

ERC Ireland Finance Limited

**Second quarter and six-month results announcement
31 December 2010**

SECOND QUARTER AND SIX MONTHS RESULTS ANNOUNCEMENT TO 31 DECEMBER 2010

- Group Revenues down 6% in second quarter
- Operating costs² reduced by 7%
- Adjusted EBITDA³ down 3%
- Expect conclusion of agreement with Trade Union Alliance on further modernisation and cost reduction measures this week
- Preliminary engagement with lenders on balance sheet remediation expected to commence in March/April 2011
- Major new mobile and WiFi customer offerings
- Pension scheme returns to surplus of €105m¹ at 31 December 2010

Key Highlights

	Quarter ended Dec 2009	Quarter ended Dec 2010	% Change
Revenue (€m)	465	438	(6)
Operating costs² (€m)	306	284	7
Adjusted EBITDA³ (€m)	159	154	(3)
Net cashflow before financing activities (€m)	113	72	(36)
Net customer gains/(losses) ('000)			
• PSTN lines			
- Retail	(17)	(20)	
- Wholesale	3	(2)	
• Fixed Line broadband lines			
- Retail	9	3	
- Wholesale bitstream	9	(15)	
- Wholesale LLU	(1)	13	
• Mobile			
- Handset customers	25	5	
- Mobile broadband customers	15	11	
Net reduction in employees (FTE)⁴	(43)	(69)	

¹As measured under IAS 19

² Operating costs before non-cash pension charge /(credit), amortisation, depreciation and exceptional items

³ EBITDA before non cash pension charge /(credit), exceptional items and loss on disposal of property, plant and equipment

⁴ Fulltime Equivalent Employees, excluding agency staff and contractors.

Issued Tuesday 1 March 2011: eircom today announced its results for the second quarter and half year ended 31 December 2010. The Group reported falling revenues as it continues to execute on its strategy of cost reduction and service improvements. Management has reaffirmed its view that the economic environment is unlikely to improve in the near term and continued progress on cost reduction is necessary for competitiveness.

Operational costs² reduced 7% in the quarter, but continued pressures in both fixed and mobile segments resulted in overall revenues falling by 6% and adjusted EBITDA declining 3% in the quarter.

On 31 August 2010, the Group announced an additional cost reduction target of €90m by 2013. eircom expects to conclude an agreement with the Trade Union Alliance (TUA) later this week on measures towards these savings. The proposal is subject to a ballot within the TUA.

Trading Update

In the fixed line segment, while revenues fell 6% for the quarter, the programme of cost reduction has resulted in an increase of EBITDA of 7%.

In the DSL broadband market, 500,000 customers had a retail DSL connection from eircom at 31 December 2010, while total DSL customers across retail and wholesale stood at 683,000. During the quarter, we extended the reach of our Next Generation Broadband products which were available to 1.1 million customers as of 31 December 2010, and there are currently 293,000 active users as of 25 February 2011.

Following three quarters of negative customer growth in the mobile segment, eircom Group gained 16,000 customers across Meteor and eMobile in the quarter. Total mobile customers stood at 1,052,000 at 31 December 2010. However, revenues fell 7.5% for the quarter compared to the previous year. The monthly blended mobile ARPU for the quarter reduced by 6% to €32.20, largely due to new lower priced plans, mobile termination rate reductions and changes to the traffic mix.

New Product Announcements

As part of our commitment to provide its customers with greater value, eircom is announcing two initiatives which are firsts in the Irish marketplace.

Today, eMobile launched the first all inclusive talk and text mobile plan for under €50 a month, available exclusively to eircom customers. This offers significant savings against other operators in the post pay mobile segment. Taken together with existing broadband and telephone services, eircom now offers the best value suite of triple play phone, mobile and home broadband services by a single provider in the Irish market on a like for like basis.

Recognising the rapid growth in smart phone and tablet devices which require high bandwidth connectivity, eircom has announced that it will significantly expand and upgrade its wireless data (WiFi) services in Ireland. Already the market leader for WiFi, we will expand our footprint to more than 4,000 hotspots by 2013. In a unique move, this Next Generation WiFi service will be simple to access and will be available free and unlimited to all eircom, Meteor and eMobile customers.

Balance Sheet Remediation

The group is in full compliance with all its financial covenants as of 31 December 2010. However, there is a significant risk that, depending on trading conditions, the group will breach its financial covenants with its lenders within either the next three or six months. The Directors intend that discussions will take place with the group's lenders with respect to the overall financial position of the group. Preliminary discussions are expected to commence in March/April 2011. The Directors also intend that discussions will continue with the Group's shareholders in relation to the exercise of equity cure rights.

Pension Update

eircom has led the remediation of pension scheme deficits in the Irish marketplace and the surplus as at 31 December 2011 is a result of the actions taken by the Pension Trustees together with measures agreed by the Company and the TUA in March 2010. A triennial valuation of the scheme, concluded by the Actuary to Scheme as at 30 September 2010, showed a positive position in relation to the Minimum Funding Standard. The eircom Main Pension Scheme has a surplus of €105 million as at 31 December 2010 using IAS 19.

Paul Donovan, CEO of eircom Group, commented: “The Group continues to face challenging trading conditions due to the impact of the economic environment and changes in disposable incomes. Revenue losses have been partially offset by operational cost reductions, but it is vital that eircom remains single-mindedly focused on its three year transformation programme to reshape its cost base, to modernise and to generate new streams of growth. Today’s announcements underline that we are taking important steps towards securing the future of the group and offering greater value to our customers with innovative products. However, we still face enormous challenges if we are to be competitive in the long term.”

ENDS

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For more information on today’s announcement, please visit our Investor Relations site:

<http://www.eircom.ie/ir>

1 March 2011

HIGHLIGHTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2010

- Group adjusted EBITDA* of €154 million, down €5 million on the quarter ended 31 December 2009.
- Group revenue of €438 million, down 6% on the corresponding quarter ended 31 December 2009.
- Group operating costs of €284 million before non-cash pension charge/(credit) and exceptional items, down 7%, reflecting lower pay and non-pay costs, largely resulting from cost saving initiatives introduced during the year, and lower direct cost of sales.
- Fixed Line adjusted EBITDA* of €145 million, up 7% on the quarter ended 31 December 2009, due to lower pay related and other operating costs.
- Fixed line revenue, before intra-company eliminations, of €339 million, down 6% on the quarter ended 31 December 2009, reflecting lower volumes and higher discounts.
- Retail DSL customer net adds of 3,000 for the quarter ended 31 December 2010, down from 9,000 net adds in the quarter ended 31 December 2009. Wholesale DSL line losses of 15,000 for the quarter ended 31 December 2010 and wholesale LLU net gains of 13,000.
- Net total PSTN line losses of 22,000 for the quarter ended 31 December 2010.
- Mobile EBITDA of €9 million, compared with €23 million in the corresponding quarter ended 31 December 2009, due to lower revenue, increased acquisition costs and start-up costs relating to eircom Mobile.
- Mobile revenue, before intra-company eliminations, of €111 million, down 8% on the corresponding prior year quarter, due to lower ARPU and lower pre-paid customers, partially offset by post-paid and mobile broadband customer growth.
- Mobile customer net adds, including Mobile Broadband, of 16,000 in the quarter, down from 40,000 net adds in the quarter ended 31 December 2009.
- Capex cash outflow of €34 million in the quarter ended 31 December 2010. Net cash inflow (before financing activities) of €72 million in the quarter, down from €113 million in the quarter ended 31 December 2009, primarily as a result of lower working capital inflows, higher voluntary leaving payments, and increased interest payment due to a change in the timing of payments, partially offset by lower capex cash outflows.

HIGHLIGHTS FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2010

- Group adjusted EBITDA* of €322 million, down €5 million compared with the prior year.
- Group revenue of €880 million, down 6% on the six months ended 31 December 2009.
- Group operating costs before non-cash pension charge/(credit) and exceptional items, of €558 million, down 8% reflecting lower pay and non-pay costs, largely as a result of cost saving initiatives in the current year, and lower direct costs of sale.
- Fixed line adjusted EBITDA* of €289 million, up 5% on the corresponding prior year period, due to lower pay related and other operating costs.
- Fixed line revenue, before intra-company eliminations, of €687 million, down 5%, due to lower volumes, and higher discounts.
- Total DSL customers (excluding LLU) were 683,000 at 31 December 2010, down 8,000 from 691,000 at 31 December 2009. Retail DSL customers at 31 December 2010 stood at 500,000, up 9,000 from 31 December 2009. Wholesale DSL customers stood at 183,000 at 31 December 2010, down 17,000 compared to prior year period, while wholesale LLU customers stood at 51,000, up 28,000 compared to prior year period.

