eircom Holdings (Ireland) Limited ("EHIL")

September 26, 2013

Annual Report for Bondholders Year Ended June 30, 2013

Table of contents

DISCLAIMER

The following report presents our results for the year ended June 30, 2013. This report is not an offer for sale of securities in the United States or in any other jurisdiction. This report has been prepared for information and background purposes only. It is confidential and does not constitute or form part of, and should not be construed as, an offer or invitation to subscribe for, underwrite or otherwise acquire, any securities of eircom Holdings (Ireland) Limited (the "Company") or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group or with any other contract or commitment whatsoever. Neither this report nor any part of it may be reproduced (electronically or otherwise) or redistributed, passed on, or the contents otherwise divulged, directly or indirectly, to any other person or published in whole or in part for any purpose without the prior written consent of the Company.

This report does not purport to be all-inclusive or to contain all of the information that any person may require to make a full analysis of the matters referred to herein. Each recipient of this report must make its own independent investigation and analysis of the Company.

This report may contain certain forward-looking statements that reflect management's intentions, beliefs or current expectations. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without, limitation, those regarding the Company's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where the Company participates or is seeking to participate. The Company's ability to achieve its projected results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. All forward-looking statements included herein are based on information available to the Company as of the date hereof. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

In this report, we may rely on and refer to information regarding our business and the market in which we operate and compete. We have obtained this information from various third party sources, including providers of industry data, discussions with our customers and our own internal estimates. We cannot assure you that any of this information is accurate or correctly reflects our position in the industry, and none of our internal surveys or information has been verified by any independent sources.

No representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information contained herein. None of the Company, its advisers, connected persons or any other person accepts any liability for any loss howsoever arising, directly or indirectly, from this presentation or its contents. This shall not, however, restrict or exclude or limit any duty or liability to a person under any applicable laws or regulations of any jurisdiction which may not lawfully be disclaimed (including in relation to fraudulent misrepresentation).

1. FORWARD LOOKING STATEMENTS

This Annual Report includes forward looking statements. These forward looking statements can be identified by the use of forward looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative, or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward looking statements contained in this Annual Report. In addition, even if our results of operations, financial condition, liquidity, and the development of the industry in which we operate are consistent with the forward looking statements contained in this Annual Report, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- the impact of a continued downturn in the Irish economy;
- increasing competition in the Irish telecommunications market;
- the impact of consolidation in the Irish telecommunications market;
- our ability to successfully implement our strategy to gain new broadband subscribers through our bundling with TV services;
- extensive regulation and regulatory initiatives aimed at increasing competition;
- our ability to successfully compete in data services including broadband services, data services, end-to-end ICT solutions and data centre management;
- increased competition in the broadband market as a result of government initiatives to promote broadband infrastructure investment;
- further reductions or abolishment of the Irish Government’s telephone allowance;
- our ability to maintain our favourable brand image and develop new brands;
- changes in technologies and markets, requiring us to make substantial investments in our fixed line and mobile networks;
- increasing competition from existing providers of mobile services and new market entrants;
- high exposure to the pre-paid mobile market;
- our ability to attract and retain mobile customers and grow revenue from B2B mobile services, bundled offerings and other value added technologies, products and services;
- increasing competition from alternative telecommunication services, such as OTT;
- reliance on third parties to distribute our mobile products, provide certain services and procure customers;
- growth in our fixed and mobile business, which may result in facility and/or system capacity limitations;

- rapid changes in technology the mobile and broadband telecommunications industries and our ability to effectively deploy new or enhanced technologies;
- the proper functioning and constant development of our information technology systems;
- any failure to meet our commitments as a supplier in the network sharing partnership with O2;
- changes in the regulatory framework in which we operate;
- significant changes in our weighted average cost of capital ("WACC");
- our substantial leverage and debt service obligations;
- ability to generate sufficient cash to service our debt;
- risks associated with our structure; and
- other factors discussed or referred to in this Annual Report.

We urge you to read the sections of this Annual Report entitled "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Business*" and "*Regulation*" for a more complete discussion of the factors that could affect our future performance and the industry in which we operate. In light of these risks, uncertainties and assumptions, the forward looking events described in this Annual Report may not occur.

We undertake no obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Annual Report.

2. INDUSTRY AND MARKET DATA

Unless otherwise indicated, statements in this Annual Report regarding the market environment, market developments, growth rates, market trends and the competitive situation in the markets and segments in which we operate are based on data, statistical information, sector reports and third-party studies as well as on our own estimates.

We operate in an industry in which it is difficult to obtain precise industry and market information. We have generally obtained the market and competitive position data in this Annual Report from reports published by The Commission for Communications Regulation ("**ComReg**"), the Irish telecommunications regulator, including the report containing market information as of June 30, 2013, published on September 11, 2013. However, we cannot assure you of the accuracy and completeness of such information, and we have not independently verified such market and position data. We do, however, accept responsibility for the correct reproduction of this information.

In addition, in many cases we have made statements in this Annual Report regarding our industry and our position in the industry based on our experience and our own investigation of market conditions. We cannot assure you that any of these assumptions are accurate or correctly reflect our position in the industry, and none of our internal surveys or information have been verified by any independent sources.

To the extent that information was taken from third parties, such information has been accurately reproduced by us in this Annual Report and, as far as we are aware and able to ascertain from the information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, market studies and analyses are frequently based on information and assumptions that may not be accurate or technically correct, and their methodology is by nature forward-looking and speculative.

We have not verified the figures, market data and other information used by third parties in our studies, publications and financial information, or the external sources on which our estimates are based. We therefore assume no liability for and offer no guarantee of the accuracy of the data from studies and third-party sources contained in this Annual Report or for the accuracy of data on which our estimates are based.

This Annual Report also contains estimations of market data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on our own market observations, the evaluation of industry information (such as from conferences and sector events) or internal assessments. We believe that our estimates of market data and the information we have derived from such data helps investors to better understand the industry we operate in and our position within it. Our own estimates have not been checked or verified externally. We nevertheless assume that our own market observations are reliable. We give no warranty for the accuracy of our own estimates and the information derived from them. They may differ from estimates made by our competitors or from future studies conducted by market research institutes or other independent sources.

3. PRESENTATION OF INFORMATION

Financial Information

Unless otherwise indicated, eircom Limited's financial information in this Annual Report as of and for the two ended June 30, 2012 and 2013 has been prepared in accordance with IFRS. IFRS differs in certain significant respects from U.S. GAAP.

The consolidated financial statements of eircom Limited prepared in accordance with IFRS as of and for the two years ended June 30, 2012 and 2013, included elsewhere in this Annual Report, have been audited by PricewaterhouseCoopers, eircom Limited's independent auditors, as stated in their report appearing herein.

The consolidated financial statements of eircom Holdings (Ireland) Limited ("**EHIL**" or the "**Parent Guarantor**") prepared in accordance with IFRS as of and for the period ended June 30, 2012 and 2013 included elsewhere in the Annual Report have been audited by PricewaterhouseCoopers, EHIL's independent auditors as stated in their reports appearing herein.

Unless otherwise indicated, the full year financial information presented in this Annual Report is the historical audited consolidated financial information of eircom Limited (the parent of the Issuer of the Senior Secured Notes issued in May 2013) and its consolidated subsidiaries. We have presented the information of eircom Limited in order to be able to present the periods under review on a consistent basis for a full two year period. The EHIL financial statements differ from those which have been prepared by eircom Limited mainly in relation to the treatment of purchase price accounting effects, principally in relation to the fair valuation of the assets of EHIL including goodwill, tangible and intangible assets and liabilities including pension liabilities and lease obligations determined in accordance with IFRS, which also impact the operating profit of EHIL. EHIL does not have any borrowings, derivative instruments, provisions for other liabilities or charges that are materially different from those recognised by eircom Limited, although certain liabilities (such as IAS 19 pension liability and liabilities in respect of unfavourable lease contracts) not recognised by eircom Limited are recognised in the EHIL financial statements as a result of purchase price accounting effects and the fact that EHIL has not adopted the corridor approach in respect of the IAS 19 pension liability. The IAS 19 pension liability will also be fully recognised by eircom Limited with effect from 1 July 2013 as a result of changes in Accounting Standards.

In this Annual Report, we use certain non-GAAP financial measures and ratios, including EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and leverage and coverage ratios. These measures are presented as we believe that they and similar measures are widely used in the global telecommunications industry as a means of evaluating a company's operating performance and financing structure. They may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, nor should they be considered substitutes for the information contained in eircom Limited's and EHIL's consolidated financial statements.

The independent auditors' report for eircom Limited is included on page F-2 of this Annual Report and the independent auditors' report for EHIL for the year ended June 30, 2013 are included on page F-69 of this Annual Report. In accordance with guidance issued by the Institute of Chartered Accountants in Ireland, the independent auditors' reports state that: they were made solely to eircom Limited's and EHIL's members, as a body; the independent auditors' audit work was undertaken so that the independent auditors might state to eircom Limited's and EHIL's members those matters that were required to be stated to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, the independent auditors do not accept or assume responsibility to anyone other than eircom Limited, EHIL and eircom Limited's and EHIL's members as a body for their audit work, for their audit report or for the opinions they have formed. The independent auditors' reports for eircom Limited and EHIL for the financial periods ended June 30, 2013 and June 30, 2012 were unqualified. PricewaterhouseCoopers were the auditors of eircom Limited and EHIL for these accounting periods. In this Annual Report:

- "EBITDA" is earnings before interest, taxation, amortisation, depreciation, impairment, and profit/(loss) on disposal of property, plant and equipment; and

- "Adjusted EBITDA" is EBITDA after excluding non-cash pension charges and exceptional items of a one-off or non-recurring nature, such as financial and other restructuring costs.

Other Data

Certain numerical figures set out in this Annual Report, including financial data presented in millions or thousands, certain operating data, percentages describing market shares and penetration rates, have been subject to rounding adjustments and, as a result, the totals of the data in this Annual Report may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the numerical data in the consolidated financial statements of the Company and the Group or the tabular presentation of other data (subject to rounding) contained in this Annual Report, as applicable, and not using the numerical data in the narrative description thereof. As a result, the percentage movements in the tables set forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" do not always agree with percentage movements in the numbers presented in tables in this section of the Annual Report.

Certain Definitions—

In this Annual Report:

- "Clearstream" refers to Clearstream Banking, S.A.;
- "Company" refers to eircom Limited;
- "EHIL" and "Parent Guarantor" refer to eircom Holdings (Ireland) Limited, a private company registered in Dublin, Ireland.
- "eircom" refers to eircom Limited, a private company incorporated in Dublin, Ireland, and, as the context requires, its subsidiaries, on a consolidated basis;
- "eircom UK" refers to eircom (UK) Limited a private company registered in England and Wales. It is a provider of communication services and solutions to Government, Enterprise and Wholesale customers across the UK;
- "ESOT" or the "ESOT Trustee" refers to the eircom Employee Share Ownership Trust;
- "€" or "euro" refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;
- "EU" refers to the European Union;
- "Euroclear" refers to Euroclear Bank SA/NV;
- "Group" refers to EHIL and its subsidiaries';
- "IFRS" refers to International Financial Reporting Standards as adopted by the European Union;
- "Issuer" refers to eircom Finance Limited, a private company incorporated in Ireland with company number 524458;
- "Refinancing Transactions" refers to the issuance of €350 million aggregate principal amount of 9.25% Senior Secured Notes due 2020 and the use of the proceeds therefrom to repurchase €364 million principal amount of debt under our Senior Facilities at an average rate of approximately €0.933 per €1.00 of indebtedness;

- “Trustee” refers to Wilmington Trust, National Association;
- “Senior Facilities” refers to the facilities made available under the Senior Facilities Agreement.
- “Senior Facilities Agreement” refers to the senior facilities agreement dated on the Restructuring Date (as defined therein, being June 11, 2012, the “Restructuring Date”) as amended and restated on January 22, 2013 and on March 14, 2013, and as further amended from time to time between, among others, EHIL, Wilmington Trust (London) Limited as agent and security agent and the lenders thereunder.
- “Tetra” refers to Tetra Ireland Communications Limited.
- “United States” or “U.S.” refers to the United States of America;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States; and
- “we”, “us”, “our” and other similar terms refer to eircom Limited and its subsidiaries on a consolidated basis after giving effect to the Refinancing Transactions described in this Annual Report, unless expressly stated otherwise or the context otherwise requires.

We have included a glossary of selected technical and other terms used in this Annual Report in section 13.

4. RISK FACTORS

These risks are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe are immaterial, may also impair our business, financial condition and results of operations. If any of the possible events described below were to occur, our business, financial condition and results of operations could be materially and adversely affected. If that happens, we may not be able to pay interest or principal on the Senior Secured Notes when due and you could lose all or part of your investment.

Risks Related to Our Business and Industry

We are dependent on Ireland for substantially all of our revenue and our business would be negatively impacted by a continued downturn in the Irish economy.

We generate virtually all of our revenue in Ireland, where substantially all of our reported subscribers and customers are located. Demand for our products and services, including the penetration of new value-added services, traffic, ARPU and the numbers of subscribers, is influenced by a number of factors, including the strength of the Irish economy. Our business and results of operations have been negatively affected by the performance of the Irish economy, particularly the impact of higher unemployment, higher taxes on disposable income and a decline in overall consumer spending. Unemployment has increased from an average of 6.4% in 2008 to an average of 14.7% in 2012 but reduced to 13.7% by June 2013 according to the Central Statistics Office (Ireland), which has adversely affected consumer confidence. Between 2000 and 2007, the annual average growth in real GDP and real GNP was 5.7% and 5.0%, respectively. Between 2008 and 2011, real GDP declined by 7.4% while real GNP declined by 10.1%. This decline in GDP and GNP have impacted expenditure on telecommunications and the performance of the telecommunications operators in Ireland, including eircom. While in 2011 and 2012, Ireland's real GDP showed some small signs of recovery, increasing by approximately 2.2% and 0.2%, respectively, compared to the prior years, the business environment remains challenging. If the current difficult economic conditions in Ireland continue or if Ireland suffers further declines in GDP and GNP, the impact could have a material negative effect on our business, financial condition and results of operations.

Increasing competition in the Irish telecommunications market makes our fixed line business vulnerable to further market share loss and decreasing margins.

The Irish fixed line telecommunications market is highly competitive. Since the liberalisation of the Irish fixed line telecommunications market in December 1998, our overall fixed line market share, based on revenue, has decreased. At June 30, 2013, our market share was 52% of overall fixed line revenue according to quarterly data published by ComReg, a decline from 55% in the quarter ended June 30, 2012. Our share of the fixed line revenue market has declined in the face of competition from alternative consumer and business fixed telecom providers (UPC, Vodafone, O2, Imagine, BT, eNet and most recently Sky) and wholesale fixed telecom providers (BT) and also from the continued trend of mobile replacing fixed lines voice and data. Due to significant regulatory initiatives to create a more competitive marketplace and competition from existing and new competitors, we are vulnerable to further loss of market share in our fixed line business in the future.

There are four main retail operators in Ireland: eircom, Vodafone, UPC and most recently Sky. Our estimates of fixed line volumes based on ComReg quarterly reports as well as information released by other operators indicates that UPC now has the second largest residential fixed line customer base in Ireland. UPC, a cable provider, has substantially upgraded its residential network to provide triple play services (voice, digital TV and broadband), and higher broadband speeds and capacity to customers in urban areas. Furthermore, UPC has recently announced its intention to enter the mobile market in Ireland.

Sky entered the Irish telecommunications market in February 2013 and offers TV and entertainment as well as fixed line voice and broadband services to consumers. According to Nielsen, Sky had approximately 735,000 TV subscribers in Ireland as of September, 2013. If Sky continues to maintain and grow its customer base, as Sky has done in the United Kingdom, this could have an impact on our retail market share and it is likely that our cost of retaining our existing fixed line customers could increase.

O2 Ireland, a subsidiary of Telefonica S.A ("Telefonica"), entered the Irish fixed line market in 2008, and has built up a customer base in the business segment. On June 24, 2013 Hutchison Whampoa Limited ("Hutch"), the owner of Three Ireland, announced that it had entered into an agreement with Telefonica to buy its O2 business in Ireland. The completion of this transaction is subject to competition approval from the European Commission and that approval process is expected to take several months. As part of that process, we are expecting the Commission to send us a Request for Information and our response will reflect our commitment to ensuring that there will continue to be effective competition in the Irish mobile market, in the event that the acquisition is approved.

There has been strong growth in the number of customers switching to cable voice and broadband services. Network convergence has enabled the emergence of competitively priced bundles of services including combinations of telephony, broadband, TV and entertainment services. Our primary competition in the wholesale market is BT. Competition within the wholesale market is strongest in relation to core network access and a number of other operators are beginning to compete in this segment.

Our fixed line business is also facing increasing competition from mobile telecommunications providers. A growing number of mobile customers not only place more calls from their mobile phones instead of a fixed line, but they also choose to forego having a fixed line installed altogether in favour of using a mobile phone. Price decreases in the Irish mobile market and the availability of mobile broadband, including newer improved services that will be facilitated by 4G technology, are likely to further increase competitive pressures placed by the mobile alternative on our fixed line business. As a result, there are likely to be further periods of decline in the fixed line market, which may, in turn, make it more difficult for us to maintain our current level of fixed line revenue. Additionally, the Electricity Supply Board ("**ESB**"), the incumbent power network company in Ireland, has indicated that it is interested in rolling out Fibre-To-The-Building to urban and semi-urban areas. ESB is seeking a partner with which to offer fibre roll out on an open access basis. If this occurs, this capability would also compete with our fixed line business.

In the leased line market, we compete with service providers offering data network services based on alternative technologies, including new Internet Protocol ("**IP**") based transmission products, such as local digital and wireless networks. These competing services are often priced lower than leased lines, and product quality is sufficiently strong to constitute a viable alternative to traditional fixed line solutions.

We are developing products and services which are substitutional to our traditional telephony products and services, including services based on the new and emerging technologies referred to above such as NGA, TV, VoIP as well as IP and Ethernet services for business customers. However, our current telephony customers might not switch to our substitution products and services in favour of those offered by competitors. Even if we were able to capture 100% of customer conversions from traditional services to substitution products, our fixed line business may still experience decreasing profit margins as the margins for substitution products and services are generally lower than those for traditional products and services.

In general, our future success in the fixed line market will depend on our ability to increase broadband revenue despite competitive price pressures; to continue to develop bundles of access, calls, broadband and other products that deliver improving services to customers; to shift toward VoIP and other IP-based products especially within the business segment; and, to adapt to lower prices for our services and generally more competitive market conditions. Our ability to deliver on a number of these initiatives is dependent on our successful completion of our planned roll out of fibre based access technologies to enable increased broadband speeds and capacity to retain and attract new customers and compete with cable, and to successfully launch new products and services to our customers, including IPTV. If we are unsuccessful in completing the implementation of these programmes and otherwise addressing these risks, our market share, revenue and profit margins may be negatively affected.

In summary, competition in our fixed line business could lead to:

- further loss of existing customers and greater difficulty in retaining existing customers and attracting new customers;

- continued price erosion for our products and services;

- increased pressure on our profit margins, preventing us from maintaining or improving our current level of operational profitability and cash flows; and

- obsolescence of existing technologies and the need for more rapid deployment of new technologies, which entails increased costs and higher risks of implementation.

Consolidation in the Irish telecommunications market could impact our ability to acquire and retain customers and could further impact the pricing dynamics within the industry

On June 24, 2013 Hutch, owner of Three Ireland, announced that it had entered into an agreement with Telefonica to buy its O2 business in Ireland. The completion of this transaction is subject to competition approval from the European Commission and that approval process is expected to take several months. As part of that process, we are expecting the Commission to send us a Request for Information and our response will reflect our commitment to ensuring that there will continue to be effective competition in the Irish mobile market, in the event that the acquisition is approved.

Changes in competitive forces within the Irish telecommunications market could impact our ability to acquire and retain customers and could further impact the pricing dynamics within the industry. This could negatively impact our financial condition and results of our operations.

We may not be able to successfully implement our strategy to gain new broadband subscribers through our bundling with TV services.

A significant component of our landline internet strategy is to continue to retain existing and to gain new broadband subscribers through bundled offerings comprising fixed line voice, broadband and mobile services, and from autumn 2013, TV services. Our ability to successfully implement our strategy may be adversely affected if broadband usage in Ireland does not continue to grow as we expect; competition increases for reasons such as the entry of new competitors, technological developments introducing new platforms for internet/TV access and/or internet/TV distribution, the provision by other operators of broadband connections superior to or at more attractive terms to that which we can offer; or if we experience any network interruptions or problems related to our network infrastructure. If we fail to gain new broadband subscribers, gain new broadband subscribers at a slower rate than anticipated, are unable to charge the prices for broadband and bundled services that we anticipate or if our competition delivers better services to our subscribers, our landline internet services business and results of operations may be adversely affected.

Our fixed line telecommunications services are subject to extensive regulation and regulatory initiatives aimed at increasing competition. Evolution of an adverse regulatory framework could have a negative impact on our results of operations.

The fixed line telecommunications services that we provide are subject to extensive regulation. ComReg regulates the manner in which we provide many of our retail and wholesale services and the prices at which they are provided, and is mandated to pursue a policy of fostering increased competition in the Irish fixed line telecommunications market. In addition, the Minister for Communications, Energy and Natural Resources may, in the interests of proper and effective regulation of the Irish fixed line telecommunications market, give policy directions to ComReg to be followed in the exercise of its regulatory functions. In recent years, ComReg has taken a number of measures designed to increase further competition. These initiatives include requiring us to provide specified wholesale services and unbundled network services to OAOs in order to allow these operators to compete in the retail market. Provision of these wholesale services to competitors has contributed to our loss of market share in the retail fixed line market, which we believe is likely to continue, and would negatively impact our financial condition and results of operations.

We are increasingly dependent on revenue generated from data services and a failure to successfully compete in data services could have an adverse effect on our fixed-line business and results of operations.

Our fixed line business is increasingly dependent on revenue generated from data services, particularly broadband services, end-to-end ICT solutions and data centre management, to offset the impact on our operating results

of the declining market for fixed line voice and access services, and to maintain the long-term profitability of the business. A number of factors could limit our ability to increase our revenue from data services, including weak growth in customer demand for data services, difficulties or delays in our planned roll out of our NGA fibre network, limited customer adoption of more advanced and faster forms of broadband services and increased price competition from other data service providers.

Revenue growth from data services must be balanced with price reductions to maximise widespread adoption by the greatest number of users and to encourage migration to higher-speed offerings. Our broadband services are subject to competition from services provided by competitors using other technologies such as cable, wireless or satellite, and from services built by competitors that are based on unbundled local loops, line share and co-location. In addition, our fixed line business is facing increased competition in this market from mobile companies, following the implementation of 3G technology and the deployment of LTE, which allows mobile operators to offer higher rate data services to their customers via their mobile networks. Our lower share of the mobile market relative to our share of the fixed line market makes us vulnerable to such competitive pressures.

We are attempting to address these challenges with a number of programmes, including rolling out fibre-based NGA fixed line services and offering bundled telecommunications services. If these programmes are not successful, we may not maintain or grow our broadband revenue, which would materially adversely affect our financial position and results of operations.

We may be subject to increased competition in the broadband market as a result of government initiatives to promote broadband infrastructure investment, which may negatively impact our results of operations.

The Irish Government has in the past and is currently taking a number of initiatives, including providing funding, as part of the national development plan to promote investment in broadband infrastructure in Ireland.

The Department of Communications, Energy, and Natural Resources published the National Broadband Plan in August 2012 in which targets were set out for broadband speeds to be achieved by 2020. The plan envisages broadband speeds of 70Mbps to 100Mbps being available to more than half of the population by 2015; at least 40Mbps, and in many cases much faster speeds, to at least a further 20% of the population and potentially as much as 35% of the population in smaller towns and villages; and a minimum of 30Mbps for every remaining home and business in the country—no matter how rural or remote. The plan also indicated the possibility of up to €175 million of Government funding being provided in areas where high speed broadband is not available, and in areas where high speed internet would not otherwise be made available by the market. This funding would be made available through a competitive procurement process. We intend to compete for this funding using both our fixed and wireless infrastructure. Others operators are also expected to bid for this funding using their own infrastructure, or potentially also using some component of wholesale services purchased from us. The outcome of this bidding process could range from a low to high level of utilisation of our infrastructure and so may significantly impact on our costs and on the viability of operating networks in low density areas. If we are not successful in obtaining such funding, our costs of operating in low density areas may be higher relative to our competitors, which could have an adverse impact on our business and results of operations.

In the early 2000s, the Irish Government invested approximately €200 million in constructing metropolitan area networks in over 90 towns outside of Dublin. The franchise to sell services utilizing this infrastructure for fifteen years was awarded to a private company, eNet, which competes with us in the provision of wholesale services. eNet poses a competitive threat in the provision of wholesale services that are used by our competitors in the retail and business markets. Any further expansion of eNet's existing metropolitan area network or the completion of eNet's network to provide national connectivity through partnerships with other telecommunications operators would adversely affect our financial position and results of operations.

We may have less income as a result of the Irish Government's further reduction or abolishment of the telephone allowance.

As part of the Irish Government's overall programme to reduce current expenditure, substantial reductions were introduced to the household benefits package included in the Irish Government's budget for 2013. This package, comprising subsidies for telephone usage, transport and heating, is provided to eligible recipients, mainly old-age

pensioners. The telephone allowance is a payment made by the Department of Social Protection to us and other telecommunications operators. As of January 1, 2013, the Government funded telephone allowance for each eligible customer was reduced by 58% (from €18.36 (excluding VAT) to €7.72 (excluding VAT) per month). As of June 30, 2013, approximately 251,000 of our customers were in receipt of this allowance. We believe that there is a risk that the Irish Government will decide to abolish the remainder of the allowance when it announces its 2014 budget in October 2013. Recent and future changes to the telephone allowance scheme will and may have an adverse impact on business and results of operations.

If we are unable to maintain our favourable brand image and develop new brands we may be unable to retain existing and/or attract new customers, leading to loss of market share and revenue.

Our ability to attract new customers and retain existing customers depends in part on our ability to maintain a favourable brand image. We continuously make efforts to maintain and improve the position of our brand in the market, including advertising, sponsorship, and ensuring that overall company performance in terms of service provision and management is subject to regular review and improvement initiatives. If these efforts are not successful, or if brand promotion efforts by our competitors are more successful, our financial condition and results of operations could be adversely affected.

Changing technologies and markets will require us to make substantial additional investments in our fixed line network and systems.

We operate in an industry characterised by rapid technological and market changes. We are presently undergoing a major investment programme, with our main capital expenditure commitments being in relation to the roll out of the NGA network, investments to roll out 4G services and enhance current services, investment in new IT capabilities and TV. We expect to fund our capital expenditure programmes through cash on hand and cash flow from operations.

Our financial condition and results of operations may be materially adversely affected if we are unable to fund our current and future capital programmes. As new technologies are developed, we may incur significant investment programmes in order to implement such technologies and remain competitive.

We may suffer commercial impacts (i) through dependency on infrastructure rollout by the network share arrangement between Meteor and O2 or (ii) if the network share arrangement were not to continue or (iii) as a result of our failure to meet our commitments in our capacity as the supplier of the managed leased lines services to the network share arrangement.

In order to achieve the planned cost savings and efficiencies as well as the timely rollout of infrastructure supporting eircom's own network coverage, we are somewhat dependent on the success of our network share arrangement between Meteor and O2. On June 24, 2013 Hutch, the owner of Three Ireland, announced that it had entered into an agreement with Telefonica to buy its O2 business in Ireland. The completion of this transaction is subject to competition approval and that approval process is expected to take several months. If approved this transaction could adversely impact the benefits expected to be achieved under our network share arrangement and, particularly, the viability of the arrangement itself.

In addition, as is the norm for any such arrangement, we have commercial exposure if our network share with O2 were not to continue, as a result of material divergence in our strategies or the ownership of either party.

Failure to successfully achieve the efficiencies from the network share partnership between Meteor and O2 could have a material adverse effect on our business, financial condition and the results of operations. Further, it may be the case that actual cost synergies, if achieved at all, could be lower than expected and may take longer to achieve than we anticipate.

eircom Wholesale was selected as part of a tender process as the supplier of the managed leased lines service ("Managed Leased Transmission Services Agreement") to the network share arrangement. As is typical in contracts of this nature, Meteor and O2 are contractually entitled under the agreement to claim service credits from eircom Wholesale

in the event of a delay by eircom Wholesale of the agreed roll-out schedule. Phase I and II of the roll-out schedule encountered delays but these were resolved and phases I and II are now nearing completion. Phase III of the roll-out schedule is being re-planned to take account of new LTE deployment requirements and delays in equipment selection which is currently behind schedule. As part of the governance to deliver this agreement eircom Wholesale has notified both entities (Meteor and O2) through the Mosaic network share management team of these delays.

Our high exposure to the pre-paid mobile market may negatively impact our revenue and results of operations.

As of June 30, 2013, 66.5% of our mobile customer base (75% of our Meteor customer base and 19% of our eMobile customer base) consisted of prepaid users, which is higher than that of our main competitors. Given the size of our prepaid customer base, our mobile business does not have the same level of recurring billed revenue associated with postpaid contracts as other mobile operators, and is therefore relatively more exposed to volatility in customers' short-term usage replenishment patterns. The churn of prepaid customers is significantly higher than that of postpaid. For the twelve months ended June 30, 2013 prepaid churn was 57% compared with postpaid churn of 16.9% for the same period. Prepaid customers also have a lower ARPU than postpaid customers. For the twelve months ended June 30, 2013, prepaid ARPU (excluding VAT) was €18.90 compared with postpaid ARPU (excluding VAT) of €40.20. A significant decline or negative fluctuation in prepaid customers' mobile communications usage and loyalty could adversely impact our business, financial condition and results of operations.

We have experienced high churn in our prepaid business and have implemented strategies that attempt to reduce our exposure to the pre-paid business. If such strategies are not successful and we are not able to reduce our exposure to the prepaid mobile business, our financial condition and results of operations could be materially affected.

The success of our mobile operations will depend on our ability to attract and retain mobile customers and grow revenue from B2B mobile services, bundled offerings and other value added technologies, products and services.

We believe that the rate of growth in new retail and business customers in the mobile market will continue to decrease in the future. Eventually, we expect that the total number of mobile subscribers will level off, and the key subscriber dynamic will be movement between prepaid and postpaid plans. The penetration rate in Ireland for the quarter ended June 30, 2013 was 118.3% for mobile services (including mobile broadband and M2M), and 99.5% (excluding mobile broadband and M2M). We believe that future market growth will be driven largely by new services such as our B2B mobile services, bundled offerings and content. Our ability to maintain revenue levels and defend and grow our customer base despite increased competition will depend in large part upon our ability to retain existing customers, convince mobile users to switch from competing carriers to our mobile services, and to stimulate demand for new services including 4G services. We may not achieve these aims if we are not able to enhance our existing mobile products and services and to develop, introduce and market new mobile technologies, products and services.

Our goal of maintaining and increasing our mobile customer base may also be adversely affected by our competitors' success in retaining customers. If other mobile operators improve their ability to retain customers and thereby lower their churn levels, or if we are not able to maintain churn rates at a reasonable level, it will become more difficult for us to maintain and grow our mobile customer base, and the cost of acquiring new customers or retaining existing customers could increase.

In addition, our mobile performance may be affected by the size and usage trends of our customer base. The composition of our customer base and mobile phones and tariff plans selected by our customers may in turn be affected by dealer commissions and related costs of attracting new customers, the prices of handsets, the competitiveness of our mobile tariffs, the competitiveness of alternative services, developments in the Irish mobile market, including changes in the market dynamics if competition approval is granted for Hutch's (owner of Three Ireland) acquisition of the O2 business in Ireland and general macroeconomic conditions, many of which are outside of our control.

If we fail to maintain or increase revenue from our mobile customer base, our business, financial condition and results of operations could be materially adversely affected.

We face increasing competition from alternative telecommunication services, such as OTT.

We face increasing competition from non-traditional mobile voice and data services based on new mobile VoIP technologies, in particular over the top ("**OTT**") applications, such as Skype, Google Talk and Facebook. These OTT applications are often free of charge, accessible via smartphones and allow their users to have access to potentially unlimited messaging and voice services over the Internet, thus bypassing more expensive traditional voice and messaging services (SMS/MMS) provided by Mobile Network Operators ("**MNOs**") like us, who are only able to charge the Internet data usage for such services. With the growing share of smartphones in the mobile subscriber base in Ireland, there is an increasing number of customers using OTT services. All MNOs are currently competing with OTT service providers who leverage existing infrastructures and are often not required to implement capital-intensive business models associated with traditional MNOs like us. OTT service providers have become more sophisticated, and technological developments have led to a significant improvement in the quality of service, particularly in speech quality. In addition, players with strong brand capability and substantial financial resources, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT services.

If non-traditional mobile voice and data services or similar services continue to increase in popularity, and if we are not able to address this competition, or develop appropriate strategies to obtain revenues from these services, this could result in declines in ARPU, subscriber base and profitability across all of our products and services.

Our mobile business relies significantly on third parties to distribute its products, provide certain services and procure customers.

Our mobile business currently relies heavily on third parties to distribute pre-paid airtime vouchers and electronic top-up cards through various non-exclusive channels. Our mobile business also relies on a small number of third parties to facilitate the process that enables a customer's account to be credited with payments that they can use to buy our mobile business's services including, in the case of electronic top-ups, providing terminals to retail outlets. In certain circumstances, our mobile business relies on third parties to provide accurate and quality systems and equipment capable of interfacing, where necessary, with our mobile business and its systems.

While our mobile business continues to distribute its products and services through its own distribution channels, its ability to distribute products and services will continue to depend, to a large extent, on securing and maintaining a number of key distribution partners. These third party distributors procure customers for our mobile business's services through selling branded devices and service packs. A significant proportion of new customers were acquired through a limited number of mobile retailers and independent dealers. Mobile retail specialists generally also procure customers for our mobile competitors, and they may have incentives to encourage potential customers to choose mobile services offered by our mobile competitors rather than our mobile services.

In addition, our mobile business outsources the assembly, storage and distribution of handset and subscriber identity mobile packs and has partially outsourced the provision of customer care services for our customers. Failure to maintain key distribution and other relationships on acceptable terms, or the failure of our distribution partners to procure sufficient customers or other third parties to provide adequate services to us and our customers could have an adverse effect on our results of operations and financial condition.

Growth in our fixed and mobile business may result in facility and/or system capacity limitations, which may impact the ability of our fixed and mobile businesses to achieve its projected targets.

A number of our business facilities including our data centre and IT systems have capacity limitations. While our intention is that these facilities and systems will be expanded, upgraded or replaced in accordance with customer growth forecasts, if growth exceeds these forecasts there is a risk that our business will be unable to expand certain facilities and/or systems on time, in a commercially viable manner, or at all. This could negatively impact customer acquisition, retention and growth, and could have a material adverse effect on our business, financial condition and results of operations.

The mobile and broadband telecommunications industries are subject to rapid changes in technology and our success depends on our ability to effectively deploy new or enhanced technologies.

The technology used in the mobile telephony and broadband markets is rapidly evolving, and we cannot assure you that we will be able to sufficiently and efficiently adapt the services we provide to keep up with this rapid development. In particular, certain communications technologies, such as LTE and VoIP, and fibre optics technology allowing for faster data transmission and lower unit cost per GB of transferred traffic are increasingly important in the markets in which we operate. Technological change and the emergence of alternative technologies for the provision of telecommunications services that are technologically superior, cheaper or otherwise more attractive than those that we provide may render our existing services less profitable less viable or obsolete. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. In addition, we cannot currently predict how emerging and future technological changes will affect our operations nor can we predict that new technologies required to support our planned services will be available when expected, if at all. We may be required to deploy new technologies rapidly if, for example, subscribers begin demanding features of a new technology such as increased bandwidth, or if one of our competitors decides to emphasise a newer technology in its marketing campaigns.

The complexity of our information technology systems may affect our ability to launch new services in a timely manner which may have an adverse effect on our operations. Due to the rapid evolution of technology in the markets in which we operate, we cannot guarantee that we will correctly predict and therefore devote appropriate amounts of capital and resources to develop the necessary technologies that satisfy existing subscribers and attract new subscribers. As a result, any new or enhanced technologies, services or products that we introduce may fail to achieve sufficient market acceptance or may experience technical difficulties. In addition, we may not recover the investments we have made or may make to deploy these technologies, services and products and we may not be able to do so in a cost efficient manner. In addition, we may not be able to obtain funding on reasonable terms or at all in order to finance capital expenditures necessary to keep pace with technological developments. We also may not be able to obtain access to capital or other resources necessary to develop new or enhanced technologies, services and products when needed or at all. This may negatively impact on our business, financial condition and results of operations.

We must continuously upgrade our existing networks and depend upon the proper functioning and constant development of our information technology systems.

We must continue to maintain and upgrade our existing networks and IT systems in a timely manner in order to retain and expand our subscriber base in each of our markets, and to successfully increase customisation of services and implement our strategy. While we have taken steps to implement new IT solutions in order to improve our sales effectiveness, time-to-market and operational efficiency, we cannot assure you that the implementation and migration of data to the appropriate systems will be made as planned or as budgeted or will meet all our business, functional and regulatory requirements. In addition, the needs of our business as well as regulatory obligations, among other things, could require us to upgrade the functionality of our networks, expand and maintain customer service, update our network management and administrative system and upgrade older systems and networks to adapt them to new technologies. Many of these tasks are not entirely under our control and may be affected by, among other things, applicable regulations. If we fail to successfully maintain or upgrade our networks and IT systems, our services and products may become less attractive to new subscribers and we may lose existing subscribers to our competitors, or we may be required to make unbudgeted investments. In addition, our future and on-going network and IT systems upgrades may fail to generate a positive return on investment, which may have an adverse effect on our business, financial condition and results of operations. Finally, if our capital expenditures exceed our projections or our operating cash flow is lower than expected, we may be required to seek additional financing for future maintenance and upgrades, which in turn could adversely affect our business, financial condition and results of operations.

Our profitability may suffer if we are unable to successfully introduce new products or enter new market segments or businesses.

As part of our strategy, we seek to identify and exploit opportunities for future growth, with a focus on the fixed line telecommunications market. We may also, if we determine it to be in our interests, introduce new products or enter into new market segments or into other telecommunications businesses. We may need to invest substantial funds and

other resources, or enter into strategic alliances in order to introduce these products or to enter and compete in these market segments or businesses. We may not have the resources necessary for such investment or find suitable partners, nor can we assure you that any market segments or businesses that we enter into in the future will perform as well as we might expect.

We plan to continue to lower our cost base and improve our profitability through a series of efficiency measures that may be costly or difficult to implement or otherwise disrupt our business.

As part of our focus on operational efficiency, we plan to improve our earnings and cash flows by continuing to reduce operating costs within the business through a number of measures. We expect that these measures will include further workforce reductions, work practice modernisation, consolidation of facilities and procurement cost savings. The anticipated cost savings and operational efficiencies that we expect to derive from these measures are based on a number of assumptions and judgments that are subject to a wide variety of business, economic and competitive risks and uncertainties.

While we have been implementing significant cost-savings programmes for a number of years, we may encounter challenges in implementing additional planned measures in the future in achieving the expected cost-savings and efficiencies. Therefore, we may be unable to carry out all of our planned cost-saving initiatives. For example, in order to reduce headcount to meet our targets, we have relied on temporary reduced working hour agreements as well as employee exits under voluntary leaving programmes. Specifically, in relation to further voluntary leaving programmes, there can be no assurance that these programmes will achieve their targets. In implementing further voluntary leaving programmes, we may incur costs which exceed our current expectations, and we may suffer significant disruptions to our business. Future restructuring costs will also directly impact our results of operations. Similarly, our plans with respect to the consolidation of facilities or changes in procurement practices may result in operational difficulties or the disruption of supply arrangements. A failure to successfully implement these rationalisation measures, a loss of critical skills or capabilities, any unforeseen additional expenses or the inability to fully realise their anticipated benefits could have a material adverse effect on our business, financial condition and results of operations. Moreover, actual additional cost savings, if achieved at all, may be lower than we expect and may take longer to achieve than we anticipate.

A significant deterioration in our budgeted future cash flows or changes in our WACC could result in a further impairment of our goodwill or other intangible and tangible fixed assets, which could have a material negative effect on our operating profits and financial condition.

The group has a significant level of goodwill, intangible and tangible fixed assets. We test goodwill for impairment on an annual basis, and other tangible and intangible assets if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount, based on discounted cash flows. The impairment test is undertaken separately for each of the group's cash generating units (CGUs), Fixed Line and Mobile. The discounted cash flows are impacted by the group's projected future cash flows and the group's estimate of its weighted average cost of capital.

Future cash flows are based on the group's budgeted future cash flows, which are dependent amongst other things on the underlying performance of our business, which may be further impacted by negative industry or economic trends.

Any significant deterioration in our budgeted future cash flows or an increase in the WACC could result in a further impairment of our goodwill or intangible and tangible fixed assets, which could have a material negative effect on our operating profits and further increase our net liabilities.

Strikes or other industrial actions could disrupt our operations or make it more costly to operate our facilities.

We are exposed to the risks of strikes and other industrial actions. As of the 30 June 2013, we estimate that 78% of our employees are union members. There can be no assurance that our collective labour agreements will prevent strikes, work stoppages or other industrial actions in the future. As we seek to modernise our organisation and work practices, and to reduce operating costs through our voluntary leaving programmes and other measures, any industrial

action that we experience might disrupt our operations, possibly for a significant period of time, result in increased operating costs, or otherwise have a material adverse impact on our business, financial condition and results of operations.

We must continue to attract and retain key personnel to enable us to operate our business.

The performance of our business depends significantly on the efforts and expertise of management and other key senior personnel. Recruiting and retaining qualified technical and managerial staff is challenging in the telecommunications area, where there is significant competition for skilled and experienced personnel. For instance, our main fixed line billing system is over 20 years old, and we may not be able to secure staff who are knowledgeable or experienced in supporting this system. In addition, the negative publicity associated with our financial difficulties in 2012, prior to the financial restructuring, and our on-going headcount reduction programme may increase these recruitment and retention challenges. An inability to attract and retain key personnel, or to do so at an acceptable level of cost, may cause disruptions in our operations and have an adverse effect on our results of operations.

Any acquisitions or divestitures we make could disrupt our business and materially harm our financial condition, results of operations and cash flows. There are integration and consolidation risks associated with potential future acquisitions and divestitures. Future acquisitions and divestment may result in significant transaction expenses, increased leverage and unexpected liabilities. Future acquisitions may result in risks associated with entering new markets, and we may be unable to profitably operate the acquired businesses.

We may, from time to time, consider certain acquisitions or divestitures, in markets where we currently operate as well as in markets in which we have not previously operated. However, we may not be able to identify suitable acquisition candidates in the future, or may not be able to finance such acquisitions on favourable terms. We may lack sufficient management, financial and other resources to successfully integrate future acquisitions. Acquisitions and divestitures involve numerous other risks, including the diversion of our management's attention from other business concerns, undisclosed risks impacting the target and potential adverse effects on existing business relationships with current customers and suppliers. In addition, any acquisitions or divestitures could increase our leverage a result of raising external financing, could impact our financial position or create dilution for our shareholders. Any future acquisitions may result in significant transaction expenses, unexpected liabilities and risks associated with entering new markets in addition to the integration and consolidation risks.

We cannot assure you that any acquisitions or divestitures will perform as planned or prove to be beneficial to our operations and cash flow or that we will be able to successfully integrate any acquisitions that we undertake. Any such failure could seriously harm our financial condition, results of operations and cash flows.

Our increasing dependence on information technology systems to provide our services and run our business exposes us to risks of hacking, piracy, terrorist or cyber-attacks, security breaches, natural disasters or facilities/systems failure, which could damage our business and potentially lead to regulatory penalties.

The performance and reliability of our IT systems and facilities, our networks and our fixed line and mobile telecommunication services, are critical to our ability to attract and retain customers. These include sophisticated critical facilities and systems such as IP routers, exchanges, switches, transmission systems, other key network points, data centres and our core billing and customer service systems. The hardware supporting these systems is housed in a number of locations. These systems, facilities (some of which are owned by third parties) and networks, and the services that we provide may be subject to damage or disruptions resulting from criminal or terrorist acts or as a result of malicious hacking, piracy or cyber-attack, or from numerous other events, including infrastructure defects, fire, flood or other natural disasters, power outages, unanticipated IT problems, computer viruses and equipment, system or infrastructure failures which could damage our business. Our business continuity plans and our network and IT security policies and procedures may not be sufficient to prevent or mitigate the impact of any such damage, disruption or economic loss.

A major disruption of our infrastructure or a third party's systems could result in a failure of our networks or systems, or of the third party-owned local and long distance networks on which we rely for the provision of interconnection and roaming services to our customers. This would affect the quality of our services or cause temporary

service interruptions, which could result in customer dissatisfaction, regulatory penalties and reduced revenue and earnings.

Anti-terrorism laws and regulations might result in a heavier regulatory burden on our business and increased operating costs.

We presently incur significant costs complying with the data retention requirements imposed by crime prevention laws and regulations. The Irish Communications (Retention of Data) Act 2011 requires all telephone and internet service providers to retain voice and internet traffic records (including time and location data for mobile traffic) for a period of two years and one year, respectively, for the purpose of the prevention and investigation of serious crime by the Irish State's law enforcement agencies. However, an actual or threatened act of terrorism or similar event could lead to a significantly higher regulatory burden on our business, and result in increased costs. We may also be required to assist Government departments in certain circumstances, such as national emergencies, which may require us to incur additional expenditures or disruptions to our network. These increased obligations and higher costs could result in a disruption of our operations and an adverse effect on our results of operations.

Misuse of our fixed line and mobile networks by customers or others may damage our reputation and result in increased costs to our business.

Customers or others may misuse our networks in ways that could damage our reputation and result in regulatory or other measures that increase our costs. Examples of such potential misuse could include using our network to make inappropriate contact with children, spamming, propagation of viruses or engaging in fraudulent activities. As the telecommunications sector has become increasingly digitalised, automated and online-based, we have become exposed to increased risks of hacking and general information technology system failures. Unanticipated information technology problems, system failures, computer viruses, hacker attacks or unauthorised access to our server could affect the quality of our services, compromise the confidentiality of our customer data or cause service interruptions, which could harm our reputation and adversely impact our market share, business, financial condition or results of operations.

The loss of important intellectual property rights, including our key trademarks and domain names, could adversely affect our business and results of operations.

Certain of our intellectual property rights, including our key trademarks and domain names, which we believe are well known in the telecommunications markets in which we operate, are important to our business. A significant part of our revenue is derived from products and services marketed under our brand names. We rely upon a combination of trademark laws, copyright and data base protection as well as, where appropriate, contractual arrangements to establish and protect our intellectual property rights. From time to time we bring claims against third parties in order to protect our intellectual property rights against infringement. These claims can result in protracted and costly litigation, regardless of their merits, and may not ultimately be successful, which could adversely impact our business operations and results of operations.

In addition to the risk that a third party may infringe on our intellectual property rights, we face the risk that a third party may claim that we are infringing on its intellectual property rights. As a result, we may not be able to use intellectual property that is material to the operation of our business. Alternatively, a third party may allege that one of our suppliers or customers is infringing on its intellectual property rights, and may bring a lawsuit to prevent such supplier from providing us with products or services important to our business, or customers from purchasing our products and services. If such a lawsuit was successful, we may be forced to stop using or selling the product or service, which could have an adverse effect on our business and results of operations.

We collect and process subscriber data as part of our daily business and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and subscriber churn and adversely affect our business.

We collect, store and use data in the ordinary course of our operations that is protected by data protection laws. Although we take precautions to protect subscriber data in accordance with the privacy requirements provided for under applicable laws, we may fail to do so and certain subscriber data may be leaked as a result of human error or technological failure or otherwise be used inappropriately. We work with independent and third-party suppliers, partners,

sales agents, service providers and call centre agents, and we cannot exclude that such third parties could also experience system failures involving the storing or the transmission of proprietary information. Violation of data protection laws by us or one of our partners or suppliers may result in fines, reputational harm and subscriber churn and could have a material adverse effect on our business, financial condition and results of operations.

The outcome of litigation may not be in accordance with our assessments which could have an adverse impact on our financial position and results of operations.

We are a party to a variety of legal proceedings from time to time. We review the status of any pending or threatened proceedings with legal counsel on a regular basis. In determining whether provisions are required in respect of pending or threatened litigation, we review the period in which the underlying cause of the litigation or of the actual or possible claim or assessment occurred, the degree of probability of an unfavourable outcome, and the ability to make a reasonable estimate of the amount of loss. Upon considering these factors and any other known relevant facts and circumstances, we recognise any loss that is considered probable and reasonably quantifiable as of the balance sheet date.

The outcome of any litigation may not be consistent with our estimates and assessment of liabilities. If we incur significant costs in excess of amounts provided or we are unsuccessful in defending claims which have been treated as contingent liabilities, our results of operations and financial position will be adversely impacted.

Alleged health risks associated with mobile communications could lead to reduced usage of our mobile services and products, increased difficulty in obtaining transmitter sites or result in potential liabilities.

Public concern about the perceived health risks of mobile communications could have a detrimental impact on our mobile business by casting our services or products in a negative light, making it difficult to retain or attract customers or to obtain transmitter sites, or by reducing usage per customer of all or certain of our services. We cannot provide assurances that further medical research and studies will not establish a link between the radio frequency emissions of mobile handsets and/or base stations and these health concerns. As a result, government authorities could increase regulation of mobile handsets and base stations and public pressure may limit or delay the ability of mobile operators, including our mobile operation, to install mobile phone masts at key sites.

If these health risks were to materialise, actual costs or damages could be significantly in excess of any limited insurance protection that we may have and we may have difficulty obtaining appropriate insurance protection for such risks. MNOs could be held liable for the cost of damages associated with these risks. This could have a material adverse effect on our business, financial condition and results of operations.

Our obligations under employee pension schemes could adversely impact on our cash flows, results of operations, financial condition and eircom Limited's ability to pay dividends.

We operate a defined benefit pension scheme for 3,564 employees at June 2013, or 74% of all employees. The pension scheme also covers a significant number of past employees, including 6,419 deferred members and 7,061 pensioners at June 30, 2013. In the event of a deficit arising in the future in respect of the Main Fund under Part IV of the 1990 Pensions Act, which details the Minimum Funding Standard, the pension scheme trustees are required to agree with us a funding proposal for submission to the Pensions Board to address the deficit over an agreed time period, which could require increased contributions from us.

As a result of the significant level of volatility in financial markets, the market values of the pension scheme assets and the discount rate at which future pension liabilities are valued have fluctuated significantly over the last number of years. If the scheme were to go into deficit under the Minimum Funding Standard, the trustees may seek changes to the scheme or increased funding to restore the balance. Although we would intend to take actions that seek to limit any additional funding requirement on us, in such circumstances we could be obliged to make increased contributions to the pension scheme, which could in turn result in increased costs and cash outflows and have an adverse effect on our results of operations and financial condition and our ability to service our debt.

As eircom limited has adopted the corridor approach under IAS 19, an asset is recognised in eircom Limited's balance sheet of €140 million at June 30, 2013 (June 30, 2012: €246 million) compared to actual benefit obligation in

excess of scheme assets measured in accordance with IAS 19 of €848 million (June 30, 2012: €646 million). As a result of changes in Accounting Standards, the asset of €140 million will be derecognised from 1 July 2013, and the actual benefit obligation in excess of the scheme assets measured in accordance with IAS 19 (revised) will be recognised in full.

Our business is subject to tax laws and regulations, the interpretation of which may change in ways that could be adverse to our business, results of operation and financial condition.

The determination of our consolidated provision for income taxes and other tax liabilities requires estimation, judgement and calculations where the ultimate tax determination may not be certain. Our determination of tax liability is always subject to review or examination by authorities in various jurisdictions, including the Revenue Commissioners in Ireland and HMRC in the United Kingdom. Due to a number of open audits and matters under appeal with the Irish Revenue Commissioners, we may incur tax liabilities for prior periods in excess of those provided for in our financial statements and our tax liabilities reported for prior periods may not be representative of liabilities payable for future periods. If a tax authority in any jurisdiction where we do business reviews any of our tax returns and proposes an adjustment, such an adjustment could have a negative impact on our business, results of operation and financial condition.

Risks Relating to Regulatory and Licensing Matters—Fixed Line Business and Mobile Business

ComReg periodically issues pricing directions covering our services, which may have a negative impact on our fixed-line revenue and operating profit.

ComReg requires us to provide wholesale services to OAOs and regulates the prices at which we offer these services. Our regulated services, which include, for example, unbundled local loop access services, wholesale broadband access services, leased lines tails and interconnection services generally are subject to access and cost-orientation obligations and their prices must be based on the long run incremental costs of providing them, together with a permitted rate of return on our capital. In addition, we are subject to additional price controls in the form of margin squeeze tests which require us to ensure that our wholesale and retail prices are set so to allow other "similarly efficient operators" (with higher costs than us) to compete with us on retail markets. We must obtain prior ComReg approval before we can offer a variety of new services, including services relating to wholesale broadband, wholesale leased lines and any retail bundle with a line rental component or change the price of existing wholesale regulated services. If ComReg withholds or delays approvals for, or places significant restrictions on our ability to launch new bundled products and services, more competitive regulated services, or new broadband services, our revenue and results of operations may be negatively impacted.

Furthermore, directed changes to regulated retail and wholesale prices may lead to reductions in charges which would reduce our revenue. In November 2012, ComReg published Decision D12/12 on the price control of termination rates of fixed and mobile operators which provides for substantial decreases of termination rates to take place according to a glide path between January 1, 2013 and July 1, 2015. LLU prices have had to be reduced with effect from February, 2013. These interventions have negatively impacted, and any further regulatory actions in respect of regulated tariffs, may negatively impact our revenue and results of operations. ComReg is in the process of reviewing the prices of our interconnect path products and, following this review, ComReg may require us to reduce our charges, which would reduce our revenue. ComReg is also in the process of reviewing the electrical power charges to OAOS that are co-located in our buildings, and this may lead to reduced charges, as well as the grant of rebates to OAOs, which would reduce our revenue.

By reducing the costs of our competitors and constraining our ability to lower prices in retail markets, the price controls could increase competition in our markets, and have an adverse effect on our revenue, results of operations and financial position.

We are subject to a retail price cap on our access products and changes to that price cap could result in a decline in our fixed-line revenue and operating profit.

Our fixed line retail prices are subject to a price cap imposed by ComReg in 2007 on a specified basket of our retail narrowband products and services. In July 2009, ComReg wrote to us stating that, as the relevant CPI figure for the

2009/10 price cap year was minus 5.4%, a reduction of minus 5.4% should apply to eircom's access charges with effect from October 1, 2009. eircom responded to ComReg by rejecting this position, arguing that ComReg's decision provides that eircom "shall not increase its retail line rental tariffs by more than CPI minus 0% in a relevant year", that this does not require eircom to adjust its tariffs in accordance with inflation or deflation, and, specifically, that the decision does not contemplate any requirement to decrease tariffs. However it may in future seek to enforce its view that prices should be reduced in line with any reductions in the CPI. ComReg has indicated that the Price Cap decision will be reviewed at the same time as the next Narrowband Access Market review, which began in October 2012 (ComReg 12/117), and as of September 26, 2013, ComReg has not replied or published its final decision. Directed changes to the price cap for our retail access products may negatively impact our revenue, cash flows and results of operations.

Our universal service obligations ("USO") could have a negative impact on our results of operations and cash flows.

Since 2003, eircom has been the designated Universal Service Provider ("USP"), in decisions adopted by ComReg from time to time, most recently in June 2012 for the period July 1, 2012 to June 30, 2014. Under the Universal Service Regulations, ComReg is authorised to set binding performance targets in respect of the obligation to provide connections and access and such other elements of the USO as ComReg deems appropriate, and it did so in May 2008. Following failure to achieve these targets in the first two years, ComReg required that we put in place a Performance Improvement Programme (PIP1) for 2010/2011 and 2011/2012 with revised targets and associated performance bonds of €10 million for each year. There are agreed financial penalties in the event that performance targets are not met (up to the amount of the annual performance bonds). Following our USO re-designation for the period July 2012 to June 2014, a new Performance Improvement Programme (PIP II) was agreed with ComReg to cover the period July 2012 to June 2014. As part of this PIP II revised targets for line faults per 100 lines were agreed at 13.1 line faults per 100 lines for 2012/2013 and 12.8 lines faults per 100 lines for 2013/2014. As part of the PIP II revised targets it was agreed that faults due to third party damage and vandalism could be excluded. There is a penalty of €1 million per 0.1 line faults per 100 lines of target missed with an overall cap of €10 million covering all service performance targets including line faults per 100 lines. There can be no assurance that these targets can be achieved. If we were unable to achieve such targets, we could be subject to financial penalties and, as a result, our profitability, cash flow and financial position may be adversely impacted.

Our Mobile Termination rates ("MTR") are subject to regulatory intervention, which may negatively impact on our turnover, costs and results of operations.

Following a consultation process, ComReg published its Decision D11/12 (ComReg 12/124) in November 2012. Arising from the Decision, six mobile operators were re-designated with SMP in the mobile termination market - Three Ireland, Lycamobile, Meteor, Telefónica O2, Tesco and Vodafone. Each operator carries the following SMP obligations: access, non-discrimination, transparency and price controls (operators are required to apply symmetric rates, following a glide path for reductions and achieving Pure-LRIC based prices by July 2014).

Following its consultation, ComReg published its Decision D12/12 (ComReg 12/125) on the price control of the termination rates for fixed and mobile operators. For Mobile Termination Rates (MTRs), all SMP mobile operators were required to have symmetric MTRs in place from December 31, 2012. As part of the transition from the average Irish rate of 4.15cpm for the six months ended December 31, 2012, to pure LRIC. ComReg directed a straight line glide-path to apply with a step change from January 1, 2013. ComReg intends that a bottom-up Pure LRIC model will be developed for mobile operators which will inform the MTR price control from July 2014.

On December 18, 2012 Vodafone lodged an appeal to the High Court challenging Decision D11/12, insofar as that decision imposed a cost orientation obligation, and also against ComReg Decision D12/12 regarding the mechanism to determine the applicable MTR. The court judgement on this appeal was issued on August 14, 2013, and found in favour of Vodafone. The judgement determined that setting the MTR by means of benchmarking, as per the initial ComReg model, was not appropriate and that it was ultra vires. The judgement did not make any comment on the appropriateness of a pure LRIC basis for setting the MTRs (the other element of Vodafone's appeal), as a pure LRIC model has not yet been developed by ComReg. However, the Judge did not make any Orders pending receipt of representations from ComReg and Vodafone on September 25, 2013 and on September 25, the court has extended the date for these representations until September 30, 2013. Following this, it is anticipated that the Judge will issue final Orders which will determine the termination rates to be applied in the interim period to mid-2014 when ComReg expects

to introduce its LRIC based termination rate model for mobile.

There is uncertainty as to what Orders the Court will make, or the extent to which ComReg will exercise its discretion to maintain an even playing field among mobile and fixed operators. If Vodafone is allowed to revert to its original (pre-decision) MTR rates, and new rates are maintained among other operators, this would have a negative impact on our interconnect costs in our fixed and mobile businesses and results of operations.

Our mobile business' international roaming tariffs are subject to regulatory intervention, which may negatively impact on our turnover and results of operations.

Following the adoption of Regulation ("EC") No 717/2007 of the European Parliament and of the Council in June 2007 on roaming on public mobile telephone networks within the Community, both wholesale and retail international roaming charges have been subject to regulation and price controls. The Regulation was reviewed and updated in 2009 (No. 544/2009) and in 2012 (No. 531/2012).

The 2012 Regulation imposes further retail and wholesale caps for voice, SMS and data roaming services. In addition, the 2012 Regulation imposes structural remedies mandating mobile network operators to provide wholesale access to third parties for the provision of retail roaming services to the mobile network's retail customers using the same SIM card and mobile number used for national services. Mobile network operators must put the structural remedies in place by July 2014. The outcome of this regulatory decision could have a negative impact on our retail roaming revenue.

The functioning of the Regulation will be reviewed by mid-2016 which may result in further changes which could negatively impact our revenues.

On September 12, 2013, the European Commission published proposals for a draft Regulation to complete the European Single Market for Communications. The proposed Regulation sets out a broad range of proposals including additional measures to make the retail price of receiving a call free while roaming, and to create a framework of exemptions from the separate sale of roaming obligations if an operator offers retail roaming tariffs at equivalent levels to domestic tariffs. The proposals may be subject to change. The outcome of this regulatory proposal could have a negative impact on our turnover and the results of operations. (See Section 7 – "Regulation" – for further information).

Our fixed and mobile businesses are subject to regulatory rules set by the EU which, if changed, may negatively impact on the results of operations.

The basic framework for regulation of the Irish telecommunications market derives from the EU Regulatory Framework which was adopted by the EU in 2002 for all aspects of electronic communications networks and services across the EU. The EU made amendments relating to the recommended markets in November 2007 and further amendments to the Framework in November 2009. The main policy objectives of the EU Regulatory Framework are to promote competition, to contribute to the development of the internal market, and to protect the interests of citizens. National regulators have discretion to impose regulatory obligations in line with national circumstances.

The European Commissioner for the Digital Agenda has recently announced her intention to bring forward Regulation to complete the Single European Market for communications services. It is understood that a draft regulation will be introduced to the legislative process in the coming months. The proposals are expected to cover a number of significant aspects of the regulatory landscape including changes to consumer protection measures, roaming regulation, net neutrality, and changes to the market review process. There is currently uncertainty as to the detailed proposals that will be put forward by the Commission however changes to the EU regulatory framework could negatively impact our revenues, costs and results of operations.

Developments in relation to Emergency Call Answering Services ("ECAS") may result in increased costs to eircom and as a result have a negative impact on our profitability and results of operations.

All calls to ECAS are currently handled by BT, who is paid a call handling fee by the operators whose customers make the "999/112" call, subject to a ceiling set by ComReg. The fee was increased to €3.35 starting February 11, 2012 and subsequently reduced in January 2013 to €2.93 per call for the period to February 2014. ComReg has indicated that the call handling fee is designed to recover BT's costs of providing the service based on call volumes. Accordingly if call volumes continue to fall, and BT's costs of providing the service do not fall by the same amount, or increase, then the call handling fee may increase further at the next review date. Depending on the proportion of calls to ECAS originating on our network in the future, a further increase in the call handling fee may result in an increase in our costs and adversely affect our results of operations.

Changes in our regulated weighted average cost of capital could have an adverse impact on our revenue and results of operations.

In 2008, ComReg issued a decision notice directing that a nominal pre-tax weighted average cost of capital of 10.21% be used for the purpose of our separated regulated accounts, and as a basis for allowing us an adequate rate of return for regulatory purposes, including in the setting of our regulated wholesale prices. A significant reduction in our regulated weighted average cost of capital ("WACC") would reduce wholesale prices, and generate further pressure for reduced retail prices, adversely affecting our revenue and results of operations. An increase in our regulated WACC could increase retail and wholesale prices, making our regulated fixed network less competitive than alternative mobile or cable networks, which could impact our ability to attract and retain new customers and as a result have an adverse impact on our revenue and results of operations.

Regulatory investigations and litigation may lead to fines or other penalties.

ComReg and other regulatory bodies occasionally make enquiries and conduct investigations concerning our compliance with applicable laws and regulations. We are involved on occasion in litigation and regulatory enquiries and investigations involving our operations, which may lead to fines and other penalties that could have an adverse impact on our results of operations.

While historically ComReg had never sought from the High Court a fine or penalty in the context of a compliance investigation against us, on April 3, 2013, ComReg wrote to us, having formed the opinion that we had failed to meet our obligations of non-discrimination in relation to the timescales for the repair of faults in our access network, indicating that ComReg would seek a declaration of non-compliance and an order for a fine of €600,000 from the High Court, unless eircom agreed to pay to ComReg the sum of €400,000. eircom engaged in correspondence with ComReg and agreed to pay a penalty of €275,000, and accepted that a breach had taken place in this instance The matter has now been closed.

There are other on-going regulatory investigations which may lead to fines and other penalties which could negatively impact our profitability and cashflows.

Planning licence fees, if applicable to us, may adversely affect our results of operations.

Under Irish planning legislation introduced in 2002, where a licence is granted by a planning authority to a person to erect, construct, place and maintain overhead cables or wires on, over or along a public road, a fee is payable to the planning authority for every year or part of a year for which the licence is granted. We strongly disagree with such a fee, as it bears no relation to the actual administrative costs involved in processing planning and consent applications. However, this fee could be determined to apply to our networks, which encompass overhead wires and poles. If it is determined that the licence fee is applicable to our networks, and is enforced on an annual basis, it may increase our costs and adversely affect our results of operations.

Risks Related to Our Financial Profile

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Senior Secured Loans, the Guarantees and the Notes.

We are highly leveraged. As of June 30, 2013, EHIL has total gross debt (excluding Tetra debt of €27 million) of €2.355 billion, including €2.005 billion under the senior facilities and €350m under the Senior Secured Notes. All of this debt is senior secured under the Senior Facilities Agreement and the Indenture that governs the Notes.

The degree to which we are leveraged could have important consequences to holders of the Senior Secured Loans and Notes, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Loans, Notes and the Guarantees;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, spectrum license payments, acquisitions, joint ventures, product research and development, subscriber acquisition costs or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged;
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing; and
- limiting our options on refinancing the Notes and our other indebtedness when it falls due.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

We are subject to restrictive debt covenants, under both our Senior Facilities Agreement and the indenture that governs the Senior Secured Notes, that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Senior Facilities Agreement and the Indenture may restrict or limit, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to EHIL and its restricted subsidiaries;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;

- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair the security interests in the collateral.

All of these limitations will be subject to significant exceptions and qualifications. See "*Description of the Senior Secured Notes—Certain Covenants*". The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. In addition, we are subject to the affirmative and negative covenants contained in the Senior Facilities Agreement which also limits our flexibility and requires us to satisfy various financial covenants. See **"***Description of Other Indebtedness*".

We will require a significant amount of cash to meet our obligations under our indebtedness and to sustain our operations, which we may not be able to generate or raise.

Our ability to make principal or interest payments when due on our indebtedness, including the Senior Facilities Agreement and the Notes, and to fund our on-going operations, will depend on our future performance and our ability to generate cash, which is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "*Risk Factors*," many of which are beyond our control. Our Senior Facilities Agreement will mature in September 2017. See *"Description of Other Indebtedness."* At the maturity of the Senior Facilities Agreement, the Notes or any other debt which we may incur, if we do not have sufficient cash flows from operations and other capital resources to pay these debt obligations, or to fund our other liquidity needs or we are otherwise restricted from doing so due to corporate, tax or contractual limitations, we may be required to further refinance our indebtedness. If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms acceptable to us, we may be forced to reduce or delay our business activities or capital expenditures, sell assets, or raise additional debt or equity financing in amounts that could be substantial. The type, timing and terms of any future financing will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In addition, the terms of our Senior Facilities Agreement and the Indenture and any future debt may limit our ability to pursue any of these measures.

Despite our current level of indebtedness, we may still be able to incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Senior Facilities and the Notes, and impair our ability to operate our businesses.

We may incur substantial additional debt in the future. Any debt that we incur at any subsidiary that does not guarantee the Notes would be structurally senior to the Notes, and other debt could be secured or could mature prior to the Notes. Although the Senior Facilities Agreement contains, and the Indenture contains, restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If we incur additional debt, the related risks that we now face would increase. An increase in our indebtedness could also lead to a downgrade of the ratings assigned to eircom Holdings (Ireland) Limited or the Notes, either of which could negatively affect the trading price of the Notes. In addition, the Senior Facilities Agreement and the Indenture does not prevent us from incurring obligations that do not constitute indebtedness under those agreements.

Risks Related to the Senior Secured Notes due 2020 ("The Notes")

The Notes and the Guarantees will be subordinated to certain hedging obligations and may be subordinated to certain debt we may incur in the future, and such hedging obligations and indebtedness may also be repaid with the proceeds of the collateral securing the Notes in priority to the Notes.

Under the terms of the Intercreditor Agreement, the Notes and the Guarantees rank junior in right of payment to certain "super priority" hedging obligations incurred in respect of the Senior Facilities Agreement. In addition, the Intercreditor Agreement and the Indenture permits, under certain conditions, other "super priority" debt to be incurred

under a revolving credit facility not to exceed €150 million, which would rank senior in priority of payment to the Notes and the Guarantees. Accordingly, if the Issuer or any of the Guarantors dissolves, winds-up or liquidates, or if any of them is the subject of any bankruptcy, insolvency or similar proceeding, counterparties to the relevant hedging arrangements and any lenders under any such revolving credit facility would be entitled to receive payment in full of all obligations due thereunder before the holders of the Notes would be entitled to receive any payment with respect to the Notes or the Guarantees.

The Intercreditor Agreement also provides that proceeds from enforcement of the collateral securing the Notes must first be applied in satisfaction in full of obligations under these "super priority" hedging obligations, and indebtedness under any "super priority" revolving credit facility that we may incur in the future, and only thereafter to repay the obligations under the Notes and the Senior Facilities Agreement. Any such "super priority" debt would be secured by the same property and assets that secure the Notes. As such, in the event of enforcement of the collateral securing the Notes, you may not be able to recover on the collateral if the then-outstanding liabilities under such "super priority" debt, including hedging obligations in respect of the Senior Facilities Agreement and any future revolving credit facility, are greater than the proceeds realised in the event of enforcement of the collateral securing the Notes.

Holders of the Notes may not control certain decisions regarding the collateral.

The Notes are secured by the same collateral securing the Senior Facilities Agreement. In addition, under the terms of the Indenture, we are permitted to incur significant additional indebtedness and other obligations that may be secured by the same collateral.

As a result of the voting provisions set forth in the Intercreditor Agreement, under certain circumstances, the lenders under the Senior Facilities Agreement and counterparties to hedging arrangements could have effective control of all decisions with respect to the collateral. Pursuant to the Intercreditor Agreement, a common security agent serves as the Security Agent for the secured parties under the Senior Facilities Agreement and the Notes. Subject to certain limited exceptions, the Security Agent will act with respect to such collateral only at the direction of an "Instructing Group."

The holders of the Notes do not have separate rights to enforce the collateral. In addition, the holders of the Notes are not be able to instruct the Security Agent, force a sale of collateral or otherwise independently pursue the remedies of a secured creditor under the relevant Security Documents, unless they comprise an Instructing Group which is entitled to give such instructions. Disputes may occur between the holders of the Notes and creditors under our Senior Facilities Agreement, the counterparties to the hedging arrangements or holders of any permitted additional indebtedness as to the appropriate manner of pursuing enforcement remedies and strategies with respect to the collateral. In such an event, the holders of the Notes are bound by any decisions of the Instructing Group, which may result in enforcement action in respect of the collateral, whether or not such action is approved by the holders of the Notes or may be adverse to such holders. The creditors under the Senior Facilities Agreement, the counterparties to the hedging arrangements or the holders of any permitted additional indebtedness may have interests that are different from the interest of holders of the Notes and they may elect to pursue their remedies under the security documents at a time when it would otherwise be disadvantageous for the holders of the Notes to do so. See "*Description of Other Indebtedness—Intercreditor Agreement.*"

The collateral may not be sufficient to secure the obligations under the Notes.

The Notes and the Guarantees are secured by security interests in the collateral described in this Annual Report, which collateral also secures the obligations under Senior Facilities Agreement. The collateral may also secure additional debt to the extent permitted by the terms of the Indenture, the Senior Facilities Agreement and the Intercreditor Agreement. Your rights to the collateral may be diluted by any increase in the debt secured by the collateral or a reduction of the collateral securing the Notes.

The value of the collateral and the amount to be received upon an enforcement of such collateral will depend upon many factors, including, among others, the ability to sell the collateral in an orderly sale, the costs of realisation and any requirements to pay any of the proceeds to preferential creditors such as tax authorities and employees, economic conditions where operations are located and the availability of buyers. The book value of the collateral should not be relied on as a measure of realisable value for such assets. All or a portion of the collateral may be illiquid and may have

no readily ascertainable market value. Similarly, we cannot assure you that there exists a market for the sale of the collateral, or, if such a market exists, that there will not be a substantial delay in its liquidation. In addition, the share pledges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding.

In addition, our business requires a variety of permits and licenses. The continued operation of properties that comprise part of the collateral and that depend on the maintenance of such permits and licenses may be prohibited or restricted. Our business is subject to regulations and permitting requirements and may be adversely affected if we are unable to comply with existing regulations or requirements or if changes in applicable regulations or requirements occur. In the event of foreclosure, the grant of permits and licenses may be revoked, the transfer of such permits and licenses may be prohibited or may require us to incur significant cost and expense. Further, we cannot assure you that the applicable governmental authorities will consent to the transfer of all such permits. If the regulatory approvals required for such transfers are not obtained, are delayed or are economically prevented, the foreclosure may be delayed, a temporary or lasting shutdown of operations may result, and the value of the collateral may be significantly decreased.

It may be difficult to realise the value of the collateral securing the Notes. The ability of the Security Agent to enforce certain of the collateral may be restricted by local law.

The collateral securing the Notes are subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture and/or the Intercreditor Agreement and accepted by other creditors that have the benefit of priority security interests in the collateral securing the Notes from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the collateral securing the Notes, as well as the ability of the Security Agent to realise or foreclose on such collateral. Furthermore, the ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or recharacterization under the laws of certain jurisdictions.

The security interests are subject to practical problems generally associated with the realization of security interests in collateral. For example, the enforcement of a share pledge, whether by means of a sale or an appropriation, is subject to certain specific requirements. The Security Agent may also need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the collateral may decline significantly.

The security interests in the collateral has been granted to the Security Agent rather than directly to the holders of the Notes.

