



30 September 2010

Dear ESOP Participant

On behalf of the Trustee Board, I am writing to you to advise of the cash distribution now being made to participants and to update you on two other important ESOP matters – the Transmission Review and Appropriation of Shares & Internal Market.

### **Cash Distribution to Participants**

The Trustee is pleased to confirm that a cash distribution is to be made to participants from the ESB Employee Share Ownership Trust (ESOT).

The ESOT receives dividend income on the 5% of ESB capital stock held on behalf of participants. The Trust Deed sets out what this income can be used for, of which the principal purposes are repayment of bank borrowings, buying shares in the internal market, meeting administration costs and making distributions to participants.

As you may be aware, ESB paid a special dividend late last year and because of this the Trustee Board felt that it was appropriate to make a substantially increased cash distribution to you. It has been, and continues to be, our policy to distribute the maximum amount to you that we responsibly can. In doing this, the Trustee Board must consider a number of factors including its ability to appropriate shares and run internal markets; to respond to any matters that impact on the value of your shares (eg the transmission assets review) and to assess the levels of dividends likely to be paid by ESB in the future.

The payment has been calculated on the basis that an ESOP participant with the maximum notional allocations will receive a cash payment of €1,025.39 and a tax credit at the standard 20% tax rate of €256.35 – a total distribution of €1,281.74. Participants with less than the maximum possible notional allocations will receive a pro rata payment. Details of your payment are set out in the enclosed counterfoil.

A total of €10.5million is now being distributed to participants – this equates to almost 80% of the total dividends received from ESB in 2009.

### **Update on the Transmission Review**

We know that you are anxious for news on the transmission review.

Given the potential impact of the review on the value of ESB, the ESOP shareholding and the potential value of your own shares, the Trustee sought and received your approval in September 2009 to postpone for up to a year any appropriation of shares pending resolution of the transmission issue. Since that time we have been actively engaging with the Review Chairman and the consultants appointed to conduct the review, arguing strongly that the assets should remain with ESB.

To reinforce our case and add weight to our submissions, the Trustee Board commissioned a firm of internationally recognised economists to prepare and submit a report supporting our arguments. Our advisors on this included a former managing director of the UK energy regulator Ofgem. The full report and accompanying submissions are available on our website.

Essentially our submissions pointed out that the present transmission arrangements comply with EU requirements for all practical purposes (or could be made to comply very easily); that there were no

discernible benefits to be derived from a change in ownership of the transmission assets and many downsides, not least loss of efficiencies, experience and scale; introduction of duplication of roles and an increase in cost.

The Review Chairman advised us on 23 August 2010 that the consultants had completed their review and we are currently awaiting their report. We will continue to take whatever steps we feel are prudent and necessary to protect the value of your shares.

In addition to participating in the transmission review, we have also been seeking to progress the necessary amendments to the Trust Deed to reflect last year's ballot. Any amendments require the consent of the Company, the ESB Group of Unions, the Revenue Commissioners and the Departments of Finance and Communications, Energy & Natural Resources as well as participants.

The Company and the Group of Unions very quickly gave their consent. However, although we first wrote to the Departments in September 2009 requesting a meeting to discuss the amendments required, we are, disappointingly, still awaiting that meeting. The Trustee is now formally pursuing this matter once again with the Departments.

### **Appropriation of Shares & Internal Market**

As stated above, last year you approved by ballot an interruption of up to 12 months in the process of appropriation and distribution of shares to you - principally because of the uncertainties caused by the transmission assets review. We expect to receive the draft review report shortly and, assuming the Trustee Board is satisfied that your position as a beneficiary of the Trust would not be prejudiced by it, we intend to progress appropriations of shares as soon as practicable. As soon as appropriations have taken place, we will then prepare for the first internal market and you should expect further communication on this as the market time approaches.

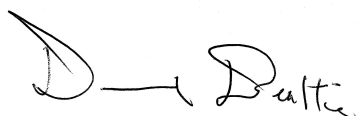
As you know, the Trustee's primary source of funding is dividends from ESB. Determined to have a successful internal market, the Trustee Board considered it appropriate to retain 21% of the dividends received from ESB in 2009. While this retention unavoidably triggers an income tax liability of approximately €500,000 for the ESOT, such retention is considered prudent and necessary so that the Trustee is in a position to support the internal market – a key requirement in ensuring its success.

We hope to have further information for you in the coming weeks and would therefore ask that you keep us advised of your correct address details so we can get any updates to you as quickly as possible. If you are in any doubt as to the address we hold for you or have recently changed address, please e-mail or write to the ESOP Office, confirming your correct address, name and staff number. Change of address forms can also be downloaded from our website.

If you have any queries on the ESOP, or would like further information, you can contact Fiona and John in the ESOP Office in any of the following ways:

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E-mail: [esop@esb.ie](mailto:esop@esb.ie)  
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Yours faithfully



David Beattie  
Chairman