ESB ESOP Trustee Ltd.
43 Merrion Square
Dublin 2
Telephone: 01 702 6242
Email: esop@esb.ie

5 September 2008

Dear ESOP Participant

In our correspondence dated 15 August 2008, we advised you that we had received the written consent of the Minister for Finance to our proposed amendments to the internal market. I am now pleased to enclose detailed information on the proposed amendments, together with confirmation of the information sessions being held around the country in the coming weeks.

The following documents are enclosed:

- letter from ESB supporting the proposed amendments
- letter from the Group of Unions supporting the proposed amendments
- programme of information sessions
- information on the proposed amendments
- timetable of events

It is extremely important to the Trustee Board that participants are fully briefed on the proposed amendments and we would therefore urge you to read the enclosed information carefully. We would also encourage you to attend, where possible, your local information session.

Each session will consist of a presentation on the proposed amendments by members of the Trustee Board and will give you the opportunity to ask questions. Morning and afternoon sessions will be held at most venues (please refer to enclosed programme for details) and we hope to see you at the session most convenient for you.

For those participants currently employed by ESB, the Company has kindly agreed to facilitate attendance at the sessions, subject to provision of operational cover and agreement of your line manager/supervisor.

Should you be unable to attend any of the sessions, please contact the ESOP Office on (01) 702 7970 or at esop@esb.ie to discuss any questions or concerns you may have on the amendments.

Participants will be asked to vote on the package of amendments in mid October 2008 and it is important to the Trustee that you feel able to make an informed choice.

The Trustee Board fully believes that the amendments are in the best interests of participants and will be asking you to vote for the package of amendments.

I look forward to meeting you in the coming weeks.

Yours faithfully

David Beattie
Chairman

Electricity Supply Board

27 Lower Fitzwilliam Street, Dublin 2, Ireland. | Sraid MacLiam Íochtair, Baile Átha Cliath 2, Éire.
Phone: 353-1-676 5831 / 677 1821 **Fax:** 353-1-676 0578
Confidential Fax: 353-1 676 4970 www.esb.ie

Group Human Resources

2nd September 2008

Mr. David Beattie,
Chairman,
ESB ESOP Trustee Ltd,
43 Merrion Square,
Dublin 2.

Dear Mr. Beattie,

Establishment and Operation of an internal market

ESB has been briefed by the ESOT on the proposed rule changes and the company appreciates the Trustee's work. The company believes that the operation of a successful shareholders market is of importance to and in the interests of the company and all shareholders. I can confirm that the company is fully supportive of the Trustees proposed rule changes.

Yours sincerely,

Luke Shinnors

Luke Shinnors
Executive Director
Human Resources

ESB

GROUP OF UNIONS

41 MERRION SQUARE, DUBLIN 2.
TEL: 01-702 7168/702 7120 FAX: 01-638 4606
E-Mail: groupofunions@esb.ie

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

2 September 2008

Dear Colleagues

The allocation of Shares to ESB Staff, and rules governing same, is covered by a Deed of Trust agreed in 2001 as part of the CCR Agreement. An integral part of the agreement was to establish an Internal Market for staff to trade these shares if they so wished. This was also to be the method for Staff retiring to cash in their share value.

Considerable changes have taken place since the original agreement was signed and legitimate concerns have arisen that staff disposing of their shares would not get a reasonable value. To address this and other issues, the Trustees are proposing a change in the Trust Deed which covers the shares scheme. These changes and reasons for same will be outlined to all staff at meeting being held around the country.

All of the Unions within the Group of Unions is of the opinion that the proposed changes as outlined by the Trustees are in the best interest of the Staff and recommend that you support these proposals in the forthcoming ballot.

