

ERC Ireland Finance Limited

**Fourth quarter and twelve-month results announcement
30 June 2010**

FOURTH QUARTER AND TWELVE-MONTH RESULTS ANNOUNCEMENT TO 30 JUNE 2010

Issued Tuesday, 31 August 2010: eircom today announced its results for the fourth quarter and twelve months ended 30 June 2010.

Highlights

	Quarter ended June 2009	Quarter ended June 2010	% Change Better / (Worse)		Twelve months ended June 2009	Twelve months ended June 2010	% Change Better / (Worse)
Revenue (€m)	479	440	(8.1)		1,997	1,828	(8.5)
Operating costs ¹ (€m)	306	268	12.4		1,305	1,159	11.2
Adjusted EBITDA ² (€m)	173	172	(0.6)		692	669	(3.3)
Net cashflow ³ (€m)	84	127	51.2		182	136	(25.3)
Net customer gains/(losses) ('000)							
- PSTN	(23)	(18)			(67)	(70)	
- DSL	7	5			72	43	
- Mobile	(7)	(22)			38	17	
Net reduction in employees (FTE) ⁴	277	456			344	582	

Paul Donovan, CEO of eircom group, commented: “Today’s results highlight the work underway and the challenges that remain to return eircom group to profitable growth. The results for the quarter and the year show sustained progress in cost reduction. Together with the introduction of STT as a new shareholder, the remediation of our pension scheme and the reorganisation of the group’s activities under a new management team, we have made important advances on a number of strategic fronts. But much more needs to be done as revenue pressures continue in a very challenging trading environment.

Our new management team has made a good start, reducing costs in the quarter by over 12% year-on-year and holding EBITDA steady. Our restructuring programmes have resulted in a reduction of more than 1,500 in headcount (including contractors) since March 2009, exceeding our target of 1,200 for March 2011. In addition, other cost measures have mitigated the impact of falling revenue on the group’s underlying profitability, and allowed us to begin to address our competitiveness.

Management has begun a three year programme to stabilise the group’s financial performance and fundamentally transform the organisation. The fixed and mobile businesses have been combined, providing a basis for greater competitiveness that will position the group for growth as the economy recovers. However, further cost savings must be found and we aim to reduce annual labour costs by a further €90m over the next three years. Elements of this three year plan are now under discussion with our trade union partners.

¹ Operating costs before non-cash pension (credit)/charge, depreciation, impairment, amortisation and exceptional items

² EBITDA before non cash pension (credit)/charge, exceptional items, net construction income and profit on disposal of property and investments

³ Net cashflow is before financing activities. Cashflow for the 12 months to June 2009 included €123m of construction contract proceeds

⁴ Fulltime Equivalent Employees, excluding contractors

The group has generated strong cashflows of €136m in the year, resulting in a healthy cash balance of almost €400m at the end of June. But our net debt remains very high and in the absence of action by eircom the associated financial covenants may be breached within the coming 12-18 months. We are actively reviewing our options to address this issue.

Reflecting competitive and economic pressures, our strategy to offer our Meteor customers ever-improved value has resulted in a reduction in our mobile revenues and profits in the year. We are confident that we can return to growth in the mobile segment, with an increased focus on customer management, 3G data services and cost control. We also plan to introduce an eircom-branded mobile service in the current year, allowing an important offering of home phone, mobile phone and fixed and mobile internet services to our eircom customers.

In the fixed line segment, the introduction of our Next Generation Broadband product suite has been very successful, with more than 280,000 customers expected to be actively using the service by December 2010. At that time, the service will be available to a potential customer base of over 1 million homes and businesses. We will continue to offer our fixed line customers increasingly fast and uncongested broadband services as we rollout our next generation core network and services across the country.

Separately, we announced an important commercial trial of ultra-fast fibre broadband in 2011. Preliminary planning work is underway and it is hoped that the trial will generate strong wholesale and retail demand, forming a basis for a wider commercial roll-out of high speed services across Ireland.”

31 August 2010

HIGHLIGHTS FOR THE FOURTH QUARTER ENDED 30 JUNE 2010

- Group revenue of €440 million, down 8% on the quarter ended 30 June 2009.
- Group adjusted EBITDA* of €172 million, broadly flat on the quarter ended 30 June 2009.
- Group adjusted EBITDA* margin of 39%, up from 36% in the corresponding prior-year quarter.
- Fixed line revenue, before intra-company eliminations, of €347 million, down 7% on the quarter ended 30 June 2009, reflecting lower access channels and traffic volumes.
- Fixed Line adjusted EBITDA* of €146 million, up 6% on the quarter ended 30 June 2009.
- DSL customer net adds of 5,000 for the quarter ended 30 June 2010, down from 7,000 in prior year quarter.
- Net PSTN line losses of 18,000 for the quarter ended 30 June 2010, down from 23,000 in the corresponding prior year quarter ended 30 June 2009, and up from 15,000 in the quarter to 31 March 2010.
- Mobile revenue, before intra-company eliminations, of €107 million, down 12% on the corresponding prior year quarter, as a result of lower ARPU.
- Mobile EBITDA of €26 million, down €9 million from the corresponding quarter ended 30 June 2009, as a result of lower revenue, partially offset by lower pay costs.
- Mobile customer net losses of 22,000 in the quarter, compared with 7,000 net losses in the quarter ended 30 June 2009, and 21,000 net losses in the quarter to 31 March 2010.

HIGHLIGHTS FOR THE TWELVE-MONTH PERIOD ENDED 30 JUNE 2010

- Group revenue of €1,828 million, down 8% on the twelve months ended 30 June 2009.
- Group adjusted EBITDA* of €669 million, down 3% on prior year.
- Group operating costs, before non-cash pension charge/(credit), of €1,159 million, down 11% reflecting reductions in pay and non-pay costs resulting from cost saving initiatives introduced during the year, and lower direct cost of sales. Employee headcount reduced by 582 (8%) since 30 June 2009 and total labour resources, including contractors, have been reduced by 1,531 since March 2009.
- Fixed line revenue, before intra-company eliminations, of €1,426 million, down 8% on the prior year, reflecting mainly lower access and traffic revenues and higher discounts.
- Fixed line adjusted EBITDA* of €61 million, down 1% on the corresponding prior year.
- DSL customers increased to 708,000 at 30 June 2010, up 43,000 from 30 June 2009. Retail DSL customers at 30 June 2010 stood at 496,000, up 19,000 from 30 June 2009.
- Total PSTN lines at 30 June 2010 were 1,472,000, down 70,000 year on year.
- Mobile revenue, before intra-company eliminations, of €458 million, down 8% on the corresponding prior year, due to lower ARPU.
- Mobile EBITDA of €108 million for the twelve months to 30 June 2010, down 13% on the prior year.
- Total Mobile customers of 1,043,000 as of 30 June 2010, up 17,000 from 30 June 2009. Post-paid customers stood at 157,000, up 14% from 30 June 2009.
- Average monthly blended Mobile ARPU of €34.50 for the twelve months ended 30 June 2010, down 10% compared with the corresponding prior year, mainly due to the impact of new call price plans, an increased proportion of mobile broadband customers and changes in traffic mix.
- Capex cash outflow of €258 million in the twelve-month period, down from €335 million in the prior year, due to the substantial completion of certain major capex projects, including the rollout of our Tetra network and some elements of our NGN core network; we continue to invest heavily in the rollout of faster broadband, Next Generation and 3G Networks.

* Adjusted EBITDA is before non-cash pension (credit)/charge, exceptional items and net construction income.

- Net cash inflow (before financing activities) of €136 million in the twelve months ended 30 June 2010, compared with €182 million in the twelve months ended 30 June 2009, reflecting a significant construction contract receipt in the prior year. Net debt** stood at €3,182 million at 30 June 2010 and cash on hand was €397 million.

** Net debt excludes defeased leases and debt issue costs.

ERC Ireland Finance Limited

Financial Highlights

	Quarter ended June 2009 €m	Quarter ended June 2010 €m	% Change ¹	Twelve months ended June 2009 €m	Twelve months ended June 2010 €m	% Change ¹
Revenue	479	440	(8)	1,997	1,828	(8)
EBITDA before non-cash pension (credit)/charge, exceptional items and net construction income	173	172	(1)	692	669	(3)
Operating profit/(loss) before non-cash pension (credit)/charge, exceptional items and net construction income	61	59	(3)	(445)	240	N/r
Group operating profit/(loss)	20	(14)	N/r	(486)	292	N/r

Operational Highlights

	Quarter ended June 2009	Quarter ended June 2010	% Change ¹	Twelve months ended June 2009	Twelve months ended June 2010	% Change ¹
Fixed line services:						
Period-end total access channels (including DSL) (thousands)				2,603	2,558	(2)
Period end DSL lines (thousands)				665	708	6
Retail voice traffic minutes (millions)	1,202	1,041	(13)	5,164	4,514	(13)
Retail data traffic minutes (millions)	203	99	(51)	1,072	533	(50)
Wholesale interconnect minutes (millions)	2,073	1,897	(8)	8,902	7,979	(10)
Period-end headcount (excluding agency)				6,090	5,546	(9)
Mobile services:						
Period-end total mobile subscribers (thousands)				1,026	1,043	2
Period-end headcount for mobile services (excluding agency)				789	751	(5)

