

eircom Holdings (Ireland) Limited

**Second quarter and six months unaudited results
31 December 2014**



SECOND QUARTER AND SIX MONTHS RESULTS ANNOUNCEMENT TO 31 DECEMBER 2014

Financial performance in line with expectations with continued growth in broadband, mobile, TV and bundles

- **Financial performance**
 - Second quarter revenue of €316m, down 4%¹ year on year; rate of revenue decline continues to improve (7% decline in the corresponding prior year quarter)
 - Second quarter operating costs² down 6%; pay cost reduction of 13%
 - Second quarter EBITDA³ of €112m, down 3% year on year but in line with expectations
 - Year to date revenue and EBITDA of €629m and €226m respectively, both down 4%
- **Sustained momentum in Group KPIs**
 - Continued broadband growth
 - 748,000 broadband connections, up 8% year on year
 - 17,000 broadband connections in the quarter
 - Strong high speed fibre uptake
 - 202,000 fibre customers, up 30,000 in the quarter
 - 19% penetration of premises passed
 - Continued traction in TV service
 - 32,000 TV customers, 4,000 added in the quarter
 - 25% penetration of consumer fibre base
 - Strong mobile postpay growth and improving prepay performance
 - 19,000 postpay and 6,000 prepay growth in the quarter
 - Over 210,000 4G customers
 - Triple and quad-play bundle penetration continues
 - 20% of customers now using TV/mobile bundles
 - Revenue generating units per customer (RGUs) increased to 1.8
- **Business highlights**
 - Over 1,100,000 premises passed⁴ with fibre
 - FTTH commercial build underway in 16 towns
 - Additional TV sports content secured
 - Significant response to recruitment programme for 375 apprentices and graduates

¹ Prior year quarter revenue figures have been adjusted with respect to mobile termination rates for comparative purposes

² Operating costs are cost of sales, pay and non-pay costs excluding non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items

³ EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges and exceptional items

⁴ Premises passed is defined as the number of premises in areas where the construction of the fibre network has been completed but service may not be available in all these areas as yet.

(Issued Friday 27 February, 2015) eircom Group today announced results for the second quarter and half year ended 31 December 2014.

Commenting on today's announcement, Richard Moat, CEO eircom Group, said: "We continue to stabilise our financial performance and our results are in line with expectations. The positive momentum in our KPIs continues, driven by our bundling strategy as well as a strong Christmas trading performance in our mobile business. The fixed line business is stabilising and the mobile business continues to perform well, with three consecutive quarters of revenue growth. A strong Christmas trading performance resulted in the first quarterly growth in the prepay base in over two years.

"We continue to evolve our TV offering and have recently added Sky Sports 3, 4 and 5 to our proposition. We remain the only player that can offer quad-play bundles in the market and we now have 20% of our consumer base on TV/mobile bundles. The rollout of our NGA network, which underpins our bundling capability, continues at pace. We now have passed 1.1 million premises and have already connected one in five of these with high speed broadband. Work on our commercial fibre to the home (FTTH) rollout is also underway in 16 towns and we have trialled speeds of up to 1Gb/s using our FTTH solution.

"We have been overwhelmed by the response to our apprentice and graduate programmes announced earlier this month. To date, we have received over 3,000 applications. This is the first large scale sustained recruitment announced by the Group in almost 30 years with 60 apprentices and 15 graduates to join the Group in each of the coming five years. As the leading provider of telecommunications services in the country, we believe this recruitment programme underlines our ambition for the future of the Irish economy, as well as for our company. We are committed to investing in our future, both in the new technologies we are rolling out and also in our people.

"The Group generated EBITDA of €226 million for the first half of the year which is in line with management expectations. We continue to benefit from cost savings with a 13% reduction in pay costs compared to the same quarter last year and have started to see signs of growth in the mobile segment. While the Irish macro environment continues to improve and Ireland is expected to be the fastest growing economy in the Eurozone in 2015, the competitive telecoms environment remains intense. However, the journey the Group has taken in the last two years has equipped us with the tools to maintain our leading position in this competitive market.

"Finally, during January 2015, we completed the sale of our Adelaide Road exchange, a non-core freehold property. We will hold the property under a 4 year lease until final decommissioning has been completed."

Trading Update⁵

Revenue for the quarter and six months ended 31 December 2014 of €316 million and €629 million respectively, have each reduced by 4%⁵, on the corresponding prior year periods. Operating costs⁶ excluding non-cash items, for the quarter and six months ended 31 December 2014 were €204 million and €403 million respectively, a reduction of €15 million or 6% and €18 million or 4% on the corresponding prior year periods. EBITDA⁷ for the quarter ended 31 December 2014 was €112 million, a reduction of 3%, and €226 million for the six months ended 31 December 2014 reduced by 4%.

In the fixed line segment, revenues (before intra company eliminations) for the quarter ended and six months ended 31 December 2014, were €236 million and €474 million a decrease of 6% and 5% respectively, compared to the corresponding prior year periods. The fixed line revenue decline was partially offset by operating cost savings. Fixed line EBITDA⁷ for the quarter ended and six months ended 31 December 2014 of €103 million and €209 million, decreased by 7% and 6% respectively compared to the prior year periods.

Fixed line access net losses, for the quarter ended and six months ended 31 December 2014, were 15,000⁸ and 22,000 respectively. Retail losses of 17,000 and 30,000 for the quarter and six months ended 31 December

⁵ Prior year quarter revenue figures have been adjusted with respect to mobile termination rates for comparative purposes

⁶ Operating costs are cost of sales, pay and non pay costs excluding non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items

⁷ EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges and exceptional items

⁸ Combined Retail and Wholesale access line losses

2014, were impacted by a one-off base clean-up of 6,000. While Retail losses were partially offset by an increase in Wholesale customers, the rate of increase in Wholesale has slowed.

The total Group broadband customer base⁹ was 748,000 at 31 December 2014, increasing by 17,000 in the quarter and 30,000 in the six months to the end of December. The Retail broadband base was 460,000 at the end of December 2014, growing by 1,000 in the quarter and 8,000 since 31 December 2013. Broadband lines in our Wholesale business have grown by 16,000 during the quarter and 44,000 compared to 31 December 2013, to a total of 288,000 lines at 31 December 2014. At 31 December 2014, there were 202,000 customers using of our fibre based high speed broadband services, over 19% penetration of premises passed.

In the mobile segment, Mobile EBITDA for the quarter and six months ended 31 December 2014 has grown to €9 million and €17 million respectively, each increasing by €4 million compared to the same prior year period. Mobile revenue (before intra company eliminations) grew for the third consecutive quarter to €91 million and was 1%¹⁰ higher compared to the same prior year period. Revenue for the six months ended 31 December 2014 of €178 million reduced by 1% compared to the six months ended 31 December 2013.

In terms of Mobile KPI's, the Group added 25,000 and 34,000 customers to the mobile base in the quarter and six months ended 31 December 2014, which increased to 1,090,000 customers. There were 34,000 net additions in the higher value postpay segment during the six months ended 31 December 2014, and postpay customers accounted for 42% of the overall base, up from 37% at the end of December 2013. The prepay customer base grew by 6,000 to 630,000 in the quarter due in part to a strong Christmas performance.

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

27 February 2015

⁹ Combined Retail and Wholesale excluding LLU

¹⁰ Prior year quarter revenue figures have been adjusted with respect to mobile termination rates for comparative purposes

eircom Holdings (Ireland) Limited

Unaudited second quarter and six months results to 31 December 2014

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Trading highlights for the second quarter ended 31 December 2014*

- Trading conditions remained challenging in the quarter as a result of an intense competitive environment.
- Group revenue of €316 million decreased by 5% compared to the quarter ended 31 December 2013. Adjusting for the prior year MTR adjustment¹¹, revenue decreased by 4% compared to the corresponding quarter ended 31 December 2013.
- Group adjusted EBITDA¹² of €112 million decreased by 3% compared to the corresponding prior year period but was in line with expectations.
- Group operating costs¹³ of €204 million, were 6% lower than the same period in the prior year, reflecting lower pay and non-pay costs and a reduction in direct cost of sales related to lower interconnect costs (due to the prior period MTR adjustment).
- Fixed line revenue, before intra-company eliminations, of €236 million reduced by 6% compared to the quarter ended 31 December 2013 (revenue reduction is 5% if adjusted for the prior year MTR), reflecting a reduction in fixed line access volumes and voice traffic usage.
- Fixed line adjusted EBITDA of €103 million, reduced by 7% compared to the quarter ended 31 December 2013 (adjusted for MTR EBITDA was down 8%); lower revenues were partially offset by savings in operating costs.
- Fixed line access net losses were 15,000¹⁴ for the quarter ended 31 December 2014. Retail losses of 17,000 for the quarter ended 31 December 2014 included a one off base clean up related to Department of Social Welfare customers which resulted in the disconnection of 6,000 customers. Retail losses were partially offset by Wholesale growth of 2,000 lines.
- The broadband customer base¹⁵ was 748,000 at 31 December 2014, an increase of 17,000 in the quarter. The Retail customer base increased by 1,000 and the Wholesale base increased by 16,000. At 31 December 2014, there were 202,000 customers availing of our new fibre based high speed broadband services.
- Mobile revenue of €91 million was down 3% on the corresponding prior year quarter. However adjusting for the prior year MTR adjustment, Mobile revenue increased by 1% compared to the corresponding prior year quarter.
- Mobile EBITDA of €9 million increased by €4 million compared to the quarter ended 31 December 2013, driven by revenue growth and savings in operating costs. Excluding the MTR adjustment in the prior year quarter, EBITDA increased by €5 million.
- We continued to see strong growth in mobile postpay customers, driven by sustained activity in prepay to postpay migrations and our roll out of campaigns encouraging postpay take up, specifically with offers on data usage. Postpay handset customers for the quarter ended 31 December 2014 were 429,000, with growth of 17,000 in the quarter and 53,000 or 14% from 31 December 2013. The prepay handset base at the 31 December 2014 was 614,000, an increase of 8,000 in the quarter however a decrease of 36,000 compared with 31 December 2013. While the increase in the prepay base during the quarter is partly related to a seasonal effect, this is the first quarterly growth of the base in over two years.
- Total Full Time Equivalent (FTE) staff was 3,458 at 31 December 2014 which represented a reduction of 140 FTE in the quarter and 307 FTE or 8% since 31 December 2013.
- The Group continues to maintain strong liquidity with cash on hand of €173 million at 31 December 2014.

