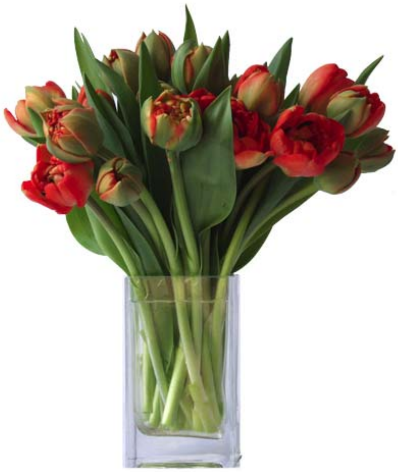
A presentation on the *eircom* ESOP



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Global Shares

Introduction

- Maoiliosa O'Culachain
- Member of Management team that negotiated ESOP with Trade Unions in *eircom* in 1997/ 98
- ESOP Manager from May '98 to May '04
- Adviser to ESOP Trustee since June '04
- Now COO and Principal of Global Shares plc providing consultancy and administration services

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Introduction

- Introduction
- Phase I – implementation of the ESOP
- Phase II – corporate activity
- Phase III – distribution
- ESOP today
- Questions & answers

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Introduction

- The eircom Employee Share Ownership Plan is no ordinary ESOP
- It involves:
  - a significant investment
  - a stake held as a single block (i.e. 35% of the Co)
  - with effective corporate governance rights (block vote, right to nominate 2 main board directors)
  - medium to long term outlook (1998 - 2014)
  - highly leveraged financially/ strategically
  - the Trades Union/ all employees (14,500)
  - a sunset trust
- Value of corporate transactions since 1998 is c €20bn

Phase I – the implementation

- Genesis was in a strategic review of industry commissioned by the CWU in 1995
- Identified significant future disruption for industry/ Co caused by:
  - new technologies
  - deregulation/ liberalisation
  - globalisation
- Recognition on all sides that costs of Co were too high to enable Co to compete effectively

Phase I – the implementation

- Gov decided to bring strategic investor into Co
- Comsource (JV between KPN/ Telia) acquired 20% plus right to acquire further 15%
- Transaction valued Co at €1.016bn
- TUs did not object to part-privatisation on understanding that there would be meaningful negotiations on future of Co/ ESOP

Phase I – the implementation

- Feb 1997 – Apr 1998 TUs/ Co engaged in prolonged negotiations on nature/ extent of change/ agreed ESOP
- Agreed ESOP could acquire up to 14.9% stake in Co:
  - 5% would be acquired in return for transformation
  - 9.9% would be acquired at market value for cash
- Co was now valued at €2.44bn, valuing 14.9% at €363m

Phase I – the implementation

- The 9.9% stake/ costs were financed as follows:
  - Co contribution of €127m in return for employee pension contribution/ abolition of bonus scheme
  - trustee borrowed €121m through third-party non-recourse loan secured on the 9.9% stake
- ESOP also had right to nominate 1 director to main board
- ESOP was established in May 1999

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Phase II – corporate activity

- Jul 1999 - Co floated on Dublin/ London/ NY SEs/ Gov disposed its 50.1% stake in float
- Comsource exercised option and raised stake to 35%
- Nov 1999 - Comsource informed market that it intended to exit the Co causing overhang of shares
- TMT bubble burst in Mar 2000
- Hostile AGM in Sep 2000 (share price down 33% from IPO) put severe pressure on board

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Phase II – corporate activity

- May 2001 - completed disposal of mobile business to Vodafone in share-for-share exchange
- ESOP received 156m Vodafone shares
- Co (fixed line business) now ‘in play’
- Led to hotly contested takeover situation involving:
  - eIsland (Denis O’Brien, Spectrum PE)
  - Valentia (Sir A O’Reilly, Providence, Soros, GS)
  - Blackstone
  - KKR

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Phase II – corporate activity