- Total PSTN lines at 31 December 2010 were 1,430,000, down 75,000 on the prior year.
- Mobile EBITDA of €33 million for the six months to 31 December 2010, down €18 million on the prior year, due to lower revenue, and increased costs associated with the launch of eMobile.
- Mobile revenue, before intra-company eliminations, of €219 million, down 9% on the corresponding six months to 31 December 2009, due to a decline in ARPU and a decline in pre-pay mobile customers partially offset by customer growth in post-paid and in mobile broadband.
- Average monthly blended mobile ARPU of €32.07 for the six months ended 31 December 2010, down 8% on prior year, due to the impact of more competitive pricing plans, MTR reductions and customers not exceeding their allocated minutes.
- Total Mobile customers of 1,052,000 as of 31 December 2010, down 34,000 from 31 December 2009, and up 16,000 from 30 September 2010. Post-paid customers stood at 176,000, up 13% from 31 December 2009, and 9% from 30 September 2010 following the launch of eircom Mobile.
- Capex cash outflow of €33 million in the six-month period, compared with €66 million in the six months to 31 December 2009, due to the conclusion of large-scale capital programmes, as well as the timing of payments. We continue to focus with our capital programmes on increasing fixed and mobile network capacity, rolling out faster broadband and developing our Next Generation and 3G Networks.
- Net cash inflow (before financing activities) was €59 million in the period, compared with €8 million in the six months ended 31 December 2009, due to lower capex, partially offset by lower operating cash flows due primarily to higher restructuring payments. Net debt** stood at €1,122 million, down by €188 million on 31 December 2009.
- Net cash on hand was €376 million at 31 December 2010, up from €280 million as at 31 December 2009.

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

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

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Financial Highlights

	Quarter ended December 2009 €m	Quarter ended December 2010 €m	% Change ¹	6 months ended December 2009 €m	6 months ended December 2010 €m	% Change ¹
Revenue	465	438	(6)	933	880	(6)
EBITDA before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant & equipment	159	154	(3)	327	322	(2)
Operating profit before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant & equipment	53	55	4	117	124	6
Group operating profit	17	48	182	75	116	55

Operational Highlights

	Quarter ended December 2009	Quarter ended December 2010	% Change ¹	6 months ended December 2009	6 months ended December 2010	% Change ¹
Fixed line services:						
Period-end total access channels (excluding DSL) (thousands):						
- Retail				1,503	1,401	(7)
- Wholesale				393	395	1
Period end DSL lines (thousands)						
- Retail				491	500	2
- Wholesale				200	183	(9)
Wholesale LLU				23	51	122
Retail voice traffic minutes (millions)	1,160	1,056	(9)	2,328	2,075	(11)
Wholesale interconnect minutes (millions)	1,978	1,960	(1)	3,990	3,875	(3)
Mobile services:						
Period-end total mobile subscribers (thousands)				1,086	1,052	(3)
Group:						
Period-end headcount (excluding agency)				6,777	6,111	(10)

Key Ratios

	Quarter ended December 2009 % ¹	Quarter ended December 2010 % ¹	6 months ended December 2009 % ¹	6 months ended December 2010 % ¹
EBITDA margin before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant & equipment	34	35	35	37
Operating profit margin before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant & equipment	11	13	13	14
Group operating profit margin	4	11	8	13

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

	Quarter ended Dec 2009	Quarter ended Dec 2010	Six months ended Dec 2009 €m	Six months ended Dec 2010 €m
Operating profit	17	48	75	116
Loss on disposal of property, plant and equipment	-	-	-	2
Exceptional items	31	7	31	7
Non-cash pension charge/(credit)	5	-	11	(1)
Operating profit before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment	53	55	117	124
Depreciation	80	75	159	149
Amortisation	26	24	51	49
EBITDA before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment	159	154	327	322
EBITDA before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment is split as follows:				
Fixed line	136	145	276	289
Mobile	23	9	51	33
	159	154	327	322

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*Consolidated Income Statement - unaudited
For the Quarter ended 31 December 2010*

	31 Dec 2009	31 Dec 2010
	€m	€m
Revenue	465	438
Operating costs excluding amortisation, depreciation and exceptional items	(311)	(284)
Amortisation	(26)	(24)
Depreciation	(80)	(75)
Exceptional items	(31)	(7)
Operating profit	17	48
Finance costs	(48)	(41)
Finance income	-	-
Finance costs – net	(48)	(41)
(Loss)/profit before tax	(31)	7
Income tax credit	1	-
(Loss)/profit for the period	(30)	7

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

ERC Ireland Finance Limited

Consolidated Income Statement - unaudited
For the six-month period ended 31 December 2010

		<u>31 Dec 2009</u>	<u>31 Dec 2010</u>
		€m	€m
Revenue	3	933	880
Operating costs excluding amortisation, depreciation and exceptional items		(617)	(557)
Amortisation		(51)	(49)
Depreciation		(159)	(149)
Exceptional items	4	(31)	(7)
Loss on disposal of property and investments		-	(2)
Operating profit	3	75	116
Finance costs		(90)	(85)
Finance income		2	1
Finance costs – net	5	(88)	(84)
(Loss)/profit before tax		(13)	32
Income tax charge	6	(1)	(4)
(Loss)/profit for the period		(14)	28

Group statement of comprehensive income - unaudited
For the six-month period ended 31 December 2010

		<u>31 Dec 2009</u>	<u>31 Dec 2010</u>
		€m	€m
(Loss)/profit for the financial period attributable to equity holders of the parent		(14)	28
Other comprehensive (expense)/income:			
Net changes in cash flow hedge reserve:			
- Fair value loss in period		(21)	(1)
- Transfer to income statement		9	18
- Tax on cash flow hedge movements		1	(2)
Other comprehensive (expense)/income for the period, net of tax		(11)	15
Total comprehensive (expense)/income for the financial period		(25)	43

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

ERC Ireland Finance Limited

Consolidated Balance Sheet - unaudited As at 31 December 2010

	Notes	30 June 2010 €m	31 Dec 2010 €m
Assets			
Non-current assets			
Goodwill		1,622	1,622
Other intangible assets		672	638
Property, plant and equipment		1,882	1,774
Retirement benefit asset	9	42	43
Deferred tax assets		1	1
Other assets		2	1
		4,221	4,079
Current assets			
Inventories		9	12
Trade and other receivables	7	284	296
Receivables due from group undertakings and related parties		9	9
Assets held for resale		20	-
Other assets		1	-
Restricted cash		7	7
Cash and cash equivalents		397	377
		727	701
Total assets		4,948	4,780
Liabilities			
Non-current liabilities			
Borrowings	8	3,428	3,407
Derivative financial instruments		81	43
Trade and other payables		58	63
Capital grants		2	2
Deferred tax liabilities		187	181
Provisions for other liabilities and charges	10	190	179
		3,946	3,875
Current liabilities			
Borrowings	8	97	43
Derivative financial instruments		59	56
Trade and other payables		630	537
Inter-company payables to group undertakings		4	8
Current tax liabilities		23	27
Provisions for other liabilities and charges	10	55	57
		868	728
Total liabilities		4,814	4,603
Equity			
Equity share capital		2	2
Share premium account		861	861
Revaluation reserve		3	3
Cash flow hedging reserve		(74)	(59)
Retained loss		(658)	(630)
Total equity		134	177
Total liabilities and equity		4,948	4,780

