

# **ERC Ireland Preferred Equity Limited**

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

## ERC Ireland Preferred Equity Limited

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

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

# ERC Ireland Preferred Equity Limited

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

	<b>30 June 2009</b>	<b>30 June 2010</b>
	<b>€m</b>	<b>€m</b>
Revenue	479	440
Operating costs excluding amortisation, depreciation, impairment and exceptional items	(303)	(272)
Amortisation	(22)	(27)
Depreciation and impairment	(90)	(86)
Exceptional items	(47)	(69)
Profit on disposal of property and investments	3	-
<b>Operating profit/(loss)</b>	<b>20</b>	<b>(14)</b>
Finance costs	(40)	(55)
Finance income	2	-
Finance costs – net	(38)	(55)
<b>Loss before tax</b>	<b>(18)</b>	<b>(69)</b>
Income tax credit	28	10
<b>Profit/(loss) for the period</b>	<b>10</b>	<b>(59)</b>

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

# ERC Ireland Preferred Equity Limited

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

	Notes	<u>30 June 2009</u>	<u>30 June 2010</u>
		€m	€m
Revenue	3	1,997	1,828
Operating costs excluding amortisation, depreciation, impairment and exceptional items		(1,295)	(1,180)
Amortisation		(84)	(104)
Depreciation and impairment		(333)	(325)
Goodwill impairment	7	(720)	-
Exceptional items	4	(60)	73
Net construction income		6	-
Profit on disposal of property and investments		3	-
<b>Operating (loss)/profit</b>	3	(486)	292
Finance costs		(389)	(246)
Finance income		11	2
Finance costs – net	5	(378)	(244)
Share of profit of associates		2	-
<b>(Loss)/profit before tax</b>		(862)	48
Income tax credit/(charge)	6	11	(1)
<b>(Loss)/profit for the year</b>		(851)	47

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

	<u>30 June 2009</u>	<u>30 June 2010</u>
	€m	€m
<b>(Loss)/profit for the year</b>	(851)	47
<b>Other comprehensive expense:</b>		
Effective portion of changes in fair value of cash flow hedges:		
- Fair value loss in year	(137)	(61)
- Transfer to income statement	(9)	34
- Tax on reserve movements	32	4
<b>Other comprehensive expense for the year, net of tax</b>	(114)	(23)
<b>Total comprehensive (expense)/income for the year</b>	(965)	24

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

# ERC Ireland Preferred Equity Limited

## Consolidated Balance Sheet - unaudited As at 30 June 2010

	Notes	30 June 2009 €m	30 June 2010 €m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	7	1,622	1,622
Other intangible assets		729	672
Property, plant and equipment		2,077	1,882
Retirement benefit asset	10	-	42
Deferred tax assets		13	1
Other assets		3	2
		4,444	4,221
<b>Current assets</b>			
Inventories		10	9
Trade and other receivables	8	342	284
Receivables due from group undertakings and related parties		12	9
Financial assets at fair value through income statement		8	-
Assets held for resale		-	20
Other assets		24	1
Restricted cash		7	7
Cash and cash equivalents		336	397
		739	727
<b>Total assets</b>		<b>5,183</b>	<b>4,948</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	9	4,050	4,025
Derivative financial instruments		70	81
Trade and other payables		53	58
Capital grants		-	2
Deferred tax liabilities		205	187
Retirement benefit liability	10	109	-
Provisions for other liabilities and charges	11	198	190
		4,685	4,543
<b>Current liabilities</b>			
Borrowings	9	109	97
Derivative financial instruments		71	59
Trade and other payables		708	636
Inter-company payables to group undertakings		3	4
Current tax liabilities		24	23
Provisions for other liabilities and charges	11	76	55
		991	874
<b>Total liabilities</b>		<b>5,676</b>	<b>5,417</b>
<b>Equity</b>			
Equity share capital		2	2
Share premium account		447	447
Revaluation reserve		3	3
Cash flow hedging reserve		(51)	(74)
Retained loss		(894)	(847)
<b>Total equity</b>		<b>(493)</b>	<b>(469)</b>
<b>Total liabilities and equity</b>		<b>5,183</b>	<b>4,948</b>

