

# **ERC Ireland Preferred Equity Limited**

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

## ERC Ireland Preferred Equity Limited

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
<b>Operating profit</b>	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)
<b>Operating profit before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment</b>	53	55	117	124
Depreciation	80	75	159	149
Amortisation	26	24	51	49
<b>EBITDA before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment</b>	159	154	327	322
<b>EBITDA before non-cash pension charge/(credit), exceptional items and loss on disposal of property, plant and equipment is split as follows:</b>				
Fixed line	136	145	276	289
Mobile	23	9	51	33
	159	154	327	322

# ERC Ireland Preferred Equity Limited

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

	<b>31 Dec 2009</b>	<b>31 Dec 2010</b>
	<b>€m</b>	<b>€m</b>
Revenue	465	438
Operating costs excluding amortisation, depreciation and exceptional items	(311)	(284)
Amortisation	(26)	(24)
Depreciation	(80)	(75)
Exceptional items	(31)	(7)
<b>Operating profit</b>	<b>17</b>	<b>48</b>
Finance costs	(60)	(54)
Finance income	-	-
Finance costs – net	(60)	(54)
<b>Loss before tax</b>	<b>(43)</b>	<b>(6)</b>
Income tax credit	1	-
<b>Loss for the period</b>	<b>(42)</b>	<b>(6)</b>

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

# ERC Ireland Preferred Equity 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)
<b>Operating profit</b>	<b>3</b>	<b>75</b>	<b>116</b>
Finance costs		(114)	(110)
Finance income		2	1
Finance costs – net	5	(112)	(109)
<b>(Loss)/profit before tax</b>		<b>(37)</b>	<b>7</b>
Income tax charge	6	(1)	(4)
<b>(Loss)/profit for the period</b>		<b>(38)</b>	<b>3</b>

*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
<b>(Loss)/profit for the financial period attributable to equity holders of the parent</b>		<b>(38)</b>	<b>3</b>
<b>Other comprehensive (expense)/income:</b>			
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)
<b>Other comprehensive (expense)/income for the period, net of tax</b>		<b>(11)</b>	<b>15</b>
<b>Total comprehensive (expense)/income for the financial period</b>		<b>(49)</b>	<b>18</b>

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

# ERC Ireland Preferred Equity Limited

Consolidated Balance Sheet - unaudited  
As at 31 December 2010

	Notes	30 June 2010 €m	31 Dec 2010 €m
<b>Assets</b>			
<b>Non-current assets</b>			
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
		<u>4,221</u>	<u>4,079</u>
<b>Current assets</b>			
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
		<u>727</u>	<u>701</u>
<b>Total assets</b>		<u>4,948</u>	<u>4,780</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	8	4,025	4,030
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
		<u>4,543</u>	<u>4,498</u>
<b>Current liabilities</b>			
Borrowings	8	97	42
Derivative financial instruments		59	56
Trade and other payables		636	543
Inter-company payables to group undertakings		4	8
Current tax liabilities		23	27
Provisions for other liabilities and charges	10	55	57
		<u>874</u>	<u>733</u>
<b>Total liabilities</b>		<u>5,417</u>	<u>5,231</u>
<b>Equity</b>			
Equity share capital		2	2
Share premium account		447	447
Revaluation reserve		3	3
Cash flow hedging reserve		(74)	(59)
Retained loss		(847)	(844)
<b>Total equity</b>		<u>(469)</u>	<u>(451)</u>
<b>Total liabilities and equity</b>		<u>4,948</u>	<u>4,780</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 31 December 2010*

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

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 six-month period ended 31 December 2010

	Notes	<u>31 Dec 2009</u>	<u>31 Dec 2010</u>
		€m	€m
<b>Cash flows from operating activities</b>			
Cash generated from operations	11	291	241
Interest received		1	1
Interest paid		(107)	(110)
Income tax paid (net)		(12)	(9)
<b>Net cash generated from operating activities</b>		<b>173</b>	<b>123</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment ("PPE")		(137)	(63)
Proceeds from sale of PPE and investments		-	19
Purchase of intangible assets		(29)	(20)
<b>Net cash used in investing activities</b>		<b>(166)</b>	<b>(64)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(73)	(79)
Lease payments		(1)	-
Proceeds from loan borrowings		13	-
<b>Net cash used in financing activities</b>		<b>(61)</b>	<b>(79)</b>
<b>Net decrease in cash, cash equivalents and bank overdrafts</b>		<b>(54)</b>	<b>(20)</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>280</b>	<b>376</b>