*FY 15 figures presented above include amounts relating to the Groups 56% share in Tetra Ireland Communication Limited ("Tetra"). Following the adoption of IFRS 11, Joint Arrangements, Tetra is now reported in the financial statements under the equity method as opposed to proportionate consolidation. The management discussion and analysis section of this quarterly report presents results on a management accounting basis and therefore includes the results of the group's joint ventures on a proportionate basis, reflected in group revenue, operating costs and EBITDA.

¹¹ During quarter two of the prior year a retrospective adjustment (relating to quarter one) was required to reflect the reversal of ComReg's reduction in Mobile Termination Rates (MTR), after the decision was successfully appealed by industry. Both revenue and cost of sales are impacted but there is no impact to EBITDA. While this impacts prior year comparisons for quarter two, there is no comparative impact on a year to date basis.

¹² Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, and non-cash pension charges and exceptional items.

¹³ Operating costs include cost of sales, pay and non pay costs - excludes non cash pension charge and non cash lease fair value credits

¹⁴ Combined Retail and Wholesale access line losses.

¹⁵ Combined Retail and Wholesale excluding LLU.

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KPIs for the second quarter ended 31 December 2014 (unaudited)

	As at and for quarter ended 31 December 2013	As at and for quarter ended 31 December 2014	Better/ (Worse) % ^{N1}
<u>Access Line Base ('000)</u>			
Retail	878	814	(7%)
Wholesale	448	479	7%
Wholesale LLU	15	13	(15%)
Total	1,341	1,306	(3%)
Net (decline) in quarter	(1)	(15)	
Retail Voice traffic (m minutes in quarter)	611	503	(18%)
<u>Broadband Lines ('000)</u>			
Retail	451	460	2%
Wholesale	245	288	18%
Total	696	748	8%
Net Growth in quarter	19	17	
<u>Mobile Customers ('000)</u>			
Prepay handsets	650	614	(6%)
Postpay handsets	376	429	14%
Mobile Broadband	53	47	(11%)
Total	1,079	1,090	1%
<u>Net Mobile additions/(losses) in quarter ('000)</u>			
Prepay handsets	1	8	
Postpay handsets	22	17	
Total Handsets	23	25	
MBB	(2)	-	
Total	21	25	
<u>ARPU'S € ^{N2 & N3}</u>			
Retail Voice & Line Rental	36.6	34.5	(6%)
Retail Broadband ARPU Rental	14.8	14.3	(3%)
WLR PSTN ARPU	17.0	16.7	(2%)
Bitstream ARPU	12.1	12.6	4%
Prepay Handset ARPU	18.3	16.1	(12%)
Postpay Handset ARPU	42.0	39.2	(7%)
Closing Headcount	3,765	3,458	8%

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Trading highlights for the six months ended 31 December 2014*

- Group revenue of €629 million reduced by 4% compared to the six months ended 31 December 2013.
- Group adjusted EBITDA¹⁶ of €226 million reduced by €10 million or 4% compared to the six months ended 31 December 2013.
- Group operating costs¹⁷ of €403 million were €18 million or 4% lower than the corresponding prior year period. Savings of €22 million in pay and non-pay costs were partially offset by an increase of €4 million in direct cost of sales, related to the costs associated with the roll out of eVision and one-off credits in the prior year relating to foreign inpayments.
- Fixed line revenue, before intra-company eliminations, of €474 million reduced by 5% compared to the six months ended 31 December 2013, reflecting a reduction in fixed line access volumes and voice traffic usage.
- Fixed line adjusted EBITDA of €209 million, reduced by 6% compared to the six months ended 31 December 2013; lower revenues were partially offset by savings in operating costs.
- Fixed line access net losses were 22,000¹⁸ for the six months ended 31 December 2014. Retail losses of 30,000 for the six months ended 31 December 2014 were partially offset by an increase in Wholesale customers of 8,000. Retail line losses during the half year were impacted by a one off base clean-up, of 6,000, relating to the disconnection of Department of Social (DSP) customers. This compares to retail losses of 39,000 lines for the six months ended 31 December 2013.
- The broadband customer base¹⁹ was 748,000 at 31 December 2014, an increase of 30,000 compared to 30 June 2014 which was driven by Wholesale and Retail growth with 26,000 and 4,000 additions respectively. This compares to a net increase of 27,000 in the six months to 31 December 2013. At 31 December 2014, there were 202,000 customers using our fibre based high speed broadband services, representing a 19% penetration of NGA premises passed.
- Mobile revenue of €178 million reduced by 1% on the corresponding six months in the prior year, mainly as a result of lower ARPU. This was partially offset by continued growth in the postpay customer base, which grew by 34,000²⁰ during the six months ended 31 December 2014.
- Mobile EBITDA of €17 million increased by 22% compared to the corresponding six months ended 31 December 2013, as a result of a stabilisation of the number of customers in the prepay base and the continued increase of customers to the higher value postpay base.
- Total Mobile customers of 1,090,000 as of 31 December 2014, increased by 11,000 compared to the corresponding prior year period. We continued to see strong growth in mobile postpay customers through sustained activity in prepay to postpay migrations and our roll out of campaigns encouraging postpay take up, specifically with offers on data usage. Postpay handset customers for the quarter ended 31 December 2014 were 429,000, up 53,000 or 14% from 31 December 2013, while the prepay handset base declined by 36,000 or 6% and our Mobile broadband base reduced by 6,000.
- Total Full Time Equivalent (FTE) staff was 3,458 at 31 December 2014 which represented a reduction of 175 FTE in the last six months and a reduction of 307 FTE or 8% since 31 December 2013.
- The Group continues to maintain strong liquidity with cash on hand of €173 million at 31 December 2014.

*FY 15 figures presented above include amounts relating to the Groups 56% share in Tetra Ireland Communication Limited ("Tetra"). Following the adoption of IFRS 11, Joint Arrangements, Tetra is now reported in the financial statements under the equity method as opposed to proportionate consolidation. The management discussion and analysis section of this quarterly report presents results on a management accounting basis and therefore includes the results of the group's joint ventures on a proportionate basis, reflected in group revenue, operating costs and EBITDA.

¹⁶ Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charges and exceptional items.

¹⁷ Operating costs include cost of sales, pay and non pay costs - excludes non cash pension charge and non cash lease fair value credits

¹⁸ Combined Retail and Wholesale access line losses

¹⁹ Combined Retail and Wholesale excluding LLU

²⁰ Includes handset and mobile broadband subscribers

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KPIs for the six months ended 31 December 2014 (unaudited)

	As at and for the six months ended 31 December 2013	As at and for the six months ended 31 December 2014	Better/ (Worse) % ^{N1}
<u>Access Line Base ('000)</u>			
Retail	878	814	(7%)
Wholesale	448	479	7%
Wholesale LLU	15	13	(15%)
Total	1,341	1,306	(3%)
<i>Net (decline) year to date</i>	<i>(5)</i>	<i>(22)</i>	
Retail Voice traffic (m minutes year to date)	1,234	1,020	(17%)
<u>Broadband Lines ('000)</u>			
Retail	451	460	2%
Wholesale	245	288	18%
Total	696	748	8%
<i>Net Growth year to date</i>	<i>27</i>	<i>30</i>	
<u>Mobile Customers ('000)</u>			
Prepay handsets	650	614	(6%)
Postpay handsets	376	429	14%
Mobile Broadband	53	47	(11%)
Total	1,079	1,090	1%
<u>Net Mobile additions/(losses) YTD ('000)</u>			
Prepay handsets	(23)	4	
Postpay handsets	46	30	
Total Handsets	23	34	
MBB	(4)	1	
Total	19	35	
<u>ARPU'S € ^{N2 & N3}</u>			
Retail Voice & Line Rental	36.9	34.8	(6%)
Retail Broadband ARPU Rental	15.4	14.9	(3%)
WLR PSTN ARPU	17.0	16.6	(2%)
Bitstream ARPU	11.9	12.5	5%
Prepay Handset ARPU	17.8	16.1	(10%)
Postpay Handset ARPU	40.8	39.3	(4%)
Closing Headcount	3,765	3,458	8%

eircom Holdings (Ireland) Limited

Basis of preparation

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – “Interim Financial Information” and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 31 December 2014.

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

The financial information, as at and for the period ended 31 December 2014, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2014, with the exception that on 1 July 2014, the group adopted IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities and amendments to IAS 28, Investments in Associates and Joint Ventures. In addition, the group has not carried out an impairment review of the carrying value of goodwill and other non-current assets.

IFRS 11 requires interests in jointly controlled entities to be recorded using the equity method, which is consistent with the accounting treatment applied to investments in associates. In accordance with IFRS 11, the group's joint venture is incorporated into the condensed financial information using the equity method of accounting rather than proportionate consolidation. The condensed financial information and certain comparative information have been restated on the adoption of IFRS 11; the other changes to the standards governing the accounting for subsidiaries, joint ventures and associates do not have a material impact on the group. Further information in relation to this is set out in Note 18.

For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of EHIL for the year ended 30 June 2014.

Reconciliation of statutory financial statements¹ to the results presented in the management discussion and analysis section within this quarterly document

	In the quarter ended 31 December 2013			In the quarter ended 31 December 2014		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Revenue	334	(5)	329	316	(4)	312
Operating costs excluding non-cash pension charge and fair value lease credits	(219)	2	(217)	(204)	1	(203)
Adjusted EBITDA	115	(3)	112	112	(3)	109
Closing Cash	246	(10)	236	173	(10)	163

	In the six months ended 31 December 2013			In the six months ended 31 December 2014		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Revenue	657	(8)	649	629	(8)	621
Operating costs excluding non-cash pension charge and fair value lease credits	(421)	3	(418)	(403)	3	(400)
Adjusted EBITDA	236	(5)	231	226	(5)	221
Closing Cash	246	(10)	236	173	(10)	163

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¹The statutory financial statements are prepared in accordance with IFRS accounting principles and from 1 July 2014 now include the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis. The management discussion and analysis section of this quarterly report presents results on a management accounting basis and therefore includes the results of the group's joint ventures on a proportionate basis, reflected in group revenue, operating costs and EBITDA. For more information see note 18 to the financial statements (Impact of adopting new accounting standards).

