eircom Holdings (Ireland) Limited

Second quarter and six months unaudited results
31 December 2013

SECOND QUARTER AND SIX MONTHS RESULTS ANNOUNCEMENT
31 DECEMBER 2013

- **Financial Results Continue to Stabilise in the Second Quarter**
  - **EBITDA[1] Decreases 1%[2]**
  - **Revenue Decreases 5%[2]**
  - **Cost Transformation on Track , Operating Costs[3] Reduce by 7%[2]**
  - **Group Broadband Base Grows 5%, Third Consecutive Quarter of Growth**
- **Fibre Network Ahead of Schedule: 700,000 Premises Passed**
- **4G Reaches 40% Population Coverage**
- **Only Operator with Quad Play Capability**
- **Group Seeks Amendment and Extension to Senior Loan Facility**

(Issued Friday 7 February, 2014) eircom Group today announced results for the second quarter and half year ended 31 December 2013.

Commenting on today's announcement, Herb Hribar, CEO eircom Group, said: "Our second quarter and half year results highlight continued stabilisation in our bottom line and progress on cost reduction. The macro economy in Ireland is demonstrating signs of recovery and consumer sentiment is at its brightest since 2007. We remain fully committed to addressing competitive challenges through continued investment in our fixed and mobile networks that enable the commercialisation of a new range of products and services.

"The rollout of high speed fibre broadband continued during the quarter, and at the end of December 2013 the fibre footprint had passed 700,000[4] homes and businesses and we are now on track to pass 1,000,000 premises by summer 2014. This has been a major driver in the 5% year on year growth of the group's broadband base, the third consecutive quarter of growth. When our fibre rollout is completed in July 2016, 1.4 million, or 70%, of all homes and businesses in Ireland will have access to high speed broadband. We also continue to roll out our 4G network, which now covers 40% of the population in Ireland. Finally, we remain the only operator in Ireland with the capability to offer a 'quad play' of services, including our new eVision IPTV offering."

Separately, eircom Group also announced that it is seeking an amendment to the terms of its Senior Loan Facilities Agreement, by extending the tenure of the facility from September 2017 to September 2019. CFO Richard Moat, said, "We believe that improving the Group's debt maturity profile is the next step in securing a sustainable and flexible long term capital structure for eircom, at a cost that is attractive to the Group."

Commenting on the results, CFO Richard Moat said "The Group generated EBITDA[1] of €233 million for the first half of the financial year, which is broadly in line with expectations, and demonstrates continued stabilisation in business performance. In particular, the profitability of the mobile business continues to improve, despite significant commercial spend in the run up to the Christmas period. While revenue decreased by 5% compared to the prior year quarter, this reflects a slowdown in the rate of revenue decline and on a quarter on quarter basis revenue has increased by 3%.

"Our programme of cost transformation continues. 1,679 employees have exited the Group during the past twelve months, including 840 under the most recent Incentivised Exit scheme. A further 260 FTEs will leave the business by the end of December 2014. In addition to delivering cost savings, these exits ensure we have a

[1] Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges and exceptional items.
[2] Prior year comparatives have been adjusted to exclude the results of Phonewatch which was disposed of in May 2013.
[3] Operating costs are cost of sales, pay and non pay costs excluding non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items.
[4] Homes passed is defined as the number of premises in areas where the construction of the fibre network has been completed but service may not be available in all these areas as yet.

flexible, fit for purpose organisation. We remain on track to achieve €100 million[5] in operational cost savings on an annualised basis by the fourth quarter of this financial year. To date, we have already delivered €72 million of those targeted cost savings. Finally, I am also pleased to announce today that the Triennial Funding Valuation of the Main Fund eircom Superannuation Scheme will be finalised shortly. The valuation indicates that there is a surplus, and thus no increase is being made to the company's pension contributions."

Trading Update[6]

Revenue for the quarter and six months ended 31 December 2013, was €334 million and €657 million respectively, down 5% and 7% respectively, on the corresponding prior year periods. Operating costs[3] excluding non-cash items, for the quarter and six months ended 31 December 2013, were €220 million and €424 million respectively, down €17 million or 7% and €48 million or 10% on the corresponding prior year period.

EBITDA[1] for the quarter and six months ended 31 December 2013 was €114 million and €233 million respectively, down 1%, compared to the prior year periods, driven primarily by increased investments in service acquisition costs. The retail customer base, comprising fixed and mobile customers, stood at 1,957,000 at 31 December 2013. This includes 1,079,000 mobile customers. The total customer base including wholesale customers was 2,405,000 at 31 December 2013.

In the fixed line segment, revenues (before intra company eliminations) for the quarter ended and six months ended 31 December 2013, were €251 million and €499 million, respectively, down 9% and 10%, respectively, compared to the corresponding prior year periods. The fixed line revenue decline was partially offset by operating cost savings. Fixed line EBITDA[1] for the quarter ended and six months ended 31 December 2013 of €109 million and €220 million, respectively, decreased by 4% and 6% respectively compared to the prior year periods.

Fixed line access net losses, for the quarter ended and six months ended 31 December 2013, were 1,000[7] and 5,000 respectively, compared to 10,000 and 25,000 for the same periods in the prior year. Retail losses of 18,000 and 39,000 for the quarter and six months ended 31 December 2013, were largely offset by an increase in wholesale customers of 17,000 and 34,000 respectively.

The total Group broadband customer base[8] stood at 696,000 at 31 December 2013, an increase of 19,000 in the quarter and 27,000 in the six months to December, which was primarily driven by the Wholesale business. The Retail broadband base returned to growth in the quarter ended 31 December 2013 and broadband lines in our Wholesale business have grown by 15,000 during the quarter and 41,000 compared to 31 December 2012, to a total of 245,000 lines at 31 December 2013. eircom Retail had 451,000 broadband customers at the end of December 2013, a 2% decrease on its retail broadband customer base at the end of December 2012 but up 4,000 since 30 September 2013. At 31 December 2013, there were 75,000 customers availing of our new fibre based high speed broadband services, over 10% penetration of premises passed.

In the mobile segment, the Group's customer numbers increased by 21,000 and 19,000 in the quarter and six months ended 31 December 2013, to 1,079,000. There were 46,000 net additions in the higher value postpaid segment during the six months ended 31 December 2013, and compared to 31 December 2012 the postpaid base has grown by 87,000 (includes mobile broadband). The number of postpaid customers now accounts for 37% of the overall base, an increase from 29% at the end of December 2012. The prepay customer base remained broadly flat at 675,000 compared to 30 September 2013; a strong Christmas performance was offset by challenges in relation to churn. Mobile revenues for the quarter ended and six months ended 31 December 2013 were €94 million and €180 million respectively. Revenue for the quarter ended 31 December 2013 was 1% higher compared to the same prior year period due to strong growth in the higher value postpay base partially offset by prepay churn and lower ARPU. Revenue for the six months ended 31 December 2013 was down 2% compared to the six months ended 31 December 2012. However, mobile EBITDA[1] for the six months ended 31 December 2013 has grown to €13 million, up €10 million compared to the same prior year period.

[5] Cost savings are based on annualised Q4 FY14 costs, excluding SAC and Phonewatch costs, compared to the financial year end June 30, 2012.
[6] Prior year comparatives have been adjusted to exclude the results of Phonewatch which was disposed of in May 2013.
[7] Combined Retail and Wholesale access line losses.
[8] Combined Retail and Wholesale excluding LLU.

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For more information on today's announcement, please visit our Investor Relations site: http://investorrelations.eircom.net/

7 February 2014

eircom Holdings (Ireland) Limited

Unaudited second quarter and six months results to 31 December 2013

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Trading highlights for the second quarter ended 31 December 2013*

- Trading conditions remained challenging in the quarter with intense competition and a difficult macro-economic environment.
- Group revenue of €334 million was down 8% on the corresponding quarter ended 31 December 2012; excluding Phonewatch Group revenue was down 5% on the prior year quarter.
- Group adjusted EBITDA[9] of €114 million was down €5 million or 4% on the quarter ended 31 December 2012; excluding Phonewatch Group EBITDA was down 1% on the prior year quarter.
- Group operating costs[10] of €220 million were €21 million or 9% lower than the same period in the prior year, reflecting savings of €10m in pay and non-pay costs and a reduction of €11m in direct cost of sales related to lower interconnect costs and fixed and mobile termination rates; excluding Phonewatch Group operating costs were €17 million or 7% down on the prior year quarter.
- Fixed line revenue, before intra-company eliminations of €251 million, was down 11% on the quarter ended 31 December 2012, reflecting reduced fixed line access volumes and also reduced voice traffic usage; excluding Phonewatch, fixed line revenue was €23 million or 9% down on the prior year quarter.
- Fixed line adjusted EBITDA of €109 million was down 8% on the quarter ended 31 December 2012; lower revenues were partially offset by savings in operating costs; excluding Phonewatch, fixed line EBITDA was €5 million or 4% down on the prior year quarter.
- Fixed line access net losses were 1,000[11] for the quarter ended 31 December 2013 compared to 30 September 2013. Retail losses of 18,000 for the quarter ended 31 December 2013 were largely offset by an increase in Wholesale customers of 17,000. This compares to a net loss of 10,000 lines for the quarter ended 31 December 2012.
- The DSL customer base[12] stood at 696,000 at 31 December 2013, an increase of 19,000 in the quarter. The retail customer base increased by 4,000 and the Wholesale base increased by 15,000. This compares to an increase of 4,000 in the group base in the corresponding quarter last year. At 31 December 2013, there were 75,000 customers availing of our new fibre based high speed broadband services.
- Mobile revenue of €94 million was up 1% on the corresponding prior year quarter.
- Mobile EBITDA of €5 million was up €4 million compared to the corresponding quarter ended 31 December 2012, despite increased investments in subscriber acquisition costs ("SAC") to grow the postpaid base.
- We continued to see strong growth in mobile postpaid customers through increased activity in prepaid to postpaid migrations and our roll out of campaigns encouraging postpaid take up, specifically with offers on data usage. Postpaid handset customers for the quarter ended 31 December 2013 were 376,000, with growth of 22,000 in the quarter and 88,000 or 30% from 31 December 2012. The prepay handset base at the 31 December 2013 was 650,000, up 1,000 in the quarter but down 85,000 from 31 December 2012.
- Total Full Time Equivalent (FTE) staff was 3,765 at 31 December 2013 which represented a reduction of 887 FTE in the quarter and 1,679 (31%) FTE since 31 December 2012.
- The Group continues to maintain strong liquidity with cash on hand of €246 million at 31 December 2013.