The security interests in the collateral that secure our obligations under the Notes and the obligations of the Guarantors under the Guarantees have not been granted directly to the holders of the Notes but were granted only in favour of the Security Agent. The Indenture provides (along with the Intercreditor Agreement) that only the Security Agent has the right to enforce the security documents. As a consequence, holders of the Notes do not have direct security interests, and are not entitled to take enforcement action in respect of the collateral securing the Notes, except through the Trustee, who (subject to the applicable provisions of the Indenture and the Intercreditor Agreement) provides instructions to the Security Agent in respect of the collateral.

Risks Related to Our Structure

The Issuer of the Notes is a finance subsidiary that has no revenue generating operations of its own and depends on cash received under its intercompany loan in order to be able to make payments on the Notes.

The Issuer is a finance subsidiary that was formed in order to offer and issue debt securities. The Issuer conducts no business operations of its own, and has not engaged in, and will not be permitted to engage in, any activities other than those relating to its finance activities. The Issuer is dependent upon payments from eircom and other members of the Group to meet its obligations, including its obligations under the Notes. We intend to provide funds to the Issuer in order for the Issuer to meet its obligations under the Notes through interest payments on the Note Proceeds Loan Agreement or

other intercompany loans. If we do not fulfil our obligations under the Note Proceeds Loan Agreement or other intercompany loans, the Issuer will not have any other source of funds that would allow it to make payments to the holders of the Notes. The amounts available to the Issuer from eircom or any other relevant members of the Group will depend on the profitability and cash flows of such members of the Group and the ability of such members to make payments to it under applicable law or the terms of any financing agreements or other contracts that may limit or restrict their ability to pay such amounts. Various agreements governing our debt may restrict and, in some cases may actually prohibit, the ability of subsidiaries to move cash within the restricted group. Such restrictions include those created by the Intercreditor Agreement. See "*Description of Other Indebtedness—Intercreditor Agreement*". Applicable tax laws may also subject such payments to further taxation. In addition, the members of the Group that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

There are circumstances other than repayment or discharge of the Notes under which the collateral securing the Notes and the Guarantees will be released automatically, without your consent or the consent of the Trustee.

Under various circumstances, the Guarantees and the collateral securing the Notes will be released automatically, including, without limitation:

- in the case of collateral, in connection with any sale or other disposition to any third party of the property or assets constituting collateral, so long as the sale or other disposition is permitted by the Indenture;
- in the case of a Guarantee (other than the Guarantee by eircom or EHIL), in connection with any sale or other disposition to any third party of ownership interests in the Guarantor such that the Guarantor does not remain a restricted subsidiary, or the sale or disposition of all or substantially all of the assets of the Guarantor to a third party, in each case, otherwise permitted by the Indenture;
- in accordance with the "*Amendments and Waivers*" provisions of the Indenture;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture;
- with respect to the property and assets securing the Notes, automatically if a security interest granted in favour of the Senior Facilities, public debt or such other indebtedness that gave rise to the obligation to grant the security interest over such property and assets is released (other than pursuant to the payment and discharge thereof); or
- in accordance with the Intercreditor Agreement.

See "*Description of Other Indebtedness - Intercreditor Agreement*" and "*Description of the Senior Secured Notes".*

The Notes and each of the Guarantees are each structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries.

Generally, claims of creditors of a non-Guarantor subsidiary, and claims of preference shareholders (if any) of that subsidiary, will have priority with respect to the assets and earnings of that subsidiary over the claims of creditors of its parent entity and any intercompany loans and by holders of the Notes under the Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-Guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to its parent entity. As such, the Notes are structurally subordinated to the creditors and preference shareholders (if any) of our non-Guarantor subsidiaries.

Your rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral.

Under applicable law, a security interest in certain assets, may not be enforceable or its priority retained, if certain actions are not undertaken by the secured party and/or the grantor of the security (including the registration of

such security). The security interests securing the Notes may not be enforceable or priority retained if we, or the Security Agent, fail or are unable to take the actions required to perfect any of these security interests.

In respect of security over claims against third parties (such as claims under contracts or book debts) if the third party debtor is not notified of the security interest, the holder of the security interest may have difficulty enforcing such holder's rights in the collateral with regard to such third parties. In addition, a debtor may discharge its obligation by paying the security provider and the third party may assert certain defences and counter-claim until, but not after, the debtor receives a notification of the existence of the security interest granted by the security provider in favour of the security taker over the claims the security taker (as creditor) has against the debtor.

We may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of certain events constituting a change of control as required by the Indenture and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.

Upon the occurrence of certain events constituting a "change of control" under the Indenture, the Issuer would be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Issuer to pay the purchase price of the outstanding notes, including the Notes, or that our other existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default under, or acceleration of, our Senior Facilities Agreement and other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The ability of the Issuer to receive cash to allow it to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our then existing financial resources.

Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, which would, in turn, constitute a default under certain other indebtedness. See *"Description of the Senior Secured Notes - Change of Control."*

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. Except as described under *"Description of the Senior Secured Notes - Change of Control*," the Indenture does not contain provisions that would require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

In addition, the occurrence of certain events that might otherwise constitute a change of control will be deemed not to be a change of control if at the time our consolidated leverage ratio is less than certain specified levels. See *"Description of the Senior Secured Notes - Change of Control*". The definition of "Change of Control" in the Indenture includes a disposition of all or substantially all of the assets of the Issuer and its restricted subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the Issuer's assets and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

Irish insolvency laws may not be as favourable to you as U.S. or other insolvency laws that you may be familiar with.

In Irish insolvency proceedings, any payment made under the Notes may be held to be invalid if the payment was intended to give the relevant creditor a preference over other creditors and at the time of payment the company was unable to pay its debts as they become due. A payment will only be held invalid in the context of insolvency proceedings in these circumstances if:

- proceedings to wind up the entity making the payment are commenced within six months (or 24 months if the payment is to a person connected to the payer) after the date the payment was made; and

- at the time payment was made and at the time the winding up proceedings were commenced, the entity making the payment was unable to pay its debts, taking into account its contingent and prospective liabilities.

The entry into of, or any payment under the Notes or under the Guarantees, or the creation of, any security interests under the Issuer's or any Guarantor's assets can also be set aside on the application of a liquidator, creditor or contributory of a company which is being wound up or a receiver or examiner of a company in receivership or examinership respectively if the effect of the payment was to perpetrate a fraud on the company, its creditors or members, although a court will have regard to the rights of the recipient of the payment if they receive the payment in good faith and for value.

Irish case law provides that when a company is insolvent or near insolvency, its assets are held for the benefit of its creditors so any payments by the Issuer under the Notes or the entry into or payment by the Guarantors under the Guarantees or the creation of any security by the Issuer or any of the Guarantors may be subject to challenge if the company or guarantor was either insolvent or near to insolvency.

Centre of Main Interests

A company's centre of main interest ("**COMI**") is important in insolvencies of companies based in the European Union in that it determines where main insolvency proceedings can be commenced against that company. As our registered office is in Ireland, there is a rebuttable presumption that our COMI is in Ireland and, consequently, that any main insolvency proceedings applicable to us would be governed by Irish law. However, this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. There is a risk that, if our COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be commenced in Ireland.

Preferred Creditors under Irish Law and Floating Charges

The collateral securing the Notes includes, in a number of cases, fixed charges. The essence of a fixed charge is that the person creating the charge does not have liberty to deal with the assets which are the subject matter of the security in the sense of disposing of such assets or expending or appropriating the moneys or claims constituting such assets. Accordingly, if and to the extent that such liberty is given to a Guarantor or the Issuer, any charge constituted by the Security Documents may operate as a floating, rather than a fixed charge. In particular, the Irish courts have held that in order to create a fixed charge on receivables it is necessary to oblige the chargor to pay the proceeds of collection of the receivables into a designated bank account and to prohibit the chargor from withdrawing or otherwise dealing with the monies standing to the credit of such account without the consent of the chargee. Depending upon the level of control actually exercised by the chargor, there is therefore a possibility that security created over a Guarantor's or the Issuer's assets may be regarded by the Irish courts as a floating charge.

Floating charges have certain weaknesses, including the following:

- they have weak priority against purchasers (who are not on notice of any negative pledge contained in the floating charge) and the chargees of the assets concerned and against lien holders, execution creditors and creditors with rights of set-off;

- they rank after certain preferential creditors, such as claims of employees and certain taxes on winding-up;

- they rank after certain insolvency remuneration expenses and liabilities;

- the examiner of a company has certain rights to deal with the property covered by the floating charge; and

- they rank after fixed charges.

In addition, in certain other circumstances there are other taxes which may rank senior to a fixed charge including capital gains tax and, as regards security over book debts and certain bank accounts, PAYE and VAT.

Examinership

Examinership is a court procedure available under the Irish Companies (Amendment) Act, 1990, as amended to facilitate the survival of Irish companies in financial difficulties. During the period of examinership, an examiner will formulate proposals for a compromise or scheme of arrangement to assist the survival of the company or the whole or any part of its undertaking as a going concern.

The primary risks to the holders of Notes if an examiner were appointed to any Guarantor or the Issuer are as follows:

- the potential for a compromise or scheme of arrangement being approved involving the writing down or rescheduling of the debt due to Noteholders;

- the potential for the examiner to seek to set aside any negative pledge in the documents pertaining to the Notes prohibiting the creation of security or the incurring of borrowings by a Guarantor or the Issuer to enable the examiner to borrow to fund that Guarantor or the Issuer during the protection period; and

- in the event that a scheme of arrangement is not approved and a Guarantor or the Issuer subsequently goes into liquidation, the examiner's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Guarantor or the Issuer and approved by the Irish High Court) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by the Guarantor or the Issuer to, ultimately, the holders of the Notes.

A compromise or scheme of arrangement under an examinership may be implemented with the support of a majority in number (also representing a majority by value) of just one class of creditors subject to confirmation by the Irish High Court that the compromise or scheme is not unfair or inequitable or unfairly prejudicial to non-consenting classes of creditors. The Irish High Court has in practice held that proposals under a compromise or scheme, including the impairment of non-consenting classes of creditors are not unfair, inequitable or unfairly prejudicial where the impairment of a non-consenting class is not worse than they would suffer in a winding up or liquidation. This occurred, for example, during our examinership in 2012 which resulted in a write down of a portion of our debt. As a result, in an examinership holders of the Notes could have their interests impaired even if the holders do not vote in favour of the compromise or scheme or arrangement where another class of creditors, such as the senior lenders under the Senior Facilities support the compromise or scheme.

Personal Insolvency Act 2012

Significant changes to the personal bankruptcy regime in Ireland have recently been brought into effect by the Personal Insolvency Act 2012. The new legislation introduces into Irish law a range of non-judicial debt settlement arrangements. To the extent that an individual becomes insolvent and successfully obtains a non-judicial debt settlement arrangement, his or her unsecured debts (including debts in respect of utility bills) could be written off or written down. Although it is too early to tell what the likely impact of the new legislation will be, there is a possibility that such arrangements could be obtained by our customers resulting in write-offs or write downs of unpaid bills. In such circumstances, there is a risk that the financial position of any relevant Guarantor could be adversely affected. Our billing procedures are designed to ensure prudent invoicing practices. However, there is a risk that if customers availed of debt settlement arrangements in sufficiently large number, this could impact our ability to pay interest and principal on the Notes.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the Notes;

- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although the Notes are listed on the Irish Stock Exchange to trade on the Global Exchange Market, no assurance is made as to the liquidity of the Notes as a result of the admission to trading on the Global Exchange Market. Failure to be approved for another listing or the delisting (whether or not for an alternative admission to listing on another stock exchange) of the Notes from the Official List of the Irish Stock Exchange may have a material effect on a holder's ability to resell the Notes in the secondary market. In addition, the Indenture allows us to issue additional notes of such series in the future which could adversely impact the liquidity of the Notes.

You may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and the Guarantors and their respective subsidiaries are organised outside the United States, and our business is conducted entirely outside the United States. The directors and executive officers of the Issuer and the Guarantors are non-residents of the United States. Although we and the Guarantors will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on these directors and executive officers. In addition, as all of the assets of the Issuer and the Guarantors and their respective subsidiaries and those of their directors and executive officers are located outside of the United States, you may be unable to enforce judgments obtained in the U.S. courts against them. Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Issuer and the Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities, and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financing and could adversely affect the value and trading of the Notes.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Notes and the Guarantees have not been registered under, and we are not obliged to register the Notes or the Guarantees under, the U.S. Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. We have not agreed to or otherwise undertaken to register the Notes or the Guarantees, and do not have any intention to do so.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until Notes in definitive registered form, or definitive registered notes are issued in exchange for Book-Entry Interests (which may occur only in very limited circumstances), owners of Book-Entry Interests will not be considered owners or holders of Notes. The common depository (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the global notes. Payments of principal, interest and other amounts owing on or in respect of the relevant global notes representing the Notes will be made to Citibank N.A., London Branch, as principal paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants' accounts that hold Book-Entry Interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a Book-Entry Interest in the Notes, you must rely on the procedures of Euroclear and Clearstream and if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of Book-Entry Interests will not have any direct rights to act upon any solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a Book-Entry Interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters or on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the definitive registered Notes are issued in respect of all book-entry interests, if you own a Book-Entry Interest, you will be restricted to acting through Euroclear and Clearstream. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

Investors in the notes may have limited recourse against the independent auditors.

The independent auditors' report for eircom Limited is included on page F-2 of this Annual Report and the independent auditors' report for EHIL for the year ended June 30, 2013 is included on page F-69 of this Annual Report. In accordance with guidance issued by The Institute of Chartered Accountants in Ireland, each of the independent auditors' reports state that: they are made solely to eircom Limited's and EHIL's members, as a body; the independent auditors' audit work was undertaken so that the independent auditors might state to the Company's members those matters that were required to be stated to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, the independent auditors do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for their audit work, their audit report or for the opinions they have formed.

Investors in the notes should understand that in making these statements the independent auditors confirmed that they do not accept or assume any liability to parties (such as the holders of the notes) other than the Company and its members as a body with respect to the report and to the independent auditors' audit work and opinions. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Notes may have against the independent auditors based on their report on the consolidated financial statements to which it relates could be limited.

Risks Related to Our Ownership

The interests of our principal shareholders may conflict with your interests.

As a result of the Examinership, eircom was transferred to EHIL, a 100% owned subsidiary of eircom Holdco S.A., which was entirely owned by the first and second lien senior lenders under our previous senior facility, excluding a small number of non-participating lenders. The Examinership also resulted in a write down of the previous senior facility with the former first and second lien senior lenders lending to the Group under the terms of the Senior Facilities Agreement as a single class of lenders. The Senior Facilities Agreement and the Security holders Deed each include a "staple" provision that restricts any transfer of equity unless the same proportion of that lender's commitments

under the Senior Facilities Agreement are also transferred to the same buyer and *vice versa*. The staple provision expires on June 11, 2014 (or earlier if the required level of approval is obtained from senior lenders), from which time commitments under the Senior Facilities Agreement and shares or warrants in eircom Holdco S.A. may be transferred independently. The Initial Purchasers, or their respective affiliates are lenders under the Senior Facilities and holders of shares and/or warrants of eircom Holdco S.A. (see "*Principal Shareholders*").

As a result of the Examinership and staple provisions, our ultimate shareholders (excluding interests held for the purposes of the management incentive plan) are also lenders under the Senior Facilities Agreement, and are expected to remain so during the staple period. Consequently, their interests may be different from the interests of the holders of the Notes and from creditors generally, including in any insolvency proceedings brought by way of examinership.

5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussions together with the consolidated financial statements of eircom Limited and the related notes to those financial statements. eircom Limited has prepared its audited consolidated financial statements for the years ended June 30, 2012 and 2013 in accordance with IFRS. IFRS differs in certain significant respects from U.S. GAAP.

In this section, references to "we", "us", "our" or other similar terms refer to eircom Limited.

Presentation of Financial Information of the Company

Unless otherwise indicated, the full year financial information presented in this Annual Report is the historical audited consolidated financial information of eircom Limited and its subsidiaries. We have presented the information of eircom Limited in order to be able to present the periods under review on a consistent basis for a full two year period. Going forward, we will report the consolidated results of EHIL, the Parent Guarantor. The EHIL statements differ from those which have been prepared by eircom Limited mainly in relation to the treatment of purchase price accounting effects, and the fact that EHIL has not adopted the corridor approach in respect of the IAS 19 pension liability. The IAS 19 pension liability will also be fully recognised by eircom Limited with effect from 1 July 2013 as a result of changes in Accounting Standards.

EHIL does not have any borrowings, derivative instruments, provisions for other liabilities or charges that are materially different from those recognised by eircom Limited, although certain liabilities (such as pension liabilities and liabilities in respect of unfavourable lease contracts) not recognised by eircom Limited are recognised in the EHIL financial statements as a result of purchase price accounting effects.

The consolidated loss of EHIL Group differs from the consolidated profit/(loss) of eircom Limited as a result of the purchase price accounting effects, principally in respect of depreciation and amortisation charges arising from the differences in non-current asset values, differences in pension charges arising from the full recognition of actuarial gains and losses by EHIL Group and differences in operating costs due to the recognition of liabilities in EHIL Group for unfavourable lease contracts and the taxation impact of these items.

Overview

We are the principal provider of fixed line telecommunications services in Ireland and operate the third largest mobile telecommunications provider in Ireland. Our fixed line division provides broadband, voice and data services to individual consumers and business users and contributed 76% of our total revenue (before inter-segment eliminations) in the twelve months ended June 30, 2013. We have the most extensive fixed line telecommunications network in Ireland in terms of both capacity and geographic reach. Our market share, based on revenues, of the Irish fixed line market was 52% (*Source: ComReg*) for the quarter ended June 30, 2013. Our mobile division includes our Meteor and eMobile brands, which contributed 24% of our total revenue (before inter-segment eliminations) in the twelve months ended June 30, 2013. We had revenue of €1.5 billion and Adjusted EBITDA of €542 million in the financial year ending June 30, 2012, and revenue of €1.4 billion and Adjusted EBITDA of €487 million for the financial year ending June 30, 2013.

We generate substantially all of our revenue in Ireland, where substantially all of our reported subscribers and customers are located. Demand for our products and services, including the penetration of new value added services, traffic, ARPU and the number of subscribers is influenced by a number of factors, including the strength of the Irish economy.

The Irish telecommunications market was fully opened to competition in December 1998. Following the liberalisation of the market, there has been growth in the number of customers using services provided by other licensed operators and mobile providers, who now represent significant competitors to eircom.

Total market revenue from the Irish telecommunications market (excluding satellite pay-tv) was €3.7 billion for the twelve months ended June 30, 2013, down 3.1% from €3.82 billion for the twelve months ended June 30, 2012

(*Source: ComReg*). Fixed line revenue accounted for 51.5% of communication revenue in the quarter ended June 30, 2013 (a decrease from 53.1% in the quarter ended June 30, 2012), while mobile services share was 43.7% in the quarter ended June 30, 2013 (an increase from 42.2% in the quarter ended June 30, 2012). The remaining 4.8% in the quarter ended June 30, 2013 is attributable to broadcasting (excluding satellite pay-tv). The decrease in revenue from traditional fixed voice (partially explained by voice traffic migrating to mobile) in Ireland is in line with other Western European markets. Due to increasing competition in a four-player market and reductions in the mobile termination rates ("**MTR**"), revenue generated by the mobile market has declined from €396.6 million in the quarter ended June 30, 2012 to €391.7 million in the quarter ended June 30, 2013 representing a decrease of 1.2%.

Examinership

On March 29, 2012, eircom Limited and two of its subsidiary companies, Meteor Mobile Communications Limited ("**MMC**") and Irish Telecommunications Investments Limited ("**ITI**") petitioned the High Court in Ireland for court protection and the appointment of an examiner and were placed in examinership under the Companies (Amendment) Act, 1990, as amended (the "**Examinership**"). eircom Limited, MMC and ITI, had provided financial guarantees to third parties in respect of certain borrowings of ERC Ireland Holdings Limited (and certain of its subsidiaries) and ERC Ireland Finance Limited, each of which were former holding companies of eircom Limited and its subsidiaries.

A scheme of arrangement was approved by the Irish High Court on May 22, 2012 and became binding on the companies, its creditors and shareholders on June 11, 2012 (the "**Restructuring Date**"). As a result of the scheme of arrangement, the overall debt of eircom was reduced from €3.4 billion to €2.3 billion and the entire share capital in eircom Limited was transferred to a new holding company, EHIL, an Irish incorporated company owned by eircom Holdco S.A., a Luxembourg incorporated company, which, in turn, is owned by the lenders under the Senior Facilities Agreement.

Key Factors Affecting Results of Operations

Current Economic Climate

Substantially all of our revenue, in both the fixed line and mobile markets, is generated in Ireland and because of this, is influenced by the strength of the Irish economy, which affects the net demand for lines, traffic and other telecommunications services. Historically, the telecommunications sector has shown a positive correlation with GNP.

Between 2000 and 2007, the annual average growth in real GDP and real GNP was 5.7% and 5.0%, respectively. Between 2008 and 2011, real GDP declined by 7.4% while real GNP declined by 10.1%. This decline in GDP and GNP has impacted expenditure on telecommunications and the performance of the telecommunications operators in Ireland, including eircom. After this period of contraction, the economy recovered through 2010 and 2011. Real GNP in Ireland grew by 1.8% in the year ended December 31, 2012 compared with the previous year (economic growth rates from CSO, July 2013).

The economic downturn has resulted in a reduction in economic activity and a consequent reduction in the demand for telecommunications services. In particular, mobile customer numbers and revenue have been impacted by an increase in emigration levels, arising from the current economic difficulties. Similarly, fixed line services have been impacted by the downturn in house-building, emigration, and customers seeking to reduce their outgoing spending as a result of reduction in disposable income. In order to address the adverse impact of the economy on revenue and operating profitability, we are continuing to pursue several initiatives to save costs and increase operational efficiencies. We are also focused on revenue initiatives to grow the mobile customer base and launching new products such as fibre powered broadband and IPTV.

Consumers have been spending less on an incremental basis, such as by placing fewer calls, by migrating to cheaper price plans or using alternative technologies to make calls over data networks. Economic conditions have put pressure on the growth prospects of the Irish telecommunications market in terms of ARPU and the number of subscribers in particular. These factors have impacted our revenue and our Adjusted EBITDA. Our Adjusted EBITDA has decreased from €542 million for the financial year ended June 30, 2012 to €487 million for the financial year ended

June 30, 2013. Our ability to stabilise and increase our Adjusted EBITDA, will depend on successful execution of our strategy, including our ability to maximise operational efficiencies. It will also be driven by generating additional sources of revenue and EBITDA through our investments in our fibre network, 4G and other programmes, the implementation of which is underway.

While the macroeconomic environment in Ireland remains challenging, the Central Bank of Ireland forecasts continued modest growth in the Irish economy in 2013 with further improvement forecast for 2014. Some signs of economic recovery are beginning to emerge with, for example, the seasonally adjusted unemployment rate reported by the CSO that peaked at 15.0% in Q1 2012, though still high, has fallen to 13.7% in Q2 2013.

Irish fixed line telecommunications market

As the largest provider of fixed line telecommunications services in Ireland, our performance is impacted by factors affecting growth in this market.

ComReg quarterly reports indicate that total fixed line revenue in Ireland for the quarter ended June 30, 2013 was €461.8 million, representing a decrease of 7.4% on the quarter ended June 30, 2012.. Fixed line revenues in the quarter to June 30, 2013 represent 51.5% of total communications revenue (including broadcasting revenue) in Ireland. Our share of revenue in the fixed line market declined from 55% for the quarter ended June 30, 2012to 52% for the quarter ended June 30, 2013. Our share of the fixed line revenue market has declined in the face of competition from alternative retail fixed telecoms providers (such as UPC, Vodafone and most recently Sky) and wholesale fixed telecom providers (such as BT) as well as from the continued trend of mobile replacing fixed voice lines and minutes. All fixed line OAO competitors (other than UPC) rely on our network to varying degrees which generates wholesale revenue for eircom. The fixed retail market in Ireland has seen further competition as Sky has recently launched their telephony and broadband packages.

Therefore, despite the increase in competition some of its impacts are mitigated by the demand from OAOs for services offered by our wholesale division. We experienced 8% growth in wholesale access lines for the twelve months ended June 30, 2013. Operators such as Vodafone, BT (and Sky indirectly), and O2 rely on our core and access networks for the provision of services to their end user consumers and business customers. As a consequence, we often gain wholesale business when we lose retail business to OAOs. We do not however retain a portion of retail business lost to mobile operators or UPC.

We had fewer retail fixed line net access losses in the twelve months ended June 30, 2013 than in the twelve months ended June 30, 2012 (82,000 retail line losses in the twelve months ended June 30, 2013 compared with 108,000 retail line losses in the twelve months ended June 30, 2012). Retail line losses were partially offset at a group level by wholesale growth of 30,000 lines in the twelve months ended June 30, 2013. As part of our strategy to reduce fixed line losses, in October 2012 we launched our first fixed-mobile convergence bundle, providing customers with bundled fixed voice and broadband products and also mobile offerings, starting from €55 (incl vat) per month (for the first six months) which has subsequently been reduced to €45 (incl vat) per month (for the first six months).

We continue to maintain significant market share among fixed broadband operators in Ireland, with a 64.6% (retail and wholesale) share of the total fixed broadband subscriptions as of June 30, 2013. Our strategy is to stabilise traditional fixed line revenue through growth in newer services such as high speed broadband and entertainment services, and we plan to launch quad-play bundles (including TV) during the 2013 calendar year. On May 20, 2013 we launched our high spend broadband services over our NGA network. We now offer uncongested speeds of up to 70Mb/s and free upgrades for existing customers. We expect to launch further enhancements to the product portfolio including the introduction of higher speed products of up to 100Mb/s with the aid of a technology enhancing capability called Vectoring. As at 30 June 2013, 16,600 retail and wholesale customers are availing of our fibre services. We are extending the reach of our fibre network, which will deliver a fibre footprint of over 1.2 million premises by mid-2015, to deliver high speed broadband to approximately 60% of premises in Ireland. As of June 30, 2013, we passed 475,000 premises with fibre technology. In addition to our fibre deployment we plan to launch a TV service in autumn 2013 which when coupled with our existing FMC proposition will enable us to offer quad play bundles during calendar year 2013. We are currently conducting live trials, for approximately 400 customers, and feedback on customer experience is being used to improve the overall service.

Irish mobile telecommunications market and landscape

As of June 30, 2013, Ireland had a mobile penetration rate of 118.3%, including mobile broadband and M2M (and 99.5%, excluding mobile broadband and M2M) (*Source: ComReg*). According to independent market research, mobile penetration in Ireland at 118.3%, for June 30, 2013, is below the June 2013 level in the UK (130.1%) and the average in Western Europe (126.5%), indicating potential for growth. (source: Analyses Mason, TMM, Western Europe)

Competition for customers among mobile communications providers is based principally upon the services and features offered, technical quality of the mobile network and its coverage, customer service, capacity, and increasingly price, with the introduction of growing numbers of packages bundling minutes, SMS and broadband downloads. These factors have intensified the competitive environment, and, coupled with the price control of MTRs (enforced by ComReg), have had the effect of lowering ARPUs across the market in both prepaid and postpaid.

Our main mobile competitors include Vodafone, O2 and Three Ireland. All operators are licenced to operate 2G, 3G and 4G networks. O2 and Vodafone offer services based on their 2G and 3G networks while Three offers services over its 3G network only. We currently offer services over our 2G, 3G and most recently 4G networks. On the November 15, 2012, ComReg announced the results of its multi band spectrum auction, in which we were awarded spectrum rights in the 800 MHz, 900MHz and 1800 MHz bands. We are using 800 MHz and 1800 MHz to roll out 4G services which were launched in September 2013, and have commenced deploying 3G at 900 MHz, using U900 capability to improve 3G in-building penetration and coverage, which is already delivering improved 3G coverage and data speeds for over 74% of the population. This spectrum acquisition positions us very well to deliver a significantly improved experience for our existing customers and to grow our mobile business utilising state-of-the-art LTE technology.

We entered into a network sharing agreement, called Mosaic, with O2 on April 7, 2011 to improve our network quality and create a more efficient radio access network. This agreement enables us to increase our 2G indoor coverage and 3G/4G geographic coverage and we expect that it will drive cost savings. On June 24, 2013 Hutch, owner of Three Ireland, announced that it had entered into an agreement with Telefonica to buy its O2 business in Ireland. The completion of this transaction is subject to competition approval and that approval process is expected to take several months. If approved this transaction could negatively impact our competitive position in the market and the expected benefits to be achieved from Mosaic. As part of that process, we are expecting the Commission to send us a Request for Information and our response will reflect our commitment to ensuring that there will continue to be effective competition in the Irish mobile market, in the event that the acquisition is approved.

In the overall mobile sector eircom Group Mobile (eMobile and Meteor) had 19.6% share of the total subscriber market (including mobile broadband and M2M) by number of subscriptions as at June 30, 2013, which was flat year on year. Vodafone and O2's shares of the subscription market at the quarter ended June 30, 2013 were 39.3% and 27.9%, respectively, down from 40.2% and 28.9%, respectively, at the quarter ended June 30, 2012. Market share by subscribers for the quarter ended June 30, 2013 for three Ireland was 9.6% and for Tesco Mobile, the largest MVNO in the market, including mobile broadband and M2M, was 3.6% (*Source: ComReg*). Excluding Mobile Broadband and M2M, eircom Group Mobile (eMobile and Meteor) had 21.5% share of the subscriber market at June 30, 2013 representing an increase from 20.6% as at June 30, 2012 and 20.5% at March 31, 2013. In terms of revenue market share, eircom Group Mobile (eMobile and Meteor) had 17.8% share of the total revenue market at June 30, 2013 representing an increase from 17.3% for the same period in the prior year.

Our postpaid customer base has experienced strong growth: subscriber numbers were 357,000 (including mobile broadband and M2M) as of June 30, 2013, representing an increase of 30% compared with June 30, 2012, despite total postpaid market growth in Ireland of just 9% in the same period (*Source: ComReg*). This growth has been assisted through increased activity in pre to postpaid migrations and our roll out of campaigns encouraging postpaid take up, specifically with offers on data usage. Postpaid churn rates for our mobile subscribers (including mobile broadband and M2M) has improved from 23% in the twelve months ended June 30, 2012 to 16.9% in the twelve months ended June 30, 2013.

Prepaid churn rates remain a challenge and our annualised churn rate for the twelve months ended June 30, 2013 was 7.4 percentage points higher than for the twelve months ended June 30, 2012. This in part reflected increased

migration of prepaid customers to postpaid, in line with the growth of smartphones, which is in line with our strategy to improve ARPU among our overall customer base. Our mobile prepaid customer numbers (including mobile broadband and M2M) as of June 30, 2013 were 702,000, representing a reduction of 12.4% compared with June 30, 2012. Our prepaid base is also negatively affected by emigration and the economic climate which may remain an on-going challenge. At the end of June 30, 2013**,** 66.5% of our mobile customer base (including mobile broadband and M2M) consisted of prepaid subscribers, compared to 75% at June 30, 2012. This reduction is in line with our strategy to migrate our high value demographic prepaid customer base with a lower propensity to churn to higher value postpaid customers. Our proportion of prepaid customers by subscriber number is higher than our main competitors. As of June 30, 2013, the proportion of prepaid customers by subscriber numbers for Vodafone and O2 were 61.9% and 47.7% respectively (*Source: ComReg*). We are focused on increasing our share of postpaid customers and it has been one of our main successes in the twelve months ended June 30, 2013 to increase our postpaid subscribers from 25% to 33.5% of our total subscriber base, with 83,000 net additional postpaid subscribers (incl mobile broadband). We obtained 44% of all postpaid net additions in the quarter ended June 30, 2013 (according to ComReg), approximately half of which are new subscribers and half of which were previously our prepaid subscribers.

Given the size of our prepaid subscriber base, our mobile business does not have the same level of recurring billed revenue associated with postpaid contracts but the transition from prepaid to higher value, in contract, postpaid customers is improving. Our mobile business continues to experience increasing price competition from the other mobile operators. Our mobile businesses' competitive position depends on the efficiency and success of marketing and branding initiatives, our ability to anticipate and respond to various competitive factors, the behaviour of our competitors, and the evolution of the mobile sector in Ireland. We have a dual-brand mobile strategy whereby we offer mobile services under the Meteor and eMobile brands. Meteor was historically targeted at prepaid customers in the under 25-year old market segment and at value conscious customers but has now been expanded to appeal to higher value postpaid subscribers and business market segments (which have a lower propensity for churn). eMobile, launched in September 2010, is predominantly targeted at an older, higher income demographic with a focus on offering bundled services, including mobile to our fixed line subscribers, and to business markets. Competitive factors include, among other things, new services and products, improved network coverage and quality, wider choice of handsets, pricing of mobile services and handsets, which has a significant impact on mobile ARPU, the quality of customer service and changes in consumer preferences. See also "*—Liberalisation of the Irish telecommunications market and increasing competition*".

We launched a mobile service in December 2012 for corporate and public sector customers, seeking to leverage our substantial fixed line subscriber base by offering corporate and public sector customers one solution for their communication needs.

Liberalisation of the Irish telecommunications market and increasing competition

The Irish telecommunications market was fully opened to competition on December 1, 1998. Competitors quickly entered the market, and we now compete with a number of OAOs, UPC and Sky in the provision of voice and data services. See *"Regulation"*. Regulatory initiatives and increased competition may result in a further decline in our fixed line market share in the future.

In recent years, ComReg has taken a number of measures designed to increase further the competition in the Irish telecommunications market. These initiatives include *inter alia*:

- directing us to offer carrier pre-selection single billing through WLR and agency rebilling;
- directing us to provide partial private circuit services to our competitors;
- directing us to provide wholesale Ethernet products to our competitors;
- restricting the scope of bundled product offerings that we are permitted to make to our retail customers;
- introducing price controls in regulated wholesale markets that also affect retail markets through obligations not to cause margin squeeze between retail and wholesale products, and price controls requiring us not to

cause a margin squeeze between combined wholesale services and the individual components of these combined services;

- introducing obligations in the wholesale markets to provide wholesale services to OAOs that are equivalent to the retail services provided by eircom;

- implementing obligations across the industry to facilitate customers who wish to change operators, including enabling the porting of numbers in one working day;

- requiring us to introduce LLU and related products, including Inter and Intra Operator Migrations, which facilitate easier transfer of lines to competitors;

- introducing regulation of NGA services including requiring that the NGA be "open access" meaning that it is open to other licensed operators in the market on a wholesale basis; and

- chairing several industry fora, specific to developing regulated access products, which are attended by eircom Wholesale (as the SMP operator), eircom Retail and OAOs.

Decisions, currently deemed acceptable, relating to NGA pricing and price bundling have established clarity regarding key regulatory rules on eircom's NGA investment. While significant progress has been made to achieve a forward looking regulatory regime that reflects the current competitive realities of the market, these measures may result in further loss of our market share.

We have introduced significant discount packages and bundled promotions, for both fixed line and mobile services, in order to retain customers and increase usage of our products and services in the current environment. We have placed increasing emphasis on retention, and as of June 30, 2013, 73% of our consumer fixed broadband base were in contract, up from 56% as of June 30, 2012. As a result, our consumer broadband churn rate had decreased to 24.3% in the twelve months ended June 30, 2013 from 28.4% in the twelve months ended June 30, 2012.

Continued pressures on fixed line pricing

To retain and attract new customers, we offer discount packages on calls, broadband, mobile, and on corporate network services and leased line services to our retail customers. We introduced our first fixed mobile converged ("FMC") packages in October 2012 providing customers with bundled fixed voice and broadband products and also mobile offerings, starting from €55 per month (for the first six months including VAT), which has subsequently been reduced to €45 (for the first six months including vat) per month. This bundle has been positively received by consumers and we have seen good trends in relation to customer take up and believe this a strong proof point for quad play bundles which we expect to launch during financial year 2014.

Our provision of services and our prices are subject to extensive regulation, including the regulation of our wholesale prices which typically must be cost oriented, and must not cause a margin squeeze against the underlying component inputs. Cost orientation reflects the forward looking incremental costs of an efficient operator, rather than the actual costs incurred by eircom. At the retail level, we are subject to a price cap that limits the amount by which we can increase our retail prices on line rental. As a result, the prices that we charge for certain wholesale and retail products and services may not necessarily reflect the real costs we actually incur in providing them, or the profit maximising prices that we would charge in the absence of such regulations.

Following a consultation process in relation to retail bundling, ComReg published its Final Decision D04/13 (*ComReg 13/14*) on February 8, 2013. Arising from the decision, we must continue to obtain prior ComReg approval before launching bundles with a retail line rental component, however, the notification period has been reduced from fifteen to five working days before launch. This decision provides pricing flexibility in bundled services which includes: the segmentation of the market into competitive and non-competitive areas (through the establishment of larger exchange areas where competition is most intense); relaxing the margin squeeze test as the level of network unbundling increases; and introduction of portfolio approach for the margin squeeze test with relaxation of individual product by product tests

and also allows us to obtain approval faster than prior to the decision. See "*Regulation—Regulation of our fixed line products and services—Retail Price Regulation*".

Net impact of mobile substitution on our fixed line business

Like most fixed line telecommunications operators, our fixed line business is impacted by customers' use of mobile devices as a substitute for our services, both voice and broadband. It is likely that the increasing capability of mobile networks, particularly 3G and developing 4G networks, will continue to have a negative impact on fixed line volumes and revenue. Through our mobile business we are securing a proportion of traffic that is displaced from fixed to mobile.

We are continuing to introduce new service options for our customers, such as discount plans and bundles that offer reduced prices or unlimited usage for certain categories of calls, reduced prices for fixed-to-mobile calls and reduced costs for broadband within bundles, in order to make our services more attractive. We also highlight the value of our fixed line services such as higher bandwidth broadband, as compared with mobile.

Mobile termination rates ("MTR")

Following completion of a market review consistent with EU recommendations, ComReg has imposed further reductions in MTR price caps which will ensure MTRs are regulated on a symmetrical basis. Vodafone, O2 and Meteor have maintained symmetrical MTRs since July 2011 and the level of the average rate was 3.68 cents per minute at December 31, 2012. 3 had been permitted to set higher asymmetric rates and 3's average termination rate was 7.48 cents per minute at December 31, 2012. The MTRs set by Tesco Mobile were unregulated in 2012 and achieved an average rate in the region of 12.5 cents per minute per ComReg estimates. From January 1, 2013, as per ComReg direction, all MNOs and MVNOs must set their prices no higher than 2.60 cents per minute. This was an interim step towards a price cap of 1.04 cents per minute from July 1, 2013. The 1.04 cents per minute rate is based on benchmarks, as ComReg has not yet built the appropriate cost models for Ireland. ComReg currently expects to have the appropriate MTR models completed in time to implement new price caps from July 2014 onward.

Whilst these changes will have the impact of decreasing our inbound revenue in the mobile business, it also reduces our interconnect costs on both the fixed and mobile businesses It also provides us with the opportunity to price our fixed and mobile portfolios more attractively, particularly in relation to voice bundles offering "Any Network" calls.

On December 18, 2012 Vodafone lodged an appeal to the High Court challenging the basis for calculation of the MTR rates. On August 14, 2013 the court judgement on this appeal was issued and found in favour of Vodafone. While these rates have been implemented and are still in force, the court has decided that the way in which the rates were set is unlawful but has not yet determined what way the rates should be set going forward. However, the Judge did not make any Orders pending receipt of representations from ComReg and Vodafone on September 25, 2013 and on September 25, 2013, the date for these representations was extended until September 30, 2013. There is uncertainty as to what Orders the Court will make, or the extent to which ComReg will exercise its discretion to maintain an even playing field among mobile and fixed operators. If Vodafone is allowed to revert to its original (pre-decision) MTR rates, and new rates are maintained among other operators, this would have a negative impact on our interconnect costs in our fixed and mobile businesses and results of operations. See *Regulation - Mobile Termination Rates ("MTR".)*

Capital Expenditures and Investment

We are undergoing a major programme of capital investment to enable business transformation. The year ended June 30, 2013 represented a peak year for capital expenditure, which totalled €424 million. Our main capital expenditure programmes are in relation to the roll out of our NGA network, investment in spectrum to roll out 4G services, to enhance current services, investment in new IT capabilities and TV, a new billing system which will provide our customers with a single bill for fixed and mobile products and general business as usual expenditure in relation to core network and the fixed and mobile access network. See "*—Liquidity—Cashflows*". We have already made substantial progress in implementing these programmes.

As of June 30, 2013, we have rolled out our fibre network to more than 475,000 premises passed, and were on plan to reach 600,000 premises passed by December 2013 and 1.2 million premises by June 2015. In the three years ending June 30, 2013 we had spent €148m on the rollout of our fibre services which will enable us to deliver high speed broadband services to our customers. On May 20, 2013 we launched our high spend broadband services over our NGA network and we now offer uncongested speeds of up to 70mb/s and free upgrades for existing customers. We expect to launch further enhancements to the product portfolio including the introduction of higher speed products of up to 100Mb/s with the aid of a technology enhancing capability called Vectoring. As at June 30, 2013, 16,600 retail and wholesale customers are availing of our fibre services.

Our NGA network will also drive fibre deeper into our network and provide significant back-haul capacity to serve our own mobile business and will also serve as a means of generating incremental revenues by offering this capacity to other MNOs.

Following our acquisition of spectrum in November 2012, we are deploying 3G at 900 MHz, which is already delivering improved 3G coverage and data speeds for over 74% the population today. We have also begun the rollout of our 4G (LTE technology) network and in September 2013 launched 4G services to approximately 25% of the population. Our LTE network will deliver theoretical maximum data download speed of 72Mbit/s, with average speeds expected to be 10-15Mbit/s - significantly greater than average speeds on our existing 3G network. Further rollout of our LTE network is underway to increase population coverage to 50% by the end of the June 2014.

We are investing in our IPTV service, which we plan to launch in autumn 2013. We are currently conducting live trials (with approximately 400 customers) and survey of customer experience is being used to improve the overall service. TV will enable us to launch quad play services this calendar year which we believe will increase RGUs per customer relationship and increase customer satisfaction, resulting in decreased churn.

The investment in our advanced retail billing system will enable us to deliver integrated fixed and mobile billing capabilities which are critical to the delivery of current triple bundles and imminent quad-play bundles.

Restructuring and cost management programmes

We continue to focus on reducing operational expenditure. Employee-related expenses are a significant component of our total cost base and a focus of our cost management has been to reduce employee headcount, particularly in our fixed line business. We have reduced the number of FTEs in the Group from 6,297 as of June 30, 2010 to 4,705 as of June 30, 2013. This decline in FTEs reflects the continued drive for efficiency in the organisation.

We recently completed a detailed review of our operating cost base, across pay and non-pay, through a leading global consulting firm benchmarking review which compared us to our peer group of fixed and mobile operators across Western Europe. As a result of this review, we have identified a number of efficiency initiatives, which now form the basis of an accelerated cost reduction programme over the period to the end of financial year 2013/2014. In October 2012, we announced our intention to reduce our workforce by 2,000 personnel by June 30, 2014 compared to October 31, 2012.

On 16 January 2013, the group launched an Incentivised Exit (IE) scheme, which was designed to facilitate employees leaving the organisation on a voluntary basis. During the year ended 30 June 2013, 658 employees left the group under this and other individual IE schemes. The total costs of these incentivised exits were €78 million, including cash cost of exits of €63 million and pension curtailment costs of €11 million. The cost of the scheme, in excess of the €49 million provision held at 30 June 2012, has been included as an exceptional charge in the income statement for the year ended June 30, 2013.

The restructuring programme is on-going and the group plans to further reduce headcount by more than 1,000 in the year ended June 30, 2014. However, no provision has been recognised as at 30 June 2013 in respect of the costs that are expected to be incurred in the year ended 30 June 2014 and subsequent periods in respect of future restructuring and the restructuring costs incurred in the year ended 30 June 2014 and subsequent years will directly impact on the income statement and cash flows for those years.

In addition to pay cost reductions, a detailed inventory of non-pay cost reduction programmes across each business unit has been developed with a view to significantly reducing operating expenditure across the business. We anticipate that these initiatives (both pay and non-pay), which are now being implemented, will yield significant cost savings. We are targeting operational cost savings (both pay and non-pay) of €100 million per year, to be achieved by quarter four of the financial year ended June 30, 2014 (on an annualised basis) compared to the financial year ended June 30, 2012.

Employee Defined Benefit Pension Scheme

We operate pension schemes for our employees. In particular, we operate a Defined Benefit pension scheme for 84% of our fixed line employees (74% of all employees), part of which is funded by the Irish Government in respect of pre-1984 service. This pension scheme also covers a significant number of past employees.

Under the terms of Industrial Relations Agreements made with the Trade Union Alliance in 2010 and 2011 there is a pay freeze until December 31, 2013 with no retrospection thereafter.

Growth in pensionable pay for each calendar year after 2013 will be capped at the lower of:

- The percentage increase in actual pay awarded in the calendar year; or
- The percentage rate of CPI; or
- A maximum annual increase of 4% for each calendar year between 2014 and 2017 inclusive; 3.25% in each calendar year between 2018 and 2020 inclusive, and 2.5% in each year thereafter.

Arising from the September 30, 2010 Triennial Funding valuation, the Board approved an employer contribution rate of 9.4% of pensionable salary and allowances subject to a minimum employer contribution of €20 million per annum for the three years to December 31, 2013.

The Main Fund satisfied the requirements of Part IV of the Pensions Act 1990 (the Minimum Funding Standard) at the last full valuation and at the scheme year ends of March 31, 2011 , March 31, 2012 and March 31, 2013.

The next full actuarial valuation is at September 30, 2013, which will be on both an MFS and an on-going funding basis. In the event that a deficit arises on an MFS basis, the trustees would be required to agree a funding proposal with us to address the deficit over an agreed time period for submission to, and approval, by the Pensions Board. Options to remediate a deficit could include reductions in benefits, increased employer or employee contributions or extension of pensionable pay freeze.

As eircom Limited has adopted the corridor approach for pensions accounting, the pension asset included in the eircom Limited balance sheet excludes unrecognised actuarial losses of €988 million, and we have recognised an asset of €140 million on eircom Limited's balance sheet at June 30, 2013 compared to actual benefit obligation in excess of scheme assets of €848 million. Under the corridor approach, unrecognised actuarial gains and losses outside the corridor are recognised over the expected average remaining working lives of the employees.

IAS 19 (revised) is effective for accounting periods commencing on or after January 1, 2013. The amended standard makes significant changes to the recognition and measurement of defined benefit pension expense. Of particular relevance to eircom Limited is the elimination of the option to defer the recognition of actuarial gains and losses (remeasurements) known as the 'corridor method'. Consequently, eircom Limited will be required to recognise the entire defined benefit pension deficit in its balance sheet at July 1, 2013 and subsequent reporting dates. If IAS 19 (revised) had been applicable at June 30, 2013, eircom Limited would have been required to recognise in full the benefit obligation in excess of scheme assets at that date of €848 million and eircom Limited overall net liabilities would increase by €865 million (net of deferred taxation). EHIL has recognised in full the defined benefit pension deficit under IAS 19 and therefore its overall net liabilities are not impacted as a result of introduced by IAS 19 revised.

There is currently no legislation in Ireland equivalent to the UK legislation which imposes debt on the employer to the extent that pension obligations are underfunded.

Critical accounting policies

Our principal accounting policies for the financial year ended June 30, 2013 are set out in the notes to the consolidated financial statements of eircom Limited contained elsewhere in this Annual Report. These policies conform to IFRS, as adopted by the European Union.

We use estimates and judgements that affect the reported amounts in our consolidated financial statements and accompanying notes. The most sensitive estimates affecting our financial statements are disclosed in the notes to the consolidated financial statements of eircom Limited contained elsewhere in this Annual Report. (see Note 5 to the eircom Limited consolidated financial statements for the year ended June 30, 2013 contained elsewhere in this Annual Report).

Going concern basis of preparation of financial statements

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

The eircom Limited group has net liabilities of €493 million at June 30, 2013. The net liabilities of the eircom Limited group, included in the balance sheet at June 30, 2013 exclude liabilities in respect of borrowings of €386 million, as IFRS required certain liabilities emanating from the Examinership to be measured at fair value on the date of initial recognition and subsequently at amortised cost (see Note 2 to the eircom Limited consolidated financial statements for the year ended June 30, 2013 contained elsewhere in this Annual Report) and also excludes the impact of IAS 19 (revised) – as outlined under "Employee Defined Benefit Pension Scheme" above.

The directors believe that it is appropriate to adopt the going concern basis of accounting notwithstanding our net liability position as the directors believe that based on forecasts of our operational cash flows, and trading results, we will be in a position to meet our obligations as they fall due and comply with our financial covenants, for the foreseeable future. For more information see Note 2 to the eircom Limited consolidated financial statements for the year ended June 30, 2013 contained elsewhere in this Annual Report.

Results of operations—financial year ended June 30, 2013 compared with financial year ended June 30, 2012

The following table shows selected consolidated income statement data for eircom Limited (which has been prepared in accordance with IFRS) from our operations for the periods indicated. The results of eircom Phonewatch Limited, up to the date of disposal (May 11, 2013), are included in the results for the financial year ended June 30, 2013.

	For the financial year ended	
	June 30, 2012	June 30, 2013
	€m	€m
Continuing operations		
Revenue	1,515	1,394
Operating costs excluding amortisation, depreciation, impairment and exceptional items	(1,001)	(1,001)
Amortisation	(38)	(40)
Depreciation and impairment of plant and equipment	(229)	(222)
Exceptional items	769	(18)
Exceptional gain on exit from subsidiary	—	117
Profit/(loss) on disposal of property, plant and equipment	(1)	-
Operating profit/(loss)	1,015	230
Finance costs	(98)	(240)
Finance income	2	1
Finance costs—net	(96)	(239)

Profit/(loss) before tax	919	(9)
Income tax charge	(28)	(8)
Profit/(loss) for the year	891	(17)

Revenue

Overall revenue for the year ended to June 30, 2013 decreased by 8%, compared with the respective prior year period. The following table shows certain segmental information relating to our business for the periods indicated and includes turnover in relation to eircom Phonewatch Limited of €27m and €30m for the year ended June 30, 2013 and June 30, 2012 respectively.

	For the financial year ended		
	June 30, 2012 (unaudited)	**June 30, 2013 (unaudited)**	**% Change 2012/2013**
	€m	**€m**	
Fixed line services and other revenue	1,195	1,093	(9)
Mobile services revenue	372	353	(5)
Total segmental revenue	1,567	1,446	(8)
Intracompany eliminations	(52)	(52)	0
Total revenue	1,515	1,394	(8)

Fixed line services
Fixed ARPU

	For the financial year ended June 30,	
	2012 (unaudited)	**2013 (unaudited)**
	(€ per month/percentages)	
Retail fixed voice ARPU[(1)(4)]	39.79	38.02
Retail broadband ARPU[(2)(4)]	17.88	16.62
Blended retail fixed ARPU[(3)(4)]	47.85	45.95
Increase/(decrease) in blended ARPU from prior equivalent period (%)		(4%)

(1) 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.

(2) 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.

(3) We define "Blended retail fixed ARPU" as the average of the total retail subscriber revenue[(5)] divided by the average number of access subscribers in each month.

(4) 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.

(5) Subscriber revenue is equal to access retail rental revenue (PSTN and ISDN), net core voice revenue and net broadband revenue.

Fixed Subscribers

	As of June 30, 2012 (unaudited)	As of June 30, 2013 (unaudited)	% Change 2011/2012
Access Line Base: PSTN & ISDN (000's)[1]			
Retail	999	917	(8)
Wholesale WLR	383	414	8
Wholesale LLU	13	16	23
Total	1,395	1,347	(3)
DSL Lines: (000's)			
Retail	461	451	(2)
Wholesale	200	218	9
Total	661	669	1

Fixed Line Services and other Revenue

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

	For the financial year ended June 30, 2012 (unaudited)	For the financial year ended June 30, 2013 (unaudited)	% Change 2012/2013
	€ m	€ m	
Access (Rental and Connections)	547	508	(7)
Voice Traffic	293	252	(14)
Data Services	131	121	(8)
Foreign Inpayments	25	14	(44)
Other Products and Services	199	198	(1)
Total fixed line services and other revenue	1,195	1,093	(9)

Total fixed line services and other revenue before intra-company eliminations for the financial year ended June 30, 2013 was 9% lower than for the corresponding prior year period. This reflected the impact of continuing economic and competitive pressures in our market. Revenue decreased across all major categories in the financial year ended June 30, 2013 mainly as a result of a reduction in retail access lines and traffic usage.

Fixed Churn

	For the financial year ended June 30, 2012 (unaudited)	For the financial year ended June 30, 2013 (unaudited)	% Change 2012/2013
Consumer fixed access churn (%)	21.3	19.2	(9.8)
Consumer broadband churn (%)	28.4	24.3	(14.8)

The churn rate reflects in large part the attractiveness of offers and pricing (including bundling and discounts) compared with other operators, the subscriber experience and perception of the brand, the perceived quality of our services (including customer care) and the churn rate may also be impacted by subscription (contract) duration. Consumer fixed access churn decreased from 21.3% for the twelve months ended June 30, 2012 to 19.2% for the twelve months ended June 30, 2013 primarily due to increased re-contracting efforts, and bundling, facilitated by retail price flexibility, which have contributed to our improved customer retention rates.

Access (rental and connections)

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

	For the financial year ended		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
	€m	€m	
Total access revenue			
Retail PSTN/ISDN rental and connection	323	291	(10)
Wholesale PSTN/ISDN/LLU rental and connection	92	96	4
ADSL and bitstream rental and connection	132	121	(8)
Total access revenue	547	508	(7)

Retail PSTN & ISDN line rental and connection revenue decreased by 10% in the financial year ended June 30, 2013, 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 as of June 30, 2013 were 917,000, a reduction of 8% on the prior year.

Wholesale rental and connection yielded revenue of €96 million in the financial year ended June 30, 2013, an increase of 4% compared with the prior year. WLR lines had increased from 383,000 to 414,000 in the financial year ended June 30, 2013 while Wholesale LLU connections increased by 18% to 16,000 connections. On average, during the year ended June 30, 2013, approximately 40% of the retail access losses became Wholesale customers via OAOs. ADSL and bitstream revenue in the financial year ended June 30, 2013 was €121 million, which was 8% lower than the prior year due to lower prices and a reduction in retail customer volumes. As of June 30, 2013, the number of ADSL and bitstream lines had increased by 1% to 669,000 lines from 661,000 at June 30, 2012, driven mainly by an increase in the number of Wholesale customers.

Traffic

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

	For the financial year ended		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
	€m	€m	
Revenue			
Retail traffic	230	187	(19)
Wholesale traffic	63	65	3
Total traffic revenue	293	252	(14)
Traffic	(in millions of minutes, except percentages)		
Retail	3,265	2,805	(14)
Wholesale	4,517	4,370	(3)
Total traffic minutes	7,782	7,175	(8)

Retail traffic revenue decreased by 19% in the financial year ended June 30, 2013 compared with the financial year ended June 30, 2012, 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, mobile substitution and loss of market share. Year on year wholesale traffic revenue grew by 3% in the financial year ended June 30, 2013. Although there was an overall decrease of 3% in wholesale minutes, the increase in revenue is primarily down to a change in mix to higher value transit to mobile and white label traffic.

Data communications

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

	For the financial year ended		% Change
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	2012/2013
	€m	€m	
Data communications revenue			
Leased lines	71	64	(10)
Switched data services	53	50	(6)
Other services	7	7	0
Total data communications revenue	131	121	(8)

Revenue from data communications was €121 million in the financial year ended June 30, 2013, a decrease of 8% compared with the prior financial year. Leased line revenue was 10% lower due to a further reduction in leased line volumes as customers rationalise their networks as well as migrating to higher speed alternatives. Switched data revenue decreased by €3 million, while Other services revenue was flat year on year.

Foreign Inpayments

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

	For the financial year ended		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
	€ 'm	€ 'm	
Foreign terminating traffic revenue	25	14	(44)
	(minutes, million)		
Foreign terminating traffic minutes	1,113	800	(28)

Foreign terminating traffic revenue of €14 million in the financial year ended June 30, 2013 decreased by 44% and foreign terminating traffic minutes fell by 28% compared to the financial year ended June 30, 2012 due to a planned reduction in bi-lateral agreements with international operators. These changes also led to reductions in international cost of sales.

Other products and services

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

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

	For the financial year ended,		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
	€ 'm	€ 'm	
Operator services	25	22	(12)
Managed services and solutions	27	31	15
Phonewatch	30	27	(10)
Tetra	19	19	0
UK	23	33	43
Data centre	11	13	18
Other revenue	64	53	(17)
Other products and services revenue	199	198	(1)

Revenue from other products and services of €198 million for the financial year ended June 30, 2013 was broadly flat compared with the prior year. Revenue decreases in Operator Services, Phonewatch and other revenue were partially offset by increases in managed services, UK and data centre revenue. Operator Services revenue was 12% lower than in the prior year primarily due to reduced call volumes. Managed services revenue increased by 15%

benefitting from internal capability build and greater focus on this sector. Phonewatch revenue decreased by 10% as we sold this business during May 2013, while Tetra revenue was flat year on year. Our UK revenue increased by 43% due to the impact of key contract wins in the government sector in the UK during the prior year. Datacentre revenue increased by 18% and other revenue was down 17% year on year.

Mobile services revenue

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

	For the financial year ended		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
	€m	€m	
Prepaid handset	209	168	(20)
Postpaid handset	124	146	18
Mobile broadband	10	10	0
Roaming	4	5	25
Other	25	24	4
Total mobile services revenue	372	353	(5)

Mobile revenue was €353 million for the financial year ended June 30, 2013, a decrease of 5% compared to revenue of €372 million for the financial year ended June 30, 2012. This is due to a combination of reduced customer numbers, a change in traffic patterns with an increase in the proportion of traffic generated as part of the bundled minutes within our own network, the impact of new postpaid plans, and lower mobile termination and roaming rates. As of June 30, 2013 total mobile customer numbers amounted to 1,059,000, a decrease of 2% compared with the prior year.

As of June 30, 2013, 83% of our postpaid mobile customers were on contracts of twelve months or longer.

	As of		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
Total subscribers ('000)			
Prepaid handset customers	763	673	(12)
Postpaid handset customers	249	329	32
Mobile broadband customers	64	57	(11)
Total subscribers	1,076	1,059	(2)

Mobile Churn

Our blended churn rate increased from 43.7% for the financial year ended June 30, 2012 to 45.1% for the financial year ended June 30, 2013. During the financial year ended June 30, 2013, postpaid churn decreased significantly as we introduced more competitive offerings, focused our customer retention activity and improved customer experience. Prepaid churn is impacted by market trends of prepaid to postpaid migration and wider macro-economic factors. Our Meteor prepaid base is heavily weighted towards the youth segment, which has been disproportionately impacted by unemployment and emigration over the past four years.

	For the financial year ended June 30,	
	2012	2013
Churn rate[(1)]	43.7%	45.1%
Churn rate postpaid[(1)]	23.3%	16.9%
Churn rate prepaid[(1)]	49.6%	57.0%

(1) Churn rates are calculated by dividing the number of disconnections of subscribers during the period by the average number of subscribers in the same period. The average number of subscribers does not include postpaid subscribers without an active contract and prepaid subscribers whose SIM card is connected to the network, but who have not paid for top-up or who have not decreased their balance in the previous 90 days by means of a transaction such as an outgoing call, SMS, MMS or mobile internet usage. We define "the average number of mobile subscribers in the year" as the average of the total number of mobile subscribers at the beginning of the year and the total number of mobile subscribers at the end of the year.

Mobile ARPU

The following table shows mobile customer base and average revenue per user (ARPU):

	For the financial year ended June 30,	
	2012	**2013**
	(€ per month other than percentages)	
Prepaid ARPU[(1)(7)]	21.5	18.9
Postpaid ARPU[(2)(7)]	45.3	40.2
Voice ARPU[(3)(7)]	15.5	13.7
Non-voice ARPU[(4)(7)]	11.5	11.5
Non-voice ARPU as a percentage of total ARPU	43%	46%
Total ARPU[(5)]	26.9	25.2
Of which billed ARPU[(6)(7)]	20.5	19.9
Decrease in total ARPU from prior financial year		(6%)
Decrease in billed ARPU from prior financial year		(3%)

(1) We define "Prepaid ARPU" as the measure of the sum of the total prepaid mobile subscriber revenue including revenue from incoming traffic in a year divided by the average number of prepaid mobile subscribers in the period divided by the number of months in the year.

(2) We define "Postpaid ARPU" as the measure of the sum of the total postpay mobile subscriber revenue including revenue from incoming traffic in a year divided by the average number of postpay mobile subscribers in the period divided by the number of months in the year.

(3) We define "voice ARPU" as the total mobile voice revenue including revenue from incoming traffic in the year divided by the average number of mobile subscribers in the year divided by the number of months in that year..

(4) We define "non-voice ARPU" as total revenue from non-voice services (mobile SMS, MMS and data services on handsets) and mobile broadband services in the period divided by the average number of mobile subscribers in the year divided by the number of months in the year.

(5) We define "total ARPU" as the total mobile subscriber revenue in a period divided by the average number of mobile subscribers in the year divided by the number of months in the year.

(6) We define "billed ARPU" as the measure of the sum of the total mobile subscriber revenue excluding revenue from incoming traffic in a year divided by the average number of mobile subscribers in the year divided by the number of months in the year. We believe that billed ARPU is a proxy for ARPU excluding MTR.

(7) We define "the average number of mobile subscribers in the period" as the average of the total number of mobile subscribers at the beginning of the year and the total number of mobile subscribers at the end of the year.

Our total ARPU was €25.2 per month for the financial year ended June 30, 2013, a decrease of 6% from ARPU of €26.9 per month for the financial year ended June 30, 2012. MTR reductions impacted inbound revenue and accounted for 17.3% of the ARPU reduction from year ended June 30, 2012 to year ended June 30, 2013. Despite significant ARPU declines in prepaid and postpaid in the period total ARPU decline was tempered by the significant increase in higher ARPU Postpaid subscriber mix.

Our billed ARPU (which excludes revenue from incoming traffic and therefore effectively excludes the impact of MTR decreases) was €19.9 per month for the financial year ended June 30, 2013, a decrease of 3% from ARPU of €20.5 per month for the financial year ended June 30, 2012.

Mobile prepaid and postpaid ARPU have been disproportionally impacted by the wider economic downturn. Inbound ARPU decline accounts for 20.5 % of the decline in prepaid ARPU from the financial year ended June 30, 2012 to the financial year ended June 30, 2013. Postpaid billed ARPU has been impacted by bundle optimisation, competition and prepaid to postpaid migration, which serves to tie lower ARPU prepaid subscribers into postpay contracts at lower rates. MTR reductions also heavily impacts postpaid ARPU with inbound ARPU, accounting for 19.4% of the overall postpaid ARPU decline from year ended June 30, 2012 to year ended June 30, 2013.

Operating costs before amortisation, depreciation, and exceptional items

The following table shows information relating to our operating costs before amortisation, depreciation, and exceptional costs (including restructuring), and the percentage changes for the periods indicated:

	In the financial year ended		
	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	% Change 2012/2013
	€m	€m	
Cost of sales			
Foreign outpayments	20	12	(40)
Interconnect	164	136	(17)
Equipment cost of sales	67	67	0
Other including subsidiaries and new business	73	80	10
Total cost of sales	324	295	(9)
Pay costs			
Wages and salaries and other staff costs	316	314	(1)
Social welfare costs	15	16	7
Pension cash costs—defined contribution plans	5	5	0
Pension cash costs—defined benefit plans	20	21	5
Pay costs before non-cash pension charge and capitalisation	356	356	0
Capitalised labour	(60)	(79)	32
Total pay costs before non-cash pension charge	**296**	**277**	**(6)**
Non pay costs			
Materials and services	25	24	(4)
Other network costs	29	30	3
Accommodation	98	96	(2)
Sales and marketing	70	67	(4)
Bad debts	14	9	(36)
Transport and travel	15	14	(7)
Customer services	40	40	0
Insurance and compensation	5	7	40
Professional and regulatory fees	19	17	(11)
IT costs	22	23	5
Other non pay costs	17	8	(53)
Total non pay costs	354	335	(5)
Operating costs before non-cash pension charge, amortisation, depreciation, and exceptional items	**974**	**907**	**(7)**
Non cash pension charge	28	94	236
Operating costs before, amortisation, depreciation, and exceptional items	1,001	1,001	0

Total operating costs before amortisation, depreciation and exceptional items were flat year on year.

Cost of Sales

Cost of sales in the financial year ended June 30, 2013 decreased by 9% compared with the financial year ended June 30, 2012. Foreign outpayments were 40% lower due to a planned reduction in bi-lateral agreements with international operators which also resulted in a reduction in foreign inpayments traffic revenue. Declines in our retail international traffic volumes also resulted in savings in foreign outpayment costs. Interconnect payments to other telecommunications operators were 17% lower due to falling interconnect traffic volumes and reductions in mobile termination and other interconnect rates. Equipment cost of sales in the year were flat year on year. Other cost of sales were 10% higher mainly due to increased activity in eircom UK and managed services and also due to increased take up of our data centre services which also resulted in increased revenue in these areas. Cost of sales for the year ended June 30, 2013 includes €6.0 million (2012: €6.4 million) of costs relating to eircom Phonewatch.

Pay Costs

Total pay costs before non cash pension charges, in the financial year ended June 30, 2013 were €277 million, 6% lower compared to the prior year. This was mainly due to an increase in capitalised labour on strategic programmes mainly from the rollout of the NGA network. Despite the reversal, on October 31, 2012, of the nine day fortnight working arrangements, pay costs before capitalised labour were flat year on year. Additional costs due to the increase in full time equivalents (FTE) as a result of the reversal of the nine day fortnight, were offset by savings as a result of leavers under voluntary exit schemes and natural turnover of staff. Pay costs for the year ended June 30, 2013 includes €6.2m (2012: €7m) of costs relating to eircom Phonewatch.

Non Cash Pension Charge

The non cash pension charge represents the difference between the actual defined benefit pension paid and payable by the group in respect of the financial year and the pension charge determined under IAS 19.

The increase in the non cash pension charge in the financial year ended June 30, 2013 arose primarily as a result of the unrecognised actuarial losses on the scheme exceeding the corridor limit at 30 June 2012.

Under the corridor approach, unrecognised actuarial gains and losses outside the corridor are recognised over the expected average remaining working lives of the employees, based on the unrecognised actuarial gains and losses at the start of the financial year (1 July 2012). The amortisation is only re-measured during the year when there has been a material change in the obligations in respect of the pension scheme.

Non Pay Costs

Total non pay costs decreased by 5% in the financial year ended June 30, 2013. Materials and services costs decreased by 4% due to lower field activity. Other network costs increased by 3% due mainly to additional spectrum usage costs associated with the mobile spectrum we acquired in November 2012. Accommodation costs decreased by 2% as higher electricity costs were offset by savings on rent, rates, security and building maintenance. Sales and marketing costs decreased by 4% and bad debt costs decreased by 36%. Transport and travel costs decreased by 3% as higher fuel costs were offset by reductions in the fleet size. Customer services costs were flat while Insurance and Compensation costs increased by 40%. Professional and regulatory fees decreased by 11%. IT costs increased by 5% year on year. Other non pay costs decreased by 53% driven by lower training, recruitment costs and other miscellaneous costs. Non Pay costs for the year ended June 30, 2013 includes €2.2m (2012: €2.5m) of costs relating to eircom Phonewatch.

Amortisation

Amortisation charges for the financial year ended June 30, 2013 were €40 million, €2 million or 5% higher than the prior year, due to increases in intangible assets in the year, mainly the acquisition of wireless spectrum access rights for €144 million.

Depreciation and impairment of plant and equipment

The depreciation charges for the financial year ended June 30, 2013 were €222 million, 3% lower than the prior year, due to the increase in the proportion of fully depreciated assets.

Exceptional Items

There was a net exceptional cost of €18 million for the financial year ended June 30, 2013, compared with an exceptional credit of €769 million for the corresponding prior year period.

Exceptional items for the financial year ended June 30, 2013 includes €29 million for restructuring costs partially offset by an exceptional gain of €6 million arising from the loss of control of a subsidiary company, which has gone into liquidation, with the result of reducing the group's consolidated net liabilities. In addition, €5 million was released 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.

Exceptional items for the financial year ended June 30, 2012 include a €2,423 million provision release which represents the balance of a provision of €2,500 million recognised in our financial statements for the financial year ended June 30, 2011 in respect of the liability expected to arise under the guarantees we had provided to lenders and hedging counterparties. At the same time as this release we recognised a charge of €1,805 million in respect of the fair value of indebtedness at the date of the financial restructuring. The initial fair value, at which the debt is required to be recognised under International Accounting Standard 39, was considered to be 77% of the face value of the debt, based on indicators from secondary market trading on and around the date of implementation of the restructuring agreement.

Other exceptional items in the financial year ended June 30, 2012 include a credit of €205 million for liabilities to former group companies that were extinguished as part of the scheme of arrangement proposed by the Examiner as well as financial restructuring costs of €53 million.

Exceptional Gain on Disposal of Phonewatch Limited

There was an exceptional gain of €117 million during the financial year ended June 30, 2013, from the disposal of eircom Limited's 100% shareholding in eircom Phonewatch Limited. The equivalent gain in EHIL was €17 million. The lower gain reflects goodwill and other intangible assets relating to Phonewatch recognised as part of the purchase price allocation when EHIL acquired eircom Limited Group in June 2012. Further information is disclosed in Note 9 to the eircom Limited and Note 10 to the EHIL Financial Statements included elsewhere in this Annual Report.

Liquidity

The table below sets out certain information related to our cash flows.

	For the financial year ended	
	June 30, 2012	June 30, 2013
	€m	€m
Cash flows from operating activities		
Cash generated from operations	413	376
Financial restructuring costs	(53)	(6)
Interest received	2	1
Interest paid	(10)	(82)
Income tax paid	(22)	(17)
Payment to group undertakings for corporation tax losses	(31)	—
Net cash generated from operating activities	299	272
Cash flows from investing activities		
Disposal of subsidiary undertaking, net of cash disposed	—	117
Purchase of property, plant and equipment ("PPE")	(139)	(197)
Proceeds from sale of PPE and intangible assets	—	2
Purchase of intangible assets	(67)	(219)
Restricted cash	(25)	10
Loans advanced to group undertakings (net)	(33)	—
Net cash used in investing activities	(264)	(287)
Cash flows from financing activities		
Loans advanced to group undertakings (net)	(139)	—
Proceeds from issuance of Senior Secured Notes due 2020	—	350
Repayment of borrowings	(7)	(8)
Repayment of borrowings from group undertakings	—	(339)
Debt issue costs paid	—	(12)
Net cash used in financing activities	(146)	(9)
Net decrease in cash, cash equivalents and bank overdrafts	(111)	(24)
Cash, cash equivalents and bank overdrafts at beginning of financial year	459	348
Cash, cash equivalents and bank overdrafts at end of financial year	348	324

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 and non-cash pension 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 financial year ended June 30, 2013, net cash generated from operating activities decreased to €272 million from €299 million in the prior financial year. The reduction reflects lower cash generated from operations, mainly due to lower Adjusted EBITDA (decreasing by €55 million from €542 million in the prior financial year to €487 million in the financial year ended June 30, 2013) and higher interest payments (which increased by €72 million from €10 million in the prior financial year to €82 million in the financial year ended June 30, 2013) and an increase in working capital outflows in the current year. These reductions have been partially offset by lower financial restructuring costs (decreasing by €47 million from €53 million in the prior financial year to €6 million in the financial year ended June 30, 2013), lower restructuring (incentivised exits) and other provision payments (decreasing by €21 million from €117 million in the prior financial year to €96 million in the financial year ended June 30, 2013), lower tax payments (decreasing by €5 million from €22 million in the prior financial year to €17 million in the financial year ended June 30, 2013) and no payments to former group undertakings for corporation tax losses in the financial year ended June 30, 2013, compared to €31 million in the prior financial year.

Cash flows from investing activities

In the financial year ended June 30, 2013, we made payments for capital expenditure (cash) of €416 million, an increase of €210 million compared to the cash capital expenditures of €206 million in the prior financial year. Our main capital expenditures in the financial year ended June 30, 2013 related to a payment of €144 million for acquiring the spectrum access rights, roll out of NGA, investment in new IT capabilities and TV, enhancing current services and general business as usual expenditure in relation to core network and the fixed and mobile access network.

In the financial year ended June 30, 2013, eircom sold its 100% shareholding in eircom Phonewatch Limited, and after allowance for certain costs relating to the disposal, received net proceeds of €117 million.

In the financial year ended June 30, 2013, we had cash inflows in respect of restricted cash of €10 million, comprised of €9 million ComReg performance guarantees (3G) and €1 million relating to other obligations under certain commercial contracts.

Cash flows from financing activities

In the financial year ended June 30, 2013, the group undertook a permitted bond refinancing and received proceeds from the issuance of Senior Secured Notes due 2020 of €350 million. The group made repayments of €339 million in respect of its borrowings under the Senior Facilities Agreement which was funded from the net proceeds from the issuance of the Senior Secured Notes, after allowance for certain costs relating to issuance. In addition, repayments of €8 million were made in respect of the group's share of Tetra borrowings.

In the financial year ended June 30, 2012, we advanced funds of €139 million to our former holding companies to enable them to fund certain borrowing and interest repayments.

Capital resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, capital expenditures, debt service obligations, other commitments, contractual obligations and acquisitions. Our primary sources of liquidity have been and will be cash flow generation from our operations and permitted borrowings, as well as the potential sale of non-core assets. Further information on our capital resources is disclosed in the notes to the consolidated financial statements of eircom Limited contained elsewhere in this Annual Report.

Contractual obligations and commitments

The following table sets out eircom Limited's contractual obligations and commitments (excluding interest) as they fall due for payment.

