with such proposal.

In voting for any adjournments of the special meeting, you may vote in favor of, or against, or may abstain from voting on such proposal. The vote required to approve any adjournments of the special meeting is the affirmative vote of a majority of the votes cast by holders of common stock entitled to vote. With respect to any adjournments of the special meeting, abstentions will be voted neither "for" nor "against" and will have no effect on the vote in connection with such proposal.

#### **Shares Beneficially Owned by Our Directors and Officers**

Our directors and officers beneficially owned \_\_\_\_\_ shares of our common stock on \_\_\_\_\_, 2007, the record date for the special meeting. These shares represent in total \_\_\_% of the total voting power of our voting securities outstanding and entitled to vote as of \_\_\_\_\_, 2007. We currently expect that our directors and officers will vote their shares in favor of the merger proposal, although none of them has entered into any agreements obligating them to do so.

### **Voting at the Special Meeting**

If you are a stockholder of record, you may vote in person by ballot at the special meeting or by submitting a proxy. We recommend you submit your proxy even if you plan to attend the special meeting. If you attend the special meeting, you may vote by ballot, thereby canceling any proxy previously submitted.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to us in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. You may vote for or against the proposals or abstain from voting.

For employees of Energy East, your proxy represents the number of shares registered in your name as well as the number of whole shares credited to your account from dividends reinvested and optional cash payments under Energy East's Investor Services Program. If you participate in any of the Tax Deferred Savings Plans of New York State Electric & Gas Corporation, the Rochester Gas and Electric Corporation Savings Plus Plan, The Southern Connecticut Gas Company Target Plan, the Central Maine Power Company Savings and Investment Plans, the Connecticut Natural Gas Corporation Employee Savings Plans, The Berkshire Gas Company 401(k) Plans, the Energy East Management Corporation Tax Deferred Savings Plan or the Utility Shared Services Corporation Tax Deferred Savings Plan, your proxy constitutes an instruction for the trustees of such plans to vote the whole shares in your account in such plans in the manner specified on your proxy.

### **How to Vote by Proxy**

You have three voting options:

*Internet:* You can vote over the Internet at the Internet address shown on your proxy/voting instruction card. Internet voting is available 24 hours a day. If you vote by Internet, do not return your proxy/voting instruction card.

*Telephone:* You can vote by telephone by calling the toll-free number on your proxy card. Telephone voting is available 24 hours a day. If you vote by telephone, do not return your proxy/voting instruction card. **If you hold your shares indirectly in the name of a bank, broker or other nominee, as a "street-name stockholder," you will receive instructions from your bank, broker or other nominee describing how to vote your shares. If you submit your proxy via the Internet or by telephone, please do not mail your proxy card.**

*Mail:* If you are a stockholder of record and choose to submit your proxy by mail, please complete each proxy card you receive, date and sign it, and return it in the prepaid envelope which accompanied that proxy card.

*Shares Held in Street-Name:* If you hold your shares indirectly in the name of a bank, broker or other nominee, as a "street-name stockholder," you will receive instructions from your bank, broker or other nominee describing how to vote your shares.

### **Proxies without Instruction**

If you are a stockholder of record and submit your proxy but do not make specific choices, your proxy will follow the Board of Directors' recommendations and your shares will be voted "**FOR**" the proposal to adopt the merger agreement and "**FOR**" any proposal to adjourn the special meeting to a later date, if necessary.

If you hold your shares through a bank, broker, custodian or other recordholder, failure to instruct such recordholder how to vote your shares will have the effect described under "Quorum, Abstentions and Broker Non-Votes."

### **Revocation of Proxies**

You may revoke your proxy at any time prior to the time your shares are voted. If you are a stockholder of record, your proxy can be revoked in several ways:

- by entering a new vote via the Internet or by telephone;
- by delivering a written revocation to our Vice President - General Counsel that is received prior to the special meeting;
- by submitting another valid proxy bearing a later date that is received prior to the special meeting; or
- by attending the special meeting and voting your shares in person.

However, if your shares are held in “street name” through a bank, broker, custodian or other recordholder, you must check with your bank, broker, custodian or other recordholder to determine how to revoke your proxy.

### **Proxy Solicitation**

The proxies being solicited hereby are being solicited by us and the Board of Directors. We will pay the costs of soliciting proxies from our stockholders. In addition to this mailing, proxies may be solicited by our directors, officers or employees in person via the Internet or by telephone, or by electronic transmission. None of the directors, officers or employees will be directly compensated for such services. We have retained Innisfree M&A to assist in the distribution and solicitation of proxies. We will pay Innisfree M&A a fee of \$25,000 plus reasonable expenses for these services. In addition, we will reimburse brokers, bank nominees and other institutional holders for their reasonable out-of-pocket expenses in forwarding proxy materials to the beneficial owners of our common stock.

The extent to which these proxy soliciting efforts will be necessary depends entirely upon how promptly proxies are submitted. You should submit your proxy without delay via the Internet, by telephone or by mail. We also reimburse brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

### **Other Business; Adjournments**

We are not currently aware of any other business to be acted upon at the special meeting. If, however, other matters are properly brought before the special meeting, or any adjourned meeting, your proxy includes discretionary authority on the part of the individuals appointed to vote your shares or act on those matters according to their best judgment.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by the affirmative vote of a majority of the votes cast by holders of shares of our common stock present in person or by proxy at the meeting, whether or not a quorum is present, without further notice other than by an announcement made at the meeting. We do not currently intend to seek an adjournment of the special meeting.

### **Energy East Stockholder Account Maintenance**

All communications concerning accounts of our stockholders of record, including address changes, name changes, inquiries as to requirements to transfer shares of common stock and similar issues can be handled by calling our transfer agent, BNY Mellon Shareowner Services, toll-free, at 1-800 542-7480.

### **Householding of Special Meeting Materials**

We are sending only one copy of this proxy statement to stockholders who share the same last name and address unless they have notified the Company that they wish to continue receiving multiple copies.

This method of delivery, known as “householding” will help ensure stockholder households do not receive multiple copies of the same document and will reduce the Company’s printing and postage costs.

If you are receiving multiple copies of the annual report and proxy statement at your household and would prefer to receive a single copy of these materials, or if you wish to revoke your householding election, please contact BNY Mellon Shareowner Services, via the Internet at [www.melloninvestor.com](http://www.melloninvestor.com) or by telephone at 1-800-542-7480.

If a broker or other recordholder holds your Energy East shares, please contact such broker or other recordholder directly if you have questions, require additional copies of the proxy statement or annual report, or wish to receive multiple reports by revoking your consent to householding.

#### **Other Matters**

The enclosed form of proxy will confer discretionary authority for the transacting of any such other and further business if properly brought before the meeting or any adjournment thereof. If any such business is so brought before the meeting, the persons named in the enclosed form of proxy, or their substitutes, will vote according to their discretion.

### **THE PARTIES TO THE MERGER**

#### **Energy East Corporation**

Energy East is a public utility holding company organized under the laws of the state of New York in 1997. Energy East is a super-regional energy services and delivery company with operations in New York, Connecticut, Massachusetts, Maine and New Hampshire. We conduct all of our operations through our wholly-owned subsidiaries including The Berkshire Gas Company, Central Maine Power Company, Connecticut Natural Gas Corporation, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, The Southern Connecticut Gas Company and The Energy Network, Inc. Our principal business consists of our regulated electricity transmission and distribution operations in upstate New York and Maine and our regulated natural gas transportation, storage and distribution operations in upstate New York, Connecticut, Maine and Massachusetts. We serve approximately two million electricity customers and one million natural gas customers. Our service territories reflect diversified economies, including high-technology firms, insurance, light industry, consumer goods, manufacturing, pulp and paper, ship building, colleges and universities, agriculture, fishing and recreational facilities. The address and telephone number of our principal executive office are: 52 Farm View Drive, New Gloucester, Maine 04260-5116, (207) 688-6300.

#### **Iberdrola, S.A.**

Iberdrola is a corporation (Sociedad Anónima) organized under the laws of the Kingdom of Spain. Iberdrola’s shares are publicly traded on the Spanish Stock Exchanges. Iberdrola is a global utility company and one of the largest energy companies in the world with a market capitalization of approximately \$70 billion. Iberdrola provides services to approximately 22 million electric points of supply and 2 million gas points of supply in Europe and the Americas, including 10 million points of supply in Spain, 7.7 million in Brazil, 3.4 million in the United Kingdom, and approximately 1 million in Guatemala and Bolivia. Iberdrola has over 100 years of experience as an electric utility, including extensive experience as a provider of electric transmission and distribution services, with a focus on increasing and maintaining the distribution infrastructure and maximizing service quality. Between 2005 and the end of 2007, Iberdrola will have invested approximately \$4 billion in improvements for its transmission and distribution systems globally. Iberdrola owns a diversified portfolio of approximately 40,000 MW of electric generation worldwide comprised primarily of low emission assets (e.g., hydro, nuclear and gas combined cycle), and it is the largest producer of wind energy in the world with over 6,800 MW of wind capacity. In 2006 alone, Iberdrola invested over \$1.32 billion in renewable technologies and has over 40,000 MW of new renewable

resources in the pipeline, including over 20,000 MW in the United States. Iberdrola is also engaged in the natural gas business in Europe and the Americas, as both a gas supplier and developer of gas infrastructure. In Spain, Iberdrola supplied 150 bcf of natural gas in 2006, including 20 percent of Spain's liquefied natural gas supplies. Iberdrola also has significant investments in two Spanish regasification plants and in the MEDGAZ pipeline, which transports supplies from Algeria to Spain. Iberdrola is also the third largest independent operator of natural gas storage in North America, with almost 95 bcf of storage capacity in the western United States and Canada. The address and telephone number of Iberdrola's principal executive office are: Tomás Redondo 1, 28033, Madrid, Spain, +34 901 20 20 20.

**Green Acquisition Capital, Inc.**

Merger Sub is a New York corporation and a wholly-owned subsidiary of Iberdrola. Merger Sub was organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement. Upon consummation of the merger, Merger Sub will merge with and into us and the separate existence of Merger Sub will cease. We will be the surviving corporation and will become a wholly-owned subsidiary of Iberdrola. The address and telephone number of Merger Sub's principal executive office are: c/o Uría Menéndez, 1114 Avenue of the Americas, 34<sup>th</sup> Floor, New York, New York 10036, (212) 593-4754.

## THE MERGER

*The following discussion contains material information pertaining to the merger. This discussion is subject to and qualified in its entirety by reference to the merger agreement and the related documents attached as Annexes to this proxy statement. The rights and obligations of the parties to the merger agreement are governed by the express terms and conditions of the merger agreement and not by our discussion or any other information contained in this proxy statement. We urge you to read the entirety of those documents as well as the discussion in this proxy statement.*

### **Background to the Merger**

From 2000 to 2002, we acquired and integrated five different electric and natural gas utilities. The Board of Directors recognizes that the utility industry continues to consolidate. From time to time, as part of our ongoing strategic assessment process, we have considered a variety of strategic initiatives, including possible acquisitions, divestitures, mergers or transactions in which we would be acquired. The transactions we have considered have included opportunities identified by us, brought to our attention by independent bankers or suggested by other companies. Some of these possible transactions were investigated more extensively than others and involved varying levels of due diligence.

Following an August 2006 request from management of Iberdrola to JPMorgan for an introduction to Energy East for potential strategic discussions, the Company's Chief Executive Officer, Wesley W. von Schack, received a call from JPMorgan to inquire whether Energy East would have any interest in discussing strategic alternatives with Iberdrola. The Company's Chief Executive Officer indicated that he would be interested in learning more about Iberdrola to determine such feasibility. At the Chief Executive Officer's request, Michael McClain, the Company's Senior Vice President and Chief Development and Integration Officer, met in Madrid with management of Iberdrola twice during September 2006 to discuss Energy East's and Iberdrola's respective operations, business philosophies, corporate cultures, strategic goals and approaches to strategic combinations.

Following these meetings, the parties concluded that they had many common philosophies and strategic goals, and that it would be beneficial for the Chief Executive Officer and the Chief Development and Integration Officer to meet with management of Iberdrola, including Ignacio Sánchez Galán, Chairman and Chief Executive Officer of Iberdrola, Jose Luis del Valle, Iberdrola's Chief Strategy and Development Officer, and Pedro Azagra Blázquez, Iberdrola's Corporate Development Director, to further discuss the companies' respective business strategies and the benefits that might be gained in a possible strategic combination.

At a meeting on September 22, 2006, the Chief Executive Officer informed the Board of Directors of his discussions with Iberdrola to date. The Board agreed that management should continue to discuss potential opportunities with Iberdrola, retain financial advisors and report back to them about developments. Management further updated the Board on these initial discussions at a regularly scheduled meeting on October 5, 2006 and subsequently retained JPMorgan and Greenhill to advise the Company and the Board of Directors with respect to any potential opportunity with Iberdrola.

On October 10 and 11, 2006, the Chief Executive Officer and the Chief Development and Integration Officer met with management from Iberdrola, as well as representatives of JPMorgan, in Madrid to discuss further their respective operations, business philosophies, corporate cultures, strategic goals and approaches to strategic combinations. The Company's and Iberdrola's managements, among other things, noted that all discussions were subject to obtaining approval from their respective board of directors. Iberdrola's management noted Iberdrola's philosophy with respect to operating with local management, their high regard for the track record and accomplishments of the Company's senior management team as well as their desire for the Company's Chief Executive Officer to remain with the Company for some period of time following any combination. The Chief Executive Officer and the Chief Development and

Integration Officer were particularly impressed with Iberdrola's track record of leadership and commitment to socially responsible energy initiatives. Following this meeting the parties concluded that it would make sense to exchange information with each other in order to better evaluate whether a transaction would make sense. In order to facilitate this exchange, a confidentiality and standstill agreement between the companies was executed on October 11, 2006. In a letter dated October 12, 2006, the Chief Executive Officer briefed the Board of Directors regarding Iberdrola's interest in exploring a transaction with the Company.

Over the next several weeks, Iberdrola was provided information about the Company's operations and business strategy, contractual arrangements and financial forecasts. Iberdrola also provided management with information regarding their operations and business strategy.

On November 1, 2006, the Board of Directors was updated regarding several matters including a proposed public equity offering, the potential acquisition of a small natural gas distribution business and the retention of financial advisors in connection with the discussions with Iberdrola.

During November 2006, additional meetings were held between the parties and their respective financial advisors and legal counsel to discuss various matters relating to Iberdrola's due diligence review and regulatory issues associated with the potential transaction. During this period, the Company's counsel, LeBoeuf, Lamb, Greene & MacRae LLP, and Iberdrola's counsel, Milbank, Tweed, Hadley and McCloy LLP, exchanged preliminary drafts of a potential merger agreement. During this period, the parties did not discuss any specific price at which a transaction might take place, but they and their respective financial advisors did discuss valuation metrics that would be appropriate for a company like Energy East given its financial prospects and the prices paid in comparable transactions.

On November 16, 2006, the Company's management and financial advisors reviewed with the Board of Directors developments with respect to Iberdrola, including a review of Iberdrola's operations, its leadership in renewable energy development and the other benefits that Iberdrola could offer to the service territories served by the Company. Robert Kump, the Company's Chief Financial Officer, also reviewed the financial forecast that had been provided to Iberdrola.

On November 19, 2006, Iberdrola disclosed to us that they were in discussions with respect to another transaction in Europe with an unidentified company, but that they wished to also continue discussions with us.

On November 21, 2006, JPMorgan and Greenhill reviewed with the Board of Directors their preliminary analyses with respect to valuations of utility companies generally, and preliminary ranges of value for the Company based on, among other things, the valuations that had been achieved in other comparable transactions in the industry and a discounted cash flow analysis using the financial forecast provided by the Company's management.

On November 28, 2006, Iberdrola publicly announced that it had entered into an agreement to acquire Scottish Power plc. Shortly thereafter, Iberdrola's management met with the Chief Executive Officer in New York to discuss the progress that had been made in the due diligence process between the two companies. Also, Iberdrola advised the Company that Scottish Power had insisted that Iberdrola not engage in another major transaction while its acquisition was pending. On December 5, 2006, at a regular meeting, the Company's Board was advised that the discussions with Iberdrola were being terminated. Management sent a letter to Iberdrola on December 8, 2006 formally terminating discussions regarding a transaction.