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

	Second quarter ended Dec 2013 €m	Second quarter Ended Dec 2014 €m	Six months ended Dec 2013 €m	Six months Ended Dec 2014 €m
Operating (loss)/profit	(163)	29	(127)	59
Profit on disposal of property, plant and equipment ("PPE")	(3)	-	(3)	-
Exceptional items	194	7	198	13
Non-cash pension charge	4	3	7	6
Operating profit before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	32	39	75	78
Depreciation	62	62	124	124
Amortisation	21	11	37	24
EBITDA before non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	115	112	236	226
IFRS 3 unfavourable lease fair value adjustment	(3)	(3)	(5)	(5)
Adjusted EBITDA before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	112	109	231	221
EBITDA of joint ventures using proportionate consolidation	3	3	5	5
Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment	115	112	236	226
Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges, exceptional items and profit on disposal of property, plant and equipment is split as follows:				
Fixed line	110	103	223	209
Mobile	5	9	13	17
	115	112	236	226

* Reported EBITDA includes the results of the group's joint ventures on a proportionate basis. The statutory basis includes the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis (see Note 18 for further details).

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited *For the second quarter ended 31 December 2014*

	Notes	Restated 31 Dec 2013 €m	31 Dec 2014 €m
Revenue	3	329	312
Operating costs excluding amortisation, depreciation and exceptional items		(218)	(203)
Amortisation	3	(21)	(11)
Depreciation	3	(62)	(62)
Exceptional items	3, 4	(194)	(7)
Profit on disposal of property, plant and equipment		3	-
Operating (loss)/profit	3	(163)	29
Finance costs – net	5	(58)	(49)
Share of profit of joint venture		1	1
Loss before tax		(220)	(19)
Income tax credit/(charge)	6	23	(3)
Loss for the period		(197)	(22)

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited *For the six-month period ended 31 December 2014*

	Notes	Restated 31 Dec 2013 €m	31 Dec 2014 €m
Revenue	3	649	621
Operating costs excluding amortisation, depreciation and exceptional items		(420)	(401)
Amortisation	3	(37)	(24)
Depreciation	3	(124)	(124)
Exceptional items	3, 4	(198)	(13)
Profit on disposal of property, plant and equipment		3	-
Operating (loss)/profit	3	(127)	59
Finance costs – net	5	(114)	(97)
Share of profit of joint venture		1	1
Loss before tax		(240)	(37)
Income tax credit	6	25	9
Loss for the period		(215)	(28)

Group statement of comprehensive income – unaudited *For the six-month period ended 31 December 2014*

	31 Dec 2013 €m	31 Dec 2014 €m
Loss for the financial period attributable to equity holders of the parent	(215)	(28)
Other comprehensive income/(expense):		
<i>Items that will not be reclassified to profit or loss</i>		
Defined benefit pension scheme remeasurement gains/(losses):		
- Remeasurement gain/(loss) in period	211	(88)
- Tax on defined benefit pension scheme remeasurement (gains)/losses	(26)	11
	185	(77)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net changes in cash flow hedge reserve:		
- Fair value loss in period	(4)	(3)
- Tax on cash flow hedge movements	1	-
	(3)	(3)
Other comprehensive income/(expense), net of tax	182	(80)
Total comprehensive expense for the financial period	(33)	(108)

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

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Consolidated Balance Sheet – unaudited As at 31 December 2014

	Notes	Restated 30 June 2014	31 Dec 2014
		€m	€m
Assets			
Non-current assets			
Goodwill		192	192
Other intangible assets		447	448
Property, plant and equipment		1,557	1,519
Investment in joint venture		1	2
Deferred tax assets		6	6
Other assets		1	1
		2,204	2,168
Current assets			
Inventories		12	11
Trade and other receivables	7	215	225
Restricted cash		14	9
Cash and cash equivalents		193	163
		434	408
Total assets		2,638	2,576
Liabilities			
Non-current liabilities			
Borrowings	8	2,031	2,058
Derivative financial instruments		-	2
Trade and other payables		159	157
Deferred tax liabilities		53	41
Retirement benefit liability	9	391	486
Provisions for other liabilities and charges	10	110	104
		2,744	2,848
Current liabilities			
Derivative financial instruments		1	2
Trade and other payables		455	423
Current tax liabilities		16	-
Provisions for other liabilities and charges	10	69	33
		541	458
Total liabilities		3,285	3,306
Equity			
Equity share capital		-	-
Capital contribution		9	35
Cash flow hedging reserve		(1)	(4)
Retained loss		(655)	(761)
Total equity		(647)	(730)
Total liabilities and equity		2,638	2,576

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited For the second quarter ended 31 December 2014

	Notes	Restated 31 Dec 2013 €m	31 Dec 2014 €m
Cash flows from operating activities			
Cash generated from operations	11	22	107
Interest paid		(32)	(41)
Income tax payment		-	(9)
Net cash (used in)/generated from operating activities		(10)	57
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(64)	(45)
Purchase of intangible assets		(14)	(12)
Proceeds from sale of PPE		3	-
Restricted cash		1	5
Net cash used in investing activities		(74)	(52)
Cash flows from financing activities			
Net cash used in financing activities		-	-
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(84)	5
Cash, cash equivalents and bank overdrafts at beginning of period (restated)		320	158
Cash, cash equivalents and bank overdrafts at end of period		236	163

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited *For the six-month period ended 31 December 2014*

	Notes	Restated 31 Dec 2013 €m	31 Dec 2014 €m
Cash flows from operating activities			
Cash generated from operations	11	123	195
Interest paid		(49)	(65)
Income tax paid (net)		-	(8)
Net cash generated from operating activities		74	122
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(134)	(132)
Purchase of intangible assets		(27)	(24)
Proceeds from sale of PPE		3	-
Restricted cash		1	5
Net cash used in investing activities		(157)	(151)
Cash flows from financing activities			
Amend and extend fees paid		-	(1)
Net cash used in financing activities		-	(1)
Net decrease in cash, cash equivalents and bank overdrafts		(83)	(30)
Cash, cash equivalents and bank overdrafts at beginning of period (restated)		319	193
Cash, cash equivalents and bank overdrafts at end of period		236	163

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

eircom Holdings (Ireland) Limited

Consolidated statement of changes in shareholders' equity – unaudited *For the six-month period ended 31 December 2014*

	Equity share capital €m	Capital Contribution €m	Cash flow hedging reserve €m	Retained loss €m	Total equity €m
Balance at 30 June 2013	-	-	4	(808)	(804)
Loss for the year	-	-	-	(309)	(309)
Defined benefit pension scheme remeasurement gains	-	-	-	527	527
Tax on defined benefit pension scheme remeasurement gains	-	-	-	(66)	(66)
Cash flow hedges:					
- Fair value loss in year	-	-	(6)	-	(6)
- Tax on cash flow hedge movements	-	-	1	-	1
Currency translation differences	-	-	-	1	1
Total comprehensive (expense)/income			(5)	153	148
Capital contribution in respect of MIP equity value event	-	9	-	-	9
Balance at 30 June 2014	-	9	(1)	(655)	(647)
Balance at 30 June 2014	-	9	(1)	(655)	(647)
Loss for the period	-	-	-	(28)	(28)
Defined benefit pension scheme remeasurement losses	-	-	-	(88)	(88)
Tax on defined benefit pension scheme remeasurement losses	-	-	-	11	11
Cash flow hedges:					
- Fair value loss in year	-	-	(3)	-	(3)
Total comprehensive expense	-	-	(3)	(105)	(108)
Decrease in capital contribution in respect of MIP equity value event	-	(1)	-	-	(1)
Reclassification to equity of MIP debt value event provision	-	27	-	-	27
Dividends relating to equity shareholders	-	-	-	(1)	(1)
Balance at 31 December 2014	-	35	(4)	(761)	(730)

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

eircom Holdings (Ireland) Limited

Selected notes to the condensed interim financial information – unaudited

1. General information

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

This condensed consolidated interim financial information was approved for issue on 27 February 2015.

2. Basis of preparation

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – "Interim Financial Information" and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 31 December 2014.

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

The financial information, as at and for the period ended 31 December 2014, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2014, with the exception that on 1 July 2014, the group adopted IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities and amendments to IAS 28, Investments in Associates and Joint Ventures. In addition, the group has not carried out an impairment review of the carrying value of goodwill and other non-current assets.

IFRS 11 requires interests in jointly controlled entities to be recorded using the equity method, which is consistent with the accounting treatment applied to investments in associates. In accordance with IFRS 11, the group's joint venture is incorporated into the condensed financial information using the equity method of accounting rather than proportionate consolidation. The condensed financial information and certain comparative information have been restated on the adoption of IFRS 11; the other changes to the standards governing the accounting for subsidiaries, joint ventures and associates do not have a material impact on the group. Further information in relation to this is set out in Note 18.

For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of EHIL for the year ended 30 June 2014.

eircom Holdings (Ireland) Limited

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

3. Segment information

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

The segment results for the six-months period ended 31 December 2014 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	474	178	(23)	629	(8)	621
EBITDA **	209	17	-	226	(5)	221
Non-cash lease fair value credits	5	-	-	5	-	5
Non-cash pension charges	(6)	-	-	(6)	-	(6)
Amortisation	(13)	(11)	-	(24)	-	(24)
Depreciation	(118)	(10)	-	(128)	4	(124)
Exceptional items	(13)	-	-	(13)	-	(13)
Operating profit/(loss)	64	(4)	-	60	(1)	59

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

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	499	180	(22)	657	(8)	649
EBITDA **	223	13	-	236	(5)	231
Non-cash lease fair value credits	5	-	-	5	-	5
Non-cash pension charges	(7)	-	-	(7)	-	(7)
Amortisation	(23)	(14)	-	(37)	-	(37)
Depreciation	(120)	(8)	-	(128)	4	(124)
Exceptional items	(198)	-	-	(198)	-	(198)
Profit on disposal of PPE	3	-	-	3	-	3
Operating loss	(117)	(9)	-	(126)	(1)	(127)

* Reported EBITDA includes the results of the group's joint ventures on a proportionate basis. The statutory basis includes the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis (see Notes 2 and 18 for further details).

