HISTORICAL COST SEPARATED ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2012

ACCOUNTING DOCUMENTS

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eircom Limited Historical Cost Separated Accounts
Primary Accounting Documents – for the year ended 30 June 2012

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Introduction

The European Communities (Electronic Communications Networks and Services) (Framework) Regulations 2011 (S.I. No. 333 of 2011, which revoked and replaced its predecessor 2003 (S.I. No. 307 of 2003), the European Communities (Electronic Communications Networks and Services) (Access) Regulations 2011 (S.I. No. 334 of 2011, which revoked and replaced its predecessor S.I. No. 305 of 2003) and the European Communities (Electronic Communications Networks and Services) (Universal Service and Users' Rights) Regulations 2011 (S.I. No. 337 of 2011, which revoked and replaced its predecessor S.I. No. 308 of 2003) (respectively "the Framework Regulations", "the Access Regulations" and the "Universal Service Regulations") establish the framework for the regulation of the provision of electronic communications networks and services in Ireland. Under this framework, the Commission for Communications Regulations (ComReg) may designate operators as having Significant Market Power (SMP) in respect of specific markets, in which case ComReg may impose on such operators a range of obligations including, pursuant to Regulation 11 of the Access Regulations and Regulation 13 of the Universal Service Regulations, a requirement for accounting separation and cost accounting. eircom has been designated with SMP in a number of markets and in each case is subject to obligations of accounting separation and cost accounting.

ComReg Decision No. D08/10 "Accounting Separation and Cost Accounting Review of Eircom Limited", dated 31 August 2010, specifies the manner in which eircom must discharge the obligations of accounting separation imposed on it following a finding of SMP. Decision D08/10 requires in particular that eircom's financial records and accounting systems be sufficiently detailed and supported by sufficient data to ensure that eircom is in the position to comply with its obligation of transparency, non-discrimination, accounting separation, price control and cost-accounting obligations and that it is in a position to prepare Separated Accounts in relation to each of the markets where it has been designated with SMP and, where so specified by ComReg, in relation to certain electronic communications Products and Services.

In addition to Decision D08/10, further requirements are set out in certain Sections of Decision D7/01 regarding eircom's Reference Interconnection Offer dated April 2001, in Decision D3/03 concerning the Review of a Price Cap on Certain Communication Services dated February 2003, Decision D01/08 regarding eircom's Cost of Capital dated 22 May 2008, Decision D03/09 concerning a Review of the Regulatory Asset Lives of eircom Limited' and Decision D04/09 concerning the Rental Price for Shared Access to the Unbundled Local loop (Line Share), both dated August 2009 (all together, "the Decision Notices").

Decision D08/10 requires eircom to produce the following, together labeled the Regulatory Accounts:

- Separated Accounts to the Market level;
- Additional financial statements (AFS) for material services and products;
- Additional financial information (AFI) for other financial data; and
- Documentation – Primary and Secondary.

Separated Accounts have to be prepared for the Market Groups and, where applicable, individual Markets within these market groups, as shown overleaf. This document constitutes the Primary Accounting Documentation produced by eircom to comply with the Direction.

Market Group	Markets
Wholesale Access	Wholesale Fixed Narrowband Access Wholesale Unbundled Access Wholesale Broadband Access Wholesale Leased Lines
Wholesale Other	Wholesale Call Origination Wholesale Call Transit Wholesale Call Termination Wholesale Residual (Regulated) Wholesale Residual (Unregulated)
Retail	Retail Fixed Narrowband Access[1] Meteor Retail Other[2] Other Subsidiaries

The full definitions of the Market Groups and individual markets are set out in Section 2.

The Separated Accounts are prepared in accordance with the Primary Accounting Documents. The Primary Accounting Documents set out the framework under which the statements have been prepared.

The Primary Accounting Documents are made up of the following:

1. Regulatory Accounting Principles - which set out the general rules by which the Financial Statements are prepared, for example that all balances should be attributed with reference to cost causality.

2. Attribution Methods - which explain how revenue, costs including transfer charges, assets and liabilities are attributed to the Network Elements and Activities within those Markets, following the Regulatory Accounting Principles, on a fully allocated basis.

3. Transfer Charges – which explain how charges are raised from the Wholesale Markets to the Wholesale and Retail markets for their use of the respective networks.

4. Accounting Policies - which detail the accounting policies adopted in preparing the underlying financial information.

The Primary Accounting Documents contain the high level principles of attribution. The procedures describing how these principles are applied are contained in the Secondary Accounting Documents, which identify these procedures in detail. The Secondary Accounting Documents are provided privately to ComReg, in accordance with the requirements of D08/10.

[1] Labelled in the Accounts as "PSTN and ISDN Access"

[2] Retail Other comprises Unregulated Retail Markets, Products and Services

eircom business structure

eircom is a unitary business having one network with support functions. It consists of a customer facing division (eircom Retail) and a division responsible for providing customers with telephony services, maintaining the core switching and transmission networks, and providing and maintaining customer connections to this network (eircom Wholesale). A number of additional services are supplied by subsidiary companies which maintain separate accounting records.

The principal operations of these business units are as follows;

eircom Retail

PSTN and ISDN access (rental and connections)

eircom provide the majority of our residential and business customers in Ireland with access services through copper wires that connect the customer's premises to the nearest exchange in our network. A number of our business customers are provided with access services through fibre optic cables. Turnover from access services is derived from monthly line rental fees and connection charges. These products are regulated and contained within the “Retail Fixed Narrowband Access” market.

PSTN and ISDN traffic (voice and data)

eircoms traffic offering includes local, national, fixed-to-mobile, international and dial up data services to residential and business customers throughout Ireland at tariffs that vary depending on a number of factors, including the duration of the call, the distance between the points of origin and destination, the time of day and the day of the week the call is made, and any discount package selected by the customer.

Advanced traffic services include a wide range of advanced voice services, including Freefone and premium rate services, virtual private networks and eircom Teleconference.

None of these traffic services are subject to specific Accounting Separation obligations and are therefore wholly contained within the Retail Other market.

Broadband - Asymmetrical Digital Subscriber Line (ADSL)

We have an extensive range of broadband services targeted at residential and business customers. We provide various fixed-line ADSL services, aimed at the residential and business markets. The majority of our DSL fixed-line packages are based on rate-adaptive ADSL technology. These services are not subject to specific Accounting Separation obligations and are therefore wholly contained within the Retail Other market.

Data communications

We offer a wide range of national and international data communications services, including leased lines, internet protocol (IP) networks and Ethernet services. Specific services include;

- Leased Lines (National and International)
- Business IP, either bandwidth only (BIP Connect) or end to end (BIP Partner)
- Legacy Ethernet (Local, Metro, National)
- Next Generation Network Data Services, including NGN Ethernet and NGN IP

None of these services are subject to specific Accounting Separation obligations and are therefore wholly contained within the Retail Other market.

Dial-up Internet services

This includes the provision of metered and unmetered dial-up internet services through our ISP, eircom.net. These services are not subject to specific Accounting Separation obligations and are therefore wholly contained within the Retail Other market.

Other services

eircom Retail also provides a number of other services, including Public Payphones, Customer Premises Equipment (CPE), Directory Enquiry and Operator Services, webhosting, VoIP and Data Centre Services. None of these services are subject to specific Accounting Separation obligations and are therefore wholly contained within the Retail Other market.

eircom Wholesale

Unbundled local loops

eircom are required to make the local networks available to other telecommunications companies on a wholesale basis, i.e. share access to unbundled local loops. eircom are obliged to provide Local Loop Unbundling (LLU) access services to OAOs and to publish an Access Reference Offer (ARO), which describes the access services on offer. Unbundled local loop access requires the physical co-location of infrastructure owned by OAOs on eircom's premises in order to permit such operators to access unbundled local loop services. eircom are also required to provide services to enable an end customer's telephone number to migrate to LLU. The prices of these services are regulated through our ARO. These regulated services are included in the "Wholesale Physical Network Infrastructure Access (WPNIA)" market.

Wholesale Access Channels

Carrier pre-selection single billing through Wholesale Line Rental (WLR) allows an operator to resell our access service and provide the customer with a single bill for access and call services. eircom are required to maintain and repair the access line, which remains connected to the switched network, and bill the operator for the line. The OAO bills the end customer for the operator's bundled service. This service is only available if the end customer has made a carrier pre-selection for all call types with the relevant operator. These regulated services are included in the "Wholesale Fixed Narrowband Access" Market.

ADSL Bitstream

Bitstream is a broadband access product that eircom offer to OAOs. It consists of a high-speed access link to the customer's premises, which is created by installing ADSL equipment and configuring the Local Access network. We are required under relevant regulations to provide ADSL bitstream access to OAOs and to publish a Bitstream Access Reference Offer (BARO) describing the ADSL bitstream services that we offer. eircom currently offer a range of end-to-end (i.e. from the customer to the OAO handover point) based services at a variety of speeds and levels of contention. Alternatively, and where available, OAOs may purchase a "per port" customer line bitstream product and also a backhauling bitstream product from the eircom local exchange to the OAO handover point. These services effectively offer to our wholesale customers equivalent products to our Retail ADSL offerings. These regulated services are contained within the "Wholesale Broadband Access" market.

Interconnection Services

Interconnection services include both the physical link of our telecommunications network with that of OAOs, and the traffic that passes over the link. eircom provide interconnection services to OAOs in

Ireland and to international operators for incoming international calls.

ComReg has designated eircom as having SMP in the interconnect markets, and therefore we are obliged under the relevant regulations to provide interconnection services to other domestic authorised operators and to publish a Reference Interconnect Offer (RIO). eircom also provide interconnection services to international customers for incoming international calls at settlement rates that we negotiate with them.

These services are split across a number of markets. Domestic traffic charges are regulated and are included where relevant within the "Wholesale Call Origination", "Wholesale Call Termination" and "Wholesale Call Transit" markets. Interconnect link charges and Access to Call Services are regulated and are included in the "Wholesale Residual (Regulated)" market. International traffic charges are not regulated and are included in the "Wholesale Residual (Unregulated) market".

Wholesale leased lines and partial private circuits

eircom provide OAOs with Wholesale Ethernet and Wholesale leased lines, including Partial Private Circuits (PPCs), as set out in the Leased Line Reference offer, and interconnect paths, which are dedicated leased lines connecting our network to that of another authorised operator. These services are included in the "Wholesale Leased Lines" market.

Other Services

eircom also provide a number of other unregulated services including access to eircom masts, repayable works orders, White Label Access (Switch-less Voice) and network services provided to eircom retail at cost[1]. All these unregulated wholesale services and products are included in the "Wholesale Residual (Unregulated)" market.

eircom Group Subsidiaries

Meteor

eircom provide a variety of wireless products and services designed to match a range of needs for business and personal use. The mobile business is conducted through our subsidiary Meteor Mobile Communications Limited (Meteor) and offers these services under two brands, Meteor and eMobile. These services include voice, SMS, MMS and Data charges and device sales for both pre-paid and post-paid mobile customers. The results of this subsidiary are included in the Retail market group.

Phonewatch

We provide and install wire-free and wired alarm systems, most of which are monitored through our subsidiary eircom Phonewatch Limited (Phonewatch). In order to keep costs as low as possible, Phonewatch outsources the majority of alarm installations to its dealer network, with the remainder being installed by its own technicians. The results of this subsidiary are included in "Other Subsidiaries", which is included in the Retail market group.

Tetra

Tetra Ireland Communications Limited (Tetra Ireland), a consortium consisting of eircom Limited, Motorola and Sigma Communications Group Limited, provides nation-wide digital radio services for the major state emergency and security agencies e.g. Garda, Prisons, Revenue Commissioners and Ambulance service. Our share (56%) of the results of this entity are included in "Other Subsidiaries", which is included in the Retail market group.

[1] These are services for which there is no Wholesale equivalent or nearest equivalent.

Other Subsidiaries

The group has other subsidiaries in addition to those outlined above, including eircom UK Limited. All are included in "Other Subsidiaries", which is included in the Retail market group.

eircom Accounting records

eircom records its transactions in its accounting records in accordance with statutory and legal requirements and Generally Accepted Accounting Principles. Within these records detailed data is maintained in respect of the manner in which the transactions have arisen. Assets, liabilities, income and costs are recorded by type.

For those cost types that are of a "direct" nature, such as provision and installation cost, there is a system for recording time and items, such as stores, to a range of sub-accounts, known as "appropriation codes". These appropriation codes describe the type of equipment being maintained, installed or more generally supported, in further detail. It is therefore possible for example, to identify separately the direct pay costs and related stores costs incurred in the maintenance of exchanges.

For those cost types of an indirect nature, costs are booked to 'non-appropriated codes' on a cost centre basis. These costs are mapped to one of fifty five SRTs expenditure headings (refer to section 3.5.1). These expenditure headings are allocated into seven business processes, six support processes and one strategic process.

Basis of Preparation of Separated Accounts

The structure of the Separated Accounts required under the Decision Notices (i.e. Wholesale markets) does not correspond to the way in which the group is organised and hence the way the statutory accounting records are structured. The Accounts are therefore produced by overlaying the requirements of the Decision Notices on the statutory accounting record structure of eircom.

These Separated Accounts are prepared by attributing the balances in eircom's general ledgers and other accounting records to the Markets and disaggregated Activities (as amended by Directions published by ComReg). As required by the Decision Notices, wherever possible, revenue, costs, assets and liabilities are directly associated with a Market using information recorded within eircom's accounting records. Where no such direct attribution is possible, the revenue, costs, assets and liabilities are apportioned to Activities or Network Elements and then to Markets on a basis that reflects the causality of the revenue, cost, asset or liability.

A Network Element is a unit of network plant or activity which can be separately costed but, in most cases, cannot be separately supplied, e.g. a primary to secondary link. Network Elements comprise cost entities that can be attributed to end services on the basis of a common cost driver. They include relevant overheads and represent the most significant destination for network related costs in the cost allocation process before their final attribution to services based on usage factors or defined allocation bases. All services sold by the Wholesale Markets, either to OAOs or the Retail market, are built up from combinations of one or more Network Elements.

Residual costs for which no direct or indirect method of apportionment can be identified are allocated using an equal proportionate mark-up method. Details of this process are given in section 3.3 of the Attribution Methodologies section within these Accounting Documents.

1 Regulatory Accounting Principles

The following Regulatory Accounting Principles are applied in the production of the Regulatory Accounts, in the application of the Attribution Methods, the Transfer Charging system, and the Accounting Policies.

- **Priority:** within the Regulatory Accounting Principles, insofar as there is conflict between the requirements of any or all of these Principles, the Principles are applied in the same order of priority in which they appear in this document.

- **Definition:** Any word or expression used in the Accounting Documents shall, unless the context otherwise requires, have the same meaning as it has in ComReg Decision Notices and eircom's Telecommunications Licence.

- **Causality:** Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and markets in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

  Where it is not possible to attribute revenues, costs, assets and liabilities in accordance with the preceding paragraph, the attribution shall be such as to present fairly the revenues, costs, assets and liabilities accounted for in the Separated Accounts for each Market where eircom has a regulatory financial reporting obligation and to present fairly a comparison between the Markets as disaggregated.

