

# **ERC Ireland Finance Limited**

**First quarter results announcement  
30 September 2010**

# FIRST QUARTER RESULTS ANNOUNCEMENT TO 30 SEPTEMBER 2010

Issued Friday 26 November 2010: eircom today announced its results for the first quarter ended 30 September 2010.

## Key Highlights

	Quarter ended Sept 2009	Quarter ended Sept 2010	% Change
<b>Revenue (€m)</b>	<b>468</b>	<b>442</b>	<b>(5.6)</b>
<b>Operating costs<sup>1</sup> (€m)</b>	<b>300</b>	<b>274</b>	<b>8.7</b>
<b>Adjusted EBITDA<sup>2</sup> (€m)</b>	<b>168</b>	<b>168</b>	<b>0.0</b>
<b>Net cashflow before financing activities<sup>3</sup> (€m)</b>	<b>(105)</b>	<b>(13)</b>	<b>87.6</b>
<b>Net customer gains/(losses) ('000)</b>			
• <b>PSTN lines</b>			
- <b>Retail</b>	<b>(23)</b>	<b>(16)</b>	
- <b>Wholesale</b>	<b>1</b>	<b>(4)</b>	
• <b>Fixed Line broadband lines</b>			
- <b>Retail</b>	<b>5</b>	<b>1</b>	
- <b>Wholesale bitstream</b>	<b>3</b>	<b>(14)</b>	
- <b>Wholesale LLU</b>	<b>0</b>	<b>16</b>	
• <b>Mobile</b>			
- <b>Handsets</b>	<b>11</b>	<b>(11)</b>	
- <b>Mobile broadband customers</b>	<b>8</b>	<b>4</b>	
<b>Net reduction in employees (FTE)<sup>4</sup></b>	<b>(59)</b>	<b>(117)</b>	

**Paul Donovan, CEO of eircom group, commented:** “eircom continues to manage its business in a difficult and uncertain economic environment. EBITDA remained steady for the quarter at €168m, but revenue pressures remain across all areas of the business offset by continued progress on cost reduction. Pay and non-pay costs fell 9% on the corresponding quarter in the previous year.

Employee headcount fell by a further 117 since the previous quarter. Labour resources, including contractors, excluding Agency, have fallen by 1,675 since March 2009. These developments have aided the Group’s competitive position, but much more remains to be done as part of the Group’s three year transformation programme.

Management sees no signs of growth or increased spending by customers. We do not anticipate this situation to change in the near to medium term. Last quarter we announced a plan to achieve at least €90m in labour cost savings. Discussions have been active with our union partners for a number of months. As a first step, we recently reached agreement to implement a restructuring programme within the technology organisation. Dialogue on additional savings programmes continues.

In addition to cost reduction, the company is actively focused on providing innovative products and services and achieving more appropriate regulation to deliver improved value for money for our customers

<sup>1</sup> Operating costs before non-cash pension charge /(credit), amortisation, and depreciation

<sup>2</sup> EBITDA before non cash pension charge /(credit), and loss on disposal of property, plant and equipment

<sup>3</sup> Net cashflow is before financing activities.

<sup>4</sup> Fulltime Equivalent Employees, excluding agency staff and contractors.

The group's current cash balance is €361m at 30 September 2010. Net debt remains high and in the absence of action by eircom, the associated financial covenants may be breached within the coming twelve months. We continue to actively review our options.

In the broadband market, we are aggressively upgrading our customer base to our up to 8Mb uncongested services. We are on target to upgrade more than 1 million lines by Christmas, with 280,000 customers using this service by the end of the year. Total DSL subscribers across retail and wholesale stood at 695,000 for the period ending 30 September 2010.

Fixed PSTN lines continue to fall. This quarter, eircom lost 20,000 lines, compared to 23,000 lines for the corresponding period last year. Voice traffic minutes fell 12% on the corresponding period last year.

In the mobile segment, eMobile launched as our second mobile offering on 29 September 2010. Targeted at eircom customers, it offers an innovative range of mobile voice and data services which complements the Meteor brand.

Mobile revenues and profits fell for the quarter due to lower average revenues per user (ARPU). The reduction in ARPU is largely due to new lower priced plans, mobile termination rate reductions and changes to the traffic mix. Total mobile customers stood at 1,036,000 at 30 September 2010. Mobile broadband customers stood at 45,000 at 30 September 2010 up 28,000 customers from the corresponding prior year quarter.

We continue to make good progress on our journey of transformation, but the uncertainties surrounding demand and disposable income make the execution of our three year plan ever more important."

**ENDS**

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**For more information on today's announcement, please visit our Investor Relations site:**  
<http://www.eircom.ie/ir>

26 November 2010

## HIGHLIGHTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2010

- Group adjusted EBITDA\* of €168 million, in line with the quarter ended 30 September 2009.
- Group revenue of €442 million, down 6% on the corresponding quarter ended 30 September 2009.
- Group operating costs of €274 million, before non-cash pension (credit)/charge, down 9%, reflecting lower pay and non-pay costs; largely resulting from cost saving initiatives and lower interconnect costs.
- Fixed Line adjusted EBITDA\* of €144 million, up 4% on the quarter ended 30 September 2009, due to the impact of ongoing cost saving initiatives.
- Fixed line revenue, before intra-company eliminations, of €347 million, down 5% on the quarter ended 30 September 2009, reflecting lower voice traffic and PSTN volumes, and higher bundle discounts.
- Retail DSL customer net gains of 1,000 for the quarter ended 30 September 2010. Wholesale DSL lines were down 14,000 in the quarter, while Wholesale LLU lines were up 16,000. DSL customer numbers (excluding LLU) stood at 695,000 at 30 September 2010, including 497,000 Retail DSL customers, up from 673,000 at 30 September 2009. Wholesale LLU customers stood at 38,000 at the same date, up from 24,000 at 30 September 2009.
- Net PSTN line losses of 20,000 for the quarter ended 30 September 2010. Retail PSTN lines stood at 1,128,000 at 30 September 2010, with WLR lines of 324,000.
- Mobile EBITDA\* of €24 million, compared to €28 million for the quarter ended 30 September 2009, due to lower revenue, partially offset by lower operating costs.
- Mobile revenue, before intra-company eliminations, of €108 million, down 9% on the corresponding prior year quarter, due mainly to lower ARPU.
- Total Mobile customers of 1,036,000 as at 30 September 2010. Post-paid customers stood at 162,000, representing 16% of total subscribers. Mobile Broadband customers of 45,000, as at 30 September 2010, up 28,000 from 30 September 2009.
- Mobile customer net losses of 7,000 in the quarter ended 30 September 2010, which includes Mobile Broadband net adds of 4,000.
- Average monthly blended Mobile ARPU of €32.32 for the quarter ended 30 September 2010, down 10% compared with the quarter ended 30 September 2009, mainly due to the impact of more competitive call price plans, MTR reductions and changes in traffic mix.
- Capex cash outflow of €49 million in the quarter ended 30 September 2010, compared with €2 million in the quarter ended 30 September 2009, due to timing of cash flows and the conclusion of a number of large scale capital programmes.
- Net cash outflow, before financing activities, of €13 million in the quarter, compared with an outflow of €105 million in the quarter ended 30 September 2009. Net debt stood at €3,195 million\*\* at 30 September 2010, down by €226 million on 30 September 2009.
- Net cash on hand was €361 million at 30 September 2010.

