



ESB Employee Share Ownership Plan

Internal Market Roadshow

September/October 2008

Agenda



- Welcome
- Why We Are Here
- Background to ESOP
- Internal Market
 - Weaknesses in existing market rules
 - Proposed amendments
- Approval process
- Next steps
- Questions

Why We Are Here



- Trustee advised that under existing rules forced sellers were exposed to a real risk that they would not receive fair value for their shares
- Trustee has obligation to act in best interests of participants – would not have been in best interests to run market that did not work

Background to ESOP



- Agreed as part of Cost and Competitive Review in 1996
- ESOP established in December 2001
- Acquired 99m units of ESB Capital Stock at a total cost of €75.8m
- Representing 5% of the share capital of ESB
- Open to all employees with qualifying service
- Full 5% of shares notionally allocated to participants

Background - What is the ESOP



- **ESOP – Employee Share Ownership Plan**

An ESOP is a tax efficient mechanism designed to allow employees of a company to acquire shares in that company.

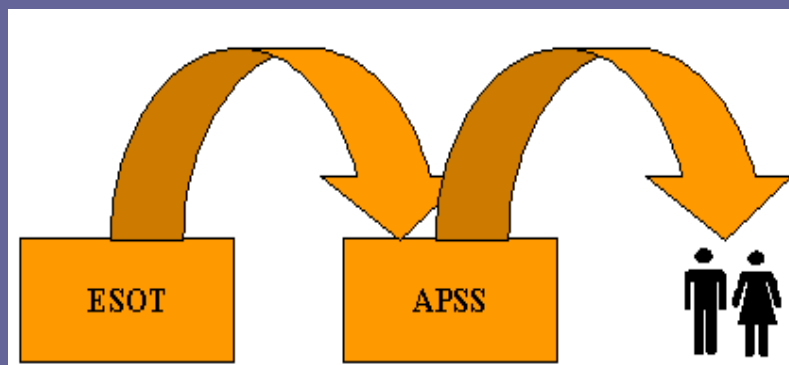
The ESB ESOP is made up of two Revenue Commissioner approved Trusts:

- ESOT – Employee Share Ownership Trust
- APSS – Approved Profit Sharing Scheme

Background – What is the ESOP



Transfer of ownership of shares:



Background – Tax Implications



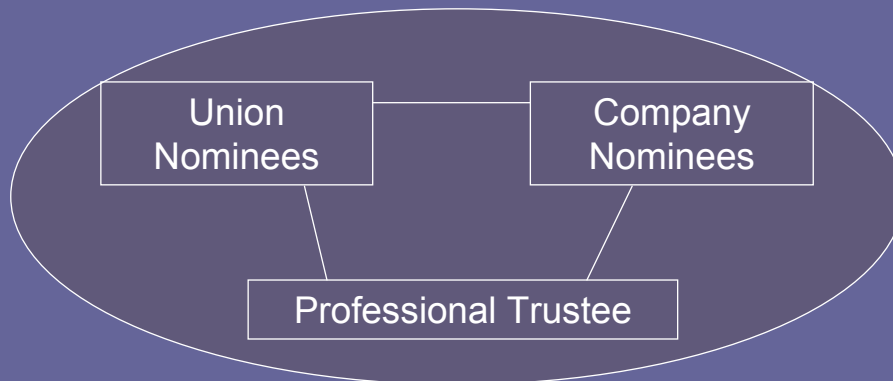
- No income tax liability provided shares held in Trust for 3 years
- 20% withholding tax deducted on any cash distributions or dividend payments
- Potential capital gains tax liability on sale of shares
 - 20% of increase/gain in value from date of appropriation to date of sale
 - annual individual allowance of €1,270

Background - The Trustee



- Corporate Trustee holds the shares on behalf of participants – ESB ESOP Trustee Limited
- Subsidiary of ESB but ESB has no control over the company or the shares
- Role of Trustee to act in the best interests of the participants
- Trustee must adhere to the provisions of the Trust Deed
- Trustee responsible for the management and operation of the ESOP

Background - Trustee Board



Background - Shareholder Issues



- Responsibilities of Trustee
- ESOP a long term investor in ESB
- Conflicting role of Minister
- ESOP will continue seeking to protect shareholder interests

