eircom Holdings (Ireland) Limited

Second Quarter and Half Year 2019 Unaudited Results

27 February 2019

eircom Holdings (Ireland) Limited

Unaudited second quarter and half year 2019 results to 31 December 2018

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Trading highlights for the six months ended 31 December 2018*

- Revenue of €634 million for the six months to 31 December 2018 decreased by €4 million or 1% compared to the corresponding prior year period. Growth in voice traffic, data services, and mobile revenue was offset by a reduction in access, managed services, and eir UK revenue.
- Group adjusted EBITDA[1] of €279 million was €32 million or 13% higher than the corresponding prior year period driven by pay and non pay cost savings.
- Fixed line revenue of €475 million decreased by €6 million or 1% compared to the corresponding prior year period. Growth in retail voice traffic, data services, TV and eir sport revenue was offset by lower retail broadband and managed services revenue.
- Fixed line EBITDA of €241 million increased by €21 million or 10% compared to the corresponding prior year period.
- Mobile revenue of €176 million increased by €2 million or 2% compared to the corresponding prior year period. A reduction in prepay and equipment revenue was offset by an increase in postpay and other mobile revenue.
- Mobile EBITDA of €38 million for the six months to 31 December 2018 increased by €10 million or 38% when compared to the corresponding prior year period.
- Group operating costs[2] of €213 million decreased by €32 million or 13% compared to the corresponding prior year period.
- The group broadband customer base[3] at 31 December 2018 was 936,000, an increase of 25,000 compared to the corresponding prior year period. The retail customer base increased by 25,000 while the wholesale base remained stable compared to the corresponding prior year period. At 31 December 2018, there were 670,000 customers availing of fibre based high speed broadband services, an increase of 75,000 compared to the corresponding prior year period.
- Group fixed access paths decreased by 23,000 compared to the prior year; with a reduction in fixed line access net losses of 18,000[4].
- Total mobile customers at the end of the quarter were 1,045,000[5] including 557,000 postpay customers and 488,000 prepay customers. The postpay customer base increased by 36,000 year on year bringing the number of customers on postpay contracts to 53%. The prepay base reduced by 47,000 year on year mainly due to continued migrations to postpay as well as increased competition in the market.
- Total Full Time Equivalent (FTE) staff at the end of December 2018 were 3,075, a reduction of 149 FTE or 5% compared to the corresponding prior year quarter.
- Despite continued high levels of capital investment, the Group maintains strong liquidity with cash on hand of €222 million at 31 December 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] Operating costs are pay and non-pay costs before non-cash pension charge and lease fair value credits
[3] Combined retail and wholesale excluding LLU and line share, including SABB
[4] Combined retail and wholesale access line losses including LLU
[5] Mobile base is a combination of handset subscriptions, machine to machine and mobile broadband subscriptions

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KPIs for the six months ended 31 December 2018 (unaudited)

	As at and for six months ended 31 Dec 2017	As at and for the six months ended 31 Dec 2018	Better/ (Worse) % N1
Group Access Paths Base ('000)			
Retail Access Lines	659	658	(0%)
Retail SABB*	35	32	(8%)
Wholesale Access Lines	502	486	(3%)
Wholesale SABB*	153	151	(2%)
Wholesale LLU**	5	4	(30%)
Total	**1,354**	**1,331**	**(2%)**
Retail Voice traffic (m minutes year to date)	667	664	0%
Broadband Lines ('000)			
Retail	440	465	6%
Wholesale	471	471	0%
Total	**911**	**936**	**3%**
Mobile Customers ('000)			
Prepay handsets	527	481	(9%)
Prepaid MBB	8	7	(18%)
Total prepaid customer base	535	488	(9%)
Postpay handsets (including M2M)	484	525	8%
Postpaid MBB	37	32	(13%)
Total postpaid customer base	521	558	7%
Total	**1,056**	**1,045**	**(1%)**
ARPU'S € N2 & N3			
Consumer Blended ARPU	48.5	49.5	2%
WLR PSTN ARPU	16.1	16.3	2%
Bitstream ARPU (including SABB)	15.7	15.2	(3%)
Prepaid ARPU (including MBB)	15.2	15.8	4%
Postpaid ARPU (including MBB/M2M)	33.8	32.5	(4%)
Closing Headcount	**3,224**	**3,075**	**5%**