***Note:**

The results of eircom Phonewatch Limited, which was disposed of in May 2013, are included in the results for the quarter ended 31 December 2012. The results of Phonewatch for the quarter ended 31 December 2012 include revenue of €8 million, operating costs of €4 million and EBITDA of €4 million.

[9] Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges and exceptional items.
[10] Operating costs include cost of sales, pay and non pay costs - excludes non cash pension charge and non cash lease fair value credits
[11] Combined Retail and Wholesale access line losses.
[12] Combined Retail and Wholesale excluding LLU.

eircom Holdings (Ireland) Limited

KPIs for the second quarter ended 31 December 2013 (unaudited)

	As at and for quarter ended 31 Dec 2012	As at and for quarter ended 31 Dec 2013	Better/ (Worse) % [N1]
Access Line Base ('000)			
Retail	964	878	(9%)
Wholesale	392	448	14%
Wholesale LLU	15	15	7%
Total	**1,371**	**1,341**	**(2%)**
Net Growth/(decline) in quarter	***(10)***	***(1)***	
Retail Voice traffic (m minutes in quarter)	720	611	(15%)
DSL Lines ('000)			
Retail	461	451	(2%)
Wholesale	204	245	20%
Total	**665**	**696**	**5%**
Net Growth/(decline) in quarter	***4***	***19***	
Mobile Customers ('000)			
Prepaid handsets	735	650	(12%)
Postpaid handsets	288	376	30%
Mobile Broadband	63	53	(16%)
Total	**1,086**	**1,079**	**(1%)**
Net Mobile additions/(losses) in quarter			
Prepaid handsets	(12)	1	
Postpaid handsets	20	22	
Total Handsets	**8**	**23**	
MBB	(1)	(2)	
Total	**7**	**21**	
ARPU'S € [N2 & N3]			
Retail Voice & Line Rental	37.89	37.55	(1%)
Retail DSL Rental	15.95	15.90	-
WLR PSTN	17.93	16.97	(5%)
Bitstream	11.89	12.09	2%
Prepaid ARPU	19.56	18.33	(6%)
Postpaid ARPU	43.47	42.01	(3%)
Closing Headcount	**5,444**	**3,765**	**31%**

eircom Holdings (Ireland) Limited

Trading highlights for the six months ended 31 December 2013*

- Group revenue of €657 million was down 9% on the corresponding six months ended 31 December 2012; excluding Phonewatch Group revenue was down 7% on the corresponding six months of the prior year.
- Group adjusted EBITDA[13] of €233 million was down €10 million or 4% on the six months ended 31 December 2012; excluding Phonewatch Group EBITDA was down 1% on the corresponding six months of the prior year.
- Group operating costs[14] of €424 million were €56 million or 12% lower than the same period in the prior year, reflecting savings of €30m in pay and non-pay costs and a reduction of €26m in direct cost of sales related to lower interconnect costs and fixed and mobile termination rates; excluding Phonewatch Group operating costs were €48 million or 10% lower than the corresponding six months of the prior year.
- Fixed line revenue, before intra-company eliminations of €499 million, was down 12% on the six months ended 31 December 2012, reflecting reduced fixed line access volumes and also reduced voice traffic usage; excluding Phonewatch, fixed line revenue was €53 million or 10% down on the prior year.
- Fixed line adjusted EBITDA of €220 million was down 8% on the six months ended 31 December 2012; lower revenues were partially offset by savings in operating costs; excluding Phonewatch, fixed line EBITDA was €13 million or 6% down on the prior year.
- Fixed line access net losses were 5,000[15] for the six months ended 31 December 2013 compared to 30 June 2013. Retail losses of 39,000 for the six months ended 31 December 2013 were largely offset by an increase in Wholesale customers of 34,000. This compares to a net loss of 25,000 lines for the six months ended 31 December 2012.
- The DSL customer base[16] stood at 696,000 at 31 December 2013, an increase of 27,000 in the six months which was driven by the Wholesale business. This compares to a net increase of 5,000 in the six months to 31 December 2012. At 31 December 2013, there were 75,000 customers availing of our new fibre based high speed broadband services.
- Mobile revenue of €180 million was down 2% on the corresponding six months in the prior year, as a result of lower ARPU and a reduction in the prepaid customer base. This was partially offset by continued growth in the postpaid customer base, which grew by 46,000[17] during the six months ended 31 December 2013, compared to 30 June 2013.
- Mobile EBITDA of €13 million was up €10 million compared to the corresponding six months ended 31 December 2012, despite increased investments in subscriber acquisition costs ("SAC") to grow the postpaid base.
- Total Mobile customers of 1,079,000 as of 31 December 2013 represented a decrease of 7,000 since 31 December 2012. We continued to see strong growth in mobile postpaid customers through increased activity in prepaid to postpaid migrations and our roll out of campaigns encouraging postpaid take up, specifically with offers on data usage. Postpaid handset customers for the quarter ended 31 December 2013 were 376,000, up 88,000 or 30% from 31 December 2012, while the prepay handset base declined by 85,000 or 12% and our Mobile broadband base fell by 10,000.
- Total Full Time Equivalent (FTE) staff was 3,765 at 31 December 2013 which represented a reduction of 940 FTE in the last six months and a reduction of 1,679 (31%) since 31 December 2012.
- Capex cash outflow was €161m in the six month period to 31 December 2013 as we continue our Fibre NGA rollout with over 700,000 premises passed by 31 December 2013, and 75,000 customers were availing of high speed broadband services offering speeds of up to 70Mb/s. We launched a TV proposition in October 2013, enabling us to be the first operator to offer quad play bundles in Ireland.
- The Group continues to maintain strong liquidity with cash on hand of €246 million at 31 December 2013.

***Note:**

The results of eircom Phonewatch Limited, which was disposed of in May 2013, are included in the results for the six months ended 31 December 2012. The results of Phonewatch for the six months ended 31 December 2012 include revenue of €15 million, operating costs of €8 million and EBITDA of €7 million.

[13] Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges and exceptional items.
[14] Operating costs include cost of sales, pay and non pay costs - excludes non cash pension charge and non cash lease fair value credits
[15] Combined Retail and Wholesale access line losses
[16] Combined Retail and Wholesale excluding LLU
[17] Includes handset and mobile broadband subscribers

eircom Holdings (Ireland) Limited

KPIs for the six months ended 31 December 2013 (unaudited)

	As at and for six months ended 31 Dec 2012	As at and for six months ended 31 Dec 2013	Better/ (Worse) % [N1]
Access Line Base ('000)			
Retail	964	878	(9%)
Wholesale	392	448	14%
Wholesale LLU	15	15	7%
Total	**1,371**	**1,341**	**(2%)**
Net Growth/(decline) year to date	***(25)***	***(5)***	
Retail Voice traffic (m minutes in quarter)	1,452	1,234	(15%)
DSL Lines ('000)			
Retail	461	451	(2%)
Wholesale	204	245	20%
Total	**665**	**696**	**5%**
Net Growth/(decline) year to date	***5***	***27***	
Mobile Customers ('000)			
Prepaid handsets	735	650	(12%)
Postpaid handsets	288	376	30%
Mobile Broadband	63	53	(16%)
Total	**1,086**	**1,079**	**(1%)**
Net Mobile additions/(losses) year to date			
Prepaid handsets	(28)	(23)	
Postpaid handsets	40	46	
Total Handsets	**12**	**23**	
MBB	(1)	(4)	
Total	**11**	**19**	
ARPU'S € [N2 & N3]			
Retail Voice & Line Rental	38.04	37.72	(1%)
Retail DSL Rental	16.11	16.07	-
WLR PSTN	17.86	16.99	(5%)
Bitstream	11.92	11.89	-
Prepaid ARPU	19.86	17.83	(10%)
Postpaid ARPU	44.07	40.83	(7%)
Closing Headcount	**5,444**	**3,765**	**31%**

eircom Holdings (Ireland) Limited

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

	Quarter ended Dec 2012 €m	Quarter ended Dec 2013 €m	Six months ended Dec 2012 €m	Six months ended Dec 2013 €m
Operating profit/(loss)	31	**(162)**	76	**(126)**
Profit on disposal of property, plant and equipment	-	**(3)**	-	**(3)**
Exceptional items	-	**193**	(7)	**195**
Non-cash pension charges	4	**4**	8	**7**
Operating profit before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	35	**32**	77	**73**
Depreciation	68	**64**	134	**128**
Amortisation	19	**21**	37	**37**
EBITDA before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	122	**117**	248	**238**
Non-cash lease fair value credits	(3)	**(3)**	(5)	**(5)**
EBITDA before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	119	**114**	243	**233**