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)
	<b>280</b>	<b>376</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 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
<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	-	-	-	(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	-	-	-	-	(38)	(38)
Total recognised expense for the period	-	-	-	(11)	(38)	(49)
<b>Balance at 31 Dec 2009</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(62)</b>	<b>(932)</b>	<b>(542)</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	-	-	-	18	-	18
- Tax on cash flow hedge movements	-	-	-	(2)	-	(2)
Net income recognised directly in equity	-	-	-	15	-	15
Profit for the period	-	-	-	-	3	3
Total recognised income for the period	-	-	-	15	3	18
<b>Balance at 31 Dec 2010</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(59)</b>	<b>(844)</b>	<b>(451)</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 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 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, other than surplus properties, as at 31 December 10.

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 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 six months ended 31 December 2010 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
<b>Revenue</b>	<b>687</b>	<b>219</b>	<b>(26)</b>	<b>880</b>
<b>Adjusted EBITDA *</b>	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)
<b>Operating profit/(loss)</b>	<b>131</b>	<b>(15)</b>	<b>-</b>	<b>116</b>

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

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

\* 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 Preferred Equity 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	(114)	(110)
Finance income	2	1
<b>Finance costs – net</b>	<b>(112)</b>	<b>(109)</b>

In the six months ended 31 December 2010, finance costs includes a €23 million credit (31 Dec 2009: €24 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
<b>(Loss)/profit before tax</b>	<b>(37)</b>	<b>7</b>
Tax calculated at Irish standard tax rate of 12.5%	(5)	1
<b>Effects of:-</b>		
Non deductible expenses (net)	8	3
Adjustment in respect of prior periods	(2)	-
<b>Tax charge for the period</b>	<b>1</b>	<b>4</b>

### 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: €9 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

# ERC Ireland Preferred Equity 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
<b>As at 31 Dec 2010</b>					
Floating rate notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	630	630
Other borrowings	54	77	2,662	355	3,148
Debt issue costs	(13)	(12)	(27)	(5)	(57)
Bank overdraft	1	-	-	-	1
	<b>42</b>	<b>65</b>	<b>2,635</b>	<b>1,330</b>	<b>4,072</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 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 €28 million (30 June 2010: €37 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
<b>(Benefit obligation in excess of scheme assets)/ Scheme assets in excess of benefit obligation</b>	<b>(151)</b>	<b>105</b>
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 Preferred Equity 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% <sup>(1)</sup>	1.80% - 2.00% <sup>(2)</sup>	1.90% <sup>(2)</sup>
Rate of increase in pensions in payment	2.80% <sup>(1)</sup>	1.80% - 2.00% <sup>(2)</sup>	1.90% <sup>(2)</sup>
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	<b>88 years</b>
Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old female	89 years	89 years	<b>89 years</b>
Mortality assumptions – Future retirements - Implied life expectancy for 65 year old male	87 years	87 years	<b>90 years</b>
Mortality assumptions – Future retirements - Implied life expectancy for 65 year old female	90 years	90 years	<b>91 years</b>

(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
<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	1	3
Utilised in the financial period	(9)	(3)	(2)	(14)
<b>At 31 Dec 2010</b>	<b>71</b>	<b>64</b>	<b>101</b>	<b>236</b>

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 Preferred Equity 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	(38)	3
Add back:		
Income tax charge	1	4
Finance costs – net	112	109
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)
<b>Changes in working capital</b>		
Inventories	(2)	(3)
Trade and other receivables	39	(12)
Trade and other payables	(46)	3
Inter-company payables to group undertakings (net)	9	3
<b>Cash generated from operations</b>	<b>291</b>	<b>241</b>

## 12. Contingent liabilities

There have been no 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.

# ERC Ireland Preferred Equity 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 ("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 €30 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.

### **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 €26 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 €4 million at 31 December 2010 (30 June 2010: €31 million).

# ERC Ireland Preferred Equity 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.