\* EBITDA before non cash pension charge /(credit), and loss on disposal of property, plant and equipment.

\*\* Net debt is calculated excluding defeased leases and debt issue costs.

## ERC Ireland Finance Limited

### Financial Highlights

	Quarter ended Sept 2009 €m	Quarter ended Sept 2010 €m	% Change <sup>1</sup>
Revenue	468	442	(6)
EBITDA before non-cash pension charge/(credit) and loss on disposal of property, plant and equipment	168	168	-
Operating profit before non-cash pension charge/(credit) and loss on disposal of property, plant and equipment	64	69	8
Group operating profit	58	68	17

### Operational Highlights

	Quarter ended Sept 2009	Quarter ended Sept 2010	% Change <sup>1</sup>
<b>Fixed line services:</b>			
Period-end total access channels (including DSL) (thousands):			
- Retail	1,530	1,430	(7)
- Wholesale line rental	388	395	2
Period end DSL lines (thousands):			
- Retail	482	497	3
- Wholesale bitstream	191	198	4
Wholesale LLU	24	38	58
Retail voice traffic minutes (millions)	1,167	1,019	(13)
Retail data traffic minutes (millions)	175	79	(55)
Wholesale interconnect minutes (millions)	2,013	1,915	(5)
<b>Mobile services:</b>			
Period-end total mobile subscribers (thousands)	1,046	1,036	(1)
<b>Group:</b>			
Period-end headcount (excluding agency)	6,820	6,180	9

### Key Ratios

	Quarter ended Sept 2009 % <sup>1</sup>	Quarter ended Sept 2010 % <sup>1</sup>
EBITDA margin before non-cash pension (credit)/charge and net construction income	36	38
Operating profit margin before non-cash pension (credit)/charge and net construction income	14	16
Operating profit margin	12	15

## ERC Ireland Finance Limited

### Reconciliation of earnings before interest, taxation, amortisation, depreciation, non-cash pension charge/(credit) and loss on disposal of property, plant and equipment to operating profit

	Quarter ended Sept 2009 €m	Quarter ended Sept 2010 €m
<b>Operating profit</b>	58	<b>68</b>
Loss on disposal of property, plant and equipment	-	2
Non-cash pension charge/(credit)	6	(1)
<b>Operating profit before non-cash pension charge/(credit) and loss on disposal of property, plant and equipment</b>	64	<b>69</b>
Depreciation	79	<b>74</b>
Amortisation	25	<b>25</b>
<b>EBITDA before non-cash pension charge/(credit) and loss on disposal of property, plant and equipment</b>	168	<b>168</b>
<b>EBITDA before non-cash pension charge/(credit) and loss on disposal of property, plant and equipment is split as follows:</b>		
Fixed line	140	<b>144</b>
Mobile	28	<b>24</b>
	168	<b>168</b>

# ERC Ireland Finance Limited

## Consolidated Income Statement - unaudited For the Quarter ended 30 September 2010

	Notes	<u>30 Sept 2009</u>	<u>30 Sept 2010</u>
		€m	€m
Revenue	3	468	442
Operating costs excluding amortisation and depreciation		(306)	(273)
Amortisation		(25)	(25)
Depreciation		(79)	(74)
Loss on disposal of property, plant and equipment		-	(2)
<b>Operating profit</b>	3	58	68
Finance costs		(42)	(44)
Finance income		2	1
Finance costs – net	4	(40)	(43)
<b>Profit before tax</b>		18	25
Income tax charge	5	(2)	(4)
<b>Profit for the period</b>		16	21

## Group statement of comprehensive income - unaudited For the Quarter ended 30 September 2010

	<u>30 Sept 2009</u>	<u>30 Sept 2010</u>
	€m	€m
<b>Profit for the financial period attributable to equity holders of the parent</b>	16	21
<b>Other comprehensive (expense)/income:</b>		
Net changes in cash flow hedge reserve:		
- Fair value loss in period	(17)	(1)
- Transfer to income statement	(7)	9
- Tax on cash flow hedge movements	3	(1)
<b>Other comprehensive (expense)/income for the period, net of tax</b>	(21)	7
<b>Total comprehensive (expense)/income for the financial period</b>	(5)	28

The accompanying notes form an integral part of the condensed interim financial information.

# ERC Ireland Finance Limited

## Consolidated Balance Sheet - unaudited As at 30 September 2010

	Notes	30 June 2010	30 Sept 2010
		€m	€m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill		1,622	1,622
Other intangible assets		672	657
Property, plant and equipment		1,882	1,831
Retirement benefit asset		42	43
Deferred tax assets		1	1
Other assets		2	1
		<u>4,221</u>	<u>4,155</u>
<b>Current assets</b>			
Inventories		9	12
Trade and other receivables	6	284	292
Receivables due from group undertakings and related parties		9	9
Assets held for resale		20	-
Other assets		1	1
Restricted cash		7	7
Cash and cash equivalents		397	366
		<u>727</u>	<u>687</u>
<b>Total assets</b>		<u>4,948</u>	<u>4,842</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	7	3,428	3,405
Derivative financial instruments		81	46
Trade and other payables		58	61
Capital grants		2	2
Deferred tax liabilities		187	187
Provisions for other liabilities and charges	8	190	184
		<u>3,946</u>	<u>3,885</u>
<b>Current liabilities</b>			
Borrowings	7	97	105
Derivative financial instruments		59	73
Trade and other payables		630	525
Inter-company payables to group undertakings		4	6
Current tax liabilities		23	29
Provisions for other liabilities and charges	8	55	57
		<u>868</u>	<u>795</u>
<b>Total liabilities</b>		<u>4,814</u>	<u>4,680</u>
<b>Equity</b>			
Equity share capital		2	2
Share premium account		861	861
Revaluation reserve		3	3
Cash flow hedging reserve		(74)	(67)
Retained loss		(658)	(637)
<b>Total equity</b>		<u>134</u>	<u>162</u>
<b>Total liabilities and equity</b>		<u>4,948</u>	<u>4,842</u>

The accompanying notes form an integral part of the condensed interim financial information.