- **Objectivity:** The attribution shall be objective and not intended to benefit the Significant Market Power (SMP) operator or any other operator, product, service, component or market.

- **Consistency:** There shall be consistency of treatment from period to period. Where there are material changes to the Regulatory Accounting Principles, the Attribution Methods, or the Accounting Policies that have a material effect on the information reported in the Markets within the Separated Accounts, the parts of the previous year's Accounts affected by the changes shall be restated.

- **Transparency:** The Attribution Methods used should be transparent. Costs and revenues, which are allocated to Markets, shall be separately distinguished from those that are apportioned.

2 Definitions of the Markets

The following table sets out the regulatory decisions, which underpin the definition of each market.

EU Regulatory Framework				
Number	**Market(i)**	**SMP Operator(s)**	**ComReg Decision**	**Date**
1	Retail Fixed Narrowband Access	eircom	Decision D07/61 (ComReg 07/61)	August 2007
2	Wholesale Fixed Call origination	eircom	Decision 04/07 (ComReg 07/80)	October 2007
3	Wholesale Fixed Call termination	eircom and six OAOs (ii)	Decision 06/07 (ComReg 07/109)	December 2007
4	Wholesale Fixed Unbundled access (WPNIA)(iii)	eircom	Decision 05/10 (ComReg 10/39)	May 2010
5	Wholesale Fixed Broadband access	eircom	Decision D03/05 (ComReg 05/111r) and Decision D06/11 (ComReg 11/49)	February 2005 and July 2011
6	Wholesale Fixed Terminating Segments of Leased Lines	eircom	Decision D06/08 (ComReg 08/103) Decision D02/10 (ComReg 10/12) Decision D02/11 (ComReg 11/22)	December 2008, February 2010 and March 2011
7	Wholesale Mobile Call termination	(a) Vodafone, O2 and Meteor (b)Hutchison 3 Ireland	(a) Decision D09/04 (ComReg 04/82) (b) 2008 Decision 05/08 (ComReg 08/92)	(a) July 2004 (b) December 2008

In accordance with the above set of Decision Notices[1], Regulatory Accounts are prepared for the following Market Groups and, where applicable, individual markets within these market groups:

Market Group	Markets
Wholesale Access	Wholesale Fixed Narrowband Access Wholesale Fixed Unbundled Access[2] Wholesale Broadband Access Wholesale Leased Lines
Wholesale Other	Wholesale Call Origination Wholesale Call Transit Wholesale Call Termination Wholesale Residual (Regulated) Wholesale Residual (Unregulated)
Retail	Retail Fixed Narrowband Access[3] Meteor Retail Other Other Subsidiaries

[1] (i) "Transit services in the fixed public telephone network" (old market 10 per 2002 EU Directive) is not in the revised list of EU recommended markets. However, in ComReg Decision 04/07 (ComReg 07/80), eircom were designated with SMP in the National Transit market and the designation was to apply "until further notice by ComReg". Therefore eircom continue to comply with the obligations of Accounting Separation and Cost Accounting in relation to Transit services.

(ii) In addition to eircom, six OAOs were also designated as holding SMP: BT Communications Ireland Limited; Verizon Ireland Limited; NTL Communications (Ireland) Limited and Chorus Communications Limited; Colt Telecom Ireland Limited; Smart Telecom; and Magnet Networks Limited
(iii) WPNIA = Wholesale Physical Network Infrastructure Access (includes LLU and Next Generation Access/fibre)
[2] Labelled in the Accounts as "Wholesale Unbundled Access"
[3] Labelled in the Accounts as "PSTN/ISDN Access"

The market groups above are defined as follows:

2.1 Wholesale Access

The Wholesale Access Market Group consists of the provision of connections to the eircom Network both internally and externally. The accounts for the Wholesale Access Market Group include the costs and capital employed associated with providing and maintaining these connections. The Wholesale Access Market Group includes all the customer-dedicated components of the network including, for example, the line cards and ports located at concentrators and/or exchanges. In respect of Leased Lines this Market Group includes all costs and capital employed associated with the end to end wholesale provision of these services. The Wholesale Other Market Group includes all other network components. Customer line rental is a service provided by the Retail Fixed Narrowband Access (Labelled within the Separated Accounts as PSTN & ISDN Access) market within the Retail Market Group. The revenue from line rental and connections provided to eircom's retail customers is therefore recorded in the Retail market group. The cost of providing customer lines is recorded against the Wholesale Access Market Group and a transfer charge to the Retail Market Group is levied in a manner consistent with the charges levied to OAOs for equivalent services. The revenue from providing services on a wholesale basis to other authorised operators is included in the Wholesale Access Market Group.

Within this Market Group the following individual markets are defined:

a) *Wholesale Fixed Narrowband Access*

This market consists of the provision of PSTN and ISDN Single Billing Wholesale Line rental and connections (SB-WLR) services, both externally to OAOs and internally to the PSTN and ISDN Retail Access Market.
This market is subject to Accounting Separation, Price Control and Cost Accounting obligations.

b) *Wholesale Fixed Unbundled Access (WPNIA)*

This market consists of the external provision of physical infrastructure access such as LLU and Line Share to OAOs. ComReg has defined the boundaries of this market as follows:

- Wholesale Physical Network Infrastructure Access (WPNIA) products provided over current generation copper network infrastructure and its associated facilities at a fixed location.
- WPNIA products provided over next generation fibre network infrastructure and its associated facilities at a fixed location.

This market is subject to Accounting Separation, Price Control and Cost Accounting obligations.

c) *Wholesale Broadband Access*

This market consists of the provision of wholesale bitstream services both to OAOs and to eircom's Retail Market Group. This includes both DSL services provided over current infrastructure and equivalent services carried over next generation broadband networks.
This market is subject to Accounting Separation, Price Control and Cost Accounting obligations.

d) *Wholesale Leased Lines*

This market encompasses the wholesale provision of all dedicated, symmetric, point-to-point circuits with a connection to a network termination point at least on one end.

In this context this market encompasses both the market for "Wholesale Terminating

segments" subject to Accounting Separation and Price Control and Cost Accounting obligations, and the market for "Wholesale Trunk segments" which is no longer subject to regulatory obligations.

2.2 Wholesale Other

The Wholesale Other Market Group provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls. The revenue of this market group derives from the sale of interconnection services to the Retail Other market in the Retail Market Group and to other operators. Transfer Charges from this market to the Retail Market Group are based on the charges levied upon OAOs for equivalent services.

This Market Group also includes charges to and from other operators for access to call services such as directory enquiries and Premium Rate charges in respect of eircom's Retail Other market. These services are transfer charged based on the actual costs incurred or revenue received for OAOs accessing eircom Retail call services.

Within this Market Group the following individual markets are defined:

a) *Wholesale Call Termination*

This market consists of the provision of call termination services both to OAOs and eircom's Retail Other market. ComReg has defined the boundaries of this market as follows in "Market Analysis –Interconnection Market Review of Wholesale Call Origination & Transit Services (07/51)";

"*Termination services provide primary switching/routing functionality at the terminating end of a call. The primary switching/routing stage is the final point in the network where call routing is done on a call-by-call basis. It incorporates carriage from the end of the previous stage in the call routing (either call origination or transit), through the primary switching/routing stage (including, where appropriate, traffic concentration and/or non-call-by-call routing subsequent to the primary switching/routing stage), to the end user's local loop, including the subscriber's line card or equivalent, in its entirety.*"

eircom's Reference Interconnect Offer (RIO) includes a number of products that utilise call termination including:

- Primary Call Termination;
- Single Tandem Call Termination;
- Double Tandem Call Termination.

The Call Termination market represents two wholesale products;

- External call termination – which represents an extraction of the relevant element of each of the above for the provision of services to OAOs;
- Internal call termination – which represents the provision of call termination for eircom retail and other Wholesale calls.

This market is subject to Accounting Separation, Price Control and Cost Accounting obligations.

b) *Wholesale Call Origination*

This market consists of the provision of call origination services both to OAOs and eircom's

Retail Other market. ComReg has defined the boundaries of this market as follows in "Market Analysis –Interconnection Market Review of Wholesale Call Origination & Transit Services (07/51)";

"*Origination services provide primary switching/routing functionality at the originating end of a call. The primary switching/routing stage is the first point in the network where call routing is done on a call-by-call basis. It incorporates carriage from the service provider's end of the end user's local loop (which includes the subscriber's line card or equivalent, in its entirety), through the primary switching/routing stage (including, where appropriate, traffic concentration and/or non-call-by-call routing prior to the primary switching/routing stage), to the next stage in the switching/routing of the call (either call termination or call transit).* "

eircom's Reference Interconnect Offer (RIO) includes a number of products that utilise call origination including:

- Primary Call origination;
- Single Tandem Call Origination;
- Double Tandem Call Origination.

The Call origination market represents two wholesale products;

- External call origination – which represents an extraction of the relevant element of each of the above for the provision of services to OAOs;
- Internal call origination – which represents the provision of call origination for eircom retail and other Wholesale calls.

This market is subject to Accounting Separation, Price Control and Cost Accounting obligations.

c) *Wholesale Call Transit*

This market consists of the provision of call transit services both to OAOs and eircom's Retail Other market, including international incoming calls to OAOs. ComReg has defined the boundaries of this market as follows in "Market Analysis –Interconnection Market Review of Wholesale Call Origination & Transit Services (07/51)";

"Transit conveyance comprises all elements of national call routing that take place between call origination and call termination with the exception of any switching/routing stage that, for the call in question, undertakes a function not typically associated with simple call routing. For the avoidance of doubt, this definition of transit excludes switching/routing stages which undertake a specific CPS/WLR function and switching/routing stages which undertake a specific NTC function for the call in question."

ComReg concluded that the conditions of competition for services through International Gateway exchanges are more analogous to national transit services and should be included in the national transit market. This aspect has been represented in the Accounts by a transfer charge from the Wholesale Call Transit market, and also where applicable the Wholesale Call Termination markets, to the Wholesale Residual (Unregulated) market".

eircom's Reference Interconnect Offer (RIO) includes a number of products that utilise call transit services including;

- Single Tandem Call Origination;
- Double Tandem Call Origination;
- Single Tandem Call Termination;
- Double Tandem Call Termination.

The Call Transit market represents two wholesale products;

- External call transit – which represents the revenues associated with national transit plus an extraction of the relevant element of origination and termination for the provision of services to OAOs.
- Internal call transit – which represents the provision of call transit for eircom retail.

This market is currently subject to Accounting Separation, Price Control and Cost Accounting obligations.

d) *Wholesale Residual (Regulated)*

This market consists of all wholesale services subject to either an Accounting Separation or Price Control/Cost Accounting obligation that do not fall within the boundaries of the explicit markets above. The largest services falling within this market are as follows;

- Interconnect links – Connections and Rentals;
- Access to Call Services, such as DQ and PRS.

e) *Wholesale Residual (Unregulated)*

This market consists of all remaining wholesale services that do not fall within the boundaries of the markets listed above. Services include;

- Payments for domestic and international third party call termination;
- Unregulated infrastructure access – including Wholesale mast access;
- White Label Services – Representing bundled wholesale voice provided to facilitate OAO "Switchless" operation;
- Other miscellaneous revenues and costs including access to eircom masts, repayable works orders and services provided to eircom Retail for which there is no Wholesale equivalent.

2.3 Retail

The Retail Market includes all those Activities involving the selling of telephony services to end-users, including line rental and connection, leased lines, calls, payphones and the provision of directory information. In addition eircom provides a wide range of other services including mobile services, the rental, repair and maintenance of customer equipment, webhosting and data-centre services and other non-telecommunications value-added services which are also incorporated into this market Group.

Within this Market Group the following individual markets are defined;

a) *Retail Fixed Narrowband Access*

The business relating to the supply of customer line connections and rental (PSTN & ISDN) and its associated costs.

b) *Meteor*

Meteor represents revenues, costs and capital employed recorded in the financial statements of Meteor Mobile Communications Limited.

c) *Other subsidiaries*

Other subsidiaries includes the revenues, costs and capital employed recorded in the financial statements of all companies within the eircom group, excluding those of eircom Limited and Meteor Mobile Communications Limited.

d) Retail Other

All other Activities within the Retail Market Group, including but not limited to Retail voice traffic and Broadband services.

3 Attribution Methods

3.1 Introduction

This document describes the Attribution Methodologies used to allocate fully eircom's revenue, costs, assets and liabilities to its Market Groups and, where applicable, their disaggregated Markets and gives an explanation of the different methods used for attributing revenue, costs and capital employed. Cost types and the processes involved in their allocation or apportionment are described, showing how costs are treated from their initial recording in eircom's accounting records to their ultimate attribution to Network Elements and then to Market Groups or Markets. It explains both the system used to produce the Separated Accounts and the methodologies employed in that system.

The purpose of Accounting Separation is to provide an analysis of information derived from financial records to reflect as closely as possible the performance of parts of a business as if they were operating as separate businesses. It is necessary for competing operators to have confidence that eircom is not discriminating between its own Retail Activities and competing operators or between one competitor and another when providing similar services.

The aim of Accounting Separation is to assist in ensuring that charges are cost-based, transparent and non-discriminatory.

The fundamental feature of this approach to attribution is the principle of causality. Unless expressly required to be excluded for regulatory purposes, income, cost and capital employed recorded in the eircom Limited group financial statements are attributed to the Activities and Network Elements which make up the separate Markets defined under Accounting Separation.

Attribution Methodologies are regularly reviewed and enhancements introduced to reflect, for example, changing technologies while the apportionment bases, which are the practical application of these methods to actual values, are updated at least annually.

3.2 Market Groups

Under Accounting Separation, Financial Statements are produced that show eircom's revenue, costs and capital employed attributed between the following Market Groups:

Wholesale Access

The Wholesale Access Market Group is responsible for providing connections to the eircom Network both internally and externally. The accounts for the Wholesale Access Network Market Group include the costs and capital employed associated with providing and maintaining these connections.

The Market Group is made up of a number of markets as follows:

- Wholesale Fixed Narrowband Access;
- Wholesale Fixed Unbundled Access;
- Wholesale Leased Lines;
- Wholesale Broadband Access.

Wholesale Other

The Wholesale Other Market Group provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the

same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls. The revenue of this market derives from the sale of interconnection services to the Retail Market and to other operators.

This Market group is made up of a number of markets as follows
- Wholesale Call Termination
- Wholesale Call Origination
- Wholesale Call Transit
- Wholesale Residual (Regulated)
- Wholesale Residual (Unregulated)

Retail

The Retail Market group is made up of a number of markets as follows:
- PSTN & ISDN Access
- Retail Other

3.3 Attribution Methodologies

3.3.1 Overview

eircom's general approach to attribution is to identify income and costs which can be directly attributed to Network Elements and to Markets. For all remaining items eircom identifies the appropriate driver for each item, and, as far as possible, uses objective operational and/or financial data relevant to that driver to generate apportionment bases.

This approach to the process of attribution of balances to Network Elements and/or Market Groups can be summarised as follows:

- review each balance;
- establish the cost driver, i.e. the process that caused the cost to be incurred or the revenue to be earned;
- use the driver to allocate or apportion the balance to relevant Wholesale and Retail markets.