- ESOP Trustee's objective was to protect value for participants
- Negotiations with all parties/ received offers from eIsland/ Valentia to join consortiums
- Valentia offer accepted by 92% of participants voting in a ballot
- Nov 2001- Trustee invested €441m:
  - €202m for 29.9% Ord stake in Valentia
  - €247m for ESOP Preference Shares (11.5% coupon)
- Increased board representation to 2 dirs (including Vice Chairman) out of 11

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Phase II – corporate activity

- Valentia refinanced Co in Jul 2003
- Aug 2003 – Co made distribution to shareholders/ ESOP received total proceeds of €230m in cash
- ESOP used cash as follows:
  - ESOP subscribed €66m for new Redeemable Preference Shares (distributed in Dec 2003)
  - clears all remaining debt (€90m) plus interest etc.
  - paid out €1.63m to personal representatives of deceased participants
  - retained balance for future distributions/ enable the Trustee to participate in any further equity raising

Phase II – corporate activity

- Mar 2004 – Co is floated on London/ Dublin SEs
- Rights issue of €300m to pay transaction costs/ reduce debt
- ESOP subscribed €85m to take up rights/ maintain stake at above 29%
- Funded from cash dividends and new loan of €70m (RBS)
- Also subscribed €66m for new Redeemable Preference Shares (distributed in Apr 2004)

Phase II – corporate activity

- New board structure:
  - max of 13 dirs
  - 3 executive dirs
- Trustee had right to nominate:
  - 3 dirs provided its holding is above 18%
  - 2 dirs where holding is < 18% but > 10%
  - 1 dir where holding is < 10% but > 1%

Phase II – corporate activity

- Oct ‘05 - Co acquired 3rd mobile operator in Ireland, Meteor, for €420m
- Funded through rights issue
- Trustee had to fund take up of rights or be diluted below 18% threshold
- Trustee projected to receive €133m in dividends over next 3 years
- Decided to support deal/ take up its rights using cash/ additional borrowings

More corporate activity

- During rights issue, Babcock & Brown (Australian investment fund) took up 12.5% of Co.
- Nov 2005, Swisscom made indicative offer to acquire *eircom*, but blocked by Swiss Gov
- Feb 2006, B&B increased stake up to 28% and approached ESOP to become co-offeror to take over Co
- B&B took a 65% stake and ESOP a 35% stake in buy out vehicle BCMIH

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Phase III – distribution phase

- Trustee commenced distributions as follows:
  - May 2002 - €133m worth of Vodafone shares (max allowable tax free in year)
  - Dec 2003 - €66m worth of Redeemable Prefs
  - Apr 2004 - €66m worth of Redeemable Prefs
  - Dec 2004 - €55.5m worth of eircom Ords
  - Mar 2005 - €63m worth of eircom Ords
  - Dec 2005 - €50m worth of Vodafone shares
  - Dec 2006 - € 80m worth of Redeemable Prefs
- Trustee has distributed assets worth €514m (141% of initial investment) to date or €56,000 per full participant

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Phase III – distribution phase

- Trustee intends to continue regular distributions in a managed and phased basis
- The maximum that can be distributed tax free in one year is €124m
- The timing/ extent of future distributions depend on a number of factors including:
  - the current limit of €12,700 on appropriations to any participant in a tax year
  - the Trustee's fiduciary duties
  - commitments under the new ESOP Loan

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Phase III – distribution phase

- On current projections, the Trustee expects to have distributed all of the assets by 31 Mar 2014 (i.e. the last date by which leavers can receive shares tax free)

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ESOP today

- ESOP holds:
  - 35% stake (valued at €338m)
  - Preference shares (valued at €218m)
  - 36m Vodafone shares (valued at €62m)
  - cash in bank of €10m
- With outstanding loan of €27m, net asset value is €601m (165% of initial investment)
- When added to €514m already distributed, total value is €1,115m

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Conclusion

Thank you

Questions & Answers

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