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total[1] €m
As of June 30, 2013					
Other borrowings	9	9	2,016	350	2,384
Operating leases	48	74	50	244	416
Capital commitments	49	-	-	-	49
	106	83	2,066	594	2,849

(1) Excludes derivatives

The funding requirements in respect of our defined benefit pension schemes are not included in the table above.

Capital Expenditures and Investments

The following table shows our capital expenditures defined as additions of property, plant and equipment and intangible assets for the periods indicated.

	For the financial year ended June 30,	
	2012	2013
	€m	€m
Property, plant and equipment	162	209
Intangible assets	65	71
Total capital expenditure (excluding spectrum license)	227	280
Spectrum license	—	144
Total capital expenditure	227	424

For the financial year ended June 30, 2013, our capital expenditures amounted to €424 million, which related primarily to expenditures on our network as well as IT. Of the total capital expenditures, €209 million related to property, plant and equipment and €215 million related to intangible assets, which includes €144 million for acquiring the spectrum access rights during the year.

The financial covenants set under the Senior Facilities Agreement include annual maximum capital expenditure ("capex") limits as outlined below.

NGA Capital Expenditure: The aggregate capital expenditure related to our NGA investment is not permitted to exceed the amount set out below opposite that financial year. Unused amounts may be carried forward into subsequent years, subject to certain restrictions, and certain amounts may be pulled backward in certain circumstances.

Financial Year Ending June 30,	Maximum Expenditure
2012	€37,600,000
2013	€105,000,000
2014	€140,000,000
2015	€105,000,000
2016	€50,000,000
2017	€22,400,000

Ordinary Course Capital Expenditure: In addition, amounts that may be spent on ordinary course capital expenditures, (which excludes NGA Capital Expenditure) are limited as set out below. Unused amounts may be carried forward into subsequent years and certain amounts may be carried backward in certain circumstances.

Financial Year Ending June 30,	Maximum Expenditure
2012	€270,000,000
2013	€215,000,000
2014	€180,000,000
2015	€210,000,000
2016	€200,000,000
2017	€200,000,000

The amounts are subject to roll-forward for unused amounts equal to the lower of (i) the unused ordinary course capex amount or (ii) 50% of such maximum amount in the following year. The maximum expenditure amount specified

above for any Financial Year may be increased by an amount equal to up to 25% of the maximum amount permitted for the immediately succeeding Financial Year which shall then be reduced by such amount.

During the year ended June 30, 2013, the company exercised the right to increase the maximum permitted NGA Capital Expenditure for the Financial Year ending 30 June 2013 by 1.5% of the succeeding year capex amount of €140 million. The amount of the pull back totalled €2.1 million and actual NGA Capital Expenditure for the year ended June 30, 2013 was €107 million.

In the same period the company also exercised the right to increase the maximum permitted non-NGA Capital Expenditure for the Financial Year ending 30 June 2013 by 11.5% of the succeeding year capex covenant amount of €180 million. The amount of the pull back totalled €20.7 million and actual Non-NGA Capital Expenditure for the year ended June 30, 2013 was €317 million.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, including interest rate fluctuations, credit and liquidity risks associated with our underlying assets, liabilities, forecast transactions and firm commitments. Our treasury department is responsible for managing exposure to market risk that arises in connection with operations and financial activities, including interest rate, foreign currency exchange rate, credit and liquidity and credit risk management.

The following sections discuss our significant exposures to market risk. The following discussions do not address other risks that we face in the normal course of business, including legal risk.

Interest Rate Risk Management

We are exposed to market risks as a result of changes in interest rates. Financial liabilities issued at floating rates, such as those under our Senior Facilities, expose us to cash-flow interest rate risk, while fixed rate financial liabilities expose us to fair value interest rate risk.

We manage our net exposure to interest rate risk through the proportion of fixed rate financial debt and variable rate financial debt in our total financial debt portfolio. To manage this mix, on December 7, 2012 we entered into interest rate swap agreements with Deutsche Bank and BNP Paribas with a nominal amount of €1.2 billion, with agreed-upon interest rate payments made on a quarterly basis.

In addition, the group issued €350 million of fixed rate 9.25% Senior Secured Bonds in May 2013, for which there is no exposure to interest rate risk.

Further details are included in the notes to the consolidated financial statements of eircom Limited contained elsewhere in this Annual Report.

Foreign Exchange Rate Risk Management

We operate mainly in the currency of the primary jurisdiction in which we operate, the euro. Our exposure to currency risk has therefore been limited.

As much as possible, we use foreign currency inflows for our foreign currency outflows. If necessary, we buy foreign currency shortly before the transaction. If any material exposure arises, we may enter into foreign exchange rate hedging instruments in the ordinary course of business and not for speculative purposes.

Credit Risk Management

Financial instruments that could potentially subject us to concentrations of credit risk consist primarily of cash, trade receivables and securities, investments and deposits.

We have a limited exposure to concentrations of credit risk with respect to trade accounts receivable due to our large and diverse customer base (residential and a broad range of business customers). In addition, the maximum value of the credit risk on these financial assets is equal to their recognised net book value.

We seek to minimise credit risk through a preventative credit check and security deposit process. We also seek to minimise credit risk by preferring contracts that provide for the use of automatic payment methods with the aim of reducing the underlying credit risk.

We additionally exercise timely post-subscriber acquisition measures for the purpose of credit collection such as the following:

- attribution of a rating to new customers at subscription through the credit check (to anticipate defaults in payment, different measures may be implemented: deposits or advanced payments can be required to customers, limitation to prepaid offers, etc.);

- sending reminders to subscribers;

- employing measures for the collection of overdue receivables depending on strategy, portfolio and subscriber profiles (penalties, reconnection letter with an option for a new contract, etc.); and

- measuring and monitoring debt collection status through our internal reporting tools.

On the dealer side, we have a certain degree of concentration which we manage with the timing of payment of commissions after the activation of a new subscriber. Concentration of credit risk relating to accounts receivable from subscribers is limited due to their large number. For accounts receivable from foreign telecommunications operators, the concentration of credit risk is also limited due to netting agreements with accounts payable to these companies, prepayment obligations, imposed bank guarantees and credit limits delivered by credit insurers.

Credit risk relating to cash and cash equivalents, derivative financial instruments and financial deposits and money market funds arises from the risk that the counterparty becomes insolvent and, accordingly, is unable to return the deposited funds or execute the obligations under the derivative transactions as a result of the insolvency.

To mitigate this risk, wherever possible, we conduct transactions and deposit funds with investment-grade rated financial institutions and monitor and limit the concentration of our transactions with any single party. We also have a detailed treasury policy which provides a framework and parameters for managing the financial risks associated with the treasury functions.

Our maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparty fails to perform its obligations in relation to each class of recognised financial assets is the carrying amount of those assets as indicated on our balance sheet.

Liquidity Risk

Liquidity risk arises primarily in connection with cash flows generated and used in financing activities, and particularly by capital expenditure servicing indebtedness, in terms of both interest and principal, and from all of our payment obligations that result from business activities. In general, we manage our liquidity risk by monitoring our cash flow and rolling liquidity reserve forecast in order to ensure that we have sufficient committed facilities to meet our liquidity needs.

Critical Accounting Estimates

The preparation of our financial statements requires our management to make assumptions that affect the reported amount of assets and liabilities at the date of our balance sheet and the reported amounts of revenue and expenses during the fiscal period. Estimates and judgments used in the determination of reported results are continuously evaluated.

Estimates and judgements are based on historical experience and on various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies and a description of our use of estimates and judgments are set out in note 5 to the consolidated financial statements of eircom Limited for the financial year ended June 30, 2013 included elsewhere in this Annual Report.

6. BUSINESS

Overview

We are the principal provider of fixed line telecommunications services in Ireland and operate the third largest mobile telecommunications provider in Ireland. Our fixed line division provides broadband, voice and data services to individual consumers and business users and contributed 76% of our total revenue (before inter-segment eliminations) in the twelve months ended June 30, 2013. We have the most extensive fixed line telecommunications network in Ireland in terms of both capacity and geographic reach. Our market share, based on revenues, of the Irish fixed line market was 52% (*Source: ComReg*) for the quarter ended June 30, 2013. Our mobile division includes our Meteor and eMobile brands, which contributed 24% of our total revenue (before inter-segment eliminations) in the twelve months ended June 30, 2013. We had revenue of €1.5 billion and Adjusted EBITDA of €542 million in the financial year ending June 30, 2012, and revenue of €1.4 billion and Adjusted EBITDA of €487 million for the financial year ending June 30, 2013.

We generate virtually all of our revenue in Ireland, where substantially all of our reported subscribers and customers are located. Demand for our products and services, including the penetration of new value added services, traffic, ARPU and the number of subscribers is influenced by a number of factors, including the strength of the Irish economy.

Between 2000 and 2007, the annual average growth in real GDP and real GNP was 5.7% and 5.0%, respectively. Between 2008 and 2011, real GDP declined by 7.4% while real GNP declined by 10.1%. This decline in GDP and GNP has impacted expenditure on telecommunications and the performance of the telecommunications operators in Ireland, including eircom. After this period of contraction, the economy recovered through 2010 and 2011. Real GNP in Ireland grew by 1.8% in the year ended December 31, 2012 compared with the previous year (economic growth rates from CSO, July 2013).

The Irish telecommunications market was fully opened to competition in December 1998. Following the liberalisation of the market, there has been growth in the number of customers using services provided by other licensed operators and mobile providers, who now represent significant competitors to eircom.

Total market revenue from the Irish telecommunications market (excluding satellite pay-tv) was €3.7 billion for the twelve months ended June 30, 2013, down 3.1% from €3.82 billion for the twelve months ended June 30, 2012 (*Source: ComReg*). Fixed line revenue accounted for 51.5% of communication revenue in the quarter ended June 30, 2013 (a decrease from 53.1% in the quarter ended June 30, 2012), while mobile services share was 43.7% in the quarter ended June 30, 2013 (an increase from 42.2% in the quarter ended June 30, 2012). The remaining 4.8% in the quarter ended June 30, 2013 is attributable to broadcasting (excluding satellite pay-tv). The decrease in revenue from traditional fixed voice (partially explained by voice traffic migrating to mobile) in Ireland is in line with other Western European markets. Due to increasing competition in a four-player market and reductions in the mobile termination rates ("**MTR**"), revenue generated by the mobile market has declined from €396.6 million in the quarter ended June 30, 2012 to €391.7 million in the quarter ended June 30, 2013 representing a decrease of 1.2%.

Fixed line services

We are the largest provider of fixed line telecommunications services in Ireland, offering internet, voice and data services to individual consumers and business users. We also offer wholesale access to our network to other authorised operators ("**OAOs**"). According to quarterly data published by ComReg (ComReg 13/25), we had a market share for the quarter ended June 30, 2013 of 52% of the Irish fixed line market, based on revenue, a decline from 55% of revenue market share in the quarter ended June 30, 2012. We have the most extensive fixed line telecommunications network in Ireland in terms of both capacity and geographic reach, and other network operators therefore rely heavily on our infrastructure. We are also the leading provider of broadband services in Ireland with 451,000 retail lines as of June 30, 2013 according to ComReg. As at the 30 June 2013, we had 1,330,000 fixed line retail and wholesale telephone access lines (excluding wholesale LLU) in service of which 669,000 (excluding line share) were retail and wholesale broadband customers. Approximately 96% of our active access lines are in exchanges enabled to support both PSTN and ADSL permitting simultaneous, high-speed transmission of voice and data over our network.

Mobile services

Our Mobile division is comprised of our Meteor and eMobile brands, offering segmented strategies to appeal to different demographics in the mobile market. We are the third largest mobile operator in Ireland in terms of customers. As of June 30, 2013, our Mobile division had 1,059,000 customers and according to quarterly data published by ComReg, we had a share of 19.6% of the Irish mobile market, based on number of subscriptions, including mobile broadband and M2M. This is flat based on number of subscriptions, as of June 30, 2012. Excluding mobile broadband and M2M, eircom Group Mobile (eMobile and Meteor) had 21.5% share of the subscriber market at June 30, 2013 representing an increase from 20.6% as at June 30, 2012 and 20.5% at March 31, 2013. In terms of revenue market share, eircom Group Mobile (eMobile and Meteor) had 17.8% share of the total market revenue at June 30, 2013 representing an increase from 17.3% for the same period in the prior year.

As of June 30, 2013, 33.5% of our customer subscriber base were postpaid customers, an increase from 25% as at June 30, 2012. Revenue (before inter-segment eliminations) for our mobile division for the financial year ended June 30, 2013 and June 30, 2012 was €353 million and €372 million, respectively.

History

In July 1999, the Irish government privatised Bord Telecom Éireann plc, (at the time Ireland's primary, and state owned, telecommunications company) in line with the EU requirement to liberalise the telecommunications industry. Further to the Irish government's decision to privatise, Bord Telecom Éireann plc was floated on the Irish, London and New York stock exchanges and then changed its name to eircom plc.

In 2001, we disposed of our mobile phone segment and were taken private by the Valentia consortium. In 2004, we refloated on the Irish and London stock exchanges. In 2005 we re-entered the mobile phone market with the acquisition of Meteor, and were owned successively by the Australian investment group Babcock and Brown Limited (2006-2010) and Singapore Technologies Telemedia (2010-2012).

In March 2012, we entered examinership, a court protection system that allowed us to restructure our debt. We exited examinership in June 2012, and under the scheme of arrangement endorsed by a majority of our creditors, are controlled by an entity ultimately controlled by our lenders under the Senior Facilities Agreement.

In June 2012 we began the implementation of our five year strategic plan centered around the roll out of our NGA network, the evolution of fixed and mobile converged data, voice and TV products and services to consumer and business customers. Following the Irish spectrum auction in November 2012, we commenced the rollout of our 4G (LTE technology) network and were the first, of the Irish mobile operators, to commercially launch 4G services in September 2013.

Our Brand

According to research conducted by independent research agency Millward Brown on our behalf, eircom continues to hold very high levels of brand awareness, and has a strong affinity with customers in the Irish market. It scores highly in terms of brand consideration, and has strong affinity with customers, being viewed as synonymous with service, dependability and trust. We continue to support the business with marketing campaigns through a wide range of media channels including television, radio, press, outdoor advertising and online. These campaigns support our brand goals as well as delivering our commercial requirements. There has been a strong focus on customer base and campaign management to effectively leverage the scale of our customer base. As a key part of our Corporate Social Responsibility ("CSR") strategy, our association with Special Olympics Ireland (SOI) spans 28 years and it is the longest continuous charitable sponsorship in Ireland. Since 1985, the relationship has focused on three themes – community, participation and engagement - values shared by both organisations. According to research carried out by Millward Brown in June 2013, our association with SOI has a positive impact on consumer perceptions of our brand.

Our Converged Service Platform

Whilst our existing fixed line network is the most extensive in Ireland, with respect to customer reach, providing ubiquitous coverage of the population, we are investing over €400 million in a Next Generation Access Network ("**NGA**") network that will provide fibre based services to customers through the deployment of fibre to the cabinet ("**FTTC**") to over approximately 1.2 million homes and businesses by June 30, 2015. This modernisation includes extending the reach of our current fibre back-haul core IP network to exchanges in the NGA footprint. For the three years ended June 30, 2013 we have invested more than €148 million in developing our NGA network which has, as of June 30, 2013 passed 475,000 homes and businesses and will provide the platform to deliver high speed broadband service, on both retail and wholesale basis to our customer base.

On May 20, 2013 we launched our high spend broadband services over our NGA network. We offer uncongested speeds of up to 70Mb/s and free upgrades for existing customers. In early 2014, we expect to launch further enhancements to the product portfolio including the introduction of higher speed products of up to 100Mb/s with the aid of a technology enhancing capability called Vectoring. As of June 30, 2013 16,600 retail and wholesale customers are availing of our fibre services. We believe that our NGA network will enable us to offer our customers a quad-play bundle of services including fixed line voice and broadband, mobile voice and IPTV services providing linear and on-demand TV. Our advanced retail billing system, which was launched in conjunction with our NGA services, delivers integrated fixed and mobile billing capabilities which are critical to the delivery of triple-play and will be critical to the delivery of quad-play bundles. We believe that the Irish market is still at a relatively early stage of development with triple play penetration of the Consumer Fixed Line Broadband market at about 17%. Although ComReg reports triple play penetration on a different basis, we have used their measure to calculate the number of customers availing of triple play bundles of fixed line voice, fixed line broadband and TV, and we have calculated triple play penetration of Fixed Line Broadband. Our estimate of 17% triple play penetration in Ireland compares with triple play penetration of Fixed Line Broadband in the UK of approximately 38% and 63% in France. We also see potential for bundling through examination of RGU's per customer which in eircom's case is 1.6 as of June 30, 2013, compared with c2.4 for the UK. Further potential exists for the development of bundles with the emergence of Fixed Voice, Fixed Broadband and Mobile triple play services, as well as quad play services incorporating TV. By the third quarter of the 2013 calendar year, we expect to be offering fixed voice and broadband, mobile and TV services. Additionally, our NGA network will drive fibre deeper into our network and provide significant back-haul capacity to serve our own mobile business and will also serve as a means of generating incremental revenues by offering this capacity to other MNOs.

In addition to the investment being made in our NGA network we are continuing to invest in our mobile network. In September 2013, we launched 4G services utilising the spectrum acquired in the November 2012 ComReg auction. Our 4G network will be integrated into our NGA network to provide a ubiquitous product agnostic delivery platform to our customers. The spectrum acquired has also enabled us to deploy 3G at 900 MHz, which is already delivering improved 3G coverage and data speeds for over 74% the population today.

We have also built the most extensive Wi-Fi network in Ireland with 2,300 hotspots covering all major urban areas in Ireland and plan to extend that to 4,000 hotspots by July 2014. Our Wi-Fi Hub service gives free Wi-Fi access to all eircom broadband, Meteor and eMobile customers and allows us to offer our mobile and fixed line customers increased value as part of their existing subscription while also generating revenue from advertising.

Fixed Line

We are the largest provider of fixed line telecommunications services in Ireland. According to ComReg, we had a revenue market share of 52% of the Irish fixed line market for the quarter ended June 30, 2013. We have the most extensive fixed line telecommunications network in Ireland in terms of both capacity and geographic reach, and OAOs rely heavily on our infrastructure. Included in our fixed line revenue is the provision of fixed voice and broadband internet services to households and businesses on a retail and wholesale basis. We use the terms bitstream and ADSL to refer to broadband products for wholesale and retail customers. Throughout this section, we will use broadband to refer to describe these products.

Retail

Our retail fixed line business is composed of "consumer" and "business" end customers with whom we have a direct network and billing relationship, and is distinct from our wholesale business, in which we do not have a direct relationship with the end customer As of June 30, 2013, we had 917,000 retail access lines and 451,000 broadband customers representing a 39.5% share of the retail fixed line broadband market.

Consumer

Our consumer business offers fixed line access to households and individuals providing voice services and broadband services.

In line with the trend elsewhere in Europe, the retail voice subscriber base in Ireland has been contracting due to fixed-to-mobile substitution, albeit the rate of this decline has begun to slow. In response to this trend we have focused on retaining our existing customers through re-contracting and promotional offers and attracting new customers through the sale of 'dual-play' or 'triple-play' service offerings comprising of fixed line voice, mobile voice and broadband internet services to stabilise subscriber numbers and ARPU. During October 2012, we launched a fixed mobile convergence bundle which has been well received by the market and take up has been ahead of expectation.

On May 20 2013, we launched efibre, our new high speed broadband service over our NGA network, enabling us to offer broadband speeds of up to 70Mb/s. We expect to launch further enhancements to the product portfolio including the introduction of higher speed products of up to 100Mb/s with the aid of a technology enhancing capability called Vectoring. We offer an extensive range of packages for NGB and NGA, ranging from off peak voice and 24 MB per second broadband with a 30Gb usage cap for €45 (including VAT) to higher end unlimited packages which include unlimited 24Mb/s broadband as well as free off peak calls for €50 (including VAT). The NGA plans follow a similar structure with broadband speeds of 50 Mb/s and 70 Mb/s. Existing customers are migrated at no extra cost to the customer.

We also provide a range of value added services ("**VAS**") to our customers. These are primarily positioned to improve customer experience and promote customer loyalty to our brand. Key VAS include:

- eircom StudyHub: Free access to exclusive educational content for our broadband customers.

- eircom Wi-Fi: eircom consumer operates the most extensive Wi-Fi hotspot network in Ireland today with 92% of the estimated 2,500 hotspots in service. Primary competitors are Bit buzz and BT. We plan to extend the network to 4,000 hotspots by July 2014. There are currently 290,000 registered users of eircom hotspots (primarily eircom, Meteor and eMobile customers but the service can be accessed by non-eircom customers) and over 70,000 downloads over iOS and android.

Our services also consist of providing public payphones and public access internet terminals ("**PAITs**") at "on street" and selected internal sites in Ireland. The number of public payphones and PAITS that we provide has reduced steadily over recent years as usage of these services has decreased reflecting increased mobile penetration. As of June 30, 2013, we operated a network of approximately 2,146 payphones and 125 PAITs across Ireland.

We provide operator assisted telephone services and a directory enquiry service ("11811" for national enquiries, "11818" for UK and International enquiries) to customers on all networks, both fixed and mobile. We estimate that our 11811 and 11818 services held a market share of approximately 69% of the total market for directory enquiry services as of June 30, 2013. Directory enquiry information is also available free of charge via an on-line phone book at *http://www.eircomphonebook.ie.*

Business

We are the largest communications service provider in Ireland and have longstanding relationships with a significant proportion of the major Irish private and public sector enterprises.

We offer services to more than 90,000 small and medium enterprises ("**SMEs**"), corporate and public sector customers. The services we offer include fixed line voice, broadband and datacomms services, mobile services, data centre services, cloud services, managed services and solutions. For major corporations and Irish government entities, our product offerings are commonly tailored to meet customer's specific requirements. We provide the majority of our business customers in Ireland with access services through copper wires that connect customers' premises to the nearest exchange in our network. A proportion of our larger business customers are provided with access services through fibre optic cables. We offer local, national, fixed-to-mobile and international fixed voice services to business customers throughout Ireland at tariffs that vary depending on a number of factors, including the duration of the call, the distance between the points of origin and destination, the time of day and the day of the week the call is made, and any discount package selected by the customer. We also offer a range of advanced voice services, including Freefone, cost-shared and premium rate services, virtual private networks and teleconference services.

We have a range of end-to-end managed services and solutions plus data centre and cloud services, which are targeted at business customers. We recently launched mobile services to business customers in Ireland.

In the UK, we have grown significantly in the last five years as a result of several major managed network services contract awards, primarily with public sector customers. We also provide fixed communications services to a small number of UK subsidiaries of Irish companies and a number of multinationals.

We market and sell to our business customers through a mix of dedicated field and desk-based account managers. For our larger SME, Corporate and Government customers, and through outsourced contact centre partners for our small business customers. The dedicated account managers are trained to deal with the advanced information and communications technology needs of our larger business customers. The main task for our account managers is to convert customer requirements into manageable and profitable solutions that meet customer expectations.

On May 20 2013, we launched efibre, our new high speed broadband service over our NGA network, enabling us to offer broadband speeds of up to 70Mb/s per second. We expect to launch further enhancements to the product portfolio including the introduction of higher speed products of up to 100Mb/s with the aid of a technology enhancing capability called Vectoring.

Our key products within our larger business segment are discussed below.

IP, Ethernet Services and Next Generation Data Services

Our business IP network is a private IP network used to connect our customers' IT systems across multiple sites. Our ethernet products effectively enable organisations to seamlessly extend their office network to other sites.

As a consequence of the development of our Next Generation Network, we also offer a new range of ethernet and IP services data products and services, based on fibre access connections through which customers are connected to the NGN core network. These fibre access circuits are capable of carrying up to 1 Gigabit of data. Customers have access to data speeds ranging from 10 Mbits to 1 Gigabit across the core. NGN services options include: Eline: point to point ethernet, Elan: point to multipoint ethernet, IPVPN: fully meshed IP services, and business internet connectivity.

We also offer VoIP services to the business market, providing customers with voice services to almost 40 international destinations that are delivered over the IP network.

*Managed services and solutions ("**MSS**")*

We provide a range of products and services in the MSS category that range from complex ICT solutions to corporate and public sector customers down to simple network equipment. We have supply agreements or certified partner relationships with leading global technology companies. In the last five years we have built up capability in this area by adding specialists in unified communications, security and managed network services. This has resulted in growth over that period in these areas. It also reinforces our strategy of being the end-to-end ICT service provider of choice for all communication requirements in the business sector. To this end, we have also built up a professional services team who can project manage the installation of complex solutions.

Co-Location, Cloud and Managed Hosting Services

Our business division offers a range of hosting, co-location and managed IT services to business and public sector customers through our two primary commercial data centres in Dublin. We expect this business to continue to grow over the coming years, leveraging the increase in demand for data centre capacity from multinational cloud providers and, to a lesser extent, from Irish corporate customers. This will also complement our new infrastructure-as-a-service (IaaS) offerings, for which we expect strong growth. In November 2012 we entered into a strategic agreement with of the global leader in IaaS, Amazon Web Services (AWS). This partnership enables eircom Business to offer a comprehensive, market-leading infrastructure-as-a-service proposition to businesses in Ireland and the UK, based on AWS technology.

Emergency Services Network (Tetra)

We hold a 56% stake in Tetra Ireland Communications Limited ("**Tetra**"), a consortium consisting of eircom, Motorola and Sigma Communications Group Limited which signed an eight year contract (extendable to ten years) in May 2008 with the Ireland's Department of Finance for the provision of nationwide digital radio services for the major state emergency and security agencies, such as police, prisons, revenue commissioners and ambulance service. The initial contract period will run until June 2017. Tetra fully completed the build-out of its network in the Dublin region in March 2009, including all of its core network and operational systems. The remaining regions of the nationwide system were built out on a phased basis, and the final region was completed in October 2010. As of June 30, 2013, Tetra had 19,000 billable users on to its network. The Tetra technical standard is an agreed Europe wide standard for encrypted digital mobile radio, allowing secure push-button group communications (one-to-many) and delivering high voice quality. The features of Tetra networks include:

- an advanced, encrypted and resilient digital radio network providing instant and secure emergency communications in mission critical situations;
- multi-functional handsets that can operate as digital radios and provide access to other public communications networks;
- innovative GPS location tracking applications such as automatic vehicle location and mobile data services; and
- Secure nationwide inter-communications among all non-commercial public sector bodies.

Wholesale

Our wholesale business offers fixed line access to other businesses who wish to utilise our network and products to provide services to households, individuals and business customers. In wholesale the end-customer does not have a direct commercial relationship with us.

Our fixed line network infrastructure allows us to transit and terminate voice and data traffic on behalf of OAOs. Under current regulation, our wholesale business is required by ComReg to provide wholesale products and services to OAOs. As of June 30, 2013, the prices and terms on which we offer the majority of our wholesale products are regulated under the (i) Reference Interconnect Offer ("**RIO**") which details the wholesale offering of our PSTN and ISDN traffic service, (ii) the Access Reference Offer ("**ARO**") which details an offering of unbundled access service to all access seekers and (iii) the bitstream access reference offer ("**BARO**") which details the ADSL bitstream offering. Our position in the wholesale market provides us with an opportunity to retain the wholesale component of most business lost to competitors at a retail level, as well as the development of services for OAOs.

As of June 30, 2013, we had 414,000 WLR lines (of which 218,000 were wholesale broadband lines and 16,000 LLU lines). These lines were utilised by approximately 53 wholesale customers, including approximately 23 active domestic customers, 31 international operators (of which 1 is a bilateral operator) and 6 UK voice interconnect customers. The wholesale customer base as at June 30, 2013 can be analysed as follows:

Wholesale line rental	414,000
Wholesale broadband (bitstream)	218,000
Local loop unbundling (LLU)	16,000

Our proposition for resellers includes managed calls and broadband access services (sometimes called "**White Label**") that allows our OAO customers make more extensive use of our network and services instead of investing in their own infrastructure. Our proposition for mobile operators includes a managed Ethernet service (sometimes called mobile backhaul) to carry the growing volume of data traffic being generated by customers of mobile network operators and service providers.

We market and sell to our wholesale customers through our wholesale account management team, which is our primary sales channel. The account managers are trained to deal with the specific information and communications technology needs of our wholesale customers and are often assisted by our professional project management team and appropriate technical experts.

Key services of our wholesale division, as of June 30, 2013 are set out below:

Interconnect Services

Our wholesale business provides fixed line voice traffic services between us and other operators such as Vodafone, BT and O2. We provide interconnection services to OAOs in Ireland and to international operators for incoming international calls. Our interconnection services include both the physical link of our telecommunications network with that of OAOs, and the traffic that passes over the link.

Our revenue in the year ended June 30, 2013 includes revenue generated in connection with interconnection services for the termination of incoming international traffic in Ireland. We also generate revenue from transit services for calls made between two operators, which otherwise have no physical connection. Our domestic interconnection services include:

- call origination and carrier pre-selection, providing OAOs with the ability to carry domestic calls placed from geographically assigned telephone numbers within our network for termination on the operator's network or for onward transmission to other networks;

- call termination, which takes calls handed over from OAOs for termination on geographic number ranges within our network;

- transit to OAOs or OAO services, which takes calls which are passed on from an OAO's network to geographic and non-geographic number ranges within another OAO's network; and

- ancillary services, such as Freefone and premium rate services, internet services, and directory enquiry services.

Access Revenue

Access and bitstream revenue is generated from the rental of physical lines between a subscriber and an exchange. Local loop unbundling revenue is generated where OAOs install their own equipment in our exchanges for the provision of access and broadband services. Of our revenue in the financial year ended June 30, 2013 74% was from the wholesale line rental of PSTN and ISDN lines, 23% from ADSL bitstream and 3% from Local Loop Unbundling ("**LLU**").

Wholesale access channels

Carrier pre-selection single billing through WLR allows an operator to resell our access service and provide the customer with a single bill for access and call services. We maintain and repair the access line, which remains connected to our switched network, and bill the operator for the line. The operator bills the end customer for the operator's bundled

service. This service is only available if the end customer has made a carrier pre-selection for all call types with the relevant operator.

ADSL bitstream

Bitstream is a broadband access product that we offer to OAOs. It consists of a high-speed access link to the customer's premises, which we create by installing ADSL equipment and configuring our local access network. We currently offer a range of ATM, IP and NGN (bitstream managed backhaul) based services at a variety of speeds and levels of contention, and, in line with our regulatory obligations, effectively offer to our wholesale customers equivalent products to our retail ADSL offerings.

Next Generation Access

On May 20, 2013, eircom wholesale launched its Next Generation Access (NGA) product portfolio to the market. The product portfolio consists of eight products, four of which are Fibre to the Cabinet (FTTC) based and four of which are Fibre to the Home (FTTH). There is a Standalone Broadband variant and a POTS Based (Voice plus Broadband) variant of each product. The network rollout is predominantly based on FTTC which allows for speeds of up to 70Mb/s per second. The product launch was successful and several Operators are currently purchasing NGA products since launch. We expect to launch further enhancements to the product portfolio including the introduction of higher speed products of up to 100Mb/s with the aid of a technology enhancing capability called Vectoring.

Local loops unbundling

As we are designated by ComReg as having SMP in the market, we are required to make our local networks available to OAOs on a wholesale basis, i.e. share access to unbundled local loops. We are obliged to provide LLU access services to OAOs and to publish an ARO, describing the access services we offer. Unbundled local loop access requires the physical co-location of infrastructure owned by OAOs on our premises in order to permit such operators to access our unbundled local loop services. We are also required to enable an end customer's telephone number to migrate to LLU. The prices of these services are regulated through our ARO.

The service also includes several LLU migration products. These products, termed Inter Operator Migrations, allow customers to move between OAOs and have their underlying wholesale product change from LLU to Single Billing-Wholesale Line Rental ("**SB-WLR**") or vice versa. Other LLU product offerings include a facility called Intra-Operator Migrations. This allows an OAO to seamlessly migrate its existing WLR and bitstream customers to LLU.

Line Share allows operators to provide services such as broadband to their customers without the requirement to take control of the local loop through LLU. The retail customer pays for line rental and calls to the first operator, and pays for the services delivered over Line Share to the Line Share operator. Line share prices are regulated through our ARO.

Carrier pre-selection

Carrier pre-selection allows OAOs to compete with us in the provision of call origination services without having to develop a local access infrastructure, by allowing customers to choose another authorised operator as the default carrier for some or all calls.

Wholesale leased lines and partial private circuits

We provide OAOs with wholesale leased lines, including Partial Private Circuits ("**PPCs**"), as set out in the Leased Line Reference Offer ("**LLRO**"), and interconnect paths, which are dedicated leased lines connecting our network to that of another authorised operator.

ComReg requires that we enter into service level agreements for the provision of wholesale leased lines, PPCs and interconnect paths. These agreements contain penalties which we may be subject to for delays in processing

applications for the installation of leased lines and for late delivery of leased lines or interconnect paths. Our support systems now provide full visibility of all steps from ordering services to actual delivery.

Partial private circuits are partial leased lines that connect a customer's premises to the point of connection between our network and that of another authorised operator. OAOs that possess a core network can use partial private circuits, which are priced in accordance with a different tariff schedule, as a substitute for wholesale leased lines. During 2009, we launched ethernet based products on our existing non-NGN platforms. We also offer NGN ethernet products, which were launched in August and September 2010. These NGN ethernet products provide operators with an access mechanism through Wholesale Symmetrical Ethernet Access ("**WSEA**") and a backhaul mechanism through to our next generation network. In August 2012 we launched a 1 and 10 Gbit/s uncontended point to point leased line to cater for the growth in demand for dedicated high bandwidth capacity.

Managed Services

We provide a portfolio of managed services to customers such as resellers and mobile network operators.

Our proposition for resellers includes a managed calls and broadband access service (sometimes called White Label) that allows customers make more extensive use of our network and services instead of investing in their own infrastructure. The main elements of white label agreements are our standard products such as SB-WLR and bitstream but the agreement also includes value add services such as on net calls and managed ISP services. This combination allows us to grow revenue from White Label customers. White Label subscriptions among our existing WLR lines have increased from 88,000 as of June 30, 2012 to 104,000 subscribers as of June 30, 2013. White label agreements tend to be for a duration of three years and provide a platform to further develop business with these customers. We are currently active in developing White Label versions of NGA services to protect and grow this customer base.

Our proposition for mobile operators includes a managed ethernet service (sometimes called mobile backhaul) as well as bespoke network build. Both propositions are used to carry the growing volume of data traffic being generated by mobile consumers on our network.

During 2012, we signed a five year managed services agreement to carry mobile voice and broadband traffic from the Meteor/O2 network sharing agreement. Each base station site will be deployed with 1G ethernet services and will aggregate the voice and broadband demands from both organisations and transport them using our Next Generation Network. This agreement will see us grow our penetration of fibre enabled base stations to approximately 600 sites over the course of the contract.

We have also signed a multi-year agreement with a mobile operator that will see us deploying eircom fibre to this operator's base stations as they transform their network to an all IP network.

Mobile

We are the third largest retail mobile operator in Ireland in terms of customers and had a share of approximately 19.6% of the total mobile market (according to ComReg), 22.4% of the Irish retail prepaid mobile market and 15.5% of the Irish retail mobile postpaid market (each as of June 30, 2013), based on number of subscriptions including mobile broadband and M2M. As of June 30, 2013 and June 30, 2012 we offered services to approximately 1,059,000 and 1,076,000 customers respectively.

Our postpaid customer base has experienced strong growth: subscriber numbers were 357,000 (including mobile broadband and M2M) as of June 30, 2013, representing an increase of 30% compared with June 30, 2012, despite total postpaid market growth in Ireland of just 9% in the same period (*Source: ComReg*). This growth has been assisted 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 churn rates for our mobile subscribers (including mobile broadband and M2M) has improved from 23% in the twelve months ended June 30, 2012 to 16.9% in the twelve months ended June 30, 2013. Our mobile prepaid customer numbers (including mobile broadband and M2M) as of June 30, 2013 were 702,000, representing a reduction of 12.4% compared with June 30, 2012. In addition to the impacts of prepaid and postpaid migration, our prepaid base is negatively affected by emigration and the economic climate which may remain an on-

going challenge. Our mobile service offerings include mobile voice and data services and other VAS including music downloads, entertainment and international roaming. We also offer hardware including mobile handsets, external USB modems and tablets.

We provide our mobile telecommunications services over our GSM/GPRS/EDGE and UMTS/HSPA networks. The initial roll out of our UMTS/HSPA offering was completed in 2012 after we were awarded the fourth 3G licence in Ireland on March 12, 2007. Our 3G licence is for successive one-year terms, for a duration of up to 20 years, renewable each year subject to the payment of relevant annual fees. We provide a variety of wireless products and services designed to match a range of needs for business and personal use, and market our mobile services through tailored brands Meteor and eMobile to appeal to sub-segments of the mobile market. On November 15, 2012, ComReg announced the results of its multi-band spectrum auction for Ireland. We were awarded licenses on a spectrum liberalised basis, in the 800 MHz, 900 MHz and 1800 MHz frequency bands. The term of our license runs until 2030, subject to the payment of annual spectrum usage fees that total approximately €99 million over the duration of the licences.

We have begun the rollout of our 4G (LTE technology) network and in September 2013 launched 4G services to approximately 25% of the population. Our LTE network will deliver theoretical maximum data download speed of 72Mbit/s, with average speeds expected to be 10-15Mbit/s - significantly greater than average speeds on our existing 3G network. Further rollout of our LTE network is underway to increase population coverage to 50% by the end of the June 2014. In conjunction with our 4G rollout, we are rolling out dual carrier 3G. This is expected to double our 3G speeds from a peak of 21Mbit/s to 42Mbit/s for customers will compatible handsets. The first phase has been completed, covering the cities of Dublin, Cork, Limerick and Galway.

Key performance indicators as of and for the twelve months ended June 30, 2013 are set out below.

Mobile Customers	Prepaid handset subscribers	673,000
	Postpaid handset subscribers	329,000
	Mobile broadband subscriptions	57,000
	Total mobile subscriptions	1,059,000
Churn (%)	Prepaid	57.0
	Postpaid	16.9
ARPU	Prepaid	€18.9
	Postpaid	€40.2

We offer services to retail customers under the Meteor and eMobile brands. Meteor was historically targeted at prepaid customers in the under 25-year old market segment and at value conscious customers but has now been expanded to appeal to higher value postpaid subscribers and business market segments (which have higher ARPU and a lower propensity for churn). eMobile, launched in September 2010, is predominantly targeted at an older, higher income demographic with a focus on offering bundled services, including mobile, to our fixed line subscribers and to business markets.

As of June 30, 2013, our mobile broadband subscriptions consisted of approximately 57,000 customers, a reduction of approximately 12% since June 30, 2012.

We launched a mobile service in December 2012 for corporate and public sector customers, seeking to leverage our substantial fixed line subscriber base by offering corporate and public sector customers one solution for their communication needs..

Central Services

Our central services unit provides core internal support functions, such as finance and supply chain management, human resources and other functions. In the financial year ended June 30, 2013, our employee related pay

costs represented 40% of the total costs for this unit while other costs consisted primarily of rent, and professional and regulatory fees.

Device sales

We offer customers an extensive range of mobile handset makes and models over a wide price range, subsidised at different levels depending on the price plan chosen by the customer. We also offer customer handset upgrades based on criteria such as length of tenure and value of the customer. We also offer a small range of mobile broadband modems. These vary based on speed capability and single / multiple user capability.

The revenue attributed to these central functions includes property rentals and other miscellaneous revenues.

Sales, Marketing and Customer Care

Meteor and eMobile currently operate in 74 branded retail stores, 29 of which are Meteor, five of which are eMobile and 40 which are dual branded. Sales commissions are generally linked to customer activation and retention levels. We believe that this direct sales channel provides the physical presence in the market necessary to position us as a quality service provider, while providing greater control over both costs and the sales process. Within the small business market, we now have an integrated fixed and mobile sales force. This enables us to pursue the customer's entire communications spend by leveraging emerging bundled fixed and mobile propositions.

We support our sales and marketing programmes with direct marketing campaigns through a wide range of media including television, radio, press, outdoor, and the internet. In addition, we have developed a broad range of discount schemes to meet the needs of specific consumer and business segments. We also have a well-developed sales and win back model that enables us to focus on individual market segments and to respond quickly and flexibly to market demands and to competition. Staff at our wholesale customer service centres are responsible for all data, telephony and interconnection orders placed by our wholesale customers and process orders and quotation requests. Our highly trained customer service staff are a key component in our relationship with our wholesale customers. Positive interactions with customers are delivered through effective communication with our customer service teams and by working closely with our sector and account managers. The systems we use in our wholesale customer service centres help us to deliver quality service to our customers

Networks

eircom Core IP Network

eircom has deployed a nationwide Next Generation Core IP network (NGN Core), based on technology from Alcatel-Lucent. The network consists of a core layer, an edge layer and an aggregation layer, and is based on IP/MPLS routers using Gigabit Ethernet (GE) and 10 Gigabit Ethernet (10GE) links. Connectivity for the IP network is provided by an underlying optical transport network. This network provides a simple fully integrated network for voice and data services and will in time enable the retirement of many of the existing data networks.

Aggregation nodes are deployed at 159 eircom sites, and a Carrier Ethernet network (known as Access Packet Transport, or "**APT**") is used to extend the reach of the NGN Core to 189 fibre exchanges outside the main aggregation footprint. The Carrier Ethernet network provides cost-effective Ethernet transport for DSLAM backhaul and also for other applications such as mobile backhaul and business fibre services.

The NGN Core network has a number of resilience features including the use of dual-star architecture with each aggregation node diversely connected to two edge nodes, high-availability routers with non-stop routing in the event of a processor failure, in-service software upgrades and MPLS Traffic Engineering. The network supports IP Quality of Service (QoS) throughout, allowing us to provide multiple services including voice, video and business connectivity as well as consumer Internet.

eircom also has international IP nodes in London, for handling Internet peering and transit, and IP VPN connections to customers with UK addresses. There are also remote connections to Internet exchanges in Amsterdam and Frankfurt.

In addition, eircom's legacy Cisco IP network also provides national coverage at approximately 87 locations with core routers at five national locations. IP Quality of Service (QoS) is used throughout, primarily to support business services. This network is being superseded by the NGN Core; however, many of the edge routers will be retained to support existing customers accessing via TDM leased lines.

A Tellabs Martis network for delivering legacy leased line services is deployed in approximately 1,036 exchanges, with approximately 2,934 nodes including customer sites. It provides customer connections for low-rate data speeds from 64Kb/s to 2 Mb/s, and also provides the access bearer for other services such as ISDN Primary Rate Access and Business IP.

A Mobile Packet Core network provides access to IP services for our mobile broadband customers and is based on a standard architecture. Connectivity between Mobile Packet Core network elements is implemented over the NGN IP network.

Optical Transport and Transmission Network

The Core Optical Transport network is based on an extensive network which provides fibre optic cables, with over 12,000 fibre route kilometres lit using DWDM and CWDM technologies. It has 400,000 optical kilometres of capacity, and it also supports the SDH network and customer access to IP and Ethernet NGN services.

We operate a national optical transmission network based on DWDM and CWDM technologies. There are 101 exchange locations served with DWDM transmission, with an additional 55 served by CWDM systems. A further 128 sites are served using passive CWDM. In more rural areas, extensive use of passive CWDM provides low-cost fibre gain and supports the roll out of APT and business fibre services.

The dominant legacy transmission technology in use is SDH (Synchronous Digital Hierarchy). The SDH network has nationwide coverage and is deployed in approximately 926 exchanges. The architecture is one of National higher-layer rings with speeds of STM16 (2.5 Gb/s) and STM64 (10Gb/s), and regional lower-layer rings with speeds of STM4 (622Mb/s) and STM16. Traffic between layers is connected by means of digital cross-connects. Smaller exchanges are connected by means of STM1 rings or linear fibre systems, with some remote sites connected on microwave radio point-to-point systems.

Broadband Network

Broadband Services are provided at over 942 locations with approximately 1.2 million DSL ports deployed. Approximately 96% of all copper paths are connected to a DSL-enabled exchange.

There are two main types of DSLAM in use: ATM-based DSLAMs (ASAMs) and ethernet based DSLAMs (ISAMs). The DSLAMs are equipped with a mix of DSL line cards capable of supplying ADSL and ADSL2+ services.

There are 16 Broadband Remote Access Server ("**BRAS**") locations with 24 BRAS. With the roll out of NGA, eircom is moving to a distributed BNG model, with BRAS functionality being carried out by the 160 aggregation nodes nationally rather than being centralised at the 16 locations used currently.

PSTN and Voice, Fixed and Mobile networks

The key retail and wholesale products supported include PSTN access, ISDN PRA, FRA and BRA access, carrier selection and pre-selection/WLR, national and international wholesale interconnection for origination termination and transit, international mobile roaming signalling routing for other mobile operators, number portability (geographical and non-geographical) and number translation services.

The PSTN/fixed voice network consists of an edge layer with Remote Switching Units ("**RSUs**") at over 1,200 sites and a class five primary and secondary layer with 46 Main Switching Units ("**MSUs**") nodes, supported by tertiary layer. In addition, there are also Intelligent Network ("**IN**") core nodes providing key functions relating to number portability and number translation services, a VoIP platform providing for business trunking and second line consumer service and a voicemail platform providing call answering services.

The PSTN architecture is hierarchical and highly meshed to provide resilience for voice services. The tertiary layer comprises dual-switch node International and National switches with interconnection to OAOs, mobile operators and international destinations. The VoIP platform is connected at the tertiary layer. The tertiary layer has no physical customer terminations.

The secondary layer provides both transit and local exchange capability (i.e. it has customer terminations) and again is highly meshed to provide resilience. The primary layer has both local customer terminations at the exchange site and remote customer terminations at RSUs.

The International switching layer is a dual-switch node, consisting of two Ericsson Telephone Soft Switches (TSS) comprising IP-enabled soft switches and media gateways, which act as an international gateway for the eircom PSTN network, an interconnect point for OAO's with sufficient international traffic to warrant direct interconnect routes and has an SCCP-relay node to enable international roaming for Irish Mobile Network Operators. The International Switching layer was upgraded to the latest generation technology in 2011.

Our UK PSTN network consists of two core Ericsson exchanges, in Belfast and in London. The role of the UK exchanges is to interconnect with the major UK operators and terminate UK traffic from Ireland with them. The Mobile Circuit Switched (CS) Core Network carries all voice and SMS traffic for our 2G and 3G mobile customers. It consists of one server (MSC-S) paired with two media gateways. All of our voice will eventually migrate to IP Multimedia Subsystem (IMS). An IMS platform is being deployed in 2011, initially supporting primary-line consumer VoIP services for the Next Generation Access pilot.

Network and Service Management

We operate a state-of-the-art service management centre ("**SMC**") for both fixed line and mobile in Citywest, Dublin, with the network management platforms located in Blanchardstown Dublin, which acts as a standby site in the event that Citywest should be disabled. The SMC proactively monitors our core network, including our international points of presence. The SMC is supported by a family of integrated network support systems, underpinned by a suite of Information Technology Infrastructure Library compliant processes and procedures. These systems and processes allow us to monitor and control the network remotely from a single location and respond promptly and appropriately to all network events.

The network is monitored at all times at the SMC and is supported by expert groups within our operations and design areas. When on-site work is required, SMC staff dispatch a member of our national field force, which consists of skilled technicians located throughout Ireland.

Access Network

Our fixed access network consists primarily of copper connections using multi-pair cables. The cables are placed overhead on poles or underground in ducts. The copper cables emanate from exchange nodes. In urban areas, these cables are usually connected to cross connection points (CCPs) using Exchange-side (E-side) cables. The CCPs are in turn connected to distribution points using Distribution-side (D-side) cables. Some urban cables and most rural cables are directly connected to distribution points (direct-fed network).

Our mobile access network infrastructure covers the vast majority of the Irish population including Dublin and the other main metropolitan areas. The radio access network (RAN) currently consists of approximately 1,421 2G and approximately 1,450 3G sites. Of the 1,450 3G sites, approximately 900 are IP RAN/21 Mbs enabled. As of June 30 2013, 280 of our sites have been enabled for 3G service using the 900MHz band. In addition rollout of LTE sites using the 800MHz band and 1800MHz band is on-going.

Our mobile network offers a full suite of high-speed data services. UMTS 2100 MHz and 900MHz enabled base stations are deployed in Urban areas complemented with EDGE enabled GSM 1800 MHz and 900 MHz base stations; EDGE enabled GSM 900 MHz is deployed in less populated areas. GPRS services are available across the network.

Next Generation Access (NGA)

We concluded a trial in Wexford town and three Dublin locations, extended to several thousand premises, which has been subsumed into the larger NGA roll out. Fibre to the Home ("**FTTH**") trials were based on Gigabit Passive Optical Network ("**GPON**") technology while Fibre to the Cabinet ("**FTTC**") trials were based on VDSL2 technology. The results of this commercial trial have been applied to our NGA programme for a wider deployment to reduce costs and inform product development for a strong commercial launch. On July 28, 2011 we announced the first phase of a plan to roll out fibre based access to approximately one million homes and businesses in Ireland and on February 21, 2013 we announced the extension of our fibre footprint to pass approximately 1.2 million premises by June 2015. As of June 30, 2013, we have rolled out our network to more than 475,000 premises passed and were on plan to reach 600,000 premises passed by December 2013. On May 20, 2013, we launched our high speed broadband services over the NGA network. We plan to further launch a range of entertainment services over fibre, including IPTV. Service trials by approximately 400 customers have commenced in parallel with system and end to end testing.

Group Insurance Cover

As an integral part of our risk management programme, we utilise third party insurance to mitigate a number of our residual risks. These risks include property damage and contingent business interruption, employer, public and motor liabilities, directors and officers liabilities, professional indemnity, employment practices, and other miscellaneous risks such as goods in transit, employee travel, and personal accident liabilities. Insurance cover for these risks is provided through a combination of self-insured deductibles and annual aggregates. This programme is renewed on an annual basis. In addition to the above insurance covers which are renewed annually, we also have 'extended run-off' insurance cover for director and officer liabilities. We believe the levels of risks insured, risks retained and the limits of insurance indemnity are broadly in line with similar companies in the same industry sector. Insurance covers are in full force and effect with all due premiums paid.

Outsourcing

Spending on outsourcing has reduced in the fixed line business as a result of lower volumes and tighter operating and capital budgets. However we continue to outsource a considerable proportion of work, particularly in our contact centre capabilities (sales, customer services, operator services, and broadband support) and in field sales. We have also outsourced certain operations in IT, access network operations, core network operations and central services. Meteor currently provides, through outsourcing arrangements, a full-service call centre from 8 a.m. to midnight, 365 days a year for its pre-paid subscribers. We are reviewing and will continue to examine opportunities to outsource our requirements and functions in circumstances and on terms as may from time to time be considered appropriate.

Disposals and discontinued operations

During May 2013, we disposed of our eircom Phonewatch business, a non-core business unit that provides home security solutions in the Republic of Ireland, for €117 million net proceeds.

Patents, licenses, industrial, commercial or financial contracts or new manufacturing processes

No material portion of our business is dependent on eircom specific or unique patents, licenses, industrial, commercial or financial contracts or new manufacturing processes, other than those generally found in similar telecommunications businesses.

Properties

As of June 30, 2013, we occupied approximately 1,257 properties (excluding Tetra mast sites, Meteor stores, Meteor mast sites and Meteor office premises located at Unit 4030 Citywest). The tenure of these properties may be approximately summarised as follows:

- 975 are freehold;
- 67 are held under long-term leases (leases with a term in excess of 50 years);
- 60 are held under short-term leases/licences (leases with a term of less than 50 years);
- 140 are properties owned by the Irish State. We have rights to remain in occupation of these properties, and
- 15 are owned by the Irish Postal Authority, An Post, and are occupied by us based on statutory rights granted to us under the Postal and Telecommunications Services Act, 1983.

Covenants and other restrictions exist with respect to several of our principal establishments listed below, some of which may affect our ability to sell or otherwise dispose of such properties.

There are eight properties with mixed titles (such as freehold tenure of part of the site and long leasehold tenure of the remainder). In these circumstances the predominant tenure (determined by reference to largest accommodation area) is deemed to be the tenure of the entire property for the purpose of the above classifications.

The properties are used for the following functions:

Function	Approximate number of Properties
Telephone Exchanges	1,092
Area engineering headquarters	39
Offices	14
Standalone mast/radio sites	36
Cable stations	1
Other	75

We own or occupy the following principal establishments:

Property	Area (buildings, gross sq. m.)	Tenure	Use
1 Heuston South Quarter	24,000	1st lease: 25 years from July 2008	Office—corporate headquarters
		2nd lease: 25 years from July 2008	
Dame Court, Dublin	8,592	Freehold	International exchange
Adelaide Rd., Dublin	5,360	Freehold	International exchange
Citywest, Dublin	8,326	Leasehold: 25 years from September 29, 2010	Network management centre
Crown Alley, Dublin	5,225	(1) Freehold	National exchange and ISP hub
		(2) 150 year lease from March 25, 1889	
Clondalkin, Dublin	6,219	Freehold	Logistics centre
Mervue, Galway	9,791	Freehold	National exchange, office and depot
Templehill, Cork	2,465	Freehold	Engineering depot
Beggars Bush, Dublin	1,908	Leasehold: 63 years from November 7, 1968	National exchange
Churchfield, Cork	11,771	Leasehold: Two Leases, both 99 years from October 1, 1973	National exchange and office

Roches St., Limerick.....	5,495	Leasehold:	National exchange and office
		(1) 983 years from March 25, 1799	
		(2) 995 years from March 25, 1803	
		(3) 900 years from May 1, 1831	
		(4) 900 years from March 25, 1883	
		(5) 140 years from December 1, 1947	
		(6) 999 years from March 25, 1801	
Quaker Rd. Cork.....	2,334	Freehold	National exchange
Summerhill, Dublin	1,686	Leasehold	National exchange
Priory Park, Dublin.....	2,367	Two Leases:	National exchange
		(1) 999 years from March 25, 1935	
		(2) 999 years from September 1, 1946	
Blanchardstown (Grove Road), Dublin.....	3,221	Freehold	National exchange
4030 Kingswood Avenue, Citywest ..	2,827	Leasehold: 25 years from October 1, 1998	Meteor Operations Centre
Telephone House, Marlborough St, Dublin.....	9,095	Leasehold: 44 years from 1971	Office—operator services 999 facility)
Clonshaugh	9,000	Leasehold: 11 years from 22 August 2008	Data Centre
4050 Kingswood Avenue, Citywest ..	3,000	Leasehold: 20 years from September 1, 1999	Data Centre
Dundrum, Dublin.....	4,080	Freehold	Data Centre

As of June 30, 2013, Meteor also occupied approximately 1,534 mast sites, of which two are owned freehold by Meteor itself, approximately 200 are greenfield masts held under licence (typically for a term of less than 20 years), 56 are held under lease from Coillte (typically for a 100 year term) and the remainder are on other structures i.e. commercial rooftops, ESB towers etc., held under licence (typically for a term of less than 20 years). Meteor also leases 43 retail outlets under various lease agreements, 23 with less than ten years remaining to the next break and 20 with more than ten years remaining. Meteor also lease an office premises at Unit 4030 Citywest Business Campus.

As of June 30, 2013, Tetra occupied 591 mast sites, including 73 under licence from us. All of these sites are held under short-term leases or licences. The economic benefit of 69 of the mast sites licensed by us to Tetra was assigned on April 1, 2010 to a third party.

Employees and Industrial Relations

We are one of the largest employers in Ireland. The substantial majority of our employees are employed in Ireland.

The total number of persons employed by the group as at 30 June 2013 and 30 June 2012 were as follows::

	As of June 30	
	2012	**2013**
Fixed line		
Operational/technical	3,335	2,983
Sales/customer support	1,221	885
Administration	398	321
Total fixed line.....	4,954	4,189
Mobile.....	601	522
Total fixed line and mobile.....	**5,555**	**4,711**

We have a well-developed collective bargaining relationship with our trade unions. We employ graded staff who are employed on collectively negotiated terms and conditions, and non-graded staff, who are employed on a personal contract/service agreement basis. Graded employees' terms and conditions are the subject of collective bargaining agreements, primarily, but not exclusively, negotiated through the Joint Conciliation Council, which was

established in 1983 as part of the arrangements made for the establishment of Telecom Éireann, and in which all of our recognised trade unions participate. At June 30, 2013 we estimate that 3,745 of our employees were unionised.

Litigation

Except as disclosed below, we are not engaged in or, so far as we are aware, have pending or threatened, any government, legal or arbitration proceedings which may have, or have had in the last twelve months, a significant effect on our financial position or results of operations.

Hearing Loss claims

As of June 30, 2013 eircom has received notice of personal injury claims for alleged hearing loss from 116 current and former employees, 15 of which have been withdrawn, and six of which have been discontinued. Of the 96 remaining claims, 55 have become prima facie statute barred, and so we consider these cases to be closed. Of the remaining cases, 26 individuals have issued but not served court proceedings alleging hearing loss, and 14 sets of proceedings have been served and are active. eircom has denied liability in all of the claims and intends to vigorously defend all proceedings issued in respect of hearing loss claims

Allegations of anti-competitive practices

In October 2002, ComReg determined that we were not in compliance with our obligations under the voice telephony regulations, as it provided telephone services to specific customers at prices which were not in accordance with the specific terms and conditions of its discount schemes and published prices. No penalties were levied on us as a result of this determination. In December 2002, Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court against us seeking damages including punitive damages resulting from the matters that were the subject of the ComReg determination. We submitted our defence on January 26, 2004, and intend to defend the proceedings vigorously. The plaintiffs submitted general particulars of their damages claim on February 3, 2004 under the headings of loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs identified claims for loss of revenue on existing customers (€7.4 million), failure to meet the plaintiffs' alleged budgeted growth (€25 million) and loss of revenue on the plaintiffs' pricing (€5 million). The particulars also include further un-quantified damages. The plenary summons and statement of claim of Ocean Communications Limited and ESAT Telecommunications Limited were amended, inter alia, in April 2005 to include a claim for alleged breach of certain constitutional rights. Even if the plaintiffs could establish a liability on our part under each of these headings, we do not believe that these figures represent damages which would be properly recoverable. No further action has been taken by the plaintiffs in the eight years since they amended the plenary summons and statement of claim.

Claims by Smart Telecom

On June 8, 2005, Smart Telecom instituted proceedings against us in the Irish High Court, challenging the validity of a notice of termination issued by eircom to Smart Telecom terminating the interconnection agreement, and alleging that the notice of termination was an abuse by us of our dominant position in the telecommunications market. Smart Telecom further alleged that we were abusing our dominant position by refusing to provide network access in the form of LLU in the manner required by Smart Telecom. The reliefs sought by Smart Telecom included declarations that the notice of termination was invalid, that we were abusing our dominance by failing to meet Smart Telecom's LLU requirements, and unspecified damages, including exemplary damages, for breach of contract, violation of the Competition Act 2002 and the EC Treaty. We delivered our defence in proceedings on December 23, 2005. We believe that the notice of termination was validly issued in accordance with the interconnection agreement, and that we provide access to our network fully in accordance with its obligations, and intend to defend proceedings vigorously, if pursued. Smart Telecom submitted general particulars of its damages claim under the headings: wasted expenditure (€1.6 million), delayed sales/lost customers (€3.8 million per annum), and capitalisation of losses (€41.7 million per annum). Even if Smart Telecom could establish liability on our part under each of these headings, we do not believe that these figures represent damages that would be properly recoverable. In October 2006, we terminated the interconnection agreement with Smart Telecom on grounds unconnected with the proceedings. In 2006 and 2007, we introduced the LLU functionality that is the subject of Smart's claim in the proceedings. No further action has been taken by Smart Telecom

after the delivery of our defence in December 2005. In December 2009 Smart Telecom went into liquidation.

Asbestos claims

Approximately 120 premises, currently or previously occupied by us contain or have contained asbestos. In 1987 we began a programme of removing asbestos from some of our premises and introduced safety measures and a warning procedure. As of June 30, 2013, approximately 35 premises occupied by eircom have been identified as containing asbestos and these have been controlled and monitored. Claims have been received from approximately 109 employees or former employees alleging injuries caused by exposure to asbestos. Of these, nine claims were either settled, withdrawn or never proceeded beyond an initial letter of claim. Of the remaining 100 actual claims, 98 relate to exposure at one particular set of premises eircom occupied in 1985. A composite Irish High Court action for un-quantified damages and costs initiated on behalf of 94 of these employees has remained dormant since 1997. The remaining six claims have remained inactive for several years. Given the uncertain nature of this kind of litigation, and the lengthy period of time before asbestos related injuries become manifest, there can be no assurance that future claims will not be made against us. We do not expect any material adverse impact on our results of operations or financial position based upon the claims which have been made.

East West Interconnector Matter

This matter involved a project by Eirgrid Interconnector Limited to construct the East West Interconnector enabling electricity to be carried between Ireland and the U.K. Preliminary testing on the East West Interconnector, once constructed but before it was fully operational, indicated the presence of electro-magnetic interference on copper based land line telephones. Consequently eircom entered into a memorandum of commercial understanding with Eirgrid Interconnector Limited on December 7, 2012 to allow testing on the interference with the objective of developing a solution to it. Under the terms of that memorandum of commercial understanding, Eirgrid Interconnector Limited agreed, amongst other things, to keep us indemnified in respect of all of its reasonable costs and expenses up to €250,000 (and such further sums as may from time to time be agreed) incurred by eircom due to its obligations under that memorandum including the costs of eircom having to carry out remediation work on its lines arising from the interference. All works contemplated by the memorandum of commercial understanding of 7 December 2012 have been completed to the satisfaction of eircom.

Data centre construction defect

We occupy a number of data centres. A construction defect has been identified in a specific centre. We entered into negotiations with the landlord which culminated in the parties entering an agreement on February 6, 2013. Under that agreement the landlord accepts responsibility for the construction defects and has agreed to carry out, at its own cost, the necessary remedial works to remedy construction defects identified at the property in a manner that will facilitate our current operation of the data centre. The works are due to be completed on or before November 14, 2014.

There is risk involved in carrying out remedial construction works at a live data centre. The penalties that could potentially be invoked by the individual customers have been quantified and assessed and the landlord is responsible for reimbursing eircom in respect of this risk under the terms of the agreement. We will be liable for any differential loss that is not caused by the negligence of the landlord, but we have taken out a programme of enhanced non-negligence insurance to cover this gap.

One of the potential risks is that customers may seek to invoke a termination right under their respective service level agreements. This risk will only materialise if the breach complained of is not remedied in accordance with the time limits provided in the respective service level agreement.

We conduct a continual programme of remediation activity in respect of all the data centres we occupy.

Financial Adviser

On 7 August 2013, a former corporate finance adviser of the eircom group, Gleacher Shacklock LLP, commenced proceedings in the High Court of England and Wales against (i) eircom Limited and (ii) ERC Ireland Equity SPC (eircom Limited's previous holding company prior to the Examinership) claiming an entitlement to €2,150,000 in corporate finance fees relating to the sale of eircom Limited's former subsidiary, eircom Phonewatch Limited. Both companies have previously responded to the claim in pre-action correspondence denying all liability and we intend to defend the proceedings.

7. REGULATION

Overview

The basic framework for regulation of the Irish telecommunications market derives from the EU Regulatory Framework which was adopted by the EU in 2002 for all aspects of electronic communications networks and services across the EU. The EU made amendments relating to the recommended markets in November 2007 and further amendments in November 2009.

This basic framework for regulation of the Irish telecommunications market is laid out in a series of legislative acts and related statutory instruments ("SI"s), which have facilitated the development of competition, principally through the implementation of various EU directives relating to telecommunications. The principal relevant Acts are the Communications Regulation Act 2002, the Communications Regulation (Amendment) Act 2007, the Communications Regulation (Premium Rate Services and Electronic Communications Infrastructure) Act 2010, and associated Statutory Instruments ("SIs"). On July 1, 2011, the two 2009 EU Directives were transposed into Irish law by means of five SIs, which also replaced the SIs of 2003. The 2009 EU Directives updated the 2002 EU Regulatory Framework and are the most recent applicable Directives.

The EU Regulatory Framework as updated by the two 2009 EU Directives includes the Framework Directive, and four other specific directives namely the Access Directive, the Universal Service Directive, the Authorisation Directive, and the Directive on Privacy and Electronic Communications. The main policy objectives of the EU Regulatory Framework are to protect customers, to facilitate market entry by simplifying authorisation and licensing conditions, and to introduce a more market-focused mechanism for assessing and designating operators with Significant Market Power ("SMP") by basing it on the competition law concept of dominant position, to be determined in a manner consistent with competition law practice. National regulators also have greater flexibility to impose access and interconnection obligations in line with national circumstances.

The aim of the EU Regulatory Framework is, over time, to allow the transition of the governance of electronic communications networks from sector specific ex-ante regulation to general competition law. In the long term, the amount of regulation should lessen as competition within the sector continues to grow. In the short to medium term, however, *ex-ante* sector specific regulation is expected to remain the predominant form of regulation. The Regulatory Framework also provides operators with greater recourse to challenge the decisions of regulators. The regulator is obliged to follow strict procedures in imposing SMP designations and obligations. Parties affected by ComReg's decisions and regulations may exercise their right of appeal in the High Court.

While the EU Regulatory Framework foresees a reduction in the regulatory burden in some markets that have become effectively competitive, it will apply regulations to services that flow from investments in Next Generation Networks. Furthermore, the framework permits new remedies on companies designated with SMP, including in certain circumstances functional separation.

Following certain changes brought about by the 2009 EU Directives, VoIP providers now operate under the same regime as other providers and in particular must ensure access to the emergency services, free of charge, for their customers. These Directives also provide that all consumers wishing to move to another operator must be able to port their numbers within one day. The 2009 EU Directives also ensure equivalence of access to services for disabled users. National regulators will have powers to designate one or more operators with an obligation to provide services to disabled end users. As of September 26, 2013, we are the only operator so designated in Ireland.

The Regulatory Regime

ComReg

The 2002 Framework Directive allows for the establishment of a National Regulatory Authority (NRA) to be charged with any of the regulatory tasks assigned in the Framework and four other Specific Directives. The present legislation vests all responsibility for regulating the Electronic Networks and Services and Premium Rate Services sectors

in Ireland in commission consisting of at least one member and not more than 3 members called the Commission for Communications Regulation ("ComReg"), with only some residual functions having been retained by the Minister for Communications, Energy and Natural Resources. Broadcasting services fall outside the remit of ComReg and are regulated by the Broadcasting Authority of Ireland ("BAI.") ComReg regulates electronic communications networks and services principally through a system of General Authorisation (ComReg 03/81R3 dated March 23, 2011), licenses for Premium Rate Service, licenses for radio frequency and rights of use for numbers.

We operate our telecommunications business in Ireland under this regime. The most important authorisation under which we operate our business is the General Authorisation published by ComReg (ComReg 03/81R3) which sets out the terms and conditions that all providers of electronic communications services and networks must comply with in Ireland. We also hold various individual radio frequency licenses under the Wireless Telegraphy Act, 1926, including our mobile (2G, 3G and 'Liberalised Use Licences' - 4G) licences.

ComReg was established under the Communications Regulation Act 2002 as the independent regulator. The Minister may, in the interests of proper and effective regulation of the electronic communications market, give policy directions to be followed by ComReg in the exercise of its functions. ComReg is led by a commission of up to three Commissioners and the chairman of ComReg is appointed by the Minister from among these three Commissioners. Two new commissioners were recently appointed and took up their roles at the start of September 2013. ComReg attained further powers under Communications Regulation (Amendment) Act 2007, and on July 12, 2010, took over responsibility from the Regulator of Premium Rates Telecommunications Services ("**Regtel**") for the regulation of Premium Rate Services in Ireland under the Communications Regulation (Premium Rate Services and Electronic Communications Infrastructure) Act 2010.

Enforcement powers

ComReg has the power to request information to enable it to verify compliance with license and general authorisation conditions, including SMP conditions, and may apply to the Irish High Court for an appropriate court order requiring compliance, including an order directing that a financial penalty be paid. If such an order is granted the penalty is paid to ComReg. In addition, under the Communications Regulation (Amendment) Act 2007, the Minister may, in making regulations for the purpose of giving effect to a provision of European law, provide for an offence under those regulations to be triable summarily or on indictment, with maximum fines of up to €5 million or 10% of an operator's revenue, whichever is greater. Where the regulations made for the purpose of transposing in Irish law the EU Regulatory Framework provide for an offence, the maximum penalties provided are set at in the case of a body corporate to a fine not exceeding €500,000. Under the Act, ComReg has the power to carry out investigations, on its own initiative or following a complaint, and to collect and publish information accordingly. ComReg also has powers, concurrent to those of the Competition Authority, to investigate anti-competitive practices, or abuse of a dominant position in the market place related to the provision of electronic communications services and networks. In addition, ComReg has the power to suspend or withdraw an authorisation, licence or right of use where, in its opinion, there has been serious or repeated non-compliance with the conditions attached to a general authorisation, licence or right of use, or failure to meet a specific obligation relating to SMP or universal service. ComReg may amend authorisations, licences and rights of use from time to time "where objectively justifiable, and in a proportionate manner." ComReg may also apply to the High Court to seek the immediate suspension of Premium Rate Services (PRS) which it considers to be in breach of the PRS Licence conditions.

General Authorisations, Licenses and Rights of Use

We are not permitted to delegate, grant or otherwise transfer any right, interest or entitlement in our General Authorisation to another person. ComReg has extensive powers to enforce or modify conditions to general authorisations, licences or rights of use, and to issue directions under those conditions. It is an offence to fail to comply with the conditions of a general authorisation, licence or right of use.

All authorised entities, including eircom and Meteor, are required under their General Authorizations to pay an annual levy, equal to 0.2% of relevant annual turnover, to ComReg to defray its administrative costs. "Relevant Turnover" is turnover excluding VAT for the provision of electronic communications services or networks; it includes turnover from electronic communications networks and services provided to OAOs and subsidiaries; it excludes turnover

not related to the provision of electronic communications networks and services. Until such time as the Relevant Turnover for a Financial Year is known, the quarterly instalments paid to ComReg are based on the most recent Relevant Turnover Statement available. For the year ended June 30 2012, the most recent year for which the levy has been finalised, eircom paid a levy of €2.1 million with respect to relevant fixed line turnover and Meteor paid a levy of €0.69 million with respect to relevant mobile turnover.

Network providers that facilitate the provision of PRS services, and PRS Service Providers, pay a levy of 1.8% of Premium Rate Services revenue (equally divided between the PRS Service provider and the host network operator). This levy applies to the retail revenue for Premium Rate Services, and is 'ring fenced' from the general electronic communications networks and services levy. ComReg issued a consultation on June 15, 2013 which reviews the current level of this levy and proposes a 38% increase in the levy. We responded to the consultation on August 2, 2013. ComReg have not yet issued their decision.

eircom and Meteor also pay fees for the right to use the radio spectrum that has been allocated to them by ComReg. All licensed spectrum is subject to annual usage fees. For the 12 month period to June 30, 2013 eircom expensed a total of €8 million in usage fees for its fixed and mobile spectrum licenses.

SMP Regime

Operators that are designated as having SMP in any of the 'relevant markets' specified under the EU Regulatory Framework bear onerous obligations, which are currently set out in the EU Access and Universal Service Directives, and the corresponding transposed Irish legislation and ComReg decisions.

An operator will be designated as having SMP in a particular market if it has a dominant position in that market, as determined in a manner consistent with competition law practice. Once an operator has been designated as having SMP in a market, a National Regulatory Authority is obliged to impose at least one of the obligations listed in the Access Directive and must impose all such obligations on that operator as are considered appropriate, which may include the regulatory remedies of access, transparency, non-discrimination, accounting separation and cost accounting, and price control/cost-orientation.

Under the EU Regulatory Framework, 18 relevant markets in which SMP designations may be made were originally identified by the European Commission. In November 2007, the EU Commission revised the list of recommended markets, reducing their number to seven. This is currently under review by the EU Commission. See " *EU Regulatory Framework - Position as of June 30, 2013"* below.

If ComReg wishes to regulate any of the new markets it must formally notify the EU Commission before doing so. However for any of the 18 markets which were previously regulated, ComReg must complete a new market review in order to withdraw the existing remedies, even where that market is not on the new EU list of recommended markets. The existing *ex-ante* regulatory model may be extended into eircom's future businesses, including NGN and NGA services.

ComReg's implementation

ComReg's implementation of the market analysis process is on-going. Before ComReg can designate an operator as having SMP, it must define the relevant market in accordance with the European Commission's recommendations and competition law practice. It must also carry out a market analysis to determine whether or not there is in fact effective competition in that market. The following table lists the seven markets recommended by the EU in November 2007, and the operators designated with SMP by ComReg.

EU Regulatory Framework—Position as of June 30, 2013

Market Number	Market	SMP Operator(s)	ComReg Decision	Date
1	Retail Fixed Narrowband Access (Business & Residential)	eircom	Decision D07/61 (ComReg 07/61)	August 2007
			Decision D04/13 (ComReg 13/14) (Price Regulation of Bundled Offers)[(i)]	February 2013
2	Wholesale Fixed Call origination[(ii)]	eircom	Decision 04/07 (ComReg 07/80)	October 2007
3	Wholesale Fixed Call termination	eircom and six OAOs[(iii)]	Decision 06/07 (ComReg 07/109)	December 2007
4	Wholesale Fixed Unbundled access (WPNIA) including Current and Next Generation Access[(iv)]	eircom	Decision D05/10 (ComReg 10/39)	May 2010
			Decision D03/13 (ComReg 13/11) (Remedies for NGA)[(v)]	January 2013
			Decision D04/13 February 2013 (ComReg 13/14) (Price Regulation of Bundled Offers)[(i)]	February 2013
5	Wholesale Fixed Broadband access	eircom	Decision 06/11 (ComReg 11/49)	July 2011
			Decision D03/13 (ComReg 13/11) (Remedies for NGA)[(v)]	January 2013
6	Wholesale Fixed Terminating Segments of Leased Lines	eircom	Decision D06/08 (ComReg 08/103)	December 2008
7	Wholesale Mobile Call termination	Hutchison 3G Ireland, Lycamobile, Meteor, Telefónica O2, Tesco Mobile and Vodafone	Decision D11/12 (ComReg 12/124)	December 2012

(i) This decision was a further clarification of the remedies imposed on eircom arising from its SMP status in Market 1 and Market 4.