The general methods for revenue and cost attribution in Accounting Separation are set out below. The attribution of mean capital employed, which follows the same principles, is also described below.

As referred to in the Introduction, a Network Element is a unit of network plant or activity which can be separately costed but, in most cases, cannot be separately supplied, e.g. a primary to secondary link. Network Elements comprise cost entities that can be attributed to end services on the basis of a common cost driver. They include relevant overheads and represent the most significant destination for network related costs in the cost allocation process before their final attribution to services based on usage factors or defined allocation bases. All services sold by the Wholesale Markets, either to OAOs or the Retail market, are built up from combinations of one or more Network Elements.

3.3.2 Revenue

With the exception of certain Wholesale Call conveyance products, revenue is allocated directly to individual Markets. See section 3.4 for further details.

3.3.3 Costs

Costs are drawn from eircom's primary accounting records ie General Ledger. The methodologies applied to the costs, which vary according to the nature of the costs and the way in which they are recorded, are set out below.

3.3.3.1 Direct and directly attributable costs

Certain costs can be allocated to specific Market Groups, Markets and Network Elements and, therefore, do not require apportionment. These costs include most of the costs directly related to customer-facing activities, such as costs associated with maintenance of customer premises equipment. They also include directly appropriated and plant costs that relate solely to individual elements of the network. Some of these specific costs can be directly allocated to Network Elements, such as International Transmission or Broadband specific plant.

3.3.3.2 Indirectly attributable costs

Other costs cannot be directly associated with particular Market Groups, Markets and Network Elements, and require indirect apportionment. These costs include general costs of eircom's business units, which service various Market Groups, Markets or Network Elements, which are recorded on a cost centre basis using the Activity Based Costing process outlined in section 3.5 below, where a specific apportionment base can be identified and measured.

The above cost type will also include other costs, such as the costs of core or local access transmission equipment, which are used to provide a number of network services. These costs are grouped and then apportioned to Network Elements using network statistics, surveys or other methods of analysis (see section 3.7).

3.3.3.3 Unattributable Costs

As stated above eircom utilises, wherever possible, objective data relating to cost drivers. There is, however, some expenditure for which no specific apportionment bases can be readily derived. These costs mainly represent central corporate overheads, such as the costs of central accounting and human resource functions. These costs are apportioned to Market Groups, Markets or Network Elements using the equal proportionate mark-up method i.e. any individual Business will receive a proportionate allocation of unattributable costs equal to its proportionate allocation of attributable costs.

3.3.4 Mean Capital Employed

Mean Capital employed is defined, by eircom, as the mean of:

(a) total assets, excluding goodwill, intangible assets arising on acquisitions (with the exception of software assets and licences), and retirement benefit assets/liabilities; less
(b) total liabilities, excluding current and deferred tax liabilities, dividends payable and borrowings except to the extent those borrowings relate specifically to the funding requirements of an individual business or project.

Non current assets are recorded by capital appropriation codes and can be segmented into three categories:

(1) those assets that can be directly allocated to Market Groups, Markets and Network Elements, e.g. satellite earth stations, which are directly attributable to the International Transmission Network Element;

(2) assets relating to a Market range and/or Network Elements which are apportioned on the basis of cost drivers, e.g. exchange line termination equipment asset classes, which provide both concentrating and switching functions and are thus apportioned to various switching Network Elements and Markets; and

(3) assets of a general nature, for example, general mainframe computers or motor transport, where an appropriate apportionment bases, derived from the attribution of the operating costs of that element, is applied.

For current assets and liabilities, those elements that can be directly attributed to Markets, (specific debtors, creditors and inventories) are directly allocated; for the remainder appropriate apportionment bases are derived for each element.

Cash balances are attributed to Network Elements and directly to Markets on the basis of an analysis of operating and capital expenditure or paycosts in those Network Elements and Markets in the year.

Provisions for liabilities and charges are either allocated specifically to Markets and Network Elements or are apportioned using a basis appropriate to the particular provision.

3.3.5 Non-Financial Data

Wherever costs cannot be directly allocated to Activities and appropriation codes, or when appropriation codes do not map exactly to Network Elements and Markets, an apportionment is required. Depending on the cost involved the appropriate basis of apportionment may be of a non-financial nature. In these instances the relevant data may be extracted from non-financial data sources, such as operational systems recording core transmission and usage, or may be collected through activity analysis.

By way of example, the apportionment to Activities and appropriation codes of the pay costs that relate to a cost centre identified by the Accounting Separation process may be apportioned on the basis of a survey of the time spent by the staff whose pay is being apportioned on a sample basis. Such surveys will typically involve analyses of the tasks undertaken by staff and the percentage of time spent on those tasks. These tasks will then be linked to Activities. These surveys are re-performed annually and in some instances more frequently.

3.3.6 Sampling

A number of the bases used to apportion costs and capital employed to Network Elements and directly to Markets are constructed using sample data. Sample data has been used to allocate certain indirect costs, which have no comprehensive allocation base, to products and services. Where sample data has been used in an apportionment base, this has been disclosed in this document where the impact is significant. For instance the allocation of duct costs is based upon physical examination of a sample of duct routes. Network Element route factors are also based upon call volume data drawn from a number of representative sample periods in the financial year.

Where sample data has been used the sample has been constructed so as to meet the following principles:

1. The sample data is unbiased and objective;
2. Where appropriate, the sample size has been assessed in a statistical manner and is statistically significant;
3. The sample data is representative of the entire population;
4. The sample data is not obscured by seasonal or other factors; and
5. The sample data is updated annually.

3.3.7 Summary

Revenue, costs and capital employed are attributed, by allocation and apportionment, either directly to Activities or Network Elements or Markets, or via a series of steps of indirect allocation through analysis of appropriation codes or the Activity Based Costing process; or through the apportionment of unattributable overheads.

eircom's approach to attribution is to identify the appropriate cost drivers for each revenue, cost or capital employed and, as far as possible, to use objective operational and/or financial data relevant to that cost driver to generate apportionment bases. Sample data has been used where appropriate.

Apportionment bases are reviewed at least annually and methodologies regularly reviewed with enhancements introduced to reflect, for example, changing technologies.

3.4 Revenue

3.4.1 Overview

Turnover, which is net of discounts and value added tax, is made up of the value of services provided and equipment sales. Turnover arises from calls, line rentals, connection charges, equipment sales and other activities.

3.4.2 Discounts

A wide range of discount schemes are provided to retail and wholesale customers, in respect of services such as connections, line rental, calls and data services. Discounts on traffic products are automatically applied as part of the flexible tariffing module in the billing system. Rental or connection promotional discounts, bundled rental discounts and discount plan subscription charges (e.g. Talktime plans) are billed by type of promotion or service package/discount plan and then either reallocated to the products to which they relate or, as in the case of bundled discounts, reallocated to the products in which the discount is absorbed.

3.4.3 Wholesale Access Market Group

Revenues arising from OAOs in respect of wholesale access services are separately identified in the accounting records and where possible directly allocated to the Markets.

The revenue arising from the provision of services to the Retail Markets is calculated separately, rather than in eircom's main accounting systems, on the basis of recorded volumes of usage and the application of the published price list. In calculating the transfer charge, relevant Wholesale discounts to OAOs are applied.

3.4.4 Wholesale Other Market Group

Revenues arising from OAOs in respect of calls originating on their networks and terminating on, or transiting through, the Network are separately identified in the accounting records. Other revenues from OAOs in respect of Access to Operator Assistance, DQ services and PRS services are also separately identified and allocated to the Wholesale Residual (Regulated) market and ultimately transfer charged to the Retail Other market. However, the service structure currently used in OAO pricing relating to call conveyance does not align with the market structure within the Separated Accounts. For example, the interconnect service “Double tandem termination” includes charges for conveyance elements which lie within the transit market (Double-tandem element) and

the termination market (Local termination element). Thus the revenues within this wholesale market are subject to an attribution stage which matches the underlying interconnection revenues to their respective markets.

The revenue arising from the provision of services to the Retail Markets is not captured in eircom's main accounting systems and so is calculated separately on the basis of recorded volumes of usage and the application of the published price list, where equivalent published prices exists. However, some on-net calls use network services in a manner that it is not reflected in the published price list. In these instances additional charges, known as "On-Net Sticks", are derived from the published prices to cover the costs of the network elements needed to complete these calls. The prices for the "On-Net Sticks" are derived using information from the Wholesale call conveyance pricing model.

3.4.5 Retail Market Group

3.4.5.1 Retail Fixed Narrowband Access

PSTN & ISDN access revenue, which is separately identifiable from the accounting records, is in respect of connection and rental income related to the provision of narrowband, ISDN and PSTN lines to retail customers. This revenue is stated net of promotional discounts in respect of PSTN, and ISDN connection and rental revenue but does not include any discounts attributable to bundled access and calls products.

3.4.5.2 Retail Other

This market contains a number of disparate activities with differing revenue sources, elements of which are outlined below.

3.4.5.2.1 Calls

Call revenue relates to customers' calls and is accounted for on an accruals basis. eircom's billing system facilitates the identification of volumes and durations of all calls by type. This system is used to identify the revenue by call types including local, national, international, calls to mobile, directory enquiry and calls to internet in the accounting records. Therefore, this revenue can be allocated directly to the relevant Retail Activities. Discounts attributable to bundled access (e.g. Talktime plans) and call packages are netted against call revenue.

3.4.5.2.2 DSL

DSL revenue, which is separately identifiable from the accounting records, is in respect of connection and rental income related to the provision of broadband lines to retail customers. This revenue is stated net of promotional discounts in respect of DSL connection and rental revenue but does not include any discounts attributable to bundled access and calls products.

3.4.5.2.3 Leased Lines

Rental and connection charges for leased lines circuits can be separately identified in the accounting records and the revenue can therefore be directly allocated to the relevant activity. This revenue is stated net of discounts in respect of Leased Lines services.

3.4.5.2.4 Public Payphones

Public payphone revenue arises from the collection of cash from payphones, the sale of callcards, advertising revenue earned from Payphone sites and revenue from internet access points. These can be identified directly from the accounting records and can therefore be directly allocated to the

relevant activity.

3.4.5.2.5 Internet Services Supply and Data Services

Rental, connection, calls and other revenue for all of the above categories can be separately identified in the accounting records and the revenue can therefore be directly allocated to the relevant activity.

3.4.5.2.6 Apparatus Supply

Apparatus supply revenue relates to the rental, sale, maintenance and installation of telephone apparatus, each of which are separately identified in the accounting records and directly allocated to this activity.

3.4.5.2.7 CMS, Freefone, PRS, VOIP, VPN, other value added voice and Other Revenue

Rentals, connections, calls and other revenue for all of the above categories can be separately identified in the accounting records and the revenue can therefore be directly allocated to the relevant activity.

3.4.5.3 Meteor

Meteor maintains its own accounting records and has its own individual Income Statement, within the Retail Market Income Statement.

3.4.5.4 Other Subsidiaries

Each subsidiary maintains its own accounting records. Revenue relating to subsidiary activities can thus be separately identified and directly allocated to this activity.

3.5 Costs

As noted above non-appropriated costs are allocated using an Activity Based Costing methodology. This consists of a two stage process comprising apportionment of non-appropriated costs to defined Activity Based Costing activities and a mapping of these activities to network elements and then to Market Groups, Markets Products and Services.

3.5.1 Apportionment to Activity Based Costing activities

The non-appropriated cost information is held by cost centre and cost type. The cost types are compiled from general ledger account codes from the accounting records. The cost types are mapped to approximately 51 expenditure headings, also known as Summary Resource Types (SRT), each SRT being an amalgamation of like cost types which have the same cost driver e.g. the pay costs SRT is made up of basic pay, bonuses, payroll subsistence, employers' PRSI, pension and contract staff costs. The cost driver for these costs is an analysis of employees time spent, based on the operational information with suitable apportionment bases being determined for all SRT's.

The cost centres are amalgamated into approximately 128 nodes. These nodes consist of cost centres that are ultimately under the responsibility of one person. It is the responsibility of each Node manager to produce an allocation of the costs within the Node to activities defined in a compiled Activity Dictionary. This is performed by identifying a cost driver for each SRT and apportioning the cost to the defined activities using the defined driver.

The Activity Dictionary consists of approximately 740 Activities which are aggregated into the main processes within eircom. The core dictionary defines seven business processes, six support processes, and one strategic process, "Manage the Business".

Each process is broken into a 3 level hierarchy:

- level 1 - the process itself
- level 2 - the sub processes
- level 3 - the activity dimension

The sub-processes assist in defining the activity costs more accurately, as they ensure that all aspects of the activities are combined to result in the complete cost of the particular activity.

Costs are allocated against the activity dimension. The cost of a process or sub-process is identified by aggregating the costs against the activity dimensions of which they are composed.

3.5.1.1 Business processes

Business processes are defined as the collection of activities arising from the development, supply and management of products and services supplied to eircom's customers. The seven business processes are:

(1) Innovation, Product Development and Management - activities involved in developing and delivering a fully managed set of products and services to customers.

(2) Marketing and Sales - this involves the sales and marketing and account management of all eircom products and services.

(3) Provisioning - this covers all aspects of the supply of eircom products and services to the customer.

(4) Billing - this covers all aspects of call measurement, customer billing, cash collection, bad debts and credit management.

(5) Repair - this covers the resolution of service difficulties reported by the customer and covers the full range of products of eircom.

(6) Operator services - this provides operator assisted services to customers.

(7) Manage the Network – this covers all activities involved in managing the Network.

3.5.1.2 Support processes

Support processes support the business processes i.e. they provide services across all customer-related activities. The six support processes are:

(1) People - this involves all aspects of the human resources function.

(2) Finance - this process involves all activities within the finance function.

(3) IT Support - this process includes all activities within the IT function, including system design, implementation and support.

(4) Corporate Communications - this process involves strategic policy development and branding.

(5) Corporate Services - this process involves various activities, including security and risk management, regulatory management, and strategic business planning.

(6) Procurement – this process involves acquisition, management and maintenance of physical resources to be used by the company's activities.

3.5.1.3 Manage the Business process

The 'Manage the Business' process involves planning, organising, controlling and leading the group. The process involves the development of corporate strategy, development of the management system, and implementation of corporate strategy.

This is a strategic process and is thus distinct from the business and support processes.

3.5.2 Mapping of Activity Based Costing activities to Market Groups/Markets/Network Elements

A further apportionment process is required to produce final allocations as the Activity Based Costing activities do not always directly map to the Network Elements or Markets defined under Accounting Separation.

This apportionment can take any of the following forms:

- an activity may be wholly attributable to a Market Group, Market and Network element regardless of the node in which the costs reside;

- some activities may be attributed to different Market Groups, Markets and Network Elements depending upon the node in which the cost falls, e.g. accommodation management activity is attributed in different proportions to Market Groups, Markets and Network Elements depending on the nature of the node in which the activity has been identified; and

- some activities may not be wholly attributable to a single Market Group, Market or Network Element. In this case an appropriate apportionment base has been created to apportion the costs within the Activity Based Costing activity to Market Groups, Markets and Network Elements. For example the activities under the billing process have been apportioned to Activities and Network Elements by identifying the cost driver relevant to each activity.

