

Registered no: MC-176140

ERC Ireland Preferred Equity Limited

Financial Statements

30 June 2010

ERC Ireland Preferred Equity Limited

Contents

Company Information	2
Directors' report	3
Statement of Directors' responsibilities in respect of the annual report and financial statements	6
Independent Auditors' report on financial statements	7
Group income statement	9
Group statement of comprehensive income	9
Group balance sheet	10
Company balance sheet	11
Group cash flow statement	12
Company cash flow statement	13
Group statement of changes in equity	14
Company statement of changes in equity	15
Notes to the financial statements	16

ERC Ireland Preferred Equity Limited

Company Information

Directors

Steven Terrell Clontz
Jerome Barrett
Richard Lim Beng Hoe
Stephen Geoffrey Miller
Gregory Sparks

Chairman
Deputy Chairman

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors,
One Spencer Dock,
North Wall Quay,
Dublin 1
Ireland.

Registered Office

Maples & Calder Corporate Services Limited,
Ugland House,
South Church Street,
Grand Cayman,
Cayman Islands.

Company Secretary

Jacqui A. Conroy

ERC Ireland Preferred Equity Limited

Directors' report

For the Year Ended 30 June 2010

The directors present their report and the audited financial statements of the group for the year ended to 30 June 2010.

Books of account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at 1 Heuston South Quarter, St. John's Road, Dublin 8.

Principal Activities

The company's principal activity is that of a holding company. ERCIPE through its subsidiaries ('the Group') provides fixed line and mobile telecommunications services in Ireland.

Background

ERC Ireland Preferred Equity Limited ("ERCIPE") was incorporated on 14 November 2006 and on the same date, it acquired 100% of the share capital of ERC Ireland Finance Limited ("ERCIF") from the company's immediate parent company, ERC Ireland Equity SPC ("ERCIE"). This was completed by ERCIE transferring the shares it held in ERCIF to ERCIPE in exchange for the entire issued share capital of ERCIPE and the proceeds of Payment-In-Kind ("PIK") notes issued by ERCIPE. The relative rights of the former shareholders of ERCIF were not altered. The transaction was accounted for in these financial statements in accordance with the principles of merger accounting that reflects the economic substance of the transaction.

On 4 January 2010, Emerald Communications (Cayman) SPC ("ECC") completed its acquisition of ERCIPE's ultimate parent company, eircom Holdings Limited ("ERC"). The ordinary share capital of ECC is held by Emerald Communications (Singapore) Pte Ltd (50%), a company controlled by STT Communications Ltd ("STTC") and by eircom ESOP Trustee Limited (50%), a company controlled by Employee Share Ownership Trust ("ESOT").

Review of the business and future developments

The results for the year show sustained progress in cost reduction and highlight the work underway and the challenges that remain to return the group to profitable growth. Together with the introduction of STTC 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 and holding EBITDA. 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 €90 million over the next three years. Elements of this three year plan are now under discussion with our trade union partners.

The group has generated strong cash flows in the year, resulting in a healthy cash balance of €396 million at the end of June. But the net debt remains very high and in the absence of action by the group the associated financial covenants may be breached within the coming 12-18 months (see Note 2). The group are actively reviewing its 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 introduced an eircom-branded mobile service in September 2010, 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 rollout of high speed services across Ireland.

ERC Ireland Preferred Equity Limited

Directors' report - continued
For the Year Ended 30 June 2010

Going concern

After making appropriate enquiries and considering the uncertainties described in Note 2, 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 statements. The financial statements do not include any adjustments that would be required if the group were unable to continue as a going concern.

Results

The financial results for the year are set out in the income statement on page 9 of the financial statements.

Post balance sheet events

Details of Post Balance Sheet Events are set out in Note 34 to the financial statements.

Directors

The Directors and company secretary, who held office during the year and up to the date of approval of these financial statements, are listed below. Unless otherwise indicated, the directors served for the entire period.

Steven Terrell Clontz	Chairman	Appointed 4 January 2010
Jerome Barrett	Deputy Chairman	
Richard Lim Beng Hoe		Appointed 6 August 2010
Stephen Geoffrey Miller		Appointed 4 January 2010
Gregory Sparks		
Anupam Garg		Appointed 4 January 2010, resigned 6 August 2010
Colm Barrington		Resigned 4 January 2010
Andrew Day		Resigned 4 January 2010
Kerry Roxburgh		Resigned 4 January 2010
Damian Wodak		Resigned 4 January 2010

Jacqui A. Conroy Secretary

Directors' and secretary's interests

According to the register of directors and secretaries, none of the directors nor the company secretary had any beneficial interest in the share capital of the company.

The interests of the directors and company secretary, who held office at 30 June 2010, in the share capital of group companies were as follows:

	ESOP Units ¹
<u>As at 30 June 2010 and 30 June 2009, or date of appointment if later</u>	
Jerome Barrett	32,957

(1) Represents notional allocation of units under the group's ESOP only and does not represent existing share entitlement. At 30 June 2010, the group's ESOP is a shareholder in the ultimate parent company ECC, and holds 50% of the Ordinary Share Capital and 100% of the Preference Share Capital of ECC. At 30 June 2009, the group's ESOP holds 35% of the Ordinary Share Capital and 100% of the Preference Share Capital of ERC Ireland Equity SPC ("ERCIE"), an intermediate holding company in the group. The total number of units held in the ESOP at 30 June 2010 was 324,782,516 (2009: 325,449,862).

ERC Ireland Preferred Equity Limited

Directors' report - continued
For the Year Ended 30 June 2010

Research and development

The group trials emerging technologies prior to full scale deployment, and participates in collaborative research with other European companies through its shareholding in EURESCOM. The group is also a member the European Telecommunications Standards Institute (ETSI).

The income statement charge for research costs is set out in Note 7(a) to the financial statements.

Auditors

The Auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, Ireland, have indicated their willingness to continue in office.

On behalf of the Board

Jerome Barrett

Gregory Sparks

26 October 2010

ERC Ireland Preferred Equity Limited

Statement of Directors' responsibilities in respect of the annual report and financial statements

For the Year Ended 30 June 2010

The directors are responsible for preparing the annual report and the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that the financial statements comply with IFRS, as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account, that disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements are prepared in accordance with IFRS, as adopted by the European Union, and with Regulation 11 of the European Communities (Branch Disclosures) Regulations 1993.

The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

Jerome Barrett

Gregory Sparks

26 October 2010

Independent Auditor's Report to the members of ERC Ireland Preferred Equity Limited

We have audited the Group and Company financial statements (the "financial statements") of ERC Ireland Preferred Equity Limited for the year ended 30 June 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheet, the Group and Company Cash Flow Statement and the Group and Company Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs, as adopted by the European Union.

We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the company balance sheet is in agreement with the books of account.

We also report to you our opinion as to:

- whether the company has kept proper books of account; and
- whether the directors' report is consistent with the financial statements.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other

Independent Auditor's Report to the members of ERC Ireland Preferred Equity Limited – continued

irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2010 and of its profit and cash flows for the year then ended; and
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 June 2010 and of its cash flows for the year then ended.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion, the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the significant risk that Group will be unable to meet the net debt to EBITDA covenants required under the Group's borrowing facilities. These matters, as set out in note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary if the Group were unable to continue as a going concern.

PricewaterhouseCoopers
Chartered Accountants
Dublin
27 October 2010

Notes:

- (a) The maintenance and integrity of the group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on any website.
- (b) Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ERC Ireland Preferred Equity Limited

Group income statement

For the Year Ended 30 June 2010

	Notes	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Revenue	6	2,061	1,997	1,828
Operating costs excluding amortisation, depreciation, impairment and exceptional items	7	(1,313)	(1,295)	(1,180)
Amortisation	7, 14	(81)	(84)	(104)
Depreciation and impairment	7, 15	(318)	(333)	(325)
Goodwill impairment	7, 13	-	(720)	-
Exceptional items	7, 8	-	(60)	73
Net construction income	7, 9	37	6	-
Profit on disposal of property and investments	7, 10	78	3	-
Operating profit/(loss)		464	(486)	292
Finance costs	11 (a)	(333)	(389)	(246)
Finance income	11 (b)	14	11	2
Finance costs – net	11	(319)	(378)	(244)
Share of profit of associates	16	-	2	-
Profit/(loss) before tax		145	(862)	48
Income tax (charge)/credit	12	(28)	11	(1)
Profit/(loss) for the financial year attributable to equity holders of the parent	32	117	(851)	47

Group statement of comprehensive income

For the Year Ended 30 June 2010

	Notes	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Profit/(loss) for the financial year attributable to equity holders of the parent	32	117	(851)	47
Other comprehensive income/(expense):				
Currency translation differences		(1)	-	-
Net changes in cash flow hedge reserve:				
- Fair value gains/(loss) in year		54	(137)	(61)
- Transfer to income statement		(18)	(9)	34
- Tax on cash flow hedge movements (Note 28)		(10)	32	4
Other comprehensive income/(expense) for the year, net of tax	32	25	(114)	(23)
Total comprehensive income/(expense) for the financial year	32	142	(965)	24

The accompanying notes form an integral part of the financial statements.

On behalf of the Board

Jerome Barrett

Gregory Sparks

26 October 2010

ERC Ireland Preferred Equity Limited

Group balance sheet

As at 30 June 2010

	Notes	30 June 2009 €'m	30 June 2010 €'m
ASSETS			
Non-current assets			
Goodwill	13	1,622	1,622
Other intangible assets	14	729	672
Property, plant and equipment	15	2,077	1,882
Retirement benefit asset	37	-	42
Deferred tax asset	17	13	1
Other assets	18	3	2
		4,444	4,221
Current assets			
Inventories	19	10	9
Trade and other receivables	20	354	293
Financial assets at fair value through profit or loss	21	8	-
Assets held for resale	18	-	20
Other assets	18	24	1
Restricted cash	22	7	7
Cash and cash equivalents	23	336	397
		739	727
Total assets		5,183	4,948
LIABILITIES			
Non-current liabilities			
Borrowings	25	4,050	4,025
Derivative financial instruments	26	70	81
Trade and other payables	30	53	58
Capital grants	27	-	2
Deferred tax liabilities	28	205	187
Retirement benefit liability	37	109	-
Provisions for other liabilities and charges	29	198	190
		4,685	4,543
Current liabilities			
Borrowings	25	109	97
Derivative financial instruments	26	71	59
Trade and other payables	30	711	640
Current tax liabilities		24	23
Provisions for other liabilities and charges	29	76	55
		991	874
Total liabilities		5,676	5,417
EQUITY			
Equity share capital	31, 32	2	2
Share premium account	32	447	447
Revaluation reserve	32	3	3
Cash flow hedging reserve	32	(51)	(74)
Retained loss	32	(894)	(847)
Total equity		(493)	(469)
Total liabilities and equity		5,183	4,948

The accompanying notes form an integral part of the financial statements.

On behalf of the Board

Jerome Barrett

Gregory Sparks

26 October 2010

ERC Ireland Preferred Equity Limited

Company balance sheet

As at 30 June 2010

	Notes	30 June 2009 €'m	30 June 2010 €'m
ASSETS			
Non-current assets			
Investments	16	63	63
		63	63
Current assets			
Cash and cash equivalents	23	1	-
		1	-
Total assets		64	63
LIABILITIES			
Non-current liabilities			
Borrowings	25	550	597
		550	597
Current liabilities			
Trade and other payables	30	7	6
		7	6
Total liabilities		557	603
EQUITY			
Equity share capital	31, 32	2	2
Share premium account	32	447	447
Retained loss	32	(942)	(989)
Total equity	32	(493)	(540)
Total liabilities and equity		64	63

The accompanying notes form an integral part of the financial statements.

On behalf of the Board

Jerome Barrett

Gregory Sparks

26 October 2010

ERC Ireland Preferred Equity Limited

Group cash flow statement For the Year Ended 30 June 2010

	Notes	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Cash flows from operating activities				
Cash generated from operations	33(a)	630	769	600
Interest received		13	12	2
Interest paid		(250)	(255)	(206)
Income tax refund		35	-	23
Income tax paid		(35)	(18)	(26)
Dividends paid to preference shareholders		(6)	(4)	-
Net cash generated from operating activities		387	504	393
Cash flows from investing activities				
Dividend received from associate undertaking		-	2	-
Purchase of property, plant and equipment ("PPE")		(274)	(263)	(207)
Proceeds from sale of PPE and investments	33(b)	155	13	-
Purchase of intangible assets		(57)	(72)	(51)
Restricted cash	22	(3)	3	-
Loans advanced to group undertakings	42(b)	(3)	(5)	-
Net cash used in investing activities		(182)	(322)	(258)
Cash flows from financing activities				
Redemption of preference shares		(71)	(72)	-
Repayment on borrowings		(58)	(221)	(92)
Lease payments		(5)	(3)	(1)
Proceeds from loan borrowings		121	96	20
Debt issue costs paid		-	(1)	-
Net cash used in financing activities		(13)	(201)	(73)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		192	(19)	62
Cash, cash equivalents and bank overdrafts at beginning of financial year		161	353	334
Cash, cash equivalents and bank overdrafts at end of financial year	23	353	334	396

The accompanying notes form an integral part of the financial statements.

ERC Ireland Preferred Equity Limited

Company cash flow statement

For the Year Ended 30 June 2010

	Notes	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Cash flows from operating activities			
Cash generated from operations	33 (c)	-	-
Net cash generated from operating activities		-	-
Cash flows from investing activities			
Loan repayments to group undertakings		-	(1)
Net cash used in investing activities		-	(1)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of financial year		1	1
Cash and cash equivalents at end of financial year	23	1	-

The accompanying notes form an integral part of the financial statements.

ERC Ireland Preferred Equity Limited

Group statement of changes in equity
For the Year Ended 30 June 2010

	Notes	Total Equity €'m
Balance at 1 July 2007	32	330
Total comprehensive income for the financial year	32	142
Balance at 30 June 2008	32	472
Balance at 1 July 2008	32	472
Total comprehensive expense for the financial year	32	(965)
Balance at 30 June 2009	32	(493)
Balance at 1 July 2009	32	(493)
Total comprehensive income for the financial year	32	24
Balance at 30 June 2010	32	(469)

The accompanying notes form an integral part of the financial statements.

ERC Ireland Preferred Equity Limited

Company statement of changes in equity
For the Year Ended 30 June 2010

	Notes	Total equity €'m
Balance at 1 July 2008	32	364
Total comprehensive expense for the financial year	32	(857)
Balance at 30 June 2009	32	(493)
Balance at 1 July 2009	32	(493)
Total comprehensive expense for the financial year	32	(47)
Balance at 30 June 2010	32	(540)

The accompanying notes form an integral part of the financial statements.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

1. General information

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

On 4 January 2010, Emerald Communications (Cayman) SPC ("ECC") completed its acquisition of ERCIPE's ultimate parent company, eircom Holdings Limited ("ERC"). The ordinary share capital of ECC is held by Emerald Communications (Singapore) Pte Ltd (50%), a company controlled by STT Communications Ltd ("STTC") and by eircom ESOP Trustee Limited (50%), a company controlled by Employee Share Ownership Trust ("ESOT").

ECC, a company registered in the Cayman Islands, is the ultimate parent company. The immediate parent company is ERC Ireland Equity SPC ("ERCIE"), a company registered in the Cayman Islands and tax resident in Ireland. The largest and smallest group of undertakings for which group financial statements are drawn up of which the company is a member is ERCIE. Copies of the group financial statements of ERCIE are available from the Companies Registration Office, Parnell House, 14 Parnell Square, Dublin 1, Ireland.

2. Going concern

The financial statements have 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 €396 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 statements. The financial statements do not include any adjustments that would be required if the group were unable to continue as a going concern.

3. Accounting policies

The significant accounting policies adopted by the group and company are set out below.