(ii) Transit services in the fixed public telephone network (old market 10 in the original list of 18 recommended markets) is not in the revised list of EU recommended markets. ComReg has maintained regulations in the National Transit market, with eircom designated with SMP. (See ComReg Decision 04/07 (ComReg 07/80) October 2007).

(iii) In addition to eircom, six OAOs were designated as holding SMP:

1. BT Communications Ireland Limited;
2. Verizon Ireland Limited;
3. NTL Communications (Ireland) Limited and Chorus Communications Limited (now UPC);
4. Colt Telecom Ireland Limited;
5. Smart Telecom; and
6. Magnet Networks Limited.

(iv) WPNIA = Wholesale Physical Network Infrastructure Access. WPNIA includes LLU and Next Generation Access/fibre).

(v) This decision was a further clarification of the remedies imposed on eircom arising from its SMP status in Market 4 and Market 5.

Regulation of our fixed-line products and services

Retail fixed Access Market

eircom is currently designated as the SMP operator in the Retail Fixed Access market (ComReg Decision D07/61). In October 2012 ComReg published a consultation (ComReg 12/117) proposing to designate eircom with SMP and impose wholesale and retail remedies in the market for Lower Level Voice Access Market (LLVA) and wholesale

only remedies in the market for Higher Level Voice Access Market (HLVA). eircom responded to the consultation on January 25, 2013 and as of September 26, 2013 ComReg has not published its final Decision.

Retail price regulation

The current Retail Price Cap was put in place in October 2007 and applies to PSTN and ISDN access products. On October 1, 2007, ComReg published a new Retail Price Cap Remedy for Fixed Narrowband Access Markets. The order imposed a dCPI minus dCPI (i.e. no nominal increase) price freeze for rental and connection for both lower level basket of PSTN and ISDN BRA, and upper level basket of ISDN ("FRA" and "PRA") for one year from October 1, 2007, with permission to increase prices in each basket by dCPI minus 0% thereafter. A separate sub-cap applies to PSTN line rental of dCPI minus dCPI in the first year and dCPI minus 0% thereafter. Retail calls are excluded from the Price Cap. The Price Cap Decision Instrument has no expiration date and in theory can run indefinitely (subject to eircom continuing to be designated with SMP on the relevant retail market). ComReg has indicated that the Price Cap decision will be reviewed when the Retail Narrowband Access Market is next reviewed. This review began in October 2012 (ComReg 12/117) and, as of September 26, 2013, ComReg has not published its final Decision.

In July 2009, ComReg wrote to eircom stating that, because the relevant CPI figure for the 2009/10 price cap year was minus 5.4%, a price cap based on minus 5.4% should apply to eircom's access charges with effect from October 1, 2009. eircom rejected this, stating that the ComReg October 2007 Decision provides that eircom "shall not increase its retail line rental tariffs by more than dCPI minus 0% in a relevant year," and this does not require eircom to adjust tariffs in accordance with inflation or deflation, and specifically, the Decision did not contemplate any requirement to decrease tariffs. As of September 26, 2013 ComReg has not responded to eircom's reply; however it may in future seek to enforce its view that prices should be reduced in line with reductions in the CPI. In any event, even if eircom were obliged to adjust its tariffs in accordance with inflation or deflation, a reduction of 5.4% would not be required as the last price increase in respect of Retail line rental was in July 2007.

In its 2003 Telecommunications Tariff Order revoked by ComReg in 2007 and replaced by the retail price cap imposed by ComReg Decision D03/07 (ComReg Doc. 07/76) of 1 October 2007, ComReg allowed for the removal of price controls in existence on the telephone bills of the lowest income quartile of residential customers, subject to the introduction of an approved Vulnerable User Scheme ("VUS"). We launched our VUS in June 2003. The scheme limits increases in the size of the median telephone bill for all customers availing of the scheme to CPI plus 0%. As of September 26, 2013 there have been no amendments to this scheme.

Arising from the launch in October 2008 of a promotion comprising Talktime, Broadband and 500 free minutes to Meteor Mobile numbers, ComReg determined that eircom was in breach of its obligation not to unreasonably bundle. eircom appealed ComReg's determination of non-compliance in the High Court, and ComReg subsequently instituted Enforcement Proceedings in the High Court in relation to the relevant bundles. In October 2009 both parties reached a settlement in relation to the High Court proceedings. Under the terms of the settlement ComReg consulted on an appropriate economic test for assessing bundles and undertook to carry out a further consultation (ComReg 11/72 and ComReg 12/63). In October 2011 ComReg published a further consultation and Draft Decision (ComReg 11/72) on bundling.

On February 8, 2013, ComReg published its Final Decision D04/13 (ComReg 13/14). Arising from the Decision eircom must continue to obtain prior ComReg approval before launching bundles with a retail line rental component, however the notification period has been reduced from fifteen to five working days before launch. The Decision provides pricing flexibility in bundled services which includes: the establishment of larger exchange areas where competition is most intense; the use of modified wholesale costs to assess margin squeeze; the use of a portfolio and product by product test with some use of long-run incremental cost (LRIC) for retailing costs of calls.

In August 2004, ComReg introduced a code of practice for Tariff Transparency (ComReg Decision D11/04) with the stated objective of ensuring that service providers present tariff information that is accurate, comprehensive and accessible. The code of practice is designed to ensure that service providers present transparent and up to date information on standard tariffs covering access, all types of usage charges, and maintenance charges, including details of standard discounts applied and special and targeted schemes.

In addition, a process is in place which is aimed at improving tariff transparency in the telecommunications market. The stated objective of this process is to "provide a fair, broad based comparison of alternative tariffs." and in support of this, ComReg has established an interactive website for consumers, www.callcosts.ie. This website covers mobile, fixed-line and broadband services.

eircom wholesale reform

eircom has been involved in a number of wholesale reform initiatives, including a range of reforms that enhance access to eircom's infrastructure for other telecommunications operators. The measures aim to deliver process improvements for existing regulated wholesale products such as LLU, as well as for NGA products by ensuring that all operators have access via eircom Wholesale to eircom's technology organisation and product development processes to deliver products and services to the end customer.

eircom engaged with ComReg and Industry on proposals under the following headings:

- Organisation structure and internal processes
- Systems
- Code of Practice / behavioural changes, and
- Governance

Progress has been made in all areas and is on-going. A recent key deliverable was the launch of the Code of Practice in April 2013. We are now undertaking a review of internal regulatory controls and Auditing which should be completed by mid-2014.

Wholesale price regulation

eircom is currently designated as having SMP in the wholesale fixed voice telephony markets including in particular the markets for wholesale call origination services and wholesale call termination services. See the table at *"EU Regulatory Framework"* above. As a result, we must offer interconnection services to OAOs seeking to interconnect with our network. We publish a Reference Interconnect Offer ("RIO"), which sets out the tariffs, contract terms and conditions at which we offer interconnection services. These must be non-discriminatory and transparent. We must also ensure that our cost accounting systems are suitable for implementing our interconnection obligations.

RIO prices are in general based on the LRIC of providing interconnection services, plus a rate of return on investment. ComReg has issued several notices and decisions relating to the methodology for calculating these prices, including the calculation of costs that may or may not be included in setting RIO prices, as well as the appropriate rate of return on investment that we are permitted to have. We make regular submissions to ComReg in relation to such notices and decisions, and in particular we have urged ComReg to adopt modified models as a basis for the calculation of costs and, ultimately, RIO pricing.

On February 19, 2010, ComReg published an Information Notice (ComReg 10/14) noting that eircom had updated the RIO price list relating to interconnection rates for the period from April 1, 2010 to at least January 1, 2012. The Wholesale Call Origination and Wholesale Call Termination interconnection rates were reduced by an average of 7%, effective from April 1, 2010, and were reduced by a further average of 7.6% from January 1, 2011. On December 15, 2011 ComReg published an Information Notice (ComReg 11/99) confirming that eircom would adjust downwards Call Origination and Call Termination rates by an average of 5%, which eircom implemented from July 1, 2012.

In December 2007, following consultation, ComReg published its Decision D06/07 confirming that eircom holds SMP in the wholesale fixed call termination market. ComReg also designated six OAOs as holding SMP on their own networks in this market. As a result of the SMP designation ComReg has imposed obligations of Access, Transparency, Non-discrimination, Price control, Accounting separation, and Cost accounting upon eircom. OAOs

designated with SMP are only subject to obligations of Non-discrimination, Transparency and Price control. Further, the OAOs' Price Control obligations apply when an OAO reaches a market share threshold of 5% of total direct access paths or five years from December 2007. Accordingly, in December 2012, following a consultation, ComReg published Decision D12/12 (ComReg 12/125) which requires each of the fixed operators designated with SMP in Decision D06/07 including eircom and the six OAOs to ensure that its Fixed Termination Rate(s) are set in accordance with a Pure LRIC costing methodology. The Decision provides for the transition from current rates to pure LRIC rates in the form of a glidepath detailing the common ("symmetric") maximum rates applicable to fixed operators starting July 1, 2013, as set out in the table below. In the interim period from January 1, 2013 to June 30, 2013, SMP fixed operators were required to charge no more than the rates they charged at December 31, 2012.

	Two part charging		
	Maximum € cent per call	**Maximum € cent per min.**	**Single Charge Maximum € cent per min.**
From 1 July 2013 to 30 June 2014	0.075	0.070	0.098
From 1 July 2014 to 30 June 2015	0.068	0.060	0.085
From 1 July 2015 onwards	0.060	0.049	0.072

eircom applies two part charging.

On August 11, 2009, ComReg published a Decision (ComReg D03/09) on eircom's Regulatory Assets Lives, extending the lives of the major asset classes. The Decision took effect with respect to the 2009/2010 Regulatory Accounts which were finalised in December 2010. The change in asset lives resulted in a difference in the treatment of assets in the Regulatory Accounts when compared with the Statutory Accounts. The Regulatory Accounts are used to set regulated wholesale prices. The effect of the ComReg Decision was to reduce eircom's depreciation costs to be included in the Regulatory Accounts and potentially wholesale prices.

On May 22, 2008, ComReg issued a Decision Notice (ComReg D08/35) providing a nominal pre-tax WACC of 10.21% to be used for the purpose of eircom's regulated accounts, and as a basis for allowing eircom an adequate rate of return on its mean capital employed for regulatory purposes, including the setting of eircom's regulated wholesale prices. The WACC of 10.21% was made effective from 22 May 2008, and as of September 26, 2013, this remains in place.

In May 2008, ComReg began a review of whether a Wholesale Price Cap ("WPC") should be introduced and has met with eircom on a number of occasions. ComReg is developing a "bottom-up" model of eircom's network to assist in the analysis of the implementation of a WPC and has made a number of information requests of eircom. In December 2008, ComReg indicated that it would issue a consultation document in relation to a proposed Interconnection Wholesale Price Cap (WPC) in the first quarter of 2009 (ComReg 08/94). However, as of June 30, 2013, ComReg has not published a consultation and the ComReg Annual Action Plan for the year to June 2013 does not mention the Wholesale Price Cap.

On October 5, 2007, ComReg published its Decision D04/07 (ComReg 07/80) on the wholesale fixed call origination and wholesale transit markets. eircom was designated as having SMP in these markets and, as a result, ComReg maintained in force the regulatory obligations which applied to eircom in relation to these markets, namely, obligations of Access, Transparency (appropriate reference interconnection offer(s)), Non-Discrimination, (Service Level Agreements ("SLA") and reporting to ComReg), price controls based on forward looking long run incremental costs ("FL-LRIC"), Accounting Separation and Cost Accounting. ComReg determined that the market for wholesale outgoing international transit services no longer warranted ex ante regulation, therefore all SMP regulatory obligations imposed on eircom in the outgoing international transit market were withdrawn. Transit for incoming international traffic, however, is in the same relevant market as national transit and continues to be subject to regulation.

eircom provides a wholesale end-to-end call service to OAOs without the need for OAOs to have their own interconnection infrastructure. The service is known as Switchless Voice (White Label). On 15 September 2011, following a period of consultation, ComReg published its Decision D07/11, (ComReg 11/67), which puts in place price controls and transparency obligations in the associated Wholesale Call Origination and Wholesale Call Termination Markets. The purpose of the price controls is to guard against the possibility of a margin squeeze between Switchless Voice and the associated wholesale products. This change resulted in a small price increase for the White Label product

but as the increase was insignificant, there was no impact on existing customer volumes. In addition, ComReg directed that eircom has obligations to publish terms, conditions, service level agreements, guarantees and other product related assurances in respect of the Call Origination and Call Termination component elements of a Switchless Voice service.

eircom is directed by ComReg to provide SB-WLR. Since May 2008, prices for the SB-WLR product have been set at the retail price less 14%, based on ComReg Direction (ComReg 08/19).

In November 2006, ComReg published an Information Notice (06/60) which finalised the number translation code ("NTC") rates for the financial period from 1 April 2004 to 30 June 2007. The NTC rates were updated with effect from September 1, 2007 with no retrospection and as of September 26, 2013, have remained in force since.

Leased lines

We offer leased lines on a wholesale and retail basis. We are required to submit proposed wholesale prices or wholesale price changes to ComReg for approval. The prices at which we offer wholesale leased lines must be cost orientated.

In December 2008, ComReg published its Decision D06/08 (ComReg 08/103) on the review of Leased Lines Markets, removing the SMP designation from eircom and lifting regulations on the Retail Leased Lines market and the Wholesale market for Trunk Segments of Leased Lines. ComReg retained the SMP designation and regulation on eircom in the Wholesale market for Terminating Segments of Leased Lines. An appeal by eircom to the High Court was settled by the parties on the basis, *inter alia*, that ComReg consult on the practical application of remedies in the leased line wholesale terminating market. Following consultation, ComReg published Decision D02/10 (ComReg 10/12) on February 15, 2010 in relation to the Urban Centres which, together with circuit bandwidth, are relevant to the delimitation of the scope of the unregulated market for trunk segments of leased lines, in relation to which eircom is not subject to SMP obligations, and confirmed that there are 16 such Urban Centres. At our request that this list be expanded, ComReg is in the process of consulting on a proposal to add five additional Urban Centres to the list of 16 (ComReg Doc. 13/39 of April 17, 2013). In the resulting decision issued on July 29, 2013, ComReg agreed that four of the five locations were competitive and added them to the list of Urban Centres.

On September 10, 2010, ComReg published its Consultation and Draft Decision (ComReg 10/70) on eircom's obligations relating to (i) price control, (ii) transparency (publication obligations) for high bandwidth leased lines, and (iii) proposals to amend wholesale billing from three months to one month in advance. On March 22, 2011 ComReg published Decision D02/11 (ComReg 11/22). Under this Decision, eircom is no longer required to publish pricing information for its Wholesale Leased Lines ("WLL") circuits of greater than 10 Mb/s. The Decision also applies to WLLs of less than 155 Mb/s between the 16 Urban Centres designated in ComReg Decision D02/10. ComReg's Decision also directs that eircom must increase the frequency of billing of OAOs for wholesale leased lines from quarterly in advance to monthly in advance, with the continuance of 30 days credit terms. These changes were implemented for bills issued in respect of periods from January 1, 2012.

Following a consultation ComReg published its Decision D02/12 (ComReg 12/03) in February 2012. The Decision specifies the price control obligations which apply to eircom, and set in particular price ceilings for WLLs (set at the level of the prices applicable on the date of the Decision) and price floors determined on the basis of a model applying a Similarly Efficient Operator ("SEO") Test. An SEO is an operator that is as efficient as eircom but does not benefit to the same level from economies of scale as eircom, and an SEO Test accordingly uses costs for eircom adjusted upwards. The price control is a margin squeeze test designed to ensure that the price of eircom's end-to-end wholesale leased lines (including such wholesale leased lines notionally including in eircom's retail leased lines) do not cause a margin squeeze for an SEO using eircom's PPCs and NGN Ethernet inputs to produce end-to-end leased lines. PPCs and NGN Ethernet products are subject to a price control and must be priced on the BU-LRAIC plus methodology. Retail Leased Line prices are not directly regulated, however eircom does have obligations under the ComReg Decision D06/08 (ComReg 08/103) not to cause a margin squeeze and accordingly the price of retail leased lines is constrained by the price of eircom's regulated wholesale leased lines. ComReg commenced an audit on eircom Retail's implementation of this margin squeeze test in August 2012. As of September 26, 2013, ComReg has not concluded this audit.

ComReg has issued a number of directions which require us to transfer leased lines with a minimum interruption in service, at prevailing wholesale terms and conditions, if a retail customer wishes to switch to another provider for leased line services. The most recent Direction D02/04 (ComReg 04/03) in relation to the transfer of leased lines from retail to wholesale (eircom to OAO) customers was issued in January 2004, and the required process was implemented. In April 2005, ComReg re-opened discussions with other operators to conclude its draft direction in relation to the transfer process for OAO to OAO and OAO to eircom leased line transfers. Finalization of the draft direction would require us to implement a cost oriented and efficient in-situ transfer process with corresponding tariffs, with the in-situ process being implemented one month later. However, the absence of this final decision is not constraining the efficient operation of the market.

Partial private circuits ("PPC")

The price at which we provide PPCs is regulated by ComReg and is required to be based on LRIC. In April 2010, eircom reduced the price of PPCs by 5%, and there were further price reductions ranging from 39% to 42% effective from 1 July 2011 (ComReg Information Notice 11/26). See also Leased Lines above.

Ethernet Access

In its Decision D06/08 (ComReg 08/103) on the review of Leased Lines Markets, ComReg explicitly included Ethernet based connectivity services within the Leased Line market and required eircom to deliver Wholesale access inputs for all Ethernet based services provided on the eircom network.

eircom launched a wholesale Ethernet product in September 2009 and launched a suite of Next Generation Network ("NGN") based Ethernet products in August and September 2010.

Unbundled local loops (Current Generation)

We are obliged to make available to OAOs our copper cables, or local loops, that run from customers' premises to the local exchange. The local exchange lines that we make available are referred to as "unbundled local loops". OAOs may site their equipment in or adjacent to our local exchanges so that they can use our local access network directly by connecting their equipment to it. They are then able to use our access network to offer services directly to the customer.

We are obliged to meet reasonable requests for new forms of full and shared unbundled access to our local loop and related facilities under transparent, fair, reasonable and non-discriminatory conditions. An assessment of whether a request for access is reasonable is made with reference to criteria set out in the applicable regulations.

From February 9, 2010, ComReg in Decision D01/10 (ComReg 10/10) set the maximum monthly rental charge for LLU at €12.41 and the maximum monthly rental charge for Sub Loop Unbundling ("SLU") at € 10.53. In January 2013, ComReg published an Information Notice (ComReg 13/01), confirming price reduction for LLU to €9.91 per month and SLU to €9.03 per month with effect from February 1, 2013.

Line Share permits an operator to provide a service (such as broadband), on the same copper pair that another operator uses to provide another service (such as narrowband) to the same retail customer. ComReg published Decision D04/09 (ComReg 09/66) on August 18, 2009, setting the monthly Line Share Price at €0.77 based on the incremental costs of Line Share, thereby reducing the price from the previous level of €8.41 per month. eircom appealed that decision to the High Court and on January 25, 2010, these proceedings were settled. Under the terms of the Settlement Agreement, ComReg was to initiate a review of the price for Line Share within 18 months. On August 31, 2012, ComReg wrote to eircom to initiate that review stating that it continues to consider that an incremental cost methodology appropriate to determine the price of Line Share, seeking eircom's views on the potential impact of the launch of NGA products and requiring updated cost data from eircom. eircom responded in November 2012 proposing that the price be continued to be set at €0.77 and that the price be reviewed in light of NGA developments in 2014.

eircom has implemented enhancements relating to the combination of LLU and GNP known as "GLUMP". In May 2007, eircom introduced a process for Inter-Operator migrations allowing LLU operators to win a different operator's telephone or broadband customer and seamlessly migrate them to LLU. In September 2007, eircom introduced

Intra-Operator migrations permitting operators to move their existing single billing via wholesale line rental (including number portability) or broadband customers onto LLU. In May 2007, eircom introduced an in-tariff SLA and introduced an enhanced SLA in January 2008. Following a consultation, in October 2009 ComReg published its Decision D05/09 (ComReg 09/77) removing the €47 Intra Migration Premium ("IMP") Charge.

On May 20, 2010, ComReg in Decision D05/10 (ComReg 10/39) re-designated eircom as holding SMP in the wholesale local access market. ComReg redefined the market to include local fibre and the market is now called the Wholesale Physical Network Infrastructure Access ("**WPNIA**") market. The WPNIA market incorporates Local Loop Unbundling (LLU - current generation access) and Fibre (next generation access). The overall market is national in scope so there is no geographic segmentation. In imposing obligations ComReg has taken a dual approach, treating Next Generation WPNIA separately from the Current Generation WPNIA (LLU).

With respect to the Current Generation WPNIA, eircom cannot withdraw any existing facility without giving five years notice. eircom must also provide access to Operational Support Systems ("OSS") and provide legally binding Service Level Agreements ("SLA"s) with service credits where targets are not met. eircom's obligations include obligations in respect of access, non-discrimination, transparency, accounting separation and price control and cost accounting.

Wholesale broadband access ("WBA") – bitstream - (Current Generation)

In January 2004, ComReg directed us to offer a bitstream port transfer product and process. This facilitates a customer with an existing WBA service switching to an OAO without the need for a significant break in service.

ComReg published Decision Notice D03/05 (ComReg 05/11r) in February 2005 designating eircom with SMP in the wholesale bitstream market. ComReg published its Final Decision Notice on Wholesale Broadband Access Price Controls (D1/06) in January 2006. The price controls set the Wholesale price by reference to the Retail price, using a formula combining the Retail Price minus a percentage, and a fixed monetary amount.

Following a consultation process, ComReg published Decision D06/11 (ComReg 11/49) in July 2011 on the review of the WBA market. ComReg found that there was a single national market (i.e. no sub-geographic markets). Cable (due to lack of ubiquity), mobile (as it is not in EU recommended market) and Fixed Wireless Access ("FWA") are excluded from the wholesale market definition. ComReg re-designated eircom with SMP and imposed upon eircom the remedies of access, accounting separation, transparency, non-discrimination, price control and cost accounting. As a result of Decision D06/11, eircom is obliged to give ComReg one month's notice of proposed changes to wholesale broadband products or prices, in advance of giving two months' notice to other operators. Decision D6/11 continues in force the retail-minus price setting mechanism imposed in ComReg Decision D1/06. ComReg has indicated in ComReg Doc 12/32 of April 5, 2012 that it plans to consult on a revised method for setting maximum prices for bitstream. On September 19, 2013, ComReg published a consultation and draft decision in relation to the price controls to apply to legacy Bitstream proposing some refinement of the existing cost orientation and margin squeeze controls. eircom has until November 1, 2013 to respond to this consultation.

Following a consultation, ComReg published Decision D06/12 (ComReg 12/32) in April 2012 specifying the price control for the provision by eircom of wholesale broadband access. In particular, the Decision imposes certain price floors for WBA products which are determined by reference to LLU prices so as to ensure that LLU operators are in the position to compete with eircom in the provision of WBA. In addition, the Decision requires eircom not to cause a margin squeeze for an SEO, that is, an operator as efficient as eircom but of a lesser scale, in eircom's offering of White Label end-to-end wholesale broadband product. This effectively imposes a price floor on eircom's White Label broadband offers.

Next Generation Access (NGA)

In January 2013, ComReg published its Decision D03/13 (ComReg 13/11) in relation to remedies for Next Generation Access Markets, covering the WPNIA and WBA markets. In relation to WPNIA, Decision D03/13 requires eircom to provide access, including in the form of duct access and dark fibre when duct access is unavailable, fibre unbundling, co-location, backhaul and interconnection. eircom is also required to provide access to Sub Loop

Unbundling ("SLU") in areas designated as susceptible to form part of a state subsidy scheme, for instance as a result of the implementation of the Government's National Broadband Plan for Ireland announced in August 2012. In other areas, SLU will only be required in the absence of imminent or credibly scheduled NGA deployment. The Decision also provides for an enhanced non-discrimination obligation supported by a regime of compliance monitoring and governance. Extended notification periods to ComReg and OAOs apply for the introduction of new products, changes to new products and pricing. The price control obligation includes an obligation to apply cost-oriented prices for LLU and SLU in line with the equivalent copper prices; new products in the market are also subject to cost-orientation but there is flexibility for eircom to negotiate prices directly with OAOs, with ComReg to intervene only where negotiations fail.

In relation to Next Generation WBA, Decision D03/13 requires eircom to provide access including in the form of Virtual Unbundled Access ("VUA"), Enhanced Bitstream, Multicast, Co-location, Backhaul, Interconnection, Migrations and In Premises Services. eircom is also subject to an obligation of Non-Discrimination in the form of an Equivalence of Inputs ("EoI") requirement for the end-user elements of VUA and Bitstream, and in the form of an enhanced Equivalence of Outputs requirement ("EoO") to apply to all remaining elements. This enhancement includes in particular obligations of compliance monitoring and governance. The Decision also imposes extended notification periods to ComReg and OAOs for new products, changes to existing products and pricing as well as strict requirements around the provision of network information concerning NGA rollout plans. eircom is also required to ensure that the respective levels of retail and wholesale prices are such that they do not cause a margin squeeze and eircom must furnish to ComReg a compliance statement with respect to the prices of new products and changes to existing products. Some relaxation of the margin squeeze test is provided including the use of a portfolio approach rather than individual product test, the use of an Equally Efficient Operator's (EEO) costs in some instances. For retail price changes, the notification period is reduced from 15 working days to five working days.

Accounting separation

Under EU and Irish legislation, ComReg has imposed accounting separation obligations upon eircom using a number of Directions. Following consultation, ComReg published its Decision D08/10 (ComReg 10/67) in August 2010, directing measures relating to the content, format and level of granularity of the eircom Regulated (Separated) Accounts, which are effective for the publication of the 2011 Separated Accounts. eircom's 2011 and 2012 Separated Accounts have been prepared in line with the requirements of this Decision.

Key Performance Indicators

Following a consultation process, in June 2011, ComReg published its Final Decision D05/11 (ComReg 11/45) directing that eircom report on a quarterly basis on Key Performance Indicators (KPIs) for provision and repair in the following regulated markets: (i) Retail Narrowband Access, (ii) Wholesale Broadband Access (WBA), (iii) Wholesale Physical Network Infrastructure Access (WPNIA), and (iv) Wholesale Terminating Segment of Leased Lines. The KPIs must be published by eircom no later than two months from the end of each quarter.

Number portability

Geographic number portability ("GNP") permits a customer with a telephone number that was assigned based on geographic location to retain that telephone number when changing local service providers, provided the customer's telephone line remains physically located within the same geographic area. Non-geographic number portability ("NGNP") permits customers with numbers that are standard throughout the country, including Freefone and premium rate service customers, to migrate to OAOs without changing their telephone number. Number portability was intended to remove the significant barrier to competition believed to result from customers having to change their telephone numbers if they wanted to change service providers.

Each operator is responsible for making its network capable of handling number portability. All operators, including eircom, are responsible for certain individual costs in relation to this activity, while certain other costs are shared between operators.

In November 2009, the EU approved a set of Directives which were transposed into Irish legislation in July 2011. The Universal Service and Users' Rights Directive requires that customers who have concluded an agreement to

port a number to a new undertaking will have that number activated within one working day. ComReg opened discussions with eircom and other operators and in July 2011 a process was put in place to facilitate the one day porting process. The process improves the ability of our competitors to win our customers as the previous window (of up to ten days) has been eliminated.

Carrier pre-selection ("CPS"), Wholesale Line Rental ("WLR") and Single Billing through Wholesale Line Rental ("SB-WLR")

Under ComReg Decision D2/03 (ComReg 03/07), eircom must provide facilities that allow customers to choose alternative service providers while remaining on the eircom network.

CPS and SB-WLR allow an authorised operator to resell our access service. We maintain and repair the access line, which remains connected to our switched network, and bill the operator for the use of the line. The operator bills the end customer for the operator's bundled service. As a prerequisite for this service, the end customer must choose the relevant operator to carry all calls using carrier pre-selection. eircom has been directed by ComReg to provide SB-WLR, and these services have been provided since 2003. Since May 2008, prices for the SB-WLR product have been set at the retail price less 14%, as set out in ComReg Information Notice.

We are also required to make call tracking, call barring, voicemail, call waiting, three way calling and alarm/reminder call and similar services available to all operators as ancillary services to carrier pre-selection SB-WLR. These services are provided through the SB-WLR product.

Changes to restrictions on win-back activities

In August 2007, ComReg reviewed the measures in place imposing restrictions on eircom's selling practices, and as a consequence, the three-month restraint on contacting customers that switch to another operator is no longer in force. ComReg conducted reviews of the GLUMP Code of Practice (ComReg 07/75), the LLU Code of Practice (ComReg 08/11), the CPS Code of Practice (ComReg 08/28) and the Single Billing via Wholesale Line Rental Code of Practice (ComReg 09/02), and acknowledged that it did not have a legal basis to enforce the codes of practice as they existed. ComReg published Guidance for Operators in each case, which set out aspects of the Code of Practice which have a legal basis and quoted the relevant legislation. eircom engaged in correspondence with ComReg on plans to amend the relevant regulated reference offers accordingly and eircom's selling practices. In February 2009, eircom amended the RIO to reflect the fact that the codes of practice referred to therein no longer apply. eircom continues to comply with all relevant consumer and data protection legislation in its win-back activities.

Consumer References

As a result of difficulties in winning back customers, eircom lobbied ComReg on the absence of account numbers on customer bills. Following a consultation, ComReg published Decision D04/10 on April 7, 2010 (ComReg 10/28), which amends the General Authorisation, obliging all fixed line operators to place certain references on consumer's bills from October 6, 2010. These include the customer telephone number, customer account number and the circuit reference number for LLU lines. The Decision does not concern business customers and eircom has advised ComReg that it will monitor the success of win-back of business customers vis-à-vis account numbers appearing on customer bills.

FRIACO

Under ComReg Decision D1/03 (ComReg 03/02) of January 2, 2003, eircom is required to provide FRIACO services. The price at which we are required to offer this product is set by reference to the number of ports provided to the OAO, and the price that would be charged under our RIO for the projected volume of traffic for each port.

VoIP

In October 2004, ComReg published a direction (ComReg 04/103) in which it nominated the code "076" as the code for PSTN access to VoIP services in Ireland. This was followed in March 2005 by a set of directions in Decision

D5/05 (ComReg 05/23) to enable the opening of access to this number range by May 1, 2005. The set of directions included a direction to eircom to set an initial price point to facilitate the introduction of VoIP services. eircom has complied with this direction. Following changes brought about by the 2009 EU Directives transposed into Irish law in July 2011, VoIP service providers must ensure access to the emergency services, free of charge, for their customers as well as equivalence of access to emergency services for disabled users.

National Numbering Conventions

Following a consultation process, ComReg published the 'National Numbering Conventions v7.0' (ComReg 11/17) in March 2011. The revised Conventions allow for the automatic withdrawal of rights of use of both code and number range where an undertaking's PRS license, authorization or other approval to operate is suspended or withdrawn for compliance failures. In relation to calling shared cost numbers from mobile telephones, ComReg set tariff ceilings on the standard cost of calling a geographic number. However ComReg stated that it will seek greater transparency concerning the exclusion or inclusion of non-geographic numbers in tariff bundles. For 'Universal Access Numbers' and 'Personal Numbers', ComReg introduced a tariff ceiling for calls made from mobile phones (in line with the changes to Shared Cost Numbers)

Universal service obligations ("USO")

Irish and EU law requires ComReg to promote the provision of a defined set of basic telephony services to all users in Ireland independent of their geographical location and at an affordable price, whether or not the provision of those services is economic. ComReg satisfies these requirements, in part, by designating one or more operators as having a USO to provide these services. In Ireland, eircom is the only operator that has been designated by ComReg as having USO, having been re-designated as such in June 2012 for two years until 30 June 2014 (ComReg Decision D07/12 - ComReg 12/71).

eircom's USO includes: (i) meeting all reasonable requests for telephone lines to locations throughout the state; (ii) provision of a telephone line capable of functional internet access; (iii) making available a comprehensive printed telephone directory to end-users; (iv) provision of public payphones to meet the reasonable needs of end-users; (v) services for disabled users; and (vi) affordability measures. Broadband and mobile services have not been included in the scope of the USO, in line with the position of the European Commission.

In April 2009, eircom began a process of removing 1,868 USO Public Payphones that were uneconomic to maintain, and followed the "Removal/Relocation of Public Pay Telephones" process (ComReg 06/14) agreed in advance with ComReg. As of June 30, 2013, there were 1,329 USO Public Payphones still in service. We will review these remaining USO payphones to assess their continued economic viability. On February 6, 2013, ComReg wrote to eircom to initiate a review of USO Payphones. eircom has responded to this request and a consultation on USO Payphones is expected by the end of 2013.

In September 2005, ComReg published its Decision notice D09/05 (ComReg 05/70) on two aspects of eircom's USO: the provision of access at a fixed location and the provision of functional internet access. With regard to provision of access at a fixed location, ComReg introduced a threshold of €7,000 to be applied when eircom considers requests for services. If the cost of providing service is below the threshold, eircom is obliged to consider the request as "reasonable" and supply service for the standard connection fee. If the cost is above the threshold, eircom is required to supply service where the customer agrees to pay the amount in excess of the threshold, in addition to the standard connection fee. With regard to provision of Functional Internet Access ("FIA"), ComReg introduced a minimum data rate of 28.8Kb/s with a target of 94% of telephone lines to be capable of achieving FIA.

eircom does not currently receive compensation for fulfilling its Universal Service Obligation. The establishment of a sharing mechanism, including in the form of a fund, is permitted under the EU Universal Service Directive of 2002 and the Irish Universal Service Regulations where the net cost of the USO is found to amount to an unfair burden on the USP. On May 31, 2011 ComReg published Decision D04/11 (ComReg 11/42) on the methodology for costing USO and the requirements which eircom must meet in applying for funding. On May 31, 2012, eircom submitted its USO funding application for the period 2009/2010. The application was for €6.22 million (ComReg Information Notice 12/57). If a sharing mechanism was established, by virtue of the size of eircom group revenue relative

to other operators, we believe that approximately 50% would be contributed by the eircom group. On May 10, 2013, ComReg published a draft decision notice and consultation (ComReg 13/45) in which they concluded that the net cost was €5.1 million but determined that the positive net cost does not represent an unfair burden on eircom. We have responded on July 5, 2013 setting out our disagreement with the proposed decision.

ComReg consulted on principles that could govern cost sharing if it was found that there was a net cost for eircom in providing the USO and that this amounted to an unfair burden (ComReg 11/77). ComReg proposed that operators contribute to a USO fund in proportion to their revenue subject to a minimum threshold of €0.5 million. As of September 26, 2013, ComReg has not published a final Decision.

Under the Universal Service Regulations, ComReg is authorised to set binding performance targets in respect of the obligation to provide connections and access and such other elements of the USO as ComReg deems appropriate. Following a consultation process, ComReg published binding targets in May 2008 in its Decision D02/08 (ComReg 08/37). The targets are in respect of:

- Installations ('In-Situ' and 'First Time' connections);
- Fault Repair Time (time taken, in working days, to repairs faults); and
- Fault Occurrence (the number of line faults per 100 lines in the network).

At ComReg's request, eircom appointed an external auditor to review the quarterly performance data relating to the above targets. Following failure by eircom, in the view of ComReg, to meet some of the performance targets, ComReg and eircom agreed an approach with respect to the provision of universal service. eircom established a Quality of Service Performance Improvement Programme ("PIP I") for the annual performance periods 2010/11 and 2011/12, with associated €10 million performance bonds for each year. ComReg confirmed that it would not take enforcement action in respect of any non-compliance by eircom for the periods 2008/2009 and 2009/2010. ComReg also published updated performance targets in respect of the periods 2010/11 and 2011/12. (ComReg documents 10/45 and ComReg 10/80). On October 7, 2011 ComReg published the performance data for the year 2010/2011 (ComReg Information Notice 11/71), which showed that eircom did not meet three of the targets. Subsequently ComReg imposed a penalty of €115,000 on eircom, which was paid on October 21, 2011. ComReg also confirmed in Information Notice 11/71 that it would take no further action in respect of the period 2010/2011.

For the year ended June 30, 2012, eircom did not meet three of the targets and eircom was required to pay a penalty of €525,000 (ComReg Information Notice 12/122). ComReg confirmed that it would take no further enforcement action regarding the year ended June 30, 2012. In line with eircom's USO re-designation (ComReg Decision D07/12 - ComReg 12/71) for the period July 2012 to June 2014, a new Performance Improvement Programme (PIP II) was agreed with ComReg to cover the period July 2012 to June 2014. eircom is required to maintain a €10 million cash guarantee on deposit (ComReg Information Notice 12/122)) to cover any financial penalty that may be imposed by ComReg if the targets are not met.

The final quarter and annual USO performance data (ComReg Information Notice 13/91) was released on September 25, 2013. For the year ended June 30, 2013 eircom did not meet some of the targets and eircom will be required to pay a penalty. However, the exact amount of that penalty is not yet known but is not expected to be material.

National Directory Database ("NDD")

Previously under its USO eircom was required to manage and update the NDD on behalf of the industry. The NDD contains all telephone numbers listed in public directories or available through directory enquiries. However, since July 2011, as a result of changes to legislation, the operation of the NDD can no longer be part of the USO. Following a consultation process ComReg designated eircom as the NDD operator for the period to June 30, 2014 - ComReg Decision D10/12 (ComReg 12/115).

Compliance

ComReg and other regulatory bodies occasionally make enquiries and conduct investigations concerning eircom's compliance with applicable laws and regulations. Details of such investigations, which have resulted in a finding of non-compliance by ComReg notified to eircom during the two year period ending June 30 2013, and which have not been finally resolved, are set out below:

In March 2010 ComReg commenced an investigation into eircom Wholesale's response to a Request for Quotation ("RFQ") from another operator for the provision of an Ethernet Managed Network solution and, in November 2010, issued a breach finding against eircom in respect of its obligations relating to access, non-discrimination, transparency and cost orientation in the market for Wholesale Terminating Segments of Leased Lines. In January 2011, eircom responded to the breach notification outlining why it did not accept that in making its bid submissions it had breached its obligations. On October 28, 2011, ComReg issued to eircom an Amended Notification of non-compliance, to which eircom made representations on November 28, 2011. eircom is awaiting ComReg's response.

In October 2011, ComReg commenced an investigation into eircom's terms and conditions which require customers to provide one month's written notice of their intention to cease their account or pay one month's line rental in lieu. In April 2012, ComReg issued a breach finding against eircom on the basis that the operation of this clause acts in ComReg's view as a disincentive to consumers to switch service providers. In May 2012, eircom responded to ComReg's breach finding defending its position. eircom is awaiting ComReg's response.

In December 2012, ComReg issued a breach finding against eircom in which eircom was found not to have provided a wholesale service to OAOs for Single Billing Wholesale Line Rental (SB-WLR) fault repair according to timescales which are at least equivalent to those provided to eircom's retail arm during the period of August 2011 to August 2012. eircom responded to the breach notice in January 2013, highlighting the remediation work that has been carried out up to that date. eircom is now satisfied that the issue has been satisfactorily remedied and that the cause for different timescales being achieved in relation to eircom's wholesale customers when compared with its retail arm is addressed so that there is no longer any variance in timescales. On April 2, 2013, ComReg issued an Opinion of non-compliance where it stated that on the basis of its analysis and having considered all of the correspondence and engagement with eircom to date, it had formed the opinion that eircom had not complied with its obligation of non-discrimination under ComReg Decision D07/61. In a separate letter dated April 3, 2013, ComReg stated that it was its intention to apply to the High Court for a declaration of non-compliance and an order imposing a penalty payment of €600,000 unless eircom agreed to pay to ComReg the sum of €400,000. eircom engaged in correspondence with ComReg and agreed to pay a penalty of €275,000, and accepted that a breach had taken place in this instance The matter has now been closed. There are other on-going regulatory investigations which may lead to fines and other penalties.

In February 2013, ComReg issued a breach finding against eircom in relation to the alleged failure by eircom to provide certain facilities, described to be "in-building connections" to an LLU operator contrary to eircom's obligations. The in-building connections would allow an operator to provide services to other operators from eircom's exchanges. On March 20, 2013, eircom made representations to ComReg denying that there had been a denial of access contrary to eircom's obligations under ComReg Decision D05/10 and/or that there had been an access request in the form described in the notification of breach. No substantive response has been received from ComReg to date.

On July 26, 2013, ComReg notified eircom of a finding that, in regard to the introduction of mandatory Direct Debit for new customers connecting to the network, it had not complied with its USO obligations in that seeking a direct debit as a condition of service amounts to a "refusal to supply" service which is contrary to our USO obligation. eircom responded to this notification on 12 August rejecting the assertions made by ComReg and confirming that eircom would not amend the requirement.

On August 6, 2013, ComReg notified eircom of a finding that, in regard to the Wholesale Uncontended Product, eircom has not complied with its non-discrimination obligation in the market for terminating segments of leased lines as provided for in Decision D06/08. ComReg allege that eircom provided product information to its own downstream arm on 14 October 2011 but that this information was not made available to other operators until 2 November 2011. eircom on September 3, 2013 responded to this notification outlining the reasons why we believe the bid was in full compliance

with our obligations under ComReg Decision D06/08. We await ComReg's response to our representation and as at September 26, 2013 ComReg had not responded.

On September 9, 2013, ComReg issued Meteor with a Notice of Non-Compliance alleging a breach of Regulation 14 by failing to give advance notification to customers of the introduction of e-billing. Meteor will submit representations in response to ComReg's Notice by September 30, 2013 deadline.

Communications Regulation (Premium Rate Services and Electronic Communications Infrastructure) Act 2010

The Communications Regulation (Premium Rate Services) Act 2010 was enacted in March 2010. Under the Act, ComReg took over the role of regulating and licensing of Premium Rate Services ("PRS") with effect from July 12, 2010. ComReg may apply to the High Court to seek the immediate suspension of a PRS which it considers to be in breach of the Licence conditions. On July 12, 2010, ComReg published its Decision D07/10 (ComReg 10/50) on the "Scope of Premium Rate Services Regulation", and new regulations and licence conditions. SI338 of 2010 Communications Regulation (Licensing of Premium Rate Services) Regulations 2010 and SI339 of 2010 - Communications Regulation Acts 2002 to 2010 (Section 30) Premium Rates Services Interim Levy Order 2010.

In April 2012, following a consultation process ComReg published a new "Code of Practice for Premium Rate Services" Decision D05/12 (ComReg 12/29). Additionally, in April 2012 ComReg published revised regulations SI 111 of 2012 - Communications Regulation (Licensing of Premium Rate Services) Regulations 2012, which supersede SI 338 of 2010.

The Act and the Regulations apply to all Premium Rate Service Providers including, among others, a person such as eircom who provides the electronic communications service over which a premium rate service is provided, or provides the electronic communications network over which a premium rate service is transmitted. Under current licensing arrangements, an individual licence is required only in relation to the provision of certain premium rate services.

Emergency Call Answering Service ("ECAS")

The Communications Regulation (Amendment) Act 2007 allows the Minister for Communications, Energy and Natural Resources to award a contract for the operation of the "ECAS", i.e. the '999' and '112' services. Following a tender process the contract to provide the ECAS was awarded to BT for a five year period, and since September 2010 BT handles all calls to the ECAS. A Call Handling Fee ("CHF") is payable to BT by operators, including eircom and Meteor, on whose networks a "999/112" call originates, and this was initially set at €2.23. Under the Act, ComReg is obliged to review the Call Handling Fee on the second anniversary of the contract award and annually thereafter. Following a review of the fee, ComReg published an Information Notice (ComReg 11/02) increasing the fee to €3.35 for the year to February 11, 2012. In January 2012, ComReg retained the fee at €3.35 for the period to February 2013 (ComReg Decision—D01/12 ComReg 12/01). In January 2013, ComReg reduced the maximum fee to €2.93 per call for the period to February 2014 (ComReg Decision D01/13—ComReg 13/02).

Broadcasting Act 2009

The Broadcasting Act 2009, which merged the BCI and the Broadcasting Complaints Commission into a single content regulator, the "Broadcasting Authority of Ireland", provides for the modernisation of radio licences including the option of 'fast-tracked' applications, licence enforcement and legal definitions regarding TV licence and contract awards. It also transposed the TV elements of the audio/visual directive, which will impact IPTV and DTT.

Competition regulation

The Irish Competition Act 2002 (as amended) regulates competition generally by prohibiting anti-competitive arrangements and abuse of a dominant position, and by providing for pre-approval of certain mergers and acquisitions. The Irish Competition Authority is responsible for the administration and enforcement of this Act. A person guilty of an offence under the Competition Act may be liable for fines of up to the greater of €5 million or 10% of turnover and/or imprisonment for up to ten years. Under the Communications Regulation (Amendment) Act, 2007, ComReg was granted

the power to investigate compliance with, and enforce, the provisions of the Competition Act prohibiting anti-competitive arrangements and abuse of a dominant position insofar as they relate to practices in the communications sector. ComReg now has the authority to conduct on its own initiative investigation into anti-competitive behaviour or regarding a formal complaint of such behaviour. A body convicted of competition offences may also have to pay the costs of investigation and court proceedings. Amendments to the Act since July 3, 2012 make it easier for private individuals affected by anti-competitive practices to prove an action for damages against a cartelist, once public enforcement proceedings have successfully been taken. In addition to above, we are also subject to EU competition law.

Non-Irish regulation

Although we principally provide telecommunications services in Ireland, we also provide some services outside of Ireland in the United Kingdom through our UK subsidiary, ("eircom UK") and are accordingly subject to their laws.

United Kingdom

Since 2003, telecommunications services in the United Kingdom are provided under general authorisations, and such general authorisations, broadly similar to those applicable in Ireland as described above in "General Authorisations, Licences and Rights of Use", govern our telecommunications services within and from the United Kingdom. More onerous regulatory obligations apply to those undertakings found from time to time by the UK Office of Communications ("Ofcom") to have SMP in certain specified markets.

In a decision dated September 15, 2009, Ofcom, following a review of the wholesale fixed narrowband access markets, determined that eircom UK, along with all other providers of fixed networks in the United Kingdom, has SMP in the market for fixed geographic call termination. Ofcom further decided to require eircom UK to provide network access if reasonably requested to do so, and to do so on fair and reasonable terms. In effect, this decision maintains the regulation that had been imposed on eircom UK and all providers of fixed networks in the United Kingdom by a previous decision of Ofcom on November 28, 2003. In a Statement dated April 27, 2011, Ofcom confirmed its previously stated view that any of our fixed geographic call termination charges that are not based on BT plc. charges are unlikely to be fair and reasonable.

While this measure does affect the ability of eircom UK to set its own termination charges in the United Kingdom, its current effect is minimal. In the United Kingdom, eircom uses BT's network for the most part for terminating call traffic. Therefore, eircom benefits from regulatory measures imposed by Ofcom on BT, which have the effect of reducing call termination charges.

On February 5, 2013, Ofcom published a review of the fixed narrowband services markets, consulting on the proposed markets, market power determinations and remedies and proposing among other things to redesignate eircom UK and all other providers of fixed networks in the United Kingdom with SMP. Ofcom has also proposed to set a condition requiring all fixed providers with SMP to provide network access on reasonable request and to notify charges. In addition, Ofcom has proposed to continue with the principle of symmetry of termination rates, such that termination rates above those of BT's would be considered to be unreasonable unless they can be justified by reference to specific criteria. The consultation period closes on April 2, 2013. The rates that eircom UK charge are close to BT's, any reduction in rates is expected to have minimal revenue impact.

United States

Up until June 2012, we operated in the United States through a subsidiary which had been granted an international carrier's license, also known as a section 214 license. This license, which allowed us to provide both facilities-based and resale telecommunications services, including voice and data services originating or terminating in the United States, and services terminating in countries outside the United States, including Ireland, was relinquished in June 2012 following an assessment that it was not necessary for eircom to conduct its business.

Regulation of mobile services

2G licence expiry and future spectrum rights

ComReg regulates the licensing, construction and operation of communications systems, and the granting and renewal of applicable licenses and radio frequency allocations. Our mobile GSM licence was initially granted on June 19, 2000. According to the Wireless Telegraphy GSM Regulations 2003, such a licence may be renewed annually up to a maximum of 15 years from the initial grant of the licence, after which the licence expires.

In advance of the May 2011 expiry dates of Vodafone's and O2's 900MHz 2G licences, ComReg developed, through a series of consultations since 2008, its policy for the future licensing of mobile spectrum bands. On March 16, 2012 ComReg published its Decision D04/12 (ComReg 12/25) that existing mobile licences would not be automatically renewed and ownership of future rights to spectrum in the 800MHz, 900MHz and 1800MHz spectrum bands would be determined by a Multi-Band Spectrum Award (MBSA) process. The Information Memorandum detailing the MBSA rules was published on May 25, 2012 (ComReg 12/52). In an Information Notice ComReg published the results of the MBSA auction on November 15, 2012 (ComReg 12/123). Meteor successfully acquired rights to use spectrum for the following spectrum:

- 2x10MHz in the 800MHz band from February 1, 2013 to July 12, 2030.
- 2x5MHz in the 900MHz band from February 1, 2013 to July 12, 2030. In combination with this acquisition we agreed to surrender 2x2.2MHz of 900MHz under our 2G licence.
- 2x5MHz in the 900MHz band from July 13, 2015 to July 12, 2030 following expiry of our 2G licence.
- 2x10MHz in the 1800MHz band from February 1, 2013 to July 12, 2030. In combination with this acquisition we agreed to surrender 2x4.4MHz of 1800MHz under our 2G licence.
- 2x5MHz in the 1800MHz band from July 13, 2015 to July 12, 2030 following expiry of our 2G licence.

3G Licence

The fourth 3G licence in Ireland was granted to eircom on March 12, 2007 and was subsequently assigned to Meteor. The licence is for successive one-year terms, up to a maximum term of 20 years, subject to the payment of relevant annual fees. The licensee is committed to achieving defined performance targets in respect of network rollout and quality of service by specified dates. Upon initial grant of the licence, we issued performance bonds totalling €100 million in respect of these commitments. Following various ComReg compliance assessments and the achievement of the relevant targets required to be met as of the compliance dates, the performance bond, in the form of a cash guarantee, in relation to the 3G licence has been reduced to €5.3 million. Meteor maintains an on-going compliance programme with respect to outstanding targets. Failure to meet a defined performance target by specified dates will result in forfeiture of the relevant financial guarantee.

Mobile Termination Rates ("MTR")

Following a consultation process, ComReg published its Decision D11/12 (ComReg 12/124) in November 2012. Arising from the Decision, six mobile operators were re-designated with SMP in the mobile termination market—Hutchison 3G Ireland, Lycamobile, Meteor, Telefónica O2, Tesco and Vodafone. Each operator carries the following SMP obligations: access, non-discrimination, transparency, price controls (operators are required to apply symmetric rates, following a glide path for reductions and achieving FL-LRIC based prices by July 2014).

Following its consultation, ComReg published its Decision D12/12 (ComReg 12/125) on the price control of the termination rates for fixed and mobile operators. For Mobile Termination Rates (MTRs), all SMP mobile operators must have symmetric MTRs in place from December 31, 2012. As part of the transition from the current 4.15cpm to pure LRIC, a straight line glide-path will apply with a step change from January 1, 2013. ComReg intends that a pure bottom-up LRIC model will be developed for mobile operators which will inform the MTR price control from July 2014.

	Single Charge Maximum € cent per min.
From 1 January 2013 to 30 June 2013	2.60
From 1 July 2013 onwards	1.04

On December 18, 2012 Vodafone lodged an appeal to the High Court challenging Decision D11/12, insofar as that decision imposed a cost orientation obligation, and also against ComReg Decision D12/12 regarding the mechanism to determine the applicable MTR. The court judgement on this appeal was issued on August 14, 2013 and found in favour of Vodafone. The judgement determined that setting the MTR by means of benchmarking, as per the initial ComReg model, was not appropriate and that it was ultra vires. The judgement did not make any comment on the appropriateness of a pure LRIC basis for setting the MTRs (the other element of Vodafone's appeal) as a pure LRIC model has not yet been developed by ComReg. However, the Judge did not make any Orders pending receipt of representations from ComReg and Vodafone on September 25 2013 and on September 25, the date for these representations was extended until September 30, 2013. Following this, it is anticipated that the Judge will issue final Orders which will determine the termination rates to be applied in the interim period to mid-2014 when ComReg expects to introduce its LRIC based termination rate model for mobile.

International roaming tariffs

Following the adoption of Regulation ("EC") No 717/2007 of the European Parliament and of the Council in June 2007 on roaming on public mobile telephone networks within the Community, both wholesale and retail international roaming charges have been subject to regulation and price controls.

In June 2009, Regulation No 544/2009 was adopted by the European Parliament and the Council, amending the 2007 Regulation. The 2009 Regulation amended the timing and level of price caps in respect of voice roaming and introduced new requirements in respect of SMS and data roaming price caps, and technical requirements in respect of consumer protection. Following a review of the functioning of the Regulation, Regulation No 531/2012 was adopted by the European Parliament and Council of Ministers replacing the 2007 and 2009 Regulations, for further regulation of international roaming within the Community beyond July 2012. The 2012 Regulation imposes further retail and wholesale caps for voice, SMS and data roaming services. In addition, the 2012 Regulation imposes structural remedies mandating mobile network operators to provide wholesale access to third parties for the provision of retail roaming services to the mobile network's retail customers using the same SIM card and mobile number as used for national services. Mobile network operators must put the structural remedies, known as separate sale of roaming, in place by July 2014. The functioning of the Regulation will be reviewed by mid-2016 which may result in further changes which could negatively impact our revenues.

On September 12, 2013, the European Commission published proposals for a draft Regulation to complete the European Single Market for Communications. The proposed Regulation sets out a broad range of proposals including additional measures to make the retail price of receiving a call free while roaming, and to create a framework of exemptions from the separate sale of roaming obligations if an operator offers retail roaming tariffs at equivalent levels to domestic tariffs. The proposals may be subject to change.

8. MANAGEMENT

Directors and Senior Management

Board of Directors of eircom Holdings (Ireland) Limited ("EHIL")

A current list of the members of the board of directors of EHIL is set forth in the table below:

Name	Age	Position
Padraig McManus	62	Independent Chairman
Bruno Claude	54	Non-Executive Director
Nicholas Hartery	62	Non-Executive Director
Parm Sandhu	45	Non-Executive Director
Herb Hribar	61	Director and Chief Executive Officer
Richard Moat	59	Director and Chief Financial Officer

The address of the Board of Directors of eircom Holdings (Ireland) Limited is 1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.

Padraig McManus joined eircom as Independent Chairman in January 2013. From 2002 to 2011, he was chief executive and member of the board at the ESB Group. Mr McManus is currently on the board of the Economic and Social Research Institute of Ireland (ESRI), has served for the past six year as a board member of the Conference Board of the United States and is a board member of the Irish Management Institute and Business in the Community Ireland. Mr McManus took ESB through its successful acquisition of Northern Ireland Electricity Limited in 2010. He holds a Bachelor of Engineering, Electrical and Electronics Engineering from University College Dublin.

Bruno Claude joined eircom as Non-Executive Director in June 2012. Mr Claude served as President and Chief Executive Officer of Cablecom GmbH from 2001 to 2006 when the company was successfully sold to Liberty Global Inc. He was responsible for the turn around and the strategic re-direction of the business into one of the most successful quad play operators in Europe. From 2000 to 2003 Mr. Claude has also served as Chief Operating Officer of NTL, where he was responsible for all the continental European activities. He was a member of the Industry Council at GMT Communications Partners LLP from 2004 to 2011. In addition to the above roles, Mr Claude was Managing Director of CEA Capital Advisor and held various positions with Prime Cable, which he joined in 1985 including deputy to the president. He holds a Master of Engineering degree from the University of Louvain and an Master of Business Administration from Cornell University.

Nicholas Hartery joined eircom as Non-Executive Director in June, 2011. He previously served as a Non-Executive Director from 2009-2010. From 2000 to 2008, Mr Hartery was vice-president of manufacturing and business operations for Dell Inc.'s Europe, Middle East and Africa operations. He is chairman of CRH plc, an Irish based international building materials group, where he has been a Non-Executive Director since 2004. He is also a Non-Executive Director of Musgrave Group, a privately owned international food retailer. He is currently chief executive of Prodigium, a consulting company which provides business advisory services. In addition to the above roles, Mr Hartery has also been executive vice-president at Eastman Kodak, and held the position of president and Chief Executive Officer at Verbatim Corporation. He holds a Bachelor of Engineering (Electrical) from University College Cork and Masters in Business Administration from University College Galway and is a Fellow of the Institute of Engineers of Ireland.

Parm Sandhu joined eircom as Non-Executive Director in June 2012. Mr Sandhu is founding Chairman of Merapar Holdings BV, an investment and advisory firm focused on early stage media and technology investing in Europe. Mr Sandhu also serves as a Non-Executive Director of Central European Media Enterprises Ltd, a position he has held since 2009 and is a business mentor with Merryck & Co. Until 2010, Mr Sandhu was Chief Executive Officer of Unitymedia. Europe's third largest broadband cable operator before its successful sale to Liberty Global Inc. for

€3.5 billion. He has represented the cable industry's interests at an international level as a former board member of ANGA, the Association of German Cable Operators, and as a former member of the executive committee of Cable Europe. In addition, Mr Sandhu has previously served as a Finance Director with Liberty Media International and held a number of senior finance and strategy positions with Telewest Communications plc. He holds a Master's (Honours) degree in Mathematics from Robinson College, Cambridge University and is a UK qualified ACA and a member of the Chartered Institute of Marketing. Herb Hribar joined eircom as Group Chief Executive Officer in September 2012. He previously served as Managing Director Wholesale/Networks at eircom from 2002-2004. From 1998 to 2000, Mr Hribar was president and Chief Operating Officer of Verio. From 2005 to 2006, he was Chief Operating Officer of Cablecom, and Chief Operating Officer of Kabel Deutschland Holdings AG. Mr Hribar has a strong track record of turning around organisations and contributing to their successful exit. These include Verio (sale to NTT), Cablecom (sale to Liberty Global) and Kabel Deutschland (IPO). Previous to joining eircom, Mr Hribar was Chief Executive Officer at CENX. Over the last 20 years, in addition to the above roles, Mr Hribar was also president of Ameritech Wireless, Managing Director of Ameritech Europe and Vice President/General Manager of Sprint International for Eastern Europe, Middle East and Africa. In addition to his extensive career in the telecommunication industry, Mr Hribar served for eight years as an officer in the United States Navy. He holds an MS in Civil Engineering from the University of Illinois, an MS in Computer Science from Johns Hopkins University, a Master of Business Administration from The George Washington University and is a graduate of the US Naval Academy with a Bachelor of Science in Ocean Engineering.

Richard Moat joined eircom as Group Chief Financial Officer in September 2012. Richard is also the Chairman of Tetra Ireland Limited, a company in which eircom holds a 56% interest. Since June 2012, he has been a Non-Executive Director of International Personal Finance plc. From 2010 to 2011, Mr Moat was deputy chief executive and Chief Financial Officer at Everything Everywhere Limited. From 2009 to 2010, he was Managing Director at T-Mobile UK Limited. Mr Moat took T-Mobile's UK unit through its restructuring before its merger with Orange UK to form Everything Everywhere Limited. Over the last 13 years, in addition to the aforementioned directorships, Mr Moat has held Chief Executive Officer positions within the Orange group, including at Orange Thailand from 2000 to 2002, Orange Denmark A/S from 2002 to 2004 and Orange Romania SA from 2004 to 2009. He is a member of the advisory board of Tiaxa, Inc., a trustee of the Peter Jones Foundation, a fellow of the Association of Chartered Certified Accountants, and is currently chair of the ACCA "Accountants for Business" Global Forum. He holds a Diploma in Corporate Finance and Accounting from London Business School and a Master's (Honours) degree in Law from St Catharine's College, Cambridge.

Senior Management Team of eircom

Our senior management consists of the following senior managers who are responsible for the business and administrative departments indicated below. Each of our senior managers are employed by eircom.

Name	Age	Position
Herb Hribar[(1)]	61	Chief Executive Officer
Richard Moat[(1)]	59	Group Chief Financial Officer
Marie Lee	45	Director of Human Resources
Rhona O'Brien	39	Chief Legal Officer
Kevin White	48	Managing Director - Consumer
Ronan Kneafsey	46	Managing Director - eircom Business
Carolan Lennon	46	Managing Director - Wholesale
Geoff Shakespeare	52	Managing Director - Technology Evolution and Development
Johnny Shine	59	Managing Director - Networks
Tony Mealy	61	Director of Programme Execution
Patrick Galvin	56	Director of Regulatory and Public Affairs

Note:

(1) Biography included under "*Directors and Senior Management—Board of Directors of eircom Holdings (Ireland) Limited*".

Marie Lee joined eircom as HR Director of eircom's Retail Division in April, 2003 and became Group HR Director in July, 2010. From 1999 to 2003, Ms Lee held a pan-European HR role, at CNH (Fiat Group). She holds a Bachelor of Arts (Honours) degree in Business from the University of Ulster. Ms Lee's early career was with Motorola's business division in Dublin which she joined as part of their graduate trainee programme, and held a number of cross business roles within finance, customer service and retail distributions.

Rhona O'Brien joined the eircom legal team in 2011 and was appointed Chief Legal Officer in July, 2013. As senior legal advisor to the company, Rhona has worked closely with the business on all aspects of corporate and commercial law. Rhona has previously worked with Arthur Cox, TP Robinson and KPMG in addition to a number of legal consultancy roles. Rhona's experience includes commercial projects, data protection, IT and IP. Rhona is a practicing solicitor and member of the Law Society of Ireland having qualified in 2000. Rhona is a graduate of the University of Dublin, Trinity College (Law LL.B. Hons) and University College Dublin (LL.M. Hons. in Commercial Law).

Kevin White joined eircom as Managing Director of eircom's Consumer Division in February 2013. Since 2007, Mr White has been group chief operating officer of the Digicel Group. From 2006 to 2007, Mr White was chief executive officer of Digicel, Trinidad and Tobago. From 2002 to 2006, he was chief executive officer of Digicel Eastern Caribbean. In addition to the above roles, Mr White also held senior positions at Mercury Communications and Worldcom in the UK and was Product Director at ESAT Telecom in Ireland. He holds a Business degree from the University of Limerick, and a post-graduate Diploma in Marketing.

Ronan Kneafsey was appointed as Managing Director of eircom Business in June 2010. From 2004 to 2008, he headed eircom's Government business. Mr Kneafsey led eircom's expansion into Northern Ireland and led the establishment of eircom's Tetra Ireland joint venture with Motorola and Sigma, of which he is a Board member. Prior to joining eircom in 2004, Mr. Kneafsey held a variety of positions in the IT and Consulting industries in the US, Australia, Luxembourg and Ireland, including Managing Director while at BearingPoint from 1998 to 2004. He holds a Master of Business Administration from Trinity College, Dublin and a Bachelor of Engineering from University College Dublin. He completed the Advanced Management Program in Executive Development at Harvard Business School in 2008.

Carolan Lennon was appointed as Managing Director of Wholesale in June 2013. From 2010 to 2013, Carolan was Chief Commercial Officer of the Consumer division where she had responsibility for both the fixed and mobile businesses, including the eircom, eMobile and Meteor brands. Prior to joining eircom in 2010, Carolan held a variety of positions in the telecommunications and technology sectors, including Consumer Director and Marketing Director while at Vodafone Ireland. Carolan is a Fellow of the Marketing Institute, holds a Master of Business Administration from Trinity College, Dublin and a Bachelor of Science from University College Dublin. Carolan has also lectured in operations management at university level.

Geoff Shakespeare was appointed Managing Director of Technology Evolution & Development in June 2013. From 2005 to 2013, Geoff was the Chief Technology Officer responsible for the management of eircom's Network and Systems Technology strategy. Prior to joining eircom in 2005, Geoff held a number of senior product and network roles within Europe and the USA during a 20-year career with Ericsson, including Vice President of Customer Solutions and Sales Support for North West Europe. Geoff is a Fellow of the Institute of Engineers Ireland, and holds a Bachelor of Engineering from University College Dublin.

Johnny Shine was appointed Managing Director of eircom's Networks division in August 2013. From 2009 to 2013, Johnny was the Deputy Chief Executive of the Electricity Supply Board ("ESB"), where he also held a number of senior executive positions within the Networks, Marketing and International Services divisions. Johnny holds a Master of Business Administration and an Electrical Engineering Degree from University College Dublin. Johnny is currently the President of the British Irish Chamber of Commerce.

Tony Mealy was appointed Director of Programme Execution in September, 2012, having been in eircom since 2007. From 2006 to 2007, Tony was head of network programmes and planning at Vodafone UK. From 2005 to 2006 he was with Cablecom in Switzerland where he helped launch their mobile offering. Prior to that he was Programme Director for the eircom Wholesale/Network Service Improvement Programme, and previously programme managed the network roll-out and launched eircom's first DSL product offering. He has also held the roles of Systems Integration

Director of Allied Domecq Ltd and Group Financial Controller of Cantrell and Cochrane Ltd. He is a member of the Chartered Institute of Management Accounting and holds a Master of Business Administration degree from the National University of Ireland.

Patrick Galvin was appointed Director of Regulatory and Public Affairs in December 2012 having managed the regulatory policy area in the company since market liberalisation measures were introduced in the late 1990s. He joined the company in 1987 after an earlier career in the Irish Department of Finance. He has also worked in the International Services and Corporate Business areas of the company. He has also served as a Trustee of the eircom No 2 Superannuation Fund and as a Director of the eircom ESOT. He holds an Honours Degree in European Studies from the University of Limerick.

Executive Officers of eircom

Two of our senior management team are executive officers. Each of our executive officers are employed by eircom.

Name	Age	Position
Herb Hribar[(1)]	61	Chief Executive Officer
Richard Moat[(1)]	59	Group Chief Financial Officer

Note:

(1) Biography included under "*—Directors and Senior Management—Board of Directors of eircom Holdings (Ireland) Limited*".

Committees of eircom's Board of Directors

We have three permanent board committees: the audit committee, the remuneration committee and the nominations committee. The audit and remuneration committees have formal terms of reference approved by our board of directors. Membership of the audit, remuneration and nominations committee will be formalised in the coming months. We expect each of the committees to consist of up to four directors. Until the membership is formalised, all directors will be members of each committee.

Audit Committee

The audit committee assists eircom's board of directors in discharging their responsibilities in relation to financial reporting, risk management, external and internal audits and controls. This includes matters such as reviewing our annual financial statements, reviewing our internal financial control and risk management systems, monitoring and reviewing our internal audit programme and advising on the appointment of eircom's external auditors.

Remuneration Committee

The remuneration committee assists our board of directors in discharging their responsibilities in relation to remuneration. This includes determining and agreeing with the board of directors the policy for the individual remuneration and benefits of each of the chief executive officer, the chief financial officer, the executive directors and company secretary, as well as monitoring and recommending the remuneration of senior management, and approving the overall remuneration policy in relation to all other employees.

Nominations Committee

The nominations committee assists our board of directors in nominating candidates for roles within the organisation.

Compensation of directors, executive officers and the senior management team.

The aggregate compensation paid and payable to all of our directors, executive officers and the senior management team, for the period for which they acted as directors executive officers and members of the senior management team included all individuals who served during the year, including pension contributions, compensation for loss of office, directors' fees and the estimated total value of benefits-in-kind granted by us to our directors and executive officers as a group, during the financial year ended June 30, 2013 under any description whatsoever was €18.5 million. Fees are paid to the directors on these boards of directors for each year of service and all of the directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with attending board meetings. (See note 41 to the eircom Limited consolidated financial statements for the year ended June 30, 2013 and note 40 to the EHIL consolidated financial statements for the year ended June 30, 2013 contained elsewhere in this annual report).

We maintain directors' and officers' liability insurance.

eircom Directors' service contracts

Details of the terms of each of eircom's Directors' service agreement are set out below.

Name	Areas of responsibility	Date of expiry of current office	Expiration date of duties	Contractual remuneration upon termination
Padraig McManus	Chairman	Indefinite duration; may be terminated with three months' notice	Indefinite	No contractual termination payments.
Bruno Claude	Non-Executive Director	Indefinite duration; may be terminated with three months' notice	Indefinite	No contractual termination payments
Nicholas Hartery	Non-Executive Director	Indefinite duration; may be terminated on three months' notice	Indefinite	No contractual termination payments
Parm Sandhu	Non-Executive Director	Indefinite duration; may be terminated on three months' notice	Indefinite	No contractual termination payments
Herb Hribar	Director and CEO	Rolling two year term which can be terminated by giving a minimum of 12 months and maximum of 24 months' notice depending on when in the 2 year period, notice is given	Indefinite	No contractual termination payments other than possible payment in lieu of notice
Richard Moat	Director and CFO	Rolling 2 year term which can be terminated by giving a minimum of 12 months and maximum of 24 months' notice depending on when in the 2 year period, notice is given	Indefinite	No contractual termination payments other than possible payment in lieu of notice

Loans to Directors and Executive Officers

We do not have any outstanding loans to any of our directors or executive officers and it is our current intention not to provide any loans in the future.

Incentive Schemes

Management Incentive Plan

The long term incentive plan for the management team for 2010 to 2014 provided for awards which were made for the years ended 30 June 2011 and 30 June 2012. In October 2012, the Remuneration Committee resolved to close the

plan and replaced it with a new incentive plan, commencing effective from August 2012. In accordance with the terms of the plan, amounts already awarded for years ended 30 June 2011 and 30 June 2012 are payable.

The new management incentive plan ("MIP") introduced by the group's parent company, eircom Holdco SA, for certain directors and senior executives in the group incentivises the participants to deliver maximum returns to shareholders on a sale or other form of exit, and to achieve full repayment of the group's borrowings under the Senior Facilities Agreement ("a debt value event") and to deliver maximum returns to shareholders on a sale of their shares ("sale event"). The MIP begins to accrue value from a stated threshold level of 10% of the return above the MIP threshold, which is subject to a cap in the event of a debt value event, of which 6.4% of the threshold level has been allocated to participants at the year end. The individual participants' entitlements under the MIP are subject to graded vesting on a time basis over a five year period commencing on the first anniversary of the scheme, 31 August 2013, although the agreements provide for accelerated vesting in the event of a sale or public offering provided the individual remains employed at such date. The weighted average remaining vesting term of the awards is 2.9 years.

Under the MIP the participants are entitled to receive instruments in Eircom MEP S.A., which in turn hold instruments in eircom Holdco SA. The instruments held in Eircom MEP S.A carry no voting rights and are not transferable. Under the terms of the MIP there are good and bad leaver clauses, which determine the rights of participants who cease to be employees prior to the occurrence of an exit event. (See Notes 40 to the EHIL and Note 41 to the eircom Limited consolidated financial statements for the year ended June 30, 2013 contained elsewhere in this Annual Report)

9. PRINCIPAL SHAREHOLDERS

Beneficial ownership

EHIL is a wholly owned subsidiary of eircom Holdco S.A.. As a result of the stapling provisions in the Senior Facilities Agreement and Securityholders Deed, our ultimate shareholders (excluding interests held by eircom MEP S.A) are also lenders under the Senior Facilities Agreement and include the Initial Purchasers. See "*Related Party Transactions - Securityholders deed*" and "*Description of Other Indebtedness - Debt to Equity Staple."*

Major shareholders

The table below sets forth the ten largest beneficial holders of equity shares of eircom Holdco S.A., the parent of EHIL, as of September 25, 2013:

	Ordinary shares and warrants beneficially owned			
Name	**No. of Class A Shares**	**No. of Class A Warrants**	**Total**	**(%)[1]**
Blackstone/GSO/Harbourmaster.....	1034,385.48	111,988.21	1,146,373.69	24.69
Alcentra	247,677.38	63,349.34	311,026.71	6.70
EHIL[2]	0.0000	275,509.69	275,509.69	5.93
Babson	122,551.31	62,585.73	185,137.04	3.99
Silver Point	161,791.50	0.0000	161,791.50	3.48
Anchorage.....	136,776.80	0.0000	136,776.80	2.95
Avoca.....	123,330.28	9,299.27	132,629.56	2.86
Arrowgrass.....	50,564.13	54,131.55	104,695.68	2.26
Cyrus Capital	69,710.58	21,164.67	90.875.26	1.96
Intermediate Capital Partners.....	23,064.51	60,040.08	83,104.59	1.79

(1) Ownership is attributed to those who have the power to vote the shares or the power to dispose of the shares, including those who have the right to acquire the shares through the exercise of warrants. The % is determined based on the number of class A shares and Class A warrants as a % of the total class A shares and class A warrants and excludes equity interests held for the purposes of the management incentive plan and shares held in treasury, which carry no voting power, following the repurchase of senior loans in May 2013.

(2) EHIL holds the warrants allocated to those senior lenders that have not as yet elected to accept either warrants or shares in eircom Holdco S.A, pursuant to their on-going entitlement to so and pursuant to the terms of the scheme of arrangement implemented under the 2012 examinership. For more detail see "Management's Discussion and Analysis of Financial Condition and results of Operations — Examinership."