Key Ratios

	Quarter ended June 2009 % ¹	Quarter ended June 2010 % ¹	Twelve months ended June 2009 % ¹	Twelve months ended June 2010 % ¹
EBITDA margin before non-cash pension (credit)/charge, exceptional items and net construction income	36	39	35	37
Operating profit/(loss) margin before non-cash pension (credit)/charge, exceptional items and net construction income	13	13	(22)	13
Group operating profit/(loss) margin	4	(3)	(24)	16

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Reconciliation of earnings before interest, taxation, amortisation, depreciation, impairment, non-cash pension (credit)/charge, exceptional items, net construction income and profit on disposal of property and investments to operating profit

	Quarter ended June 2009 €m	Quarter ended June 2010 €m	Twelve months ended June 2009 €m	Twelve months ended June 2010 €m
Operating profit/(loss)	20	(14)	(486)	292
Profit on disposal of property and investments	(3)	-	(3)	-
Net construction income	-	-	(6)	-
Exceptional items	47	69	60	(73)
Non-cash pension (credit)/charge	(3)	4	(10)	21
Operating profit/(loss) before non-cash pension (credit)/charge, exceptional items, net construction income and profit on disposal of property and investments	61	59	(445)	240
Depreciation and impairment	90	86	333	325
Amortisation	22	27	84	104
Goodwill impairment	-	-	720	-
EBITDA before non-cash pension (credit)/charge, exceptional items, net construction income and profit on disposal of property and investments	173	172	692	669
EBITDA before non-cash pension (credit)/charge, exceptional items, net construction income and profit on disposal of property and investments is split as follows:				
Fixed line	138	146	568	561
Mobile	35	26	124	108
	173	172	692	669

ERC Ireland Finance Limited

Consolidated Income Statement - unaudited
For the Quarter ended 30 June 2010

	30 June 2009	30 June 2010
	€m	€m
Revenue	479	440
Operating costs excluding amortisation, depreciation, impairment and exceptional items	(303)	(272)
Amortisation	(22)	(27)
Depreciation and impairment	(90)	(86)
Exceptional items	(47)	(69)
Profit on disposal of property and investments	3	-
Operating profit/(loss)	20	(14)
Finance costs	(28)	(43)
Finance income	2	-
Finance costs – net	(26)	(43)
Loss before tax	(6)	(57)
Income tax credit	28	10
Profit/(loss) for the period	22	(47)

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

ERC Ireland Finance Limited

Consolidated Income Statement - unaudited For the twelve-month period ended 30 June 2010

	Notes	<u>30 June 2009</u>	<u>30 June 2010</u>
		€m	€m
Revenue	3	1,997	1,828
Operating costs excluding amortisation, depreciation, impairment and exceptional items		(1,295)	(1,180)
Amortisation		(84)	(104)
Depreciation and impairment		(333)	(325)
Goodwill impairment	7	(720)	-
Exceptional items	4	(60)	73
Net construction income		6	-
Profit on disposal of property and investments		3	-
Operating (loss)/profit	3	(486)	292
Finance costs		(332)	(199)
Finance income		11	2
Finance costs – net	5	(321)	(197)
Share of profit of associates		2	-
(Loss)/profit before tax		(805)	95
Income tax credit/(charge)	6	11	(1)
(Loss)/profit for the year		(794)	94

Consolidated statement of comprehensive income For the twelve-month period ended 30 June 2010

	<u>30 June 2009</u>	<u>30 June 2010</u>
	€m	€m
(Loss)/profit for the year	(794)	94
Other comprehensive expense:		
Effective portion of changes in fair value of cash flow hedges:		
- Fair value loss in year	(137)	(61)
- Transfer to income statement	(9)	34
- Tax on reserve movements	32	4
Other comprehensive expense for the year, net of tax	(114)	(23)
Total comprehensive (expense)/income for the year	(908)	71

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

ERC Ireland Finance Limited

Consolidated Balance Sheet - unaudited As at 30 June 2010

	Notes	30 June 2009 €m	30 June 2010 €m
Assets			
Non-current assets			
Goodwill	7	1,622	1,622
Other intangible assets		729	672
Property, plant and equipment		2,077	1,882
Retirement benefit asset	10	-	42
Deferred tax assets		13	1
Other assets		3	2
		4,444	4,221
Current assets			
Inventories		10	9
Trade and other receivables	8	342	284
Receivables due from group undertakings and related parties		13	9
Financial assets at fair value through income statement		8	-
Assets held for resale		-	20
Other assets		24	1
Restricted cash		7	7
Cash and cash equivalents		335	397
		739	727
Total assets		5,183	4,948
Liabilities			
Non-current liabilities			
Borrowings	9	3,499	3,428
Derivative financial instruments		70	81
Trade and other payables		53	58
Capital grants		-	2
Deferred tax liabilities		205	187
Retirement benefit liability	10	109	-
Provisions for other liabilities and charges	11	198	190
		4,134	3,946
Current liabilities			
Borrowings	9	110	97
Derivative financial instruments		71	59
Trade and other payables		702	630
Inter-company payables to group undertakings		3	4
Current tax liabilities		24	23
Provisions for other liabilities and charges	11	76	55
		986	868
Total liabilities		5,120	4,814
Equity			
Equity share capital		2	2
Share premium account		861	861
Revaluation reserve		3	3
Cash flow hedging reserve		(51)	(74)
Retained loss		(752)	(658)
Total equity		63	134
Total liabilities and equity		5,183	4,948

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

ERC Ireland Finance Limited

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

	<u>30 June 2009</u>	<u>30 June 2010</u>
	€m	€m
Cash flows from operating activities		
Cash generated from operations	182	196
Interest received	2	1
Interest paid	(25)	(21)
Income tax refund	-	3
Income tax paid	(16)	(12)
Dividends paid to preference shareholders	(1)	-
Net cash generated from operating activities	142	167
Cash flows from investing activities		
Purchase of property, plant and equipment (PPE)	(49)	(25)
Proceeds from sale of PPE and investments	9	-
Purchase of intangible assets	(16)	(15)
Restricted cash	3	-
Loans advanced to group undertakings	(5)	-
Net cash used in investing activities	(58)	(40)
Cash flows from financing activities		
Redemption of preference shares	(72)	-
Lease payments	(1)	-
Proceeds from loan borrowings	79	4
Net cash generated from financing activities	6	4
Net increase in cash, cash equivalents and bank overdrafts	90	131
Cash, cash equivalents and bank overdrafts at beginning of period	243	265
Cash, cash equivalents and bank overdrafts at end of period	333	396

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

	<u>30 June 2009</u>	<u>30 June 2010</u>
	€m	€m
Cash and cash equivalents	335	397
Bank overdrafts	(2)	(1)
	333	396

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

ERC Ireland Finance Limited

Consolidated cash flow statement - unaudited For the twelve-month period ended 30 June 2010

	Notes	<u>30 June 2009</u>	<u>30 June 2010</u>
		€m	€m
Cash flows from operating activities			
Cash generated from operations	12	769	600
Interest received		12	2
Interest paid		(255)	(206)
Income tax refund		-	23
Income tax paid		(18)	(26)
Dividends paid to preference shareholders		(4)	-
Net cash generated from operating activities		504	393
Cash flows from investing activities			
Dividend received from associate undertaking		2	-
Purchase of property, plant and equipment (PPE)		(291)	(207)
Proceeds from sale of PPE and investments		13	-
Purchase of intangible assets		(44)	(51)
Restricted cash		3	-
(Loan advanced)/repayment received from group undertaking		(5)	1
Net cash used in investing activities		(322)	(257)
Cash flows from financing activities			
Redemption of preference shares		(72)	-
Repayment of borrowings		(221)	(92)
Lease payments		(3)	(1)
Proceeds from loan borrowings		96	20
Debt issue costs paid		(1)	-
Net cash used in financing activities		(201)	(73)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(19)	63
Cash, cash equivalents and bank overdrafts at beginning of year		352	333
Cash, cash equivalents and bank overdrafts at end of year		333	396

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

	Note	<u>30 June 2009</u>	<u>30 June 2010</u>
		€m	€m
Cash and cash equivalents		335	397
Bank overdrafts	9	(2)	(1)
		333	396

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 twelve-month period ended 30 June 2010

	Equity share capital €m	Share premium account €m	Revaluation reserve €m	Cash flow hedging reserve €m	Retained (loss)/profit €m	Total equity €m
Balance at 30 June 2008	2	861	3	63	42	971
Cash flow hedge:						
- Fair value loss in year	-	-	-	(137)	-	(137)
- Transfer to income statement	-	-	-	(9)	-	(9)
- Tax on reserve movements	-	-	-	32	-	32
Net expense recognised directly in equity	-	-	-	(114)	-	(114)
Loss for the year	-	-	-	-	(794)	(794)
Total recognised expense for the year	-	-	-	(114)	(794)	(908)
Balance at 30 June 2009	2	861	3	(51)	(752)	63
Balance at 30 June 2009	2	861	3	(51)	(752)	63
Cash flow hedge:						
- Fair value loss in year	-	-	-	(61)	-	(61)
- Transfer to income statement	-	-	-	34	-	34
- Tax on reserve movements	-	-	-	4	-	4
Net expense recognised directly in equity	-	-	-	(23)	-	(23)
Profit for the year	-	-	-	-	94	94
Total recognised (expense)/income for the year	-	-	-	(23)	94	71
Balance at 30 June 2010	2	861	3	(74)	(658)	134

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

ERC Ireland Finance Limited

Selected notes to the condensed interim financial information – unaudited

1. General information

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

This condensed consolidated interim financial information was approved for issue on 31 August 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 IFRS.

