



eircom

meteor*



eircom Group
Second Quarter and Half Year Results to 31 December 2010
1 March 2011

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Highlights

Financial Overview

Outlook

THE EXTERNAL IRISH CONTEXT

- Impact of Global downturn exacerbated by banking crisis and public finance deficit.
 - National Recovery Plan agreed with EU/IMF
 - Budget adjustments affecting consumer behaviour
- Revised forecast for national economic growth is just 1%
 - Little prospect of improvement in economic conditions in the near term.
- New coalition Government of Fine Gael and Labour expected
 - Programme for Government to be agreed
 - eircom to engage to address economic challenges and plans for the Digital economy



HIGHLIGHTS

- EBITDA* of €154m for the quarter, down €5m yoy, against a difficult economic backdrop
- Challenging trading environment
 - Economy impacting mobile – leading to lower revenues and ARPUs
 - Successful launch of eMobile resulting in return to customer growth after 3 quarters of reductions
 - PSTN line losses continue – will be partially offset by call price increases in February
 - Low growth in overall DSL market – losses to cable continue
- Continued progress on costs and competitiveness
 - Headcount down, improved efficiency
 - Rationalisation of group's operations: amalgamation of functions, reduction in locations
 - Progress on €90m target annual pay cost reduction: engaged with union partners
- Announcing improved solutions for our customers
 - First ever sub €50 per month unlimited package with eMobile
 - Launch of MusicHub – free to our broadband customers
 - Roll out of largest WiFi network in the country – free to eircom, Meteor and eMobile customers
- Balance Sheet status
 - Cash up in Year on Year; net acquisition debt reduced
 - Triennial pensions review shows return to surplus
 - Process started to address covenant issue and improve financial sustainability

FINANCIAL KPIs

	Q2 2009/10 €M	Q2 2010/11 €M	Better/ (Worse) %	H1 2009/10 €M	H1 2010/11 €M	Better/ (Worse) %
Revenues						
- Fixed	359	339	(5.6%)	723	687	(5.0%)
- Mobile	120	111	(7.5%)	239	219	(8.4%)
- Consolidation adjustments	(14)	(12)		(29)	(26)	
- Group	465	438	(5.8%)	933	880	(5.7%)
Operating costs¹	306	284	7.2%	606	558	7.9%
Adjusted EBITDA¹						
- Fixed	136	145	6.6%	276	289	4.7%
- Mobile	23	9	(60.9%)	51	33	(35.3%)
- Group	159	154	(3.1%)	327	322	(1.5%)
Cash CAPEX (excluding Tetra)	68	33	(51.5%)	153	81	(47.1%)
Cashflow before financing	113	72		8	59	
Cash on hand²				280	376	34.3%
Net cashpay acquisition debt³					3,077	

1. Before non-cash pension (credit)/charge, exceptional items, depreciation, amortisation and profit on disposal of property and investments; after management charges
2. Cash on hand excludes €7m retained excess cash
3. Excludes Tetra debt of €45m, debt issue costs, leases and defeased leases

OPERATIONAL KPI's

		Q2 2010 '000	Q2 2011 '000	Better / (Worse) %
PSTN Lines: (<i>'000</i>)	Retail	1,181	1,108	(6%)
	Wholesale	324	322	(1%)
	<i>Total</i>	1,505	1,430	(5%)
	Net growth/(decline) in qtr	(14)	(22)	
Retail voice traffic: (<i>m minutes in qtr</i>)		1,160	1,056	(9%)
DSL Lines: (<i>'000</i>)	Retail	491	500	2%
	Wholesale bitstream	200	183	(9%)
	<i>Total</i>	691	683	(1%)
	Net growth/(decline) in qtr	18	(12)	
LLU (incl. Line Share)		23	51	122%
Mobile customers:	Prepaid handsets	909	838	(8%)
	Postpaid handsets	145	158	9%
	MBB *	32	56	75%
	<i>Total</i>	1,086	1,052	(3%)
Net mobile additions (losses):				
	Prepaid handsets	19	(6)	
	Postpaid handsets	6	11	
	Total handsets	25	5	
	MBB	15	11	
	Total	40	16	
Monthly mobile ARPU (€) (average for quarter)		34.29	32.20	(6%)



Next generation broadband

Almost 1.1 million lines NGB enabled; almost 300,000 customers now using NGB
Up to 24Mb speeds available



Online music website launched Dec 2010

~16,000 customers registered to date (18 Feb 2011)



eMobile

Launching first ever sub €50 pm package in Ireland
Significant savings against other offerings in the market



WiFi network

Planned largest network rollout in Ireland
Free to eircom, Meteor and eMobile customers

*ERC Ireland Finance Limited
ERC Ireland Preferred Equity Limited*

- Target €92m target reduction in annual pay cost by 2013
- Wide ranging agreement to be concluded with TUA this week to deliver cost reductions and improved productivity for graded staff
- Measures include :
 - Pay cost actions
 - New exit programmes
 - Introduction of performance management
 - Modernisation of work practices
 - Further functional restructuring
- Proposals are subject to ballot within Unions
- Further cost reductions with non-graded staff subject to consultation

Highlights

Financial Overview

Conclusion

INCOME STATEMENT FOR ERCIF¹

	Q2 09/10 €M	Q2 10/11 €M	Better / (Worse) %	H1 09/10 €M	H1 10/11 €M	Better / (Worse) %
Revenue	465	438	(5.8%)	933	880	(5.7%)
-Fixed line	359	339	(5.6%)	723	687	(5.0%)
-Mobile	120	111	(7.5%)	239	219	(8.4%)
-Consol. adj.	(14)	(12)		(29)	(26)	
Opex*	(306)	(284)	7.2%	(606)	(558)	7.9%
-Fixed line	(223)	(194)	13.0%	(447)	(398)	11.0%
-Mobile	(97)	(102)	(5.2%)	(188)	(186)	1.1%
-Consol. adj.	14	12		29	26	
Adjusted EBITDA*	159	154	(3.1%)	327	322	(1.5%)
-Fixed line	136	145	6.6%	276	289	4.7%
-Mobile	23	9	(60.9%)	51	33	(35.3%)
Non-cash pension (charge)/credit	(5)	0		(11)	1	
Loss on disposal of property and investments	0	0		0	(2)	
Depreciation & amortisation	(106)	(99)		(210)	(198)	
Exceptional items	(31)	(7)		(31)	(7)	
Operating profit	17	48		75	116	
Net finance costs	(48)	(41)		(88)	(84)	
-of which, movement on mark-to-market interest rate hedges	7	11		24	23	
Profit before tax	(31)	7		(13)	32	
Tax charge	1	0		(1)	(4)	
Profit after tax	(30)	7		(14)	28	

1. Based on unaudited management accounts for the group.

* Opex and adjusted EBITDA are before non cash pension charge/credit, exceptional items, and profit on disposal of property and investments; after management fees.

