BACKGROUND INFORMATION ON ESB DIVIDEND AND PENSION SCHEME

This note provides background information on recent media coverage regarding the payment of dividends to ESB's shareholders.

AGM and Dividend

The ESB AGM took place on 26 June 2013. The annual report and financial statements for 2012 were presented to the shareholders and a dividend of €78.4m was declared.

Actuarial Position

Regarding the ESB Pension Scheme, the Scheme Actuary has recently confirmed that the Scheme is in balance on an actuarial basis i.e. that the Scheme will be able to meet its obligations as they fall due.

MFS Position

The Pensions Board requires the Scheme to assess whether it could meet a certain prescribed standard, known as the Minimum Funding Standard (MFS), if it were wound up on a specified theoretical valuation date. Neither the Government nor the ESB envisages the winding up of the Scheme.

The Scheme Actuary reported at the end of 2011 that the Scheme, like many others, did not satisfy the MFS requirements. To address the MFS requirements, the Scheme Trustees, with the agreement of ESB, submitted a funding plan to the Pensions Board, which was approved in October 2012. This Funding Plan, which does not include any additional company or member contributions, aims to resolve the MFS requirements by the end of 2018 and is currently on track.

Notwithstanding that this approved funding plan is in place and on track, a submission has recently been made to the Department of Social Protection seeking an exemption from the MFS requirements or seeking alternative regulation more appropriate for a scheme like the ESB Pension Scheme where the MFS would not apply. This submission is currently under consideration.

Accounting Position

ESB's pension scheme is not a typical balance of costs scheme where the company must fund any deficits. The Scheme rules have always incorporated both defined benefit (DB) elements (e.g. the benefits members are to receive in retirement) and defined contribution (DC) elements (e.g. ESB has no legal obligation to fund any future deficits). These features of the Scheme have always meant that it could potentially be treated as either DB or DC for accounting purposes. As you are aware, in 2010 ESB concluded a comprehensive agreement with staff to resolve an actuarial pension deficit of c. €2bn. Following this pension agreement there was a change to the accounting treatment of the pension scheme in ESB's financial statements in 2010 and subsequent years from DB to DC. Please see notes 20 and 21 on pages 110-114 of the Annual Report for further detail. ESB is fully satisfied that the financial statements have been properly prepared in accordance with all appropriate accounting standards and applicable laws and have also been externally audited and presented to shareholders.

28 June 2013