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

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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 31 December 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 31 December 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 31 December 2017			In the quarter ended 31 December 2018		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Revenue	322	(4)	318	**322**	**(4)**	**318**
Operating costs excluding non-cash pension charge and fair value lease credits	(200)	2	(198)	**(181)**	**2**	**(179)**
Adjusted EBITDA	122	(2)	120	**141**	**(2)**	**139**
Closing Cash	135	(3)	132	**222**	**(3)**	**219**

	In the six months ended 31 December 2017			In the six months ended 31 December 2018		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Revenue	638	(8)	630	**634**	**(9)**	**625**
Operating costs excluding non-cash pension charge and fair value lease credits	(391)	3	(388)	**(355)**	**4**	**(351)**
Adjusted EBITDA	247	(5)	242	**279**	**(5)**	**274**
Closing Cash	135	(3)	132	**222**	**(3)**	**219**

[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.

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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

	Second quarter ended Dec 2017 €m	Second quarter ended Dec 2018 €m	Six months ended Dec 2017 €m	Six months ended Dec 2018 €m
Operating profit	7	**33**	31	**75**
Exceptional items	16	**10**	18	**10**
Non-cash pension charge	4	**5**	7	**8**
Operating profit before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	27	**48**	56	**93**
Depreciation	70	**70**	140	**140**
Amortisation	25	**23**	50	**45**
EBITDA before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	122	**141**	246	**278**
IFRS 3 unfavourable lease fair value adjustment	(2)	**(2)**	(4)	**(4)**
Adjusted EBITDA before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	120	**139**	242	**274**
EBITDA of joint ventures using proportionate consolidation	2	**2**	5	**5**
Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	122	**141**	247	**279**

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	**122**	220	**241**
Mobile	12	**19**	27	**38**
	122	**141**	247	**279**

***** *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.*

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Consolidated Income Statement – unaudited
For the second quarter ended 31 December 2018

	31 Dec 2017	31 Dec 2018
	€m	**€m**
Revenue	318	**318**
Operating costs excluding amortisation, depreciation and exceptional items	(200)	**(182)**
Amortisation	(25)	**(23)**
Depreciation	(70)	**(70)**
Exceptional items	(16)	**(10)**
Profit on disposal of property, plant and equipment	-	**-**
Operating profit	7	**33**
Finance costs – net	(25)	**(25)**
Share of profit of joint venture	1	**6**
(Loss)/profit before tax	(17)	**14**
Income tax charge	-	**(3)**
(Loss)/profit for the period	(17)	**11**

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited
For the six-month period ended 31 December 2018

	Notes	31 Dec 2017	31 Dec 2018
		€m	**€m**
Revenue	3	630	**625**
Operating costs excluding amortisation, depreciation and exceptional items		(391)	**(355)**
Amortisation	3	(50)	**(45)**
Depreciation	3	(140)	**(140)**
Exceptional items	3, 4	(18)	**(10)**
Profit on disposal of property, plant and equipment		-	-
Operating profit	3	31	**75**
Finance costs – net	5	(50)	**(50)**
Share of profit of joint venture		3	**7**
(Loss)/profit before tax		(16)	**32**
Income tax charge	6	(1)	**(1)**
(Loss)/profit for the period		(17)	**31**

Group statement of comprehensive income – unaudited
For the six-month period ended 31 December 2018

	31 Dec 2017	31 Dec 2018
	€m	**€m**
(Loss)/profit for the financial period attributable to equity holders of the parent	(17)	**31**
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	14	**(24)**
- Tax on defined benefit pension scheme remeasurement (gains)/losses	(2)	**3**
	12	**(21)**
Items that may be reclassified subsequently to profit or loss		
Net changes in cash flow hedge reserve:		
- Fair value loss in period	(1)	-
- Transfer to income statement	(1)	-
	(2)	-
Other comprehensive income/(expense), net of tax	10	**(21)**
Total comprehensive (expense)/income for the financial period	(7)	**10**