# ERC Ireland Finance Limited

*Consolidated cash flow statement - unaudited  
For the Quarter ended 30 September 2010*

	Notes	<u>30 Sept 2009</u>	<u>30 Sept 2010</u>
		€m	€m
<b>Cash flows from operating activities</b>			
Cash generated from operations	9	75	95
Interest received		1	1
Interest paid		(85)	(79)
Income tax paid		(5)	-
<b>Net cash (used in)/generated from operating activities</b>		<b>(14)</b>	<b>17</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment ("PPE")		(73)	(36)
Proceeds from sale of PPE and investments		-	19
Purchase of intangible assets		(19)	(13)
Loan repayment received from group undertaking		1	-
<b>Net cash used in investing activities</b>		<b>(91)</b>	<b>(30)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(19)	(22)
Proceeds from loan borrowings		8	-
<b>Net cash used in financing activities</b>		<b>(11)</b>	<b>(22)</b>
<b>Net decrease in cash, cash equivalents and bank overdrafts</b>		<b>(116)</b>	<b>(35)</b>
Cash, cash equivalents and bank overdrafts at beginning of period		333	396
<b>Cash, cash equivalents and bank overdrafts at end of period</b>		<b>217</b>	<b>361</b>

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	<u>30 Sept 2009</u>	<u>30 Sept 2010</u>
	€m	€m
Cash and cash equivalents	217	366
Bank overdrafts	-	(5)
	<b>217</b>	<b>361</b>

The accompanying notes form an integral part of the condensed interim financial information.

## ERC Ireland Finance Limited

Consolidated statement of changes in shareholders' equity – unaudited  
For the Quarter ended 30 September 2010

	Equity share capital €m	Share premium account €m	Revaluation €m	Cash flow hedging reserve €m	Retained loss €m	Total equity €m
<b>Balance at 30 June 2009</b>	<b>2</b>	<b>861</b>	<b>3</b>	<b>(51)</b>	<b>(752)</b>	<b>63</b>
Cash flow hedge:						
- Fair value loss in period	-	-	-	(17)	-	(17)
- Transfer to income statement	-	-	-	(7)	-	(7)
- Tax on cash flow hedge movements	-	-	-	3	-	3
Net expense recognised directly in equity	-	-	-	(21)	-	(21)
Profit for the period	-	-	-	-	16	16
Total recognised (expense)/income for the period	-	-	-	(21)	16	(5)
<b>Balance at 30 Sept 2009</b>	<b>2</b>	<b>861</b>	<b>3</b>	<b>(72)</b>	<b>(736)</b>	<b>58</b>
<b>Balance at 30 June 2010</b>	<b>2</b>	<b>861</b>	<b>3</b>	<b>(74)</b>	<b>(658)</b>	<b>134</b>
Cash flow hedge:						
- Fair value loss in period	-	-	-	(1)	-	(1)
- Transfer to income statement	-	-	-	9	-	9
- Tax on cash flow hedge movements	-	-	-	(1)	-	(1)
Net income recognised directly in equity	-	-	-	7	-	7
Profit for the period	-	-	-	-	21	21
Total recognised income for the period	-	-	-	7	21	28
<b>Balance at 30 Sept 2010</b>	<b>2</b>	<b>861</b>	<b>3</b>	<b>(67)</b>	<b>(637)</b>	<b>162</b>

The accompanying notes form an integral part of the condensed interim financial information.

# ERC Ireland Finance Limited

## *Selected notes to the condensed interim financial information – unaudited*

### **1. General information**

ERC Ireland Finance Limited ('the Company'), and its subsidiaries together, ('the Group') provide fixed line and mobile telecommunications services in Ireland. ERC Ireland Finance Limited ("ERCIF") is registered in the Cayman Islands and is tax resident in Ireland. The address of its registered office is Maples & Calder Corporate Services Limited, Ugland House, South Church Street, Grand Cayman, Cayman Islands.

This condensed consolidated interim financial information was approved for issue on 26 November 2010.

### **2. Basis of preparation**

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Floating Rate Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – "Interim Financial Information" and has not carried out an impairment review of the carrying value of goodwill and other non-current assets or an updated valuation of the group's pension scheme liabilities as at 30 September 2010.

The financial information has been prepared on the going concern basis.

The group is in full compliance with all of its financial covenants as at 30 September 2010. The group's bank and other borrowings include borrowings of €3,160 million under a Senior Credit Facility. The Senior Credit Facility agreement contains certain financial covenants customary for debt of this type which include, amongst other things, the observance of certain maximum ratios of consolidated net debt to consolidated EBITDA. The group reports on these covenants to its lenders on a quarterly basis.

The group remained cash generative over the 12 months to 30 September 2010, and has made significant progress in managing its costs during that time. Based on the group's budgets and business plans, the Directors expect the group to continue to trade successfully and to generate sufficient cash flows to meet its existing requirements for the foreseeable future, including fully meeting its scheduled interest and principal payments. As at 30 September 2010, the group had €61 million of net cash on hand.

The group's budgets and business plans include continued cost reduction through a combination of driving further efficiencies and value for money programmes, whilst making substantial targeted capital investment for the future, within a continuing difficult economic environment.

However, there is a significant risk that the group will breach its financial covenants with its lenders within the next 12 months, as a result of a reduction in the ratio of the consolidated net debt to consolidated EBITDA permitted under the covenants. If any of these financial covenants are not met, an event of default will occur unless the group exercises its equity cure rights permitted under the Senior Credit Facility and the lenders could request early repayment of outstanding borrowings under the Senior Credit Facility.

The Directors believe that constructive discussions can take place with the group's lenders to renegotiate the financial covenants and/or with the group's shareholders to allow the group to exercise its equity cure rights. However, as the outcome of these discussions is not entirely within the group's control, the Directors have concluded that this risk represents a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

Having made due enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the group has and will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial information. The financial information does not include any adjustments that would be required if the group were unable to continue as a going concern.

The financial information, as at and for the period ended 30 September 2010, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2010. For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of ERCIF for the year ended 30 June 2010.

# ERC Ireland Finance Limited

## Selected notes to the condensed interim financial information – unaudited

### 3. Segment information

The group provides communications services, principally in Ireland. The group is organised into two main business segments fixed line and mobile.

The segment results for the three months ended 30 September 2010 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
<b>Revenue</b>	<b>347</b>	<b>108</b>	<b>(13)</b>	<b>442</b>
<b>Adjusted EBITDA *</b>	144	24	-	<b>168</b>
Non-cash pension credit	1	-	-	<b>1</b>
Amortisation	(11)	(14)	-	<b>(25)</b>
Depreciation	(64)	(10)	-	<b>(74)</b>
Loss on disposal of property, plant and equipment	(2)	-	-	<b>(2)</b>
<b>Operating profit</b>	<b>68</b>	<b>-</b>	<b>-</b>	<b>68</b>

The segment results for the three months ended 30 September 2009 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
<b>Revenue</b>	<b>364</b>	<b>119</b>	<b>(15)</b>	<b>468</b>
<b>Adjusted EBITDA *</b>	140	28	-	<b>168</b>
Non-cash pension charge	(6)	-	-	<b>(6)</b>
Amortisation	(12)	(13)	-	<b>(25)</b>
Depreciation	(65)	(14)	-	<b>(79)</b>
<b>Operating profit</b>	<b>57</b>	<b>1</b>	<b>-</b>	<b>58</b>

\* Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash pension (credit)/charge and loss on disposal of property, plant and equipment.