3.6 Mean Capital Employed

3.6.1 Overview

The definition of mean capital employed for Accounting Separation purposes is contained in section 3.3.4. The apportionment of mean capital employed follows a similarly detailed and careful approach to that for operating costs. For some items, such as trade debtors, turnover is the appropriate driver rather than costs where balances can not be specifically attributed to Markets. Where reference is made to processes described elsewhere in the document, full details of these processes are not repeated here.

For example, reference may be made to apportionment on the basis of "total pay". This is used wherever pay is the causal driver, e.g. for payroll creditors. Thus, the attribution of payroll creditors will follow the same procedure as the corresponding pay costs. The record of pay costs attributed to Market Groups, Markets and Network Elements in the cost attribution process is used to attribute related creditors in such a way as to reflect fully the complexities of the analysis of those pay costs.

3.6.2 Property, Plant and Equipment

Some network equipment assets can be allocated directly to Markets and Network Elements on the basis of the asset class recorded in the general ledger, or on the basis of network statistical or other studies. These include the following categories of plant:

- Local Access lines cable
- Exchange Switching or Broadband plant
- Transmission plant
- Duct

Motor vehicles, computers, land and buildings are apportioned across Network Elements and then Market Groups and Markets using bases which replicate the total apportionment to services of the costs of the operations supported by the assets concerned. The fixed assets of specialist operating units are directly allocated to the appropriate Market and Network Element by virtue of the operations undertaken by those specialist units. Where direct allocation is not possible each unit will apportion the relevant assets between activities using an appropriate cost driver specifically selected to reflect the operations concerned.

3.6.3 Inventories

Inventory is allocated to the Markets to which it relates based on management review of inventory on hand.

3.6.4 Trade and Other Receivables

Trade and Other Receivables are analysed by type and sub-analysed where appropriate (e.g. by billing system) from information in the accounting records. At this stage, the appropriate apportionment bases (e.g. relevant turnover) are then applied. Trade and Other Receivables include the following categories:

- Trade debtors are directly allocated to Markets and Network Elements on the basis of relevant turnover, or where applicable directly to a market.

- Wholesale debtors are principally allocated to the Carrier Billing Network Element and then attributed between markets on the basis of relevant turnover, or where applicable directly to an individual market.

- Prepaid and accrued income is directly allocated to Markets and Network Elements on the basis of relevant turnover, or where applicable directly to a market.

- Other debtors and prepayments are apportioned to Markets and Network Elements using bases appropriate to the particular debtor type, or where applicable directly to a market.

3.6.5 Cash at bank and in hand

eircom Limited cash and overdraft balances are apportioned to Markets and Network Elements, on the basis of operating and capital expenditure or pay costs in the year.

Irish Telecommunications Investments Limited (ITI) is the finance function of the group. The ITI cash balance is allocated to eircom Limited and subsidiary undertakings on the basis of an analysis of the components of ITIs' cash balance at the relevant year-ends. The ITI cash balances attributable to eircom Limited and subsidiary undertakings is determined on the basis of mean balances held with ITI by the respective entities in the group. The ITI cash balance apportioned to

eircom Limited is subsequently apportioned on the basis of operating and capital expenditure, consistent with the allocation of eircom's own cash.

Restricted Cash balances are directly allocated to markets and network elements where possible or based on an appropriate cost driver which reflects the nature of the balance.

3.6.6 Loans and other borrowings falling due within one year

This category includes bank overdrafts and short term loans, which are apportioned on the basis of operating and capital expenditure in the year.

This category also includes borrowings specifically related to the funding requirements of individual projects which are apportioned directly to those markets.

3.6.7 Creditors

Creditors (including accruals) are analysed by type from the general ledger codes and the appropriate apportionment bases are then applied in the following categories:

- Trade creditors, including capital creditors, are apportioned directly to Markets and Network Elements, where applicable, or on the basis of operating and capital expenditure, excluding pay and outpayments which are separately apportioned.

- Wholesale creditors are principally allocated to the Outpayments and Carrier Billing Network Elements before being attributed to markets.

- Payroll creditors are apportioned to Network Elements and Markets on the same basis as total pay or directly to individual markets where applicable.

- VAT balances are segmented into specific balances and a residual general balance. The specific balances are allocated to the activity to which they relate. The residual balance is further segmented into VAT output tax payable and VAT input tax receivable balances. VAT payable is apportioned to Markets and Network Elements on the basis of external turnover. VAT receivable is apportioned on the basis of total external costs (excluding pay and foreign admin costs).

- Other creditors are apportioned to Markets and Network Elements using bases appropriate to the particular creditor type.

3.6.8 Provisions

Provisions for liabilities and charges are either allocated directly to Markets and Network Elements or are apportioned using a basis appropriate to the particular provision.

3.7 Apportionment of appropriated Network costs

3.7.1 Overview

The process to apportion appropriated network costs to Network Elements is based upon a series of network studies, which make use of relevant engineering data, operational systems and/or sample data.

Taken together, Network Elements make up all the costs and capital employed of the separated Wholesale Markets.

3.7.2 Switching exchange equipment

The main cost drivers for exchange equipment are connections, call set up and call durations. Exchange equipment costs are allocated to the appropriate drivers on the basis of an engineering study undertaken to analyse the functionality of this equipment.

In certain cases e.g. Line Cards, ComReg has directed eircom to make certain adjustments to the engineering studies. eircom have been directed to treat line cards as 100% line sensitive (see section 3.9.2).

The apportionment approach identifies the allocation of total exchange costs between the Line sensitive Network elements and Call and Traffic sensitive Network elements. The specific equipment affected by this study is exchange line terminations, trunk terminations, core hardware, operating software and application software.

Exchange expenditure is assigned to the main cost drivers, as follows:

- Connections – costs that are associated with equipment that has the function of providing access to the network.
- Call set-up - costs that are associated with equipment that has the function of establishing and clearing an end to end network path.
- Call duration - Costs associated with equipment that has the function of holding the network path open for the duration that a link is made across the network.

3.7.3 Transmission

The 'transmission network' provides the following type of links:

- links between customer connections and exchange locations, including underground and overhead paths;
- links between Remote Subscriber Unit ("RSU") locations and exchange locations (primary, secondary and tertiary); and
- links between exchange locations.

These paths are recorded in the Fixed Asset Register as cable and associated equipment. The network is used both to carry calls on paths dedicated to PSTN, and to provide dedicated paths for other services, such as leased lines. Most routes have some level of sharing between PSTN and other services.

The process for apportioning transmission equipment costs takes into account, and costs individually, each of the main building blocks (cable, line equipment and multiplexors), by the various technology types of the equipment, to reflect the different cost drivers of the specific transmission requirements of particular activities. The main cost drivers are weighted transmission length and the type of transmission path, with weighting factors applied to reflect the transmission capacity utilised.

Costs are segregated into those driven by the number of links (e.g. multiplexing equipment) and those driven by the total weighted length of the link (e.g. cable) on the basis of the equipment type.

3.7.4 Underground Access cables

The underground access cables provide physical connectivity between the exchange and the cabinet and from the cabinet to the last distribution point. These cables are separately recorded in the fixed asset register as underground copper and fibre cables. Underground access copper cables are used to carry local access services such as PSTN, ISDN and DSL as well as services such as private circuits (ie Leased Lines) that require dedicated paths. The main cost driver is the number of cable pairs. No copper costs are allocated to the Wholesale Broadband Access market in order to comply with ComReg Direction D04/09, dated August 2009.

Underground access related fibre cable costs are fully attributed to the fibre/high speed length dependent access network element.

3.7.5 Duct

The duct network provides physical underground paths as listed in section 3.7.3 above. These path types are recorded in the Fixed Asset Register as underground civils and plant. The network is used both to carry access services such as PSTN & ISDN line rental as well as services such as private circuits that require dedicated paths. It is also used to carry conveyance transmission links. The primary cost driver for duct is total duct kilometres. No duct costs are allocated to the Wholesale Broadband Access market in order to maintain consistency with ComReg Direction D04/09.

The process for apportioning the costs of duct between the Wholesale Access Network elements and Wholesale Other Network elements is based upon a three stage engineering study. The first stage stratifies total duct kilometres into three categories; Access only, Core only and shared duct. The second stage attributes the shared duct between Access and Core on the basis of an estimate of the number of Core/Access cables in shared duct track. The final stage apportions Core and Access duct to Network Elements on the basis of duct usage.

The duct apportionment is based on a representative sample of duct routes and data maintained on the GeoUpdate database, an internal database used to record Duct usage.

3.7.6 Overhead plant

The overhead network provides physical overhead paths as listed in section 3.7.3 above. These path types are recorded in the Fixed Asset Register as overhead poles and equipment. The network is used both to carry local access services such as PSTN and ISDN as well as services such as private circuits that require dedicated paths. It is also used to carry core transmission links. The primary cost driver for overhead plant is cable kilometres.

The process for apportioning the costs of overhead plant between the Wholesale Access Network elements and Wholesale Other Network elements is based upon a three stage engineering study. The first stage stratifies total overhead kilometres into three categories; Access only, Core only and shared. The second stage attributes the shared element between Access and Core on the basis of the number of core and access cables on shared overhead routes. The final stage apportions Core and Access overhead plant to Network Elements on the basis of cable length.

The apportionment of overhead plant is based on a representative sample of overhead plant records maintained on the GeoUpdate database.

3.7.7 NGN Costs

Eircom's NGN network costs can be classified into two categories; the Next Generation core network routers used to provide NGN services to customers and the transmission capacity

connecting these routers.

The transmission costs include the share of duct and fibre cable infrastructure used by this network. Additionally costs elements such as power, accommodation, network support and management overheads are also attributed to the NGN network elements.

Currently eircom's NGN network is designed to carry capacity based services over 13 regions or domains and the costs are allocated to the services supported on the network such as Wholesale Ethernet, Broadband and Leased Lines.

The basis for allocating costs to these services has become more comprehensive in the current year. In the prior year all costs were allocated to services based on the relative direct demand bandwidth capacity measured at the initial service port. However, in the current year the cost attribution rules have has been expanded to include other aspects such as the length of core network over which the particular service is carried and the quality of service (QOS) supported. The introduction of QOS as a metric influencing cost allocation reflects the fact that a higher guaranteed QOS places a higher demand on network resources when delivering the service.

The determination of weighting factors to reflect QOS is based on engineering rules, determined by Group Technology and jointly agreed with the NRA (National Regulatory Authority) in the context of cost modelling.

3.7.8 NGA Costs

eircom for the first time reports costs linked to the initial investment in the development of NGA infrastructure. The NGA costs reported for the financial year 2011/12 predominantly relate to operating costs incurred during the year in the planning and designing of this new network.

3.7.9 Other appropriated costs

In other cases where apportionment of appropriated costs is required, appropriate bases are derived by reviewing the causal links of the appropriated costs. For example the apportionment of maintenance activities to Network Elements is based upon an analysis of time spent for a representative sample period.

The fully allocated costs of most appropriated network costs can be directly linked to Network Elements, with no further analysis.

3.8 Network transfer charges

3.8.1 Overview

The transfer charges from the Wholesale Access and Wholesale Other Market Group to the Retail markets are based on the usage of the equivalent, or nearest equivalent Wholesale services charged at the same price as that paid by OAOs. Where no equivalent external service exists, the transfer charge is based upon the relative usage of Network Elements, including the applicable rate of return on the Mean Capital Employed.

3.8.2 Creation of the Wholesale Access Markets Account

The Wholesale Access markets are made up of revenue on access services from Other Authorised Operators and the transfer charge income from the Retail markets and the cost and capital employed of all relevant Network Elements.

3.8.3 Creation of the Wholesale Other Markets account

The Wholesale Other markets are made up of interconnect revenues, access to anciliary servicesas and unregulated services such as White label access and repayable works orders. The revenues are from both OAO and the transfer charge income from the Retail markets and the cost and capital employed of all relevant Network Elements.

3.8.4 Creation of the Retail Markets account

The Retail Markets are attributed with all their income, costs and capital employed including transfer charges for their use of Wholesale market services.

3.9 Regulatory decisions

eircom is required to ensure that the Attribution Methods documented are consistent with, and give effect to, a range of actions including directions, consents and determinations made by ComReg. This section summarises the key determinations relevant to the statements not outlined elsewhere in this document.

3.9.1 Relevant Costs

- Debtors and Creditors that would arise in respect of transfer charges have been excluded from the statements and have not been included in determining the transfer charge from the Wholesale markets to the Retail markets.

- Costs categorised as Exceptional in the Statutory Accounts are also excluded from the Regulated Accounts, with the exception of specific costs of an Operational nature, such as impairment of fixed assets.

- ComReg have determined that for the purposes of calculating the net book value and the depreciation charge to be used in the statements, the company must use asset lives directed by ComReg. On 11 August 2009, ComReg issued a revised set of Asset Lives to be used in the Regulated Accounts of eircom. These revised lives have been used in the Separated Accounts for the year ending 30 June 2012.

3.9.2 Treatment of Line Card

Line cards in switching equipment are required to be allocated 100% to the Local Access Network in accordance with D7/01. This has been interpreted to mean that Line cards will continue to be attributed to an Access network element which shall be wholly attributed to the Wholesale Access market group.

3.9.3 Route Factors

Route factors have been calculated by eircom based on its network plan and actual traffic samples. Under D7/01 ComReg reserves the right to require amendments to these route factors where ComReg deems them not to represent 'efficient operator' route factors.

3.9.4 Recovery of Switching Costs

The allocations of core switching equipment cost between call set up and duration elements are based upon the allocations arising from the manufacturers' studies of cost components. The treatment is in compliance with current ComReg guidance.

3.9.5 Cost of Capital Employed (WACC)

The applicable Rate of Return used in these Regulatory Accounts is 10.21% as mandated by ComReg in Decision Notice D1/08.

4 Transfer Charges

4.1 Background and overview

eircom is required to prepare disaggregated Separated Accounts for its market groups: Wholesale Access, Wholesale Other and Retail. eircom is required to prepare these Separated Accounts on an historical cost basis using Transfer Charges calculated in accordance with the following principles established by ComReg for inter/intra segment transactions:

- Transfer charges (revenues and costs) shall be attributed to Cost Components, for regulated and unregulated Services, Products and markets in accordance with the activities, which cause the revenues to be earned, or costs to be incurred.

- The attribution shall be objective and not intended to benefit any market (regulated or unregulated).

- The transfer charges for Intra (usage by the eircom retail market) usage shall be determined as the product of usage and unit charges. They also incorporate relevant promotions and/or other discounts available to OAOs.

- There shall be consistency of treatment of transfer charges from period to period.

- The transfer charging methods used shall be transparent. There shall be a clear rationale for the transfer charges used and each charge shall be justifiable (with supporting calculations available).

- In certain cases it is clear that eircom Retail and Other consumes services that are directly comparable to the services which are available to OAOs. As an example the retail PSTN Access market rents lines that are directly equivalent to those purchased by OAOs. The price charged to OAOs is published under the Single Billing Wholesale Line Rental element of the Access Reference Offer (ARO). When there is directly equivalent service and a published Wholesale price, the IBU charge to eircom Retail and Other can be derived by applying the published Wholesale price to the measured retail volumes of these services. The Wholesale price also includes any discounts and/or promotional offerings that are available in the relevant period.

