# eircom Holdings (Ireland) Limited ("EHIL")

**04 September 2018**

# Annual Report for Bondholders Year Ended 30 June 2018

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**DISCLAIMER**

The following report presents our results for the year ended 30 June 2018. This report is not an offer for sale of securities in the United States or in any other jurisdiction. This report has been prepared for information and background purposes only. It is confidential and does not constitute or form part of, and should not be construed as, an offer or invitation to subscribe for, underwrite or otherwise acquire, any securities of eircom Holdings (Ireland) Limited (the "Company") or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group or with any other contract or commitment whatsoever. Neither this report nor any part of it may be reproduced (electronically or otherwise) or redistributed, passed on, or the contents otherwise divulged, directly or indirectly, to any other person or published in whole or in part for any purpose without the prior written consent of the Company.

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

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

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

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

## 1. FORWARD LOOKING STATEMENTS

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

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

- the impact of a potential downturn in the Irish economy including one caused by the exit of the United Kingdom from the European Union;
- increasing competition in the Irish telecommunications market;
- substitution of other services for our products and services;
- consolidation in the Irish telecommunications market;
- our ability to successfully implement our strategy to reduce churn and gain new subscribers;
- extensive regulation and regulatory initiatives aimed at increasing competition;
- our ability to successfully compete in broadband services;
- increased competition in the broadband market as a result of government initiatives;
- our ability to maintain our favourable brand image;
- dependence on third parties to distribute products and procure customers;
- our dependence on the proper functioning of, and our ability to continuously upgrade, our network, IT, and other systems;
- cybersecurity threats;
- our ability to adhere to data protection regulation;
- the outcome of litigation or regulatory action;
- our leverage and debt service obligations; and
- other factors discussed or referred to in this Annual Report.

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

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

## 2. INDUSTRY AND MARKET DATA

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

We operate in an industry in which it is difficult to obtain precise industry and market information. We have generally obtained the market and competitive position data in this Annual Report from the following reports:

- Reports published by The Commission for Communications Regulation ("ComReg"), the Irish telecommunications regulator, including the report containing market information as of 31 March 2018, published on 14 June 2018;
- Information notices published by ComReg
- Reports by TAM Ireland, including Universes & Reception Types; and
- Certain earnings reports and presentations published by eir;

However, we cannot assure you of the accuracy and completeness of such information, and we have not independently verified such market and position data. We do, however, accept responsibility for the correct reproduction of this information.

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

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

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

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

## 3. PRESENTATION OF INFORMATION

### Financial Information

Unless otherwise indicated, eircom Holdings (Ireland) Limited's ("EHIL" or the "Company") financial information in this Annual Report as of and for the two years ended 30 June 2017 and 2018 has been prepared in accordance with IFRS as adopted by the European Union. IFRS differs in certain significant respects from U.S. GAAP.

The consolidated financial statements of EHIL prepared in accordance with IFRS as of and for the two years ended 30 June 2017 and 2018, included elsewhere in this Annual Report, have been audited by PricewaterhouseCoopers, EHIL's independent auditors, as stated in their report appearing herein.

Unless otherwise indicated, the full year financial information presented in this Annual Report is the historical audited consolidated financial information of EHIL and its consolidated subsidiaries. The amounts and commentary presented in the management discussion and analysis section of this Annual Report include the results of the group's joint venture in Tetra Ireland Communications Limited ("Tetra") on a proportionate consolidation basis. In accordance with IFRS 11 'Joint Arrangements' the EHIL consolidated financial statements for the years ended 30 June 2017 and 2018 apply the equity method of accounting for the investment in Tetra.

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

The independent auditors' report for EHIL for the year ended 30 June 2018 is included on page F-2 of this Annual Report. In accordance with guidance issued by the Institute of Chartered Accountants in Ireland, the independent auditors' reports state that: they were made solely to EHIL's members, as a body; the independent auditors' audit work was undertaken so that the independent auditors might state to EHIL's members those matters that were required to be stated to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, the independent auditors do not accept or assume responsibility to anyone other than, EHIL and EHIL's members as a body for their audit work, for their audit report or for the opinions they have formed. The independent auditors' reports for EHIL for the financial periods ended 30 June 2017 and 30 June 2018 were unmodified. PricewaterhouseCoopers were the auditors of EHIL for these accounting periods. In this Annual Report:

- "EBITDA" is earnings before interest, taxation, depreciation and amortisation; and
- "Adjusted EBITDA" is earnings before interest, taxation, depreciation, amortisation, non-cash pension charge, non-cash lease contracts, exceptional items and profit on disposal of property, plant and equipment.

**Other Data**

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

## 4. CERTAIN DEFINITIONS

In this Annual Report:

- "Churn" refers to the percentage of subscriber/line disconnections during a given period. Churn rates are calculated by dividing the number of disconnections of subscribers/lines during the period by the average number of subscribers/lines in the same period;
- "EHIL" and "Parent Guarantor" refer to eircom Holdings (Ireland) Limited, a private company registered in Dublin, Ireland, and not to any of its subsidiaries;
- "EHSA" refers to eircom Holdco S.A., a sociétè anonyme with its registered office in Luxembourg;
- "eircom Limited (Ireland)" refers to eircom Limited, a private limited company incorporated in Ireland with registration number 98789;
- "eircom Limited (Jersey)" refers to eircom Limited, a private limited company incorporated in Jersey with registration number 116389;
- "ESOT" or the "ESOT Trustee" refers to the eircom Employee Share Ownership Trust;
- "Examinership" refers to the petition of eircom and certain of its subsidiaries on 29 March 2012, to the High Court in Ireland for court protection and the appointment of an examiner and the subsequent placement into examinership under the Companies Act, 2014, as amended, in order to give effect to a restructuring of the debt of eircom;
- "Facility B" refers to the senior secured term loan facility B in an aggregate principal amount of €1.6 billion made available under the Senior Facilities Agreement on 18 April 2017;
- "Group" refers to EHIL and its subsidiaries;
- "Indenture" refers to the indenture dated 17 June 2016, among, inter alios, eircom Finance DAC, the guarantors named therein, Deutsche Trustee Company Limited as trustee and Wilmington Trust (London) Limited as security agent, as amended and/or supplemented from time to time, under which the Notes were issued.
- "IFRS" refers to International Financial Reporting Standards adopted by the European Union;
- "Intercreditor Agreement" refers to the intercreditor agreement dated 18 April 2017, by and among, inter alios, EHIL and Wilmington Trust (London) Limited as Security Agent;
- "Issuer" refers to eircom Finance DAC, a designated activity company registered in Ireland with company number 524458;
- "Notes" refers collectively to the €700,000,000 aggregate principal amount of eircom Finance DAC's 4.50% Senior Secured Notes due 2022 governed by the Indenture.
- "Original Senior Facilities" refers to the facilities made available under the Original Senior Facilities Agreement, including a revolving facility and a senior secured term loan facility B5 ("Original Facility B5"), which we repaid and cancelled in April 2017;
- "Original Senior Facilities Agreement" refers to the senior facilities agreement dated on the Restructuring Date (as defined therein, being 11 June 2012, the "Restructuring Date") and as amended and restated from time to time, between, among others, EHIL, Wilmington Trust (London) Limited as agent and security agent and the lenders thereunder;
- "Revolving Facility" or "Revolving Credit Facility" refers to a revolving credit facility in an aggregate principal amount of up to €150.0 million made available under the Senior Facilities Agreement;
- "Senior Facilities" refers to the facilities made available under the Senior Facilities Agreement, including the Revolving Facility and Facility B;
- "Senior Facilities Agreement" refers to the facilities agreement entered into on or about 18 April 2017, by and among, inter alios, EHIL, Wilmington Trust (London) Limited as agent and security agent and the lenders thereunder;
- "Tetra" refers to Tetra Ireland Communications Limited, a private limited company incorporated in Ireland with registration number 406355;
- "Toohil" refers to Toohil Telecoms Holdings Limited, a private limited company incorporated in Ireland with registration number 616037;
- "Total mobile ARPU" refers to the total mobile subscriber revenue in a period divided by the average number of mobile subscribers in the period divided by the number of months in the period, where the average number of mobile

subscribers in the period is the average of the total number of mobile subscribers including mobile broadband at the beginning of the period and the total number of mobile subscribers including mobile broadband at the end of the period;

- "Trustee" refers to Deutsche Trustee Company Limited;
- "U.S. GAAP" refers to generally accepted accounting principles in the United States; and
- "eircom", "we", "us", "our", "eir" and other similar terms refer to EHIL on a consolidated basis, unless expressly stated otherwise or the context otherwise requires.

We have included a glossary of selected technical and other terms used in this Annual Report beginning on page 49.

## 5. RECENT DEVELOPMENTS

On 9 April 2018 a transaction was completed whereby Toohil Telecom Holdings Limited ("Toohil") acquired 100% of Eircom Holdco S.A. ("EHSA"). Toohil is majority owned and controlled by NJJ Animation SAS France ("NJJ") and Iliad SA, while Anchorage Capital Group, LLC and Davidson Kempner Capital Management LP hold a minority investment interest in Toohil. While the transaction resulted in a change of the ownership structure of EHIL, it does not significantly impact the financial statements of EHIL for the year ended 30 June 2018.

There have been no other significant events affecting the group since the year ended 30 June 2018.

## 6. BUSINESS

### Strategy

Our sole objective is to provide the best broadband and mobile network for our customers through a multi-year investment programme. We are transforming into a super-efficient operator through simplification and digitalisation while delivering strong cash flow generation. We aim to grow our market share while bringing customer touch points back in-house. The combined efforts and expertise of our new management team and the leadership of our major shareholder, NJJ, will ensure that we deliver for all stakeholders, especially our customers. The main components of our strategy are as follows;

***Deliver the best broadband experience***

We believe that the foundation of a telecommunications operator is its network and IT systems and the future is fibre technology. We plan to upgrade our current Next Generation Access ("NGA") network to deliver fibre to the home ("FTTH") broadband to 1.7 million customers in both urban and rural Ireland. A core element of our strategy is bundles, which offer customers the convenience of receiving high-speed broadband, TV, fixed-telephony and mobile services from a single provider, at an attractive price and on one bill. We are focused on convergence and long-term customer lifetime value, and our strategy is to connect everyone and everything in Ireland, whether by high-speed broadband, voice, mobile data or enterprise datacomms. Our vision for our customers is a converged future with seamless access to fixed and mobile services. Our consumer fixed line RGU per household was 2.3 as of 30 June 2018 and continues to see steady growth, with 29% of customer households subscribing to bundles with three or more products.

We believe that further potential exists for the development of bundles and convergence with the emergence of fixed voice, fixed broadband and TV triple-play services, as well as quad-play services incorporating mobile. Penetration of multi-play offerings in Ireland remains below levels seen in other European markets such as UK, Spain and Portugal. We also see clear evidence of accelerated uptake of triple-play bundles through examination of RGU's per customer.

***Improve our mobile network experience***

We plan to make further significant investments in our mobile network to deliver 4G coverage to 99% of the population and improve upload and download speeds. Our 4G network will be integrated into our NGA network to provide a ubiquitous product agnostic delivery platform to our customers. By investing to deliver the best mobile network experience for our consumers we will bundle more mobile subscriptions with our fixed customers and bring in new customers through our mobile offering, increasing our mobile market share.

***Deliver strong cash flow generation and an engaged workforce***

With the combined efforts of our management team and the leadership of our major shareholder, NJJ, we have implemented processes to control operational and capital expenditures, with the effect of ensuring efficiency in our spending and improving the cash flow of our operations. Furthermore, we believe that through simplification and digitalisation of the business, together with the elimination of multiple layers of management, will not only deliver the planned headcount reductions but also foster faster decision-making, better communication and a much more engaged workforce.

### Business overview

We are an integrated telecommunications operator that offers a range of quad-play bundles on our fixed and mobile networks. We are the principal provider of fixed line telecommunications and the third largest mobile telecommunications provider in Ireland with reported revenue for the financial year ended 30 June 2018 of €1,270 million and Adjusted EBITDA of €528 million. We generate virtually all of our revenue in Ireland, where substantially all of our reported subscribers and customers are located. Demand for our products and services, including the penetration of high-speed broadband and TV bundles, ARPU and the number of subscribers, is influenced by a number of factors, including the strength of the Irish economy.

Our fixed line division provides high-speed broadband, voice and data services to individual consumers, business users and to wholesale customers. The fixed line division contributed 74% of our revenue (before inter-segment eliminations) for the financial year ended 30 June 2018. According to quarterly data published by ComReg for the quarter ended 31 March 2018, we had a Group revenue market share of 46.8% and in terms of broadband; we had a retail market share of 31.4%.

Our mobile segment, eir Mobile, provides mobile services to retail customers as well as to bundled customers, and is also the brand used in the eir Business division. The mobile business contributed €338 million or 26% of our total

revenue (before inter-segment eliminations) for the financial year ended 30 June 2018. We are the third largest mobile operator in Ireland in terms of revenue and customers. According to data published by ComReg for the quarter ended 31 March 2018, we had an overall mobile market share of 17.4% based on the number of subscribers, including mobile broadband, and 18.8% mobile market share based on revenue, a market principally comprised of three large players: Vodafone, 3 and eir. Our mobile handset market share as of 31 March 2018 was 20.2%, according to data published by ComReg. The mix of our mobile base continues to improve and as of 30 June 2018, 52% of our customer base was in postpay contracts, an increase of 4 percentage points compared to the corresponding prior year period.

Our fibre network now passes over 1.8 million Irish premises with both FTTH and FTTC technology and we have approximately 96% 4G outdoor population coverage and a nationwide 3G network. We have already invested approximately €620 million in an NGA network that includes extending the reach of our current fibre back-haul core IP network to exchanges in the NGA footprint. Our FTTH technology passes approximately 240,000 premises. We have committed with the government to pass approximately 300,000 rural premises with FTTH with approximately 200,000 of these already passed as at 30 June 2018. Additionally, our NGA network will drive fibre deeper into our network and provide significant back-haul capacity to serve our mobile business. As of 30 June 2018, 635,000 customers were subscribing to our fibre services, an increase of 15% compared to the prior year. Our NGA network enables us to offer to our customers a quad-play bundle of services including fixed line voice and broadband, mobile voice and IPTV services providing linear and on-demand TV. Our proposition was further strengthened through the acquisition of Setanta Sports Ireland (rebranded to eir sport) in April 2016, which has given eir access to sports content such as Premier, Champions and Europa League football as well as other sporting rights including Guinness Pro14 rugby content.

**Business divisions**

***Consumer***

The Consumer division is the largest division within the eir Group with revenues of approximately €620 million for the financial year ended 30 June 2018. We offer fixed and mobile services to approximately 1,432,000 customers comprising 491,000 fixed and 941,000 mobile customers as of 30 June 2018. We are the market leader in fixed consumer broadband and we have 31.4% of the retail fixed broadband market at 31 March 2018, according to ComReg. We offer bundles of services and standalone propositions of voice, high speed broadband, TV, sports content and mobile services to households and individuals. We are focused on maximising customer lifetime value through our bundling and convergence strategy and as at 30 June 2018. We have one of the broadest distribution networks of all telecommunications operators in Ireland, with 84 stores (including franchise stores) and 171 stores when partner stores are included. We support consumer sales and marketing programs with direct marketing campaigns through a wide range of media including TV, telephone, radio, press, outdoor, and the Internet.