Background - Transfer of Shares



Two step process to transfer shares to participants:

1. Notional Allocation
(shares held in ESOT – top Trust)
2. Appropriation
(shares held in APSS – bottom Trust)

Background – Participants Who Leave ESB



- Participants who leave the ESB Group will have no further entitlement to any notional allocations of new shares
- (NB: full 5% of shares now allocated)
- Participants who are no longer employed in the ESB Group will be required to sell their shares three years from the later of:
 - the date of leaving or
 - the date of appropriation of those shares

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Internal Market



- Weaknesses identified in current rules
- Process undertaken to review the rules
- Proposed revisions to the rules
- Limitations and benefits of proposal
- Process to amend

Internal Market - Weaknesses in Existing Rules



- Do not provide for large number of forced sellers
- Decreasing number of potential buyers but increasing number of sellers
- No guarantee as to minimum price
- Forced sellers disadvantaged
- Market would not work

Internal Market - Review Process



- Sought legal and financial advice on operation of market
- Sought Counsel Opinion on deferral of appropriation
- Developed package of amendments with advisers, the Company and Group of Unions
- Seeking approval for amendments identified

Internal Market – Proposed Amendments



- Trustee to appropriate up to 50% of shares
- Balance to be retained to provide dividend income to purchase shares on market
- Trustee to take active role in market
- Trustee to have maximum flexibility in determining its bid
- Shares acquired by Trustee to be allocated to qualifying beneficiaries or re-sold on market

Internal Market – Proposed Amendments

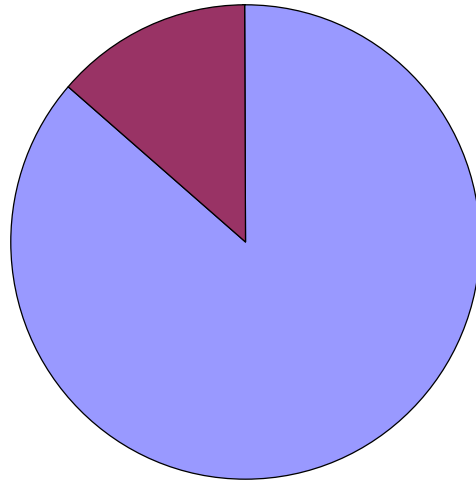


- Newer employees to be able to bid for shares
- Forced sale period to be extended to between 3 and 6 years
- Forced sellers to get 3 years to sell shares with minimum/reserve price
- Forced sellers required to sell 1/3rd of remaining shares in each of years 4, 5 and 6 with no minimum price
- All successful sellers to receive the weighted average successful bid price

Internal Market



ESOP Participants 2002

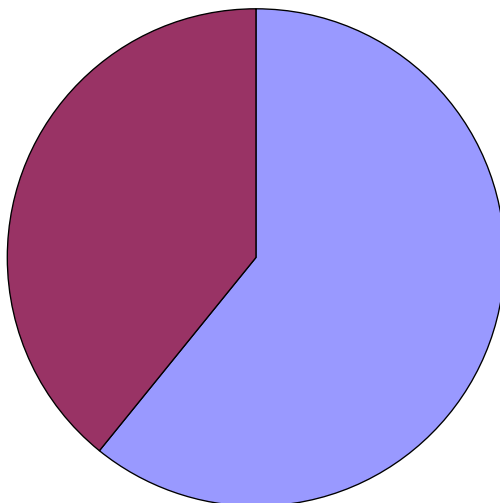


- 8,800 Current (86%), 91m Shares (92%)
- 1,400 Leavers (14%), 8m Shares (8%)

Internal Market



ESOP Participants 2008

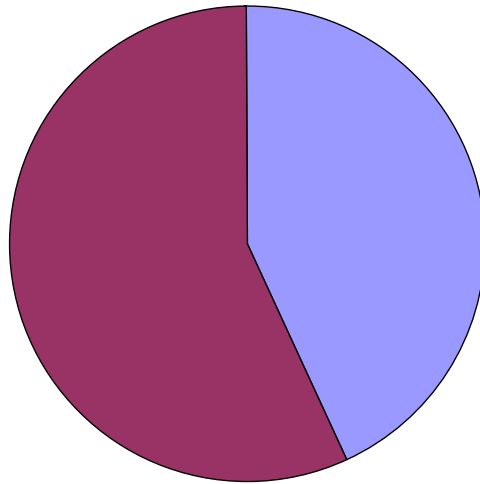


- Current 6,200 (61%), 66m shares (67%)
- Leavers 4,000 (39%), 33m shares (33%)