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

eircom Holdings (Ireland) Limited

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

4. Exceptional items – (charge)/credit

	31 Dec 2013	31 Dec 2014
	€m	€m
Restructuring programme costs	(194)	-
Management incentive plan	(3)	-
Strategic review costs	-	(10)
Other exceptional items	(1)	(3)
	(198)	(13)

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

Restructuring programme costs

The group has included an exceptional charge of €194 million for restructuring programme costs in respect of staff exits in the prior year period ended 31 December 2013. The €194 million charge includes an IAS 19 (Revised) defined benefit pension charge of €53 million arising as a result of the incentivised exit programme, comprising €33 million in past service costs and €20 million in curtailment charges.

No provision has been included in respect of future staff exits not committed at 31 December 2014, and any further costs will be charged to the income statement and impact cash flows in future periods.

Management incentive plan

The management incentive plan ("MIP") was introduced in the year ended 30 June 2013 by the group's parent company, eircom Holdco SA, for certain directors and senior executives in the group. The MIP originally incentivised the participants to deliver 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"). In December 2014, the shareholders of eircom Holdco S.A. elected to simplify the structure by removing the debt related elements of the plan and thereby aligning the returns to the participants with the returns to the shareholders.

During the period ended 31 December 2014, the group recognised a charge of €1 million (31 December 2013: €3 million) in its income statement in respect of its obligations in connection with potential debt value events prior to the amendment in December 2014. Following the amendment, the group reclassified the cumulative debt value event liability of €27 million to equity.

Separately, the group also recognised a credit of €1 million in its income statement, with a corresponding decrease in equity, in respect of contractual rights under the MIP awarded by the parent company, eircom Holdco S.A., to the group's employees, for which the group has no obligation to make any payment.

Strategic review costs

The group recognised an exceptional charge of €10 million in respect of strategic review costs in the period ended 31 December 2014.

Other exceptional items – charge

The group recognised an exceptional charge of €9 million in respect of certain legal matters arising in the period ended 31 December 2014, which were partially offset by exceptional credits of €6 million reflecting the release of provisions carried forward at the start of the year.

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

eircom Holdings (Ireland) Limited

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

5. Finance costs – net

	31 Dec 2013 €m	31 Dec 2014 €m
Interest payable on bank loans and other debts	(50)	(64)
Payment-in-kind (“PIK”) interest charge on borrowings	(10)	-
Interest amortisation on non-current borrowings	(37)	(25)
Net interest cost on net pension liability	(15)	(6)
Capitalised interest on property, plant and equipment and intangible assets	-	2
Amortisation of debt issue costs on bank loans and amend and extend fees	-	(2)
Unwinding of discount	-	(1)
Other	(2)	(1)
Finance costs	(114)	(97)
Finance income	-	-
Finance costs – net	(114)	(97)

During the second quarter ended 31 December 2014, the group entered into forward starting interest rate swaps with a notional principal amount of €600 million at 0.093% and €600 million at 0.105% for a period of three years from 11 June 2015.

6. Income tax credit

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

	31 Dec 2013 €m	31 Dec 2014 €m
Loss before tax	(240)	(37)
Tax calculated at Irish standard tax rate of 12.5%	(30)	(5)
<i>Effects of:-</i>		
Non-deductible expenses (net)	5	10
Adjustments in respect of prior period	-	(14)
Tax credit for the period	(25)	(9)

7. Trade and other receivables

During the period ended 31 December 2014, the group recognised a provision for impaired receivables of €4 million (31 December 2013: €5 million), reversed provisions for impaired receivables of €1 million (31 December 2013: €Nil) and utilised provisions for impaired receivables of €6 million (31 December 2013: €Nil). The creation and reversal of provisions for impaired receivables have been included in “operating costs” in the income statement.

eircom Holdings (Ireland) Limited

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

8. Borrowings

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

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
<u>As at 31 Dec 2014</u>					
Bank borrowings (Facility B)	-	-	2,021	-	2,021
Unamortised fair value difference on borrowings	-	-	(290)	-	(290)
Amend and extend fees	-	-	(13)	-	(13)
	-	-	1,718	-	1,718
9.25% Senior Secured Notes due 2020	-	-	-	350	350
Debt issue costs	-	-	-	(10)	(10)
	-	-	-	340	340
	-	-	1,718	340	2,058
<u>As at 30 June 2014 (restated)</u>					
Bank borrowings (Facility B)	-	-	108	1,913	2,021
Unamortised fair value difference on borrowings	-	-	(17)	(298)	(315)
Amend and extend fees	-	-	-	(14)	(14)
	-	-	91	1,601	1,692
9.25% Senior Secured Notes due 2020	-	-	-	350	350
Debt issue costs	-	-	-	(11)	(11)
	-	-	-	339	339
	-	-	91	1,940	2,031

At 31 December 2014, the group has Senior Bank borrowings of €2,021 million with a maturity date of 30 September 2017 for Facility B1 borrowings of €108 million and a maturity date of 30 September 2019 for Facility B2 borrowings of €1,913 million.

On 4 April 2014, the group effected an amendment and extension of the terms of 94.7% of the outstanding principal under its Facility B Senior Bank borrowings. In accordance with the terms of the amendment, €1,913 million of principal was redesignated as Facility B2 borrowings, with a maturity date of 30 September 2019, which constituted an extension of the maturity date by two years. The amended Facility B2 borrowings are subject to cash-pay interest at Euribor plus 4.5% margin, and are not subject to Payment-in-Kind (PIK) Interest. The remaining unamended principal borrowings outstanding under Facility B of €107 million have been redesignated as Facility B1 borrowings with interest and repayment terms unchanged. The interest payable on the Facility B1 Senior Bank borrowings continue to be subject to 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.

The borrowings under the Senior Facilities Agreement were recognised initially in accordance with IAS 39 at their fair value on the date of recognition, 11 June 2012, which was estimated to be 77% of the par value of the liability. The difference between the fair value on initial recognition and the amount that was payable on the maturity date is being amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39. The remaining unamortised amount at 31 December 2014 was €290 million.

Interest accrued on borrowings at 31 December 2014 is €10 million (30 June 2014: €9 million). This is included in trade and other payables.

eircom Holdings (Ireland) Limited

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

9. Pensions

The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature. The group undertakes a full review of the retirement benefit liability at each quarter end in accordance with IAS 19 (Revised). The balance sheet presented as at 31 December 2014 reflects the IAS 19 (Revised) deficit of €486 million as at 31 December 2014.

Pension scheme obligation

The status of the principal scheme at 31 December 2014 is as follows:

	Restated 30 June 2013 €m	30 June 2014 €m	31 Dec 2014 €m
Present value of funded obligations	3,918	3,940	4,385
Fair value of scheme assets	(3,082)	(3,549)	(3,899)
Liability recognised in the Balance Sheet	836	391	486

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2013	At 30 June 2014	At 31 Dec 2014
Rate of increase in salaries	1.90% ⁽¹⁾	1.50% ⁽²⁾	1.30% ⁽²⁾
Rate of increase in pensions in payment	1.90% ⁽¹⁾	1.50% ⁽²⁾	1.30% ⁽²⁾
Discount rate	3.60%	2.90%	2.05%
Inflation assumption	2.00%	1.80%	1.60%
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	89 years	89 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old male	91 years	91 years	91 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old female	92 years	92 years	92 years

(1) The assumptions at 30 June 2013 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 as well as the group's expectation that the earliest possible date for pensionable pay increases will be 1 July 2014.

(2) The assumptions at 30 June 2014 and 31 December 2014 reflects the imposition of a cap on the increases in pensionable pay to the lower of CPI, salary inflation or agreed fixed annual rates.

eircom Holdings (Ireland) Limited

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

10. Provisions for other liabilities and charges

	TIS Annuity Scheme €m	Onerous Contracts €m	Asset Retirement Obligations €m	MIP Debt Value €m	Other €m	Total €m
At 30 June 2014 (restated)	32	13	55	26	53	179
Charged to consolidated income statement:						
- Additional provisions	-	-	-	1	1	2
- Unused amounts reversed	-	(2)	-	-	(4)	(6)
Transfer	-	-	-	-	(1)	(1)
Reclassification to equity of MIP debt value	-	-	-	(27)	-	(27)
Increase in provision capitalised as ARO	-	-	1	-	-	1
Utilised in the financial period	(4)	(1)	-	-	(6)	(11)
At 31 December 2014	28	10	56	-	43	137

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

	30 June 2014 €m	31 Dec 2014 €m
Non-current	110	104
Current	69	33
	179	137

See Note 17 for further information on the reclassification of MIP debt value to equity.

11. Cash generated from operations

	Restated 31 Dec 2013 €m	31 Dec 2014 €m
Loss after tax	(215)	(28)
Add back:		
Income tax credit	(25)	(9)
Share of profit of joint venture	(1)	(1)
Finance costs – net	114	97
Operating (loss)/profit	(127)	59
Adjustments for:		
- Profit on disposal of property, plant and equipment	(3)	-
- Depreciation and amortisation	161	148
- Non-cash lease fair value credits	(5)	(5)
- Non cash retirement benefit charges	7	6
- Restructuring programme costs	194	-
- Non cash exceptional items	4	10
- Other non cash movements in provisions	1	1
Cash flows relating to restructuring, onerous contracts and other provisions	(110)	(21)
Changes in working capital		
Inventories	(1)	1
Trade and other receivables	2	(9)
Trade and other payables	-	5
Cash generated from operations	123	195

eircom Holdings (Ireland) Limited

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

12. Post Balance Sheet Events

There have been no significant events affecting the group since the period ended 31 December 2014.

13. Contingent liabilities

Claim for title by the State in respect of the Ship Street and Leitrim House properties

eircom Limited, and its predecessor before privatisation, the Department of Posts and Telegraphs, has been in occupation of the Leitrim House and Ship Street exchange properties in Dublin city centre from the 1920s. Leitrim House contains a number of offices and Ship Street is a key telecoms exchange. The Minister for Finance has claimed that the State has title to the properties. A plenary summons was issued on 12 July 2013 seeking possession. Those proceedings were served on eircom Limited on 1 July 2014, prior to the date for expiry of the summons on 12 July 2014. A Statement of Claim was served on eircom Limited on 17 December 2014. No further steps have been taken in the proceedings. The group maintains that it has title to the properties.