***eir Business***

eir Business is our second largest division and generated revenues of approximately €340 million for the financial year ended 30 June 2018, through the development of standard offerings that are configurable according to the specifications of each customer. We primarily offer connectivity services to small and medium enterprises throughout Ireland. To our enterprise customers, which include large private sector companies in Ireland and the Irish government, we provide a range of integrated solutions that combine connectivity with infrastructure and services to form complete solutions. We also provide ICT services to the public sector in Northern Ireland as well as to Irish customers with subsidiaries or branches in the United Kingdom. eir Business also holds a 56% stake in Tetra, a company that provides nationwide digital radio services for the major state emergency and security agencies, such as police, prisons, revenue commissioners and the ambulance service. We launched our business mobile offering in 2012 via the eir Mobile brand, and we have captured a handset subscription market share of approximately 9.9% as of 31 March 2018, up from 9.3% compared to the corresponding prior year period.

***Wholesale ("open eir")***

Through open eir we provide communication service providers with open access to eir's nationwide fixed network, products and technical expertise. Our wholesale business is a strategic partner of choice for OAOs providing telecommunication services to households, individuals and business customers and generated revenues of approximately €340 million in the financial year ended 30 June 2018.

The price at which we offer wholesale regulated services to our customers is regulated by ComReg, and as of 30 June 2018, the prices and terms on which we offer the majority of our wholesale products are regulated under the (i) Reference Interconnect Offer ("RIO") which details the wholesale offering of our PSTN and ISDN traffic service, (ii) the Access Reference Offer ("ARO") which details an offering of unbundled access service to all access seekers and (iii) the Wholesale Bitstream Access Reference Offer which details the bitstream offering. Our position in the wholesale

market provides us with an opportunity to develop services for OAOs as well as retain the wholesale component of a significant proportion of business lost to competitors at a retail level.

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

***Networks & IT***

The Networks business unit manages the national transmission, core, IP fixed and mobile networks which underpin the services offered by our Consumer, Business and Wholesale business units. The Networks unit also operates eir's field operations (fixed, core and mobile) as well as service management and monitoring. All significant core network infrastructure investment programs are managed within Networks.

IT develops the technology solutions that enhance our products and services and sustain our growth. Transformation initiatives being delivered across IT include: enhanced customer experience, BSS transformation (aimed at delivering an industry standard BSS and digital environment while retiring legacy environments), Network convergence and OSS transformation which is focused on the future network technologies. Operational efficiency is a constant focus, with programs such as data centre consolidation, business intelligence/data warehouse system, next generation end-user computing and security.

## Competition

We face strong competition in the Irish fixed line and mobile telecommunications markets. We have sought to address competitive pressures through our fibre roll-out, expansion into TV content and 4G investments, which have allowed us to offer a full range of services, especially in competitive urban areas, through the introduction of bundled offerings.

*Fixed line*

Since the liberalisation of the Irish fixed line telecommunications market, our overall retail fixed line market share has declined as a result of competition from retail fixed line operators such as Virgin Media (formerly UPC), Sky, and Vodafone. We are able to regain, through our wholesale business, a significant proportion of any retail access lines lost to competitors (excluding cable). In addition, Siro, a joint venture between the ESB, the incumbent power network company in Ireland, and Vodafone has begun to roll-out FTTB to selected urban and semi-urban areas using fibre attached to the access infrastructure of the ESB.

*Mobile*

There are currently three MNOs in Ireland: 3, Vodafone and eir. There are also a number of MVNOs currently active in the market, including Tesco Mobile and the new entrants Virgin Media and iD Mobile (iD Mobile has ceased trading). Competition for customers among mobile communication providers is based principally upon the services and features offered, technical quality of the mobile network and its coverage, customer service, capacity, and price, with the introduction of growing numbers of packages bundling minutes, SMS and broadband downloads.

## Employees and Industrial Relations

We are one of the largest employers in Ireland, and the substantial majority of our employees are employed in Ireland. The total number of persons (Full Time Equivalents) employed by us as of 30 June 2018 and 30 June 2017 were as follows:

| | **As of 30 June** | |
|---|---|---|
| | **2017 (unaudited)** | **2018 (unaudited)** |
| Fixed line | | |
| Operational/technical | 2,072 | 1,825 |
| Sales/customer support | 617 | 482 |
| Administration | 266 | 192 |
| **Total fixed line** | **2,955** | **2,499** |
| Mobile | 324 | 299 |
| **Total fixed line and mobile** | **3,279** | **2,798** |

We have a well-developed collective bargaining relationship with our trade unions. We employ graded staff who are employed on collectively negotiated terms and conditions, and non-graded staff, who are employed on a personal contract/service agreement basis. Graded employees' terms and conditions are the subject of collective bargaining agreements, primarily, but not exclusively, negotiated through the Joint Conciliation Council which is our main collective bargaining forum. The trade unions who participate in this forum are the Communications Workers Union (the main union in the Group) and Forsa.

We established a separate industrial relations forum in 2015 with the Irish Bank Officials Association (now known as the Financial Services Union) as part of the transfer arrangements of approximately 24 employees into the Group under the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003.

**Litigation**

Other than disclosed below or as disclosed in "*Regulation—The Regulatory Regime—Compliance*", a number of other lawsuits, claims and disputes with third parties including regulatory and tax authorities have arisen in the normal course of business. While any litigation or dispute with regulatory or tax authorities has an element of uncertainty, we believe that there are no further contingent liabilities which may have, or have had in the last twelve months, a significant effect on our financial position or results of operations.

***Enforcement by ComReg in ComReg Cases 481 (Quality of Supply for Bitstream) and 568 (VPN removal)***

On 16 November 2016, eir received five opinions of non-compliance from ComReg. In accordance with the enforcement procedure provided for by Regulation 19 of the European Communities (Electronic Communications Networks and Services) (Access) Regulations 2011, the opinions of non-compliance followed representations made by eir on 1 October 2014 and 27 August 2015, respectively, following notifications of findings of non-compliance issued by ComReg on 29 August 2014 and 9 July 2015, respectively.

On 20 June 2017, ComReg issued enforcement proceedings in the High Court, filing two notices of motion seeking declarations of non-compliance with the Access Regulations (the European Communities (Electronic Communications Networks and Services) (Access) Regulations 2011) for five breaches and orders that we pay to ComReg financial penalties. One notice of motion relates to case 568 and the other to case 481, in which 4 breaches are alleged. The penalties sought were substantially reduced from those originally indicated by ComReg in their correspondence in November 2016. On 3 July 2017 the proceedings were moved into the Commercial List of the High Court. In response, we have initiated proceedings against the Minister for Communications, Climate Action and Environment, Ireland and the Attorney General, to quash the financial remedy provisions of the Regulations which ComReg claim is relying in its enforcement proceedings against us. Cases 481 and 568 have been stayed pending the outcome of the proceedings against the Minister, Ireland and the Attorney General. See "*—Proceedings in relation to regulation 19 of the Access Regulations*" below.

***Proceedings in relation to regulation 19 of the Access Regulations***

On 30 June 2017 eir filed a plenary summons directed to the Minister for Communications, Climate Action and Environment, Ireland and the Attorney General, seeking to quash the particular regulations relied on by ComReg to obtain a financial penalty in its enforcement proceedings (Regulation 19(5)(d) and Regulation 19(8) of the Access Regulations) on the basis, inter alia, that they are ultra vires section 3 of the European Communities Act 1972 and an impermissible delegation of the law-making power contrary to Article 15.2.1 of the Constitution.

ComReg has been joined as a party to the proceedings. This case is next due for mention in court on 8 October 2018 where eir will be seeking a hearing date for the proceedings in the next court term. For more information see Note 37 to the eircom Holdings (Ireland) Limited consolidated financial statements for the year ended 30 June 2018 contained elsewhere in this Annual Report.

**The Regulatory Regime**

The basic framework for regulation of the Irish telecommunications market derives from the EU Regulatory Framework consisting primarily of five Directives adopted by the EU in 2002 and amended in 2009, including the Framework Directive and four other specific directives, namely the Access Directive, the Universal Service Directive, the Authorisation Directive and the Directive on Privacy and Electronic Communications. The 2002 Framework Directive provides for the establishment of a national regulatory authority to be charged with any of the regulatory tasks assigned in the EU Regulatory Framework. The present legislation vests all responsibility for regulating the electronic networks and services and premium rate services sectors in Ireland in ComReg, with certain minor residual functions having been retained by the Minister for Communications, Climate Action and Environment. The Minister for Communications, Climate Action and Environment may also, in the interest of proper and effective regulation of the electronic

communications market, give policy directions to be followed by ComReg in the exercise of its functions. ComReg is led by a commission comprised of up to three commissioners and the chairman of ComReg is appointed by the Minister for Communications, Climate Action and Environment from among these three commissioners. There are currently three commissioners.

ComReg regulates electronic communications networks and services principally through a system of general authorisation (ComReg 03/81R5, dated 22 December 2015), licenses for premium rate services (content, data services and value-added services that are charged to a customer's telephone bill), licenses for radio frequency and rights of use for numbers. We operate our telecommunications business in Ireland under this regime. The most important authorisation under which we operate our business is the General Authorisation published by ComReg (ComReg 03/81R5) which sets out the terms and conditions that all providers of electronic communications services and networks must comply with in Ireland. We also hold various individual radio frequency licenses under the Wireless Telegraphy Act 1926 including, through our subsidiary Meteor Mobile Communications Ltd, mobile spectrum licenses.

ComReg also has powers, concurrent to those of the Competition and Consumer Protection Commission (CCPC), to investigate anti-competitive practices, including anti-competitive agreements and concerted practices and abuses of a dominant position in the marketplace related to the provision of electronic communications services and networks. The Irish Competition Act 2002 (as amended) regulates competition generally by prohibiting anti-competitive arrangements and abuse of a dominant position, and by providing for pre-approval of certain mergers and acquisitions. The CCPC was created in 2014 following the merger of the Irish Competition Authority and the National Consumer Agency. The CCPC is responsible for the administration and enforcement of the Competition Act and consumer protection legislation (both of which we are subject to). Broadcasting content services fall outside the remit of ComReg and are regulated by the Broadcasting Authority of Ireland (the "BAI").

***Levies***

All authorised entities, including eir and Meteor, are required under their respective general authorisations to pay an annual levy, annual fees for the right to use the radio spectrum and if applicable a premium rate service levy.

***USO Regime***

In order to ensure that all users in Ireland have access to a defined set of basic telephony services independent of their geographical location and at an affordable price, ComReg may under the Universal Service Regulations designate Universal Service Providers (USP) tasked with the provision of relevant services, whether or not the provision of those services is economic. The USO has the following components: (i) obligation to meet all reasonable requests for telephone lines to fixed locations throughout the state; (ii) provision of a telephone line capable of functional Internet access; (iii) making available a comprehensive printed telephone directory to end users; (iv) provision of public payphones to meet the reasonable needs of end users; and (v) affordability measures. Broadband and mobile services are not part of the USO.

eir is currently the only USP in respect of the following services:

- The provision of payphones: ComReg are consulting on whether to extend eir's designation as the Significant Marker Power (SMP) operator for the provision of public payphones. The existing designation is due to end in September 2018.
- The provision of a comprehensive printed directory or directories to subscribers, the designation expired at the end of June 2018 and ComReg have not published any future plans for printed directories.
- The provision of telephony services including connection and access at a fixed location (including an obligation to apply geographically averaged prices throughout the country in respect of USO services and to provide for control of expenditure services or measures). With regard to provision of functional Internet access, ComReg has maintained a minimum data rate of 28.8 kb/s with a target of 94% of telephone lines to be capable of achieving functional internet access.

We do not currently receive compensation for fulfilling our USO. The establishment of a sharing mechanism, including in the form of a fund, is required under the EU Universal Service Directive of 2002 and the Irish Universal Service Regulations where the net cost of the USO is found to amount to an unfair burden on the USP. eir has submitted applications to ComReg for the financial years 2010/2011 to 2015/2016 inclusive. ComReg will make a final decision in the second half of calendar year 2018 on whether there was an unfair burden in eir in the applicable years.

***Performance targets***

Under the Universal Service Regulations, ComReg is authorised to set binding performance targets in respect of the obligation to provide connections and access and such other elements of the USO as ComReg deems appropriate.

ComReg Decision D03/17 requires eir to achieve mandatory performance targets for the period 2 February 2017 to 31 December 2018, defined in terms of speed of connection for new telephony customers and service availability (being a combination of line fault occurrence and speed of fault repair). Service availability is defined in terms of maximum working days of outage per line and Decision D03/17 imposes annual targets at both national and sub-national levels.

***National Directory Database***

The national directory database ("NDD") contains all telephone numbers listed in public directories or available through directory enquiries. ComReg designated eir as the NDD operator for the period to 30 June 2018 (ComReg Decision D02/15; ComReg 15/44) as the result of which we are required to manage and keep the NDD up-to-date.

***SMP Regime***

The EU Regulatory Framework provides for the designation by NRAs of operators with SMP in markets that meet certain criteria for ex ante regulation. An operator will be designated as having SMP in a particular market if it has a dominant position in that market, as determined in a manner consistent with competition law practice. Once an operator has been designated as having SMP in a market, the NRA is obliged to impose at least one of the obligations listed in the Access Directive and must impose all such obligations on that operator as are considered appropriate, which may include the regulatory remedies of access, transparency, non-discrimination, accounting separation and cost accounting, and price control/cost orientation. Price controls for eir include an obligation of cost-orientation in respect of WLR, ISDN, LLU, SLU, Line Share, Stand-Alone Broadband (outside the LEA), duct and pole access and dark fibre as well as wholesale broadband access (Bitstream ) and two Margin Squeeze Tests between retail and wholesale line rental prices.

Markets that are susceptible to ex ante regulation are listed in a Recommendation of the European Commission revised from time to time. In November 2007, the European Commission revised the list of recommended markets to seven, a reduction from 18 in 2003. In October 2014, a second review by the European Commission was completed revising the number of recommended markets to five. The European Regulatory Framework requires the review of regulated markets every three years and that a market analysis is carried out to determine whether or not there is in fact effective competition in that market. New remedies may not be imposed without such a review, nor may existing remedies be removed without a market analysis, even where a regulated market is removed from the European Commission's list of markets susceptible to ex ante regulation.