CASH FLOW STATEMENT FOR ERCIF⁽¹⁾

Consolidated cash flow	Q2 09/10 €M	Q2 10/11 €M	Better / (Worse) %	H1 09/10 €M	H1 10/11 €M	Better / (Worse) %
Adjusted EBITDA* after management fees	159	154		327	322	
- Payments for restructuring/provisions and non-cash provision movements	(11)	(24)		(35)	(70)	
- Working capital movement	68	16		-	(9)	
- Tax (net)	(7)	(9)		(12)	(9)	
Cash flow from operations	209	137	-34.4%	280	234	-16.4%
Capex - Group excluding Tetra	(68)	(33)		(153)	(81)	
Capex - Tetra	(6)	(1)		(13)	(2)	
Cashflow before debt service	135	103		114	151	
Interest paid (net)	(22)	(31)		(106)	(109)	
Cash flow before construction contract	113	72		8	42	
Sale of property & investments	0	-		-	19	
Net construction contract cash flow	0	-		-	(2)	
Cash flow before financing	113	72	-36.3%	8	59	637.5%
Loan and lease repayments	(55)	(57)		(74)	(79)	
Tetra loans drawn	5	-		13	-	
Net cash flow	63	15		(53)	(20)	
Opening cash²	217	361		333	396	
Closing cash²	280	376	34.3%	280	376	34.3%

1. Based on unaudited management accounts for the group.

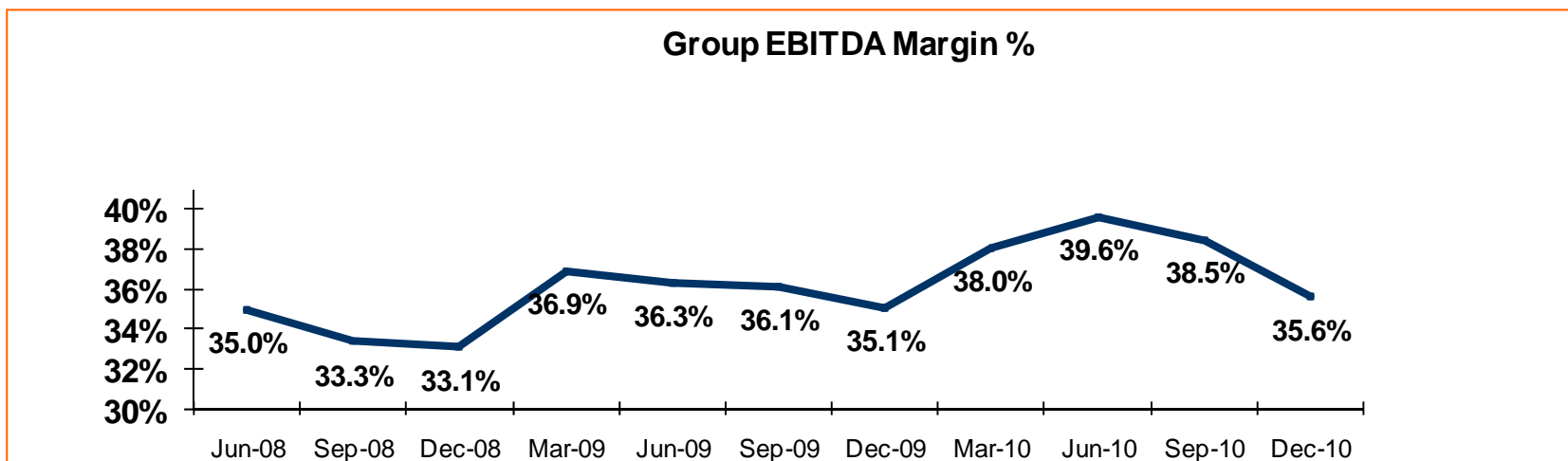
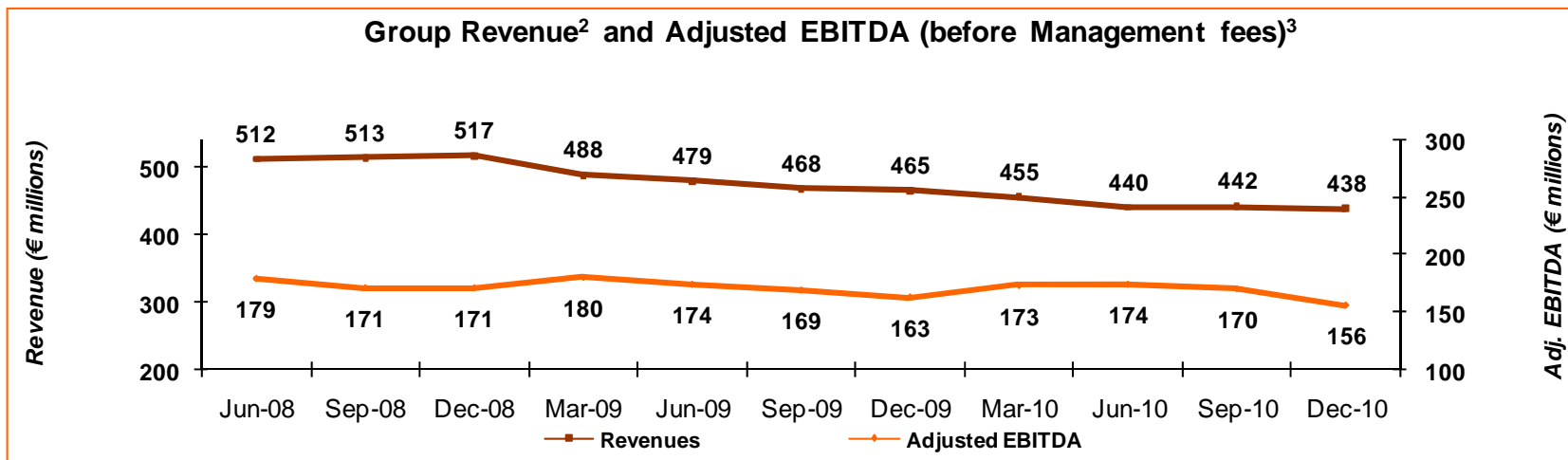
2. Excludes €7m of restricted cash; net of overdrafts.

* Adjusted EBITDA before exceptional costs, non cash pension charge/credit and profit on disposal of property and investments.

