

ESOP *in brief*



Telecom ESOP Trustee

Managing employee share ownership

This booklet is intended to be a brief guide to the essential elements of the Telecom Eireann ESOP—how it works and how it will affect you. You can find more information in the main body of your *‘ESOP and you’* folder.

Important notice

This guide is not a legal document and does not constitute legal or tax advice. The material contained within this guide is for information only and is subject to the formal legal documentation governing the ESOP. The position set out in this guide reflects current law as at 4 December 1998. Please bear in mind that current legislation and tax regulations may be subject to change. *You should read the Important notice in the Introduction to the ‘ESOP and you’ folder as the same provisions apply to ESOP in brief.*

What is the ESOP?

The ESOP is an Employee Share Ownership Plan for the employees of Telecom Eireann (“the Company”) and certain subsidiary companies. Under the ESOP, 14.9% of the shares in the Company is available to be acquired on behalf of employees. The terms were agreed between the Union Coalition, the Company and the State.

What are the main aims of the ESOP?

The main aims of the ESOP are to:

- support the transformation of the Company into a world-class telecommunications business—including changes to working practices and cost-cutting measures;
- provide employees with a strong collective influence on shareholder decisions within the Company; and
- reward employees for the transformation of the Company by giving them a stake in the Company.

How do employees benefit from the ESOP?

The intention is that employees will collectively gain influence at shareholder level and that individual ESOP participants will ultimately own shares in the Company—a stake in the Company’s future. In addition, an ESOP director will be appointed to the Board of the Company.

Who holds the shares for the employees?

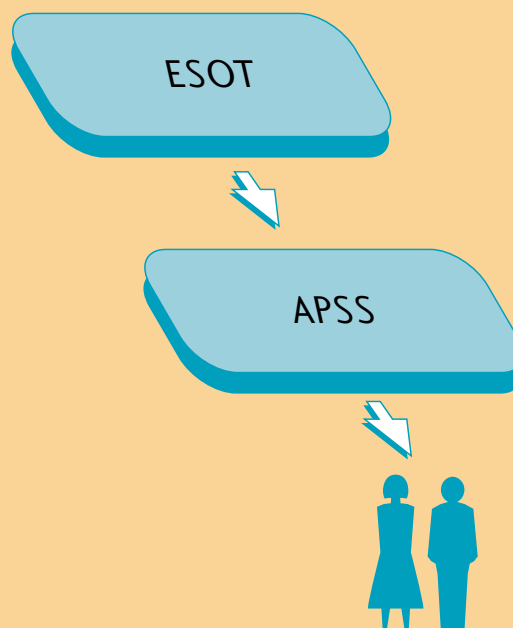
The shares will be held by Telecom Eireann ESOP Trustee Limited ('the Telecom ESOP Trustee')—a company set up for this purpose. The Trustee has a board of seven directors. Four directors, including the chairman, were nominated by the Union Coalition, two directors were selected by the Company and these six nominated an independent professional director.

What is the Telecom ESOP Trustee's role?

The Telecom ESOP Trustee's main responsibility is to acquire and manage the stake in the Company on behalf of all participating employees. The Trustee will nominate the ESOP director to the Board of the Company.

How does the ESOP work?

The ESOP consists of two trusts—the ESOT (Employee Share Ownership Trust) and the APSS (Approved Profit Sharing Scheme)—which hold shares on behalf of and later transfer shares to participants. The ESOP has been designed this way to minimise, as far as possible, the Irish tax liability of participants.



The affairs of both trusts will be managed by the Telecom ESOP Trustee in accordance with the documents setting up the trusts and the relevant legislation.

The ESOT (Employee Share Ownership Trust)

The 14.9% ESOP shareholding will be transferred from the State into the ESOT—the trust set up to hold the shares on behalf of participating employees—in accordance with agreed arrangements set out below.

The shares will be held as a block in the ESOT by the Telecom ESOP Trustee. While shares are in the ESOT, you will not personally own them, have any entitlement to them or have any right to deal with them in any way. Consequently, you will have no tax liability during the period in which they are held in the ESOT.

To give you an indication of how many shares you may eventually receive, a system of notional allocations has been devised based on the best information available to the Telecom ESOP Trustee at that time. The Telecom ESOP Trustee will write to you every six months to tell you how many shares have been notionally allocated to or 'earmarked' for you. In due course, the actual number of shares you personally receive may differ from the number in your notional allocations.