As of March 8, 2013, eircom MEP S.A., the management pooling vehicle for the management incentive plan holds all of the outstanding Class B Shares of eircom Holdco S.A. (542,460 shares), representing 9% of all beneficially owned shares of eircom Holdco S.A., giving effect to the Class A Warrants. On March 8, 2013, eircom MEP S.A. was issued 10,000 Class C Warrants which are exercisable into 10,000 Class C Shares upon a sale or other form of exit of eircom Holdco S.A. and its subsidiaries. The eircom MEP S.A. holding was 9.55% (excluding class A treasury shares and assuming all issued warrants, of eircom Holdco S.A, are fully converted) as at August 21, 2013, following the repurchase of Senior Loans in May 2013.

Following the Refinancing Transactions completed in May 2013, the Class A Shares stapled to the repurchased debt under our Senior Facilities were transferred for no consideration by eircom Finco s.a.r.l to eircom Holdco S.A. to be held in treasury in compliance with article 49-3 of the Luxembourg law of August 10, 1915 on commercial companies, as amended.

Share capital

At September 25, 2013, the issued capital of Eircom Holdco S.A. was €45,282.67 divided into 3,985,807 Class A shares of par value € 0.01 and 542,460 Class B shares of par value € 0.01.

10. RELATED PARTY TRANSACTIONS

The following are descriptions of the material provisions of agreements and other documents between either the EHIL or eircom, or their affiliates and various individuals and entities that may be deemed to be related parties.

Securityholders deed

The immediate holding company of eircom, EHIL, and its ultimate holding company, eircom Holdco S.A. ("**eircom Holdco**") entered into a securityholders deed with the shareholders of eircom Holdco on June 11, 2012.

The deed sets out certain matters regulating our governance, including the requirement for shareholder approval of certain matters such as the alterations to authorised or issued share capital, material changes to the scope and nature of the business, certain disposals and acquisitions, public offerings, director remuneration, steps in relation to a voluntary winding-up and certain related party transactions.

The deed provides for the delegation to the board of EHIL our general management, with certain matters reserved to the eircom Holdco board, including the appointment of our Chairman, Chief Executive Officer and Chief Financial Officer. It also sets out the mechanism for the appointment of directors: shareholders as a body have the right to appoint four directors, with the Chief Executive Officer, Chief Financial Officer and one Luxembourg resident also being members of the board. In addition, the largest single shareholder (provided it holds at least 15% of the Class A Shares on an as-converted basis) has the right to appoint one director and the right to appoint a board observer is reserved to the next largest shareholder (or the largest shareholder if its holding is between 5% and 15% of the Class A Shares on an as-converted basis).

The deed includes a stapling provision, that prohibits transfers of equity securities in eircom Holdco excluding those held by the management equity incentive plan pooling vehicle (the "**Management Vehicle**") unless the relevant holder also transfers the same proportionate holding of its Facility B commitment under the Senior Facilities Agreement. The stapling restriction expires on June 11, 2014. A change to the stapling restriction requires shareholder and Facility B lender approval.

Pre-emption rights of securityholders are provided for in the deed in respect of new issues of securities. Securityholders have (excluding the Management Vehicle) "tag-along" rights entitling them to pro rata participation in any sale of more than 30% of the equity interests in eircom Holdco (excluding those held by the Management Vehicle), while "drag-along" rights apply in the case of a sale of more than two-thirds of the Class A Shares on an as-converted basis thereby entitling the selling securityholders to compel the non-selling securityholders (including the holders of other classes of shares) to accept the same sale terms. There is an obligation on any securityholder that holds 30% or more of the equity interests to make a mandatory cash offer for the remaining equity interests. There is also a "squeeze-out" right allowing the holders of 90% or more of the equity interests to compulsorily acquire the remaining minority.

Administrative services agreement

We had entered into an administrative services agreement with eircom ESOP Trustee Limited (as trustee for the eircom Employee Share Ownership Trust ("**ESOT**") a former indirect shareholder of eircom Limited) and the eircom Approved Profit Sharing Scheme ("**APSS"**). Our current and former employees and certain of our current and former subsidiaries were the beneficiaries of the ESOT and the APSS. Under the agreement, eircom agreed to provide certain administrative services during the winding-up the ESOT and the APSS and relating to the distribution of the remaining assets to the beneficiaries following eircom ESOT Trustee Limited's liquidation.

On July 11, 2013 the ESOP Trustee Limited (as trustee for the eircom Employee Share Ownership Trust ("**ESOT**") (a former indirect shareholder of eircom Limited) and the eircom Approved Profit Sharing Scheme ("**APSS"**), entered into a member's voluntary liquidation. The residual assets not yet claimed by beneficiaries have been transferred to eircom Limited, which will continue to administer the residual assets of the ESOT and the APSS in respect of untraced holders and unclaimed funds for a period of up to twelve years from the substantial winding-up of the trusts.

Other

During the financial year ended 30 June 2013, the group paid €0.16 million, on normal commercial terms, (2012: € Nil) to Prodigium Limited for strategic advice in relation to eircom. All of these costs were expensed to the income statement. Mr. Hartery, an independent non-executive director of eircom Holdings (Ireland) Limited, is a controlling shareholder and a director of Prodigium Limited.

11. DESCRIPTION OF THE SENIOR SECURED NOTES DUE 2020

The following is a summary of the material provisions of the Notes which were issued pursuant to the Indenture (as defined below). It does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, the Indenture and other underlying documents, including without limitation the form in which they may be amended and restated. Capitalised terms in this summary have the meanings given to them in the Indenture.

Overview

The €350,000,000 fixed rate notes ("the Notes") were issued by eircom Finance Limited ("the Issuer"), pursuant to an indenture dated 20 May 2013, among eircom Finance Limited, the guarantors named therein, Wilmington Trust, National Association as Trustee, Wilmington Trust (London) Limited as Security Agent, Citibank, N.A., London Branch as Principal Paying Agent and Citigroup Global Markets Deutschland AG as Registrar and Transfer Agent. The Notes are scheduled to mature on 15 May 2020.

The Issuer is a special purpose vehicle established for the purpose of financing and re-financing of assets and was incorporated in Ireland as a private limited company on February 28, 2013, registered number 524458, under the Companies Acts 1963-2012 (as amended) of Ireland (the "Companies Acts"). The registered office of the Issuer is 1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.

The Issuer is a wholly owned subsidiary of eircom Limited ("eircom"), which in turn is a wholly owned subsidiary of eircom (Holdings) Ireland Limited ("EHIL").

The Issuer subsequently loaned the proceeds of the Notes to eircom pursuant to the Notes Proceeds Loan, which were in turn used to repurchase debt under the Senior Facilities Agreement.

Interest Rate

The Notes will bear interest at a rate of 9.25%. Interest on the Notes will accrue from the issue date and will be payable semi-annually on May 15 and November 15, commencing on November 15, 2013.

Prepayments and Redemptions / Change of Control

Prior to May 15, 2016, the Issuer will be entitled at its option to redeem all or a portion of the Notes by paying a "make whole" premium.

On or after May 15, 2016, the Issuer will be entitled at its option to redeem all or a portion of the Notes, at any time or from time to time, upon not less than 10 nor more than 60 days' notice, at the redemption prices set forth in the terms of the Notes.

In addition, at any time prior to May 15, 2016, the Issuer may redeem at its option up to 35% of the aggregate principal amount of the Notes with the net cash proceeds from certain equity offerings at the redemption price specified in the terms of the Notes, provided that at least 65% of the original aggregate principal amount of the Notes remains outstanding after the redemption.

Further, the Notes may be redeemed at a price equal to their principal amount plus accrued and unpaid interest upon the occurrence of certain changes in applicable tax law.

Upon the occurrence of certain change of control events or asset sales, the Issuer may be required to offer to repurchase the Notes at 101% or 100% of the principal amount thereof, respectively, plus accrued and unpaid interest to the date of the repurchase. A specified change of control event will not be deemed to have occurred if certain consolidated leverage ratios are not exceeded as a result of such event.

Ranking

The Senior Secured Notes will:

- be general, senior obligations of the Issuer, secured by the Collateral and guaranteed by certain Guarantors (including EHIL and eircom);
- rank pari passu in right of payment with all of the Issuer's existing and future indebtedness that is not subordinated to the Notes, including the Issuer's guarantee of the existing senior facilities under the Senior Facilities Agreement (the "Senior Facilities");
- rank senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes;
- be effectively senior to all of the Issuer's existing and future indebtedness that is unsecured, or secured on a basis junior to the security granted in respect of the Notes, in each case to the extent of the value of the property or assets securing the Notes;
- be contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement;
- be effectively subordinated to any existing and future indebtedness of the Issuer that is secured by property or assets that do not secure the Notes, to the extent of the value of the property or assets securing such indebtedness;
- be effectively subordinated to any existing and future indebtedness of the Issuer that will receive proceeds from any enforcement action over the collateral securing the Notes on a priority basis, including certain hedging obligations; and
- be effectively subordinated to any existing and future indebtedness of subsidiaries of the Issuer that do not guarantee the Notes.

Guarantees and Security

The Notes are guaranteed on a senior secured basis by eircom , EHIL and by certain of EHIL's subsidiaries (each, a "Guarantor" and together the "Guarantors") all of which are guarantors of, or borrowers under, the existing Senior Facilities.

The Notes and the guarantees are secured by security interests over the same assets that secure the Senior Facilities and certain hedging obligations, including equity interests, bank accounts, intercompany receivables (including the Notes proceeds loan) and other assets of the Issuer, the Guarantors and eircom Holdco S.A., subject to certain excluded assets, agreed security principles and perfection requirements.

Certain Covenants

The Indenture contains a number of covenants that, among other things, restricts, subject to certain exceptions and qualifications, the ability of EHIL and its restricted subsidiaries to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of eircom or its restricted subsidiaries;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to eircom or any of its restricted subsidiaries;
- engage in certain transactions with affiliates;
- sell, lease or transfer certain assets including stock of restricted subsidiaries;

- enter into unrelated businesses or engage in prohibited activities;
- consolidate or merge with other entities;
- impair the security interests for the benefit of the holders of the Notes; and
- amend certain documents.

Events of Default

The Indenture sets out certain events which are events of default and which may result in the Notes becoming due and payable, including:

- Non-payment;
- Failure to comply with certain covenants;
- Cross default (default under obligations);
- Certain bankruptcy-type events; and
- Unenforceability of Collateral or Guarantees.

Miscellaneous

- The Notes are listed on the Global Exchange Market of the Irish Stock Exchange; and
- The Notes and the Indenture are governed by the laws of the State of New York.

12. DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of the material provisions of certain financing arrangements to which eircom, EHIL and certain of its subsidiaries, including eircom Finance Limited (the "Issuer") are party. It does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the underlying documents, including without limitation in the form in which they may be amended or amended and restated as described below. Capitalised terms used in this summary but not otherwise defined have the same meaning given to them in the Indenture as defined above in the "*Description of the Senior Secured Notes*".

Senior Facilities Agreement

Overview and Structure

In connection with the Examinership, EHIL and certain of its subsidiaries (including eircom Finco s. à r.l ("Finco") as the Original Borrower) entered into a senior facilities agreement dated on the Restructuring Date (as defined therein, being June 11, 2012, the "Restructuring Date") as amended and restated on January 22, 2013 and on March 14, 2013, and as further amended from time to time (the "Senior Facilities Agreement") with, among others, Wilmington Trust (London) Limited as agent (the "Agent") and security agent (the "Security Agent") and the lenders thereunder (the "Lenders"). The Senior Facilities Agreement provides for a €2,344.7 million senior secured term loan ("Facility B"), which had subsequently reduced to €2,005 billion, at June 30, 2013, following the completion of the permitted bond refinancing, the proceeds of which were used to repay €339.3 million of facility B. The obligors under the Senior Facilities Agreement as at the date of this Annual Report are EHIL, Finco, eircom Limited ("eircom"), Meteor Mobile Communications Limited ("MMCL"), Irish Telecommunications Investments Limited ("ITI"), Meteor Ireland Holdings LLC, eircom (UK) Limited and the Issuer (these obligors together with any entities which may accede as obligors in the future are referred to in this "*Description of other Indebtedness"* section as the "Obligors").

On the Restructuring Date, Finco, was deemed to have utilised Facility B in full. No further utilizations of Facility B are permitted. The deemed utilization of Facility B was applied in consideration for the acquisition by Finco of the Restated Intercompany Claims (which are described below in the section entitled "*Restated Intercompany Claims Agreement*").

The Senior Facilities Agreement contemplates a revolving credit facility of up to €150,000,000, which ranks senior to Facility B and is reflective of then current market pricing for super senior revolving credit facilities of its type and nature (a "Super Senior RCF"), being put in place, either by incorporation into the Senior Facilities Agreement or by way of a separate facility agreement. The Senior Facilities Agreement provides that a Super Senior RCF may be put in place with the consent of the Majority Lenders (as defined in the Intercreditor Agreement). The Intercreditor Agreement also contains provisions allowing such a Super Senior RCF to be put in place. The provisions of the Intercreditor Agreement in this regard are described further in the section entitled "*Intercreditor Agreement*" below.

For the purposes of this "*Description of other Indebtedness*" section, "Group" does not include Tetra.

€339.3m of the proceeds of the Notes as described in "*Description of the Notes due 2020*", were used to purchase Senior Loans at an average price of €0.933 per €1.00, reducing the amount due to lenders of the Senior Secured Notes by €364m.

Interest and Fees

Loans under the Senior Facilities Agreement bear cash pay interest at rates *per annum* equal to LIBOR or, for loans denominated in euro, Euribor, plus certain mandatory costs, if any, plus a margin of 3.00% *per annum*. In addition to such cash pay interest, PIK interest at 1.00% *per annum* accrues and capitalises on Facility B.

Default interest will be calculated as an additional 1% on the overdue amount.

EHIL or Finco are also required to pay (or procure that another Obligor pays) customary agency fees to the Agent and the Security Agent in connection with the Senior Facilities Agreement.

Repayments

Facility B will be repaid in full on the termination date in respect of Facility B, which is September 30, 2017.

Mandatory Prepayment

The Senior Facilities Agreement allows for voluntary cancellation and voluntary prepayments (subject to *de minimis* amounts) and requires mandatory prepayment in full or in part in certain circumstances including:

- on certain exit or change of control events as follows:

  (a) EHIL ceases to own 100% of Finco or eircom;

  (b) any person or group of persons acting in concert gains direct or indirect control of EHIL;

  (c) a successful application being made for the admission of any part of the share capital of any member of the Group (or holding company of any member of the Group) to the Official List of the UK Listing Authority or the Official List of The Irish Stock Exchange Limited and the admission of any part of the share capital of any member of the Group (or holding company of any member of the Group) to trading on the London Stock Exchange plc or The Irish Stock Exchange (other than where no cash proceeds are received by or on behalf of any member of the Group or any holding company of any member of the Group and where the sole purpose of making such action is to provide liquidity for the parties to the Securityholders' Agreement dated on or about the Restructuring Date entered into between, eircom Holdco S.A. ("Holdco"), EHIL and certain of the Lenders (the "Securityholders' Agreement");

  (d) the grant of permission to deal in any part of the issued share capital of any member of the Group (or holding company of any member of the Group) on the Alternative Investment Market or the Irish Enterprise Exchange or the European Acquisition of Securities Dealers Automated Quotation System or on any recognised investment exchange (as that term is used in the Financial Services and Markets Act 2000) or in or on any exchange or market replacing the same or any other exchange or market in any country (other than where no cash proceeds are received by or on behalf of any member of the Group or any holding company of any member of the Group and where the sole purpose of making such action is to provide liquidity for the parties to the Securityholders' Agreement);

  (e) a sale of all or substantially all of the assets of the Group occurs (whether in a single transaction or a series of related transactions); or

  (f) a corporate reorganisation of the Group which results in the separation of the Group's network assets from the rest of the Group;

- from net cash proceeds received by the Group from certain disposals of assets; certain claims against the vendor, its affiliates or any report providers in respect of any Permitted Acquisition (as defined in the Senior Facilities Agreement), and certain insurance claims, in each case to the extent that such cash proceeds exceed certain agreed thresholds and have not satisfied other conditions;

- following the earlier of (i) June 30, 2016, (ii) the date on which total leverage is equal to or less than 4.00:1, and (iii) the date on which the Group has completed fibre optic network roll-out to 1 million properties or more, 50% of excess cashflow (as defined in the Senior Facilities Agreement) for the financial year in which such event occurred, and 50% of excess cashflow for any subsequent financial year, must be prepaid;

- from the proceeds of a Permitted Bond Refinancing (as defined in the Senior Facilities Agreement), which would include the issue of the Notes, or from a permitted subordinated bond refinancing, unless those proceeds are to be used for a Debt Purchase Transaction (as defined in the Senior Facilities Agreement within three months of receipt of such Permitted Bond Refinancing Proceeds (as defined in the Senior Facilities Agreement)), which is permitted under the Senior Facilities Agreement.

The Senior Facilities Agreement also contains customary provisions:

- requiring mandatory prepayment where it becomes unlawful for a lender to perform any of its obligations contemplated by the Senior Facilities Agreement or to fund, issue or maintain its participation in Facility B;

- allowing for cancellation of the commitment of a single Lender, and prepayment of that Lender's participation in Facility B, in certain circumstances where the borrower is required to pay additional amounts under the tax gross-up provisions of the Senior Facilities Agreement, or where a Lender claims indemnification from an Obligor under the tax indemnity or increased costs provisions of the Senior Facilities Agreement; and

- allowing for cancellation of the available commitments of a defaulting Lender.

Guarantees

EHIL, Finco, eircom (UK) Limited and Meteor Ireland Holdings LLC currently provide a senior guarantee of all amounts payable to the finance parties under the finance documents relating to the Senior Facilities Agreement, including the hedging banks under the Hedging Agreements (as defined in the "*Intercreditor Agreement"* section below).

Recourse against EHIL under the guarantee is limited to the proceeds of enforcement of Transaction Security (as defined in the "*Intercreditor Agreement"* section below).

eircom, MMC and ITI do not provide a guarantee of Facility B, but do provide third party security as described below.

The Senior Facilities Agreement requires that (subject to certain agreed security principles) each subsidiary of EHIL (other than Osprey Property Limited or its subsidiaries) that is or becomes a Material Company (as defined in the Senior Facilities Agreement, which definition includes, among other things, an Obligor a wholly owned member of the Group that holds shares in an Obligor and any member of the Group that has earnings before interest, tax, depreciation and amortization representing 5% or more of consolidated EBITDA or gross assets representing 5% or more of the gross assets of the Group or turnover (excluding intra-group items) representing 5% or more of the gross turnover of the Group, in this "*Description of other Indebtedness*" section a "Material Company") will be required to become a guarantor under the Senior Facilities Agreement.

Furthermore, EHIL must ensure that at all times the aggregate consolidated EBITDA, consolidated gross assets and consolidated turnover of the guarantors represents at least 85% of each of the consolidated EBITDA, consolidated gross assets and consolidated turnover of the Group.

Security

Pursuant to the Security Documents, each of Holdco, EHIL, Finco, Meteor Ireland Holdings LLC eircom (UK) Limited and the Issuer has granted in favour the Security Agent, liens and security interests on a first-priority basis, subject to the operation of the agreed security principles set out in the Senior Facilities Agreement, certain perfection requirements and any Permitted Security (as defined in the Senior Facilities Agreement), over certain of its assets as described below:

- in the case of the Issuer, over all of its assets;

- in the case of Holdco, over the shares in EHIL and related rights;

- in the case of EHIL, over all of its assets;

- in the case of Finco, over certain of its bank accounts and over its interests in the Restated Intercompany Claims Agreement and the 2007 Debentures given by eircom, MMC and ITI (each as described further below);

- in the case of Meteor Ireland Holdings LLC, over substantially all of its assets. No substantial assets of Meteor Ireland Holdings LLC are excluded from the security; and

- in the case of eircom (UK) Limited, over all of its assets other than: (i) certain leasehold properties located in Northern Ireland and England; (ii) a general authorization to provide telecommunications services in the United Kingdom and related rights of use for numbers; and (iii) eircom (UK) Limited's interests in certain agreements with third parties relating to procurement of telecommunications and network services.

eircom, MMC and ITI have, pursuant to debentures granted in 2012 in favour of the Security Agent (the "**2012 Debentures**"), granted second ranking security in favour of the Security Agent over all of their assets other than certain assets as referred to in the 2012 Debentures.

eircom, MMC and ITI have also granted first ranking security over all of their assets, other than, in each case, any shares in eircom ESOT Trustee Limited and related rights, under debentures granted in 2007 in favour of (now) Wilmington Trust, National Association as security trustee (the "2007 Debentures"). The 2007 Debentures were granted as security for the pre-Examinership debt. Following the Examinership, the 2007 Debentures secure amounts owing under the Restated Intercompany Claims Agreement (as described in the "*Restated Intercompany Claims Agreement"* section below). The benefit of the 2007 Debentures was transferred to Finco as part of the Examinership and Finco's rights in them have been assigned by way of security to the Security Agent.

eircom has granted to the Security Agent security over its shares in Tetra. The first ranking security over the shares in Tetra is held by Bank of Ireland as security for permitted financing made by it to Tetra (as described further in the section titled "*Financing Provided to Tetra*" below). The second ranking security is created under the 2007 Debenture granted by eircom, the beneficial interest in which is now held by Finco as described in the preceding paragraph. Security over the shares in Tetra has also been granted by eircom pursuant to the 2012 Debenture. There is a deed of priorities which governs the priority of the security over the shares in Tetra. That deed of priority contains restrictions on the exercise of the Security Agent's security over the Tetra shares.

The collateral secures liabilities under the Senior Facilities Agreement and under the guarantees of Facility B given by eircom, MMC and ITI.. The collateral also secures liabilities under the Hedging Agreements and the Notes, *provided* that counterparties to Hedging Agreements will receive proceeds from the enforcement of the collateral in priority to the Lenders and the holders of the Notes. Pursuant to the Intercreditor Agreement, any liabilities in respect of obligations under the Hedging Agreements will receive priority over Lenders and the holders of the Notes with respect to any proceeds received upon any enforcement action over any collateral. Other than any Permitted Security or Permitted Transaction (each as defined in the Senior Facilities Agreement), no Obligor is permitted to grant further security over its assets. Any proceeds received upon any enforcement over any collateral, will be applied in the order set out in the Application of Proceeds section of the Intercreditor Agreement.

Representations and Warranties

The Senior Facilities Agreement contains certain customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated).

Covenants

The Senior Facilities Agreement contains customary operating and financial covenants (see *"Financial Covenants"*), subject to certain exceptions and qualifications, including covenants restricting the ability of certain members of the Group to:

- make acquisitions or investments, including entering into joint ventures or incorporating any company;
- make loans or grant guarantees;
- incur indebtedness or enter into certain derivatives contracts;
- create security over assets;
- dispose of assets;
- merge with other companies;
- enter into transactions other than on arm's length terms and for full market value;
- issue shares, pay dividends, redeem share capital or make certain payments to shareholders of EHIL;
- make payments on or purchase, redeem, defease or discharge certain structural intra-group loans including loans made by EHIL to any member of the Group and the Restated Intercompany Claims, unless permitted under the Senior Facilities Agreement or the Intercreditor Agreement;
- make a substantial change to the nature of the business of EHIL, the Obligors or the Group taken as a whole and, in the case of EHIL and Finco, acting other than as a holding company;
- allow any dormant company to commencing trading;
- make amendments to certain documents and enter into agreements with shareholders of EHIL;
- establish or participate in any defined benefit pension scheme;
- enter into any debt purchase transaction in respect of commitments under the Senior Facilities Agreement other than in accordance with the procedures set out in the Senior Facilities Agreement.

Financial Covenants

The Senior Facilities Agreement requires the Group to comply with certain financial covenants. The ratios are based on the definitions in the Senior Facilities Agreement, which may differ from similar definitions in the Indenture and the equivalent definitions described in this Annual Report. Capitalized terms used in this "*Financial Covenants"* section have the meanings given in the Senior Facilities Agreement. The covenants set out include, among other things:

- *Interest Cover* - maintenance of a minimum ratio of Consolidated EBITDA to Consolidated Net Finance Charges in respect of any relevant measurement period.
- *Total Leverage* - maintenance of a maximum ratio of Consolidated Total Net Debt to Consolidated EBITDA in respect of any relevant measurement period.

- *Cash Cover* – maintenance of a minimum ratio (of 1.00:1) of Cashflow to Net Debt Service in respect of any relevant measurement period ending on or after September 30, 2015.

- *Cash Liquidity* – maintenance of a minimum level of Cash Liquidity of €50,000,000, in respect of each financial quarter, to be tested at each financial quarter up to and including the financial quarter ending June 30, 2015. The projected Cash Liquidity at the end of each financial quarter as set out in the most recent Budget shall not be projected to be less than € 50,000,000 for any such financial quarter up to and including the financial quarter ending June 30, 2015.

- *Ordinary Course Capital Expenditure* – ensuring that the annual aggregate capital expenditure does not exceed certain maximum amounts, which are subject to certain carry forward and carry back allowances.

- *NGA Capital Expenditure* - ensuring that the annual aggregate capital expenditure does not exceed certain maximum amounts, which are subject to certain carry forward and carry back allowances.

Events of Default

The Senior Facilities Agreement contains events of default, the occurrence of which would allow the Agent, if directed by the requisite majority of lenders under the Senior Facilities Agreement, to, amongst other actions, accelerate all or part of the outstanding loans and terminate all commitments, including, among other events (subject in certain cases to agreed grace periods, financial thresholds and other qualifications):

- failure to pay amounts when due under the finance documents entered into in connection with the Senior Facilities Agreement;

- breach of any financial covenant or failure to comply with any other obligation under the Senior Facilities Agreement or any finance document entered into in connection with the Senior Facilities Agreement;

- inaccuracy of a representation or statement when made;

- cross defaults;
- insolvency, insolvency proceedings and commencement of certain creditors' processes, such as expropriation, attachment, sequestration, distress or execution;
- unlawfulness, repudiation, invalidity or unenforceability of the finance documents entered into in connection with the Senior Facilities Agreement and repudiation of certain restructuring documents;
- breach of the Intercreditor Agreement by any party to it (other than a finance party) or any representation or warranty given in the Intercreditor Agreement being incorrect in any material respect;
- cessation of business by a Material Company;
- non-permitted change in ownership of an Obligor or Material Company;
- revocation of any material licence, including any material telecommunications licence;
- audit qualification of the financial statements of EHIL;
- curtailment of the ability of any Material Company to conduct its business by any seizure, expropriation, nationalization, intervention, restriction or other action by or on behalf of any government, regulatory or other authority or other person;
- litigation or other proceedings which are likely to have a material adverse effect on the Group or any material adverse change.

Debt to Equity Staple

The Senior Facilities Agreement provides that, subject to certain limited exceptions, for a period of 24 months following the Restructuring Date a transfer by a lender of all or any part of its commitments under the Senior Facilities Agreement will only be effective upon the transfer by the lender to the new lender of such proportion of the Class A Shares and/or Class A Warrants (as those terms are defined in the Securityholders' Agreement) (if any) held by that existing lender as is equal to the proportion that the Facility B debt being assigned or transferred by the existing lender to the new lender bears to the aggregate Facility B debt held by such existing lender immediately prior to the assignment or transfer occurring.

Amendments and Waivers

Subject to the terms of the Intercreditor Agreement and certain exceptions where the consent of all Lenders, the Super Majority Lenders (being a Lender or Lenders whose Commitments (as defined in the Senior Facilities Agreement) aggregate more than 80% of Total Commitments (as defined in the Senior Facilities Agreement)) or specific affected parties is required, the Senior Facilities Agreement may be amended with the consent of EHIL and the Majority Lenders (as provided in the Intercreditor Agreement.

Other provisions

The Senior Facilities Agreement contains customary provisions relating to:

- taxes, including tax gross-up provisions, tax indemnities, and provisions relating to stamp taxes and value added tax;
- payment of amounts to Lenders in respect of increased costs to Lenders, or reductions in rates of return or amounts due to Lenders, as a result of certain changes in law or regulation or compliance with law or regulation;

- indemnification of the Lenders for certain currency conversions that the Lenders may be required to make;
- indemnification of the Lenders, the Agent and the Security Agent for certain costs they may incur, including in relation to any default or enforcement of security;
- payment by the Obligors of certain costs in relation to the Senior Facilities Agreement, including in relation to transaction documentation, amendments, waivers and consents, enforcement and on-going costs of the Security Agent for duties outside the scope of its usual duties.

Interest Rate Swaps and Certain Other Hedging Arrangements

The group uses derivative financial instruments to hedge certain interest rate risk exposures on the group's borrowings which are subject to the Senior Facilities Agreement.

In accordance with the terms of the Senior Facilities Agreement of eircom Holdings (Ireland) Limited, under which eircom Limited and certain of its subsidiary undertakings, including Meteor and ITI, are guarantors, in November 2012 a hedging letter was agreed between eircom Holdings (Ireland) Limited and the Agent. The hedging letter requires that the group hedges its exposure to interest rate risk of not less than 50 per cent of its consolidated total net debt as defined under the Senior Facilities Agreement, for a period of at least 3 years from 11 June 2012.

Subsequently, the EHIL Group, entered into two interest rate swaps for a total notional principal amount of €1.2 billion, at a weighted average rate of 0.252% less 3-month Euribor for the period from 11 December 2012 to 11 June 2015.

The Senior Facilities Agreement prohibits any member of the Group from entering into any derivative transaction which is entered into in connection with protection against or benefit from fluctuation in any rate or price (a "Treasury Transaction") except for (i) Treasury Transactions hedging the types of liabilities and/or risks which the hedging policy letter agreed between the Group and the Lenders require to be hedged, (ii) spot, forward delivery and option foreign exchange contract entered into in the ordinary course of business and not for speculative purposes and (iii) Treasury Transactions entered into for the hedging of actual or projected real exposures arising in the ordinary course of trading activities of a member of the Group for a period of not more than 24 months and not for speculative purposes.

Restated Intercompany Claims Agreement

In connection with the Examinership, under the terms of the scheme of arrangement, the debt claims of the lenders (the "Pre-Examinership Lenders") against eircom, MMC and ITI under the Senior Facilities Agreement dated May 22, 2006 made between, among others, ERC Ireland Holdings Limited and J.P. Morgan Europe Limited were reduced and deemed to be held on amended terms (the "Restated Intercompany Claims"). Also pursuant to the scheme of arrangement, the Pre-Examinership Lenders' rights in the Restated Intercompany Claims were transferred to Finco. The terms on which the reduced debt is owing to Finco from eircom, MMC and ITI are set out in the Restated Intercompany Claims Agreement dated as of the Effective Date (as defined therein and being June 11, 2012) between, among others eircom, MMC, ITI and Finco (the "Restated Intercompany Claims Agreement").

The repayment, default and representations and warranties provisions of the Restated Intercompany Claims Agreement mirror the Senior Facilities Agreement. The interest provisions of the Restated Intercompany Claims Agreement mirror those of the Senior Facilities Agreement other than that an additional margin of 0.049% is payable under the Restated Intercompany Claims Agreement. The covenants in the Senior Facilities Agreement are mirrored in the Restated Intercompany Claims Agreement other than the financial covenants, which do not apply to the Restated Intercompany Claims Agreement.

Finco's interests in the Restated Intercompany Claims Agreement and the 2007 Debentures have been assigned to the Security Agent as described above under "*Security*".

The Restated Intercompany Claims Agreement contemplates eircom, MMC and ITI, as borrowers under the Restated Intercompany Claims Agreement entering into an agreement between themselves as to the proportions of the amounts due under the Restated Intercompany Claims Agreement which each of them will pay eircom, MMC and ITI entered into such an agreement on August 28, 2012, under which eircom agrees that it will make all payments under the Restated Intercompany Claims Agreement and ITI agrees that it will reimburse eircom for a portion of those payments (being € 20 million principal and interest thereon). Such agreement does not affect the joint and several liability of eircom MMC and ITI to Finco under the Restated Intercompany Claims Agreement.

Financing provided to Tetra

Tetra (a company in which eircom holds a 56% interest) entered into a €85 million term loan facility with The Governor and Company of the Bank of Ireland (the ''Tetra Facility'') on October 6, 2008, of which €49 million was outstanding as at June 30, 2012. This facility, which is fully utilised, was drawn by Tetra to finance the activities of Tetra including the funding of a project for the provision of nationwide digital radio services for voice and data purposes. The Tetra Facility carries an interest rate of 1 month EURIBOR plus a margin of 1%. The loan is repayable in instalments every six months and the final repayment date is February 2016. The primary security for the Tetra Facility is a first ranking security interest over the assets of Tetra, together with first ranking share charges from each of eircom, Motorola Inc. and Sigma Communications Group Limited. Tetra has hedged its floating rate borrowings, using an interest rate swap.

Intercreditor Agreement

General

To establish the relative rights of certain of our creditors under the financing arrangements, each of the current Obligors and any other entity which accedes to the Intercreditor Agreement as a debtor, which includes the Issuer of the Senior Secured Notes (together the "Debtors") have entered into the Intercreditor Agreement dated as of the Restructuring Date, with, among others, the Security Agent, the Lenders and the Agent. On or prior to the Issue Date the Trustee acceded to the Intercreditor Agreement. The Intercreditor Agreement is governed by English law and sets out, among other things, the relative ranking of certain indebtedness of the Debtors, the relative ranking of certain security granted by the Debtors, when payments can be made in respect of debt of the Debtors, restrictions on payment of Intra Group Liabilities, when enforcement action can be taken in respect of that indebtedness, the terms pursuant to which certain of that indebtedness will be subordinated upon the occurrence of certain insolvency events, application of certain monies received by the Group, the process of obtaining waivers and remedies under the various finance documentation and turnover provisions.

Capitalized terms set forth and used in this "*Intercreditor Agreement*" section and not otherwise defined have the same meanings as set forth in the Intercreditor Agreement, which may have different meanings from the meanings given to such terms and used elsewhere in this Annual Report.

By accepting a Note the relevant holder thereof is deemed to have agreed to, and accepted the terms and conditions of the Intercreditor Agreement. The following description is a summary of certain provisions, among others, that are contained in the Intercreditor Agreement, and which relate to the rights and obligations of the holders of the Notes. It does not restate the Intercreditor Agreement in its entirety. As such, you are urged to read the Intercreditor Agreement because it, and not the discussion that follows, defines certain rights of the holders of the Notes. A copy of the Intercreditor Agreement shall be made available to investors upon request.

Definitions

The following defined terms are used in this summary of the Intercreditor Agreement unless otherwise defined in the Indenture:

"Debt Document" means each of the Intercreditor Agreement, the Hedging Agreements, the Senior Finance Documents, the Senior Secured Notes Documents, the Security Documents, any agreement evidencing the terms of the

Structural Intra-Group Loans, the EHIL Liabilities, the Intra-Group Liabilities or the Holdco Liabilities and any other document designated as such by the Security Agent and EHIL.

"EHIL Liabilities" means all Liabilities owed by any Debtor to EHIL under any relevant Structural Intra-Group Loan.

"Hedge Counterparty" means any person which becomes party to the Intercreditor Agreement as a Hedge Counterparty pursuant the Intercreditor Agreement which is or has become party to the Senior Facilities Agreement as a Hedge Counterparty, as at the date of the Annual Report being Deutsche Bank AG and BNP Paribas.

"Hedging Agreements" means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by Finco and a Hedge Counterparty for the purpose of hedging the types of liabilities and/or risks in relation to Facility B which, at the time that that master agreement, confirmation, schedule or other agreement (as the case may be) is entered into, the Hedging Letter (being the letter entered into between the Agent and Finco describing the hedging arrangements to be entered into in respect of the interest rate liabilities of Finco in relation to Facility B) requires to be hedged.

"Hedging Liabilities" means the Liabilities owed by any Debtor to the Hedge Counterparties under or in connection with the Hedging Agreements.

"Holdco Liabilities" means any Liabilities owed to Holdco by any member of the Group.

"Intra-Group Lenders" means each member of the Group (other than EHIL) which has made a loan available to, granted credit to or made any other financial arrangement having similar effect with another member of the Group and which is or becomes a party to the Intercreditor Agreement as an Intra-Group Lender in accordance with the terms of the Intercreditor Agreement.

"Intra-Group Liabilities" means the Liabilities owed by any member of the Group to any of the Intra-Group Lenders (other than the EHIL Liabilities).

"Liabilities" means all present and future liabilities and obligations at any time of any member of the Group to any Creditor or to Holdco under the Debt Documents, both actual and contingent and whether incurred solely or jointly or in any other capacity.

"Primary Creditors" means the Senior Creditors and the Senior Secured Notes Creditors.

"Senior Creditors" means the Lenders and the Hedge Counterparties.

"Senior Lender Liabilities" means the Liabilities owed by the Debtors to the Lenders under the Senior Finance Documents.

"Senior Secured Noteholders" means the registered holders, lenders or other creditors from time to time, of the Senior Secured Notes, as determined in accordance with the relevant Indenture provided that any Senior Secured Noteholder which is the holder, lender or creditor in respect of any Senior Secured Notes (other than by way of capital markets instruments in respect of which a Senior Secured Notes Trustee is or becomes party to the Intercreditor Agreement) accedes to the Intercreditor Agreement and will include the holders of the Notes.

"Senior Secured Notes" means any issue by EHIL, Finco or other Obligor (as defined in the Senior Facilities Agreement) of notes, debt securities or other debt instrument or the incurrence of financial indebtedness under any credit agreements, loans or trust deeds for the purpose of refinancing and discharging all or part of the indebtedness under the Senior Facilities Agreement in accordance with the terms of the Senior Facilities Agreement or effecting a Debt Purchase Transaction as permitted under the Senior Facilities Agreement.

"Senior Secured Notes Creditors" means the Senior Secured Noteholders and each Senior Secured Notes Trustee.

"Senior Secured Notes Liabilities" means the Liabilities owed by eircom and the Debtors to the Senior Secured Notes Creditors under the Senior Secured Notes Documents.

"Senior Secured Notes Trustee" means any agent or trustee acting on behalf of any Senior Secured Noteholders in respect of any Senior Secured Notes Liabilities provided that any such person is or becomes party to the Intercreditor Agreement.

"Structural Intra-Group Loans" means a loan by EHIL to any member of the Group, the Restated Intercompany Claims and any other loans made by one member of the Group to another member of the Group as specified in the structure memorandum for the Examinership.

"Transaction Security" means any security granted in favour of the Security Agent under any document entered into by an Obligor creating (or expressed to create) any security over all or part of its assets in respect of the obligations of the Obligors under the finance documents entered into in connection with the Senior Facilities Agreement.

Ranking and Priority

Priority of Debts

The Intercreditor Agreement provides that the Liabilities owed by the Debtors to the Primary Creditors in relation to Facility B, certain hedging obligations, and any Senior Secured Notes, which includes the Notes, shall rank in right and priority of payment in the following order and are postponed and subordinated to any prior ranking Liabilities as follows:

- first, the Hedging Liabilities; and
- second, the Senior Lender Liabilities and the Senior Secured Notes Liabilities *pari passu* between themselves and without any preference between them.

The Intercreditor Agreement also provides for a Super Senior RCF to be put in place that would rank ahead of the Senior Lender Liabilities and the Senior Secured Notes Liabilities both in right and priority of payment and in relation to the Transaction Security (see "*Super Senior RCF*" above).

Priority of Security

The Transaction Security shall secure the relevant Liabilities (but only to the extent that such security is expressed to secure the relevant Liabilities) in the following order:

- first, the Hedging Liabilities; and
- second, the Senior Lender Liabilities and the Senior Secured Notes Liabilities *pari passu* between themselves and without any preference between them.

Holdco, Intra-Group and EHIL Liabilities

The Intercreditor Agreement provides that the Intra-Group Liabilities, the Holdco Liabilities and the EHIL Liabilities are postponed and subordinated to the Liabilities owed by the Debtors to the Primary Creditors.

13. GLOSSARY

"ADSL" or "asymmetrical digital subscriber line"	an access technology that allows voice and high-speed data to be sent simultaneously over local exchange service copper facilities.
"ADSL bitstream access (bitstream)"	a wholesale broadband access product which utilises ADSL technology.
"ADSL 2+"	a more advanced technical standard that supports download speeds of up to 24 Mbit/s.
"Agency re-billing"	effectively enables an operator to bill the end customer for all services delivered over a particular line. A prerequisite for this service is that the end customer must have already taken carrier pre-selection for all call types with the relevant operator.
"ARO" or "Access Reference Offer"	details the wholesale offering of new access service to all access seekers (other operators).
"ATM" or "Asynchronous Transfer Mode"	an international high-speed, high-volume, packet-switching protocol which supplies bandwidth on demand and divides any signal (voice, date or video) into efficient, manageable packets for ultra-fast switching.
"B2B"	business to business.
"BIP" or "Business IP+"	a service that allows multi-site customers to build data networks between sites and is carried on a separate network from the public Internet and is therefore secure.
"Broadband"	a descriptive term for evolving digital technologies that provide consumers with a packet-switched facility capable of supporting integrated access to voice, high-speed data service, video-demand services and interactive delivery services (typically at speeds greater than 512 kilobits per second).
"Contention"	a measure of sharing of broadband capacity that can apply either in access or backhaul network elements.
"CPI"	consumer price index.
"CSO"	Central Statistics Office – Government body responsible for compiling Irish Statistics
"DSL"	digital subscriber line.
"FMC"	fixed/mobile convergence
"Frame relay"	frame relay is a high-speed open protocol that is more efficient than earlier packet switching protocols and is particularly suited to data-intensive applications such as connecting local area networks.
"FRIACO" or "Flat Rate Internet Access Call Origination"	an un-metered interconnection service that provides capacity from originating customers to the point of connection of an operator.
"GPRS" or "General Packet Radio Service"	mobile data service available to users of GSM mobile phones providing moderate speed data transfer.
"GSM"	global system for mobile communications.
"HSPA" or "High-Speed Packet Access"	An enhanced 3G (third generation) mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, also coined 3.5G, 3G+ or turbo 3G.
"Interconnect"	the connection of one telecom operator's network to another.
"Internet"	a public network based on a common communication protocol which supports communication through the world wide web.
"IP" or "internet protocol"	the communications standard that defines the protocol for data transfer between computer systems that provides a basic packet delivery service.
"IPTV" or internet protocol TV	system through which television services are delivered using the Internet protocol suite over a packet-switched network such as the Internet
"ISDN" or "integrated services digital network"	an international standard which enables high speed simultaneous transmission of voice and/or data over the public telecommunications network. An ISDN line consists of between 2 and 30 access channels.
"ISP" or "internet service provider"	a business providing Internet access.
"Kbit/s" or "Kb/s"	Kilobits per second.

"LAN" or "local area network"	a short distance data network used to link together computers through a main control centre, enabling access to a centralised database.
"LTE"	Long term evolution marketed as 4th generation services
"M2M"	Machine to Machine technology that involves data communication between devices or systems in which, at least in principle, human intervention is not part.
"Mbits/s" or "Mb/s"	Megabits per second.
"MNO's"	Mobile Network Operators
"MPLS" or "Multiprotocol Label Switching"	an advanced protocol supporting virtual links within a data stream.
"Narrowband"	a network or circuit capacity of less than 64 bit/s.
"Net additions"	the combined impact on volumes of new sales less cessations.
"Next Generation Network"	a broad term that encompasses newer generation core and access network technologies with high capacities over which an operator is able to provide innovative services to its customers.
"Number portability"	the ability of a customer to transfer from one telecom operator to another and retain their original number.
"OAO" or "Other Authorised Operators"	an authorised operator (other than eircom) which operates telecommunications systems.
"Packet switching"	the process of routing and transferring data by means of addressed packets, so that a channel is occupied during the transmission of the packet only, and upon completion of the transmission, the channel is made available for the transfer of other traffic packets.
"Partial private circuits"	a service consisting of the provision of capacity from a customer's premises to an operator's point of connection, whereby the operator's network will be physically and logically linked to our network.
"POTS" or "plain old telephone service"	a version of "VUA" (see below for definition) that supports traditional voice services and is available for operators who are not yet providing voice as an internet application.'
"PSTN" or "public switched telephone network"	a domestic telecommunications network usually accessed by telephones, key telephone systems, private branch exchange trunks and data arrangements. A PSTN line consists of a single access channel.
"Remote access"	a service that allows the customer to dial into the customer's network via the Internet.
"RGU" or "Revenue Generating Unit"	a measure of the total number of services purchased to reflect customers purchasing more than one service.
"RIO"	Reference Interconnect Offer.
"SMP" or "Significant Market Power"	is a classification on the basis of market analysis, they are assessed as being able to exert economic influence, alone or with others, that allows it to operate, to a considerable extent, independently of competitors, consumers or other users.
"SMS"or "short messaging service"	enables transmissions of alphanumeric messages of up to 160 characters among mobile subscribers, which is only available on digital networks.
"Switched data services"	services that are used to transfer data between specific points in a network by means of electronic, optical or electromechanical routing of signals, including frame relay, asynchronous transfer mode, and packet switching.
"Traffic"	calls or other transmissions being sent and received over a communications network.
"Transit services"	conveyance services provided by a network between two points of interconnection. It is a service that links two networks that are not directly interconnected.
"Unbundled local loop"	under the provision of the regulations of the European Parliament and European Council on Unbundled Access to the Local Loop, we are obliged to provide unbundled local access services to other licensed operators.
"Virtual private network"	a switched network with special services such as abbreviated dialling.

"VUA" or "Virtual Unbundled Access"	provide Ethernet access between customer premises and a local handoff point within the serving exchange. This enables operators to combine their own transport network with the eircom NGA network to deliver high speed advanced services to their consumer and business customers
"VoIP" or "Voice over Internet Protocol"	a telephone service carried over the internet, or over private IP networks, which can be typically accessed using a computer, a sound card and appropriate software and modem.
"White Label"	a wholesale service provided to switchless resellers where the service is delivered entirely on eircom's network and the reseller provides only customer functions such as sales, marketing and billing.
"WLR" or "Wholesale Line Rental"	a wholesale service that allows OAOs to resell eircom's access service and provide customers with a single bill for access and call services.

14. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF EIRCOM LIMITED AND EHIL FOR THE YEAR ENDED JUNE 30, 2013

Independent Auditors' Report to the Members of eircom Limited

We have audited the non-statutory consolidated financial statements of eircom Limited for the year ended 30 June 2013 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement as set out on page F-3, the directors are responsible for the preparation of the non-statutory consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the non-statutory consolidated financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the non-statutory consolidated financial statements
An audit involves obtaining evidence about the amounts and disclosures in the non-statutory consolidated financial statements sufficient to give reasonable assurance that the non-statutory consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited non-statutory consolidated financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory consolidated financial statements
In our opinion, the non-statutory consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2013 and of its loss and cash flows for the year then ended.

Emphasis of matter – non-statutory consolidated financial statements
In forming our opinion on the non-statutory consolidated financial statements, which is not modified, we draw attention to the fact that these non-statutory consolidated financial statements have not been prepared under Section 148 of the Companies Act 1963 and are not the company's statutory financial statements.

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

26 September 2013

PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, Ireland, I.D.E. Box No. 137
T: +353 (0) 1 792 6000, F: +353 (0) 1 792 6200, www.pwc.com/ie

Chartered Accountants

eircom Limited

Statement of Directors' Responsibilities for Financial Statements

For the Year Ended 30 June 2013

The directors are responsible for preparing the non-statutory consolidated financial statements for the bondholders in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and for being satisfied that they give a true and fair view of the state of the group's affairs at the end of the financial year and of the profit or loss and cash flows of the Group for the financial year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that the financial statements comply with IFRS, as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website.

Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These non-statutory consolidated financial statements have been approved for issue by the Directors on 26 September 2013.

eircom Limited

Group income statement
For the Year Ended 30 June 2013

	Notes	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Revenue	6	1,515	**1,394**
Operating costs excluding amortisation, depreciation, impairment and exceptional items	7	(1,001)	**(1,001)**
Amortisation	7, 14	(38)	**(40)**
Depreciation and impairment of plant and equipment	7, 15	(229)	**(222)**
Exceptional items	7, 8	769	**(18)**
Exceptional gain on exit from subsidiary	7, 9	-	**117**
Loss on disposal of property, plant and equipment	7, 10	(1)	**-**
Operating profit		1,015	**230**
Finance costs	11 (a)	(98)	**(240)**
Finance income	11 (b)	2	**1**
Finance costs – net	11	(96)	**(239)**
Profit/(loss) before tax		919	**(9)**
Income tax charge	12	(28)	**(8)**
Profit/(loss) for the financial year attributable to equity holders of the parent	31	891	**(17)**

Group statement of comprehensive income
For the Year Ended 30 June 2013

	Notes	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Profit/(loss) for the financial year attributable to equity holders of the parent	31	891	**(17)**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Net changes in cash flow hedge reserve:			
- Fair value gains in year		-	**5**
- Tax on cash flow hedge movements		-	**(1)**
Other comprehensive income for the year, net of tax		-	**4**
Total comprehensive income/(expense) for the financial year	31	891	**(13)**

The accompanying notes form an integral part of the financial statements.

eircom Limited

Group balance sheet
As at 30 June 2013

	Notes	30 June 2012	30 June 2013
		€m	€m
ASSETS			
Non-current assets			
Intangible assets	14	133	**306**
Property, plant and equipment	15	1,233	**1,211**
Retirement benefit asset	36	246	**140**
Derivative financial instruments	25	-	**4**
Deferred tax asset	17	1	**-**
Other assets	18	6	**5**
		1,619	**1,666**
Current assets			
Inventories	19	14	**12**
Trade and other receivables	20	240	**225**
Derivative financial instruments	25	-	**1**
Restricted cash	21	32	**22**
Cash and cash equivalents	22	349	**324**
		635	**584**
Total assets		2,254	**2,250**
LIABILITIES			
Non-current liabilities			
Borrowings	24	1,837	**1,977**
Derivative financial instruments	25	1	**-**
Trade and other payables	29	61	**61**
Capital grants	26	3	**3**
Deferred tax liabilities	27	63	**58**
Provisions for other liabilities and charges	28	152	**133**
		2,117	**2,232**
Current liabilities			
Borrowings	24	9	**9**
Derivative financial instruments	25	1	**1**
Trade and other payables	29	480	**438**
Current tax liabilities		26	**21**
Provisions for other liabilities and charges	28	101	**42**
		617	**511**
Total liabilities		2,734	**2,743**
EQUITY			
Equity share capital	30, 31	552	**552**
Capital conversion reserve	31	9	**9**
Capital contribution	31	219	**219**
Share premium account	31	144	**144**
Cash flow hedging reserve	31	-	**4**
Retained loss	31	(1,404)	**(1,421)**
Total equity	31	(480)	**(493)**
Total liabilities and equity		2,254	**2,250**

The accompanying notes form an integral part of the financial statements.

eircom Limited

Group cash flow statement
For the Year Ended 30 June 2013

	Notes	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Cash flows from operating activities			
Cash generated from operations	32(a)	413	**376**
Financial restructuring costs		(53)	**(6)**
Interest received		2	**1**
Interest paid		(10)	**(82)**
Income tax paid		(22)	**(17)**
Payment to group undertakings for corporation tax losses		(31)	**-**
Net cash generated from operating activities		299	**272**
Cash flows from investing activities			
Disposal of subsidiary undertaking, net of cash disposed		-	**117**
Purchase of property, plant and equipment ("PPE")		(139)	**(197)**
Proceeds from sale of PPE and intangible assets	32(b)	-	**2**
Purchase of intangible assets		(67)	**(219)**
Restricted cash		(25)	**10**
Loans advanced to group undertakings (net)	41(b)	(33)	**-**
Net cash used in investing activities		(264)	**(287)**
Cash flows from financing activities			
Loans advanced to group undertakings (net)	41(b)	(139)	**-**
Proceeds from issuance of Senior Secured Notes due 2020		-	**350**
Repayment on borrowings		(7)	**(8)**
Repayment on borrowings from group undertakings		-	**(339)**
Debt issue costs paid		-	**(12)**
Net cash used in financing activities		(146)	**(9)**
Net decrease in cash, cash equivalents and bank overdrafts		(111)	**(24)**
Cash, cash equivalents and bank overdrafts at beginning of financial year		459	**348**
Cash, cash equivalents and bank overdrafts at end of financial year	22	348	**324**

The accompanying notes form an integral part of the financial statements.

eircom Limited

Group statement of changes in equity
For the Year Ended 30 June 2013

	Notes	Total equity €m
Balance at 1 July 2011	31	**(1,371)**
Total comprehensive income for the financial year	31	891
Balance at 30 June 2012	31	**(480)**
Balance at 1 July 2012	31	**(480)**
Total comprehensive expense for the financial year	31	(13)
Balance at 30 June 2013	31	**(493)**

The accompanying notes form an integral part of the financial statements.

1. General information

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

eircom Holdco SA, a company registered in Luxembourg, is the ultimate parent company. The immediate parent company is eircom Holdings (Ireland) Limited, a company registered in Ireland.

2. Going concern

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

eircom Limited and two of its principal subsidiary undertakings, Irish Telecommunications Investments Limited ("ITI") and Meteor Mobile Communications Limited ("Meteor"), were the subject of an Examinership process in the prior year, following demands made on foot of guarantees the companies had provided over outstanding borrowings of €3.4 billion of former holding companies of the ERC Ireland Finance Group ("ERCIF Group"). Senior lenders to the ERCIF Group had demanded repayment of the borrowings in full in March 2012 following breaches of certain financial covenants, resulting in the companies filing for Examinership.

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

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

Under the Schemes of Arrangement:

- €2,347 million of the guaranteed debt was reinstated as new senior term borrowings of the eircom Limited Group with a maturity date of 30 September 2017. eircom, Meteor and ITI have a joint and several obligation in respect of these borrowings;
- Obligations to unsecured trade creditors remained under existing contractual terms (i.e. there was no impairment of these claims and unsecured creditors were therefore not prejudiced);
- The entire issued share capital of eircom Limited was transferred to eircom Holdings (Ireland) Limited, an entity ultimately controlled by senior lenders of the former ERCIF Group for a consideration of €1.00;
- The new senior term borrowings were restated as a liability to eircom Finco Sàrl, a Luxembourg registered company and a member of the eircom Holdings (Ireland) Limited Group;
- Certain inter-company liabilities to former parent companies and fellow subsidiaries in the ERCIF Group were extinguished.

eircom Finco Sàrl, became the borrower under the new Senior Credit Facility Agreement with the group's creditor banks and eircom Limited, Meteor and ITI and certain other subsidiaries are guarantors under this facility Agreement.

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

The financial covenants under the new Senior Facilities Agreement include a maximum ratio of consolidated net debt to consolidated EBITDA, minimum ratios of cash flow and consolidated EBITDA to net debt service, minimum liquidity requirements and annual maximum capital expenditure limits. In setting the financial covenants consideration was given for potential downside risk to the eircom Limited Group's business plans. The covenants are required to be tested on a quarterly basis, except for the capital expenditure covenants which are required to be tested on an annual basis and the cash flow before net debt service to net debt service covenant which is effective from 30 September 2015. The covenant tests have been met for the year ended 30 June 2013. The financial covenant measures, if not complied with at future dates, could result in the new Facilities becoming immediately due and payable in advance of the agreed maturity date.

During the year ended 30 June 2013, the group effected a debt refinancing transaction, which included the issuance of €350 million in Senior Secured Notes due May 2020. The Notes are guaranteed by eircom Limited and a number of its subsidiaries (see Note 38). The proceeds of the Notes were used to repurchase principal liabilities under the borrowings under the Senior Facilities Agreement (see Note 24).

2. Going concern - continued
The net liabilities of the group, included in the balance sheet at 30 June 2013, exclude liabilities in respect of borrowings of €386 million, as IFRS requires borrowings to be included at fair value on the date of initial recognition and subsequently at amortised cost (see Note 24).

The Directors believe that it is appropriate to adopt the going concern basis of accounting for the financial statements notwithstanding the net liability position of the group as the Directors believe that based on the group's forecast of operational cash flows, and trading results, the group will be in a position to meet its obligations as they fall due and that the eircom Holdings (Ireland) Limited Group is expected to comply with its financial covenants, for the foreseeable future.

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

3. Accounting policies
The significant accounting policies adopted by the group are set out below.

3.1. Basis of preparation
These financial statements have been prepared in accordance with IFRS, as adopted by the European Union. The financial statements are prepared on a going concern basis (see Note 2). A summary of the more important accounting policies is set out below.

These non-statutory financial statements have not been prepared under Irish law and are not the company's statutory financial statements.

The financial statements, which are presented in euro rounded to the nearest million, have been prepared under the historical cost convention except for the following:

- derivative financial instruments are stated at fair value; and
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value. As set out in Note 36, the group has adopted the corridor approach and consequently certain actuarial losses are not recognised in the group balance sheet.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

Standards, amendments and interpretations effective for the year ended 30 June 2013
IAS 1 (Amendment), 'Presentation of Financial Statements' became effective during the year. The standard impacts on presentation and disclosure and has not impacted on the measurement of amounts.

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

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

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

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

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

3. Accounting policies - continued

3.2. Basis of consolidation - continued

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

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

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

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

(iv) *Acquisitions*
The purchase method of accounting is used to account for all business combinations, except for business combinations involving entities under common control and group reorganisations. Under the purchase method of accounting, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the group's share of the identifiable assets, liabilities and contingent liabilities recognised. The interest of non-controlling interest shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised, and does not include a gross-up for goodwill. The results of subsidiaries acquired during the period are brought into the consolidated financial statements from the date control transfers to the group. There were no acquisitions in the two years to 30 June 2013.

(v) *Disposals*
The results of businesses sold during the period are included in the consolidated financial statements for the period up to the date control ceases. Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold.

3.3. Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets, liabilities and contingent liabilities recognised of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'.

Goodwill is not amortised. Instead, Goodwill is tested for impairment annually and is carried at cost less accumulated impairment losses. Impairment losses on goodwill may not be reversed in any circumstances.

Goodwill is allocated to cash generating units for the purpose of impairment testing in accordance with IAS 36 "Impairment of Assets". The allocation is made to cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates, including management's expectations of future revenue, operating costs, profit margins and capital requirements for each cash generating unit.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

3. Accounting policies - continued

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

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

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

The following useful lives have been assigned to intangible assets:

	Years
Computer software	3 - 4
Intangible assets from acquisitions:	
Pre-paid customer relationships (mobile)	1.5
Post-paid customer relationships (mobile)	4
Roaming customer relationships (mobile)	5
Mobile licences	15 - 18.5 [(1)]

[(1)] Spectrum licences are amortised over the term of the relevant licences which expire between 13 July 2015 and 12 July 2030.

Intangible assets not yet available for use are tested for impairment in accordance with IAS 36 “Impairment of Assets” in the same manner as goodwill (see 3.3 above)

3.5. Segmental reporting
An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Management Team, which is the key management team that makes strategic decisions.

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

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

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

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

3. Accounting policies - continued

3.6. Revenue recognition -continued
Fixed Line Revenue
Fixed line revenue is recognised in the period earned by rendering of services or delivery of products.

Traffic revenue is recognised at the time the traffic is carried over the group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products (broadband, line rentals and traffic) are accounted for in the same manner as the unbundled products comprising the bundle.

Connection fee revenue is deferred over the life of the connection, which is estimated to be between four and five years. Connection lives are reviewed annually.

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

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

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

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

3.7. Exceptional items
The group has adopted an income statement format which seeks to highlight significant items within group results for the year. The group believe that this presentation provides additional analysis as it highlights one-off items. Such items include, where significant, restructuring costs, curtailment gains and losses in respect of pensions, impairment of surplus properties, onerous contracts, reinstatement/dilapidation provisions, costs incurred in respect of the group's financial restructuring, movements in provisions for the expected cash outflows under financial guarantees, the fair value of financial liabilities recognised from the financial restructuring of the group's obligations under financial guarantees and related gains and losses arising in respect of advances to and from group entities. Judgement is used by the group in assessing the particular items, which, by virtue of their scale and nature, are disclosed in the group income statement and related notes as exceptional items.

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

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

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

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

3. Accounting policies - continued

3.10. Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

Group entities

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

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

3.11. Taxation

eircom Limited is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland.

Current tax is calculated on the profits of the period. Current tax is determined using tax rates (and laws) that have been enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised in other comprehensive income or directly in equity, if the tax relates to items that are credited or charged, in the same or a different period, in other comprehensive income or directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. Accounting policies - continued

3.12. Financial instruments

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

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

(ii) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each subsequent balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Derivative assets or liabilities are presented as current or non-current based on expected realisation or settlement dates.

(iii) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income. Any ineffective portion of the hedge is recognised in the income statement.

Amounts accumulated in equity are recycled in the income statement within finance costs in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(iv) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. The group's loans and receivables are set out in Note 23.

3. Accounting policies - continued

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

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

Depreciation
Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives, from the date the asset is available for use. The estimated economic lives assigned to property, plant and equipment are as follows:

Asset Class	Estimated Economic Life (Years)
Buildings	40
Network Plant	
Transmission Equipment	
Duct	20
Overhead cable/poles	8-15
Underground cable	14
Other local network	6-15
Exchanges	
Exchange line terminations	8
Core hardware/operating software	3-4
Others	3-14

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

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

Assets in the course of construction
Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. The estimated amount of interest incurred, directly attributable to constructing qualifying assets that necessarily take a substantial period of time to get ready for their intended use, is capitalised based on the weighted average interest rate on outstanding borrowings.

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

3. Accounting policies - continued

3.14. Impairment of non financial assets - group
Assets that have an indefinite useful life, principally goodwill and intangible assets not yet available for use, are not subject to amortisation, and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill and secondly against the other assets (including other intangible assets) in the cash generating unit on a pro-rata basis based on the carrying amount of each asset in the cash generating unit.

Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses recognised in respect of goodwill are not reversed in any circumstances.

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

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

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

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

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

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

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

3. Accounting policies - continued

3.19. Indefeasible rights of use ("IRU")
The group accounts for IRU contracts in the following manner:

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

(ii) Purchase contracts are accounted for as service contracts with the pre-paid balance recorded as an asset and amortised on a straight-line basis as an expense over the period of the relevant contracts.

3.20. Employee benefits

(i) *Pension obligations*
Group companies operate various pension schemes. The schemes are generally funded through payments determined by periodic actuarial calculations to independent trustee-administered funds. The group operates both defined benefit and defined contribution plans.

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

Typically, defined benefit plans define an amount of future pension benefit that employees have earned in return for their services to date. The pension benefit that an employee will receive on retirement, is usually dependent on factors such as age, years of service and compensation. The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the group's defined benefit obligation at the balance sheet date, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. Plan assets are valued at their market value at the balance sheet date using bid values. The defined benefit obligation, and the related current service cost, and where applicable, past service cost, are calculated by independent actuaries using the projected unit credit method. The defined benefit obligation is calculated annually unless there has been a material change in the obligations where it is then recalculated during the year. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an appropriate discount rate based on current market yields at the balance sheet date of high quality corporate bonds that are denominated in euros, and reflect the duration of the related pension liability.

The amounts of current service cost, interest cost and expected return on plan assets recognised in the income statement are computed based on actuarial assumptions at the start of the financial year.

Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, in excess of the corridor limit (i.e. the greater of 10% of the value of plan assets or 10% of the defined benefit obligation) are charged or credited to income over the employees' expected average remaining working lives. The corridor limit and any related amortisation are computed based on unrecognised actuarial gains/losses at the start of the financial year. The amortisation is re-measured during the year only when there has been a material change in the obligations in respect of the pension scheme.

Past service costs and negative past service costs are recognised immediately as an expense in the group income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case the past service costs or negative past service costs are amortised on a straight-line basis over the vesting period.

Settlements and curtailments trigger immediate recognition of the consequent change in obligations and related assets or liabilities in the group income statement. Where a curtailment relates to only some of the employees covered by the plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of any previously unrecognised past service cost and actuarial gains and losses. Before the effect of a curtailment or settlement is determined, the defined benefit obligation is re-measured using current actuarial assumptions.

The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

Pre 1 January 1984, past-service costs are the responsibility of the Irish Minister for Finance (see Note 36(b)).

(ii) *Other bonus plans*
The group recognises a liability and an expense for bonuses where contractually obliged or where there is past practice that has created a constructive obligation.

3. Accounting policies - continued

3.20. Employee benefits - continued

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

(iii) *Other long term incentive arrangements*
Where the group has committed to other long term incentive arrangements, resulting long term employment benefits are accounted for in a similar manner to post employment benefits. The group accounts for obligations relating to long term incentive bonus plans for executive directors, key management and other employees at the present value of the incentive bonus plan obligation at the reporting date. The service cost relating to such plans is allocated over each of the years which service under the plan is rendered by the individual to meet the conditions under each of the individual vesting periods. The income statement expense represents the increase in the present value of the incentive bonus plan obligation resulting from employee service in the current period, and any changes in the estimate of the ultimate amounts payable under the scheme, in addition to any associated finance costs where material.

Where long term incentive arrangements include share-based payment obligations, the accounting for such arrangements differs depending on whether the obligations are equity-settled, cash-settled and where the cost is borne by the parent company. Under the plans currently in existence, the group has no obligations in respect of share based payments, which are borne by the parent, eircom Holdco SA. As the relevant individuals provide services to the group, the group is required to recognise a charge to the income statement and a corresponding increase in equity. For cash settled share based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(iv) *Termination benefits*
Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3.21. Provisions
A provision is recognised when, and only when (a) the group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation.

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

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract or, the estimated cost to exit it, where appropriate.

3.22. Financial guarantee contracts
Liabilities are initially measured at fair value in respect of financial guarantees issued by the group for the benefit of third parties, and subsequently at the higher of the amount determined in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less cumulative amortisation, where appropriate.

3. Accounting policies - continued

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

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

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

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

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

3.26. Dividends
Dividend income is recognised when the right to receive payment is established.

4. Financial risk management

Financial risk factors
The group's activities expose it to a variety of financial risks: liquidity risk, market rate risk (including cash flow, interest rate risk, currency risk and price risk) and credit risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses derivative financial instruments, such as interest rate swaps, to hedge certain risk exposures. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risks and ageing analysis for credit risk. Responsibility for managing these risks rests with the Board.

The group does not hold or issue derivative financial instruments for financial trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

As set out in Note 2, on 11 June 2012, eircom Limited, Meteor and ITI became borrowers on a joint and several basis of €2,347 million under a Restated Intercompany Claims Agreement with eircom Finco Sarl, a fellow subsidiary company in the eircom Holdings (Ireland) Limited Group. eircom Finco Sarl became the borrower of €2,345 million under the Senior Facilities Agreement with the eircom Holdings (Ireland) Limited Group's lenders. eircom Limited together with certain of its subsidiary companies, including Meteor and ITI, are guarantors under the Senior Facilities Agreement. The borrowings under the Restated Intercompany Claims Agreement are effectively subject to the Senior Facilities Agreement, being largely back-to-back arrangements, with cross-default and acceleration provisions. The Senior Facilities Agreement requires, amongst other things, that the eircom Holdings (Ireland) Limited Group comply with financial covenants. Further details of the financial covenants are set out in Note 2 to the financial statements. The borrowings are repayable on 30 September 2017. Non-compliance with these covenants, which are measured on a quarterly basis, would allow the lenders under the Senior Facilities Agreement to accelerate the indebtedness requiring all incurred liabilities to be immediately repaid in full, triggering the cross-acceleration provisions in the Restated Intercompany Claims Agreement.

As set out in Note 24, the net proceeds of €339 million from the issuance of €350 million of Senior Secured Notes, after allowance for certain costs relating to issuance, were used to repurchase €364 million of principal due and outstanding under the Senior Facilities Agreement (at an average price of €0.933 per €1.00), with an equivalent reduction in the eircom group's borrowings due to eircom Finco Sarl. The Senior Secured Notes bear fixed rate cash pay interest of 9.25% in semi-annual instalments.

There have been no other changes in the types of financial risks or the group's risk management program (including methods used to measure the risks) arising from any of the group's trading activities since 30 June 2012.

4. Financial risk management - continued

4.1. Liquidity risk
The objective of liquidity management is to ensure the availability of sufficient funds to meet the group's requirements and to repay maturing debt and other liabilities as they fall due.

The balance sheet of eircom Limited includes a recognised liability of €1,621 million in respect of the group's borrowings under the Senior Credit Facilities Agreement in non-current liabilities as at 30 June 2013. The actual non-current liability in respect of these borrowings at 30 June 2013 is €2,007 million. The difference of €386 million, arising from recognising the borrowings based on the fair value on inception, is amortised over the term of the borrowings (up to 30 September 2017) in accordance with the effective interest rate method under IAS 39.

Details of the maturities of the obligations of the group are set out below.

As set out in Note 2, having reviewed the group's business plans and cash flow forecasts, and considering forecast compliance with financial covenants up to the period ending 31 December 2014, the Directors consider that the group will be able to realise its assets and discharge its liabilities in the ordinary course of business for the foreseeable future. Management of the group's liquidity risk is fundamental to its operations. The nature of the group's business, its working capital management activities and investment in network assets has often resulted in minimal current assets or net current liabilities.

The eircom Limited group has net current assets of €73 million at 30 June 2013. The current liabilities at that date include deferred revenue of €97 million. There is no cash outflow requirement associated with deferred revenue.

Maturities of financial liabilities
The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the interest rates effective at the balance sheet date and includes the margins applicable to the relevant debt.

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
Borrowings					
- At 30 June 2013	**9**	**9**	**2,016**	**350**	**2,384**
- At 30 June 2012	9	9	18	2,348	2,384
Interest on borrowings					
- At 30 June 2013	**99**	**100**	**343**	**65**	**607**
- At 30 June 2012	89	90	274	156	609
Derivative financial instruments					
- At 30 June 2013	**1**	**-**	**-**	**-**	**1**
- At 30 June 2012	1	1	-	-	2
Trade and other payables					
- At 30 June 2013	**298**	**4**	**19**	**32**	**353**
- At 30 June 2012	320	5	16	39	380
TIS annuity scheme					
- At 30 June 2013	**12**	**9**	**14**	**8**	**43**
- At 30 June 2012	13	11	20	11	55

4.2. Capital risk management
The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders over the long term. The capital structure of the group consists of the borrowings as set out above, and equity comprising issued capital, reserves and accumulated losses as listed in Note 31. The maturities of the group's borrowings are shown in Note 4.1.

4. Financial risk management - continued

4.3. Credit risk
Credit risk refers to the loss that the group would incur if a debtor or other counter-party fails to perform under its contractual obligations. Credit risks are mainly related to counter-party risks associated with cash and cash equivalents, restricted cash, trade and other debtors, amounts owed by related companies and derivative contracts.

The group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Ireland. Exposure to credit loss and subscriber fraud is actively monitored on a regular basis, including some processing of current credit information on subscribers from third-party sources (subject to availability) and, where appropriate, a provision for doubtful debtors is made.

The credit risk and net exposure on key accounts, particularly other authorised operators and international carriers, is monitored separately through continual risk assessments of customers with material balances. In terms of the overall exposure from credit risk, the receivables from these counter-parties are not so extensive as to be considered significant concentrations of credit risk.

Ageing of trade receivables
The ageing analysis of trade receivables is set out below.

	Past due but not impaired						
	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	More than 90 days	**Neither impaired nor past due**	**Impaired**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Trade receivables							
- at 30 June 2013	**21**	**15**	**10**	**12**	**99**	**28**	**185**
- at 30 June 2012	17	14	9	9	121	31	201

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The group held collateral on trade receivables in the form of cash deposits of €3 million (30 June 2012: €3 million) as security.

The amounts owed by group undertakings are due from other companies within the group. The recoverability of the amounts due is separately assessed (see Note 20).

The group is exposed to credit risk relating to its cash and cash equivalents. The group treasury policy is designed to limit exposure with any one institution and to invest its excess cash in low risk investment accounts with authorised banking counter-parties and with institutions whose long-term Standard & Poor's (S&P) credit rating is "BBB-" or above (or Moody's equivalent rating of "Baa3") or is an acceptable bank under the Senior Facilities Agreement.

The credit quality of cash and cash equivalents can be assessed by reference to S&P credit ratings in the table below.

	30 June 2012	**30 June 2013**
	€m	**€m**
Cash and cash equivalents		
AAA	145	**25**
AA-	-	**67**
A+	-	**71**
A	164	**107**
BBB+	40	**-**
BB+	-	**31**
BB	-	**23**
	349	**324**

4. Financial risk management - continued

4.4. Market rate risk

Market rate risk refers to the exposure of the group's financial position to movements in interest rates, currency rates and general price risk. The group has limited exposure to equity, currency and price risk, other than the impact of those risks on the group's defined benefit pension scheme.

The principal aim of managing the interest rate risk is to limit the adverse impact on cash flows and shareholder value of movements in interest rates.

Cash and cash equivalents and borrowings at variable rates expose the group to cash flow interest rate risk. Cash and cash equivalents and borrowings at a fixed rate expose the group to fair value interest rate risk.

The group uses derivative financial instruments to hedge certain interest rate risk exposures on the group's borrowings from eircom Finco Sarl, which are subject to the Senior Facilities Agreement. The derivative financial instruments are held by eircom Finco Sarl.

In accordance with the terms of the Senior Facilities Agreement of eircom Holdings (Ireland) Limited, under which eircom Limited and certain of its subsidiary undertakings, including Meteor and ITI, are guarantors, in November 2012 a hedging letter was agreed between eircom Holdings (Ireland) Limited and the Agent. The hedging letter requires that the group hedges its exposure to interest rate risk on not less than 50 per cent of its consolidated total net debt as defined under the Senior Facilities Agreement, at least until 11 June 2015.

eircom Finco Sarl entered into two interest rate swaps for a total notional principal amount of €1,200 million, at a weighted average rate of 0.252% less 3-month Euribor for the period from 11 December 2012 to 11 June 2015. These swaps have the effect of fixing the effective interest rate payable under €1,200 million of the group's debt to 4.25% for the duration of the swaps. Under the terms of an intercompany hedging agreement, the costs or benefits of the interest rate swaps are due from/payable to eircom Limited.

The group issued €350 million of fixed rate 9.25% Senior Secured Notes in May 2013.