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GROUP FINANCIAL TRENDS¹

Continued revenue pressures offset by cost reductions



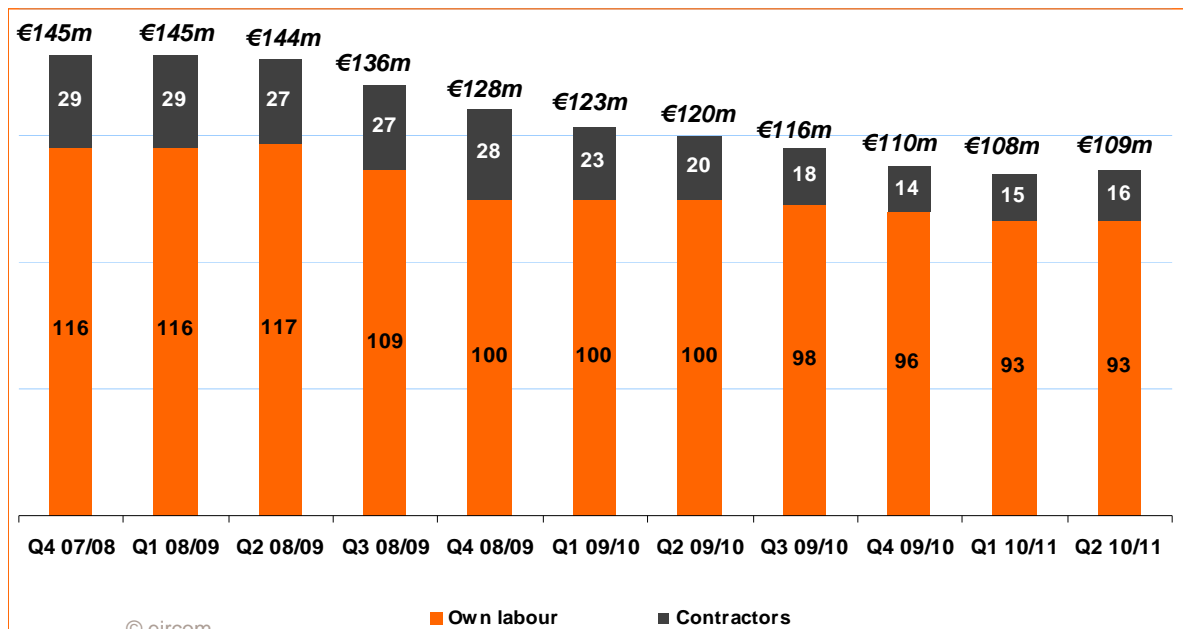
1. Source: unaudited management accounts

2. Revenue after consolidation and Fair Value adjustments.

3. Adjusted EBITDA before: exceptional costs, non cash pension credit, and profit on disposal of property and investments, and management fees.

COST REDUCTION AND EFFICIENCIES

- Q2 operating costs down 7% YoY*
 - 1,791 reduction in labour resources** since March 2009, ahead of 1,200 target for March '11
 - Total labour costs down by c25% since Q4 07/08
- Employee (FTE) headcount down 186 since June, and 666 yoy
- Increasing efficiencies: further progress on streamlining operations:
 - Shared technology function
 - Technology back-office – significant reduction in number of locations
- Progress on €90m target total pay-cost reduction
 - In negotiations with our Trade Unions

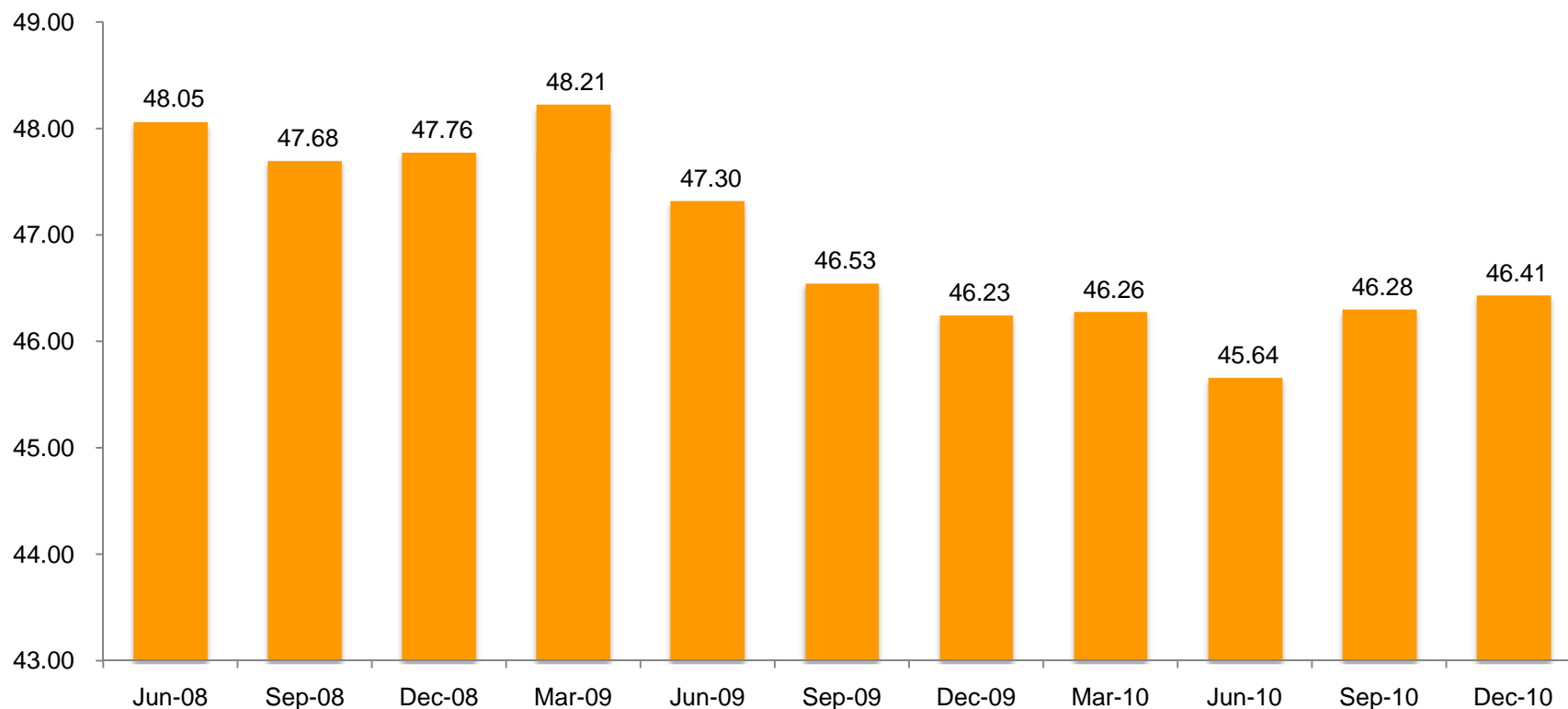


	Mar 09	Dec 10	Net change
- Employees	7,156	6,111	1,045
- Contractors*	1,805	1,059	746
- Total	8,961	7,170	1,791
Net percentage reduction:			20%

* based on spend in the quarter

* Excl non-cash pension charge / (credit), and except. Costs ** Including contractors