The APSS (Approved Profit Sharing Scheme)

The APSS is a trust into which shares are transferred from the ESOT and is a tax efficient way of distributing shares to participants.

The tax legislation requires the shares to be left in the APSS by the participants for a minimum period. In order to avail of Irish tax reliefs for participating employees, shares should not be distributed from the APSS to participants until after the release date.

How is the ESOP being paid for?

The 14.9% stake will be transferred from the State to the Telecom ESOP Trustee in return partly for transformation of the Company ('the 5% stake') and partly for the payment of a cash sum ('the 9.9% stake').

The 5% stake

A stake of 5% in the Company will be transferred from the State on a phased basis into the ESOT as transformation of the Company is achieved and verified in accordance with agreed monitors and measures.

The 9.9% stake

A further stake of 9.9% is being purchased from the State by the Telecom ESOP Trustee. The purchase price is an initial cash sum of IR£160 million, with an additional payment of up to IR£30 million becoming payable in certain circumstances.

This will be funded as follows:

- **IR£100 million** will come from the Company, having regard to the employee pension contribution of 5.3% of pensionable earnings and the abolition of certain bonus payments;
- **IR£60 million** will be raised by the Telecom ESOP Trustee in the form of a bank loan. The loan will be secured against the ESOP shareholding; and
- a further payment of up to **IR£30 million** (again raised by way of a loan) may become payable, depending on the value of the Company following flotation of the Company on the Stock Exchange.

Having purchased the 9.9% stake, the Telecom ESOP Trustee will repay the loan and interest using dividends received on the shares (while they are held within the ESOT).

You will not have any personal liability for the loan in any circumstances

Expenses

An additional amount will be borrowed by the Telecom ESOP Trustee to meet certain expenses incurred.

Am I eligible to take part?

In simple terms, you are eligible to participate in the ESOP if:

- you are employed (or were employed on or after 1 November 1998) by the Company or another participating company;
- you have completed at least one year's continuous service with the Company or a participating company immediately prior to 1 November 1998. If you don't currently satisfy this requirement, you will become eligible on the day that you complete one year's continuous service; and
- you have signed and returned a contract of participation.

In order to be eligible for the initial notional allocation you must have been an employee of the Company or a participating company and completed one year's continuous service as at 1 November 1998—the cut-off date for initial eligibility—and signed and returned a contract of participation by a date to be notified.

Participants will only be eligible for notional allocations whilst they are current employees.

How do I get shares?

There are four stages on the route to receiving shares:

Stage 1 – Transfer into the ESOT

The 14.9% stake will be transferred from the State to the Telecom ESOP Trustee to hold in the ESOT.

The shares will be held in the ESOT as follows. It is intended that:

- the 5% stake will be available to be distributed to participants not later than five years from 1 November 1998 (but it is possible that some or all of it may have to be held for longer in order to satisfy the terms of the loan); and
- the 9.9% stake will remain in the ESOT until the terms of the loan allow the shares to be released.

Stage 2 – Notional allocations

While the shares are held in the ESOT by the Telecom ESOP Trustee, they are held as a block. You do not personally own or have any entitlement to any shares at this stage. Instead, there will be a programme of notional allocations whereby a number of shares will be 'earmarked' for you (provided you are eligible) – you do not actually receive your notional allocations, it is a method of indicating how many shares you may become entitled to at the next stage.

Notional allocations will be pro-rated for employees who qualify or leave the Company or a participating company between allocation dates.

You should note that notional allocations are only a guide as to how many shares you may ultimately receive.

Stage 3 – Appropriation

The Telecom ESOP Trustee will notify you when your actual share entitlement has been calculated and shares are available to be called for from the ESOT. At this point, it is up to you as to when you wish those shares to be transferred into the APSS on your behalf.

Notional allocations will not be based on pay level or position – all eligible participants will be treated equally.

When shares are transferred into the APSS on your behalf they are said to have been appropriated to you. Once shares have been appropriated to you, you will be entitled to receive dividends which accrue on them and be able to exercise the voting rights attaching to those shares through the Telecom ESOP Trustee.

Under the current tax legislation, there is an annual limit of IR£10,000 on the value of shares that may be appropriated to you in the APSS in each tax year.