After the discussions with Iberdrola terminated, management concentrated on a business strategy to address many of policy objectives set forth in the Energy Policy Act of 2005 including investing in:  
(a) transmission to improve reliability, meet new load growth and connect new, renewable generation to the grid; (b) advanced metering infrastructure to promote customer conservation and peak load

management; (c) distribution infrastructure to make it more environmentally efficient by reducing losses; and (d) new regulated generation that is environmentally friendly and, where possible, sustainable.

In March 2007, the Company completed an equity offering by selling 10 million shares of common stock to the public at a price of \$24.25 per share. Towards the end of the first quarter of 2007 management was approached about the possible sale of certain of the Company's operating subsidiaries. In April, management and the Board of Directors also began to consider, on a preliminary basis, the possible acquisition of a small electric utility company.

In April 2007, Iberdrola approached the Company to ask if it would be interested in renewing discussions about a potential transaction after Iberdrola completed its acquisition of Scottish Power. Management indicated that it would consider renewing discussions on a preliminary basis, but that it was exploring other strategic possibilities and that any willingness to renew negotiations would depend on whether Iberdrola would be willing to offer an acceptable price for the Company's common stock. Iberdrola indicated that it would need to update its due diligence, including a review of an updated financial forecast, and that it expected to be able to provide an indicative price by late May. At a regularly scheduled meeting held on April 12, 2007, the Board of Directors was informed of the renewed interest from Iberdrola and it was agreed that the Company would provide them with updated diligence materials.

On April 17, 2007, the Chief Development and Integration Officer and the Chief Financial Officer met with management of Iberdrola, and a representative of Banc of America Securities LLC, Iberdrola's financial advisor, to discuss, among other things, changes that had occurred in the Company's strategic focus and regulatory developments with respect to the Company that had taken place since discussions had been terminated the previous fall. Management also provided Iberdrola with an updated financial forecast. On numerous occasions during late April and May 2007, management of the Company had in person meetings and telephonic conferences with management of Iberdrola to review the financial forecast and other due diligence matters.

At a meeting on May 23, 2007, management updated the Board of Directors regarding activities with respect to a potential combination with Iberdrola, two confidentiality agreements that had been entered into in connection with other potential strategic initiatives that the Company was considering and the status of those initiatives. As previously mentioned, one of those initiatives involved the possible acquisition of a small electric utility by the Company and the other involved the sale by the Company of certain of its operating subsidiaries. With respect to a possible combination with Iberdrola, management indicated that it had not yet received an indicative price from Iberdrola but that it expected to receive one within a week. In late May, the Company's counsel also renewed discussions with Iberdrola's counsel regarding the terms of the definitive merger agreement that would be executed in connection with a transaction if it were to proceed.

On May 25, 2007, Iberdrola's financial advisor indicated that, based on its review and subject to completion of its diligence review and negotiation of the final terms of the merger agreement, it believed that Iberdrola would be prepared to offer a price of \$28 per share for the Company's common stock, subject to board and certain regulatory and other approvals.

On May 30, 2007, management of the Company, Iberdrola and their respective legal and financial advisors met in New York to discuss the terms of the merger agreement and the plans for obtaining regulatory approval for the transaction. Among other things that were discussed at that time were the provisions of the merger agreement that would restrict the Company from soliciting alternative proposals from other parties once the merger agreement was executed. It was proposed that the merger agreement include provisions that would permit us to solicit proposals for a specified period after the announcement of the transaction. Iberdrola responded that they would not be willing to proceed with a transaction on that basis. It was indicated that the Company might be willing to proceed without the ability to actively solicit alternative proposals, provided that the Board of Directors had the ability to consider a superior proposal

if one were received on an unsolicited basis and to terminate the merger agreement to accept a superior proposal upon payment of a termination fee that was lower than is typical for transactions of this type in the United States.

On June 1, 2007, the Board of Directors met to discuss the proposed transaction and was updated with respect to the discussions with Iberdrola. The Chief Financial Officer reviewed the updated financial forecast that had been provided to Iberdrola and a separate forecast that was based on certain sensitivities that highlighted the risks to the assumptions in the forecast provided to Iberdrola. The Board reviewed the key assumptions in both sets of forecasts including the level of future capital expenditures, the funding and regulatory treatment related to those expenditures, and the level of commodity earnings in New York. The Company's financial advisors reviewed the current market environment and their preliminary valuations of the Company based on the Company's forecasts. Representatives of LeBoeuf, Lamb also attended the meeting and discussed certain legal matters with the Board, including provisions of the merger agreement that were being negotiated with Iberdrola. The Board also discussed the indicative price of \$28 per share that Iberdrola's management provided subject to authorization from their board of directors. The Board concluded that the indicative price was not high enough and instructed management to attempt to negotiate a higher price.

At the June 1, 2007 meeting, the Board also discussed the proposed timing of the announcement of the transaction and whether it should seek alternative proposals with respect to an acquisition of the Company. In addition, the Board discussed the need to maintain the confidentiality of, and the benefits of proceeding expeditiously with, any transaction. With respect to the timing of the transaction, it was agreed that if satisfactory terms, including a higher price, could be reached, it would be desirable to execute the merger agreement and announce the transaction on June 13, the day before the Company's annual meeting of stockholders. Under the circumstances, the Board concluded that it was neither advisable nor practicable to seek alternative offers for the Company. In reaching this conclusion, the Board took a variety of factors into account, including (i) that over the previous two years the Company had considered potential strategic partners for a variety of transactions, including the possible acquisition of the Company, and that none of the discussions had resulted in a transaction, (ii) that contacting other parties at that time would increase the risk that the confidentiality of the discussions would be compromised, thereby adversely affecting both the Company and its ability to reach an agreement with Iberdrola or another party, (iii) that contacting other parties would delay the negotiation of a transaction with Iberdrola and would be resisted by Iberdrola, thereby increasing the risk that it would not be possible to reach agreement with Iberdrola, and (iv) that the merger agreement would contain provisions that would permit the Board to consider alternative offers that might be received after announcement of the proposed transaction. The directors also considered that Iberdrola was well-positioned to effect a merger with the Company because of, among other things, its financial strength and its well-established strategy, including its focus on energy efficiency and renewable energy, which was consistent with public policy initiatives in New York and New England. The Board also discussed at length the standards for obtaining regulatory approval and the public benefits of the proposed transaction that had been identified to the Board. They concluded that it would be desirable to invite management from Iberdrola to attend the next Board meeting to discuss these and other issues with the directors.

On June 6, 2007, the Company's Chief Executive Officer and the Chief Development and Integration Officer met in Madrid with management of Iberdrola. They discussed the timing and process associated with the proposed combination. They also communicated that the Company was not willing to proceed at the indicative price of \$28 per share. After further discussions, Iberdrola's management indicated that they would be willing to recommend to the Iberdrola board a proposed price of \$28.50 per share. The Company's Chief Executive Officer and the Chief Development and Integration Officer indicated that they would convey this price to the Company's Board of Directors for their consideration.

Also during the week of June 6, 2007, members of Energy East's and Iberdrola's managements and their respective financial advisors and counsel met on several occasions in New York to discuss the regulatory plan and the public benefits of the proposed transaction, and to negotiate the terms and conditions of the merger agreement. Among the terms of the merger agreement that were discussed at length were the so-called "no shop," "fiduciary out" and termination provisions of the merger agreement. These provisions prohibit the Company from soliciting alternative proposals after execution of the agreement, but provide that, under certain circumstances, the Company's Board of Directors may consider alternative offers if such offers were received on an unsolicited basis and, if the Board reaches certain conclusions with respect to the alternative proposal, terminate the existing agreement with Iberdrola to enter into an agreement with another party. (See The Merger Agreement—"No Solicitation of Transactions" beginning on page 55 and "Termination" beginning on page 59.) Other provisions of the merger agreement that were discussed at these meetings included the representations and warranties that each party would give the other in the merger agreement, the conditions to each party's obligation to proceed with the merger, the covenants to which each party would be subject between execution of the merger agreement and the consummation of the merger and Iberdrola's obligations to the Company's employees after completion of the merger.

The Company's Board of Directors met again to consider the proposed transaction on June 8, 2007. Management from Iberdrola, and representatives of Milbank and Banc of America Securities, were invited to attend a portion of the meeting. Iberdrola's management provided the directors with information about Iberdrola, its business strategy, financial condition, recent transactions and operations in the United States. They also discussed the benefits that Iberdrola could bring to the Company and its customers, and how Iberdrola intended to approach regulators in connection with obtaining the required regulatory approvals for the transaction. After their presentation, the management from Iberdrola and their advisors left the meeting.

The Company's management reported to the Board of Directors that Iberdrola's management was prepared to present to its board a higher price of \$28.50 per share and other aspects of the negotiations with respect to the transaction. The Company's financial advisors and senior management both expressed their judgments that it was unlikely that Iberdrola would raise its offer any further, particularly in light of the fact that the Company's common stock had declined in value by more than 5% in the previous week (from a closing price of \$24.19 on June 1, 2007 to a closing price of \$22.86 on June 7, 2007).

The June 8, 2007 meeting continued with JPMorgan and Greenhill reviewing with the directors their updated financial analysis regarding the Company and comparable transactions. The Board of Directors discussed the potential benefits of the two other pending strategic transactions under consideration at the time and determined that the benefits of completing those transactions were outweighed by the benefits associated with the proposed transaction with Iberdrola. The Board also discussed the risks associated with the Company's continued operation as an independent public company and the prospects of the Company in the current regulatory environment. Representatives of LeBoeuf, Lamb also provided an update regarding the negotiation of the merger agreement. After extensive discussion of the terms of the proposed transaction and the potential benefits that it could bring to the Company's shareholders, customers, employees, among others, and the related risks, both management and the Board concluded that the public benefits of a transaction with Iberdrola had not been developed with sufficient specificity, raising concerns regarding the prospects for obtaining regulatory approvals. The Board expressed concern about the potential negative effects on the Company of publicly announcing a transaction if regulatory approvals could not be obtained, specifically, the effect on key Company constituencies and on the Company being subject to operational constraints under the merger agreement for an extended period of time. The Board decided to continue discussions with Iberdrola, focusing particularly on identifying the public benefits of the proposed transaction and the other unresolved issues in the negotiations.

Following the June 8, 2007 Board of Directors meeting, Iberdrola was informed that before the Board of Directors would approve the transaction, they would require more specific information from Iberdrola regarding the public benefits of the proposed transaction and the commitments Iberdrola was willing to make to help obtain regulatory approvals. In light of the additional work that would be required to satisfy the Board's request, Iberdrola was informed that it would not be possible to reach a final agreement and announce a transaction by June 13, 2007. Iberdrola's management responded that Iberdrola was willing to continue discussions, but was concerned about maintaining confidentiality. It was decided that management of Iberdrola would work directly with management of the Company to help clarify the public benefits and resolve other open issues. Additionally, the Company instructed its counsel to suspend work on the merger agreement until the additional work with respect to the public benefits had been satisfactorily completed.

Management of the Company met with management of Iberdrola in Portland, Maine on June 11 and 12, 2007 to discuss the public benefits of the proposed transaction. The Company's Board of Directors was updated regarding the public benefits at their regular meeting following the Company's Annual Meeting of Stockholders on June 14, 2007.

The parties prepared materials outlining the public benefits of the proposed combination during the week of June 18, 2007. During this time, the Company's counsel resumed negotiations with respect to the merger agreement and several in person meetings and telephone conferences were held to discuss the terms of the agreement. Also, during this time detailed discussions were conducted regarding a replacement for the Chief Executive Officer's current employment agreement that would become effective if the merger was completed.

In a telephonic meeting on June 21, 2007, the Board of Directors was updated regarding the progress that had been made in clarifying the public benefits of the proposed combination and that plans had been developed for communicating those benefits to public policy makers. At this meeting, the executive officers who participated in the telephone call individually indicated that for various reasons they supported the proposed combination, assuming the remaining open issues in the merger agreement could be resolved. The Company's counsel indicated that they thought the open issues could be resolved and the necessary preparations for announcement could be completed within the next few days. A representative of LeBoeuf, Lamb also updated the directors with respect to the negotiation of certain provisions of the merger agreement, including the "no shop," "fiduciary out" and termination provisions, which now reflected a proposed termination fee of \$45 million, which amounted to approximately 1% of the aggregate merger consideration.

On June 21 and 22, 2007, the Company entered into engagement letters with Greenhill and JPMorgan, respectively, confirming their engagement as financial advisors to the Company with respect to the proposed transaction.

From June 21 until June 25, 2007 management of the Company and Iberdrola and their respective legal and financial advisors worked to resolve the remaining open items in the merger agreement and to complete the plan for communicating the public benefits of the proposed merger.

On June 25, 2007, the Compensation and Management Succession Committee of the Board met to discuss the effects of the proposed transaction on the employees, executive officers and directors of the Company, including the replacement of the Chief Executive Officer's employment agreement. See "Interests of the Company's Directors and Executive Officers in the Merger" beginning on page 37.

Subsequent to the meeting of the Compensation and Management Succession Committee on June 25, 2007, the Board held a special meeting. The Board reviewed the terms of the proposed transaction. Representatives of LeBoeuf, Lamb reviewed again with the directors their fiduciary duties in connection with extraordinary transactions such as the proposed merger and reviewed in detail the terms of the proposed merger agreement. Representatives of JPMorgan and Greenhill then jointly reviewed and

analyzed the financial aspects of the proposed transaction and delivered their firms' oral opinions (subsequently confirmed in writing) that, as of that date and based on and subject to the considerations, assumptions and limitations set forth in their opinions, the consideration to be paid to holders of our common stock pursuant to the merger transaction with Iberdrola was fair to our holders from a financial point of view. See "Opinions of our Financial Advisors" beginning on page 29. John T. Cardis, Chairperson of the Board's Compensation and Management Succession Committee, reported on the effects of the proposed transaction on the employees, executive officers and directors of the Company. The Board was then informed that Iberdrola had approved the transaction. After full discussion and deliberation, the Board unanimously (1) determined that the acquisition of the Company by Iberdrola and the other transactions contemplated by the merger agreement were advisable and in the best interests of the Company and its stockholders, (2) authorized, approved and adopted the merger agreement and the transactions contemplated by the merger agreement and the execution and delivery of the merger agreement, (3) authorized the replacement of the Chief Executive Officer's employment agreement and (4) authorized the special meeting and the preparation and delivery of this proxy statement. That evening, we and Iberdrola executed and delivered the merger agreement.