Other

The group settled previously disclosed contingent liabilities in respect of obligations under certain performance guarantees and historical tax assessments, the effects of which have been recognised in the financial information for the period ended 31 December 2014.

There have been no other material changes in our contingent liabilities since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2014.

14. Guarantees

Apart from the group entering into new interest rate swaps starting from 11 June 2015 (see Note 5 for further details), there have been no other material changes in our credit guarantees and in derivatives since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2014.

15. Seasonality

Fixed line

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

Mobile

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

16. Commitments

Operating lease commitments

The group's operating lease contractual obligations and commitment payments were €355 million at 31 December 2014 (30 June 2014: €371 million). The payments due on operating leases are in respect of lease agreements in respect of properties, vehicles, plant and equipment for which the payments extend over a number of years.

Capital commitments

The group's capital contractual obligations and commitment payments were €64 million at 31 December 2014 (30 June 2014: €45 million).

eircom Holdings (Ireland) Limited

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

17. Related party transactions

Management incentive plan

The management incentive plan ("MIP") was introduced in the year ended 30 June 2013 by the group's parent company, eircom Holdco SA, for certain directors and senior executives in the group. The MIP originally incentivised the participants to deliver 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"). In December 2014, the shareholders of eircom Holdco S.A. elected to simplify the structure by removing the debt related elements of the plan and thereby aligning the returns to the participants with the returns to the shareholders.

During the period ended 31 December 2014, the group recognised a charge of €1 million (31 December 2013: €3 million) in its income statement in respect of its obligations in connection with potential debt value events prior to the amendment in December 2014. Following the amendment, the group reclassified the cumulative debt value event liability of €27 million to equity.

Separately, the group also recognised a credit of €1 million in its income statement, with a corresponding decrease in equity, in respect of contractual rights under the MIP awarded by the parent company, eircom Holdco S.A., to the group's employees, for which the group has no obligation to make any payment.

There have been no other material changes in our related party transactions since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2014.

circom Holdings (Ireland) Limited

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

18. Impact of adopting new accounting standards

Adoption of IFRS 11 (Amendment), ‘Joint Arrangements’

On 1 July 2014, the group adopted IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities and amendments to IAS 28, Investments in Associates and Joint Ventures. IFRS 11 requires interests in jointly controlled entities to be recorded using the equity method, which is consistent with the accounting treatment applied to investments in associates. In accordance with IFRS 11, the group’s joint venture is incorporated into the condensed financial information using the equity method of accounting rather than proportionate consolidation. The condensed financial information and certain comparative information have been restated on the adoption of IFRS 11; the other changes to the standards governing the accounting for subsidiaries, joint ventures and associates do not have a material impact on the group.

Joint venture

At 31 December 2014, the group has a joint venture in Tetra Ireland Communication Limited ("Tetra"). The following tables outline the effect on the condensed financial information of including Tetra using proportionate consolidation ("Reported") and the statutory basis which includes Tetra using the equity method.

Consolidated income statement and statement of comprehensive income

	31 December 2013			31 December 2014		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Revenue	657	(8)	649	629	(8)	621
Operating costs excluding amortisation, depreciation and exceptional items	(423)	3	(420)	(404)	3	(401)
Amortisation	(37)	-	(37)	(24)	-	(24)
Depreciation	(128)	4	(124)	(128)	4	(124)
Exceptional items	(198)	-	(198)	(13)	-	(13)
Profit on disposal of PPE	3	-	3	-	-	-
Operating (loss)/profit	(126)	(1)	(127)	60	(1)	59
Finance costs – net	(114)	-	(114)	(97)	-	(97)
Share of profit of joint venture	-	1	1	-	1	1
Loss before tax	(240)	-	(240)	(37)	-	(37)
Income tax credit	25	-	25	9	-	9
Loss for the period	(215)	-	(215)	(28)	-	(28)
Other comprehensive income/(expense), net of tax	182	-	182	(80)	-	(80)
Total comprehensive expense for the financial period	(33)	-	(33)	(108)	-	(108)

eircom Holdings (Ireland) Limited

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

18. Impact of adopting new accounting standards - continued

Consolidated Balance Sheet

	30 June 2014			31 December 2014		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Assets						
Non-current assets						
Goodwill	192	-	192	192	-	192
Other intangible assets	447	-	447	448	-	448
Property, plant and equipment	1,578	(21)	1,557	1,537	(18)	1,519
Investment in joint ventures (equity method)	-	1	1	-	2	2
Deferred tax assets	6	-	6	6	-	6
Other assets	1	-	1	1	-	1
	2,224	(20)	2,204	2,184	(16)	2,168
Current assets						
Inventories	12	-	12	11	-	11
Trade and other receivables	218	(3)	215	224	1	225
Restricted cash	14	-	14	9	-	9
Cash and cash equivalents	199	(6)	193	173	(10)	163
	443	(9)	434	417	(9)	408
Total assets	2,667	(29)	2,638	2,601	(25)	2,576
Liabilities						
Non-current liabilities						
Borrowings	2,040	(9)	2,031	2,063	(5)	2,058
Derivative financial instruments	-	-	-	2	-	2
Trade and other payables	159	-	159	157	-	157
Deferred tax liabilities	53	-	53	41	-	41
Retirement benefit liability	391	-	391	486	-	486
Provisions for other liabilities and charges	113	(3)	110	107	(3)	104
	2,756	(12)	2,744	2,856	(8)	2,848
Current liabilities						
Borrowings	9	(9)	-	9	(9)	-
Derivative financial instruments	1	-	1	2	-	2
Trade and other payables	463	(8)	455	431	(8)	423
Current tax liabilities	16	-	16	-	-	-
Provisions for other liabilities and charges	69	-	69	33	-	33
	558	(17)	541	475	(17)	458
Total liabilities	3,314	(29)	3,285	3,331	(25)	3,306
Total equity	(647)	-	(647)	(730)	-	(730)
Total liabilities and equity	2,667	(29)	2,638	2,601	(25)	2,576

eircom Holdings (Ireland) Limited

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

18. Impact of adopting new accounting standards - continued

Consolidated cash flow statement

	31 December 2013			31 December 2014		
	Reported €m	Adjusted €m	Statutory €m	Reported €m	Adjusted €m	Statutory €m
Net cash generated from operating activities	83	(9)	74	130	(8)	122
Net cash used in investing activities	(157)	-	(157)	(151)	-	(151)
Net cash used in financing activities	(4)	4	-	(5)	4	(1)
Net cash flow	(78)	(5)	(83)	(26)	(4)	(30)
Cash at beginning of period	324	(5)	319	199	(6)	193
Cash at end of period	246	(10)	236	173	(10)	163

19. Comparative amounts

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

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Management discussion and analysis on results of operations for the quarter ended 31 December 2014

The amounts and commentary presented in the management discussion below include the results of the group's joint venture in Tetra Ireland Communications Limited ("Tetra") on a proportionate consolidation basis. See Note 18 of the financial statements for details of the impact of the adoption of new accounting standards, requiring the use of equity accounting for the Group's share of its joint venture result, on the statutory presentation of accounts.

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

Revenue

Group revenue of €316 million for the quarter ended 31 December 2014 reduced by 5% compared to the quarter ended 31 December 2013.

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Fixed line services and other revenue	251	236	(6)
Mobile services revenue	94	91	(3)
Total segmental revenue	345	327	(5)
Intracompany eliminations	(11)	(11)	-
Total revenue	334	316	(5)

Fixed line services and other revenue

Total fixed line services and other revenues, before intra company eliminations, for the quarter ended 31 December 2014 decreased by 6% compared to the corresponding prior year quarter.

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Access Rental and Connections	123	119	(3)
Voice Traffic	59	52	(11)
Foreign Inpayments	3	3	10
Data Services	24	25	3
Other Products and Services	42	37	(12)
Total fixed line services and other revenue	251	236	(6)

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Access (rental and connections)

Access revenues decreased by 3% compared to the corresponding prior year quarter. Lower Retail revenues were partially offset by strong growth in Wholesale revenues. The following table outlines rental, connection and other charges, the number of access lines in service and the percentage changes for the period:

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Total access revenue			
Retail PSTN/ISDN Rental and Connection	67	61	(10)
Wholesale PSTN/ISDN/LLU Rental and Connection	26	28	7
Broadband and bitstream rental and connection	30	30	5
Total access revenue	123	119	(3)
Access lines (in thousands at period end, except percentages)			
Retail Access lines	878	814	(7)
Wholesale Access Lines	448	479	7
Wholesale LLU	15	13	(15)
Total PSTN/ISDN/LLU	1,341	1,306	(3)
Broadband and Bitstream	696	748	8
Total Customer Lines	2,037	2,054	1

Retail line rental and connection revenues for the quarter ended 31 December 2014 decreased by 10% compared with the corresponding prior year quarter, mainly due to a decline in PSTN and ISDN lines, and the continuing migration of customers to other operators and to mobile. Retail access lines at 31 December 2014 were 814,000, a reduction of 7% compared to 31 December 2013. The reduction in Retail access lines in the quarter to 31 December 2014 included a one-off base clean up related to Department of Social Welfare customers which resulted in the disconnection of 6,000 customers.

In comparison to the corresponding prior year quarter, Wholesale access lines showed strong growth and increased from 448,000 to 479,000. As a result, Wholesale rental and connection revenue was €28 million in the quarter ended 31 December 2014; an increase of 7% compared with the corresponding quarter ended 31 December 2013.

Broadband and Bitstream revenue for the quarter of €30 million was in line with the corresponding prior year. Wholesale bitstream volumes of 288,000 increased by 43,000 compared to the 31 December 2013, with growth of 15,000 in the quarter mainly from stand-alone broadband. The Retail broadband customer base stood at 460,000 at 31 December 2014 which represented an increase of 9,000 in the last 12 months and an increase of 2,000 in the quarter ended 31 December 2014. The Retail base in the quarter included a one-off base clean-up which resulted in the disconnection of 2,000 broadband customers.

