eircom Holdings (Ireland) Limited

First Quarter 2019 Unaudited Results

13 November 2018

eircom Holdings (Ireland) Limited

Unaudited first quarter results to 30 September 2018

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Trading highlights for the first quarter ended 30 September 2018*

- Revenue of €312 million decreased by €4 million or 1% compared to the corresponding prior year quarter; revenue growth in voice traffic, data services, postpay mobile, bundling and TV was offset by a reduction in traditional access lines and low margin eir business revenue.
- Group adjusted EBITDA[1] of €138 million was €13 million or 11% higher than the corresponding prior year quarter driven by operating cost savings.
- Reported fixed line revenue, before intra-company eliminations, of €236 million decreased by 1% or €3 million compared to the corresponding prior year period. Voice traffic, data services, bundling and TV growth was offset by lower traditional access line revenue coupled with reductions in low margin eir business revenue and operator services revenue.
- Fixed line adjusted EBITDA, of €119 million was €9 million or 8% higher when compared to the corresponding prior year quarter.
- The group broadband customer base[2] at 30 September 2018 was 925,000, an increase of 22,000 compared to the corresponding prior year period. The retail customer base increased by 17,000, while the wholesale base increased by 5,000 compared to the corresponding prior year period. At 30 September 2018, there were 651,000 customers availing of fibre based high speed broadband services, an increase of 77,000 compared to the corresponding prior year period.
- Group fixed access paths decreased by 28,000 compared to the prior year quarter; fixed access lines[3] decreased by 23,000, while standalone broadband lines reduced by 5,000. Retail access lines increased by 3,000 in the quarter compared to the fourth quarter 2018.
- Reported mobile revenue of €84 million decreased by €1 million or 2% year on year and mobile EBITDA of €19 million increased by €4 million or 28% when compared to the corresponding prior year quarter.
- Total mobile customers at the end of the quarter were 1,046,000[4]; including 549,000 postpay customers and 497,000 prepay customers. The postpay customer base increased by 6% year on year bringing the proportion of mobile customers on postpay plans to 52%. The prepay base reduced by 8% year on year mainly due to continued migrations to postpay as well as increased competition in the market.
- Group operating costs[5] of €108 million, reduced by €13 million or 12% compared to the corresponding prior year quarter.
- Total Full Time Equivalent (FTE) staff at the end of September stood at 2,710, a reduction of 525 FTE or 16% compared to the corresponding prior year quarter.
- Despite continued high levels of capital investment, the Group maintains strong liquidity with cash on hand of €170 million at 30 September 2018.

*The figures presented above include amounts relating to the Groups 56% share in Tetra Ireland Communication Limited ("Tetra"). Following the adoption of IFRS 11, Joint Arrangements, Tetra is reported in the financial statements under the equity method as opposed to proportionate consolidation. The management discussion and analysis section of this quarterly report presents results on a management accounting basis and therefore includes the results of the Group's joint ventures on a proportionate basis, reflected in Group revenue, operating costs and EBITDA.

[1] Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, and non-cash pension charges, profit on disposal of Property, Plant and Equipment and exceptional items.
[2] Combined retail and wholesale excluding LLU and line share, including SABB
[3] Combined retail and wholesale access line losses including LLU
[4] Mobile base is a combination of handset subscriptions, machine to machine and mobile broadband subscriptions
[5] Operating costs are pay and non-pay costs before non-cash pension charge and lease fair value credits

eircom Holdings (Ireland) Limited
KPIs for the first quarter ended 30 September 2018 (unaudited)

	As at and for quarter ended 30 Sep 2017	As at and for quarter ended 30 Sep 2018	Better / (Worse)% [N1]
Access Paths Base ('000)			
Retail Access Lines	670	657	(2%)
Retail SABB*	35	33	(5%)
Wholesale Access lines	496	490	(1%)
Wholesale SABB*	151	148	(2%)
Wholesale LLU**	8	4	(54%)
Total	**1,360**	**1,332**	**(2%)**
Retail Voice traffic (minutes in quarter)	336	293	(13%)
Broadband Lines ('000)			
Retail	443	460	4%
Wholesale	460	465	1%
Total	**903**	**925**	**2%**
Mobile Customers ('000)			
Prepaid handsets	533	489	(8%)
Prepaid MBB	9	8	(10%)
Total prepaid base	542	497	(8%)
Postpaid handsets (including M2M)	477	515	8%
Postpaid MBB	38	34	(12%)
Total postpaid base	515	549	6%
Total	**1,057**	**1,046**	**(1%)**
Net Mobile additions/(losses) in quarter ('000)			
Prepaid base	(5)	(7)	
Postpaid base	1	6	
Total base movement	**(4)**	**(1)**	
ARPUs € [N2 & N3]			
Consumer Blended ARPU	47.6	49.2	3%
WLR PSTN ARPU	16.1	16.3	1%
Bitstream ARPU (including SABB)	15.7	15.2	(3%)
Prepaid ARPU (including MBB)	15.0	15.8	5%
Postpaid ARPU (including MBB/M2M)	33.8	32.3	4%
Closing Headcount	**3,235**	**2,710**	**16%**

*SABB - Standalone Broadband
**LLU - Local Loop Unbundled

eircom Holdings (Ireland) Limited

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 Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – "Interim Financial Information" and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 30 September 2018.