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 June 2010. The group's bank and other borrowings include borrowings of €3,180 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 for the year ended 30 June 2010, and has made significant progress in managing its costs, particularly over the last 18 months. 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 June 2010, the group had €96 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 to 18 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 year ended 30 June 2010, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2009. 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 2009.

ERC Ireland Finance Limited

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

3. Segment information

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

The segment results for the year ended 30 June 2010 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	1,426	458	(56)	1,828
Adjusted EBITDA *	561	108	-	669
Non-cash pension charge	(21)	-	-	(21)
Amortisation	(48)	(56)	-	(104)
Depreciation and impairment	(274)	(51)	-	(325)
Exceptional items – net gain/(loss)	79	(6)	-	73
Operating profit/(loss)	297	(5)	-	292

The segment results for the year ended 30 June 2009 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	1,558	496	(57)	1,997
Adjusted EBITDA *	568	124	-	692
Non-cash pension credit	10	-	-	10
Amortisation	(47)	(37)	-	(84)
Depreciation	(266)	(67)	-	(333)
Goodwill impairment	(405)	(315)	-	(720)
Exceptional items – net loss	(58)	(2)	-	(60)
Net construction income	6	-	-	6
Profit on disposal of property and investments	3	-	-	3
Operating loss	(189)	(297)	-	(486)

* Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, impairment, non-cash pension (credit)/charge, exceptional items, net construction income and profit on disposal of property and investments.

4. Exceptional items

	30 June 2009 €m	30 June 2010 €m
Curtailed and past service gains in respect of pensions	-	184
Restructuring programme costs	(27)	(49)
Impairment of surplus properties	(17)	(20)
Other exceptional items	(16)	(42)
	(60)	73

The group has adopted an income statement format which seeks to highlight significant items within group results for the year. 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.

Curtailed and past service gains in respect of pensions

During the quarter ended 31 March 2010, the group and the Trade Union Alliance agreed a number of significant measures designed to eliminate the deficit on eircom's Defined Benefit Pension scheme. The measures included a freeze on pensionable pay up to 31 December 2013 and imposed limits on increases in salary qualifying for pension purposes thereafter. These changes have been treated as curtailed and past service gains under IAS 19.

The resulting exceptional reduction in the defined benefit obligation recognised of €184 million has been included in the income statement for the year.

Further information on the pension scheme is included in Note 10.

ERC Ireland Finance Limited

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

4. Exceptional items - continued

Restructuring programme costs

In May 2007, the group announced a voluntary leaving plan to reduce its workforce by c.900 over three years and included a provision of €157 million in the 2007 financial statements to reflect the estimated costs associated with that plan.

In March 2009, the group announced a plan to reduce its workforce by 1,200 in the period from 1 April 2009 to 30 June 2011 through voluntary leaving, contractor reductions and natural turnover. The group included a further provision of €27 million in the year ended 30 June 2009 to reflect the additional estimated costs associated with that plan.

The group has included an exceptional charge of €49 million for restructuring programme costs for additional staff exits in the year ended 30 June 2010, not covered by the restructuring provision. The exceptional charge reflects those staff who were committed to exiting the business at 30 June 2010. No provision has been included in respect of future staff exits not committed at 30 June 2010 and any further costs will be charged to the income statement in future periods.

The group is in discussions with our trade union partners in relation to achieving further reductions in annual pay costs, no provision has been included at 30 June 2010 in respect of any future restructuring costs that may arise from these discussions.

Impairment of surplus properties

The group incurred impairment charges of €20 million in the year ended 30 June 2010 (30 June 2009: €17 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 30 June 2010.

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.

The group has included an exceptional charge of €6 million for onerous contracts, €10 million in respect of the settlement of certain legal matters and €6 million for other costs in the year ended 30 June 2010.

In the year ended 30 June 2009, the group included an exceptional charge of €26 million for onerous contracts, The group also finalised the agreement of management fees payable to ERC Ireland Equity SPC ("ERCIE") for the three years ended 30 June 2009 which included a saving of €10 million in respect of management fees accrued as payable in prior years.

5. Finance costs – net

	30 June 2009 €m	30 June 2010 €m
Finance costs	(332)	(199)
Finance income	11	2
Finance costs – net	(321)	(197)

In the year ended 30 June 2010, finance costs includes a €28 million credit (30 June 2009: €3 million charge) to reflect movements in the fair value of derivatives, which did not qualify for hedge accounting during the year.

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

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 the (loss)/profit of the group as follows: -

	30 June 2009 €m	30 June 2010 €m
(Loss)/Profit before tax	(805)	95
Tax calculated at Irish standard tax rate of 12.5%	(101)	12
<i>Effects of:-</i>		
Goodwill impairment – non deductible	90	-
Other non deductible expenses	9	7
Effect of changes in capital gains tax rates	10	-
Income taxable at higher rate	1	-
Adjustment in respect of prior periods	(20)	(18)
Tax (credit)/charge for the year	(11)	1

A deferred tax charge of €23 million has been recognised in respect of the pension curtailment and past service gains in the year ended 30 June 2010.

7. Goodwill

	30 June 2009 €m	30 June 2010 €m
Opening balance	2,342	2,342
At end of financial year	2,342	2,342
Accumulated impairments	(720)	(720)
At end of financial year	(720)	(720)
Net book value at end of financial year	1,622	1,622

Goodwill is not subject to amortisation. Goodwill is carried at cost less accumulated impairment losses.

Impairment testing results

In the year ended 30 June 2009, the goodwill in relation to the group's fixed line and mobile operations was impaired by €105 million and €15 million respectively. The impairment charge in the fixed line business reflected the cash outflows required to fund the group's unrecognised actuarial losses in respect of the group's pension deficit at 31 December 2008 and the deterioration in the Irish economic environment and the outlook for the business. The impairment charge in the mobile business reflected the deterioration in the Irish economic environment and the outlook for the business.

An impairment test has been performed at 30 June 2010. No further impairment was identified. All key assumptions were updated, including the cash flow projections within the business plans used for the impairment testing.

8. Trade and other receivables

During the year ended 30 June 2010, the group recognised a provision for impaired receivables of €4 million (30 June 2009: €8 million), reversed provisions for impaired receivables of € million (30 June 2009: €1 million) and utilised provisions for impaired receivables of €2 million (30 June 2009: €3 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

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

9. 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 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	128	1,412	1,888	3,525
As at 30 June 2009					
Floating rate notes due 2016	-	-	-	350	350
Other borrowings	95	47	342	2,814	3,298
Debt issue costs	(12)	(12)	(33)	(10)	(67)
Finance leases – defeased	24	1	-	-	25
Finance leases	1	-	-	-	1
Bank overdraft	2	-	-	-	2
	110	36	309	3,154	3,609

Other borrowings, at 30 June 2010, include borrowings under a Senior Credit Facility of €3,180 million (30 June 2009: €3,272 million) and our share of borrowings in respect of our joint venture, Tetra Ireland Communications Limited (“Tetra”), of €48 million (30 June 2009: €26 million).

Interest accrued on borrowings at 30 June 2010 is €31 million (30 June 2009: €31 million). This is included in trade and other payables.

10. 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 30 June 2010 is as follows:

	30 June 2009 €m	30 June 2010 €m
Present value of funded obligations	(2,636)	(2,621)
Fair value of scheme assets	2,201	2,470
Benefit obligation in excess of scheme assets	(435)	(151)
Unrecognised actuarial losses	326	193
(Liability)/asset recognised in the balance sheet	(109)	42

As the group has adopted the corridor approach, the pension asset included in the group's balance sheet includes unrecognised actuarial losses of €193 million and the asset recognised in the balance sheet is €42 million compared to benefit obligation in excess of actual scheme assets of €151 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 2009). The amortisation is re-measured during the year when there has been a material change in the obligations in respect of the pension scheme.

The changes in unrecognised actuarial losses of €133 million since 30 June 2009 includes:

- actuarial gains of €67 million arising from changes in actuarial assumptions in respect of rate of increase in salaries/pensions in payment;
- actuarial losses of €75 million arising from changes in the discount rates used to determine the present value of funded obligations;
- other experience losses on liabilities of €8 million;
- actuarial gains of €44 million in relation to differences between the actual and expected gain on plan assets;
- amortisation of actuarial losses of €5 million.

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10. Pensions - continued

During the year, changes to prospective pension benefits under the group's main defined benefit scheme agreed with the Trade Union Alliance also resulted in a reduction in the present value of funded obligations. The measures included a freeze on pensionable pay up to 31 December 2013 and imposed limits on increases in salary qualifying for pension purposes thereafter. An exceptional non-cash credit of €84 million was recognised immediately through the income statement, comprising of a curtailment gain of €66 million and negative past service cost of €18 million.