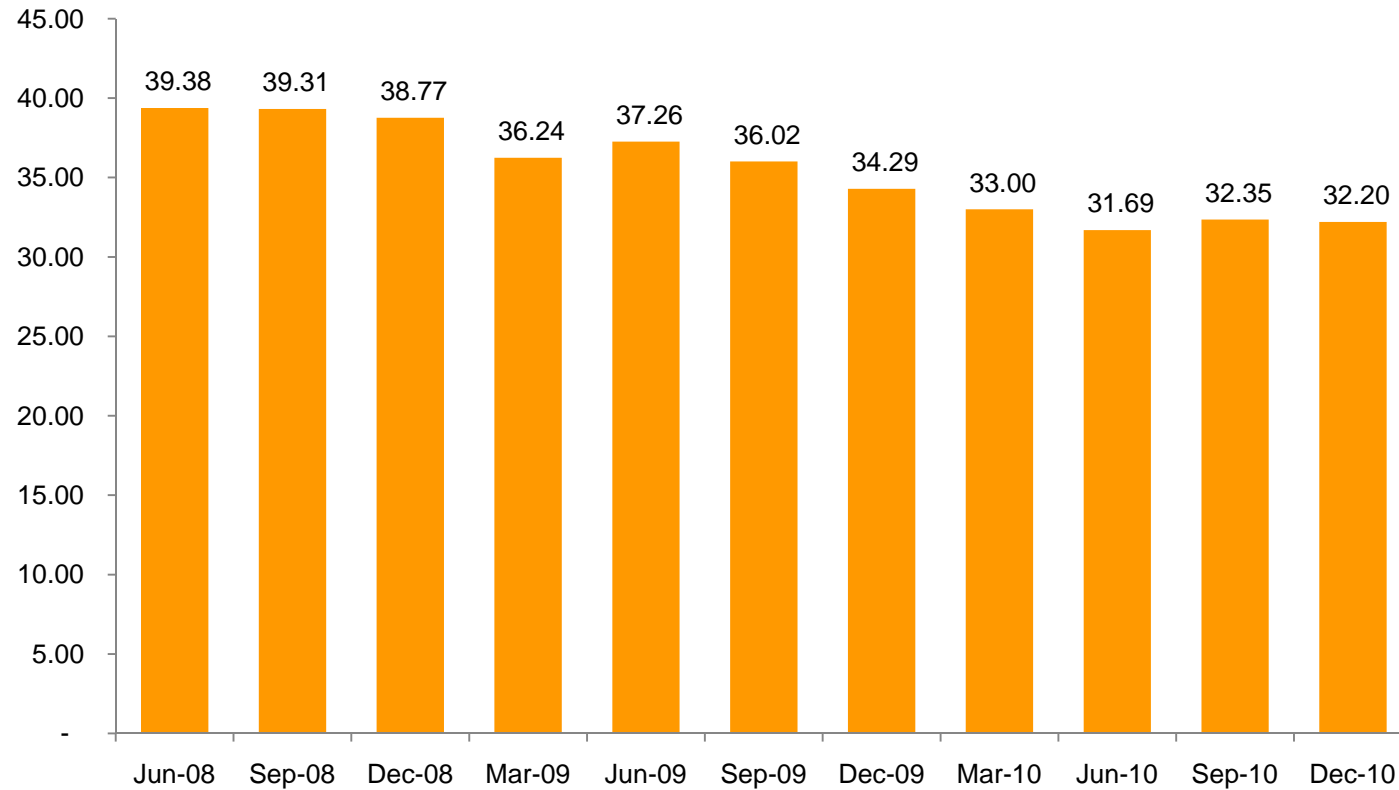
FIXED LINE ARPU



- Fixed Line ARPU stable:

- Call rounding introduced from 1 July 10
- Increase in proportion of broadband lines as speed upgrades continue
- Nearly one in two of consumer base now has broadband

1. Total net consumer revenues (incl. Line Rental, voice and broadband, net of discounts) divided by total consumer lines
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Note: Q1-4 09/10 retrospectively restated to take account of all discounts



ARPU down 6% on prior year:

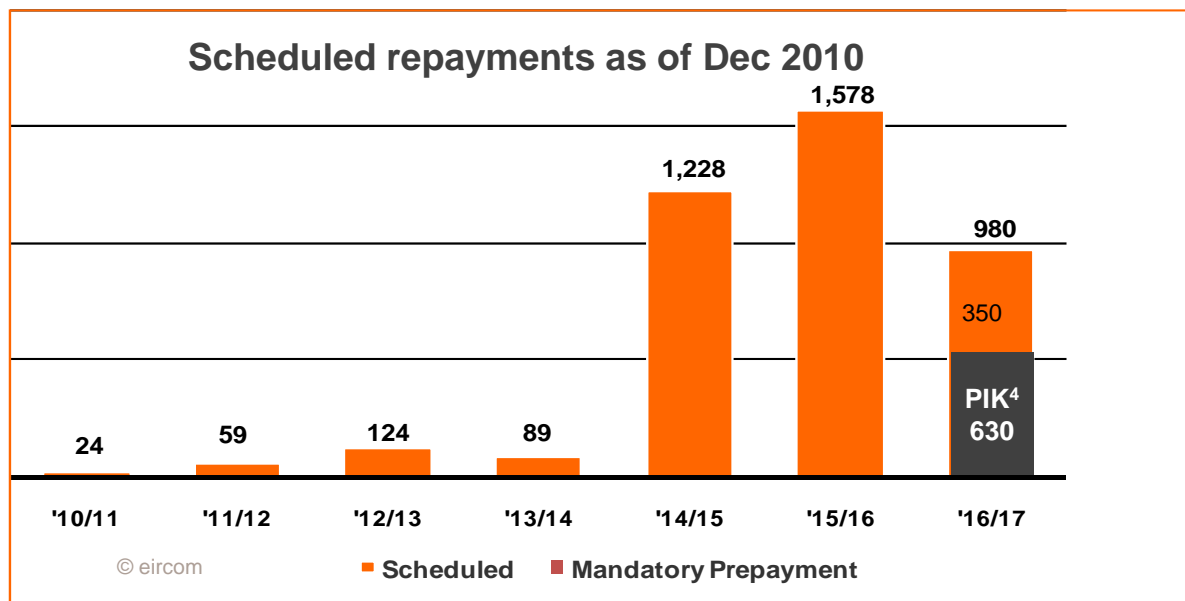
- MTR reductions in March and October
- Changes in traffic patterns and lower activity, impacted by economy
- Take-up of better value pricing plans

DEBT PROFILE

	Jun-10 €M	Dec-10 €M	Margin %	X LTM EBITDA*
Cash on hand (net of overdraft) ¹	396	376		
Loan borrowings A / SPS	(373)	(296)	1.63%	
Loan borrowings B	(1,228)	(1,228)	1.88%	
Loan borrowings C	(1,229)	(1,229)	2.13%	
Net First Lien Debt	(2,434)	(2,377)		3.53x
Loan borrowings D	(350)	(350)	4.25%	
Net Senior Debt	(2,784)	(2,727)		4.05x
FRNs	(350)	(350)	5.00%	
Net acquisition cash pay debt²	(3,134)	(3,077)		4.57x
Tetra net debt	(48)	(45)		
Net debt for ERCIF	(3,181)	(3,122)		
PIK Debt ³	(606)	(630)	7.00%	
Net debt for ERCIFE Group	(3,787)	(3,752)		5.57x
Accrued cashpay interest	(31)	(22)		
Net acquisition cash pay debt incl accrued interest	(3,165)	(3,099)		4.60x