D Naughton

D NAUGHTON
GROUP SECRETARY

Programme of Information Sessions

Date	Area	Venue	Sessions
Wednesday 17 September	Dublin (Central)	Ballsbridge Inn Pembroke Road, Ballsbridge, Dublin 4 (formerly Jurys Ballsbridge)	10.00am & 2.00pm
Thursday 18 September	Dublin (South)	Stillorgan Park Hotel Stillorgan Road, Dublin 18	10.00am & 2.00pm
Friday 19 September	Dublin (North)	Crowne Plaza Hotel Northwood Park, Santry	10.00am & 2.00pm
Monday 22 September	Waterford	Woodlands Hotel Dunmore Road, Waterford	10.00am & 2.00pm
Tuesday 23 September	Cork	Rochestown Park Hotel Rochestown Road, Douglas, Cork City	10.00am & 2.00pm
Wednesday 24 September	Tralee Moneypoint	Brandon House Hotel Princes Street, Tralee ESB Power Generation Station	10.00am 3.00pm
Thursday 25 September	Limerick	Radisson SAS Hotel Ennis Road, Limerick	10.00am & 2.00pm
Monday 6 October	Galway	Menlo Park Hotel Terryland, Headford Road Galway City	10.00am & 2.00pm
Tuesday 7 October	Sligo	Sligo Park Hotel Pearse Road, Sligo	10.00am & 2.00pm
Wednesday 8 October	Athlone	Hodson Bay Hotel Hodson Bay, Athlone	10.00am & 2.00pm
Thursday 9 October	Portlaoise	Killeshin Hotel Dublin Road, Portlaoise	10.00am & 2.00pm
Friday 10 October	Dundalk	Fairways Hotel Dublin Road, Dundalk	10.00am
Monday 13 October	Poolbeg	ESB Power Generation Station	10.30am
Tuesday 14 October	Aghada	ESB Power Generation Station	10.30am

Proposed Amendments to the Internal Market[1]

Background

The ESB ESOP is a Revenue Commissioner approved employee share scheme administered by a trustee, ESB ESOP Trustee Limited (the Trustee). Shares pass to participants on a two step basis – notional allocation and then appropriation. Once appropriated, participants will be able to offer those shares for sale or, where applicable, to buy additional shares on an internal market to be operated on behalf of the Trustee.

Under the existing rules, participants who leave ESB have a three year period in which they must sell their appropriated shares and may not specify a minimum or reserve sale price at the end of that three year period. As ESB is not listed on any stock exchange, the internal market is the only mechanism to buy and sell shares and it must operate in as efficient and fair a manner as possible.

When the ESOP was established in 2001, it was recognised that the internal market rules would have to be revisited to ensure they provided for the operation of a fair market. The Trustee began a review of the rules in early 2005 – some 12 months before the first market was expected to run.

A number of issues with the operation of the internal market were identified; the main difficulty being how to deal with the large number of shares coming forward for compulsory sale from leavers, with the real possibility that leavers would not receive fair value for their shares.

With the assistance of professional advisers, ESB and the Group of Unions, the Trustee identified a number of amendments that it believes will facilitate the operation of the market, giving sellers an opportunity to achieve reasonable value for their shares.

To make the amendments to the existing rules requires:

- Agreement from Trustee Board - √
- Consent of ESB - √
- Consent of Group of Unions - √
- Consent of Revenue Commissioners - (√)
- Consent of Minister for Finance - √
- Approval from a ballot of participants – ballot to take place in October 2008

Having now received the consent of the Minister, ESB, Group of Unions and the Revenue Commissioners, the Trustee will be balloting all participants on the proposed package of amendments in October 2008.

What are the problems with the existing rules?

- ***Existing market rules do not adequately provide for the large number of forced sellers***

Although established in 2001, the ESOP was originally agreed under the 1996 Cost and Competitiveness Review. This meant that a significant number of qualifying staff have now retired or taken early severance. A number that will continue to increase.

Under the existing rules, all shares become available for appropriation at the same time. Following appropriation, former staff are required to sell their shares (become forced sellers) within three years of the later of either date of appropriation or date of leaving ESB. Given the significant number of leavers, the market would have been flooded with those shares and there was no mechanism to ensure that demand from buyers would match this supply. As a result, forced sellers were exposed to a real risk that they would not receive fair value for their shares.

- ***Existing market rules do not allow the Trustee to participate in the market other than as buyer of last resort but only if it has funds to do so***

Under the existing rules, the Trustee has no discretion to take part in the market. Whilst it is obliged to purchase any unsold shares, it can only do this if it has the funds to do so. The Trustee's only income is dividend income on allocated shares. As soon as the shares are appropriated, the Trustee no longer receives the dividends on those shares. As a result, the Trustee will have no money to buy shares. Given the large number of shares that will be coming forward for sale, it is likely that a great many shares will remain unsold and participants will not be able to realise value for their shares under the existing rules.

- ***Existing market rules do not allow for newer staff to take part in the market***

Under the rules, only those participants who have been allocated shares can bid to buy shares in the market. The final allocation of shares was in respect of the financial year 2002 so any employee who joined ESB after 2002 is unable to buy shares. This further limits the number of potential buyers of shares against an increasing number of sellers.

- ***Under existing rules the Trustee is required to offer all shares purchased by it for re-sale at subsequent markets and to keep doing so until such shares are sold***

Any shares purchased by the Trustee must be re-sold at the next market. The Trustee cannot re-allocate those shares to participants. This adds to the problem of large numbers of shares coming on to the market for sale.