- In certain instances, the price eircom charge OAOs for a Wholesale service is derived on the basis of a specific Wholesale discount applied to the retail price. For example, the prices OAOs are charged for their consumption of some Leased Line services is determined on the basis of an 8% Wholesale discount applied to the price for the equivalent retail service. Further term and volumes discounts can mean additional discount of up to 13% can be applied to the price for the basic retail service. Therefore, to ensure eircom Retail and Other is charged on an equivalent basis for such services, the IBU charge is also calculated on the basis of 'Retail minus' formula by applying the Wholesale discount of 8% and additional discounts where applicable to ' the retail revenues. This is used for all services, such as Wholesale Leased Lines, where the Wholesale price charged to OAOs is derived on a 'Retail Minus' basis.In many other cases eircom Retail and Other consume the same type of wholesale services that are publicly available to OAOs, but purchase these services in combinations that are not typically purchased by OAOs. In the context of higher speed leased line services, the direct wholesale equivalents used are Partial Private Circuit tariffs. In the Wholesale Voice area, OAOs tend to purchase distinct origination, transit and termination services, whereas eircom Retail consume "end-to-end" voice services which represent logical combinations of these services. In this context transfer charges are based upon the application of a "Nearest Equivalent Charge" approach. The "Nearest Equivalent" charge approach is based upon

applying three broad conceptual steps;

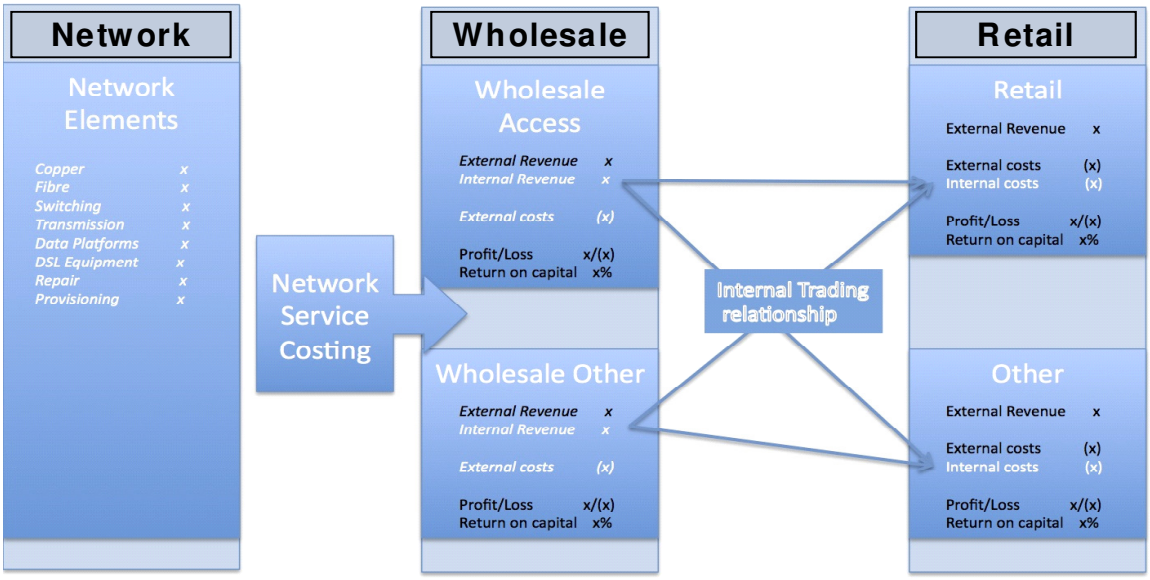
- Producing conversion factors to transform retail services into OAO equivalent services;
- Applying the conversion factors to retail volumes to generate OAO equivalent volumes;
- Applying published prices to OAO equivalent volumes to generate transfer charges;

- In a number of limited circumstances eircom Wholesale provides services to eircom Retail and Other for which no comparable external equivalent exists. In these cases transfer charges are based upon a "cost plus return on capital employed" employed basis. An example of this is charge applied for the use of the BIP core network equipment.

In practice the effect of the above is to overlay a trading relationship between the market entities, most notably the purchase of services from wholesale markets in respect of retail products and services. Thus the Separated Accounts simulate the results that would arise if these services were being provided to independent separate entities. The statements as a result have three reporting elements:

1. Network costs – Represented by a Network Activity Statement split into "Network elements";
2. Wholesale results – Represented by the Income statements of the Wholesale Markets;
3. Retail results – Represented by the Income Statements of the Retail Markets.

The key relationships between these three elements can be illustrated by the following diagram:



4.2 Transfer charges from the Wholesale Access Markets

4.2.1 Principle

Charges to OAOs are based upon the prices in force in the market for the period in question. Transfer charges are based upon the derivation of internal consumption of services equivalent, or nearest equivalent, to those available to OAOs, and calculating transfer charges based upon the application of market prices to these derived volumes. As discussed above where no Nearest Equivalent Charge exists, a cost based transfer charge is used. eircom produces Separated Accounts containing transfer charges based upon these calculated transfer charges for the following services:

- Fixed Line Access transfer charges are based on a direct wholesale equivalents – wholesale offering Single Billing through Wholesale Line Rental Service (SB-WLR) for PSTN and ISDN services. The transfer also takes account of all relevant wholesale discounts and promotions as were applicable in the year.

- Bitstream transfer charges are based on a direct wholesale equivalent – wholesale broadband services. There are essentially two distinct broadband products, Bitstream IP and Bitstream Managed Backhaul. Bitstream Internet Protocol (Bitstream IP) service is the legacy eircom Wholesale Broadband Access product and a direct wholesale equivalent is used for the retail DSL services. In March 2010 eircom launched its Bitstream Managed Backhaul Service. This product is only available in NGN enabled exchanges. The charges are divided into two parts – one a direct wholesale equivalent for the use of specific port speeds and the second based on traffic usage. The traffic usage was determined from analysing OAO bitstream traffic usage per line and using these volumes and the broadband traffic price to calculate the transfer.

- Leased Lines - The construction of transfers to the Retail leased lines and data products represent a mix of approaches. Circa 75% of the transfer involved were based on direct equivalents. In the case of Ethernet and Next generation Service the transfer charges are based on the wholesale equivalent products known as WSEA or WEIL. Leased Line services are generally based on direct equivalents using wholesale leased line tariffs calculated on a retail minus charging structure or Partial Private Circuits in appropriate cases.

4.2.2 Volumes and usage data requirements

The system used to calculate the transfer charges and produce the Separated Accounts contains non-financial data, including detailed analyses of service volumes and network usage data. The main classes of information have been summarised below:

Wholesale Access Usage charges

- Volumes by retail product/services;
- Translation of retail products into OAO equivalent, or nearest equivalent, wholesale products/services consumed over the period;
- Derivation of the average OAO service/product prices in the period;
- Calculation of total transfer charge as a product of these prices and volumes.

4.2.3 Calculation of the Wholesale Access markets transfer charges to Retail Markets

Calculated Network service charges form the basis of the Wholesale Access market transfer charges to the Retail markets.

In addition to the direct transfer charges certain access services are utilised by Retail staff for the purposes of supporting general retail operations. In order to account for this "Own Use" a transfer charge is levied against the Retail market at the same rate as the direct charges. This charge is apportioned across Retail market segments using a cost based driver.

4.3 Transfer charges from the Wholesale Other markets

4.3.1 Principle

As with the Wholesale Access Market, charges to OAOs are based upon the prices in force in the market for the period in question. Transfer charges are based upon the derivation of internal consumption of services equivalent to those available to OAOs, or using a nearest equivalent[1]. eircom produces Separated Accounts containing transfer charges based upon these calculated transfer charges for the following services:

- Wholesale call conveyance - transfer charges are derived on the basis of network services denominated standard services which are consumed by Retail and other on-net call. Standard services are deemed as the nearest wholesale equivalent and its unit charges are derived from the RIO rates. Further details are set out below in section 4.3.3

- Wholesale Residual (Regulated) services, such as voicemail and call managed services – these transfer charges are based on the equivalent wholesale price by the retail volumes in the year.

- Wholesale Residual (Unregulated) services - International access transfer charges are derived on the basis the outgoing international volumes which originated from Retail fixed lines, at rates which are the equivalent to those charged to Meteor and other OAOs as appropriate.

Wholesale Residual (Unregulated) services - Other unregulated wholesale products and services that are consumed by eircom Retail are charged on the basis of cost plus the regulated rate of return as there is neither a wholesale equivalent or a nearest wholesale equivalent that could be used. The main component of this is charge applied for the use of the BIP core network equipment by the BIP Retail services.

4.3.2 Volumes and usage data requirements

The system used to calculate the transfer charges and produce the Separated Accounts contains non-financial data, including detailed analyses of service volumes and network usage data. The main classes of information have been summarised below.

- Establish standard network usage pattern across the network (such as potential voice paths)
- Define standard "usage" of OAO equivalent, or nearest equivalent, services for each usage pattern
- Collect and import retail volumes by product/service
- Measure usage factors by Network Element by retail product/service (such as voice route factors)
- Translate usage factors into relevant OAO equivalent or nearest equivalent services
- Apply translated usage factors to retail volumes to derive equivalent wholesale service volume

4.3.3 Calculation of the Wholesale Other markets transfer charges to the Retail Market

[1] In the situation where there is no nearest equivalent service from which to derive a transfer charge from Wholesale the Fully Allocated Cost (FAC) of the service being provide to use to calculate the Transfer Charge.

Calculated wholesale service charges form the basis of Wholesale market transfer charges to the Retail markets. eircom Retail's translated route factors and volumes are applied to the derived wholesale charges to calculate its transfer charge.

Transfer charges are therefore calculated in three stages:

- Derive the wholesale prices of equivalent or nearest equivalent services
- Translate retail volumes into their (nearest) equivalent wholesale service volumes by market. This is done by translating retail volumes using the relevant usage factor methodology described in section 4.4.2.
- Apply the wholesale price to these volumes to calculate applicable transfer charges.

The following is an example of the processes for call conveyance charging.

Example

Stage 1 Derive wholesale price of equivalent or nearest equivalent services

Derivation of the average market price for the equivalent service, by examination of the relationship between the market prices of the combined interconnection services and their underlying equivalent services. Three distinct service elements exist in this context:

1. Service elements which directly accord with published interconnection services, whose price can be directly extracted from the price list;
2. Service elements identified as being consumed by both eircom retail and OAOs but in a different form to the structure of the published price list, such as call termination. In these cases relevant prices have been derived by segmenting the market price into relevant (nearest) equivalent services;
3. Elements which, although using similar network equipment, are not consumed by OAO services. For these elements the price to be applied is derived by the examination of the underlying costs of the element from the Wholesale call conveyance pricing model[1].

Stage 2 Derive equivalent service volumes

(a) Derive potential route paths through the conveyance network for service types;
(b) Specify Standard services in terms of their network element usage;
(c) Apply (a) & (b) in order to derive the average number of standard service per route path type;
(d) Conduct route factor study to examine a sample of individual calls;
(e) Map individual calls to route paths;
(f) Summarise route factor information into proportion of each retail service associated with each route path type;
(g) Multiply Standard service by route path with route path spread for each retail service with retail service volumes in order to derive total standard service volume consumed for each retail service.

Stage 3 Derive transfer charges

Apply the standard service price to the standard service volume by retail service in order to derive total transfer charge attributable to each retail market from each wholesale market.

The above example is specific to a conveyance service.

The calculation for non-conveyance services operates in a similar, but less complex manner.

[1] The Wholesale call conveyance pricing model referred to is the one used to support the external Wholesale call conveyance prices in place in the period.

4.4 Other intra-eircom transfer charges

eircom's markets can sell services to each other. The basis on which charges are made from the Wholesale markets to the Wholesale andRetail Market Group is set out above. An example of this is the transfer charges calculated by the internal consumption of wholesale call conveyance services by eircom's Switchless voice service[1]. Wholesale transfer charges use the same methodology as used when calculating the transfer to Retail markets.

For all other inter-market sales, the transfer charges are, as required by ComReg's Decision Notices, set to ensure no preferential treatment is given to markets within eircom, set at a rate equivalent to the charge that would be levied if the product/service were sold externally rather than internally. As an example, the Retail-Other market levies a charge upon the Wholesale Residual (Regulated) market for revenue earned in respect of its Directory Enquiries / PRS customers, whose fees have been collected by Wholesale.

4.5 Reporting of transfer charges

The Regulatory Accounts record transfer charges as specified above as:

- Revenue in the Wholesale markets generated from transfer charges to eircom Retail Market group, for their use of the network;
- Revenue in Wholesale Other markets from Wholesale Other market group;
- Operating costs in the charged Market such as Retail Market group.

The Retail Market Group purchases from the Wholesale markets are analysed in the general form described within the proforma Regulatory Accounts as set out in the Decision Notices.

[1] This service is reported within the Wholesale Residual (Unregulated) Market

5 Accounting Policies

Historical Cost Accounting policies

The significant accounting policies adopted by eircom are set out below.

5.1. Basis of preparation

The Separated Accounts are prepared in accordance with the Accounting Documents in the order of priority:

- The Regulatory Accounts Principles
- The Attribution Methods
- The Transfer Charges
- The Accounting Policies

The Separated Accounts are required to give primacy to Regulatory Decisions.

The Statutory Financial Statements which form the basis of the Separated Accounts are prepared in accordance with the historical cost convention. Land and Buildings, which were previously revalued on 31 December 2003, were frozen at deemed cost, based on their fair values at 1 April 2004 under IFRS 1 transition rules.

The Separated Accounts for the year ended 30 June 2012 have been prepared based on the Statutory Financial Statements prepared in accordance with IFRS, as adopted by the European Union.

The Separated Accounts are prepared by disaggregating balances recorded in the general ledgers and other accounting records of eircom Limited and its subsidiaries (the "Group") maintained in accordance with the Companies Acts 1963 to 2012 and used, in accordance with those Acts, for the preparation of the Company's statutory consolidated financial statements for the year ended 30 June 2012 ("the Statutory Financial Statements").

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

5.2. Going Concern

The Statutory financial statements and the Separated Accounts have been prepared on the going concern basis, which assumes that the group will be able to continue in operational existence for the foreseeable future.

The Statutory Financial Statements were approved on 28 August 2012 and management's assessment of the group's ability to continue as a going concern as of that date is set out below. The assessment reflects the financial position of the eircom Limited group at 28 August 2012 and no updated assessment has been performed for the purposes of the Separated Accounts.

Statutory Financial Statements – Going Concern Assessment

The financial statements have been prepared on the going concern basis, which assumes that the group will be able to continue in operational existence for the foreseeable future.

At 30 June 2011, eircom Limted and two of its subsidiaries, Meteor and ITI, had provided financial guarantees to third parties in respect of certain borrowings of, ERC Ireland Holdings Limited Group ("ERCIH Group") and ERC Ireland Finance Limited ("ERCIF"), former holding companies of the eircom Limited group. The companies had guaranteed financial indebtedness of €3,078 million in respect of the Senior Credit Facilities and certain hedging instruments of the ERCIH Group. The companies had also guaranteed on a senior subordinated basis €350 million in respect of the Floating Rate Notes (“FRN”) issued by ERCIF.