### 4. Finance costs – net

	30 Sept 2009 €m	30 Sept 2010 €m
Finance costs	(42)	<b>(44)</b>
Finance income	2	<b>1</b>
<b>Finance costs – net</b>	<b>(40)</b>	<b>(43)</b>

In the three months ended 30 September 2010, finance costs includes a €12 million credit (30 Sept 2009: €17 million credit) to reflect movements in the fair value of derivatives, which did not qualify for hedge accounting during the period.

# ERC Ireland Finance Limited

## Selected notes to the condensed interim financial information – unaudited (continued)

### 5. Income tax charge

#### Reconciliation of effective tax rate

The tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the group as follows: -

	30 Sept 2009 €m	30 Sept 2010 €m
<b>Profit before tax</b>	<b>18</b>	<b>25</b>
Tax calculated at Irish standard tax rate of 12.5%	2	3
<i>Effects of:-</i>		
Non deductible expenses	1	1
Adjustment in respect of prior periods	(1)	-
<b>Tax charge for the period</b>	<b>2</b>	<b>4</b>

### 6. Trade and other receivables

During the three months ended 30 September 2010, the group recognised a provision for impaired receivables of €3 million (30 Sept 2009: €4 million), reversed provisions for impaired receivables of €Nil (30 Sept 2009: €Nil) and utilised provisions for impaired receivables of €1 million (30 Sept 2009: €2 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

### 7. Borrowings

The maturity profile of the carrying amount of the group's borrowings is set out below.

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
<b>As at 30 Sept 2010</b>					
Floating rate notes due 2016	-	-	-	350	350
Other borrowings	111	78	2,661	356	3,206
Debt issue costs	(12)	(12)	(26)	(2)	(52)
Finance leases – defeased	1	-	-	-	1
Bank overdraft	5	-	-	-	5
	<b>105</b>	<b>66</b>	<b>2,635</b>	<b>704</b>	<b>3,510</b>
<b>As at 30 June 2010</b>					
Floating rate notes due 2016	-	-	-	350	350
Other borrowings	107	93	1,466	1,562	3,228
Debt issue costs	(12)	(12)	(28)	(3)	(55)
Finance leases – defeased	1	-	-	-	1
Bank overdraft	1	-	-	-	1
	<b>97</b>	<b>81</b>	<b>1,438</b>	<b>1,909</b>	<b>3,525</b>

Other borrowings, at 30 September 2010, include borrowings under a Senior Credit Facility of €3,160 million (30 June 2010: €3,180 million) and our share of borrowings in respect of our joint venture, Tetra Ireland Communications Limited ("Tetra"), of €46 million (30 June 2010: €48 million).

Interest accrued on borrowings at 30 September 2010 is €3 million (30 June 2010: €31 million). This is included in trade and other payables.

# ERC Ireland Finance Limited

Selected notes to the condensed interim financial information – unaudited (continued)

## 8. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Onerous Contracts €m	Other €m	Total €m
<b>At 30 June 2010</b>	<b>79</b>	<b>66</b>	<b>100</b>	<b>245</b>
Charged to consolidated income statement:				
- Additional provisions	-	-	2	2
- Unwinding of discount	-	1	-	1
Utilised in the financial period	(4)	(2)	(1)	(7)
<b>At 30 Sept 2010</b>	<b>75</b>	<b>65</b>	<b>101</b>	<b>241</b>

Provisions have been analysed between non-current and current as follows:

	30 June 2010 €m	30 Sept 2010 €m
Non-current	190	184
Current	55	57
	245	241

## 9. Cash generated from operations

	30 Sept 2009 €m	30 Sept 2010 €m
Profit after tax	16	21
Add back:		
Income tax charge	2	4
Finance costs – net	40	43
Operating profit	58	68
Adjustments for:		
- Loss on disposal of property, plant and equipment	-	2
- Depreciation and amortisation	104	99
- Non cash retirement benefit charge/(credit)	6	(1)
- Other non cash movements in provisions	1	1
Cash flows relating to restructuring, onerous contracts and other provisions	(26)	(47)
Cash flows relating to construction contract	-	(2)
<b>Changes in working capital</b>		
Inventories	(3)	(3)
Trade and other receivables	(8)	(7)
Trade and other payables	(57)	(16)
Inter-company payables to group undertakings (net)	-	1
<b>Cash generated from operations</b>	<b>75</b>	<b>95</b>

# ERC Ireland Finance Limited

## *Selected notes to the condensed interim financial information – unaudited*

### **10. Contingent liabilities**

There have been no other material changes in our contingent liabilities since the filing of the annual report and financial statements of ERCIF for the year ended 30 June 2010.

### **11. Guarantees**

#### *Credit guarantees*

The credit guarantees comprise guarantees and indemnities of bank or other facilities, including those in respect of the group's subsidiary undertakings. The group has guaranteed financial indebtedness for €3.7 billion in respect of the Senior Credit Facility, the Floating Rate Notes and the revolving credit facility.

#### *Senior Credit Facility*

The Senior Credit Facility of the group consists of a €3 billion term and revolving credit facility which has the benefit of guarantees and security for all amounts borrowed under the terms of the Senior Credit Facility. The Senior Credit Facility is secured by a first-priority pledge over the assets of ERC Ireland Holdings Limited ("ERCIH") and, a pledge over all of the assets of ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited. The subsidiaries guaranteeing the Senior Credit Facility are ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited.

#### *Floating Rate Notes*

The Floating Rate Notes of €350 million issued by ERCIF, are guaranteed on a senior subordinated basis by ERCIH and the subsidiaries guaranteeing the Senior Credit Facility. The Floating Rate Notes are general senior obligations of ERCIF and rank equally in right of payment with all existing and future senior indebtedness of ERCIF. The Floating Rate Notes are also secured by a first-priority pledge over all the shares of ERCIH.

#### *Tetra Securities*

The Senior Credit Facility of Tetra of €81 million is secured by a first-priority pledge over the assets of Tetra and a first-priority pledge over all the shares of Tetra.

### **12. Seasonality**

#### *Fixed line*

Fixed line traffic volumes tend to decline during December and March or April as a result of a decline in business traffic over the Christmas and Easter holiday periods. The group also tend to experience relatively higher fixed line traffic volumes in the Spring and Winter months, other than Christmas and Easter of each year. The group does not believe this seasonality has a material impact on our fixed line business.

#### *Mobile*

The group's mobile business tends to experience an increase in sales volumes in the weeks approaching Christmas due to the seasonal nature of its retail business. The group's mobile business experiences significant prepaid subscriber growth and related costs of handset subsidies and commissions in November and December. Visiting-roaming revenues are also seasonally significant because Ireland is a popular tourist destination during the summer months.