As at reporting date, the group had the following cash and cash equivalents (Note 22), floating-rate borrowings and loans from group undertakings (Note 24) and interest rate swap contracts outstanding (Note 25):

	30 June 2012		**30 June 2013**	
	Weighted average interest rate %	**Balance €m**	**Weighted average Interest rate %**	**Balance €m**
Cash and cash equivalents	0.34%	349	**0.14%**	**324**
Loan from group undertakings	4.66%	(2,348)	**4.45%**	**(2,007)**
Bank borrowings (Joint Venture)	1.39%	(35)	**1.11%**	**(27)**
Overdraft	2.88%	(1)	**-**	**-**
Interest rate swaps (Notional principal amount) [1]		26		**1,220**
Net exposure to interest rate risk		(2,009)		**(490)**

[1] The interest rate swaps include €20 million (30 June 2012: €26 million) held by the group's Joint Venture, Tetra Ireland Communications Limited ("Tetra"), representing the group's share of 56%.

4. Financial risk management - continued

4.4. Market rate risk - continued

Interest rate sensitivity analysis
Based on the financial instruments held at the balance sheet date, if interest rates are 25 basis points ("bps") higher/lower and all other variables are held constant, the group profit/(loss) after tax for the year ended 30 June 2013 will increase or decrease by the amounts set out in the table below:

	Increase by 25 bps €m	Decrease by 25 bps €m
Profit for the year - (lower)/higher	**(1)**	**1**

A sensitivity of 25 bps has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

Currency risk
The group conducts its business primarily in Ireland and, therefore, operating and investing cash flows are substantially denominated in euro. A limited level of foreign exchange risk arises in relation to a foreign subsidiary, capital expenditure denominated in foreign currencies and foreign exchange settlements with international third party telecommunications carriers.

Given the limited level of risk the group does not generally hedge its foreign exchange risk arising on transactions and capital expenditure denominated in foreign currencies.

Price risk
The group is exposed to price risk on the assets held by the group's defined benefit pension scheme (see Note 36).

4. Financial risk management - continued

4.5. Fair value estimation
IFRS 7 requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

This information has been provided in Note 23.

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair values of short-term deposits and overdrafts approximate to their carrying amounts.

4.6. Hedging instruments
As at the reporting date, the group had entered into a number of swaps to cover interest rate exposure on various debt obligations. In accordance with IAS 39: "Financial Instruments – Recognition and Measurement", these instruments have been designated as cash flow hedges and movements in the effective portion of the fair value of the hedges have been taken through the cash flow hedge reserve.

Derivatives designated and eligible for hedge accounting
The details of the effective interest rate and maturity of these designated and effective hedging instruments are:

				Maturity date – principal value					
	Principal value	**Fair Value**	**Weighted average Interest rate**	**Within 1 Year**	**Between 1 & 2 Years**	**Between 2 & 3 Years**	**Between 3 & 4 Years**	**Between 4 & 5 Years**	**After 5 Years**
	€m	**€m**	**%**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Designated active interest rate swap									
- at 30 June 2013	**1,200**	**5**	**0.252%**	**-**	**1,200**	**-**	**-**	**-**	**-**
- at 30 June 2012	-	-	-	-	-	-	-	-	-

The effective interest rates in the table above are based on the effective interest rates in the derivative financial instruments designated for cash flow hedging. This does not equate to the effective interest rate on the underlying debt as it excludes the margin over Euribor, payable in respect the group's borrowings from eircom Finco Sarl. The margin on the borrowings from eircom Finco Sarl is 4.049% over Euribor.

The group does not use derivatives for trading or speculative purposes but has derivatives which are not designated or are ineligible for hedge accounting as detailed below.

In addition, the group's Joint Venture, Tetra Ireland Communications Limited ("Tetra"), has hedged its floating rate borrowings (excluding margin), using an interest rate swap with a fixed interest rate of 4.47%. The group has proportionately consolidated 56% of the net assets of this entity. The fair value of the Tetra derivative in the financial statements of the group is a liability of €1 million at 30 June 2013 (30 June 2012: €2 million). The group's share of the notional principal amount of this derivative is €20 million at 30 June 2013 (30 June 2012: €26 million). The notional principal amount varies throughout the life of this swap. This derivative has not been designated as a cash flow hedge under IAS 39.

Further information on the group's use of interest rate swaps is included in Note 25.

5. Critical Accounting Judgements and Estimates

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1. Making appropriate assumptions on non-financial asset impairment reviews

The group undertakes a review for impairment of intangible assets not yet available for use annually and for other non-financial assets if events or circumstances indicate that the carrying amount may not be recoverable.

Factors which the group consider could trigger an impairment include, but are not limited to the following: (1) significant negative industry or economic trends, (2) current, historical or projected losses that demonstrate continuing losses, (3) results of fair market valuations performed or (4) changes in key assumptions underpinning the fair value less cost to sell and value in use calculations. These impairment charges under IFRS are based upon the excess of the carrying amount of the asset over its recoverable amount, which is the higher of the fair value less cost to sell and its value in use, based on discounted future cash flows. When an asset is not recoverable in full, impairment is measured as the excess of carrying value over the recoverable amount of the long-lived asset. Management incorporates estimates when evaluating the carrying amount, the recoverable amount, the value in use and the fair value less cost to sell. Changes in these estimates directly affect management's assessment of whether an impairment charge is required and the amount of the impairment charge recorded.

The discount rate used in impairment testing is derived from a weighted average cost of capital ("WACC") which is impacted by interest rates and market risk premiums, estimated for companies in the telecommunications sector. Given the recent market volatility there is a risk that the WACC could increase significantly in future periods. There is also a risk of deterioration in the budgeted future cash flows as a result of the current economic environment.

Any significant deterioration in the budgeted future cash flows or changes in WACC or estimates in respect of terminal growth rates could result in a further impairment of our non-financial assets which could have a further negative effect on operating profits and assets. Future cash flows would not be impacted by any impairment provision.

Details of the assumptions used in the impairment test at 30 June 2013 are set out in Note 13.

5.2. Establishing lives for amortisation purposes of intangible assets

The group has significant levels of intangible assets. The amortisation charge is dependent on the estimated lives allocated to each type of intangible asset. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives and the expected pattern of consumption of the future economic benefits embodied in the asset. Changes in asset lives can have a significant impact on amortisation charges for the period. Detail of the useful lives is included in Note 3.4 and the related intangible assets are set out in Note 14.

5.3. Establishing lives for depreciation purposes of property, plant and equipment

Long-lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation, physical condition of the assets concerned and other factors that may impact on the remaining useful lives of assets. Changes in asset lives can have a significant impact on depreciation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis as asset lives are individually determined and there are a significant number of asset lives in use. The impact of any change would vary significantly depending on the individual changes in assets and the classes of assets impacted. Detail of the useful lives is included in Note 3.13 and the related assets are set out in Note 15.

5.4. Making appropriate long-term assumptions in calculating pension liabilities, surpluses and costs

The group operates a funded defined benefit scheme, which is independent of the group's finances, for the majority of employees. Valuations of the main scheme are carried out by the scheme actuaries. The rates of contribution payable and the pension cost are determined on the advice of the actuaries and are also impacted by the unrecognised pension surplus or deficit at the date of the last valuation. The cost of these benefits and the present value of the pension liabilities depend on the assumptions made in respect of such factors as the life expectancy of the members of the scheme, the salary progression of current employees, the return that the pension fund assets will generate in the period before they are used to fund the pension payments and the discount rate at which the future pension payments are valued. The group uses estimates for all of these factors in determining the pension costs, surpluses or deficits arising on acquisitions and assets and liabilities reflected in the financial statements.

5. Critical Accounting Judgements and Estimates – continued

5.4. Making appropriate long-term assumptions in calculating pension liabilities, surpluses and costs - continued
During the year ended 30 June 2010, the group agreed certain caps on future increases in pensionable salaries. The maximum increase in any given year is set at the lower of pre-determined fixed annual rates, the rate of CPI or salary inflation. However, there is still a significant level of uncertainty in relation to ultimate pensionable salaries that will apply in determining benefits payable. Differences between assumptions made and actual experience and changes in assumptions made also impact on pension charges. The effect of changes in assumptions on the pension scheme valuation is contained in Note 36.

As a result of the significant level of volatility in financial markets, the market values of the pension scheme assets and the discount rate at which future pension liabilities are valued have fluctuated significantly over the last number of years and since the year ended 30 June 2013. As the group applies the corridor approach under IAS 19 (see Note 36) these movements do not directly impact on the amounts recorded in respect of pension assets in our balance sheet but will impact on the income statement charges and the amounts recorded in the balance sheet in future periods.

5.5. Making appropriate assumptions in calculating long term employee benefit charges
The estimate of the total liability accrued under long term incentive arrangements at the balance sheet date is determined based on a number of factors including the group's forecasted future repayments of the Senior Credit Facility and any refinancing arrangements which may take place. The estimate of the total liability under long term incentive arrangements at the balance sheet date is determined based on the amounts repaid in respect of the Senior Credit Facility during the year and estimated fair value of the amount outstanding under the Senior Credit Facility and effectively assumes that the debt can be refinanced in September 2017 up to the amount of the fair value of the debt at 30 June 2013. The liability is discounted to reflect the time value of money. The estimated liability is based on a number of estimates and judgements the actual outcome of which will only become known at future dates and will be required to be re-measured at subsequent reporting dates with any corresponding changes in the estimated liability being accounted for in the group's statement of total income.

5.6. Providing for litigation, contingencies and other constructive obligations
The group is a party to lawsuits, claims, investigations and proceedings, consisting primarily of commercial matters, which are being handled and defended in the ordinary course of business. The group reviews the current status of any pending or threatened proceedings with the group's legal counsel on a regular basis.

In determining whether provisions are required with respect to pending or threatened litigation, management reviews the following: (1) the period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred; (2) the degree of probability of an unfavourable outcome; and (3) the ability to make a reasonable estimate of the amount of loss. Upon considering the above and other known relevant facts and circumstances, the group recognises any loss that is considered probable and reasonably quantifiable as of the balance sheet date.

In addition, the group provides for other items of an uncertain timing or amount, such as liabilities arising as a result of self-insurance and disputes with third parties, including regulatory and taxation authorities. These provisions are recognised when the group has a legal or constructive obligation as a result of past events and a reliable estimate of that obligation can be made. Estimates and judgements are used in determining the level of provisioning required and the timing of payments.

Details of the contingent liabilities are set out in Note 39 and provisions for other liabilities and charges are set out in Note 28.

5.7. Charges for restructuring costs
Provisions for restructuring costs including the associated pension costs are made where a constructive obligation to restructure arises i.e. where there is a detailed formal plan for the restructuring and in addition, there is a valid expectation in those affected, that the group will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions reflect the current estimate of the staff exit costs associated with plans for which the group has constructive obligations at year end, and includes the estimated benefit payable to staff availing of the scheme and the associated pension impact. The timing of individual exits also affects the estimated costs. As the schemes are voluntary, the timing of individual exits and individual staff participating in the scheme requires estimation.

The restructuring programme is ongoing. As at 30 June 2013, the group's plans to further reduce headcount in the year ended 30 June 2014 and subsequent periods do not meet the recognition criteria under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Consequently, no provision has been recognised as at 30 June 2013 in respect of the charges that are expected to be incurred in the year ended 30 June 2014 and subsequent periods in respect of future restructuring. The restructuring costs incurred in the year ended 30 June 2014 will directly impact on the income statement and cash flows for this period.

5. Critical Accounting Judgements and Estimates – continued

5.8. Asset retirement obligations
The group has certain obligations in relation to the retirement of assets mainly poles, batteries and international cable. The group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. Significant judgement is required in determining the amount and timing of cash flows associated with the asset retirement obligations as some of the cash flows are anticipated up to 15 years in the future, and no significant retirement or decommissioning costs have been incurred to date.

There is a plan in place to de-commission property, plant and equipment held on a number of base stations over the next two to three years as a result of the group entering into a network sharing agreement with O2, another mobile operator in Ireland, with the objective of enhancing efficiencies and achieving cost savings from the sharing and integration of certain aspects of the Radio Access Networks of both groups. The estimated change in the amount and timing of cash flows associated with the asset retirement obligations on base stations are included in the financial statements.

There are also ongoing changes in legislation which impact on the group's assessment on the level of cost and the manner in which certain asset retirement obligations can be met. Any adverse changes in legislation or interpretations of existing legislation could have a significant impact on the group's estimate of its asset retirement obligations.

5.9. Taxation
Current tax
The actual tax the group pays is determined according to complex tax laws and regulations. Where the effect of these laws and regulations are unclear, the group uses estimates in determining the liability for the tax to be paid. The group believes the estimates, assumptions and judgements are reasonable but the estimates can involve complex issues which may take a number of years to resolve. The final determination of tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement in future periods. The value of the group's current tax liability is disclosed on the balance sheet.

Deferred tax
Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. The carrying value of the group's deferred tax assets and liabilities are disclosed in Notes 17 and 27, respectively.

5.10. Providing for doubtful debts
The group provides services to individuals and business customers on credit terms. The group expects that some debts due will not be paid as a result of the default of a small number of customers. The group uses estimates based on historical and current experience in determining the level of debts which may not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues. Further worsening in the Irish economy or negative industry trends could require an increase in the estimated level of debts that may not be collected, which would negatively impact the operating results. The level of provision required is reviewed on an ongoing basis.

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

5.12. Onerous contracts
The group has onerous contracts associated with vacant offices and leasehold properties relating to relocations and other business disposals. The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflect current economic conditions and estimates are used in determining the level of provisions required in respect of dilapidation and reinstatement works required on leasehold properties, including properties still in use.

5.13. Fair value of derivatives and other financial instruments
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses discounted cash flow analysis and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

6. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group which are regularly reviewed by the 'Chief Operating Decision Maker' in order to allocate resources to the segments and to assess their performance.

The group's operating segments are reported based on financial information provided to the Senior Management Team ("SMT"), which is the key management team and represents the 'Chief Operating Decision Maker'. The SMT is chaired by the Group Chief Executive and the other members are the Group Chief Financial Officer, Chief Technology Officer, Business Directors, Group HR Director, Programme Execution Director, General Counsel and Regulatory & Public Affairs Director.

The SMT considers the business from a fixed line and mobile perspective and assesses the performance of the operating segments based on a measure of adjusted EBITDA. Adjusted EBITDA is before non-cash pension charge and exceptional items. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, curtailment gains and losses in respect of pensions, onerous contracts and other charges/income. The non-cash pension charge is determined based on the difference between the charge determined under IAS 19 and employer contributions payable in respect of the financial year. Interest costs on borrowings are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the borrowings position of the group.

Sales between segments for telecommunication services are carried out on an arm's length basis. Other recharges in respect of non-telecommunication services are based on actual cost of employee remuneration or other external costs incurred. The revenue from external parties reported to the SMT is measured in a manner consistent with that in the group income statement.

The segment results for the year ended 30 June 2013 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	**1,093**	**353**	**(52)**	**1,394**
Adjusted EBITDA [(1)]	**470**	**17**	**-**	**487**
Non-cash pension charge	**(94)**	**-**	**-**	**(94)**
Amortisation	**(13)**	**(27)**	**-**	**(40)**
Depreciation	**(203)**	**(19)**	**-**	**(222)**
Exceptional items (Note 8)	**(14)**	**(4)**	**-**	**(18)**
Exceptional gain on exit from subsidiary (Note 9)	**117**	**-**	**-**	**117**
Operating profit/(loss)	**263**	**(33)**	**-**	**230**
Finance costs				**(240)**
Finance income				**1**
Loss before income tax				**(9)**
Income tax charge				**(8)**
Loss for the financial year				**(17)**

[(1)] *Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, impairment, non-cash pension charge and exceptional items, including exceptional gain on exit from subsidiary.*

6. Segment information – continued

The segment results for the year ended 30 June 2012 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	1,195	372	(52)	1,515
Adjusted EBITDA [1]	533	9	-	542
Non-cash pension charge	(28)	-	-	(28)
Amortisation	(14)	(24)	-	(38)
Depreciation	(203)	(26)	-	(229)
Exceptional items (Note 8) [2]	-	-	-	769
Loss on disposal of property, plant and equipment	-	(1)	-	(1)
Operating profit	288	(42)	-	1,015
Finance costs				(98)
Finance income				2
Profit before income tax				919
Income tax charge				(28)
Profit for the financial year				891

[1] *Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, impairment, non-cash pension charge, exceptional items and loss on disposal of property, plant and equipment.*

[2] *Impairment charges arising on surplus properties are included in exceptional items.*

Other segment items included in the income statement are as follows:

	Year ended 30 June 2012			Year ended 30 June 2013		
	Fixed line €m	Mobile €m	Group €m	Fixed line €m	Mobile €m	Group €m
Impairment of inventories (Note 19)	1	-	1	-	-	-
Impairment of trade receivables (Note 20)	13	3	16	**7**	**3**	**10**
Reversal of trade receivable impairments (Note 20)	(1)	-	(1)	-	**(1)**	**(1)**

6. Segment information – continued

The segment assets and liabilities and capital expenditure are as follows:

	30 June 2013			
	Fixed line €m	**Mobile €m**	**Unallocated €m**	**Group €m**
Assets	**1,882**	**363**	**5**	**2,250**
Liabilities	**517**	**151**	**2,075**	**2,743**
Capital expenditure:				
Intangible assets (Note 14)	**53**	**162**	**-**	**215**
Property, plant and equipment (Note 15)	**194**	**15**	**-**	**209**

	30 June 2012			
	Fixed line €m	**Mobile €m**	**Unallocated €m**	**Group €m**
Assets	2,022	231	1	2,254
Liabilities	617	167	1,950	2,734
Capital expenditure:				
Intangible assets (Note 14)	42	23	-	65
Property, plant and equipment (Note 15)	134	28	-	162

Segment assets consist primarily of property, plant and equipment, intangible assets, retirement benefit asset, inventories, receivables and operating cash. They exclude taxation, derivatives and investments.

Segment liabilities comprise operating liabilities and provisions for liabilities and other charges. They exclude items such as taxation, borrowings, interest payable and derivatives.

Capital expenditure comprises additions to intangible assets (Note 14) and property, plant and equipment (Note 15).

Geographical information
The group is domiciled in the Republic of Ireland. The group operates in two countries, Republic of Ireland and the United Kingdom, though substantially all of the group's revenues arise in the Republic of Ireland. For the purposes of the geographical allocation of revenue, the group identifies revenues earned by entities operating in each country. Total revenue of the group for the current year is €1,394 million (30 June 2012: €1,515 million) of which €1,353 million (30 June 2012: €1,484 million) was earned by group entities operating in the Republic of Ireland and €41 million (30 June 2012: €31 million) was earned by group entities operating in the United Kingdom. Total non-current assets of the group, other than financial instruments, deferred tax assets and defined benefit pension assets as at year end are €1,518 million (30 June 2012: €1,367 million), of which €1,509 million were located in the Republic of Ireland (30 June 2012: €1,359 million) and €9 million were located in the United Kingdom (30 June 2012: €8 million).

7. Operating costs

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Staff costs:		
Wages and salaries	316	**314**
Social welfare costs	15	**16**
Pension costs – defined contribution plans (Note 36)	5	**5**
Pension costs – defined benefit plans (Note 36)	48	**115**
	384	**450**
Staff costs capitalised	(60)	**(79)**
Net staff costs included in operating costs (a)	324	**371**
Other operating costs:		
Amounts paid and payable to telecommunications operators	188	**148**
Purchase of goods for resale, commission and related costs	136	**146**
Materials and services	25	**24**
Other network costs	23	**30**
Accommodation	98	**96**
Sales and marketing	70	**67**
Transport and travel	15	**14**
IT costs	21	**23**
Provision for impaired receivables	15	**9**
Other costs	86	**73**
Total other operating costs	677	**630**
Operating costs excluding amortisation, depreciation, impairment and restructuring and other exceptional items	1,001	**1,001**
Amortisation (Note 14)	38	**40**
Depreciation and impairment of plant and equipment (Note 15)	229	**222**
Exceptional items (Note 8)	(769)	**18**
Total operating costs	499	**1,281**
Exceptional gain on exit from subsidiary (Note 9)	-	**(117)**
Loss on disposal of property, plant and equipment (Note 10)	1	**-**
Total operating costs (net)	500	**1,164**

(a) Operating costs are stated after charging:

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Staff costs	387	**450**
Exceptional restructuring programme costs (Note 8)	-	**29**
Total staff costs	387	**479**
Staff costs capitalised	(60)	**(79)**
Total staff costs (including exceptional items and net of staff costs capitalised)	327	**400**
Research costs	1	**1**
Hire of plant and machinery	3	**3**
Other operating lease rentals	59	**56**

7. Operating costs – continued

(b) Auditor's remuneration

Remuneration of the auditors for the statutory audit of the group financial statements and other services to the group is as follows:

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Statutory audit of group financial statements	0.9	**0.7**
Other assurance services	1.9	**1.7**
Tax advisory services	0.1	**-**
Other non-audit services	0.9	**0.3**
Total services	3.8	**2.7**

(c) Directors

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Emoluments		
- for services as Directors	0.8	**1.2**
- for other services	3.4	**3.5**
- pension contributions	0.1	**0.2**
- compensation for loss of office	-	**0.3**
	4.3	**5.2**

8. Exceptional items

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Release of provision in respect of financial guarantees (a)	2,423	-
Debt assumed under examinership arrangement (b)	(1,805)	-
Financial restructuring costs (c)	(53)	-
Release of inter-company receivables/payables (d)	205	-
	770	-
Restructuring programme costs (e)	-	**(29)**
Gain on liquidation of subsidiary undertaking (f)	-	**6**
Impairment of surplus properties (g) (Note 15)	(1)	-
Other exceptional items (h)	-	**5**
Exceptional credit/(charge)	769	**(18)**

(a) Release of provision in respect of financial guarantees
At 30 June 2011, eircom Limited group had guaranteed financial indebtedness of €3,078 million in respect of the Senior Credit Facilities of the ERCIH Group, derivative financial instrument liabilities of the ERCIH Group the fair value of which was estimated at €68 million and the €350 million Floating Rate Notes ("FRN") of the ERCIF Group. The Floating Rate Notes of €350 million issued by ERCIF were guaranteed on a senior subordinated basis by eircom Limited and certain of its subsidiaries who also guaranteed the Senior Credit Facilities on a senior secured basis.

The Directors concluded that a provision was required to be recognised by the group in respect of its obligation under the financial guarantees in accordance with IAS 37 as at 30 June 2011.

A provision of €2,500 million was recognised at 30 June 2011 in respect of the discounted present value of the additional cash outflows expected to arise under the group's financial guarantees in respect of the guaranteed financial indebtedness. The provision was estimated based on the terms of the proposal scheme set out in the restructuring support agreement ("RSA") restructuring proposal and assumed that it would be implemented.

The obligations arising under the guarantees of the FRN Notes were considered to be a contingent liability and therefore no provision was recognised in respect of the Floating Rate Notes.

During the period from 1 July 2011 to 29 March 2012, the group provided funding of €139 million to former holding companies which were obliged to meet direct obligations pursuant to the guaranteed indebtedness. These companies were unable to repay these amounts and subsequently entered liquidation with virtually no prospect of recovery. Consequently, the group treated these payments as utilisations of the provision for financial guarantees during the year ended 30 June 2012.

On 11 June 2012, on implementation of the Scheme of Arrangements, the group released the remaining provision of €2,423 million and recognised a charge of €1,805 million in respect of the initial fair value of the group's indebtedness incurred in accordance with the terms of the Scheme of Arrangements.

b) Debt assumed under examinership arrangement
The group has recognised an exceptional charge of €1,805 million in respect of the initial measurement of the financial liability undertaken on a joint and several basis by eircom Limited, Meteor and ITI. Further details of the borrowing are set out in Note 24.

The fair value of the liability on initial recognition has been determined by reference to secondary market activity at the date of the implementation of the Scheme of Arrangements on 11 June 2012.

The difference between the fair value at the date of recognition and the redemption value of €542 million is charged to the income statement over the expected life of the instrument using the effective interest method to the extent that the debt has not been repaid. The related non-cash finance charge included in the year ended 30 June 2013 is €79 million (30 June 2012: €4 million). In addition, €73 million is included in finance costs in the year in respect of an exceptional loss recognised on the extinguishment of part of the debt (see Note 11).

(c) Financial restructuring costs
As part of the overall financial restructuring, eircom Limited was party to various agreements entered into with professional advisors which provided for the payment of fees upon the successful restructuring of the group's debt and other fees for services provided prior to the completion of any restructuring transaction. The total charge directly related to the financial restructuring included in the income statement for the year ended 30 June 2012 was €53 million.

8. Exceptional items - continued

(d) Release of inter-company receivables/payables
In the year ended 30 June 2012, the group recognised an exceptional credit of €205 million arising from the derecognition of liabilities to former parent companies and fellow subsidiaries in the ERCIH Group. The liabilities to these companies were extinguished as part of the Scheme of Arrangement, agreed by the High Court and implemented on 11 June 2012.

(e) Restructuring programme costs
On 30 May 2011, the group announced a plan to reduce its workforce by 1,000 through a range of incentivised exit options for employees. The group recognised a provision of €131 million as at 30 June 2011 to reflect the estimated costs associated with this plan. The provision comprised the estimated benefits payable to staff availing of the voluntary leaving schemes and the associated pension impact. No further charge in respect of restructuring programmes was recognised in the year ended 30 June 2012.

The group announced in October 2012 an intention to reduce its workforce by 2,000 by the end of the financial year 30 June 2014. On 16 January 2013, the group launched an Incentivised Exit (IE) scheme, which was designed to facilitate employees to leave the organisation on a voluntary basis. During the year ended 30 June 2013, 658 employees left the group under this and other individual IE schemes. The total costs of the exits achieved were €78 million, including cash cost of exits of €63 million and pension curtailment costs of €11 million. The cost of the scheme, over and above the provision of €49 million at 30 June 2012 has been included as an exceptional charge in the year.

The restructuring programme is ongoing and the group plans to further reduce headcount by more than 1,000 in the year ended 30 June 2014. However, as at 30 June 2013, based on the status of these plans at that date they do not meet the recognition criteria under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Consequently, no provision has been recognised as at 30 June 2013 in respect of the charges that are expected to be incurred in the year ended 30 June 2014 and subsequent periods in respect of future restructuring. The restructuring costs incurred in the year ended 30 June 2014 will directly impact on the income statement and cash flows for this year.

(f) Gain on liquidation of subsidiary undertaking
The exceptional gain of €6 million included in the income statement in the year ended 30 June 2013 arises from the loss of control of Osprey Property Limited, a subsidiary company, to which a liquidator has been 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.

(g) Impairment of surplus properties
The group incurred impairment charges of €1 million in the prior year ended 30 June 2012, in respect of a small number of surplus properties, which have been identified for future disposal. The charge reflected a further decline in the fair value of properties and additional properties no longer in use in the fixed line business.

(h) Other exceptional items
During the year ended 30 June 2013, €5 million was released from the onerous lease contracts provision as a result of a change in the group's estimate of the expected outflows under the relevant leases.

The group has a significant property portfolio comprising of freehold and leasehold properties to accommodate the group’s network and office accommodation required for its staff. As part of the group’s overall portfolio, the group also leases a number of properties from third parties under long-term lease arrangements. Where the group no longer requires these properties, the group sub-leases the properties to third parties or disposes of properties no longer required. As a result of the rationalisation of the group’s accommodation requirements there are a number of leased properties which are vacant or where rental contracts with sub-lease tenants are not expected to be sufficient to meet all of the lease obligations. Provision has been made in respect of the estimated net cash outflow required to settle the group’s obligation under these leases.

9. Exceptional gain on exit from subsidiary

In the financial year ended 30 June 2013, eircom Limited sold its 100% shareholding in eircom Phonewatch Limited. The following tables sets out the effect of this transaction on the results of the group.

	€m
Disposal consideration:	
- Cash received	**130**
- Direct costs relating to the disposal	**(2)**
Total disposal consideration	**128**
Net assets disposed	**(11)**
Gain on exit from subsidiary	**117**

The assets and liabilities arising at the date of exit are as follows:

	€m
Cash and cash equivalents	**11**
Intangible assets	**5**
Property, plant and equipment	**1**
Inventories	**1**
Total assets	**18**
Other current liabilities	**(7)**
Net assets disposed	**11**

	€m
Disposal consideration received in cash	**130**
Cash and cash equivalents in subsidiary disposed	**(11)**
Direct costs paid relating to the disposal	**(2)**
Cash inflow on disposal	**117**

10. Loss on disposal of property, plant and equipment

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Loss on disposal of property, plant and equipment	(1)	-
	(1)	-

11. Finance costs - net

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
(a) Finance costs:		
Interest payable on bank loans and other debts	13	**6**
Interest payable to group undertakings	5	**79**
Payment-in-kind ("PIK") interest charge on borrowings from group undertakings	1	**24**
Interest amortisation on non-current borrowings	4	**79**
Financial guarantee unwinding of discount	62	**-**
Fair value gain on derivatives not qualifying for hedge accounting	-	**(1)**
Other unwinding of discount	10	**4**
Change in discount rate	3	**1**
	98	**192**
Loss on extinguishment of debt	-	**48**
	98	**240**
(b) Finance income:		
Interest income	(2)	**(1)**
	(2)	**(1)**
Finance costs – net	96	**239**

During the year ended 30 June 2013, the group repurchased €364 million of outstanding principal under the Senior Facilities at an average price of €0.933 per €1.00. The repurchase was funded using €339 million of proceeds from the issuance of the 9.25% Senior Secured Notes. In accordance with IAS 39, the loss on extinguishment of the borrowings is the difference between the fair value of the consideration paid to extinguish the liability and the carrying value of the liability at that date.

At the date of extinguishment, the carrying value of the €364 million of principal debt repurchased was €292 million, due to the initial recognition of the borrowings at their fair value at 11 June 2012, subsequently adjusted in accordance with the effective interest method. The loss of €48 million represents the difference between the carrying value of €292 million and the cost of the debt repurchase of €340 million, including associated costs of €1 million.

12. Income tax expense

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
(a) **Recognised in the income statement**		
Current tax expense		
Current financial year	36	**13**
Adjustments for prior periods	(1)	**-**
	35	**13**
Deferred tax expense		
Origination and reversal of temporary difference	(10)	**(9)**
Adjustments for prior periods	3	**4**
	(7)	**(5)**
Total income tax expense in income statement	28	**8**

The tax charge for the year ended 30 June 2013 includes a credit of €3 million (30 June 2012: €6 million) in respect of exceptional items (see Note 8).

(b) **Reconciliation of effective tax rate**

The tax on the group's profit/(loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits/(loss) of the consolidated companies as follows: -

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Profit/(loss) before tax	919	**(9)**
Tax calculated at Irish tax rates	115	**(1)**
Effects of:-		
Release of provision in respect of financial guarantees – non deductible	(295)	**-**
Debt assumed under examinership arrangement – non deductible	226	**-**
Release of intercompany receivables/payables – non deductible/taxable	(26)	**-**
Other non deductible expenses	6	**20**
Effect of changes in capital gains tax rates	-	**2**
Income not subject to taxation	-	**(16)**
Utilisation of losses carried forward	-	**(1)**
Adjustment in respect of prior periods	2	**4**
Tax charge for financial year (Note 12(a))	28	**8**

The weighted average applicable tax rate was 12.5% (30 June 2012: 12.5%).

13. Exceptional impairment charges

The group is required to assess at each reporting date whether there is any indication that an asset has been impaired. If such an indication exists, the group is required to undertake a review for impairment and estimate the recoverable amount of the asset. The group is required to test goodwill acquired in a business combination, as well as intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually, irrespective of whether there have been any indicators of impairment.

At 30 June 2013

At 30 June 2013, the group's Mobile Cash Generating Unit (CGU) holds an asset in respect of acquired wireless spectrum access rights, part of which is not yet available for use. The group acquired the spectrum access rights for €144 million during the year. The wireless spectrum access rights do not generate cashflows independently of the Mobile network assets and therefore are tested for impairment as part of the CGU to which they belong. As a result, the group is required to test the carrying value of the assets of the entire Mobile CGU for impairment as at 30 June 2013.

No goodwill, intangible assets with an indefinite useful life or intangible assets not yet available for use are held in the Fixed Line CGU. As the Directors concluded that there was no indicators of impairment in the Fixed Line CGU, no test for impairment of assets of the Fixed Line CGU has been performed as at 30 June 2013.

Impairment testing methodology

The recoverable amount of the Mobile CGU is determined on the basis of the higher of the fair value less costs to sell and value-in-use, using the discounted cash flow (DCF) method. Cash flows for the years beyond the approved business plans are extrapolated using the estimated long-term growth rates stated below. The cash flows are discounted using the discount rates stated below.

The impairment test was based on fair value less costs to sell which is higher than value in use because of the significant restructuring and investment in infrastructure development required by the group's Mobile CGU. The cash flows and assumptions used as of 30 June 2013 for the impairment test are consistent with the assumptions that would be made by a market participant acquiring the CGU.

Key assumptions

Key assumptions involved in the calculation of fair value less costs to sell include management's estimates of future operating cash-flows, capital expenditure requirements, tax considerations, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were benchmarked against external information on comparable companies in similar markets.

The group considers the business plan and long-term projections to be reasonable in view of the anticipated long-term performance of the Irish economy and consistent with the assumptions that would be used by a market participant. Adjustments are made to the business plan cashflows to take account of possible variations in the amount or timing of cashflows, which can be affected by factors such as increased competitor activity, the roll-out of new technologies and the timing of the introduction of new services, pricing trends, termination rates, customer acquisition costs, margin levels and restructuring programmes, such that the estimated cashflows reflect the range of possible outcomes for the CGU's future trading performance.

Fair Value less Costs to Sell – cash flow projections

At 30 June 2013, these calculations used post-tax cash flow projections based on business plans approved by the Board of Directors covering a period up to 30 June 2017.

The other key assumptions used for fair value less costs to sell calculations for the Mobile CGU are as follows:

	30 June 2013
Long-term growth rates	0.75%
Discount rates (Post-tax)	10.00%

Long Term Growth Rates

The long-term growth rates are determined based on the long-term historical growth rates of the sectors in which the CGU operates, and reflect an assessment of the long-term growth prospects of the sector. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

13. Exceptional impairment charges - continued

Discount Rates
The discount rates used reflect specific risks relating to the Mobile CGU. The assumptions used have been benchmarked to externally available data. The methodology is based on the Capital Asset Pricing Model (CAPM). At 30 June 2013, the yield on ten-year Irish government bonds provided the basis for the risk free rate, which was then adjusted to take account of market risks specific to the CGU. In estimating the discount rate under CAPM, in addition to the risk-free rate, other inputs required are the equity market risk premium (that is the excess return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment factor known as beta is applied to reflect the risk of the specific CGU operations relative to the market as a whole. In determining the risk adjusted discount rate, management has applied an adjustment for the risk of the group's CGUs determined using an average of the observed betas of comparable companies.

Impairment sensitivity analysis
The percentages shown in the table below represent the increase or decrease in the individual sensitivity factors that would lead to the recoverable amount equalling the carrying value of the assets.

	30 June 2013
	Mobile
	%
Discount rate (post-tax) (absolute increase)	**1.20%**
Long term growth rate (absolute decrease)	**1.36%**
Terminal business plan EBITDA (relative decrease)	**4.48%**
Terminal capital expenditure (relative increase)	**13.73%**

At 30 June 2012
At 30 June 2012, the group held no goodwill or other intangible assets with an indefinite useful life or intangible assets not yet available for use and consequently, the group considered whether any indicators of impairment existed as at 30 June 2012.

The Directors concluded that there was no indicator of impairment and consequently no test of impairment was required to be performed.

14. Intangible assets

	Computer software	Monitoring contracts	Trademarks	Contracts and related customer relationships	License	Total
	€m	€m	€m	€m	€m	€m
Cost						
At 1 July 2011	439	12	25	35	146	657
Additions	62	3	-	-	-	65
Disposals/retirements	(5)	-	-	-	-	(5)
At 30 June 2012	**496**	**15**	**25**	**35**	**146**	**717**
Additions	**68**	**3**	**-**	**-**	**144**	**215**
Transfer from tangible assets	**4**	**-**	**-**	**-**	**-**	**4**
Disposals/retirements	**(1)**	**(18)**	**-**	**-**	**(17)**	**(36)**
At 30 June 2013	**567**	**-**	**25**	**35**	**273**	**900**
Amortisation						
At 1 July 2011	381	9	25	35	101	551
Charge for the financial year	33	2	-	-	3	38
Disposals/retirements	(5)	-	-	-	-	(5)
At 30 June 2012	**409**	**11**	**25**	**35**	**104**	**584**
Charge for the financial year	**34**	**2**	**-**	**-**	**4**	**40**
Disposals/retirements	**(1)**	**(13)**	**-**	**-**	**(16)**	**(30)**
At 30 June 2013	**442**	**-**	**25**	**35**	**92**	**594**
Net Book Value at 30 June 2013	**125**	**-**	**-**	**-**	**181**	**306**
Net Book Value at 30 June 2012	87	4	-	-	42	133

Capital expenditure for the year ended 30 June 2013 includes €144 million in respect of the purchase of spectrum licences, which will allow for the rollout of 4G.

Assets in the course of completion and other intangible assets not yet available for use included in intangible assets are €140 million (30 June 2012: €29 million).

Computer software relates to internal and external capitalised software development costs.

Monitoring contracts related to purchased monitoring contracts in the group's residential security systems operating subsidiary, which was exited during the year.

15. Property, plant and equipment ("PPE")

(a)

	Land and Buildings €m	Network, Plant and Equipment €m	Total €m
Cost			
At 1 July 2011	423	5,892	6,315
Additions	1	161	162
Exchange adjustments	-	4	4
Disposals/retirements	-	(51)	(51)
At 30 June 2012	**424**	**6,006**	**6,430**
Additions	**-**	**209**	**209**
Exchange adjustments	**-**	**(2)**	**(2)**
Transfer to intangible assets	**-**	**(4)**	**(4)**
Disposals/retirements	**(17)**	**(46)**	**(63)**
At 30 June 2013	**407**	**6,163**	**6,570**
Accumulated Depreciation			
At 1 July 2011	141	4,873	5,014
Charge for financial year (Note 15(b))	15	215	230
Exchange adjustments	-	2	2
Disposals/retirements	-	(50)	(50)
Impairment *(i)*	1	-	1
At 30 June 2012	**157**	**5,040**	**5,197**
Charge for financial year (Note 15(b))	**15**	**207**	**222**
Exchange adjustments	**-**	**(1)**	**(1)**
Disposals/retirements	**(14)**	**(45)**	**(59)**
At 30 June 2013	**158**	**5,201**	**5,359**
Total Net Book Value at 30 June 2013	**249**	**962**	**1,211**
Total Net Book Value at 30 June 2012	267	966	1,233

(i). The impairment charge of €1 million for the year ended 30 June 2012 was in respect of surplus properties and included in exceptional items.

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value. The review for the year ended 30 June 2013 and 30 June 2012 resulted in no material adjustments to asset lives.

Assets in the course of construction included in property, plant and equipment are €91 million (30 June 2012: €61 million).

(b) The depreciation charged in the income statement is net of capital grants amortised during the financial year as follows:-

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Depreciation	230	**222**
Amortisation of capital grants (Note 26)	(1)	**-**

16. Investments

Investments in associates
The group share of the results of its principal associates, all of which are unlisted, and its share of the assets and liabilities are as follows:

	Assets €m	Liabilities €m	Revenues €m	Profit €m	Interest held %
As at and for the year ended 30 June 2013					
Altion Limited	**-**	**-**	**-**	**-**	**31.3%**
Buy4Now Limited	**1**	**1**	**-**	**-**	**32.2%**
	1	**1**	**-**	**-**	
As at and for the year ended 30 June 2012					
Altion Limited	-	-	-	-	31.3%
Buy4Now Limited	1	1	1	-	32.2%
	1	1	1	-	

17. Deferred tax asset

The deferred tax asset was in respect of tax losses available to be carried forward and utilised in full against any taxable profits arising in the relevant entity undertaking only. The tax losses were fully utilised during the year ended 30 June 2013.

Recognised deferred tax assets

	Assets 30 June 2012 €m	Assets 30 June 2013 €m
Tax loss carry forward, net of other timing differences	1	-
	1	-

The movement in deferred tax assets during the year ended 30 June 2013 is as follows:

	1 July 2012 €m	Recognised in income (charge)/credit €m	30 June 2013 €m
Tax loss carry forward, net of other timing differences	**1**	**(1)**	**-**
	1	**(1)**	**-**

The movement in deferred tax assets during the year ended 30 June 2012 is as follows:

	1 July 2011 €m	Recognised in income (charge)/credit €m	30 June 2012 €m
Tax loss carry forward, net of other timing differences	1	-	1
	1	-	1

18. Other assets

	30 June 2012 €m	30 June 2013 €m
Deposits and other non-current assets	6	**5**
	6	**5**

19. Inventories

	30 June 2012 €m	30 June 2013 €m
Network development and maintenance stocks	7	**8**
Consumable and other stocks	7	**4**
	14	**12**

The cost of inventories recognised as an expense and included in "operating costs" amounted to €104 million (30 June 2012: €115 million). The net replacement cost of stocks is not expected to be materially different from that shown above.

During the year ended 30 June 2013, the group recognised a loss for impaired inventories of €Nil (30 June 2012: €1 million), reversed previous recognised impaired inventories of €Nil (30 June 2012: €Nil) and utilised provisions for impaired inventories of €2 million (30 June 2012: €1 million). The creation and reversal of provisions for impaired inventories have been included in "operating costs" in the income statement.

20. Trade and other receivables

	30 June 2012 €m	30 June 2013 €m
Current assets:		
Trade receivables	201	**185**
Less: Provision for impairment of trade receivables	(28)	**(22)**
Trade receivables – net	173	**163**
Prepayments and accrued income	63	**59**
Amounts due from joint ventures	1	**2**
Amounts due from former group undertakings (net) (Note 41)	3	**1**
	240	**225**

The fair values of trade and other receivables approximate to their carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of 30 June 2013, trade receivables of €28 million (30 June 2012: €31 million) were impaired and provided for on the basis that a portion of these trade receivables is expected to be recovered.

The amount of the provision for impairment of trade receivables was €22 million as of 30 June 2013 (30 June 2012: €28 million). Total additional provisions of €10 million (30 June 2012: €16 million) relate to individual impairments of €1 million (30 June 2012: €4 million) and collective impairments of €9 million (30 June 2012: €12 million). Total reversals of unused provisions of €1 million (30 June 2012: €1 million) relate to individual impairments of €Nil (30 June 2012: €1 million) and collective impairments of €1 million (30 June 2012: €Nil).

The group uses estimates based on historical experience and customer specific information in determining the level of debts which may not be collected. The estimates include such factors as the current state of the economy and particular industry issues. The level of provision required is reviewed on an ongoing basis.

20. Trade and other receivables - continued

Provision for impairment of trade receivables
The following table shows the movements on the provision for impairment of trade receivables:

	30 June 2012 €m	30 June 2013 €m
Opening balance	31	**28**
Charged to income statement:		
- Additional provisions	16	**10**
- Unused amounts reversed	(1)	**(1)**
Utilised in the financial year	(18)	**(15)**
At end of financial year	28	**22**

The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

21. Restricted cash
The restricted cash of €22 million (30 June 2012: €32 million) is in relation to cash lodged for performance guarantees of €20 million (30 June 2012: €30 million) and €2 million (30 June 2012: €2 million) security in respect of ancillary facilities. The interest earned on these deposits, after deduction of any taxation payable, is due to the group.

Performance guarantees
Performance guarantee deposits have been lodged in respect of the group's obligation to make payments to third parties in the event that the group does not perform its contracted commitments under the terms of certain contracts. At 30 June 2013, these include €6 million (30 June 2012: €14 million) in respect of undertakings arising in relation to the roll out of our 3G network in Ireland, including achieving certain agreed milestones, €10 million (30 June 2012: €10 million) in respect of eircom's obligation under a Quality of Service Performance Improvement Programme under our Universal Service Obligations ("USO") and €4 million (30 June 2012: €6 million) in relation to other obligations under certain commercial contracts.

The maximum exposure to credit risk at the reporting date is €22 million (30 June 2012: €32 million).

22. Cash and cash equivalents

	30 June 2012 €m	30 June 2013 €m
Cash at bank and on hand	41	**43**
Short-term bank deposits	308	**281**
Cash and cash equivalents	349	**324**

The book value of cash and cash equivalents approximates their fair value. At 30 June 2013, the effective interest rate on short term bank deposits was 0.14% (30 June 2012: 0.34%). These deposits have a weighted average maturity of 65 days.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	30 June 2012 €m	30 June 2013 €m
Cash and cash equivalents	349	**324**
Bank overdraft (Note 24)	(1)	**-**
Cash, cash equivalents and bank overdrafts	348	**324**

23. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per balance sheet	Derivatives used for hedging €m	Loans and receivables €m	Total €m
Derivative financial instruments	**5**	**-**	**5**
Other assets	**-**	**4**	**4**
Trade receivables	**-**	**163**	**163**
Amounts due from joint ventures	**-**	**2**	**2**
Amounts due from former group undertakings	**-**	**1**	**1**
Restricted cash	**-**	**22**	**22**
Cash and cash equivalents	**-**	**324**	**324**
At 30 June 2013	**5**	**516**	**521**
Other assets	-	5	5
Trade receivables	-	173	173
Amounts due from joint ventures	-	1	1
Amounts due from former group undertakings	-	3	3
Restricted cash	-	32	32
Cash and cash equivalents	-	349	349
At 30 June 2012	-	563	563

Liabilities as per balance sheet	Liabilities at fair value through profit or loss €m	Loans and other liabilities €m	Total €m
Borrowings	**-**	**1,986**	**1,986**
Derivative financial instruments	**1**	**-**	**1**
Trade payables	**-**	**114**	**114**
Interest payable	**-**	**3**	**3**
Interest payable to group undertakings	**-**	**5**	**5**
Accruals	**-**	**229**	**229**
TIS Liabilities	**-**	**42**	**42**
At 30 June 2013	**1**	**2,379**	**2,380**
Borrowings	-	1,846	1,846
Derivative financial instruments	2	-	2
Trade payables	-	124	124
Interest payable to group undertakings	-	5	5
Amounts owed to former group undertakings	-	8	8
Accruals	-	235	235
TIS Liabilities	-	53	53
At 30 June 2012	2	2,271	2,273

23. Financial instruments by category - continued

Fair value hierarchy
The table below shows, for the group's financial assets and liabilities that are recognised and subsequently measured at fair value, their classification within a three-level fair value hierarchy.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets at the balance sheet date. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 comprises financial assets and liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Financial assets held at fair value	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Derivative financial instruments	**-**	**5**	**-**	**5**
At 30 June 2013	**-**	**5**	**-**	**5**
Derivative financial instruments	-	-	-	-
At 30 June 2012	-	-	-	-

Financial liabilities held at fair value	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Derivative financial instruments	**-**	**1**	**-**	**1**
At 30 June 2013	**-**	**1**	**-**	**1**
Derivative financial instruments	-	2	-	2
At 30 June 2012	-	2	-	2

24. Borrowings

	Carrying Value		Fair Value	
	30 June 2012	**30 June 2013**	**30 June 2012**	**30 June 2013**
	€m	**€m**	**€m**	**€m**
Non-current liabilities				
Loan from group undertakings	2,348	**2,007**	1,808	**1,825**
Unamortised fair value difference on loan from group undertakings	(538)	**(386)**	-	**-**
	1,810	**1,621**	1,808	**1,825**
9.25% Senior Secured Notes due 2020	-	**350**	-	**327**
Debt issue costs	-	**(12)**	-	**-**
	-	**338**	-	**327**
Joint venture borrowings	27	**18**	27	**18**
Borrowings	1,837	**1,977**	1,835	**2,170**
Current liabilities				
Joint venture borrowings	8	**9**	8	**9**
Overdraft	1	**-**	1	**-**
Borrowings	9	**9**	9	**9**
Total Borrowings	1,846	**1,986**	1,844	**2,179**

Loan from group undertakings - group
At 30 June 2013, eircom Limited, Meteor and ITI have a joint and several obligation in respect of borrowings of €2,007 million with a maturity date of 30 September 2017. The borrowings are repayable to eircom Finco Sarl, a fellow subsidiary of eircom Holdings (Ireland) Limited, and are subject to a Senior Facilities Agreement, which, amongst other things, require the eircom Holdings (Ireland) Limited Group to comply with financial covenants on a quarterly basis. Further details of these financial covenants are set out in Note 2 to the financial statements.

During the year, the group undertook a permitted bond refinancing. In accordance with the terms of the Senior Facilities Agreement, €339 million of the net proceeds from the issuance of €350 million of Senior Secured Notes, after allowance for certain costs relating to issuance, were used to repurchase €364 million of principal due and outstanding under the Senior Facilities Agreement at an average price of €0.933 per €1.00, with an equivalent reduction in the group's borrowings due to eircom Finco Sarl.

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 of eircom Finco Sarl to external lenders. The difference between the fair value on initial recognition and the amount that was payable on the maturity date was being amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39. The remaining unamortised amount at 30 June 2013 was €386 million (see Note 11).

The interest payable on borrowings from group undertakings include cash-pay interest of Euribor plus a lender margin of 3.049% and an annualised Payment-in-Kind (PIK) interest charge of 1.00% which is added to the outstanding principal at the end of each interest period. A three-month interest period is in force at the balance sheet date and at the date of signing of these financial statements. An interest period of one-month, three-months or six-months may be selected at each roll-over date.

Senior Secured Notes
During the year, the group issued €350 million in Senior Secured Notes, due for repayment in full on 15 May 2020. The Notes were issued by the group's wholly owned subsidiary, eircom Finance Limited. The Notes rank equally in priority of payment with the existing group borrowings repayable to eircom Finco Sarl, which are subject to the Senior Facilities Agreement. The Notes are subject to fixed rate cash-pay interest at 9.25% payable in semi-annual instalments in May and November each year. Total costs directly attributable to the transaction incurred by the group were €12 million.

Transaction costs are initially deferred and are subsequently amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39.

Joint venture borrowings - Tetra securities
The security provided in respect of joint venture borrowings is set out in Note 38 to the financial statements.

24. Borrowings - continued

Fair values
The fair value of borrowings are based on observable market prices where available and an active market exists. Where market prices are not available or are considered unreliable, fair values are obtained using valuation techniques including discounted cash flow models, which to the extent possible, use observable market inputs.

Maturity of financial 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
Loan from group undertakings	**-**	**-**	**2,007**	**-**	**2,007**
Unamortised fair value difference on loan from group undertakings	**-**	**-**	**(386)**	**-**	**(386)**
	-	**-**	**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**
At 30 June 2013	**9**	**9**	**1,630**	**338**	**1,986**
Loan from group undertakings	-	-	-	2,348	2,348
Unamortised fair value difference on loan from group undertakings	-	-	-	(538)	(538)
	-	-	-	1,810	1,810
Joint venture borrowings	8	9	18	-	35
Overdraft	1	-	-	-	1
At 30 June 2012	9	9	18	1,810	1,846

Borrowing facilities
The Senior Facilities Agreement entered into in June 2012 includes provision to allow the eircom Holdings (Ireland) Group to seek a revolving credit facility of €150 million in the markets. At the date of signing of these financial statements, there is no revolving credit facility in place and there are no current plans to obtain any revolving credit facilities.

Our joint venture, Tetra, has a €49 million term loan facility, which has been fully drawn down at 30 June 2013 to finance the activities of Tetra.

Currency
All of the group's borrowings are denominated in euro.

25. Derivative financial instruments

	Carrying Amount		Fair Value	
	30 June 2012 €m	**30 June 2013 €m**	**30 June 2012 €m**	**30 June 2013 €m**
Non-current assets				
Interest rate swaps – cash flow hedges	-	**4**	-	**4**
Current assets				
Interest rate swaps – cash flow hedges	-	**1**	-	**1**
Total assets	-	**5**	-	**5**
Non-current liabilities				
Interest rate swaps – not designated as hedges	1	**-**	1	**-**
Current liabilities				
Interest rate swaps – not designated as hedges	1	**1**	1	**1**
Total liabilities	2	**1**	2	**1**

The group does not use derivatives for trading or speculative purposes.

Interest rate swaps – cash flow hedges
The notional principal amount of the active interest rate swap contracts designated and eligible for hedge accounting was €1,200 million at 30 June 2013. The swaps cover the period from 11 December 2012 to 11 June 2015.

At 30 June 2013, the fixed interest rate on our interest rate swaps was between 0.241% and 0.258% and the floating rate was based on 3-month Euribor.

Gains recognised in the cash flow hedging reserve in equity (see Note 31) on interest rate swaps as of 30 June 2013 will be released to the income statement when the hedged interest expense is recognised over the period from 1 July 2013 to 11 June 2015. The ineffective portion of the change in the fair value of the derivatives recognised in the income statement that arises from qualifying cash flow hedges amounts to a loss of €Nil.

Interest rate swaps – not designated as hedges
The group's share of the fair value of the Tetra derivative in the accounts is a liability of €1 million (30 June 2012: €2 million). The group's share of the notional principal amount of the active interest rate swap contracts used to cover our joint venture borrowings was €20 million at 30 June 2013 (30 June 2012: €26 million). The unrealised gain recognised in the income statement during the year that arises from derivatives not designated as hedges is €1 million (30 June 2012: €Nil). These amounts have been classified in the income statement within 'finance costs'.

26. Capital grants

	30 June 2012 €m	**30 June 2013 €m**
Received/ receivable		
At beginning of financial year	75	**75**
At end of financial year	75	**75**
Amortisation		
At beginning of financial year	71	**72**
Credit for the financial year	1	**-**
At end of financial year	72	**72**
Net book value at end of financial year	3	**3**

27. Deferred tax liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The group has no material unrecognised deferred tax assets at 30 June 2013.

Deferred tax assets where the group does not have right of offset are included separately (see Note 17).

Recognised net deferred tax liabilities
Net deferred tax liabilities are attributable to the following:

	Assets 30 June 2013 €m	Liabilities 30 June 2013 €m	Net 30 June 2013 €m
Property, plant and equipment	**-**	**(43)**	**(43)**
Deferred revenues	**2**	**-**	**2**
Provisions	**2**	**-**	**2**
Pensions	**-**	**(18)**	**(18)**
Derivative financial instruments	**-**	**(1)**	**(1)**
	4	**(62)**	**(58)**

	Assets 30 June 2012 €m	Liabilities 30 June 2012 €m	Net 30 June 2012 €m
Property, plant and equipment	-	(37)	(37)
Deferred revenues	2	-	2
Provisions	3	-	3
Pensions	-	(31)	(31)
	5	(68)	(63)

The movement in net deferred tax liabilities during the year ended 30 June 2013 is as follows:

	1 July 2012 €m	Recognised in income credit/(charge) €m	Recognised in other comprehensive income €m	30 June 2013 €m
Property, plant and equipment	**(37)**	**(6)**	**-**	**(43)**
Deferred revenues	**2**	**-**	**-**	**2**
Provisions	**3**	**(1)**	**-**	**2**
Pensions	**(31)**	**13**	**-**	**(18)**
Derivative financial instruments	**-**	**-**	**(1)**	**(1)**
	(63)	**6**	**(1)**	**(58)**

The movement in net deferred tax liabilities during the year ended 30 June 2012 is as follows:

	1 July 2011 €m	Recognised in income credit/(charge) €m	Recognised in other comprehensive income €m	30 June 2012 €m
Property, plant and equipment	(43)	6	-	(37)
Deferred revenues	2	-	-	2
Provisions	6	(3)	-	3
Pensions	(35)	4	-	(31)
	(70)	7	-	(63)

28. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Restructuring Costs €m	Onerous Contracts €m	Other €m	Total €m
At 1 July 2012	**53**	**49**	**51**	**100**	**253**
Charged to consolidated income statement:					
- Additional provisions	-	-	2	8	**10**
- Unused amounts reversed	-	-	(7)	-	**(7)**
- Unwinding of discount	-	-	1	1	**2**
- Change in discount rate	1	-	-	-	**1**
Transfer to retirement benefit obligation	-	(11)	-	-	**(11)**
Decrease in provision capitalised as asset retirement obligation	-	-	-	(2)	**(2)**
Utilised in the financial year	(12)	(38)	(16)	(5)	**(71)**
At 30 June 2013	**42**	**-**	**31**	**102**	**175**

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

	30 June 2012 €m	30 June 2013 €m
Non-current	152	**133**
Current	101	**42**
	253	**175**

Temporary income stream ("TIS") annuity scheme
The group established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of ten years. The group estimates the annuity liability as the present value of the fixed payment stream due to employees. At 30 June 2013, the remaining TIS annuity scheme provision is expected to be substantially utilised over a period of eight years.

Onerous Contracts
The group has onerous contracts in relation to leases on vacant properties and leasehold disposals relating to relocations. The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflects current economic conditions and judgements in respect of sub lease income on certain properties. If the group were unable to sublet the properties for the duration of the lease an additional provision of €2 million would be required in the financial statements. The group also has onerous contracts in relation to the settlement of certain legal matters. At 30 June 2013, the liabilities are expected to be discharged over a period of one to five years.

Restructuring costs
On 30 May 2011, the group announced a plan to reduce its workforce by 1,000 through a range of incentivised exit options for employees. The group recognised a provision of €131 million as at 30 June 2011 to reflect the estimated costs associated with this plan. The provision comprised the estimated benefits payable to staff availing of voluntary leaving schemes and the associated pension impact. The provision was fully utilised during the year ended 30 June 2013 (see Note 8).

Additional costs will be incurred in future years to achieve additional headcount reductions. However, as at 30 June 2013, there was no constructive obligation in respect of additional headcount reductions and therefore no additional provisions have been recognised as at 30 June 2013.

Other
The group is self insured in respect of certain personal injury and damage claims. There is a provision for the estimated cost of incidents which have occurred up to 30 June 2013, based on a case by case review with actuarial assistance. The payments will be made as the cases are settled.

The group also has a provision for costs arising from certain compliance matters including certain obligations in relation to the retirement and decommissioning of assets mainly certain poles, batteries, international cable and dismantling and restoration of mobile antenna sites. It is expected that most of these costs will be paid during the period 2014 to 2025 and these anticipated cash flows are discounted using a real rate of return of between 2% and 4%.

29. Trade and other payables

	30 June 2012 €m	30 June 2013 €m
Non-current liabilities: -		
Trade payables	61	**61**
	61	**61**
Current liabilities: -		
Trade payables	77	**69**
Interest payable	-	**3**
Interest payable to group undertakings (Note 41)	5	**5**
Amounts owed to former group undertakings (Note 41)	8	**-**
Other tax and social security payable	41	**35**
Accruals	235	**229**
Deferred income	114	**97**
	480	**438**

The carrying amounts of trade payables are denominated in the following currencies:

	30 June 2012 €m	30 June 2013 €m
Euro	129	**122**
SDR	6	**5**
Sterling	2	**2**
US dollar	1	**1**
	138	**130**

30. Share Capital

	30 June 2012 €m	30 June 2013 €m
Authorised Ordinary Shares of €0.25 each (3 billion shares)	750	**750**
Allotted, Called up and Fully Paid		
Shares of €0.25 each 2,207,826,690 shares	552	**552**

There were no alterations to the issued share capital of eircom Limited during the years ended 30 June 2013 and 30 June 2012.

Rights attaching to the ordinary shares are as follows:
The Ordinary Shares carry the right to receive notice of, attend and vote at, general meetings of the Company. The Ordinary shares carry the right to receive dividends as and when declared by the Directors. On a winding-up of the Company the Ordinary shares carry the right to share in any surplus assets of the Company.

31. Reconciliation of total shareholders' equity

	Equity share capital €m	Capital conversion reserve fund €m	Capital contribution reserve €m	Share premium account €m	Cash flow hedging reserve €m	Retained earnings /(loss) €m	Total equity €m
Balance at 30 June 2011	**552**	**9**	**219**	**144**	**-**	**(2,295)**	**(1,371)**
Profit for the year	-	-	-	-	-	891	891
Balance at 30 June 2012	**552**	**9**	**219**	**144**	**-**	**(1,404)**	**(480)**
Cash flow hedges:							
- Fair value gains in year	-	-	-	-	5	-	**5**
- Tax on cash flow hedge movements	-	-	-	-	(1)	-	**(1)**
Loss for the year	-	-	-	-	-	(17)	**(17)**
Balance at 30 June 2013	**552**	**9**	**219**	**144**	**4**	**(1,421)**	**(493)**

32. Cash generated from operations

Reconciliation of consolidated operating profit to net cash inflow from operating activities: -

(a) Cash generated from operations

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Profit/(loss) after taxation	891	**(17)**
Addback:		
Income tax charge	28	**8**
Finance costs – net	96	**239**
Operating profit	1,015	**230**
Adjustments for:		
- Loss on disposal of property, plant and equipment and intangible assets	1	**-**
- Exceptional gain on exit from subsidiary	-	**(117)**
- Depreciation, amortisation and impairment of plant and equipment	267	**262**
- Financial restructuring costs	53	**-**
- Non cash provision in respect of financial guarantees	(2,423)	**-**
- Fair value of debt assumed under examinership arrangement	1,805	**-**
- Non cash retirement benefit charge	28	**94**
- Restructuring programme costs	-	**29**
- Other non cash exceptional items	(204)	**(11)**
- Other non cash movements in provisions	4	**8**
Cash flows relating to restructuring and provisions	(117)	**(96)**
Changes in working capital		
- Inventories	(2)	**1**
- Trade and other receivables	7	**14**
- Trade and other payables	(22)	**(40)**
- Inter-company payables to former group undertakings	1	**2**
Cash generated from operations	413	**376**

(b) In the cash flow statement, proceeds from sale of property, plant and equipment (PPE) and intangible assets comprise:

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Loss on disposal of PPE and intangible assets	(1)	**-**
Net book value of PPE disposals (Note 15 (a))	1	**4**
Net book value of intangible disposals (Note 14)	-	**6**
	-	**10**
Net book value of intangible disposals on exit from subsidiary undertaking (Note 9)	-	**(5)**
Net book value of PPE disposals on exit from subsidiary undertaking (Note 9)	-	**(1)**
Net book value of PPE disposals on liquidation of subsidiary undertaking	-	**(2)**
Proceeds from sale of PPE and intangible assets	-	**2**

33. Post Balance Sheet Events

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

34. Principal Subsidiaries, Joint Ventures and Associated Undertakings

	Interest in Ordinary Shares at 30 June 2013	Business	Registered Office and Country of Incorporation
Meteor Mobile Communications Limited	100%	Provision of mobile telecommunications and related services	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom Finance Limited	100%	Finance Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Irish Telecommunications Investments Limited	100%	Telecommunications Financing and Treasury Management	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom UK Limited	100%	Provision of Telecommunications and Related Services	South Quay Plaza II, 183 Marsh Wall, London E14 9SH, UK.
eircom Holdings Limited	100%	Investment Holding Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
GoFree Limited	100%	Property Investment Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Tetra Ireland Communications Limited (Joint venture)	56%	Build and Operate National Digital Radio Services Network	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Altion Limited (Associated undertaking)	31.3%	Telecommunications Software Solutions	7th Floor, O'Connell Bridge House, D'Olier Street, Dublin 2, Ireland.
Buy4Now Limited (Associated undertaking)	32.2%	E-commerce Software Developer	9 The Mall, Beacon Court, Bracken Road, Sandyford Industrial Estate, Dublin 18, Ireland.

34. Principal Subsidiaries, Joint Ventures and Associated Undertakings - continued

Joint Venture
At 30 June 2013, eircom Limited has a joint venture in Tetra Ireland Communication Limited ("Tetra"). The following table presents, on a condensed basis, the effect on the consolidated financial statements of including Tetra using proportionate consolidation.

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Revenue	19	**19**
Operating costs excluding depreciation	(10)	**(10)**
Depreciation	(7)	**(7)**
Profit before finance costs	2	**2**
Finance costs – net	(2)	**(1)**
Profit before income tax	-	**1**
Income tax credit	-	**-**
Profit for the financial year	-	**1**

	30 June 2012 €m	30 June 2013 €m
ASSETS		
Non-current assets	37	**29**
Current assets	11	**12**
Total assets	48	**41**
LIABILITIES		
Non-current liabilities	31	**22**
Current liabilities	18	**19**
Total liabilities	49	**41**
EQUITY		
Total equity	(1)	**-**
Total equity	(1)	**-**
Total liabilities and equity	48	**41**

35. Employees

The average number of persons employed by the group for the years ended 30 June 2013 and 30 June 2012 were as follows:-

	Year ended 30 June 2012	Year ended 30 June 2013
Fixed line		
Operations/Technical	3,387	**3,179**
Sales/Customer Support	1,187	**1,105**
Administration	407	**357**
Total	4,981	**4,641**
Mobile		
Operations/Technical	220	**197**
Sales/Customer Support	343	**333**
Administration	63	**63**
Total	626	**593**
Total fixed line and mobile	5,607	**5,234**

The total number of persons employed by the group as at 30 June 2013 and 30 June 2012 were as follows:-

	30 June 2012	30 June 2013
Fixed line		
Operations/Technical	3,335	**2,983**
Sales/Customer Support	1,221	**885**
Administration	398	**321**
Total	4,954	**4,189**
Mobile		
Operations/Technical	210	**170**
Sales/Customer Support	327	**309**
Administration	64	**43**
Total	601	**522**
Total fixed line and mobile	5,555	**4,711**

Certain employees work in both the fixed and mobile businesses. The employee numbers are based on the entity that entered into the employment contract with the individual employees. The employee costs are recharged between the fixed and mobile segments based on estimates of the time spent by individual employees on fixed and mobile activities.

36. Pensions

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

The total group pension charge is split between the schemes as follows:

	30 June 2012 €m	30 June 2013 €m
Defined Benefit Schemes (the principal scheme)	48	**115**
Defined Contribution Schemes	5	**5**
Total	53	**120**

The actual contributions in respect of the principal scheme represent a rate of 9.4% (effective from 1 January 2011) of pensionable emoluments, as advised by the group's actuaries. The group has committed to an annual employer contribution of €20 million for three years commencing 1 January 2011. The rate up to 31 December 2010 was 7.8%. The last Actuarial Valuation of the principal scheme was carried out, using the attained age method, as at 30 September 2010 by Mercer who are actuaries to the Scheme but are neither officers nor employees of the group. The actuarial method used involved determining an appropriate future group contribution rate designed to fund the projected liabilities of the Scheme related to service subsequent to 1 January 1984 (see Note 36 (b)) over the remaining working lifetime of the current members.

The actuarial valuation as at 30 September 2010 was determined by reference to the following critical assumptions: 1) an assumed rate of pensionable pay and pension inflation of 1.9% per annum with effect from 1 January 2014 (0% until 31 December 2013) and 2) an assumed rate of investment return of 6.25% per annum in the pre-retirement period and 5% per annum in the post-retirement period. The weighted average expected future return is approximately 5.3% per annum. At the date of the last actuarial valuation, the market value of the pension scheme assets was €2,578 million and the actuarial valuation of the assets attributable to the pension fund was sufficient to meet more than 100% of the value of the scheme's accrued liabilities making due allowance for future increases in salaries and pensions. The actuarial report is available for inspection by the members of the scheme at 1 Heuston South Quarter, St. John's Road, Dublin 8. The actuarial report is not available for public inspection. The next scheduled formal valuation of the scheme is as at 30 September 2013.

Mercer also perform all annual valuations required under IAS 19 "Employee Benefits". These valuations are performed on the projected unit basis.

The group has applied the corridor approach, which leaves some actuarial gains and losses unrecognised as permitted by IAS 19 (see Note 3.20(i)). The corridor approach has been applied retrospectively. Hence the cumulative actuarial gains and losses from the inception of the plan have been split into a recognised and an unrecognised portion.

Pension scheme obligation

The status of the principal scheme is as follows:

	30 June 2009 €m	30 June 2010 €m	30 June 2011 €m	30 June 2012 €m	30 June 2013 €m
Present value of funded obligations	(2,636)	(2,621)	(2,568)	(3,480)	**(3,930)**
Fair value of scheme assets	2,201	2,470	2,632	2,834	**3,082**
(Benefit obligation in excess of scheme assets)/ Scheme assets in excess of benefit obligation	(435)	(151)	64	(646)	**(848)**
Unrecognised actuarial losses	604	444	213	892	**988**
Asset recognised in the Balance Sheet	169	293	277	246	**140**

As the group has adopted the corridor approach, the pension asset included in the group's balance sheet excludes unrecognised actuarial losses of €988 million and the asset recognised in the balance sheet is €140 million compared to actual benefit obligation in excess of scheme assets of €848 million. Under the corridor approach, unrecognised actuarial gains and losses outside the corridor are recognised over the expected average remaining working lives of the employees, based on the unrecognised actuarial gains and losses at the start of the financial year (i.e. 1 July 2012). The amortisation is only re-measured during the year when there has been a material change in the obligations in respect of the pension scheme.

During the year ended 30 June 2010, changes to prospective pension benefits under the group's main defined benefit scheme agreed with the Trade Union Alliance resulted in a reduction in the present value of funded obligations. The measures included a freeze on pensionable pay up to 31 December 2013 and imposed limits on increases in salary qualifying for pension purposes thereafter.

36. Pensions - continued

Reconciliation of defined benefit obligation	**30 June 2012 €m**	**30 June 2013 €m**
At beginning of financial year	2,568	**3,480**
Current service cost	24	**34**
Interest cost	142	**142**
Transfer from provisions for liabilities and charges [(1)]	19	**9**
Actuarial losses	790	**330**
Contributions by employees	11	**11**
Benefits paid	(74)	**(76)**
Total – Defined benefit obligation	3,480	**3,930**

[(1)] *The amounts transferred from provisions relate to curtailment losses arising as a result of the group's restructuring programme. Provisions for restructuring include curtailment costs arising from restructuring programmes and the liabilities relating to curtailment are transferred to pension obligation at the time the individuals exit the business.*

Reconciliation – Fair value of plan assets	**30 June 2012 €m**	**30 June 2013 €m**
At beginning of financial year	2,632	**2,834**
Expected return on plan assets	118	**118**
Actuarial gains	110	**175**
Contributions paid by group	37	**20**
Contributions by employees	11	**11**
Benefits paid	(74)	**(76)**
Total – Fair value of plan assets	2,834	**3,082**

The components of the amounts recognised in the income statement are as follows:

	30 June 2012 €m	**30 June 2013 €m**
Current service cost	24	**34**
Interest on obligation	142	**142**
Expected return on scheme assets	(118)	**(118)**
Net actuarial losses recognised in the financial year	-	**57**
Total charge included in the income statement	48	**115**
Actual return on scheme assets	228	**293**

At 30 June 2013, unrecognised actuarial losses exceeded the present value of the defined benefit obligation by more than 10%. At 30 June 2013, the excess amount of the loss was €595 million (30 June 2012: €544 million). In accordance with the group's accounting policy for the recognition of actuarial gains and losses applicable up to 30 June 2013, excess gains and losses outside the corridor were recognised as a pension credit or charge over the expected average remaining working lives of the employees as computed at the beginning of the financial year. The estimated average remaining service life of employees at 30 June 2012 was 9.5 years.

However, as explained in Note 43, from 1 July 2013, the group is required to immediately recognise all actuarial gains and losses arising on its defined benefit pension schemes, as a result of the mandatory application of IAS 19 (Revised) 'Employee Benefits', which abolishes the corridor option. The revised standard will be retrospectively applied to prior periods.

The expected contribution level for the year ended 30 June 2014 for the defined benefit scheme is €20 million, though an actuarial valuation to be completed as at 30 September 2013 will determine the actual level of contribution.

As part of the group's restructuring programme the group made payments of €17 million during the year ended 30 June 2012 to the pension scheme based on the minimum funding standard for individuals who availed of an early retirement scheme. This was included in the contributions paid by the group above.

36. Pensions - continued

Pension scheme assets
The fair value of scheme assets as at 30 June 2013 was €3,082 million (30 June 2012: €2,834 million).

The table below presents a breakdown of the various types of investment in which the pension assets are invested:

	30 June 2012		30 June 2013	
	€m	%	€m	%
Equities & other assets	1,020	36%	**1,092**	**35%**
Bonds	1,644	58%	**1,802**	**59%**
Property	113	4%	**176**	**6%**
Cash	57	2%	**12**	**-**
Total pension assets	2,834	100%	**3,082**	**100%**

The overall expected return on plan assets is based upon the weighted average of the assumed returns on the major asset classes. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

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

	At 30 June 2009	At 30 June 2010	At 30 June 2011	At 30 June 2012	At 30 June 2013
Rate of increase in salaries	2.80%(1)	1.80% - 2.00%(2)	1.90%(3)	1.90%(3)	1.90%(4)
Rate of increase in pensions in payment	2.80%(1)	1.80% - 2.00%(2)	1.90%(3)	1.90%(3)	1.90%(4)
Discount rate	5.75%	5.00%	5.60%	4.10%	3.60%
Expected return on scheme assets	6.95%	5.90%	4.50%(5)	4.20%(5)	3.70%(5)
Inflation assumption	2.00%	2.00%	2.00%	2.00%	2.00%
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old male	86 years	86 years	88 years	88 years	88 years
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old female	89 years	89 years	90 years	90 years	90 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old male	87 years	87 years	91 years	91 years	91 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old female	90 years	90 years	92 years	92 years	92 years
Increase in net assets/(decrease in net liabilities) at the balance sheet date assuming an increase in the discount rate applied of 0.25%	(€109m)	(€104m)	(€104m)	(€152m)	(€165m)
Reduction in net assets/(increase in net liabilities) at the balance sheet date assuming an increase in the salary and pension growth applied of 0.25%	(€97m)	(€90m)	(€94m)	(€138m)	(€149m)

(1) The assumptions at 30 June 2009 reflected the agreed pay freeze up to 30 June 2011 with the stated rate applying thereafter.
(2) The assumptions at 30 June 2010 reflected the agreed pay freeze up to 30 June 2011, 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.
(3) The assumptions at 30 June 2011 and 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.
(4) The assumptions at 30 June 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 no increase in pensionable pay will arise prior to 1 July 2014.
(5) The expected return on scheme assets is net of a pension levy of 0.6% payable on an annual basis for three years ended 30 June 2014.