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 31 December 2010

	31 Dec 2009	31 Dec 2010
	€m	€m
Cash flows from operating activities		
Cash generated from operations	216	146
Interest paid	(22)	(31)
Income tax paid (net)	(7)	(9)
Net cash generated from operating activities	187	106
Cash flows from investing activities		
Purchase of property, plant and equipment ("PPE")	(64)	(27)
Purchase of intangible assets	(10)	(7)
Net cash used in investing activities	(74)	(34)
Cash flows from financing activities		
Repayment of borrowings	(54)	(57)
Lease payments	(1)	-
Proceeds from loan borrowings	5	-
Net cash used in financing activities	(50)	(57)
Net increase in cash, cash equivalents and bank overdrafts	63	15
Cash, cash equivalents and bank overdrafts at beginning of period	217	361
Cash, cash equivalents and bank overdrafts at end of period	280	376

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

ERC Ireland Finance Limited

Consolidated cash flow statement - unaudited
For the six-month period ended 31 December 2010

	Notes	<u>31 Dec 2009</u>	<u>31 Dec 2010</u>
		€m	€m
Cash flows from operating activities			
Cash generated from operations	11	291	241
Interest received		1	1
Interest paid		(107)	(110)
Income tax paid (net)		(12)	(9)
Net cash generated from operating activities		173	123
Cash flows from investing activities			
Purchase of property, plant and equipment ("PPE")		(137)	(63)
Proceeds from sale of PPE and investments		-	19
Purchase of intangible assets		(29)	(20)
Loan repayment received from group undertaking		1	-
Net cash used in investing activities		(165)	(64)
Cash flows from financing activities			
Repayment of borrowings		(73)	(79)
Lease payments		(1)	-
Proceeds from loan borrowings		13	-
Net cash used in financing activities		(61)	(79)
Net decrease in cash, cash equivalents and bank overdrafts		(53)	(20)
Cash, cash equivalents and bank overdrafts at beginning of period		333	396
Cash, cash equivalents and bank overdrafts at end of period		280	376

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

	<u>31 Dec 2009</u>	<u>31 Dec 2010</u>
	€m	€m
Cash and cash equivalents	280	377
Bank overdrafts	-	(1)
	280	376

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 six-month period ended 31 December 2010

	Equity share capital €m	Share premium account €m	Revaluation €m	Cash flow hedging reserve €m	Retained loss €m	Total equity €m
Balance at 30 June 2009	2	861	3	(51)	(752)	63
Cash flow hedge:						
- Fair value loss in period	-	-	-	(21)	-	(21)
- Transfer to income statement	-	-	-	9	-	9
- Tax on cash flow hedge movements	-	-	-	1	-	1
Net expense recognised directly in equity	-	-	-	(11)	-	(11)
Loss for the period	-	-	-	-	(14)	(14)
Total recognised expense for the period	-	-	-	(11)	(14)	(25)
Balance at 31 Dec 2009	2	861	3	(62)	(766)	38
Balance at 30 June 2010	2	861	3	(74)	(658)	134
Cash flow hedge:						
- Fair value loss in period	-	-	-	(1)	-	(1)
- Transfer to income statement	-	-	-	18	-	18
- Tax on cash flow hedge movements	-	-	-	(2)	-	(2)
Net income recognised directly in equity	-	-	-	15	-	15
Profit for the period	-	-	-	-	28	28
Total recognised income for the period	-	-	-	15	28	43
Balance at 31 Dec 2010	2	861	3	(59)	(630)	177

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, Uglan House, South Church Street, Grand Cayman, Cayman Islands.

This condensed consolidated interim financial information was approved for issue on 1 March 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, other than surplus properties, as at 31 December 2010.

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

The group is in full compliance with all its financial covenants as at 31 December 2010. The group's bank and other borrowings include borrowings of €3,103 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 31 December 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 31 December 2010, the group had €76 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, depending on trading conditions, the group will breach its financial covenants with its lenders within either the next three or six 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 executes 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 intend that discussions will take place with the group's lenders with respect to the overall financial position of the group. They also intend that discussions will continue with the group's shareholders in relation to the exercise of 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 31 December 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 six months ended 31 December 2010 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	687	219	(26)	880
Adjusted EBITDA *	289	33	-	322
Non-cash pension credit	1	-	-	1
Amortisation	(22)	(27)	-	(49)
Depreciation	(128)	(21)	-	(149)
Exceptional items	(7)	-	-	(7)
Loss on disposal of property, plant and equipment	(2)	-	-	(2)
Operating profit/(loss)	131	(15)	-	116

The segment results for the six months ended 31 December 2009 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	723	239	(29)	933
Adjusted EBITDA *	276	51	-	327
Non-cash pension charge	(11)	-	-	(11)
Amortisation	(25)	(26)	-	(51)
Depreciation	(130)	(29)	-	(159)
Exceptional items	(31)	-	-	(31)
Operating profit/(loss)	79	(4)	-	75

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

4. Exceptional items

	31 Dec 2009 €m	31 Dec 2010 €m
Impairment of surplus properties	18	2
Restructuring programme costs	-	5
Other exceptional items	13	-
	31	7

The group has adopted an income statement format which seeks to highlight significant items within group results for the period. The group believe that this presentation provides additional analysis as it highlights one-off items. Judgement is used by the group in assessing the particular items, which by virtue of their scale and nature, are disclosed in the group income statement and related notes as exceptional items.

Impairment of surplus properties

The group incurred impairment charges of €2 million in the period ended 31 December 2010 (31 Dec 2009: €8 million) in respect of a small number of surplus properties, which have been identified for future disposal. The charge reflects a further decline in the fair value of properties and additional properties no longer in use in the fixed line business at 31 December 2010.

Restructuring programme costs

The group has included an exceptional charge of €5 million for restructuring programme costs for additional staff exits in the period ended 31 December 2010. The exceptional charge reflects those staff who were committed to exiting the business at 31 December 2010. No provision has been included in respect of future staff exits not committed at 31 December 2010 and any further costs will be charged to the income statement in future periods.

ERC Ireland Finance Limited

Selected notes to the condensed interim financial information – unaudited

4. Exceptional items - continued

Other exceptional items

The group has a significant property portfolio comprising of freehold and leasehold properties to accommodate the group's network and office accommodation required for its staff. As part of the group's overall portfolio, the group also leases a number of properties from third parties under long-term lease arrangements. Where the group no longer requires these properties, the group sub-leases the properties to third parties or disposes of properties no longer required. As a result of the rationalisation of the group's accommodation requirements there are a number of leased properties which are vacant or where rental contracts with sub-lease tenants are not sufficient to meet all of the lease obligations. Provision has been made in respect of the estimated cash outflow required to settle the group's obligation under these leases.

In the period ended 31 December 2009, the group included an exceptional charge of €1 million for onerous contracts in respect of leased properties and €2 million for other costs.

5. Finance costs – net

	31 Dec 2009 €m	31 Dec 2010 €m
Finance costs	(90)	(85)
Finance income	2	1
Finance costs – net	(88)	(84)

In the six months ended 31 December 2010, finance costs includes a €3 million credit (31 Dec 2009: €4 million credit) to reflect movements in the fair value of derivatives, which did not qualify for hedge accounting during the period.

6. Income tax charge

Reconciliation of effective tax rate

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

	31 Dec 2009 €m	31 Dec 2010 €m
(Loss)/profit before tax	(13)	32
Tax calculated at Irish standard tax rate of 12.5%	(2)	4
<i>Effects of:-</i>		
Non deductible expenses (net)	5	-
Adjustment in respect of prior periods	(2)	-
Tax charge for the period	1	4

7. Trade and other receivables

During the six months ended 31 December 2010, the group recognised a provision for impaired receivables of €6 million (31 Dec 2009: €12 million), reversed provisions for impaired receivables of €Nil (31 Dec 2009: €1 million) and utilised provisions for impaired receivables of €1 million (31 Dec 2009: € million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

ERC Ireland Finance Limited

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

8. 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
As at 31 Dec 2010					
Floating rate notes due 2016	-	-	-	350	350
Other borrowings	54	77	2,662	355	3,148
Debt issue costs	(12)	(11)	(24)	(2)	(49)
Bank overdraft	1	-	-	-	1
	43	66	2,638	703	3,450
As at 30 June 2010					
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
	97	81	1,438	1,909	3,525

Other borrowings, at 31 December 2010, include borrowings under a Senior Credit Facility of €3,103 million (30 June 2010: €3,180 million) and our share of borrowings in respect of our joint venture, Tetra Ireland Communications Limited ("Tetra"), of €45 million (30 June 2010: €48 million).