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2008	At 30 June 2009	At 30 June 2010
Rate of increase in salaries	3.50%	2.80% ⁽¹⁾	1.80% - 2.00% ⁽²⁾
Rate of increase in pensions in payment	3.50%	2.80% ⁽¹⁾	1.80% - 2.00% ⁽²⁾
Discount rate	6.25%	5.75%	5.00%
Inflation assumption	2.50%	2.00%	2.00%

(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 reflect 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.

Mortality assumptions used at 30 June 2009 were still applicable at 30 June 2010. Details of mortality assumptions are set out in the annual report and financial statements of ERCIF for the year ended 30 June 2009.

11. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Onerous Contracts €m	Restruc- turing €m	Other €m	Total €m
At 30 June 2009	95	40	50	89	274
Charged to consolidated income statement:					
- Additional provisions	-	30	-	12	42
- Unwinding of discount	3	1	-	2	6
- Change in discount rate	3	-	-	-	3
Transfer to retirement benefit liability	-	-	(12)	-	(12)
Transfer to accruals	-	-	(4)	-	(4)
Increase in provision capitalised as asset retirement obligation	-	-	-	6	6
Utilised in the financial year	(22)	(5)	(34)	(9)	(70)
At 30 June 2010	79	66	-	100	245

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

	30 June 2009 €m	30 June 2010 €m
Non-current	198	190
Current	76	55
	274	245

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12. Cash generated from operations

	30 June 2009 €m	30 June 2010 €m
(Loss)/profit after tax	(794)	94
Add back:		
Income tax (credit)/charge	(11)	1
Share of profit of associates	(2)	-
Finance costs – net	321	197
Operating (loss)/profit	(486)	292
Adjustments for:		
- Profit on disposal of property and investments	(3)	-
- Net construction income	(6)	-
- Goodwill impairment	720	-
- Depreciation, amortisation and other impairments	417	429
- Non cash retirement benefit curtailment and past service gains	-	(184)
- Other non cash retirement benefit (credit)/charge	(10)	21
- Non cash exceptional items	70	111
- Other non cash movements in provisions	9	5
Cash flows relating to restructuring, onerous contracts and other provisions	(40)	(73)
Cash flows relating to construction contract	123	(1)
Changes in working capital		
Inventories	3	1
Trade and other receivables	34	57
Trade and other payables	(46)	(63)
Inter-company (payables)/receivable from group undertakings (net)	(16)	5
Cash generated from operations	769	600

13. Contingent liabilities

Allegations of anti-competitive practices

On 17 October 2002, ComReg determined that eircom were not in compliance with their obligations under the voice telephony regulations by providing telephone services to specific customers at prices which were not in accordance with the specific terms and conditions of eircom's discount schemes and published prices. No penalties were levied on eircom as a result of this determination.

Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court in December 2002 against eircom seeking damages including punitive damages resulting from the matters that were the subject of the ComReg determination. eircom submitted their defence on 26 January 2004 and intend to defend the proceedings vigorously.

The plaintiffs submitted general particulars of their damages claim on 3 February 2004 under the headings: loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs have identified claims for loss of revenue on existing customers (€7.4 million), failure to meet the plaintiffs' alleged budgeted growth (€5 million) and loss of revenue on the plaintiffs' pricing (€ million). The particulars also include further unquantified damages. The plenary summons and statement of claim of Ocean Communications Limited and ESAT Telecommunications Limited were amended, inter alia, in April 2005 to include a claim for alleged breach of certain constitutional rights. Even if the plaintiffs could establish a liability on eircom's part under each of these headings, eircom's directors do not believe that these figures represent damages which would be properly recoverable from eircom.

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Selected notes to the condensed interim financial information – unaudited

13. Contingent liabilities – continued

Claims by Smart Telecom

On 8 June 2005, Smart Telecom instituted proceedings against eircom in the Irish High Court, challenging the validity of a notice of termination issued by eircom to Smart Telecom terminating the interconnection agreement between the parties, and alleging that the notice of termination was an abuse by eircom of its dominant position in the telecommunications market. Smart Telecom further alleges that eircom was abusing its dominant position by refusing to provide network access in the form of Local Loop Unbundling (“LLU”) to Smart Telecom in the manner required by Smart Telecom. The relief sought by Smart Telecom was declarations that the notice of termination was invalid and an abuse of dominance, that eircom was abusing its dominance by failing to meet Smart Telecom’s LLU requirements and unspecified damages, including exemplary damages, for breach of contract and violation of the Competition Act 2002 and the EC Treaty. eircom delivered its defence in the proceedings on 23 December 2005.

eircom’s directors believe that the notice of termination was validly issued in accordance with the interconnection agreement, and that eircom provides access to its network fully in accordance with its obligations, and intends to defend the proceedings vigorously. Smart Telecom submitted general particulars of their damages claim under the headings: wasted expenditure (€1.6 million), delayed sales/lost customers (€3.8 million per annum), and capitalisation of losses (€1.7 million per annum). Even if Smart Telecom could establish liability on eircom’s part under each of these headings, eircom’s directors do not believe that these figures represent damages that would be properly recoverable from eircom.

In October 2006, eircom terminated the interconnection agreement with Smart Telecom on grounds unconnected with the proceedings. In 2006 and 2007, eircom introduced the LLU functionality that is the subject of Smart’s claim in the proceedings.

Hearing Loss claims

eircom has received notice of personal injury claims for alleged hearing loss from one hundred and fifteen current and former employees, fourteen of which have withdrawn their claims. Of the hundred and one remaining claims, ninety-four have obtained authorisation from the Injuries Board to proceed before the Courts, which is a pre-requisite for issuing Court proceedings in respect of personal injury claims, and thirty-four of these have issued Court proceedings against eircom alleging hearing loss. eircom has denied liability in all of the claims and intends to defend all Court proceedings issued in respect of the hearing loss claims vigorously.

Performance bonds

Performance bonds have been issued in respect of the group’s obligation to make payments to third parties in the event that the group does not perform its contracted commitments under the terms of certain contracts. Group performance bonds at 30 June 2010 include €17 million (30 June 2009: €30 million) in respect of undertakings to roll out a 3G network in Ireland, including achieving certain agreed milestones and €9 million of other performance bonds and guarantees. No material losses are expected in respect of these obligations.

Since the year ended 30 June 2010, eircom has agreed to provide annual performance bonds, to the amount of €10 million, to ComReg in respect of eircom’s obligation under a Quality of Service Performance Improvement Programme (USO) in the performance periods 2010/11 and 2011/12.

Other

Dali Properties Limited issued High Court proceedings against Meteor Mobile Communications Limited on 7 May 2010. The High Court Plenary Summons seeks a declaration that Meteor Mobile Communications Limited did not validly exercise a Break Option in July 2009 pursuant to a lease agreement between Dali Properties Limited and Meteor Mobile Communications Limited, with an annual rent in the region of €0.4 million for a period of 25 years from 8 March 2006, and seeks a declaration that Meteor Mobile Communications Limited remains a tenant to Dali Properties Limited under the said lease. It also seeks arrears of rent and service charge in the sum of €0.4 million under the said lease, as well as damages for breach of contract and costs. The lease includes a further break clause in 2021. An application by Dali Properties Limited to transfer the matter to the Commercial Court on 14 June 2010 was unsuccessful. A Statement of Claim has been served by Dali Properties Limited. Solicitors acting for Meteor Mobile Communications Limited raised a Notice for Particulars and replies are expected in early September 2010. The group believes it has a strong defence to the proceedings and intends to defend them vigorously.

Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties including regulatory authorities have arisen in the normal course of business. While any litigation has an element of uncertainty, the directors believe that there were no contingent liabilities which would have a material adverse effect on the group’s financial position.

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14. Credit guarantees and securities

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 €50 million issued by ERCIF, are guaranteed on a senior subordinated basis by ERCIH and the subsidiaries guaranteeing the Senior Credit Facility. The Floating Rate Notes are general senior obligations of ERCIF and rank equally in right of payment with all existing and future senior indebtedness of ERCIF. The Floating Rate Notes are also secured by a first-priority pledge over all the shares of ERCIH.

Tetra Securities

The Senior Credit Facility of Tetra of €85 million is secured by a first-priority pledge over the assets of Tetra and a first-priority pledge over all the shares of Tetra.

15. Seasonality

Fixed line

eircom's 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. eircom 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.

16. Commitments

Operating lease commitments

The group's operating lease contractual obligations and commitment payments were €465 million at 30 June 2010 (30 June 2009: €473 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 €31 million at 30 June 2010 (30 June 2009: €32 million).

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17. Related party transactions

The following transactions occurred with related parties:

During the year ended 30 June 2010, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra of €6.5 million (30 June 2009: €4.3 million). The gross amount outstanding in respect of these costs is €4.1 million at 30 June 2010 (30 June 2009: €2.5 million).

During the year ended 30 June 2010, the group paid €0.5 million (30 June 2009: €0.4 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 recharged to ERC ESOT Services Limited. The amount outstanding in respect of these costs is €0.3 million at 30 June 2010 (30 June 2009: €1.3 million).