* LTM EBITDA = €673m

- Reduction in net acquisition cash-pay debt of €53m in the quarter
- €679m reduction since September 2006
- Cash balance €376m
- Additional un-drawn revolving credit facility of €113m
- €24m scheduled for repayment by June 2011, €296m by June 2014



* Including accrued interest

1. excluding €7m of restricted cash
2. excluding defeased leases and capitalised expenses
3. excluding accrued interest (€6m Jun 10; €6m Dec 10)
4. PIK is included at its rolled-up amount to 31 Dec 2010

Defined Benefit Scheme	Dec-09 €M	Dec-10 €M	Better / (Worse) %
IAS 19 Position:			
- Value of Scheme Assets	2,497	2,660	6.5%
- Value of Scheme Obligations	(2,904)	(2,555)	12.0%
Surplus / (Deficit)	(407)	105	
- Recognised on the Balance Sheet	(122)	43	
Main assumptions:			
- Salary increases/Pension increases	3.00% ¹	1.90% ²	
- Discount rate - Liabilities	5.50%	5.40%	
Liabilities reduced by almost €350m as a result of Pensions Accord agreed in March 2010.			
Triennial valuation at 30 September 2010 complete:			
- Minimum funding standard satisfied			Source: company information
- surplus of €22m on Ongoing Funding basis			
<i>(1) The assumptions at 31December 2009 reflect the agreed pay freeze up to 30 June 2011 with the stated rate applying thereafter</i>			
<i>(2) The assumptions at 31December 2010 reflect the agreed pay freeze up to 30 June 2011, the agreed freeze on pensionable pay up to 31December 2013, and agreed cap on pensionable pay thereafter to the lower of annual CPI, salary inflation and agreed fixed annual rates</i>			

Positive pensions position on all key measures

- Good cash flow, healthy cash balance
 - Short/medium debt service comfortably covered
- Risk of breaching Senior Facilities Agreement (“SFA”) financial covenant:
 - Net senior debt/EBITDA covenant reduces significantly in coming quarters.
 - There is a significant risk that, depending on trading conditions, the group will breach its net senior debt/EBITDA financial covenant within either the next three or six months.
 - The Directors intend that discussions will take place with the group’s lenders with respect to the overall financial position of the group
 - Preliminary engagement with lenders expected to commence March/April 2011

- Company is presently updating its business plans
 - To drive future performance and competitiveness
 - To establish an investable proposition for shareholders
 - To establish its sustainable long-term financial requirements
 - To facilitate the engagement with lenders
- Equity Cure option remains available
 - Shareholders have option to cure financial breach by injecting new equity. Equity cure monies must be used to pay down senior debt, and count as EBITDA on a 1:1 ratio
 - Equity cure can be made once 12 month period
- The company is working with advisors to assess its options and longer-term financial strategy
 - Financial advisors: JP Morgan and Gleacher Shacklock
 - Legal advisors: Arthur Cox and Linklaters

Highlights

Financial Overview

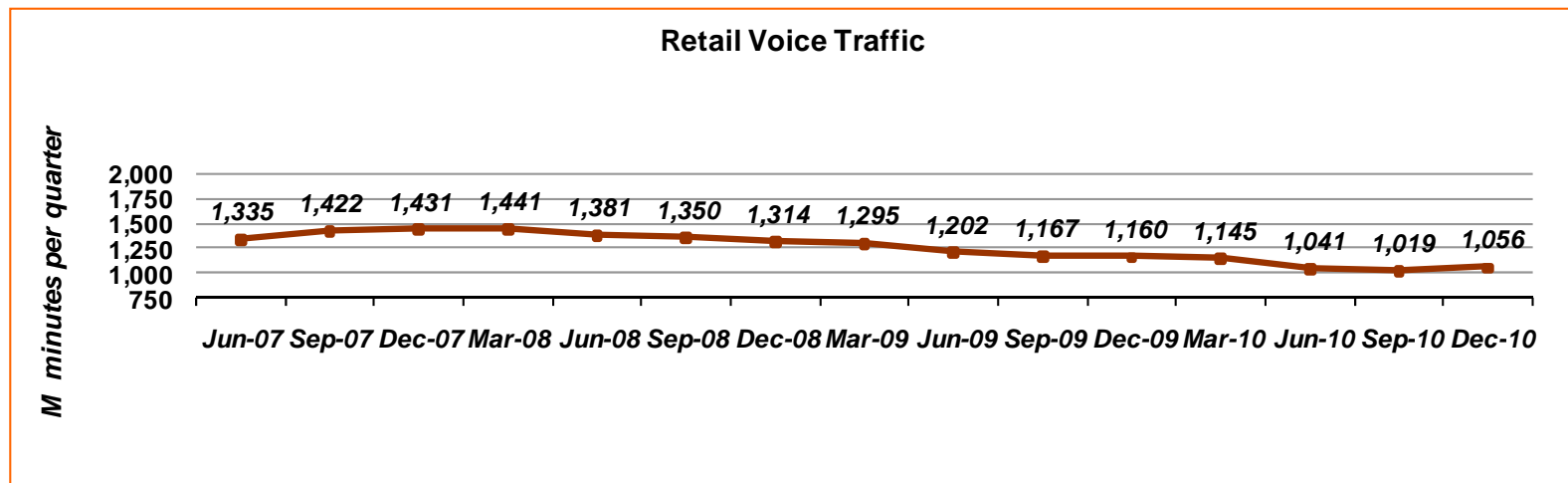
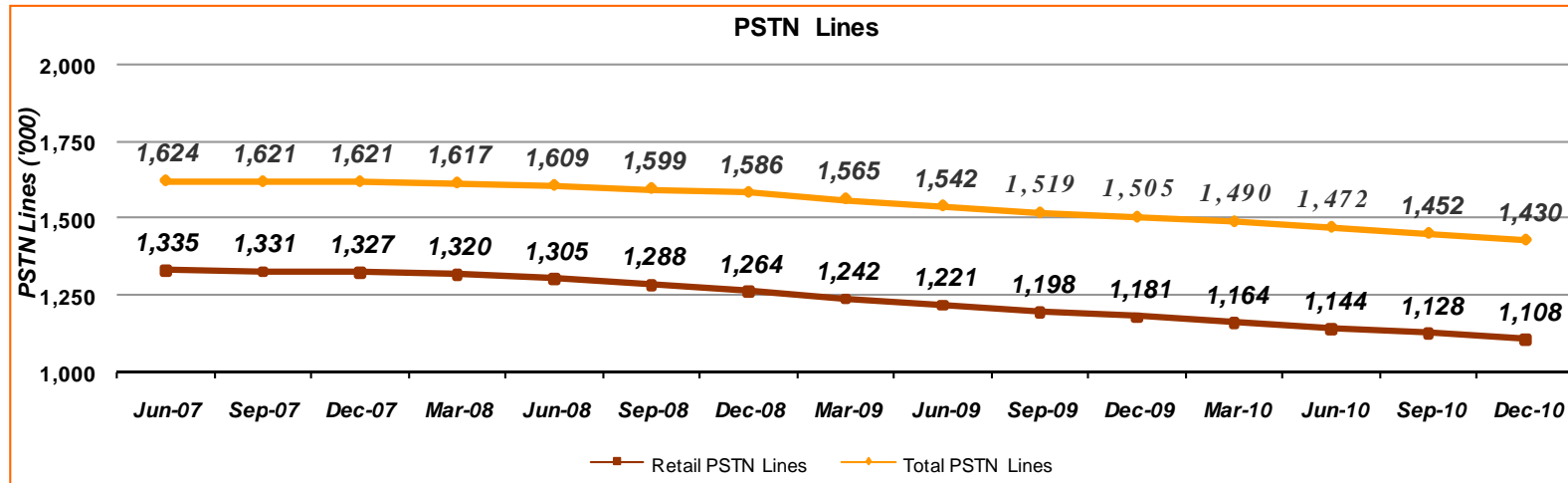
Conclusion