36. Pensions - continued

The expected long term rate of return on scheme assets were:

	At 30 June 2010	At 30 June 2011	At 30 June 2012	At 30 June 2013
Equities	7.00%	7.00%	7.00%	**6.50%**
Bonds	3.50%	3.80%	3.50%	**3.00%**
Cash	2.50%	2.50%	1.00%	**2.00%**
Property	6.00%	6.00%	6.00%	**5.50%**

	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013
Experience gains/(losses) on scheme liabilities	€271m	(€16m)	€167m	(€790m)	**(€330m)**
Percentage of the present value of the scheme liabilities	10%	(1%)	7%	(23%)	**(8%)**
Difference between the actual and expected return on scheme assets – (losses)/gains	(€730m)	€144m	€45m	€110m	**€175m**
Percentage of scheme assets	(33%)	6%	2%	4%	**6%**

(b) The Irish Minister for Finance is responsible for meeting and discharging the liability of: (i) the pension costs of former staff of the Irish Department of Posts and Telegraphs who retired or died before the vesting Day (1 January 1984); (ii) costs in respect of the pension entitlements, related to pre-vesting day reckonable service, of staff who transferred to eircom from the Irish Civil Service. Such benefit payments are made from the eircom Number 2 Pension Fund, which was established in March 1999 and received a contribution of €1,016 million from the Irish Minister for Finance in accordance with arrangements set out in the eircom Superannuation (Amendment) Scheme, 1999. However, the Minister retains full liability for these payments.

37. Operating lease commitments

At 30 June 2013, the group had annual commitments in respect of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The analysis of the group's annual commitments is as follows:-

	30 June 2012		30 June 2013	
	Property €m	Vehicles, plant and equipment €m	Property €m	Vehicles, plant and equipment €m
Annual commitments				
Under non-cancellable operating leases expiring:				
No later than one year	4	-	**3**	**1**
Later than one year but no later than five years	26	2	**21**	**1**
Later than five years	22	-	**22**	**-**
	52	2	**46**	**2**

The total contracted payments due on operating leases are as follows:

	30 June 2012 €m	30 June 2013 €m
Payable:		
No later than one year	54	**48**
Later than one year but no later than five years	141	**124**
Later than five years	267	**244**
	462	**416**

38. Credit guarantees and securities

Credit guarantees
The credit guarantees comprise guarantees and indemnities of bank or other facilities, including those in respect of the group's subsidiary undertakings. The group has guaranteed financial indebtedness for €2.4 billion in respect of the Senior Secured Notes and the Senior Credit Facility of eircom Holdings (Ireland) Limited Group.

Senior Credit Facility
At 30 June 2013, eircom Limited and certain of its subsidiaries have guaranteed financial indebtedness for €2 billion of eircom Finco Sarl pursuant to the Senior Credit Facility of eircom Holdings (Ireland) Limited Group.

eircom Finco Sarl holds the benefit of debentures from each of eircom Limited, Meteor Mobile Communications Limited and Irish Telecommunications Investments Limited. All security which was originally granted by eircom Limited, Meteor Mobile Communications Limited and Irish Telecommunications Investments Limited as security for the Senior Facilities Agreement of ERC Ireland Holdings Limited (a former parent entity of the eircom Limited group) dated 22 May 2006 was assigned to eircom Finco Sarl as part of the examiner's scheme of arrangement. eircom Limited, Meteor Mobile Communications Limited and Irish Telecommunications Investments Limited had, under debentures each dated 14 February 2007, granted fixed and floating charges over all of their assets (subject to certain exclusions specified in the security documents) as security for obligations under the Senior Facilities Agreement dated 22 May 2006. eircom Finco Sarl therefore holds the benefit of the Debentures dated 14 February 2007 as security for amounts owing to it under the Restated Intercompany Claims Agreement.

eircom Finco Sarl has assigned all of its right, title and interest in the Restated Intercompany Claims Agreement and the 14 February 2007 Debentures to Wilmington Trust (London) Limited, the Security Agent for the Secured Parties, as security for the Secured Obligations under the Senior Credit Facility.

The Senior Credit Facility of the eircom Holdings (Ireland) Limited Group consists of a €2 billion term credit facility which has the benefit of guarantees and security for all amounts borrowed under the terms of the Senior Credit Facility. The guarantees rank equally in right of payment with all existing and future indebtedness that is not subordinated to the Senior Credit Facility, including the guarantee of the Senior Secured Notes. The guarantees are contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement.The Senior Credit Facility is secured by pledges over the shares in eircom Holdings (Ireland) Limited, pledges over certain bank accounts, intercompany claims and related security of eircom Finco Sarl and fixed and floating charges over the assets of eircom Limited, Irish Telecommunications Investments Limited, Meteor Mobile Communications Limited and eircom UK Limited, subject to certain exclusions specified in the security documents. The companies guaranteeing the Senior Credit Facility are eircom Holdings (Ireland) Limited, eircom Finco SARL, eircom Limited, Meteor Ireland Holdings LLC, Irish Telecommunications Investments Limited, Meteor Mobile Communications Limited and eircom UK Limited.

Senior Secured Notes
eircom Limited and certain of its subsidiaries have guaranteed financial indebtedness for €350 million of eircom Finance Limited, a subsidiary of eircom Limited, pursuant to the Senior Secured Notes issued in May 2013.

The guarantees are general senior obligations of each guarantor and rank equally in right of payment with all existing and future indebtedness that is not subordinated to the Notes, including the guarantee of the Senior Credit Facility. The guarantees are contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement.

The Senior Secured Notes are secured by pledges over the equity interests in eircom Finance Limited and each Guarantor, pledges over certain bank accounts, intercompany claims and related security of eircom Finco Sarl and fixed and floating charges over the assets of the guarantors, subject to certain exclusions specified in the security documents. The guarantors of the Senior Secured Notes are eircom Holdings (Ireland) Limited, eircom Finco SARL, eircom Limited, Meteor Ireland Holdings LLC, Irish Telecommunications Investments Limited, Meteor Mobile Communications Limited and eircom UK Limited.

Hedging obligations
The group has entered into derivative financial instruments (see Note 25) which are subject, amongst other things, to an Intercreditor Agreement. In accordance with this agreement, the liabilities to hedging counterparties rank in priority to liabilities arising under the Senior Credit Facility and Senior Secured Notes in the event of enforcement action. The derivative financial instruments held by the group's joint venture, Tetra, are not subject to the Intercreditor Agreement.

Tetra Securities
The Senior Credit Facility of Tetra of €49 million is secured by a first-priority pledge fixed and floating charges over the assets of Tetra and a first ranking pledge over all the shares of Tetra. The senior credit facility and derivative financial instruments held by Tetra are not subject to the Intercreditor Agreement in respect of the Senior Credit Facilities of the eircom Holdings (Ireland) Limited Group.

The Senior Credit Facility of the eircom Holdings (Ireland) Limited Group and the Senior Secured Notes of eircom Finance Limited are also secured by a second pledge over eircom Limited's shares of Tetra.

39. Contingent liabilities

Hearing loss claims
As of 30 June 2013, eircom has received notice of personal injury claims for alleged hearing loss from one hundred and sixteen current and former employees, fifteen of which have been withdrawn, and six of which have been discontinued. Of the ninety-six remaining claims, fifty-five have become prima facie statute barred, and therefore eircom consider these cases to be closed. Of the remaining cases, twenty-six individuals have issued but not served court proceedings alleging hearing loss, and fourteen sets of proceedings have been served and are active. eircom has denied liability in all of the claims and intends to vigorously defend all proceedings issued in respect of hearing loss claims.

Performance guarantees
Performance guarantee deposits have been lodged in respect of the group's obligation to make payments to third parties in the event that the group does not perform its contracted commitments under the terms of certain contracts (see Note 21). At 30 June 2013, these include €6 million in respect of undertakings arising in relation to the roll out of our 3G network in Ireland, including achieving certain agreed milestones, €10 million in respect of eircom's obligation under a Quality of Service Performance Improvement Programme under our Universal Service Obligations ("USO") and €4 million in relation to other obligations under certain commercial contracts. No material losses are expected in respect of these obligations.

Allegations of anti-competitive practices
In October 2002, ComReg determined that eircom was not in compliance with its obligations under the voice telephony regulations as it provided telephone services to specific customers at prices which were not in accordance with the specific terms and conditions of eircom's discount schemes and published prices. No penalties were levied on eircom as a result of this determination.

Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court in December 2002 against eircom seeking damages including punitive damages resulting from the matters that were the subject of the ComReg determination. eircom submitted its defence on 26 January 2004 and intend to defend the proceedings vigorously.

The plaintiffs submitted general particulars of their damages claim on 3 February 2004 under the headings: loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs have identified claims for loss of revenue on existing customers (€7.4 million), failure to meet the plaintiffs' alleged budgeted growth (€25 million) and loss of revenue on the plaintiffs' pricing (€5 million). The particulars also include further unquantified damages. The plenary summons and statement of claim of Ocean Communications Limited and ESAT Telecommunications Limited were amended, inter alia, in April 2005 to include a claim for alleged breach of certain constitutional rights. Even if the plaintiffs could establish a liability on eircom's part under each of these headings, eircom's Directors do not believe that these figures represent damages which would be properly recoverable from eircom.

No further action has been taken by the plaintiffs in the eight years since they amended the plenary summons and statement of claim.

Claims by Smart Telecom
On 8 June 2005, Smart Telecom instituted proceedings against eircom in the Irish High Court, challenging the validity of a notice of termination issued by eircom to Smart Telecom terminating the interconnection agreement between the parties, and alleging that the notice of termination was an abuse by eircom of its dominant position in the telecommunications market. Smart Telecom further alleged that eircom was abusing its dominant position by refusing to provide network access in the form of Local Loop Unbundling ("LLU") in the manner required by Smart Telecom. The reliefs sought by Smart Telecom included declarations that the notice of termination was invalid and an abuse of dominance, that eircom was abusing its dominance by failing to meet Smart Telecom's LLU requirements, and unspecified damages, including exemplary damages, for breach of contract and violation of the Competition Act 2002 and the EC Treaty. eircom delivered its defence in the proceedings on 23 December 2005.

eircom's Directors believe that the notice of termination was validly issued in accordance with the interconnection agreement, and that eircom provides access to its network fully in accordance with its obligations, and intends to defend the proceedings vigorously. Smart Telecom submitted general particulars of its damages claim under the headings: wasted expenditure (€1.6 million), delayed sales/lost customers (€3.8 million per annum), and capitalisation of losses (€41.7 million per annum). Even if Smart Telecom could establish liability on eircom's part under each of these headings, eircom's Directors do not believe that these figures represent damages that would be properly recoverable from eircom.

In October 2006, eircom terminated the interconnection agreement with Smart Telecom on grounds unconnected with the proceedings. In 2006 and 2007, eircom introduced the LLU functionality that is the subject of Smart's claim in the proceedings.

No further action has been taken by Smart Telecom after the delivery of eircom's defence in December 2005. In December 2009, Smart Telecom went into liquidation.

39. Other contingent liabilities - continued

Other
The Irish taxation authorities are querying the deductibility of expenses in one of the subsidiary undertakings within the former ERC Ireland Holdings Group, a former holding company of the eircom Limited group, the resultant taxation losses of which were in part surrendered to entities in the eircom Limited group by way of group relief deductions. The former holding company is in liquidation since May 2012. The queries cover the fiscal years ended 31 March 2004 to 30 June 2012 inclusive. As a result of these enquiries, the taxation authorities have issued amended assessments restricting the group relief deductions claims for the periods from 31 March 2004 to 30 June 2010. The amended assessments have been appealed, though no date has yet been set for the Appeal Hearing. The taxation authorities are also separately undertaking an audit of other expense deductions taken by eircom Limited in the financial years ended 30 June 2007 to 30 June 2009 inclusive. Management are satisfied that all group relief claims and expenses have been appropriately deducted in the tax computation and do not believe that there is any liability in respect of these periods.

Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties including regulatory and taxation authorities have arisen in the normal course of business. While any litigation or dispute with regulatory and tax authorities has an element of uncertainty, the Directors believe that there were no contingent liabilities which would have a material adverse effect on the group's financial position.

40. Commitments

Capital commitments of the group which have been contracted for were €49 million at 30 June 2013 (30 June 2012: €30 million). These amounts have been approved by the Board.

Network share agreement with O2
A network share agreement with O2, another mobile operator in Ireland, was signed on 7 April 2011. This agreement sets out the terms under which the parties have agreed to the sharing and integration of certain aspects of the Radio Access Networks of both groups. The group recognises its own expenses, assets and liabilities in connection with the agreement. However, to the extent that the group's own operating and capital costs associated with shared assets exceed or amount to less than 50% of the total joint costs of the operation, a recharging mechanism exists which ensures equalisation of costs incurred by each party.

Each party has an unconditional right to terminate the agreement subject to a minimum period of prior notice. The agreement also contains standard rights for immediate termination for either party.

To the extent that the group expects to decommission existing assets in connection with the agreement, the related useful lives of the assets concerned and asset retirement obligations have been revised as appropriate and provisions have been recognised for any decommissioning costs for which a legal or constructive obligation existed at the balance sheet date.

41. Related party transactions
The following transactions were carried out with related parties:

a) Key management compensation

	Year ended 30 June 2012 €m	Year ended 30 June 2013 €m
Salaries and other short-term employee benefits	13.1	**10.3**
Other long-term employee benefits	2.3	**4.2**
Post-employment benefits	0.4	**0.7**
	15.8	**15.2**
Termination benefits	-	**3.3**
	15.8	**18.5**

Management Incentive Plan
The long term incentive plan for the management team for 2010 to 2014 provided for awards which were made for the years ended 30 June 2011 and 30 June 2012. In October 2012, the Remuneration Committee resolved to close the plan and replaced it with a new incentive plan, commencing August 2012. In accordance with the terms of the plan, amounts already awarded for years ended 30 June 2011 and 30 June 2012 are payable. Accruals at 30 June 2013 include €1.2 million (30 June 2012: €4.6 million) in respect of awards under the plan which have not yet been paid and are payable in the year ending 30 June 2014.

The new management incentive plan ("MIP") introduced by the group's parent company, eircom Holdco SA, for certain directors and senior executives in the group incentivises the participants to deliver maximum returns to shareholders on a sale or other form of exit, and to achieve full repayment of the group's borrowings under the Senior Facilities Agreement ("a debt value event") and to deliver maximum returns to shareholders on a sale of their shares ("sale event"). The MIP begins to accrue value from a stated threshold level of €1.8 billion (''MIP Threshold'') and the maximum permitted allocation for all participants in the scheme is an aggregate interest of up to 10% of the return above the MIP Threshold, which is subject to a cap in the event of a debt value event, of which 6.4% has been allocated at year end. The individual participants' entitlements under the MIP are subject to graded vesting on a time basis over a five year period commencing on the first anniversary of the scheme, 31 August 2013, although the agreements provide for accelerated vesting in the event of a sale or public offering provided the individual remains employed at such date. The weighted average remaining vesting term of the awards is 2.9 years.

Under the MIP the participants are entitled to receive instruments in Eircom MEP S.A., which in turn hold instruments in eircom Holdco S.A.. The instruments held in Eircom MEP S.A carry no voting rights and are not transferable. Under the terms of the MIP there are good and bad leaver clauses, which determine the rights of participants who cease to be employees prior to the occurrence of an exit event.

In the event that eircom Holdco SA has insufficient proceeds to discharge the amounts accruing to scheme participants under a debt value event, the discharge of such amounts will be dependent on funding from eircom Limited and/or Eircom Holdings Ireland Limited.

The group has recognised a total charge of €5.7 million in its income statement with a corresponding liability recorded on its balance sheet as at 30 June 2013.

b) Transactions and loans between related parties

Transactions with group undertakings

	30 June 2012 €m	30 June 2013 €m
Interest payable to group undertakings		
Beginning of financial year	-	**5**
Interest payable and similar charges recognised in income statement	5	**79**
Interest paid during the year	-	**(79)**
End of financial year (Note 29)	5	**5**

Details of the principal balances outstanding under borrowings from group undertakings are set out in Note 24 to the financial statements. The borrowings are repayable to eircom Finco Sarl, a fellow subsidiary of eircom Holdings (Ireland) Limited.

41. Related party transactions - continued

b) Transactions and loans between related parties – continued

Transactions with former group undertakings
The former group undertakings are former entities in the ERC Ireland Equity SPC Group. From 11 June 2012, ERC Ireland Equity SPC Group no longer holds any beneficial interest in the group. These undertakings were group undertakings up to 11 June 2012. The transactions relate to the period for which the entities were related parties.

	30 June 2012 €m	30 June 2013 €m
Interest payable to former group undertakings		
Beginning of financial year	-	-
Interest payable and similar charges recognised in income statement	9	-
Interest paid during the year	(8)	-
	1	-
Interest payable extinguished under examinership scheme of arrangement	(1)	-
End of financial year (Note 29)	-	-
Amounts owed to former group undertakings:		
Beginning of financial year	77	**8**
Loan repayments during the year	(11)	-
Charges for group tax relief recognised in income statement	15	-
Payments for group tax relief during the year	(31)	-
Transfer from 'Amounts due from group undertakings'	(22)	-
	28	**8**
Amounts owed to former group undertakings extinguished under examinership scheme of arrangement	(20)	-
Amounts owed by subsidiary undertaking derecognised on liquidation of subsidiary	-	**(8)**
End of financial year (Note 29)	8	-
Loans payable to former group undertakings:		
Beginning of year	184	-
Loan extinguished under examinership scheme of arrangement	(184)	-
End of financial year (Note 24)	-	-
Amounts due from former group undertakings:		
Beginning of financial year	4	**3**
Release of accrual relating to prior year recharged expenses	(1)	-
Loan advanced during the financial year	161	-
Loan repayments during the financial year	-	**(2)**
Transfer to 'Amounts owed to former group undertakings'	(22)	-
	142	**1**
Impairment provision recognised on 'Amounts due from former group undertakings'	(139)	-
End of financial year (Note 20)	3	**1**

41. Related party transactions - continued

c) Other related parties transactions

During the year ended 30 June 2013, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra Ireland Communications Limited of €5.4 million (30 June 2012: €5.2 million). The amount outstanding in respect of these costs is €4.1 million (30 June 2012: €2.8 million) at 30 June 2013.

During the year ended 30 June 2013, the group income statement included a charge of €0.3 million (30 June 2012: €0.4 million) paid in respect of the Employee Share Ownership Trust (ESOT) for the administrative expenses incurred in its capacity as trustee of the ESOT and the Approved Profit Share Scheme (APSS) which have not been recharged to the ESOT.

On 11 July 2013, ESOP Trustee Limited (as trustee of the ESOT) and the APSS entered into a member's voluntary liquidation. The residual assets not yet claimed by beneficiaries have been transferred to eircom Limited which will continue to administer the residual assets of the ESOT and the APSS in respect of untraced holders and unclaimed funds for a period of up to twelve years from the substantial winding-up of the trusts.

During the year ended 30 June 2013, the group paid €0.16 million (30 June 2012: €Nil), on normal commercial terms, to Prodigium Limited for strategic advice in relation to eircom Limited. All of these costs were expensed to the income statement. Mr. Hartery, an independent non-executive director of eircom Limited, is a controlling shareholder and a director of Prodigium Limited. The €0.16 million (ex VAT) covers all services provided to eircom Limited to date and eircom Limited will not require further services from Prodigium Limited at this stage.

42. Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 July 2013 or later periods but which the group has not early adopted, as follows:

IFRS 9, 'Financial instruments'. (Effective for financial periods beginning on or after 1 January 2015, subject to EU endorsement). The new standard addresses classification and measurement of financial assets. IFRS 9 replaces the multiple classification models in IAS 39 with a model that has two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets. IFRS 9 removes the requirement to separate embedded derivatives from financial asset host instruments and the cost exemption for unquoted equities. The group is currently reviewing the expected impact of this standard, which may change as a consequence of further developments resulting from the IASB's financial instruments project.

IFRS 10, 'Consolidated Financial Statements'. (Effective for annual periods beginning on or after 1 January 2014, subject to EU endorsement). The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, replacing the consolidation requirements in SIC-12 *Consolidation*—'Special Purpose Entities' and IAS 27 Consolidated and Separate Financial Statements. This is not expected to have any significant impact on the group.

IAS 27, 'Separate Financial Statements'. (Effective for annual periods beginning on or after 1 January 2014, subject to EU endorsement). This standard supersedes IAS 27 Consolidated and Separate Financial Statements following the issuance of IFRS 10, which replaced the consolidation requirements in IAS 27. Only accounting and disclosure requirements for the preparation of separate financial statements remain in IAS 27; the Standard was therefore renamed Separate Financial Statements. This is not expected to have any significant effect on the group.

IFRS 11, 'Joint Arrangements'. (Effective for annual periods beginning on or after 1 January 2014). The standard eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 and SIC-13. The group has applied proportionate consolidation to its investments in joint ventures in accordance with IAS 31. Application of the new standard will result in the use of equity accounting for these investments in the future which will change how the results and net assets of joint ventures are presented in the financial statements.

IAS 28, 'Investments in Associates and Joint Ventures'. (Effective for annual periods beginning on or after 1 January 2014). The standard incorporates the accounting for joint ventures. An entity applies IFRS 11 to determine the type of joint arrangement in which it is involved. Once it has determined that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method in accordance with IAS 28 (as amended in 2011), unless the entity is exempted from applying the equity method as specified in the standard. As the group has heretofore applied proportionate consolidation to its investments in joint ventures, application of the new standard will result in the use of equity accounting for these investments in the future.

42. Standards, interpretations and amendments to published standards that are not yet effective - continued

IFRS 12, 'Disclosure of Interests in Other Entities'. (Effective for annual periods beginning on or after 1 January 2014). IFRS 12 includes additional disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The group is currently assessing the impact of this standard, but there will be no impact of a recognition or measurement nature given the disclosure focus of the standard.

IFRS 13, 'Fair Value Measurement'. (Effective for annual periods beginning on or after 1 January 2013). IFRS 13 requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. Some of those disclosures, including the fair value hierarchy, were already introduced in March 2009 through an amendment to IFRS 7 'Financial Instruments: Disclosures'. Those disclosures have been relocated to IFRS 13. The group is currently assessing the impact of this standard, but no material effect on the measurement of the group's financial instruments is expected.

IAS 19 (Amendment), 'Employee Benefits'. (Effective for annual periods beginning on or after 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Of particular relevance to the group is the elimination of the option to defer the recognition of actuarial gains and losses (remeasurements), known as the 'corridor method'. This will result in full recognition of the group's defined benefit pension deficit as at 1 July 2013, with future remeasurements taken through other comprehensive income (see Note 36). In addition, liability for a termination benefit will be recognised when the group can no longer withdraw the offer of the termination benefit or recognises any related restructuring costs. This may impact the recognition of provisions in respect of voluntary termination benefits.

Annual Improvements (2011). (Effective for financial periods beginning on or after 1 January 2013). The IASB has issued "annual improvements" which amends various standards. The group is currently assessing the impact of these improvements on its financial reporting, but does not anticipate that the improvements will have a material impact on the group's financial statements.

IAS 32 (Amendment), 'Financial Instruments: Presentation'. (Effective for financial periods beginning on or after 1 January 2014). The amendment does not change the current offsetting model in IAS 32, but clarifies that the right of set-off must be available at the balance sheet date and cannot be contingent on future events. Whilst it is expected that the amendment will primarily only affect financial institutions, the group is currently assessing the impact of the amendment on its financial reporting, but does not anticipate that amendment will have a material impact on the group's financial statements.

IFRS 7 (Amendment), 'Financial Instruments: Disclosures'. (Effective for financial periods beginning on or after 1 January 2013). The amendment requires more extensive disclosures about financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements regardless of whether or not they are offset. The group is currently assessing the impact of this standard, but there will be no impact of a recognition or measurement nature given the disclosure focus of the standard.

IFRIC 20 'Stripping costs in the production phase of a surface mine'. (Effective for financial periods beginning on or after 1 January 2013). This interpretation has no relevance to the group.

Amendments to IFRS 10, 12 and IAS 27 'Investment entities'. (Effective for financial periods beginning on or after 1 January 2014). The amendments are subject to EU endorsement. The guidance applies to an 'investment entity'. The amendment to IFRS 10 defines an investment entity and introduces an exception from consolidation. The amendments to IFRS 12 also introduce disclosures that an investment entity needs to make. eircom Limited is currently assessing the impact of these amendments on its financial reporting, but does not anticipate at this time that it will avail of this exception from consolidation.

43. Comparative amounts

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

44. Approval of financial statements

These financial statements were authorised for issue by the Board of Directors on 26 September 2013.

Independent Auditors' Report to the Members of eircom Holdings (Ireland) Limited

We have audited the non-statutory consolidated financial statements of eircom Holdings (Ireland) Limited for the year ended 30 June 2013 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement as set out on page F-70, the directors are responsible for the preparation of the non-statutory consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the non-statutory consolidated financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the non-statutory consolidated financial statements
An audit involves obtaining evidence about the amounts and disclosures in the non-statutory consolidated financial statements sufficient to give reasonable assurance that the non-statutory consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited non-statutory consolidated financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory consolidated financial statements
In our opinion, the non-statutory consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2013 and of its loss and cash flows for the year then ended.

Emphasis of matter – non-statutory consolidated financial statements
In forming our opinion on the non-statutory consolidated financial statements, which is not modified, we draw attention to the fact that these non-statutory consolidated financial statements have not been prepared under Section 148 of the Companies Act 1963 and are not the company's statutory financial statements.

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

26 September 2013

PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, Ireland, I.D.E. Box No. 137
T: +353 (0) 1 792 6000, F: +353 (0) 1 792 6200, www.pwc.com/ie

Chartered Accountants

eircom Holdings (Ireland) Limited

Statement of Directors' Responsibilities for Financial Statements

For the Year Ended 30 June 2013

The directors are responsible for preparing the non-statutory consolidated financial statements for the bondholders in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and for being satisfied that they give a true and fair view of the state of the group's affairs at the end of the financial year and of the profit or loss and cash flows of the Group for the financial year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that the financial statements comply with IFRS, as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website.

Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These non-statutory consolidated financial statements have been approved for issue by the Directors on 26 September 2013.

eircom Holdings (Ireland) Limited

Group income statement

For the Year Ended 30 June 2013

	Notes	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Revenue	7	83	**1,394**
Operating costs excluding amortisation, depreciation, impairment and exceptional items	8	(52)	**(935)**
Amortisation	8, 14	(4)	**(71)**
Depreciation	8, 15	(17)	**(266)**
Goodwill impairment	8, 13	(542)	**-**
Exceptional items	8, 9	-	**(16)**
Exceptional gain on exit from subsidiary	8, 10	-	**17**
Operating (loss)/profit		(532)	**123**
Finance costs	11 (a)	(10)	**(238)**
Finance income	11 (b)	-	**1**
Finance costs – net	11	(10)	**(237)**
Loss before tax		(542)	**(114)**
Income tax charge	12	(1)	**(1)**
Loss for the financial period attributable to equity holders of the parent	30	(543)	**(115)**

Group statement of comprehensive income

For the Year Ended 30 June 2013

	Notes	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Loss for the financial period attributable to equity holders of the parent	30	(543)	**(115)**
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Defined benefit pension scheme actuarial losses:			
- Actuarial loss in year	35	(28)	**(155)**
- Tax on defined benefit pension scheme actuarial losses	17, 26	3	**19**
		(25)	**(136)**
Items that may be reclassified subsequently to profit or loss			
Net changes in cash flow hedge reserve:			
- Fair value gain in year	30	-	**5**
- Tax on cash flow hedge movements	30	-	**(1)**
		-	**4**
Other comprehensive expense, net of tax		(25)	**(132)**
Total comprehensive expense for the financial period	30	(568)	**(247)**

The accompanying notes form an integral part of the financial statements.

eircom Holdings (Ireland) Limited

Group balance sheet
As at 30 June 2013

	Notes	30 June 2012	30 June 2013
		€m	€m
ASSETS			
Non-current assets			
Goodwill	13	294	**192**
Other intangible assets	14	319	**460**
Property, plant and equipment	15	1,649	**1,584**
Derivative financial instruments	25	-	**4**
Deferred tax asset	17	1	**4**
Other assets	18	6	**5**
		2,269	**2,249**
Current assets			
Inventories	19	14	**12**
Trade and other receivables	20	240	**226**
Derivative financial instruments	25	-	**1**
Restricted cash	21	32	**22**
Cash and cash equivalents	22	349	**324**
		635	**585**
Total assets		2,904	**2,834**
LIABILITIES			
Non-current liabilities			
Borrowings	24	1,837	**1,977**
Derivative financial instruments	25	1	**-**
Trade and other payables	28	179	**170**
Deferred tax liabilities	26	27	**-**
Retirement benefit liability	35	649	**848**
Provisions for other liabilities and charges	27	152	**133**
		2,845	**3,128**
Current liabilities			
Borrowings	24	9	**9**
Derivative financial instruments	25	1	**1**
Trade and other payables	28	490	**448**
Current tax liabilities		26	**21**
Provisions for other liabilities and charges	27	101	**42**
		627	**521**
Total liabilities		3,472	**3,649**
EQUITY			
Equity share capital	29, 30	-	**-**
Cash flow hedging reserve	30	-	**4**
Retained loss	30	(568)	**(819)**
Total equity	30	(568)	**(815)**
Total liabilities and equity		2,904	**2,834**

The accompanying notes form an integral part of the financial statements.

eircom Holdings (Ireland) Limited

Group cash flow statement
For the Year Ended 30 June 2013

	Notes	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Cash flows from operating activities			
Cash generated from operations	31	20	**376**
Financial restructuring costs		(17)	**(6)**
Interest received		-	**1**
Interest paid		-	**(82)**
Income tax paid		-	**(17)**
Net cash generated from operating activities		3	**272**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		370	**-**
Disposal of subsidiary undertaking, net of cash disposed		-	**117**
Purchase of property, plant and equipment ("PPE")		(12)	**(197)**
Proceeds from sale of PPE and other intangible assets		-	**2**
Purchase of intangible assets		(13)	**(219)**
Restricted cash		-	**10**
Net cash generated from/(used in) investing activities		345	**(287)**
Cash flows from financing activities			
Proceeds from issuance of Senior Secured Notes due 2020		-	**350**
Repayment on borrowings		-	**(347)**
Debt issue costs paid		-	**(12)**
Net cash used in financing activities		-	**(9)**
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		348	**(24)**
Cash and cash equivalents at beginning of financial year		-	**348**
Cash, cash equivalents and bank overdrafts at end of financial year	22	348	**324**

The accompanying notes form an integral part of the financial statements.

eircom Holdings (Ireland) Limited

Group statement of changes in equity
For the Year Ended 30 June 2013

	Notes	Total equity €m
At beginning of financial period	30	-
Issue of share capital	29, 30	-
Total comprehensive expense for the financial period	30	(568)
Balance at 30 June 2012	30	(568)
Balance at 1 July 2012	30	**(568)**
Total comprehensive expense for the financial year	30	**(247)**
Balance at 30 June 2013	30	**(815)**

The accompanying notes form an integral part of the financial statements.

eircom Holdings (Ireland) Limited

Notes to the Financial Statements
For the Year Ended 30 June 2013

1. General information

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

eircom Holdings (Ireland) Limited was incorporated on 23 April 2012. eircom Holdings (Ireland) Limited directly holds 100% of the issued share capital of two subsidiaries: eircom Finco Sarl and eircom Limited. eircom Holdings (Ireland) Limited incorporated eircom Finco Sarl, a company registered in Luxembourg, on 24 May 2012.

On 11 June 2012, eircom Holdings (Ireland) Limited acquired 100% of the issued share capital of eircom Limited for €1.00 pursuant to a Scheme of Arrangement approved by the Irish High Court. The principal trading activities of the group are undertaken by eircom Limited and its subsidiaries. eircom Limited is the incumbent telecommunications operator in the Republic of Ireland. Further details of the acquisition of the eircom Limited group are set out in Note 6 to these financial statements.

eircom Holdco SA, a company registered in Luxembourg, is the immediate and ultimate parent company.

2. Going concern

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

The principal trading subsidiaries of the group, eircom Limited and Meteor Mobile Communications Limited ("Meteor"), as well as the group's treasury company, Irish Telecommunications Investments Limited ("ITI"), were the subject of an Examinership process in the prior year.

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

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

Under the Scheme of Arrangement, the entire issued share capital of eircom Limited was transferred to eircom Holdings (Ireland) Limited for a consideration of €1.00 and eircom Finco Sàrl, became the borrower under the new Senior Credit Facility Agreement with the group's creditor banks and eircom Limited, Meteor and ITI and certain other subsidiaries are guarantors under this facility Agreement.

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

The financial covenants under the new Senior Facilities Agreement include a maximum ratio of consolidated net debt to consolidated EBITDA, minimum ratios of cash flow and consolidated EBITDA to net debt service, minimum liquidity requirements and annual maximum capital expenditure limits. In setting the financial covenants consideration was given for potential downside risk to the eircom Limited Group's business plans. The covenants are required to be tested on a quarterly basis, except for the capital expenditure covenants which are required to be tested on an annual basis and the cash flow before net debt service to net debt service covenant which is effective from 30 September 2015. The covenant tests have been met for the year ended 30 June 2013. The financial covenant measures, if not complied with at future dates, could result in the new Facilities becoming immediately due and payable in advance of the agreed maturity date.

During the year ended 30 June 2013, the group effected a debt refinancing transaction, which included the issuance of €350 million in Senior Secured Notes due May 2020. The Notes are guaranteed by eircom Holdings (Ireland) Limited and a number of its subsidiaries (see Note 37). The proceeds of the Notes were used to repurchase principal liabilities under the borrowings under the Senior Facilities Agreement (see Note 24).

The net liabilities of the group included in the balance sheet at 30 June 2013 exclude liabilities in respect of borrowings of €384 million, as IFRS requires borrowings to be included at fair value on the date of initial recognition and subsequently at amortised cost (see Note 24).

The Directors believe that it is appropriate to adopt the going concern basis of accounting for the financial statements notwithstanding the net liability position of the group as the Directors believe that based on the group's forecast of operational cash flows, and trading results, the group will be in a position to meet its obligations as they fall due and is expected to comply with its financial covenants, for the foreseeable future.

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

3. Accounting policies

The significant accounting policies adopted by the group are set out below.

3.1. Basis of preparation

These financial statements have been prepared in accordance with IFRS, as adopted by the European Union. The financial statements are prepared on a going concern basis (see Note 2). A summary of the more important accounting policies is set out below.

These non-statutory financial statements have not been prepared under Irish law and are not the company's statutory financial statements.

The financial statements, which are presented in euro rounded to the nearest million, have been prepared under the historical cost convention except for the following:

- derivative financial instruments are stated at fair value; and
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

Standards, amendments and interpretations effective for the year ended 30 June 2013
IAS 1 (Amendment), 'Presentation of Financial Statements' became effective during the year. The standard impacts on presentation and disclosure and has not impacted on the measurement of amounts.

3.2. Basis of consolidation

The consolidated financial statements of the group comprise a consolidation of the financial statements of eircom Holdings (Ireland) Limited and its subsidiaries. The subsidiaries' financial period ends are all coterminous with those of eircom Holdings (Ireland) Limited included in the financial statements.

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

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

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

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

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

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

3. Accounting policies - continued

3.2. Basis of consolidation - continued

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

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

(iv) *Acquisitions*
The purchase method of accounting is used to account for all business combinations, except for business combinations involving entities under common control and group reorganisations. Under the purchase method of accounting, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the group's share of the identifiable assets, liabilities and contingent liabilities recognised. The interest of non-controlling interest shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised, and does not include a gross-up for goodwill. The results of subsidiaries acquired during the period are brought into the consolidated financial statements from the date control transfers to the group.

(v) *Disposals*
The results of businesses sold during the period are included in the consolidated financial statements for the period up to the date control ceases. Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold.

3.3. Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets, liabilities and contingent liabilities recognised of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'.

Goodwill is not amortised. Instead, Goodwill is tested for impairment annually and is carried at cost less accumulated impairment losses. Impairment losses on goodwill may not be reversed in any circumstances.

Goodwill is allocated to cash generating units for the purpose of impairment testing in accordance with IAS 36 "Impairment of Assets". The allocation is made to cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates, including management's expectations of future revenue, operating costs, profit margins and capital requirements for each cash generating unit.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

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

3. Accounting policies - continued

3.4. Intangible assets - continued

The following useful lives have been assigned to intangible assets:

	Years
Computer software	3 - 4
Intangible assets from acquisitions:	
Customer relationships (Fixed)	2
Trademark (Fixed)	Indefinite
Licence (Fixed)	2
Mobile licences	15 - 18.5 [(1)]

[(1)] Spectrum licences are amortised over the term of the relevant licences which expire between 13 July 2015 and 12 July 2030.

Intangible assets not yet available for use are tested for impairment in accordance with IAS 36 "Impairment of Assets" in the same manner as goodwill (see 3.3 above)

3.5. Segmental reporting
An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Management Team, which is the key management team that makes strategic decisions.

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

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

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

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

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

Traffic revenue is recognised at the time the traffic is carried over the group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products (broadband, line rentals and traffic) are accounted for in the same manner as the unbundled products comprising the bundle.

Connection fee revenue is deferred over the life of the connection, which is estimated to be between four and five years. Connection lives are reviewed annually.

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

3. Accounting policies - continued

3.6. Revenue recognition - continued

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

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

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

3.7. Exceptional items
The group has adopted an income statement format which seeks to highlight significant items within group results for the year. The group believe that this presentation provides additional analysis as it highlights one-off items. Such items include, where significant, restructuring costs, curtailment gains and losses in respect of pensions, impairment of surplus properties, onerous contracts and reinstatement/dilapidation provisions. 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.

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

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

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

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

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

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

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

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

3. Accounting policies - continued

3.11. Taxation
eircom Holdings (Ireland) Limited is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland.

Current tax is calculated on the profits of the period. Current tax is determined using tax rates (and laws) that have been enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised in other comprehensive income or directly in equity, if the tax relates to items that are credited or charged, in the same or a different period, in other comprehensive income or directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.12. Financial instruments

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

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

(ii) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each subsequent balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The group designates certain derivatives as hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Derivative assets or liabilities are presented as current or non-current based on expected realisation or settlement dates.

(iii) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income. Any ineffective portion of the hedge is recognised in the income statement.

Amounts accumulated in equity are recycled in the income statement within finance costs in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(iv) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. The group's loans and receivables are set out in Note 23.

3. Accounting policies - continued

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

Depreciation
Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives, from the date the asset is available for use. The estimated economic lives assigned to property, plant and equipment are as follows:

Asset Class	Estimated Economic Life (Years)
Buildings	40
Network Plant	
Transmission Equipment	
Duct	20
Overhead cable/poles	8-15
Underground cable	14
Other local network	6-15
Exchanges	
Exchange line terminations	8
Core hardware/operating software	3-4
Others	3-14

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

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

Assets in the course of construction
Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. The estimated amount of interest incurred, directly attributable to constructing qualifying assets that necessarily take a substantial period of time to get ready for their intended use, is capitalised based on the weighted average interest rate on outstanding borrowings.

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

3. Accounting policies - continued

3.14. Impairment of non financial assets - group
Assets that have an indefinite useful life, principally goodwill and intangible assets not yet available for use, are not subject to amortisation, and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill and secondly against the other assets (including other intangible assets) in the cash generating unit on a pro-rata basis based on the carrying amount of each asset in the cash generating unit.

Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses recognised in respect of goodwill are not reversed in any circumstances.

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

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

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

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

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

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

3. Accounting policies - continued

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

3.19. Indefeasible rights of use ("IRU")
The group accounts for IRU contracts in the following manner:

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

(ii) Purchase contracts are accounted for as service contracts with the pre-paid balance recorded as an asset and amortised on a straight-line basis as an expense over the period of the relevant contracts.

3.20. Employee benefits

(i) *Pension obligations*
Group companies operate various pension schemes. The schemes are generally funded through payments determined by periodic actuarial calculations to independent trustee-administered funds. The group operates both defined benefit and defined contribution plans.

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

Typically, defined benefit plans define an amount of future pension benefit that employees have earned in return for their services to date. The pension benefit that an employee will receive on retirement is usually dependent on factors such as age, years of service and compensation. The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the group's defined benefit obligation at the balance sheet date, less the fair value of plan assets. Plan assets are valued at their market value at the balance sheet date using bid values. The defined benefit obligation, and the related current service cost, and, where applicable, past service cost, are calculated by independent actuaries using the projected unit credit method. The defined benefit obligation is calculated annually unless there has been a material change in the obligations, where it is then recalculated during the year. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an appropriate discount rate based on current market yields at the balance sheet date of high quality corporate bonds that are denominated in euros, and reflect the duration of the related pension liability.

The amounts of current service cost, interest cost and expected return on plan assets recognised in the income statement are computed based on actuarial assumptions at the start of the financial year.

Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, are charged or credited directly to reserves through the statement of other comprehensive income.

Past service costs and negative past service costs are recognised immediately as an expense in the group income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case the past service costs or negative past service costs are amortised on a straight-line basis over the vesting period.

Settlements and curtailments trigger immediate recognition of the consequent change in obligations and related assets or liabilities in the group income statement. Where a curtailment relates to only some of the employees covered by the plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of any previously unrecognised past service costs. Before the effect of a curtailment or settlement is determined, the defined benefit obligation is re-measured using current actuarial assumptions.

The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

Pre 1 January 1984, past-service costs are the responsibility of the Irish Minister for Finance (see Note 35(b)).

3. Accounting policies - continued

3.20. Employee benefits - continued

(ii) *Other bonus plans*
The group recognises a liability and an expense for bonuses where contractually obliged, or where there is past practice that has created a constructive obligation.

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

(iii) *Other long term incentive arrangements*
Where the group has committed to other long term incentive arrangements, resulting long term employment benefits are accounted for in a similar manner to post employment benefits. The group accounts for obligations relating to long term incentive bonus plans for executive directors, key management and other employees at the present value of the incentive bonus plan obligation at the reporting date. The service cost relating to such plans is allocated over each of the years which service under the plan is rendered by the individual to meet the conditions under each of the individual vesting periods. The income statement expense represents the increase in the present value of the incentive bonus plan obligation resulting from employee service in the current period, and any changes in the estimate of the ultimate amounts payable under the scheme, in addition to any associated finance costs where material.

Where long term incentive arrangements include share-based payment obligations, the accounting for such arrangements differs depending on whether the obligations are equity-settled, cash-settled and where the cost is borne by the parent company. Under the plans currently in existence, the group has no obligations in respect of share based payments, which are borne by the parent, eircom Holdco SA. As the relevant individuals provide services to the group, the group is required to recognise a charge to the income statement and a corresponding increase in equity. For cash settled share based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(iv) *Termination benefits*
Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3.21. Provisions
A provision is recognised when, and only when (a) the group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation.

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

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract, or the estimated cost to exit it, where appropriate.

3. Accounting policies - continued

3.22. Financial guarantee contracts
Liabilities are initially measured at fair value in respect of financial guarantees issued by the group for the benefit of third parties, and subsequently at the higher of the amount determined in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

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

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

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

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

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

3.26. Dividends
Dividend income is recognised when the right to receive payment is established.

4. Financial risk management

Financial risk factors
The group's activities expose it to a variety of financial risks: liquidity risk, market rate risk (including cash flow, interest rate risk, currency risk and price risk) and credit risk. The group's overall risk management program focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the financial performance of the group. The group uses derivative financial instruments, such as interest rate swaps, to hedge certain risk exposures. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risks, and ageing analysis for credit risk. Responsibility for managing these risks rests with the Board.

The group does not hold or issue derivative financial instruments for financial trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

As set out in Note 6, on 11 June 2012, following the implementation of a High Court approved Scheme of Arrangement under which eircom Holdings (Ireland) Limited acquired 100% of the share capital of eircom Limited, eircom Finco Sarl, a subsidiary company, became the borrower of €2,345 million under a Senior Facilities Agreement with the group's external lenders. eircom Holdings (Ireland) Limited together with certain of its subsidiary companies, are guarantors under the Senior Facilities Agreement. The Senior Facilities Agreement requires, amongst other things, that the eircom Holdings (Ireland) Limited Group comply with financial covenants. Further details of the financial covenants are set out in Note 2 to the financial statements. The borrowings are repayable on 30 September 2017. Non-compliance with these covenants, which are measured on a quarterly basis, would allow the lenders under the Senior Facilities Agreement to accelerate the indebtedness requiring all incurred liabilities to be immediately repaid in full.

As set out in Note 24, the net proceeds of €339 million from the issuance of €350 million of Senior Secured Notes, after allowance for certain costs relating to issuance, were used to repurchase €364 million of principal due and outstanding under the Senior Facilities Agreement (at an average price of €0.933 per €1.00). The Senior Secured Notes bear fixed rate cash pay interest of 9.25% in semi-annual instalments.

There have been no other changes in the types of financial risks or the group's risk management program (including methods used to measure the risks) arising from any of the group's trading activities since 30 June 2012

4.1. Liquidity risk
The objective of liquidity management is to ensure the availability of sufficient funds to meet the group's requirements and to repay maturing debt and other liabilities as they fall due.

The balance sheet of eircom Holdings (Ireland) Limited includes a recognised liability of €1,621 million in respect of the group's borrowings under the Senior Credit Facilities Agreement in non-current liabilities as at 30 June 2013. The actual non-current liability in respect of these borrowings at 30 June 2013 is €2,005 million. The difference of €384 million, arising from recognising the borrowings based on the fair value on inception, is amortised over the term of the borrowings (up to 30 September 2017) in accordance with the effective interest rate method under IAS 39.

Details of the maturities of the obligations of the group are set out below.

As set out in Note 2, having reviewed the group's business plans and cash flow forecasts, and considering forecast compliance with financial covenants up to the period ending 31 December 2014, the Directors consider that the group will able to realise its assets and discharge its liabilities in the ordinary course of business for the foreseeable future. Management of the group's liquidity risk is fundamental to its operations. The nature of the group's business, its working capital management activities and investment in network assets has often resulted in minimal current assets or net current liabilities.

The eircom Holdings (Ireland) Limited group has net current assets of €64 million at 30 June 2013. The current liabilities at that date include deferred revenue of €97 million. There is no cash outflow requirement associated with deferred revenue.

4. Financial risk management - continued

4.1. Liquidity risk - continued

Maturities of financial liabilities
The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the interest rates effective at the balance sheet date and includes the margins applicable to the relevant debt.

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
Borrowings					
- At 30 June 2013	**9**	**9**	**2,014**	**350**	**2,382**
- At 30 June 2012	9	9	18	2,346	2,382
Interest on borrowings					
- At 30 June 2013	**98**	**99**	**340**	**65**	**602**
- At 30 June 2012	89	90	274	156	609
Derivative financial instruments					
- At 30 June 2013	**1**	**-**	**-**	**-**	**1**
- At 30 June 2012	1	1	-	-	2
Trade and other payables					
- At 30 June 2013	**298**	**4**	**19**	**32**	**353**
- At 30 June 2012	320	5	16	39	380
TIS annuity scheme					
- At 30 June 2013	**12**	**9**	**14**	**8**	**43**
- At 30 June 2012	13	11	20	11	55

4.2. Capital risk management
The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders over the long term. The capital structure of the group consists of the borrowings as set out above, and equity comprising issued capital, reserves and accumulated losses as listed in Note 30. The maturities of the group's borrowings are shown in Note 4.1.

4. Financial risk management - continued

4.3. Credit risk
Credit risk refers to the loss that the group would incur if a debtor or other counter-party fails to perform under its contractual obligations. Credit risks are mainly related to counter-party risks associated with cash and cash equivalents, restricted cash, trade and other debtors, amounts owed by related companies and derivative contracts.

The group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Ireland. Exposure to credit loss and subscriber fraud is actively monitored on a regular basis, including some processing of current credit information on subscribers from third-party sources (subject to availability) and, where appropriate, a provision for doubtful debtors is made.

The credit risk and net exposure on key accounts, particularly other authorised operators and international carriers, is monitored separately through continual risk assessments of customers with material balances. In terms of the overall exposure from credit risk, the receivables from these counter-parties are not so extensive as to be considered significant concentrations of credit risk.

Ageing of trade receivables
The ageing analysis of trade receivables is set out below.

	Past due but not impaired						
	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	More than 90 days	**Neither impaired nor past due**	**Impaired**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Trade receivables - at 30 June 2013	**21**	**15**	**10**	**12**	**99**	**29**	**186**
- at 30 June 2012	17	14	9	9	121	31	201 [(1)]

[(1)] *Provisions for impaired receivables of €27 million were incorporated in determining the fair value of trade receivables arising on the acquisition of eircom Limited.*

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The group held collateral on trade receivables in the form of cash deposits of €3 million (30 June 2012: €3 million) as security.

The group is exposed to credit risk relating to its cash and cash equivalents. The group treasury policy is designed to limit exposure with any one institution and to invest its excess cash in low risk investment accounts with authorised banking counter-parties and with institutions whose long-term Standard & Poor's (S&P) credit rating is "BBB-" or above (or Moody's equivalent rating of "Baa3") or is an acceptable bank under the Senior Facilities Agreement.

The credit quality of cash and cash equivalents can be assessed by reference to S&P credit ratings in the table below.

	30 June 2012	**30 June 2013**
	€m	**€m**
Cash and cash equivalents		
AAA	145	**25**
AA-	-	**67**
A+	-	**71**
A	164	**107**
BBB+	40	**-**
BB+	-	**31**
BB	-	**23**
	349	**324**

4. Financial risk management - continued

4.4. Market rate risk

Market rate risk refers to the exposure of the group's financial position to movements in interest rates, currency rates and general price risk. The group has limited exposure to equity, currency and price risk, other than the impact of those risks on the group's defined benefit pension scheme.

The principal aim of managing the interest rate risk is to limit the adverse impact on cash flows and shareholder value of movements in interest rates.

Cash and cash equivalents and borrowings at variable rates expose the group to cash flow interest rate risk. Cash and cash equivalents and borrowings at a fixed rate expose the group to fair value interest rate risk.

The group uses derivative financial instruments to hedge certain interest rate risk exposures on group borrowings.

In accordance with the terms of the Senior Facilities Agreement of eircom Holdings (Ireland) Limited in November 2012 a hedging letter was agreed between eircom Holdings (Ireland) Limited and the Agent. The hedging letter requires that the group hedges its exposure to interest rate risk on not less than 50 per cent of its consolidated total net debt as defined under the Senior Facilities Agreement, at least until 11 June 2015.

eircom Finco Sarl entered into two interest rate swaps for a total notional principal amount of €1,200 million, at a weighted average rate of 0.252% less 3-month Euribor for the period from 11 December 2012 to 11 June 2015. These swaps have the effect of fixing the effective interest rate payable under €1,200 million of the group's debt to 4.25% for the duration of the swaps.

The group issued €350 million of fixed rate 9.25% Senior Secured Notes in May 2013.

As at reporting date, the group had the following cash and cash equivalents (Note 22), floating-rate borrowings (Note 24) and interest rate swap contracts outstanding (Note 25):

	30 June 2012		**30 June 2013**	
	Weighted average Interest rate %	**Balance €m**	**Weighted average Interest rate %**	**Balance €m**
Cash and cash equivalents	0.34%	349	**0.14%**	**324**
Bank borrowings (Facility B)	4.66%	(2,346)	**4.45%**	**(2,005)**
Bank borrowings (Joint Venture)	1.39%	(35)	**1.11%**	**(27)**
Overdraft	2.88%	(1)	**-**	**-**
Interest rate swaps (Notional principal amount) [1]		26		**1,220**
Net exposure to interest rate risk		(2,007)		**(488)**

[1] The interest rate swaps include €20 million (30 June 2012: €26 million) held by the group's Joint Venture, Tetra Ireland Communications Limited ("Tetra"), representing the group's share of 56%.

4. Financial risk management – continued

4.4. Market rate risk – continued

Interest rate sensitivity analysis
Based on the financial instruments held at the balance sheet date, if interest rates are 25 basis points ("bps") higher/lower and all other variables are held constant, the group's profit/(loss) after tax for the year ended 30 June 2014 will increase or decrease by the amounts set out in the table below:

	Increase by 25 bps €m	Decrease by 25 bps €m
Profit for the year - (lower)/higher	**(1)**	**1**

A sensitivity of 25 bps has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

Currency risk
The group conducts its business primarily in Ireland and, therefore, operating and investing cash flows are substantially denominated in euro. A limited level of foreign exchange risk arises in relation to a foreign subsidiary, capital expenditure denominated in foreign currencies and foreign exchange settlements with international third party telecommunications carriers.

Given the limited level of risk the group does not generally hedge its foreign exchange risk arising on transactions and capital expenditure denominated in foreign currencies.

Price risk
The group is exposed to price risk on the assets held by the group's defined benefit pension scheme (see Note 35).

4.5. Fair value estimation
IFRS 7 requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

This information has been provided in Note 23.

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair values of short-term deposits and overdrafts approximate to their carrying amounts.

4. Financial risk management – continued

4.6. Hedging instruments

As at the reporting date, the group had entered into a number of swaps to cover interest rate exposure on various debt obligations. In accordance with IAS 39: "Financial Instruments – Recognition and Measurement", these instruments have been designated as cash flow hedges and movements in the effective portion of the fair value of the hedges have been taken through the cash flow hedge reserve.

Derivatives designated and eligible for hedge accounting

The details of the effective interest rate and maturity of these designated and effective hedging instruments are:

				Maturity date – principal value					
	Principal value	**Fair Value**	**Weighted average Interest rate**	**Within 1 Year**	**Between 1 & 2 Years**	**Between 2 & 3 Years**	**Between 3 & 4 Years**	**Between 4 & 5 Years**	**After 5 Years**
	€m	**€m**	**%**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Designated active interest rate swap									
- at 30 June 2013	**1,200**	**5**	**0.252%**	**-**	**1,200**	**-**	**-**	**-**	**-**
- at 30 June 2012	-	-	-	-	-	-	-	-	-

The effective interest rates in the table above are based on the effective interest rates in the derivative financial instruments designated for cash flow hedging. This does not equate to the effective interest rate on the underlying debt as it excludes the margin over Euribor, payable in respect of the group's Senior Credit Facility. The margin on the senior credit facility is 4% over Euribor.

The group does not use derivatives for trading or speculative purposes but has derivatives which are not designated or are ineligible for hedge accounting as detailed below.

At 30 June 2013, the group's Joint Venture, Tetra Ireland Communications Limited ("Tetra"), has hedged its floating rate borrowings (excluding margin), using an interest rate swap with a fixed interest rate of 4.47%. The group has proportionately consolidated 56% of the net assets of this entity. The fair value of the Tetra derivative in the financial statements of the group is a liability of €1 million at 30 June 2013 (30 June 2012: €2 million). The group's share of the notional principal amount of this derivative is €20 million at 30 June 2013 (30 June 2012: €26 million). The notional principal amount varies throughout the life of this swap. This derivative has not been designated as a cash flow hedge under IAS 39.

Further information on the group's use of interest rate swaps is included in Note 25.

5. Critical Accounting Judgements and Estimates

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1. Determining the purchase price allocation in respect of business combinations

In the purchase price allocation made for each acquisition, the purchase price is assigned to the identifiable assets, liabilities and contingent liabilities based on fair values for these assets. Any remaining excess value is reported as goodwill. This allocation requires management judgement including estimating the fair value of the acquired tangible and intangible assets and estimating the revenue and profits to be generated by the acquired business as well as the definition of cash generating units for impairment testing purposes. Other judgements might result in significantly different results and financial position in the future.

5.2. Making appropriate assumptions on non-financial asset impairment reviews

The group undertakes a review for impairment of goodwill, indefinite lived intangible assets, intangible assets not yet available for use annually and for other non-financial assets if events or circumstances indicate that the carrying amount may not be recoverable.

Factors which the group consider could trigger an impairment include, but are not limited to the following: (1) significant negative industry or economic trends, (2) current, historical or projected losses that demonstrate continuing losses, (3) results of fair market valuations performed or (4) changes in key assumptions underpinning the fair value less cost to sell and value in use calculations. These impairment charges under IFRS are based upon the excess of the carrying amount of the asset over its recoverable amount, which is the higher of the fair value less cost to sell and its value in use, based on discounted future cash flows. When an asset is not recoverable in full, impairment is measured as the excess of carrying value over the recoverable amount of the long-life asset. Management incorporates estimates when evaluating the carrying amount, the recoverable amount, the value in use and the fair value less cost to sell. Changes in these estimates directly affect management's assessment of whether an impairment charge is required and the amount of the impairment charge recorded.

The discount rate used in impairment testing is derived from a weighted average cost of capital ("WACC") which is impacted by interest rates and market risk premiums, estimated for companies in the telecommunications sector. Given the recent market volatility there is a risk that the WACC could increase significantly in future periods. There is also a risk of deterioration in the budgeted future cash flows as a result of the current economic environment.

Any significant deterioration in the budgeted future cash flows or changes in WACC or estimates in respect of terminal growth rates could result in a further impairment of our goodwill and/or non-financial assets, which could have a further negative effect on operating profits and assets. Future cash flows would not be impacted by any impairment provision.

Details of the assumptions used in the impairment test at 30 June 2013 are set out in Note 13.

5.3. Establishing lives for amortisation purposes of intangible assets

The group has significant levels of intangible assets. The amortisation charge is dependent on the estimated lives allocated to each type of intangible asset. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives and the expected pattern of consumption of the future economic benefits embodied in the asset. Changes in asset lives can have a significant impact on amortisation charges for the period. Detail of the useful lives is included in Note 3.4 and the related intangible assets are set out in Note 14.

5.4. Establishing lives for depreciation purposes of property, plant and equipment

Long-life assets, consisting primarily of property, plant and equipment, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation, physical condition of the assets concerned and other factors that may impact on the remaining useful lives of assets. Changes in asset lives can have a significant impact on depreciation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis as asset lives are individually determined and there are a significant number of asset lives in use. The impact of any change would vary significantly depending on the individual changes in assets and the classes of assets impacted. Detail of the useful lives is included in Note 3.13 and the related assets are set out in Note 15.

5. Critical Accounting Judgements and Estimates – continued

5.5. Making appropriate long-term assumptions in calculating pension liabilities, surpluses and costs
The group operates a funded defined benefit scheme, which is independent of the group's finances, for the majority of employees. Valuations of the main scheme are carried out by the scheme actuaries. The rates of contribution payable and the pension cost are determined on the advice of the actuaries. The cost of these benefits and the present value of the pension liabilities depend on the assumptions made in respect of such factors as the life expectancy of the members of the scheme, the salary progression of current employees, the return that the pension fund assets will generate in the period before they are used to fund the pension payments and the discount rate at which the future pension payments are valued. The group uses estimates for all of these factors in determining the pension costs, surpluses or deficits arising on acquisitions and assets and liabilities reflected in the financial statements.

During the year ended 30 June 2010, the eircom Limited group agreed certain caps on future increases in pensionable salaries. The maximum increase in any given year is set at the lower of pre-determined fixed annual rates, the rate of CPI or salary inflation. However, there is still a significant level of uncertainty in relation to ultimate pensionable salaries that will apply in determining benefits payable. Differences between assumptions made and actual experience and changes in assumptions made also impact on pension charges. The effect of changes in assumptions on the pension scheme valuation is contained in Note 35.

As a result of the significant level of volatility in financial markets, the market values of the pension scheme assets and the discount rate at which future pension liabilities are valued have fluctuated significantly over the last number of years and since the year ended 30 June 2013.

5.6. Making appropriate assumptions in calculating long term employee benefit charges
The estimate of the total liability accrued under long term incentive arrangements at the balance sheet date is determined based on a number of factors including the group's forecasted future repayments of the Senior Credit Facility and any refinancing arrangements which may take place. The estimate of the total liability under long term incentive arrangements at the balance sheet date is determined based on the amounts repaid in respect of the Senior Credit Facility during the year and estimated fair value of the amount outstanding under the Senior Credit Facility and effectively assumes that the debt can be refinanced in September 2017 up to the amount of the fair value of the debt at 30 June 2013. The liability is discounted to reflect the time value of money. The estimated liability is based on a number of estimates and judgements the actual outcome of which will only become known at future dates and will be required to be re-measured at subsequent reporting dates with any corresponding changes in the estimated liability being accounted for in the group's statement of total income.

5.7. Providing for litigation, contingencies and other constructive obligations
The group is a party to lawsuits, claims, investigations and proceedings, consisting primarily of commercial matters, which are being handled and defended in the ordinary course of business. The group reviews the current status of any pending or threatened proceedings with the group's legal counsel on a regular basis.

In determining whether provisions are required with respect to pending or threatened litigation, management reviews the following: (1) the period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred, (2) the degree of probability of an unfavourable outcome, and (3) the ability to make a reasonable estimate of the amount of loss. Upon considering the above and other known relevant facts and circumstances, the group recognises any loss that is considered probable and reasonably quantifiable as of the balance sheet date.

In addition, the group provides for other items of an uncertain timing or amount, such as liabilities arising as a result of self-insurance and disputes with third parties, including regulatory and taxation authorities. These provisions are recognised when the group has a legal or constructive obligation as a result of past events and a reliable estimate of that obligation can be made. Estimates and judgements are used in determining the level of provisioning required and the timing of payments.

Details of the contingent liabilities are set out in Note 38 and provisions for other liabilities and charges are set out in Note 27.

5.8. Charges for restructuring costs
Provisions for restructuring costs including the associated pension costs are made where a constructive obligation to restructure arises i.e. where there is a detailed formal plan for the restructuring and in addition, there is a valid expectation in those affected, that the group will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions reflect the current estimate of the staff exit costs associated with plans for which the group has constructive obligations at year end, and includes the estimated benefit payable to staff availing of the scheme and the associated pension impact. The timing of individual exits also affects the estimated costs. As the schemes are voluntary, the timing of individual exits and individual staff participating in the scheme requires estimation.

The restructuring programme is ongoing. As at 30 June 2013, the group's plans to further reduce headcount in the year ended 30 June 2014 and subsequent periods do not meet the recognition criteria under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Consequently, no provision has been recognised as at 30 June 2013 in respect of the charges that are expected to be incurred in the year ended 30 June 2014 and subsequent periods in respect of future restructuring. The restructuring costs incurred in the year ended 30 June 2014 will directly impact on the income statement and cash flows for this period.

5. Critical Accounting Judgements and Estimates – continued

5.9. Asset retirement obligations
The group has certain obligations in relation to the retirement of assets mainly poles, batteries and international cable. The group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. Significant judgement is required in determining the amount and timing of cash flows associated with the asset retirement obligations as some of the cash flows are anticipated up to 15 years in the future, and no significant retirement or decommissioning costs have been incurred to date.

There is a plan in place to de-commission property, plant and equipment held on a number of base stations over the next two to three years as a result of the group entering into a network sharing agreement with O2, another mobile operator in Ireland, with the objective of enhancing efficiencies and achieving cost savings from the sharing and integration of certain aspects of the Radio Access Networks of both groups. The estimated change in the amount and timing of cash flows associated with the asset retirement obligations on base stations are included in the financial statements.

There are also ongoing changes in legislation which impact on the group's assessment on the level of cost and the manner in which certain asset retirement obligations can be met. Any adverse changes in legislation or interpretations of existing legislation could have a significant impact on the group's estimate of its asset retirement obligations.

5.10. Taxation
Current tax
The actual tax the group pays is determined according to complex tax laws and regulations. Where the effect of these laws and regulations are unclear, the group uses estimates in determining the liability for the tax to be paid. The group believes the estimates, assumptions and judgements are reasonable but the estimates can involve complex issues which may take a number of years to resolve. The final determination of tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement in future periods. The value of the group's current tax liability is disclosed on the balance sheet.

Deferred tax
Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. The carrying value of the group's deferred tax assets and liabilities are disclosed in Notes 17 and 26, respectively.

5.11. Providing for doubtful debts
The group provides services to individuals and business customers on credit terms. The group expects that some debts due will not be paid as a result of the default of a small number of customers. The group uses estimates based on historical and current experience in determining the level of debts which may not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues. Further worsening in the Irish economy or negative industry trends could require an increase in the estimated level of debts that may not be collected, which would negatively impact the operating results. The level of provision required is reviewed on an ongoing basis.

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

5.13. Onerous contracts
The group has onerous contracts associated with vacant offices and leasehold properties relating to relocations and other business disposals. The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflect current economic conditions and estimates are used in determining the level of provisions required in respect of dilapidation and reinstatement works required on leasehold properties, including properties still in use.

5.14. Fair value of derivatives and other financial instruments
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses discounted cash flow analysis and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

6. Business combinations

30 June 2013

There were no business combinations during the year ended 30 June 2013.

30 June 2012

On 11 June 2012, the group acquired 100% of the ordinary share capital of eircom Limited and eircom Limited became a subsidiary of the group from that date. The fair values of the assets and liabilities acquired were determined in accordance with IFRS 3, "Business Combinations" (Revised).

The acquisition of eircom Limited by eircom Holdings (Ireland) Limited followed a Scheme of Arrangement approved by the High Court of Ireland following the Examinership process (see Note 2).

If the acquisition had occurred on 1 July 2011, revenue and loss before taxation for the year ended 30 June 2012 would have been €1,515 million (unaudited) and €21 million (unaudited) respectively. These amounts have been calculated using the group's accounting policies and by adjusting the results of the subsidiary undertakings to reflect the additional depreciation, amortisation and finance cost that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2011, to exclude the exceptional costs associated with restructuring the group debt and assuming that the group debt was in place from that date.

Details of net liabilities acquired and goodwill are as follows:

	€m
Total purchase consideration	-
Fair value of net liabilities acquired	836
Goodwill (Note 13)	836
Impairment recognised	(542)
Goodwill at 30 June 2012 (Note 13)	294

The goodwill is partly attributable to eircom's market position in the Irish telecommunications industry. eircom has a significant infrastructure base in Ireland and operates the third largest mobile carrier in Ireland (Meteor). The goodwill also arises in part because eircom Limited was acquired for a nominal amount pursuant to the Scheme of Arrangement and because the pension obligation and the deferred tax balance were recognised in accordance with the measurement requirements of IAS 19 and IAS 12 respectively and not at fair value.

The assets and liabilities arising from the acquisition are as follows:	**Acquiree's Carrying Amount €m**	**Fair Value adjustments €m**	**Fair Value €m**
Cash and cash equivalents	370	-	370
Goodwill (Note 13)	-	836	836
Other intangible assets (Note 14)	132	187	319
Property, plant and equipment (Note 15)	1,236	421	1,657
Other non-current assets	256	(247)	9
Current assets	314	-	314
Total assets	2,308	1,197	3,505
Borrowings	(1,841)	-	(1,841)
Retirement benefit liability	-	(620)	(620)
Other non-current liabilities	(281)	(93)	(374)
Other current liabilities	(670)	-	(670)
Total liabilities	(2,792)	(713)	(3,505)
Net liabilities acquired	(484)	484	-

The principal fair value adjustments relate to:

- the recognition of fixed line intangible assets (€187 million),
- an increase in the value of property, plant and equipment (€421 million),
- the recognition of a defined benefit pension liability (€620 million),
- other assets and liabilities to reflect differences between the carrying values recorded by eircom Limited and the fair value of the underlying assets and liabilities; and
- deferred taxation liabilities to reflect the deferred tax impact of changes in the fair value of other asset and liabilities.

There was a cash inflow of €370 million on acquisition, which reflects the cash held by eircom Limited at the acquisition date.

7. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group which are regularly reviewed by the 'Chief Operating Decision Maker' in order to allocate resources to the segments and to assess their performance.

The group's operating segments are reported based on financial information provided to the Senior Management Team ("SMT"), which is the key management team and represents the 'Chief Operating Decision Maker'. The SMT is chaired by the Group Chief Executive and the other members are the Group Chief Financial Officer, Chief Technology Officer, Business Directors, Group HR Director, Programme Execution Director, General Counsel and Regulatory & Public Affairs Director.

The SMT considers the business from a fixed line and mobile perspective and assesses the performance of the operating segments based on a measure of adjusted EBITDA. Adjusted EBITDA is before non-cash lease contracts, non-cash pension charge and exceptional items. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, curtailment gains and losses in respect of pensions, onerous contracts and other charges/income. The non-cash lease contracts credit included in the income statement during the year is in respect of the unfavourable lease fair value adjustment which arose on acquisition of eircom Limited. The non-cash pension charge is determined based on the difference between the charge determined under IAS 19 and employer contributions payable in respect of the financial year. Interest costs on borrowings are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the borrowings position of the group.

Sales between segments for telecommunication services are carried out on an arm's length basis. Other recharges in respect of non-telecommunication services are based on actual cost of employee remuneration or other external costs incurred. The revenue from external parties reported to the SMT is measured in a manner consistent with that in the group income statement.

The segment results for the year ended 30 June 2013 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	**1,093**	**353**	**(52)**	**1,394**
Adjusted EBITDA [(1)]	**470**	**17**	**-**	**487**
Non-cash lease contracts	**9**	**-**	**-**	**9**
Non-cash pension charge	**(37)**	**-**	**-**	**(37)**
Amortisation	**(44)**	**(27)**	**-**	**(71)**
Depreciation	**(247)**	**(19)**	**-**	**(266)**
Exceptional items (Note 9)	**(12)**	**(4)**	**-**	**(16)**
Exceptional gain on exit from subsidiary (Note 10)	**17**	**-**	**-**	**17**
Operating profit/(loss)	**156**	**(33)**	**-**	**123**
Finance costs				**(238)**
Finance income				**1**
Loss before income tax				**(114)**
Income tax charge				**(1)**
Loss for the financial year				**(115)**

7. Segment information - continued

The segment results for the period ended 30 June 2012 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Group €m
Revenue	65	21	(3)	83
Adjusted EBITDA [1]	31	1	-	32
Non-cash pension charge	(1)	-	-	(1)
Amortisation	(2)	(2)	-	(4)
Depreciation	(15)	(2)	-	(17)
Goodwill impairment	(542)	-	-	(542)
Operating loss	(529)	(3)	-	(532)
Finance costs				(10)
Loss before income tax				(542)
Income tax charge				(1)
Loss for the financial period				(543)

[1] *Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, impairment, non-cash pension charge, non-cash lease contracts and exceptional items, including exceptional gain on exit from subsidiary.*

Other segment items included in the income statement are as follows:

	Period ended 30 June 2012			Year ended 30 June 2013		
	Fixed line €m	Mobile €m	Group €m	Fixed line €m	Mobile €m	Group €m
Impairment of trade receivables (Note 20)	1	-	1	**7**	**3**	**10**

The segment assets and liabilities and capital expenditure are as follows:

	30 June 2013			
	Fixed line €m	Mobile €m	Unallocated €m	Group €m
Assets	**2,462**	**363**	**9**	**2,834**
Liabilities	**1,473**	**160**	**2,016**	**3,649**
Capital expenditure:				
Intangible assets (Note 14)	**53**	**162**	**-**	**215**
Property, plant and equipment (Note 15)	**194**	**15**	**-**	**209**

	30 June 2012			
	Fixed line €m	Mobile €m	Unallocated €m	Group €m
Assets	2,672	231	1	2,904
Liabilities	1,378	175	1,919	3,472
Capital expenditure:				
Intangible assets (Note 14)	3	1	-	4
Property, plant and equipment (Note 15)	8	1	-	9

7. Segment information – continued

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, inventories, receivables and operating cash. They exclude taxation, investments and derivatives.

Segment liabilities comprise operating liabilities, retirement benefit liability and provisions for liabilities and other charges. They exclude items such as taxation, borrowings, interest payable and derivatives.

Capital expenditure comprises additions to intangible assets (Note 14) and property, plant and equipment (Note 15).

Geographical information
The group is domiciled in the Republic of Ireland. The group operates in two countries, Republic of Ireland and the United Kingdom, though substantially all of the group's revenues arise in the Republic of Ireland. For the purposes of the geographical allocation of revenue, the group identifies revenues earned by entities operating in each country. Total revenue of the group for the current year is €1,394 million of which €1,353 million was earned by group entities operating in the Republic of Ireland and €41 million was earned by group entities operating in the United Kingdom. Total non-current assets of the group, other than financial instruments and deferred tax assets as at year end are €2,237 million (30 June 2012: €2,263 million), of which €2,228 million were located in the Republic of Ireland (30 June 2012: €2,255 million) and €9 million were located in the United Kingdom (30 June 2012: €8 million).