EBITDA before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment is split as follows:				
Fixed line	118	**109**	240	**220**
Mobile	1	**5**	3	**13**
	119	**114**	243	**233**

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited
For the Quarter ended 31 December 2013

	31 Dec 2012	31 Dec 2013
	€m	€m
Revenue	360	**334**
Operating costs excluding amortisation, depreciation and exceptional items	(242)	**(221)**
Amortisation	(19)	**(21)**
Depreciation	(68)	**(64)**
Exceptional items	-	**(193)**
Profit on disposal of property, plant and equipment	-	**3**
Operating profit/(loss)	31	**(162)**
Finance costs	(54)	**(58)**
Finance income	1	**-**
Finance costs – net	(53)	**(58)**
Loss before tax	(22)	**(220)**
Income tax (charge)/credit	(2)	**23**
Loss for the period	(24)	**(197)**

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited
For the six-month period ended 31 December 2013

	Notes	31 Dec 2012	31 Dec 2013
		€m	€m
Revenue	3	723	**657**
Operating costs excluding amortisation, depreciation and exceptional items		(483)	**(426)**
Amortisation	3	(37)	**(37)**
Depreciation	3	(134)	**(128)**
Exceptional items	3, 4	7	**(195)**
Profit on disposal of property, plant and equipment		-	**3**
Operating profit/(loss)	3	76	**(126)**
Finance costs		(108)	**(114)**
Finance income		1	**-**
Finance costs – net	5	(107)	**(114)**
Loss before tax		(31)	**(240)**
Income tax (charge)/credit	6	(2)	**25**
Loss for the period		(33)	**(215)**

Group statement of comprehensive income – unaudited
For the six-month period ended 31 December 2013

	31 Dec 2012	31 Dec 2013
	€m	€m
Loss for the financial period attributable to equity holders of the parent	(33)	**(215)**
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss		
Defined benefit pension scheme actuarial gains:		
- Actuarial gain in period	31	**211**
- Tax on defined benefit pension scheme actuarial gains	(4)	**(26)**
	27	**185**
Items that may be reclassified subsequently to profit or loss		
Net changes in cash flow hedge reserve:		
- Fair value gain/(loss) in period	1	**(4)**
- Tax on cash flow hedge movements	-	**1**
	1	**(3)**
Other comprehensive income, net of tax	28	**182**
Total comprehensive expense for the financial period	(5)	**(33)**

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

eircom Holdings (Ireland) Limited

Consolidated Balance Sheet – unaudited
As at 31 December 2013

	Notes	Restated 30 June 2013	31 Dec 2013
		€m	€m
Assets			
Non-current assets			
Goodwill		192	**192**
Other intangible assets		460	**450**
Property, plant and equipment		1,584	**1,578**
Derivative financial instruments		4	**1**
Deferred tax assets		3	**5**
Other assets		5	**5**
		2,248	**2,231**
Current assets			
Inventories		12	**13**
Trade and other receivables	7	226	**219**
Derivative financial instruments		1	**-**
Restricted cash		22	**21**
Cash and cash equivalents		324	**246**
		585	**499**
Total assets		2,833	**2,730**
Liabilities			
Non-current liabilities			
Borrowings	8	1,977	**2,021**
Trade and other payables		170	**165**
Deferred tax liabilities		-	**14**
Retirement benefit liability	9	836	**699**
Provisions for other liabilities and charges	10	133	**128**
		3,116	**3,027**
Current liabilities			
Borrowings	8	9	**9**
Derivative financial instruments		1	**1**
Trade and other payables		448	**462**
Current tax liabilities		21	**11**
Provisions for other liabilities and charges	10	42	**57**
		521	**540**
Total liabilities		3,637	**3,567**
Equity			
Equity share capital		-	**-**
Cash flow hedging reserve		4	**1**
Retained loss		(808)	**(838)**
Total equity		(804)	**(837)**
Total liabilities and equity		2,833	**2,730**

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the Quarter ended 31 December 2013

	31 Dec 2012	31 Dec 2013
	€m	€m
Cash flows from operating activities		
Cash generated from operations	121	**29**
Financial restructuring costs	(2)	**-**
Interest received	1	**-**
Interest paid	(20)	**(33)**
Income tax paid	(8)	**-**
Net cash generated from/(used in) operating activities	92	**(4)**
Cash flows from investing activities		
Purchase of property, plant and equipment (PPE)	(39)	**(64)**
Purchase of intangible assets	(168)	**(14)**
Proceeds from sale of PPE	-	**3**
Restricted cash	85	**1**
Net cash used in investing activities	(122)	**(74)**
Net decrease in cash, cash equivalents and bank overdrafts	(30)	**(78)**
Cash, cash equivalents and bank overdrafts at beginning of period	257	**324**
Cash, cash equivalents and bank overdrafts at end of period	227	**246**

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the six-month period ended 31 December 2013

	Notes	31 Dec 2012	31 Dec 2013
		€m	€m
Cash flows from operating activities			
Cash generated from operations	11	204	**133**
Financial restructuring costs		(5)	**-**
Interest received		1	**-**
Interest paid		(42)	**(50)**
Income tax paid		(9)	**-**
Net cash generated from operating activities		149	**83**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(93)	**(134)**
Purchase of intangible assets		(182)	**(27)**
Proceeds from sale of PPE		**-**	**3**
Restricted cash		9	**1**
Net cash used in investing activities		(266)	**(157)**
Cash flows from financing activities			
Repayment of borrowings		(4)	**(4)**
Net cash used in financing activities		(4)	**(4)**
Net decrease in cash, cash equivalents and bank overdrafts		(121)	**(78)**
Cash, cash equivalents and bank overdrafts at beginning of period		348	**324**
Cash, cash equivalents and bank overdrafts at end of period		227	**246**

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

eircom Holdings (Ireland) Limited

Consolidated statement of changes in shareholders' equity – unaudited
For the six-month period ended 31 December 2013

	Equity share capital €m	Share premium account €m	Cash flow hedging reserve €m	Retained loss €m	Total equity €m
Restated balance at 30 June 2012	**-**	**-**	**-**	**(558)**	**(558)**
Loss for the year	-	-	-	(118)	(118)
Defined benefit pension scheme actuarial losses	-	-	-	(151)	(151)
Tax on defined benefit pension scheme actuarial losses	-	-	-	19	19
Cash flow hedges:					
- Fair value gain in year	-	-	5	-	5
- Tax on cash flow hedge movements	-	-	(1)	-	(1)
Restated balance at 30 June 2013	**-**	**-**	**4**	**(808)**	**(804)**
Restated balance at 30 June 2013	**-**	**-**	**4**	**(808)**	**(804)**
Loss for the period	-	-	-	**(215)**	**(215)**
Defined benefit pension scheme actuarial gains	-	-	-	**211**	**211**
Tax on defined benefit pension scheme actuarial gains	-	-	-	**(26)**	**(26)**
Cash flow hedges:					
- Fair value loss in period	-	-	**(4)**	-	**(4)**
- Tax on cash flow hedge movements	-	-	**1**	-	**1**
Balance at 31 Dec 2013	**-**	**-**	**1**	**(838)**	**(837)**

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

eircom Holdings (Ireland) Limited

Selected notes to the condensed interim financial information – unaudited

1. General information

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

This condensed consolidated interim financial information was approved for issue on 7 February 2014.

2. Basis of preparation

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – "Interim Financial Information" and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 31 December 2013.

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

The financial information, as at and for the period ended 31 December 2013, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2013, with the exception that the group has mandatorily applied IAS 19 (Revised) Employee Benefits with certain comparative information restated. Further information and explanations in relation to the effects of the application of IAS 19 (Revised) are set out in Note 9. In addition, the group has not carried out an impairment review of the carrying value of goodwill and other non-current assets.

For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of EHIL for the year ended 30 June 2013.

eircom Holdings (Ireland) Limited

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

3. Segment information

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

The segment results for the six-months period ended 31 December 2013 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	**499**	**180**	**(22)**	**657**
Adjusted EBITDA *	220	13	-	**233**
Non-cash lease fair value credits	5	-	-	**5**
Non-cash pension charges	(7)	-	-	**(7)**
Amortisation	(23)	(14)	-	**(37)**
Depreciation	(120)	(8)	-	**(128)**
Exceptional items	(195)	-	-	**(195)**
Profit on disposal of PPE	3	-	-	**3**
Operating loss	**(117)**	**(9)**	**-**	**(126)**

The segment results for the six-months period ended 31 December 2012 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	**567**	**183**	**(27)**	**723**
Adjusted EBITDA *	240	3	-	**243**
Non-cash lease fair value credits	5	-	-	**5**
Non-cash pension charges	(8)	-	-	**(8)**
Amortisation	(22)	(15)	-	**(37)**
Depreciation	(121)	(13)	-	**(134)**
Exceptional items	7	-	-	**7**
Operating profit/(loss)	**101**	**(25)**	**-**	**76**

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

4. Exceptional items – credit/(charge)

	31 Dec 2012 €m	31 Dec 2013 €m
Restructuring programme costs	-	**(194)**
Gain on liquidation of subsidiary undertaking	6	-
Other exceptional items – credit/(charge)	1	**(1)**
	7	**(195)**

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

Restructuring programme costs

The group has included an exceptional charge of €194 million for restructuring programme costs in respect of staff exits in the six months to 31 December 2013. The exceptional charge relates to approximately 1,100 staff who had either exited the business, or were committed to exiting the business, at 31 December 2013. No provision has been included in respect of future staff exits not committed at 31 December 2013, and any further costs will be charged to the income statement in future periods.