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

eircom Holdings (Ireland) Limited

Consolidated Balance Sheet – unaudited
As at 31 December 2018

	Notes	30 June 2018	31 Dec 2018
		€m	**€m**
Assets			
Non-current assets			
Goodwill		212	**212**
Other intangible assets		312	**274**
Property, plant and equipment		1,400	**1,368**
Investment in joint venture		-	**-**
Deferred tax assets		2	**2**
Other assets		13	**13**
		1,939	**1,869**
Current assets			
Inventories		11	**19**
Trade and other receivables	7	195	**218**
Restricted cash		5	**23**
Cash and cash equivalents		197	**219**
		408	**479**
Total assets		2,347	**2,348**
Liabilities			
Non-current liabilities			
Borrowings	8	2,244	**2,248**
Derivative financial instruments		1	**1**
Trade and other payables		110	**109**
Deferred tax liabilities		63	**48**
Retirement benefit liability	9	23	**60**
Provisions for other liabilities and charges	10	104	**103**
		2,545	**2,569**
Current liabilities			
Derivative financial instruments		1	**1**
Trade and other payables		485	**453**
Current tax liabilities		3	**9**
Provisions for other liabilities and charges	10	37	**30**
		526	**493**
Total liabilities		3,071	**3,062**
Equity			
Equity share capital		-	**-**
Capital contribution		62	**62**
Cash flow hedging reserve		(2)	**(2)**
Retained loss		(784)	**(774)**
Total equity		(724)	**(714)**
Total liabilities and equity		2,347	**2,348**

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the second quarter ended 31 December 2018

	Notes	31 Dec 2017	31 Dec 2018
		€m	€m
Cash flows from operating activities			
Cash generated from operations	11	123	**153**
Interest paid		(31)	**(30)**
Income tax paid		(4)	**(5)**
Net cash generated from operating activities		88	**118**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(66)	**(54)**
Purchase of intangible assets		(11)	**(5)**
Dividend received from joint arrangement		3	**7**
Restricted cash		-	**(9)**
Net cash used in investing activities		(74)	**(61)**
Cash flows from financing activities			
Dividends paid to equity shareholders		(1)	**-**
Net cash used in financing activities		(1)	**-**
Net increase in cash, cash equivalents and bank overdrafts		13	**57**
Cash, cash equivalents and bank overdrafts at beginning of period		119	**162**
Cash, cash equivalents and bank overdrafts at end of period		132	**219**

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the six-month period ended 31 December 2018

	Notes	31 Dec 2017	31 Dec 2018
		€m	€m
Cash flows from operating activities			
Cash generated from operations	11	198	**198**
Interest paid		(46)	**(44)**
Income tax paid		(4)	**(5)**
Net cash generated from operating activities		148	**149**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(139)	**(107)**
Purchase of intangible assets		(34)	**(9)**
Dividend received from joint arrangement		3	**7**
Restricted cash		13	**(18)**
Net cash used in investing activities		(157)	**(127)**
Cash flows from financing activities			
Dividends paid to equity shareholders		(1)	**-**
Net cash used in financing activities		(1)	**-**
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(10)	**22**
Cash, cash equivalents and bank overdrafts at beginning of period		142	**197**
Cash, cash equivalents and bank overdrafts at end of period		132	**219**

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 six-month period ended 31 December 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	-	-	-	(17)	(17)
Defined benefit pension scheme remeasurement gain	-	-	-	14	14
Tax on defined benefit pension scheme remeasurement gain	-	-	-	(2)	(2)
Cash flow hedges:					
- Fair value loss in year	-	-	(1)	-	(1)
- Transfer to income statement	-	-	(1)	-	(1)
Total comprehensive expense	**-**	**-**	**(2)**	**(5)**	**(7)**
Capital contribution in respect of MIP equity value event	-	3	-	-	3
Dividends relating to equity shareholders	-	-	-	(1)	(1)
Balance at 31 December 2017	**-**	**57**	**-**	**(964)**	**(907)**
Balance at 30 June 2018	**-**	**62**	**(2)**	**(784)**	**(724)**
Profit for the period	**-**	**-**	**-**	**31**	**31**
Defined benefit pension scheme remeasurement loss	-	-	-	**(24)**	**(24)**
Tax on defined benefit pension scheme remeasurement loss	-	-	-	**3**	**3**
Total comprehensive income	**-**	**-**	**-**	**10**	**10**
Balance at 31 December 2018	**-**	**62**	**(2)**	**(774)**	**(714)**

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 27 February 2019.