During the quarter ended 31 December 2014, the rollout of our high speed fibre network continued passing 1,100,000 premises and we had connected 202,000 Retail and Wholesale customers to high speed broadband services offering speeds of up to 100Mb/s. We launched a TV proposition in October 2013, enabling the first quad play offering in Ireland and at 31 December 2014 we had 32,000 TV customers.

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Traffic

Overall traffic revenue for the quarter ended 31 December 2014 reduced by 11% compared to the prior year.

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Revenue			
Retail Traffic	42	37	(12)
Wholesale Traffic	17	15	(9)
Total traffic revenue	59	52	(11)
Traffic (in millions of minutes, except percentages)			
Retail	611	503	(18)
Wholesale	1,155	1,146	(1)
Total traffic minutes	1,766	1,649	(7)

Retail voice traffic revenues for the quarter ended 31 December 2014 fell by 12%, compared with the corresponding prior year quarter. This was primarily due to a decline in traffic volumes arising from reduced access lines, continuing weakness in the traditional voice market due to mobile substitution, as well as a loss of market share.

Wholesale traffic revenues for the quarter ended 31 December 2014 fell by 9% compared to the corresponding prior year quarter. This is partly due to a retrospective adjustment processed in quarter two of the prior year reflecting a change in the MTR. Revenue for the quarter ended 31 December 2013, includes €1.3 million which relates to the MTR catch up in respect of the quarter ended 30 September 2013. Excluding the impact of the MTR adjustment, year on year Wholesale revenue reduced by 4%.

Data services revenue

Revenue from data communications for the quarter ended 31 December 2014 increased by 3% compared with the corresponding prior year quarter. The following table shows information relating to revenue from data communications products and services:

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	
Data services revenue			
Leased lines	13	14	5
Switched data services	6	5	(15)
Next generation data services	5	6	19
Total data services revenue	24	25	3

Leased line revenues increased by 5% due to a significant one-off credit note issued in the prior year quarter. Revenue from switched data reduced by 15%, while revenue from next generation data services increased by 19% compared to the quarter ended 31 December 2013 which reflects customers' move from legacy products to the next generation product portfolio.

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Foreign Inpayments

Revenue from foreign terminating traffic for the quarter ended 31 December 2014 increased by 10%, compared to the quarter ended 31 December 2013, despite a reduction in minutes of 9%. The increase in revenue per minute is driven by a change in the mix in traffic (there was a higher proportion of mobile traffic which has significantly higher rates) and the average fixed traffic rate has also increased year on year as a result of the use of more bilateral agreements. Bilateral agreements reflect negotiated settlement rates between national carriers for terminating traffic between their countries. The rates are generally symmetric on a given route, reflected in both revenue (foreign inpayments) and cost of sales (foreign outpayments). The increase in the use of bilateral agreements has led to an increase in the volume of international minutes traded with foreign operators and therefore in revenue as well as the corresponding cost of sales. The margin on foreign inpayments remains similar to the prior year.

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Foreign Terminating traffic Revenue	3	3	10
Foreign Terminating traffic minutes m	171	156	(9)

Other products and services

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

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Operator Services	5	4	(28)
Managed Services	12	9	(27)
Tetra	5	4	-
UK/NI	7	7	2
Datacentre	4	4	7
Other revenue	9	9	11
Other products and services revenue	42	37	(12)

Revenue from other products and services for the quarter ended 31 December 2014 decreased by 12% compared with the quarter ended 31 December 2013. Operator services revenue fell by 28% as a result of declining calls to our 11811 directory enquiries service. Managed services revenue decreased by 27% due to the initial revenue recognition of the design phase of a multi-year programme to rollout a national fibre infrastructure, in the prior year. Tetra revenue was broadly flat while UK/NI revenues of €7 million and Datacentre revenue of €4 million were broadly in line with the corresponding prior year period. Other revenue was also broadly flat compared with the prior year quarter.

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Mobile services revenue

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Prepay handset	36	30	(17)
Postpay handset	46	49	8
Mobile Broadband	2	2	1
Roaming	1	1	(4)
Other	9	9	(5)
Total mobile services revenue	94	91	(3)

	As at		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
			%
Total subscribers (thousands):			
Pre-paid handset customers (thousands)	650	614	(6)
Post-paid handset customers (thousands)	376	429	14
Mobile Broadband customers (thousands)	53	47	(11)
Total subscribers (thousands)	1,079	1,090	1

Mobile services revenue comprises prepay and postpay revenues including interconnect, mobile broadband, roaming and device sales.

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

Mobile revenue of €91 million for the quarter ended 31 December 2014 was 3% lower than the corresponding quarter in the prior year mainly due to retrospective MTR adjustment mentioned above. Excluding the retrospective MTR adjustment, underlying revenue was 1% higher year on year. This is primarily due to an increase in postpay handset customers of 53,000 which is partially offset by the declining prepay handset market, which reduced by 36,000.

At 31 December 2014 there were 1,090,000 total mobile subscribers, an increase of 11,000 compared with 31 December 2013. The reduction in prepay handset customers and mobile broadband has been more than offset by growth in higher value postpay customers and the prepay customer base increased by 6,000 compared to 30 September 2014. We have seen some positive signs within prepay following the tariff refresh in July 2014; prepay customers grew by 6,000 in the quarter which compares to a 1,000 reduction in the prior year quarter and this is the first quarter in two years that the prepay base has increased. The proportion of postpay customers (including mobile broadband) within our base has increased from 37% at 31 December 2013 to 42% at 31 December 2014, representing an increase of 58,000 net additional postpay subscribers (including mobile broadband).

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Operating costs before amortisation, depreciation and exceptional items

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

	In the quarter ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Cost of Sales			
Foreign Outpayments	(1)	3	N/M
Interconnect	33	27	(20)
Equipment Cost of Sales	22	23	2
Other including subsidiaries	19	19	7
Total Cost of Sales	73	72	(2)
Pay Costs			
Wages and salaries and other staff costs ¹	74	62	(15)
Social welfare costs	3	3	(9)
Pension costs – defined contribution plans	1	1	(2)
Pension costs – defined benefit plans	5	4	(27)
Pay costs before non-cash pension charge and capitalisation	83	70	(16)
Capitalised labour	(22)	(17)	(21)
Total pay costs before non-cash pension charge	61	53	(13)
Non Pay costs			
Materials and Services	4	3	(37)
Other Network Costs	8	8	3
Accommodation	24	24	1
Sales and Marketing	24	20	(14)
Bad Debts	2	1	(71)
Transport and Travel	4	3	(18)
Customer Services	10	11	12
Insurance and Compensation	1	1	6
Professional and Regulatory Fees	2	2	(18)
IT Costs	5	5	16
Other Non-Pay costs	1	1	37
Total non-pay costs	85	79	(6)
Operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items	219	204	(6)
Non Cash Pension Charge	4	3	(25)
Non-cash lease fair value credits	(3)	(3)	-
Operating costs before, amortisation, depreciation, and exceptional items	220	204	(7)

Note 1: Pay costs in the prior year quarter have been adjusted to reflect the reclassification of the charge related to the management incentive programme to exceptional items which occurred in June 2014. See note 4 Exceptional items – (charge)/credit

Total operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation and exceptional items decreased by 6%, compared with the corresponding quarter of the prior year.

Cost of Sales

Cost of sales were €1 million lower in the quarter ended 31 December 2014 compared to the corresponding quarter in the prior year:

- Foreign outpayments increased year on year by €4 million. The quarter ended 31 December 2013 includes a one-off credit of €3 million, due to the resolution of disputes on amounts owing to international creditors coupled with an increase in the rate per minute due to a higher proportion of mobile traffic (which has a significantly higher rate than fixed traffic). Refer to commentary on Foreign Inpayments revenue. The margin on foreign inpayments remains similar to the prior year.
- Interconnect payments to other telecommunications operators were €6 million lower than the corresponding prior year quarter, due to the retrospective MTR adjustment which was reflected in the quarter ended 31 December 2013 (refer to note on MTR retrospective adjustment under Mobile services revenue) as well as lower international roaming rates from 1st July 2014 as directed by the European Commission.
- Equipment cost of sales were €1 million higher mainly due to higher mobile direct subscriber acquisition / retention costs.
- Other cost of sales were broadly in line with the corresponding period in the prior year.

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Pay costs

Total staff pay costs, before non-cash pension charges, for the quarter ended 31 December 2014 decreased by 13% compared to the corresponding prior year quarter, mainly due to a reduction in FTE headcount. On average for the quarter ended 31 December 2014 headcount was approximately 800 lower than the same period in the prior year.

FTE Headcount at 31 December 2014 was 3,458 FTE, representing a net reduction of 307 FTE compared to 31 December 2013.

Non-cash pension charge

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

Total non-pay costs

Year on year non-pay costs decreased by 6% in the quarter ended 31 December 2014 compared to the corresponding prior year quarter:

- Materials and services costs were €1 million lower year on year mainly due to on-going cost reduction programmes partially offset by the cost of outsourcing.
- Other network costs, accommodation, insurance and compensation, professional and regulatory fees and IT costs were all broadly flat compared to the prior year quarter.
- Sales and Marketing decreased by €4 million due to lower mobile indirect subscriber acquisition/retention costs, higher SIM only sales for postpay and improved commercial rates with vendors.
- Bad debt provisions reduced by €1 million as a result of improved collection rates.
- Transport and travel costs decreased by €1 million in line with reduced headcount.
- Customer service costs increased by €1 million due to outsourcing of some activities within customer service increasing non pay costs but reducing pay costs.

Non-cash lease fair value credits

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

Amortisation

Amortisation charges for the quarter ended 31 December 2014 were €11 million, €10 million lower than the prior year quarter, mainly due to the fair value intangible assets for fixed line customer relationships and fixed licence being fully amortised in the year ended 30 June 2014. The lower mobile amortisation in the quarter is due to the adjustment to asset lives for computer software, which changed from 3 years to 4 years.

Depreciation and impairment of plant and equipment

The depreciation charges for the quarter ended 31 December 2014 of €62 million were in line with the prior year quarter ended 31 December 2013.

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Exceptional costs

Net exceptional charges of €7 million were incurred in the quarter ended 31 December 2014 and include strategic review costs of €2 million and other charges relating to certain legal matters of €7 million offset by an exceptional credit of €2 million reflecting the release of onerous contract provisions carried forward at the start of the financial year.