Interest accrued on borrowings at 31 December 2010 is €22 million (30 June 2010: €31 million). This is included in trade and other payables.

9. Pensions

The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature. The group has applied the corridor approach, which leaves some actuarial gains and losses unrecognised as permitted by IAS 19. The corridor approach has been applied from the acquisition date of eircom Group, 18 August 2006.

Pension scheme obligation

The status of the principal scheme at 31 December 2010 is as follows:

	30 June 2010 €m	31 Dec 2010 €m
Present value of funded obligations	(2,621)	(2,555)
Fair value of scheme assets	2,470	2,660
(Benefit obligation in excess of scheme assets)/ Scheme assets in excess of benefit obligation	(151)	105
Unrecognised actuarial losses/(gains)	193	(62)
Asset recognised in the balance sheet	42	43

As the group has adopted the corridor approach, the pension asset included in the group's balance sheet at 31 December 2010 includes unrecognised actuarial gains of €62 million and the asset recognised in the balance sheet is €43 million compared to scheme assets in excess of benefit obligation of €105 million.

Under the corridor approach, unrecognised actuarial gains and losses outside the corridor are recognised over the expected average remaining working lives of the employees, based on the unrecognised actuarial gains and losses at the start of the financial year (i.e. 1 July 2010) and consequently the charge for the six months ended 31 December 2010 does not reflect the movements in the assets and liabilities of the pension scheme since 1 July 2010. The amortisation is only re-measured during the year when there has been a material change in the obligations in respect of the pension scheme.

ERC Ireland Finance Limited

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

9. Pensions - continued

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2009	At 30 June 2010	At 31 Dec 2010
Rate of increase in salaries	2.80% ⁽¹⁾	1.80% - 2.00% ⁽²⁾	1.90% ⁽²⁾
Rate of increase in pensions in payment	2.80% ⁽¹⁾	1.80% - 2.00% ⁽²⁾	1.90% ⁽²⁾
Discount rate	5.75%	5.00%	5.40%
Inflation assumption	2.00%	2.00%	2.00%
Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old male	86 years	86 years	88 years
Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old female	89 years	89 years	89 years
Mortality assumptions – Future retirements - Implied life expectancy for 65 year old male	87 years	87 years	90 years
Mortality assumptions – Future retirements - Implied life expectancy for 65 year old female	90 years	90 years	91 years

(1) The assumptions at 30 June 2009 reflected the agreed pay freeze up to 30 June 2011 with the stated rate applying thereafter.

(2) The assumptions at 30 June 2010 and 31 December 2010 reflected the agreed pay freeze up to 30 June 2011, the agreed freeze on pensionable pay up to 31 December 2013 and the imposition of a cap on the increases in pensionable pay thereafter to the lower of CPI, salary inflation or agreed fixed annual rates.

10. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Onerous Contracts €m	Other €m	Total €m
At 30 June 2010	79	66	100	245
Charged to consolidated income statement:				
- Additional provisions	-	-	2	2
- Unwinding of discount	1	1	1	3
Utilised in the financial period	(9)	(3)	(2)	(14)
At 31 Dec 2010	71	64	101	236

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

	30 June 2010 €m	31 Dec 2010 €m
Non-current	190	179
Current	55	57
	245	236

ERC Ireland Finance Limited

Selected notes to the condensed interim financial information – unaudited

11. Cash generated from operations

	31 Dec 2009 €m	31 Dec 2010 €m
(Loss)/profit after tax	(14)	28
Add back:		
Income tax charge	1	4
Finance costs – net	88	84
Operating profit	75	116
Adjustments for:		
- Loss on disposal of property, plant and equipment	-	2
- Depreciation, amortisation and other impairments	210	198
- Non cash retirement benefit charge/(credit)	11	(1)
- Non cash exceptional items	31	7
- Other non cash movements in provisions	1	2
Cash flows relating to restructuring, onerous contracts and other provisions	(37)	(72)
Cash flows relating to construction contract	-	(2)
Changes in working capital		
Inventories	(2)	(3)
Trade and other receivables	39	(12)
Trade and other payables	(46)	3
Inter-company payables to group undertakings (net)	9	3
Cash generated from operations	291	241

12. Contingent liabilities

There have been no 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.

ERC Ireland Finance Limited

Selected notes to the condensed interim financial information – unaudited

13. 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 €3.6 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 €3.3 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 ("ERICIH") 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 ERICIH 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 ERICIH.

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.

14. 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.

15. Commitments

Operating lease commitments

The group's operating lease contractual obligations and commitment payments were €526 million at 31 December 2010 (30 June 2010: €470 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 €44 million at 31 December 2010 (30 June 2010: €31 million).

ERC Ireland Finance Limited

Selected notes to the condensed interim financial information – unaudited

16. Related party transactions

The following transactions occurred with related parties:

During the period ended 31 December 2010, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra of €3.1 million (31 December 2009: €3.1 million). The gross amount outstanding in respect of these costs is €2.8 million at 31 December 2010 (30 June 2010: €4.1 million).

During the period ended 31 December 2010, the group paid €0.2 million (31 December 2009: €0.2 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 costs were not recharged to ERC ESOT Services Limited. The amount outstanding in respect of costs recharged in prior periods is €0.3 million at 31 December 2010 (30 June 2010: €0.3 million).

During the period ended 31 December 2010, the group recharged costs to ERCIE of €0.9 million (31 December 2009: €Nil). The amount outstanding in respect of these costs is €7.1 million at 31 December 2010 (30 June 2010: €6.2 million).

The income statement includes management charges from ERCIE of €4.8 million (31 December 2009: €5.5 million). The amount outstanding in respect of these costs is €8 million at 31 December 2010 (30 June 2010: €4.1 million).

17. Comparative information

Certain comparative information have been regrouped and restated in accordance with the presentation adopted in the current financial period.

Commentary on results of operations for the quarter ended 31 December 2010

Overview

Group EBITDA, before non-cash pension charge/(credit), exceptional items and profit on disposal of property, plant and equipment, of €154 million for the quarter ended 31 December 2010, down €5 million compared with the corresponding quarter ended 31 December 2009; with higher contribution from our Fixed Line, offset by lower profits in our mobile business due to reduced revenue, as well as start-up costs relating to the launch of eMobile.

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 ²
	31 Dec 2009	31 Dec 2010	2009/2010
	€'m	€'m	%
Fixed line services and other revenue	359	339	(6)
Mobile services revenue	120	111	(8)
Total segmental revenue	479	450	(6)
Intracompany eliminations	(14)	(12)	(10)
Total revenue	465	438	(6)

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 ²
	31 Dec 2009	31 Dec 2010	2009/2010
	€'m	€'m	%
Access (rental and connections)	166	160	(4)
Voice traffic	84	86	2
Advanced voice services traffic	16	12	(22)
Total voice traffic	100	98	(2)
Data traffic	4	2	(51)
Total voice and data traffic	104	100	(4)
Data communications	39	36	(8)
Interconnect services	41	39	(6)
Other products and services	45	43	(4)
Revenue before discounts	395	378	(5)
Discounts*	(36)	(39)	5
Total fixed line services and other revenue	359	339	(6)
Intracompany eliminations	(8)	(8)	6
Total fixed line services and other revenue	351	331	(6)

*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 31 December 2010 decreased by 6%, compared with the corresponding quarter ended 31 December 2009, with reductions across all major categories, and higher discounts, reflecting an increased proportion of bundled products, and increased discounts for customers availing of bundled products, which effectively off-set the impact of call rounding for those customers .

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:

	In the quarter ended		% Change²
	31 Dec 2009	31 Dec 2010	2009/2010
	€'m	€'m	%
Total access revenue (excl. LLU/Line Share)			
Line and equipment rental	97	91	(6)
Connection and other charges	3	1	(67)
ADSL and bitstream rental and connection	46	48	4
PSTN and ISDN WLR rental and connection	20	20	-
Total access revenue	166	160	(4)
Access channels (in thousands at period end, except percentages)			
PSTN	1,181	1,108	(6)
PSTN WLR	324	322	(1)
Total PSTN	1,505	1,430	(5)
ISDN	322	293	(9)
ISDN WLR	69	73	6
Total ISDN	391	366	(6)
ADSL and bitstream (excluding LLU/Line Share)	691	683	(1)
Total access channels (excluding LLU/Line Share)	2,587	2,479	(4)

Revenue from access (before discounts) fell by 4% in the quarter ended 31 December 2010, compared with the corresponding quarter of the prior year. Lower revenues from line and equipment rental and connection revenue were partially offset by increased ADSL and bitstream revenue. Bundle discounts, which represent a significant proportion of total discounts, have increased in the quarter ended 31 December 2010, reflecting the higher proportion of bundled packages and an increased number of promotional lines with free rental. Wholesale Line Rental ("WLR") rental and connection revenue remained flat, compared with the corresponding prior year quarter.