### **Reasons for the Merger and Recommendation of the Company's Board of Directors**

After careful consideration, the Board of Directors has determined that the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of the Company and its stockholders. Accordingly, the Board of Directors has unanimously adopted and approved the merger agreement and the transactions contemplated by the merger agreement. In making this determination, the Board of Directors consulted with our management and our financial and legal advisors and considered a number of factors which supported its decision, including the following:

- the opportunity for our stockholders to realize a substantial premium for their shares, which, based on the per share consideration of \$28.50 to be paid in the merger, is approximately 27.4% above the closing price of our common stock on June 22, 2007, the trading day immediately prior to announcement and approximately 20.2% above the average closing price for the 30 day period ending June 22, 2007;
- the current and historical market prices of our common stock, including the market price of our common stock relative to other utility companies and general market indices;
- the fact that based on multiples of earnings and cash flow, electric and natural gas utilities are trading near historic highs;
- the fact that the merger consideration is all cash, so that the transaction will allow our stockholders to immediately realize a fair value, in cash, for their investment and will provide our stockholders certainty of value for their shares;
- the business, financial performance and growth prospects of the Company, as well as the risks associated with achieving those prospects if we were to remain a stand-alone company;
- the financial and comparative analyses performed by JPMorgan and Greenhill, our financial advisors, and their respective opinions dated June 25, 2007 rendered to the Board as to the fairness of the merger consideration from a financial point of view to our holders of common stock as described in "Opinions of our Financial Advisors;"
- Iberdrola's very early involvement with thinking through the appropriate leadership roles that utilities need to play in deploying sustainable energy policies and programs, and our belief that Iberdrola is uniquely qualified to assist us in implementing energy policies that are consistent with those that have been articulated by public policy makers in New York, Maine, Connecticut and Massachusetts, the states where we conduct our primary operations;

- the fact that the requirements for responsible energy policy implementation will involve significant sums of capital (our forecasted capital expenditures for the next five-year period are in excess of \$3 billion) and expertise in energy efficiency initiatives and new and clean forms of generation, and that Iberdrola has the size, experience and commitment to make generation, transmission and distribution investments that promote a secure and reliable energy infrastructure;
- Iberdrola's proven leadership and expertise in and commitment to delivering sustainable clean energy, including renewable resources, energy efficiency initiatives and engineering and construction resources at the leading edge of environmental technology, which the Board believes will be very important to enable us to continue to best meet the needs of our customers and the communities that we serve;
- the Board's determination that the public benefits that it believes Iberdrola can bring to the states in which we conduct our operations make it more likely that the transaction will receive the required approvals from state public utility commissions mitigating the risk to the Company associated with announcing a transaction that fails to be consummated;
- the terms of the merger agreement, including the parties' representations, warranties, and covenants, the conditions to their respective obligations to complete the merger and the specified ability of the parties to terminate the merger agreement;
- the right of the Board, under specified conditions, to terminate the merger agreement prior to its adoption by the holders of our common stock in the exercise of the Board's fiduciary duty to, subject to specified conditions, accept a superior proposal for the Company;
- the Board's belief that the termination fee of \$45 million, which constitutes approximately 1% of the aggregate purchase price, will not unduly impair the ability of a third party to make a superior acquisition proposal;
- the fact that Iberdrola stated that it had no plans to modify the Company's historical charitable contributions and local community support;
- Iberdrola's commitment to honor existing labor agreements and preserve substantially comparable pay and benefits for our employees for at least 18 months after closing; and
- the financial capability of Iberdrola to consummate the merger and the fact that Iberdrola's obligations under the merger agreement are not subject to any financing condition.

The Board also considered the potential risks of the merger, including the following:

- the fact that there can be no assurance that we will be able to obtain the consents and approvals necessary to complete the merger, or that the timing of receipt, terms and conditions attached to such consents and approvals will be satisfactory to us and Iberdrola;
- the fact that following the merger, our stockholders will not participate in any of our potential future earnings or growth and will not benefit from any of our potential appreciation in value;
- the possibility of management and employee disruption associated with the merger;
- the fact that we entered into the merger agreement without having concurrently solicited alternative offers from other parties that might have been willing to acquire the Company, although subject to certain restrictions the merger agreement permits us to consider unsolicited offers subject to certain terms and conditions, including payment of a \$45 million termination fee if we determine to terminate the merger agreement to accept another offer;
- the restrictions on management's ability to solicit or engage in discussions or negotiations with a third party regarding specific transactions involving us and the requirement that we provide

Iberdrola with information on any superior proposal and take into account any changes to the merger offer by Iberdrola before accepting a superior proposal;

- the merger consideration consists entirely of cash and will therefore be taxable to our stockholders for United States federal income tax purposes;
- the fact that Iberdrola is a non-U.S. entity and the potential risk associated with obtaining additional government approvals required for a foreign buyer;
- the circumstances under which Iberdrola may terminate the merger agreement; and
- the restrictions on the conduct of our business prior to consummation of the merger, requiring us to conduct our business only in the ordinary course, subject to specific limitations or consent by Iberdrola, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the merger.

In addition, the Board of Directors was aware of and considered the interests that certain directors and executive officers may have with respect to the merger that differ from, or are in addition to, their interests as stockholders of the Company generally, as described in “—Interests of the Company’s Directors and Executive Officers in the Merger.”

The foregoing discussion of the information and factors considered by the Board of Directors includes material positive and potentially negative factors considered by the Board of Directors, but it is not intended to be exhaustive and may not include all of the factors the Board of Directors considered. In reaching its determination to approve and adopt the merger agreement and the transactions contemplated by the merger agreement, the Board of Directors did not quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination that the merger agreement and the transactions contemplated by the merger agreement are fair to and in the best interests of the Company and the holders of Company common stock. Rather, the determination and recommendation of the Board of Directors were based on an analysis of the totality of the information presented to, and the factors considered by, the Board of Directors. In addition, in considering the factors described above, individual members of the Board of Directors may have accorded greater or lesser relative importance to specific factors considered than did other members of the Board of Directors.

**THE BOARD OF DIRECTORS HAS UNANIMOUSLY DETERMINED THAT THE MERGER IS ADVISABLE AND IN THE BEST INTERESTS OF OUR STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT. THE BOARD UNANIMOUSLY RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR ADOPTION OF THE MERGER AGREEMENT.**

#### **Certain Projections**

In connection with Parent’s due diligence review of the Company and in the course of the negotiations between the parties, we provided Parent with certain non-public business and financial information about us. This information included projections for the fiscal years 2007 through 2011. These projections were prepared in April 2007 and assumed that the Company could successfully implement a number of investment and earnings initiatives that had been identified by management and included, but were not limited to, earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA) and capital expenditures. These projections do not give effect to the merger.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
			(in millions)		
EBIT.....	\$628	\$707	\$ 760	\$ 829	\$ 904
EBITDA .....	904	992	1,056	1,128	1,202
Capital Expenditures .....	496	699	785	1,018	844

Although presented with numerical specificity, these projections reflect numerous assumptions and estimates as to future events that our management believed were reasonable at the time the projections were prepared and other factors such as industry performance and general business, economic, regulatory, market and financial conditions, all of which are difficult to predict and beyond the control of the Company's management. The most significant assumptions made by the Company relate to (i) infrastructure and reliability investments such as the installation of advanced metering systems, new electric transmission projects and the re-powering of Rochester Gas and Electric Corporation's coal-fired Russell Station, (ii) the funding for such investments, (iii) regulatory treatment at the end of existing rate agreements; (iv) potential commodity earnings at our New York electric utilities, and (v) forecasts of sales growth and expense growth. No assurances can be given that these assumptions will accurately reflect future performance. You should review "Cautionary Statement Concerning Forward-Looking Information" beginning on page 13. Accordingly, there can be no assurance that the projections will be realized, and actual results may materially differ from those reflected in the projections. You should review our most recent filings on Form 10-K and Form 10-Q for a description of risk factors with respect to our business. See "Where You Can Find Additional Information" beginning on page 64. Also see "Opinions of our Financial Advisors—Summary of Certain Financial Analyses Conducted by the Financial Advisors" beginning on page 33. for a discussion of a separate set of financial projections provided to the Board of Directors and our Financial Advisors that highlights the risks in the projections provided to Parent.

The Company does not, as a matter of course, publicly disclose projections of future revenues, earnings or other results. The projections were not prepared with a view to public disclosure and are included in this proxy statement only because such information was made available to Parent. We provided our financial advisors, Greenhill and JPMorgan, with these projections in connection with their financial analysis of the merger consideration. We also provided our financial advisors with additional data that they used in connection with their analyses, which included sensitivities to some of the assumptions in the summary financial projections described above. The projections were not prepared with a view to compliance with published guidelines of the Securities and Exchange Commission or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The inclusion of the projections in this proxy statement should not be regarded as an indication that such projections will be predictive of actual future results, and the projections should not be relied upon as such. No representation is made by us, Parent or our respective affiliates or representatives to any security holder of the Company regarding the ultimate performance of the Company compared to the information contained in the projections. We do not intend to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events even in the event that any or all of the assumptions underlying the projections are shown to be in error.

#### **Opinions of our Financial Advisors**

Pursuant to engagement letters, Energy East retained JPMorgan and Greenhill (the "Financial Advisors"), to serve as co-financial advisors and deliver fairness opinions in connection with the proposed merger.

At the meeting of the Energy East Board of Directors on June 25, 2007, the Financial Advisors rendered their oral opinions to the Energy East Board of Directors (as subsequently confirmed in writing in opinions dated June 25, 2007) that, as of such date and based upon and subject to the factors and assumptions set forth in such opinions, the consideration to be received by the holders of Energy East common stock in the proposed merger of Green Acquisition Capital, Inc. with and into Energy East was fair, from a financial point of view, to such holders. No limitations were imposed by the Energy East Board of Directors upon the Financial Advisors with respect to the investigations made or procedures followed by them in rendering their opinions.

The opinions are addressed to the Energy East Board of Directors, are directed only to the consideration to be received by the holders of Energy East common stock in the proposed merger and do not constitute a recommendation to any stockholder of Energy East as to how such stockholder should vote at the Energy East special meeting. The summary of each opinion set forth below in this proxy statement is qualified in its entirety by reference to the full text of such opinion. A summary of the material financial analyses jointly presented by the Financial Advisors to the Energy East Board of Directors on June 25, 2007 in connection with providing the opinions is set forth below under the subheading “- Summary of Certain Financial Analyses Conducted by the Financial Advisors.”

*Summary of JPMorgan’s Opinion*

In arriving at its opinion, JPMorgan, among other things:

- reviewed a draft dated June 25, 2007 of the merger agreement;
- reviewed certain publicly available business and financial information concerning Energy East and the industries in which it operates;
- compared the proposed financial terms of the merger with the publicly available financial terms of certain transactions involving companies JPMorgan deemed relevant and the consideration received for such companies;
- compared the financial and operating performance of Energy East with publicly available information concerning other companies JPMorgan deemed relevant and reviewed the current and historical market prices of Energy East common stock and certain publicly traded securities of such other companies;
- reviewed certain internal financial analyses, projections and forecasts prepared by the management of Energy East relating to their business; and
- performed such other financial studies and analyses and considered such other information as JPMorgan deemed appropriate for the purposes of its opinion.

JPMorgan also held discussions with certain members of the management of Energy East with respect to certain aspects of the transaction, the past and current business operations of Energy East, the financial condition and future prospects and operations of Energy East, the effects of the transaction on the financial condition and future prospects of Energy East, and certain other matters JPMorgan believed necessary or appropriate to its inquiry.

JPMorgan relied upon and assumed, without assuming responsibility or liability for independent verification, the accuracy and completeness of all information that was publicly available or was furnished to or discussed with JPMorgan by Energy East or otherwise reviewed by or for JPMorgan. JPMorgan did not conduct and was not provided with any valuation or appraisal of any assets or liabilities, nor did JPMorgan evaluate the solvency of Energy East under any state or federal laws relating to bankruptcy, insolvency or similar matters. In relying on financial analyses and forecasts provided to it, JPMorgan assumed that they were reasonably prepared based on assumptions reflecting the best then currently available estimates and judgments by management as to the expected future results of operations and financial condition of Energy East to which such analyses or forecasts relate. JPMorgan expressed no view as to such analyses or forecasts or the assumptions on which they were based. JPMorgan relied as to all legal matters relevant to the rendering of its opinion upon the advice of counsel. JPMorgan further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the acquisition by Iberdrola would be obtained without any adverse effect on Energy East or on the contemplated benefits of the acquisition, and that all other conditions to the acquisition will be satisfied in all material respects.

The projections furnished to JPMorgan for Energy East were prepared by the management of Energy East. Energy East does not publicly disclose internal management projections of the type provided to JPMorgan in connection with JPMorgan's analysis of the transaction, and such projections were not prepared with a view toward public disclosure. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in such projections.

JPMorgan's opinion is based on economic, market and other conditions as in effect on, and the information made available to JPMorgan as of, the date of its opinion. Subsequent developments may affect JPMorgan's opinion, and JPMorgan does not have any obligation to update, revise, or reaffirm such opinion. JPMorgan's opinion is limited to the fairness, from a financial point of view, to Energy East of the consideration to be received by the holders of Energy East common stock in the proposed merger, and JPMorgan has expressed no opinion as to the fairness of the transaction to, or any consideration of, the holders of any other class of securities, creditors or other constituencies of Energy East or as to the underlying decision by Energy East to engage in the transaction. JPMorgan expressed no opinion as to the price at which Energy East's common stock will trade at any future time.

JPMorgan's opinion and financial analyses were only one of many factors considered by the Energy East Board of Directors in its evaluation of the proposed merger and should not be viewed as determinative of the views of the Energy East Board of Directors or management with respect to the proposed merger or the merger consideration.

JPMorgan and its affiliates have provided in the past, and may in the future provide, investment banking, commercial banking and other financial services for each of Energy East and Iberdrola. Such past services for Energy East have included acting as co-lead arranger and bookrunner for a \$425 million revolving facility for the utility subsidiaries of Energy East, in June 2005; acting as lead arranger for a \$475 million revolving facility for the utility subsidiaries of Energy East in June 2006; acting as book manager for a \$250 million issuance of senior debt for Energy East in August 2006; acting as joint book manager for a \$100 million issuance of senior unsecured notes for New York State Electric & Gas Corporation, a subsidiary of Energy East, in December 2006; and acting as co-manager for a \$245 million common stock offering for Energy East in March 2007. Such past services for Iberdrola have included acting as joint bookrunner for a Euro 1,750 million syndicated facility for Iberdrola in January 2003; advising on Iberdrola's defense from a \$29.7 billion tender offer in October 2003; advising on strategic alternatives and valuation of Iberdrola's stake in Galp Energia S.G.P.S., S.A. in February 2004; acting as lead arranger for a Euro 2,300 million five-year syndicated facility for Iberdrola in December 2004; and acting as co-manager of a £7,995 million acquisition facility for Iberdrola in April 2007. In the ordinary course of JPMorgan's businesses, JPMorgan and its affiliates may actively trade the debt and equity securities of Energy East or Iberdrola for JPMorgan's own account or for the accounts of customers and, accordingly, JPMorgan may at any time hold long or short positions in such securities.

#### *Summary of Greenhill's Opinion*

In arriving at its opinion, Greenhill, among other things:

- reviewed the draft of the Agreement dated as of June 25, 2007;
- reviewed certain publicly available financial statements of Energy East;
- reviewed certain other publicly available business and financial information relating to Energy East that Greenhill deemed relevant;
- reviewed certain information, including financial forecasts and projections and other financial and operating data concerning Energy East, prepared by the management of Energy East;

- discussed the past and present operations and financial condition and the prospects of Energy East with senior executives of Energy East;
- reviewed the historical market prices and trading activity for Energy East common stock and analyzed its implied valuation multiples;
- compared the value of the merger consideration with the trading valuations of certain publicly traded companies that Greenhill deemed relevant;
- compared the value of the merger consideration with that received in certain publicly available transactions that Greenhill deemed relevant;
- compared the value of the merger consideration to the valuation derived by discounting future cash flows and a terminal value of Energy East at discount rates that Greenhill deemed appropriate; and
- performed such other analyses and considered such other factors as Greenhill deemed appropriate.

Greenhill assumed and relied upon, without independent verification, the accuracy and completeness of the information publicly available or supplied or otherwise made available to Greenhill by representatives of Energy East for the purposes of its opinion and further relied upon the assurances of the representatives of Energy East that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial forecasts and projections furnished to Greenhill by the management of Energy East, Greenhill assumed that such forecasts were reasonably prepared on a basis reflecting the best then currently available estimates and good faith judgment of Energy East management as to the future financial performance of Energy East, and relied upon such forecasts in arriving at its opinion. Greenhill expressed no opinion with respect to such forecasts or projections or the assumptions upon which they are based. In arriving at its opinion, Greenhill did not conduct a physical inspection of the properties or facilities of Energy East, nor did it make or was it provided with any valuation or appraisal of the assets or liabilities of Energy East. Greenhill assumed that the merger will be consummated in accordance with the terms set forth in the final, executed merger agreement, the terms of which Greenhill further assumed would be identical in all material respects to the draft thereof dated June 25, 2007 reviewed by Greenhill, without any waiver of any material terms or conditions set forth in such merger agreement. Greenhill assumed that all material governmental regulatory and other consents and approvals necessary for the consummation of the merger, and the other transactions contemplated by the merger agreement, would be obtained without any effect on Energy East in any way meaningful to Greenhill's analysis. In addition, Greenhill relied as to all legal matters relevant to the merger agreement and the transactions contemplated thereby on advice of counsel for Energy East. Greenhill did not express an opinion as to any aspect of the merger agreement or the merger other than the fairness to the holders of the Energy East common stock from a financial point of view.