The companies whose indebtedness had been guaranteed by eircom, Meteor and ITI, were holding companies with no business operations of their own and which did not hold any significant assets other than direct and indirect interests in eircom Limited and its subsidiaries.

The ERCIH Group was unable to meet certain of its financial covenants under the Senior Credit Facilities Agreement as at 30 June 2011 and for subsequent periods. The ERCIH Group obtained various temporary waivers from its senior lenders.

Following the non-payment of the FRN coupon due on 15 February 2012 by ERCIF, an event of default arose under the terms of the FRN. On 17 April 2012, the FRN Notes Trustee declared the principal of, and accrued and unpaid interest on all of the FRN to be due and payable immediately.

On 28 March 2012, eircom Limited, together with a number of other members of the ERCIH Group entered into a restructuring support agreement (“RSA”) with the ERCIH Group Lenders. The RSA required the lenders and the members of the ERCIH Group that were parties to the RSA to co-operate and assist with the implementation of a restructuring proposal and prohibited the parties from supporting other proposals. The RSA provided for the restructuring proposal to be implemented by way of a Scheme of Arrangement as part of an Examinership process.

On 29 March 2012, the senior lenders terminated their waiver of the financial covenant breaches of the Senior Facilities Agreement, issued an acceleration notice for the immediate repayment of the Senior Credit Facilities of €2,659 million and made a demand pursuant to its guarantee from the company, Meteor and ITI. Following the acceleration of the Senior Credit Facilities, which constituted an event of default under the hedging instruments, termination notices of the hedging instruments were also issued by the hedging counterparties.

On 29 March 2012, eircom Limited applied to the High Court for an Examiner to be appointed to eircom Limited, Meteor and ITI. The petition explained that the companies did not have the funds to make the repayments demanded on foot of the guarantees and as a result were insolvent. The petition indicated that the guaranteed financial indebtedness was required to be restructured and that such a restructuring would permit the survival of the companies as going concerns. It noted that such a restructuring could only be achieved within an examinership process and that it was on this basis that the petition was brought. The High Court granted an order for the appointment of Michael McAteer of Grant Thornton as interim Examiner on 30 March 2012 and subsequently confirmed the appointment of Mr. McAteer as Examiner on 18 April 2012. As part of its order, the High Court confirmed that the company, Meteor and ITI could continue to pay their trade creditors, including for liabilities accrued prior to the filing of the Examinership petition, during the period of the Examinership.

An Examinership is a court protection system introduced by the Companies (Amendment) Act 1990, as amended by the Companies (Amendment) Act (No. 2) 1999, and allows an Examiner to propose an arrangement or compromise with the creditors of a company which becomes effective and binding on all of the creditors and members of the company if approved by more than 50% by number and more than 50% by value of creditors voting in at least one class of creditors being impaired under the proposals, and if confirmed by the High Court.

The Scheme of Arrangement was implemented on 11 June 2012, and eircom Limited, ITI and Meteor exited from the Examinership process with effect from that date.

Under the Schemes of Arrangement

- The outstanding first lien debt and hedging instrument liabilities were reduced by €407 million, and 90% of the second lien debt and all of the FRN guarantee liability were written down;

- €2,347 million of the first and second lien senior and swap counter-party debt was reinstated as new senior term borrowings of the eircom Limited group with a maturity date of 30 September 2017. eircom Limited, Meteor and ITI have a joint and several obligation in respect of these borrowings;

- Obligations to unsecured trade creditors remained under existing contractual terms (i.e. there was no impairment of these claims and unsecured creditors were therefore not prejudiced);

- The entire issued share capital of eircom Limited was transferred by the former immediate parent company, Valentia Telecommunications, to eircom Holdings (Ireland) Limited, an entity ultimately controlled by the first and second lien senior lenders for a consideration of €1.00;

- The new senior term borrowings were restated as a liability to eircom Finco Sarl, a Luxembourg registered company and a member of the eircom Holdings (Ireland) Limited group;

- eircom Finco Sarl, became the borrower under the new Senior Credit Facility Agreement with the group's creditor banks and eircom Limited, Meteor and ITI and certain other subsidiaries are guarantors under this facility Agreement; and certain inter-company liabilities to former parent companies and fellow subsidiaries in the ERCIH Group were extinguished.

The new Senior Credit Facility includes provision that allows the eircom Holdings (Ireland) Limited group to seek in the financial markets, a €150 million uncommitted super senior revolving credit facility which, if obtained, may be utilised by way of drawing of loans; issue of letters of credit; and ancillary facilities to cover working capital requirements.

The financial covenants under the new Senior Facilities Agreement include a maximum ratio of consolidated net debt to consolidated EBITDA, minimum ratios of cash flow and consolidated EBITDA to net debt service, minimum liquidity requirements and annual maximum capital expenditure limits. In setting the financial covenants consideration was given for potential downside risk to management's business plans. The covenants are required to be tested on a quarterly basis with effect from 30 September 2012, except for the capital expenditure covenants and the consolidated EBITDA to net debt service covenants which are effective from 30 June 2012 and 30 September 2015 respectively. The capital expenditure covenant tests have been met for the year ended 30 June 2012. The financial covenant measures, if not complied with at future dates, could result in the new Facilities becoming immediately due and payable in advance of the agreed maturity date.

Following recognition of the fair value of the liability in respect of the borrowings, the eircom Limited group has net liabilities of €480 million at 30 June 2012. The net liabilities of the group, included in the balance sheet at 30 June 2012 exclude liabilities in respect of borrowings of €538 million, as IFRS requires borrowings to be included at fair value on the date of initial recognition.

The Directors believe that it is appropriate to adopt the going concern basis of accounting notwithstanding the net liability position of the group as the Directors' believe that based on the group's forecast of operational cash flows, and trading results, the group will be in a position to

meet its obligations as they fall due and comply with its financial covenants, for the foreseeable future.

Having made due enquiries, the Directors have a reasonable expectation that the eircom Limited group will continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

5.3. Basis of consolidation

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

(i) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. Subsidiaries are deconsolidated from the group from the date that control ceases.

(ii) *Joint ventures*

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

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

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

(iii) *Associates*

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

(iv) *Acquisitions and disposals*
The purchase method of accounting is used to account for all business combinations, except for business combinations involving entities under common control and group reorganisations. Under the purchase method of accounting the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the group's share of the identifiable assets, liabilities and contingent liabilities recognised in the statutory financial statements. The interest of non-controlling interest shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised, and does not include a gross-up for goodwill. There were no acquisitions in the two years to 30 June 2012. Goodwill arising on business combinations is excluded from the regulatory allocation model and appears as a reconciling item in the reconciliation statement in the Separated Accounts.

The results of subsidiaries acquired during the period are brought into the consolidated financial statements from the date control transfers to the group; the results of businesses sold during the period are included in the consolidated financial statements for the period up to the date control ceases. Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold. There were no acquisitions in the two years to 30 June 2012.

5.4. Goodwill

Goodwill is excluded from the regulatory allocation model and appears as a reconciling item in the reconciliation statement in the Separated Accounts.

5.5. Intangible assets

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

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

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

The following useful lives (years) have been assigned to intangible assets:

	2012 Years
Computer software	3 - 4
Monitoring contracts	3
GSM license	15
3G license	18.5

Any element of intangible assets arising solely as a result of purchase price allocations on acquisition are excluded from the regulatory costing model and appear in the reconciliation statement in the Separated Accounts.

5.6. Revenue recognition

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

Revenue included within individual markets includes revenue from other markets and subsidiaries in the Separated Accounts where appropriate and also includes revenue derived from transfer charges which is discussed in detail in Section 4.

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

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

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

Fixed Line Revenue

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

Traffic revenue is recognised at the time the traffic is carried over the group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products (broadband, line rentals and traffic) are accounted for in the same manner as the unbundled products comprising the bundle. The discount to standard rates on bundled products is applied to the traffic element of the bundle with the exception of the CPE element of the Department of Social Protection ("DSP") discount.

Certain externally generated Retail and Wholesale connection fee revenue is deferred over the life of the connection, which is estimated to be between four and five years. Connection lives are reviewed annually. There is no deferral of Revenue on transfer charges in respect of connections.

Revenue from equipment sold to third parties is recognised when the equipment is delivered to the customer. Revenue arising from the provision of other services, including maintenance contracts, data hosting and other related services, is recognised over the term of the contract. Revenue from fixed price contracts is generally recognised in the period the services are provided, using a straight line basis over the term of the contract.

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

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

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

5.7. Exceptional items

In the statutory financial statements the group has adopted an income statement format which seeks to highlight significant items within group results for the year. The group believe that this presentation provides additional analysis as it highlights one-off items. Such items include, where significant, curtailment gains and negative past service costs in respect of pensions, restructuring, impairment of surplus properties, onerous contracts, reinstatement/dilapidation provisions, costs incurred in respect of the group's financial restructuring, movements in provisions for the expected cash outflows under financial guarantees, the fair value of financial liabilities recognised from the financial restructuring of the groups obligations under financial guarantees and related gains and losses arising in respect of advances to and from group entities. 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.

Exceptional gains and losses and related MCE balances are excluded from the Separated Accounts in the main, except where specifically identified for inclusion. The excluded costs and related MCE appear in the reconciliation statement of the Separated Accounts. In the year to 30 June 2012, gains on disposal of assets and certain impairment charges have been included in the Separated Accounts.

5.8. Amounts paid and payable to other operators

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

5.9. Customer acquisition costs

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

The cost of mobile handsets, mobile handset promotions and the cost of broadband modems are expensed at the time the customer is acquired or when upgrades are provided to existing customers.

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

5.10. Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

Group entities

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

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

5.11. Taxation

Current and deferred tax is excluded from the regulatory costing model and appears in the reconciliation statement in the Separated Accounts.

5.12. Financial instruments

(i) Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Borrowings are subsequently stated at amortised cost. Any difference between the fair value on initial recognition and the redemption value is recognised in the income statement over the period of borrowings using the effective interest method. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

Borrowings and related finance costs are excluded from the regulatory costing model, except to the extent that the borrowings relate specifically to the funding requirements of individual businesses or assets. Any overdraft balances are included in the Separated Accounts.

(ii) Derivative financial instruments
The fair value of a derivative financial instrument and the resulting gains or losses are excluded from the regulatory costing model and appear in the reconciliation statements in the Separated Accounts.

(iii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in debtors in the Separated Accounts.

5.13. Property, plant and equipment

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

Land and buildings, are stated at a deemed cost. Land and buildings, which were previously revalued on 31 December 2003, were frozen at deemed cost, based on their fair values at 1 April 2004, under IFRS 1 transition rules.

Depreciation
Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives. As discussed at Section 3.9.1 above, the estimated economic lives assigned to property, plant and equipment are as directed by ComReg in D08/09 and not the asset lives used to prepare the Statutory Financial Statements.

The estimated economic lives assigned to property, plant and equipment directed by ComReg in respect of the year ended 30 June 2012 are as follows:

Asset Class	Estimated Economic Life (Years)
Buildings	40
Network Plant	
Transmission Equipment	
Duct	40
Overhead cable/poles	15-30
Underground cable	20
Other local network	8-20
Exchanges	
Exchange line terminations	8
Core hardware/operating software	5-6
Others	4-25

The group's policy is to review the remaining economic lives and residual values of property, plant

and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

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

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

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

5.14. Impairment of non financial assets - group

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

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

Impairment losses recognised in respect of goodwill are not reversed in any circumstances.

5.15. Leased assets

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

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

5.16. Inventories

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

As part of the strategy to acquire new customers and retain existing customers, the group sells certain mobile handsets, in connection with a service contract, at below the acquisition cost. The group also currently provides modems free of charge to customers in connection with broadband service contracts. As the mobile handset subsidy and modem costs are part of the group's strategy for acquiring new customers and retaining existing customers, the loss on the sale of mobile handsets and the cost of providing modems to customers are recognised at the time of the sale and included in the income statement.

5.17. Trade and other receivables

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

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5.18. Cash and cash equivalents

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

5.19. Indefeasible rights of use (IRU)

The group accounts for IRU contracts in the following manner:

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

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

IRUs are included in the regulatory model and are allocated to the Wholesale residual unregulated market.

5.20. Employee benefits

(i) *Pension obligations*

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

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

Typically, defined benefit plans define an amount of future pension benefit that employees have earned in return for their services to date. The pension benefit that an employee will receive on retirement is usually dependent on factors such as age, years of service and compensation.

Pre 1 January 1984, past-service costs are the responsibility of the Irish Minister for Finance. Post 1 January 1984, past-service costs are recognised immediately in the income statement unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The pension asset and additional charges or credits representing the amounts determined in accordance with IAS 19 “Employee benefits” have been excluded from the statement of Mean Capital Employed. In addition, the charge included in the Regulatory Financial Statements in respect of pension costs is the actual amounts payable for the group’s defined contribution schemes and the current service charge (determined in accordance with IAS 19) for the group’s defined benefit schemes. The current service charge represents the actual cost of meeting the group’s pension obligations over employees working lives and excludes the impact of related finance income and costs, which are excluded from the Regulatory Financial Statements.

(ii) *Other bonus plans*

The group recognises a liability and an expense for bonuses where contractually obliged or where there is past practice that has created a constructive obligation.

The entitlement to bonuses under long term bonus plans is usually conditional on the completition of a minimum service period. The expected costs of the bonuses are accrued over the period of employment based on estimates of the ultimate amount payable and targets under the scheme.

(iii) *Termination benefits*

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

5.21. Provisions

A provision is recognised when, and only when (a) the group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable (i.e. more likely than not) that an outflow

of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

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

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract or, the estimated cost to exit it, where appropriate. Where a provision relates to an excluded exceptional cost item, the provision is also excluded from the Separated Accounts and appear in the reconciliation statements in the Separated Accounts.
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5.22. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

5.23. Dividend distribution

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

Dividends paid and payable are excluded from the regulatory costing model and appear in the reconciliation statement in the Separated Accounts.

5.24. Construction contracts

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

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

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

5.25. Financial guarantee contracts

Liabilities are initially measured at fair value in respect of financial guarantees issued by the group, for the benefit of third parties, are recognised as a financial liability at the time the guarantee is issued. The liability in the statutory financial statements is initially measured at fair value and subsequently at the higher of the amount determined in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

Costs and liabilities in respect of financial guarantee contracts are excluded from the regulatory costing model and appear in the reconciliation statement in the Separated Accounts.

5.26. Contingent liabilities and contingent assets

A contingent liability, including contingent liabilities in respect of financial guarantee contracts, is a possible obligation that arises from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group or a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. A contingent liability is not recognised but is disclosed in the notes to the financial statements.

A contingent asset is a possible asset that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain an asset is recognised.

Where the group or company is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Appendices

1. Financial Reporting Conditions

Eircom's financial reporting requirements contained within Decision Instrument D08/10 published 31 August 2010 are as follows;

"5. Reporting and Transparency

5.1 Regulated Accounts

5.1.1 Without prejudice to the generality of Section 4, eircom shall prepare Regulated Accounts annually.

5.1.2 Eircom's Regulated Accounts shall contain:

(a) Separated Accounts (section 5.2);
(b) Additional Financial Statements (section 5.3);
(c) Additional Financial Information (section 5.4); and
(d) Accounting Documentation (section 7).