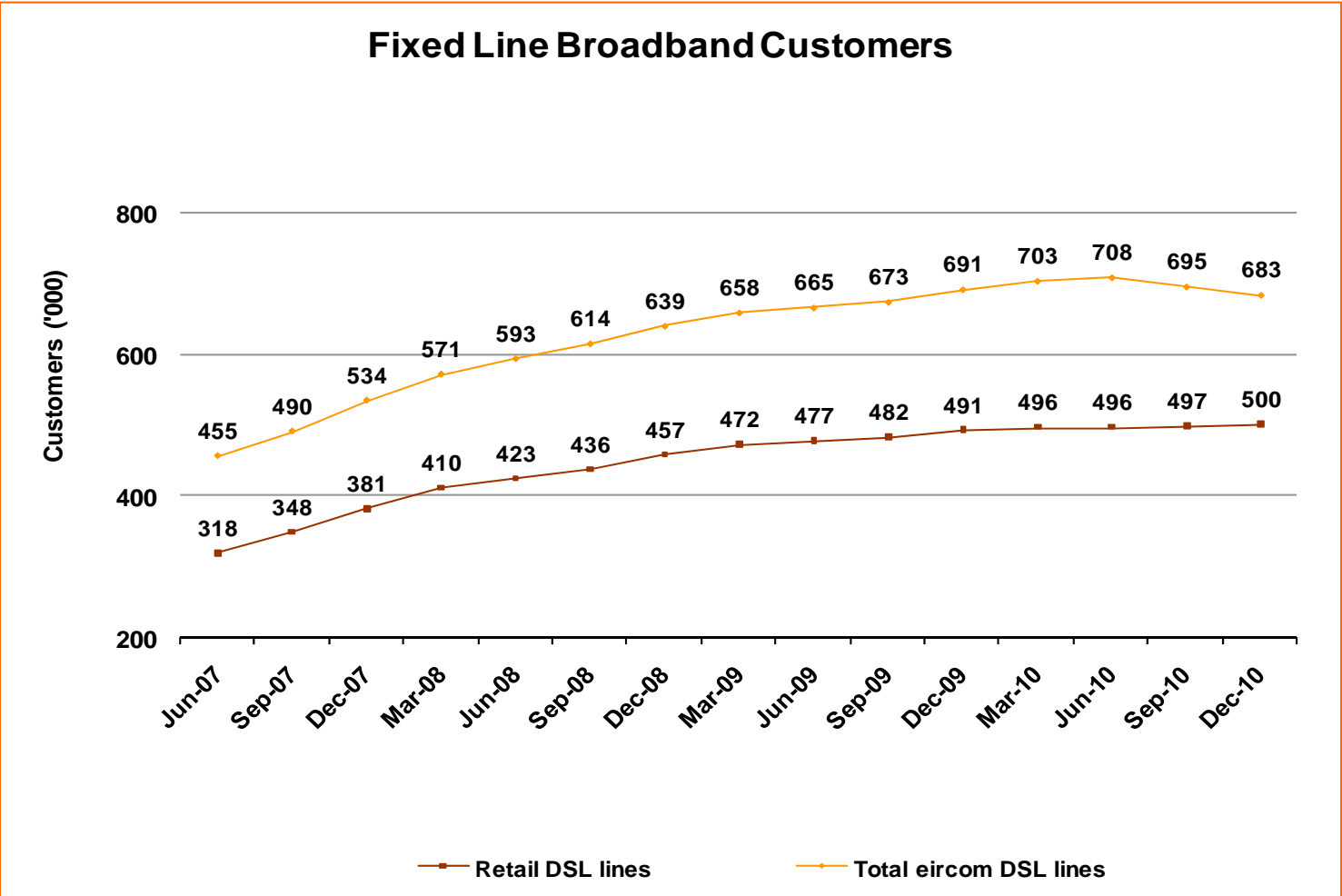
CONCLUSION

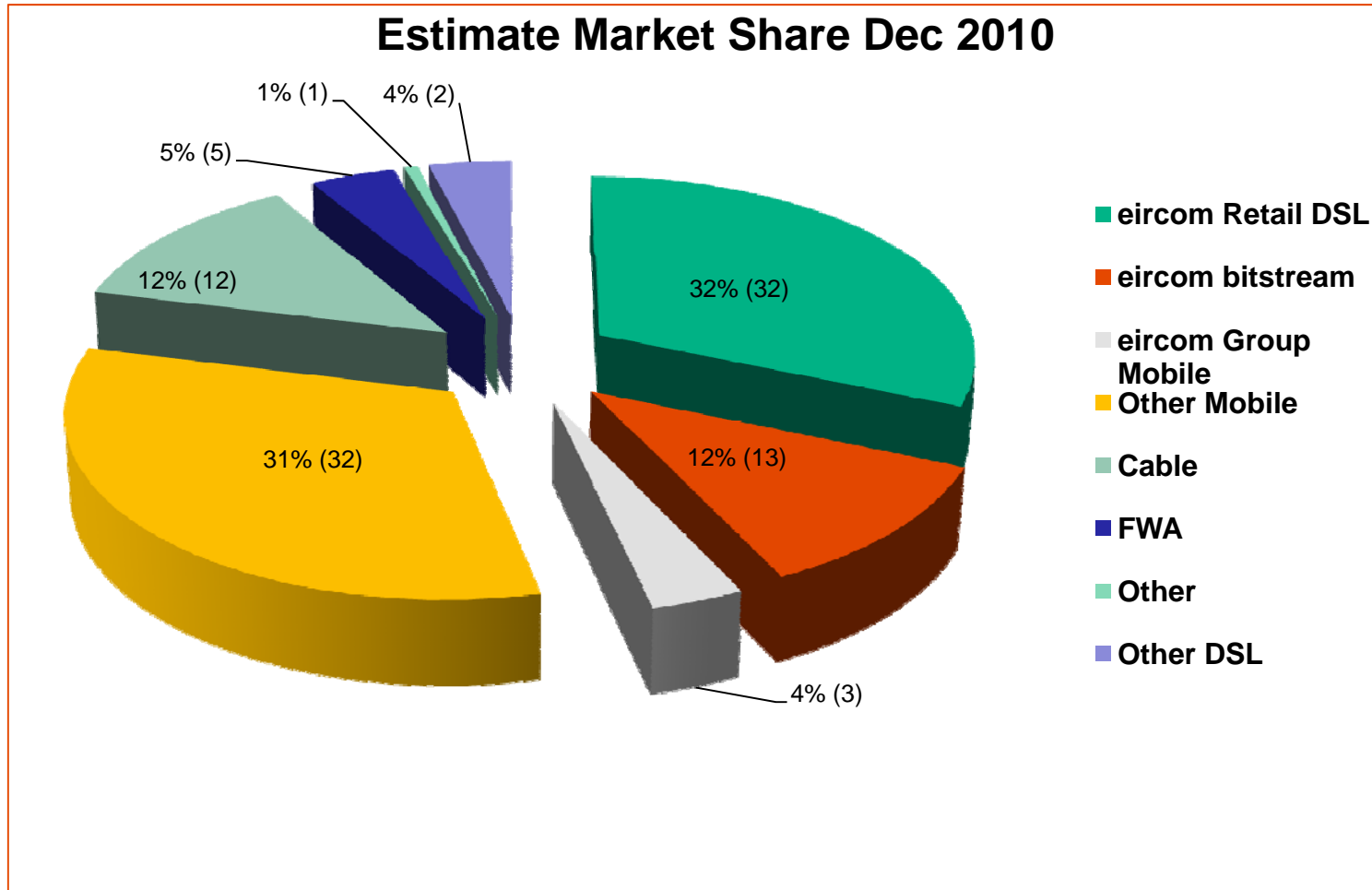
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APPENDIX