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 31 December 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 31 December 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 six-month period ended 31 December 2018 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	475	176	(17)	**634**	(9)	**625**
EBITDA **	241	38	-	**279**	(5)	**274**
Non-cash lease fair value credits	4	-	-	**4**	-	**4**
Non-cash pension charges	(8)	-	-	**(8)**	-	**(8)**
Amortisation	(35)	(10)	-	**(45)**	-	**(45)**
Depreciation	(124)	(14)	-	**(138)**	(2)	**(140)**
Exceptional items	(10)	-	-	**(10)**	-	**(10)**
Operating profit	**68**	**14**	**-**	**82**	**(7)**	**75**

The segment results for the six-month period ended 31 December 2017 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	481	174	(17)	**638**	(8)	**630**
EBITDA **	220	27	-	**247**	(5)	**242**
Non-cash lease fair value credits	4	-	-	**4**	-	**4**
Non-cash pension charges	(7)	-	-	**(7)**	-	**(7)**
Amortisation	(39)	(11)	-	**(50)**	-	**(50)**
Depreciation	(127)	(15)	-	**(142)**	2	**(140)**
Exceptional items	(18)	-	-	**(18)**	-	**(18)**
Operating profit	**33**	**1**	**-**	**34**	**(3)**	**31**

* 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

	31 Dec 2017 €m	**31 Dec 2018 €m**
Restructuring programme costs	3	**1**
Management incentive plan	3	**-**
Transaction related and strategic review costs	12	**-**
Group re-organisation costs	-	**4**
Other exceptional costs	-	**5**
	18	**10**

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 31 December 2018 (31 Dec 2017: €3 million). The exceptional charge of €1 million at 31 December 2018 (31 Dec 2017: €3 million) is an IAS 19 (Revised) defined benefit pension charge in relation to past service costs.

Management incentive plan
During the period ended 31 December 2017, the group recognised a charge of €3 million in its income statement, with a corresponding increase in equity, in respect of contractual rights under the MIP awarded by the holding company, eircom Holdco S.A., to the group's employees, for which the group has no obligation to make any payment.

Transaction related and strategic review costs
The group recognised an exceptional charge of €12 million for costs incurred by the group, in connection with the acquisition by NJJ Telecom Europe ("NJJ"), alongside Iliad SA ("Iliad"), to acquire a major stake in the eir group, and for strategic review and other project related costs incurred in the period ended 31 December 2017.

Group re-organisation costs
The group included an exceptional charge of €4 million for re-organisation costs in the period ended 31 December 2018.

Other exceptional costs
The group recognised an exceptional charge of €5 million in respect of legal related matters in the period ended 31 December 2018.

5. Finance costs – net

	31 Dec 2017 €m	**31 Dec 2018 €m**
(a) Finance costs:		
Interest payable on bank loans and other debts	46	**44**
Interest amortisation on non-current borrowings	3	**3**
Net interest cost on net pension liability	3	**1**
Amortisation of debt issue costs and debt modification fees	1	**1**
Other unwinding of discount	-	**1**
Amortisation of 'Cash Flow Hedge Reserve' derivatives	(1)	**-**
Fair value movements on derivatives not qualifying for hedge accounting	(2)	**-**
	50	**50**
(b) Finance income:		
Interest income	-	**-**
	-	**-**
Finance costs – net	50	**50**

6. Income tax credit

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: -

	31 Dec 2017 €m	31 Dec 2018 €m
(Loss)/profit before tax	**(16)**	**32**
Tax calculated at Irish standard tax rate of 12.5%	**(2)**	**4**
Effects of:-		
Non-deductible expenses	**10**	**8**
Origination and reversal of temporary differences	**(6)**	**(10)**
Utilisation of losses carried forward	**(1)**	**(1)**
Tax charge for the period	**1**	**1**