- ***Existing rules give forced sellers priority in the market***

The rules provide that any shares put forward for sale by forced sellers (leavers) will be sold before shares of non-forced sellers. In light of the number of shares that will be coming on to the market, this will make it extremely difficult for non-forced sellers (current employee participants) to sell their shares.

- ***Existing market rules provide that buyers will pay their bid price and sellers will receive the bid price matched with their shares***

The market will match bids to buy shares with shares available for sale and the seller will receive the price bid by the buyer. This would result in some sellers receiving higher prices for their shares than other sellers at the same market. There would be no common market price.

What are the amendments?

- ***To allow the Trustee to offer 50% of the shares for appropriation now and defer offering the remaining shares until the market is fully functioning***

This amendment would allow the Trustee to appropriate 50% of the shares – some 49 million shares – now and continue to receive dividend income on those shares not yet appropriated. That money could then be used by the Trustee to buy shares on the market or applied for other qualifying purposes. The remaining shares would be appropriated as soon as the Trustee was satisfied that the market was operating effectively and in any event by no later than December 2016.

This amendment also reduces the number of forced sellers' shares coming on to the market at the one time.

The operation of the market would be kept under constant review and it is the aim of the Trustee to appropriate the remaining shares as soon as the market allows.

- ***To allow the Trustee to bid to buy shares in the market***

This amendment would allow the Trustee to bid to buy shares in the market if it has funds available to do so, adding to the number of potential buyers and ultimately improving the number of shares traded on the market.

In bidding for shares, the Trustee would have maximum flexibility in determining its bid at each market and the funding arrangements for such bids (including the flexibility to borrow up to €500,000 to fund the purchase of shares on the market).

- ***Shares acquired by the Trustee may be either notionally allocated to then eligible participants or re-sold on the market***

This amendment allows the Trustee to allocate shares it purchases on the market to participants who meet the eligibility requirements at that time. This may include new participants. Alternatively, the Trustee may re-sell shares it purchases on the market.

- ***To spread the time period over which leavers are required to sell their appropriated shares from three to six years***

This amendment would increase the period of time leavers may hold their shares for and would help to spread the number of shares coming forward for sale over six rather than three years.

- ***Forced Sellers to sell one-third of remaining shares after each of the fourth, fifth and sixth anniversary of the later of appropriation or leaving ESB with no minimum price***

This amendment will help to control the number of shares coming on to the market at any one time by staggering the number of shares required to be sold by leavers at any one time.

An example may help illustrate how this will work:

Liam Brown leaves ESB in 2008. He has been appropriated 1,000 shares.

In 2009-2011 (years 1-3) he is not obliged to put his shares forward for sale but may do so if he chooses and may place a minimum or reserve price on his shares. If we assume he sells 100 shares during that period, this leaves a balance of 900 shares.

In 2012 (year 4), Liam is required to sell 1/3 of his remaining shares with no minimum or reserve price – 300 shares, leaving a balance of 600 shares.

In 2013 (year 5), Liam must sell half of his remaining shares with no minimum or reserve price – 300 shares, leaving a balance of 300 shares.

In 2014 (year 6), Liam must sell all his remaining shares with no minimum or reserve price.

- ***All successful sellers receive average successful bid price***

This amendment provides that all shares sold at the same market will receive the same market price. All sellers – both forced and non-forced sellers – will receive the same price. Buyers will pay the price they bid for shares. The market price will be calculated as the weighted average of the prices bid by successful buyers. (For an illustration of how the market price would be calculated please see the Appendix.)

- ***No priority to be given to forced sellers over other sellers in first three years***

Under the proposed amendments, forced sellers would have six years to sell their shares. Any shares offered for sale by leavers in years 1-3 would not be given priority over shares offered for sale by current employee participants. This gives all participants a reasonable opportunity to sell their shares.

- ***All then qualifying employee participants eligible to bid for shares at each market***

This amendment looks to increase the number of potential buyers in the market by allowing ESB employees who are not currently ESOP participants but who satisfy the eligibility requirements at the time of each market (as well as ESB employees currently participating in the ESOP) to bid to buy shares.

Bidders (all employee participants) may buy up to seven times the maximum share allocation (7 x 11,802 = 82,614 shares).

- ***Internal market to be held annually***

The internal market would be held once a year and a third party administrator would be appointed to operate the market on behalf of the Trustee.

- ***Operation of the market to be formally reviewed after 1st force sale market***

The package of amendments allow 50% of the shares to be appropriated and the market to get up and running. However, the amendments do not solve all of the difficulties identified. The operation of the market will be kept under constant review, with a formal review after the 1st forced sale market (year 4). The remaining 50% of shares will be appropriated as soon as the market allows.