# ERC Ireland Finance Limited

## *Selected notes to the condensed interim financial information – unaudited*

### **13. Commitments**

#### *Operating lease commitments*

The group's operating lease contractual obligations and commitment payments were €14 million at 30 September 2010 (30 June 2010: €170 million). The payments due on operating leases are in respect of lease agreements in respect of properties, vehicles, plant and equipment for which the payments extend over a number of years.

#### *Capital commitments*

The group's capital contractual obligations and commitment payments were €2 million at 30 September 2010 (30 June 2010: €1 million).

### **14. Related party transactions**

The following transactions occurred with related parties:

During the period ended 30 September 2010, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra of €1.3 million (30 September 2009: €1.5 million). The gross amount outstanding in respect of these costs is €2.9 million at 30 September 2010 (30 June 2010: €4.1 million).

During the period ended 30 September 2010, the group paid €0.1 million (30 September 2009: €0.1 million) on behalf of the Employee Share Ownership Trust (ESOT) for the administrative expenses incurred in its capacity as trustee of the ESOT and the Approved Profit Share Scheme (APSS). These were not recharged to ERC ESOT Services Limited. The amount outstanding in respect of costs recharged in prior periods is €0.3 million at 30 September 2010 (30 June 2010: €0.3 million).

During the period ended 30 September 2010, the group recharged costs paid on behalf of ERCIE of €0.7 million (30 September 2009: €Nil). The amount outstanding in respect of these costs is €6.9 million at 30 September 2010 (30 June 2010: €6.2 million).

The income statement includes management charges from ERCIE of €2.4 million (30 September 2009: €1.5 million). The amount outstanding in respect of these costs is €5.6 million at 30 September 2010 (30 June 2010: €4.1 million).

## Commentary on results of operations for the quarter ended 30 September 2010

### Overview

Group EBITDA, before non-cash pension (credit)/charge, and loss on disposal of property, plant and equipment, of €168 million for the quarter ended 30 September 2010, was in line with the corresponding quarter ended 30 September 2009; with higher contribution from our Fixed Line, offset by lower profits in our mobile business due primarily to reduced revenue.

The results, revenue, operating costs and subscriber numbers for our Mobile business include both Meteor and eMobile.

### Revenue

The following table shows certain segmental information relating to our business for the periods indicated:

	In the quarter ended		% Change <sup>2</sup>
	30 Sep 2009	30 Sep 2010	2009/2010
	€'m	€'m	%
Fixed line services and other revenue	364	347	(5)
Mobile services revenue	119	108	(9)
<b>Total segmental revenue</b>	<b>483</b>	<b>455</b>	<b>(6)</b>
Intracompany eliminations	(15)	(13)	(13)
<b>Total revenue</b>	<b>468</b>	<b>442</b>	<b>(6)</b>

### Fixed line services and other revenue

The following table shows our revenue from our fixed line segment, analysed by major products and services, and the percentage change for each category, for the periods indicated:

	In the quarter ended		% Change <sup>2</sup>
	30 Sep 2009	30 Sep 2010	2009/2010
	€'m	€'m	%
<b>Access (rental and connections)</b>	<b>166</b>	<b>163</b>	<b>(1)</b>
Voice traffic	87	87	(1)
Advanced voice services traffic	17	12	(30)
<b>Total voice traffic</b>	<b>104</b>	<b>99</b>	<b>(6)</b>
Data traffic	5	2	(49)
<b>Total voice and data traffic</b>	<b>109</b>	<b>101</b>	<b>(7)</b>
Data communications	41	39	(6)
Interconnect services	43	39	(9)
Other products and services	39	42	7
<b>Revenue before discounts</b>	<b>398</b>	<b>384</b>	<b>(3)</b>
Discounts*	(34)	(37)	9
<b>Total fixed line services and other revenue</b>	<b>364</b>	<b>347</b>	<b>(5)</b>
Intracompany eliminations	(9)	(8)	(3)
<b>Total fixed line services and other revenue</b>	<b>355</b>	<b>339</b>	<b>(5)</b>

\*Discounts are primarily related to revenue derived from access, voice, and ADSL and bitstream, which are presented on a gross basis in the table above.

Total fixed line services and other revenues before intra-company eliminations for the quarter ended 30 September 2010, while in line with revenues for the quarter to 30 June 2010, decreased by 5%, compared with the corresponding quarter ended 30 September 2009. This decrease is due to lower revenue across all areas, except Other Products and Services. Discounts increased in the quarter to 30 September 2010, as a result of more customers availing of bundled packages.

### ***Access (rental and connections)***

The following table shows rental, connection and other charges (before discounts) and the number of access channels in service, including public payphones, and the percentage changes for the periods indicated:

	<b>In the quarter ended</b>		<b>% Change<sup>2</sup></b>
	<b>30 Sep 2009</b>	<b>30 Sep 2010</b>	<b>2009/2010</b>
	<b>€'m</b>	<b>€'m</b>	<b>%</b>
<b>Total access revenue</b>			
Line and equipment rental	98	91	(6)
Connection and other charges	3	4	22
ADSL and bitstream rental and connection	45	48	6
PSTN and ISDN WLR rental and connection	20	20	3
<b>Total access revenue</b>	<b>166</b>	<b>163</b>	<b>(1)</b>
<b>Access channels (in thousands at period end, except percentages)</b>			
PSTN	1,198	1,128	(6)
PSTN WLR	322	324	1
Total PSTN	1,519	1,452	(4)
ISDN	332	302	(9)
ISDN WLR	66	71	7
Total ISDN	398	373	(6)
ADSL and bitstream (excluding LLU)	673	695	3
<b>Total access channels (excluding LLU)</b>	<b>2,590</b>	<b>2,520</b>	<b>(3)</b>

Revenue from access (before discounts) fell by 1% in the quarter ended 30 September 2010, compared with the corresponding quarter of the prior year. Lower revenues from line and equipment rental were partially offset by increased ADSL and bitstream rental and connection revenue, resulting from increased broadband customer volumes. Bundle discounts, which represent a significant proportion of total discounts, have also increased in the quarter ended 30 September 2010, reflecting the higher number of bundled packages and an increased number of promotional lines with free rental. Wholesale Line Rental (“WLR”) rental and connection revenue increased by 3%, compared with the corresponding prior year quarter, reflecting increased number of ISDN WLR channels.

Line and equipment rental revenue decreased by 6% in the quarter ended 30 September 2010, compared with the corresponding quarter ended 30 September 2009, mainly due to a decline in PSTN and ISDN channels, which have been impacted by lower economic activity and the continuing migration of customers to other operators as well as to mobile.

ADSL and bitstream revenue (before discounts) increased by 6% in the quarter ended 30 September 2010, due to an increase in broadband customer volume compared with the prior year. By 30 September 2010, the number of ADSL and bitstream lines had increased to approximately 695,000, up from approximately 673,000 as at 30 September 2009. However, compared with the quarter ended 30 June 2010, they have decreased by 13,000, due to migration from Wholesale bitstream to Local Loop Unbundling (“LLU”). The revenue from LLU is discussed below in Other Products and Services.