7. Trade and other receivables

During the period ended 31 December 2018, the group recognised a provision for impaired receivables of €4 million (31 Dec 2017: €4 million), reversed provisions for impaired receivables of €Nil (31 Dec 2017: €Nil) and utilised provisions for impaired receivables of €3 million (31 Dec 2017: €5 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 31 Dec 2018					
Bank borrowings (Facility B)	**-**	**-**	**-**	**1,600**	**1,600**
Unamortised fair value difference on borrowings	**-**	**-**	**-**	**(36)**	**(36)**
Debt modification fees	**-**	**-**	**-**	**(10)**	**(10)**
	-	**-**	**-**	**1,554**	**1,554**
4.5% Senior Secured Notes due 2022	**-**	**-**	**700**	**-**	**700**
Debt issue costs	**-**	**-**	**(6)**	**-**	**(6)**
	-	**-**	**694**	**-**	**694**
	-	**-**	**694**	**1,554**	**2,248**
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 31 December 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 31 December 2018 was €36 million.

Interest accrued on borrowings at 31 December 2018 is €6 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 31 December 2018 reflects the IAS 19 (Revised) deficit of €60 million as at 31 December 2018.

Pension scheme obligation

The status of the principal scheme at 31 December 2018 is as follows:

	30 June 2018 €m	**31 Dec 2018 €m**
Present value of funded obligations	4,311	**4,243**
Fair value of scheme assets	(4,288)	**(4,183)**
Liability recognised in the Balance Sheet	23	**60**

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2018	**At 31 Dec 2018**
Rate of increase in salaries	1.65%	1.50%
Rate of increase in pensions in payment	1.65%	1.50%
Discount rate	2.10%	2.05%
Inflation assumption	1.85%	1.70%
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.

eircom Holdings (Ireland) Limited

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	-	-	-	-	-	3	**3**
Transfer to receivables	-	-	-	-	-	3	**3**
Utilised in the financial period	(2)	(2)	(6)	-	(3)	(1)	**(14)**
At 31 December 2018	**9**	**7**	**26**	**52**	**-**	**39**	**133**

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

	30 June 2018 €m	31 Dec 2018 €m
Non-current	104	**103**
Current	37	**30**
	141	**133**

11. Cash generated from operations

	31 Dec 2017 €m	31 Dec 2018 €m
(Loss)/profit after tax	(17)	**31**
Add back:		
Income tax charge	1	**1**
Share of profit of joint venture	(3)	**(7)**
Finance costs – net	50	**50**
Operating profit	31	**75**
Adjustments for:		
- Depreciation and amortisation	190	**185**
- Non-cash lease fair value credits	(4)	**(4)**
- Non cash retirement benefit charges	7	**8**
- Restructuring programme costs	3	**1**
- Non cash exceptional items	13	**7**
- Other non cash movements in provisions	1	**1**
Cash flows relating to restructuring, onerous contracts and other provisions	(24)	**(76)**
Changes in working capital		
Inventories	(1)	**(8)**
Trade and other receivables	(21)	**(21)**
Trade and other payables	3	**30**
Cash generated from operations	198	**198**

12. Post Balance Sheet Events

There have been no significant events affecting the group since the period ended 31 December 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 €281 million at 31 December 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 €27 million at 31 December 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 six months ended 31 December 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 six months ended 31 December 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 six months ended		
	31 Dec 2017 (unaudited)	**31 Dec 2018 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Fixed line services and other revenue	481	475	(1%)
Mobile services revenue	174	176	2%
Total segmental revenue	655	651	(1%)
Intracompany eliminations	(17)	(17)	1%
Total revenue	638	634	(1%)

Reported group revenue of €634 million for the six months decreased by 1% when compared to the corresponding prior year period. The 1% fixed line revenue decrease was mainly driven by a reduction in access, managed services and revenues, partly offset by increases in voice traffic and data services. The 2% mobile revenue increase was driven by an increase in postpay and other revenue due to a move to direct handset purchasing affecting revenue and cost of sales, partially offset by timing of equipment investment and a decline in prepay revenue.

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 six months ended		
	31 Dec 2017 (unaudited)	**31 Dec 2018 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Access (Rental and Connections)	242	227	(6%)
Voice Traffic (including Foreign Inpayments)	107	116	9%
Data Services	48	50	2%
Other Products and Services	84	82	(2%)
Total fixed line services and other revenue	481	475	(1%)

Total fixed line services and other revenues for the six months ended to 31 December 2018, before intra company eliminations, decreased by 1% compared to the corresponding prior year period. The decrease was driven by an access revenue decline of 6%, as well as a decrease in other products and services revenue of 2%, when compared to the corresponding prior year period. The decrease in access related to a decrease in access lines coupled with a reduction in retail broadband revenues as a result of price promotions and bundling. The decrease in other products and services related mainly due to a reduction in managed services and eir UK revenue. These declines were partly offset by an increase in voice traffic of 9% driven by the impact of price increases in the prior year.