Greenhill's opinion is based on financial, economic, market and other conditions as in effect on, and the information made available to Greenhill as of, the date of its opinion. Subsequent developments may affect Greenhill's opinion, and Greenhill does not have any obligation to update, revise or reaffirm its opinion unless reasonably requested by Energy East to update its opinion.

Greenhill's opinion and financial analyses were only one of many factors considered by the Energy East Board of Directors in its evaluation of the proposed merger and should not be viewed as determinative of the views of the Energy East Board of Directors or management with respect to the proposed merger or the merger consideration.

Greenhill has from time to time performed, and will continue to perform, investment banking services for Energy East. Greenhill has not performed services for, and does not have any business relationships with, Iberdrola.

*Summary of Certain Financial Analyses Conducted by the Financial Advisors*

In accordance with customary investment banking practice, each of the Financial Advisors employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses jointly presented by the Financial Advisors to the Energy East Board of Directors in connection with providing the opinions to the Energy East Board of Directors on June 25, 2007. Some of the summaries of the financial analyses include information presented in tabular format. To fully understand the financial analyses, the tables should be read together with the text of each summary. Considering the data set forth in the tables without considering the narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses.

In connection with rendering the opinions, the Financial Advisors performed a variety of financial and comparative analyses:

- comparable publicly traded companies analysis;
- selected transaction analysis; and
- discounted cash flow analysis.

In these analyses, the Financial Advisors determined the implied value of Energy East common stock based on two alternate cases: a “Case 1” and a “Case 2.” Case 1 and Case 2 projections were prepared by Energy East management. In Case 2, Energy East management assumed lower growth capital and modestly lower performance than for Case 1. Case 2 included approximately \$625 million less in growth capital over the 2008-2011 period, and slightly lower performance for certain utility subsidiaries and electric commodity programs in New York.

*Comparable Publicly Traded Companies Analysis.* Using publicly available information, the Financial Advisors compared selected financial data of Energy East to similar data for selected publicly traded companies engaged in businesses which the Financial Advisors judged to be reasonably comparable to the businesses of Energy East.

The Financial Advisors reviewed the trading and operating statistics of the following selected publicly traded companies in the power and utility industry:

- Consolidated Edison;
- PEPCO Holdings;
- Northeast Utilities;
- NSTAR; and
- Puget Energy.

Based on the above companies’ closing stock prices on June 22, 2007, the Financial Advisors calculated the ratio of stock price to 2007 and 2008 estimated earnings per share (sometimes referred to in this proxy statement as EPS) and the ratio of firm value (calculated as equity value, plus debt, plus minority interest, less cash and cash equivalents) to 2007 and 2008 estimated EBITDA.

This analysis indicated the following firm value and stock price multiples:

<u>Energy East Public Comparables</u>	<u>Stock price as a multiple of estimated EPS</u>		<u>Firm value as a multiple of estimated EBITDA</u>	
	<u>2007E</u>	<u>2008E</u>	<u>2007E</u>	<u>2008E</u>
Median .....	15.2x	14.0x	8.3x	7.7x
Mean .....	16.1x	14.4x	8.1x	7.5x

Based on the current trading multiples of the comparable companies, the Financial Advisors applied a range of multiples of estimated 2007 and 2008 EBITDA and EPS to the corresponding financial data regarding Energy East provided to the Financial Advisors by Energy East management to derive an implied range of values for shares of Energy East common stock.

The Financial Advisors applied the following range of multiples to estimated 2007 and 2008 EBITDA and EPS:

<u>Metrics</u>	<u>Multiple Range</u>
Firm value as a multiple of 2007 estimated EBITDA.....	7.75x – 8.50x
Firm value as a multiple of 2008 estimated EBITDA.....	7.25x – 8.00x
Stock price as a multiple of adjusted 2007 estimated EPS.....	14.50x – 16.50x
Stock price as a multiple of adjusted 2008 estimated EPS.....	13.50x – 15.00x

This analysis resulted in the following implied per share range of equity values for Energy East common stock, as compared to the value of the merger consideration in the proposed merger:

	<u>Implied per Share Valuation Range</u>	<u>Merger Consideration</u>
Case 1 .....	\$21.25 – \$27.25	\$28.50
Case 2 .....	\$20.25 – \$25.75	\$28.50

The Financial Advisors noted that none of the selected comparable companies is either identical or directly comparable to Energy East and that any analysis of selected companies necessarily involves complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading of the selected companies.

*Selected Transaction Analysis.* Using publicly available information, the Financial Advisors examined selected transactions where the Financial Advisors judged the target business to be reasonably comparable with Energy East’s business. The comparable transactions considered in this analysis are listed below:

- WPS Resources / Peoples Energy;
- Macquarie / Duquesne Light Holdings;
- Babcock and Brown / Northwestern Corp.;
- National Grid / Keyspan Corp.;
- FPL Group / Constellation Energy;
- MidAmerican / PacifiCorp;
- Duke Energy / Cinergy;
- PNM Resources / TNP Enterprises Inc.; and
- Ameren / Illinois Power.

The Financial Advisors reviewed each transaction and calculated the firm value as a multiple of estimated EBITDA for the trailing twelve-months prior to the transaction announcement. The following table identifies the median and mean of such multiples for all of the comparable transactions:

<u>Transaction Comparables</u>	<u>FV/LTM EBITDA</u>
Median .....	8.9x
Mean .....	9.1x

Based on these precedent transactions, the Financial Advisors applied a range of 8.25x to 9.25x EBITDA multiple to Energy East's adjusted EBITDA for the twelve months ended March 31, 2007 adjusted down by \$94 million to reflect the impact of the August 2006 NYSEG electric rate order, to derive an implied range of values for shares of Energy East common stock.

This analysis resulted in the following implied per share range of equity values for Energy East common stock, as compared to the value of the merger consideration in the proposed merger:

<u>Multiple Range</u>	<u>Implied per Share Valuation Range</u>	<u>Merger Consideration</u>
8.25x-9.25x .....	\$23.75-\$29.50	\$28.50

The Financial Advisors noted that none of the target companies in the selected comparable transactions is either identical or directly comparable to Energy East and that any analysis of comparable transactions necessarily involves complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the transaction valuation of the selected transactions.

*Discounted Cash Flow Analysis.* The Financial Advisors conducted a discounted cash flow analysis for Energy East for the purpose of determining the fully diluted equity value for each share of Energy East's common stock based on the expected future cash flows to be generated by Energy East, as described below.

A discounted cash flow analysis is a traditional method of evaluating an asset by estimating the future cash flows of an asset and taking into consideration the time value of money with respect to those future cash flows by calculating the "present value" of the estimated future cash flows of the asset. "Present value" refers to the current value of one or more future cash payments, or "cash flows," from an asset and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions, estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Other financial terms utilized below are "terminal value," which refers to the value of all future cash flows from an asset at a particular point in time, and "unlevered free cash flows," which refers to a calculation of the future cash flows of an asset without including in such calculation any debt servicing costs.

The Financial Advisors calculated the unlevered free cash flows that Energy East is expected to generate during fiscal years 2007 through 2011, based upon Case 1 and Case 2 financial projections prepared by the management of Energy East. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations. The Financial Advisors also calculated a range of terminal asset values of Energy East at the end of the five-year period ending 2011 by applying a terminal exit multiple ranging from 8.0x to 8.5x to the projected terminal unlevered free cash flow of Energy East during the final year of the five-year period. The unlevered free cash flows and the range of terminal asset values were then discounted to present values using a weighted average discount rate ranging from 6.25% to 6.75%, which was chosen by the Financial Advisors based upon an analysis of the weighted average cost of capital of Energy East. The value of Energy East common stock was derived from the discounted cash flow range by subtracting Energy East's debt and adding cash and cash equivalents outstanding as of March 31, 2007 and using the Energy East share information as of May 29, 2007 as provided by management.

This analysis indicated the following value of Energy East common stock for two forecast scenarios, as compared to the merger consideration of \$28.50 per share in the proposed merger:

	<u>Case 1</u>	<u>Case 2</u>
<b>Value per share</b> .....	\$26.00-\$30.25	\$22.75-\$26.50

*Miscellaneous.* The foregoing summary of certain material financial analyses does not purport to be a complete description of the analyses or data presented by the Financial Advisors. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. The Financial Advisors believe that the foregoing summary and these analyses must be considered as a whole and that selecting portions of the foregoing summary and these analyses, without considering all of the analyses as a whole, could create an incomplete view of the processes underlying the analyses and their respective opinions. In arriving at the opinions, the Financial Advisors did not attribute any particular weight to any analyses or factors considered by them and did not form an opinion as to whether any individual analysis or factor (positive or negative), considered in isolation, supported or failed to support these opinions. Rather, the Financial Advisors considered the totality of the factors and analyses performed in determining their opinions. Analyses based upon forecasts of future results are inherently uncertain, as they are subject to numerous factors or events beyond the control of the parties and their advisors. Accordingly, forecasts and analyses used or made by the Financial Advisors are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by those analyses. Moreover, the Financial Advisors' analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold. None of the selected companies reviewed as described in the above summary is identical to Energy East, and none of the selected transactions reviewed was identical to the transaction. However, the companies selected were chosen because they are publicly traded companies with operations and businesses that, for purposes of the Financial Advisors' analysis, may be considered similar to those of Energy East. The transactions selected were similarly chosen because their participants, size and other factors, for purposes of the Financial Advisors' analysis, may be considered similar to the acquisition. The analyses necessarily involve complex considerations and judgments concerning differences in financial and operational characteristics of the companies involved and other factors that could affect the companies compared to Energy East and the transactions compared to the acquisition.

As a part of its investment banking business, JPMorgan and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. Greenhill is an independent investment banking firm that provides financial advice on significant mergers, acquisitions, restructurings and similar corporate finance matters. JPMorgan and Greenhill were selected to serve as co-financial advisers to Energy East with respect to the acquisition by Iberdrola and to deliver an opinion to the Energy East Board of Directors with respect to the merger on the basis of their experience, qualifications and expertise in providing financial advice to companies, and their familiarity with Energy East.

For services rendered in connection with the merger and the delivery of its opinion, Energy East has agreed to pay to each Financial Advisor a fee of \$8.5 million, 20% of which was paid upon the execution of the merger agreement, 10% of which is payable upon Energy East stockholder adoption of the transaction, and the balance of which is payable upon completion of the merger. In addition, Energy East has agreed to reimburse each Financial Advisor for its expenses incurred in connection with its services including the reasonable fees of counsel (provided that reimbursable expenses may not exceed \$100,000 each without prior approval of Energy East), and Energy East has agreed to indemnify each Financial Advisor for certain liabilities arising out of its engagement.

### **Interests of the Company's Directors and Executive Officers in the Merger**

When considering the recommendation of the Company's Board of Directors, you should be aware that the members of the Board of Directors and our executive officers have interests in the merger other than their interests as Energy East stockholders generally, including those described below. These interests may present such directors and executive officers with actual or potential conflicts of interest and may be different from, or be in conflict with, your interests as a stockholder. The members of the Board of Directors were aware of these additional interests, and considered them, when they adopted the merger agreement.

#### *Employment Agreements in Connection with the Merger*

As of the date of this proxy statement, no member of the Board of Directors or management has entered into employment agreements with us or our subsidiaries in connection with the merger, other than the amendment to Mr. von Schack's employment agreement that would become effective upon the closing of the merger described below. In addition, as of the date of this proxy statement, no member of the Board of Directors or management has entered into or is currently negotiating any agreement, arrangement or understanding with Parent or its affiliates regarding employment with, or the right to purchase or participate in the equity of, the Company (as the surviving corporation in the merger) or Parent.

Upon the merger becoming effective, Mr. von Schack's employment agreement will be amended to provide for a term of two years from the date the merger becomes effective during which Mr. von Schack shall continue to serve as the Company's Chairman, President and Chief Executive Officer. The term may be extended for an additional one-year period with the consent of Mr. von Schack, Parent and the Company. Under the amendment, Mr. von Schack will continue to receive a base salary of at least \$900,000 and a short-term cash incentive bonus opportunity. The short-term cash incentive bonus opportunity has a target of 100% and a maximum of 200% for each calendar year ending during the term of the amended agreement and for each succeeding calendar year an annual bonus equal to 100% prorated for the portion of such calendar year that the amended agreement was in effect. As a replacement for equity-based awards, the amendment provides for annual long-term incentive performance payments of \$2,500,000. He will be entitled to an annual retention payment of \$900,000 at the end of each year under the term of the amended employment agreement. If his employment is terminated without cause prior to the end of the term, Mr. von Schack would be paid the base salary, short-term incentive payment at the target level and long-term incentive payments that would have been paid to him had his employment not been terminated and he would receive the retention bonuses to which he would have been entitled. In lieu of 143,478 shares of restricted stock which are issuable to Mr. von Schack under his current employment agreement, Mr. von Schack would be paid the value of those restricted shares upon the closing of the merger to the extent they have not been previously issued. The amended employment agreement provides that Mr. von Schack will no longer be able to participate in our ERISA Excess Plan or Supplemental Executive Retirement Plan, which we refer to as the SERP. Consequently, upon the closing of the merger, Mr. von Schack will receive \$21,786,794, his vested balances under those plans as of December 31, 2006.

#### *Existing Change-in-Control and Severance Agreements*

Each of Richard Benson, Paul Connolly, Jr., Robert Kump, Robert Rude and Angela Beddoe have change-in-control agreements and general severance agreements. General severance is provided in an Employee Invention and Confidentiality Agreement. The change-in-control agreements provide for certain payments if, generally, within two years following a change in control of the Company, the individual's employment is terminated either by the Company without cause or by the individual for good reason. The benefits consist of a lump-sum severance payment equal to two times the sum of: (i) the individual's then annual base salary; and (ii) the higher of any award paid to the individual under the AEIP with respect to the year immediately preceding the year in which the termination occurs or the average of

the AEIP awards paid to the individual in the three years preceding the year in which the change-in-control occurs. This payment will not be made to the individual until six months after his employment is terminated. The individual will also receive a lump sum payment equal to the value of the health and welfare benefit plans for twenty-four months and reimbursement for outplacement counseling up to a maximum of 5% of base salary. This lump sum payment will not be made until six months after termination of employment. In addition, the individual will receive an amount equal to all earned but unpaid awards under the AEIP and a pro rata portion of any award under the AEIP at the threshold level with respect to the year in which the termination occurs, provided, however, that there shall be no duplication of payments made pursuant to his agreement and the AEIP. Also, in the event of such termination, the individual will receive an additional two years of age and service credit under the SERP. In the event that any payments made under these agreements or otherwise would subject the executive to federal excise tax, as an excess parachute payment, that executive is entitled to be made whole for the payment of any such taxes, including any income tax due as a result of payments to pay such federal excise tax.

The Employee Invention and Confidentiality Agreements of Messrs. Benson, Connolly, Kump, Rude and Ms. Beddoe provide that, so long as he or she is not entitled to receive payments under his or her change-in-control agreements, the executive officer is entitled to a lump sum payment on termination from employment (voluntary or involuntary) equal to: (i) one year's base salary, and (ii) the value of certain health insurance premiums for one year. This lump sum payment will not be made until six months after termination from employment.

Each of Robert Alessio, Sara Burns and Michael McClain have employment agreements that provide that in the event his or her employment is terminated by the Company (other than for cause or disability) or by the executive for good reason, he or she will receive a lump sum payment equal to: (i) his or her base salary at the rate in effect at the time of termination for the remainder of the term of the employment agreement; (ii) the value of his or her incentive compensation for the remainder of the term of the employment agreement, calculated on the basis of the value of short-term incentive compensation received in the most recently completed fiscal year and the value of any long-term incentive compensation awards determined on the projected target value of the awards; (iii) the value of continued participation in all employee welfare plans (with the exception of the medical plan); (iv) reimbursement for outplacement services of \$10,000; and (v) the value of the fringe benefits that he or she would have received through the term of the employment agreement. Any payments under these agreements will not be made until six months after the executive's employment is terminated. In addition, each of the executives will receive an additional age and service credit under the SERP for the remainder of the term of their employment agreement. In the event of a change in control, the executives will be entitled to be made whole for the payment of any taxes, including any income tax due as a result of payments made under these agreements or that would otherwise subject the executive to federal excise tax, as an excess parachute payment.