ComReg's implementation of the market analysis process is on-going. The following table lists the seven markets recommended by the EU in November 2007 along with the equivalent 2014 recommended markets, and the operators designated with SMP by ComReg. This is a summary table and should be read in conjunction with the information contained in the documents outlined under the 'ComReg Decision' column.

| 2007 | 2014 Market | Market | SMP Operator(s) | ComReg Decision | Date |
|---|---|---|---|---|---|
| 1 | N/a | Retail Fixed Narrowband Access (Business & Residential) | eir | Decision D12/14 (ComReg 14/89) | August 2014 |
| | | | | Decision D04/13 (ComReg 13/14) (Price Regulation of Bundled Offers) (1) | February 2013 |
| 2 | N/a | Wholesale Fixed Call origination (2) | eir | Decision D05/15 (ComReg 15/82) | July 2015` |
| | | | | Decision D03/16 (ComReg 16/39) (Price Control) | May 2016 |
| 3 | 1 | Wholesale Fixed Call termination | eir and six OAOs (3) | Decision D06/07 (ComReg 07/109) | December 2007 |
| 4 | 3a | Wholesale Local Access at a Fixed Location (4) | eir | Decision D05/10 (ComReg 10/39) | May 2010 |
| | | | | Decision D03/13 (ComReg 13/11) (Remedies for NGA) (5) | January 2013 |
| | | | | Decision D04/13 (ComReg 13/14) (Price Regulation of Bundled Offers) (1) | February 2013 |
| | | | | Decision D03/16 (ComReg 16/39) (Price Control) | May 2016 |
| 5 | 3b | Wholesale Central Access at a Fixed Location (6) | eir | Decision D06/11 (ComReg 11/49) | July 2011 |
| | | | | Decision D06/12 (ComReg 12/32 | April 2012 |
| | | | | Decision 11/14 (ComReg 14/73R) | July 2014 |

| 2007 | 2014 Market | Market | SMP Operator(s) | ComReg Decision | Date |
|---|---|---|---|---|---|
| | | | | Decision D03/16 (Price Control) | May 2016 |
| 6 | 4 | High Quality Access at a Fixed Location (7) | eir | Decision D06/08 (ComReg 08/103) | December 2008 |
| | | | | Decision D02/12 (ComReg 12/03) (Price Control) | February 2012 |
| 7 | 2 | Wholesale Mobile Call termination | Hutchison 3G Ireland, Lycamobile, Meteor, Telefónica O2, Tesco Mobile and Vodafone | Decision D11/12 (ComReg 12/124) | November 2012 |
| | | | | Decision D12/12 (ComReg 12/125) | November 2012 |
| | | | | Decision D02/16 (ComReg 16/09) (Price Control) | February 2016 |

(1) This decision was a further clarification of the remedies imposed on eircom arising from its SMP status in markets 1 and 4.
(2) ComReg has withdrawn regulation of the transit market.
(3) In addition to eir, six OAOs were designated as having SMP: BT Communications Ireland Limited; Verizon Ireland Limited; NTL Communications (Ireland) Limited and Chorus Communications Limited (now UPC); Colt Telecom Ireland Limited; Smart Telecom; and Magnet Networks Limited.
(4) Market formerly called Wholesale Fixed Unbundled Access (WPNIA) including Current and Next Generation Access. WPNIA is wholesale physical network infrastructure access and includes LLU and next generation access/fibre.
(5) This decision was a further clarification of the remedies imposed on eircom arising from its SMP status in markets 4 and 5.
(6) Equivalent to Wholesale Fixed Broadband Access market in the 2007 list.
(7) Equivalent to Wholesale Fixed Terminating Segments of Leased Lines market in the 2007 list.

***Rate of return***

On 11 August 2009, ComReg published a Decision (ComReg D03/09) on our regulatory assets lives, extending the lives of the major asset classes, which took effect with respect to the 2009/2010 accounts. The change in asset lives resulted in a difference in the treatment of assets in the regulatory accounts when compared with the statutory accounts. The regulatory accounts are used to set regulated wholesale prices. The effect of the decision was to reduce our depreciation costs to be included in the regulatory accounts and potentially wholesale prices.

ComReg Decision D15/14 (ComReg 14/136) specifies a WACC of 8.18% to be used in respect of our regulated activities and a WACC of 8.63% in respect of Meteor's regulated activities. Any obligations imposed on us relating to cost recovery and price controls (including regulated wholesale prices) imposed prior to the Effective Date and calculated using a previous WACC set by ComReg continue to apply until such time as a price review is conducted and a new regulated price set.

***Key Performance Indicators***

Following a consultation process, in June 2011, ComReg published its Final Decision D05/11 (ComReg 11/45) directing that we report on a quarterly basis (two months post quarter end) on key performance indicators for provision and repair in the following regulated markets: (i) retail narrowband access; (ii) wholesale broadband access; (iii) WPNIA; and (iv) wholesale terminating segment of leased lines.

***open eir Wholesale Regulatory Governance Model***

We have developed a Regulatory Governance Model that enhances access to our infrastructure for other telecommunications operators. These measures aim to deliver process improvements for existing regulated wholesale products such as LLU and NGA, by ensuring that all operators have access via open eir wholesale to our technology organisation and product development processes to deliver products and services to the end customer on a non-discriminatory basis. This Model included the introduction of a Group Wide Code of Practice (COP) dealing with eir's Access and Non Discrimination Obligations, a Business Unit Process Compliance review program to ensure our day to day processes are compliant with the COP and Independent Regulatory Compliance and Audit Reports to the Board Wholesale Reforms Committee (which is now known as the Board Regulatory Sub-committee) and updates to ComReg/Industry on a six monthly basis. ComReg is currently reviewing eir's Regulatory Governance Model and published independent reports on the effectiveness of it.

***Compliance***

ComReg and other regulatory bodies occasionally make enquiries and conduct investigations concerning our compliance with applicable laws and regulations. In addition, the Framework Regulations 2011 provide for a dispute resolution mechanism whereby disputes between operators, including eir, may be brought for resolution to ComReg with the view to ensuring compliance with relevant obligations. There are a number of compliance investigations which have been the subject of a notification of non-compliance by ComReg and which are on-going including the Quality of Supply

for Bitstream, VPN removal and Address matching. Details of all cases currently in the High Court are set out on the ComReg website in ComReg document reference number 17/57 and 18/27.

***Non-Irish Regulation***

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

***Regulation of mobile services***

***Mobile spectrum rights***

We are licensed to operate a mobile network in the following bands: 800 MHz (4G LTE); 900 MHz 2G (GSM) and 3G (UMTS); 1800 MHz 2G (GSM) and 4G (LTE); and 2100 MHz 3G (UMTS). Our full national mobile network covers 99% of the population of Ireland with voice and high speed data service. The Radio Access Network is designed to provide high levels of service availability in conjunction with excellent coverage, voice quality and data throughput. eir has a balanced spectrum portfolio between low and high frequency, allowing it to provide both high speed mobile access and cost-effective population coverage to its customer base. In the 2012 multiband spectrum auction, eir acquired 2×10MHz in the 800MHz and 900MHz Digital Dividend spectrum bands and 2×15MHz in the 1800MHz band. The acquired multiband license is valid until 2030 and eir has utilised all acquired spectrum for provision of voice and high speed mobile data services. During May 2017, as part of the 3.6 GH/z spectrum auction, we acquired 85MHz in the main urban centres and 80 MHz in the rural regions. The 3.6 GHz band is suitable for introducing new 5G services, addressing mobile capacity constraints, and being a core band for providing and improving fixed wireless broadband services particularly in rural areas. These spectrum rights run for 15 years, expiring on 31 July 2032.

***Mobile Termination Rates***

On 12 February 2016, having completed a BU Pure LRIC model, where the MTRs are set at the cost of the increment of the wholesale voice call termination service to the exclusion of a mark-up for any common costs, ComReg issued Decision D02/16 which requires the six SMP mobile operators to ensure that their MTRs for each relevant period are no more than the rate determined by the BU Pure LRIC model for that period, namely as from 1 September 2016:

- 0.84 cpm from 1 September 2016 to 31 December 2016
- 0.82 cpm from 1 January 2017 to 31 December 2017
- 0.79 cpm from 1 January 2018 to 31 December 2018

***International roaming tariffs and net neutrality***

On 25 November 2015, Regulation (EU) No. 2015/2120 was adopted by the European Parliament and the Council. From 15 June 2017, roaming providers may no longer apply roaming tariffs to customers throughout the European Union, subject to a "fair use" policy applied in accordance with the rules set out in Commission Implementing Regulation (EU) (No. 2016/2286) of 15 December 2016 and possible derogations where the roaming provider demonstrates to the NRA that the abolition of retail roaming surcharges undermines the sustainability of its domestic charging model. The final wholesale roaming charges came into effect from 15 June 2017. The same regulation also introduces net neutrality rules including transparency measures for ensuring open internet access. This includes the quality of service information that internet access providers must provide to customers (including a requirement to commit to a minimum, maximum and normally available upload and download speed for fixed contracts and an estimated maximum speed for mobile customers) and the procedures required to address complaints.

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

*You should read the following discussions together with the consolidated financial statements of EHIL and the related notes to those financial statements. EHIL has prepared audited consolidated financial statements for the years ended 30 June 2018 and 2017 in accordance with IFRS. IFRS differs in certain significant respects from U.S. GAAP.*

*In this section, references to "we", "us", "our" or other similar terms refer to eircom Holdings (Ireland) Limited.*

### Presentation of Financial Information of the Company

The amounts and commentary presented in the management discussion below include the results of the group's joint venture in Tetra Ireland Communications Limited ("Tetra") on a proportionate consolidation basis. In accordance with IFRS 11 'Joint Arrangements' the EHIL consolidated financial statements for the year ended 30 June 2018 and 2017 applies the equity method of accounting for the investment in Tetra.

### Overview

We are the sole telecommunications provider in Ireland that offers quad-play bundles on our wholly owned integrated network, and we offer a range of retail and wholesale services. We are the principal provider of fixed line telecommunications and the third largest mobile telecommunications provider in Ireland. For a detailed description of the business and related activities, see *"Business—Overview"*.

### Key Factors Affecting Results of Operations

#### *Economic Climate*

Substantially all of our revenue is generated in Ireland and because of this, our financial performance is in part influenced by the strength of the Irish economy and consumer and business confidence.

#### *Changes in Market Dynamics*

*Irish fixed line telecommunications market*

In Ireland, revenues from fixed line services in the quarter to 31 March 2018 represented 46% of total communications revenue (including wholesale and broadcasting retail revenue), according to ComReg. eir Group had a market share based on fixed line revenue of 46.8% for the quarter ended 31 March 2018, according to ComReg. From a retail perspective, eir had a fixed line retail revenue market of 41.7% for the quarter ended 31 March 2018, according to ComReg. Our retail revenue share has declined in the face of competition from other retail fixed line telecommunication providers (such as Virgin Media and Sky) as well as from the continued migration of fixed line subscribers to mobile services.

Fixed line telephony

Consistent with the experience of other fixed line operators in the industry, our revenue from fixed line access and voice services has been, and we believe will continue to be, impacted by the substitution of fixed line telephone services for mobile services (including 4G) and VOIP. As a result our retail voice traffic, access and voice traffic usage revenue has declined. However, Fixed line OAO competitors in Ireland (other than Virgin Media) rely on our network to varying degrees, which generates wholesale revenue for us. Consequently, despite an increase in retail competition, some of its impacts are mitigated by the demand from OAOs for services offered by our wholesale division. In order to combat decreases in retail voice traffic and retail access lines, we are also continuing to introduce new services for our fixed line subscribers, such as bundles that bring together high speed broadband, sports content, voice calls, TV and mobile services.

Fixed line broadband

The Irish fixed broadband market continues to grow; according to ComReg, there were 1,411,000 fixed broadband subscriptions as at 31 March 2018 representing an increase of 38,000 subscriptions or 2.8% compared to 31 March 2017. The Irish fixed broadband household penetration rate was 68.4% as at 31 March 2018.

*Irish mobile telecommunications market*

According to ComReg, the total number of subscribers (including mobile broadband and M2M) in the Irish mobile telecommunications market was 6,057,000 as of 31 March 2018, an increase of 3% compared to the corresponding prior year period. Excluding mobile broadband and machine to machine subscriptions, the total number of subscribers was 4,878,000, an increase of 1% compared to 31 March 2018. At the same period Ireland had a mobile penetration rate of 125.5%, including mobile broadband and M2M (and 101.1%, excluding mobile broadband and M2M), according to ComReg. Competition for customers among mobile communication providers is based principally upon the services and features offered, technical quality of the mobile network and its coverage, customer service, capacity, and increasing prices, with the introduction of growing numbers of packages bundling minutes, SMS and broadband downloads. These factors have intensified the competitive environment and, coupled with the price control of MTRs (enforced by ComReg), have had a negative impact on market ARPU's. In terms of eir's mobile market share, we had a 20.2% share of the handset subscriber market (excluding mobile broadband and M2M) as of 31 March 2018, which was broadly flat compared to 31 March 2017. See "*Business—Competition—Mobile*".

The Irish mobile telecommunications market continues to experience a trend in migration from prepay to postpay contracts. According to ComReg, the percentage of Irish mobile handsets (excluding mobile broadband and M2M) which were postpaid was 46.8% as of 31 March 2018. Our postpay customer base has experienced strong growth: subscriber numbers were 543,000 (including mobile broadband and M2M) as of 30 June 2018, representing an increase of 6% or 29,000 net additional postpay subscribers compared to the 30 June 2017. As of 30 June 2018, 51.8% of our mobile subscribers were postpay customers, an increase from 48.5% as of 30 June 2017.

*Irish TV market*

According to TAM Ireland, there were 1,579,000 TV homes in Ireland as of January 2018, representing a penetration of approximately 87% of all Irish homes. According to Comreg, pay TV household penetration is estimated at 65%, of which satellite represents the most widely adopted broadcasting medium. As a result of technological improvements, broadband is increasingly being used for the distribution of IPTV and VoBB services. As of January 2018, there were approximately 80,000 Irish homes using IPTV services according to TAM Ireland. We launched our IPTV services in Ireland in October 2013 and as of June 2018 we had 75,000 subscribers representing a TV market share of approximately 5%. Our IPTV product offering made us the first quad play provider of fixed voice, data, mobile and TV services in Ireland.

***Regulatory initiatives***

In recent years, ComReg has taken a number of measures designed to increase further the competition in the Irish telecommunications market which may result in a loss of our market share or impact our wholesale pricing. See *"Regulation".*

***Bundling***

As a result of significant investment in our network, described below under "*Capital Expenditures and Investment*", we are well positioned to offer bundles of telecommunications services. To retain and attract new customers, we offer initial promotional prices for bundles that include broadband, calls, mobile, TV and sports content.

***Mobile termination rates ("MTR")***

Following completion of a market review consistent with EU Recommendations, ComReg imposed further reductions in MTR price caps which ensure MTRs are regulated on a symmetrical basis. From 1 September 2016, the maximum rate was reduced to 0.84 cents per minute in accordance with ComReg Decision D02/16 published on 12 February 2016. There were further step-changes on 1 January 2017 and 1 January 2018 which resulted in MTRs being reduced to 0.82 cents and to 0.79 cents respectively. While MTR reductions have the impact of decreasing our inbound revenue in the mobile business, it also reduces our interconnect costs on both the fixed and mobile businesses and therefore the EBITDA impact is broadly neutral from a Group perspective.

***Capital Expenditures and Investment***

We have undertaken an extensive capital expenditure program to modernise our business and address recent trends in the telecommunications industry and we expect that investment to continue. Our capital expenditure program notably impacted our operating cashflow in the years ended 30 June 2013 to 30 June 2018 during which periods we invested €1.9 billion. Our capital expenditure over the last five years has related to the roll-out of our NGA fibre network, investments in spectrum to roll-out 4G services and improve 3G coverage and capability, investments in new IT

capabilities and TV, set-up of a new billing system which provides customers with a single bill for fixed and mobile products, and general maintenance capital expenditure.

In addition to the investments we have made in our NGA fibre network, we are continuing to invest in our mobile network and we have experienced a significant increase in mobile data traffic as our customers experience improved data speeds on both 3G and 4G services. We have a 4G network covering 96% of the population and a nationwide 3G network following an extensive roll-out of UMTS 900 along with an extension of dual carrier HSPA+ which supports speeds of 42 Mbps. We intend to further increase 4G population coverage and continue to invest in improved customer experience on our network.

***Restructuring and cost management program***

We have a strong track record of implementing effective cost reduction programs and continue to focus on improving earnings and cash flows by reducing operational expenditure. During April 2018, the group launched an Incentivised Exit Scheme, which is designed to facilitate employees to leave the organisation on a voluntary basis.

***Employee Defined Benefit Pension Scheme***

We operate pension schemes for our employees. In particular, we operate a defined benefit pension scheme for 70% of our fixed line employees (62% of all employees), part of which is funded by the Irish Government in respect of pre-1984 service. This pension scheme also covers a significant number of past employees.