8. Operating costs

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Staff costs:		
Wages and salaries	17	**314**
Social welfare costs	1	**16**
Pension costs – defined contribution plans (Note 35)	-	**5**
Pension costs – defined benefit plans (Note 35)	2	**58**
	20	**393**
Staff costs capitalised	(4)	**(79)**
Net staff costs included in operating costs (a)	16	**314**
Other operating costs:		
Amounts paid and payable to telecommunications operators	12	**148**
Purchase of goods for resale, commission and related costs	7	**146**
Materials and services	1	**24**
Other network costs	1	**30**
Accommodation	5	**87**
Sales and marketing	3	**67**
Transport and travel	1	**14**
IT costs	1	**23**
Provision for impaired receivables	1	**9**
Other costs	4	**73**
Total other operating costs	36	**621**
Operating costs excluding amortisation, depreciation, impairment and restructuring and other exceptional items	52	**935**
Amortisation (Note 14)	4	**71**
Depreciation (Note 15)	17	**266**
Goodwill impairment (Note 13)	542	**-**
Exceptional items (Note 9)	-	**16**
Total operating costs	615	**1,288**
Exceptional gain on exit from subsidiary (Note 10)	-	**(17)**
Total operating costs (net)	615	**1,271**

(a) Operating costs are stated after charging:

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Staff costs	20	**393**
Exceptional restructuring programme costs (Note 9)	-	**27**
Total staff costs	-	**420**
Staff costs capitalised	(4)	**(79)**
Total staff costs (net of staff costs capitalised)	16	**341**
Research costs	-	**1**
Hire of plant and machinery	-	**3**
Other operating lease rentals	3	**56**

8. Operating costs – continued

(b) Auditor's remuneration

Remuneration of the auditors for the statutory audit of the group financial statements and other services to the group is as follows:

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Statutory audit of group financial statements	0.1	**0.7**
Other assurance services	-	**1.7**
Other non-audit services	-	**0.3**
Total services	0.1	**2.7**

(c) **Directors**

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Emoluments		
- for services as Directors	-	**1.2**
- for other services	0.2	**3.5**
- pension contributions	-	**0.2**
- compensation for loss of office	-	**0.3**
	0.2	**5.2**

9. Exceptional items

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Restructuring programme costs (a)	-	**27**
Gain on liquidation of subsidiary undertaking (b)	-	**(6)**
Other exceptional items (c)	-	**(5)**
Exceptional charge	-	**16**

(a) Restructuring programme costs
The group announced in October 2012 an intention to reduce its workforce by 2,000 by the end of the financial year 30 June 2014. On 16 January 2013, the group launched an Incentivised Exit (IE) scheme, which was designed to facilitate employees to leave the organisation on a voluntary basis. During the year ended 30 June 2013, 658 employees left the group under this and other individual IE schemes. The total costs of the exits achieved were €76 million, including cash cost of exits of €63 million and pension curtailment costs of €9 million. The cost of the scheme, over and above the provision of €49 million at 30 June 2012 has been included as an exceptional charge in the year.

The restructuring programme is ongoing and the group plans to further reduce headcount by 1,000 in the year ended 30 June 2014. However, as at 30 June 2013, based on the status of these plans at that date they do not meet the recognition criteria under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Consequently, no provision has been recognised as at 30 June 2013 in respect of the charges that are expected to be incurred in the year ended 30 June 2014 and subsequent periods in respect of future restructuring. The restructuring costs incurred in the year ended 30 June 2014 will directly impact on the income statement and cash flows for this year.

(b) Gain on liquidation of subsidiary undertaking
The exceptional gain of €6 million included in the income statement in the year ended 30 June 2013 arises from the loss of control of Osprey Property Limited, a subsidiary company, to which a liquidator has been 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.

(c) Other exceptional items
During the year ended 30 June 2013, €5 million was released from the onerous lease contracts provision as a result of a change in the group's estimate of the expected outflows under the relevant leases.

The group has a significant property portfolio comprising of freehold and leasehold properties to accommodate the group's network and office accommodation required for its staff. As part of the group's overall portfolio, the group also leases a number of properties from third parties under long-term lease arrangements. Where the group no longer requires these properties, the group sub-leases the properties to third parties or disposes of properties no longer required. As a result of the rationalisation of the group's accommodation requirements there are a number of leased properties which are vacant or where rental contracts with sub-lease tenants are not expected to be sufficient to meet all of the lease obligations. Provision has been made in respect of the estimated net cash outflow required to settle the group's obligation under these leases.

10. Exceptional gain on exit from subsidiary

In the financial year ended 30 June 2013, eircom Limited sold its 100% shareholding in eircom Phonewatch Limited. The following tables sets out the effect of this transaction on the results of the eircom Holdings (Ireland) Limited group:

	€m
Disposal consideration:	
- Cash received	**130**
- Direct costs relating to the disposal	**(2)**
Total disposal consideration	**128**
Net assets disposed	**(111)**
Gain on exit from subsidiary	**17**

The assets and liabilities arising at the date of exit are as follows:

	€m
Cash and cash equivalents	**11**
Goodwill	**102**
Other intangible assets	**6**
Property, plant and equipment	**1**
Inventories	**1**
Total assets	**121**
Retirement benefit liability	**(2)**
Other current liabilities	**(8)**
Net assets disposed	**111**

	€m
Disposal consideration received in cash	**130**
Cash and cash equivalents in subsidiary disposed	**(11)**
Direct costs paid relating to the disposal	**(2)**
Cash inflow on disposal	**117**

11. Finance costs - net

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
(a) Finance costs:		
Interest payable on bank loans and other debts	5	**83**
Payment-in-kind ("PIK") interest charge on borrowings	1	**24**
Interest amortisation on non-current borrowings	4	**79**
Fair value gain on derivatives not qualifying for hedge accounting	-	**(1)**
Other unwinding of discount	-	**4**
Change in discount rate	-	**1**
	10	**190**
Loss on extinguishment of debt	-	**48**
	10	**238**
(b) Finance income:		
Interest income	-	**(1)**
	-	**(1)**
Finance costs – net	10	**237**

During the year ended 30 June 2013, the group repurchased €364 million of outstanding principal under the Senior Facilities at an average price of €0.933 per €1.00. The repurchase was funded using €339 million of proceeds from the issuance of the 9.25% Senior Secured Notes. In accordance with IAS 39, the loss on extinguishment of the borrowings is the difference between the fair value of the consideration paid to extinguish the liability and the carrying value of the liability at that date.

At the date of extinguishment, the carrying value of the €364 million of principal debt repurchased was €292 million, due to the initial recognition of the borrowings at their fair value at 11 June 2012, subsequently adjusted in accordance with the effective interest method. The loss of €48 million represents the difference between the carrying value of €292 million and the cost of the debt repurchase of €340 million, including associated costs of €1 million.

12. Income tax expense

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
(a) **Recognised in the income statement**		
Current tax expense		
Current financial period	1	**13**
	1	**13**
Deferred tax expense		
Origination and reversal of temporary difference	-	**(12)**
	-	**(12)**
Total income tax expense in income statement	1	**1**

The tax charge for the year ended 30 June 2013 includes a credit of €3 million in respect of exceptional items (see Note 9).

(b) **Reconciliation of effective tax rate**

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 losses of the consolidated companies as follows:

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Loss before tax	(542)	**(114)**
Tax calculated at Irish tax rates	(68)	**(14)**
Effects of:-		
Goodwill impairment – non deductible	68	**-**
Other non deductible expenses	1	**18**
Effect of changes in capital gains tax rates	-	**1**
Income not subject to taxation	-	**(3)**
Utilisation of losses carried forward	-	**(1)**
Tax charge for financial period (Note 12(a))	1	**1**

The weighted average applicable tax rate was 12.5% (30 June 2012: 12.5%).

13. Goodwill

	30 June 2012 €m	30 June 2013 €m
Cost		
At beginning of financial period	-	**836**
Arising on acquisition of eircom Limited	836	**-**
Disposal of subsidiary undertaking (Note 10)	-	**(102)**
At end of financial period	836	**734**
Accumulated impairments		
At beginning of financial period	-	**(542)**
Recognised during the financial period	(542)	**-**
At end of financial period	(542)	**(542)**
Net book value at end of financial period	294	**192**

Goodwill and indefinite life intangible assets are not subject to amortisation. Instead, goodwill and indefinite life intangible assets are tested for impairment annually as part of the cash generating unit ("CGU") to which they relate, and are carried at cost less accumulated impairment losses.

The group's goodwill relates to the acquisition of eircom Limited in the prior financial period, pursuant to a Scheme of Arrangement of creditors approved by the High Court. eircom Holdings (Ireland) Limited acquired 100% of the share capital of eircom Limited for consideration of €1. Further details of the acquisition are included in Note 6.

Goodwill arising on the acquisition of eircom Limited was allocated to the group's CGUs as follows:

	Acquisition Date €m
Fixed Line	836
Mobile	-

The recognition of the assets of the Fixed Line and Mobile CGUs was measured as at 11 June 2012 based on their fair values, as required by IFRS 3, *Business Combinations*, except for the defined benefit pension obligation which is measured under IAS 19, *Employee Benefits*, and deferred tax which is measured under IAS 12, *Income Taxes*. Goodwill of €836 million was recognised as the difference between the purchase consideration and the fair value of the individual assets and liabilities at the date of acquisition, 11 June 2012. Goodwill was allocated to the group's cash generating units, Fixed Line and Mobile, based on the allocation of net liabilities acquired and purchase consideration to each CGU, based on the factors giving rise to the goodwill. These include eircom's market position in the Irish telecommunications industry. eircom has a significant infrastructure base in Ireland and operates the third largest mobile carrier in Ireland (Meteor). The goodwill also arises in part because eircom Limited was acquired for a nominal amount pursuant to the Scheme of Arrangement and because the pension obligation and the deferred tax balances were recognised in accordance with the measurement requirements of IAS 19 and IAS 12 respectively and not at fair value. No goodwill was allocated to the Mobile CGU.

An impairment test of the Fixed Line CGU was undertaken as of 30 June 2012, resulting in the recognition of an impairment of €542 million of goodwill. No test for impairment of the Mobile CGU was undertaken as of 30 June 2012.

An impairment test of the Fixed Line and Mobile CGUs has been undertaken as of 30 June 2013. No impairment has been identified.

Any adverse changes in a key assumption underpinning the fair value less costs to sell calculation as at 30 June 2013 may cause a further impairment loss to be recognised in future periods.

Impairment test of Fixed Line and Mobile CGUs as at 30 June 2013
An impairment test of the Fixed Line and Mobile CGUs was performed as at 30 June 2013 in accordance with IAS 36, *Impairment of Assets*. The impairment test has been undertaken at the year end date. Tangible and intangible assets are an integrated part of the CGU carrying values and are tested together with the goodwill.

An impairment test of the Fixed Line CGU is required annually as it contains goodwill. An impairment test of the Mobile CGU is required as at 30 June 2013 as it holds intangible assets in respect of acquired wireless spectrum access rights, part of which is not yet available for use. The group acquired the spectrum access rights for €144 million during the year.

13. Goodwill - continued

The wireless spectrum access rights do not generate cash flows independently of the Mobile network assets and therefore are tested for impairment as part of the CGU to which they belong.

Impairment testing methodology
The recoverable amount of each CGU is determined on the basis of the higher of the fair value less costs to sell and value-in-use, using the discounted cash flow (DCF) method. Cash flows for the years beyond the approved business plans are extrapolated using the estimated long-term growth rates stated below. The cash flows are discounted using the discount rates stated below.

The impairment test was based on fair value less costs to sell which is higher than value in use because of the significant restructuring and investment in infrastructure development required by the group's CGUs. The cash flows and assumptions used as of 30 June 2013 for the impairment test are consistent with the assumptions that would be made by a market participant acquiring the CGUs.

Key assumptions
The key assumptions are based on past experience, adjusted for expected changes in future conditions. Key assumptions involved in the calculation of fair value less costs to sell include management's estimates of future operating cash-flows, capital expenditure requirements, tax considerations, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were benchmarked against external information on comparable companies in similar markets.

The group considers the business plan and long-term projections to be reasonable in view of the anticipated long-term performance of the Irish economy and consistent with the assumptions that would be used by a market participant. Adjustments are made to the business plan cashflows to take account of possible variations in the amount or timing of cashflows, which can be affected by factors such as increased competitor activity, the roll-out of new technologies and the timing of the introduction of new services, pricing trends, termination rates, customer acquisition costs, margin levels and restructuring programmes, such that the estimated cashflows reflect the range of possible outcomes for each CGU's future trading performance.

Fair Value less Costs to Sell – cash flow projections
At 30 June 2013, these calculations used post-tax cash flow projections based on business plans approved by the Board of Directors covering a period up to 30 June 2017.

The other key assumptions used for fair value less costs to sell calculations for the Fixed Line and Mobile CGUs are as follows:

	Fixed Line 30 June 2013	**Mobile 30 June 2013**
Long-term growth rates	**-0.75%**	**0.75%**
Discount rates (Post-tax)	**9.00%**	**10.00%**

Long Term Growth Rates
The long-term growth rates are determined based on the long-term historical growth rates of the sectors in which the CGUs operate, and reflect an assessment of the long-term growth prospects of the sectors. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

Discount Rates
The discount rates used reflect specific risks relating to the CGUs. The assumptions used have been benchmarked to externally available data. The methodology is based on the Capital Asset Pricing Model (CAPM). At 30 June 2013, the yield on ten-year Irish government bonds provided the basis for the risk free rate, which was then adjusted to take account of market risks specific to the CGUs. The group has reverted to the use of Irish government bond yields as the basis for the risk-free rate in the current year in keeping with its observations of practices applied by external market analysts in determining appropriate weighted average costs of capital for Irish companies. In estimating the discount rate under CAPM, in addition to the risk-free rate, other inputs required are the equity market risk premium (that is the excess return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment factor known as beta is applied to reflect the risk of the specific CGU operations relative to the market as a whole. In determining the risk adjusted discount rate, management has applied an adjustment for the risk of the group's CGUs determined using an average of the observed betas of comparable companies. Year-on-year, the discount rates used have decreased primarily as a result of reductions in the yields on long term sovereign bonds, as well as the stabilisation in the Irish macroeconomic environment.

13. Goodwill - continued

Impairment sensitivity analysis
The percentages shown in the table below represent the increase or decrease in the individual sensitivity factors that would lead to the recoverable amount equalling the carrying value of the assets.

	30 June 2013	
	Fixed Line	**Mobile**
	%	**%**
Discount rates (post-tax) (absolute increase)	**1.97%**	**1.65%**
Long-term growth rates (absolute decrease)	**2.62%**	**1.87%**
Terminal business plan EBITDA (relative decrease)	**10.48%**	**5.90%**
Terminal capital expenditure (relative increase)	**39.59%**	**18.09%**

Impairment test of Fixed Line CGU as at 30 June 2012
An impairment test of the Fixed Line CGU was performed as at 30 June 2012 in accordance with IAS 36, *Impairment of Assets*. The impairment test was undertaken at the period end date. Tangible and intangible assets are an integrated part of the CGU carrying values and are tested together with the goodwill and indefinite life intangible assets. The group identified an impairment of €542 million of the goodwill related to the Fixed Line CGU. The trading performance of the CGU did not decline subsequent to the acquisition, but the impairment charge arose because the goodwill recognised in accordance with IFRS 3 would not be recovered from future cash flows.

The impairment loss recognised in the consolidated income statement, as a separate line item within operating loss, in respect of the Fixed Line CGU was as follows:

	30 June 2012
	€m
Fixed line goodwill	**542**
	542

The goodwill arising on the acquisition of eircom Limited has been allocated to the group's Fixed Line CGU. Fixed Line trademark intangible assets with an indefinite useful life are also recognised in the balance sheet.

Impairment testing methodology
At 30 June 2012, the recoverable amount of the CGUs was determined on the basis of the higher of the fair value less costs to sell and value-in-use, using the discounted cash flow (DCF) method. Cash flows for the years beyond the approved business plans were extrapolated using the estimated long-term growth rates stated below. The cash flows were discounted using the discount rates stated below.

The impairment test was based on fair value less costs to sell which is higher than value in use because of the significant investment in infrastructure development required by eircom Limited. The cash flows and assumptions used as of 30 June 2012 for the impairment test are consistent with those used as of 11 June 2012 for determination of the fair value of the assets acquired and reflect the assumptions that would be made by a market participant acquiring the CGU.

Key assumptions
The key assumptions were based on past experience, adjusted for expected changes in future conditions. Key assumptions involved in the calculation of fair value less costs to sell include management's estimates of future operating cash-flows, capital expenditure requirements, tax considerations, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were benchmarked against external information on comparable companies in similar markets.

The group considers the business plan and long-term projections to be reasonable in view of the anticipated long-term performance of the Irish economy and consistent with the assumptions that would be used by a market participant.

13. Goodwill - continued

Fair Value less Costs to Sell – cash flow projections
At 30 June 2012, these calculations used post-tax cash flow projections based on business plans approved by the Board of Directors covering a period up to 30 June 2016.

The other key assumptions used for fair value less costs to sell calculations for the Fixed Line CGU are as follows:

	30 June 2012
Long-term growth rates	-0.75%
Discount rates (Post-tax)	12.00%

Long Term Growth Rates
The long-term growth rates are determined based on the long-term historical growth rates of the sectors in which the CGU operates, and reflect an assessment of the long-term growth prospects of the sector. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

Discount Rates
The discount rates used reflect specific risks relating to the Fixed Line CGU. The assumptions used have been benchmarked to externally available data. The methodology is based on the Capital Asset Pricing Model (CAPM). At 30 June 2012, the yield on ten-year German government bunds provided the basis for the risk free rate, which was then adjusted to take account of country and market risks specific to the CGU. In estimating the discount rate under CAPM, in addition to the risk-free rate, other inputs required are the equity market risk premium (that is the excess return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment factor known as beta is applied to reflect the risk of the specific CGU operations relative to the market as a whole. In determining the risk adjusted discount rate, management has applied an adjustment for the risk of the group's CGUs determined using an average of the observed betas of comparable companies.

Impairment sensitivity analysis
The changes in the following assumptions used in the impairment review would, in isolation, lead to an (increase)/decrease in the fair value less costs to sell valuation of the fixed line CGU as at 30 June 2012 and would reduce/(increase) the impairment charge by the same amount:

	Fixed Line	
	Increase by 200bps €m	**Decrease by 200bps €m**
Long-term growth rates (increase/decrease of 2% in absolute rate)	**261**	**(189)**
Discount rates (Pre-tax) (increase/decrease of 2% in absolute rate)	**(283)**	**392**
Terminal business plan EBITDA (change of 2%)	**69**	**(69)**
Terminal capital expenditure (change of 2%)	**(27)**	**27**

14. Other intangible assets

	Computer software	Monitoring contracts	Trademarks	Contracts and related customer relationships	Licence	Total
	€m	€m	€m	€m	€m	€m
Cost						
At beginning of financial period	-	-	-	-	-	-
Arising on acquisition (Note 6)	86	4	127	49	53	319
Additions	4	-	-	-	-	4
At 30 June 2012	**90**	**4**	**127**	**49**	**53**	**323**
Additions	**68**	**3**	**-**	**-**	**144**	**215**
Transfer from tangible assets	**4**	**-**	**-**	**-**	**-**	**4**
Disposals/retirements	**-**	**(7)**	**-**	**(2)**	**(2)**	**(11)**
At 30 June 2013	**162**	**-**	**127**	**47**	**195**	**531**
Amortisation						
At beginning of financial period	-	-	-	-	-	-
Charge for the financial period	2	-	-	2	-	4
At 30 June 2012	**2**	**-**	**-**	**2**	**-**	**4**
Charge for the financial year	**35**	**2**	**-**	**24**	**10**	**71**
Disposals/retirements	**-**	**(2)**	**-**	**(1)**	**(1)**	**(4)**
At 30 June 2013	**37**	**-**	**-**	**25**	**9**	**71**
Net Book Value at 30 June 2013	**125**	**-**	**127**	**22**	**186**	**460**
Net Book Value at 30 June 2012	88	4	127	47	53	319

Capital expenditure for the year ended 30 June 2013 includes €144 million in respect of the purchase of spectrum licences, which will allow for the rollout of 4G.

Assets in the course of completion and other intangible assets not yet available for use included in other intangibles assets are €140 million (30 June 2012: €29 million).

Computer software relates to internal and external capitalised software development costs.

Monitoring contracts related to purchased monitoring contracts in the group's residential security systems operating subsidiary, which was exited during the year.

15. Property, plant and equipment ("PPE")

	Land and Buildings €m	Network, Plant And Equipment €m	Total €m
Cost			
At beginning of financial period	-	-	-
Arising on acquisition (Note 6)	261	1,396	1,657
Additions	-	9	9
At 30 June 2012	**261**	**1,405**	**1,666**
Additions	**-**	**209**	**209**
Transfer to intangible assets	**-**	**(4)**	**(4)**
Disposals/retirements	**(3)**	**(1)**	**(4)**
At 30 June 2013	**258**	**1,609**	**1,867**
Accumulated Depreciation			
At beginning of financial period	-	-	-
Charge for financial period	1	16	17
At 30 June 2012	**1**	**16**	**17**
Charge for financial year	**22**	**244**	**266**
At 30 June 2013	**23**	**260**	**283**
Net Book Value at 30 June 2013	**235**	**1,349**	**1,584**
Net Book Value at 30 June 2012	260	1,389	1,649

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value. The review for the year ended 30 June 2013 resulted in no material adjustments to asset lives.

Assets in the course of construction included in property, plant and equipment are €91 million (30 June 2012: €61 million).

16. Investments

Investments in associates
The group share of the results of its principal associates, all of which are unlisted, and its share of the assets and liabilities are as follows:

	Assets €m	Liabilities €m	Revenues €m	Profit €m	Interest held %
As at and for the year ended 30 June 2013					
Altion Limited	**-**	**-**	**-**	**-**	**31.3%**
Buy4Now Limited	**1**	**1**	**-**	**-**	**32.2%**
	1	**1**	**-**	**-**	
As at and for the period ended 30 June 2012					
Altion Limited	-	-	-	-	31.3%
Buy4Now Limited	1	1	-	-	32.2%
	1	1	-	-	

17. Deferred tax asset

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The group has no material unrecognised deferred tax assets at 30 June 2013.

Recognised deferred tax assets

	Assets 30 June 2013 €m	Liabilities 30 June 2013 €m	Net 30 June 2013 €m
Intangibles	-	(24)	(24)
Property, plant and equipment	-	(98)	(98)
Deferred revenues	2	-	2
Leases	17	-	17
Provisions	2	-	2
Pensions	106	-	106
Derivative financial instruments	-	(1)	(1)
	127	(123)	4

Recognised deferred tax assets

	Assets 30 June 2012 €m
Tax loss carry forward, net of other timing differences	1
	1

The movement in deferred tax assets during the year ended 30 June 2013 is as follows:

	1 July 2012 €m	Reclass from deferred tax liabilities (Note 26) €m	Recognised in income credit/(charge) €m	Recognised in other comprehensive income €m	30 June 2013 €m
Tax loss carry forward	1	-	(1)	-	-
Intangibles	-	(28)	4	-	(24)
Property, plant and equipment	-	(103)	5	-	(98)
Deferred revenues	-	2	-	-	2
Leases	-	18	(1)	-	17
Provisions	-	3	(1)	-	2
Pensions	-	81	6	19	106
Derivative financial instruments	-	-	-	(1)	(1)
	1	(27)	12	18	4

The movement in deferred tax assets during the prior period ended 30 June 2012 is as follows:

	Beginning of financial period €m	Arising on acquisition €m	Recognised in income credit/(charge) €m	30 June 2012 €m
Tax loss carry forward, net of other timing differences	-	1	-	1
	-	1	-	1

18. Other assets

	30 June 2012 €m	30 June 2013 €m
Deposits and other non-current assets	6	**5**
	6	**5**

19. Inventories

	30 June 2012 €m	30 June 2013 €m
Network development and maintenance stocks	7	**8**
Consumable and other stocks	7	**4**
	14	**12**

The cost of inventories recognised as an expense and included in "operating costs" amounted to €104 million (30 June 2012: €6 million). The net replacement cost of stocks is not expected to be materially different from that shown above.

During the year ended 30 June 2013, the group recognised a loss for impaired inventories of €Nil (30 June 2012: €Nil), reversed previous recognised impaired inventories of €Nil (30 June 2012: €Nil), and utilised provisions for impaired inventories of €Nil (30 June 2012: €Nil). The creation and reversal of provisions for impaired inventories have been included in "operating costs" in the income statement.

20. Trade and other receivables

	30 June 2012 €m	30 June 2013 €m
Current assets:		
Trade receivables	174	**175**
Less: Provision for impairment of trade receivables	(1)	**(11)**
Trade receivables – net	173	**164**
Prepayments and accrued income	63	**59**
Amounts due from joint ventures	1	**2**
Other amounts receivable (net) (Note 40)	3	**1**
	240	**226**

The fair values of trade and other receivables approximate to their carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of 30 June 2013, trade receivables of €13 million (30 June 2012: €4 million) were impaired and provided for on the basis that a portion of these trade receivables is expected to be recovered. Provisions for impaired receivables of €27 million were incorporated in determining the fair value of trade receivables arising on the acquisition of eircom Limited on 11 June 2012; €11 million of the fair value adjustment for provisions for impaired receivables is included at 30 June 2013 as the related trade receivable balances have not yet been written off.

Total additional provisions of €10 million (30 June 2012: €1 million) relate to individual impairments of €1 million (30 June 2012: €Nil) and collective impairments of €9 million (30 June 2012: €1 million).

The group uses estimates based on historical experience and customer specific information in determining the level of debts which may not be collected. The estimates include such factors as the current state of the economy and particular industry issues. The level of provision required is reviewed on an ongoing basis.

Provision for impairment of trade receivables
The following table shows the movements on the provision for impairment of trade receivables:

	30 June 2012 €m	30 June 2013 €m
At beginning of financial period	-	**1**
Charged to income statement:		
- Additional provisions	1	**10**
Utilised in the financial year	-	**-**
At end of financial period	1	**11**

The creation and reversal of provisions for impaired receivables are included in “operating costs” in the income statement.

21. Restricted cash

The restricted cash of €22 million (30 June 2012: €32 million) is in relation to cash lodged for performance guarantees of €20 million (30 June 2012: €30 million) and €2 million (30 June 2012: €2 million) security in respect of ancillary facilities. The interest earned on these deposits, after deduction of any taxation payable, is due to the group.

Performance guarantees
Performance guarantee deposits have been lodged in respect of the group's obligation to make payments to third parties in the event that the group does not perform its contracted commitments under the terms of certain contracts. At 30 June 2013, these include €6 million (30 June 2012: €14 million) in respect of undertakings arising in relation to the roll out of our 3G network in Ireland, including achieving certain agreed milestones, €10 million (30 June 2012: €10 million) in respect of eircom's obligation under a Quality of Service Performance Improvement Programme under our Universal Service Obligations ("USO") and €4 million (30 June 2012: €6 million) in relation to other obligations under certain commercial contracts.

The maximum exposure to credit risk at the reporting date is €22 million (30 June 2012: €32 million).

22. Cash and cash equivalents

	30 June 2012 €m	30 June 2013 €m
Cash at bank and on hand	41	**43**
Short-term bank deposits	308	**281**
Cash and cash equivalents	349	**324**

The book value of cash and cash equivalents approximates their fair value. At 30 June 2013, the effective interest rate on short term bank deposits was 0.14% (30 June 2012: 0.34%). These deposits have a weighted average maturity of 65 days.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	30 June 2012 €m	30 June 2013 €m
Cash and cash equivalents	349	**324**
Bank overdraft (Note 24)	(1)	**-**
Cash, cash equivalents and bank overdrafts	348	**324**

23. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per balance sheet	Derivatives used for hedging €m	Loans and receivables €m	Total €m
Derivative financial instruments	**5**	**-**	**5**
Other assets	**-**	**4**	**4**
Trade receivables	**-**	**164**	**164**
Amounts due from joint ventures	**-**	**2**	**2**
Other amounts receivable	**-**	**1**	**1**
Restricted cash	**-**	**22**	**22**
Cash and cash equivalents	**-**	**324**	**324**
At 30 June 2013	**5**	**517**	**522**
Other assets	-	5	5
Trade receivables	-	173	173
Amounts due from joint ventures	-	1	1
Other amounts receivable	-	3	3
Restricted cash	-	32	32
Cash and cash equivalents	-	349	349
At 30 June 2012	-	563	563

Liabilities as per balance sheet	Liabilities at fair value through profit or loss €m	Loans and other liabilities €m	Total €m
Borrowings	**-**	**1,986**	**1,986**
Derivative financial instruments	**1**	**-**	**1**
Trade payables	**-**	**114**	**114**
Interest payable	**-**	**7**	**7**
Accruals	**-**	**229**	**229**
TIS Liabilities	**-**	**42**	**42**
At 30 June 2013	**1**	**2,378**	**2,379**
Borrowings	-	1,846	1,846
Derivative financial instruments	2	-	2
Trade payables	-	124	124
Interest payable	-	5	5
Other amounts payable	-	8	8
Accruals	-	235	235
TIS Liabilities	-	53	53
At 30 June 2012	2	2,271	2,273

23. Financial instruments by category – continued

Fair value hierarchy
The table below shows for the group's financial assets and liabilities that are recognised and subsequently measured at fair value their classification within a three-level fair value hierarchy.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets at the balance sheet date. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 comprises financial assets and liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Financial assets held at fair value	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Derivative financial instruments	**-**	**5**	**-**	**5**
At 30 June 2013	**-**	**5**	**-**	**5**
Derivative financial instruments	-	-	-	-
At 30 June 2012	-	-	-	-

Financial liabilities held at fair value	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Derivative financial instruments	**-**	**1**	**-**	**1**
At 30 June 2013	**-**	**1**	**-**	**1**
Derivative financial instruments	-	2	-	2
At 30 June 2012	-	2	-	2

24. Borrowings

	Carrying Value		Fair Value	
	30 June 2012 €m	**30 June 2013 €m**	**30 June 2012 €m**	**30 June 2013 €m**
Non-current liabilities				
Bank borrowings (Facility B)	2,346	**2,005**	1,806	**1,825**
Unamortised fair value difference on borrowings (Facility B)	(536)	**(384)**	-	**-**
	1,810	**1,621**	1,806	**1,825**
9.25% Senior Secured Notes due 2020	-	**350**	-	**327**
Debt issue costs	-	**(12)**	-	**-**
	-	**338**	-	**327**
Joint venture borrowings	27	**18**	27	**18**
Borrowings	1,837	**1,977**	1,833	**2,170**
Current liabilities				
Joint venture borrowings	8	**9**	8	**9**
Overdraft	1	**-**	1	**-**
Borrowings	9	**9**	9	**9**
Total Borrowings	1,846	**1,986**	1,842	**2,179**

Bank borrowings (Facility B)
At 30 June 2013, the group has Senior Bank borrowings of €2,005 million with a maturity date of 30 September 2017. The borrowings are subject to a Senior Facilities Agreement, which, amongst other things, requires the eircom Holdings (Ireland) Limited Group to comply with financial covenants on a quarterly basis. Further details of these financial covenants are set out in Note 2 to the financial statements.

During the year, the group undertook a permitted bond refinancing. In accordance with the terms of the Senior Facilities Agreement, €339 million of the net proceeds from the issuance of €350 million of Senior Secured Notes, after allowance for certain costs relating to issuance, were used to repurchase €364 million of principal due and outstanding under the Senior Facilities Agreement at an average price of €0.933 per €1.00, with an equivalent reduction in the group's borrowings under the Senior Facilities Agreement.

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 was being amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39. The remaining unamortised amount at 30 June 2013 was €384 million (see Note 11).

The interest payable on the Senior Bank borrowings includes cash-pay interest of Euribor plus a lender margin of 3.00% and an annualised Payment-in-Kind (PIK) interest charge of 1.00% which is added to the outstanding principal at the end of each interest period. A three-month interest period is in force at the balance sheet date and at the date of signing of these financial statements. An interest period of one-month, three-months or six-months may be selected at each roll-over date.

Senior Secured Notes
During the year, the group issued €350 million in Senior Secured Notes, due for repayment in full on 15 May 2020. The Notes were issued by the group's wholly owned subsidiary, eircom Finance Limited. The Notes rank equally in priority of payment with the existing borrowings subject to the Senior Facilities Agreement. The Notes are subject to fixed rate cash-pay interest at 9.25% payable in semi-annual instalments in May and November each year. Total costs directly attributable to the transaction incurred by the group were €12 million.

Transaction costs are initially deferred and are subsequently amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39.

24. Borrowings – continued

Joint venture borrowings – Tetra securities
The security provided in respect of joint venture borrowings is set out in Note 37 to the financial statements.

Fair values
The fair value of borrowings are based on observable market prices where available and an active market exists. Where market prices are not available or are considered unreliable, fair values are obtained using valuation techniques including discounted cash flow models, which to the extent possible use observable market inputs.

Maturity of financial 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
Bank borrowings (Facility B)	**-**	**-**	**2,005**	**-**	**2,005**
Unamortised fair value difference on borrowings (Facility B)	**-**	**-**	**(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**
At 30 June 2013	**9**	**9**	**1,630**	**338**	**1,986**
Bank borrowings (Facility B)	-	-	-	2,346	2,346
Fair value difference on borrowings (Facility B)	-	-	-	(536)	(536)
	-	-	-	1,810	1,810
Joint venture borrowings	8	9	18	-	35
Overdraft	1	-	-	-	1
At 30 June 2012	9	9	18	1,810	1,846

Borrowing facilities
The Senior Facilities Agreement entered into in June 2012 includes provision to allow the group to seek a revolving credit facility of €150 million in the markets. At the date of signing of these financial statements, there is no revolving credit facility in place and there are no current plans to obtain any revolving credit facilities.

Our joint venture, Tetra, has a €49 million term loan facility, which has been fully drawn down at 30 June 2013 to finance the activities of Tetra.

Currency
All of the group's borrowings are denominated in euro.

25. Derivative financial instruments

	Carrying Amount		Fair Value	
	30 June 2012	**30 June 2013**	**30 June 2012**	**30 June 2013**
	€m	**€m**	**€m**	**€m**
Non-current assets				
Interest rate swaps – cash flow hedges	-	**4**	-	**4**
Current assets				
Interest rate swaps – cash flow hedges	-	**1**	-	**1**
Total assets	-	**5**	-	**5**
Non-current liabilities				
Interest rate swaps – not designated as hedges	1	**-**	1	**-**
Current liabilities				
Interest rate swaps – not designated as hedges	1	**1**	1	**1**
Total liabilities	2	**1**	2	**1**

The group does not use derivatives for trading or speculative purposes.

Interest rate swaps – cash flow hedges
The notional principal amount of the active interest rate swap contracts designated and eligible for hedge accounting was €1,200 million at 30 June 2013. The swaps cover the period from 11 December 2012 to 11 June 2015.

At 30 June 2013, the fixed interest rate on our interest rate swaps was between 0.241% and 0.258% and the floating rate was based on 3-month Euribor.

Gains recognised in the cash flow hedging reserve in equity (see Note 30) on interest rate swaps as of 30 June 2013 will be released to the income statement when the hedged interest expense is recognised over the period from 1 July 2013 to 11 June 2015. The ineffective portion of the change in the fair value of the derivatives recognised in the income statement that arises from qualifying cash flow hedges amounts to a loss of €Nil.

Interest rate swaps – not designated as hedges
The group's share of the fair value of the Tetra derivative in the accounts is a liability of €1 million (30 June 2012: €2 million). The group's share of the notional principal amount of the active interest rate swap contracts used to cover our joint venture borrowings was €20 million at 30 June 2013 (30 June 2012: €26 million). The unrealised gain recognised in the income statement during the year that arises from derivatives not designated as hedges is €1 million (30 June 2012: €Nil). These amounts have been classified in the income statement within 'finance costs'.

26. Deferred tax liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The group has no material unrecognised deferred tax assets at 30 June 2013.

Recognised net deferred tax liabilities
Net deferred tax liabilities for the prior period ended 30 June 2012 are attributable to the following:

	Assets 30 June 2012 €m	Liabilities 30 June 2012 €m	Net 30 June 2012 €m
Intangibles	-	(28)	(28)
Property, plant and equipment	-	(103)	(103)
Deferred revenues	2	-	2
Leases	18	-	18
Provisions	3	-	3
Pensions	81	-	81
	104	(131)	(27)

The movement in net deferred tax liabilities during the year ended 30 June 2013 is as follows:

	1 July 2012 €m	Reclass to deferred tax asset (Note 17) €m	Recognised in income credit/(charge) €m	Recognised in other comprehensive income €m	30 June 2013 €m
Intangibles	**(28)**	**28**	**-**	**-**	**-**
Property, plant and equipment	**(103)**	**103**	**-**	**-**	**-**
Deferred revenues	**2**	**(2)**	**-**	**-**	**-**
Leases	**18**	**(18)**	**-**	**-**	**-**
Provisions	**3**	**(3)**	**-**	**-**	**-**
Pensions	**81**	**(81)**	**-**	**-**	**-**
	(27)	**27**	**-**	**-**	**-**

The movement in net deferred tax liabilities during the prior period ended 30 June 2012 is as follows:

	Beginning of financial period €m	Arising on acquisition €m	Recognised in income credit/(charge) €m	Recognised in other comprehensive income €m	30 June 2012 €m
Intangibles	-	(28)	-	-	(28)
Property, plant and equipment	-	(103)	-	-	(103)
Deferred revenues	-	2	-	-	2
Leases	-	18	-	-	18
Provisions	-	3	-	-	3
Pensions	-	78	-	3	81
	-	(30)	-	3	(27)

27. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Restructuring Costs €m	Onerous Contracts €m	Other €m	Total €m
At 1 July 2012	**53**	**49**	**51**	**100**	**253**
Charged to consolidated income statement:					
- Additional provisions	-	-	2	8	**10**
- Unused amounts reversed	-	-	(7)	-	**(7)**
- Unwinding of discount	-	-	1	1	**2**
- Change in discount rate	1	-	-	-	**1**
Transfer to retirement benefit obligations	-	(9)	-	-	**(9)**
Decrease in provision capitalised as asset retirement obligation	-	-	-	(2)	**(2)**
Utilised in the financial year	(12)	(40)	(16)	(5)	**(73)**
At 30 June 2013	**42**	**-**	**31**	**102**	**175**

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

	30 June 2012 €m	30 June 2013 €m
Non-current	152	**133**
Current	101	**42**
	253	**175**

Temporary income stream ("TIS") annuity scheme
The eircom Limited group established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of ten years. The group estimates the annuity liability as the present value of the fixed payment stream due to employees. At 30 June 2013, the remaining TIS annuity scheme provision is expected to be substantially utilised over a period of eight years.

Onerous Contracts
The group has onerous contracts in relation to leases on vacant properties and leasehold disposals relating to relocations. The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflects current economic conditions and judgements in respect of sub lease income on certain properties. If the group were unable to sublet the properties for the duration of the lease an additional provision of €2 million would be required in the financial statements. The group also has onerous contracts in relation to the settlement of certain legal matters. At 30 June 2013, the liabilities are expected to be discharged over a period of one to five years.

Restructuring costs
The provision comprised the estimated benefits payable to staff availing of voluntary leaving schemes and the associated pension impact. The provision was fully utilised during the year ended 30 June 2013 (see Note 9).

Additional costs will be incurred in future years to achieve additional headcount reductions. However, as at 30 June 2013, there was no constructive obligation in respect of additional headcount reductions and therefore no additional provisions have been recognised as at 30 June 2013.

Other
The group is self insured in respect of certain personal injury and damage claims. There is a provision for the estimated cost of incidents which have occurred up to 30 June 2013, based on a case by case review with actuarial assistance. The payments will be made as the cases are settled.

27. Provisions for other liabilities and charges - continued

The group also has a provision for costs arising from certain compliance matters including certain obligations in relation to the retirement and decommissioning of assets, mainly certain poles, batteries, international cable and dismantling and restoration of mobile antenna sites. It is expected that most of these costs will be paid during the period 2014 to 2025, and these anticipated cash flows are discounted using a real rate of return of between 2% and 4%.

28. Trade and other payables

	30 June 2012 €m	30 June 2013 €m
Non-current liabilities: -		
Unfavourable lease contracts arising on acquisition	132	**121**
Trade payables	47	**49**
	179	**170**
Current liabilities: -		
Unfavourable lease contracts arising on acquisition	10	**11**
Trade payables	77	**69**
Interest payable	5	**7**
Other amounts payable (Note 40)	8	**-**
Other tax and social security payable	41	**35**
Accruals	235	**229**
Deferred income	114	**97**
	490	**448**

The carrying amounts of trade payables are denominated in the following currencies:

	30 June 2012 €m	30 June 2013 €m
Euro	115	**110**
SDR	6	**5**
Sterling	2	**2**
US dollar	1	**1**
	124	**118**

29. Share Capital

The share capital at 30 June 2013 and 30 June 2012 is set out below:-

AS AT 30 JUNE 2013 AND 30 JUNE 2012

AUTHORISED			ISSUED	
Number and Class of Share	**Amount €**	Nominal Value per Share	Number and Class of Share	**Amount €**
10,000,000 Ordinary shares	10,000,000	€1.00 each	2 Ordinary shares	2
Equity share capital	**10,000,000**		**Equity share capital**	**2**

There were no alterations to the issued share capital of eircom Holdings (Ireland) Limited during the year ended 30 June 2013.

Rights attaching to the ordinary shares are as follows:
The Ordinary Shares carry the right to receive notice of, attend and vote at, general meetings of the Company. The Ordinary shares carry the right to receive dividends as and when declared by the Directors. On a winding-up of the Company the Ordinary shares carry the right to share in any surplus assets of the Company.

30. Reconciliation of total shareholders' equity

	Equity share capital €m	Share premium account €m	Cash flow hedging reserve €m	Retained earnings /(loss) €m	Total equity €m
At beginning of financial period	-	-	-	-	-
Loss for the financial period	-	-	-	(543)	(543)
Defined benefit pension scheme actuarial losses	-	-	-	(28)	(28)
Tax on defined benefit pension scheme actuarial losses	-	-	-	3	3
Balance at 30 June 2012	**-**	**-**	**-**	**(568)**	**(568)**
Loss for the financial year	**-**	**-**	**-**	**(115)**	**(115)**
Defined benefit pension scheme actuarial losses	**-**	**-**	**-**	**(155)**	**(155)**
Tax on defined benefit pension scheme actuarial losses	**-**	**-**	**-**	**19**	**19**
Cash flow hedges:					
- Fair value gains in year	**-**	**-**	**5**	**-**	**5**
- Tax on cash flow hedge movements	**-**	**-**	**(1)**	**-**	**(1)**
Balance at 30 June 2013	**-**	**-**	**4**	**(819)**	**(815)**

31. Cash generated from operations

Reconciliation of consolidated operating profit to net cash inflow from operating activities:

a) Cash generated from operations

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Loss after taxation	(543)	**(115)**
Addback:		
Income tax charge	1	**1**
Finance costs – net	10	**237**
Operating (loss)/profit	(532)	**123**
Adjustments for:		
- Exceptional gain on exit from subsidiary	-	**(17)**
- Goodwill impairment	542	**-**
- Depreciation and amortisation	21	**337**
- Non cash lease contracts	-	**(9)**
- Non cash retirement benefit charge	1	**37**
- Restructuring programme costs	-	**27**
- Other non cash exceptional items	-	**(11)**
- Other non cash movements in provisions	1	**8**
Cash flows relating to restructuring and provisions	(3)	**(96)**
Changes in working capital		
- Inventories	1	**1**
- Trade and other receivables	27	**14**
- Trade and other payables	(38)	**(40)**
- Inter-company payables to former group undertakings	-	**2**
Cash generated from operations	20	**376**

b) In the group cash flow statement, proceeds from sale of property, plant and equipment (PPE) and intangible assets comprise:

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Net book value of PPE disposals (Note 15)	-	**4**
Net book value of intangible disposals (Note 14)	-	**7**
	-	**11**
Net book value of intangible disposals on exit from subsidiary undertaking (Note 10)	-	**(6)**
Net book value of PPE disposals on exit from subsidiary undertaking (Note 10)	-	**(1)**
Net book value of PPE disposals on liquidation of subsidiary undertaking	-	**(2)**
Proceeds from sale of PPE and intangible assets	-	**2**

32. Post Balance Sheet Events

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

33. Principal Subsidiaries, Joint Ventures and Associated Undertakings

	Interest in Ordinary Shares at 30 June 2013	Business	Registered Office and Country of Incorporation
eircom Limited	100%	Provision of telecommunications and related services	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Meteor Mobile Communications Limited	100%	Provision of mobile telecommunications and related services	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom Finco Sarl	100%	Finance Company	46A Avenue J. F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg.
eircom Finance Limited	100%	Finance Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Irish Telecommunications Investments Limited	100%	Telecommunications Financing and Treasury Management	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
eircom UK Limited	100%	Provision of Telecommunications and Related Services	South Quay Plaza II, 183 Marsh Wall, London E14 9SH, UK.
eircom Holdings Limited	100%	Investment Holding Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
GoFree Limited	100%	Property Investment Company	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Tetra Ireland Communications Limited (Joint venture)	56%	Build and Operate National Digital Radio Services Network	1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland.
Altion Limited (Associated undertaking)	31.3%	Telecommunications Software Solutions	7th Floor, O'Connell Bridge House, D'Olier Street, Dublin 2, Ireland.
Buy4Now Limited (Associated undertaking)	32.2%	E-commerce Software Developer	9 The Mall, Beacon Court, Bracken Road, Sandyford Industrial Estate, Dublin 18, Ireland.

33. Principal Subsidiaries, Joint Ventures and Associated Undertakings - continued

Joint Venture

At 30 June 2013, eircom Holdings (Ireland) Limited has a joint venture in Tetra Ireland Communication Limited ("Tetra"). The following table presents, on a condensed basis, the effect on the consolidated financial statements of including Tetra using proportionate consolidation.

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Revenue	2	**19**
Operating costs excluding depreciation	(1)	**(10)**
Depreciation	(1)	**(7)**
Profit before finance costs	-	**2**
Finance costs – net	-	**(1)**
Profit before income tax	-	**1**
Income tax credit	-	**-**
Profit for the financial period	-	**1**

	30 June 2012 €m	30 June 2013 €m
ASSETS		
Non-current assets	37	**29**
Current assets	11	**12**
Total assets	48	**41**
LIABILITIES		
Non-current liabilities	31	**22**
Current liabilities	18	**19**
Total liabilities	49	**41**
EQUITY		
Total equity	(1)	**-**
Total equity	(1)	**-**
Total liabilities and equity	48	**41**

34. Employees

The average number of persons employed by the group for the year ended 30 June 2013 and for the period from 11 June 2012 to 30 June 2012 were as follows:-

	Period ended 30 June 2012	Year ended 30 June 2013
Fixed line		
Operations/Technical	3,335	**3,179**
Sales/Customer Support	1,221	**1,105**
Administration	398	**357**
Total	4,954	**4,641**
Mobile		
Operations/Technical	210	**197**
Sales/Customer Support	327	**333**
Administration	64	**63**
Total	601	**593**
Total fixed line and mobile	5,555	**5,234**

The total number of persons employed by the group as at 30 June 2013 and 30 June 2012 were as follows:-

	30 June 2012	30 June 2013
Fixed line		
Operations/Technical	3,335	**2,983**
Sales/Customer Support	1,221	**885**
Administration	398	**321**
Total	4,954	**4,189**
Mobile		
Operations/Technical	210	**170**
Sales/Customer Support	327	**309**
Administration	64	**43**
Total	601	**522**
Total fixed line and mobile	5,555	**4,711**

Certain employees work in both the fixed and mobile businesses. The employee numbers are based on the entity that entered into the employment contract with the individual employees. The employee costs are recharged between the fixed and mobile segments based on estimates of the time spent by individual employees on fixed and mobile activities.

35. Pensions

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

The total group pension charge is split between the schemes as follows:

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Defined Benefit Schemes (the principal scheme)	2	**58**
Defined Contribution Schemes	-	**5**
Total	2	**63**

The total group defined benefit pension liability recognised in the balance sheet:

	30 June 2012 €m	30 June 2013 €m
Defined Benefit Schemes (the principal scheme) (eircom Limited)	646	**848**
Defined Benefit Schemes (eircom Phonewatch Limited)	3	**-**
Total Liability recognised in the Balance Sheet	649	**848**

eircom Limited principal scheme

The actual contributions in respect of the principal scheme represent a rate of 9.4% of pensionable emoluments, as advised by the group's actuaries. The eircom Limited group committed to an annual employer contribution of €20 million for three years commencing 1 January 2011. The last Actuarial Valuation of the principal scheme was carried out using the attained age method, as at 30 September 2010, by Mercer, who are actuaries to the Scheme but are neither officers nor employees of the group. The actuarial method used involved determining an appropriate future group contribution rate designed to fund the projected liabilities of the Scheme related to service subsequent to 1 January 1984 (see Note 35 (b)) over the remaining working lifetime of the current members.

The actuarial valuation as at 30 September 2010 was determined by reference to the following critical assumptions: (1) an assumed rate of pensionable pay and pension inflation of 1.9% per annum with effect from 1 January 2014 (0% until 31 December 2013) and (2) an assumed rate of investment return of 6.25% per annum in the pre-retirement period and 5% per annum in the post-retirement period. The weighted average expected future return is approximately 5.3% per annum. At the date of the last actuarial valuation, the market value of the pension scheme assets was €2,578 million, and the actuarial valuation of the assets attributable to the pension fund was sufficient to meet more than 100% of the value of the scheme's accrued liabilities making due allowance for future increases in salaries and pensions. The actuarial report is available for inspection by the members of the scheme at 1 Heuston South Quarter, St. John's Road, Dublin 8. The actuarial report is not available for public inspection. The next scheduled formal valuation of the scheme is as at 30 September 2013.

Mercer also perform all annual valuations required under IAS 19 "Employee Benefits". These valuations are performed on the projected unit basis.

Pension scheme obligation

The status of the principal scheme is as follows:

	Acquisition date €m	30 June 2012 €m	30 June 2013 €m
Present value of funded obligations	3,475	3,480	**3,930**
Fair value of scheme assets	(2,858)	(2,834)	**(3,082)**
Liability recognised in the Balance Sheet	617	646	**848**

35. Pensions - continued

Reconciliation of defined benefit obligation	**30 June 2012 €m**	**30 June 2013 €m**
At beginning of financial period	-	**3,480**
Liabilities acquired in business combinations	3,475	**-**
Current service cost	1	**34**
Interest cost	7	**142**
Transfer from provisions for liabilities and charges [(1)]	-	**9**
Actuarial losses	-	**330**
Contributions by employees	1	**11**
Benefits paid	(4)	**(76)**
Total – Defined benefit obligation	3,480	**3,930**

[(1)] *The amounts transferred from provisions relate to curtailment losses arising as a result of the group's restructuring programme. Provisions for restructuring include curtailment costs arising from restructuring programmes and the liabilities relating to curtailment are transferred to pension obligation at the time the individuals exit the business.*

Reconciliation – Fair value of plan assets	**30 June 2012 €m**	**30 June 2013 €m**
At beginning of financial period	-	**2,834**
Assets acquired in business combinations	2,858	**-**
Expected return on plan assets	6	**118**
Actuarial (losses)/gains	(28)	**175**
Contributions paid by group	1	**20**
Contributions by employees	1	**11**
Benefits paid	(4)	**(76)**
Total – Fair value of plan assets	2,834	**3,082**

The components of the amounts recognised in the income statement are as follows:

	Period ended 30 June 2012 €m	**Year ended 30 June 2013 €m**
Current service cost	1	**34**
Interest on obligation	7	**142**
Expected return on scheme assets	(6)	**(118)**
Total net charge included in the income statement	2	**58**
Actual return on scheme assets	(22)	**293**

The expected contribution level for the year ended 30 June 2014 for the defined benefit scheme is €20 million, though an actuarial valuation to be completed as at 30 September 2013 will determine the actual level of contribution.

35. Pensions - continued

Pension scheme assets
The fair value of scheme assets as at 30 June 2013 was €3,082 million (30 June 2012: €2,834 million).

The table below presents a breakdown of the various types of investment in which the pension assets are invested:

	30 June 2012		30 June 2013	
	€m	%	€m	%
Equities & other assets	1,020	36%	**1,092**	**35%**
Bonds	1,644	58%	**1,802**	**59%**
Property	113	4%	**176**	**6%**
Cash	57	2%	**12**	**-**
Total pension assets	2,834	100%	**3,082**	**100%**

The overall expected return on plan assets is based upon the weighted average of the assumed returns on the major asset classes. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

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

	Acquisition Date	At 30 June 2012	At 30 June 2013
Rate of increase in salaries	1.90%(1)	1.90%(1)	1.90%(2)
Rate of increase in pensions in payment	1.90%(1)	1.90%(1)	1.90%(2)
Discount rate	4.10%	4.10%	3.60%
Expected return on scheme assets	4.20%(3)	4.20%(3)	3.70%(3)
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
Increase in net assets/(decrease in net liabilities) at the balance sheet date assuming an increase in the discount rate applied of 0.25%		(€152m)	(€165m)
Reduction in net assets/(increase in net liabilities) at the balance sheet date assuming an increase in the salary and pension growth applied of 0.25%		(€138m)	(€149m)

(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 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 no increase in pensionable pay will arise prior to 1 July 2014.
(3) The expected return on scheme assets is net of a pension levy of 0.6% payable on an annual basis for three years ended 30 June 2014.

35. Pensions - continued

The expected long term rate of return on scheme assets were:

	At 30 June 2012	At 30 June 2013
Equities	7.00%	**6.50%**
Bonds	3.50%	**3.00%**
Cash	1.00%	**2.00%**
Property	6.00%	**5.50%**

	Period ended 30 June 2012	Year ended 30 June 2013
Experience losses on scheme liabilities	-	**(€330m)**
Percentage of the present value of the scheme liabilities	-	**(8%)**
Difference between the actual and expected return on scheme assets – (losses)/gains	(€28m)	**€175m**
Percentage of scheme assets	(1%)	**6%**

(b) The Irish Minister for Finance is responsible for meeting and discharging the liability of: (i) the pension costs of former staff of the Irish Department of Posts and Telegraphs who retired or died before the vesting Day (1 January 1984); (ii) costs in respect of the pension entitlements, related to pre-vesting day reckonable service, of staff who transferred to eircom from the Irish Civil Service. Such benefit payments are made from the eircom Number 2 Pension Fund, which was established in March 1999 and received a contribution of €1,016 million from the Irish Minister for Finance in accordance with arrangements set out in the eircom Superannuation (Amendment) Scheme, 1999. However, the Minister retains full liability for these payments.

36. Operating lease commitments

At 30 June 2013, the group had annual commitments in respect of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The analysis of the group's annual commitments is as follows:-

	30 June 2012		30 June 2013	
	Property €m	Vehicles, plant and equipment €m	Property €m	Vehicles, plant and equipment €m
Annual commitments				
Under non-cancellable operating leases expiring:				
No later than one year	4	-	**3**	**1**
Later than one year but no later than five years	26	2	**21**	**1**
Later than five years	22	-	**22**	**-**
	52	2	**46**	**2**

The total contracted payments due on operating leases are as follows:

	30 June 2012 €m	30 June 2013 €m
Payable:		
No later than one year	54	**48**
Later than one year but no later than five years	141	**124**
Later than five years	267	**244**
	462	**416**

37. Credit guarantees and securities

Credit guarantees
The credit guarantees comprise guarantees and indemnities of bank or other facilities, including those in respect of the group's subsidiary undertakings.

Senior Credit Facility
At 30 June 2013, eircom Holdings (Ireland) Limited and certain of its subsidiaries have guaranteed financial indebtedness for €2 billion of eircom Finco Sarl pursuant to the Senior Credit Facility of eircom Holdings (Ireland) Limited Group.

The Senior Credit Facility of the eircom Holdings (Ireland) Limited Group consists of a €2 billion term credit facility which has the benefit of guarantees and security for all amounts borrowed under the terms of the Senior Credit Facility. The guarantees rank equally in right of payment with all existing and future indebtedness that is not subordinated to the Senior Credit Facility, including the guarantee of the Senior Secured Notes. The guarantees are contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement. The Senior Credit Facility is secured by pledges over the shares in eircom Holdings (Ireland) Limited, pledges over certain bank accounts, intercompany claims and related security of eircom Finco Sarl, and fixed and floating charges over the assets of eircom Limited, Irish Telecommunications Investments Limited, Meteor Mobile Communications Limited and eircom UK Limited, subject to certain exclusions specified in the security documents. The companies guaranteeing the Senior Credit Facility are eircom Holdings (Ireland) Limited, eircom Finco SARL, eircom Limited, Meteor Ireland Holdings LLC, Irish Telecommunications Investments Limited, Meteor Mobile Communications Limited and eircom UK Limited.

Senior Secured Notes
eircom Holdings (Ireland) Limited and certain of its subsidiaries have guaranteed financial indebtedness for €350 million of eircom Finance Limited, a subsidiary of the group, pursuant to the Senior Secured Notes issued in May 2013.

The guarantees are general senior obligations of each guarantor and rank equally in right of payment with all existing and future indebtedness that is not subordinated to the Notes, including the guarantee of the Senior Credit Facility. The guarantees are contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement.

The Senior Secured Notes are secured by pledges over the equity interests in eircom Finance Limited and each Guarantor, pledges over certain bank accounts, intercompany claims and related security of eircom Finco Sarl and fixed and floating charges over the assets of the guarantors, subject to certain exclusions specified in the security documents. The guarantors of the Senior Secured Notes are eircom Holdings (Ireland) Limited, eircom Finco SARL, eircom Limited, Meteor Ireland Holdings LLC, Irish Telecommunications Investments Limited, Meteor Mobile Communications Limited and eircom UK Limited.

Hedging obligations
The group has entered into derivative financial instruments which are subject, amongst other things, to an Intercreditor Agreement. In accordance with this agreement, the liabilities to hedging counterparties rank in priority to liabilities arising under the Senior Credit Facility and Senior Secured Notes in the event of enforcement action. The derivative financial instruments held by the group's joint venture, Tetra, are not subject to the Intercreditor Agreement (see Note 25).

Tetra Securities
The Senior Credit Facility of Tetra of €49 million is secured by a first-priority pledge fixed and floating charges over the assets of Tetra and a first ranking pledge over all the shares of Tetra. The senior credit facility and derivative financial instruments held by Tetra are not subject to the Intercreditor Agreement in respect of the Senior Credit Facilities of the eircom Holdings (Ireland) Limited Group.

The Senior Credit Facility of the eircom Holdings (Ireland) Limited Group and the Senior Secured Notes of eircom Finance Limited are also secured by a second pledge over eircom Limited's shares of Tetra.

38. Contingent liabilities

Hearing loss claims
As of 30 June 2013, eircom has received notice of personal injury claims for alleged hearing loss from one hundred and sixteen current and former employees, fifteen of which have been withdrawn, and six of which have been discontinued. Of the ninety-six remaining claims, fifty-five have become prima facie statute barred, and therefore eircom consider these cases to be closed. Of the remaining cases, twenty-six individuals have issued but not served court proceedings alleging hearing loss, and fourteen sets of proceedings have been served and are active. eircom has denied liability in all of the claims and intends to vigorously defend all proceedings issued in respect of hearing loss claims.

Performance guarantees
Performance guarantee deposits have been lodged in respect of the group's obligation to make payments to third parties in the event that the group does not perform its contracted commitments under the terms of certain contracts (see Note 21). At 30 June 2013, these include €6 million in respect of undertakings arising in relation to the roll out of our 3G network in Ireland, including achieving certain agreed milestones, €10 million in respect of eircom's obligation under a Quality of Service Performance Improvement Programme under our Universal Service Obligations ("USO"), and €4 million in relation to other obligations under certain commercial contracts. No material losses are expected in respect of these obligations.

Allegations of anti-competitive practices
In October 2002, ComReg determined that eircom Limited was not in compliance with its obligations under the voice telephony regulations, as it provided telephone services to specific customers at prices which were not in accordance with the specific terms and conditions of eircom's discount schemes and published prices. No penalties were levied on eircom Limited as a result of this determination.

Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court in December 2002 against eircom Limited seeking damages including punitive damages resulting from the matters that were the subject of the ComReg determination. eircom Limited submitted its defence on 26 January 2004 and intends to defend the proceedings vigorously.

The plaintiffs submitted general particulars of their damages claim on 3 February 2004 under the headings: loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs have identified claims for loss of revenue on existing customers (€7.4 million), failure to meet the plaintiffs' alleged budgeted growth (€25 million), and loss of revenue on the plaintiffs' pricing (€5 million). The particulars also include further unquantified damages. The plenary summons and statement of claim of Ocean Communications Limited and ESAT Telecommunications Limited were amended, inter alia, in April 2005 to include a claim for alleged breach of certain constitutional rights. Even if the plaintiffs could establish a liability on eircom's part under each of these headings, eircom's Directors do not believe that these figures represent damages which would be properly recoverable from eircom Limited.

No further action has been taken by the plaintiffs in the eight years since they amended the plenary summons and statement of claim.

Claims by Smart Telecom
On 8 June 2005, Smart Telecom instituted proceedings against eircom Limited in the Irish High Court, challenging the validity of a notice of termination issued by eircom Limited to Smart Telecom terminating the interconnection agreement between the parties, and alleging that the notice of termination was an abuse by eircom Limited of its dominant position in the telecommunications market. Smart Telecom further alleged that eircom Limited was abusing its dominant position by refusing to provide network access in the form of Local Loop Unbundling ("LLU") in the manner required by Smart Telecom. The reliefs sought by Smart Telecom included declarations that the notice of termination was invalid and an abuse of dominance, that eircom Limited was abusing its dominance by failing to meet Smart Telecom's LLU requirements, and unspecified damages, including exemplary damages, for breach of contract and violation of the Competition Act 2002 and the EC Treaty. eircom Limited delivered its defence in the proceedings on 23 December 2005.

eircom's Directors believe that the notice of termination was validly issued in accordance with the interconnection agreement, and that eircom Limited provides access to its network fully in accordance with its obligations, and intends to defend the proceedings vigorously. Smart Telecom submitted general particulars of its damages claim under the headings: wasted expenditure (€1.6 million), delayed sales/lost customers (€3.8 million per annum), and capitalisation of losses (€41.7 million per annum). Even if Smart Telecom could establish liability on eircom's part under each of these headings, eircom's Directors do not believe that these figures represent damages that would be properly recoverable from eircom Limited.

In October 2006, eircom Limited terminated the interconnection agreement with Smart Telecom on grounds unconnected with the proceedings. In 2006 and 2007, eircom Limited introduced the LLU functionality that is the subject of Smart's claim in the proceedings.

No further action has been taken by Smart Telecom after the delivery of eircom's defence in December 2005. In December 2009, Smart Telecom went into liquidation.

38. Other contingent liabilities - continued

Other
The Irish taxation authorities are querying the deductibility of expenses in one of the subsidiary undertakings within the former ERC Ireland Holdings Group, a former holding company of the eircom Limited group, the resultant taxation losses of which were in part surrendered to entities in the eircom Limited group by way of group relief deductions. The former holding company has been in liquidation since May 2012. The queries cover the fiscal years ended 31 March 2004 to 30 June 2012 inclusive. As a result of these enquiries, the taxation authorities have issued amended assessments restricting the group relief deductions claims for the periods from 31 March 2004 to 30 June 2010. The amended assessments have been appealed, though no date has yet been set for the Appeal Hearing. The taxation authorities are also separately undertaking an audit of other expense deductions taken by eircom Limited in the financial years ended 30 June 2007 to 30 June 2009 inclusive. Management are satisfied that all group relief claims and expenses have been appropriately deducted in the tax computation and do not believe that there is any liability in respect of these periods.

Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties including regulatory and taxation authorities have arisen in the normal course of business. While any litigation or dispute with regulatory and tax authorities has an element of uncertainty, the Directors believe that there were no contingent liabilities which would have a material adverse effect on the group's financial position.

39. Commitments

Capital commitments of the group which have been contracted for were €49 million at 30 June 2013 (30 June 2012: €30 million). These amounts have been approved by the Board.

Network share agreement with O2
A network share agreement with O2, another mobile operator in Ireland, was signed on 7 April 2011. This agreement sets out the terms under which the parties have agreed to the sharing and integration of certain aspects of the Radio Access Networks of both groups. The group recognises its own expenses, assets and liabilities in connection with the agreement. However, to the extent that the group's own operating and capital costs associated with shared assets exceed or amount to less than 50% of the total joint costs of the operation, a recharging mechanism exists which ensures equalisation of costs incurred by each party.

Each party has an unconditional right to terminate the agreement subject to a minimum period of prior notice. The agreement also contains standard rights for immediate termination for either party.

To the extent that the group expects to decommission existing assets in connection with the agreement, the related useful lives of the assets concerned and asset retirement obligations have been revised as appropriate, and provisions have been recognised for any decommissioning costs for which a legal or constructive obligation existed at the balance sheet date.

40. Related party transactions
The following transactions were carried out with related parties:

d) Key management compensation

	Period ended 30 June 2012 €m	Year ended 30 June 2013 €m
Salaries and other short-term employee benefits	0.6	**10.3**
Other long-term employee benefits	0.1	**4.2**
Post-employment benefits	-	**0.7**
	0.7	**15.2**
Termination benefits	-	**3.3**
	0.7	**18.5**

Management Incentive Plan
The long term incentive plan for the management team for 2010 to 2014 provided for awards which were made for the years ended 30 June 2011 and 30 June 2012. In October 2012, the Remuneration Committee resolved to close the plan and replaced it with a new incentive plan, commencing August 2012. In accordance with the terms of the plan, amounts already awarded for years ended 30 June 2011 and 30 June 2012 are payable. Accruals at 30 June 2013 include €1.2 million (30 June 2012: €4.6 million) in respect of awards under the plan which have not yet been paid and are payable in the year ending 30 June 2014.

The new management incentive plan ("MIP") introduced by the group's parent company, eircom Holdco SA, for certain directors and senior executives in the group incentivises the participants to deliver maximum returns to shareholders on a sale or other form of exit, and to achieve full repayment of the group's borrowings under the Senior Facilities Agreement ("a debt value event") and to deliver maximum returns to shareholders on a sale of their shares ("sale event"). The MIP begins to accrue value from a stated threshold level of €1.8 billion (''MIP Threshold'') and the maximum permitted allocation for all participants in the scheme is an aggregate interest of up to 10% of the return above the MIP Threshold, which is subject to a cap in the event of a debt value event, of which 6.4% has been allocated at year end. The individual participants' entitlements under the MIP are subject to graded vesting on a time basis over a five year period commencing on the first anniversary of the scheme, 31 August 2013, although the agreements provide for accelerated vesting in the event of a sale or public offering provided the individual remains employed at such date. The weighted average remaining vesting term of the awards is 2.9 years.

Under the MIP the participants are entitled to receive instruments in Eircom MEP S.A., which in turn hold instruments in eircom Holdco S.A.. The instruments held in Eircom MEP S.A carry no voting rights and are not transferable. Under the terms of the MIP there are good and bad leaver clauses, which determine the rights of participants who cease to be employees prior to the occurrence of an exit event.

In the event that eircom Holdco SA has insufficient proceeds to discharge the amounts accruing to scheme participants under a debt value event, the discharge of such amounts will be dependent on funding from eircom Limited and/or Eircom Holdings Ireland Limited.

The group has recognised a total charge of €5.7 million in its income statement with a corresponding liability recorded on its balance sheet as at 30 June 2013.

40. Related party transactions - continued

e) Transactions and loans between related parties

The former group undertakings are former entities in the ERC Ireland Equity SPC Group which was the ultimate parent company of the eircom Limited group until 11 June 2012. From 11 June 2012, ERC Ireland Equity SPC Group no longer holds any beneficial interest in the group.

	30 June 2012 €m	30 June 2013 €m
Other amounts payable (owed to former eircom Limited group undertakings):		
Beginning of financial period	-	**8**
Acquired in business combinations	8	**-**
Amounts owed by subsidiary undertaking derecognised on liquidation	-	**(8)**
End of financial period (Note 28)	8	**-**
Other amounts receivable (due from former eircom Limited group undertakings):		
Beginning of financial period	-	**3**
Acquired in business combinations	3	**-**
Loan repayments during the financial year	-	**(2)**
End of financial period (Note 20)	3	**1**

f) Other related parties transactions

During the year ended 30 June 2013, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra Ireland Communications Limited of €5.4 million (30 June 2012: €0.2 million). The amount outstanding in respect of these costs is €4.1 million at 30 June 2013 (30 June 2012: €2.8 million).

During the year ended 30 June 2013, the group income statement included a charge of €0.3 million paid in respect of the Employee Share Ownership Trust (ESOT) for the administrative expenses incurred in its capacity as trustee of the ESOT and the Approved Profit Share Scheme (APSS) which have not been recharged to the ESOT.

On 11 July 2013, ESOP Trustee Limited (as trustee of the ESOT) and the APSS entered a member's voluntary liquidation. The residual assets not yet claimed by beneficiaries have been transferred to eircom Limited which will continue to administer the residual assets of the ESOT and the APSS in respect of untraced holders and unclaimed funds for a period of up to twelve years from the substantial winding-up of the trusts.

During the year ended 30 June 2013, the group paid €0.16 million (30 June 2012: €Nil), on normal commercial terms, to Prodigium Limited for strategic advice in relation to eircom Limited. All of these costs were expensed to the income statement. Mr. Hartery, an independent non-executive director of eircom Holdings (Ireland) Limited, is a controlling shareholder and a director of Prodigium Limited. The €0.16 million (ex VAT) covers all services provided to eircom Limited to date and eircom Limited will not require further services from Prodigium Limited at this stage.

41. Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 July 2013 or later periods but which the group has not early adopted, as follows:

IFRS 9, 'Financial instruments'. (Effective for financial periods beginning on or after 1 January 2015, subject to EU endorsement). The new standard addresses classification and measurement of financial assets. IFRS 9 replaces the multiple classification models in IAS 39 with a model that has two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets. IFRS 9 removes the requirement to separate embedded derivatives from financial asset host instruments and the cost exemption for unquoted equities. The group is currently reviewing the expected impact of this standard, which may change as a consequence of further developments resulting from the IASB's financial instruments project.

IFRS 10, 'Consolidated Financial Statements'. (Effective for annual periods beginning on or after 1 January 2014, subject to EU endorsement). The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, replacing the consolidation requirements in SIC-12 *Consolidation*—'Special Purpose Entities' and IAS 27 Consolidated and Separate Financial Statements. This is not expected to have any significant impact on the group.

41. Standards, interpretations and amendments to published standards that are not yet effective - continued

IAS 27, 'Separate Financial Statements'. (Effective for annual periods beginning on or after 1 January 2014, subject to EU endorsement). This standard supersedes IAS 27 Consolidated and Separate Financial Statements following the issuance of IFRS 10, which replaced the consolidation requirements in IAS 27. Only accounting and disclosure requirements for the preparation of separate financial statements remain in IAS 27; the Standard was therefore renamed Separate Financial Statements. This is not expected to have any significant effect on the group.

IFRS 11, 'Joint Arrangements'. (Effective for annual periods beginning on or after 1 January 2014). The standard eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 and SIC-13. The group has applied proportionate consolidation to its investments in joint ventures in accordance with IAS 31. Application of the new standard will result in the use of equity accounting for these investments in the future which will change how the results and net assets of joint ventures are presented in the financial statements.

IAS 28, 'Investments in Associates and Joint Ventures'. (Effective for annual periods beginning on or after 1 January 2014). The standard incorporates the accounting for joint ventures. An entity applies IFRS 11 to determine the type of joint arrangement in which it is involved. Once it has determined that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method in accordance with IAS 28 (as amended in 2011), unless the entity is exempted from applying the equity method as specified in the standard. As the group has heretofore applied proportionate consolidation to its investments in joint ventures, application of the new standard will result in the use of equity accounting for these investments in the future.

IFRS 12, 'Disclosure of Interests in Other Entities'. (Effective for annual periods beginning on or after 1 January 2014). IFRS 12 includes additional disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The group is currently assessing the impact of this standard, but there will be no impact of a recognition or measurement nature given the disclosure focus of the standard.

IFRS 13, 'Fair Value Measurement'. (Effective for annual periods beginning on or after 1 January 2013). IFRS 13 requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. Some of those disclosures, including the fair value hierarchy, were already introduced in March 2009 through an amendment to IFRS 7 'Financial Instruments: Disclosures'. Those disclosures have been relocated to IFRS 13. The group is currently assessing the impact of this standard, but no material effect on the measurement of the group's financial instruments is expected.

IAS 19 (Amendment), 'Employee Benefits'. (Effective for annual periods beginning on or after 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Of particular relevance to the group is the change in the presentation and measurement of interest cost and expected return on plan assets, which will be replaced with a net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, and is expected to result in an increase in the related cost included in the income statement. In addition, liability for a termination benefit will be recognised when the group can no longer withdraw the offer of the termination benefit or recognises any related restructuring costs. This might delay the recognition of provisions in respect of voluntary termination benefits.

Annual Improvements (2011). (Effective for financial periods beginning on or after 1 January 2013). The IASB has issued "annual improvements" which amends various standards. The group is currently assessing the impact of these improvements on its financial reporting, but does not anticipate that the improvements will have a material impact on the group's financial statements.

IAS 32 (Amendment), 'Financial Instruments: Presentation'. (Effective for financial periods beginning on or after 1 January 2014). The amendment does not change the current offsetting model in IAS 32, but clarifies that the right of set-off must be available at the balance sheet date and cannot be contingent on future events. Whilst it is expected that the amendment will primarily only affect financial institutions, the group is currently assessing the impact of the amendment on its financial reporting, but does not anticipate that amendment will have a material impact on the group's financial statements.

IFRS 7 (Amendment), 'Financial Instruments: Disclosures'. (Effective for financial periods beginning on or after 1 January 2013). The amendment requires more extensive disclosures about financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements regardless of whether or not they are offset. The group is currently assessing the impact of this standard, but there will be no impact of a recognition or measurement nature given the disclosure focus of the standard.

IFRIC 20 'Stripping costs in the production phase of a surface mine'. (Effective for financial periods beginning on or after 1 January 2013). This interpretation has no relevance to the group.

41. Standards, interpretations and amendments to published standards that are not yet effective - continued

Amendments to IFRS 10, 12 and IAS 27 'Investment entities'. (Effective for financial periods beginning on or after 1 January 2014). The amendments are subject to EU endorsement. The guidance applies to an 'investment entity'. The amendment to IFRS 10 defines an investment entity and introduces an exception from consolidation. The amendments to IFRS 12 also introduce disclosures that an investment entity needs to make. eircom Holdings (Ireland) Limited is currently assessing the impact of these amendments on its financial reporting, but does not anticipate at this time that it will avail of this exception from consolidation.

42. Comparative amounts

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

43. Approval of financial statements

These financial statements were authorised for issue by the Board of Directors on 26 September 2013.