In addition to the potential post-employment termination payments under the agreements our executive officers have with the Company, under the terms of the SERP, the executive officers who are not already vested in their benefits under the SERP because they are not eligible for retirement, become eligible for such benefits on a change-in-control.

The following table shows the amount of potential payments to our current executive officers pursuant to the agreements described above calculated assuming a closing of the merger, termination of employment on June 30, 2008 under circumstances that would cause such payments to become due, and projected bonuses, equity awards and additional service credit under our pension plans through such time.

Name	Severance <sup>(1)</sup>	Pension Plan Non-Qualified <sup>(2)</sup>	Health & Welfare	Outplacement Services	280G Gross-ups <sup>(3)</sup>	Total
Wesley W. von Schack <sup>(4)</sup> . . . .	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Richard R. Benson . . . . .	1,373,708	3,749,900	20,862	10,000	2,143,804	7,298,274
Paul K. Connolly, Jr. . . . .	924,602	638,900	14,918	10,000	694,571	2,282,991
Robert D. Kump . . . . .	1,247,494	2,494,200	21,092	10,000	2,108,049	5,880,835
F. Michael McClain . . . . .	1,965,867	3,330,600	8,013	10,000	1,771,634	7,086,114
Robert E. Rude . . . . .	1,120,660	3,537,700	22,032	10,000	1,497,264	6,187,656
5 other executive officers as a group . . . . .	4,562,925	6,858,400	105,605	40,000	4,125,836	15,692,766

- (1) Assumes a 2007 incentive bonus based on historical average earnings and achievement levels.
- (2) Includes the incremental value of benefits upon a change-in-control and the amounts to executive officers are otherwise entitled to upon a termination of their employment.
- (3) Includes estimated excise taxes, including those imposed under Code section 4999, and any income and excise taxes, interest and penalties that are payable by the executive as a result of reimbursement for any such income or excise taxes. Our actual cost under these provisions is impossible to calculate at this time (actual excise tax liability and lost tax deductibility depend on whether the benefit payments actually paid to executives are deemed to be “parachute payments” subject to federal excise tax, and a number of other employment-related items that have not yet been decided, including the reasonableness of executive compensation rates and future employment arrangements).
- (4) Mr. von Schack’s present employment agreement does not contain change-in-control provisions. The provisions applicable to Mr. von Schack under his amended and restated employment agreement that will become effective upon closing of the merger are discussed above.

*Treatment of Stock Options and Restricted Stock*

Under the terms of the merger agreement, all options (whether vested or unvested) to purchase our common stock outstanding at the effective time and any tandem stock appreciation rights, including those held by executive officers, will be cancelled and the holders of such options will be entitled to receive from us an amount of cash equal to the number of shares of common stock such options were convertible into immediately prior to the merger multiplied by the excess, if any, of \$28.50 over the per-share exercise price of such option, less any applicable withholding tax. The number of shares underlying all outstanding vested and unvested options held by executive officers and the related payments to them upon closing of the merger are as follows: Mr. von Schack (1,225,645, \$5,875,461); Mr. Benson (40,642, \$145,388); Mr. Connolly (72,000, \$366,510); Mr. Kump (147,962, \$456,691); Mr. McClain (44,629, \$154,478); Mr. Rude (105,296, \$296,907); and the 5 other executive officers as a group (170,644, \$584,603), respectively.

Likewise, under the terms of the merger agreement, immediately prior to the effective time, all shares of restricted stock issued under our restricted stock plan, will vest and will be eligible to receive the merger consideration, less any applicable withholding taxes. The number of shares of restricted stock held by executive officers and the related payments to them upon the closing of the merger are as follows: Mr. von Schack (507,907, \$14,475,350); Mr. Benson (38,040, \$1,084,140); Mr. Connolly (19,000, \$541,500);

Mr. Kump (38,040, \$1,084,140); Mr. McClain (38,040, \$1,084,410); Mr. Rude (45,465, \$1,295,753); and the 5 other executive officers as a group (120,249, \$3,427,097).

Pursuant to the merger agreement, the Company may grant, either before or after our special meeting, additional options or restricted shares to our employees in accordance with existing equity plans in the ordinary course of the operation of such plans in amounts up to 500,000 restricted shares and 1,100,000 for options and tandem stock appreciation rights. As of the date of this proxy statement, the Board has not made any determination in connection with the issuance of additional equity awards.

#### *Director Stock Equivalent Units*

Our non-employee directors receive quarterly grants of stock equivalent units. Upon a director ceasing to serve as a director of the Company, cash payments representing the value of the stock equivalent units held by the director are to be made to the director. The value of the stock equivalent units is determined by multiplying the number of units by the average of the daily closing prices of the Company's common stock for the five trading days preceding the date the director ceases to serve as a director. Under the terms of the Deferred Compensation Plan for the Director Share Plan, a director may defer a portion or all of the cash payment to be made under the Director Share Plan over a period of years following the director's ceasing to serve as a director. As of August 10, 2007, our non-employee directors held a total of 109,606 stock equivalent units and upon the closing of the merger, such stock equivalent units will be converted into the right to receive the merger consideration, a total amount of \$3,123,771. Our non-employee directors will continue to receive quarterly grants of 625 stock equivalent units until the closing of the merger.

#### *Advisory Board*

Under the merger agreement, none of our current directors will be directors of the Company following the merger. However, the merger agreement provides that, in addition to the Company's Chief Executive Officer, at least three other directors of the Company shall be requested to serve on an advisory board to the Company for a period of at least two years following the merger.

#### *Indemnification and Insurance*

The Company (as the surviving corporation in the merger) will indemnify current and former officers and directors of the Company, to the fullest extent permitted by applicable law, against all losses, expenses, claims, damages or liabilities, or amounts paid in settlement arising out of actions or omissions occurring at or prior to the effective time of the merger to the extent they are based on the fact that such person is or was a director, officer or employee of the Company or any subsidiary of the Company, and all such liabilities to the extent they are based on or arise out of or pertain to the transactions contemplated by the merger agreement.

For six years after the effective time of the merger, Parent will cause the Company (as the surviving corporation in the merger) to purchase an extended reporting period endorsement under the Company's existing directors' and officers' liability insurance, which will extend the directors' and officers' liability coverage in force as of the date of the merger agreement on terms that in all material respects are no less advantageous to the intended beneficiaries. The Company's obligation to provide this insurance coverage is subject to a cap of an amount equal to 200% of current annual premiums for insurance coverage. If the Company cannot maintain the existing or equivalent insurance coverage without exceeding the cap, the Company is required to maintain as much insurance coverage as can be obtained by paying annual premiums that in the aggregate do not exceed 200% of current annual premiums.

## **Financing; Source of Funds**

The merger is not conditioned upon Iberdrola obtaining financing. In the merger agreement, Iberdrola represented to us that it will have sufficient funds at closing to pay the merger consideration and satisfy its other obligations. Within a week of signing the merger agreement, Iberdrola completed the sale of 85 million of its shares, raising approximately \$4.5 billion for the purpose of completing the merger.

## **Material United States Federal Income Tax Consequences**

The following is a summary of the material United States federal income tax consequences of the merger to holders of our common stock whose shares are converted into the right to receive cash in the merger. This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), applicable Treasury Regulations, and administrative and judicial interpretations thereof, each as in effect as of the date hereof, all of which may change, possibly with retroactive effect. This summary assumes that shares of our common stock are held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). It does not address all of the tax consequences that may be relevant to particular holders in light of their personal circumstances, or to other holders that are subject to special treatment under the United States federal income tax laws, including, without limitation:

- banks, insurance companies, mutual funds or other financial institutions;
- broker-dealers;
- traders;
- expatriates and certain former citizens or long-term residents of the United States;
- tax-exempt organizations;
- persons who are subject to the alternative minimum tax;
- persons who hold their shares of common stock as part of an integrated investment, including as part of a “straddle” or as part of a “hedging,” “conversion” or other risk reduction transaction;
- persons who were or are deemed or required to sell their shares of common stock under the constructive sale provisions of the Code;
- controlled foreign corporations, passive foreign investment companies, or corporations subject to anti-inversion rules;
- Non-United States Holders (as defined below) who own (or have owned at any time during the prior 5 years) 5% or more of our common stock;
- persons that are S-corporations, partnerships or other pass-through entities;
- persons that are United States Holders, as defined below, and have a functional currency other than the United States dollar;
- corporations that accumulate earnings to avoid United States federal income tax; or
- persons who acquired their shares of our common stock upon the exercise of stock options or otherwise as compensation.

In addition, this discussion does not address the United States federal income tax considerations applicable to holders of options or warrants, if any, to purchase our common stock, or any state, local or foreign tax consequences of the merger.

For purposes of this discussion, a “United States Holder” means a holder that is:

- an individual citizen or resident of the United States for United States federal income tax purposes;

- a corporation or an entity treated as a corporation for United States federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust (a) the administration over which a United States court can exercise primary supervision and all of the substantial decisions of which one or more United States persons have the authority to control and (b) certain other trusts considered United States Holders for federal income tax purposes.

A “Non-United States Holder” is a holder (other than an entity treated as a partnership or other pass-through entity for United States federal income tax purposes) that is not a United States Holder.

If a holder of our common stock is an entity treated as a partnership or other pass-through entity for United States federal income tax purposes, the tax treatment of an investor in such entity will generally depend upon the status of such investor and the activities of the partnership or other entity. Partnerships or other pass-through entities holding our common stock, and investors in such partnerships or members in such other entities, should consult their tax advisors regarding the tax consequences of the merger. The discussion that follows is based upon and subject to the limitations and assumptions stated above.

**We urge each holder of our common stock to consult his or her own tax advisor regarding the United States federal income and other tax consequences of the merger to such holder.**

#### *United States Holders*

The receipt of cash in exchange for shares of our common stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. In general, a United States Holder who receives cash in exchange for shares of our common stock pursuant to the merger will recognize capital gain or loss for United States federal income tax purposes equal to the difference, if any, between the amount of cash received and the holder’s adjusted tax basis in the shares of our common stock exchanged for cash pursuant to the merger. Any such gain or loss will be long-term capital gain or loss if the holding period for the shares of our common stock exchanged in the merger is more than one year as of the date of the merger. If a United States Holder acquired different blocks of our common stock at different times and different prices, such United States Holder must determine its adjusted tax basis and holding period separately with respect to each block of our common stock. Long-term capital gain of individual taxpayers is generally taxable at a maximum rate of 15%. Capital gain of corporate stockholders is generally taxable at the regular tax rates applicable to corporations. The deductibility of capital losses is subject to limitations. Under the Code, United States Holders of our common stock may be subject, under certain circumstances, to information reporting on the cash received in the merger unless such United States Holder is a corporation or other exempt recipient.

#### *Non-United States Holders*

Any gain realized on the receipt of cash in the merger by a Non-United States Holder generally will not be subject to United States federal income tax unless:

- such Non-United States Holder is an individual who is present in the United States for 183 days or more during the taxable year of the merger and certain other conditions are satisfied;
- the gain is effectively connected with the Non-United States Holder’s conduct of a trade or business in the United States; or

- we are or have been a “United States real property holding corporation” pursuant to Section 897 of the Code and the Treasury Regulations promulgated thereunder (the “Foreign Investment in United States Real Property Tax Act”) for United States federal income tax purposes and the Non-United States Holder owns or has owned more than 5% of our common stock at any time during the five years preceding the merger.

A Non-United States Holder who is an individual described in the first bullet point above will be subject to a flat 30% United States federal income tax (or such lower rate as may be prescribed under an applicable United States income tax treaty) on any gain realized from the merger, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States. An individual Non-United States Holder described in the second bullet point above will be subject to tax on the net gain derived from the merger under regular graduated United States federal income tax rates. In addition, a foreign corporation Non-United States Holder that falls under the second bullet point above, will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, may also be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty. We have not determined whether we are or have been a “United States real property holding corporation” for United States federal income tax purposes, and there can be no assurances that we are not a “United States real property holding corporation.” Any Non-United States Holder who holds or held, at any time during the five year period preceding the date of the merger, more than 5% of our common stock should consult with its tax advisors regarding the potential application of the Foreign Investment in Real Property Tax Act and any related reporting requirements.

**Each Non-United States Holder should consult with its own tax advisors regarding whether it will be subject to United States federal income tax as a result of the merger and whether any applicable income tax treaty may provide for rules different from those set forth above.**

#### *Backup Withholding*

Backup withholding may apply to payments made in connection with the merger. Backup withholding will not apply, however, to a holder who (a) in the case of a United States Holder, furnishes a correct taxpayer identification number and certifies that it is not subject to backup withholding on the IRS Form W-9 or substitute successor form, (b) in the case of a Non-United States Holder, furnishes an applicable IRS Form W-8 or successor form, or (c) is otherwise exempt from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder’s United States federal income tax liability provided that the required information is furnished to the IRS.

**THE FOREGOING DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OF THE POTENTIAL TAX CONSIDERATIONS RELATING TO THE MERGER AND IS NOT TAX ADVICE. THEREFORE, HOLDERS OF OUR COMMON STOCK ARE URGED TO CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.**

#### **Regulatory Approvals and Filings**

##### *General*

To complete the merger, we and Parent must obtain, approvals, consents or waivers from, or make filings with, a number of United States federal and state public utility, antitrust and other regulatory authorities. The material United States federal and state approvals, consents and filings are described below. We refer to the approvals, consents, waivers and filings set out below as the “required approvals.”

We are not currently aware of any other material governmental consents, approvals or filings that are required prior to the parties' consummation of the merger other than those described below. If additional approvals, consents and filings are required to complete the merger, we contemplate that such consents, approvals and filings will be sought or made.

We intend to complete the merger during the first half of 2008. Although we believe that we will receive the required consents and approvals described below to complete the merger, there can be no assurance as to the timing of these consents and approvals or as to our ultimate ability to obtain such consents or approvals (or any additional consents or approvals which may otherwise become necessary) or that such consents or approvals will be obtained on terms and subject to conditions satisfactory to us and Parent. We may be required to amend the terms of the transaction to comply with any conditions attached to regulatory approvals that we do receive and under applicable law, and NYSE requirements, such amendments may not require the further consent of our stockholders.

#### *Hart-Scott-Rodino Act*

The merger is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act, and the rules and regulations promulgated thereunder, which provide that certain acquisition transactions may not be consummated until required information has been furnished to the Antitrust Division of the Department of Justice, which we refer to as the DOJ, and the Federal Trade Commission, which we refer to as the FTC, and until certain waiting periods have been terminated or have expired. The expiration or earlier termination of the HSR Act waiting period would not preclude the DOJ or the FTC from challenging the merger on antitrust grounds and seeking to preliminarily or permanently enjoin the proposed merger. We do not believe that the merger will violate federal antitrust laws, but there can be no guarantee that the DOJ or the FTC will not take a different position. If the merger is not consummated within 12 months after the expiration or earlier termination of the initial HSR Act waiting period, we will be required to submit new information to the DOJ and the FTC, and a new HSR Act waiting period will have to expire or be earlier terminated before the merger could be consummated. We and Iberdrola expect to file our premerger notifications in the third quarter of 2007.

#### *Federal Power Act*

Section 203 of the Federal Power Act, which we refer to as the FPA, provides, among other things, that no public utility may directly or indirectly merge or consolidate its jurisdictional facilities with those of any other person, or sell or otherwise dispose of its jurisdictional facilities or acquire any security of any other public utility to the extent such jurisdictional facilities or securities are valued in excess of \$10 million, without first having obtained authorization from the Federal Energy Regulatory Commission, which we refer to as the FERC. In addition, under the amendments to Section 203 enacted under the Energy Policy Act of 2005, which we refer to as the EPAct, FERC approval also is required for public utility holding companies (defined as an owner of a 10% or greater voting interest in a transmitting utility or an electric utility) to acquire any security of, or directly or indirectly merge or consolidate with, a transmitting utility, an electric utility or a holding company thereof with a value in excess of \$10 million.