This condensed interim financial information has been prepared on the going concern basis, which assumes that eircom Holdings (Ireland) Limited will continue in operational existence for the foreseeable future.

The financial information, as at and for the period ended 30 September 2018, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2018. 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 EHIL for the year ended 30 June 2018.

Reconciliation of statutory financial statements[1] to the results presented in the management discussion and analysis section within this quarterly document

	In the quarter ended 30 September 2017			In the quarter ended 30 September 2018		
	Reported €m	**Adjusted €m**	**Statutory €m**	**Reported €m**	**Adjusted €m**	**Statutory €m**
Revenue	316	(4)	312	**312**	**(5)**	**307**
Operating costs excluding non-cash pension charge and fair value lease credits	(191)	1	(190)	**(174)**	**2**	**(172)**
Adjusted EBITDA	125	(3)	122	**138**	**(3)**	**135**
Closing Cash	126	(7)	119	**170**	**(8)**	**162**

[1]The statutory financial statements are prepared in accordance with IFRS accounting principles and include the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis. The management discussion and analysis section of this quarterly report presents results on a management accounting basis and therefore includes the results of the group's joint ventures on a proportionate basis, reflected in group revenue, operating costs and EBITDA.

eircom Holdings (Ireland) Limited

Reconciliation of earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment to operating profit

	Three months ended Sept 2017 €m	Three months ended Sept 2018 €m
Operating profit	24	**42**
Exceptional items	2	**-**
Non-cash pension charge	3	**3**
Operating profit before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	29	**45**
Depreciation	70	**70**
Amortisation	25	**22**
EBITDA before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	124	**137**
IFRS 3 unfavourable lease fair value adjustment	(2)	**(2)**
Adjusted EBITDA before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	122	**135**
EBITDA of joint ventures using proportionate consolidation	3	**3**
Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	125	**138**

Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment is split as follows:		
Fixed line	110	**119**
Mobile	15	**19**
	125	**138**

***** *Reported EBITDA includes the results of the group's joint ventures on a proportionate basis. The statutory basis includes the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis.*

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited
For the three-month period ended 30 September 2018

	Notes	30 Sept 2017	30 Sept 2018
		€m	€m
Revenue	3	312	**307**
Operating costs excluding amortisation, depreciation and exceptional items		(191)	**(173)**
Amortisation	3	(25)	**(22)**
Depreciation	3	(70)	**(70)**
Exceptional items	3, 4	(2)	**-**
Profit on disposal of property, plant and equipment		-	**-**
Operating profit	3	24	**42**
Finance costs – net	5	(25)	**(25)**
Share of profit of joint venture		2	**1**
Profit before tax		1	**18**
Income tax (charge)/credit	6	(1)	**2**
Profit for the period		-	**20**

Group statement of comprehensive income – unaudited
For the three-month period ended 30 September 2018

	30 Sept 2017	30 Sept 2018
	€m	€m
Profit for the financial period attributable to equity holders of the parent	-	**20**
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss		
Defined benefit pension scheme remeasurement gains/(losses):		
- Remeasurement gain/(loss) in period	22	**(31)**
- Tax on defined benefit pension scheme remeasurement (gains)/losses	(3)	**4**
	19	**(27)**
Items that may be reclassified subsequently to profit or loss		
Net changes in cash flow hedge reserve:		
- Fair value loss in period	(1)	**-**
	(1)	**-**
Other comprehensive income/(expense), net of tax	18	**(7)**
Total comprehensive income/(expense) for the financial period	18	**(7)**

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

eircom Holdings (Ireland) Limited

Consolidated Balance Sheet – unaudited
As at 30 September 2018

	Notes	30 June 2018	30 Sept 2018
		€m	€m
Assets			
Non-current assets			
Goodwill		212	**212**
Other intangible assets		312	**291**
Property, plant and equipment		1,400	**1,385**
Investment in joint venture		-	**1**
Deferred tax assets		2	**2**
Other assets		13	**13**
		1,939	**1,904**
Current assets			
Inventories		11	**14**
Trade and other receivables	7	195	**222**
Restricted cash		5	**14**
Cash and cash equivalents		197	**162**
		408	**412**
Total assets		2,347	**2,316**
Liabilities			
Non-current liabilities			
Borrowings	8	2,244	**2,246**
Derivative financial instruments		1	**1**
Trade and other payables		110	**109**
Deferred tax liabilities		63	**50**
Retirement benefit liability	9	23	**59**
Provisions for other liabilities and charges	10	104	**102**
		2,545	**2,567**
Current liabilities			
Derivative financial instruments		1	**1**
Trade and other payables		485	**434**
Current tax liabilities		3	**9**
Provisions for other liabilities and charges	10	37	**36**
		526	**480**
Total liabilities		3,071	**3,047**
Equity			
Equity share capital		-	**-**
Capital contribution		62	**62**
Cash flow hedging reserve		(2)	**(2)**
Retained loss		(784)	**(791)**
Total equity		(724)	**(731)**
Total liabilities and equity		2,347	**2,316**