FIXED LINE – Customer Numbers and Traffic

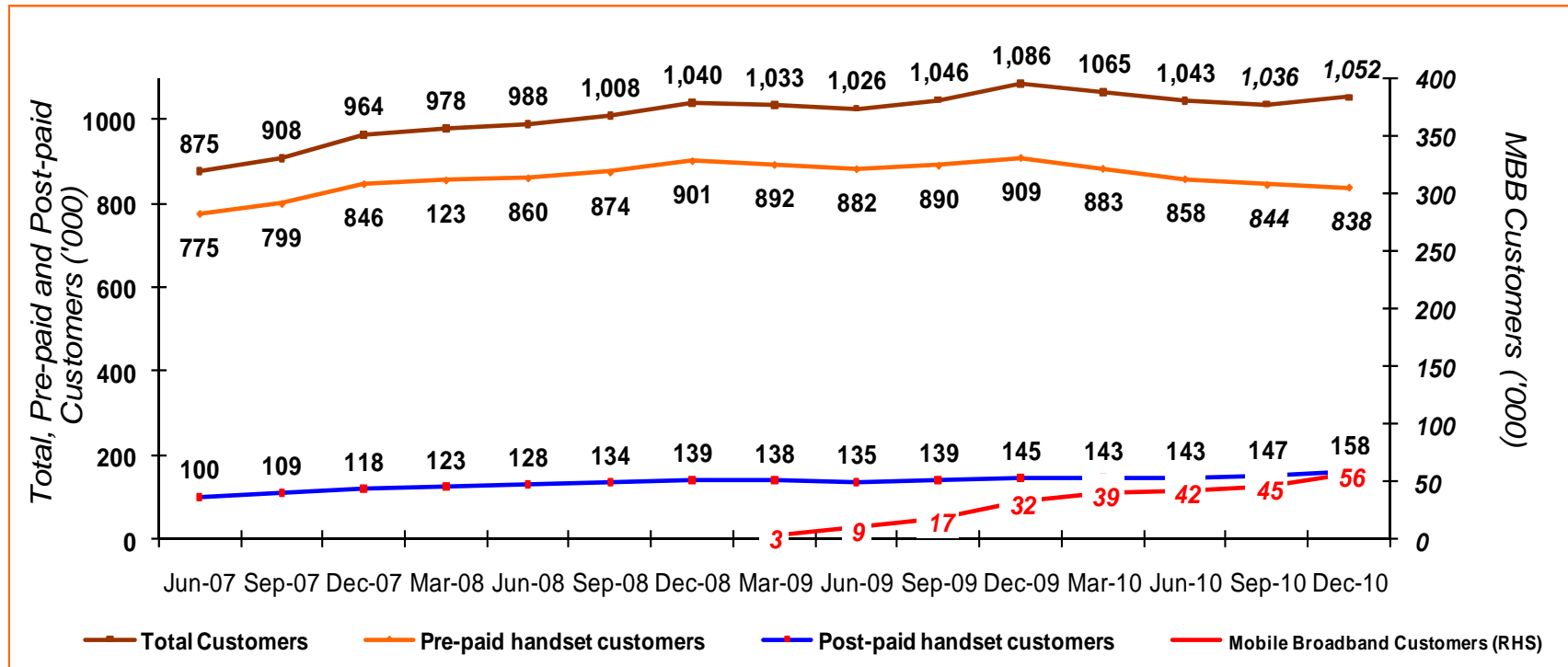




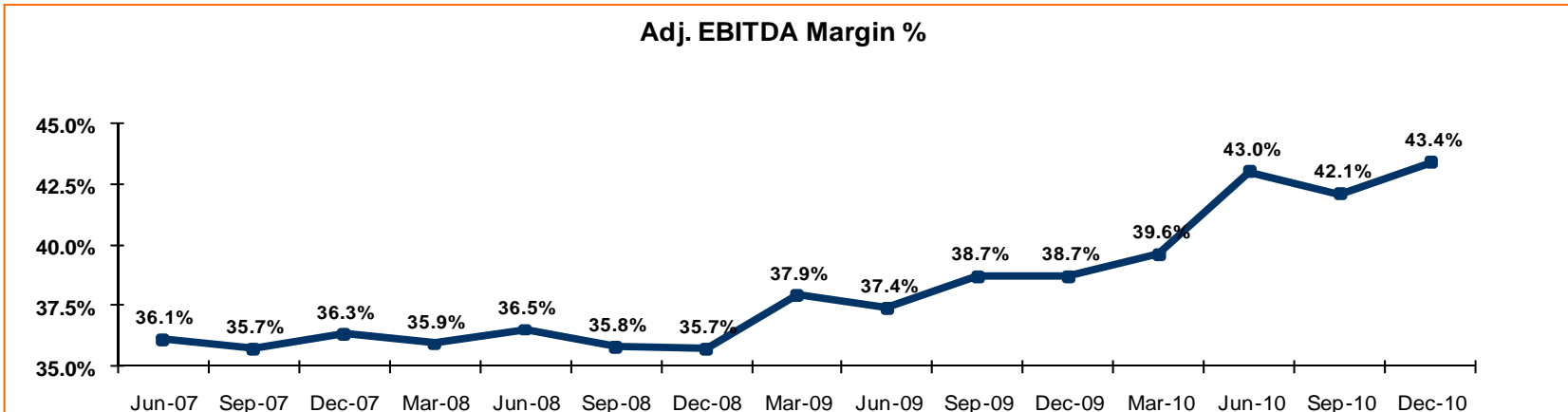
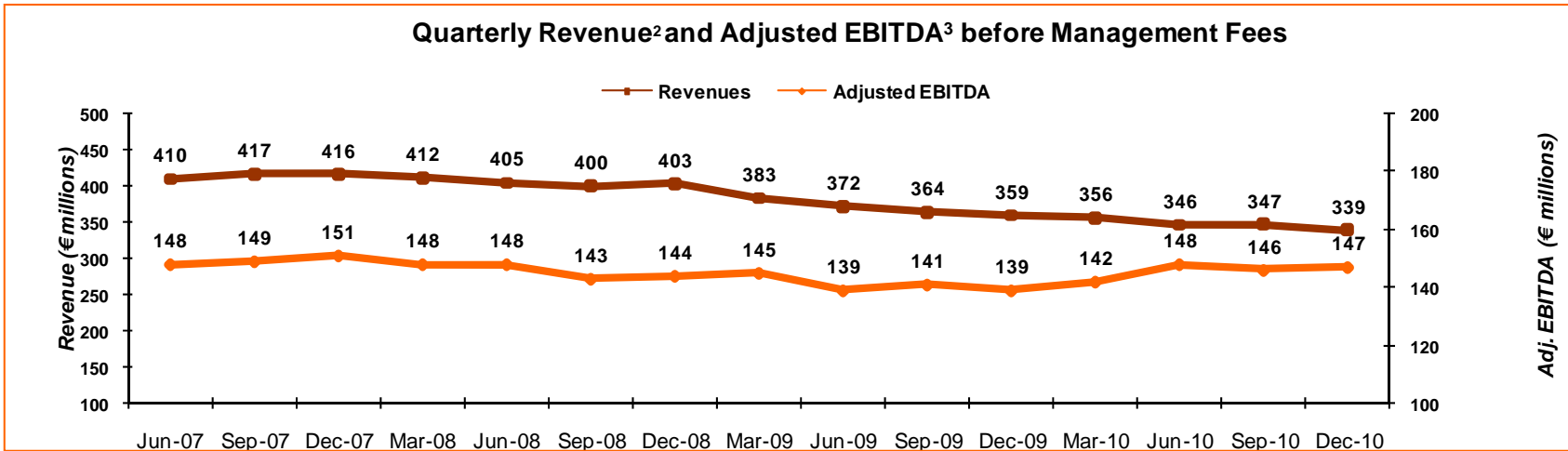


* Figures in brackets relate to market share, as at 30 September 2010

MOBILE VOLUMES



FIXED LINE FINANCIAL TRENDS¹

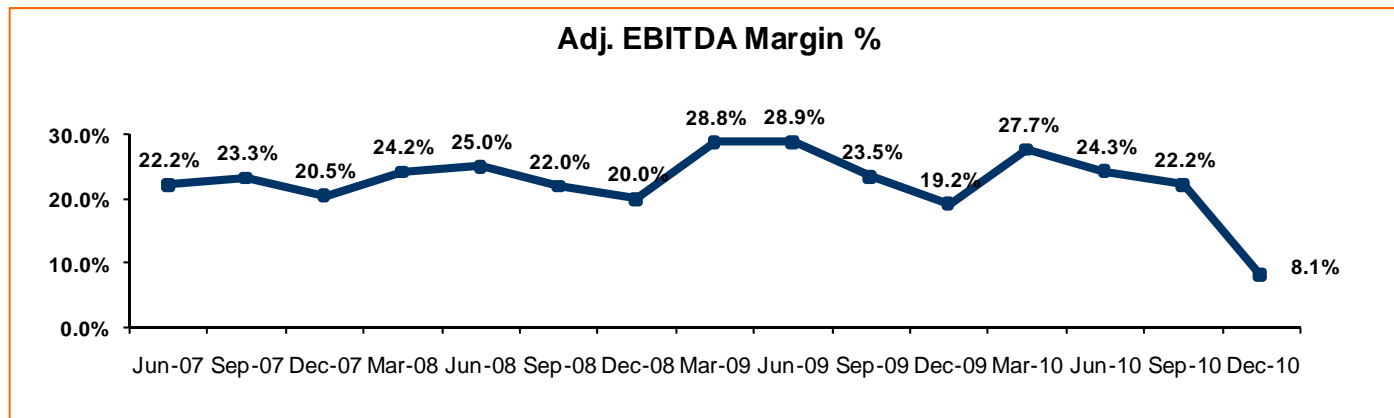
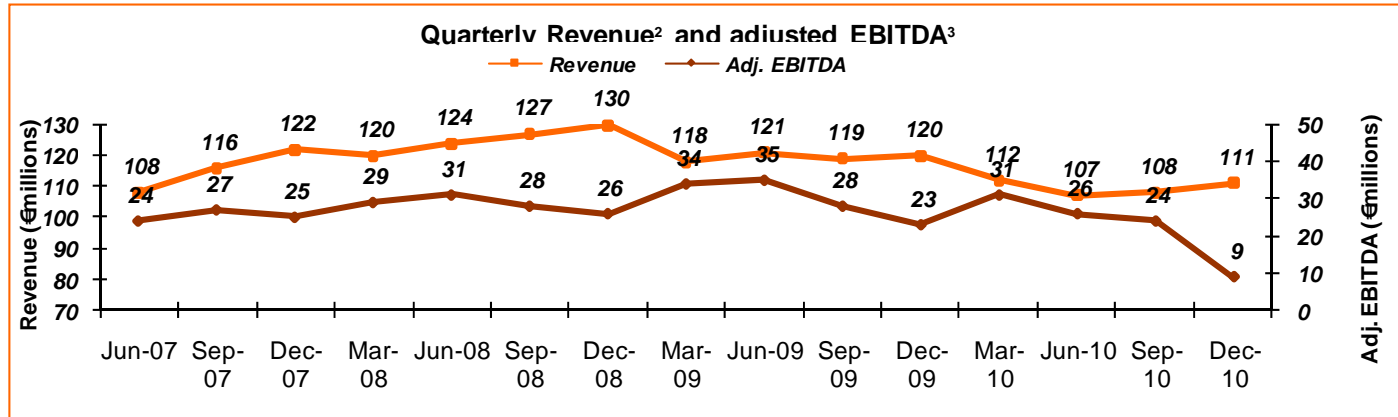


1. Source: unaudited management accounts

2. Revenue, including Fair Value adjustments: eircom Mobile reclassified from Fixed line to Mobile in all periods.

3. Adjusted EBITDA before: exceptional costs, non cash pension credit, net construction income and profit on disposal of property and investments, and management fees

MOBILE FINANCIAL TRENDS¹



© eircom
 1. Source: unaudited eircom management accounts
 2. Before consolidation adjustments
 3. Adjusted EBITDA after management incentive costs (SARs), including eircom Mobile