Because Energy East and Iberdrola are both "holding companies" with utility subsidiaries that own "jurisdictional facilities" and are considered "public utilities," "transmitting utilities" and/or "electric utilities" within the meaning of the FPA, the approval of the FERC under Section 203 is required before we may consummate the merger. Section 203 provides that the FERC is required to grant its approval if the merger is found to be "consistent with the public interest." The FERC stated in its 1996 Merger Policy Statement that, in analyzing a merger under Section 203, it will evaluate the following criteria:

- the effect of the merger on competition in electric power markets;

- the effect of the merger on the applicants' transmission and wholesale power rates; and
- the effect of the merger on state and federal regulation of the applicants.

In addition, under amendments to Section 203 enacted under the EPAct, the FERC also must find that the merger will not result in any cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company unless such cross-subsidization, pledge or encumbrance is otherwise consistent with the public interest.

The FERC will review these factors to determine whether the merger should be approved. If the FERC finds that the merger would adversely affect competition, transmission and wholesale power rates, or regulation, or result in the improper cross-subsidization of, or pledge or encumbrance of utility assets to, an associate company, then the FERC may, pursuant to the FPA, deny approval of the merger or impose remedial conditions intended to mitigate such effects. In the event the FERC chooses to impose remedial conditions, we will then review such conditions with Parent and decide whether to accept them. Based on FERC precedent, we believe that the merger should satisfy the FERC's merger guidelines and the requirements of the EPAct amendments, and that any mitigation conditions imposed by the FERC would not have a material adverse effect on the anticipated benefits of the merger. However, there can be no guarantee that the FERC will agree with the parties' characterization of FERC precedent or that the FERC will not change its analytic framework in a manner adverse to the parties. We, Iberdrola and our respective public utility subsidiaries filed the application under Section 203 on August 1, 2007.

#### *Nuclear Regulatory Commission*

We have an indirect minority interest in three companies that hold Nuclear Regulatory Commission licenses, Maine Yankee Atomic Power Company, Connecticut Yankee Atomic Power Company, and Yankee Atomic Electric Company, which we collectively refer to as the "Yankee NRC Licensees." Each of these companies owns a permanently shut-down and fully dismantled and decommissioned nuclear generation facility but remain NRC licensees. Section 184 of the Atomic Energy Act and the NRC's implementing regulations require approval from the NRC prior to any direct or indirect transfer of control over any NRC license. Separately, Section 103(d) of the Atomic Energy Act places foreign ownership restrictions on NRC licenses. When enforcing these prohibitions, the NRC looks to direct transfers of NRC licenses and changes in upstream controlling interests of NRC licenses.

The merger does not involve any direct transfer of an NRC license, and we believe that our interest in the Yankee NRC Licensees are not controlling interests that would require a formal approval process from the staff of the NRC. On August 7, 2007, we and Iberdrola sought written confirmation of the same from the NRC. The correspondence to the NRC provided a detailed description of our relationship to the Yankee NRC Licensees and information on the merger and Iberdrola, and explained why the merger does not raise any issues under Sections 103(d) or 184 of the Atomic Energy Act. We cannot guarantee that the staff of the NRC will respond affirmatively to our request. In the event that it concludes that a transfer of control requiring approval under Sections 103(d) and/or 184 of the Atomic Energy Act will occur, we will file a formal application for prior authorization for the merger.

#### *Federal Communications Commission*

Under the provisions of the Communications Act of 1934, as amended by the Telecommunications Act of 1996, an entity holding licenses for the provision of telecommunications services must obtain the approval of the Federal Communications Commission, which we refer to as the FCC, before the transfer of control or assignment of those licenses. Certain of our affiliates hold FCC licenses for the provision of telecommunications services in the United States and, thus, will have to obtain prior FCC approval to assign or transfer control of those licenses. The parties to the transaction requested FCC authorization for the transfer of control over these telecommunications licenses on August 1, 2007.

### *Committee on Foreign Investment in the United States*

The Exon-Florio Amendment to the Defense Production Act of 1950, enables the President to block/seek divestment of takeovers of U.S. companies by foreign persons that threaten to impair U.S. national security. In order to try to prevent such blockage/divestment, parties to a proposed or pending transaction may give voluntary notice to the Committee on Foreign Investment in the United States (“CFIUS”) if the transaction could result in foreign control of a U.S. company. After such notice is given, CFIUS has 30 days to determine whether to conduct a full-scale investigation. If no such investigation is commenced, the transaction can proceed without being blocked. If CFIUS determines that such an investigation is warranted, it must be completed within 45 days and the President then has 15 days to determine whether to exercise his power to block the transaction. The parties to the transaction intend to make a joint voluntary notification of the transaction to CFIUS during the third quarter of 2007.

### *State Approvals*

*Connecticut Department of Public Utility Control.* As we are a holding company controlling two Connecticut gas companies, the approval of the merger is required by Connecticut Department of Public Utility Control, which we refer to as the DPUC, under Conn. Gen. Stat. §16-47 which governs the formation, or the acquisition, of a holding company of Connecticut gas companies. Approval by the DPUC may also be required for the indirect merger of the Connecticut utility subsidiaries with Parent under Conn. Gen., Stat. §16-43. In evaluating the merger, the DPUC must determine whether Parent has the requisite “financial, technological and managerial suitability and responsibility” to acquire Energy East and its Connecticut subsidiaries. Section 16-47(d) requires the DPUC to issue its order within 120 days of the filing. We filed the application for approval with the DPUC on August 1, 2007.

*Maine Public Utility Commission.* As we are the parent holding company of a Maine public utility, the approval of the merger is required by the Maine Public Utilities Commission, which we refer to as the MPUC, is required under Maine’s reorganization statute, 35-A M.R.S.A. §708. Under Section 708(2)(A), the MPUC may approve the proposed transaction only if the parties establish that the reorganization “is consistent with the interests of the utility’s ratepayers and investors.” Section 708(2)(A) further requires the MPUC to act on our application within six months. We filed the application for approval with the MPUC on August 1, 2007.

*New Hampshire Public Utilities Commission.* As an owner of a public utility that provides propane air service within the state of New Hampshire, we are subject to the jurisdiction of the New Hampshire Public Utilities Commission, which we refer to as the NHPUC. The authority of the NHPUC to approve the merger arises under two provisions of the New Hampshire Public Utilities Statutes, RSA 374:33 and RSA 369:8. Under Section 374:33, the NHPUC’s approval is required in connection with the indirect acquisition by Parent of our gas distribution facilities as part of the proposed transactions. Under Section 374:33, the NHPUC must find that the proposed transactions are lawful, proper and in the public interest. Under RSA 369:8 of the New Hampshire statutes, if our New Hampshire subsidiary makes a written representation that the transaction will have no adverse effect on its rates, terms, service or operation, the merger will be deemed approved if the NHPUC does not issue an order within (60) sixty days. We filed the application for approval with the NHPUC on August 1, 2007.

*New York Public Service Commission.* As an owner of electric generation and natural gas distribution facilities within the state of New York, we are subject to the jurisdiction of the New York Public Service Commission, which we refer to as the NYPSC. Under Section 70 of the New York Public Service Law, the NYPSC’s written consent is required in connection with the transfer of the indirect ownership of our electric generation and gas distribution facilities as part of the merger. Under Section 70 of the New York Public Service Law, the NYPSC must determine whether the merger is in the public interest. We filed the application for approval with the NYPSC on August 1, 2007.

## **Merger Related Litigation**

On July 6, 2007, a purported class action complaint was filed in the Supreme Court of the State of New York for Kings County against the Company and its directors. The complaint alleges that, among other things, the consideration for the proposed acquisition is unfair and inadequate because it does not provide the Company's stockholders with a sufficient premium for the Company's common stock and the defendants have breached their fiduciary duty. The complaint seeks to enjoin the merger in addition to an unspecified amount of damages. A response to the complaint is currently due September 5, 2007. Energy East and its directors dispute these allegations and intend to contest them vigorously.

## **Exchange and Payment Procedures**

As promptly as practicable after the closing of the merger, the paying agent will mail a letter of transmittal and instructions to each holder of certificated shares. The letter of transmittal and instructions will tell you how to surrender your common stock in exchange for the merger consideration. Registered stockholders who hold their shares in book-entry form will receive payment directly from the paying agent without further action.

**You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.**

If your shares are certificated, you will not be entitled to receive the merger consideration until you surrender your stock certificate or certificates to the paying agent, together with a duly completed and executed letter of transmittal and any other documents as may be required by the letter of transmittal.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates. Parent, the surviving corporation and the paying agent will be entitled to deduct, withhold, and pay to the appropriate taxing authorities, any applicable taxes from the merger consideration. Any sum that is withheld and paid to a taxing authority by Parent and the surviving corporation will be deemed to have been paid to the person with regard to whom it is withheld.

From and after the effective time, there will be no transfers on our stock transfer books of shares of the common stock that were outstanding immediately prior to the effective time. If, after the effective time, certificates are presented to Energy East, Parent or the paying agent for transfer, they will be cancelled and exchanged for the merger consideration.

Any portion of the merger consideration deposited with the paying agent that remains unclaimed by former holders of the common stock for one year after the closing of the merger will be delivered, upon demand, to the surviving corporation. Former holders of the common stock who have not complied with the above-described exchange and payment procedures will thereafter only look to the surviving corporation for payment of the merger consideration. None of the surviving corporation, Parent, the paying agent or any other person will be liable to any former holders of our common stock for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar laws.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to make an affidavit of the loss, theft or destruction, and if required by Parent, post a bond in a customary amount sufficient to protect it or the surviving corporation against any claim that may be made against it with respect to that certificate. These procedures will be described in the letter of transmittal that you will receive, which you should read carefully in its entirety.

**Dissenters' Rights**

Pursuant to Section 910 of the New York Business Corporation Law, which we refer to as the NYBCL, our stockholders will not be entitled to exercise dissenters' rights if the merger is adopted and consummated, because our common stock was listed on the New York Stock Exchange on the record date. Section 910 of the NYBCL provides that a dissenting stockholder's right to receive payment of the fair value of his shares under Section 623 of the NYBCL is not available to a holder of shares of any class or series of stock, which shares were listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to vote upon the plan of merger.

**Delisting and Deregistration of the Company's Common Stock**

If the merger is completed, our common stock will be delisted from and will no longer be traded on the New York Stock Exchange or any other securities exchange and will be deregistered under the Securities Exchange Act. Following the completion of the merger, Energy East will no longer be a public company.

## THE MERGER AGREEMENT

*The following summarizes the material provisions of the merger agreement, which is attached as Annex A to this proxy statement and is incorporated by reference herein. The rights and obligations of the parties to the merger agreement are governed by the express terms and conditions of the merger agreement and not by this summary or any other information contained in this proxy statement. Energy East stockholders are urged to read the merger agreement and this proxy statement carefully and in their entirety before making any decisions regarding the merger. The merger agreement has been attached to this proxy statement to provide Energy East stockholders with information regarding its terms and conditions. It is not intended to provide any other factual information about Energy East. In particular, the assertions embodied in the representations and warranties contained in the merger agreement (and summarized below) are qualified by information in confidential disclosure schedules provided by Energy East in connection with the signing of the merger agreement. These disclosure schedules contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the merger agreement. Moreover, certain representations and warranties in the merger agreement were made as of a specific date, may be subject to a contractual standard of materiality different from what might be viewed as material by stockholders, or may have been used for the purpose of allocating risk between Energy East and Iberdrola rather than establishing matters as facts. Accordingly, you should not rely on the representations and warranties in the merger agreement (or the summaries below) as characterizations of the actual state of facts about Energy East.*

### **Effective Time**

The merger will become effective, the “effective time,” upon the filing of a certificate of merger, we refer to as the certificate of merger, with the Secretary of State of the State of New York or at such subsequent time thereafter as is provided in the certificate of merger.

### **Structure**

At the effective time, Merger Sub will be merged with and into the Company and the separate existence of Merger Sub will cease. The Company will survive the merger and will become a wholly-owned subsidiary of Iberdrola. The merger will have the effects set forth in Section 906 of the NYBCL, so that all of the properties, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the surviving corporation, and all debts, liabilities, and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the surviving corporation.

### **Treatment of Stock and Options**

#### *Company Common Stock*

At the effective time, each share of Company common stock (including each restricted share of Company common stock issued pursuant to the Company plans) issued and outstanding immediately prior to the effective time shall cease to exist and will automatically be converted into the right to receive \$28.50 in cash per share, without interest, payable to Company stockholders upon surrender of their stock certificates. At the effective time, the following shares of Company common stock shall be canceled without conversion or consideration:

- shares held in the Company’s treasury immediately prior to the effective time; and
- shares owned by Iberdrola, Merger Sub or any wholly-owned subsidiary of the Company or Iberdrola immediately prior to the effective time.

After the effective time, each of the Company’s outstanding stock certificates representing shares of common stock converted in the merger will represent only the right to receive the merger consideration. The merger consideration paid upon surrender of each certificate will be paid in full satisfaction of all rights pertaining to the shares of the Company common stock represented by that certificate.

### *Company Stock Options*

Each option or other right of any kind to acquire shares of Company common stock under the Company stock option plans that is outstanding immediately prior to the effective time (whether or not then vested or exercisable), and the tandem stock appreciation rights issued with each such option shall be terminated and converted at the effective time into the right to receive, less any required withholding taxes, a cash amount equal to the product of:

- the excess, if any, of the merger consideration per share over the exercise price per share previously subject to such option, multiplied by
- the number of shares of Company common stock previously subject to such option.

### *Restricted Stock*

Each share of Company common stock issued under the Company's Restricted Stock Plan and outstanding immediately prior to the effective time that is subject to future vesting requirements, risk of forfeiture back to the Company, a right of repurchase by the Company or similar restrictions which have not lapsed prior to the effective time of the merger, will vest, become free of such restrictions and be cancelled as of the effective time with each holder entitled to receive, less any required withholding taxes, an amount in cash equal to the product of:

- the merger consideration, multiplied by
- the total number of shares of Company common stock subject to such stock award.

### *Director Share Plan*

Each common stock equivalent unit outstanding immediately prior to the effective time under the Company's Director Share Plan shall be converted into the right to receive the merger consideration as promptly as practicable following the effective time, without interest, or to the extent of any elections made prior to the effective time, paid in accordance with the Company's Deferred Compensation Plan for the Director Share Plan.

### *Employee Stock Purchase Plans*

With respect to each employee stock purchase plan maintained by the Company or any of its subsidiaries each participant's accumulated payroll deductions shall be used to purchase shares of Company common stock immediately prior to the effective time in accordance with the terms of the relevant employee stock purchase plan, and the shares of Company common stock purchased thereunder shall be canceled at the effective time and converted into the right to receive an amount in cash equal to the product of:

- the merger consideration, multiplied by
- the total number of shares of Company common stock purchased as described above, less any required withholding taxes.

The Company shall use its commercially reasonable efforts to cause all employee stock purchase plans to terminate at the effective time, so that no further purchase rights shall be granted or exercised under such employee stock purchase plans thereafter. Subject to applicable confidentiality, legal and regulatory requirements, the Company shall cooperate with and provide such information to Iberdrola relating to all employee stock purchase plans as Iberdrola reasonably requires in order to plan with, and make proposals to, and communicate with, participants of the employee stock purchase plans.

## **Representations and Warranties**

The merger agreement contains representation and warranties made by Company, many of which are qualified by materiality and subject, in some cases, to specified exceptions. The representations and warranties relate to, among other topics, the following:

- organization, standing and corporate power and qualification to do business;
- subsidiaries;
- capital structure;
- authorization, execution, delivery and enforceability of the merger agreement and related matters;
- the adoption by the Company's Board of Directors of the merger agreement and its approval and recommendation of the merger;
- the absence of violations of, or conflicts with, our governing documents, governmental authorizations, agreements and benefit plans related to the merger agreement and the transactions thereunder;
- SEC filings since January 1, 2004, including the financial statements contained therein and filings with other regulatory authorities;
- the absence of a "material adverse effect" and certain other changes or events related to Company since December 31, 2006 and the absence of undisclosed liabilities at or since that date;
- legal proceedings and governmental orders;
- compliance with applicable legal requirements;
- taxes;
- employment and labor matters affecting Company or its subsidiaries, including matters relating to the employee benefit plans of Company and its subsidiaries;
- contracts;
- environmental matters;
- intellectual property;
- insurance;
- certain business relationships with affiliates;
- nuclear facilities;
- hedging activities;
- foreign corrupt practices and international trade sanctions;
- opinions of financial advisors;
- broker and other similar fees;
- the inapplicability of takeover statutes;
- regulatory proceedings; and
- other information supplied for use in this proxy statement;

The merger agreement also contains representation and warranties made by Iberdrola and Merger Sub, many of which are qualified by materiality and subject, in some cases, to specified exceptions. The representations and warranties relate to, among other topics, the following:

- organization, standing and corporate power and qualification to do business;
- the adoption by Iberdrola's board of directors of the merger agreement and its approval of the merger;
- consents, approvals and the non-violation of the merger agreement of certain charters and agreements;
- information supplied for use in this proxy statement and the Iberdrola stockholder circular;
- the ownership and operations of Merger Sub;
- availability of sufficient funds to pay the merger consideration;
- legal proceedings and governmental orders;
- broker and other similar fees; and
- Iberdrola's lack of ownership of our common stock.