3.1. Basis of preparation

These financial statements have been prepared in accordance with IFRS, as adopted by the European Union. A summary of the more important accounting policies is set out below.

The financial statements, which are presented in euro rounded to the nearest million, have been prepared under the historical cost convention except for the following:

- derivative financial instruments are stated at fair value; and
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value. As set out in Note 37, the group has adopted the corridor approach and consequently certain actuarial losses are not recognised in the group balance sheet.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.1. Basis of preparation - continued

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

The reorganisation of the group in 2006 was accounted for in accordance with the principles of merger accounting as applicable to group reorganisations, as the relative rights of the former shareholders of ERCIF were not altered by the reorganisation. These consolidated financial statements are therefore presented as if ERCIPE had been the parent company of the group from the date of incorporation of ERC Ireland Holdings Limited ("ERCIH") on 17 February 2006, although ERCIPE was not incorporated until 14 November 2006 and did not obtain control of the group until that date.

Standards, amendments and interpretations effective in 2010 which are relevant to the group

IFRS 8, 'Operating segments' replaced IAS 14 'Segment reporting' and sets out the requirements for disclosure of financial and descriptive information about the group's operating segments and also about the group's products and services, the geographical areas in which it operates and its major customers. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The new standard has resulted in some changes to our segmental disclosures included in Note 6. IFRS 8 is a disclosure standard and does not affect the measurement of the group's reported financial position or financial performance.

IAS 1 (Revised), 'Presentation of financial statements', amends the requirements for the presentation, structure and content of the financial statements. In accordance with the revised standard the group has decided to present all items of income and expense in two separate statements, a consolidated income statement and a consolidated statement of comprehensive income. The revised standard requires that all changes in equity arising from transactions with owners in their capacity as owners be presented separately from non-owner changes in equity, in the consolidated statement of changes in equity.

IAS 1 was also amended to clarify the classification of certain financial assets and liabilities. The effect of this amendment is that non-hedging derivatives are not required to be classified as current simply because they fall in the 'held for trading' category in IAS 39. Such financial assets and liabilities should only be presented as current if realisation or settlement is expected within one year or the group does not have an unconditional right to defer payment; otherwise they should be classified as non-current. Previously, the group accounted for all non-hedging derivative assets and liabilities as current. In addition, hedging derivatives were classified as non-current when the remaining hedged item was more than 12 months, and as current when the remaining maturity of the hedged item was less than 12 months. Non-hedging derivative assets and liabilities are now accounted for as current or non-current based on expected realisation or settlement dates. The group believes that the change results in improved presentation of the timing of projected cash outflows for derivative liabilities measured at fair value. The change has no impact on reported shareholders' equity. The impact on comparative information is immaterial and accordingly no adjustment has been required to amounts reported in prior periods. The adoption of the revised standard does not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

IFRS 7 (Amendment), 'Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value by level of a prescribed fair value hierarchy. IFRS 7 as amended is a disclosure standard and does not affect the measurement of the group's reported financial position or financial performance. These additional disclosures are set out in Note 24.

In addition, the following new standards, amendments to standards and interpretations became effective during the year, however, they either do not have an effect on the group financial statements or they are not currently relevant for the group:

- IAS 23 (Revised), 'Borrowing costs'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- IAS 32 (Amendment), 'Financial instruments: Presentation'
- IAS 39 (Amendment), 'Eligible Hedged Items, 'Financial Instruments: Recognition and Measurement'
- IFRS 1 (Amendment), 'First-time Adoption of International Financial Reporting Standards'
- IFRS 2 (Amendment), 'Share based payments on vesting conditions and cancellations'
- IFRS 3 (Revised), 'Business combinations'
- IFRIC 9 and IAS 39 (Amendments), 'Embedded derivatives'
- IFRIC 15, 'Agreements for construction of real estates'
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IFRIC 17, 'Distributions of Non-cash Assets to Owners'
- IFRIC 18, 'Transfer of Assets from Customers'

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.2. Basis of consolidation

The consolidated financial statements of the group comprise a consolidation of the financial statements of the company, ERCIPE Limited, and its subsidiaries. The subsidiaries' financial period ends are all coterminous with those of the company.

(i) *Subsidiaries*

Subsidiaries are entities over which the group has the power to govern the financial and operating policies in order to obtain benefits from their activities. Control is presumed to exist where the group owns more than 50% of the voting rights, unless in exceptional circumstances it can be demonstrated that ownership does not constitute control. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of ERCIPE and its subsidiaries after eliminating inter-company balances and transactions.

(ii) *Joint ventures*

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The group's interests in jointly controlled entities are accounted for by proportionate consolidation. The group combines its share of the joint ventures' individual income and expenses, assets and liabilities on a line-by-line basis with similar items in the group's financial statements.

The group holds 56% of the equity share capital in Tetra Ireland Communications Limited ("Tetra"). However, the group's interest in Tetra is subject to a contractual agreement with other shareholders, which prevents the group from exercising a majority of voting rights in key strategic, operational and financial decision-making. Accordingly, the group's interest is accounted for in accordance with IAS 31 '*Interests in Joint Ventures*'.

(iii) *Associates*

An associate is an entity, that is neither a subsidiary nor a joint venture, over whose operating and financial policies the group exercises significant influence but not control. Significant influence is presumed to exist where the group holds between 20% and 50% of the voting rights, but can also arise where the group holds less than 20% if the group is actively involved and influential in policy decisions affecting the entity. The group's share of the net assets, post tax results and reserves of associates are included in the financial statements using the equity accounting method. This involves recording the investment initially at cost to the group and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the group's share of the associate's post tax results, less any impairment of goodwill and any other changes to the associate's net assets such as dividends.

(iv) *Acquisitions and disposals*

The purchase method of accounting is used to account for all business combinations, except for business combinations involving entities under common control and group reorganisations. Under the purchase method of accounting the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the group's share of the identifiable assets, liabilities and contingent liabilities recognised. The interest of non-controlling interest shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised, and does not include a gross-up for goodwill. There were no acquisitions in the year ended 30 June 2010. For prior year acquisitions, the movement in the fair value of identifiable assets, liabilities and contingent liabilities between the date of the initial investment in the acquiree and the date of acquisition, being the date at which the group achieves control of the acquiree is taken to the asset revaluation surplus.

The results of subsidiaries acquired during the period are brought into the consolidated financial statements from the date control transfers to the group; the results of businesses sold during the period are included in the consolidated financial statements for the period up to the date control ceases. Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold.

3.3. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is not amortised. Instead, Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing in accordance with IAS 36 "Impairment of Assets". The recoverable amount of cash generating units has been determined based on value in use calculations. These calculations require the use of estimates, including management's expectations of future revenue growth, operating costs and profit margins for each cash generating unit.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.4. Intangible assets

Acquired computer software licences and associated costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. IT development costs include only those costs directly attributable to the development phase and are only capitalised following completion of a technical feasibility study and where the group has an intention and ability to use the asset which will contribute future period financial benefits through revenue generation and/or cost reduction. Internal costs associated with developing computer software programmes are also capitalised on the same basis. These costs are amortised over their estimated useful lives (three to four years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Other intangible assets, which comprise primarily acquired intangible assets, are capitalised at fair value and amortised using the straight-line method over their estimated useful lives, from the date the intangible assets are in use.

Indefinite lived intangible assets are not amortised. Instead indefinite lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and are carried at cost less accumulated impairment losses.

The following useful lives have been assigned to intangible assets:

	Years
Computer software	3 - 4
Monitoring contracts	3
Intangible assets from acquisitions:	
Pre-paid customer relationships (mobile)	1.5
Post-paid customer relationships (mobile)	4
Roaming customer relationships (mobile)	5
Retail customer relationships (fixed line)	10
Mobile trademark	12
Fixed line trademark	Indefinite
Fixed line license	2
GSM licence	15
3G licence	18.5

3.5. Segmental reporting

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Management Team, which is the key management team that makes strategic decisions (see Note 6).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements *For the Year Ended 30 June 2010*

3. Accounting policies - continued

3.6. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Amounts disclosed as revenue are net of discounts and value added tax. Revenue includes sales by group entities but excludes all inter-company sales.

The group recognises revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the actual terms of each arrangement.

The group is required to interconnect its networks with other telecommunications operators. In some instances, as is normal practice in the telecommunications industry, reliance is placed on other operators to measure the traffic flows interconnecting with the group's networks. In addition, the prices at which services are charged are often regulated and can be subject to retrospective adjustment. Estimates are used in these cases to determine the amount of income receivable from, or payments required to be made to, these other operators and to establish appropriate provisions.

When the group acts as principal bearing the risk and rewards of a transaction, revenue is recorded on a gross basis. However when the group acts as an agent on behalf of third parties, revenue is reported at the net amounts receivable from those third parties.

Fixed Line Revenue

Fixed line revenue is recognised in the period earned by rendering of services or delivery of products.

Traffic revenue is recognised at the time the traffic is carried over the group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products (broadband, line rentals and traffic) are accounted for in the same manner as the unbundled products comprising the bundle. The discount to standard rates is normally applied based on the relative fair value of the bundle.

Connection fee revenue is deferred over the life of the connection, which is estimated to be between four and five years. Connection lives are reviewed annually.

Revenue from equipment sold to third parties is recognised when the equipment is delivered to the customer. Revenue arising from the provision of other services, including maintenance contracts, is recognised evenly over the term of the contract.

Billings for telephone services are made on a monthly, bi-monthly or quarterly basis. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided.

Mobile Revenue

Mobile revenue consists principally of charges to customers for traffic from mobile network services, revenue from providing network services to other telecommunications operators, and the sale of handsets and other accessories.

Revenue from the sale of bundled products is allocated to the separate elements of the bundle on the basis of each element's relative fair value and recognised in revenue when each individual element of the product or service is provided. The fair values of each element are determined based on the current market price of the elements when sold separately. To the extent that there is a discount in the bundled product, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of each element.

3.7. Exceptional items

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. Such items include, where significant, curtailment gains and negative past service costs, restructuring, onerous contracts and impairment of individual assets. 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 restructuring and other exceptional items.

3.8. Amounts paid and payable to other operators

Amounts paid and payable to other operators are mainly settlement fees that the group pays to other telecommunications operators for traffic that is routed on their networks. Costs associated with these payments are recognised in the period in which the traffic is carried.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.9. Customer acquisition costs

The group pays commissions to dealers for the acquisition and retention of mobile subscribers and certain fixed line products. Customer acquisition costs are expensed as incurred in the income statement.

The costs associated with the group's advertising and marketing activities are also expensed as incurred.

3.10. Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These consolidated financial statements are presented in euro, which is the company's functional and presentation currency and is denoted by the symbol "€".

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Group entities

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in equity.

3.11. Taxation

The company is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland.

Current tax is calculated on the profits of the period. Current tax is determined using tax rates (and laws) that have been enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised in other comprehensive income or directly in equity, if the tax relates to items that are credited or charged, in the same or a different period, in other comprehensive income or directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.12. Financial instruments

(i) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of issue costs) and the redemption value is recognised in the income statement over the period of borrowings using the effective interest method. Accrued issue costs are netted against the carrying value of borrowings.

Borrowings are classified as current liabilities, unless the group has an unconditional right to defer settlement for the liability for at least 12 months after the balance sheet date.

Where the group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously then both the asset and the liability are presented on a net basis.

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes and movements on the hedging reserve in shareholders' equity are shown in Note 26 and Note 32.

Derivatives are presented as current if realisation or settlement is expected within one year or the group does not have an unconditional right to defer payment; otherwise they are classified as non-current. Non-hedging derivative assets and liabilities are now accounted for as current or non-current based on expected realisation or settlement dates.

(iii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income. Any ineffective portion of the hedge is recognised in the income statement.

Amounts accumulated in equity are recycled in the income statement within finance costs in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iv) Financial assets held at fair value through profit or loss

A financial asset is classified in this way if acquired principally for the purpose of selling in the short term or if so designated by management. These financial assets are measured at fair value, and changes in the fair value are recognised in the income statement. Assets in this category are classified as current assets.

(v) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. The group's loans and receivables are set out in Note 24.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.13. Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Cost in the case of network plant includes contractors' charges, materials and labour and related overheads directly attributable to the cost of construction.

Depreciation

Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives. The estimated economic lives assigned to property, plant and equipment are as follows:

Asset Class	Estimated Economic Life (Years)
Buildings	40
<i>Network Plant</i>	
<i>Transmission Equipment</i>	
Duct	20
Overhead cable/poles	10-15
Underground cable	14
Other local network	6-15
<i>Exchanges</i>	
Exchange line terminations	8
Core hardware/operating software	3-4
Others	3-14

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

Fully depreciated property, plant and equipment are retained in the cost of property, plant and equipment and related accumulated depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the financial statements and the net amount, less proceeds from disposal, is charged or credited to the income statement.

Assets in the course of construction

Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. The estimated amount of interest incurred, based on the weighted average interest rate on outstanding borrowings, while constructing capital projects is capitalised.

Asset retirement obligations

The group has certain obligations in relation to the retirement of assets mainly poles, batteries and international cable. The group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. The group capitalises the future discounted cash flows associated with these asset retirement obligations and depreciates these assets over the useful life of the related asset.

3.14. Impairment of non financial assets

Assets that have an indefinite useful life, principally goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill and secondly against the other assets (including other intangible assets) in the cash generating unit on a pro-rata basis based on the carrying amount of each asset in the cash generating unit.

Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss in respect of goodwill may not be reversed in any circumstances.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.15. Leased assets

The fair value of property, plant and equipment acquired under finance leases is included in property, plant and equipment and depreciated over the shorter of the lease term and the estimated useful life of the asset. The outstanding capital element of the lease obligations is included in current and non-current liabilities, as applicable, while the interest is charged to the income statement over the primary lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.16. Inventories

Inventories comprise mainly of consumable items and goods held for resale. Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis and includes invoice price, import duties and transportation costs. Where necessary, write-downs in the carrying value of inventories are made for damaged, deteriorated, obsolete and unusable items, on the basis of a review of individual items included in inventory. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3.17. Trade receivables

Trade receivables are recognised initially at fair value, which is normally the original invoiced amount and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or a financial re-organisation, default or delinquency in payments and general economic conditions are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of the bad debt provision account, and the amount of the loss is recognised in the income statement in "operating costs". When a trade receivable is uncollectible, it is written off against the bad debt provision account.

3.18. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturity of less than three months.

3.19. Indefeasible rights of use ("IRU")

The group accounts for IRU contracts in the following manner:

(i) Sales contracts are accounted for as service contracts with the entire income being deferred and recognised on a straight-line basis over a 17 to 25 year period, being the period of the relevant contracts.

(ii) Purchase contracts are accounted for as service contracts with the pre-paid balance recorded as a deferred debtor and amortised on a straight-line basis as an expense over a 7 year period, being the period of the relevant contracts.

3.20. Employee benefits

(i) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments determined by periodic actuarial calculations to an independent trustee-administered funds. The group operates both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate fund. Under defined contribution plans, the group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

Typically, defined benefit plans define an amount of future pension benefit that employees have earned in return for their services to date. The pension benefit that an employee will receive on retirement, is usually dependent on factors such as age, years of service and compensation. The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the group's defined benefit obligation at the balance sheet date, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. Plan assets are valued at their market value at the balance sheet date using bid values. The defined benefit obligation, and the related current service cost, and where applicable, past service cost, are calculated by independent actuaries using the projected unit credit method. The defined benefit obligation is calculated annually unless there has been a material change in the obligations where it is then recalculated during the year. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in euros, and that have terms to maturity approximating to the terms of the related pension liability.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.20. Employee benefits - continued

(i) Pension obligations - continued

The amounts of current service cost, interest cost and expected return on plan assets recognised in the income statement are computed based on actuarial assumptions at the start of the financial year.

Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, in excess of the corridor limit (i.e. the greater of 10% of the value of plan assets or 10% of the defined benefit obligation) are charged or credited to income over the employees' expected average remaining working lives. The corridor limit and any related amortisation are computed based on unrecognised actuarial gains/losses at the start of the financial year. The amortisation is re-measured during the year only when there has been a material change in the obligations in respect of the pension scheme.

Past service costs and negative past service costs are recognised immediately as an expense in the group income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case the past service costs or negative past service costs are amortised on a straight-line basis over the vesting period.

Settlements and curtailments trigger immediate recognition of the consequent change in obligations and related assets or liabilities in the group income statement. Where a curtailment relates to only some of the employees covered by the plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of any previously unrecognised past service cost and actuarial gains and losses. Before the effect of a curtailment or settlement is determined, the defined benefit obligation is re-measured using current actuarial assumptions.

The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

Pre 1 January 1984, past-service costs are the responsibility of the Irish Minister for Finance (see Note 37(b)).

(ii) Share-based compensation

Share appreciation rights scheme ("SARS")

One of the group's subsidiaries operated a cash settled share appreciation rights scheme ("SARS"). The SARS entitled certain employees to receive performance units. The group granted performance units and measured the employee services acquired and the liability incurred at the fair value of the liability. Until the liability was settled, the group re-measured the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in the income statement. Non-market vesting conditions were included in assumptions about the number of performance units that were expected to vest. At each balance sheet date, the group revised the estimate of the number of performance units that were expected to vest. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to liabilities as appropriate over the remaining vesting period.

(iii) Other bonus plans

The group recognises a liability and an expense for bonuses where contractual or constructive obligation exists.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

3. Accounting policies - continued

3.21. Provisions

Provisions for obligations relating to the disposal and dismantling of certain assets and related restoration requirements, onerous contracts on property, restructuring programme costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

A constructive obligation, for restructuring cost, exists where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken on or before the balance sheet date.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract or, the estimated cost to exit it, where appropriate.

3.22. Share capital

Ordinary shares are classified as equity. Preference shares, including convertible preference shares, which are mandatorily redeemable, are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.23. Dividend distribution

Final dividend distributions to equity shareholders are recognised as a distribution in the group's financial statements in the period in which the dividends are approved by the equity shareholders. Interim dividend distributions to equity shareholders are recognised as a distribution in the group's financial statements in the period in which the dividends are paid.

3.24. Investments

Investments in subsidiaries included in the company balance sheet are shown at cost less provision for impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the subsidiaries carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the subsidiaries fair value less costs to sell and value in use. Investments that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

3.25. Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Only those contract costs that reflect work performed are included in costs incurred to date.

The group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs have been incurred plus recognised profit (less recognised losses).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

4. Financial risk management

Financial risk factors

The group's activities expose it to a variety of financial risks: market rate risk (including cash flow, interest rate risk, currency risk and price risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses derivative financial instruments, such as interest rate swaps to hedge certain risk exposures. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risks and ageing analysis for credit risk. Responsibility for managing these risks rests with the Board.

The group does not hold or issue derivative financial instruments for financial trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

There have been no significant changes in the types of financial risks or the group's risk management program (including methods used to measure the risks) since 30 June 2009.

4.1. Market rate risk

Market rate risk refers to the exposure of the group's financial position to movements in interest rates, currency rates and general price risk.

The principal aim of managing the interest rate risk is to limit the adverse impact on cash flows and shareholder value of movements in interest rates. The group has limited exposure to equity, currency and price risk, other than the impact of those risks on the group's defined benefit pension scheme.

The group finances its investments with significant amounts of borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings at a fixed rate expose the group to fair value interest rate risk.

The group uses derivative financial instruments to hedge certain interest rate risk exposures and to generate the desired effective profile of interest rate risk.

The main derivatives used are interest rate swaps. The group seeks to manage the fixed/floating mix of its borrowings with the aim of controlling cost while mitigating its exposure to interest rate risk. The group achieves fixed rates on borrowings indirectly through the use of interest rate swaps. Under interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount. The group has fixed interest rates on 67% of its total borrowings as at 30 June 2010 (30 June 2009: 72%).

As at reporting date, the group had the following cash and cash equivalents (Note 23), floating-rate borrowings (Note 25) and interest rate swap contracts outstanding (Note 26):

Group

	30 June 2009		30 June 2010	
	Weighted average interest rate %	Balance €'m	Weighted average interest rate %	Balance €'m
Cash and cash equivalents	0.72%	336	0.47%	397
Floating Rate Notes due 2016	6.28%	(350)	5.68%	(350)
Floating rate senior PIK notes due 2017	8.28%	(559)	7.68%	(606)
Bank borrowings (Senior Credit Facility)	3.16%	(3,272)	2.71%	(3,180)
Other bank borrowings	1.94%	(26)	1.43%	(48)
Overdraft	3.63%	(2)	2.63%	(1)
Interest rate swaps (Notional principal amount)		3,026		2,785
Net exposure to interest rate risk		(847)		(1,003)

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements For the Year Ended 30 June 2010

4. Financial risk management - continued

4.1. Market rate risk – continued

Company	30 June 2009		30 June 2010	
	Weighted average interest rate %	Balance €'m	Weighted average interest rate %	Balance €'m
Cash and cash equivalents	0.72%	1	-	-
Floating rate senior PIK notes due 2017	8.28%	(559)	7.68%	(606)
Net exposure to interest rate risk		(558)		(606)

The weighted average interest rates in the tables above include the margins applicable to the relevant debt.

Interest rate sensitivity analysis

Based on the financial instruments held at the balance sheet date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the group and company (loss)/profit after tax and the equity cash flow hedge reserve for the year would have been higher or lower by the amounts set out in the table below:

Group – after tax

	Increase by 100 bps		Decrease by 100 bps	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
(Loss)/profit for the year - interest	(8)	(10)	8	10
(Loss)/profit for the year - hedge ineffectiveness	39	10	(27)	(12)
Equity – cash flow hedge reserve	30	33	(44)	(33)

Company – after tax

	Increase by 100 bps		Decrease by 100 bps	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
(Loss)/profit for the year – interest	(6)	(6)	6	6

A sensitivity of 100 basis points has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

It should be noted that the results above reflect the net impact on a hedged basis. The interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. If interest rates were 100 basis points higher, finance costs would be impacted by the interest expense on the floating rate borrowings. However, the resulting change in fair value of the derivatives which are not designated or do not qualify for hedge accounting and the ineffective portion of designated derivatives is also recorded in profit or loss, as an unrealised gain. The unrealised gain/loss in profit or loss arising from the change in fair value of the derivatives will ultimately reverse. The effective portion of the change in the fair value of the designated derivatives is initially recorded in equity.

Currency risk

The group conducts its business primarily in Ireland and, therefore, operating and investing cash flows are substantially denominated in euro. A limited level of foreign exchange risk arises in relation to a foreign subsidiary, capital expenditure denominated in foreign currencies and foreign exchange settlements with international third party telecommunications carriers.

Given the limited level of risk the group does not generally hedge its foreign exchange risk arising on transactions and capital expenditure denominated in foreign currencies.

Price risk

The group is exposed to price risk on the assets held by the group's defined benefit pension scheme (see Note 37).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

4. Financial risk management - continued

4.2. Credit risk

Credit risk refers to the loss that the group would incur if a debtor or other counter-party fails to perform under its contractual obligations. Credit risks are mainly related to counter-party risks associated with cash and cash equivalents, restricted cash, trade and other debtors, amounts owed by related companies, lease receivables and derivative contracts.

Group

The group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Ireland. Exposure to credit loss and subscriber fraud is actively monitored on a regular basis, including some processing of current credit information on subscribers from third-party sources (subject to availability) and, where appropriate, a provision for doubtful debtors is made. The credit risk and net exposure on key accounts, particularly international carriers and other authorised operators, is monitored separately through continual risk assessments of customers with material balances. In terms of the overall exposure from credit risk, the receivables from these counter-parties are not so extensive as to be considered significant concentrations of credit risk.

Ageing of trade receivables

The ageing analysis of trade receivables is set out below.

	Past due but not impaired				Neither impaired nor past due €'m	Impaired €'m	Total €'m
	Less than 30 days €'m	Between 31 and 60 days €'m	Between 61 and 90 days €'m	More than 90 days €'m			
Trade receivables							
- at 30 June 2010	21	10	5	9	157	40	242
- at 30 June 2009	32	15	5	5	193	44	294

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The group held collateral on trade receivables in the form of cash deposits of €3 million (30 June 2009: €4 million) as security.

The group is exposed to credit risk relating to its cash and cash equivalents. The group treasury policy is designed to limit exposure with any one institution and to invest its excess cash in low risk investment accounts with authorised banking counter-parties and with institutions whose long-term Standard & Poor's (S&P) credit rating is "A" or above (or Moody's equivalent rating of "A1"). The group has policies that limit the amount of credit exposure to any one financial institution. The group has not experienced any losses on such accounts. Transactions involving derivative contracts are managed by the group's treasury function. The group's dealings in derivatives are restricted to highly rated financial institutions.

The credit quality of cash and cash equivalents and lease receivables can be assessed by reference to S&P credit ratings in the table below.

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Cash and cash equivalents				
AAA	83	95	-	-
AA	44	141	-	-
AA-	64	94	1	-
A+	54	-	-	-
A	91	67	-	-
	336	397	1	-
Lease receivables				
A	25	1	-	-

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

4. Financial risk management - continued

4.3. Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to meet the group's requirements and to repay maturing debt and other liabilities as they fall due. This objective is met by monitoring and controlling potential cash flows and maintaining an appropriate buffer of readily realisable assets and standby credit facilities.

The ERCIPE Group has an excess of current liabilities over current assets of €147 million at 30 June 2010 (30 June 2009: €252 million). However, trade and other payables include deferred revenue of €142 million at 30 June 2010 (30 June 2009: €156 million). There is no cash outflow requirement associated with deferred revenue. The ERCIPE Group has undrawn borrowing facilities of €124 million at 30 June 2010 as part of the group's overall facilities (see Note 4.4).

A failure to comply with the group's financial covenants (see Note 4.4) and other obligations could cause an event of default under the borrowing agreements. If an event of default occurs, our lenders could elect to declare all amounts outstanding and accrued and unpaid interest to be immediately due, and the lenders could then foreclose upon the assets securing the indebtedness (see Note 2).

Maturities of financial liabilities

The table below analyses the group's and company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the interest rates effective at the balance sheet date and before taking account of the impact of interest rate swaps.

Group	Within 1 Year €'m	Between 1 & 2 Years €'m	Between 2 & 5 Years €'m	After 5 Years €'m	Total €'m
Borrowings					
- At 30 June 2010	109	93	1,466	2,518	4,186
- At 30 June 2009	117	56	342	3,724	4,239
Interest on borrowings					
- At 30 June 2010	107	105	277	515	1,004
- At 30 June 2009	140	147	424	722	1,433
Derivative financial instruments					
- At 30 June 2010	85	54	28	-	167
- At 30 June 2009	89	70	28	-	187
Trade and other payables					
- At 30 June 2010	454	10	11	47	522
- At 30 June 2009	512	4	11	58	585
TIS annuity scheme					
- At 30 June 2010	17	15	33	21	86
- At 30 June 2009	20	18	39	29	106
Company					
	Within 1 Year €'m	Between 1 & 2 Years €'m	Between 2 & 5 Years €'m	After 5 Years €'m	Total €'m
Borrowings					
- At 30 June 2010	-	-	-	606	606
- At 30 June 2009	-	-	-	559	559
Interest on borrowings					
- At 30 June 2010	-	-	-	469	469
- At 30 June 2009	-	-	-	567	567
Trade and other payables					
- At 30 June 2010	6	-	-	-	6
- At 30 June 2009	7	-	-	-	7

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

4. Financial risk management - continued

4.4. Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The capital structure of the group consists of borrowings as set out above, and equity comprising issued capital, reserves and retained loss as listed in Note 32.

The capital structure includes a significant level of borrowings. The borrowing arrangements include certain financial covenants customary for debt of this magnitude, which includes amongst other things:

- maintenance of a minimum ratio of cash flow to net debt service;
- maintenance of a minimum ratio of consolidated EBITDA (as defined) to consolidated net finance charges;
- maintenance of a maximum ratio of senior consolidated total net debt on specified dates to consolidated EBITDA;
- maintenance of a maximum ratio of consolidated total net debt on specified dates to consolidated EBITDA;
- ensuring that annual aggregate capital expenditure does not exceed certain maximum amounts; and
- ensuring that a certain minimum proportion of the assets, turnover and EBITDA of the group is contributed by guarantor companies.

A failure to comply with these financial covenants and other obligations could cause an event of default under the borrowing agreements. If an event of default occurs, our lenders could elect to declare all amounts outstanding and accrued and unpaid interest to be immediately due, and the lenders could then foreclose upon the assets securing the indebtedness (see Note 2).

4.5. Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

This information has been provided in Note 24.

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar instruments.

The fair values of short-term deposits, floating-rate loans and overdrafts approximate to their carrying amounts.

4.6. Hedging instruments

As at the reporting date, the group had entered into a number of swaps to cover interest rate exposure on various debt obligations. In accordance with IAS 39: "Financial Instruments – Recognition and Measurement", some of these instruments have been designated as cash flow hedges and movements in the effective portion of the fair value of the hedges have been taken through the cash flow hedge reserve.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

4. Financial risk management - continued

4.6. Hedging instruments - continued

Derivatives designated and eligible for hedge accounting

The details of the effective interest rate and maturity of these designated and effective hedging instruments is:

Group	Principal value	Fair Value	Weighted average Interest rate	Maturity date – principal value					
				Within 1 Year	Between 1 & 2 Years	Between 2 & 3 Years	Between 3 & 4 Years	Between 4 & 5 Years	After 5 Years
	€'m	€'m	%	€'m	€'m	€'m	€'m	€'m	€'m
Designated active interest rate swap									
- at 30 June 2010	1,500	(93)	3.83%	-	-	1,000	500	-	-
- at 30 June 2009	500	(34)	4.37%	-	-	-	500	-	-
Designated forward starting interest rate swap									
- at 30 June 2010	-	-	-	-	-	-	-	-	-
- at 30 June 2009	1,000	(36)	3.58%	-	-	-	500	500	-

The effective interest rates in the table above are based on the effective interest rates in the derivative financial instruments designated for cash flow hedging. This does not equate to the effective interest rate on the underlying debt as it excludes the margin over Euribor, payable in respect of the various tranches of the group's Senior Credit Facility and other debt. The margins on the senior credit and other facilities are from 1% to 7% over Euribor.

The group does not use derivatives for trading or speculative purposes but has a number of derivatives which are not designated or are ineligible for hedge accounting as detailed below.

Derivatives not designated or ineligible for hedge accounting

As at the reporting date, the group had entered into a number of other swaps to cover interest rate exposure on various debt obligations. These instruments have not been designated as cash flow hedges or are ineligible for hedge accounting under IAS 39 and movements in the fair value of these derivatives have been taken through the income statement. The details of the effective interest rate and maturity of these instruments is:

Group	Principal value	Fair Value	Weighted average Interest rate	Maturity date – principal value					
				Within 1 Year	Between 1 & 2 Years	Between 2 & 3 Years	Between 3 & 4 Years	Between 4 & 5 Years	After 5 Years
	€'m	€'m	%	€'m	€'m	€'m	€'m	€'m	€'m
Undesignated active interest rate swap									
- at 30 June 2010	1,250	(42)	3.88%	-	1,250	-	-	-	-
- at 30 June 2009	2,500	(62)	3.73%	1,250	-	1,250	-	-	-

The group increased the frequency of interest payments on a proportion of its hedged borrowings in the prior year and entered into concurrent interest rate basis swaps with the objective of reducing net interest costs without changing underlying risk exposures. The mark to market fair value of the remaining basis swaps is a liability of €1 million at 30 June 2010 (2009: €6 million). The notional principal amount of active basis swaps is €2,800 million (2009: €2,950 million). No forward starting interest rate basis swap has been contracted at 30 June 2010. The active basis swap commenced upon maturity of the previous basis swaps on 30 September 2009, and it will mature on 30 September 2010. These basis swaps have not been designated as cash flow hedges under IAS 39.