The charge of €194 million includes an IAS 19 (Revised) defined benefit pension charge of €53m arising as a result of the incentivised exit programme, comprising €33 million in past service costs and €20 million in curtailment charges. The group has agreed to make additional cash contributions of €38 million to the pension funds in the next 12 months in respect of these obligations.

Gain on liquidation of subsidiary undertaking

The €6 million exceptional gain included in the income statement in the period ended 31 December 2012 arises from the loss of control of Osprey Property Limited, a subsidiary company, to which a liquidator was appointed in July 2012. As a result of placing Osprey Property Limited in liquidation, the net liabilities of Osprey Property Limited of €6 million are no longer required to be consolidated in accordance with IAS 27. The group no longer controls this entity and this has reduced the group's consolidated net liabilities. The principal creditor of Osprey Property Limited is a former holding company of the eircom Limited group that is also in liquidation.

Other exceptional items – credit

The group has included an exceptional credit of €1 million in the period ended 31 December 2012 relating to a change in the group’s onerous contract provision as a result of a change in the group's estimate of the expected outflows under the relevant leases.

Other exceptional items – charge

In the period ended 31 December 2013, the group recognised an exceptional charge of €1 million arising from the impairment of a receivable from a former parent company of eircom Limited, the group’s main operating subsidiary.

5. Finance costs – net

	31 Dec 2012 €m	31 Dec 2013 €m
Interest payable on bank loans and other debts	(42)	**(50)**
Payment-in-kind ("PIK") interest charge on borrowings	(12)	**(10)**
Interest amortisation on non-current borrowings	(39)	**(37)**
Net interest cost on net pension liability	(12)	**(15)**
Other	(3)	**(2)**
Finance costs	(108)	**(114)**
Finance income	1	**-**
Finance costs – net	(107)	**(114)**

6. Income tax charge/ (credit)

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

	31 Dec 2012 €m	31 Dec 2013 €m
Loss before tax	(31)	**(240)**
Tax calculated at Irish standard tax rate of 12.5%	(4)	**(30)**
Effects of:-		
Non-deductible expenses (net)	5	**5**
Effect of changes in tax rates	1	**-**
Tax charge/(credit) for the period	2	**(25)**

7. Trade and other receivables

During the period ended 31 December 2013, the group recognised a provision for impaired receivables of €5 million (31 December 2012: €5 million), reversed provisions for impaired receivables of €Nil (31 December 2012: €Nil) and utilised provisions for impaired receivables of €Nil (31 December 2012: €Nil). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

8. Borrowings

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

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
As at 31 Dec 2013					
Bank borrowings (Facility B)	**-**	**-**	**2,015**	**-**	**2,015**
Unamortised fair value difference on borrowings	**-**	**-**	**(347)**	**-**	**(347)**
	-	**-**	**1,668**	**-**	**1,668**
9.25% Senior Secured Notes due 2020	**-**	**-**	**-**	**350**	**350**
Debt issue costs	**-**	**-**	**-**	**(11)**	**(11)**
	-	**-**	**-**	**339**	**339**
Joint venture borrowings	**9**	**9**	**5**	**-**	**23**
	9	**9**	**1,673**	**339**	**2,030**
As at 30 June 2013					
Bank borrowings (Facility B)	-	-	2,005	-	2,005
Unamortised fair value difference on borrowings	-	-	(384)	-	(384)
	-	-	1,621	-	1,621
9.25% Senior Secured Notes due 2020	-	-	-	350	350
Debt issue costs	-	-	-	(12)	(12)
	-	-	-	338	338
Joint venture borrowings	9	9	9	-	27
	9	9	1,630	338	1,986

At 31 December 2013, the group has Senior Bank borrowings of €2,015 million with a maturity date of 30 September 2017.

The borrowings under the Senior Facilities Agreement were recognised initially in accordance with IAS 39 at their fair value on the date of recognition, 11 June 2012, which was estimated to be 77% of the par value of the liability. The difference between the fair value on initial recognition and the amount that was payable on the maturity date is being amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39. The remaining unamortised amount at 31 December 2013 was €347 million.

Interest accrued on borrowings at 31 December 2013 is €8 million (30 June 2013: €7 million). This is included in trade and other payables.

9. Pensions

The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature.

Adoption of IAS 19 (Revised) Employee Benefits
On the adoption of the revised standard, capitalised future administration expenses relating to deferred and retired members were removed from the measurement of defined benefit plan obligations, as such expenses are now recognised as incurred. In addition, the amended standard requires a net interest approach, which requires the expected return on plan assets to be calculated using the same discount rate as the rate used to determine the present value of plan liabilities.

The main impacts for the group on transition to IAS 19 (Revised) are as follows:

- Restatement of the Retirement Benefit Obligation at 1 July 2012 and 30 June 2013, as capitalised future administration expenses relating to deferred and retired members are removed from the measurement of defined benefit plan obligations;
- An increase in the total costs of providing defined retirement benefits in the income statement, as the expected return on plan assets are now calculated using the same discount rate as the rate used to determine the present value of plan liabilities; and
- A reclassification of a portion of the costs within the income statement, from operating costs to finance costs.

The table below outlines the impact of the IAS19R restatement on selected lines of the balance sheet for the restated comparative periods:

	Published €m	IAS19R €m	Restated €m
As at 30 June 2013			
Assets			
Deferred tax assets	4	**(1)**	**3**
Liabilities			
Retirement benefit liability	848	**(12)**	**836**
Equity			
Retained loss	(819)	**11**	**(808)**
As at 30 June 2012			
Liabilities			
Deferred tax liability	27	**1**	**28**
Retirement benefit liability (eircom Limited)	646	**(11)**	**635**
Equity			
Retained loss	(568)	**10**	**(558)**

The impact on the income statement for the year ended 30 June 2013 is a charge of €3 million.

Pension scheme obligation
The status of the pension schemes at 31 December 2013 is as follows:

	Restated 30 June 2012 €m	Restated 30 June 2013 €m	31 Dec 2013 €m
Present value of funded obligations	3,469	**3,918**	**3,923**
Fair value of scheme assets	(2,834)	**(3,082)**	**(3,224)**
Liability recognised in the Balance Sheet	635	**836**	**699**

9. Pensions - continued

Assumptions of actuarial calculations
The main financial assumptions used in the valuations were:

	At 30 June 2012	At 30 June 2013	At 31 Dec 2013
Rate of increase in salaries	1.90%(1)	1.90%(2)	1.90%(2)
Rate of increase in pensions in payment	1.90%(1)	1.90%(2)	1.90%(2)
Discount rate	4.10%	3.60%	3.75%
Inflation assumption	2.00%	2.00%	2.00%
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old male	88 years	88 years	88 years
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old female	90 years	90 years	90 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old male	91 years	91 years	91 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old female	92 years	92 years	92 years

(1) The assumptions at 30 June 2012 reflected the agreed freeze on pensionable pay up to 31 December 2013, and the imposition of a cap on the increases in pensionable pay thereafter to the lower of CPI, salary inflation or agreed fixed annual rates.

(2) The assumptions at 30 June 2013 and 31 December 2013 reflect the agreed freeze on pensionable pay up to 31 December 2013, and the imposition of a cap on the increases in pensionable pay thereafter to the lower of CPI, salary inflation or agreed fixed annual rates as well as the group's expectation that the earliest possible date for pensionable pay increases will be 1 July 2014.

10. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Restructuring €m	Onerous Contracts €m	Other €m	Total €m
At 30 June 2013	**42**	**-**	**31**	**102**	**175**
Charged to consolidated income statement:					
- Additional provisions	-	17	1	5	23
- Unused amounts reversed	-	-	(1)	-	(1)
- Unwinding of discount	-	-	-	1	1
Utilised in the financial period	(6)	-	(4)	(3)	(13)
At 31 Dec 2013	**36**	**17**	**27**	**105**	**185**

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

	30 June 2013 €m	31 Dec 2013 €m
Non-current	133	**128**
Current	42	**57**
	175	**185**

11. Cash generated from operations

	31 Dec 2012 €m	31 Dec 2013 €m
Loss after tax	(33)	**(215)**
Add back:		
Income tax charge/(credit)	2	**(25)**
Finance costs – net	107	**114**
Operating profit/(loss)	76	**(126)**
Adjustments for:		
- Profit on disposal of property, plant and equipment	-	**(3)**
- Depreciation and amortisation	171	**165**
- Non-cash lease fair value credits	(5)	**(5)**
- Non cash retirement benefit charges	8	**7**
- Restructuring programme costs	-	**194**
- Non cash exceptional items	(7)	**1**
- Other non cash movements in provisions	1	**5**
Cash flows relating to restructuring, onerous contracts and other provisions	(28)	**(110)**
Changes in working capital		
Inventories	1	**(1)**
Trade and other receivables	1	**7**
Trade and other payables	(16)	**(1)**
Inter-company payables to former group undertakings (net)	2	**-**
Cash generated from operations	204	**133**

12. Post Balance Sheet Events

There have been no significant events affecting the group since the year ended 30 June 2013.

13. Contingent liabilities

There have been no material changes in our contingent liabilities since the filing of the annual report and financial statements of EHIL for the year ended 30 June 2013.

14. Guarantees

There have been no material changes in our credit guarantees and in derivatives since the filing of the annual report and financial statements of EHIL for the year ended 30 June 2013.

15. Seasonality

Fixed line
The group does not believe that seasonality has a material impact on our fixed line business.