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the three-month period ended 30 September 2018

	Notes	30 Sept 2017	30 Sept 2018
		€m	€m
Cash flows from operating activities			
Cash generated from operations	11	75	**45**
Interest paid		(15)	**(14)**
Net cash generated from operating activities		60	**31**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(73)	**(53)**
Purchase of intangible assets		(23)	**(4)**
Restricted cash		13	**(9)**
Net cash used in investing activities		(83)	**(66)**
Cash flows from financing activities			
Net cash used in financing activities		-	**-**
Net decrease in cash, cash equivalents and bank overdrafts		(23)	**(35)**
Cash, cash equivalents and bank overdrafts at beginning of period		142	**197**
Cash, cash equivalents and bank overdrafts at end of period		119	**162**

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

eircom Holdings (Ireland) Limited

Consolidated statement of changes in shareholders' equity – unaudited
For the three-month period ended 30 September 2018

	Equity share capital €m	Capital contribution €m	Cash flow hedging reserve €m	Retained loss €m	Total equity €m
Balance at 30 June 2017	**-**	**54**	**2**	**(958)**	**(902)**
Loss for the period	**-**	**-**	**-**	**-**	**-**
Defined benefit pension scheme remeasurement gain	**-**	**-**	**-**	**22**	**22**
Tax on defined benefit pension scheme remeasurement gain	**-**	**-**	**-**	**(3)**	**(3)**
Cash flow hedges:					
- Fair value loss in year	**-**	**-**	**(1)**	**-**	**(1)**
Total comprehensive (expense)/income	**-**	**-**	**(1)**	**19**	**18**
Balance at 30 September 2017	**-**	**54**	**1**	**(939)**	**(884)**
Balance at 30 June 2018	**-**	**62**	**(2)**	**(784)**	**(724)**
Profit for the period	**-**	**-**	**-**	**20**	**20**
Defined benefit pension scheme remeasurement loss	**-**	**-**	**-**	**(31)**	**(31)**
Tax on defined benefit pension scheme remeasurement loss	**-**	**-**	**-**	**4**	**4**
Total comprehensive expense	**-**	**-**	**-**	**(7)**	**(7)**
Balance at 30 September 2018	**-**	**62**	**(2)**	**(791)**	**(731)**

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

eircom Holdings (Ireland) Limited

Selected notes to the condensed interim financial information – unaudited

1. General information

eircom Holdings (Ireland) Limited ("the company' or "EHIL") and its subsidiaries together ("the group" or "eircom Holdings (Ireland) Limited group" or "EHIL Group"), provide fixed line and mobile telecommunications services in Ireland.

This condensed consolidated interim financial information was approved for issue on 13 November 2018.

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 Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – "Interim Financial Information" and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 30 September 2018. In addition, the group has prepared this financial information under the previous revenue recognition standards: 'IAS 18 Revenue', etc and will not be preparing financial information under IFRS 15, 'Revenue from Contracts with Customers' until the year end 30 June 2019.

This condensed interim financial information has been prepared on the going concern basis, which assumes that eircom Holdings (Ireland) Limited will continue in operational existence for the foreseeable future.

The financial information, as at and for the period ended 30 September 2018, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2018. 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 EHIL for the year ended 30 June 2018.

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 three-months period ended 30 September 2018 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	236	84	(8)	**312**	(5)	**307**
EBITDA **	119	19	-	**138**	(3)	**135**
Non-cash lease fair value credits	2	-	-	**2**	-	**2**
Non-cash pension charges	(3)	-	-	**(3)**	-	**(3)**
Amortisation	(17)	(5)	-	**(22)**	-	**(22)**
Depreciation	(65)	(7)	-	**(72)**	2	**(70)**
Operating profit	**36**	**7**	**-**	**43**	**(1)**	**42**

The segment results for the three-months period ended 30 September 2017 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	239	85	(8)	**316**	(4)	**312**
EBITDA **	110	15	-	**125**	(3)	**122**
Non-cash lease fair value credits	2	-	-	**2**	-	**2**
Non-cash pension charges	(3)	-	-	**(3)**	-	**(3)**
Amortisation	(19)	(6)	-	**(25)**	-	**(25)**
Depreciation	(63)	(8)	-	**(71)**	1	**(70)**
Exceptional items	(2)	-	-	**(2)**	-	**(2)**
Operating profit	**25**	**1**	**-**	**26**	**(2)**	**24**

* Reported EBITDA includes the results of the group's joint ventures on a proportionate basis. The statutory basis includes the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis.

** EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment.

4. Exceptional items

	30 Sept 2017 €m	30 Sept 2018 €m
Restructuring programme costs	1	-
Strategic review costs	1	-
	2	-

The group has adopted an income statement format which seeks to highlight significant items within group results for the period. The group believe that this presentation provides additional analysis as it highlights significant or 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.

Restructuring programme costs
The group included an exceptional charge of €1 million for restructuring programme costs in respect of staff exits in the period ended 30 September 2017. The exceptional charge of €1 million at 30 September 2017 is an IAS 19 (Revised) defined benefit pension charge in relation to past service costs of €1 million.

Strategic review costs
The group recognised an exceptional charge of €1 million for strategic review costs incurred in the period ended 30 September 2017.

5. Finance costs – net

	30 Sept 2016 €m	30 Sept 2017 €m
(a) Finance costs:		
Interest payable on bank loans and other debts	23	**22**
Interest amortisation on non-current borrowings	1	**1**
Net interest cost on net pension liability	1	**-**
Amortisation of debt issue costs and debt modification fees	1	**1**
Other unwinding of discount/Other	-	**1**
Fair value movements on derivatives not qualifying for hedge accounting	(1)	**-**
	25	**25**
(b) Finance income:		
Interest income	-	**-**
	-	**-**
Finance costs – net	25	**25**

6. Income tax credit

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

	30 Sept 2017 €m	30 Sept 2018 €m
Profit before tax	1	**18**
Tax calculated at Irish standard tax rate of 12.5%	-	**2**
Effects of:-		
Non-deductible expenses	4	**3**
Origination and reversal of temporary differences	(3)	**(7)**
Tax charge/(credit) for the period	1	**(2)**

7. Trade and other receivables

During the period ended 30 September 2018, the group recognised a provision for impaired receivables of €2 million (30 Sept 2017: €2 million), reversed provisions for impaired receivables of €Nil (30 Sept 2017: €Nil) and utilised provisions for impaired receivables of €1 million (30 Sept 2017: €1 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

8. Borrowings

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

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
As at 30 Sept 2018					
Bank borrowings (Facility B)	**-**	**-**	**-**	**1,600**	**1,600**
Unamortised fair value difference on borrowings	**-**	**-**	**-**	**(37)**	**(37)**
Debt modification fees	**-**	**-**	**-**	**(11)**	**(11)**
	-	**-**	**-**	**1,552**	**1,552**
4.5% Senior Secured Notes due 2022	**-**	**-**	**700**	**-**	**700**
Debt issue costs	**-**	**-**	**(6)**	**-**	**(6)**
	-	**-**	**694**	**-**	**694**
	-	**-**	**694**	**1,552**	**2,246**
As at 30 June 2018					
Bank borrowings (Facility B)	-	-	-	1,600	1,600
Unamortised fair value difference on borrowings	-	-	-	(39)	(39)
Debt modification fees	-	-	-	(11)	(11)
	-	-	-	1,550	1,550
4.5% Senior Secured Notes due 2022	-	-	700	-	700
Debt issue costs	-	-	(6)	-	(6)
	-	-	694	-	694
	-	-	694	1,550	2,244

At 30 September 2018, the group has Senior Bank borrowings of €1,600 million with a maturity date of 19 April 2024 and 4.5% Senior Secured Notes of €700 million with a maturity date of 31 May 2022.

The borrowings under the Senior Facilities Agreement were recognised initially in accordance with IAS 39 at their fair value on the date of recognition, 11 June 2012, which was estimated to be 77% of the par value of the liability. The difference between the fair value on initial recognition and the amount that was payable on the maturity date is being amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39. The remaining unamortised amount at 30 September 2018 was €37 million.

Interest accrued on borrowings at 30 September 2018 is €14 million (30 June 2018: €6 million). This is included in trade and other payables.

9. Pensions

The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature. The group undertakes a full review of the retirement benefit liability at each quarter end in accordance with IAS 19 (Revised). The balance sheet presented as at 30 September 2018 reflects the IAS 19 (Revised) deficit of €59 million as at 30 September 2018.

Pension scheme obligation

The status of the principal scheme at 30 September 2018 is as follows:

	30 June 2018 €m	**30 Sept 2018 €m**
Present value of funded obligations	4,311	**4,277**
Fair value of scheme assets	(4,288)	**(4,218)**
Liability recognised in the Balance Sheet	23	**59**

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2018	**At 30 Sept 2017**
Rate of increase in salaries	1.65%	1.65%
Rate of increase in pensions in payment	1.65%	1.65%
Discount rate	2.10%	2.15%
Inflation assumption	1.85%	1.85%
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old male	87 years	87 years
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old female	89 years	89 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old male	90 years	90 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old female	91 years	91 years

The above assumptions reflect the imposition of a cap on the increases in pensionable pay to the lower of CPI, salary inflation or agreed fixed annual rates.