The group's Joint Venture, Tetra, has also hedged its floating rate borrowings (excluding margin), using an interest rate swap with a fixed interest rate of 4.47%. The group has proportionately consolidated 56% of the net assets of this entity. The fair value of the Tetra derivative in the accounts of the group is a liability of €4 million (30 June 2009: €3 million). The group's share of the notional principal amount of this derivative is €35 million at 30 June 2010 (30 June 2009: €26 million). The notional principal amount varies throughout the life of this swap. This derivative has not been designated as a cash flow hedge under IAS 39.

Further information on the group's use of interest rate swaps is included in Note 26.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

5. Critical Accounting Judgements and Estimates

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1. Making appropriate assumptions on asset impairment reviews

The group undertakes a review for impairment annually or if events or circumstances indicate that the carrying amount may not be recoverable. Factors which the group consider could trigger an impairment review include, but are not limited to the following: (1) significant negative industry or economic trends, (2) current, historical or projected losses that demonstrate continuing losses, (3) results of fair market valuations performed or (4) changes in key assumptions underpinning the value in use calculation. These impairment charges under IFRS are based upon the excess of the carrying amount of the asset over its recoverable amount, which is the higher of the net amount at which the asset could be disposed of and its value in use, based on discounted future cash flows. When an asset is not recoverable in full, impairment is measured as the excess of carrying value over the recoverable amount of the long-lived asset. Management incorporates estimates when evaluating the carrying amount, the recoverable amount, the value in use and the fair value. Changes in these estimates would directly affect the amount of the impairment charge recorded. Details of the assumptions used in the goodwill impairment test as of 30 June 2010 are set out in Note 13.

The discount rate used in impairment testing is derived from a weighted average cost of capital ("WACC") which is impacted by interest rates and market risk premiums, estimated for companies in the telecommunications sector. Given the recent market volatility there is a risk that the WACC could increase significantly in future periods above the estimated WACC as of 30 June 2010. There is also a risk of deterioration in the budgeted future cash flows as a result of the current economic environment.

Any significant deterioration in the budgeted future cash flows or changes in WACC could result in a further impairment of our goodwill which could have a further negative effect on operating profits and assets. Future cash flows would not be impacted by any impairment provision.

5.2. Establishing lives for amortisation purposes of intangible assets

The group has significant levels of intangible assets. The amortisation charge is dependent on the estimated lives allocated to each type of intangible asset. The directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives and the expected pattern of consumption of the future economic benefits embodied in the asset. Changes in asset lives can have a significant impact on amortisation charges for the period. Detail of the useful lives is included in Note 3.4 and the related intangible assets are set out in Note 14.

5.3. Establishing lives for depreciation purposes of property, plant and equipment

Long-lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned. Changes in asset lives can have a significant impact on depreciation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis as asset lives are individually determined and there are a significant number of asset lives in use. The impact of any change would vary significantly depending on the individual changes in assets and the classes of assets impacted. Detail of the useful lives is included in Note 3.13 and the related assets are set out in Note 15.

5.4. Making appropriate long-term assumptions in calculating pension liabilities, surpluses and costs

The group operates funded defined benefit schemes, which are independent of the group's finances, for the majority of employees. Valuations of the main scheme are carried out by the scheme actuaries. The rates of contribution payable and the pension cost are determined on the advice of the actuaries and are also impacted by the unrecognised pension surplus or deficit at the date of the last valuation. The cost of these benefits and the present value of the pension liabilities depend on the assumptions made in respect of such factors as the life expectancy of the members of the scheme, the salary progression of current employees, the return that the pension fund assets will generate in the period before they are used to fund the pension payments and the discount rate at which the future pension payments are valued. The group uses estimates for all of these factors in determining the pension costs, surpluses arising on acquisitions and assets and liabilities reflected in the financial statements.

During the year the group agreed to place certain caps on future increases in pensionable salaries. The maximum increase is now set at the lower of a pre-determined fixed annual rates, the rate of CPI and salary inflation. However, there is still a significant level of uncertainty in relation to ultimate pensionable salaries that will apply in determining benefits payable. Differences between assumptions made and actual experience and changes in assumptions made also impact on pension charges. The effect of changes in assumptions on the pension scheme valuation is contained in Note 37.

As a result of the significant level of volatility in financial markets, the market values of the pension scheme assets and the discount rate at which future pension liabilities are valued have fluctuated significantly over the last number of years and since the year ended 30 June 2010. As the group applies the corridor approach under IAS 19 (see Note 37) these movements do not directly impact on the amounts recorded in respect of pension liabilities in our balance sheet but will impact on the income statement charges and the amounts recorded in the balance sheet in future periods.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements *For the Year Ended 30 June 2010*

5. Critical Accounting Judgements and Estimates - continued

5.5. Providing for doubtful debts

The group provides services to individuals and business customers on credit terms. The group expects that some debts due will not be paid as a result of the default of a small number of customers. The group uses estimates based on historical and current experience in determining the level of debts which may not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues. Further worsening in the Irish economy or negative industry trends could require an increase in the estimated level of debts that will not be collected, which would negatively impact the operating results. The level of provision required is reviewed on an ongoing basis.

5.6. Providing for litigation, contingencies and other constructive obligations

The group is a party to lawsuits, claims, investigations and proceedings, consisting primarily of commercial matters, which are being handled and defended in the ordinary course of business. The group reviews the current status of any pending or threatened proceedings with the group's legal counsel on a regular basis. In determining whether provisions are required with respect to pending or threatened litigation, management reviews the following: (1) the period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred; (2) the degree of probability of an unfavourable outcome; and (3) the ability to make a reasonable estimate of the amount of loss. Upon considering the above and other known relevant facts and circumstances, the group recognises any loss that is considered probable and reasonably quantifiable as of the balance sheet date.

In addition, the group provides for other items of an uncertain timing or amount, such as liabilities arising as a result of self-insurance and disputes with third parties, including regulatory authorities. These provisions are recognised when the group has a legal or constructive obligation as a result of past events and a reliable estimate of that obligation can be made. Estimates and judgements are used in determining the level of provisioning required and the timing of payments.

5.7. Onerous contracts

The group has onerous contracts associated with vacant offices and leasehold properties relating to relocations and other business disposals. The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflect current economic conditions and include judgements in respect of sub lease income on certain properties and expenditures for dilapidation works. If the group was unable to sublet all of its properties for the duration of the leases an additional provision of €7 million would be required in the financial statements.

5.8. Charges for restructuring costs

The group has accrued for liabilities arising from restructuring programmes to the extent that a constructive or legal obligation exists at the balance sheet date. The charges include the estimated benefits payable to staff availing of voluntary leaving incentives under the programmes and the associated pension impact. As the restructuring schemes are voluntary, the timing of individual exits and individual staff participating in the scheme requires some estimation.

The restructuring programme is ongoing, and therefore additional charges will be incurred in future years. The restructuring costs accrued at 30 June 2010 reflects only those staff who were committed to exiting the business on that date. The group is in discussions with its 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. Provisions and/or accruals will be made when the necessary obligations are established in accordance with IFRS.

5.9. Asset retirement obligations

The group has certain obligations in relation to the retirement of assets mainly poles, batteries and international cable. The group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. Significant judgement is required in determining the cash flows associated with these retirement obligations as some of the cash flows are anticipated up to 16 years in the future, and no significant retirement or decommissioning costs have been incurred to date and there are ongoing changes in legislation which impacts on the group's assessment on the level of cost and the manner in which certain asset retirement obligations can be met.

5.10. Assessing the level of interconnect income from and payments to other telecommunications operators

The group is required to interconnect its networks with other telecommunications operators. In some instances, as is normal practice in the telecommunications industry, reliance is placed on other operators to measure the traffic flows interconnecting with the group's networks. In addition, the prices at which services are charged are often regulated and can be subject to retrospective adjustment. Estimates are used in these cases to determine the amount of income receivable from, or payments required to be made to, these other operators and to establish appropriate provisions. Changes in the estimates directly affect revenue, operating costs and profit.

5.11. Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses discounted cash flow analysis and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements For the Year Ended 30 June 2010

5. Critical Accounting Judgements and Estimates - continued

5.12. Taxation

Current tax

The actual tax the group pays is determined according to complex tax laws and regulations. Where the effect of these laws and regulations are unclear, the group uses estimates in determining the liability for the tax to be paid on the past profits. The group believes the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement. The value of the group's current tax liability is disclosed on the balance sheet on page 10.

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. The carrying value of the group's deferred tax assets and liabilities are disclosed in Notes 17 and 28, respectively.

6. Segment information

The group has implemented IFRS 8 'Operating segments'. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group which are regularly reviewed by the 'Chief Operating Decision Maker' in order to allocate resources to the segments and to assess their performance. As a result of the adoption of IFRS 8, the group's reportable segments have not changed.

The group's operating segments are reported based on financial information provided to the Senior Management Team, which is the key management team and represents the 'Chief Operating Decision Maker'. The Senior Management Team is chaired by the Group Chief Executive and the other members are the Chief Financial Officer, Director of Group Technology, Business Directors, Group HR Director, Director of Strategy & Business Development, Corporate Affairs Director and General Counsel.

The Senior Management Team considers the business from a fixed line and mobile perspective and assesses the performance of the operating segments based on a measure of adjusted EBITDA. Adjusted EBITDA is before non-cash pension credit/(charge), exceptional items and net construction income. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as curtailment gains and negative past service costs in respect of pensions, restructuring costs and onerous contract charges. Interest costs on borrowings are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

The reportable operating segments derive their revenue primarily from the provision of telecommunication services in Ireland and as substantially all of the group's operations arise in the Republic of Ireland there is no separate geographical reportable segment.

Sales between segments for telecommunication services are carried out on an arm's length basis. Other recharges of non-telecommunication services are based on actual cost of employee remuneration or other external costs incurred. The revenue from external parties reported to the Senior Management Team is measured in a manner consistent with that in the group income statement.

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	79	(6)	-	73
Operating profit/(loss)	297	(5)	-	292
Finance costs				(246)
Finance income				2
Profit before income tax				48
Income tax charge				(1)
Profit for the financial year				47

* 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.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

6. Segment information - continued

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	(58)	(2)	-	(60)
Net construction income	6	-	-	6
Profit on disposal of property and investments	3	-	-	3
Operating loss	(189)	(297)	-	(486)
Finance costs				(389)
Finance income				11
Share of profit in associates				2
Loss before income tax				(862)
Income tax credit				11
Loss for the financial year				(851)

The segment results (restated) for the year ended 30 June 2008 are as follows:

	Fixed line €'m	Mobile €'m	Inter-segment €'m	Group €'m
Revenue	1,650	482	(71)	2,061
Adjusted EBITDA	586	112	-	698
Non-cash pension credit	50	-	-	50
Amortisation	(51)	(30)	-	(81)
Depreciation	(264)	(54)	-	(318)
Net construction income	37	-	-	37
Profit on disposal of property and investments	78	-	-	78
Operating profit	436	28	-	464
Finance costs				(333)
Finance income				14
Profit before income tax				145
Income tax charge				(28)
Profit for the financial year				117

Revenue and operating costs for certain activities were reclassified from the Fixed Line to Mobile in the year ended 30 June 2009 and the 2008 comparatives have been restated to reflect this change.

Other segment items included in the income statement are as follows:

	Year ended 30 June 2008			Year ended 30 June 2009			Year ended 30 June 2010		
	Fixed line €'m	Mobile €'m	Group €'m	Fixed line €'m	Mobile €'m	Group €'m	Fixed line €'m	Mobile €'m	Group €'m
Impairment of inventories (Note 19)	-	1	1	2	-	2	1	-	1
Reversal of inventories impairments (Note 19)	-	-	-	-	-	-	(1)	-	(1)
Impairment of trade receivables (Note 20)	17	1	18	15	3	18	18	6	24
Reversal of trade receivable impairments (Note 20)	(1)	-	(1)	(1)	-	(1)	(2)	-	(2)

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

6. Segment information - continued

The segment assets and liabilities and capital expenditure are as follows:

	30 June 2010			
	Fixed line €'m	Mobile €'m	Unallocated €'m	Group €'m
Assets	4,107	837	4	4,948
Liabilities	737	172	4,508	5,417
Capital expenditure:				
Intangible assets (Note 14)	15	31	-	46
Property, plant and equipment (Note 15)	141	35	-	176
	30 June 2009			
	Fixed line €'m	Mobile €'m	Unallocated €'m	Group €'m
Assets	4,271	863	49	5,183
Liabilities	922	188	4,566	5,676
Capital expenditure:				
Intangible assets (Note 14)	22	51	-	73
Property, plant and equipment (Note 15)	232	45	-	277

Segment assets consist primarily of property, plant and equipment, goodwill and other intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investments, other assets, financial assets at fair value through profit or loss and derivatives designated as hedges of borrowings.

Segment liabilities comprise operating liabilities and provisions for liabilities and other charges. They exclude items such as taxation, borrowings, interest payable and derivatives.

Capital expenditure comprises additions to intangible assets (Note 14) and property, plant and equipment (Note 15).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

7. Operating costs

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Staff costs:			
Wages and salaries	436	409	359
Social welfare costs	21	20	17
Pension costs – defined contribution plans (Note 37)	6	6	6
Pension costs – defined benefit plans (Note 37)	(26)	7	39
	437	442	421
Staff costs capitalised	(76)	(79)	(59)
Net staff costs included in operating costs (a)	361	363	362
Other operating costs:			
Amounts paid and payable to telecommunications operators	374	353	311
Purchase of goods for resale, commission and related costs	156	149	120
Materials and services	45	52	35
Other network costs	31	29	30
Accommodation	77	95	94
Sales and marketing	99	98	71
Transport and travel	22	19	17
IT costs	23	23	23
Provision for impaired receivables	17	17	22
Other costs	108	97	95
Total other operating costs	952	932	818
Operating costs excluding amortisation, depreciation, impairment, restructuring and other exceptional items	1,313	1,295	1,180
Amortisation (Note 14)	81	84	104
Depreciation and impairment (Note 15)	318	333	325
Goodwill impairment (Note 13)	-	720	-
Exceptional items (Note 8)	-	60	(73)
Total operating costs	1,712	2,492	1,536
Net construction income (Note 9)	(37)	(6)	-
Profit on disposal of property and investments (Note 10)	(78)	(3)	-
Total operating costs (net)	1,597	2,483	1,536

(a) Operating costs are stated after charging:

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Total staff costs (including restructuring costs)	361	390	411
Research costs	1	-	1
Hire of plant and machinery	5	4	4
Other operating lease rentals	41	55	58

(b) Services provided by the group's auditor and network firms

The group obtained the following services from the group's auditor and network firms at costs as detailed below:

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Audit services			
Statutory audit	1.2	1.1	0.9
Other audit related services (including non-statutory audits)	0.5	0.6	0.4
Audit related regulatory reporting	1.3	1.2	1.1
	3.0	2.9	2.4
Other services	0.3	0.7	0.5
Total services	3.3	3.6	2.9

Included above are fees paid to the group's auditor in respect of non-statutory audit services of €1.5 million (2009: €1.8 million, 2008: €1.8 million).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

7. Operating costs - continued

(c) Directors

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Emoluments			
- for services as Directors	0.2	0.2	0.3
- for other services	1.0	0.3	-
- pension contributions	0.3	0.1	-
	1.5	0.6	0.3

8. Exceptional items

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Curtailment gains and negative past service costs in respect of pensions (a)	-	-	184
Restructuring programme costs (b)	-	(27)	(49)
Impairment of surplus properties (c) (Note 15)	-	(17)	(20)
Other exceptional items (d)	-	(16)	(42)
Exceptional (charge)/credit	-	(60)	73

(a) Curtailment gains and negative past service costs in respect of pensions

During the year ended 30 June 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 a curtailment gain and negative past service cost 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 and the changes during the year are included in Note 37.