Line and equipment rental revenue decreased by 6% in the quarter ended 31 December 2010, compared with the corresponding quarter ended 31 December 2009, reflecting the continued 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.

Connection and other charges in the quarter were € million lower than in the corresponding quarter of the prior year mainly due to the fall-off in connections resulting from lower economic activity and growth in competition.

ADSL and bitstream revenue (before discounts) increased by 4% in the quarter ended 31 December 2010. This is largely due to the migration of customers to higher value broadband packages in the Retail segment. By 31 December 2010, the number of ADSL and bitstream lines had decreased to approximately 683,000, down approximately 8,000 from approximately 691,000 as at 31 December 2009, largely due to migration of customers from Wholesale bitstream to Line Share under Local Loop Unbundling ("LLU") in the current year. The revenue from LLU is included below under Other Products and Services. Retail broadband customers have increased by 9,000, compared with 31 December 2009, to 500,000 customers.

As at 31 December 2010, approximately 322,000 PSTN lines and 73,000 ISDN channels were provided to other authorised operators on WLR, a decrease of 1% and an increase of 6% respectively, over volumes as at 31 December 2009. WLR rental and connection yielded revenues of approximately €20 million for the quarter ended 31 December 2010, remaining broadly in line with the corresponding quarter ended 31 December 2009, as lower PSTN volumes have been compensated for by increased higher-value ISDN customers.

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 ² 2009/2010 %
	31 Dec 2009 €'m	31 Dec 2010 €'m	
Revenue			
Basic voice traffic revenue			
Local	21	23	5
National	12	12	(1)
Fixed to mobile	34	35	5
International	17	16	(6)
Total basic voice traffic revenue	84	86	2
Advanced voice services traffic revenue	16	12	(22)
Total voice traffic revenue	100	98	(2)
Data traffic revenue	4	2	(51)
Total traffic revenue	104	100	(4)
Traffic (in millions of minutes, except percentages)			
Local	547	517	(6)
National	203	182	(10)
Fixed to mobile	185	157	(15)
International	82	73	(11)
Total basic voice traffic minutes	1,017	929	(9)
Advanced voice services minutes	143	127	(12)
Total voice minutes	1,160	1,056	(9)
Data traffic minutes	143	71	(50)
Total traffic minutes	1,303	1,127	(14)

Overall revenue (before discounts) from voice and data traffic decreased by 4% in the quarter ended 31 December 2010.

Voice traffic

Basic voice traffic revenue (before discounts) increased by 2% for the quarter ended 31 December 2010, compared with the corresponding quarter ended 31 December 2009. Basic voice traffic volumes declined by 9% compared with the corresponding quarter of the prior year. The decline in volumes is lower than experienced in recent quarters, and volumes were in fact 5% higher than in the preceding quarter to September 2010, due in part to the impact of bad weather experienced in the current quarter, which led to increased telephone call activity. The decline in volumes was 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 31 December 2010, reflecting higher proportion 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 22% in the quarter ended 31 December 2010, although it has remained broadly in line with the preceding quarter ended 30 September 2010. This is due to a reduction in volumes as fewer customers avail of products such as Virtual Private Networks, a reduction in the number of Freephone minutes, and a change in traffic mix.

Data traffic

Revenue from internet and other dial-up traffic (before discounts) decreased by 51% in the quarter ended 31 December 2010, compared with the corresponding quarter ended 31 December 2009, with volumes continuing to decline due to the 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:

	In the quarter ended		% Change ² 2009/2010
	31 Dec 2009	31 Dec 2010	
	€'m	€'m	
Data communications revenue			
Leased lines (including Partial Private Circuits)	21	19	(9)
Switched data and IP network services	15	15	(4)
ISP & VAS revenue	3	2	(23)
Total data communications revenue	39	36	(8)
Number of leased lines (at period end, except percentages)			
National leased lines	7,365	6,024	(18)
Partial private circuits	6,211	5,951	(4)
International leased lines	256	240	(6)
Interconnect paths	987	772	(22)
Total leased lines	14,819	12,987	(12)

Revenue from data communications (before discounts) decreased by 8% in the quarter ended 31 December 2010, primarily due to lower leased line revenue due to a drop in volumes as customers continue to rationalise their networks as well as migrating to alternative higher speed services. Revenue from Switched Data and IP network services fell by 4% in the quarter due to lower activity, while ISP and Value Added Services ("VAS") revenue was also lower.

Leased lines (including Partial Private Circuits) revenue and volumes include circuits leased internally by Meteor and Tetra for their business and operations. These account for a significant proportion of overall Leased Line revenues and volumes.

Interconnect services

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

	In the quarter ended		% Change ² 2009/2010
	31 Dec 2009	31 Dec 2010	
	€'m	€'m	%
Interconnect services revenue			
Interconnect	21	20	(6)
Foreign terminating traffic	20	19	(6)
Total interconnect services revenue	41	39	(6)
Interconnect services traffic (in millions of minutes, except percentages)			
Call origination	466	419	(10)
Call termination	632	623	(1)
Transit to mobile/fixed	147	184	26
Ancillary	36	34	(4)
International	85	63	(27)
Total interconnect	1,366	1,323	(3)
Foreign terminating traffic	612	637	4
Total interconnect services traffic	1,978	1,960	(1)

Interconnect services revenue fell by 6% in the quarter ended 31 December 2010, while remaining broadly in line with the quarter ended 30 September 2010.

Revenue from interconnect fell by 6% in the quarter ended 31 December 2010, compared with the quarter ended 31 December 2009, mainly due to a reduction in traffic from OAOs, as well as a 7% reduction in call origination and termination rates, effective from 1 April 2010.

Call origination and call termination minutes have decreased by 10% and 1% respectively, compared with the quarter ended 31 December 2009. This is due to a reduction in the size of the base on which calls can originate and terminate, as a result of market contraction and increased competition. Origination and termination volumes have increased compared with the quarter ended 30 September 2010, largely as a result of increased market activity in the current quarter mainly due to bad weather and other seasonal factors. Domestic transit volumes have increased by 26%, compared with the prior year quarter as OAOs continue to use our network to interconnect with one another. Ancillary traffic volumes fell in line with the decline in demand for these services.

Revenue from foreign terminating traffic decreased by 6% in the quarter ended 31 December 2010, despite a 4% increase in volumes, and is mainly due to a change in mix of traffic in the quarter, as well as a reduction in mobile termination rates in April and October 2010.

Operating costs before amortisation, depreciation and exceptional costs

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

	In the quarter ended		% Change ² 2009/2010 %
	31 Dec 2009 €'m	31 Dec 2010 €'m	
Staff costs			
Fixed line			
Wages and salaries and other staff costs	80	72	(11)
Social welfare costs	3	3	(10)
Pension paid and payable	6	5	(7)
Pay costs before non-cash pension charge/(credit) and capitalisation	89	80	(11)
Non-cash pension charge/(credit)	5	-	(108)
Pay costs before capitalisation	94	80	(16)
Capitalised labour	(15)	(11)	(27)
Total fixed line services staff costs	79	69	(14)
Mobile services staff costs (net of capitalised labour)	11	12	5
Total staff costs	90	81	(12)
Other operating costs			
Fixed line costs			
Payments to telecommunications operators	60	50	(15)
Purchase of goods for resale, commission and related costs	18	15	(16)
Materials and services	8	7	(9)
Other network costs	6	6	4
Accommodation	15	15	(5)
Sales and marketing	9	8	(6)
Transport and travel	4	3	(24)
IT costs	2	3	38
Other costs	27	18	(32)
Total other fixed line operating costs	149	125	(15)
Mobile services costs	86	90	4
Total other operating costs	235	215	(8)
Intracompany eliminations	(14)	(12)	(10)
Total other operating costs	221	203	(8)
Total operating costs before amortisation, depreciation and exceptional costs	311	284	(9)

Total operating costs before amortisation, depreciation and exceptional costs decreased by 9%, compared with the corresponding quarter of the prior year.