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

10. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Restructuring Costs €m	Onerous Contracts €m	Asset Retirement Obligations €m	Deferred consideration €m	Other €m	Total €m
At 30 June 2018	**11**	**9**	**32**	**52**	**3**	**34**	**141**
Charged to consolidated income statement:							
- Additional provisions	-	-	-	-	-	-	-
Transfer to receivables	-	-	-	-	-	1	**1**
Utilised in the financial period	(1)	-	(2)	-	-	(1)	**(4)**
At 30 September 2018	**10**	**9**	**30**	**52**	**3**	**34**	**138**

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

	30 June 2018 €m	30 Sept 2018 €m
Non-current	104	**102**
Current	37	**36**
	141	**138**

11. Cash generated from operations

	30 Sept 2017 €m	30 Sept 2018 €m
Profit after tax	-	**20**
Add back:		
Income tax charge/(credit)	1	**(2)**
Share of profit of joint venture	(2)	**(1)**
Finance costs – net	25	**25**
Operating profit	24	**42**
Adjustments for:		
- Depreciation and amortisation	95	**92**
- Non-cash lease fair value credits	(2)	**(2)**
- Non cash retirement benefit charges	3	**3**
- Restructuring programme costs	1	**-**
Cash flows relating to restructuring, onerous contracts and other provisions	(10)	**(50)**
Changes in working capital		
Inventories	-	**(3)**
Trade and other receivables	(38)	**(26)**
Trade and other payables	2	**(11)**
Cash generated from operations	75	**45**

12. Post Balance Sheet Events

There have been no significant events affecting the group since the period ended 30 September 2018.

13. Contingent liabilities

There have been no material changes in our contingent liabilities since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2018.

14. Guarantees

There have been no material changes in our credit guarantees and in derivatives since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2018.

15. Seasonality

Fixed line
The group does not believe that 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 postpay and prepay subscriber growth and related costs of handset subsidies and commissions in November and December. Visitor 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 €288 million at 30 September 2018 (30 June 2018: €296 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 €24 million at 30 September 2018 (30 June 2018: €20 million).

17. Related party transactions

There have been no material changes in our related party transactions since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2018.

Management discussion and analysis on results of operations for the quarter ended 30 September 2018

The amounts and commentary presented in the management discussion below include the results of the group's joint venture in Tetra Ireland Communications Limited ("Tetra") on a proportionate consolidation basis. In accordance with IFRS 11 'Joint Arrangements' the EHIL consolidated financial statements for the quarter ended 30 September 2018 applies the equity method of accounting for the investment in Tetra.

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

Revenue

The following table shows a segmental split of revenues for the period from our fixed line and mobile businesses:

	For the quarter ended		
	30 Sep, 2017 (unaudited)	**30 Sep, 2018 (unaudited)**	**% Change 2017/2018**
	€m	**€m**	
Fixed line services and other revenue	239	236	(1)
Mobile services revenue	85	84	(2)
Total segmental revenue	324	320	(1)
Intracompany eliminations	(8)	(8)	-
Total revenue	316	312	(1)

Fixed line services and other revenue

The following table shows revenue from the fixed line segment, analysed by major products and services, and the percentage change for each category, for the periods indicated:

	For the quarter ended		
	30 Sep, 2017 (unaudited)	**30 Sep, 2018 (unaudited)**	**% Change 2017/2018**
	€m	**€ m**	
Access (Rental and Connections)	121	113	(7)
Voice Traffic (including Foreign Inpayments)	53	58	12
Data Services	24	25	3
Other Products and Services	41	40	(3)
Total fixed line services and other revenue	239	236	(1)

Total fixed line services and other revenues for the quarter ended to 30 September 2018, before intra company eliminations, decreased by 1% compared to the corresponding prior year period. The decrease was driven by traditional access revenue declines as well as a decrease in low margin ICT/managed services revenues within eir business.

Access (rental and connections)

The following table shows rental, connection and other charges and the percentage changes for the periods indicated:

	For the quarter ended		
	30 Sep, 2017 (unaudited)	30 Sep, 2018 (unaudited)	% Change 2017/2018
	€m	€m	
Total access revenue			
Retail PSTN/ISDN rental and connection	49	48	(4)
Wholesale PSTN/ISDN/LLU rental and connection	27	27	1
Broadband rental and connection	45	38	(15)
Total access revenue	121	113	(7)
Access paths (in thousands at period end, except percentages)			
Retail Access Lines	670	657	(2)
Wholesale Access Lines	496	490	(1)
Wholesale LLU	8	4	(54)
SABB	186	181	(2)
Total PSTN/ISDN/LLU/SABB	1,360	1,332	(2)
Broadband and bitstream (in thousands at period end, except percentages)			
Retail broadband	443	460	4
Wholesale broadband	460	465	1
Total broadband (including SABB)	903	925	2

Access revenues for the quarter ended 30 September 2018 of €113 million decreased by 7% compared to the corresponding prior year quarter.