For the purposes of the merger agreement, a "material adverse effect" with respect to the Company means any change, event, occurrence or development which has a material adverse effect on the assets, liabilities, business, results of operations or condition (financial or otherwise) of the Company and its subsidiaries taken as a whole.

A "material adverse effect" will not have occurred, however, if any event, effect, change or development is caused by:

- changes in conditions in the United States of America or global economy or capital or financial markets generally, including changes in interest or exchange rates, unless such changes adversely affect the Company and its subsidiaries in a disproportionate manner as compared to comparable participants in the utility industry;
- changes in general legal, regulatory, political, economic or business conditions or changes in generally accepted accounting principles that, in each case, generally affect the electric or gas utility industry, unless such changes adversely affect the Company and its subsidiaries in a disproportionate manner as compared to comparable participants in the utility industry;
- the execution or announcement of the merger agreement or the consummation of the transactions;
- acts of war, sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism;
- the initiation of any litigation by any shareholder of the Company relating to the merger agreement or the merger;
- the restructuring transaction described on page 61, or any action taken by any of the parties in connection therewith; or
- any decline in and of itself in the market price or trading volume of the Company's common stock.

You should be aware that these representations and warranties were made by and to the Company, Iberdrola and Merger Sub as of specific dates. The statements embodied in those representations and warranties were made for purposes of the merger agreement between the parties and are subject to qualifications and limitations agreed to by the parties in connection with negotiating the terms of that contract. In addition, certain representations and warranties may be subject to a contractual standard of

materiality different from those generally applicable to stockholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts.

The representations and warranties of each of the parties to the merger agreement will expire upon the effective time of the merger.

### **Conduct of Our Business Pending the Merger**

Under the merger agreement the Company has agreed that, subject to certain exceptions and unless Iberdrola gives its prior written consent (which consent will not be unreasonably withheld or delayed), between June 25, 2007 and the completion of the merger:

- the Company and its subsidiaries shall carry on their businesses in the usual, regular and ordinary course consistent with past practice and good utility practice; and
- the Company will use its reasonable best efforts to preserve, in all material respects, its business organization, its relationships with customers, suppliers and others and its goodwill and to keep available the services of its current key officers and employees.

The Company has also agreed to refrain from, subject to certain exceptions, any of the following actions without the prior written consent of Iberdrola:

- issue, sell, grant, pledge, or otherwise encumber any of the Company's capital shares or other securities;
- issue securities in lieu of capital stock, split, combine, subdivide or reclassify any of the Company's capital stock, or enter into any agreement with respect to the voting of its capital stock;
- declare or pay any dividends on any of the Company's or its subsidiaries' capital stock, other than dividends required to be paid on preferred stock of any subsidiaries and regular dividends on the Company's common stock;
- directly or indirectly redeem, purchase or otherwise acquire any shares of Company capital stock, or any stock options except in the ordinary course and consistent with past practice;
- incur any new indebtedness for borrowed money or guarantee any such indebtedness, other than amounts not in excess of \$300 million in the aggregate outstanding at any time;
- enter into "keep well" or any other agreement to maintain the financial condition of any person other than the Company or its subsidiaries;
- make any loans, advances, or capital contributions to or investments in, any person other than the Company or any of its subsidiaries in excess of \$50 million in the aggregate;
- repurchase or prepay any indebtedness for borrowed money in excess of \$100 million in the aggregate;
- sell, lease, pledge, transfer, dispose of or encumber in any way any assets that are material to the Company or its subsidiaries;
- make capital expenditures that in the aggregate, exceed 110% of the amount to be expended in any fiscal year as reflected in the Company's 2007—2008 forecasts of capital expenditures provided to Iberdrola;
- acquire or agree to acquire any person or assets or make any investment in any entity in excess of \$50 million in the aggregate;
- increase in any respect the compensation, bonus or fringe benefits of any director, officer, employee or consultant, other than as required by contract or pursuant to applicable law, and increases in

salaries, wages and benefits of employees (other than executive officers) made in the ordinary course of business consistent with past practice;

- enter into or renew any contract (other than a renewal occurring in accordance with the terms thereof) providing for the payment to any director, officer, employee or consultant compensation or benefits contingent, or the terms of which are materially altered, upon the occurrence of any of the transactions contemplated by the merger agreement;
- other than in the ordinary course of business consistent with past practice or pursuant to any contract or any employee benefit plan
  - pay any benefit not provided for under any contract or employee benefit plan,
  - take any action to fund or secure the payment of compensation or benefits,
  - exercise any discretion to accelerate the vesting or payment of any compensation or benefit under any contract or employee benefit plan,
  - enter into or adopt any new employee benefit plan or arrangement or amend, modify or terminate any existing employee benefit plan,
  - grant the right to receive any severance, termination or retention pay, or increases therein, or pay any benefit or grant to or amend or modify any award, including in respect of stock options or other equity-related award, for the benefit of any current or former director, officer, employee or consultant of the Company or any of its subsidiaries;
- other than in the ordinary course of business consistent with past practice, change any of the Company's tax accounting methods, policies or practices, make, revoke or amend any material tax election, file any amended tax return, enter into any closing agreement negatively affecting any tax liability or refund, settle or compromise any material tax liability or refund or extend or waive the application of any statute of limitations regarding the assessment or collection of any material tax;
- make certain changes in accounting methods that materially affect the Company's reported consolidated assets, liabilities or results of operations;
- amend the Company's certificate of incorporation or the organizational documents of its subsidiaries;
- adopt a plan or agreement for complete or partial liquidation or dissolution;
- adopt, enter into, renew or extend any collective bargaining agreement or other labor union contract applicable to the employees of the Company or any subsidiary of the Company, except in connection with any such agreement currently being renewed or extended or as necessary to prevent the expiration of any such agreement;
- fail to maintain with financially responsible insurance companies (or through self-insurance not inconsistent with past practice) insurance in such amounts and against such risks and losses consistent with the insurance policies maintained by the Company;
- make any acquisition or investment in or enter into any line of business that is not conducted by the Company or any of its subsidiaries as of the date of the Agreement;
- enter into, amend or modify any contract which is reasonably expected to remain in effect after the effective time, and could reasonably be expected to involve payments to or by the Company or any of its subsidiaries that exceed \$10 million in the aggregate;
- settle any claim, action, proceeding or investigation, except settlements in the ordinary course of business consistent with past practice, settlements subject to reserves existing as of June 25, 2007 in

accordance with generally accepted accounting principles (GAAP), or settlements that would not reasonably be expected to have a “material adverse effect” on the Company;

- enter into any contracts that materially limit or otherwise materially restrict the Company or any of its subsidiaries or any of their respective affiliates or any successor or that could, after the effective time, materially limit or restrict Iberdrola or any of its affiliates (including the Company as the surviving corporation) or any successor thereto, from engaging or competing in any line of business or product line or in any geographic area;
- enter into any contract for the purchase and/or sale of capacity or energy other than in the ordinary course of business consistent with past practice and in compliance with the Company’s derivatives policies;
- change the Company’s derivatives policies in any material respect; and
- take any action that is intended or is reasonably likely to result in any of the conditions to the merger not being satisfied.

Under the merger agreement, Iberdrola and Merger Sub have agreed that, subject to certain exceptions and unless the Company gives its prior written consent, between June 25, 2007 and the completion of the merger:

- Iberdrola and its subsidiaries will not take any action that would reasonably be expected to delay any state public utility commission approval, significantly increase the risk of not obtaining any regulatory approval, significantly increase the risk of a governmental authority prohibiting the merger or otherwise preventing or materially delaying consummation of the merger.

### **Stockholders’ Meeting**

The merger agreement requires the Company, as promptly as practicable following June 25, 2007, to duly call, give notice of, convene and hold a meeting of Company stockholders for the purpose of adopting the merger agreement. The merger agreement requires the Company’s Board of Directors to recommend adoption of the merger agreement and the transactions contemplated in the merger agreement unless the Company’s Board of Directors determines in its reasonable good faith judgment that such action would be inconsistent with its fiduciary duty under applicable law.

### **Agreement to Use Reasonable Best Efforts**

Subject to the terms and conditions of the merger agreement, each party has agreed to use its reasonable best efforts to take all actions and do all things necessary, proper or advisable to consummate the merger and the transactions contemplated by the merger agreement including making the filing under the HSR Act and filings with any governmental entity that may be necessary, proper or advisable. Each party has also agreed to use its reasonable best efforts to obtain the required approvals and consents. In addition, each party has agreed to use its reasonable best efforts to resolve any objections or suits raised by governmental entities or any other person in relation to the transaction that could reasonably be expected to, if not resolved, materially impair or delay consummation of the merger.

### **No Solicitation of Transactions**

Subject to the exceptions set out below we have agreed that from June 25, 2007 until the earlier of the effective time or termination of the merger agreement, the Company will not permit its subsidiaries, officers, representatives, agents or investment bankers to directly or indirectly:

- solicit, initiate, facilitate or knowingly encourage any inquiries, proposals or offers with respect to, or the making or completion of a takeover proposal or any inquiry, proposal or offer that is reasonably likely to lead to a takeover proposal or

- participate in any discussions or negotiations with, or furnish any non public information to, any person regarding, or that is reasonably likely to lead to, any written takeover proposal.

For the purposes of the merger agreement a “takeover proposal” means a bona fide proposal or offer from any person (other than Iberdrola and its subsidiaries) relating to any direct or indirect acquisition of 20% or more of the assets of the Company and its subsidiaries or to which 20% or more of the Company’s revenues or earnings on a consolidated basis are attributable or a direct or indirect acquisition of 20% or more of the outstanding Company common stock or a tender offer or exchange offer that if consummated would result in any person beneficially owning 20% or more of the outstanding Company common stock or any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company.

There is an exception from the restriction above in the merger agreement, if prior to the receipt of stockholder approval, but not after, the Company’s Board of Directors receives an unsolicited written takeover proposal that it determines in good faith (after consultation with outside legal counsel and a financial advisor of nationally recognized reputation) constitutes, or could reasonably be expected to result in, a “superior proposal” and the Company’s Board of Directors determines in good faith (after consultation with outside counsel), that failure to take any such action would be inconsistent with its fiduciary duties under applicable law. We may, in response to such a “superior proposal,” furnish information with respect to us to any person making such a “superior proposal” but may only provide non-public information pursuant to a confidentiality agreement, not less restrictive to such person than the confidentiality agreement that we entered into with Iberdrola (provided that such confidentiality agreement may allow such person to submit to the Company a proposal or offer relating to such takeover proposal), and participate in discussions and negotiations with such person regarding such takeover proposal.

The merger agreement also provides that the Company’s Board of Directors shall not withdraw or modify or publicly propose to withdraw or modify, in a manner adverse to Iberdrola, its recommendation that the stockholders adopt the merger agreement or publicly approve or recommend a takeover proposal. In addition, the Company shall not enter into any letter of intent or agreement with respect to any takeover proposal. Notwithstanding the foregoing, prior to receipt of stockholder approval, if the Company’s Board of Directors receives an unsolicited written takeover proposal that it determines in good faith (after consultation with outside legal counsel and a financial advisor of nationally recognized reputation) constitutes a superior proposal and determines in good faith (after consultation with outside legal counsel) that the failure to do so would be inconsistent with the fiduciary duties of the Company’s Board of Directors, the Company’s Board of Directors may (taking into account any counterproposals by Iberdrola) make an adverse recommendation to stockholders and/or cause the Company to enter into an agreement with respect to such superior proposal.

If the Company’s Board of Directors determines to publicly approve or recommend or publicly propose to approve or recommend to the holders of Company common stock a takeover proposal or authorize the Company to enter into any letter of intent or merger, acquisition or similar agreement with respect to any takeover proposal, such actions may only become effective after the end of the fourth (4th) calendar day following Iberdrola’s receipt of written notice from the Company advising Iberdrola that the Company’s Board of Directors intends to effect such action, which notice shall contain the identity of the person making the superior proposal and the material terms and conditions of such superior proposal to the extent such information has not previously been provided to Iberdrola. Any material amendment to the terms of such superior proposal after the initial notice shall require a new notice and restart the notice period referred to above, but such notice period shall then be two (2) business days. In determining whether to permit the Company to publicly approve or recommend a takeover proposal or authorize the Company to enter into any letter of intent or merger, acquisition or similar agreement with respect to any takeover proposal in response to a superior proposal, the Company’s Board of Directors shall take into account in good faith any changes to the terms of the merger agreement proposed by Iberdrola.

The term “superior proposal” means a takeover proposal that the Company’s Board of Directors determines in good faith, after consultation with the Company’s outside legal counsel and financial advisors, is more favorable to the Company than the merger (taking into account (i) legal, financial, regulatory and other aspects of such takeover proposal and the merger and the other transactions under the merger agreement deemed relevant by the Company’s Board of Directors, (ii) the identity of the third party making such takeover proposal, (iii) the conditions and prospects for completion of such takeover proposal and (iv) all other factors that the Company’s Board of Directors is permitted to consider pursuant to Section 717 of the NYBCL, which includes the ability to consider other constituencies); provided, that for purposes of this definition, references to “20%” in the definition of takeover proposal shall be deemed to be references to 50%.

### **Employee Benefits**

Iberdrola has agreed with the Company to cause the Company, as the surviving corporation, and each of its subsidiaries, to honor after the effective time all employment related obligations and agreements with respect to any of the Company, and the Company’s subsidiaries, current or former employees, directors and consultants including:

- recognizing, and as required by law, bargaining with, the current exclusive collective bargaining representatives of Company employees; and
- honoring, or continuing to honor, all of the Company’s current collective bargaining agreements.

In addition, Iberdrola has agreed with the Company to continue or establish employee compensation and benefits plans that will provide benefits and compensation to each of the Company’s current and former employees for a period of at least 18 months after the effective time that are substantially comparable in the aggregate to those provided by the Company and its subsidiaries immediately prior to the effective time.

Iberdrola has also agreed with the Company in the merger agreement that, with respect to any Company benefits plans in which Company employees participate after the effective time, Iberdrola shall:

- to the extent satisfied or inapplicable under Company benefit plans immediately prior to the effective time, waive all limitations as to pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to Company employees under any benefit plan of Iberdrola in which Company employees are eligible to participate after the effective time;
- provide each of the Company’s employees with credit for any co-payments and deductibles paid prior to participation in the relevant benefit plan of Iberdrola in satisfying any applicable deductible or out-of-pocket requirements under any welfare benefit plan of Iberdrola in which Company employees may be eligible to participate after the effective time; and
- recognize all service except to the extent such recognition would result in duplication of benefits (unless such duplication is expressly contemplated in a plan, agreement or other arrangement of, or approved by, Iberdrola) of the Company employees with the Company and the Company’s current and former affiliates for purposes of eligibility to participate, vesting credit and entitlement for benefits (but not for purposes of benefit accrual under any defined benefit pension plan) in any benefit plan of Iberdrola in which such employees may be eligible to participate after the effective time, to the same extent taken into account under a comparable benefit plan of the Company’s immediately prior to the effective time.