Staff costs

Total staff costs decreased by 12% in the quarter ended 31 December 2010, primarily due to lower Fixed Line wages and salaries and a reduction in non-cash pension charge to nil from €5 million in the corresponding quarter of the prior year. These savings were partially offset by lower capitalised labour in both the Fixed Line and mobile.

The group adopts the corridor approach to accounting for pension obligations under IAS 19. Accordingly the pension charges are determined based on the pension assets, liabilities and unamortised actuarial losses as at 30 June 2010, and have not been updated for actuarial changes in assets and liabilities that have occurred in the period to 31 December 2010. See note 9.

Fixed line pay costs, before non-cash pension charge and capitalisation, decreased by 11% compared with the quarter ended 31 December 2009, with lower fixed line headcount resulting in lower wages and salaries, and also due to reduced overtime. Fixed line capitalised labour decreased by 27% in the quarter due mainly to reduced activity.

Mobile staff pay costs have increased by 5%, compared to the quarter ended 31 December 2009, mainly due to increased recruitment of staff for eMobile, lower capitalised labour due to reduced activity, and the impact of a provision release in the prior year quarter, partially offset by lower wages and salaries due to a reduction in headcount in other areas.

Headcount in Fixed Line services at 31 December 2010 was 5,387, down 10% from 6,009 at 31 December 2009, mainly as a result of voluntary leaving programmes. In addition, there were 31 agency staff at 31 December 2010, compared with 35 at 31 December 2009. Headcount in our Mobile division as at 31 December 2010 was 724, down 6% from 768 at 31 December 2009, due mainly to voluntary leaving programmes as well as some natural turnover, partially offset by the recruitment of staff relating to eMobile. There were 57 Agency staff in our Mobile division at 31 December 2010, compared with 59 at 31 December 2009. The costs of agency staff are included within staff costs.

Total other operating costs

Total other operating costs decreased by 8% in the quarter ended 31 December 2010, with reduction across most major categories of costs in the Fixed Line, partially offset by increases in mobile, due to the launch of eircom Mobile.

Fixed line operating costs

Fixed line operating costs in the quarter ended 31 December 2010 decreased by 15% compared with the quarter to 31 December 2009. Payments to other telecommunications operators decreased by 15%, mainly due to reductions in Mobile Termination Rates, as well as lower volumes in line with the reduction in interconnect traffic volumes. The cost of goods for resale, commissions and related costs decreased by 16% mainly as a result of reduced CPE and other sales. Materials and services decreased by 9% due to lower maintenance and provisioning volume costs, lower external contractor costs and price savings achieved. Sales and Marketing costs were 6% lower mainly as a result reduced sponsorship activity. Transport and travel costs were down 24%, due to the continuing decline in travel, and other costs fell by 32%, primarily due to a reduction in bad debts, and lower consultancy costs. IT costs increased by 38% in the quarter due to the release of a provision in the prior year.

Mobile operating costs

Total operating costs for the mobile segment were €90 million for the quarter, an increase of 4% compared with the corresponding quarter ended 31 December 2009, due mainly to an increase in sales and marketing and other costs relating to the launch of eMobile and the timing of Christmas campaigns, higher acquisition costs relating to increased numbers of post pay customers, and increased leased line and other network costs due to the rollout of our 3G network and the growth of mobile broadband.

Amortisation

Amortisation for the quarter ended 31 December 2010 was €2 million lower than in the corresponding quarter of the prior year, mainly due to certain intangible assets being fully amortised.

Depreciation

Depreciation for the quarter ended 31 December 2010 decreased by 6%, compared with the quarter ended 31 December 2009, primarily due to a reduction in the level of new assets acquired, and assets reaching the end of their depreciable lives.

Exceptional Items

There were total exceptional costs of €7 million in the quarter, compared with €31 million in the corresponding quarter of the prior year. (See Note 4 on page 16)

Finance costs (net)

The Group's net finance costs for the quarter to 31 December 2010 are €41 million, down €7 million compared with the corresponding quarter ended 31 December 2009. The reduction in finance charges is due primarily to an increase in the credit included to reflect movements in the fair value of derivatives not qualifying for hedge accounting during the period.

Taxation

The tax charge for the quarter to 31 December 2010 is nil, compared with a credit of €1 million in the prior year.

Commentary on results of operations for the six-month period ended 31 December 2010

Overview

Group EBITDA from continuing operations, before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment, of €322 million for the six-month period ended 31 December 2010, compared with €327 million for the corresponding prior year period. This was driven by lower contribution from our Mobile business, partially offset by an increase in contribution from Fixed Line.

Revenue

Overall revenue for the period decreased by 6% compared with the prior year period. The following table shows certain segmental revenue information relating to our business for the periods indicated:

	In the six months ended		% Change ² 2009/2010 %
	31 Dec 2009 €'m	31 Dec 2010 €'m	
Fixed line services and other revenue	723	687	(5)
Mobile services revenue	239	219	(9)
Total segmental revenue	962	906	(6)
Intracompany eliminations	(29)	(26)	(11)
Total revenue	933	880	(6)

Fixed line services and other revenue

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

	In the six months ended		% Change ² 2009/2010 %
	31 Dec 2009 €'m	31 Dec 2010 €'m	
Access (rental and connections)	333	323	(3)
Voice traffic	171	172	1
Advanced voice services traffic	33	25	(26)
Total voice traffic	204	197	(4)
Data traffic	8	4	(50)
Total voice and data traffic	212	201	(6)
Data communications	80	75	(7)
Interconnect services	84	78	(7)
Other products and services	84	85	1
Revenue before discounts	793	762	(4)
Discounts*	(70)	(75)	7
Total fixed line services and other revenue	723	687	(5)
Intracompany eliminations	(16)	(17)	2
Total fixed line services and other revenue	707	670	(5)

*Discounts are primarily related to revenue derived from access, voice and data traffic and ADSL and bit-stream, which are presented on a gross basis in the table above.

Total fixed line services and other revenue for the six-month period ended 31 December 2010 were 5% lower than for the corresponding prior year period ended 31 December 2009. Revenues decreased across most categories, while discounts increased by 7% in the six months ended 31 December 2010, reflecting an increased proportion of bundled products, and increased discounts for customers availing of bundled products, which effectively off-set the impact of call rounding for those customers on bundled packages.

Access (rental and connections)

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

	In the six months ended		% Change ² 2009/2010 %
	31 Dec 2009	31 Dec 2010	
	€'m	€'m	
Total access revenue			
Line and equipment rental	195	182	(6)
Connection and other charges	6	4	(24)
ADSL and bitstream rental and connection	92	96	5
WLR rental and connection	40	41	1
Total access revenue (excl. LLU/Line Share)	333	323	(3)
Access channels (in thousands at period end, except percentages)			
PSTN	1,181	1,108	(6)
PSTN WLR	324	322	(1)
Total PSTN	1,505	1,430	(5)
ISDN	322	293	(9)
ISDN WLR	69	73	6
Total ISDN	391	366	(6)
ADSL and bitstream (excl. LLU/Line Share)	691	683	(1)
Total access channels (excl. LLU/Line Share)	2,587	2,479	(4)

Revenue (before discounts) from access was 3% lower in the six-month period ended 31 December 2010, compared with the corresponding prior year period. Lower revenues from Line and equipment rental, and connection and other charges, were partially offset by an increase in ADSL and bitstream revenue, and WLR rental and connection revenue. Bundle discounts represent a significant proportion of total discounts and have increased significantly in the six months ended 31 December 2010, reflecting the higher proportion of bundled packages with broadband offerings, and an increased number of promotional lines with free rental. Wholesale Line Rental ("WLR") rental and connection revenue increased by 1% compared with the corresponding prior year period.