In September 2016, we carried out a full actuarial valuation on a minimum funding standard and an on-going funding basis. The eircom Superannuation Fund satisfied the requirements of Part IV of the Pensions Act 1990 (the Minimum Funding Standard) as of 30 September 2016 and at the scheme year ends of 31 March 2017 and 31 March 2018. The triennial funding valuation highlighted a surplus of €95 million of scheme assets over liabilities relating to past service obligations. The employer contribution rate is 8.5% of pensionable salary (subject to an annual floor at €8.5 million per annum) until the next valuation date in September 2019. This anticipates that approximately €72 million of this surplus will be amortised under the agreed actuarial basis over the remaining working lifetime of employees.

As of 30 June 2018, the eircom Superannuation Fund had an accounting deficit in accordance with IAS 19 of €23 million. The decrease in the deficit from €258 million as of 30 June 2017 is largely as a result of the reduction in mortality rate assumptions. This IAS 19 deficit is a non-cash accounting measure and there are no cash calls on the Group as a result of the difference in valuation methodologies.

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

***Going concern basis of preparation of financial statements***

The financial statements have been prepared on the going concern basis. For more information see Note 2 to the eircom Holdings (Ireland) Limited consolidated financial statements for the year ended 30 June 2018 contained elsewhere in this Annual Report.

**Results of operations—Year ended 30 June 2018 compared with the year ended 30 June 2017**

**Basis of preparation**

The amounts and commentary presented in the management discussion below include the results of the group's joint venture in Tetra Ireland Communications Limited ("Tetra") on a proportionate consolidation basis. In accordance with IFRS 11 'Joint Arrangements' the EHIL consolidated financial statements for the year ended 30 June 2018 applies the equity method of accounting for the investment in Tetra.

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

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

| | In the year ended 30 June 2017 (unaudited) | | | In the year ended 30 June 2018 (unaudited) | | |
|---|---|---|---|---|---|---|
| | **Reported €m** | **Adjusted €m** | **Statutory €m** | **Reported €m** | **Adjusted €m** | **Statutory €m** |
| Revenue | **1,299** | **(16)** | **1,283** | **1,270** | **(18)** | **1,252** |
| Operating costs excluding non-cash pension charge and fair value lease credits | **(779)** | **5** | **(774)** | **(742)** | **8** | **(734)** |
| **Adjusted EBITDA** | **520** | **(11)** | **509** | **528** | **(10)** | **518** |
| **Closing Cash** | **147** | **(5)** | **142** | **203** | **(6)** | **197** |

**Commentary on results of operations—financial year ended 30 June 2018 compared with financial year ended 30 June 2017**

***Income Statement***

The following table shows selected consolidated income statement data from our operations for the periods indicated.

| | For the financial year ended 30 June | |
|---|---|---|
| **(€ in millions)** | **2017 (unaudited)** | **2018 (unaudited)** |
| Revenue | 1,299 | 1,270 |
| Operating costs excluding amortisation, depreciation and exceptional items | (791) | (750) |
| Amortisation | (108) | (101) |
| Depreciation | (269) | (295) |
| Exceptional items | (92) | (87) |
| Profit on disposal of property, plant and equipment | 4 | 1 |
| **Operating (loss)/profit** | **43** | **38** |
| Finance costs | (277) | (102) |
| **Loss before tax** | **(234)** | **(64)** |
| Income tax credit | 8 | 5 |
| **Loss for the year** | **(226)** | **(59)** |

***Revenue***

Reported group revenue of €1,270 million for the year ended 30 June 2018 decreased by 2% or €29 million compared to the corresponding prior year period mainly due to the exit of low margin revenue within the eir business division coupled with Mobile Termination Rate ("MTR") reductions. Excluding the impact of MTR reductions (€5 million) revenue decreased by €24 million.

The following table shows certain segmental information relating to our business for the periods indicated:

| | For the financial year ended 30 June | | % Change |
|---|---|---|---|
| **(€ in millions)** | **2017 (unaudited)** | **2018 (unaudited)** | **2017/2018** |
| Fixed line services and other revenue | 993 | 965 | (3) |
| Mobile services revenue | 341 | 338 | (1) |
| **Total segmental revenue** | **1,334** | **1,303** | (2) |
| Intercompany eliminations | (35) | (33) | (6) |
| **Total revenue** | **1,299** | **1,270** | **(2)** |

***Fixed line services***

*Fixed line services and other revenue*

| | For the financial year ended 30 June | | % Change |
|---|---|---|---|
| **(€ in millions)** | **2017 (unaudited)** | **2018 (unaudited)** | **2017/2018** |
| Access (Rental and Connections) | 477 | 474 | (1) |
| Voice Traffic including Foreign Inpayments | 226 | 221 | (2) |
| Data Services | 99 | 98 | (1) |
| Other Products and Services | 191 | 172 | (10) |
| **Total fixed line services and other revenue** | 993 | 965 | (3) |

Total fixed line services and other revenue before intra-company eliminations for the financial year ended 30 June 2018 decreased by 3% compared to the corresponding prior year period. The decrease was driven by traditional access revenue declines as well as a decrease in low margin eir business revenues.

*Access (rental and connections)*

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

*Access Revenue*

| | For the financial year ended 30 June | | % Change |
|---|---|---|---|
| **(€ in millions)** | **2017 (unaudited)** | **2018 (unaudited)** | **2017/2018** |
| Total access revenue: | | | |
| Retail PSTN/ISDN rental and connection | 202 | 194 | (4) |
| Wholesale PSTN/ISDN/LLU rental and connection | 108 | 109 | 1 |
| ADSL and bitstream rental and connection | 167 | 171 | 3 |
| **Total access revenue** | **477** | **474** | **(1)** |

*Fixed subscribers*

| | As of 30 June | | % Change |
|---|---|---|---|
| | **2017 (unaudited)** | **2018 (unaudited)** | **2017/2018** |
| **Access paths: (in thousands at period end, except percentages)** | | | |
| Retail Access Lines | 678 | 654 | (4) |
| Wholesale Access Lines | 494 | 496 | 0 |
| Wholesale LLU | 9 | 4 | (57) |
| Standalone Broadband | 182 | 186 | 2 |
| **Total PSTN/ISDN/LLU/SABB** | **1,363** | **1,340** | **(2)** |
| **Broadband Lines: (000's)** | | | |
| Retail Broadband | 444 | 450 | 1 |
| Wholesale Broadband | 452 | 473 | 5 |
| **Total Broadband** | **896** | **923** | **3** |

Total access revenues for the financial year ended 30 June 2018, decreased by 1% compared to the corresponding prior year period. Retail PSTN/ISDN line rental and connection revenue decreased by 4% primarily due to a decline in PSTN and ISDN access lines (which also decreased by 4%) in the same period. Wholesale access revenue and lines were broadly stable during the period.

ADSL and bitstream (broadband) revenue increased by 3% in the financial year ended 30 June 2018. As of 30 June 2018, the number of DSL lines increased by 3% to 923,000 lines driven by growth in both the retail and wholesale divisions.

We continue to address retail fixed line losses and broadband churn with a number of programs, including rolling out high speed broadband and offering bundled telecommunications services including TV and eir Sport content and mobile. As of 30 June 2018, the roll out of our high speed fibre network had passed over 76% of Irish premises and 635,000 retail and wholesale customers were connected to high speed broadband services. In the same period, 75,000 customers were subscribing to TV, an increase of 4,000 subscriptions compared to the previous year and 52% of the consumer broadband base was subscribing to exclusive eir Sport content. As of 30 June 2018, 29% of eir's consumer households were subscribed to three or more services from eir's offerings across broadband, mobile, TV and telephony.

*Traffic*

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

| | For the financial year ended 30 June | | % Change |
|---|---|---|---|
| **(€ in millions)** | **2017 (unaudited)** | **2018 (unaudited)** | **2017/2018** |
| **Revenue:** | | | |
| Retail | 160 | 158 | (2) |
| Wholesale (including Foreign Inpayments) | 66 | 63 | (4) |
| **Total traffic revenue** | **226** | **221** | **(2)** |
| **(in millions of minutes, except percentages)** | | | |
| **Traffic:** | | | |

| (€ in millions) | For the financial year ended 30 June 2017 (unaudited) | 2018 (unaudited) | % Change 2017/2018 |
|---|---|---|---|
| Retail | 1,468 | 1,297 | (12) |
| Wholesale (including Foreign Terminating Traffic) | 4,340 | 3,881 | (11) |
| **Total traffic minutes** | **5,808** | **5,178** | **(11)** |

Overall Group traffic revenue decreased by 2% in the year ended 30 June 2018 compared to the corresponding prior year period reflecting a reduction in retail access lines and group traffic usage as well as MTR reductions (impact on wholesale only).

*Blended Consumer Fixed ARPU*

| | For the financial year ended 30 June 2017 (unaudited) | 30 June 2018 (unaudited) |
|---|---|---|
| | (€ per month/percentages) | |
| **Blended consumer fixed ARPU[(1)(2)(3)]** | 47.1 | 49.1 |
| Increase/(decrease) in blended ARPU from prior equivalent period (%) | | 4% |

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(1) We define "Blended consumer fixed ARPU" as the average of the total consumer subscriber revenue[(3)] divided by the average number of access subscribers (including SABB) [(2)] in each month (adjusted to reflect the average number of days in the month).

(2) 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) Subscriber revenue is equal to total fixed line consumer revenue excluding revenue from eir Sport and Operator Services.

The Blended consumer fixed ARPU for the year ended 30 June 2018 has increased by 4% when compared to the prior year driven by a combination of price increases and increased RGUs which increased from 2.19 at 30 June 2017 to 2.31 at 30 June 2018.

*Data Services*

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

| (€ in millions) | For the financial year ended 30 June 2017 (unaudited) | 2018 (unaudited) | % Change 2017/2018 |
|---|---|---|---|
| **Data communications revenue:** | | | |
| Leased lines | 53 | 52 | (4) |
| Switched data | 18 | 16 | (9) |
| Next generation data services | 28 | 30 | 8 |
| **Total data communications revenue** | **99** | **98** | **(1)** |

Revenue from data services was broadly flat compared to the corresponding prior year period. Revenue decreases in leased lines and switched data services were offset by an increase in next generation data services revenue reflecting the shift from legacy products to next generation services.

*Other products and services*

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

| (€ in millions) | For the financial year ended 30 June 2017 (unaudited) | 2018 (unaudited) | % Change 2017/2018 |
|---|---|---|---|
| Operator services | 10 | 8 | (16) |
| Managed services and solutions | 64 | 51 | (21) |
| Tetra | 19 | 20 | 5 |

| (€ in millions) | For the financial year ended 30 June 2017 (unaudited) | 2018 (unaudited) | % Change 2017/2018 |
|---|---|---|---|
| UK | 30 | 29 | (6) |
| Datacentre | 11 | 9 | (16) |
| Other revenue | 57 | 55 | (3) |
| **Other products and services revenue** | **191** | **172** | **(10)** |

Revenue from other products and services decreased by 10% or €19 million for the financial year ended 30 June 2018 compared to the corresponding prior year. Operator services revenue decreased by 16% for the financial year ended 30 June 2018 due to reduced call volumes to our 11811 directory enquiries service. Managed services revenue and data centre revenues decreased by 21% and 16% respectively, primarily due to a decision to exit low margin eir Business revenue streams. Tetra revenues increased by 5%, while UK/NI revenues decreased by 6% or €1 million, and other revenue decreased by 3% or €2 million.

***Mobile services revenue***

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

| (€ in millions) | For the financial year ended 30 June 2017 | 2018 | % Change 2017/2018 |
|---|---|---|---|
| **Mobile services:** | **(unaudited)** | **(unaudited)** | |
| Prepaid handset | 98 | 96 | (1) |
| Postpaid handset (including M2M) | 200 | 201 | 0 |
| Mobile broadband | 9 | 10 | 7 |
| Roaming | 7 | 7 | 4 |
| Other | 27 | 24 | (10) |
| **Total mobile services revenue** | **341** | **338** | **(1)** |

| (in thousands) | As of 30 June 2017 (unaudited) | 2018 (unaudited) | % Change 2017/2018 |
|---|---|---|---|
| **Total subscribers** | | | |
| Prepaid handset customers | 539 | 496 | (8) |
| Postpaid handset customers (including M2M) | 476 | 508 | 7 |
| Mobile Broadband customers | 46 | 43 | (5) |
| *Of which are prepaid customers* | *8* | *8* | *8* |
| *Of which are postpaid customers* | *38* | *35* | *(8)* |
| **Total subscribers** | **1,061** | **1,047** | **(1)** |

Mobile services revenue comprises prepay and postpay revenues including interconnect, mobile broadband and eir Mobile. Other revenue is derived mainly from device sales and foreign roaming revenue. Mobile services revenue for the financial year ended 30 June 2018 includes a €5 million year on year impact in relation to MTR reductions. Excluding the impact of MTR reductions, mobile revenues increased by €2 million compared to the corresponding prior year.

Prepay handset revenue decreased by €2 million or 1% for the financial year ended 30 June 2018, mainly due to a decline in handset subscribers coupled with the impact of reduced MTRs. Excluding the MTR impact, prepaid handset revenues were broadly flat compared to the corresponding prior year period.

Postpay handset revenue of €201 million increased by €1 million compared to the corresponding prior year period. Excluding the MTR impact, postpay handset revenues increased by €4 million compared to the corresponding prior year period.

As of 30 June 2018 there were 1,047,000 total mobile subscribers, a decrease of 1% compared with the corresponding prior year period. However, the mix of the mobile customer base continues to improve, with 52% of mobile customers now on postpay, an increase of 4 percentage points compared to the corresponding prior year period.

*Mobile ARPU*

The following table shows the monthly average revenue per user (ARPU):

| (€ per month) | 2017 (unaudited) | 2017 (Adjusted MTR) (unaudited) | 2018 (unaudited) | 2018 (Adjusted MTR) (unaudited) |
|---|---|---|---|---|
| | For the financial year ended 30 June | | | |
| **Total mobile ARPU[(1)(2)]** | **24.0** | **25.4** | **24.2** | **26.0** |

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

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

Total mobile ARPU of €24.2 (per month) for the financial year ended 30 June 2018 increased from €24.0 compared to the corresponding prior year period driven mainly by a change in prepay top-up terms.

***Operating costs before amortisation, depreciation, and exceptional items***

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

| (€ in millions) | 2017 (unaudited) | 2018 (unaudited) | % Change 2017/2018 |
|---|---|---|---|
| | For the financial year ended 30 June | | |
| **Cost of sales** | | | |
| Foreign outpayments | 10 | 11 | 11 |
| Interconnect | 87 | 80 | (7) |
| Equipment cost of sales | 70 | 66 | (6) |
| Other including subsidiaries | 122 | 113 | (8) |
| Total cost of sales | 289 | 270 | (7) |
| **Pay costs** | | | |
| Wages and salaries and other staff pay costs | 232 | 223 | (4) |
| Social welfare costs | 12 | 12 | 1 |
| Pension costs—defined contribution plan | 5 | 5 | 6 |
| Pension costs—defined benefit plan | 15 | 15 | (5) |
| **Pay Costs before non-cash pension charge and capitalisation** | **264** | **255** | **(3)** |
| Capitalised labour | (74) | (70) | (5) |
| **Total pay costs before non-cash pension charge** | **190** | **185** | **(3)** |
| **Non-pay costs** | | | |
| Materials and services | 18 | 17 | (5) |
| Other network costs | 16 | 17 | 4 |
| Accommodation | 94 | 88 | (6) |
| Sales and marketing | 69 | 64 | (8) |
| Bad debts | 7 | 8 | 6 |
| Transport and travel | 11 | 11 | (5) |
| Customer services | 39 | 38 | (1) |
| Insurance and compensation | 3 | 3 | 15 |
| Professional and regulatory fees | 12 | 9 | (29) |
| IT costs | 24 | 27 | 16 |
| Other non-pay costs | 7 | 5 | (26) |
| Total non-pay costs | 300 | 287 | (4) |
| **Operating costs before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, and exceptional items** | **779** | **742** | **(5)** |
| Non-cash pension charge | 19 | 15 | (21) |
| Non-cash fair value lease credits | (7) | (7) | 0 |
| **Operating costs excluding amortisation, depreciation and exceptional items** | **791** | **750** | **(5)** |

Operating costs excluding amortisation, depreciation, and exceptional items decreased by 5% or €41 million for the financial year ended 30 June 2018. The key factors affecting the changes in the various items making up our operating costs excluding amortisation, depreciation, and exceptional items are discussed below.