- ***Shares will remain in the Approved Profit Sharing Scheme following expiry of release date***

The ESOP is made up of two Trusts – the Employee Share Ownership Trust (ESOT) and the Approved Profit Sharing Scheme (APSS). When shares move from being allocated to being appropriated, they move from the ESOT to the APSS.

This amendment provides that shares will remain in the Trustee's name after being released to participants. However, participants are the owners of the shares - not the Trustee – and will have full economic benefit and control of the shares. Participants will receive dividends on those shares and have all rights belonging to those shares. If the shares were released from the APSS into individual participants' names, the Minister for Finance would have to consent to all individual transfers/sales of shares. This would create significant administrative difficulties.

Summary

In summary, the review undertaken by the Trustee and its advisors made clear that the existing rules would not provide for a fair and efficient market and to have gone ahead under those rules would not have been in the best interests of participants.

The main difficulties facing the internal market are ones of funding and over supply of shares coming forward for sale. Working with its advisors, the Trustee developed a package of amendments that it believes will provide for a more effective market and should give participants a greater opportunity of achieving fair value for their shares.

This is an interim solution and will be kept under constant review – not least on when the remaining shares can be appropriated. However, the amendments will allow the Trustee to appropriate 50% of shares now, will allow the market to be set up and will allow participants to begin trading in their shares.

The Trustee firmly believes that the package of amendments should greatly improve the operation of the market and will give participants the opportunity to realise fair value for their shares.

The Trustee strongly recommends the package of amendments to participants and would urge you to vote for the amendments at the forthcoming ballot.

ESOP Trustee
5 September 2008

[1] While all reasonable care has been taken to ensure that the facts set out in this document are accurate, it is intended merely as a general guide only and should be read as such. Understandably, the legal documents implementing these proposed amendments shall take precedence over and may qualify the statements contained in this document.

Appendix – Illustration of Market Price

To illustrate how much each person buying pays and how much a seller receives, we will look at a market with 4 bidders (A, B, C and D) bidding to buy shares and four sellers (E, F, G and H) offering shares for sale. Note: the prices here are for illustrative purposes only.

Their assumed bids to buy and offers to sell are set out below:

Bidders	*Bid Price per Share*	*No of Shares bid for*	*Total paid*
	€		**€**
A	1.80	75	135.00
B	1.50	80	120.00
C	1.30	90	117.00
D	0.95	100	95.00
Total		**345**	**467.00**

Sellers	*Minimum Price set per Share*	*No of Shares offered for sale*
	€	
E	2.00	100
F	1.40	100
G	1.00	100
H	No minimum price	100
Total		**400**

On the market day, offers to sell are matched against bids to buy, with the highest bids satisfied first.

- Bidders have offered to buy 345 shares and sellers have offered to sell 400 shares
- There are no bids that satisfy Seller E's minimum price of €2.00 per share therefore those shares are not sold, leaving 300 shares available for sale
- Bids of Bidders A, B and C are fully successful – they buy a total of 245 shares at an aggregate cost of €372
  - Bidder A buys 75 shares and pays €1.80 per share
  - Bidder B buys 80 shares and pays €1.50 per share
  - Bidder C buys 90 shares and pays €1.30 per share
- Bidder D buys the remaining 55 shares and pays €0.95 per share (total cost €52.25) and receives a refund for the unsuccessful portion of his bid
- 300 shares have been bought at a total cost of €424.25, giving a weighted average successful bid price of €1.41 per share
- Shares offered for sale with either no minimum price or minimum prices less than €1.41 are sold
- Shares of Sellers F, G and H are sold, and each receives €141 for their 100 shares
- Seller E's shares are not sold.

Timetable of Events

Date	Event
17 September – 14 October 2008	Information sessions held at various locations around the country
10 October 2008	Ballot papers issued to all ESOP participants (mailed to registered address)
31 October 2008	Closing date for return of ballot papers
5 November 2008	Ballot result announced
	NB: if the ballot is in favour of the amendments, the following will then take place
Early November 2008	Trustee undertakes valuation of shares to be agreed with Revenue Commissioners
Late November 2008	Re-allocation of shares “bought back” from Estates of Deceased participants
December 2008/January 2009	Letters of Invitation (for the appropriation of shares) issued to all participants, enclosing Letter of Request for completion and return to ESOP Office Letters of Request to be returned to ESOP Office Shares appropriated to participants
Spring/Summer 2009	Internal Market The 1st internal market will be run as soon as all the mechanics are in place to do so.