During the year ended 30 June 2010, the group recharged costs paid on behalf of ERCIE of €Nil (30 June 2009: €4.7 million). The amount outstanding in respect of costs recharged in prior periods is €6.2 million at 30 June 2010 (30 June 2009: € million).

During the year ended 30 June 2007, ERC Ireland Preferred Equity Limited was lent €1 million by the ERCIF Group. This loan was repaid during the year ended 30 June 2010 (30 June 2009: €1 million).

The income statement includes management charges from ERCIE of €9.7 million (30 June 2009: management charge €3.2 million and a credit of €0.1 million arising on the finalisation of management charges payable in respect of prior years). The amount outstanding in respect of these costs is €4.1 million (including related VAT) at 30 June 2010 (30 June 2009: €3.2 million).

The income statement includes salary-related charges from BCM Enterprises Limited of €Nil (30 June 2009: €0.3 million). There are no amounts outstanding in respect of these costs at 30 June 2010 (30 June 2009: €Nil).

18. Comparative information

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

Commentary on results of operations for the quarter ended 30 June 2010

Overview

Group EBITDA from continuing operations, before non-cash pension (credit)/charge and exceptional items, of €172 million was €1 million lower compared with the corresponding quarter ended 30 June 2009. Lower contribution from our Mobile business was largely offset by higher contribution from the Fixed line business.

Revenue

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

	In the quarter ended		% Change ²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Fixed line services and other revenue	372	347	(7)
Mobile services revenue	121	107	(12)
Total segmental revenue	493	454	(8)
Intracompany eliminations	(14)	(14)	(1)
Total revenue	479	440	(8)

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
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Access (rental and connections)	166	164	(1)
Voice traffic	90	76	(16)
Advanced voice services traffic	17	13	(24)
Total voice traffic	107	89	(17)
Data traffic	5	3	(44)
Total voice and data traffic	112	92	(18)
Data communications	41	38	(6)
Interconnect services	44	39	(12)
Other products and services	43	46	8
Revenue before discounts	406	379	(7)
Discounts *	(34)	(32)	(6)
Total fixed line services and other revenue	372	347	(7)
Intracompany eliminations	(8)	(9)	21
Total fixed line services and other revenue	364	338	(7)

*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 intracompany eliminations, decreased by 7% in the quarter ended 30 June 2010, compared with the corresponding quarter ended 30 June 2009. Revenues were down across all categories, with the exception of Other products and services revenue. Discounts decreased by 6% in the quarter ended 30 June 2010 as a result of lower activity and new bundle offerings introduced during the year, partially offset by increased discounts relating to free line rental promotion.

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
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Total access revenue			
Line and equipment rental	99	93	(7)
Connection and other charges	3	3	-
ADSL and bitstream rental and connection	44	48	8
PSTN and ISDN WLR rental and connection	20	20	2
Total access revenue	166	164	(1)
Access channels (in thousands at period end, except percentages)			
PSTN	1,221	1,144	(6)
PSTN WLR	321	328	2
Total PSTN	1,542	1,472	(5)
ISDN	332	307	(7)
ISDN WLR	64	71	11
Total ISDN	396	378	(4)
ADSL and bitstream	665	708	6
Total access channels	2,603	2,558	(2)

Revenue from access (before discounts) fell by 1% in the quarter ended 30 June 2010, compared with the corresponding quarter of the prior year. Lower revenues from line and equipment rental were partially offset by higher ADSL and bitstream revenue arising from take-up of our broadband offers including our new 8Mb uncontended product. Bundle discounts represent a significant proportion of total discounts. Discounts were lower in the quarter ended 30 June 2010, reflecting lower overall volumes and new broadband packages, partially offset by increased number of promotional lines with free rental. Wholesale Line Rental ("WLR") rental and connection revenue was up 2% on the corresponding quarter of the prior year, in line with the increase in the number of WLR lines in the current period.

Line and equipment rental revenue decreased by 7% in the quarter ended 30 June 2010, compared with the corresponding prior year quarter, 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 1.144 million (including promotional lines³), a reduction of 6% over the prior year.

ADSL and bitstream revenue (before discounts) increased by 8% in the quarter ended 30 June 2010 as a result of customer growth. By 30 June 2010, the number of ADSL and bitstream lines had increased to approximately 708,000, up 6% from approximately 665,000 at 30 June 2009.

As at 30 June 2010, approximately 328,000 PSTN lines and 71,000 ISDN channels had transferred to other authorised operators on WLR, an increase of 2% and 11% respectively, over volumes as at 30 June 2009, as a result of continuing competition in the market. WLR rental and connection yielded revenues of approximately €20 million in the quarter ended 30 June 2010, up 2% on the corresponding quarter ended 30 June 2009.

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 %
	30 Jun 2009 €'m	30 Jun 2010 €'m	
Revenue			
Basic voice traffic revenue			
Local	22	19	(12)
National	13	11	(17)
Fixed to mobile	37	30	(17)
International	18	16	(15)
Total basic voice traffic revenue	90	76	(16)
Advanced voice services traffic revenue	17	13	(24)
Total voice traffic revenue	107	89	(17)
Data traffic revenue	5	3	(44)
Total traffic revenue	112	92	(18)
Traffic (in millions of minutes, except percentages)			
Local	545	487	(11)
National	206	176	(15)
Fixed to mobile	201	167	(17)
International	85	75	(11)
Total basic voice traffic minutes	1,037	905	(13)
Advanced voice services minutes	165	136	(18)
Total voice minutes	1,202	1,041	(13)
Data traffic minutes	203	99	(51)
Total traffic minutes	1,405	1,140	(19)

Overall revenue (before discounts) from voice and data traffic decreased by 18% in the quarter ended 30 June 2010.

Voice traffic

Basic voice traffic revenue (before discounts) was down by 16% for the quarter ended 30 June 2010, compared with the corresponding quarter ended 30 June 2009. This was primarily due to an overall decline in traffic volumes due to lower number of access lines, continuing weakness in the traditional voice market due to current economic conditions and mobile substitution, as well as loss of market share. Voice traffic discounts have reduced from the prior year quarter but continue to represent a significant proportion of total discounts.

Revenue relating to advanced voice services (before discounts) decreased by 24% in the quarter ended 30 June 2010. This is primarily due to a change in Premium Rate Services ("PRS") traffic mix and a decline in VPN and Freefone volumes.

Data traffic

Revenue from internet and other dial-up traffic (before discounts) decreased by 44% in the quarter ended 30 June 2010, compared with the corresponding quarter ended 30 June 2009, in line with the ongoing decline in volumes 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
	30 Jun 2009	30 Jun 2010	
	€'m	€'m	
Data communications revenue			
Leased lines (including Partial Private Circuits)	22	20	(8)
Switched data and IP network services	15	16	6
ISP & VAS revenue	4	2	(40)
Total data communications revenue	41	38	(6)
Number of leased lines (at period end, except percentages)			
National leased lines	8,243	6,613	(20)
Partial private circuits	6,111	6,107	-
International leased lines	271	245	(10)
Interconnect paths	1,052	896	(15)
Total leased lines	15,677	13,861	(12)

Revenue from data communications (before discounts) for the quarter ended 30 June 2010 was 6% lower compared with the corresponding prior year quarter due to lower leased line and ISP and Value Added Services ("VAS") revenues. Revenue from Switched Data and IP network services increased by 6% compared with corresponding prior year quarter. Leased lines (including Partial Private Circuits) revenue and volumes include circuits leased internally by Meteor and Tetra for their business and operations, which have increased significantly in the year.

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
	30 Jun 2009	30 Jun 2010	
	€'m	€'m	%
Interconnect services revenue			
Interconnect	24	18	(25)
Foreign terminating traffic	20	21	4
Total interconnect services revenue	44	39	(12)
Interconnect services traffic (in millions of minutes, except percentages)			
Call origination	511	433	(15)
Call termination	662	554	(16)
Transit to mobile/fixed	159	147	(8)
Ancillary	46	34	(27)
International	114	79	(30)
Total interconnect	1,492	1,247	(16)
Foreign terminating traffic	581	650	12
Total interconnect services traffic	2,073	1,897	(8)

Interconnect services revenue fell by 12% in the quarter ended 30 June 2010.

Revenue from interconnect fell by 25% in the quarter ended 30 June 2010, compared with the quarter ended 30 June 2009, mainly due to a reduction in traffic from OAOs and mobile operators as well as a 7% call origination and termination rate reduction effective from 1 April 2010. Call origination and call termination volumes decreased by 15% and 16% respectively, due to a reduction in traffic from OAOs as a result of increased transfers to WLR and other operators' networks, and lower overall traffic market volumes. Domestic transit volumes fell by 8% in the quarter ended 30 June 2010, compared with the prior year quarter, due to falling demand and increased direct interconnection among mobile operators. Ancillary traffic continued to be impacted by the decline in demand for these services, while International interconnect volumes fell by 30%, also due to a decline in demand.

Revenue from foreign terminating traffic rose by 4% in the quarter ended 30 June 2010 due to higher volumes, partially offset by continued pressures on prices.