***Cost of Sales***

Cost of sales for the financial year ended 30 June 2018 decreased by 7% when compared to the financial year ended 30 June 2017. Interconnect payments, including MTR payments, to other telecommunications operators decreased by 7% or €7 million. Other cost of sales were 8% or €9 million lower driven mainly by a corresponding reduction in eir

Business managed services/ICT and datacentre revenues. Equipment cost of sales decreased by €4 million of 6% due to lower acquisition/retention costs.

***Pay Costs***

Total pay costs before non-cash pension charges for the financial year ended 30 June 2018 were €185 million, 3% lower compared to the prior year, due to a combination of lower FTE headcount and lower contractor costs. This was partly offset by modest pay increases, labour related storm costs (of €2 million) and reduced levels of capitalised labour activities. FTE headcount at 30 June 2018 was 2,798 FTE, representing a net reduction of 481 FTE or 15% compared to the corresponding prior year.

***Non Pay Costs***

Total non-pay costs of €287 million, decreased by €13 million or 4% compared to the corresponding prior year period. Excluding storm costs of €1 million, which were incurred in the second quarter of the financial year, non-pay costs reduced by €14 million. The reduction was primarily driven by decreases in accommodation costs of €6 million (primarily due to lower rent costs as part of optimisation of our property portfolio), lower sales and marketing costs (driven by efficiencies achieved as part of the Meteor rebrand to eir) and lower professional and regulatory costs. These cost savings were offset by an increase in IT investment costs of €3 million.

***Non-cash pension charge***

The non-cash pension charge represents the difference between the amount of cash contributions that we have agreed to make to the fund during the year, on an accruals basis, and the accounting charges recognised in operating profit in accordance with IAS 19 (*Revised*). The IAS 19 (*Revised*) accounting charge is not aligned with the principles that we apply in measuring our EBITDA. As a result, we include the non-cash pension charge as an adjustment to our EBITDA.

***Non-cash lease fair value credits***

The non-cash lease fair value credit included in the income statement during the period is in respect of the unfavourable lease fair value adjustment which arose on acquisition of eircom Limited following Examinership. At the date of acquisition, we were required to recognise a liability for the difference between the amount of future rental payments that had been contractually committed to and the market rent that would have been payable if those contracts had been entered into at that date. The liability is released as a credit to the income statement over the period of the relevant leases. The IFRS accounting treatment is not aligned with the principles we apply in measuring our EBITDA. As a result, non-cash lease fair value credit is included as an adjustment to our EBITDA.

***Amortisation***

Amortisation charges decreased by 6%, or €7 million, from €108 million for the financial year ended 30 June 2017 to €101 million for the financial year ended 30 June 2018, due to lower amortisation on computer software.

***Depreciation***

Depreciation charges increased by €26 million from €269 million for the year ended 30 June 2017 to €295 million for the year ended 30 June 2018. The increase is due to higher depreciation on Next Generation Assets (fibre) of €11 million and IT assets of €3 million and higher depreciation on our share of Tetra related assets of €5 million due to lower depreciation in the prior year as a result of the increase in asset lives of certain network assets. In addition, in the prior year ended 30 June 2017, the depreciation charge was €7 million lower as a result of the revised estimates for certain asset retirement obligations.

***Exceptional Items***

For the financial year ended 30 June 2018, our exceptional charge of €87 million included €68 million for restructuring programme costs, €10 million for transaction related costs, €8 million for our management incentive plans, €1 million for certain legal matters arising in the year and €1 million for the deferred consideration arrangement following the acquisition of a subsidiary undertaking in April 2016.

The exceptional charge of €68 million for restructuring programme costs includes an IAS 19 (Revised) defined benefit pension charge for past service costs of €6 million.

For the financial year ended 30 June 2017, our exceptional charge of €92 million included €52 million for restructuring programme costs, €27 million for onerous contracts on leasehold properties, €6 million for strategic review and other project related costs, €2 million for our management incentive plan, €4 million for certain legal matters arising in the year and €1 million for the deferred consideration arrangement following the acquisition of a subsidiary undertaking in April 2016.

The €27 million exceptional charge in the prior year for onerous contracts on leasehold properties is a result of the rationalisation of our accommodation requirements. Provision has been made in respect of the estimated cash flow required to meet the future lease payments net of any sub-lease income for these leases.

***Finance costs (net)***

Net finance costs decreased by 63%, or €175 million, from €277 million for the financial year ended 30 June 2017 to €102 million for the financial year ended 30 June 2018. The decrease is mainly due to an accounting loss on extinguishment of debt of €131 million recognised within finance costs in the prior year as a result of the various prepayments and refinancing transactions that took place during the year ended 30 June 2017. The decrease in finance costs is also due to lower amortisation on the fair value debt adjustment of €15 million and interest costs on bank borrowings of €13 million as a result of the various refinancing of the Facility B borrowings and the write off in the prior year of debt issue costs and debt modification fees of €15 million.

***Taxation***

The €5 million tax credit for the year ended 30 June 2018 and the €8 million tax credit for the year ended 30 June 2017, primarily relates to a deferred tax credit from the reduction in the carrying value of assets and fair value accounting uplifts on which a deferred tax charge was provided for in prior years.

***Liquidity***

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

| | **For the financial year ended 30 June** | |
|---|---|---|
| **(€ in millions)** | **2017** | **2018** |
| **Cash flows from operating activities** | | |
| Cash generated from operations | 473 | 467 |
| Interest paid | (105) | (92) |
| Income tax refund/(paid) | 7 | (15) |
| Net cash generated from operating activities | 375 | 360 |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiary undertaking, net of cash acquired | — | — |
| Purchase of property, plant and equipment (“PPE”) | (273) | (255) |
| Purchase of intangible assets | (42) | (66) |
| Proceeds from sale of PPE | 16 | 3 |
| Restricted cash | (8) | 13 |
| Repayment of loan by related party | — | 1 |
| Net cash used in investing activities | (307) | (304) |
| **Cash flows from financing activities** | | |
| Dividends paid to equity shareholders | (1) | (1) |
| Capital contribution from equity shareholders | — | 3 |
| Proceeds from loan borrowings | 1,115 | — |
| Repayment on borrowings | (1,061) | — |
| Repayment of discount on borrowings | (317) | — |
| Proceeds from issuance of 4.5% Senior Secured Notes | 200 | — |
| Premium on issuance of 4.5% Senior Secured Notes | 3 | — |
| Debt issue costs paid | (3) | — |
| Fees paid in respect of Revolving Credit Facility | (1) | — |
| Debt modification fees paid | (12) | — |
| Debt related fees paid in respect of transaction costs | — | (2) |
| Net cash used in financing activities | (77) | 0 |
| **Net increase in cash, cash equivalents and bank overdrafts** | (9) | 56 |
| Cash, cash equivalents and bank overdrafts at beginning of financial year | 156 | 147 |
| **Cash, cash equivalents and bank overdrafts at end of financial year** | **147** | **203** |

***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, 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.

Net cash generated from operating activities decreased by €15 million from €375 million for the year ended 30 June 2017 to €360 million for the year ended 30 June 2018. The decrease is mainly due to higher tax payments of €22 million, higher restructuring payments (incentivised exits) of €6 million (from €26 million in the prior financial year to €32 million in the financial year ended 30 June 2018) offset by lower interest payments of €13 million as a result of the various prepayments and refinancing transactions that took place during the prior year.

***Cash flows from investing activities***

Total cash used in investing activities decreased by €3 million from €307 million for the year ended 30 June 2017 to €304 million for the year ended 30 June 2018. For the year ended 30 June 2018, payments for capital expenditure (cash) were €321 million, an increase of €6 million compared to cash capital expenditure of €315 million for the year ended 30 June 2017. The capital expenditure payments show the continued commitment by the group to invest in key projects in order to facilitate the transformation of the business.

We also had cash inflows in respect of restricted cash deposits of €13 million in the year (mainly relating to prior year spectrum licence deposit). In the prior year ended 30 June 2017, we paid €12 million deposit to ComReg and received €4 million in refunds in relation to our Universal Service Obligations (“USO”) and our 3G performance bond.

For the year ended 30 June 2018, the group received net proceeds (after allowance for costs) of €3 million (30 June 2017: €16 million) from the sale of certain properties.

***Cash flows from financing activities***

In the year ended 30 June 2018, we received €3 million capital contribution from our equity shareholders and paid €2 million in debt related fees in respect of the transaction offer by NJJ to acquire a major stake in the eir group.

In April 2017, we repaid €11 million of our facility B5 borrowings from our cash reserves and entered into a new €1.6 billion Senior Facilities Agreement and repaid the indebtedness outstanding under our facility B5 with the proceeds therefrom. The refinancing was effected by way of drawdown of €1,115 million in new money commitments, and an exchange of €485 million with lenders under the existing facility at par.

In August 2016, we issued €200 million additional 4.5% Senior Secured Notes at an offering price of 101.5%. The €200 million issuance, for which cash proceeds of €203 million were received before deduction of transaction costs, was structured as a tap issue to the €500 million Senior Secured Notes issued in June 2016. We used the proceeds of the tap issue to repay €201 million of the pre-existing borrowings under facility B3 of the Original Senior Facilities Agreement in the period. Also, in October 2016, we used our existing cash to repay €51 million of our facility B4 borrowings.

Debt issue costs of €3 million on the 4.5% Senior Secured Notes and debt modification fees of €12 million on the facility B borrowings were paid in the year ended 30 June 2017 in relation to the various prepayment and refinancing transactions.

*Capital resources*

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

***Contractual obligations and commitments***

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

| (€ in millions) | Within 1 Year | Between 1 & 2 Years | Between 2 & 5 Years | After 5 Years | Total [(1)] |
|---|---|---|---|---|---|
| **As of 30 June 2018** | | | | | |
| Other borrowings | — | — | 700 | 1,600 | 2,300 |
| Operating leases | 38 | 47 | 40 | 171 | 296 |
| Capital commitments | 20 | — | — | — | 20 |
| **Total** | **58** | **47** | **740** | **1,771** | **2,616** |

(1) Excludes the IAS 19 accounting deficit in respect of our defined benefit pension scheme

## Capital Expenditures and Investments

The following table shows our incurred capital expenditures including non-cash pension charges defined as additions of property, plant and equipment and intangible assets for the periods indicated.

| (€ in millions) | For the financial year ended 30 June 2017 | 2018 |
|---|---|---|
| Property, plant and equipment | 264 | 262 |
| Intangible assets | 34 | 57 |
| **Total capital expenditure** | **298** | **319** |

For the year ended 30 June 2018, our (accrued) capital expenditures amounted to €319 million, which related primarily to expenditures on our network as well as IT. Of the total capital expenditures, €262 million related to network, plant and equipment, €45 million related to IT intangible assets and €12 million related to spectrum licences.

### *Off-Balance Sheet Arrangements*

As of 30 June 2018, we had no off-balance sheet arrangements.

### *Contingent Liabilities*

We are subject to a number of lawsuits, claims and disputes with third parties, which give rise to contingent obligations. For a description of certain of these matters, see "*Business—Litigation*".

### *Quantitative and Qualitative Disclosures about Market Risk*

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

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

### *Interest Rate Risk Management*

We are exposed to market risks as a result of changes in interest rates. Financial liabilities issued at floating rates, such as those under our Senior Facilities, expose us to cash-flow interest rate risk, while fixed rate financial liabilities expose us to fair value interest rate risk. We manage our net exposure to interest rate risk through the proposition of fixed rate financial debt and variable rate financial debt in our total financial debt portfolio. To manage this mix, in April 2017, we entered into three forward starting interest rate swaps with a total notional principal amount of €650 million for a period of two years from 11 June 2018. These swaps have replaced the previous three year swaps which expired on 11 June 2018. In addition, the group currently has €700 million of fixed rate 4.5% Senior Secured Bonds outstanding, for which there is no exposure to interest rate risk. Further details are included in the notes to the consolidated financial statements of eircom Holdings (Ireland) Limited contained elsewhere in this Annual Report.

### *Foreign Exchange Rate Risk Management*

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

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

***Credit Risk Management***

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

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

We seek to minimise credit risk through preventative credit checks. We also seek to minimise credit risk by preferring contracts that provide for the use of automatic payment methods with the aim of reducing the underlying credit risk.

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

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

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

***Liquidity Risk***

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

***Critical Accounting Estimates***

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

Estimates and judgements are based on historical experience and on various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies and a description of our use of estimates and judgments are disclosed in the notes to our consolidated financial statements as of and for the financial year ended 30 June 2018 included elsewhere in this Annual Report (see Note 5 to the eircom Holdings (Ireland) Limited consolidated financial statements for the year ended 30 June 2018 contained elsewhere in this Annual Report).

## 8. RISK FACTORS

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

### Risks Related to the Our Business and Industry

***We are dependent on Ireland for substantially all of our revenue and our business would be negatively impacted if the Irish economy were to falter as a result of the exit of the UK from the EU ("Brexit") or other economic factors.***

We generate virtually all of our revenue in Ireland, where substantially all of our customers are located. Demand for our products and services is influenced by a number of factors, including the strength of the Irish economy. While the Irish economy is currently robust, our business and results of operations have, in the past, been negatively affected by recessions in the Irish economy and could be impacted by any negative effects of Brexit on the Irish economy.

***Increasing competition in the Irish telecommunications market makes our business vulnerable to market share loss and decreasing revenue and/or margins, which could have a material adverse effect on our business, financial condition and results of operations.***

Our business has been adversely affected by customers switching voice, broadband, mobile, TV and entertainment services offered by multinational competitors including Virgin Media (formerly UPC), Sky, Vodafone, 3 and other smaller operators. In addition, the Electricity Supply Board ("ESB"), the incumbent power network company in Ireland, has partnered with Vodafone ("SIRO") to offer FTTB broadband services. The high level of competition in the Irish telecommunications market has led to a decrease in our retail fixed voice and broadband market share. Increasing competition in the Irish wholesale, retail fixed line and mobile telecommunications market, or the possible threats from irrational pricing, could result in decreases in our market share and/or price erosion and increased pressure on our profit margins, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Our business, financial condition and results of operations could be materially adversely affected by continued fixed-to-mobile substitution as well as the substitution by non-traditional voice and data services providers.***

The Irish fixed line telecommunications market has been, and will continue to be, influenced by fixed-to-mobile substitution, convergence and service evolution which result in reduced demand for our services of fixed voice and messaging. This includes services like Voice over WiFi & Voice over Broadband and substitution from over the top ("OTT") applications, such as Skype and WhatsApp which are often free of charge. All MNOs are currently competing with OTT service providers who leverage existing infrastructures and are often not required to implement the capital intensive business models associated with traditional fixed line operators and MNOs like eir. In addition, players with strong brand recognition and substantial financial resources, such as Apple, Google, Facebook and Microsoft, are expected to continue to grow their OTT services and these non-traditional service providers may expand their services in Ireland to provide more traditional telecommunications offerings, for example Google Fi, Apple SIM, Google fibre and LinkNYC.