15. Seasonality - continued

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

16. Commitments

Operating lease commitments
The group's operating lease contractual obligations and commitment payments were €400 million at 31 December 2013 (30 June 2013: €416 million). The payments due on operating leases are in respect of lease agreements in respect of properties, vehicles, plant and equipment for which the payments extend over a number of years.

Capital commitments
The group's capital contractual obligations and commitment payments were €74 million at 31 December 2013 (30 June 2013: €49 million).

17. Related party transactions

There have been no material changes in our related party transactions since the filing of the annual report and financial statements of EHIL for the year ended 30 June 2013.

eircom Holdings (Ireland) Limited

Commentary on results of operations for the quarter ended 31 December 2013

The results of eircom Phonewatch Limited, which was disposed of in May 2013, are included in the results for the quarter ended 31 December 2012. The results of Phonewatch for the quarter ended 31 December 2012 include revenue of €8 million, operating costs of €4 million and EBITDA of €4 million.

Revenue

Group revenue of €334 million for the quarter was down 8% on the corresponding quarter ended 31 December 2012 (excluding Phonewatch, revenue was down 5% year on year).

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

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Fixed line services and other revenue	282	251	(11)
Mobile services revenue	93	94	1
Total segmental revenue	**375**	**345**	**(8)**
Intracompany eliminations	(15)	(11)	(21)
Total revenue	**360**	**334**	**(8)**

Fixed line services and other revenue

Total fixed line services and other revenues, before intra company eliminations, decreased by 11% in the quarter ended 31 December 2013 compared to the corresponding quarter in the prior year (excluding Phonewatch, fixed line revenue was down 9% year on year). Revenues reduced across all categories, reflecting the impact of continuing economic and competitive pressures on the Irish telecommunications market.

Fixed line revenues for the quarter, analysed by major products and services, may be summarised as follows:

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Access Rental and Connections	128	123	(4)
Voice Traffic	64	54	(16)
Foreign Inpayments	4	3	(19)
Data Services	31	26	(17)
Other Products and Services	55	45	(19)
Total fixed line services and other revenue	**282**	**251**	**(11)**

eircom Holdings (Ireland) Limited

Access (rental and connections)

Access revenues decreased by 4% in the quarter compared with the corresponding quarter of the prior year. Lower Retail revenues were partially offset by strong growth in Wholesale revenues. The following table outlines rental, connection and other charges and the number of access lines in service and the percentage changes for the period:

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Total access revenue			
Retail PSTN/ISDN Rental and Connection	74	67	(9)
Wholesale PSTN/ISDN/LLU Rental and Connection	24	26	6
ADSL and bitstream rental and connection	30	30	2
Total access revenue	**128**	**123**	**(4)**
Access lines (in thousands at period end, except percentages)			
Retail Access lines	964	878	(9)
Wholesale Access Lines	392	448	14
Wholesale LLU	15	15	7
Total PSTN/ISDN/LLU	1,371	1,341	(2)
ADSL and Bitstream	665	696	5
Total Customer Lines	**2,036**	**2,037**	**-**

Retail line rental and connection revenues decreased by 9% in the quarter ended 31 December 2013, compared with the corresponding prior year quarter, mainly due to a decline in PSTN and ISDN lines, which have been impacted by the slowdown in economic activity and the continuing migration of customers to other operators and to mobile. Retail access lines at 31 December 2013 were 878,000, a reduction of 9% on 31 December 2012.

In comparison to the corresponding quarter last year, Wholesale access lines showed strong growth and increased from 392,000 to 448,000. Wholesale LLU was broadly in line with the corresponding quarter in the prior year. On average, during the quarter ended 31 December 2013, the Wholesale business unit gained approximately 88% of the retail access losses. As a result, Wholesale rental and connection revenue was €26 million in the quarter ended 31 December 2013; an increase of 6% compared with the corresponding quarter ended 31 December 2012.

ADSL and Bitstream revenue for the quarter of €30m was in line with the corresponding quarter in the prior year. Wholesale bitstream volumes at 245,000 were up 41,000 from 204,000 at 31 December 2012 with growth of 15,000 in the quarter. While Retail broadband customers at 451,000 fell by 10,000 in the last 12 months, the customer base grew by 4,000 in the quarter ended 31 December 2013, the first quarterly growth in the last 4 quarters.

We continue to address retail fixed line losses with a number of programmes, including rolling out fibre-based NGA fixed line services and offering bundled telecommunications services including TV. At the 31 December 2013, we were ahead of our NGA rollout schedule with over 700,000 premises passed and 75,000 customers were availing of high speed broadband services offering speeds of up to 70Mb/s. We launched a TV proposition in October 2013, enabling the first quad play offering in Ireland.

eircom Holdings (Ireland) Limited

Traffic

Overall traffic revenue decreased by 16% in the quarter ended 31 December 2013 compared to the prior year.

The following table shows information relating to our total traffic revenue and volumes and the percentage change for the periods indicated:

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Revenue			
Retail Traffic	47	39	(18)
Wholesale Traffic	17	15	(11)
Total traffic revenue	**64**	**54**	**(16)**
Traffic (in millions of minutes, except percentages)			
Retail	720	611	(15)
Wholesale	1,097	1,087	(1)
Total traffic minutes	**1,817**	**1,698**	**(7)**

Retail voice traffic revenues fell by 18% for the quarter ended 31 December 2013, compared with the corresponding quarter ended 31 December 2012. This was primarily due to a decline in traffic volumes arising from reduced access lines, continuing weakness in the traditional voice market due to current economic conditions, and mobile substitution, as well as loss of market share.

Wholesale interconnect traffic revenues fell by 11% in the quarter ended 31 December 2013 compared to the corresponding quarter in the prior year driven mainly by reductions in traffic termination rates and lower traffic volumes.

Data communications

Revenue from data communications for the quarter ended 31 December 2013 decreased by 17% compared with the corresponding prior year quarter. The following table shows information relating to revenue from data communications products and services:

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	
Data communications revenue			
Leased lines (including Partial Private Circuits)	16	13	(21)
Switched data	13	11	(14)
IP Services	2	2	(2)
Total data communications revenue	**31**	**26**	**(17)**

Leased Line revenues fell by 21% due to a further reduction in leased line volumes, as customers rationalised their networks, as well as migrating to alternative higher speed services. Revenue from Switched Data fell by 14%, while revenue from IP services was broadly flat compared to the quarter ended 31 December 2013.

eircom Holdings (Ireland) Limited

Foreign Inpayments

Revenue from foreign terminating traffic fell by 19% during the quarter ended 31 December 2013, compared to the quarter ended 31 December 2012, which was mainly driven by continued volume decreases and the reduction in Irish fixed and mobile termination rates.

The following table shows information relating to revenue and traffic from foreign inpayments and the percentage change for the periods indicated:

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Foreign Terminating traffic Revenue	**4**	**3**	**(19)**
Foreign Terminating traffic minutes m	**197**	**171**	**(13)**

Other products and services

Other products and services revenues include revenues from our operations in the UK, operator services, managed services, data centres, other revenues and our share of revenue from Tetra.

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

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Operator Services	6	5	(17)
Managed Services	10	11	5
Phonewatch	8	-	(100)
Tetra	5	5	5
UK/NI	9	8	(20)
Datacentre	3	3	-
Other revenue	14	13	(3)
Other products and services revenue	**55**	**45**	**(19)**

Revenue from other products and services in the quarter ended 31 December 2013 decreased by 19% compared with the quarter ended 31 December 2012. Excluding Phonewatch, which was sold in May 2013, year on year revenue decreased by 5%. Operator Services revenue fell by 17% as a result of reduced calls to our 11811 directory enquiries service. Managed Services revenue increased by 5%. Tetra revenue was broadly flat while UK/NI revenues were down 20% compared to the prior year due to one off revenue in quarter ended 31 December 2012 in relation to set-up and implementation of a large network contract in Northern Ireland. Datacentre revenue of €3m was in line with the corresponding period in the prior year and other revenue decreased by 3%.

eircom Holdings (Ireland) Limited

Mobile services revenue

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

	In the quarter ended		Change[N1]
	31 Dec 2012 €m	31 Dec 2013 €m	2012/2013 %
Prepaid	44	36	(18)
Postpaid	36	46	27
Mobile Broadband	3	2	(6)
Roaming	1	1	2
Other	9	9	(5)
Total mobile services revenue	**93**	**94**	**1**

	As at		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013 %
Total subscribers (thousands):			
Pre-paid handset customers (thousands)	735	650	(12)
Post-paid handset customers (thousands)	288	376	30
Mobile Broadband customers (thousands)	63	53	(16)
Total subscribers (thousands)	**1,086**	**1,079**	**(1)**

Mobile services revenue comprises prepaid and postpaid revenues including interconnect, mobile broadband and eircom Mobile. Other revenue is derived mainly from device sales and foreign roaming revenue.

Mobile Revenue for the quarter ended 31 December 2013 includes a one off adjustment in relation to an increase in Mobile Termination Rates (MTR). A Comreg mandated reduction in MTR rates to 1 cent, which was applied from 1 July 2013, was successfully appealed by Vodafone and, in November 2013 the High Court ruled against Comreg's appeal for a stay on Mobile Termination rates at 1 cent. The impact of the ruling was that average MTR rates reverted to 2.6 cents with retrospective effect from 1 July 2013. All operators, including eircom/Meteor, issued invoices at the higher rate. The impact, including a one off catch up relating to retrospective billing, has been recognised in the quarter ended 31 December 2013 results. Therefore, revenue in the quarter ended 31 December 2013, includes €3.8m which relates to the MTR catch up in respect of the quarter ended 30 September 2013.