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

# ERC Ireland Preferred Equity Limited

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

	<u>30 June 2009</u>	<u>30 June 2010</u>
	€m	€m
<b>Cash flows from operating activities</b>		
Cash generated from operations	182	196
Interest received	2	1
Interest paid	(25)	(21)
Income tax refund	-	3
Income tax paid	(16)	(12)
Dividends paid to preference shareholders	(1)	-
Net cash generated from operating activities	<u>142</u>	<u>167</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment (PPE)	(49)	(25)
Proceeds from sale of PPE and investments	9	-
Purchase of intangible assets	(16)	(15)
Restricted cash	3	-
Loans advanced to group undertakings	(5)	-
Net cash used in investing activities	<u>(58)</u>	<u>(40)</u>
<b>Cash flows from financing activities</b>		
Redemption of preference shares	(72)	-
Lease payments	(1)	-
Proceeds from loan borrowings	79	4
Net cash generated from financing activities	<u>6</u>	<u>4</u>
<b>Net increase in cash, cash equivalents and bank overdrafts</b>	90	131
Cash, cash equivalents and bank overdrafts at beginning of period	<u>244</u>	<u>265</u>
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	<u>334</u>	<u>396</u>

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

	<u>30 June 2009</u>	<u>30 June 2010</u>
	€m	€m
Cash and cash equivalents	336	397
Bank overdrafts	(2)	(1)
	<u>334</u>	<u>396</u>

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

# ERC Ireland Preferred Equity Limited

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

	Notes	30 June 2009 €m	30 June 2010 €m
<b>Cash flows from operating activities</b>			
Cash generated from operations	12	769	600
Interest received		12	2
Interest paid		(255)	(206)
Income tax refund		-	23
Income tax paid		(18)	(26)
Dividends paid to preference shareholders		(4)	-
Net cash generated from operating activities		504	393
<b>Cash flows from investing activities</b>			
Dividend received from associate undertaking		2	-
Purchase of property, plant and equipment (PPE)		(291)	(207)
Proceeds from sale of PPE and investments		13	-
Purchase of intangible assets		(44)	(51)
Restricted cash		3	-
Loan advanced to group undertakings		(5)	-
Net cash used in investing activities		(322)	(258)
<b>Cash flows from financing activities</b>			
Redemption of preference shares		(72)	-
Repayment of borrowings		(221)	(92)
Lease payments		(3)	(1)
Proceeds from loan borrowings		96	20
Debt issue costs paid		(1)	-
Net cash used in financing activities		(201)	(73)
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>		(19)	62
Cash, cash equivalents and bank overdrafts at beginning of year		353	334
<b>Cash, cash equivalents and bank overdrafts at end of year</b>		334	396

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

	Note	30 June 2009 €m	30 June 2010 €m
Cash and cash equivalents		336	397
Bank overdrafts	9	(2)	(1)
		334	396

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

# ERC Ireland Preferred Equity Limited

Consolidated statement of changes in shareholders' equity – unaudited  
For the twelve-month period ended 30 June 2010

	Equity share capital €m	Share premium account €m	Revaluation reserve €m	Cash flow hedging reserve €m	Retained (loss)/profit €m	Total equity €m
<b>Balance at 30 June 2008</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>63</b>	<b>(43)</b>	<b>472</b>
Cash flow hedge:						
- Fair value loss in year	-	-	-	(137)	-	(137)
- Transfer to income statement	-	-	-	(9)	-	(9)
- Tax on reserve movements	-	-	-	32	-	32
Net expense recognised directly in equity	-	-	-	(114)	-	(114)
Loss for the year	-	-	-	-	(851)	(851)
Total recognised expense for the year	-	-	-	(114)	(851)	(965)
<b>Balance at 30 June 2009</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(51)</b>	<b>(894)</b>	<b>(493)</b>
<b>Balance at 30 June 2009</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(51)</b>	<b>(894)</b>	<b>(493)</b>
Cash flow hedge:						
- Fair value loss in year	-	-	-	(61)	-	(61)
- Transfer to income statement	-	-	-	34	-	34
- Tax on reserve movements	-	-	-	4	-	4
Net expense recognised directly in equity	-	-	-	(23)	-	(23)
Profit for the year	-	-	-	-	47	47
Total recognised (expense)/income for the year	-	-	-	(23)	47	24
<b>Balance at 30 June 2010</b>	<b>2</b>	<b>447</b>	<b>3</b>	<b>(74)</b>	<b>(847)</b>	<b>(469)</b>