Access (rental and connections)

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

	For the six months ended		
	31 Dec 2017 (unaudited)	31 Dec 2018 (unaudited)	% Change 2018/2019
	€m	€m	
Access revenue			
Retail PSTN/ISDN rental and connection	98	96	(3%)
Wholesale PSTN/ISDN/LLU rental and connection	54	54	(1%)
Broadband rental and connection	90	77	(14%)
Total access revenue	242	227	(6%)
Access paths	**'000**	**'000**	
Retail Access Lines	659	658	-
Wholesale Access Lines	502	486	(3%)
Wholesale LLU	5	4	(30%)
SABB	188	183	(3%)
Total PSTN/ISDN/LLU/SABB	1,354	1,331	(2%)
Broadband and Bitstream	**'000**	**'000**	
Retail Broadband	440	465	6%
Wholesale Broadband	471	471	-
Total Broadband (including SABB)	911	936	3%

Access revenues for the six months ended 31 December 2018 of €227 million decreased by 6% compared to the corresponding prior year period. The decline was driven by a 14% decrease in broadband revenues due to price promotions and bundling.

Retail line rental and connection revenues decreased by 3% in the six months ended 31 December 2018, compared to the corresponding prior year period, mainly due to continuing declines in PSTN and ISDN lines. Retail access lines at 31 December 2018 of 658,000 were broadly flat year on year when compared to 31 December 2017.

Wholesale access revenue declined by 1% in the six months ended 31 December 2018 compared to the corresponding prior year period. Wholesale access lines at 31 December 2018 of 486,000 declined by 3% year on year when compared to the prior year period ended 31 December 2017.

Broadband revenue for the six months of €77 million decreased by 14% compared to the corresponding prior year period, driven by promotions to drive retail growth. The retail broadband customer base of 465,000 increased by 6% compared to the corresponding prior year period. The wholesale broadband base of 440,000 remained flat year on year when compared to 31 December 2017.

Traffic

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

	For the six months ended		
	31 Dec 2017 (unaudited)	**31 Dec 2018 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Revenue			
Retail traffic	75	86	15%
Wholesale traffic (including Foreign Inpayments)	32	30	(5%)
Total traffic revenue	107	116	9%
	(in millions of minutes, except percentages)		
Traffic			
Retail	667	664	-
Wholesale (including Foreign Traffic Minutes)	1,998	1,758	(12%)
Total traffic minutes	2,665	2,422	(9%)

Overall Group traffic revenue increased by 9% in the six months ended 31 December 2018 compared to the corresponding prior year period driven by price increases introduced in the prior year.

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 six months ended		
	31 Dec 2017 (unaudited)	**31 Dec 2018 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Data services revenue			
Leased lines	26	30	16%
Switched data services	8	4	(52%)
Next generation data services	14	16	5%
Total data services revenue	48	50	2%

Revenue from data communications increased by 2% year on year compared to the corresponding prior year period. A revenue decrease in switched data services was offset by increases in leased lines and next generation data services revenues, reflecting the shift from legacy products to next generation services.

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 six months ended		
	31 Dec 2017 (unaudited)	31 Dec 2018 (unaudited)	% Change 2018/2019
	€ m	€ m	
Other products and services			
Operator services	4	3	(32%)
Managed services and solutions	24	23	(3%)
Tetra	10	11	8%
UK	14	12	(12%)
Data centre	4	4	(12%)
Other revenue	28	29	6%
Other products and services revenue	84	82	(2%)

Revenue from other products and services for the six months ended 31 December 2018 decreased by 2% compared to the corresponding prior year period. Operator Services revenue decreased by 32% as a result of reduced calls to our 11811 directory enquiries service. Managed services revenue decreased by 3% due to a reduction in low margin revenue related to eir Business. Tetra revenue of €11 million increased by 8% year on year. UK/NI revenue decreased by 12% compared to the corresponding prior year period. Data centre revenues decreased by 12% compared to the prior year period. Other revenue increased by 6% year on year, driven by growth in eir sport and TV revenue.