Mobile revenue of €94 million for the quarter ended 31 December 2013 was 1% higher than the corresponding quarter in the prior year. Excluding the retrospective MTR adjustment as outlined above, underlying revenue was 3% lower year on year. This is primarily due to a reduction in prepaid customer numbers of 12%, an increase in the proportion of traffic generated as part of bundled minutes within our own network, the impact of new low-cost post-paid plans, higher take-up of free minutes and texts add-ons in prepaid plans, as well as lower mobile termination and customer roaming rates.

At 31 December 2013 there were 1,079,000 total mobile subscribers, a decrease of 7,000 compared with 31 December 2012. The reduction in prepay handset customers and mobile broadband has been partially offset by growth in higher value postpaid customers. The proportion of postpaid customers (including mobile broadband) within our base has increased from 29% at 31 December 2012 to 37% at 31 December 2013, representing an increase of 88,000 net additional postpaid subscribers (excluding mobile broadband).

eircom Holdings (Ireland) Limited

Operating costs before amortisation, depreciation and exceptional items

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

	In the quarter ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Cost of Sales			
Foreign Outpayments	3	(1)	(128)
Interconnect	37	33	(10)
Equipment Cost of Sales	20	22	8
Other including subsidiaries	24	19	(22)
Total Cost of Sales	**84**	**73**	**(13)**
Pay Costs			
Wages and salaries and other staff costs	83	75	(10)
Social welfare costs	4	3	(17)
Pension costs – defined contribution plans	1	1	(24)
Pension costs – defined benefit plans	5	5	(2)
Pay costs before non-cash pension charge and capitalisation	**93**	**84**	**(10)**
Capitalised labour	(21)	(22)	(5)
Total pay costs before non-cash pension charge	**72**	**62**	**(14)**
Non Pay costs			
Materials and Services	6	4	(33)
Other Network Costs	7	8	13
Accommodation	26	24	(8)
Sales and Marketing	17	23	32
Bad Debts	2	2	8
Transport and Travel	4	4	(2)
Customer Services	10	11	10
Insurance and Compensation	1	1	(48)
Professional and Regulatory Fees	3	2	(34)
IT Costs	6	5	(20)
Other Non-Pay costs	3	1	(55)
Total non-pay costs	**85**	**85**	**(1)**
Operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items	**241**	**220**	**(9)**
Non Cash Pension Charge	4	4	-
Non-cash lease fair value credits	(3)	(3)	-
Operating costs before, amortisation, depreciation, and exceptional items	**242**	**221**	**(9)**

Total operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation and exceptional items decreased by 9%, compared with the corresponding quarter of the prior year. Year on year operating costs, excluding Phonewatch operating costs of €4 million for the quarter ended 31 December 2013, decreased by 7%.

Cost of Sales

Cost of sales were €11m lower in the quarter ended 31 December 2013 compared to the corresponding quarter in the prior year:

- Foreign outpayment costs were negative in the period due to the release of surplus Wholesale International provisions of €3m in the quarter ended 31 December 2013.
- Interconnect payments to other telecommunications operators were €4m lower due to falling interconnect traffic volumes and reductions in fixed and mobile termination and other interconnect rates.
- Equipment cost of sales were €2m higher mainly due to increased modem costs driven by the take up of our high speed fibre broadband proposition.
- Other cost of sales were €5m lower in line with lower revenues, particularly UK/NI and Phonewatch.

Pay costs

Total staff pay costs, before non-cash pension charges, decreased by 14% in the quarter ended 31 December 2013 compared to the corresponding prior year quarter, mainly due to reduced headcount and also due to increased capitalised labour on strategic programmes such as the NGA Rollout.

FTE Headcount at 31 December 2013 was 3,765 FTE, representing a net reduction of 1,679 FTE compared to 31 December 2012.

Non-cash pension charge

The non-cash pension charge represents the difference between the amount of cash contributions paid and payable, on an accruals basis, in respect of the group's defined benefit scheme, and the current service cost recognised in operating profit in accordance with IAS 19 (Revised). The IAS 19 accounting charge is not aligned with the principles that the group applies in measuring its EBITDA, and the non-cash pension charge is included as an adjustment in the reconciliation of EBITDA to Operating profit.

Total non-pay costs

Year on year non-pay costs decreased by 1% in the quarter ended 31 December 2013 compared to the corresponding prior year quarter:

- Materials and services costs were €2 million lower year on year mainly due to due to reduced activity and on-going cost reduction programmes.
- Other network costs were €1 million higher mainly due to higher regulatory frequency fees associated with mobile spectrum.
- Accommodation costs decreased by €2 million compared to the corresponding prior year quarter as lower rent, cleaning, security and building maintenance costs offset increased electricity costs.
- Sales and Marketing increased by €6 million primarily due to increased mobile indirect subscriber acquisition/retention costs, driving growth in postpay and prepay handset customers.
- Bad debt provisions, transport and travel costs, customer service costs, insurance and compensation costs were all broadly in line with the corresponding prior year quarter.
- Professional & regulatory fees in the quarter ended 31 December 2013, were €1 million lower than corresponding prior year quarter driven by lower consultancy costs.
- IT costs were €1m lower year on year due to savings on support and maintenance.
- Other non-pay costs in the quarter were €2 million lower than the corresponding prior year quarter, driven by lower staff related and other miscellaneous costs.

Non-cash lease fair value credits

The non-cash lease fair value credit included in the income statement during the quarter arises from the unfavourable lease provision recognised on acquisition of eircom Limited. At the date of acquisition, the group was required to recognise a liability for the difference between the amount of future rental payments that had been contractually committed to and the estimated market rent that would have been payable if those contracts had been entered into at that date. The liability is released as a credit to the income statement over the period of the relevant leases. Therefore an adjustment for the non-cash fair value credit is included in the reconciliation of Operating profit to EBITDA.

Amortisation

Amortisation charges for the quarter ended 31 December 2013 were €21 million, €2 million higher than the prior year quarter, due to higher amortisation of 4G LTE (Long Term Evolution) assets in the Mobile segment.

Depreciation and impairment of plant and equipment

The depreciation charges for the quarter ended 31 December 2013 were €64 million, €4 million lower than the prior year quarter, mainly due to assets reaching the end of their depreciable lives.

Exceptional costs

Exceptional charges of €193 million were incurred in the quarter for approximately 1,100 staff who had either exited the business, or were committed to exiting the business, at 31 December 2013.

The exceptional charge of €193 million includes an IAS 19 (Revised) defined benefit pension charge of €53 million arising as a result of the incentivised exit programme, comprising €33 million in past service costs and €20 million in curtailment charges. The group has agreed to make additional cash contributions of €38 million to the pension funds in the next 12 months in respect of these obligations.

Finance costs (net)

The group's net finance costs for quarter ended 31 December 2013 were €58 million, up €5 million on the charge for the corresponding prior year quarter, mainly due to the increase in the interest rate associated with the Senior Secured Notes issued in May 2013 and higher interest costs on net pension liability. This were partially offset by lower PIK and interest amortisation as a result of the €339 million debt repayment made in May 2013 in respect of the group's borrowings under the Senior Facilities Agreement, which was funded from the net proceeds of the Senior Secured Notes.

The higher interest costs on net pension liability in the quarter is a result of the higher pension deficit at the end of June 2013 compared to the deficit at June 2012.

Taxation

The tax credit for quarter ended 31 December 2013 was €23 million, compared with a €2 million charge in the prior corresponding period. The tax credit mainly arises from the group's restructuring programme costs charged in the quarter ended 31 December 2013.

Liquidity

Net cash generated from operating activities

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

During the quarter ended 31 December 2013, net cash used in operating activities was €4 million compared with net cash generated in operating activities of €92 million in the prior corresponding quarter. The decrease was primarily due to higher voluntary leaving payments of €92 million in the quarter compared to the prior period €10 million. In addition, there were higher working capital outflows of €12 million, as well as higher interest payments of €13 million due to timing of payments and higher interest rate on the 9.25% Senior Secured Notes.

The timing of interest payments in the quarter is in relation to the €350 million 9.25% Senior Secured Notes which are paid every six-months, compared to the Senior Facilities borrowings three-months payment terms. The interest payments in the quarter include the Senior Secured Notes six-month interest payment paid in November 2013.

Cash flows from investing activities

Total cash used in investing activities was €74 million for the quarter ended 31 December 2013, down from €122 million in the prior year quarter. The decrease is mainly due to the prior year acquisition of spectrum licences in November 2012 amounting to €145 million net of a restricted cash deposit of €76 million paid to ComReg in the first quarter ending 30 September 2012. We made payments in respect of capital expenditure of €78 million, down from €207 million in the prior year quarter due to spectrum licence payments in the prior year. Excluding licence payments, capital expenditure has increased in the quarter, mainly due to increased investments in our fixed network (NGA and IPTV), mobile network (3G/4G) and IT systems.

During the quarter ended 31 December 2013, restricted cash of €1 million (31 December 2012: €85 million) was refunded by ComReg in relation to our 3G performance bond. The movement in restricted cash during the quarter ended 31 December 2012 primarily relates to the release of the cash deposit of €76 million paid to ComReg in relation to the spectrum auction in the first quarter ending 30 September 2012, which was used to acquire spectrum licences during the quarter ended 31 December 2013.

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Commentary on results of operations for the six months ended 31 December 2013

The results of eircom Phonewatch Limited, which was disposed of in May 2013, are included in the results for the six months ended 31 December 2012. The results of Phonewatch for the six months ended 31 December 2012 include revenue of €15 million, operating costs of €8 million and EBITDA of €7 million.