Retail line rental and connection revenues of €48 million decreased by 4% in the quarter ended 30 September 2018, compared to the corresponding prior year quarter, mainly due to continuing declines in PSTN and ISDN lines. Retail access lines at 30 September 2018 were 657,000, a reduction of 2% compared to 30 September 2017.

Wholesale access line revenue of €27 million remained broadly stable in the quarter ended 30 September 2018, compared to the prior year quarter. Wholesale access lines at 30 September 2018 were 490,000, a reduction of 1% compared to the prior year quarter.

Broadband revenue for the quarter of €38 million was down 15% compared to the corresponding prior year quarter, driven by the impact of increased promotional offerings in the consumer division. The wholesale broadband base of 465,000 at 30 September 2018, increased by 5,000 compared to the corresponding prior year period while the retail broadband customer base of 460,000 increased by 16,000 in the same period.

We continue to address retail fixed line losses and broadband churn with a number of programmes, including rolling out high speed broadband and offering a new suite of competitive bundled telecommunications services including broadband, TV, mobile, telephony and eir sport content. As at 30 September 2018, the rollout of our high speed fibre network had passed 78% of Irish premises and 651,000 retail and wholesale customers were connected to high speed broadband services, up 77,000 customers when compared to the corresponding prior year period. In the same period, 78,000 customers were availing of TV, up 4,000 subscriptions year on year and over 53% of the consumer broadband base was availing of exclusive eir sport content. As of 30 September 2018, 30% of eir's consumer households were using 3 or more services, an increase of 4 percentage points compared to the corresponding prior year period.

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Traffic

The following table shows total traffic revenue and volumes and the percentage changes for the periods indicated:

	For the quarter ended		
	30 Sep, 2017 (unaudited)	30 Sep, 2018 (unaudited)	% Change 2017/2018
	€m	€m	
Revenue			
Retail traffic	37	43	18
Wholesale traffic (including Foreign Inpayments)	16	15	(4)
Total traffic revenue	53	58	12
Traffic	(in millions of minutes, except percentages)		
Retail	336	294	(13)
Wholesale (including Foreign Terminating Minutes)	1,017	903	(11)
Total traffic minutes	1,353	1,197	(12)

Overall Group traffic revenue increased by 12% or €5 million in the quarter ended 30 September 2018 compared to the corresponding prior year period. Retail traffic revenue increased by 18% or €6 million, while wholesale traffic revenue decreased by 4% or €1 million for the period. The reduction in total traffic usage of 12% was offset by price increases implemented in quarters two and three of financial year 2018.

Data communications

The following table shows information relating to revenue from data communications products and services and the percentage change for the periods indicated:

	For the quarter ended		
	30 Sep, 2017 (unaudited)	30 Sep, 2018 (unaudited)	% Change 2017/2018
	€m	€m	
Data services revenue			
Leased lines	13	14	15
Switched data services	4	3	(35)
Next generation data services	7	8	2
Total data services revenue	24	25	3

Revenue from data communications remained broadly stable compared to the corresponding prior year period. Revenue increases from leased lines and next generation data services were offset by a decrease in switched data services.

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Other products and services

Other products and services revenue includes our 56% share of revenue from Tetra, eir sports, our operations in UK/NI, operator services, managed services, data centres and other revenue.

The following table shows information relating to revenue from other products and services, and the percentage change for the periods indicated:

	For the quarter ended		
	30 Sep, 2017 (unaudited)	**30 Sep, 2018 (unaudited)**	**% Change 2017/2018**
	€ m	**€ m**	
Operator services	2	2	(34)
Managed services and solutions	12	11	(2)
Tetra	5	5	7
UK	6	6	(6)
Datacentre	2	2	(8)
Other revenue	14	14	1
Other products and services revenue	41	40	(3)

Revenue from other products and services for the quarter ended 30 September 2018, decreased by 3% compared to the corresponding prior year quarter. Operator services revenue decreased by 34% as a result of reduced calls to our 11811 directory enquiries service. Managed services revenue decreased by 2% due to a reduction in low margin revenue related to eir Business. Tetra, UK/NI, datacentre, and other revenue remained broadly stable when compared to the prior year quarter.