Mobile services revenue

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

	For the six months ended		
	31 Dec 2017 (unaudited)	**31 Dec 2018 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Mobile services revenue			
Prepay handset	49	47	(5%)
Postpay handset (incl. M2M)	100	103	3%
Mobile broadband	6	4	(7%)
Roaming	5	5	2%
Other	14	17	19%
Total mobile services revenue	174	176	2%
Total subscribers	**'000**	**'000**	
Prepay handset customers	527	481	(9%)
Postpay handset customers (incl. M2M)	484	525	8%
Mobile broadband customers	45	39	(14%)
Of which are prepay customers	8	7	(18%)
Of which are postpay customers	37	32	(13%)
Total subscribers	1,056	1,045	(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 €176 million for the six months ended 31 December 2018 increased by 2% when compared to the corresponding prior year period.

Reported postpay handset revenue increased by 3% or €3 million, mainly due to a year on year increase in postpay handset (including M2M) subscribers of 41,000 or 8%. Reported prepay handset revenue declined by 5% or €2 million when compared to the corresponding prior year period. The decline in prepay handset revenues was mainly due to a decline in prepay customers of 9% as a result of customers migrating to postpay as well as increased competition and changes in pricing propositions at the beginning of the financial year 2018.

At 31 December 2018 there were 1,045,000 total mobile subscribers. While the overall base reduced by 11,000 compared to the prior year, the mix of customers continues to improve. The proportion of postpay customers (including mobile broadband and M2M) within our base has increased from 49% at 31 December 2017 to 53% at 31 December 2018, representing an increase of 36,000 net additional postpay subscribers (including mobile broadband and M2M).

Mobile broadband revenue decreased by 7% or €2 million, driven by the decline in the mobile broadband base of 6,000 or 14%.

Other mobile revenue increased by 19% or €3 million, driven by a decision to purchase handsets directly from manufacturers over an intermediary, resulting in an uplift in revenue and cost of sales in the first half of the financial year 2019. Other revenue was partially offset by a decrease in equipment revenue for the six months ended 31 December 2018, compared to the corresponding prior year period.

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 six months ended		
	31 Dec 2017 (unaudited)	**31 Dec 2018 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Cost of sales			
Foreign outpayments	5	5	(3%)
Interconnect	45	38	(15%)
Equipment cost of sales	42	35	(16%)
Other including subsidiaries and new business	54	64	17%
Total cost of sales	146	142	(3%)
Pay costs			
Wages and salaries and other staff costs	115	84	(27%)
Social welfare costs	6	5	(23%)
Pension cash costs—defined contribution plans	3	1	(52%)
Pension cash costs—defined benefit plans	7	7	(14%)
Pay costs before non-cash pension charge and capitalisation	131	97	(27%)
Capitalised labour	(36)	(25)	(33%)
Total pay costs before non-cash pension charge	95	72	(24%)
Non pay costs			
Materials and services	8	10	26%
Other network costs	9	8	(2%)
Accommodation	46	48	3%
Sales and marketing	35	34	(3%)
Bad debts	4	4	1%
Transport and travel	6	5	(6%)
Customer services	19	16	(15%)
Insurance and compensation	2	2	(15%)
Professional and regulatory fees	4	3	(32%)
IT costs	13	8	(41%)
Other non-pay costs	4	3	(23%)
Total non-pay costs	150	141	(6%)
Operating costs before non-cash pension charge, amortisation, depreciation, and exceptional items	391	355	(9%)
Non cash pension charge/(credit)	7	8	14%
Non cash fair value lease credits	(4)	(4)	-
Operating costs before, amortisation, depreciation, and exceptional items	394	359	(9%)

Total operating costs for the six months ended 31 December 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 3% in the six months ended 31 December 2018 compared to the corresponding prior year period. Movements include:

- Foreign outpayments and Interconnect payments to other telecommunications operators decreased by 3% and 15% respectively when compared to the prior year, mainly due to reduced international roaming costs driven by changes to EU roaming rates.
- Equipment costs of sales decreased by 16% when compared to prior year due to timing of commercial investment.
- Other cost of sales were 17% higher compared to the prior year, driven mainly by the move to a direct handset purchasing model and increased sports content costs year on year, driven mainly by the purchase of Pro-14 content.