As at 30 September 2010, approximately 324,000 PSTN lines and 71,000 ISDN channels had transferred to other authorised operators on WLR, an increase of 1% and 7% respectively, over volumes as at 30 September 2009. WLR rental and connection yielded revenues of approximately €20 million in the quarter ended 30 September 2010, an increase of 3% compared to the corresponding quarter ended 30 September 2009, as increased rental income was largely offset by lower connections revenue in the quarter.

## Traffic

The following table shows information relating to our total traffic revenue (before discounts) and volumes and the percentage change for the periods indicated:

	In the quarter ended		% Change <sup>2</sup>
	30 Sep 2009	30 Sep 2010	2009/2010
	€'m	€'m	%
<b>Revenue</b>			
<b>Basic voice traffic revenue</b>			
Local	21	22	2
National	13	12	(3)
Fixed to mobile	35	36	1
International	18	17	(4)
Total basic voice traffic revenue	<b>87</b>	<b>87</b>	<b>(1)</b>
Advanced voice services traffic revenue	17	12	(30)
Total voice traffic revenue	<b>104</b>	<b>99</b>	<b>(6)</b>
Data traffic revenue	<b>5</b>	<b>2</b>	<b>(49)</b>
Total traffic revenue	<b>109</b>	<b>101</b>	<b>(7)</b>
<b>Traffic (in millions of minutes, except percentages)</b>			
Local	531	476	(10)
National	204	177	(13)
Fixed to mobile	194	160	(18)
International	83	74	(11)
Total basic voice traffic minutes	<b>1,012</b>	<b>887</b>	<b>(12)</b>
Advanced voice services minutes	155	132	(15)
Total voice minutes	<b>1,167</b>	<b>1,019</b>	<b>(13)</b>
Data traffic minutes	<b>175</b>	<b>79</b>	<b>(55)</b>
Total traffic minutes	<b>1,342</b>	<b>1,098</b>	<b>(18)</b>

Overall revenue (before discounts) from voice and data traffic decreased by 7% in the quarter ended 30 September 2010.

### Voice traffic

Basic voice traffic revenue (before discounts) decreased by 1% for the quarter ended 30 September 2010, compared with the corresponding quarter ended 30 September 2009. This was primarily due to an overall decline in traffic volumes resulting from the economic downturn and mobile substitution, and a loss of market share, offset by the impact of the introduction of call rounding with effect from July 2010, which has resulted in an increase in voice traffic revenue before discounts. Voice traffic discounts represent a significant proportion of total discounts and have also increased significantly in the quarter ended 30 September 2010, reflecting the higher number of bundled packages, and increased discounts to offset the impact of call rounding charges on discounted packages.

Revenue relating to advanced voice services (before discounts) decreased by 30% in the quarter ended 30 September 2010. This is due to a reduction in volumes, as less customers avail of products such as Virtual Private Networks, a reduction in the number of National Freephone minutes, and a change in traffic mix.

### Data traffic

Revenue from internet and other dial-up traffic (before discounts) decreased by 49% in the quarter ended 30 September 2010, compared with the corresponding quarter ended 30 September 2009, due to a continuing decline in volumes as a result of the ongoing migration of internet users to ADSL and other higher speed services.

### **Data communications**

The following table shows information relating to revenue (before discounts) from data communications products and services, the number of leased lines and the percentage change for the periods indicated:

	<b>In the quarter ended</b>		<b>% Change<sup>2</sup></b>
	<b>30 Sep 2009</b>	<b>30 Sep 2010</b>	<b>2009/2010</b>
	<b>€'m</b>	<b>€'m</b>	
<b>Data communications revenue</b>			
Leased lines (including Partial Private Circuits)	22	20	(9)
Switched data and IP network services	15	16	5
ISP & VAS revenue	4	3	(23)
<b>Total data communications revenue</b>	<b>41</b>	<b>39</b>	<b>(6)</b>
<b>Number of leased lines (at period end, except percentages)</b>			
National leased lines	7,704	6,259	(19)
Partial private circuits	6,131	6,027	(2)
International leased lines	254	239	(6)
Interconnect paths	1,048	829	(21)
<b>Total leased lines</b>	<b>15,137</b>	<b>13,354</b>	<b>(12)</b>

Revenue from data communications (before discounts) decreased by 6% in the quarter ended 30 September 2010, primarily due to lower leased line revenue as customers migrate to alternative higher speed services, and lower ISP and Value Added Services ("VAS") revenue. This was partially offset by a 5% increase in revenue from Switched Data and IP network services in the quarter ended 30 September 2010, due to the impact of migration of customers from leased lines above.

Leased lines (including Partial Private Circuits) revenue and volumes, which include circuits leased internally by Meteor and Tetra for their business and operations, have decreased significantly on the corresponding prior year quarter.

### **Interconnect services**

The following table shows information relating to revenue and traffic from interconnect services and the percentage change for the periods indicated:

	<b>In the quarter ended</b>		<b>% Change<sup>2</sup></b>
	<b>30 Sep 2009</b>	<b>30 Sep 2010</b>	<b>2009/2010</b>
	<b>€'m</b>	<b>€'m</b>	<b>%</b>
<b>Interconnect services revenue</b>			
Interconnect	22	18	(17)
Foreign terminating traffic	21	21	1
<b>Total interconnect services revenue</b>	<b>43</b>	<b>39</b>	<b>(9)</b>
<b>Interconnect services traffic (in millions of minutes, except percentages)</b>			
Call origination	485	412	(15)
Call termination	635	588	(7)
Transit to mobile/fixed	151	173	14
Ancillary	40	37	(9)
International	99	59	(40)
<b>Total interconnect</b>	<b>1,410</b>	<b>1,269</b>	<b>(10)</b>
Foreign terminating traffic	603	646	7
<b>Total interconnect services traffic</b>	<b>2,013</b>	<b>1,915</b>	<b>(5)</b>

Interconnect services revenue fell by 9% in the quarter ended 30 September 2010.

Revenue from interconnect fell by 17% in the quarter ended 30 September 2010, compared with the quarter ended 30 September 2009, mainly due to a reduction in traffic from OAOs and mobile operators as well as a 7% reduction in call origination and termination rates, effective from 1 April 2010.

Call origination minutes and call termination minutes, have decreased by 15% and 7% respectively, compared to the quarter ended 30 September 2009 due to a significant reduction in size of base on which calls can originate and terminate as a result of increased competition, and more customers availing of White Label Access products. White Label Access allows customers to avail of products without the need to invest in network backhaul infrastructure. Transit has increased 14%, compared to the prior year quarter, due to an increase in traffic to other geographic number operators, such as UPC. Ancillary traffic continued to be impacted by the decline in demand for these services.

Revenue from foreign terminating traffic increased by 1% in the quarter ended 30 September 2010 due to an increase in traffic volumes, offset by a change in traffic mix.