5.2 Separated Accounts

5.2.1 Eircom's Separated Accounts may consist of Historical Cost Accounts (HCA) and/or Current Cost Accounts (CCA) as required by ComReg.

5.2.2 Eircom's Separated Accounts shall be disaggregated to the level of Relevant Markets and contain:

(a) A statement or reference to the Regulatory Accounting Principles followed when preparing the Separated Accounts which shall include but not be limited to the following terms:
- cost causality;
- objectivity;
- transparency;
- consistency of treatment.

(b) Income Statements and Statements of Mean Capital Employed for Relevant Markets. The Income Statements within the CCA Separated Accounts (where relevant) shall separately distinguish between historic costs and adjustments associated with CCA.

(c) Notes to the Separated Accounts (as required).

(d) Eircom's Separated Accounts shall be accompanied by:

(i) A signed statement from the directors of Eircom Limited acknowledging their responsibilities for the preparation of the Separated Accounts and confirming their compliance with the requirements of the Decision Instrument in this respect.

(ii) A report and opinion by an Auditor on the Separated Accounts and Eircom's compliance with the requirements of this Decision Instrument, in respect of the preparation of the Separated Accounts.

(iii) An explanatory report (containing notes or longer form narrative as may be necessary) setting out and clarifying:

- Trends relating to Relevant Markets, including any significant future impact on Eircom's business of Regulatory Decisions which have been published by ComReg;
- Trends relating to revenue, by Relevant Market; Trends relating to volumes, by Relevant Market;
- Significant period on period movements in the reported performance and balances;
- One-off or exceptional events in the period; and
- The impact of material changes in Accounting Policies, methodologies and estimation techniques (if any) and the extent to which this explains Eircom's Separated Accounts.

5.2.3 The Separated Accounts shall be prepared in accordance with Regulatory Accounting Principles and Accounting Policies. These Separated Accounts shall show data for eircom's last complete financial period as well as the previous financial period and where these figures are not comparable, as a result of (for example) a material change in Accounting Policy, cost attribution methodology or material error, the figure for the preceding financial period must be adjusted to the extent that it is reasonable to do so.

5.2.4 The CCA Separated Accounts where required shall be prepared in accordance with Accounting Policies using the Financial Capital Maintenance Concept.

5.2.5 The Separated Accounts shall include reconciliation to the Statutory Accounts and contain (where relevant):

- Description of adjustments made between the Statutory Accounts and the HCA Separated Accounts; and
- Description of adjustments made between the HCA Separated Accounts and the CCA Separated Accounts.

5.2.6 The Income Statements shall distinguish between External and Inter/Intra revenues and costs where relevant.

5.2.7 The Income Statements for each Relevant Market shall, where applicable, separately disclose the expenditure by Functional Cost Category as detailed under section 6.4.2.

5.2.8 The Statement of Mean Capital Employed for each Relevant Market shall be prepared on a Mean Capital Employed basis.

5.2.9 Eircom shall publish its HCA Separated Accounts and explanatory report on its website no later than five months after the end of the financial period. Eircom shall publish its CCA Separated Accounts where required on its website no later than six months after the end of the financial period.

5.2.10 Eircom shall include the report and opinion of the Auditor with the published Separated Accounts.

5.3 Additional Financial Statements

5.3.1 Such Additional Financial Statements shall be prepared as required by ComReg in a format as requested by it and shall include the following:

(a) HCA Income Statements for each material regulated Service and Product (by Relevant Market and as required annually by ComReg). Eircom shall provide comparative prior period data, where possible and reasonable to do so.

(b) HCA Income Statements for regulated Services and Products (not included in section 5.3.1(a)) as required by ComReg on an ad hoc basis. Eircom shall provide comparative prior period data where possible and reasonable to do so. The required Services and/or Products shall be determined annually by ComReg prior to the end of the financial period.

(c) A single HCA Income Statement by Relevant Market for the remaining regulated Services and Products not included in section 5.3.1(a) or section 5.3.1(b). Eircom shall provide comparative prior period data where possible and reasonable to do so.

(d) HCA Income Statement for unregulated markets, Services and Products (not included in the Separated Accounts on an annual basis) as required by ComReg on an ad hoc basis. Eircom shall provide comparative prior period data, where possible and reasonable to do so. The required markets, Services and/or Products shall be determined annually by ComReg prior to the end of the financial period.

(e) Eircom's Additional Financial Statements shall be accompanied, where material, by an explanatory report relating to the Additional Financial Statements (containing notes or longer form narrative as may be necessary) setting out and clarifying:

- Significant trends relating to Services and/or Products, including any significant future impact on Eircom's business of regulatory decisions which have been published by ComReg:
- Significant trends relating to revenue, by Services and/or Products;
- Significant trends relating to volumes, by Services and/or Products;
- Significant period on period movements in the reported performance and balances;
- One-off or exceptional events in the period; and
- The impact of material changes in Accounting Policies, methodologies and estimation techniques (if any) and the extent to which this explains Eircom's Additional Financial Statements.

5.3.2 Income Statements shall distinguish between External, Inter/ Intra revenues and costs.

5.3.3 Eircom's Additional Financial Statements shall follow the same Regulatory Accounting Principles as applied in the preparation of the Separated Accounts.

5.3.4 Eircom shall submit its Additional Financial Statements to ComReg, and, when required by it, the related opinion(s) of the Auditor or the report(s) from a qualified independent body, no later than seven months after the end of the financial period.

5.4 Additional Financial Information

5.4.1 Such Additional Financial Information (where available and reasonable to do so) shall include the following:

(a) Volume information (where appropriate) that shows weighted average volumes /total units by market (unregulated) and Service and Product (regulated and unregulated) as determined annually by ComReg based on regulatory requirements.

(b) Comparison (where appropriate) of ComReg quarterly key data report volumes with volumes disclosed in the Separated Accounts and/or Additional Financial Statements together with detailed explanations of any material differences.

(c) Details of bundled discounts allocated/apportioned by market (unregulated) and at the Service and Product level for Relevant Markets.

(d) Any material profit/loss on disposal of fixed assets and its impact on the relevant Income Statement during the financial period.

(e) Details and value of annual fixed asset investment under the asset categories listed in Appendix A (or as amended from time to time) of ComReg Document 09/65. This shall be accompanied by a reconciliation statement to the fixed asset additions per the statutory accounts.

(f) Material holding gains and losses and their impact on the relevant Income Statement during the financial period, for areas where CCA information is available.

(g) A comparison of CCA costing data with other costing data, where relevant, provided for pricing purposes for specific material regulated Services and Products (as determined annually by ComReg prior to the end of the financial period).

(h) Other financial information as may be required on an ad hoc basis by ComReg.

5.4.2 Eircom shall submit its Additional Financial Information to ComReg, and, when required by it, the related opinion(s) of the Auditor or the report(s) from a qualified independent body, seven months after the end of the financial period.

5.4.3 The format and level of detail shown in the Additional Financial Information shall be determined by ComReg on an annual basis prior to the financial period end.

6. Accounting Principles

6.1 The collection of data and the basis on which it is to be allocated and apportioned between regulated and unregulated markets, Services and Products are detailed under the following headings:

- Volume and revenue identification (Section 6.2);
- Cost allocation and apportionment principles (Section 6.3);
- Cost allocation and apportionment rules (Section 6.4);
- Delineation of access network boundary (Section 6.5);
- Inter/Intra segment transactions (Section 6.6); and
- Sampling and survey techniques (Section 6.7).

6.2 Volume and revenue identification

6.2.1 Eircom shall allocate volumes and revenue to each of the Services and Products, as follows:

(a) Volumes and revenues which can be directly assigned to a particular Service or Product shall be so assigned; and

(b) Volumes and revenues that cannot be directly assigned to their use for specific Services or Products shall be apportioned on an appropriate basis which may include the use of sampling and survey techniques. Where sampling and survey techniques are applied the principles in Section 6.7 shall be followed.

6.3 Cost allocation and apportionment principles

6.3.1 Eircom shall allocate costs to each Service or Product on a fully allocated cost basis, in the following manner:

(a) Where possible, costs which can be directly assigned to a particular Service or Product shall be so assigned.
(b) Common costs, which are costs that cannot be directly assigned to a particular Service or Product, shall be allocated as follows:

- Whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;

- When direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible, the indirect linkage shall be based on comparable cost structures; and

- When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of an Equi-Proportional Mark up, computed by using the ratio of all relevant expenses directly or indirectly assigned or allocated, to each Service or Product.

6.4 Cost allocation and apportionment rules

6.4.1 Eircom shall ensure that costs are apportioned between the various Cost Components on the basis of factors/drivers which reflect the different impact of each item on the Network Elements and Functional Cost Categories. Where sampling and survey techniques are applied for the apportionment of costs the principles outlined in Section 6.7 shall be followed.

6.4.2 At a minimum and where relevant, Eircom shall ensure that the hierarchy of costs to be applied shall enable the cost of the following cost categories to be calculated:

- Product development and management;
- Marketing and sales;
- Repair and Maintenance;
- Finance;
- Installation/Provisioning;
- Network support;
- General management;
- Accommodation;
- Information technology;

- Transport;
- Personnel and administration;
- Other operating expenses;
- Credit management and billing
- Depreciation, amortisation and CCA adjustments shall also be separately identified by Eircom.

6.4.3 There shall be consistency in definitions of Functional Cost Categories between the Separated Accounts and the Additional Financial Statements.

6.4.4 ComReg reserves the right to amend this list as required from time to time.

6.5 Delineation of access network boundary

6.5.1 Eircom shall for cost allocation purposes ensure that the access network boundary shall remain at the switch side of the line card (or its nearest equivalent).

6.6 Inter/Intra segment transactions

6.6.1 Eircom shall comply with the following transfer charging principles:

(a) Transfer charges (revenues and costs) shall be attributed to Cost Components, for regulated and unregulated Services, Products and markets in accordance with the activities, which cause the revenues to be earned, or costs to be incurred.

(b) The attribution shall be objective and not intended to benefit any market (regulated or unregulated).

(c) The transfer charges for Inter/Intra usage shall be determined as the product of usage and unit charges.

(d) The charge for Inter/Intra usage shall be equivalent to the charge that is levied if the material Service or Product (regulated and unregulated) were an External sale rather than an Inter/Intra transaction. Where no equivalent charge exists the Nearest Equivalent Charge shall be charged and fully explained. Where no Nearest Equivalent Charge exists, a cost based transfer charge shall be used and fully explained.

(e) There shall be consistency of treatment of transfer charges from period to period.

(f) The transfer charging methods used shall be transparent. There shall be a clear rationale for the transfer charges used and each charge shall be justifiable (with supporting calculations available).

6.7 Sampling and survey techniques

6.7.1 Eircom shall ensure that sample data is based on either generally accepted statistical techniques or other appropriate methods. This shall result in a fair and objective allocation of revenue (including transfer charges), costs (including transfer charges), assets and liabilities. In this regard, any sampling or survey techniques used to apportion volumes and revenues shall take account of the following:

- The sample data is unbiased and objective;

- Where appropriate, the sample size has been assessed in a statistical manner and is statistically significant;

- The sample data is representative of the entire population;
- The sample data is not obscured by seasonal or other factors; and
- The sample data is updated annually.

6.7.2 Where sampling and survey techniques are employed the material samples used shall be updated on a regular basis.

7. Accounting Documentation

7.1 Eircom's Accounting Documentation shall be sufficiently transparent and shall explain, inter alia, the regulatory principles used and the methodologies applied, for the purpose of preparing:

- The Separated Accounts;
- The Additional Financial Statements; and
- The Additional Financial Information.

7.2 The Accounting Documentation shall consist of two principal documents:

7.2.1 “Primary Accounting Documentation” which shall set out the following:

- Regulatory Accounting Principles;
- Regulatory Accounting Policies;
- An overview of Attribution Methods;
- The transfer charge methodology; and
- An overview of any other methodology (e.g. CCA).

7.2.2 “Secondary Accounting Documentation” which shall set out details of the systems, processes and procedures, material methodologies (i.e. those having a material impact on any of the financial statements of the Relevant Markets, Services and Products) specifically those used for deriving or calculating the costs, revenues, assets and liabilities (including details of attribution methodologies, valuation methodology and other relevant methodologies) used to prepare the Separated Accounts, the Additional Financial Statements, and the Additional Financial Information.

7.3 Eircom shall:

7.3.1 Review and update the Accounting Documentation annually.

7.3.2 Publish the Primary Accounting Documentation on its website following ComReg’s approval.

7.4 Without prejudice to the generality of Section 7.2.1, the Primary Accounting Documentation shall contain at least the elements listed below:

(a) An explanation of the basis of preparation of the Separated Accounts, including an explanation of the key Accounting Policies adopted by Eircom. This shall include, inter alia, details of Eircom’s income recognition policy, depreciation policy, capitalisation policy, and its approach to dealing with issues such as cost allocation, prior period adjustments and changes

in Accounting Policies.

(b) A description of Eircom's business, explaining the main activities and functions performed by each of Eircom's key business units, indicating into which Relevant Markets they fit.

(c) Definitions in relation to Functional Cost Categories.

(d) Definitions in relation to Network Elements.

(e) Overview of the regulatory accounting systems, in terms of the underlying principles and the conceptual flow of costs and revenues from source financial systems to the Relevant Markets.

(f) Overview of the basis of calculation of any Inter/Intra segment transactions.

(g) A description of how the HCA Separated Accounts differ from the Statutory Accounts.

(h) A description of how the CCA Separated Accounts differ from the HCA Separated Accounts.

(i) An overview of the key cost allocation methodologies employed.

(j) An overview of the process of deriving (total unit) and (weighted average) volumes including the basis of derivation of the usage factors applied.

(k) Details of material period on period changes to the form and content of the Separated Accounts and changes to cost allocations methodologies having a material impact.

7.5 Without prejudice to the generality of Section 7.2.2, the Secondary Accounting Documentation shall contain at least the elements listed below:

(a) An explanation of how the underlying financial records supporting Eircom's business activities and functions are grouped to provide the costs, revenues, assets and liabilities used within the internal system to apportion costs, revenues, assets and liabilities to Network Elements, Functional Cost Categories, Relevant Markets, Services and Products.

(b) A description of how material costs are treated at the Relevant Market level and the process of allocation/apportionment of each cost category at the Relevant Market, Service and Product levels. This shall also include an analysis of all material activities associated with each cost category together with its treatment as direct, indirect or common cost. Details and explanation of choice of cost driver shall also be disclosed.

(c) The means by which Eircom identifies how costs are found to be directly or indirectly attributable or common including:

- How costs are directly allocated to Relevant Markets, Services and Products;
- How indirect costs have been apportioned on the basis of the associated cost driver; and
- How common costs have been allocated on the basis of an Equi-Proportional Mark-Up.

(d) Details regarding the following when used in the preparation of the Separated Accounts:
- Cost driver definitions (i.e. basis of allocation) and calculations; and
- The source of volume information.

(e) Details of the internal safeguards that are implemented to ensure that the cost allocation system is free from material error.