Revenue

Group revenue of €657 million for the six months was down 9% on the corresponding six months ended 31 December 2012 (excluding Phonewatch, revenue was down 7% year on year).

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

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Fixed line services and other revenue	567	499	(12)
Mobile services revenue	183	180	(2)
Total segmental revenue	**750**	**679**	**(10)**
Intracompany eliminations	(27)	(22)	(18)
Total revenue	**723**	**657**	**(9)**

Fixed line services and other revenue

Total fixed line services and other revenues, before intra company eliminations, decreased by 12% in the six months ended 31 December 2013 compared to the corresponding period in the prior year (excluding Phonewatch, fixed line revenue was down 10% year on year). Revenues reduced across all categories, reflecting the impact of continuing economic and competitive pressures on our market.

Fixed line revenues for the six months, analysed by major products and services, may be summarised as follows:

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Access Rental and Connections	258	247	(4)
Voice Traffic	130	110	(16)
Foreign Inpayments	9	6	(40)
Data Services	62	53	(14)
Other Products and Services	108	83	(23)
Total fixed line services and other revenue	**567**	**499**	**(12)**

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Access (rental and connections)

Access revenues decreased by 4% in the period compared with the corresponding six months of the prior year. Lower Retail revenues were partially offset by strong growth in Wholesale revenues. The following table outlines rental, connection and other charges and the number of access lines in service and the percentage changes for the period:

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Total access revenue			
Retail PSTN/ISDN Rental and Connection	150	136	(9)
Wholesale PSTN/ISDN/LLU Rental and Connection	48	51	6
ADSL and bitstream rental and connection	60	60	1
Total access revenue	**258**	**247**	**(4)**
Access lines (in thousands at period end, except percentages)			
Retail Access lines	964	878	(9)
Wholesale Access Lines	392	448	14
Wholesale LLU	15	15	7
Total PSTN/ISDN/LLU	1,371	1,341	(2)
ADSL and Bitstream	665	696	5
Total Customer Lines	**2,036**	**2,037**	**-**

Retail Line rental and connection revenues decreased by 9% in the six months ended 31 December 2013, compared with the corresponding period in the prior year, mainly due to a decline in PSTN and ISDN lines, which have been impacted by the slowdown in economic activity and the continuing migration of customers to other operators and to mobile. Retail access lines at 31 December 2013 were 878,000, a reduction of 9% on 31 December 2012.

In comparison to the corresponding six months last year, Wholesale access lines have increased from 392,000 to 448,000 and Wholesale LLU is broadly in line with December 2012. On average, during the six months ended 31 December 2013, the Wholesale business unit gained approximately 88% of the retail access losses. As a result, Wholesale rental and connection revenue was €51 million in the six months ended 31 December 2013; an increase of 6% compared with the corresponding six months ended 31 December 2012.

ADSL and Bitstream revenue for the six months ended 31 December 2013 of €60m was in line with the corresponding period in the prior year. While overall customer volumes grew by 31,000, revenue was flat, primarily due to the change in the mix from higher value Retail to Wholesale and increased promotional discounts on broadband bundles leading to a better customer retention rate. At 31 December 2013, the number of Wholesale Bitstream lines were 245,000 up 27,000 in the last six months and 41,000 higher than December 2012. Retail broadband lines at 451,000 were broadly flat in the first six months and 10,000 lower than December 2012.

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Traffic

Overall traffic revenue decreased by 16% in the six months ended 31 December 2013 compared to the prior year.

The following table shows information relating to our total traffic revenue and volumes and the percentage change for the periods indicated:

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Revenue			
Retail Traffic	97	81	(16)
Wholesale Traffic	33	29	(15)
Total traffic revenue	**130**	**110**	**(16)**
Traffic (in millions of minutes, except percentages)			
Retail	1,452	1,234	(15)
Wholesale	2,203	2,165	(2)
Total traffic minutes	**3,655**	**3,399**	**(7)**

Retail voice traffic revenues fell by 16% in the six months ended 31 December 2013, compared with the corresponding six months ended 31 December 2012. This was primarily due to a decline in traffic volumes arising from reduced access lines, continuing weakness in the traditional voice market due to current economic conditions, and mobile substitution, as well as loss of market share.

Wholesale interconnect traffic revenues fell by 15% in the six months ended 31 December 2013 compared to the corresponding period in the prior year driven mainly by reductions in traffic termination rates and lower traffic volumes.

Data communications

Revenue from data communications for the six months ended 31 December 2013 decreased by 14% compared with the corresponding period in the prior year. The following table shows information relating to revenue from data communications products and services:

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	
Data communications revenue			
Leased lines (including Partial Private Circuits)	32	26	(17)
Switched data	26	23	(13)
IP Services	4	4	-
Total data communications revenue	**62**	**53**	**(14)**

Leased Line revenues fell by 17% due to a further reduction in leased line volumes, as customers rationalised their networks, as well as migrating to alternative higher speed services. Revenue from Switched Data fell by 13%, while revenue from IP services was broadly flat compared to the six months ended 31 December 2012.

Foreign Inpayments

Revenue from foreign terminating traffic fell by 40% during the period, compared to the six months ended 31 December 2012, which was mainly driven by continued volume decreases and the reduction in Irish fixed and mobile termination rates.

The following table shows information relating to revenue and traffic from foreign inpayments and the percentage change for the periods indicated:

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Foreign Terminating traffic Revenue	**9**	**6**	**(40)**
Foreign Terminating traffic minutes m	**446**	**342**	**(23)**

Other products and services

Other products and services revenues include revenues from our operations in the UK, operator services, managed services, data centres, other revenues and our share of revenue from Tetra.

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

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Operator Services	12	10	(12)
Managed Services	19	18	(7)
Phonewatch	15	-	(100)
Tetra	9	9	1
UK/NI	17	14	(14)
Datacentre	7	6	(13)
Other revenue	29	26	(12)
Other products and services revenue	**108**	**83**	**(23)**

Revenue from other products and services in the six months ended 31 December 2013 decreased by 23% compared with the six months ended 31 December 2012. Excluding Phonewatch, which was sold in May 2013, the year on year decrease was 10%. Operator Services revenue fell by 12% as a result of reduced calls to our 11811 directory enquiries service. Managed Services revenue fell by 7% due to lower CPE sales and associated maintenance. Tetra revenue was broadly in line with the corresponding period in the prior year. UK/NI revenues were down 14% compared to the prior year due to one off revenue in the six months ended 31 December 2012 in relation to the implementation of a large network contract in Northern Ireland. Datacentre revenue was 13% lower year on year due to certain one off revenues earned during the six months ended 31 December 2012. Other revenue decreased by 12%.

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Mobile services revenue

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

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Prepaid	89	71	(21)
Postpaid	71	86	22
Mobile Broadband	5	5	(4)
Roaming	3	2	(15)
Other	15	16	-
Total mobile services revenue	**183**	**180**	**(2)**

	As at		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
			%
Total subscribers (thousands):			
Pre-paid handset customers (thousands)	735	650	(12)
Post-paid handset customers (thousands)	288	376	30
Mobile Broadband customers (thousands)	63	53	(16)
Total subscribers (thousands)	**1,086**	**1,079**	**(1)**

Mobile services revenue comprises prepaid and postpaid revenues including interconnect, mobile broadband and eircom Mobile. Other revenue is derived mainly from device sales and foreign roaming revenue.

Mobile revenue of €180 million for the six months ended 31 December 2013 was down 2% on the corresponding six months of the prior year, primarily due to a reduction in prepaid customer numbers of 12%, an increase in the proportion of traffic generated as part of bundled minutes within our own network, the impact of new low-cost post-paid plans, higher take-up of free minutes and texts add-ons in prepaid plans, as well as lower mobile termination and customer roaming rates. The impact of the mobile termination rate reduction on the six months ended 31 December 2013, compared to the corresponding period in the prior year, was €6 million. Postpaid revenue grew by 22% due to a 30% increase in the postpaid handset base.

At 31 December 2013 there were 1,079,000 total mobile subscribers, an increase of 19,000 over the last six months but a decrease of 7,000 compared with 31 December 2012. Prepay handset customers have fallen by 23,000 over the last six months and by 85,000 since 31 December 2012. The prepay base continues to be impacted by migration to postpay, 20,000 in the six months to 31 December 2013 and 38,000 over the last 12 months. The reduction in prepay handset customers has been partially offset by growth in higher quality postpaid customers which are up 46,000 in the six months to December 2013 and 88,000 since 31 December 2012. Mobile Broadband customers have fallen by 4,000 in the six months to December and by 10,000 in the past twelve months.

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Operating costs before amortisation, depreciation and exceptional items

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

	In the six months ended		Change[N1]
	31 Dec 2012	31 Dec 2013	2012/2013
	€m	€m	%
Cost of Sales			
Foreign Outpayments	6	2	(67)
Interconnect	77	58	(25)
Equipment Cost of Sales	36	42	16
Other including subsidiaries	44	35	(20)
Total Cost of Sales	**163**	**137**	**(16)**
Pay Costs			
Wages and salaries and other staff costs	164	148	(10)
Social welfare costs	8	7	(15)
Pension costs – defined contribution plans	3	2	(23)
Pension costs – defined benefit plans	10	10	-
Pay costs before non-cash pension charge and capitalisation	**185**	**167**	**(10)**
Capitalised labour	(39)	(41)	(6)
Total pay costs before non-cash pension charge	**146**	**126**	**(14)**
Non Pay costs			
Materials and Services	13	8	(36)
Other Network Costs	14	15	11
Accommodation	50	44	(11)
Sales and Marketing	35	41	18
Bad Debts	4	5	11
Transport and Travel	7	7	(3)
Customer Services	20	22	7
Insurance and Compensation	3	2	(34)
Professional and Regulatory Fees	8	4	(43)
IT Costs	11	10	(15)
Other Non-Pay costs	6	3	(68)
Total non-pay costs	**171**	**161**	**(7)**
Operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items	**480**	**424**	**(12)**
Non Cash Pension Charge	8	7	(12)
Non-cash lease fair value credits	(5)	(5)	-
Operating costs before, amortisation, depreciation, and exceptional items	**483**	**426**	**(12)**

Total operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation and exceptional items decreased by 12%, compared with the corresponding six months of the prior year. Year on year operating costs, excluding Phonewatch operating costs of €8 million for the quarter ended 31 December 2012, decreased by 10%.