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

# ERC Ireland Preferred Equity Limited

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

### **1. General information**

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

This condensed consolidated interim financial information was approved for issue on 31 August 2010.

### **2. Basis of preparation**

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Floating Rate Senior PIK Notes. Accordingly, the group has not prepared this financial information in accordance with IFRS.

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

The group is in full compliance with all of its financial covenants as at 30 June 2010. The group's bank and other borrowings include borrowings of €180 million under a Senior Credit Facility. The Senior Credit Facility agreement contains certain financial covenants customary for debt of this type which include, amongst other things, the observance of certain maximum ratios of consolidated net debt to consolidated EBITDA. The group reports on these covenants to its lenders on a quarterly basis.

The group remained cash generative for the year ended 30 June 2010, and has made significant progress in managing its costs, particularly over the last 18 months. Based on the group's budgets and business plans, the Directors expect the group to continue to trade successfully and to generate sufficient cash flows to meet its existing requirements for the foreseeable future, including fully meeting its scheduled interest and principal payments. As at 30 June 2010, the group had €96 million of net cash on hand.

The group's budgets and business plans include continued cost reduction through a combination of driving further efficiencies and value for money programmes, whilst making substantial targeted capital investment for the future, within a continuing difficult economic environment.

However, there is a significant risk that the group will breach its financial covenants with its lenders within the next 12 to 18 months, as a result of a reduction in the ratio of the consolidated net debt to consolidated EBITDA permitted under the covenants. If any of these financial covenants are not met, an event of default will occur unless the group exercises its equity cure rights permitted under the Senior Credit Facility and the lenders could request early repayment of outstanding borrowings under the Senior Credit Facility.

The Directors believe that constructive discussions can take place with the group's lenders to renegotiate the financial covenants and/or with the group's shareholders to allow the group to exercise its equity cure rights. However, as the outcome of these discussions is not entirely within the group's control, the Directors have concluded that this risk represents a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

Having made due enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the group has and will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial information. The financial information does not include any adjustments that would be required if the group were unable to continue as a going concern.

The financial information, as at and for the year ended 30 June 2010, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2009. For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of ERCIPE for the year ended 30 June 2009.

# ERC Ireland Preferred Equity Limited

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

### 3. Segment information

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

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

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

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

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

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

### 4. Exceptional items

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

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

#### *Curtailment and past service gains in respect of pensions*

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

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

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

# ERC Ireland Preferred Equity Limited

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

### 4. Exceptional items - continued

#### *Restructuring programme costs*

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

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

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

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

#### *Impairment of surplus properties*

The group incurred impairment charges of €20 million in the year ended 30 June 2010 (30 June 2009: €17 million) in respect of a small number of surplus properties, which have been identified for future disposal. The charge reflects a further decline in the fair value of properties and additional properties no longer in use in the fixed line business at 30 June 2010.