(b) 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 its 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.

(c) Impairment of surplus properties

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

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

8. Exceptional items - continued

(d) 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 expected to be sufficient to meet all of the lease obligations. Provision has been made in respect of the estimated net cash outflow required to settle the group's obligation under these leases.

The group has included 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 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.

9. Net construction income

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Contract revenue	84	12	-
Contract costs	(47)	(6)	-
Net construction income	37	6	-

During the period ended 30 June 2007 the group sold land to investors. The investors outsourced the construction of a new development on this land to the group's property development subsidiary on a fixed price contract basis. The construction was completed during the year ended 30 June 2009.

10. Profit on disposal of property and investments

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Profit on disposal of property and investments	78	3	-
	78	3	-

During the year ended 30 June 2008, the group sold its shares in its mast business to Towercom Limited for €155 million (see Note 33(b)).

During the year ended 30 June 2009, the group sold a number of properties for €13 million (see Note 33(b)).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

11. Finance costs - net

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
(a) Finance costs:			
Interest payable on bank loans and other debt	308	287	250
Reversal of prior year accrual no longer required	-	(10)	-
Amortisation of issue costs of bank loan and other debt	14	13	13
Dividends payable on preference shares	6	2	-
Unwinding of discount	4	4	6
Fair value losses on financial asset at fair value through profit or loss	10	4	3
Losses on liability associated with temporary income stream annuity ("TIS")	2	13	6
Fair value losses/(gains) on derivatives not qualifying for hedge accounting	-	83	(28)
Capitalised interest on property, plant and equipment and intangible assets	(11)	(7)	(4)
	333	389	246
(b) Finance income:			
Interest income	(14)	(11)	(2)
	(14)	(11)	(2)
Finance costs – net	319	378	244

The rate applied to capitalised interest is 5.75% (2009: 6.6%, 2008: 7.1%).

12. Income tax expense

(a) Recognised in the income statement

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Current tax expense			
Current financial year	39	18	21
Adjustments for prior periods	(3)	(19)	(18)
	36	(1)	3
Deferred tax expense			
Origination and reversal of temporary difference	(10)	(9)	(2)
Adjustments for prior periods	2	(1)	-
Total income tax charge/(credit) in income statement	28	(11)	1

(b) Reconciliation of effective tax rate

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

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Profit/(loss) before tax	145	(862)	48
Tax calculated at Irish tax rates	18	(108)	6
Effects of:-			
Goodwill impairment – non deductible	-	90	-
Other non deductible expenses	20	16	13
Effect of changes in capital gains tax rates	-	10	-
Income not subject to taxation	(10)	-	-
Tax losses utilised	(2)	-	-
Income taxable at higher rate	3	1	-
Adjustments in respect of prior periods	(1)	(20)	(18)
Tax charge/(credit) for financial year (Note 12(a))	28	(11)	1

The weighted average applicable tax rate was 12.5% (2009: 12.5%, 2008: 12.5%).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

13. 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. Instead, goodwill is tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying value might be impaired, and is carried at cost less accumulated impairment losses.

The impairment losses recognised in the consolidated income statement, as a separate line item within operating profit, in respect of goodwill are as follows:

	30 June 2009 €'m	30 June 2010 €'m
Fixed Line	405	-
Mobile	315	-
	720	-

Impairment test of goodwill and other indefinite life assets

The goodwill arising on the acquisition of eircom Group has been allocated to the group's CGUs identified according to business segments. The group has two CGUs, fixed line and mobile. A segment level summary of goodwill and other indefinite lived assets is presented below.

	30 June 2009 €'m	30 June 2010 €'m
Goodwill:		
- Fixed line	1,631	1,631
- Accumulated impairments	(405)	(405)
Fixed line goodwill	1,226	1,226
Fixed line trademark	262	262
Fixed line goodwill and other indefinite lived assets	1,488	1,488
Goodwill:		
- Mobile	711	711
- Accumulated impairments	(315)	(315)
Mobile goodwill	396	396
Goodwill	1,622	1,622
Total goodwill and other indefinite lived assets	1,884	1,884

The value of indefinite life assets was tested as at 30 June 2010, after business planning had been completed. The impairment test has been performed at an individual CGU level.

Impairment testing methodology

The recoverable amount of a CGU is determined on the basis of value-in-use, using the discounted cash flow (DCF) method. At 30 June 2010, these calculations use post-tax cash flow projections based on business plans approved by the Board of Directors covering a three-year period up to 30 June 2013. The forecast operating cash flows for the individual CGUs include the benefits of restructuring, where the group is committed to the restructuring as at 30 June 2010 and provision for the related restructuring costs is included at 30 June 2010. Cash flows beyond the three-year period are extrapolated using the estimated long-term growth rates stated below. The cash flows are discounted using the discount rates stated below.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

13. Goodwill - continued

Key assumptions

The key assumptions are based on past experience, adjusted for expected changes in future conditions. Key assumptions involved in the calculation of value in use include management's estimates of future operating cash-flows, replacement capital expenditure requirements, tax considerations, future retirement benefits cash-flows, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were evaluated with regard to external information on comparable companies in similar markets.

The group considers the business plan and long-term projections to be reasonable in view of the anticipated long-term performance of the Irish economy.

The key assumptions used for value-in-use calculations are as follows:

	30 June 2009		30 June 2010	
	Fixed line	Mobile	Fixed line	Mobile
	%	%	%	%
Long-term growth rates	0.25%	0.75%	0.25%	0.75%
Discount rates (Pre-tax)	9.68%	10.28%	9.98%	10.59%
Discount rates (Post-tax)	8.5%	9.0%	8.75%	9.25%

Long Term Growth Rates

The long-term growth rates are determined based on the long-term historical growth rates of the sectors in which the CGU operates, and reflect an assessment of the long-term growth prospects of the sector. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

Discount Rates

The discount rates used are post tax and reflect specific risks relating to the relevant CGUs. The discount rate applied to the cash flows of the group's segments are based on the risk free rate for ten year plus Irish government bonds. In estimating the discount rate, inputs required are the equity market risk premium (that is the excess return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific CGU's operations relative to the market as a whole. In determining the risk adjusted discount rate, management has applied an adjustment for the risk of the Group's CGUs determined using an average of the betas of comparable companies.

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 €405 million and €315 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 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.

Sensitivity analysis

The results of sensitivity analysis on the key assumptions used in the value in use calculations are detailed below:

The percentages shown in the table below represent the increase or decrease in the individual sensitivity factors that would lead to the recoverable amount equalling the carrying value of the assets.

	30 June 2010	
	Fixed line	Mobile
	%	%
Discount rate (post-tax) (absolute increase)	0.48%	0.56%
Long term growth rate (absolute decrease)	0.55%	0.62%
Business plan EBITDA (relative decrease)	3.69%	2.98%

Any adverse changes in a key assumption underpinning the value in use calculation may cause a further impairment loss to be recognised in future periods.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

14. Other intangible assets

	Computer software	Monitoring contracts	Trademarks	Contracts and related customer relationships	GSM license	3G license	Total
	€'m	€'m	€'m	€'m	€'m	€'m	€'m
Cost							
At 30 June 2008	110	8	304	306	71	93	892
Additions	70	3	-	-	-	-	73
At 30 June 2009	180	11	304	306	71	93	965
Additions	44	2	-	-	-	-	46
Transfers from PPE	1	-	-	-	-	-	1
At 30 June 2010	225	13	304	306	71	93	1,012
Amortisation							
At 30 June 2008	40	4	7	83	18	-	152
Charge for the financial year	32	3	4	33	8	4	84
At 30 June 2009	72	7	11	116	26	4	236
Charge for the financial year	52	3	3	33	8	5	104
At 30 June 2010	124	10	14	149	34	9	340
Net Book Value at 30 June 2010	101	3	290	157	37	84	672
Net Book Value at 30 June 2009	108	4	293	190	45	89	729

The group has capitalised interest costs of €Nil (30 June 2009: €1 million) that are directly attributable to qualifying intangible assets. The rate applied to capitalised interest at 30 June 2009 was 6.6%.

Assets in the course of construction included in other intangibles are €2 million (30 June 2009: €28 million).

Computer software relates to internal and external capitalised software development costs.

Monitoring contracts relates to purchased monitoring contracts in our residential security systems operation.

The carrying value of the fixed line trademark (€262m) asset is considered to have an indefinite life. Consequently, it is not amortised and is instead reviewed for impairment annually as part of the overall impairment test of the relevant cash generating unit. The results of the impairment test performed for the current year is set out in Note 13. An indefinite useful life has been assigned to the fixed line trademark given its high recognition level and the group's intention to continue to support and invest in the trademark.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

15. Property, plant and equipment

(a)	Land & Buildings €'m	Network Plant & Equipment €'m	Total €'m
Cost			
At 30 June 2008	566	2,191	2,757
Additions	2	275	277
Disposals/retirements	(13)	(10)	(23)
At 30 June 2009	555	2,456	3,011
Additions	-	176	176
Transfers to other intangible assets	-	(1)	(1)
Transfer to assets held for resale	(22)	-	(22)
Disposals/retirements	-	(5)	(5)
At 30 June 2010	533	2,626	3,159
Accumulated Depreciation			
At 30 June 2008	36	560	596
Charge for financial year	19	314	333
Disposals/retirements	(2)	(10)	(12)
Impairment (i)	17	-	17
At 30 June 2009	70	864	934
Charge for financial year	21	298	319
Transfer to assets held for resale	(2)	-	(2)
Disposals/retirements	-	(1)	(1)
Impairment (i)	20	7	27
At 30 June 2010	109	1,168	1,277
Total Net Book Value at 30 June 2010	424	1,458	1,882
Total Net Book Value at 30 June 2009	485	1,592	2,077

(i) As set out in Note 8, impairment charges of €20 million (30 June 2009: €17 million) are included in exceptional items. Other impairment charges of €7 million (30 June 2009: €Nil) are included in the income statement.

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value. The review for the year ended 30 June 2010 resulted in no material adjustments to asset lives.

The group has capitalised interest costs of €4 million (30 June 2009: €6 million) that are directly attributable to the construction of qualifying property, plant and equipment. The rate applied to capitalised interest is 5.75% (30 June 2009: 6.6%).

(b) Analysis of net book value of land and buildings is as follows:-

	30 June 2009 €'m	30 June 2010 €'m
Freehold	329	298
Leasehold:		
Over 50 years unexpired	141	112
Under 50 years unexpired	15	14
	485	424

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements For the Year Ended 30 June 2010

15. Property, plant and equipment - continued

(c) Included in property, plant and equipment is plant and equipment acquired under finance leases as follows:-

	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Cost	7	4
Accumulated depreciation	(6)	(4)
Net book value	1	-
Depreciation charge for the financial year	2	1

(d) Assets in course of construction

Included in property, plant and equipment are assets in the course of construction of €81 million (30 June 2009: €103 million).

16. Investments

(a) Investments

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Shares in group undertakings				
At beginning of financial year – unlisted	-	-	863	63
Impairment	-	-	(800)	-
At end of financial year – unlisted	-	-	63	63

As set out in Note 13, an impairment charge of €720 million was reflected in the year ended 30 June 2009. As a result the investment in subsidiaries was also considered to be impaired. The investment was written down to reflect the net assets of ERCIPE's subsidiary undertakings including goodwill as at 30 June 2009.

The Directors performed a further impairment test at 30 June 2010, and have concluded that no adjustment to the carrying value is required.

(b) Investments in associates

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
At beginning of financial year	-	-	-	-
Dividend received	(2)	-	-	-
Share of profit after tax of associates	2	-	-	-
At end of financial year	-	-	-	-

The group share of the results of its principal associates, all of which are unlisted, and its share of the assets and liabilities are as follows:

	Assets €'m	Liabilities €'m	Revenues €'m	Profit €'m	Interest held %
As at and for the year ended 30 June 2010					
Altion Limited	-	-	-	-	16.8%
Buy4Now Limited	-	-	1	-	32.2%
	-	-	1	-	
As at and for the year ended 30 June 2009					
Altion Limited	-	-	1	1	16.8%
Buy4Now Limited	-	-	1	1	32.2%
	-	-	2	2	

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

17. Deferred tax asset

Group

The deferred tax asset is in respect of tax losses available to be carried forward and utilised in full against any taxable profits arising in the relevant entity undertaking only. The directors are satisfied that based on the current performance of the undertakings and expected future profitability that it is more likely than not that sufficient taxable profits will arise in the future to utilise these tax losses.

Recognised deferred tax assets

Deferred tax assets attributable to the following:

	Assets 30 June 2009 €'m	Assets 30 June 2010 €'m
Tax loss carry forward	2	1
Property, plant and equipment	10	-
Provisions	1	-
	13	1

The movement in deferred tax assets during the financial year is as follows:

	1 July 2009 €'m	Reclass to deferred tax liabilities	Recognised in income (charge)/credit €'m	30 June 2010 €'m
Tax loss carry forward	2	-	(1)	1
Property, plant and equipment	10	(10)	-	-
Provisions	1	(1)	-	-
	13	(11)	(1)	1

The movement in deferred tax assets during the previous financial year is as follows:

	1 July 2008 €'m	Reclass to deferred tax liabilities €'m	Recognised in income (charge)/credit €'m	30 June 2009 €'m
Tax loss carry forward	13	-	(11)	2
Property, plant and equipment	6	-	4	10
Provisions	1	-	-	1
	20	-	(7)	13

18. Asset held for resale and other assets

Group

Asset held for resale

	30 June 2009 €'m	30 June 2010 €'m
Current assets		
Land & Buildings – transfer from PPE	-	20
	-	20

In accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', the group has presented separately on the face of the balance sheet its leasehold interest in a property for which there is an active programme to locate a buyer. The sale and leaseback of this property was completed in September 2010.

The asset held for resale is carried at its estimated fair value less costs to sell and has been used in the group's fixed line segment. An impairment charge of €1.5 million has been recognised in relation to the property held for resale in the year ended 30 June 2010.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

18. Asset held for resale and other assets - continued

Other assets

	30 June 2009 €'m	30 June 2010 €'m
Non-current assets		
Lease receivable	1	-
Deposits and other non-current assets	2	2
	3	2
Current assets		
Lease receivable	24	1
	27	3

The group is party to a financing transaction under which lease receivable balances equal lease obligation balances. These are shown gross on the balance sheet. The lease receivable balance is recognised under "other assets" and the liability is recognised under "borrowings".

The maximum exposure to credit risk at the reporting date is the carrying value of lease receivable mentioned above.

The lease receivables do not contain impaired assets.

19. Inventories

Group	30 June 2009 €'m	30 June 2010 €'m
Network development and maintenance stocks	6	4
Consumable and other stocks	4	5
	10	9

The cost of inventories recognised as an expense and included in "operating costs" amounted to €98 million (30 June 2009: €110 million). The net replacement cost of stocks is not expected to be materially different from that shown above.

During the year ended 30 June 2010, the group recognised a loss for impaired inventories of €1 million (30 June 2009: €2 million), reversed previous recognised impaired inventories of €1 million (30 June 2009: €Nil) and has used provisions for impaired inventories of €2 million (30 June 2009: €Nil). The creation of provisions for impaired inventories have been included in "operating costs" in the income statement.