Other products and services

Other products and services revenues (before discounts) include Operator Services, Customer Premises Equipment (“CPE”) including LAN Communications, Phonewatch, and other revenues, primarily income from other subsidiaries, Data Centres, LLU 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 quarter ended		% Change ² 2009/2010 %
	30 Jun 2009 €‘m	30 Jun 2010 €‘m	
Operator Services	7	8	9
CPE	11	9	(16)
Phonewatch	7	8	20
Other revenue	18	21	17
Other products and services revenue	43	46	8

Revenue from other products and services (before discounts) in the quarter ended 30 June 2010 increased by 8% compared with the corresponding quarter of the prior year. Lower revenues from CPE resulted from the timing of the completion of certain high value contracts in the prior year quarter and lower overall activity levels. Phonewatch revenues were up 20% on the corresponding prior year quarter due to a once-off revenue receipt in the current quarter. Other revenues were 17% higher, mainly due to higher revenues from the group’s share of Tetra, operations in Northern Ireland and our data centres.

Discounts

Discounts in the quarter ended 30 June 2010 were 6% lower compared with the corresponding quarter of the prior year, reflecting lower overall volumes and new broadband packages, partially offset by increased number of and promotional lines with free rental. This affects the pre-discount discussion and analysis in the revenue categories above.

Mobile services revenue

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

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

	In the quarter ended		% Change ² 2009/2010 %
	30 Jun 2009 €‘m	30 Jun 2010 €‘m	
Mobile services:			
Prepaid	82	74	(9)
Postpaid	33	26	(21)
Services revenue	115	100	(13)
Other revenue	6	7	11
Total mobile services revenue	121	107	(12)
Intracompany eliminations	(6)	(5)	(28)
Total mobile services revenue	115	102	(11)
	As at		% Change ²
	30 Jun 2009	30 Jun 2010	2009/2010
Total subscribers (thousands)*:			
Pre-paid subscribers (thousands)	888	886	-
Post-paid subscribers (thousands)	138	157	14
Total subscribers (thousands)⁴	1,026	1,043	2

* eircom staff represents 4,694 of these subscriber numbers (30 June 2009: 4,481)

Total revenue, before intra-company eliminations, was €107 million for the quarter ended 30 June 2010, a decrease of 12% on the corresponding quarter of the prior year.

Lower ARPU was driven by an increase in proportion of traffic generated as part of the bundled minutes within our own network, the impact of the new post-paid plans, a higher take-up of free minutes and texts add-ons in pre-paid, as well as lower termination and customer roaming rates, partially offset by increased data services revenues from mobile internet. The lower termination rates reflect an agreed reduction of industry wide Mobile Termination Rates in April 2010.

The lower ARPU was partially offset by a higher customer base. At 30 June 2010 there were 1,043,000 subscribers, an increase of 2% compared with 30 June 2009. Subscriber numbers at 30 June 2010 include c.37,000 Meteor Mobile Broadband customers (following the introduction of our service in March 2009), and c.15,000 eircom Mobile customers.

Operating costs before amortisation, depreciation, impairment and exceptional items

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

	In the quarter ended		% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Staff costs			
Fixed line			
Wages and salaries and other staff costs	78	76	(3)
Social welfare costs	3	3	(7)
Pension paid and payable	6	5	(18)
Pay costs before non-cash pension (credit)/charge and capitalisation	87	84	(4)
Non-cash pension (credit)/charge	(3)	4	N/r
Pay costs before capitalisation	84	88	4
Capitalised labour	(16)	(12)	(25)
Total fixed line services staff costs	68	76	11
Mobile services staff costs (net of capitalised labour)	13	11	(17)
Total staff costs	81	87	7
Other operating costs			
Fixed line costs			
Payments to telecommunications operators	69	51	(25)
Purchase of goods for resale, commission and related costs	15	14	(7)
Materials and services	14	7	(48)
Other network costs	6	6	9
Accommodation	15	14	(10)
Sales and marketing	7	7	(4)
Transport and travel	4	4	(4)
IT costs	2	3	10
Other costs	31	23	(24)
Total other fixed line operating costs	163	129	(21)
Mobile services costs	73	70	(4)
Total other operating costs	236	199	(15)
Intracompany eliminations	(14)	(14)	(1)
Total other operating costs	222	185	(16)
Total operating costs before amortisation, depreciation, impairment and exceptional items	303	272	(10)

Total operating costs before amortisation, depreciation, impairment and exceptional items decreased by 10%, compared with the corresponding quarter of the prior year.

Staff costs

Total staff costs increased by 7% in the quarter ended 30 June 2010, primarily due to higher Fixed line staff costs, partially offset by a 17% decrease in Mobile services staff costs.

The group adopts the corridor approach to account for pension obligations under IAS 19. Accordingly the pension charges included in operating costs before amortisation, depreciation, impairment and exceptional items includes the amortisation of unrecognised actuarial losses (See Notes 4 and 10).

Fixed line staff costs in the quarter ended 30 June 2010 were 11% higher compared with the quarter ended 30 June 2009. This is primarily due to a €7 million movement in non-cash pension which is a €4 million charge, compared with a €3 million credit in the corresponding prior year quarter, and a 25% reduction in fixed line capitalised labour due to reduced activity. These were partially offset by a 3% reduction in Fixed line wages and salaries and other staff costs in the current period, resulting from lower fixed line headcount and reductions in overtime and subsistence costs. The prior year quarter also includes bonus provision reversals of €8 million.

Mobile services staff costs decreased by 17% due to lower wages and salaries, bonus and commission costs resulting from lower headcount and Agency staff numbers, partially offset by lower capitalised labour.

Headcount in Fixed Line services at 30 June 2010 was 5,546, down 9% from 6,090 at 30 June 2009. In addition, there were 44 agency staff at 30 June 2010, compared with 54 at 30 June 2009. Mobile Services headcount at 30 June 2010 was 751 down 5% from 789 at 30 June 2009. There were 44 Agency staff in Meteor at 30 June 2010, compared with 76 at 30 June 2009. The costs of agency staff are included within staff costs.

Total other operating costs

Total other operating costs decreased by 16% in the quarter ended 30 June 2010, with reductions across most categories of costs, with the exception of IT and Other network costs.

Fixed line operating costs

Fixed line operating costs in the quarter ended 30 June 2010 decreased by 21% compared with the quarter to 30 June 2009. Payments to other telecommunications operators decreased by 25%, mainly due to lower interconnect traffic volumes, and reductions in interconnect rates, including Mobile Termination Rates. The cost of goods for resale, commissions and related costs decreased by 7% mainly as a result of reduced sales. Materials and services decreased by 48% due to lower maintenance costs and price savings achieved. Other network costs increased by 9% due to higher costs incurred by Tetra, reflecting higher activity levels. Accommodation costs were down 10% due to lower electricity charges and service costs on premises in use by the group. Sales and Marketing costs were 4% lower as a result of lower activity as well as some price savings compared with the corresponding prior year quarter. Transport and travel costs were marginally lower. IT costs were up 10% due to increased spend in the quarter compared with the prior year quarter. Other costs were down by 24% primarily due to lower, insurance and compensation costs, professional fees and the inclusion of a once-off credit of c€ million in the current quarter.

Mobile operating costs

Total operating costs for the mobile segment were €70 million for the quarter, a reduction of 4% compared with the corresponding quarter ended 30 June 2009, primarily due to savings achieved in sales and marketing, interconnect costs and commissions as well as lower interconnect and roaming costs, partially offset by increased network costs related to the ongoing rollout of our 3G network, higher bad debt charges and a higher cost of equipment sold, particularly mobile broadband devices.

Amortisation

Amortisation for the quarter ended 30 June 2010 increased by 23%, compared with the quarter ended 30 June 2009, mainly due to increased charges in Meteor relating to its new billing system.

Depreciation and impairment

Depreciation for the quarter ended 30 June 2010 was €86 million, compared with €90 million in the quarter ended 30 June 2009, due to certain Mobile assets coming to the end of their depreciable life offset by higher fixed line depreciation and impairment in the period.

Exceptional items

Net exceptional charges in the quarter ended 30 June 2010 amounted to €69 million, compared with €47 million in the quarter ended 30 June 2009. Restructuring charges of €49 million were incurred in the quarter as well as €15 million for onerous contracts (30 June 2009: €8 million) and €2 million for impairment of surplus properties. Other items include a charge of €3 million relating to other exceptionals.

Finance costs (net)

The Group's net finance costs for the quarter to 30 June 2010 were €43 million, up €17 million on the corresponding quarter ended 30 June 2009, due primarily to a release of an interest accrual in the prior period.

Taxation

The tax credit for the quarter to 30 June 2010 was €10 million due to losses in the current quarter, compared with €28 million credit in the corresponding prior year quarter arising from the the elimination of a provision for taxation relating to prior years no longer required as a result of settlement of certain taxation matters in the quarter ended 30 June 2009.

Commentary on results of operations for the twelve-month period ended 30 June 2010

Overview

Group EBITDA from continuing operations, before non-cash pension (credit)/charge, exceptional items and net construction income, of €669 million for the year ended 30 June 2010, decreased by 3% from €692 million in the prior year. The decrease was driven by lower contribution from both our Fixed line and Mobile businesses.