#### *Other exceptional items*

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

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

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

### 5. Finance costs – net

	30 June 2009 €m	30 June 2010 €m
Finance costs	(389)	(246)
Finance income	11	2
<b>Finance costs – net</b>	<b>(378)</b>	<b>(244)</b>

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

# ERC Ireland Preferred Equity Limited

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

### 6. Income tax charge

#### Reconciliation of effective tax rate

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

	30 June 2009 €m	30 June 2010 €m
<b>(Loss)/Profit before tax</b>	<b>(862)</b>	<b>48</b>
Tax calculated at Irish standard tax rate of 12.5%	(108)	6
<i>Effects of:-</i>		
Goodwill impairment – non deductible	90	-
Other non deductible expenses	16	13
Effect of changes in capital gains tax rates	10	-
Income taxable at higher rate	1	-
Adjustment in respect of prior periods	(20)	(18)
<b>Tax (credit)/charge for the year</b>	<b>(11)</b>	<b>1</b>

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

### 7. Goodwill

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

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

#### Impairment testing results

In the year ended 30 June 2009, the goodwill in relation to the group's fixed line and mobile operations was impaired by €405 million and €15 million respectively. The impairment charge in the fixed line business reflected the cash outflows required to fund the group's unrecognised actuarial losses in respect of the group's pension deficit at 31 December 2008 and the deterioration in the Irish economic environment and the outlook for the business. The impairment charge in the mobile business reflected the deterioration in the Irish economic environment and the outlook for the business.

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

### 8. Trade and other receivables

During the year ended 30 June 2010, the group recognised a provision for impaired receivables of €24 million (30 June 2009: €18 million), reversed provisions for impaired receivables of €2 million (30 June 2009: €1 million) and utilised provisions for impaired receivables of €22 million (30 June 2009: €13 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

# ERC Ireland Preferred Equity Limited

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

### 9. Borrowings

The maturity profile of the carrying amount of the group's borrowings is set out below.

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
<b>As at 30 June 2010</b>					
Floating rate notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	606	606
Other borrowings	107	93	1,466	1,562	3,228
Debt issue costs	(12)	(13)	(32)	(7)	(64)
Finance leases – defeased	1	-	-	-	1
Bank overdraft	1	-	-	-	1
	<b>97</b>	<b>80</b>	<b>1,434</b>	<b>2,511</b>	<b>4,122</b>
<b>As at 30 June 2009</b>					
Floating rate notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	559	559
Other borrowings	95	47	342	2,814	3,298
Debt issue costs	(13)	(13)	(35)	(15)	(76)
Finance leases – defeased	24	1	-	-	25
Finance leases	1	-	-	-	1
Bank overdraft	2	-	-	-	2
	<b>109</b>	<b>35</b>	<b>307</b>	<b>3,708</b>	<b>4,159</b>

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

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

### 10. Pensions

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

#### Pension scheme obligation

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

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

As the group has adopted the corridor approach, the pension asset included in the group's balance sheet includes unrecognised actuarial losses of €193 million and the asset recognised in the balance sheet is €42 million compared to benefit obligation in excess of actual scheme assets of €151 million. Under the corridor approach, unrecognised actuarial gains and losses outside the corridor are recognised over the expected average remaining working lives of the employees, based on the unrecognised actuarial gains and losses at the start of the financial year (i.e. 1 July 2009). The amortisation is re-measured during the year when there has been a material change in the obligations in respect of the pension scheme.

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

- actuarial gains of €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.

# ERC Ireland Preferred Equity Limited

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

### 10. Pensions - continued

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

#### Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

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

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

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

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

### 11. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Onerous Contracts €m	Restruc- turing €m	Other €m	Total €m
<b>At 30 June 2009</b>	<b>95</b>	<b>40</b>	<b>50</b>	<b>89</b>	<b>274</b>
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)
<b>At 30 June 2010</b>	<b>79</b>	<b>66</b>	<b>-</b>	<b>100</b>	<b>245</b>

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

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

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### 12. Cash generated from operations