The exceptional charges in the prior year quarter ended 31 December 2013 of €194 million included €193 million for restructuring programme costs in respect of staff exits and €1 million in respect of its obligations under the management incentive plan (“MIP”).

Finance costs (net)

The group’s net finance costs for quarter ended 31 December 2014 amounted to €49 million, €9 million lower than the prior year quarter. This is mainly due to lower Payment-in-Kind (PIK) interest (€5 million) and interest amortisation on the Facility B borrowings as a result of the debt repayment in the year ended 30 June 2013 and the extension of 94.7% of its Facility B borrowings in the year ended 30 June 2014 (€6 million). In addition, there were lower interest costs on the net pension liabilities (€5 million) in the quarter ended 31 December 2014. The lower finance costs were offset by higher interest costs on the Senior Secured Notes and the Facility B2 borrowings (€7 million). The amended Facility B2 borrowings are subject to cash-pay interest at Euribor plus 4.5% margin, and are not subject to PIK interest.

Taxation

The tax credit for the prior year quarter ended 31 December 2013 was €23 million and mainly arises from the group’s restructuring programme costs charged in the quarter ended 31 December 2013.

Liquidity

Net cash generated from operating activities

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

During the quarter ended 31 December 2014, net cash generated from operating activities was €63 million compared with an outflow of €4 million in the prior corresponding quarter, increase of €67 million. The increase was primarily due to lower voluntary leaving payments (€2 million) in the period compared to the prior year period (€92 million). Excluding voluntary leaving payments, net cash generated from operating activities has decreased by €23 million, mainly due to higher interest payments (€8 million), tax payments (€9 million) and lower EBITDA (€3 million). The higher interest payments in the quarter are due to the higher interest rate on the Facility B2 borrowings (Euribor plus margin 4.5%).

Cash flows from investing activities

Total cash used in investing activities was €52 million for the quarter ended 31 December 2014, down from €74 million in the prior year quarter, mainly due to the acceleration of capital expenditure payments to a certain supplier in the first quarter ended 30 September 2014.

During the quarter ended 31 December 2014, restricted cash of €5 million was refunded by ComReg in relation to our obligations under a Quality of Service Performance Improvement Programme under our Universal Service Obligations (“USO”).

eircom Holdings (Ireland) Limited

Commentary on results of operations for the six months ended 31 December 2014

The amounts and commentary presented in the management discussion below include the results of the group's joint venture in Tetra Ireland Communications Limited ("Tetra") on a proportionate consolidation basis. See Note 18 of the financial statements for details of the impact of the adoption of new accounting standards, requiring the use of equity accounting for the Group's share of its joint venture result, on the statutory presentation of accounts.

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

Revenue

Group revenue of €629 million for the six months reduced by 4% compared to the six months ended 31 December 2013.

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Fixed line services and other revenue	499	474	(5)
Mobile services revenue	180	178	(1)
Total segmental revenue	679	652	(4)
Intracompany eliminations	(22)	(23)	4
Total revenue	657	629	(4)

Fixed line services and other revenue

Total fixed line services and other revenues, before intra company eliminations, decreased by 5% in the six months ended 31 December 2014 compared to the corresponding period in the prior year.

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Access Rental and Connections	246	240	(3)
Voice Traffic	120	106	(11)
Foreign Inpayments	6	7	23
Data Services	50	48	(4)
Other Products and Services	77	73	(6)
Total fixed line services and other revenue	499	474	(5)

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Access (rental and connections)

Access revenues decreased by 3% in the period compared with the corresponding six month period of the prior year. Lower Retail revenues were partially offset by strong growth in Wholesale revenues. The following table outlines rental, connection and other charges, the number of access lines in service and the percentage changes for the period:

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Total access revenue			
Retail PSTN/ISDN Rental and Connection	136	123	(10)
Wholesale PSTN/ISDN/LLU Rental and Connection	51	54	7
Broadband and bitstream rental and connection	59	63	6
Total access revenue	246	240	(3)
Access lines (in thousands at period end, except percentages)			
Retail Access lines	878	814	(7)
Wholesale Access Lines	448	479	7
Wholesale LLU	15	13	(15)
Total PSTN/ISDN/LLU	1,341	1,306	(3)
Broadband and Bitstream	696	748	8
Total Customer Lines	2,037	2,054	1

Retail Line rental and connection revenues decreased by 10% in the six months ended 31 December 2014, compared with the corresponding period in the prior year, mainly due to a decline in PSTN and ISDN lines, which have been impacted by the continuing migration of customers to other operators and to mobile. Retail access lines at 31 December 2014 were 814,000, a reduction of 7% compared to the six month period ended 31 December 2013.

In comparison to the corresponding period in the prior year, Wholesale access lines have increased from 448,000 to 479,000 and Wholesale LLU has decreased by 15% compared to 31 December 2013. As a result, Wholesale rental and connection revenue was €54 million in the six months ended 31 December 2014; an increase of 7% compared with the six months ended 31 December 2013.

Broadband and Bitstream revenue for the six months ended 31 December 2014 of €63 million, increased 6% compared with the corresponding period in the prior year. While overall customer volumes grew by 52,000 or 8%, revenue increased by 6% primarily due to the change in the mix from higher value Retail to Wholesale lines and increased promotional discounts on broadband bundles. At 31 December 2014, the number of Wholesale Bitstream lines were 288,000, an increase of 26,000 compared to 30 June 2014 and an increase of 43,000 compared to 31 December 2013. Retail broadband lines at 460,000 grew by 4,000 compared to 30 June 2014 and increased by 9,000 compared to 30 December 2013.

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Traffic

Overall traffic revenue for the six months ended 31 December 2014 reduced by 11% compared to the prior year.

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Revenue			
Retail Traffic	87	74	(15)
Wholesale Traffic	33	32	(3)
Total traffic revenue	120	106	(11)
Traffic (in millions of minutes, except percentages)			
Retail	1,234	1,020	(17)
Wholesale	2,311	2,281	(1)
Total traffic minutes	3,545	3,301	(7)

Retail voice traffic revenues reduced by 15% in the six months ended 31 December 2014, compared with the corresponding period in the prior year. This was primarily due to a decline in traffic volumes arising from reduced access lines, continuing weakness in the traditional voice market due to mobile substitution and a loss of market share.

Wholesale traffic revenues reduced by 3% in the six months ended 31 December 2014 compared to the corresponding period in the prior year.

Data services revenue

Revenue from data communications for the six months ended 31 December 2014 decreased by 4% compared with the corresponding period in the prior year. The following table shows information relating to revenue from data communications products and services:

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	
Data services revenue			
Leased lines	27	26	(3)
Switched data	14	11	(23)
Next generation data services	9	11	25
Total data services revenue	50	48	(4)

Leased Line revenues reduced by 3% due to a further reduction in leased line volumes, as customers rationalised their networks, as well as migrating to alternative higher speed services. Revenue from switched data fell by 23%, while revenue from Next generation data services increased by 25% compared to the six months ended 31 December 2013 which reflects customers' move from legacy products to the next generation product portfolio.

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Foreign Inpayments

Revenue from foreign terminating traffic increased by 23% compared the corresponding period in the prior year due to increased rate per minute, despite a decrease in minutes of 8%. The increase in revenue per minute is driven by a change in the mix in traffic (there was a higher proportion of mobile traffic which has significantly higher rates) and the average fixed traffic rate has also increased year on year as a result of the use of more bilateral agreements. Bilateral agreements reflect negotiated settlement rates between national carriers for terminating traffic between their countries. The rates are generally symmetric on a given route, reflected in both revenue (foreign inpayments) and cost of sales (foreign outpayments). The increase in the use of bilateral agreements has led to an increase in the volume of international minutes traded with foreign operators and therefore in revenue as well as the corresponding cost of sales. The margin on foreign inpayments remains similar to the prior year.

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Foreign Terminating traffic Revenue	6	7	23
Foreign Terminating traffic minutes m	342	313	(8)

Other products and services

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

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Operator Services	10	8	(23)
Managed Services	20	17	(15)
Tetra	8	8	1
UK/NI	14	15	3
Datacentre	8	8	5
Other revenue	17	17	1
Other products and services revenue	77	73	(6)

Revenue from other products and services for the six months ended 31 December 2014 decreased by 6% compared with the six months ended 31 December 2013. Operator services revenue fell by 23% as a result of reduced calls to our 11811 directory enquiries service. Managed services revenue fell by 15% due to the initial revenue recognition of the design phase of a multi-year programme to rollout a national fibre infrastructure in the prior year. Tetra revenue was in line with the corresponding period in the prior year. UK/NI, Datacentre and other revenues were also broadly flat compared to the prior year.

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Mobile services revenue

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Prepay handset	71	60	(16)
Postpay handset	86	98	13
Mobile Broadband	5	5	(1)
Roaming	2	2	(1)
Other	16	13	(10)
Total mobile services revenue	180	178	(1)

	As at		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
			%
Total subscribers (thousands):			
Pre-paid handset customers (thousands)	650	614	(6)
Post-paid handset customers (thousands)	376	429	14
Mobile Broadband customers (thousands)	53	47	(11)
Total subscribers (thousands)	1,079	1,090	1

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

Mobile revenue of €178 million for the six months ended 31 December 2014 was 1% lower than the corresponding prior year period, primarily due to a reduction in prepay customer numbers of 6%, the impact of new low-cost post-paid plans, higher take-up of free minutes and texts add-ons in prepay plans and customer roaming rates. While revenue has decreased compared to the same period in the prior year we saw the third consecutive quarter of growth in mobile revenue and early signs of stabilisation in the prepay base with the first quarterly growth in the base in two years. Postpay revenue grew by 13% due to a 14% increase in the postpay handset base.

At 31 December 2014 there were 1,090,000 total mobile subscribers, an increase of 34,000 compared to 30 June 2014 and an increase of 11,000 compared with 31 December 2013. Prepay handset customers have increased by 5,000 since 30 June 2014 however the base has reduced by 35,000 since 31 December 2013. The prepay base continues to be impacted by migration to postpay, 14,500 in the six months to 31 December 2014 and 30,000 over the last 12 months. The reduction in prepay handset customers has been offset by growth in higher value postpay customers which have increased by 29,000 in the six months to December 2014 and 53,000 since 31 December 2013. Mobile Broadband customers have increased by 1,000 in the six months to December however have reduced by 6,000 in the past twelve months.