Stage 4–Distribution

Distribution is the point at which appropriated shares are actually transferred to your name from the APSS.

Under the current tax legislation, appropriated shares may be distributed to you free of income tax provided that either:

- they have been held in the ESOT and you have been an ESOP participant for at least three years; or
- they have been appropriated to you and held in the APSS for a minimum period of three years.

Once shares have been distributed to you, you are free to retain or dispose of them as you wish

How much will the shares be worth?

At this stage, it is not possible to say how many shares you will personally receive or how much each share will be worth.

The value placed on the Company's shares at the date of the ESOP agreement, in April 1998, was approximately IR£4.35 per share. This value is arrived at by taking the value of Telecom Eireann to be £1.92bn, with 441.5m shares in issue, which gives a value of almost £4.35 per share.

The future value of the Company's shares will depend on, amongst other things, the performance of the Company.

For various reasons—including how well the Company is performing and general stock market conditions—the value of shares can go up or down.

What happens to my pay and pension?

If you participate in the ESOP, there will be immediate changes to your pay and pension contribution arrangements.

For most people who sign a contract of participation, there will be an increase in pay of approximately 4.8% representing agreed Partnership 2000 pay rises. There will also be Partnership 2000 arrears backdated to November 1997 and November 1998 for those entitled to them.

Members of the main Superannuation Scheme will also begin to contribute a 4.8% pension contribution. The pension contribution will later increase from 4.8% to 5.3% to coincide with the next Partnership 2000 pay increase in 1999.

Participants already making a pension contribution of 5% or 5.3% will continue to do so. All pension contributions will be aligned at 5.3% from the next Partnership 2000 pay increase in 1999.

Pension contributions are deducted before tax and PRSI.

Pension benefits (ie. the benefits you ultimately receive on retirement) will not be affected by the ESOP.

What about tax?

As the law stands, and provided you comply with the appropriate tax rules, you should have no Irish income tax to pay on any shares that you receive.

Probable ESOP stage	What tax do I pay?
When shares are held in the ESOT.	<i>None.</i>
When shares are appropriated to you in the APSS.	<i>None.</i>
When your shares are held in the APSS.	<i>Income tax on any dividends you receive.</i>
When your shares are distributed to you from the APSS.	<i>None—provided the shares have been held in the APSS for the required period.</i>
When you hold your shares.	<i>Income tax on any dividends you receive.</i>
When you dispose of your shares.	<i>Capital Gains Tax on any increase in value of your shares from the date they were appropriated to you.</i>

This table gives you a basic guide to the tax position (for Irish resident participants) at various stages of the ESOP.

The tax consequences of any other events will be addressed if and when they arise. You may be eligible for certain personal exemptions and reliefs. You will find more information in the *Tax* section of the 'ESOP and you' folder.

How do I sign up?

To participate in the ESOP you are required to sign and return a contract of participation. This will be sent to you shortly and must be returned by the stated date.

What happens if I leave?

If you are an ESOP participant, once you retire or otherwise cease to be an employee of a participating company:

- any notional allocations already calculated will be 'frozen', subject to retrospective adjustments, until your actual share entitlement is finalised;
- you may be eligible for a pro-rata notional allocation if you leave part way through a notional allocation period;
- you will not be eligible for any further notional allocations;
- shares will be appropriated and distributed to you in the same way as for other participants—you cannot get your shares earlier; and
- you will continue to receive statements and other correspondence from the Telecom ESOP Trustee.

You should note that a change in the tax legislation is required to enable leavers to have shares appropriated and/or distributed to them more than 18 months after they leave. This change is expected to be enacted in the next Finance Act.

You must inform the Telecom ESOP Trustee of any change to your correspondence address.

How can I find out more?

You can find out more information about the topics covered above in the main body of the '*ESOP and you*' folder.

A communication bureau has been set up to answer your questions on the ESOP and can be reached on

Freefone **1800 27 27 00**

(UK Freefone **0800 389 9371**)

or via cc:mail at *ESOP, Unit*.

A series of ESOP seminars will take place Company-wide to give you the opportunity to hear the facts about the ESOP and ask questions of the presenters.

An ESOP Intranet site can be accessed through the Telecom Eireann home page. The site contains up-to-date news and documents and allows you to ask questions.

If you need legal or financial advice, you should consult a suitably qualified professional adviser.