Mobile services revenue

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

	For the quarter ended		
	30 Sep, 2017 (unaudited)	**30 Sep, 2018 (unaudited)**	**% Change 2017/2018**
	€m	**€m**	
Prepay handset	24	24	(3)
Postpay handset (incl. M2M)	50	51	2
Mobile broadband	3	2	(4)
Roaming	3	2	(22)
Other	5	5	(16)
Total mobile services revenue	85	84	(2)
Total subscribers ('000)			
Prepay handset customers	533	489	(8)
Postpay handset customers (incl. M2M)	477	515	8
Mobile broadband customers	47	42	(12)
Of which are prepay customers	9	8	(10)
Of which are postpay customers	38	34	(12)
Total subscribers	1,057	1,046	(1)

Mobile services revenue comprises prepay and postpay revenues including interconnect, mobile broadband and machine to machine. Other revenue is derived mainly from device sales and wholesale foreign roaming revenue.

Reported mobile revenue of €84 million for the quarter ended 30 September 2018 decreased by 2% compared to the corresponding prior year quarter.

Postpay handset revenue increased by 2% compared to the corresponding prior year period mainly due to a year on year increase in postpay handset (including M2M) subscribers of 8%. Prepay handset revenue decreased by 3% when compared to the corresponding prior year period driven by changes in pricing propositions at the beginning of the financial year 2018.

At 30 September 2018 there were 1,046,000 total mobile subscribers. While the overall base reduced by 11,000 compared to the prior year due to increased competition in the prepaid market, the mix of customers continues to improve. The proportion of postpay customers (including mobile broadband and M2M) within the base has increased from 49% at 30 September 2017 to 52% at 30 September 2018, representing an increase of 34,000 net additional postpay subscribers (including mobile broadband and M2M).

Operating costs before amortisation, depreciation and exceptional items

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

	For the quarter ended		
	30 Sep, 2017 (unaudited)	**30 Sep, 2018 (unaudited)**	**% Change 2017/2018**
	€m	**€m**	
Cost of sales			
Foreign outpayments	2	2	1
Interconnect	24	19	(19)
Equipment cost of sales	17	16	(5)
Other including subsidiaries and new business	27	29	6
Total cost of sales	70	66	(5)
Pay costs			
Wages and salaries and other staff costs	57	41	(28)
Social welfare costs	3	2	(26)
Pension cash costs—defined contribution plans	1	1	(64)
Pension cash costs—defined benefit plans	4	4	(11)
Pay costs before non-cash pension charge and capitalisation	65	48	(27)
Capitalised labour	(18)	(13)	(32)
Total pay costs before non-cash pension charge	47	35	(26)
Non pay costs			
Materials and services	4	5	35
Other network costs	4	4	(5)
Accommodation	23	24	3
Sales and marketing	17	17	(1)
Bad debts	2	2	(1)
Transport and travel	3	3	(8)
Customer services	9	10	2
Insurance and compensation	1	1	(19)
Professional and regulatory fees	2	1	(27)
IT costs	7	5	(33)
Other non-pay costs	2	1	(35)
Total non-pay costs	74	73	(3)
Operating costs before non-cash pension charge, amortisation, depreciation, and exceptional items	191	174	(9)
Non cash pension charge/(credit)	3	3	-
Non cash fair value lease credits	(2)	(2)	-
Operating costs before, amortisation, depreciation, and exceptional items	192	175	(9)

Total operating costs for the quarter ended 30 September 2018 before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation and exceptional items, decreased by 9% compared with the corresponding quarter of the prior year.

Cost of Sales

Cost of sales decreased by 5% or €3 million in the quarter ended 30 September 2018 compared to the corresponding prior year quarter, driven by a decrease in Interconnect payments of €5 million or 19% related in part to changes to EU roaming rates and a reduction in traffic usage.

Pay costs

Total pay costs, before non-cash pension charges, decreased by 26% or €12 million in the quarter ended 30 September 2018 compared to the corresponding prior year quarter. The decrease is mainly due to a combination of lower FTE headcount and lower contractor costs. FTE headcount at 30 September 2018 was 2,710 FTE, representing a net reduction of 525 FTE compared to 30 September 2017, driven by voluntary leave programme, a large portion of which exited the business in June 2018.

Total non-pay costs

Non-pay costs decreased by 3% or €1 million in the quarter ended 30 September 2018 compared to the corresponding prior year quarter. Key movements included the following:

- Materials and service costs increased by 35% or €1 million when compared to the prior year quarter due to timing of network activity and adverse weather conditions from the prior year.
- Customer service costs increased by 2% partly driven by adverse weather conditions.
- Accommodation costs increased by 3% or €1 million compared to the corresponding prior year quarter primarily due to increased rates.
- Professional and regulatory fees were 27% or €1 million lower due to lower consultancy costs.
- IT costs were 33% or €2 million lower driven mainly by a slowdown in maintenance of legacy systems.
- Other non-pay costs decreased by 35% or €1 million due to organisational simplification and restructuring.

The remaining costs in the quarter ended 30 September 2018 were broadly in line with the corresponding prior year period.