20. Trade and other receivables

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Current assets				
Trade receivables	294	242	-	-
Less: Provision for impairment of receivables	(35)	(35)	-	-
Trade receivables – net	259	207	-	-
Prepayments and accrued income	83	76	-	-
VAT receivable	-	1	-	-
Amounts due from group undertakings	11	7	-	-
Amounts due from joint venture	1	2	-	-
	354	293	-	-

Group

The fair values of trade and other receivables approximate to their carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of 30 June 2010, trade receivables of €40 million (30 June 2009: €44 million) were impaired and provided for on the basis that a portion of these trade receivables is expected to be recovered.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

20. Trade and other receivables – continued

The amount of the provision for impairment of trade receivables was €35 million as of 30 June 2010 (30 June 2009: €35 million). Total additional provisions of €24 million (30 June 2009: €18 million) relate to individual impairments of €14 million (30 June 2009: €7 million) and collective impairments of €10 million (30 June 2009: €11 million). Total reversals of unused provisions of €2 million (30 June 2009: €1 million) relate to individual impairments of €2 million (30 June 2009: €Nil) and collective impairments of €Nil (30 June 2009: €1 million).

The group uses estimates based on historical experience and customer specific information in determining the level of debts which may not be collected. The estimates include such factors as the current state of the economy and particular industry issues. The level of provision required is reviewed on an ongoing basis.

Provision for impairment of trade receivables

The following table shows the movements on the provision for impairment of trade receivables:

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Opening balance	31	35	-	-
Charged to consolidated income statement:				
- Additional provisions	18	24	-	-
- Unused amounts reversed	(1)	(2)	-	-
Utilised in the financial year	(13)	(22)	-	-
At end of financial year	35	35	-	-

The creation and reversal of provisions for impaired receivables have been included in “operating costs” in the income statement.

The other assets included within trade and other receivables do not contain impaired assets.

21. Financial asset at fair value through profit or loss

	30 June 2009 €'m	30 June 2010 €'m
Current assets		
Financial asset associated with temporary income stream annuity (“TIS”)	8	-

The group established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of ten years. The assets set aside to fund the payment stream were recognised under “financial asset at fair value through profit or loss” and the liability is recognised under “provisions for other liabilities and charges”. The assets set aside to fund the payment stream have been fully utilised during the year ended 30 June 2010.

22. Restricted cash – Group

The restricted cash balance of €7 million (30 June 2009: €7 million) is in relation to cash lodged as part of performance bonds. The interest earned on these deposits, after deduction of any taxation payable, is due to the ERCIPE Group.

The maximum exposure to credit risk at the reporting date is €7 million (30 June 2009: €7 million).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

23. Cash and cash equivalents

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Cash at bank and on hand	19	33	1	-
Short-term bank deposits	317	364	-	-
Cash and cash equivalents	336	397	1	-

The book value of cash and cash equivalents approximates their fair value. At 30 June 2010, the effective interest rate on short term bank deposits was 0.47% (30 June 2009: 0.72%). These deposits have an average maturity of 40 days.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

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

	Group		Company	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Cash and cash equivalents	336	397	1	-
Bank overdraft (Note 25)	(2)	(1)	-	-
Cash, cash equivalents and bank overdrafts	334	396	1	-

24. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group	Derivatives Designated for hedge accounting €'m	Assets at fair value through profit or loss €'m	Loans and receivables €'m	Total €'m
Assets as per balance sheet				
Lease receivables	-	-	1	1
Trade receivables	-	-	242	242
Amounts due from group undertakings	-	-	7	7
Amounts due from joint ventures	-	-	2	2
Restricted cash	-	-	7	7
Cash and cash equivalents	-	-	397	397
At 30 June 2010	-	-	656	656
Lease receivables	-	-	25	25
Financial assets at fair value through profit or loss	-	8	-	8
Trade receivables	-	-	294	294
Amounts due from group undertakings	-	-	11	11
Amounts due from joint ventures	-	-	1	1
Restricted cash	-	-	7	7
Cash and cash equivalents	-	-	336	336
At 30 June 2009	-	8	674	682

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

24. Financial instruments by category – continued

Group

Liabilities as per balance sheet	Derivatives Designated for hedge accounting €'m	Liabilities at fair value through profit or loss €'m	Loans and other liabilities €'m	Total €'m
Borrowings	-	-	4,122	4,122
Derivative financial instruments	93	47	-	140
Trade payables	-	-	179	179
Interest payable	-	-	37	37
Amounts owed to group undertakings	-	-	4	4
Accruals	-	-	292	292
TIS Liabilities	-	-	79	79
At 30 June 2010	93	47	4,713	4,853
Borrowings	-	-	4,159	4,159
Derivative financial instruments	70	71	-	141
Trade payables	-	-	210	210
Interest payable	-	-	37	37
Amounts owed to group undertakings	-	-	3	3
Accruals	-	-	315	315
TIS Liabilities	-	-	95	95
At 30 June 2009	70	71	4,819	4,960

Company

Assets as per balance sheet	Loans and receivables €'m	Total €'m
Cash and cash equivalents	-	-
At 30 June 2010	-	-
Cash and cash equivalents	1	1
At 30 June 2009	1	1

Liabilities as per balance sheet

Liabilities as per balance sheet	Loans and other liabilities €'m	Total €'m
Borrowings	597	597
Interest payable	6	6
At 30 June 2010	603	603
Borrowings	550	550
Interest payable	6	6
Amounts owed to group undertakings	1	1
At 30 June 2009	557	557

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

24. Financial instruments by category – continued

Fair value hierarchy

The table below shows, for the group's financial assets and liabilities that are recognised and subsequently measured at fair value, their classification within a three-level fair value hierarchy.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets at the balance sheet date. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 comprises financial assets and liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Group

Financial liabilities held at fair value	Level 1 €'m	Level 2 €'m	Level 3 €'m	Total €'m
Derivative financial instruments	-	140	-	140
At 30 June 2010	-	140	-	140

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements For the Year Ended 30 June 2010

25. Borrowings

Group	Carrying Amount		Fair Value	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Non-current liabilities				
Floating Rate Notes due 2016 (Listed)	350	350	208	122
Floating rate senior PIK notes due 2017 (Listed)	559	606	168	61
Bank borrowings (Senior Credit Facility)	3,177	3,078	2,488	2,368
Joint venture borrowings	26	43	26	43
	4,112	4,077	2,890	2,594
Debt issue costs	(63)	(52)	-	-
	4,049	4,025	2,890	2,594
Finance leases – defeased	1	-	1	-
Borrowings	4,050	4,025	2,891	2,594
Current liabilities				
Bank borrowings (Senior Credit Facility)	95	102	95	102
Joint venture borrowings	-	5	-	5
	95	107	95	107
Debt issue costs	(13)	(12)	-	-
	82	95	95	107
Finance leases – defeased	24	1	24	1
Finance leases	1	-	1	-
Overdraft	2	1	2	1
Borrowings	109	97	122	109
Total Borrowings	4,159	4,122	3,013	2,703

Floating Rate Notes

The Floating Rate Notes of €350 million are secured, amongst other things, by a first priority pledge of the shares in ERCIH and second priority on assets of ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited. The Floating Rate Notes were issued at a margin of 5.0% above the three-month Euribor and have an effective interest rate of 5.68% at 30 June 2010 (30 June 2009: 6.28%). The notes mature in August 2016. The notes may be redeemed in whole or part at any time at the group's option. These notes are listed on the official list of the Luxembourg stock exchange and traded on the Euro MTF, the alternative market of the Luxembourg stock exchange.

PIK notes

The PIK notes of €425 million were issued by the group in November 2006, are unsecured and bear a margin of 7.00% above the three-month Euribor and have an effective interest rate of 7.68% at 30 June 2010 (30 June 2009: 8.28%). Interest on the PIK notes is paid in the form of additional PIK notes and there is no cash impact while the interest is paid in additional PIK notes. The PIK notes have a maturity date of 15 February 2017. The notes may be redeemed in whole or part at any time at the group's option. These notes are listed on the official list of the Luxembourg stock exchange and traded on the Euro MTF, the alternative market of the Luxembourg stock exchange.

Senior Credit Facility

The Senior Credit Facility, totalling €3,330 million, consists of a €3,180 million term facility and a €150 million revolving credit facility and bears a margin between 1.75% and 4.25% above the one-month Euribor. The Senior Credit Facility is secured by a first priority pledge over the assets of ERCIH and, second priority on assets of ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited. The senior debt was issued in four tranches. These tranches have maturity dates between 2013 and 2016. Early repayment of the Senior Credit Facility is allowed at the group's option by giving 5 days' notice with the exception of facility D which cannot be repaid unless facility A, facility B and facility C have been repaid in full and the revolving credit facility has been reduced to zero.

Finance leases

The group is party to a financing transaction under which lease receivables balances equal lease obligation balances. These are shown gross on the balance sheet. The liability is recognised under "borrowings" and the lease receivable balance is recognised under "other assets". These borrowings are secured over the leased assets.

Fair values

The fair value of borrowings are based on observable market prices where available and an active market exists. Where market prices are not available or are unreliable, fair values are obtained using valuation techniques including discounted cash flow models, which to the extent possible, use observable market inputs. See Note 26 for the fair value of derivative instruments entered into in relation to these borrowings.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

25. Borrowings – continued

Maturity of financial 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
Floating rate senior PIK notes due 2017	-	-	-	606	606
Bank and other borrowings	102	86	1,439	1,553	3,180
Joint venture borrowings	5	7	27	9	48
	107	93	1,466	2,518	4,184
Debt issue costs	(12)	(13)	(32)	(7)	(64)
	95	80	1,434	2,511	4,120
Finance leases – defeased	1	-	-	-	1
Overdraft	1	-	-	-	1
At 30 June 2010	97	80	1,434	2,511	4,122
As at 30 June 2009					
Floating Rate Notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	559	559
Bank and other borrowings	95	44	329	2,804	3,272
Joint venture borrowings	-	3	13	10	26
	95	47	342	3,723	4,207
Debt issue costs	(13)	(13)	(35)	(15)	(76)
	82	34	307	3,708	4,131
Finance leases – defeased	24	1	-	-	25
Finance leases	1	-	-	-	1
Overdraft	2	-	-	-	2
At 30 June 2009	109	35	307	3,708	4,159

Interest accrued on borrowings as at 30 June 2010 is €37 million (30 June 2009: €37 million). Interest accrued is included in trade and other payables (see Note 30).

Borrowing facilities

The group has a €150 million revolving credit facility of which €26 million has been utilised at 30 June 2010 in connection with performance bonds and guarantees (see Note 39).

Our joint venture, Tetra Ireland Communications Limited (“Tetra”), has an €85 million term loan facility, which has been fully drawn down at 30 June 2010 to finance the activities of Tetra.

In addition, the group has €3.5 million, Stg£0.5 million and US\$0.5 million of overdraft facilities that are subject to annual review.

Currency

All of the group's borrowings are denominated in euro.

Company	Carrying Amount		Fair Value	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Non-current liabilities				
Floating rate senior PIK notes due 2017	559	606	168	61
Debt issue costs	(9)	(9)	-	-
Total Borrowings	550	597	168	61

Interest accrued on borrowings as at 30 June 2010 is €6 million (30 June 2009: €6 million). Interest accrued is included in trade and other payables (see Note 30).

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements For the Year Ended 30 June 2010

26. Derivative financial instruments

Group	Carrying Amount		Fair Value	
	30 June 2009 €'m	30 June 2010 €'m	30 June 2009 €'m	30 June 2010 €'m
Non-current liabilities				
Interest rate swaps – cash flow hedges	70	62	70	62
Interest rate swaps – not designated as hedges or ineligible for hedge accounting	-	19	-	19
Derivative financial instruments	70	81	70	81
Current liabilities				
Interest rate swaps- cash flow hedges	-	31	-	31
Interest rate swaps – not designated as hedges or ineligible for hedge accounting	71	28	71	28
Derivative financial instruments	71	59	71	59
Total Derivative financial instruments	141	140	141	140

During the year the group adopted IAS 1 (Revised) *Presentation of Financial Statements* which requires that the portion of the fair value of each derivative which is expected to be realised within 12 months of the balance sheet date be classified as a current asset or liability. The remainder, which is expected to be realised more than 12 months from the balance sheet date, is classified as a non-current asset or liability.

Previously, the group accounted for all non-hedging derivative as current. In addition, hedging derivatives were classified as non-current when the remaining hedged item was more than 12 months, and as current when the remaining maturity of the hedged item was less than 12 months. The effect of this change on comparative information for periods is immaterial and has no impact on shareholders' equity. Accordingly, no restatement of prior period balances has been made. Further details of the requirements for this change are set out in Note 3.1.

The group does not use derivatives for trading or speculative purposes.

Interest rate swaps

The notional principal amount of the active interest rate swap contracts was €2,785 million at 30 June 2010 (30 June 2009: €3,026 million). The group has also entered into an offsetting interest rate basis swap with a notional principal of €2,800 million (30 June 2009: €2,950 million), which largely involves the exchange of the six-month floating interest receipts on our interest rate swap contracts for the one-month floating interest required in respect of a proportion of our debt.

At 30 June 2010, the fixed interest rate on our interest rate swaps, was between 2.925% and 4.47% (30 June 2009: 2.865% and 4.47%) and the floating rate was based on Euribor. Gains and losses recognised in the cash flow hedging reserve in equity (see Note 32) on interest rate swaps as of 30 June 2010 will be released to the income statement when the hedged interest expense is recognised over the period from 2011 to 2013.

The ineffective portion of the change in the fair value of the derivatives recognised in the income statement that arises from qualifying cash flow hedges amounts to a gain of €2 million (30 June 2009: loss €4 million). The unrealised gain recognised in the income statement during the period that arises from derivatives not designated as hedges or ineligible for hedge accounting is €26 million (30 June 2009: loss €79 million). These amounts have been classified in the income statement within 'finance costs'.

In the prior year ended 30 June 2009, the group increased the frequency of interest payments on a proportion of its hedged borrowings, from semi-annually to monthly. As part of the group's overall treasury management and hedging policy, concurrent interest rate basis swaps was entered into. From an accounting perspective, the deviation from the original formal designation of the hedge relationships has altered the income statement recognition of the change in the fair value of the derivatives in accordance with IAS 39. However, the economics of the hedge relationships on the original swaps are unaffected. Arising from this change, a number of derivatives were not designated or became ineligible for hedge accounting and ineffectiveness has arisen on relationships which continue to qualify for hedge accounting, resulting in the recognition of fair value changes in the income statement.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

27. Capital grants

	30 June 2009 €'m	30 June 2010 €'m
<i>Received/ receivable</i>		
At beginning of financial year	-	-
Additions	-	2
At end of financial year	-	2
<i>Amortisation</i>		
At beginning of financial year	-	-
At end of financial year	-	-
Net book value at end of financial year	-	2

28. Deferred tax liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The group has no material unrecognised deferred tax assets at 30 June 2010.

Deferred tax assets where the group does not have a right of offset are included separately (see Note 17).