	30 June 2009 €m	30 June 2010 €m
(Loss)/profit after tax	(851)	47
Add back:		
Income tax (credit)/charge	(11)	1
Share of profit of associates	(2)	-
Finance costs – net	378	244
Operating (loss)/profit	(486)	292
Adjustments for:		
- Profit on disposal of property and investments	(3)	-
- Net construction income	(6)	-
- Goodwill impairment	720	-
- Depreciation, amortisation and other impairments	417	429
- Non cash retirement benefit curtailment and past service gains	-	(184)
- Other non cash retirement benefit (credit)/charge	(10)	21
- Non cash exceptional items	70	111
- Other non cash movements in provisions	9	5
Cash flows relating to restructuring, onerous contracts and other provisions	(40)	(73)
Cash flows relating to construction contract	123	(1)
<b>Changes in working capital</b>		
Inventories	3	1
Trade and other receivables	34	57
Trade and other payables	(46)	(63)
Inter-company (payables)/receivable from group undertakings (net)	(16)	5
<b>Cash generated from operations</b>	<b>769</b>	<b>600</b>

### 13. Contingent liabilities

#### *Allegations of anti-competitive practices*

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

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

The plaintiffs submitted general particulars of their damages claim on 3 February 2004 under the headings: loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs have identified claims for loss of revenue on existing customers (€7.4 million), failure to meet the plaintiffs' alleged budgeted growth (€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.

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

### **13. Contingent liabilities - continued**

#### ***Claims by Smart Telecom***

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

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

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

#### ***Hearing Loss claims***

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

#### ***Performance bonds***

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

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

#### ***Other***

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

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

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### **14. Credit guarantees and securities**

#### *Credit guarantees*

The credit guarantees comprise guarantees and indemnities of bank or other facilities, including those in respect of the group's subsidiary undertakings. The group has guaranteed financial indebtedness for €3.7 billion in respect of the Senior Credit Facility, the Floating Rate Notes and the revolving credit facility.

#### *Senior Credit Facility*

The Senior Credit Facility of the group consists of a €3.3 billion term and revolving credit facility which has the benefit of guarantees and security for all amounts borrowed under the terms of the Senior Credit Facility. The Senior Credit Facility is secured by a first-priority pledge over the assets of ERC Ireland Holdings Limited ("ERCIH") and, a pledge over all of the assets of ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited. The subsidiaries guaranteeing the Senior Credit Facility are ERC Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited.

#### *Floating Rate Notes*

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

#### *PIK notes*

The Payment-In-Kind ("PIK") notes of €06 million are senior obligations of ERCIFE and rank equally in right of payment with all existing and future senior indebtedness of ERCIFE. These Notes are effectively subordinated to any existing and future indebtedness of ERCIFE'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.

### **15. Seasonality**

#### *Fixed line*

eircom's traffic volumes tend to decline during December and March or April as a result of a decline in business traffic over the Christmas and Easter holiday periods. eircom also tend to experience relatively higher fixed line traffic volumes in the Spring and Winter months, other than Christmas and Easter of each year. The group does not believe this seasonality has a material impact on our fixed line business.

#### *Mobile*

The group's mobile business tends to experience an increase in sales volumes in the weeks approaching Christmas due to the seasonal nature of its retail business. The group's mobile business experiences significant prepaid subscriber growth and related costs of handset subsidies and commissions in November and December. Visiting-roaming revenues are also seasonally significant because Ireland is a popular tourist destination during the summer months.

### **16. Commitments**

#### *Operating lease commitments*

The group's operating lease contractual obligations and commitment payments were €465 million at 30 June 2010 (30 June 2009: €473 million). The payments due on operating leases are in respect of lease agreements in respect of properties, vehicles, plant and equipment for which the payments extend over a number of years.

#### *Capital commitments*

The group's capital contractual obligations and commitment payments were €31 million at 30 June 2010 (30 June 2009: €82 million).

# ERC Ireland Preferred Equity Limited

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

### **17. Related party transactions**

The following transactions occurred with related parties:

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

During the year ended 30 June 2010, the group paid €0.5 million (30 June 2009: €0.4 million) on behalf of the Employee Share Ownership Trust (ESOT) for the administrative expenses incurred in its capacity as trustee of the ESOT and the Approved Profit Share Scheme (APSS). These were recharged to ERC ESOT Services Limited. The amount outstanding in respect of these costs is €0.3 million at 30 June 2010 (30 June 2009: €1.3 million).

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

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

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

### **18. Comparative information**

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