***Consolidation in the Irish telecommunications market could adversely affect our business.***

The Irish telecommunications market has been consolidating over recent years, including Vodafone's acquisition of several small fixed line operators and its acquisition of BT's consumer customer base, and 3's acquisition of Telefonica O2 Ireland. Any further consolidation in the Irish telecommunications market in the future, such as a merger between Vodafone and Virgin Media in Ireland, could have a material effect on our business, financial condition and results of operations.

***A failure to renew our rights to BT Sports in June 2019 could lead to losses in the Consumer Business.***

eir Sport is an important part of the eir bundle strategy, offering all seven available sports channels to customers (eir Sport 1, eir Sport 2, BT Sport 1, BT Sport 2, BT Sport 3, BT Sport/ESPN and Boxnation). The failure to secure a BT Sport renewal could result in higher levels of churn and a decline in customer acquisitions for our bundled services.

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

The fixed line telecommunications services that we provide are subject to extensive regulation. ComReg regulates the manner in which we provide many of our retail and wholesale services and the prices at which they are provided, and is mandated to pursue a policy of fostering increased competition in the Irish fixed line telecommunications market. In addition, the Minister for Communications, Climate Action and Environment may, in the interests of proper and effective regulation of the Irish fixed line telecommunications market, give policy directions to ComReg to be followed in the exercise of its regulatory functions. In recent years, ComReg has taken a number of measures designed to further increase competition. These initiatives include requiring eir to provide specified wholesale services and unbundled network services to OAOs in order to allow these operators to compete in the retail market and, more recently, measures seeking to facilitate and increase the use by other providers of our physical infrastructure, such as ducts and poles, to allow the deployment of new network infrastructure.

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

Our fixed line business is increasingly dependent on revenue generated from data services, particularly broadband services, and end to end business solutions within the eir Business division, to offset the impact on our operating results of the declining market for fixed line voice and access services, and to maintain the long term profitability of the business. A number of factors could limit our ability to increase our revenue from data services, including weak growth in customer demand for data services, difficulties or delays in our planned roll out of our NGA fibre network, limited customer adoption of more advanced and faster forms of broadband services, increased price competition from other data service providers, or a slow uptake of services rolled out in rural areas. Failure to successfully compete in data services could have an adverse effect on our fixed line business and results of operations.

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

The Irish Government has in the past and is currently taking a number of initiatives, including providing funding, as part of the National Development Plan to promote investment in broadband infrastructure in Ireland. The Department of Communications, Climate Action and Environment (the "Department") published the NBP in August 2012 in which targets were set out for broadband speeds to be achieved by 2020. The government's currently proposed NBP intervention area of 542,000 premises will involve an end-to-end strategy for the delivery of reliable high speed broadband that includes a major fibre build-out to rural areas. eNet is last remaining bidder in the NBP process. The outcome of this bidding process could range from a low to high level of utilisation of our infrastructure and could therefore significantly impact our costs and the viability of operating networks in low density areas. The final outcome of the NBP process may have a material adverse effect on our business, financial condition and results of operations.

***If we are unable to maintain a favourable brand image or maintain a positive customer experience, we may be unable to retain existing and/or attract new customers, leading to loss of market share and revenue.***

Our ability to attract new customers and retain existing customers depends in part on our ability to maintain a favourable brand image and to ensure a good level of customer experience. If we are not successful in maintaining a favourable brand image or if brand promotions by our competitors prove more successful at attracting and retaining customers, our business, financial condition and results of operations could be materially adversely affected.

***Our mobile business relies significantly on third parties to distribute our products and procure customers.***

Our mobile business currently relies significantly on key third party distribution partners to distribute our products and services through various non-exclusive channels. Mobile retail specialists generally also procure customers for our competitors and they may be incentivised to encourage potential customers to choose mobile services offered by our competitors rather than our own mobile services. In addition, our mobile business outsources the assembly, storage and distribution of handset and subscriber identity mobile packs. The failure to maintain these key distribution and procurement service provider relationships on acceptable terms could have a material adverse effect on our business, financial condition and results of operations.

***We depend upon the proper functioning of our network, IT, billing and customer relationship management systems and must continuously upgrade these systems.***

We must continue to maintain and upgrade our network, IT, billing and customer relationship management ("**CRM**") systems in a timely manner in order to retain and expand our subscriber base. In particular, a number of business facilities, including our data centre and legacy IT systems, have limitations. While our intention is that these facilities and systems will be expanded, upgraded or replaced in accordance with business requirements, there is a risk that our business will be unable to expand certain facilities and/or systems on time, in a commercially viable manner, or at all. Moreover, the complexity of our IT systems may affect our ability to launch new services in a timely manner.

***We will continue to seek to lower our cost base and improve profitability. The cost saving measures we introduce may be costly or difficult to implement or may otherwise disrupt our business.***

In April 2018, the group launched an Incentivised Exit Scheme, which is designed to facilitate employees to leave the organisation on a voluntary basis. While management believe that disruption to the business will be minimal and costs are in line with original estimates, failure to successfully implement any such cost reduction initiatives, or the loss of critical skills or capabilities while implementing them, or an inability to fully realise their planned cost and productivity benefits could have a material adverse effect on our business, financial condition and results of operations.

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

We have a well-developed collective bargaining relationship with our trade unions. However, any significant deterioration in labour relations could result in operational disruptions which could have an adverse effect on our business, financial condition and results of operations.

***As members of our workforce sometimes work on ageing infrastructure, work at heights and/or work alone, there is a risk of a failure to comply with health and safety policies that could lead to serious accidents, material claims, or fines.***

We have a Fixed Access Repair field force of approximately 860 employees. Health and safety policies, guidelines, alerts and safe working practices are in place to help minimise the main risks that could arise, such as fall from ladders, fall from poles, pole breaks and incidents during lone working. We also occupy premises that may contain or may have contained hazardous materials, such as asbestos, which we control and monitor. While the company aims to eliminate health and safety risks where reasonably practicable, it is not possible to eliminate all risks when staff are working on ageing infrastructure, working at heights and/or working alone. Any serious accident, material claim or fine in connection with any such incident could have a material adverse effect on our business, financial condition and results of operations.

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

Our IT systems, facilities (some of which are owned by third parties) and fixed line and mobile networks, and the services that we provide, may be subject to damage or disruptions resulting from criminal or terrorist acts or as a result of malicious hacking, piracy or cyber-attack, or from numerous other events, including infrastructure defects, fire, flood, storm or other natural disasters, power outages, unanticipated IT problems, computer viruses and equipment, system or infrastructure failures. Customers or others may also misuse our networks in ways that could damage our reputation and result in regulatory or other measures that increase our costs. Our business continuity plans and our network and IT security policies and procedures may not be sufficient to prevent or mitigate the impact of any such damage, disruption, economic loss or regulatory penalties.

***We collect and process subscriber data as part of our daily business and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and the loss of customers and adversely affect our business. The risk of significant fines associated with a data protection breach will increase due to the implementation of the new EU General Data Protection Regulation (GDPR) in May 2018.***

While we take precautions to protect subscriber data in accordance with the privacy requirements provided for under applicable laws and regulations, these precautions might not be successful and certain subscriber data may be exposed due to human error or technological failure or otherwise be used inappropriately. For example, the EU General Data Protection Regulation was implemented on 25 May 2018 and has introduced new compliance obligations in relation to the commercial use of personal data, which will include our subscriber data. This regulation also introduces the potential for significant fines of up to €20,000,000 or 4% of total worldwide annual group turnover of the preceding financial year, whichever is higher, for non-compliance. The proposal for a new e-Privacy Regulation to replace the

current EU e-Privacy Directive 2002/58/EC, which is also proposed to come into force, further includes provision for fines of up to €20,000,000 or up to 4% of total worldwide annual group turnover of the preceding financial year, whichever is higher, for non-compliance. Due to these increased fines, a breach of these regulations could, therefore, have a material adverse effect on our business and results of operations.

***The outcome of litigation may not be in accordance with our assessments.***

The status of any pending or threatened proceedings is reviewed with legal counsel on a regular basis and accounting provisions are recognised where any loss is considered probable and reasonably quantifiable as of the balance sheet date. However, the outcome of any litigation may not be consistent with our estimates and assessment of liabilities. If we incur significant costs in excess of amounts provided or if we are unsuccessful in defending claims which are treated as contingent liabilities, our business, results of operations and financial condition may be materially adversely affected.

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

We operate a defined benefit pension scheme for approximately 2,000 employees at 30 June 2018. The pension scheme also covers a significant number of past employees, including approximately 4,400 deferred members and approximately 9,800 pensioners at 30 June 2018. The eircom Superannuation Fund satisfied the requirements of Part IV of the Pensions Act 1990 (the Minimum Funding Standard and Minimum Funding Standard Reserve) at 30 September 2016 – the date of the last full triennial actuarial valuation - and at the scheme year ends of 31 March 2017 and 31 March 2018 and no additional funding was required. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Results of Operations—Employee Defined Benefit Pension Scheme*". If, however, the scheme were to go into deficit under the Minimum Funding Standard or actuarial valuation basis, the trustees might seek increased funding to restore the balance or, alternatively, either the trustees or the Group could seek to make changes to the scheme. Although we would likely take actions to limit any additional funding requirement, in such circumstances eir may be obliged to make increased contributions to the pension scheme, which might in turn result in increased costs and cash outflows and have a material adverse effect on our business, financial condition and results of operations.

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

We are subject to complex tax laws. Changes in tax laws or practice could adversely affect our tax position, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and there cannot be certainty that the relevant tax authorities are in agreement with our interpretation of these laws. If our tax positions are challenged by relevant tax authorities, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay or increase the costs of the Group's services to track and collect such taxes, which could increase our costs of operations or our effective tax rate. If a Guarantor makes any payments in respect of interest on Notes it is possible that such payments may be subject to withholding tax at applicable rates subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. It is not certain that such payments by the Guarantor will be eligible for relief or the exemptions to the same extent the Issuer would be.

***We may suffer unforeseen costs and significant impacts to services and operations as a result of serious storms or floods that impact our network infrastructure, the threat of which may be increasing as a result of climate change.***

We have previously suffered significant costs in repairing our infrastructure from the effects of storms and floods. This resulted in higher than normal rates of faults, negatively impacted our speed of repair performance, required us to make unbudgeted repair expenditures, and resulted in ComReg imposing penalties on us under the terms of a performance improvement program. Such adverse weather could have a material adverse effect on our business, financial condition and results of operations.

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

***ComReg periodically issues pricing directions (including setting our regulated weighted average cost of capital - WACC) covering our services which may have a negative impact on our fixed line revenue and operating profit.***

ComReg requires us to provide wholesale services to OAOs and regulates the prices at which we offer these services which includes providing direction on our nominal pre-tax WACC to be used in setting regulated wholesale prices. Our regulated services—which include, for example, access to our physical network infrastructure, unbundled local loop access services, wholesale NGA services, wholesale broadband access ("WBA") services, leased lines and

interconnection services—generally are subject to access, non-discrimination, transparency and price control obligations, including cost orientation obligations and/or margin squeeze tests. ComReg has imposed cost orientation obligations using a number of costing methodologies and has recently proposed to require eir to have cost-oriented prices for its FTTC-based WBA services using a BU-LRAIC methodology. Furthermore, we must obtain prior ComReg approval before we can offer certain new services, including services relating to NGA, wholesale broadband, wholesale leased lines and any retail bundle with a line rental component, and before we can change the price of existing wholesale regulated services. If ComReg withholds or delays approval for, or places significant restrictions on our ability to launch new bundled products and services, more competitive regulated services, or new broadband services and by reducing the costs of our competitors and constraining our ability to lower prices in retail markets, the price controls including any reduction in our regulated WACC could have a material adverse effect on our business, financial condition and results of operations.

***Financial and operational burdens imposed on our universal service obligations ("USO") could have a negative impact on our results of operations and cash flows.***

Since 2003, we have been the designated Universal Service Provider ("USP"), in decisions adopted by ComReg from time to time. This designation requires us to provide a basic set of fixed line services, such as meeting every reasonable request for a basic telephone voice connection throughout Ireland, which may require installation expenditure. We are also required to meet certain network quality of service targets. There is no guarantee that would be compensated accordingly for USO and our business, financial condition and results of operations could be materially adversely affected if we fail to meet the performance targets set by ComReg.

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

The basic framework for regulation of the Irish telecommunications market derives from the EU Regulatory Framework (which is currently under review by the European Commission). National regulators have discretion to impose regulatory obligations in line with national circumstances. Changes to the EU regulatory framework could have a material adverse effect on our business, financial condition and results of operations.

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

ComReg and other regulatory bodies occasionally make enquiries and conduct investigations concerning our compliance with applicable laws and regulations. See "*Regulation—The Regulatory Regime—Compliance*". On occasion, we are involved in litigation and regulatory enquiries and investigations involving our operations, which may lead to fines and other penalties that could have an adverse impact on our financial condition and results of operations. See *"Business—Litigation"*.

**Risks Related to Our Financial Profile**

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

As of 30 June 2018, we had total gross debt of €2,300 million including €1,600 million under the Senior Facilities Agreement and €700 million under the Notes. The degree to which we are leveraged could have important consequences to holders of the Notes, including but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes, the Guarantee and other debts and liabilities;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions as well as responding to changes to the competitive environment;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to day to day operations;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged;
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing; and
- limiting our options for refinancing the Notes and our other indebtedness when it falls due.

Any of these or other consequences or events could have a material adverse effect on our business, financial condition and results of operations, as well as our ability to satisfy our debt obligations, including the Notes.

***We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.***

The Indenture restricts, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to EHIL and its restricted subsidiaries;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair the security interests in the collateral.

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

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

Our ability to make principal or interest payments when due on our indebtedness, including the Senior Facilities Agreement and the Notes, and to fund our on-going operations, will depend on our future performance and our ability to generate cash, which is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "*Risk Factors*", many of which are beyond our control. If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms acceptable to us, we may be forced to reduce or delay our business activities or capital expenditures, sell assets, or raise additional debt or equity financing in amounts that could be substantial.

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

We may incur substantial additional debt in the future. Any debt that we incur at any subsidiary that does not guarantee the Notes would be structurally senior to the Notes, and other debt could be secured or could mature prior to the Notes. An increase in our indebtedness could also lead to a downgrade of the ratings assigned to eircom Holdings (Ireland) Limited or the Notes, either of which could negatively affect the trading price of the Notes. In addition, the Senior Facilities Agreement and the Indenture do not prevent us from incurring obligations that do not constitute indebtedness under those agreements.

# 9. MANAGEMENT

## Directors and Senior Management

The board of directors of eircom Holdings (Ireland) Limited currently consists of eleven directors; a list of the board members is set forth in the table below:

| Name | Position |
|---|---|
| David McRedmond .................... | Non-Executive Chairman |
| Paddy Browne ............................ | Non-Executive Director |
| Rose Hynes................................ | Non-Executive Director |
| Richard Moat.............................. | Non-Executive Director |
| Pádraig O Riordan ..................... | Non-Executive Director |
| Fiona Tierney ............................. | Non-Executive Director |
| Michael Golan ............................ | Non-Executive Director |
| Olivier Rosenfeld........................ | Non-Executive Director |
| Xavier Niel ................................. | Non-Executive Director |
| Frank Brunel............................... | Non-Executive Director |
| Pierre-Alain Allemand ............... | Non-Executive Director |

The address of the Board of Directors of EHIL is at the registered office of EHIL.