Revenue

Overall revenue for the year decreased by 8% compared with the prior year. The following table shows certain segmental information relating to our business for the periods indicated:

	In the twelve months ended		% Change ²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Fixed line services and other revenue	1,558	1,426	(8)
Mobile services revenue	496	458	(8)
Total segmental revenue	2,054	1,884	(8)
Intracompany eliminations	(57)	(56)	(1)
Total revenue	1,997	1,828	(8)

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 twelve months ended		% Change ²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Access (rental and connections)	677	662	(2)
Voice traffic	373	328	(12)
Advanced voice services traffic	67	61	(9)
Total voice traffic	440	389	(12)
Data traffic	26	15	(43)
Total voice and data traffic	466	404	(13)
Data communications	168	161	(4)
Interconnect services	198	163	(18)
Other products and services	176	173	(2)
Revenue before discounts	1,685	1,563	(7)
Discounts*	(127)	(137)	8
Total fixed line services and other revenue	1,558	1,426	(8)
Intracompany eliminations	(30)	(33)	11
Total fixed line services and other revenue	1,528	1,393	(9)

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

Total fixed line services and other revenue, before intracompany eliminations, for the year ended 30 June 2010 was 8% lower than for the prior year. Revenues decreased across all categories, while discounts increased in the year ended 30 June 2010, reflecting increased take-up of bundled products and other promotions.

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 twelve months ended		% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Total access revenue			
Line and equipment rental	410	382	(7)
Connection and other charges	13	12	(9)
ADSL and bitstream rental and connection	175	187	7
WLR rental and connection	79	81	3
Total access revenue	677	662	(2)
Access channels (in thousands at period end, except percentages)			
PSTN	1,221	1,144	(6)
PSTN WLR	321	328	2
Total PSTN	1,542	1,472	(5)
ISDN	332	307	(7)
ISDN WLR	64	71	11
Total ISDN	396	378	(4)
ADSL and bitstream	665	708	6
Total access channels	2,603	2,558	(2)

Revenue (before discounts) from access was 2% lower in the year ended 30 June 2010, compared with the prior year. Lower revenues from Line and equipment rental were partially offset by an increase in ADSL and bitstream revenue, as a result of ongoing customer demand for our broadband products. Wholesale Line Rental (“WLR”) rental and connection revenue increased by 3% on the prior year. Bundle discounts represent a significant proportion of total discounts. Discounts have increased in the year ended 30 June 2010, reflecting the higher number of bundled packages with broadband offerings, and increased level of promotions including free line rental promotion.

Line and equipment rental revenue decreased by 7% in the year ended 30 June 2010, compared with the 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 1.144 million (including promotional lines³), a reduction of 6% over the prior year.

Revenue from connection and other charges (before discounts) decreased by 9%, compared with the prior year, as a result of the reduction in the numbers of PSTN and ISDN connections.

ADSL and bitstream revenue (before discounts) increased by 7% in the year ended 30 June 2010, as a result of continued customer demand for our broadband products. By 30 June 2010, the number of ADSL and bitstream lines had increased to approximately 708,000 lines, up 6% from approximately 665,000 at 30 June 2009.

As at 30 June 2010, approximately 328,000 PSTN lines and 71,000 ISDN channels had transferred to other authorised operators on WLR, an increase of 2% and 11% respectively over volumes at 30 June 2009, as a result of continuing competition in the market. WLR rental and connection yielded revenues of approximately €81 million in the year ended 30 June 2010, an increase of 3% compared with the prior year, as higher 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 twelve months ended		% Change ²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Revenue			
Basic voice traffic revenue			
Local	91	83	(8)
National	53	46	(12)
Fixed to mobile	150	131	(13)
International	79	68	(15)
Total basic voice traffic revenue	373	328	(12)
Advanced voice services traffic revenue	67	61	(9)
Total voice traffic revenue	440	389	(12)
Data traffic revenue	26	15	(43)
Total traffic revenue	466	404	(13)
Traffic (in millions of minutes, except percentages)			
Local	2,335	2,111	(10)
National	880	781	(11)
Fixed to mobile	847	721	(15)
International	372	320	(14)
Total basic voice traffic minutes	4,434	3,933	(11)
Advanced voice services minutes	730	581	(20)
Total voice minutes	5,164	4,514	(13)
Data traffic minutes	1,072	533	(50)
Total traffic minutes	6,236	5,047	(19)

Overall revenue from voice and data traffic (before discounts) decreased by 13% in the year ended 30 June 2010.

Voice traffic

Basic voice traffic revenue (before discounts) decreased by 12% in the year ended 30 June 2010. This was primarily due to an overall decline in traffic volumes arising from loss of market share and weakness in the traditional voice market, and lower access volumes, partially offset by the introduction of a call set-up charge in September 2008, which impacts on the full year ended 30 June 2010. Voice traffic discounts have reduced from the prior year but continue to represent a significant proportion of total discounts.

Revenue relating to advanced voice services (before discounts) fell by 9% in the year ended 30 June 2010, due to a continuing decline in VPN, Freefone and other advanced voice services traffic volumes, partially offset by higher value PRS traffic offerings.

Data traffic

Revenue from internet and other dial-up traffic (before discounts) decreased by 43% in the year ended 30 June 2010, compared with the prior year, and is 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 twelve months ended		% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	
Data communications revenue			
Leased lines (including Partial Private Circuits)	91	88	(4)
Switched data and IP network services	62	62	1
ISP & VAS revenue	15	11	(28)
Total data communications revenue	168	161	(4)
Number of leased lines (at period end, except percentages)			
National leased lines	8,243	6,613	(20)
Partial private circuits	6,111	6,107	-
International leased lines	271	245	(10)
Interconnect paths	1,052	896	(15)
Total leased lines	15,677	13,861	(12)

Revenue from data communications (before discounts) decreased by 4% in the year ended 30 June 2010 compared with the prior year, due to lower Leased lines, ISP and VAS revenue. Leased line revenues were 4% lower than in prior year due to a reduction in circuits, reflecting a reduction in the overall leased line market, and customers migrating to higher speed alternatives, partially offset by c.€ million once-off provision release in the year. Switched data and IP network services revenue remained in line with the prior year period. Leased Lines (including Partial Private Circuits) volumes include circuits leased internally by Meteor and Tetra for use in their business and operations, which have increased significantly in the year.

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 twelve months ended		% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Interconnect services revenue			
Interconnect	110	81	(27)
Foreign terminating traffic	88	82	(7)
Total interconnect services revenue	198	163	(18)
Interconnect services traffic (in millions of minutes, except percentages)			
Call origination	2,217	1,831	(17)
Call termination	2,783	2,482	(11)
Transit to mobile/fixed	673	660	(2)
Ancillary	188	145	(23)
International	519	356	(31)
Total interconnect	6,380	5,474	(14)
Foreign terminating traffic	2,522	2,505	(1)
Total interconnect services traffic	8,902	7,979	(10)

Interconnect services revenue fell by 18% in the year ended 30 June 2010, compared with the prior year primarily due to lower interconnect traffic and lower rates.

Revenue from interconnect fell by 27% in the period ended 30 June 2010, due to a reduction in traffic volumes as well as a 7% call origination and termination rate reduction effective from 1 April 2010. Call origination and call termination volumes decreased by 17% and 11% respectively, due to a reduction in traffic from OAOs as a result of lower overall market volumes and increased transfers to WLR and other operators' networks. Domestic transit volumes were broadly in line with prior year. Ancillary traffic volumes fell by 23% reflecting declining demand for these services. International interconnect traffic volumes also fell by 31% due to lower demand.

Revenue from foreign terminating traffic in the year ended 30 June 2010 fell by 7%, compared with the prior year, primarily due to a change in mix to lower value traffic.

Other products and services

Other products and services revenues (before discounts) include Operator Services, Customer Premises Equipment (“CPE”) including LAN Communications, Phonewatch, and other revenues, primarily income from other subsidiaries, Data Centres, LLU, 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 twelve months ended		% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
	€‘m	€‘m	%
Operator Services	32	31	(5)
CPE	44	35	(21)
Phonewatch	28	29	3
Other revenue	72	78	9
Other products and services revenue	176	173	(2)

Revenue from other products and services (before discounts) in the year ended 30 June 2010 fell by 2% compared with the prior year. Operator services revenues were down 5% and CPE turnover fell by 21% on the prior year due to lower demand. These decreases were partially offset by higher Phonewatch revenues, due to a once-off revenue receipt in the current year, as well as Other revenues, particularly the group’s share of revenues from Tetra, operations in Northern Ireland and our data centres.