Line and equipment rental revenue decreased by 6% in the six-month period ended 31 December 2010, compared with the corresponding prior year period, mainly due to a decline in PSTN and ISDN channels, which have been impacted by the slowdown in economic activity and the continuing migration of customers to other operators and to mobile. Retail PSTN lines now stand at 1.108 million, a reduction of 6% compared with 31 December 2009.

Revenue from connection and other charges decreased by 24%, compared with the corresponding prior year period ended 31 December 2009, due to a reduction in the numbers of PSTN and ISDN connections as a result of reduced economic activity, and increased competition.

ADSL and bitstream revenue (before discounts) increased by 5% in the six-month period ended 31 December 2010, despite a marginal reduction in the number of broadband customers. This is largely due to the migration of customers to higher value, high speed packages, particularly in the Retail segment. By 31 December 2010, the number of ADSL and bitstream lines had decreased to approximately 683,000 lines, down 1% from approximately 691,000 at 31 December 2009, largely due to the migration of wholesale customers from bitstream to Line Share under Local Loop Unbundling (LLU) in the current year. Revenue from LLU is included below in Other Products and Services.

As at 31 December 2010 approximately 322,000 PSTN lines and 73,000 ISDN channels had transferred to other authorised operators on WLR, a decrease of 1% and increase of 6% respectively over volumes at 31 December 2009, as a result of continuing competition in the market. WLR rental and connection yielded revenues of approximately €41 million in the six-month period ended 31 December 2010, an increase of 1% compared with the prior year period, as increased rental income was partially offset by lower connections revenue.

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 six months ended		% Change²
	31 Dec 2009	31 Dec 2010	2009/2010
	€'m	€'m	%
Revenue			
Basic voice traffic revenue			
Local	43	44	4
National	24	24	(2)
Fixed to mobile	69	71	3
International	35	33	(5)
Total basic voice traffic revenue	171	172	1
Advanced voice services traffic revenue	33	25	(26)
Total voice traffic revenue	204	197	(4)
Data traffic revenue	8	4	(50)
Total traffic revenue	212	201	(6)
Traffic (in millions of minutes, except percentages)			
Local	1,077	993	(8)
National	407	359	(12)
Fixed to mobile	379	317	(16)
International	166	147	(11)
Total basic voice traffic minutes	2,029	1,816	(10)
Advanced voice services minutes	299	259	(13)
Total voice minutes	2,328	2,075	(11)
Traffic data minutes	318	150	(53)
Total traffic minutes	2,646	2,225	(16)

Overall revenue from voice and data traffic (before discounts) decreased by 6% in the six-month period ended 31 December 2010.

Voice traffic

Basic voice traffic revenue (before discounts) increased by 1% in the six-month period ended 31 December 2010, while volumes decreased by 10% in the same period. The impact on revenue (before discounts) of the overall decline in traffic volumes arising from loss of market share and weakness in the traditional voice market and lower access volumes was offset by the impact of the introduction of call rounding with effect from July 2010. However, voice traffic discounts represent a significant proportion of total discounts and have increased significantly in the six month period ended 31 December 2010, reflecting the higher proportion of bundled packages and promotional activity in the current year, as well as increased discounts to offset the impact of call rounding charges on discounted packages.

Revenue relating to advanced voice services (before discounts) fell by 26% in the six-month period ended 31 December 2010, due to a continuing decline in VPN and a significant decline in PRS revenue.

Data traffic

Revenue from internet and other dial-up traffic (before discounts) decreased by 50% in the six-month period ended 31 December 2010, compared with the corresponding period ended 31 December 2009, in line with the ongoing decline in volumes resulting from the migration of internet users to ADSL and other higher speed services.

Data communications

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

	In the six months ended		% Change ² 2009/2010
	31 Dec 2009	31 Dec 2010	
	€'m	€'m	
Data communications revenue			
Leased lines (including Partial Private Circuits)	43	39	(9)
Switched data and IP network services	30	31	1
ISP & VAS revenue	7	5	(23)
Total data communications revenue	80	75	(7)
Number of leased lines (at period end, except percentages)			
National leased lines	7,365	6,024	(18)
Partial private circuits	6,211	5,951	(4)
International leased lines	256	240	(6)
Interconnect paths	987	772	(22)
Total leased lines	14,819	12,987	(12)

Revenue from data communications (before discounts) decreased by 7% in the six-month period ended 31 December 2010 compared with the prior year period, due to lower leased line revenues as customers rationalise their networks, or migrate to alternative higher speed services, and lower ISP and VAS revenue. Switched data and IP network services revenue increased by 1% compared with the prior year period. Leased Lines (including Partial Private Circuits) include circuits rented by Meteor and Tetra for use in their business and operations. These account for a significant proportion of overall Leased Line revenues and volumes.

Interconnect services

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

	In the six months ended		% Change ² 2009/2010
	31 Dec 2009	31 Dec 2010	
	€'m	€'m	%
Interconnect services revenue			
Interconnect	43	38	(12)
Foreign terminating traffic	41	40	(2)
Total interconnect services revenue	84	78	(7)
Interconnect services traffic (in millions of minutes, except percentages)			
Call origination	951	832	(13)
Call termination	1,267	1,211	(4)
Transit to mobile/fixed	297	356	20
Ancillary	76	71	(7)
International	184	122	(34)
Total interconnect	2,775	2,592	(7)
Foreign terminating traffic	1,215	1,283	6
Total interconnect services traffic	3,990	3,875	(3)

Interconnect services revenue fell by 7% in the six-month period ended 31 December 2010, compared with the corresponding prior year period primarily due to lower interconnect traffic.

Revenue from interconnect fell by 12% in the six-month period ended 31 December 2010, due to a reduction in traffic from OAOs and mobile operators and continued pressure on prices. Call origination and call termination volumes decreased by 13% and 4% respectively, due to a reduction in traffic from OAOs as a result of lower overall traffic market volumes and increased transfers to WLR. Ancillary traffic volumes fell by 7% reflecting declining demand for these services. Domestic transit volumes were 20% higher as OAO's continue to use our network to interconnect with one another. International interconnect traffic volumes fell by 34% due to lower demand.

Revenue from foreign terminating traffic in the six-month period ended 31 December 2010 fell by 2%, compared with the prior year period, primarily due to a reduction in mobile termination rates in April and October 2010.

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, UK and Northern Ireland operations. LLU, Line share and our share of revenue from Tetra.

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

	In the six months ended		% Change ² 2009/2010 %
	31 Dec 2009 €‘m	31 Dec 2010 €‘m	
Operator Services	15	16	1
CPE	16	14	(13)
Phonewatch	14	14	5
Other revenue	39	41	6
Other products and services revenue	84	85	1

Revenue from other products and services in the six-month period ended 31 December 2010 increased by 1% compared with the corresponding period ending 31 December 2009. Revenue from Operator services increased by 1%, while Phonewatch increased by 5% reflecting higher contribution from monitoring services. CPE revenues fell by 13% due to the continued impact of the economic slowdown. Other Revenue has increased 6%, compared with the prior year period, due to an increase in LLU volumes, as customers migrate from wholesale bitstream to Line Share, as well as an increase in the group’s share of revenue from Tetra, and our operations in the UK and Northern Ireland.

Discounts

Discounts in the six months to 31 December 2010 were 7% higher compared with the corresponding prior year period, reflecting the overall impact of call-rounding, growing take-up of promotions, the growing proportion of bundled packages in our product offering, including our latest fixed price bundles. This affects the pre-discount discussion and analysis in the revenue categories above.

Mobile services revenue

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

	In the six months ended		% Change ² 2009/2010 %
	31 Dec 2009 €‘m	31 Dec 2010 €‘m	
Mobile services:			
Prepaid	158	145	(8)
Postpaid	63	57	(11)
Services revenue	221	202	(9)
Other revenue	18	17	(3)
Total mobile services revenue	239	219	(9)
Intracompany eliminations	(13)	(9)	(27)
Total mobile services revenue	226	210	(8)
	As at		% Change ²
	31 Dec 2009	31 Dec 2010	2009/2010
Total subscribers (thousands)*:			
Pre-paid subscribers (thousands)	930	876	(6)
Post-paid subscribers (thousands)	156	176	13
Total subscribers (thousands)³	1,086	1,052	(3)
ARPU⁴ (€)	34.97	32.07	(8)

* eircom staff represents approximately 4,624 of these subscriber numbers (31 December 2009: 4,764)

Total revenue, before intra-company eliminations, was €19 million for the six-month period ended 31 December 2010, a decrease of 9% on the corresponding prior year period. This is primarily due to an increase in proportion of traffic generated as part of the bundled minutes within our own network, a change in usage patterns, lower termination and customer roaming rates, as well as increased numbers of lower value mobile broadband customers.