### *Senior Management Team of eir*

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

| Name | Position |
|---|---|
| Carolan Lennon ............................... | Chief Executive Officer |
| Stephen Tighe.................................. | Chief Financial Officer |
| Una Stafford .................................... | Managing Director Open eir Networks |
| Eavann Murphy ............................... | Managing Director Open eir Wholesale |
| Catherine Lonergan .......................... | Managing Director Consumer and and Small Business Sales |
| Susan Brady...................................... | Managing Director Consumer and and Small Business Marketing |
| Tim Spence...................................... | Managing Director Customer Operations |
| Peter Clarke ..................................... | Managing Director eir Business |
| Sorcha NicMhurchu.......................... | General Counsel |
| Therese Gavin.................................. | HR Director |
| Gary Healy ...................................... | Director of Regulation and Public Policy |
| Brian Chapman................................. | Chief Information Officer |
| Guillaume Duhazé........................... | Chief Technology Officer |

# 10. PRINCIPAL SHAREHOLDERS

## Beneficial ownership

EHIL is a wholly owned subsidiary of eircom Holdco S.A which is in turn a wholly owned subsidiary of Toohil Telecoms Holdings Limited (“Toohil”).

Toohil is majority owned and controlled by NJJ Animation SAS France (“NJJ”), the private investment vehicle of Xavier Niel, and Iliad SA. NJJ and Iliad have investment interests in Toohil of 32.9% and 31.6% respectively. Anchorage Capital Group LLC and Davidson Kempner Capital Management LP, hold a minority investment interest in Toohil of 26.6% and 8.9% respectively.

## 11. RELATED PARTY TRANSACTIONS

The following are descriptions of the material provisions of agreements and other documents between either the Issuer or eir and various individuals and entities that may be deemed to be related parties. For further information see Note 39 to the eircom Holdings (Ireland) Limited consolidated financial statements for the year ended 30 June 2018 contained elsewhere in this Annual Report.

***Securityholders deed***

The immediate holding company of eircom Limited (Ireland), EHIL and its indirect holding company eircom Holdco S.A. (EHSA) entered into a securityholders deed with the securityholders of EHSA on 11 June 2012 (Securityholders Deed). The Securityholders Deed (as amended on 5 June 2014, 8 December 2015 and 28 June 2016) was terminated with immediate effect on 6 April 2018. EHSA is 100% owned by Toohil Telecom Holdings Limited, a wholly-owned subsidiary of Carraun Telecom Holdings Limited (Carraun). Carraun entered into a shareholders' agreement with its shareholders (NJJ Boru SAS, Burlington Loan Management DAC and ACMO S.A R.L) on 6 April 2018 for the purpose of regulating the relationship between Carraun and its shareholders.

***Administrative services agreement***

We had entered into an administrative services agreement with eircom ESOP Trustee Limited (as trustee for the eir Employee Share Ownership Trust ("ESOT") a former indirect shareholder of eircom Limited) and the eir Approved Profit Sharing Scheme ("APSS"). Our current and former employees and certain of our current and former subsidiaries were the beneficiaries of the ESOT and the APSS. Under the agreement, eir agreed to provide certain administrative services during the winding-up the ESOT and the APSS and relating to the distribution of the remaining assets to the beneficiaries following eir ESOT Trustee Limited's liquidation.

On 11 July 2013 the ESOP Trustee Limited (as trustee for the ESOT (a former indirect shareholder of eircom Limited (Ireland)) and the APSS, entered into a member's voluntary liquidation. The residual assets not yet claimed by beneficiaries have been transferred to eircom Limited, which will continue to administer the residual assets of the ESOT and the APSS in respect of untraced holders and unclaimed funds for a period of up to twelve years from the substantial winding-up of the trusts.

## 12. DESCRIPTION OF THE SENIOR SECURED NOTES DUE 2022

The following is a summary of the material provisions of the Notes which were issued pursuant to the Indenture (as defined below). It does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, the Indenture. Capitalised terms in this summary have the meanings given to them in the Indenture.

***Overview***

On 17 June 2016, eircom Finance DAC (the "Issuer") issued €500,000,000 aggregate principal amount of its 4.50% senior secured notes due 2022 (the "Notes") pursuant to an indenture (the "Indenture") dated 17 June 2016, among the Issuer, the guarantors named therein, Deutsche Trustee Company Limited as trustee, Wilmington Trust (London) Limited as security agent, Deutsche Bank AG, London Branch as principal paying Agent and Deutsche Bank Luxembourg S.A. as registrar and Transfer agent. The Notes will mature on 31 May 2022.

The Issuer is a special purpose vehicle established for the purpose of financing and re-financing of assets and was incorporated in Ireland as a private limited company on 28 February 2013, registered number 524458 and subsequently converted under the Companies Act 2014 to a Designated Activity Company. The registered office of the Issuer is 1 Heuston South Quarter, St. John's Road, Dublin 8, Ireland. The Issuer is a wholly owned subsidiary of eircom Limited (Jersey), which in turn is a wholly owned subsidiary of eircom Holdings (Ireland) Limited ("EHIL").

The net cash proceeds from the offering of the Notes were used, together with cash on the balance sheet, to redeem in full the Issuer's €350,000,000 9.25% senior secured notes due 2020, to repay €159 million of outstanding indebtedness under the Original Senior Facilities Agreement and to pay certain transaction fees and expenses.

Furthermore, on 8 August 2016, eircom Finance DAC issued a tap of €200,000,000 of aggregate principal amount of its existing 4.50% senior secured notes due 2022 at an offering price of 101.5%. The net cash proceeds from the offering of the Notes were used to repay €201 million of outstanding indebtedness under the Original Senior Facilities Agreement, and to pay certain transaction fees and expenses.

***Certain Terms and Covenants of the Notes***

The Notes bear interest at a rate of 4.50%. Interest on the Notes is payable semi-annually on 31 May and 30 November, commencing on 30 November 2016.

The Indenture contains covenants that, among other things, limit our ability and that of our restricted subsidiaries to incur additional indebtedness, create liens, pay dividends, redeem capital stock, make certain other restricted payments or investments, enter into agreements that restrict dividends from restricted subsidiaries, sell assets, engage in transactions with affiliates, and effect a consolidation or merger. As of the date of this report, we are in compliance with the restrictive covenants contained in the Indenture.

The Notes are guaranteed on a senior secured basis by eircom Limited (Jersey), eircom Holdings (Ireland) Limited and by certain of its subsidiaries, all of which are guarantors of, or borrowers under, the Original Senior Facilities Agreement. The Notes and the guarantees are secured by security interests over the same assets that secure the Original Senior Facilities Agreement and certain hedging obligations, subject to certain excluded assets, agreed security principles and perfection requirements.

The Issuer may exercise its option to redeem all or a portion of the Notes, at any time or from time to time, upon not less than 10 or more than 60 days' notice, at the redemption prices set forth in the terms of the Notes.

Further, the Notes may be redeemed at a price equal to their principal amount plus accrued and unpaid interest upon the occurrence of certain changes in applicable tax law.

Upon the occurrence of certain change of control events or asset sales, the Issuer may be required to offer to repurchase the Notes at 101% or 100% of the principal amount thereof, respectively, plus accrued and unpaid interest to the date of the repurchase. The occurrence of certain events that might otherwise constitute a change of control will be deemed not to be a change of control if, at the time, certain financial conditions are met.

## 13. DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of the material provisions of certain financing arrangements to which EHIL and certain of its subsidiaries, including eircom Finance DAC (formerly eircom Finance Limited) (the "Issuer") are party. It does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the underlying documents, including without limitation in the form in which they may be amended or amended and restated as described below. Capitalised terms used in this "*Description of Other Indebtedness*" section but not otherwise defined in this Annual Report have the same meaning given to them in the Indenture as defined above under the caption "*Description of the Senior Secured Notes Due 2022*". All references to the term "Group", when used in this "*Description of Other Indebtedness*" section, shall be construed as referring to EHIL and each of its subsidiaries' other than Tetra.

### Senior Facilities Agreement

#### *Overview*

On 18 April 2017, eircom Holdings (Ireland) Limited ("EHIL") and certain of its subsidiaries entered into a senior facilities agreement (the "Senior Facilities Agreement") with, among others, certain financial institutions as "original lenders" under and as defined therein and Wilmington Trust (London) Limited as agent (the "Senior Facility Agent") and as security agent (the "Security Agent").

The Senior Facilities Agreement comprises the following committed facilities:

- a €1,600 million senior secured term loan facility B ("Facility B"); and
- a senior secured revolving credit facility of €150 million (the "Revolving Facility" and, together with Facility B, the "Facilities" and each a "Facility").

The following is a summary of certain of the principal terms of the Senior Facilities Agreement. For the purposes of this summary of the Senior Facilities Agreement, the term "Group" refers to EHIL and each of its "restricted subsidiaries" from time to time.

#### *Structure*

The "original borrower" for each of Facility B and the Revolving Facility, respectively, is eircom Finco S.à r.l. ("**Finco**"). Certain members of the Group may become an additional borrower under the Revolving Facility, subject to meeting certain conditions as set out in the Senior Facilities Agreement.

Facility B is denominated in euro. The Revolving Facility may be utilised in euro, sterling, U.S. dollars and certain other currencies with the consent of all the lenders participating in the relevant utilisation under the Revolving Facility. The Revolving Facility may be utilised until the date falling one month prior to the "termination date" of the Revolving Facility (such termination date being 19 October 2023).

The proceeds of Facility B plus a voluntary debt repayment of approximately €11 million, together, were used to refinance and discharge the Group's then existing senior term indebtedness in full. The Revolving Facility may be used for financing or refinancing the working capital requirements and/or general corporate purposes of the Group.

#### *Interest and Fees*

The term loan made available under Facility B bears cash pay interest at a rate per annum equal to EURIBOR (subject to a floor of zero), plus a margin of 3.25% per annum. The margin for Facility B is subject to a margin ratchet linked to certain senior secured net leverage levels.

Loans under the Revolving Facility bear cash pay interest at rates per annum equal to, for revolving utilisations denominated in currencies other than euro, LIBOR (subject to a floor of zero) or, for revolving utilisations denominated in euro, EURIBOR (subject to a floor of zero), plus a margin of 2.75% per annum, subject to a margin ratchet linked to senior secured net leverage levels. A "commitment fee" is payable on the aggregate undrawn and uncancelled amount of the Revolving Facility at a rate of 35% of the applicable margin for the Revolving Facility. A "utilisation fee" is payable where the aggregate base currency amount of all outstanding Revolving Facility loans is greater than 33 1/3% of the total Revolving Facility commitments.

Default interest on each of Facility B and the Revolving Facility will, generally, be calculated as an additional 1% on the overdue amount and EHIL is required to pay (or procure the payment of) customary agency fees to each of the Senior Facility Agent and the Security Agent in connection with the Senior Facilities Agreement.

***Repayments***

Facility B has a final maturity date of 7 years from the date of first utilisation of such facility (such first utilisation date being 19 April 2017), and must be repaid in full on 19 April 2024.

The Revolving Facility has a final maturity date of 6.5 years from the date of first utilisation of Facility B (i.e 19 October 2023) and each loan must be repaid in full at the end of the relevant interest period. Amounts repaid by the borrowers on loans made under the Revolving Facility may be reborrowed, subject to certain conditions being met.

***Prepayments and Cancellation***

The Senior Facilities Agreement allows for customary voluntary prepayments of each of Facility B and the Revolving Facility (subject to a minimum amount of €1,000,000 and integral multiples thereof),

The Senior Facilities Agreement also includes certain "mandatory prepayment events" including:

- a "change of control" put right in the event of a "change of control" which is not a "specified change of control event";
- an "excess cash flow sweep", requiring mandatory prepayments of Facility B with excess cash flow, subject to certain senior secured net leverage levels and certain exceptions and;
- among other things, including cancellation of commitments of a "defaulting lender", a "non-consenting" lender and where it becomes unlawful for that lender to perform any of its obligations as contemplated by the Senior Facilities Agreement.

***Additional Facilities***

The Senior Facilities Agreement provides for customary "accordion" facilities to be included thereunder, which accordion facilities can be raised, generally, up to a cap of approximately €496 million or, if higher, an amount equal to 100 per cent. of the applicable consolidated earnings before interest, tax, depreciation, and amortisation of the Group, subject to meeting certain conditions.

The Revolving Facility may, upon cancellation of the Revolving Facility commitments in full, be replaced with a "super senior" revolving facility in an aggregate principal amount of up to €150 million (the "**Super Senior RCF**").

***Guarantees***

As at the date of this Annual Report, the members of the Group which are guarantors of each of the Facilities comprise EHIL, Finco, eircom Limited (Ireland), eircom Limited (Jersey), eircom Finance DAC, Meteor Mobile Communications Limited ("MMCL"), Irish Telecommunications Investments DAC ("ITI"), Meteor Ireland Holdings, LLC, Meteor Mobile Holdings Limited ("MMHL") and eircom (UK) Limited (together, the "Obligors" and each an "Obligor").

Each of the Obligors currently provides a guarantee of all amounts payable to the finance parties under the Senior Facilities Finance Documents.

The Senior Facilities Agreement provides that, subject to certain "agreed security principles" as set out therein and certain "excluded subsidiaries" (including "unrestricted subsidiaries"), generally, each subsidiary of EHIL incorporated in a "Covered Jurisdiction" (as defined below) and that is or becomes a subsidiary representing 5% or more of consolidated earnings before interest, tax, depreciation and amortisation of the Group, as determined by reference to the most recent compliance certificate supplied by EHIL to the Senior Facility Agent in respect of the latest annual financial statements of the Group (commencing with the financial year ending 30 June 2018) (each such entity, a "Material Subsidiary")), is required to become a guarantor under the Senior Facilities Agreement (the "Material Subsidiary Test").

Furthermore, EHIL must ensure that, on the date on which the annual financial statements are required to be delivered to the Senior Facility Agent in each financial year (commencing with the annual financial statements to be delivered for the financial year ending 30 June 2018), by reference to such annual financial statements, generally, the aggregate (without double counting) earnings before interest, tax, depreciation and amortisation of the guarantors of the Facilities equals or exceeds 80 per cent of consolidated earnings before interest, tax, depreciation and amortisation of the members of the Group incorporated in the Covered Jurisdictions (the "Guarantor Coverage Test"). The "Covered Jurisdictions" for the purposes of the Material Subsidiary Test and the Guarantor Coverage Test are England and Wales, Ireland, Northern Ireland, Luxembourg, Jersey and the United States.

***Security***

Each of eircom Holdco S.A. ("Holdco"), EHIL, Finco, Meteor Ireland Holdings LLC, eircom Limited (Ireland), eircom Limited (Jersey), MMCL, MMHL, ITI, eircom (UK) Limited and eircom Finance DAC has granted, in favour of the Security Agent, liens and security interests on a first-ranking basis, subject to the operation of certain "agreed security principles" as set out in the Senior Facilities Agreement, certain perfection requirements, certain excluded assets and certain permitted security interests under the Senior Facilities Agreement, over certain of its assets for the benefit of the lenders under the Senior Facilities Agreement as described below:

- in the case of the eircom Finance DAC and Meteor Ireland Holdings, LLC, over all or substantially all of their assets;
- in the case of EHIL, over substantially all of its assets other than its shareholding in Finco;
- in the case of Holdco, over the shares in EHIL and related rights;
- in the case of Finco, over certain of its bank accounts and its rights in certain intercompany loan agreements with other Group companies;
- in the case of MMHL, over substantially all of its assets other than: (i) certain bank accounts and (ii) licenses granted to MMHL by the Commission for Communications Regulation;
- in the case of eircom (UK) Limited, over substantially all of its assets other than: (i) certain leasehold properties located in Northern Ireland and England; (ii) a general authorisation to provide telecommunications services in the United Kingdom and related rights of use for numbers; and (iii) eircom (UK) Limited's interests in certain agreements with third parties relating to procurement of telecommunications and network services;
- in the case of eircom Limited (Ireland), over substantially all of its assets other than: (i) certain licences granted to eircom Limited (Ireland) by the Commission for Communications Regulation; and (ii) certain bank accounts;
- in the case of eircom Limited (Jersey), over substantially all of its assets other than (i) certain bank accounts (ii) shares held by eircom Limited (Jersey) in certain of its subsidiaries including Tetra Ireland Communication Limited and EURSCOM GmbH; (iii) certain licences granted to eircom Limited (Jersey) by the Commission for Communications Regulation; (iv) the property of eircom Limited (Jersey) comprising the Network Management Centre, Citywest Complex, Naas Road, Co. Dublin;
- in the case of MMCL, over substantially all of its assets other than: (i) certain trademark applications made in respect of the "MOSAIC" name; (ii) certain licences granted to MMCL by the Commission for Communications Regulation; and (iii) certain bank accounts; and
- in the case of ITI, over substantially all of its assets other than: (i) certain licences granted to ITI by the Commission for Communications Regulation; and (ii) certain bank accounts.