Cost of Sales

Cost of sales were €26m lower in the six months ended 31 December 2013 compared to the corresponding period in the prior year:

- Foreign outpayment costs were €4m lower than the prior year mainly due to the release of surplus Wholesale international provisions of €3m in the quarter ended 31 December 2013.
- Interconnect payments to other telecommunications operators were €19m lower due to falling interconnect traffic volumes and reductions in fixed and mobile termination and other interconnect rates.
- Equipment cost of sales were €6m higher due to a combination of increased mobile handset subscriber acquisition and retention costs reflecting the continued increase in the postpaid customer base and an increase in modem costs driven by the take up of our high speed fibre broadband proposition.
- The €9m year on year reduction in other cost of sales includes €3m relating to Phonewatch, the remaining €5m reduction is in line with lower revenues, particularly UK/NI, Managed Services and mobile top-up commissions.

Pay costs

Total staff pay costs, before non-cash pension charges, decreased by €20m in the six months ended 31 December 2013 compared to the corresponding period in the prior year, mainly due to reduced headcount and also due to increased capitalised labour on strategic programmes such as the NGA Rollout.

FTE Headcount at 31 December 2013 was 3,765 FTE, representing a net reduction of 31% compared to 31 December 2012. The number of FTEs reduced by 887 since the quarter ended 30 September 2013, which was driven mainly by the recent incentivised exit scheme.

Non-cash pension charge

The non-cash pension charge represents the difference between the amount of cash contributions paid and payable, on an accruals basis, in respect of the group's defined benefit scheme, and the current service cost recognised in operating profit in accordance with IAS 19 (Revised). The IAS 19 accounting charge is not aligned with the principles that the group applies in measuring its EBITDA, and the non-cash pension charge is included as an adjustment in the reconciliation of EBITDA to Operating profit.

Total non-pay costs

Year on year non-pay costs decreased by 7% in the six months ended 31 December 2013 compared to the corresponding prior year period:

- Materials and services costs were €5 million lower year on year mainly due to a combination of release of prior year provisions of €2m, reduced activity and on-going cost reduction programmes.
- Other network costs were €1 million higher mainly due to higher regulatory frequency fees associated with mobile spectrum.
- Accommodation costs decreased by €6 million compared to the corresponding prior year quarter driven by lower rent, cleaning, security and building maintenance costs.
- Sales and Marketing increased by €6 million primarily due to increased mobile indirect subscriber acquisition/retention costs, driven by strong postpay growth and higher SAC rate.
- Bad debts provision increased by €1m.
- Transport and travel and insurance and compensation costs were all broadly in line with the corresponding period in the prior year.
- Customer Services costs increased by €2m year on year mainly due to increased customer care costs associated with the rollout of NGA.
- Professional & regulatory fees in the six months ended 31 December 2013, were €4 million lower than corresponding period in the prior year driven by lower consultancy costs.
- IT costs were €1m lower year on year due to savings on support and maintenance
- Other non-pay costs in the period were €3 million lower than the corresponding period in the prior year, driven by lower staff related and other miscellaneous cost savings.

Non-cash lease fair value credits

The non-cash lease fair value credit included in the income statement during the period arises from the unfavourable lease provision recognised on acquisition of eircom Limited. At the date of acquisition, the group was required to recognise a liability for the difference between the amount of future rental payments that had been contractually committed to and the estimated market rent that would have been payable if those contracts had been entered into at that date. The liability is released as a credit to the income statement over the period of the relevant leases. Therefore an adjustment for the non-cash fair value credit is included in the reconciliation of Operating profit to EBITDA.

Amortisation

Amortisation charges for the six-month period ended 31 December 2013 of €37 million were in line with the prior year period, as lower amortisation on fully amortised Mobile assets were offset by higher amortisation on 4G LTE (Long Term Evolution) assets in the Mobile segment.

Depreciation and impairment of plant and equipment

The depreciation charges for the six-month period ended 31 December 2013 were €128 million, €6 million lower than the prior year period, mainly due to assets reaching the end of their depreciable lives.

Exceptional costs

Exceptional charges for the six-month period ended 31 December 2013 amounted to €195 million, compared with a €7 million credit in the six-month period ended 31 December 2012.

Restructuring charges of €194 million were incurred in the period for approximately 1,100 staff who had either exited the business, or were committed to exiting the business, at 31 December 2013. The charge of €194 million includes an IAS 19 (Revised) defined benefit pension charge of €53 million arising as a result of the incentivised exit programme, comprising €33 million in past service costs and €20 million in curtailment charges. The group has agreed to make additional cash contributions of €38 million to the pension funds in the next 12 months in respect of these obligations.

The exceptional charge in the six-month period also includes €1 million for an impairment of a receivable from a former parent company of eircom Limited.

The exceptional credit of €7 million for the six-month period ended 31 December 2012 includes an exceptional gain of €6 million arising from the loss of control of a subsidiary company, which went into liquidation, with the result of reducing the group's consolidated net liabilities, and a €1 million release from the onerous lease contracts provision as a result of a change in the group's estimate of the expected outflows under certain of the relevant leases.

Finance costs (net)

The group’s net finance costs for six-month period ended 31 December 2013 were €114 million, up €7 million on the charge for the corresponding prior year period, mainly due to the increase in the interest rate associated with the Senior Secured Notes issued in May 2013 and higher interest costs on net pension liability. These were partially offset by lower PIK and interest amortisation as a result of the €339 million debt repayment made in May 2013 in respect of the group’s borrowings under the Senior Facilities Agreement, which was funded from the net proceeds of the Senior Secured Notes.

The higher interest costs on net pension liability in the period is a result of the higher pension deficit at the end of June 2013 compared to the deficit at June 2012.

Taxation

The tax credit for six-month period ended 31 December 2013 was €25 million, compared with a €2 million charge in the prior corresponding period. The tax credit mainly arises from the group’s restructuring programme costs charged in the period ended 31 December 2013.

Liquidity

Net cash generated from operating activities

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

During the six-month period ended 31 December 2013, net cash generated from operating activities decreased to €83 million from €149 million in the prior corresponding period. The decrease was primarily due to higher voluntary leaving payments of €98 million in the period compared to the prior period €11 million. There were no tax payments due as a result of the restructuring programme costs recognised in the period. In addition, lower working capital outflows of €17 million were offset by higher interest payments of €8 million due to the higher interest rate on the 9.25% Senior Secured Notes.

Cash flows from investing activities

Total cash used in investing activities was €157 million for the six-month period ended 31 December 2013, down from €266 million in the prior year period. The decrease is mainly due to the prior year acquisition of spectrum licences in November 2012 amounting to €145 million.

We made payments in respect of capital expenditure of €161 million, down from €275 million in the prior year period. The decrease in the period is due to spectrum licence payments in the prior year. Excluding licence payments, capital expenditure has increased in the period, mainly due to increased investments in our fixed network (NGA and IPTV), mobile network (3G/4G) and IT systems.

During the six-month period ended 31 December 2013, restricted cash of €1 million (31 December 2012: €9 million) was refunded by ComReg in relation to our 3G performance bond.

Cash flows from financing activities

During the six-month period ended 31 December 2013, and 31 December 2012, the group made repayments of €4 million in respect of the group's share of Tetra borrowings.

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Other Data

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

Notes:

1. Percentage changes have been calculated based on unrounded data rather than on the rounded data presented in this table.
2. Fixed ARPU Calculations:
   A. We define "Retail fixed voice ARPU" as the average of retail access rentals (PSTN and ISDN) and net core voice revenue divided by the average number of access subscribers in each month.
   B. We define "Retail broadband ARPU" as the average of total revenue from broadband services (net of broadband bundle discount) divided by the average number of retail broadband subscribers in each month.
   C. We define "Blended retail fixed ARPU" as the average of the total retail subscriber revenue divided by the average number of access subscribers in each month.
   D. We define "the average number of subscribers in the month" as the average of the total number of subscribers at the beginning of the month and the total number of subscribers at the end of the month.
   E. Subscriber revenue is equal to access retail rental revenue (PSTN and ISDN), net core voice revenue and net broadband revenue.
3. Mobile ARPU Calculations:
   A. We define "Prepaid ARPU" as the measure of the sum of the total prepaid mobile subscriber revenue including revenue from incoming traffic in a period divided by the average number of prepaid mobile subscribers in the period divided by the number of months in the period.
   B. We define "Postpaid ARPU" as the measure of the sum of the total postpay mobile subscriber revenue including revenue from incoming traffic in a period divided by the average number of postpay mobile subscribers in the period divided by the number of months in the period.
   C. We define "the average number of mobile subscribers in the period" as the average of the total number of mobile subscribers at the beginning of the period and the total number of mobile subscribers at the end of the period.