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Operating costs before amortisation, depreciation and exceptional items

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

	In the six months ended		Change ^(N1)
	31 Dec 2013	31 Dec 2014	2013/2014
	€m	€m	%
Cost of Sales			
Foreign Outpayments	2	6	N/M
Interconnect	58	55	(4)
Equipment Cost of Sales	42	43	2
Other including subsidiaries	35	37	5
Total Cost of Sales	137	141	3
Pay Costs			
Wages and salaries and other staff costs ¹	145	125	(14)
Social welfare costs	7	6	(11)
Pension costs – defined contribution plans	2	2	(3)
Pension costs – defined benefit plans	10	7	(28)
Pay costs before non-cash pension charge and capitalisation	164	140	(16)
Capitalised labour	(41)	(36)	(11)
Total pay costs before non-cash pension charge	123	104	(16)
Non Pay costs			
Materials and Services	8	7	(12)
Other Network Costs	16	16	4
Accommodation	44	47	6
Sales and Marketing	43	39	(10)
Bad Debts	5	2	(51)
Transport and Travel	7	6	(11)
Customer Services	20	21	7
Insurance and Compensation	2	1	(51)
Professional and Regulatory Fees	4	4	(6)
IT Costs	10	11	13
Other Non-Pay costs	2	4	65
Total non-pay costs	161	158	(1)
Operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items	421	403	(4)
Non Cash Pension Charge	7	6	(14)
Non-cash lease fair value credits	(5)	(5)	-
Operating costs before, amortisation, depreciation, and exceptional items	423	404	(5)

Note 1: Pay costs in the prior year quarter have been adjusted to reflect the reclassification of the charge related to the management incentive programme to exceptional items which occurred in June 2014. See note 4 Exceptional items – (charge)/credit

Total operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation and exceptional items decreased by 5%, compared with the corresponding six months of the prior year.

Cost of Sales

Cost of sales were €4 million higher in the six months ended 31 December 2014 compared to the corresponding period in the prior year:

- Foreign outpayments increased year on year by €4 million. The six months ended 31 December 2014 includes a one-off credit of €3million, due to the resolution of disputes on amounts owing to international creditors and an increase in the rate per minute due to a higher proportion of mobile traffic (which has a significantly higher rate than fixed traffic) Refer to commentary on Foreign Inpayments revenue. The margin on foreign inpayments remains similar to the prior year.
- Interconnect payments to other telecommunications operators were €3 million lower than the corresponding prior year quarter mainly due to lower international roaming rates as introduced by the European Commission effective 1st July 2014 and lower top-up commissions driven by lower volumes (lower prepay base) and lower rates year on year.
- Equipment cost of sales were €1 million higher due an increase in modem costs driven by the take up of our high speed fibre broadband proposition.

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- The €2 million year on year increase in other cost of sales, is primarily due to costs directly associated with the rollout of the eVision service.

Pay costs

Total staff pay costs, before non-cash pension charges, for the six month ended 31 December 2014 decreased by €19 million compared to the corresponding period in the prior year, mainly due to reduced headcount. On average for the six months ended 31 December 2014 there was approximately 900 lower headcount compared to the same period in the prior year.

FTE Headcount at 31 December 2014 was 3,458 FTE, representing a net reduction of 8% compared to 31 December 2013. The number of FTEs reduced by 307 since the period ended 31 December 2013, which were related to committed exits secured in incentivised exit schemes in the prior year.

Non-cash pension charge

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

Total non-pay costs

Year on year non-pay costs decreased by 1% in the six months ended 31 December 2014 compared to the corresponding prior year period:

- Materials and services costs were €1 million lower year on year mainly due to on-going cost reduction programmes partially offset by the cost of outsourcing
- Other network costs were broadly in line with the prior year period.
- Accommodation costs increased by €3 million compared to the corresponding prior year quarter primarily due to higher electricity costs.
- Sales and Marketing decreased by €4 million due to lower mobile indirect subscriber acquisition/retention costs and higher SIM only sales for postpay.
- Bad debt provision decreased by €3million due improved collection rates driven by an increase in the number of customers on direct debit.
- Transport and travel reduced by 11% which is in line with reduced headcount
- Insurance and compensation costs decreased by €1million which was related to specific legal costs in the prior year.
- Customer service costs increased by €1 million due to outsourcing of some activities within customer service increasing non pay costs but reducing pay costs.
- Professional & regulatory and other non-pay costs fees in the six months ended 31 December 2014, were broadly in line with the corresponding period in the prior year.
- IT costs were €1million higher year on year due increased IT estate and new systems.
- Other non-pay costs increased by €2 million compared to the prior year mainly due to a one off prior year credit.

Non-cash lease fair value credits

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

Amortisation

Amortisation charges for the six-month period ended 31 December 2014 were €24 million, compared to €37 million in the prior year period, mainly due to the fair value intangible assets for fixed line customer relationships and fixed licence being fully amortised.

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Depreciation and impairment of plant and equipment

The depreciation charges for the six-month period ended 31 December 2014 of €124 million were in line with the prior year six-month period ended 31 December 2013.

Exceptional costs

Net exceptional charges of €13 million were incurred in the six-month period ended 31 December 2014 and include strategic review costs of €10 million and other charges relating to certain legal matters of €9 million offset by exceptional credits of €6 million reflecting the release of provisions carried forward at the start of the financial year.

The exceptional charges in the prior year period ended 31 December 2013 of €198 million included €194 million for restructuring programme costs in respect of staff exits, €3 million in respect of its obligations under the management incentive plan ("MIP") and €1 million for an impairment of a receivable from a former parent company of eircom Limited.

Finance costs (net)

The group's net finance costs for six-month period ended 31 December 2014 amounted to €97 million, €17 million lower than the prior year six-month period. This is mainly due to lower Payment-in-Kind (PIK) interest (€10 million) and interest amortisation on the Facility B borrowings as a result of the debt repayment in the year ended 30 June 2013 and the extension of 94.7% of its Facility B borrowings in the year ended 30 June 2014 (€12 million). In addition, there were lower interest costs on the net pension liabilities in six-month period ended 31 December 2014 (€9 million). The lower finance costs were offset by higher interest costs on the Senior Secured Notes and the Facility B2 borrowings (€14 million). The amended Facility B2 borrowings are subject to cash-pay interest at Euribor plus 4.5% margin, and are not subject to PIK interest.

Taxation

The tax credit for the six-month period ended 31 December 2014 was €9 million, compared with a €25 million credit in the prior corresponding period. The €9 million tax credit mainly relates to adjustments in respect of prior years.

The prior year period tax credit of €25 million mainly arises from the group's restructuring programme costs charged in the six-month period ended 31 December 2013.

Liquidity

Net cash generated from operating activities

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

During the six-month period ended 31 December 2014, net cash generated from operating activities was €130 million compared with €83 million in the prior corresponding period, increase of €47 million. The increase was primarily due to lower voluntary leaving payments (€10 million) in the period compared to the prior year period (€98 million). Excluding voluntary leaving payments, net cash generated from operating activities has decreased by €41 million, mainly due to higher interest payments (€15 million), lower EBITDA (€10 million), tax payments (€8 million) and increase in working capital (€6 million, mainly trade receivables). The higher interest payments in the period are due to the higher interest rate on the Facility B2 borrowings (Euribor plus margin 4.5%).

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Cash flows from investing activities

Total cash used in investing activities was €151 million for the six-month period ended 31 December 2014, reduced from €157 million in the prior year period, mainly due to the decrease in capital expenditure payments.

During the six-month period ended 31 December 2014, restricted cash of €5 million was refunded by ComReg in relation to our obligations under a Quality of Service Performance Improvement Programme under our Universal Service Obligations (“USO”).

Cash flows from financing activities

During the six-month period ended 31 December 2014, and 31 December 2013, the group made repayments of €4 million in relation to the group’s share of Tetra borrowings.

In addition, in the six-month period ended 31 December 2014, the group made further payments of €1 million in respect of transaction fees relating to the amendment and extension of 94.7% of its facility B borrowings.

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

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Notes:

1. Percentage changes have been calculated based on unrounded data rather than on the rounded data presented in these tables. Certain comparative figures have been re-grouped and re-stated where necessary on the same basis as those for the current financial quarter.
 2. Fixed ARPU Calculations:
 - A. We define “Retail voice & line rental ARPU” as the average of recurring retail access rentals (PSTN and ISDN rentals excluding connection revenue) and net core voice revenue (which is now net of all discounts including promotional discounts) divided by the average number of access subscribers in each month. Given the increase in promotions as a result of the launch of TV, the prior year ARPU has been adjusted to include the impact of promotional discounts.
 - B. We define “Retail broadband ARPU” as the average of total revenue from broadband services (broadband rental revenue net of bundle discount) divided by the average number of retail broadband subscribers in each month. Given the increase in promotions as a result of the launch of TV, the prior year ARPU has been adjusted to include promotional discounts.
 - C. We define “WLR PSTN ARPU” as the average of Wholesale PSTN line rental revenue (net of WLR LEA discount) divided by the average number of PSTN WLR access subscribers in each month.
 - D. We define “Bitstream ARPU” as the average of bitstream rental revenue (recurring revenue) divided by the average number of Wholesale bitstream subscribers in each month.
 - E. 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.
 3. Mobile ARPU Calculations:
 - A. We define “Prepay Handset ARPU” as the measure of the sum of the total prepay mobile handset subscriber revenue including revenue from incoming traffic in a period divided by the average number of prepay mobile handset subscribers in the period divided by the number of months in the period.
 - B. We define “Postpay Handset ARPU” as the measure of the sum of the total postpay mobile handset subscriber revenue including revenue from incoming traffic in a period divided by the average number of postpay mobile handset subscribers in the period divided by the number of months in the period.
 - C. We define “the average number of mobile handset subscribers in the period” as the average of the total number of mobile handset subscribers at the beginning of the period and the total number of mobile handset subscribers at the end of the period.
 4. N/M - percentage movement is not meaningful.
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