Recognised net deferred tax liabilities

Deferred net tax liabilities are attributable to the following:

	Assets 30 June 2010 €'m	Liabilities 30 June 2010 €'m	Net 30 June 2010 €'m
Property, plant and equipment	-	(144)	(144)
Intangible assets	-	(60)	(60)
Deferred revenues	2	-	2
Provisions	1	-	1
Other items including pension	-	(2)	(2)
Derivative financial instruments	16	-	16
	19	(206)	(187)
	Assets 30 June 2009 €'m	Liabilities 30 June 2009 €'m	Net 30 June 2009 €'m
Property, plant and equipment	-	(173)	(173)
Intangible assets	-	(65)	(65)
Deferred revenues	2	-	2
Other items including pension	15	-	15
Derivative financial instruments	16	-	16
	33	(238)	(205)

The movement in net deferred tax liabilities during the financial year is as follows:

	1 July 2009 €'m	Reclass from Deferred tax asset €'m	Recognised in income credit/(charge) €'m	Recognised in other comprehensive income €'m	30 June 2010 €'m
Property, plant and equipment	(173)	10	19	-	(144)
Intangible assets	(65)	-	5	-	(60)
Deferred revenues	2	-	-	-	2
Provisions	-	1	-	-	1
Other items including pension	15	-	(17)	-	(2)
Derivative financial instruments	16	-	(4)	4	16
	(205)	11	3	4	(187)

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

28. Deferred tax liabilities - continued

The movement in net deferred tax liabilities during the previous financial year is as follows:

	1 July 2008	Reclass from Deferred tax asset	Recognised in income credit/(charge)	Recognised in other comprehensive income	30 June 2009
	€'m	€'m	€'m	€'m	€'m
Property, plant and equipment	(182)	-	9	-	(173)
Intangible assets	(71)	-	6	-	(65)
Deferred revenues	2	-	-	-	2
Provisions	3	-	(3)	-	-
Other items including pension	20	-	(5)	-	15
Derivative financial instruments	(26)	-	10	32	16
	(254)	-	17	32	(205)

29. Provisions for other liabilities and charges

	TIS Annuity Scheme €'m	Onerous Contracts €'m	Restructuring Costs €'m	Other €'m	Total €'m
At 1 July 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 current and non-current as follows:

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

Temporary income stream ("TIS") annuity scheme

The eircom group established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of ten years. The group estimates the annuity liability as the present value of the fixed payment stream due to employees. At 30 June 2010, the remaining TIS annuity scheme provision is expected to be substantially utilised over a period of six years.

Onerous Contracts

The group has onerous contracts in relation to leases on vacant properties and leasehold disposals relating to relocations. The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflects current economic conditions and include judgements in respect of sub lease income on certain properties. If the group were unable to sublet the properties for the duration of the lease an additional provision of €7 million would be required in the financial statements. The group also has onerous contracts in relation to the settlement of certain legal matters. At 30 June 2010, the liability is expected to be discharged over a period of one to eight years.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

29. Provisions for other liabilities and charges – continued

Restructuring 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 is in discussions with its 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.

The utilisation of restructuring provisions and accruals during the year comprises of cash payments of €42 million (30 June 2009: €25 million), individual staff exits agreed but unpaid of €9 million (30 June 2009: €17 million) (included in accruals) and pension costs associated with restructuring of €12 million (30 June 2009: €6 million).

Other

The group is self insured in respect of certain personal injury and damage claims. There is a provision for the estimated cost of incidents which have occurred up to 30 June 2010, based on a case by case review with actuarial assistance. The payments will be made as the cases are settled.

The group also has a provision for costs arising from certain compliance matters including certain obligations in relation to the retirement of assets mainly poles, batteries, international cable and dismantling and restoration of mobile antenna sites. It is expected that most of these costs will be paid during the period 2011 to 2025 and these anticipated cash flows are discounted using a real rate of return of circa 2% to 4%.

30. Trade and other payables

	Group		Company	
	30 June 2009	30 June 2010	30 June 2009	30 June 2010
	€'m	€'m	€'m	€'m
Non-current liabilities: -				
Trade payables	53	58	-	-
	53	58	-	-
Current liabilities: -				
Trade payables	157	121	-	-
Interest payable	37	37	6	6
Amounts owed to group undertakings	3	4	1	-
Other tax and social security payable	43	44	-	-
Accruals	315	292	-	-
Deferred income	156	142	-	-
	711	640	7	6

The carrying amounts of trade payables are denominated in the following currencies:

	Group		Company	
	30 June 2009	30 June 2010	30 June 2009	30 June 2010
	€'m	€'m	€'m	€'m
Euro	197	166	-	-
SDR	7	10	-	-
Sterling	3	2	-	-
US dollar	3	1	-	-
	210	179	-	-

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

31. Share Capital

The share capital at 30 June 2010 and 30 June 2009 is set out below:-

AS AT 30 JUNE 2010 AND 30 JUNE 2009				
AUTHORISED		Nominal Value per Share	ISSUED	
Number and Class of Share	Amount €		Number and Class of Share	Amount €
50,000,000,000 Ordinary shares	500,000,000	€0.01 each	214,306,430 Ordinary shares	2,143,064
Equity share capital	500,000,000		Equity share capital	2,143,064

There were no alterations to the issued share capital of ERCIPE during the years ended 30 June 2010 and 30 June 2009.

Rights attaching to the ordinary shares are as follows:

The Ordinary Shares carry the right to receive notice of, attend and vote at, general meetings of the Company. The Ordinary Shares carry the right to receive dividends as and when declared by the Directors. On a winding-up of the Company the Ordinary Shares carry the right to share in the surplus assets of the Company.

Share Appreciation Rights Scheme (SARS)

Employees of certain subsidiaries were awarded performance units under a Share Appreciation Rights Scheme (SARS). All of the units were fully vested at 30 June 2009. Included in the income statement for the year ended 30 June 2009 was a charge of €2.4 million reflecting unit grants, employee services provided in the period and changes to the fair value of the units. Trade and other payables included an accrual in respect of the liabilities under the SARS scheme of €10.5 million at 30 June 2009.

There are no amounts outstanding in respect of these liabilities at 30 June 2010.

32. Reconciliation of total shareholders' equity

Group	Equity share capital €'m	Share premium account €'m	Revaluation reserve €'m	Cash flow hedging reserve €'m	Retained earnings €'m	Total equity €'m
Balance at 1 July 2007	2	447	3	37	(159)	330
Currency translation differences	-	-	-	-	(1)	(1)
Cash flow hedges:						
- Fair value gains in year	-	-	-	54	-	54
- Transfer to income statement	-	-	-	(18)	-	(18)
- Tax on cash flow hedge movements	-	-	-	(10)	-	(10)
Profit for the financial year	-	-	-	-	117	117
Balance at 30 June 2008	2	447	3	63	(43)	472
Balance at 1 July 2008	2	447	3	63	(43)	472
Cash flow hedges:						
- Fair value loss in year	-	-	-	(137)	-	(137)
- Transfer to income statement	-	-	-	(9)	-	(9)
- Tax on cash flow hedge movements	-	-	-	32	-	32
Loss for the financial year	-	-	-	-	(851)	(851)
Balance at 30 June 2009	2	447	3	(51)	(894)	(493)
Balance at 1 July 2009	2	447	3	(51)	(894)	(493)
Cash flow hedges:						
- Fair value loss in year	-	-	-	(61)	-	(61)
- Transfer to income statement	-	-	-	34	-	34
- Tax on cash flow hedge movements	-	-	-	4	-	4
Profit for the financial year	-	-	-	-	47	47
Balance at 30 June 2010	2	447	3	(74)	(847)	(469)

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

32. Reconciliation of total shareholders' equity – continued

Company

	Equity Share capital €'m	Share premium account €'m	Retained earnings €'m	Total equity €'m
Balance at 1 July 2008	2	447	(85)	364
Loss for the financial year	-	-	(857)	(857)
Balance at 30 June 2009	2	447	(942)	(493)
Balance at 1 July 2009	2	447	(942)	(493)
Loss for the financial year	-	-	(47)	(47)
Balance at 30 June 2010	2	447	(989)	(540)

Loss of Holding Company

The company has not presented its individual income statement in these financial statements. The company's result for the financial year is a loss of €47 million (30 June 2009: loss of €857 million). The company has no recognised gains and losses other than those included in the company's result for the financial year, and therefore, no separate statement of comprehensive income has been presented.

33. Cash generated from operations

Reconciliation of consolidated operating profit to net cash inflow from operating activities: -

(a) Group – Cash generated from operations

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Profit/(loss) after taxation	117	(851)	47
Addback:			
Income tax charge/(credit)	28	(11)	1
Share of profit in associate	-	(2)	-
Finance costs – net	319	378	244
Operating profit/(loss)	464	(486)	292
Adjustments for:			
- Profit on disposal of property and investments	(78)	(3)	-
- Net construction income	(37)	(6)	-
- Goodwill impairment	-	720	-
- Depreciation, amortisation and other impairment	399	417	429
- Non cash retirement benefit curtailment gain and negative past service cost	-	-	(184)
- Non cash retirement benefit (credit)/charge	(50)	(10)	21
- Non cash exceptional items	-	70	111
- Other non cash movements in provisions	6	9	5
Cash flows relating to prior year restructuring and other provisions	(88)	(40)	(73)
Cash flows relating to construction contract	(36)	123	(1)
Changes in working capital			
- Inventories	2	3	1
- Trade and other receivables	(13)	34	57
- Trade and other payables	52	(46)	(63)
- Inter-company payables to group undertakings	9	(16)	5
Cash generated from operations	630	769	600

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

33. Cash generated from operations - continued

(b) In the cash flow statement, proceeds from sale of property, plant and equipment (PPE) and investments comprise:

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Profit on disposal of PPE and investments	78	3	-
Disposal of goodwill	61	-	-
Net book value of PPE disposals (Note 15)	17	10	4
Other exceptional items – certain legal matters	-	-	(4)
Adjustment for accrued proceeds from sale of property	(1)	-	-
Proceeds from sale of PPE and investments	155	13	-

(c) Company - Cash generated from operations

	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Loss after taxation	(857)	(47)
Addback:		
Finance costs – net	57	47
Operating loss	(800)	-
Adjustments for non cash movements:		
- Impairment charge	800	-
Cash generated from operations	-	-

34. Post Balance Sheet Events

There have been no significant events affecting the group since the year ended 30 June 2010.

35. Principal Subsidiaries, Joint Ventures and Associated Undertakings

	Interest in Ordinary Shares at 30 June 2010	Business	Registered Office and Country of Incorporation
ERC Ireland Finance Limited	100%	Holding Company	<p>Branch address (Ireland) 1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.</p> <p>Registered Office (Cayman Islands) Maples & Calder Corporate Services Limited, Ugland House, South Church Street, Grand Cayman, Cayman Islands.</p>

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

35. Principal Subsidiaries, Joint Ventures and Associated Undertakings – continued

	Interest in Ordinary Shares at 30 June 2010	Business	Registered Office and Country of Incorporation
ERC Ireland Holdings Limited	100%	Holding Company	Branch address (Ireland) 1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland. Registered Office (Cayman Islands) Maples & Calder Corporate Services Limited, Ugland House, South Church Street, Grand Cayman, Cayman Islands.
ERC Luxembourg Limited Sarl	100%	Finance Company	4 rue Alphonse Weicker, L-2721 Luxembourg, Grand Duchy of Luxembourg.
eircom Group Limited	100%	Holding Company	1 Park Row, Leeds, LS1 5AB, United Kingdom.
Valentia Telecommunications (an unlimited public company)	100%	Holding Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland
eircom Limited	100%	Provision of telecommunications and related services	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Meteor Mobile Communications Limited	100%	Provision of mobile telecommunications and related services	4030 Kingswood Avenue, Citywest Business Park, Naas Road, Dublin 24, Ireland.
Irish Telecommunications Investments Limited	100%	Telecommunications Financing and Treasury Management	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Osprey Property Limited	100%	Property Development Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom Phonewatch Limited	100%	Installation, Monitoring and Maintenance of Residential Security Systems	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom UK Limited	100%	Provision of Telecommunications and Related Services	South Quay Plaza II, 183 Marsh Wall, London E14 9SH, UK.
Lan Communications Limited	100%	Provision of communications technology solutions	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom Investments BV	100%	Investment Holding Company	Strawinskylaan 3105 7HG 1077 ZX, Amsterdam, The Netherlands.
Eircable Limited	100%	Finance Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

35. Principal Subsidiaries, Joint Ventures and Associated Undertakings – continued

	Interest in Ordinary Shares at 30 June 2010	Business	Registered Office and Country of Incorporation
eircom Holdings Limited	100%	Investment Holding Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
GoFree Limited	100%	Property Investment Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Tetra Ireland Communications Limited (Joint venture)	56%	Build and Operate National Digital Radio Services Network	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Altion Limited (Associated undertaking)	16.8%	Telecommunications Software Solutions	7 th Floor, O'Connell Bridge House, D'Olier Street, Dublin 2, Ireland.
Buy4Now Limited (Associated undertaking)	32.2%	E-commerce Software Developer	9 The Mall, Beacon Court, Bracken Road, Sandyford Industrial Estate, Dublin 18, Ireland.

Joint Venture

At 30 June 2010, the Company had a joint venture in Tetra Ireland Communication Limited ("Tetra"). The following table presents, on a condensed basis, the effect on the consolidated financial statements of including Tetra using proportionate consolidation.

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Revenue	-	7	15
Operating costs excluding depreciation	(1)	(9)	(11)
Depreciation	-	-	(3)
Loss before income tax	(1)	(2)	1
Finance costs - net	-	(3)	(2)
Loss before income tax	(1)	(5)	(1)
Income tax credit	-	-	-
Loss for the financial year	(1)	(5)	(1)

	30 June 2009 €'m	30 June 2010 €'m
ASSETS		
Non-current assets	32	46
Current assets	4	13
Total assets	36	59
LIABILITIES		
Non-current liabilities	25	46
Current liabilities	12	15
Total liabilities	37	61
EQUITY		
Total equity	(1)	(2)
Total equity	(1)	(2)
Total liabilities and equity	36	59

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

36. Employees

The average number of persons employed by the group for the year ended 30 June 2010, 30 June 2009 and 30 June 2008 was as follows:-

	Year ended 30 June 2008	Year ended 30 June 2009	Year ended 30 June 2010
Fixed line			
Operations/Technical	4,484	4,270	4,018
Sales/Customer Support	1,794	1,615	1,489
Administration	470	478	473
Total	6,748	6,363	5,980
Mobile			
Operations/Technical	295	314	307
Sales/Customer Support	352	343	339
Administration	162	146	121
Total	809	803	767
Total fixed line and mobile	7,557	7,166	6,747

The total number of persons employed by the group at 30 June 2010, 30 June 2009 and 30 June 2008 was as follows:-

	30 June 2008	30 June 2009	30 June 2010
Fixed line			
Operations/Technical	4,312	4,089	3,749
Sales/Customer Support	1,636	1,504	1,352
Administration	459	497	446
Total	6,407	6,090	5,547
Mobile			
Operations/Technical	291	313	299
Sales/Customer Support	348	333	348
Administration	177	143	104
Total	816	789	751
Total fixed line and mobile	7,223	6,879	6,298

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

37. Pensions

(a) The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature.

The total group pension charge is split between the schemes as follows:

	30 June 2008	30 June 2009	30 June 2010
	€'m	€'m	€'m
Defined Benefit Schemes (the principal scheme) (credit)/charge	(26)	7	39
Defined Contribution Schemes	6	6	6
Total	(20)	13	45

The actual contributions in respect of the principal scheme represent a rate of 7.8% (effective from 30 September 2007) of pensionable emoluments, as advised by the group's actuaries. The rate up to this date was 10%. The last Actuarial Valuation of the principal scheme was carried out, using the attained age method, as at 30 September 2007 by Mercer who are actuaries to the Scheme but are neither officers nor employees of the group. The actuarial method used involved determining an appropriate future group contribution rate designed to fund the projected liabilities of the Scheme related to service subsequent to 1 January 1984 (see Note 37 (b)) over the remaining working lifetime of the current members. The primary financial assumption underlying the actuarial valuation was that the Scheme's investments will earn a real rate of investment return, over and above salary inflation and pension increases, between 2.5% and 2.75% per annum. At the date of the last actuarial valuation, the market value of the pension scheme assets was €3,215 million and the actuarial valuation of the assets attributable to the pension fund was sufficient to meet more than 100% of the value of the scheme's accrued liabilities making due allowance for future increases in salaries and pensions. The actuarial report is available for inspection by the members of the scheme at 1 Heuston South Quarter, St. John's Road, Dublin 8. The actuarial report is not available for public inspection. The next scheduled formal valuation of the scheme is as at 30 September 2010.

Mercer also perform all annual valuations required under IAS 19 "Employee Benefits" and performed a valuation of the liabilities of the scheme at 18 August 2006, to determine the fair value of the pension scheme at the acquisition date. These valuations were performed on the projected unit basis.