(f) The means by which Eircom reviews, updates and verifies cost allocation drivers together with a description of changes in basis of allocation/apportionment from period to period, which have a material impact on the Separated Accounts.

(g) The accounting treatment of bundled Services and Products, including how costs and discounts are allocated between Services and Products.

(h) Details of the sampling and survey techniques employed including the design, scope, objectives and methodology, and why these are considered appropriate.

(i) Details of when samples were last updated, frequency of updating, reasons for updating.

(j) A list of the Services and Products as per the Regulated Price List at the end of the financial period included within each Relevant Market.

(k) Details of the basis of calculation of any Inter/Intra segment transactions.

(l) The process of deriving and updating usage factors for Services and Products and the basis for the usage factors applied to the Services and Products included in the Separated Accounts and/or the Additional Financial Statements.

(m) A description, where appropriate, of the material Services and Products offered within the Relevant Markets and how these relate to Eircom's key business units.

7.6 Eircom shall:

7.6.1 Submit to ComReg (in confidence and by email), for approval, an annual edition of the (Primary and Secondary) Accounting Documentation, detailing any amendments to the prior period version.

7.6.2 Where it considers that one off or exceptional adjustments are required for the preparation of the Separated Accounts, submit its proposals in this regard in advance to ComReg for consideration and approval. This shall detail any amendments to the relevant section of the Secondary Accounting Documentation, together with supporting files and/or workings where necessary. Eircom shall endeavour to inform ComReg of these proposed adjustments in sufficient time to allow for them to be reviewed. These one off or exceptional adjustments shall include (for example):

a) Changes to study methodologies resulting in prior period adjustments;
b) Changes to study methodologies resulting in significant changes to cost allocations; and
c) Changes in Accounting Policies, methodologies and estimation techniques.

7.6.3 Eircom shall submit its Accounting Documentation to ComReg as follows:
For the financial period commencing on or after 1 July 2010 a draft copy of the Accounting Documentation shall be submitted by 31 March 2011;

For the financial period commencing on or after 1 July 2011 a draft copy of the Accounting Documentation (detailing any amendments to the prior period version) shall be submitted by 30 April 2012; and

For financial periods commencing on or after 1 July 2012 the Accounting Documentation will be submitted (detailing any amendments to the prior year version) as follows:

a) no later than five months after the end of the financial period in the case of the HCA Primary Accounting Documentation;

b) no later than six months after the end of the financial period in the case of the CCA Primary Accounting Documentation; and

c) no later than seven months after the end of the financial period in the case of the Secondary Accounting Documentation.

8. Review and Confirmation of Compliance

8.1 Eircom shall:

(a) Submit a statement signed by the directors of Eircom Limited acknowledging their responsibilities for the preparation of the Regulated Accounts and confirming Eircom's compliance with the requirements of this Decision Instrument. This signed statement shall be submitted to ComReg seven months after the end of the financial period.

(b) Engage an Auditor to perform an audit of the Separated Accounts, including considering compliance of the Separated Accounts with this Decision Instrument, in accordance with International Standards on Auditing (UK and Ireland) and the principles and guidance set out by bodies representative of the Irish accountancy professions from time to time. Such an audit opinion should be:

- On a "Fairly presents in accordance with ..." basis in respect of the Separated Accounts as a whole;
- On a "Fairly presents in accordance with ..." or a "Properly prepared in accordance with...." basis on an individual Relevant Market(s), as shall be notified in writing to Eircom from time to time by ComReg.

(c) Provide a report from a qualified independent body based on work conducted through "Agreed Upon Procedures" in respect of Additional Financial Statements and/or Additional Financial Information, where notified by ComReg from time to time.

(d) Consult with ComReg before the appointment/reappointment of the Auditor and provide assurance that its preferred Auditor has the necessary expertise.

(e) Procure a qualified independent body, to provide an appropriate opinion or report on the compliance of Eircom's Regulated Accounts, or part thereof, with the Decision Instrument, as required by ComReg from time to time. ComReg's requirements in this regard will be notified to Eircom in advance of its financial year end or in exceptional circumstances where such an opinion or report is required.

8.2 Eircom shall ensure:

(a) That the Accounting Documentation is subject to review by a qualified independent body annually; and

(b) That the processes and procedures used by Eircom be subject to a review by a qualified independent body on an annual basis.

8.3 Eircom shall prepare and submit draft Separated Accounts schedules, Additional Financial Statement schedules and Additional Financial Information schedules to ComReg within four months of the Effective Date of this Decision Instrument for ComReg's review. Eircom and ComReg shall endeavour to agree these schedules insofar as possible. ComReg however reserves the final right to determine and amend these schedules from time to time where agreement cannot be reached.

8.4 In this section, references to a qualified independent body may include an Auditor.

2. SMP Network elements

The following table lists each of eircom's network elements with a description of the network function that they cover. It should be noted that costs included in the Separated accounts for these elements will include both the direct costs associated with these functions and the indirect costs and overheads which have been associated with these functions during the accounting separation process.

Category	Element	Definition & Allocation Basis
Local Loop	Copper Access Network	Represents the copper and duct utilised in the provision of narrowband access and other copper based access services. Main cost categories include copper cable, duct and poles and related maintenance and network support costs. Allocates to services based on usage of copper access lines.
	Fibre/High Speed Access Network	Contains all local loop fibre assets and associated duct costs, plus some costs for electronics associated with high speed services, such as high speed data & leased lines services. Allocates to services based on usage of fibre access lines.
	NGA	Contains the investment in NGA infrastructure including, duct, cabinets,Fibre cables and network support systems. NGA services have still to be launched so costs have been allocated to Wholesale Residual Unregulated in 2011/12.
	DSL Equipment	Represents the ASAM/DSLAM equipment, its maintenance and overhead costs associated with the provision of broadband services. Allocates to Bitstream and NGB services based on service volumes.
	Other Access Equipment	Consist of customer and the share of exchange sited equipment associated with the provision of leased lines and ISDN PRA services. Allocates to ISDN and PRA services based on equipment type and service volumes.
	Provisioning	Comprises the appropriation and CMA activity costs related to installing, modifying and removing narrowband, broadband and data access circuits, excluding works within customer premises beyond the first point of service i.e. master socket or modem. Allocates to service on the basis of activity code.
	Repair wholesale networks	Comprises the appropriation and CMA activity costs related to reactive maintenance of all narrowband, broadband and data access services, excluding works within customer premises beyond the first point of service i.e. master socket or modem. Excludes maintenance work on copper and fibre lines. Allocates to service on the basis of activity code.
Line Sensitive Exchange	Subscriber unit	Represents exchange line equipment within remote and co-located subscriber units up to and including the share of the common infrastructure deemed to be driven by the number of installed lines. Allocates to PSTN and ISDN WLR services based on volumes weighted to reflect relative cost of equipment.
Call Sensitive Exchange costs	Subscriber unit	Represents the share of exchange equipment within remote and co-located subscriber units' excluding line cards, deemed to be driven by the number of calls. Allocates to call markets based on call volumes weighted by routing factors.
Call Sensitive Exchange costs	Parent Switch	Represents the element of exchange equipment within core network switches upon which customer lines are parented. deemed to be driven by the volume of calls. Allocates to call markets based on call volumes weighted by routing factors.
Call Sensitive Exchange costs	Gateway Switch	Represents the element of exchange equipment within core non-parent gateway switches deemed to be driven by the volume of calls. Allocates to call markets based on call volumes weighted by routing factors.
Traffic	Subscriber unit	Represents the share of exchange equipment within remote and

Category	Element	Definition & Allocation Basis
Sensitive Exchange costs		co-located subscriber units excluding line cards, deemed to be driven by the volume of traffic minutes. Allocates to call markets based on minute volumes weighted by routing factors.
Traffic Sensitive Exchange costs	Parent Switch	Represents the element of exchange equipment within network switches upon which customer lines are parented, deemed to be driven by the volume of traffic minutes. Allocates to call markets based on minute volumes weighted by routing factors.
Traffic Sensitive Exchange costs	Gateway Switch	Represents the element of exchange equipment within non-parent gateway switches deemed to be driven by the volume of traffic minutes. Allocates to call markets based on minute volumes weighted by routing factors.
Other Exchange costs	Interconnect equipment	The cost associated with exchange ports utilised for the provision of interconnect to OAOs, including overheads from maintenance, power etc. Allocates to interconnect links and related services.
	Intelligent Network	Represent the cost of Special service exchanges used to perform intelligent network functions. Allocates to call markets based on weighted call volumes.
	Other Switching elements	Represents the exchange costs associated with fixed SMS and Voicemail platforms. Allocates to related services on the basis of usage statistics.
Non-Length Dependent Transmission	PSTN: RSU to parent link	Represent the proportion of core transmission equipment utilised in the provision of voice connectivity between Remote Subscriber Units and parent exchanges. Allocates to call markets based on weighted minute volumes.
	PSTN: Parent to parent link	Represent the proportion of core transmission equipment utilised in the provision of voice connectivity between directly connected parent exchanges. Allocates to call markets based on weighted minute volumes.
	PSTN: Parent to gateway link	Represent the proportion of core transmission equipment utilised in the provision of voice connectivity between parent exchanges and gateway exchanges. Allocates to call markets based on weighted minute volumes.
	Interconnect link	Represent the proportion of core transmission equipment utilised in the provision of Customer Sited and In-span interconnection links. Allocates to interconnect links and related services.
	Data incl leased lines link	Represent the proportion of core transmission equipment utilised in the provision of connectivity between relevant data nodes for the ATM, Business IP and leased lines network platforms. Allocates to related data services on the basis of usage statistics.
	DSL transmission link	Represent the proportion of core transmission equipment utilised in the provision of connectivity to backhaul traffic from DSLAM locations to eircom/OAO PoPs (Points of Presence). Allocates to broadband services on the basis of usage statistics.
	Other data link	Represent the proportion of core transmission equipment utilised in the provision of connectivity between relevant data nodes for the ATM and Business IP network platforms. Allocates to data services on the basis of usage statistics.
	NGN Link	Includes the costs of NGN routers and the transmission equipment used to connect these routers across the core network. Main cost categories comprise Routers, transmission equipment and related maintenance and network support costs. Allocates to NGN based services such as Ethernet, Next Generation Broadband and Bitstream based on usage statistics.
	Other transmission link	Represent the proportion of core transmission equipment utilised in the provision of connectivity for services not listed above, largely ISDN PRAs, International backhaul links and the Access Core Transmission network elements. Allocates to related services on the basis of usage statistics.
Length	PSTN: RSU to	Represent the proportion of core transmission duct, WDM and

Category	Element	Definition & Allocation Basis
Dependent Transmission	parent length	fibre utilised in the provision of voice connectivity between Remote Subscriber Units and parent exchanges. Allocates to call markets based on weighted minute volumes.
	PSTN: Parent to parent length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of voice connectivity between directly connected parent exchanges. Allocates to call markets based on weighted minute volumes.
	PSTN: Gateway to gateway length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of voice connectivity between directly connected gateway exchanges. Allocates to call markets based on weighted minute volumes.
	Interconnect length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of Customer Sited and In-span interconnection links. Allocates to interconnect links and related services.
	PSTN Other (IN & Op Svces) length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of connectivity between gateway exchanges, for the Special Service Exchanges, and connectivity of links for the operator services platform. Allocates to related services on the basis of usage statistics.
	Data incl leased lines length	Represent the proportion of core transmission duct and fibre utilised in the provision of connectivity between relevant data nodes. Allocates to related data services on the basis of usage statistics.
	DSL transmission length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of connectivity to backhaul traffic from DSLAM locations to eircom/OAO PoPs. Allocates to broadband services on the basis of usage statistics.
	Other data length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of connectivity between relevant data nodes for the ATM and Business IP network platforms. Allocates to data services on the basis of usage statistics.
	NGN length	Includes the costs of transmission length based infrastructure used to connect NGN routers across the core network. Main cost categories comprise duct, fibre cables, DWDM and related maintenance and network support costs. Allocates to NGN based services such as Ethernet, Next Generation Broadband and Bitstream based on usage statistics.
	Other transmission length	Represent the proportion of core transmission duct, WDM and fibre utilised in the provision of connectivity for services not listed above, largely ISDN PRA's, International backhaul links, and the Access Core Transmission network elements. Allocates to related services on the basis of usage statistics.
Data Platform costs	Data leased lines	Represents Leased line platform costs, including Dassnet and Martis. Allocates to related data services on the basis of usage statistics.
	Data Other	Represents data platform costs for the Business IP, ATM and legacy Ethernet platforms. Allocates to related data services on the basis of usage statistics.
Other Network Elements	Outpayments	Represents payments to OAOs and foreign carriers for the termination of offnet calls. Allocates on the basis of the General Ledger codes
	Carrier Administration	Consists of the appropriation and CMA activity costs of performing the CRM function with OAOs and overseas carriers, excluding billing. Allocates to services on the basis of the underlying activity codes.
	Carrier Billing	Consists of the appropriation, CMA activity and billing system costs associated with the production distribution and collection of carrier bills. Allocates to services on the basis of the underlying

Category	Element	Definition & Allocation Basis
		activity codes.
	Other SMP Elements	Consists of all other network costs not associated with the above network elements utilised in the provision of regulated wholesale services incl repayments costs for LLU products RLA/RLB and Internet Access equipment. Allocates to related services on the basis of usage statistics.
	Non-SMP Elements	Consists of all other network costs not associated with the above network elements utilised in the provision of unregulated wholesale services, mainly repayable works orders, International carriers and unregulated network platforms such as BIP. Allocates to related services within Wholesale Residual Unregulated on the basis of usage statistics.

3. Functional Cost Categories

Category	Definition
Cost of Sales	Consists of all direct cost of sales, including Outpayments, Commissions and CPE (Customer Premises Equipment).
Product development and management	Consists of the costs involved in developing and delivering a fully managed set of products and services to customers.
Marketing and sales	Consists of the costs of all eircom marketing and sales activities, including advertising, direct marketing and CRM.
Repair and maintenance	Consists of all proactive and reactive maintenance/repairs conducted on eircom infrastructure.
Finance	Consists of the costs involved in the Financial Planning, Cash Flow Management and the provision of Stakeholder information.
Installation/Provisioning	Consists of the costs involved in the providing of products and services to Customers.
Network support	Consists of the costs of developing and maintaining a network, to construct network elements in line with design specification and integrate with the existing network and to proactively manage network performance and data.
General management	Consists of the costs involved in organisation planning, organising, control and leadership.
Accommodation	Represents all costs associated with operating eircom's property and accommodation.
Information Technology	Consists of all costs associated with operating eircom's inventory of IT assets and software, excluding specialist network electronics and associated software.
Transport	Consists of the costs of operating eircom's vehicle fleet.
Personnel and administration	Consists of the costs of the Human Resources function, including the planning and managing of the organisations resource requirements.
Other operating expenses	Consists of any eircom operating costs which do not fall under any of the above definitions.
Credit Management and billing	Consists of the costs of managing credit for all products and services to customers, including any Bad Debts incurred.
Depreciation	Consists of depreciation on all eircom fixed assets.
Group/Meteor Operating costs	Represents all operating costs incurred by other subsidiaries with the eircom, including Meteor.