

# **ERC Ireland Preferred Equity Limited**

**First quarter results announcement  
30 September 2010**

## ERC Ireland Preferred Equity 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 Preferred Equity 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		(54)	(56)
Finance income		2	1
Finance costs – net	4	(52)	(55)
<b>Profit before tax</b>		6	13
Income tax charge	5	(2)	(4)
<b>Profit for the period</b>		4	9

*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>	4	9
<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>	(17)	16

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

# ERC Ireland Preferred Equity Limited

Consolidated Balance Sheet - unaudited  
As at 30 September 2010

	Notes	30 June 2010 €m	30 Sept 2010 €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	4,025	4,015
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>4,543</u>	<u>4,495</u>
<b>Current liabilities</b>			
Borrowings	7	97	104
Derivative financial instruments		59	73
Trade and other payables		636	531
Inter-company payables to group undertakings		4	6
Current tax liabilities		23	29
Provisions for other liabilities and charges	8	55	57
		<u>874</u>	<u>800</u>
<b>Total liabilities</b>		<u>5,417</u>	<u>5,295</u>
<b>Equity</b>			
Equity share capital		2	2
Share premium account		447	447
Revaluation reserve		3	3
Cash flow hedging reserve		(74)	(67)
Retained loss		(847)	(838)
<b>Total equity</b>		<u>(469)</u>	<u>(453)</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 Preferred Equity 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)
<b>Net cash used in investing activities</b>		<b>(92)</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>(117)</b>	<b>(35)</b>
Cash, cash equivalents and bank overdrafts at beginning of period		334	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 Preferred Equity 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>447</b>	<b>3</b>	<b>(51)</b>	<b>(894)</b>	<b>(493)</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	-	-	-	-	4	4
Total recognised (expense)/income for the period	-	-	-	(21)	4	(17)
<b>Balance at 30 Sept 2009</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(72)</b>	<b>(890)</b>	<b>(510)</b>
<b>Balance at 30 June 2010</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(74)</b>	<b>(847)</b>	<b>(469)</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	-	-	-	-	9	9
Total recognised income for the period	-	-	-	7	9	16
<b>Balance at 30 Sept 2010</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(67)</b>	<b>(838)</b>	<b>(453)</b>

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

# ERC Ireland Preferred Equity Limited

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

### **1. General information**

ERC Ireland Preferred Equity Limited ('the Company'), and its subsidiaries together, ('the Group') provide fixed line and mobile telecommunications services in Ireland. ERC Ireland Preferred Equity Limited ("ERCIPE") is registered in the Cayman Islands and is tax resident in Ireland. The address of its registered office is Maples & Calder Corporate Services Limited, Uglund 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 Senior PIK 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 €361 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 ERCIPE for the year ended 30 June 2010.

# ERC Ireland Preferred Equity 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	(54)	<b>(56)</b>
Finance income	2	<b>1</b>
<b>Finance costs – net</b>	<b>(52)</b>	<b>(55)</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 Preferred Equity 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>6</b>	<b>13</b>
Tax calculated at Irish standard tax rate of 12.5%	1	2
<i>Effects of:-</i>		
Non deductible expenses	2	2
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
Floating rate senior PIK notes due 2017	-	-	-	617	617
Other borrowings	111	78	2,661	356	3,206
Debt issue costs	(13)	(12)	(30)	(5)	(60)
Finance leases – defeased	1	-	-	-	1
Bank overdraft	5	-	-	-	5
	<b>104</b>	<b>66</b>	<b>2,631</b>	<b>1,318</b>	<b>4,119</b>
<b>As at 30 June 2010</b>					
Floating rate notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	606	606
Other borrowings	107	93	1,466	1,562	3,228
Debt issue costs	(12)	(13)	(32)	(7)	(64)
Finance leases – defeased	1	-	-	-	1
Bank overdraft	1	-	-	-	1
	<b>97</b>	<b>80</b>	<b>1,434</b>	<b>2,511</b>	<b>4,122</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 € million (30 June 2010: €37 million). This is included in trade and other payables.

# ERC Ireland Preferred Equity 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	4	9
Add back:		
Income tax charge	2	4
Finance costs – net	52	55
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 Preferred Equity 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 ERCIPE 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.

#### *PIK notes*

The Payment-In-Kind ("PIK") notes of €17 million are senior obligations of ERCIPE and rank equally in right of payment with all existing and future senior indebtedness of ERCIPE. These Notes are effectively subordinated to any existing and future indebtedness of ERCIPE's subsidiaries

#### *Tetra Securities*

The Senior Credit Facility of Tetra of €31 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 Preferred Equity 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).