Pay costs

Total pay costs, before non-cash pension charges decreased by 24% or €23 million in the six months ended 31 December 2018 compared to the corresponding prior year period. The decrease is mainly due to a combination of lower FTE headcount as well as lower contractor costs offset by insourcing activities. FTE headcount at 31 December 2018 was 3,075 FTE, representing a net reduction of 149 FTE compared to 31 December 2017. In the six months to 31 December 2018, a total of 575 FTE were recruited, driven mainly by the insourcing of customer care and other activities as well as the conversion of agency staff to FTE.

Total non-pay costs

Non-pay costs decreased by 6% or €9 million in the six months ended 31 December 2018 compared to the corresponding prior year period. Key movements include:

- Accommodation costs increased by €1 million or 3% compared to the corresponding prior year period primarily due to increased property rates.
- Customer Services costs were €3 million or 15% lower than the period year period due to the on-going insourcing of previous HCL employees, whereby associated costs are included under pay costs.
- IT Costs were €5 million or 41% lower due to reduced investment in, and decommissioning of legacy systems and associated licences.
- Materials and Services were €2 million or 26% higher than the prior year period due mainly to timing of activities.
- Professional and regulatory fees were €1 million or 32% lower due to lower consultancy costs.
- Sales and Marketing costs were €1 million or 3% lower compared to the corresponding prior year period due to a decision to move away from agency-led marketing to a direct media buying model.

The remaining costs in the six months ended 31 December 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 six-month period ended 31 December 2018 were €45 million, €5 million lower than the prior year period, due to lower amortisation on computer software (€3 million) and customer relationships (€2 million) been fully amortised in the prior year ended 30 June 2018.

Depreciation of property, plant and equipment

The depreciation charges for the six-month period ended 31 December 2018 were €138 million, which is €4 million lower than the prior year charge for the same period of €142 million. The decrease in depreciation is mainly due to the review of the economic lives and residual values of assets in the group which resulted in an increase in the asset lives of certain network assets (Tetra). The effect of the changes in the income statement for the period ended 31 December 2018 was a decrease in the depreciation charge of €4 million.

Exceptional costs

The exceptional charges in the six-month period ended 31 December 2018 of €10 million includes €4 million for group re-organisation costs, €5 million for certain legal matters and €1 million for restructuring programme costs for IAS 19 (Revised) defined benefit pension past service costs on staff exits.

The exceptional charges in the six-month period ended 31 December 2017 of €18 million includes €12 million for transaction related costs, €3 million for restructuring programme costs and €3 million for the management incentive plan ("MIP"). The €12 million transaction related costs were mainly incurred by the group, in connection with the acquisition by NJJ Telecom Europe ("NJJ"), alongside Iliad SA ("Iliad"), to acquire a major stake in the eir group, and for other strategic project related costs.

Finance costs (net)

The group's net finance costs for the six-month period ended 31 December 2018 of €50 million were in line with the prior year corresponding period of €50 million. The lower interest costs on bank borrowings and pension liability in the current period offsets the prior year credits on derivatives not qualifying for hedge accounting.

Taxation

The tax charge for the six-month period ended 31 December 2018 was €1 million and is in line with the prior year corresponding period charge of €1 million. The increase in the current tax charge due to higher taxable profits were offset by an increase in the deferred tax credit 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 six-month period ended 31 December 2018, net cash generated from operating activities was €153 million compared with €149 million in the prior year corresponding period, an increase of €4 million. The increase is due to higher operating profits offset by higher voluntary leaving payments in the period.

Cash flows from investing activities

Total cash used in investing activities was €134 million for the six-month period ended 31 December 2018, compared with €160 million for the prior year corresponding period, a decrease of €26 million. The decrease is due to lower capital expenditure payments in the period compared to the prior year offset by higher outflows on restricted cash deposits.

Cash flows from financing activities

The group made a dividend payment of €1 million to the equity shareholders in the prior year period ended 31 December 2017.

eircom Holdings (Ireland) Limited

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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.