Non-cash pension charge/ (credit)

The non-cash pension charge represents the difference between the amount of cash contributions that the company has agreed to make to the fund during the period, on an accruals basis, and the accounting charges recognised in operating profit in accordance with IAS 19 (Revised). The IAS 19 (Revised) accounting charge is not aligned with the principles that the company applies in measuring its EBITDA. Therefore the non-cash pension charge is included as an adjustment in the reconciliation of EBITDA to operating profit.

Non-cash lease fair value credits

The non-cash lease fair value credit included in the income statement during the period is in respect of the unfavourable lease fair value adjustment which arose on acquisition of eircom Limited. At the date of acquisition, the group was required to recognise a liability for the difference between the amount of future rental payments that had been contractually committed to and the market rent that would have been payable if those contracts had been entered into at that date. The liability is released as a credit to the income statement over the period of the relevant leases. The IFRS accounting treatment is not aligned with the principles that the company applies in measuring its EBITDA. Therefore an adjustment for the non-cash fair value credit is included in the reconciliation of EBITDA to operating profit.

Amortisation

Amortisation charges for the quarter ended 30 September 2018 were €22 million, €3 million lower than the prior year quarter, mainly due to lower amortisation on computer software.

Depreciation of property, plant and equipment

The depreciation charges for the quarter ended 30 September 2018 were €72 million, €1 million higher than the prior year quarter, due to higher depreciation on Next Generation Assets (fibre).

Exceptional costs

The exceptional charges in the prior year quarter ended 30 September 2017 of €2 million includes €1 million for restructuring programme costs and €1 million for strategic review costs. The restructuring programme costs of €1 million are in relation to IAS 19 (Revised) defined benefit pension past service costs on staff exits.

Finance costs (net)

The group's net finance costs for the quarter ended 30 September 2018 of €25 million were in line with the prior year corresponding quarter finance costs.

Taxation

The tax credit for the quarter ended 30 September 2018 was €2 million, compared to the prior year corresponding quarter tax charge of €1 million. The decrease in tax reflects the increase in the deferred tax credit year on year in respect of the origination and reversal of temporary differences on property, plant & equipment.

Liquidity

Net cash generated from operating activities

Our primary source of liquidity is cash generated from operations, which represents operating profit adjusted for non-cash items which are principally depreciation, amortisation, impairment, non-cash pension charge, non-cash lease fair value credits and certain non-cash exceptional items. Cash flows from operating activities are also impacted by working capital movements and restructuring and other provision payments.

During the quarter ended 30 September 2018, net cash generated from operating activities was €33 million compared with €62 million in the prior year corresponding quarter, a decrease of €29 million. The decrease of €29 million is due to higher restructuring programme costs (voluntary leaving payments) and other provision payments in the current year, up €40 million on prior year payments, partially offset by higher EBITDA in the quarter.

Cash flows from investing activities

Total cash used in investing activities was €66 million for the quarter ended 30 September 2018, compared with €83 million for the prior year corresponding quarter, a decrease of €17 million, due to lower capital expenditure payments in the quarter partially offset by higher outflows on restricted cash deposits.

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Other Data

Certain numerical figures set out in this document, including financial data presented in millions or thousands, certain operating data, and percentages describing movements in quarters, have been subject to rounding adjustments and, as a result, the totals of the data in this document may vary slightly from the information presented in this document or the actual arithmetic totals of such information.

Notes:

1. Percentage changes have been calculated based on unrounded data rather than on the rounded data presented in these tables. Certain comparative figures have been re-grouped and re-stated where necessary on the same basis as those for the current financial quarter.
2. Fixed ARPU Calculations:
   A. We define "Blended consumer fixed ARPU" as the average of the total consumer subscriber revenue divided by the average number of access subscribers (including SABB) in each month. Subscriber revenue is equal to total fixed line consumer revenue excluding revenue from eir Sport and Operator Services.
   B. We define "WLR PSTN ARPU" as the average of Wholesale PSTN line rental revenue divided by the average number of PSTN WLR access subscribers in each month.
   C. We define "Bitstream ARPU" as the average of bitstream rental revenue including SABB (recurring revenue) divided by the average number of Wholesale bitstream (including SABB) subscribers in each month.
   D. We define "the average number of subscribers in the month" as the average of the total number of subscribers at the beginning of the month and the total number of subscribers at the end of the month.
   E. All Fixed ARPUs are adjusted to reflect the average number of days in a month.
3. Mobile ARPU Calculations:
   F. We define "Prepay ARPU" as the measure of the sum of the total prepay mobile subscriber revenue including revenue from incoming traffic in the period divided by the average number of prepay mobile subscribers in the period divided by the number of months in the period.
   A. We define "Postpay ARPU" as the measure of the sum of the total postpay mobile subscriber revenue including revenue from incoming traffic in a period divided by the average number of postpay mobile subscribers in the period divided by the number of months in the period.
   B. We define "the average number of mobile subscribers in the period" as the average of the total number of mobile subscribers at the beginning of the year and the total number of mobile subscribers at the end of the year.
4. N/M - percentage movement is not meaningful.