ARPU for the six-month period ended 31 December 2010 was €32.07, a decrease of 8% compared with the prior year period, due to lower prepaid and post-paid revenues, which have been impacted by lower average volumes and customers not exceeding their bundled minutes, and an increase in the number of lower value mobile broadband customers, partially offset by a higher proportion of post-paid customers. At 31 December 2010 there were 1,052,000 customers, a decrease of 3% compared with 31 December 2009. Customer numbers include c56,000 Mobile Broadband customers, up from c.32,000 as at 31 December 2009.

Operating costs before depreciation, amortisation, and exceptional costs

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

	In the six months ended		% Change² 2009/2010 %
	31 Dec 2009	31 Dec 2010	
	€'m	€'m	
Staff costs			
Fixed line			
Wages and salaries and other staff costs	160	144	(10)
Social welfare costs	7	6	(8)
Pension paid and payable	11	10	(8)
Pay costs before non-cash pension credit and capitalisation	178	160	(10)
Non-cash pension charge/(credit)	11	(1)	n/a
Pay costs before capitalisation	189	159	(16)
Capitalised labour	(29)	(21)	(26)
Total fixed line services staff costs	160	138	(14)
Mobile services staff costs (net of capitalised labour)	22	23	1
Total staff costs	182	161	(12)
Other operating costs			
Fixed line costs			
Payments to telecommunications operators	123	104	(15)
Purchase of goods for resale, commission and related costs	36	31	(12)
Materials and services	19	15	(21)
Other network costs	12	12	6
Accommodation	30	29	(5)
Sales and marketing	19	16	(12)
Transport and travel	8	7	(23)
IT costs	4	6	24
Other costs	47	39	(17)
Total other fixed line operating costs	298	259	(13)
Mobile services costs	166	163	(2)
Total other operating costs	464	422	(9)
Intracompany eliminations	(29)	(26)	(11)
Total other operating costs	435	396	(9)
Total operating costs before depreciation, amortisation, and exceptional costs	617	557	(10)

Total operating costs before amortisation, depreciation, and exceptional costs decreased by 10% in the six-month period ended 31 December 2010, compared with the prior year.

Staff costs

Total staff costs decreased by 12% in the six-month period ended 31 December 2010, due to lower Fixed line wages and salaries, partially offset by higher mobile pay costs and reduced capitalised labour.

The group adopts the corridor approach to accounting for pension obligations under IAS 19. Accordingly the pension charges are determined based on the pension assets, liabilities and unamortised actuarial losses as at 30 June 2010, and have not been updated for actuarial changes in assets and liabilities that have occurred in the period to 31 December 2010. See note 9 on page 18.

Fixed line staff costs in the six-month period ended 31 December 2010 were 14% lower compared with the corresponding prior year period ended 31 December 2009. This is due to the impact of a reduction in headcount as well as a €1 million non-cash pension credit for the period compared with a charge of €1 million for the corresponding prior year period. Fixed line pay costs, before non-cash pension charge/(credit) and capitalisation, decreased by 10% compared with the corresponding period ended 31 December 2009, primarily due to lower fixed line headcount, resulting in lower wages and salaries costs. This decrease was partially offset by a 26% reduction in Fixed line capitalised labour, mainly due to reduced activity.

Mobile services staff costs increased by 1%, compared to the prior year period, due to an increase in staff costs relating to the launch of eMobile, a provision release in the prior year period, and a reduction in capitalised labour due to lower activity, partially offset by lower mobile contractor costs.

Headcount in Fixed Line services at 31 December 2010 was 5,387, down 10% from 6,009 at 31 December 2009, mainly as a result of voluntary leaving programmes. In addition, there were 31 agency staff at 31 December 2010, compared with 35 at 31 December 2009. Headcount in our Mobile division as at 31 December 2010 was 724, down 6% from 768 at 31 December 2009, due mainly to voluntary leaving programmes as well as some natural turnover, partially offset by the recruitment of staff relating to eMobile. There were 57 Agency staff in our Mobile division at 31 December 2010, compared with 59 at 31 December 2009. The costs of agency staff are included within staff costs.

Total other operating costs

Total other operating costs decreased by 9% in the six month period to 31 December 2010 with reductions in both Fixed Line and Mobile segments.

Fixed line operating costs

Overall fixed line operating costs in the six-month period ended 31 December 2010 decreased by 13% compared with the corresponding prior year period ended 31 December 2009. Payments to other telecommunications operators decreased by 15%, due to lower interconnect traffic volumes to other operators, and a reduction in mobile termination rates. The cost of goods for resale, commissions and related costs decreased by 12%, mainly as a result of lower Customer Premises Equipment costs arising from reduced sales. Materials and services decreased by 21% due to lower provisioning and network maintenance costs and lower external contractor costs. Other network costs remained broadly flat. Accommodation costs fell 5% due to lower electricity, service and maintenance costs. Sales and Marketing costs were 12% lower as a result of reduced activity as well as price savings. Transport and travel costs were down 23%, due to cost savings as well as a decline in travel in the six-month period ended 31 December 2010, compared with the corresponding prior year period. IT costs increased by 24%, mainly due to the release of a provision in the prior year. The decrease in other costs is mainly due to lower bad debt charges, and reduced professional fees due to lower consultancy charges.

Mobile operating costs

Total operating costs for the mobile segment were €163 million, a decrease of 2% compared with the corresponding prior year period, primarily due to lower interconnect costs resulting from lower traffic volumes and rates, and reduced bad debts charges, partially offset by higher equipment and other charges relating to increased acquisition of post-paid customers in the current period, and higher network charges arising from the rollout of our 3G network and growing take up of mobile broadband.

Amortisation

Amortisation in the six months ended 31 December 2010 decreased by €2 million, compared with the corresponding prior year period, mainly due to certain intangible assets now being fully amortised.

Depreciation

The depreciation charge for the six months ended 31 December 2010 was €149 million, down 6% compared with the corresponding six-month period ended 31 December 2009, due to a reduction in the level of new assets acquired, as well as an increase in the proportion of fully depreciated assets.

Exceptional costs

Exceptional charges of €7 million were incurred in the six months ended 31 December 2010, primarily relating to restructuring costs for additional staff exits, and some additional impairment charges. This compares with exceptional charges of €31 million in the six months ended 31 December 2009, primarily for impairment of surplus properties and charges in respect of onerous contracts. See note 4 on page 16.

Finance costs (net)

The group's net finance costs for the six months ended 31 December 2010 were €84 million, down €4 million on the charge for the corresponding prior year period, mainly due to savings arising as a result of our current basis swap, and a reduction in finance costs associated with our Temporary Income Stream arrangement.

Taxation

The tax charge for the six months period to 31 December 2010 was €4 million, compared with a charge of €1 million in the prior corresponding period. The increase is due to the increase in taxable profits in the current period.

Liquidity

Net cash generated from 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, impairment and non-cash pension charge/(credit). Cash flows from operating activities are also impacted by working capital movements and restructuring payments. During the six-month period ended 31 December 2010, net cash generated from operating activities decreased to €123 million from €173 million in the corresponding prior year period. The reduction reflects primarily higher payments for restructuring as well as working capital outflows in the current period.

Cash flows from investing activities

In the six months ended 31 December 2010, we made payments in respect of capital expenditure of €83 million, down from €166 million in the corresponding prior year period due to the timing of payments as well as lower capital investments in the current period. Capital expenditure is used primarily to grow and renew our networks, including our 3G and Next Generation Networks.

Cash flows from financing activities

In the six months ended 31 December 2010, the group made repayments of €79 million in respect of its borrowings, including a prepayment of €57 million as a result of the level of cash generated in the year ended 31 June 2010, in accordance with the terms of its loan agreements.

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.

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 1 March 2011 at 12.00 noon local time in Ireland.
The dial-in number is +353 1 664 7603, Pin number 33087#