Discounts

Discounts in the year ended 30 June 2010 were 8% higher compared with the prior year, reflecting an increased number of subscriptions to bundled packages, and the introduction of a free line rental promotion during the year. 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 twelve months ended		% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
	€‘m	€‘m	%
Mobile services:			
Prepaid	326	308	(6)
Postpaid	138	120	(13)
Services revenue	464	428	(8)
Other revenue	32	30	(7)
Total mobile services revenue	496	458	(8)
Intracompany eliminations	(27)	(23)	(15)
Total mobile services revenue	469	435	(7)
	As at	As at	% Change²
	30 Jun 2009	30 Jun 2010	2009/2010
Total subscribers (thousands)*:			
Pre-paid subscribers (thousands)	888	886	-
Post-paid subscribers (thousands)	138	157	14
Total subscribers (thousands)⁴	1,026	1,043	2
ARPU⁵ (€)	38.43	34.50	(10)

* *eircom staff represents 4,694 of these subscriber numbers (30 June 2009: 4,481)*

Total revenue, before intracompany eliminations, was €458 million for the year ended 30 June 2010, a decrease of 8% on the prior year.

ARPU for the year ended 30 June 2010 was €34.50, a decrease of 10% compared with the prior year. Lower ARPU and revenue was driven by an increase in proportion of traffic generated as part of the bundled minutes within our own network, the impact of the new post-paid plans, a higher take-up of free minutes and texts add-ons in pre-paid, as well as lower termination and customer roaming rates, partially offset by increased data services revenues from mobile internet. The lower termination rates reflect an agreed reduction of industry wide Mobile Termination Rates in April 2010 and January 2009.

The lower ARPU was partially offset by a higher customer base. At 30 June 2010 there were 1,043,000 customers, an increase of 2% compared with 30 June 2009. Subscriber numbers include a total of c.37,000 Meteor Mobile Broadband customers (following the introduction of our service in March 2009), and c.15,000 eircom Mobile customers.

Operating costs before amortisation, depreciation, impairment, and exceptional items

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

	In the twelve months ended		% Change ²
	30 Jun 2009	30 Jun 2010	2009/2010
	€'m	€'m	%
Staff costs			
Fixed line			
Wages and salaries and other staff costs	349	312	(11)
Social welfare costs	14	13	(8)
Pension paid and payable	22	23	2
Pay costs before non-cash pension credit and capitalisation	385	348	(10)
Non-cash pension (credit)/charge	(10)	21	N/r
Pay costs before capitalisation	375	369	(2)
Capitalised labour	(69)	(53)	(24)
Total fixed line services staff costs	306	316	3
Mobile services staff costs (net of capitalised labour)	56	45	(20)
Total staff costs	362	361	-
Other operating costs			
Fixed line costs			
Payments to telecommunications operators	285	231	(19)
Purchase of goods for resale, commission and related costs	85	66	(22)
Materials and services	52	35	(33)
Other network costs	23	24	4
Accommodation	65	63	(3)
Sales and marketing	44	35	(20)
Transport and travel	17	16	(6)
IT costs	12	10	(14)
Other costs	91	90	(2)
Total other fixed line operating costs	674	570	(15)
Mobile services costs	316	305	(3)
Total other operating costs	990	875	(12)
Intracompany eliminations	(57)	(56)	(1)
Total other operating costs	933	819	(12)
Total operating costs before amortisation, depreciation, impairment and exceptional items	1,295	1,180	(9)

Total operating costs before amortisation, depreciation, impairment and exceptional items decreased by 9% in the year ended 30 June 2010, compared with the prior year.

Staff costs

Total staff costs in the year ended 30 June 2010 were broadly in line with the prior year. Higher Fixed line services staff costs, driven primarily by the €31 million movement in the Non-cash pension credit/charge and lower capitalised labour, were offset by lower Mobile services staff costs resulting from lower headcount and lower bonus costs.

The group adopts the corridor approach to account for pension obligations under IAS 19. Accordingly the pension charges included in operating costs before amortisation, depreciation, impairment and exceptional items includes the amortisation of unrecognised actuarial losses (See Notes 4 and 10).

Total fixed line services staff costs in the year ended 30 June 2010 increased by 3% compared with the prior year. Fixed line pay costs, before non-cash pension (credit)/charge and capitalisation, decreased by 10% from the prior year, due to lower wages and salaries resulting from lower fixed line headcount, as well as lower overtime, bonuses and subsistence on foot of cost saving programmes. These savings were partially offset by a reduction in the Fixed line capitalised labour compared with the prior year, mainly due to reduced activity.

Mobile services staff costs decreased by 20% due to lower salaries, wages, bonus and commission costs, lower headcount and reduced agency staff costs, partially offset by lower capitalised labour.

Headcount in Fixed Line services at 30 June 2010 was 5,546, down 9% from 6,090 at 30 June 2009. In addition, there were 44 agency staff at 30 June 2010, compared with 54 at 30 June 2009. Mobile services headcount at 30 June 2010 was 751, down 5% from 789 at 30 June 2009. There were 44 Agency staff in Meteor at 30 June 2010, compared with 76 at 30 June 2009. The costs of agency staff are included within staff costs.

Total other operating costs

Total other operating costs decreased by 12% in the year ended 30 June 2010, with reductions across most categories of costs.

Fixed line operating costs

Overall fixed line operating costs in the year ended 30 June 2010 decreased by 15% compared with the prior year. Payments to other telecommunications operators decreased by 19%, due to lower interconnect traffic volumes and lower mobile termination rates. The cost of goods for resale, commissions and related costs decreased by 22% mainly as a result of reduced sales. Materials and services decreased by 33% due to lower provisioning and maintenance costs as well as cost savings achieved. Other network costs increased by 4% from the prior year due to higher costs incurred by Tetra as it continues to roll out its network. Accommodation costs were marginally lower compared with the prior year, as lower electricity and service costs on premises in use by the group were largely offset by once-off costs in the period. Sales and Marketing costs were 20% lower as a result of reduced activity as well as price savings. Transport and travel costs were down 6%, due to cost savings as well as a decline in travel partially offset by lower capitalised transport costs in the period. IT costs were 14% lower resulting mainly from lower IT maintenance costs. Other costs decreased by 2% arising from savings achieved in customer services, staff related costs, and professional and regulatory fees, partially offset by higher management charge and bad debts in the year.

Mobile operating costs

Total operating costs for the mobile segment were €305 million, a decrease of 3% on the prior year, primarily due to savings achieved in sales and marketing, customer service costs and commissions paid as well as lower interconnect, roaming and cost of equipment sold including mobile devices, partially offset by higher bad debt charges and higher network costs related to the continuing rollout of our 3G network.

Amortisation

Amortisation in the year ended 30 June 2010 increased by 24%, compared with the prior year, mainly as a result of the amortisation of Mobile 3G licence costs and increased charges relating to Meteor's new billing system.

Depreciation and impairment

The depreciation and impairment charge for the year ended 30 June 2010 was €325 million, 2% lower than the prior year, mainly due to certain Mobile assets coming to the end of their depreciable life, partially offset by increased fixed line charges.

Exceptional items

There was a net exceptional credit of €73 million for the year ended 30 June 2010, compared with a charge of €60 million for the prior year. The exceptional items in the year ended 30 June 2010 include a net gain arising from the recognition of the past service and curtailment gains of €184 million in respect of the group's defined benefit pension scheme (see Note 4), offset by an impairment charge of €20 million, in respect of surplus properties, and €49 million charge for restructuring programme costs. An exceptional charge of €26 million for onerous contracts, €10 million in respect of the settlement of certain legal matters and €6 million for other costs, were also incurred in the period ended 30 June 2010.

Finance costs (net)

The group's net finance costs for the year ended 30 June 2010 were €197 million, compared with €21 million in the prior year. The reduction is due mainly to a credit of €28 million in the year compared with a charge of €33 million in the prior year, arising from the movement in the fair value of derivatives not qualifying for hedge accounting, as well as the impact of lower interest rates and reduced debt balances.

Taxation

The tax charge for the year to 30 June 2010 was €1 million compared with a €1 million credit in the prior year. This is primarily due to a deferred tax charge of €23 million in respect of the pension curtailment and past service gains recognised in the current year offset by a once-off tax refund as well as a reduction in taxable profits.

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 and certain non-cash exceptional items. Cash flows from operating activities are also impacted by working capital movements and restructuring and other payments. During the year ended 30 June 2010, net cash generated from operating activities decreased to €93 million from €504 million in the prior year. The reduction reflects lower cash generated from operations, mainly due to higher restructuring and tax payments, and a once-off receipt in the prior period of €123 million in respect of a construction contract, partially offset by a once-off tax receipt of €17 million and lower interest outflows.

Cash flows from investing activities

In the year ended 30 June 2010, we made payments in respect of capital expenditure of €258 million, down from €335 million in the prior year due to a completion of Meteor Billing project in August 2009, lower household completions and lower planned spend. Capital expenditure is used primarily to grow and renew our networks, including the 3G network, payments in respect of our share of Tetra's investment in its network and expenditure on a new Meteor billing system.

Cash flows from financing activities

In the year ended 30 June 2010, the group made repayments of €2 million in respect of its borrowings, compared with €21 million in the prior year, which included €72 million in respect of borrowings for a construction contract completed in July 2008. These repayments were partially offset by the group's share of Tetra borrowings taken out in the year.

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. Promotional lines refer to a “Free line rental” promotion introduced during the year.
 4. Mobile Broadband Customer subscriptions are being accounted for and billed separately to other mobile subscriptions.
 5. 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 31 August 2010 at 11:00 local time in Ireland.

The dial-in number is +353 1 664 7603, Pin number 20702#