### Other products and services

Other products and services revenues (before discounts) include Operator Services, Customer Premises Equipment (“CPE”), Phonewatch, and other revenues, primarily income from other subsidiaries, Data Centres, LLU, Line share and our share of Tetra revenue.

The following table shows information relating to revenue from other products and services and the percentage change for the periods indicated:

	In the quarter ended		% Change <sup>2</sup> 2009/2010 %
	30 Sep 2009 €‘m	30 Sep 2010 €‘m	
Operator Services	8	8	4
CPE	8	7	(10)
Phonewatch	6	7	6
Other revenue	17	20	17
<b>Other products and services revenue</b>	<b>39</b>	<b>42</b>	<b>7</b>

Revenue from other products and services (before discounts) in the quarter ended 30 September 2010 increased by 7% compared with the corresponding quarter of the prior year. Revenues from Operator Services and Phonewatch grew by 4% and 6% respectively compared with the corresponding quarter of the prior year, the increase in Phonewatch being due primarily to a higher contribution from monitoring services. Other Revenue has increased 17%, compared to the prior year quarter, due to an increase in LLU volumes, as customers migrate from wholesale bitstream, an increase in the group’s share of revenue from Tetra, our operations in Northern Ireland, and our data centres. CPE revenue continues to be impacted by slowdown in economic activity.

### Discounts

Discounts in the quarter ended 30 September 2010 were 9% higher compared with the corresponding quarter of the prior year, reflecting increased numbers of promotions during the quarter as well as the growing proportion of bundled packages in our product offering, including our latest fixed price bundles, and the overall impact of call-rounding introduced in the current quarter. This affects the pre-discount discussion and analysis in the revenue categories above.

### Mobile services revenue

Services revenue comprises prepaid and post paid revenues including interconnect, mobile broadband and revenue from eMobile. Other revenue is derived mainly from device sales and roaming revenue.

The following table shows our revenue from Mobile services, analysed by major products and services:

	In the quarter ended		% Change <sup>2</sup> 2009/2010 %
	30 Sep 2009 €‘m	30 Sep 2010 €‘m	
<b>Mobile services:</b>			
Prepaid	79	73	(7)
Postpaid	33	28	(16)
<b>Services revenue</b>	<b>112</b>	<b>101</b>	<b>(10)</b>
Other revenue	7	7	(0)
<b>Total mobile services revenue</b>	<b>119</b>	<b>108</b>	<b>(9)</b>
Intracompany eliminations	(6)	(5)	(27)
<b>Total mobile services revenue</b>	<b>113</b>	<b>104</b>	<b>(8)</b>
	In the quarter ended		% Change <sup>2</sup> 2009/2010
	30 Sep 2009	30 Sep 2010	
<b>Total subscribers (thousands)*:</b>			
Pre-paid subscribers (thousands)	900	874	(3)
Post-paid subscribers (thousands)	146	162	11
<b>Total subscribers (thousands)<sup>3</sup></b>	<b>1,046</b>	<b>1,036</b>	<b>(1)</b>
<b>ARPU<sup>4</sup> (€)</b>	<b>36.02</b>	<b>32.32</b>	<b>(10)</b>

\* eircom staff represents approximately 4,764 of these subscriber numbers (30 September 2009: 4,287)

Total revenue, before intra-company eliminations, was €108 million for the quarter ended 30 September 2010, a decrease of 9% on the corresponding quarter of the prior year, but in line with the preceding quarter to 30 June 2010.

ARPU for the quarter ended 30 September 2010 was €32.32, a decrease of 10% compared with the quarter ended 30 September 2009. Lower ARPU was driven by an increase in proportion of traffic generated as part of the bundled minutes within our own network, the impact of new post-paid plans, a decrease in postpaid handset subscriber base a higher take-up of free minutes and texts add-ons in pre-paid, as well as lower termination and customer roaming rates, partially offset by increased data services revenues from mobile internet. The lower termination rates reflect an agreed reduction of industry wide Mobile Termination Rates in April 2010.

Postpaid Revenue has decreased 16%, compared to the prior year quarter, due to an increase in customers availing of bundled minutes, and not exceeding their monthly allocation. In contrast, postpaid subscribers have increased by 11%, compared to the prior

year quarter, driven mainly by new mobile broadband subscribers, which generate lower monthly subscription revenue than postpaid handset subscription revenue.

At 30 September 2010 there were 1,036,000 customers, a reduction of 1% compared with 30 September 2009. Subscriber numbers include c45,000 Mobile Broadband customers, compared to c.17,000 as at 30 September 2009, and c25,000 eMobile subscribers.

### **Operating costs before amortisation and depreciation**

The following table shows information relating to our operating costs before amortisation and depreciation, and the percentage change for the periods indicated:

	<b>In the quarter ended</b>		<b>% Change<sup>2</sup></b>
	<b>30 Sep 2009</b>	<b>30 Sep 2010</b>	<b>2009/2010</b>
	<b>€'m</b>	<b>€'m</b>	<b>%</b>
<b>Staff costs</b>			
<b>Fixed line</b>			
Wages and salaries and other staff costs	79	72	(9)
Social welfare costs	3	3	(5)
Pension paid and payable	6	5	(9)
<b>Pay costs before non-cash pension charge/ (credit) and capitalisation</b>	<b>88</b>	<b>80</b>	<b>(9)</b>
Non-cash pension charge/ (credit)	6	(1)	n/a
<b>Pay costs before capitalisation</b>	<b>94</b>	<b>79</b>	<b>(15)</b>
Capitalised labour	(14)	(10)	(25)
<b>Total fixed line services staff costs</b>	<b>80</b>	<b>69</b>	<b>(14)</b>
<b>Mobile services staff costs (net of capitalised labour)</b>	<b>11</b>	<b>11</b>	<b>(4)</b>
<b>Total staff costs</b>	<b>91</b>	<b>80</b>	<b>(12)</b>
<b>Other operating costs</b>			
<b>Fixed line costs</b>			
Payments to telecommunications operators	63	54	(15)
Purchase of goods for resale, commission and related costs	18	16	(9)
Materials and services	11	8	(29)
Other network costs	6	6	8
Accommodation	15	15	(4)
Sales and marketing	10	8	(18)
Transport and travel	4	3	(21)
IT costs	3	3	13
Other costs	20	20	(3)
<b>Total other fixed line operating costs</b>	<b>150</b>	<b>133</b>	<b>(11)</b>
<b>Mobile services costs</b>	<b>80</b>	<b>73</b>	<b>(9)</b>
<b>Total other operating costs</b>	<b>230</b>	<b>206</b>	<b>(10)</b>
Intracompany eliminations	(15)	(13)	(13)
<b>Total other operating costs</b>	<b>215</b>	<b>193</b>	<b>(10)</b>
<b>Total operating costs before amortisation and depreciation</b>	<b>306</b>	<b>273</b>	<b>(11)</b>

Total operating costs before amortisation and depreciation, decreased by 11%, compared with the corresponding quarter of the prior year.