## Conditions to the Merger

The obligations of the parties to complete the merger are subject to the satisfaction or waiver of the following mutual conditions:

- *Stockholders Approval.* The adoption of the merger agreement by Company stockholders.
- *No Injunctions or Restraints; Illegality.* No federal, state, local or foreign law, statute, regulation, code, ordinance or decree shall have been adopted or promulgated and no temporary restraining order, preliminary or permanent injunction or other order issued by a court or other governmental authority shall be in effect, having the effect of making the merger illegal or otherwise prohibiting consummation of the merger.
- *Regulatory Approvals.* The required approvals and the Iberdrola consents shall have been obtained (including the expiration or early termination of the waiting period under the HSR Act) at or prior to the effective time, and such approvals must have become final orders that must not, individually or in the aggregate, impose terms or conditions that would reasonably be expected to result in a material adverse effect on the Company or an adverse effect on the ability of Iberdrola, Merger Sub and the Company to consummate the merger.

The obligations of Iberdrola and Merger Sub to complete the merger are subject to the satisfaction or waiver of the following additional conditions:

- *Representations and Warranties.* The Company's representations and warranties must be true at and as of the date the merger is consummated (except to the extent expressly made as of a particular date, in which case they must be true and correct as of that date), except where the failure of such representations and warranties to be true and correct (disregarding all materiality qualifications) does not have, and could not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company.
- *Performance of Obligations.* The Company must have performed or complied in all material respects with all agreements and covenants required to be performed by Company pursuant to the merger agreement and Iberdrola shall have received a certificate of an executive officer of the Company, dated as of the closing date, to that effect.
- *Closing Certificate.* The Company delivery to Iberdrola at closing of a certificate with respect to the satisfaction of the conditions relating to representations and warranties and performance of the Company's obligations.

The Company's obligation to complete the merger is subject to the following additional covenants.

- *Representations and Warranties.* All of Iberdrola and Merger Sub's representations and warranties must be true and correct at and as of the date the merger is consummated except where the failure of such representations and warranties to be true and correct (disregarding all materiality qualifications) does not have, and could not reasonably be expected to materially impair the ability of Iberdrola or Merger Sub to perform its obligations under the merger agreement or materially delay the completion of the merger.
- *Performance of Obligations.* Iberdrola and Merger Sub must have performed or complied in all material respects with all agreements and covenants required to be performed by them pursuant to the merger agreement and the Company shall have received a certificate of an executive officer of Iberdrola, dated as of the closing date, to that effect.
- *Closing Certificate.* Iberdrola's delivery to the Company at closing of a certificate with respect to the satisfaction of the conditions relating to representations and warranties and performance of Iberdrola and Merger Sub's obligations.

## Termination

The merger agreement may be terminated at any time prior to the effective time:

- by mutual written consent of the parties;
- by either the Company or Iberdrola if:
  - any restraint is in effect and is final and non-appealable which has the effect of making the merger illegal or otherwise prohibiting the consummation of the merger, provided that the party seeking to terminate the merger agreement has used reasonable best efforts to take all actions, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the merger as specified in the merger agreement;
  - the merger has not been consummated by June 25, 2008; provided that, the failure to complete the merger is not a result of the failure of the terminating party to comply with the terms of the merger agreement and provided that if all of the closing conditions in the merger agreement have been satisfied except for obtaining the required approvals, then either party may unilaterally extend such date by a further six months;
  - the Company stockholders do not adopt the merger agreement at the special meeting (including any adjournment or postponement thereof);
- by us if:
  - prior to the special meeting, the Board, following notice to Iberdrola, authorizes us to enter into, and we enter into, a definitive agreement concerning a transaction that constitutes a superior proposal, and we pay a termination fee to Iberdrola, as set out below;
  - Iberdrola's or Merger Sub's representations and warranties fail to be true and correct, subject to certain materiality limitations and such breach is not capable of being corrected prior to the outside date; or
  - Iberdrola or Merger Sub fail in any material respect to perform any of their obligations under the merger agreement and such breach is not capable of being corrected prior to the outside date.
- by Iberdrola if:
  - our representations and warranties fail to be true and correct, subject to certain materiality limitations and such breach is not capable of being corrected prior to the outside date;
  - we fail, in any material respect, to perform our obligations under the merger agreement and such breach is not capable of being corrected prior to the outside date;
  - the Board of Directors withdraws or modifies, or publicly proposes to withdraw or modify, its recommendation with respect to the merger agreement or publicly approves or recommends, or publicly proposes to approve or recommend, any alternative takeover proposal;
  - the Board of Directors fails to reaffirm its recommendation within twenty (20) business days of receipt of Parent's written request at any time following an unsolicited takeover proposal;
  - we fail to include the Board of Directors' recommendation of the adoption of the merger agreement in the proxy statement; or
  - we willfully and materially breach the provisions prohibiting the solicitation of competing proposals or other related provisions contained in Section 4.2 of the merger agreement.

## **Fees and Expenses**

The parties have agreed that all fees and expenses incurred in connection with the merger shall be paid by the party incurring such fees or expenses, except that if the Company is obligated to pay the termination fee described below and Iberdrola commences a suit that results in a judgment against the Company for the termination fee, the Company will pay to Iberdrola its reasonable costs and expenses incurred in the suit as well as interest on the termination fee.

In addition, in the event of termination of the merger agreement, the Company has agreed to pay to Iberdrola a termination fee of \$45 million if:

- Each of the following three conditions are met:
  - a takeover proposal has been made and not withdrawn at the time the merger agreement is terminated;
  - the termination occurs because:
    - the Company's shareholders have not adopted the merger agreement at the special meeting; or
    - the conditions to the closing of the merger were not been satisfied by the outside date; and
  - within three months after the termination date we enter into an agreement with respect to a takeover proposal with any third-party; or within twelve months after the termination date, we enter into an agreement with respect to a takeover proposal with a party who made a takeover proposal prior to the termination of the merger agreement.
- a takeover proposal has been made and not withdrawn at the time of termination and the termination is a result of a willful breach by the Company of its representations, warranties or covenants that is not cured in accordance with the terms of the merger agreement;
- the Board withdraws or modifies, or publicly proposes to withdraw or modify in any manner adverse to Parent, its recommendation with respect to the merger agreement or publicly approves or recommends, or publicly proposes to approve or recommend, any alternative takeover proposal;
- the Board fails to reaffirm its recommendation within twenty (20) business days of receipt of Parent's written request following an unsolicited takeover proposal;
- we fail to include the Board's recommendation that the merger agreement be adopted in the proxy statement;
- we willfully and materially breach the provisions prohibiting the solicitation of competing proposals or any of the other related provisions contained in Section 4.2 of the merger agreement; or
- we enter into a definitive agreement with respect to a superior proposal.

## **Other Covenants and Agreements**

*Corporate Governance.* In addition to the current chief executive officer of the Company, at least three members of the Company's Board of Directors immediately prior to the effective time shall be requested to serve on an advisory board to the surviving corporation to be established by Iberdrola from and after the effective time for a period of at least two years. The Company and Iberdrola have also agreed that during the four-year period immediately following the effective time, the surviving corporation shall provide, directly or indirectly, charitable contributions and traditional local community support at levels substantially comparable to and no less than the levels of charitable contributions and community support provided by Company and its subsidiaries that are utilities within their service areas within the four-year period immediately prior to June 25, 2007. In particular, the surviving corporation will for such period continue to support the Company foundation in a manner substantially comparable to the manner in which

Company supported the Company foundation within the four-year period immediately prior to June 25, 2007.

*Notification of Certain Matters.* The Company, Iberdrola and Merger Sub will notify each other of, and will use their reasonable best efforts to cure before the closing, any event, transaction or circumstance, that causes or will cause any covenant or agreement of the Company, Iberdrola or Merger Sub under the merger agreement to be breached, or any representation or warrant made untrue. In addition, the Company shall give prompt notice to Iberdrola, and Iberdrola shall give prompt notice to Company, of any notice or other communication received from any governmental authority or any other person alleging that the consent of that person is or may be required in connection with the merger agreement and any actions, suits, claims, investigations or proceedings commenced or threatened against Company, Iberdrola or their respective subsidiaries which would be reasonably likely to have a material adverse effect or prevent or delay consummation of the merger agreement.

*Rule 16b-3.* Prior to the effective time, the Company and Iberdrola shall take such steps as may be reasonably requested by any party to cause dispositions of Company equity securities (including derivative securities) pursuant to the transactions by each individual who is a director or officer of the Company to be exempt under Rule 16b-3 promulgated under the Exchange Act.

*Delisting.* Iberdrola shall cause the Company's securities to be de-listed from the NYSE and de-registered under the Exchange Act as soon as practicable following the effective time.

*Company Nuclear Assets.* The Company and Iberdrola shall take any actions required to be taken with respect to the Company's nuclear facilities, together with all related assets and liabilities, including decommissioning funds as may be required in connection with obtaining the approval and consent of, and the issuances of licenses and license amendments by, the Nuclear Regulatory Commission under the Atomic Energy Act necessary to consummate the merger agreement.

*Restructuring.* Iberdrola declared its intention, for purposes of eliminating certain intermediate holding companies, to cause one or more of the Company's primary operating subsidiaries to become direct subsidiaries of Iberdrola. While Iberdrola and the Company agreed to reasonably cooperate with each other with respect to a restructuring, they also agreed that neither shall take any actions with respect to a restructuring that could reasonably be expected to prevent or materially delay the consummation of the merger.

*Other Agreements.* The merger agreement includes certain other agreements between the parties including provisions relating to access to information, payment of applicable transfer taxes and directors' and officers' indemnification.

#### **Amendment and Waiver**

Subject to applicable law, the merger agreement may be amended by the written agreement of the parties at any time either before or after approval by Company's stockholders except that there shall be no amendment that would by law require further approval of Company stockholders without such further approval. The merger agreement also provides that at any time prior to the effective time, any party to the merger agreement may in writing:

- extend the time for performance of any of the obligations or other acts of the other parties to the merger agreement;
- waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or
- waive compliance by the other parties of any of the agreements or conditions in the merger agreement except that there shall be no such waiver that would by law require further approval of Company stockholders, without such further approval.

### MARKET PRICE AND DIVIDEND DATA

Our common stock is listed on the New York Stock Exchange under the symbol "EAS." The following table sets forth the high and low sales prices per share of our common stock on the New York Stock Exchange for the periods indicated, as well as the per share cash dividend paid in each quarter with respect to our common stock.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>	<u>Dividend</u>
<b>2005</b>			
First Quarter (March 31) .....	\$ 26.95	\$24.98	\$.275
Second Quarter (June 30) .....	\$ 30.07	\$25.09	\$.275
Third Quarter (September 30) .....	\$ 29.35	\$24.82	\$.275
Fourth Quarter (December 31) .....	\$ 25.95	\$22.50	\$.29
<b>2006</b>			
First Quarter (March 31) .....	\$ 25.57	\$22.98	\$.29
Second Quarter (June 30) .....	\$ 25.39	\$22.18	\$.29
Third Quarter (September 30) .....	\$ 25.20	\$23.36	\$.29
Fourth Quarter (December 31) .....	\$ 25.66	\$23.62	\$.30
<b>2007</b>			
First Quarter (March 31) .....	\$ 25.93	\$23.60	\$.30
Second Quarter (June 30) .....	\$ 27.00	\$22.11	\$.30
Third Quarter (through __, 2007) .....	[____]	[____]	\$.30

On June 25, 2007, the last trading day before announcement of the merger, the closing price of our common stock on the New York Stock Exchange was \$22.54 per share. On \_\_\_\_\_, 2007, the closing price for our common stock on the New York Stock Exchange was \$\_\_\_\_\_ per share.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table indicates the number of shares of common stock beneficially owned as of July 24, 2007: (i) by each director, (ii) by each of the executive officers named in the Company's 2007 Annual Proxy Statement, and (iii) by the 21 current directors and executive officers as a group, together with the percent of the outstanding securities so owned. None of the shares beneficially owned have been pledged.

<u>Name of Beneficial Owner</u>	<u>Common Stock</u>	<u>Options Currently Exercisable or Exercisable within 60 Days of 2007</u>	<u>Total Stock and Stock Based Holdings</u>	<u>Percent of Class</u>
James H. Brandi . . . . .	2,500	0	2,500	(5)
John T. Cardis . . . . .	2,000	0	2,000	(5)
Paul K. Connolly, Jr. . . . .	19,282	44,332	63,614	(5)
Thomas B. Hogan, Jr. . . . .	0	0	0	(5)
G. Jean Howard . . . . .	2,793	0	2,793	(5)
David M. Jagger . . . . .	3,000	0	3,000	(5)
Seth A. Kaplan . . . . .	2,000	0	2,000	(5)
Robert D. Kump . . . . .	50,673 <sup>(1)</sup>	134,295	184,968	(5)
Ben E. Lynch . . . . .	3,063 <sup>(2)</sup>	0	3,063	(5)
F. Michael McClain . . . . .	43,469	30,962	74,431	(5)
Peter J. Moynihan . . . . .	4,000	0	4,000	(5)
Patricia M. Nazemetz . . . . .	0	0	0	(5)
Walter G. Rich . . . . .	2,000	0	2,000 <sup>(4)</sup>	(5)
Robert E. Rude . . . . .	54,159 <sup>(3)</sup>	90,296	144,455	(5)
Wesley W. von Schack . . . . .	599,154	1,150,645	1,749,799	(5)
21 current directors and executive officers as a group . . . . .	979,320	1,611,648	2,590,968	1.64%

- (1) Includes 3,830 shares held jointly and over which Mr. Kump shares voting and investment power with his spouse, 29 and 22 shares held by Mr. Kump's daughter and son, respectively, to which he expressly disclaims beneficial ownership, and 680 shares held by Mr. Kump's mother which he serves as power of attorney to which he expressly disclaims beneficial ownership.
- (2) Includes 729 shares held by Mr. Lynch's spouse to which he expressly disclaims beneficial ownership.
- (3) Includes 4,523 shares held jointly and over which Mr. Rude shares voting and investment power with his spouse and 37 shares held by Mr. Rude's spouse to which he expressly disclaims beneficial ownership.
- (4) Mr. Rich died on August 9, 2007.
- (5) Less than 1.0% of the outstanding common stock.

### DEADLINE FOR FUTURE STOCKHOLDER PROPOSALS

If the merger is consummated, we will not have public shareholders and there will be no public participating in any future meetings of stockholders. However, as discussed above, the regulatory approval process could take until 2008 and there can be no assurance that all of the required regulatory approvals will be obtained. Accordingly if the merger is not completed, we will hold our 2008 Annual Meeting of shareholders. If such meeting is held, shareholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in our 2008 annual proxy statement must be received in writing by the

Company's Vice President - General Counsel at 52 Farm View Drive, New Gloucester, Maine 04260 by December 27, 2007. Our By-Laws require a stockholder proposal be notarized. Under our By-Laws if, at a meeting of stockholders, you wish to nominate candidates for election to the Board of Directors or if you wish to bring any matter before the 2008 Annual Meeting (other than those matters included in the Company's proxy material), you must notify the Vice President - General Counsel in writing no later than March 16, 2008, and no earlier than February 15, 2008. The notice must be notarized and also contain: (a) in the case of a nomination for election to the Board of Directors, the consent of the nominee and certain information concerning the proposed nominee, or, in the case of business to be brought before the meeting, a brief description of such business and the reasons for conducting the business at the meeting, (b) the stockholder's name and record address, (c) the class and number of shares of the Company's common stock that are owned by the stockholder, (d) a description of any arrangement between the stockholder, the proposed nominee and any other person or any arrangement between the stockholder and any other person in connection with the proposal of such business by the stockholder, and a description of any material interest of such stockholder in the business to be brought before the meeting, and (e) a representation that the stockholder intends to appear in person or by proxy to nominate such person or present such business before the meeting.

#### **WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy this information at the SEC's public reference room at:

Public Reference Room  
100 F Street, N.E.  
Washington, DC 20549

You may call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from commercial document retrieval services and at the Internet world wide website that the SEC maintains at <http://www.sec.gov>. In addition, materials and information concerning us can be inspected at the New York Stock Exchange, 20 Broad Street, 7th Floor, New York, New York 10005, where our common stock is listed.

By Order of the Board of Directors,

Paul K. Connolly, Jr.  
Vice President—General Counsel

Dated [\_\_\_\_], 2007