The group has applied the corridor approach, which leaves some actuarial gains and losses unrecognised as permitted by IAS 19 (see Note 3.20(i)). The corridor approach has been applied from the acquisition date, 18 August 2006.

Pension scheme obligation

The status of the principal scheme at 30 June 2010 is as follows:

	30 June 2007	30 June 2008	30 June 2009	30 June 2010
	€'m	€'m	€'m	€'m
Present value of funded obligations	(2,836)	(2,726)	(2,636)	(2,621)
Fair value of scheme assets	3,258	2,746	2,201	2,470
Scheme assets in excess of benefit obligation/(benefit obligation in excess of scheme assets)	422	20	(435)	(151)
Unrecognised actuarial (gains)/losses	(577)	(133)	326	193
(Liability)/asset recognised in the Balance Sheet	(155)	(113)	(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 €367 million arising from changes in actuarial assumptions in respect of rate of increase in salaries/pensions in payment;
- actuarial losses of €375 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 €144 million in relation to differences between the actual and expected gain on plan assets;
- amortisation of actuarial losses of €5 million.

During the period ended 30 June 2010, 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 credit of €184 million was recognised immediately through the income statement, comprising of a curtailment gain of €66 million and a negative past service cost of €118 million.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

37. Pensions - continued

Reconciliation of Defined Benefit obligation	30 June 2008 €'m	30 June 2009 €'m	30 June 2010 €'m
At beginning of financial year	2,836	2,726	2,636
Current service cost	56	41	37
Interest cost	150	169	150
Transfer from provisions for liabilities and charges	8	6	12
Curtailed gain and negative past service cost	-	-	(184)
Actuarial (gains)/losses	(293)	(271)	16
Contributions by employees	17	17	16
Benefits paid	(48)	(52)	(62)
Total – Defined Benefit Obligation	2,726	2,636	2,621

Reconciliation – Fair Value of Plan Assets	30 June 2008 €'m	30 June 2009 €'m	30 June 2010 €'m
At beginning of financial year	3,258	2,746	2,201
Expected return on plan assets	211	203	153
Actuarial (losses)/gains	(716)	(730)	144
Contributions paid by group	24	17	18
Contributions by employees	17	17	16
Benefits paid	(48)	(52)	(62)
Total – Fair Value of Plan Assets	2,746	2,201	2,470

The components of the amounts recognised in the income statement are as follows:

	30 June 2008 €'m	30 June 2009 €'m	30 June 2010 €'m
Current service cost	56	41	37
Interest on obligation	150	169	150
Expected return on scheme assets	(211)	(203)	(153)
Net actuarial gains recognised in the financial year	(21)	-	5
Total (credit)/charge included in net staff costs	(26)	7	39
Curtailed gain and negative past service cost	-	-	(184)
Total net (credit)charge included in the income statement	(26)	7	(145)
Actual return on scheme assets	(505)	(527)	296

At 30 June 2010 unrecognised actuarial losses did not exceed the present value of the defined benefit asset by more than 10%. At 30 June 2010, the excess amount of the loss was €Nil (2009: loss €62 million, 2008: €Nil). Excess gains and losses are recognised as a pension credit or charge over the expected average remaining working lives of the employees.

The average remaining service life of employees at 30 June 2010 is 10 years (2009: 11 years, 2008: 12 years). The expected contribution level for the year ended 30 June 2011 for the defined benefit scheme is €19 million, though an actuarial valuation to be completed as at September 2010 will determine the actual level of contribution. The expected charge in the income statement is €14 million.

Pension scheme assets

The fair value of scheme assets as at 30 June 2010 was €2,470 million (2009: €2,201 million, 2008: €2,746 million).

The table below presents a breakdown of the various types of investment in which the pension assets are invested:

	30 June 2008		30 June 2009		30 June 2010	
	€'m	%	€'m	%	€'m	%
Equities & other assets	1,711	62%	1,294	59%	1,599	65%
Bonds	608	22%	644	29%	673	27%
Property	249	9%	132	6%	119	5%
Cash	178	7%	131	6%	79	3%
Total pension assets	2,746	100%	2,201	100%	2,470	100%

The average expected long-term rate of return on assets is 5.9%. The overall expected return on plan assets is based upon the weighted average of the assumed returns on the major asset classes. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

37. Pensions - continued

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2007	At 30 June 2008	At 30 June 2009	At 30 June 2010
Rate of increase in salaries	3.50%	3.50%	2.80% ⁽¹⁾	1.80% - 2.00% ⁽²⁾
Rate of increase in pensions in payment	3.50%	3.50%	2.80% ⁽¹⁾	1.80% - 2.00% ⁽²⁾
Discount rate	5.35%	6.25%	5.75%	5.00%
Expected return on scheme assets	6.50%	7.40%	6.95%	5.90%
Inflation assumption	2.25%	2.50%	2.00%	2.00%
Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old male	84 years	86 years	86 years	86 years
Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old female	87 years	89 years	89 years	89 years
Mortality assumptions – Future retirements - Implied life expectancy for 65 year old male	85 years	87 years	87 years	87 years
Mortality assumptions – Future retirements - Implied life expectancy for 65 year old female	88 years	90 years	90 years	90 years
Increase in net assets/(decrease in net liabilities) at the balance sheet date assuming an increase in the discount rate applied of 0.25%	€132 million	€117 million	(€109 million)	(€104 million)
Reduction in net assets/(increase in net liabilities) at the balance sheet date assuming an increase in the salary and pension growth applied of 0.25%	€132 million	€117 million	(€97 million)	(€90 million)

(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.

The expected long term rate of return on scheme assets were:

	At 30 June 2007	At 30 June 2008	At 30 June 2009	At 30 June 2010
Equities	7.40%	8.40%	8.60%	7.00%
Bonds	4.60%	5.00%	4.40%	3.50%
Cash	3.00%	4.50%	2.50%	2.50%
Property	6.40%	7.40%	7.60%	6.00%
Experience gains on scheme liabilities	€417m	€293m	€271m	(€16m)
Percentage of the present value of the scheme liabilities	15%	10%	10%	(1%)
Difference between the actual and expected return on scheme assets –gains/(losses)	€160m	(€716m)	(€730m)	€144m
Percentage of scheme assets	5%	(26%)	(33%)	6%

(b) The Irish Minister for Finance is responsible for meeting and discharging the liability of: (i) the pension costs of former staff of the Irish Department of Posts and Telegraphs who retired or died before the vesting Day (1 January 1984); (ii) costs in respect of the pension entitlements, related to pre-vesting day reckonable service, of staff who transferred to eircom from the Irish Civil Service. Such benefit payments are made from the eircom Number 2 Pension Fund, which was established in March 1999 and received a contribution of €1,016 million from the Irish Minister for Finance in accordance with arrangements set out in the eircom Superannuation (Amendment) Scheme, 1999. However, the Minister retains full liability for these payments.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

38. Operating Lease Commitments

At 30 June 2010, the group had annual commitments in respect of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The analysis of the group's annual commitments is as follows:-

	30 June 2009		30 June 2010	
	Property €'m	Vehicles, plant and equipment €'m	Property €'m	Vehicles, plant and equipment €'m
Annual commitments				
Under non-cancellable operating lease expiring:				
Within one year	2	1	3	1
Within two to five years	11	2	19	2
After five years	32	-	26	-
	45	3	48	3

The total contracted payments due on operating leases are as follows:

	30 June 2009 €'m	30 June 2010 €'m
Payable:		
Within 1 year	48	51
Between 2 and 3 years	86	80
Between 4 and 5 years	72	67
Over 5 years	267	272
	473	470

39. 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 (€25 million) and loss of revenue on the plaintiffs' pricing (€5 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.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

39. 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 (€41.7 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-five 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 to Notice for Particulars were received on 17 September 2010 which are being considered by Counsel. 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.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

40. 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 €3.3 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 ERCIH and, a pledge over all of the assets of ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited. The subsidiaries guaranteeing the Senior Credit Facility are ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited.

Floating Rate Notes

The Floating Rate Notes of €350 million issued by ERCIF, are guaranteed on a senior subordinated basis by ERCIH and the subsidiaries guaranteeing the Senior Credit Facility. The Floating Rate Notes are also secured by a first-priority pledge over all the shares of ERCIH.

PIK notes

The Payment-In-Kind ("PIK") notes of €606 million are senior obligations of ERCIPE and rank equally in right of payment with all existing and future senior indebtedness of ERCIPE. These Notes are effectively subordinated to any existing and future indebtedness of ERCIPE's subsidiaries.

Tetra Securities

The Senior Credit Facility of Tetra of €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.

41. Commitments

Capital commitments of the group which have been contracted for were €31 million at 30 June 2010 (30 June 2009: €82 million). These amounts have been approved by the Board.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

42. Related party transactions

The following transactions were carried out with related parties:

a) Key management compensation

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m	Year ended 30 June 2010 €'m
Salaries and other short-term employee benefits	9.8	7.7	5.8
Other long-term employee benefits	-	-	1.5
Post-employment benefits	0.6	0.5	0.9
	10.4	8.2	8.2
Termination benefits	-	1.2	2.8
	10.4	9.4	11.0

b) Transactions and loans between related parties – Group

Group	30 June 2008 €'m	30 June 2009 €'m	30 June 2010 €'m
<i>Amounts due from group undertaking:</i>			
Beginning of financial year	1	4	11
ESOT administrative expenses recharged during the financial year	-	1	-
Transfer from 'Amounts owed to group undertakings'	-	1	-
Expenses and taxes paid on behalf of ERCIE during the year	3	5	-
ESOT administrative expenses repaid during the year	-	-	(2)
Tax refunds received on behalf of ERCIE during the year	-	-	(2)
End of financial year (Note 20)	4	11	7
<i>Amounts owed to group undertakings:</i>			
Beginning of financial year	9	18	3
Management fee recognised in income statement	10	3	10
Management fee saving in respect of prior years	-	(10)	-
VAT payable on management fees	-	-	2
VAT payable on management fees recognised in prior year income statements	-	-	2
Executive services charges recognised in income statement	1	-	-
Executive services charges paid during the year	(2)	-	-
Transfer to 'Amounts due from group undertaking'	-	1	-
Management fee paid during the year	-	(8)	(10)
Other expenses and taxes paid during the year	-	(1)	(3)
End of financial year (Note 30)	18	3	4

c) Other related parties transactions

30 June 2010

During the year ended 30 June 2010, dividends in relation to the senior preference shares of €0.2 million were paid to the eircon ESOP Trustee Limited, a 50% shareholder in ECC. There are no amounts outstanding in respect of these dividends at 30 June 2010.

During the year ended 30 June 2010, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra Ireland Communications Limited of €6.5 million. The amount outstanding in respect of these costs is €4.1 million at 30 June 2010.

30 June 2009

During the year ended 30 June 2009, dividends in relation to the senior preference shares of €2.3 million were payable to the eircon ESOP Trustee Limited. These are included in the finance costs in the income statement (Note 11). The amount outstanding in respect of these dividends was €0.2 million at 30 June 2009.

During the year ended 30 June 2009, the group recharged capital and operating costs incurred on behalf of Tetra Ireland Communications Limited of €4.3 million. The amount outstanding in respect of these costs was €2.5 million at 30 June 2009.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

42. Related party transactions – continued

c) Other related parties transactions – continued

30 June 2008

During the year ended 30 June 2008, the company's parent company, ERCIE committed to introducing an incentive scheme for certain executives and key management of the ERCIPE Group. The costs of this scheme will be borne by ERCIE and ERCIE included a provision and a charge of €3.3 million in its financial statements in respect of this scheme for the year ended 30 June 2008. ERCIPE and its subsidiaries will not be recharged for the costs incurred by ERCIE in meeting its obligations under this incentive scheme. Consequently, no charge or liability in respect of this incentive scheme is reflected in the ERCIPE Group.

The directors of ERCIE reassessed the liability in respect of the proposed scheme at 30 June 2009 and included a credit of €3.3 million in its financial statements for the year ended 30 June 2009 which reduced the provision to €Nil.

During the year ended 30 June 2008, Babcock & Brown Limited was paid advisory fees of €2.4 million in relation to the sale of the shares in our mast business. These costs are included in determining the profit on disposal of property and investments in the income statement. There are no amounts outstanding in respect of these costs at 30 June 2008.

During the year ended 30 June 2008, dividends in relation to the senior preference shares of €5.9 million were payable to the eircom ESOP Trustee Limited. These are included in the finance costs in the income statement (Note 11). The amount outstanding in respect of these dividends was €1.5 million at 30 June 2008.

During the year ended 30 June 2008, the group recharged capital and operating costs incurred on behalf of Tetra Ireland Communications Limited of €4.3 million. The amount outstanding in respect of these costs was €1.2 million at 30 June 2008.

d) Transactions and loans between related parties – Company

Company	30 June 2009 €'m	30 June 2010 €'m
<i>Amounts owed to group undertakings:</i>		
Beginning of financial year	1	1
Loan repaid during the financial year	-	(1)
End of financial year (Note 30)	1	-

43. Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 July 2010 or later periods but which the group has not early adopted, as follows:

IFRS 2 (Amendment) – 'Group cash-settled share-based payment transactions'. (Effective for financial periods begins on or after 1 July 2010). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendment also incorporates the guidance contained in IFRIC 8 and IFRIC 11. As a result the IFRIC 8 and IFRIC 11 have been withdrawn. The group will adopt the amendment from 1 July 2010. We do not anticipate that the amendment will have a material impact on the group.

IFRS 9, 'Financial instruments'. (Effective for financial periods beginning on or after 1 January 2013.) The new standard addresses classification and measurement of financial assets. IFRS 9 replaces the multiple classification models in IAS 39 with a model that has two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets. IFRS 9 removes the requirement to separate embedded derivatives from financial asset hosts and the cost exemption for unquoted equities. The standard is subject to EU endorsement. The group is currently reviewing the expected impact of this standard, which may change as a consequence of further developments resulting from the IASB's financial instruments project.

IFRS 1 (Amendment), First Time Adoption of International Reporting Standards, (effective for periods beginning on or after 1 July 2010). The amendment is still subject to EU endorsement. It provides first time adopters of IFRS with exemption from the disclosure of comparative information arising from new requirements under IFRS 7. The amendment has no impact on the group.

ERC Ireland Preferred Equity Limited

Notes to the Financial Statements

For the Year Ended 30 June 2010

43. Standards, interpretations and amendments to published standards that are not yet effective - continued

IAS 32 (Amendment) – ‘Classification of Rights Issues’. (Effective for financial periods beginning on or after 1 February 2010.) The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is not expected to have a material impact on the group.

IAS 24 – ‘Related Party Disclosures’ (Amendment). (Effective for financial periods beginning on or after 1 January 2011.) The amendment simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. This amendment is still subject to EU endorsement. The amendment is not expected to result in significant additional disclosures for the group.

IFRIC 14 (Amendment) - ‘Prepayments of a Minimum Funding Requirement’. (Effective for financial periods beginning on or after 1 January 2011), The amendment removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment is still subject to EU endorsement. It is not expected that the amendment will have any impact on the group.

IFRIC 19 - ‘Extinguishing Financial Liabilities with Equity Instruments’. (Effective for financial periods beginning on or after 1 July 2010) requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity’s own equity instruments. The interpretation is still subject to EU endorsement. The interpretation will only impact on the group to the extent that such transactions are undertaken in the future.

Annual Improvements (2010), (effective for financial periods beginning on or after 1 January 2011). The IASB has issued "Improvements to IFRS" which amends various standards. The improvements are still subject to EU endorsement. The group is currently assessing the impact of these improvements on its financial reporting, but does not anticipate that the improvements will have a material impact on the group’s financial statements.

44. Comparative amounts

Certain comparative figures have been re-grouped and re-stated where necessary on the same basis as those for the current financial year.

45. Approval of financial statements

These financial statements were authorised for issue by the Board of Directors on 26 October 2010.