#### *Staff costs*

Total staff costs decreased by 12% in the quarter ended 30 September 2010, primarily due to lower Fixed Line wages and salaries and Mobile services staff costs, and a non-cash pension credit of €1 million, compared to a charge of €6 million in the quarter ended 30 September 2009. These savings were partially offset by both lower fixed line and mobile capitalised labour.

The group adopts the corridor approach to accounting for pension obligations under IAS 19. Accordingly the pension charges included in operating costs before amortisation and depreciation are determined based on the pension assets, liabilities and unamortised actuarial surplus as at 30 June 2010.

Fixed line staff costs in the quarter ended 30 September 2010 were 14% lower compared with the corresponding prior year quarter ended 30 September 2009, due primarily to lower wages and salaries, a €1 million non-cash pension credit compared to a charge of €6 million in the prior year quarter, offset by lower fixed line capitalised labour. Fixed line pay costs, before non-cash pension charge/(credit) and capitalisation, decreased by 9% compared with the quarter ended 30 September 2009, primarily due to lower fixed line headcount resulting in lower wages and salaries, as well as lower commission. Fixed line capitalised labour decreased by 25% in the quarter due mainly to reduced activity.

Mobile staff pay costs have decreased by 4%, compared to the quarter ended 30 September 2009, due to lower headcount, and reduced contract costs due to lower number Agency staff, partially offset by a reduction in capitalised labour.

Headcount in Fixed Line services at 30 September 2010 was 5,447, down 10% from 6,041 at 30 September 2009, mainly as a result of voluntary leaving programmes. In addition, there was 13 agency staff at 30 September 2010, compared with 44 at 30 September 2009. Headcount in our Mobile division as at 30 September 2010 was 733, down 6% from 779 at 30 September 2009, due to voluntary leaving programme, partially offset by the recruitment of staff relating to eMobile. There was 44 Agency staff in our Mobile division at 30 September 2010, compared with 56 at 30 September 2009. The costs of agency staff are included within staff costs.

### *Total other operating costs*

Total other operating costs decreased by 10% in the quarter ended 30 September 2010, with reduction across most categories of costs.

### *Fixed line operating costs*

Fixed line operating costs in the quarter ended 30 September 2010 decreased by 11% compared with the quarter to 30 September 2009. Payments to other telecommunications operators decreased by 15%, mainly due to lower interconnect traffic volumes, and reductions in Mobile Termination Rates. Payments to other telecommunications operators has increased by 5%, compared with the quarter ended 30 June 2010, driven by payments for traffic for emergency services, and higher payments to foreign operators for international wholesale traffic. The cost of goods for resale, commissions and related costs decreased by 9% mainly as a result of reduced sales. Materials and services decreased by 29% due to lower maintenance and provisioning volume costs, lower external contractor costs and price savings achieved. Accommodation costs were down 4% due to lower electricity charges and service costs on premises in use by the group. Sales and Marketing costs were 18% lower as a result of lower activity as well as some price savings compared with the corresponding prior year quarter. Transport and travel costs were down 21%, due to a decline in travel in the current quarter, and other costs were 3% lower due to a reduction in staff related costs and lower bad debts.

### *Mobile operating costs*

Total operating costs for the mobile segment were €73 million for the quarter, a reduction of 9% compared with the corresponding quarter ended 30 September 2009. This is primarily due to savings achieved in sales and marketing, and commissions as well as lower interconnect and roaming costs; partially offset by increased network costs related to the ongoing rollout of our 3G network, increased rent costs, due to opening of eMobile retail stores, and a higher cost of equipment sold, particularly mobile broadband devices.

### *Amortisation*

Amortisation for the quarter ended 30 September 2010 remained broadly in line with the corresponding quarter in the prior year.

### *Depreciation*

Depreciation for the quarter ended 30 September 2010 decreased by 6%, compared with the quarter ended 30 September 2009, primarily due to lower acquisition of new assets in the Mobile segment and assets reaching the end of their depreciable lives.

### *Finance costs (net)*

The Group's net finance costs for the quarter to 30 September 2010 were €43 million, compared with €40 million in the corresponding quarter ended 30 September 2009. The increase in finance costs is due to a reduction in the credit included to reflect movements in the fair value of derivatives not qualifying for hedge accounting during the period and lower finance income, partially offset by the impact of lower interest rates.

### *Taxation*

The tax charge for the period to 30 September 2010 was €4 million, compared with €2 million in the prior year. This is mainly due to higher profits before tax, and a €1 million credit arising from prior periods.

### *Liquidity*

#### *Net cash generated from/(used in) operating activities*

Our primary source of liquidity is cash generated from operations, which represents operating profit adjusted for non-cash items which are principally depreciation, amortisation and non-cash pension (credit)/charge. Cash flows from operating activities are also impacted by working capital movements. Net cash generated from operating activities in the quarter ended 30 September 2010 was €17 million, compared with cash used in operating activities of €14 million in the corresponding prior year period. The improvement reflects higher cash generated from operations and lower income tax payments, as well as lower interest outflows.

#### *Cash flows used in investing activities*

In the quarter ended 30 September 2010, we made payments in respect of capital expenditure of €49 million, compared with €2 million in the corresponding prior year period. The roll out of the NGN-Core network is nearing completion, while spending on the mobile network has also decreased due to completion of the billing system replacement project in 2009 and significant roll-out of the 3G network was completed in the prior year. Capital expenditure is used primarily to grow and renew our networks, including the 3G and Next Generation networks.

#### *Cash flows used in financing activities*

In the quarter ended 30 September 2010 the group made repayments of €22 million in respect of its borrowings. This compares with repayments of €19 million in the corresponding prior year period, and new loans drawn down of €8 million.

### ***Forward looking statements***

This document includes statements that are, or may be deemed to be, “forward looking statements”. These forward looking statements include all matters that are not historical facts and include statements regarding the intentions, beliefs or current expectations of ERCIF concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the group and the industries in which it operates. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward looking statements are not guarantees of future performance. The group’s actual results of operations, financial condition, liquidity, and the development of the industries in which it operates may differ materially from the impression created by the forward looking statements contained in this document.

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#### Notes:

1. Percentage changes and percentages have been calculated based on the data presented.
  2. Percentage changes have been calculated based on unrounded data rather than on the rounded data presented in this table.
  3. Mobile Broadband Customer subscriptions are being accounted for and billed separately to other mobile subscriptions.
  4. Mobile ARPU (Average Revenue per User) is calculated by dividing year-to-date total mobile service revenues by the average number of subscribers during the same period, divided by the number of months in the calculation period. The average number of subscribers in the period is the sum of the subscriber base at the beginning and at the end of the period, divided by two. A pre-paid subscriber base consists of active subscribers, including Mobile Broadband where the SIMs have been used within 90 days prior to the period end. Post paid subscribers are considered active until such time as they are terminated from the network.
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A conference call will be held on 26 November 2010 at 12.00 noon local time in Ireland.  
The dial-in number is +353 1 664 7603, Pin number 95180#