Internal Market



Participants - 2014 Existing Rules

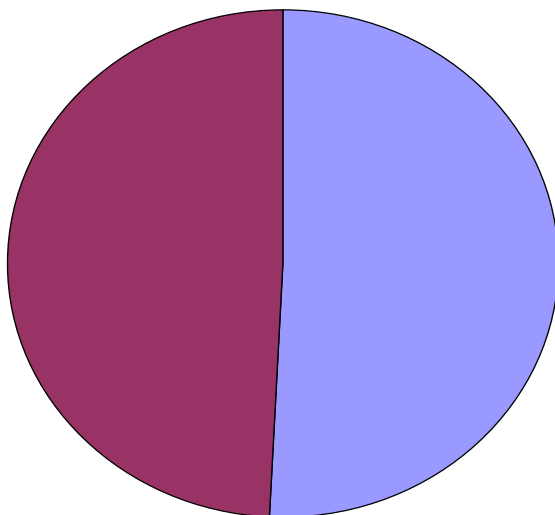


- 4,400 Current (43%)
- 5,800 Leavers (57%)

Internal Market



Participants - 2014 Amended Rules



- 6,000 Current (51%)
- 5,800 Leavers (49%)

Internal Market



- Proposal allows market to be established and shares to be appropriated
- An interim solution to be kept under constant review

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Approval Process



To make the amendments requires

- Agreement from Trustee Board ✓
- Consent of ESB ✓
- Consent of Group of Unions ✓
- Consent of Revenue Commissioners (✓)
- Consent of Ministers for Finance and Communications, Energy & Natural Resources ✓
- Approval from a ballot of participants

Approval Process - Ballot



- Postal ballot
- Ballot papers issued to registered addresses of all participants on 10 October
- Asked to vote on package of amendments
- Ballot papers to be returned in envelopes provided by 31 October
- Ballot result announced 5 November
- Majority decision

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Next Steps



- Ballot closes 31 October
- Result of ballot announced
- Allocation of shares “bought back” from Estates of deceased participants
- Share valuation agreed with Revenue Commissioners
- Appropriation
- Internal Market

Next Steps - Appropriation



- Value of shares agreed with Revenue Commissioners
- Participants will be advised of valuation and maximum number of shares available for appropriation
- Based on number of shares available, notional allocations and Revenue limit of €12,700 per annum
- Participant confirms to Trustee number of shares wish to have appropriated
- Shares transferred from the ESOT to the APSS and appropriated to the participant

Next Steps – Internal Market



- Internal market held once a year
- Participants offer shares for sale
 - current employees – minimum price
 - forced sellers – minimum price years 1-3
 - forced sellers – no minimum price on 1/3rd of shares in each of years 4-6
- Current employee participants submit bids to buy shares at a price they set
- ESOT Trustee submits a bid to buy shares

Next Steps – Internal Market



- Market price based on number of shares available for sale and bids to buy received
- Market price is weighted average of all successful bid prices
- All successful sellers receive market price
- All successful bidders pay bid price
- Market administrator appointed to run the market

Next Steps - Timetable



- Information roadshow 17 September – 14 October
- Ballot papers issue 10 October
- Ballot closes 31 October
- Result of ballot announced 5 November
- *Allocation of shares “bought back” from Estates of deceased participants – mid/late November*
- *Share valuation agreed with Revenue – November/December*
- *Appropriation – December/January*
- *Internal market – spring/summer 2009*

Conclusion



- Trustee can only move forward with the approval of participants
- Believe amendments in best interests of participants
- Amendments endorsed by the Trustee Board, the Company and the Group of Unions
- Urge you to vote for the package of amendments, allowing us to appropriate 50% of shares and get the internal market up and running



- Questions?

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Thank you.