The Senior Facilities Agreement also requires each Material Subsidiary or any other member of the Group which becomes a guarantor of the Facilities, subject to certain "agreed security principles" as set out in the Senior Facilities Agreement, to grant security over its shares material assets as the Senior Facility Agent and/or the Security Agent may require and security to be granted over its share.

***Representations and Warranties***

The Senior Facilities Agreement contains customary representations and warranties (subject to certain exceptions and qualifications), with certain representations and warranties to be repeated on certain dates, including:

- status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, governing law and enforcement, consents, filings and laws applicable to operations, pari passu ranking;
- no insolvency, no filing or stamp taxes, no proceedings pending or threatened, no labour disputes, environmental laws, taxation;
- no default, no misleading information in the information memorandum prepared in connection with the Senior Facilities Agreement, original financial statements of the Group, give a true and fair view of the financial position of the Group, accuracy of the Group structure chart;
- intellectual property; and
- centre of main interests and establishments.

***Covenants***

The Senior Facilities Agreement requires compliance with certain affirmative undertakings, including:

- authorisations and consents;
- compliance with laws and compliance with environmental permits and laws;
- payment of taxes;
- insurance;

- pension schemes;
- intellectual property;
- compliance with the Guarantor Coverage Test;
- further assurance in respect of the security for the Senior Facilities Agreement; and
- obtaining and maintaining a credit rating.

The Senior Facilities Agreement also contains certain negative undertakings as to actions that may be taken by members of the Group, including as to debt incurrence, making "restricted payments", sales of assets and subsidiary stock, incurrence of liens and "permitted collateral liens" on the security for the Senior Facilities Agreement, impairment of the security interests for the Senior Facilities Agreement, lines of business, merger and consolidation of members of the Group and entry into transactions with affiliates.

***Financial Covenant — Revolving Facility***

The Revolving Facility has the benefit of a customary "springing" senior secured net leverage ratio financial covenant (set at 7.5x on a flatline basis), which will, after a "holiday period" of two accounting quarters following the date of first utilisation of Facility B, be tested quarterly on a rolling basis if the aggregate outstanding amount of cash drawings under the Revolving Facility exceeds 40% of the total Revolving Facility commitments as at the relevant test date (or, if higher, as at 18 April 2017). Subject to certain conditions, EHIL may cure breaches of the Revolving Facility financial covenant by applying an equity contribution as a "cure amount".

***Covenant Suspension***

During the period that a "release condition" is satisfied (generally, where (i) a listing has occurred and the consolidated net leverage ratio for the Group (adjusted as if the proceeds of such listing have been or will be applied in prepayment of the Facilities) is equal to or less than 3.75x or (ii) the long term corporate credit rating of EHIL is equal to or better than Baa3/BBB-), among other things, certain mandatory prepayment requirements, certain affirmative and negative undertakings and the requirement to comply with the Revolving Facility financial covenant shall be suspended.

***Events of Default***

Customary "events of default" have been included in the Senior Facilities Agreement, the occurrence of which would allow, unless otherwise indicated below, the "majority lenders" (generally, those lenders representing more than 50% of the total commitments outstanding under the Facilities) to direct the Senior Facility Agent to accelerate all or part of the outstanding loans and/or terminate all commitments under the Senior Facilities Agreement (subject in certain cases to agreed grace periods, financial thresholds, cure rights, clean-up periods and other qualifications), including:

- non-payment of amounts due under the Senior Facilities Finance Documents;
- breach of the Revolving Facility financial covenant, provided that, in the event of such breach, only the lenders under the Revolving Facility representing more than 50% of the total commitments outstanding under the Revolving Facility shall initially be entitled to take "enforcement action";
- non-compliance with other obligations under the Senior Facilities Finance Documents;
- inaccuracy of representation, warranty or written statement when made;
- invalidity and unlawfulness of the Senior Facilities Finance Documents;
- non-compliance, in any material respect, with the Intercreditor Agreement by any member of the Group, any "Subordinated Creditor" (as defined below) party to the Intercreditor Agreement or certain investors in the Group and their respective affiliates (each a "Sponsor Affiliate");
- cross-default for failure to pay principal or interest in respect of indebtedness of the Group, the principal amount of which equals or exceeds €125 million; and
- insolvency, insolvency proceedings or creditors' processes (and similar events in other jurisdictions).

***Governing Law***

The Senior Facilities Agreement is governed by English law.

## Intercreditor Agreement

### *General*

To establish the relative rights of certain creditors of the Group under certain of the Groups financing arrangements, each of EHIL, Finco, eircom Limited (Ireland), eircom Limited (Jersey), eircom Finance DAC, MMCL, ITI, MMHL, Meteor Ireland Holdings, LLC and eircom (UK) Limited (together, the "Debtors" and each a "Debtor") are party to an intercreditor agreement dated 18 April 2017 (the "Intercreditor Agreement"). The Intercreditor Agreement sets out, among other things, the relative ranking of certain indebtedness of the Debtors, the relative ranking of certain security granted by the Debtors, when payments can be made in respect of debt of the Debtors, when enforcement action can be taken in respect of that indebtedness, the terms pursuant to which certain of that indebtedness will be subordinated upon the occurrence of certain insolvency events and turnover provisions.

Capitalised terms set forth and used in this "*Intercreditor Agreement*" section and not otherwise defined have the same meanings as set forth in the Intercreditor Agreement, which may have different meanings from the meanings given to such terms and used elsewhere in this Annual Report.

The following is a summary of certain of the principal terms of the Intercreditor Agreement. For the purposes of this summary of the Intercreditor Agreement, the term "Group" refers to EHIL and its "restricted subsidiaries".

### *Definitions*

The following defined terms, among others, are used in this summary of the Intercreditor Agreement:

"Acceleration Event" means the exercise of acceleration rights under the Senior Facilities Agreement or any Permitted Senior Secured Facilities Agreement (a "Senior Acceleration Event"), the exercise of acceleration rights under any Second Lien Facility Agreement (a "Second Lien Lender Acceleration Event"), or the exercise of acceleration rights or any acceleration rights being automatically invoked under any Senior Secured Notes Indenture (a "Senior Secured Notes Acceleration Event") or any Second Lien Notes Indenture (a "Second Lien Notes Acceleration Event").

"Agent" means any Senior Agent, any Senior Secured Notes Trustee, any Second Lien Agent and/or any Second Lien Notes Trustee, as the context requires.

"Agent Liabilities" means all present and future liabilities and obligations, whether actual or contingent and whether incurred solely or jointly, of any Debtor to any Agent under the Debt Documents, including (without double-counting), any Notes Trustee Amounts.

"Borrowing Liabilities" means, in relation to a member of the Group, the liabilities (not being Guarantee Liabilities) it may have as a principal debtor to a Creditor or Debtor in respect of indebtedness arising under the Debt Documents (whether incurred solely or jointly).

"Creditors" means the Senior Lenders, the Senior Secured Noteholders, the Hedge Counterparties, the Agents, the Arrangers, the Second Lien Lenders, the Second Lien Noteholders, the Intra-Group Lenders and the Subordinated Creditors.

"Debt Document" means each of the Intercreditor Agreement, the Hedging Agreements, the Senior Secured Finance Documents, the Second Lien Finance Documents, the Security Documents, any agreement evidencing the terms of Subordinated Liabilities or Intra-Group Liabilities and any other document designated as such by the Security Agent and EHIL.

"Debtor Liabilities" means, in relation to a member of the Group, any Liabilities owed to any Debtor (whether actual or contingent and whether incurred solely or jointly) by that member of the Group.

"Guarantee Liabilities" means, in relation to a member of the Group, the liabilities under the Debt Documents (present or future, actual or contingent and whether incurred solely or jointly) it may have to a Creditor or Debtor as or as a result of it being a guarantor or surety including, without limitation, liabilities arising by way of guarantee, indemnity, contribution or subrogation and in particular any guarantee or indemnity arising under or in respect of the Secured Debt Documents.

"Hedge Counterparty" means any person who becomes party to the Intercreditor Agreement as a Hedge Counterparty pursuant the Intercreditor Agreement.

"Hedge Counterparty Obligations" means the obligations owed by any Hedge Counterparty to the Debtors under or in connection with the Hedging Agreements.

"Hedging Agreement" means, at the election of EHIL, any agreement entered into or to be entered into by a Debtor (or any member of the Group that is to become a Debtor) and a Hedge Counterparty in relation to a derivative or hedging arrangement entered into (or which has or will be allocated):

(a) to satisfy any minimum hedging requirements under any of the Finance Documents; and/or
for any purpose not prohibited by the terms of the Finance Documents at the time the relevant agreement is entered into.

"Hedging Liabilities" means the Liabilities owed by any Debtor to the Hedge Counterparties under or in connection with the Hedging Agreements, provided that the Hedging Liabilities of any Debtor shall not include any Excluded Swap Obligations of such Debtor.

"Insolvency Event", generally, means, in relation to an Obligor (as defined above) or Material Subsidiary (as defined above), any insolvency (or analogous) procedure or step taken in any jurisdiction.

"Instructing Group" means at any time:

(a) prior to the Senior Discharge Date, the Majority Senior Creditors and the Majority Senior Secured Notes Creditors (in each case, acting through their respective Agent), provided that in relation to any instructions given with respect to:
   (i) the enforcement of the Transaction Security;
   (ii) the requesting of a Distressed Disposal and/or the release of claims and/or Transaction Security on a Distressed Disposal under the Intercreditor Agreement;
   (iii) the giving of instructions as to actions in respect of any Transaction Security in connection with the enforcement of that Transaction Security under the Intercreditor Agreement; and
   (iv) the taking of any other actions consequential on (or necessary to effect) the enforcement of the Transaction Security,

or if, at that time, the Security Agent is obliged to give effect to instructions from the Instructing Group as to the manner of enforcement of the Transaction Security, if the aggregate of the Senior Secured Notes Liabilities (ignoring for this purpose Liabilities owing to the Security Agent pursuant to the definition of "Senior Secured Notes Liabilities") and the Senior Secured Notes Trustee Amounts represent less than 30 per cent. of the aggregate of the Senior Secured Notes Liabilities (ignoring for this purpose Liabilities owing to the Security Agent pursuant to the definition of "Senior Secured Notes Liabilities"), the Senior Secured Notes Trustee Amounts and the Senior Liabilities, the Agent acting on behalf of the Senior Secured Notes Creditors shall not canvass the Senior Secured Notes Creditors for their vote on such actions and the Senior Secured Notes Creditors shall be deemed to have voted their share in the same manner and in the same proportion as the Senior Creditors;

(b) on or after the Senior Discharge Date but prior to the Senior Secured Notes Discharge Date, the Majority Senior Secured Notes Creditors; and
(c) on or after the Senior Secured Notes Discharge Date, and subject always to the provisions relating to restrictions on enforcement by Second Lien Creditors under the Intercreditor Agreement, the Majority Second Lien Creditors,

provided that, in each case, the Senior Secured Credit Participations and the Second Lien Credit Participations of certain investors in the Group and their respective Affiliates (as applicable) shall, for the purposes of this definition, be deemed to be zero.

"Intra-Group Lenders" means each member of the Group which has made a loan available to, granted credit to or made any other financial arrangement having similar effect with another member of the Group and which is required to become, or otherwise becomes a party to the Intercreditor Agreement as an Intra-Group Lender in accordance with the terms of the Intercreditor Agreement.

"Intra-Group Liabilities" means the Liabilities owed by any member of the Group to any of the Intra-Group Lenders (but excluding, for the avoidance of doubt, any Subordinated Liabilities).

"Liabilities" means all present and future liabilities and obligations at any time of any member of the Group to any Creditor under the Debt Documents (including by way of grant of Security under such documents), both actual and contingent and whether incurred solely or jointly or in any other capacity together with any related Additional or Other Liabilities.

"Majority Second Lien Creditors" means those Second Lien Creditors whose Second Lien Credit Participations at that time aggregate more than 50 per cent. of the total Second Lien Credit Participations at that time.

"Majority Senior Creditors" means, at any time, those Senior Creditors whose Senior Credit Participations at that time aggregate more than 66⅔ per cent of the total Senior Credit Participations at that time.

"Majority Senior Secured Notes Creditors" means those Senior Secured Notes Creditors whose Senior Secured Notes Credit Participations at that time aggregate more than 50%. of the total Senior Secured Notes Credit Participations at that time.

"Notes Trustee Amounts" means the Senior Secured Notes Trustee Amounts and/or the Second Lien Notes Trustee Amounts, as the context requires.

"Original Subordinated Creditor" means eircom Holdco S.A..

"Other Liabilities" means, in relation to a member of the Group, any trading and other liabilities (not being Borrowing Liabilities or Guarantee Liabilities) it may have to any Agent or any Arranger under the Debt Documents or to an Intra-Group Lender or Debtor.

"Permitted Senior Secured Facilities Agreement" means, generally, each facility agreement or other document or instrument evidencing the terms of loan, credit or debt facility which is not prohibited under the terms of the Debt Documents, to rank *pari passu* with the Senior Secured Creditor Liabilities, but excluding the Senior Facilities Agreement, and is designated as such by EHIL (in its discretion) by written notice to the Security Agent.

"Secured Debt Documents" means the Senior Secured Finance Documents and/or the Second Lien Finance Documents as the context requires.

"Secured Parties" means the Security Agent, each of the Agents, any Receiver or Delegate, the Arrangers and the Secured Creditors from time to time but, in the case of each Agent, Arranger or any Secured Creditor, only if it is a party to the Intercreditor Agreement or has acceded to the Intercreditor Agreement, in the appropriate capacity, pursuant to the terms of the Intercreditor Agreement.

"Security" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"Security Documents" means:

(a) each of the Transaction Security Documents;

(a) any other document entered into at any time by any of the Debtors creating or expressed to create any Security over all or any part of its assets in respect of any of the obligations of any member of the Group to any of the Secured Parties (in such capacity) under any of the Secured Debt Documents; and

(b) any Security granted under any covenant for further assurance in any of the documents set out in paragraphs (a) and (b) above.

"Senior Agent":

(a) means the Senior Facility Agent; and/or

(b) has the meaning given to any substantially equivalent term to that referred to in paragraph (a) above in any Permitted Senior Secured Facilities Agreement,

as the context requires, which is an original party to the Intercreditor Agreement or has acceded to the Intercreditor Agreement as a Senior Agent pursuant to the terms of the Intercreditor Agreement.

"Senior Creditors" means the Senior Lenders and the Hedge Counterparties.

"Senior Discharge Date" means, generally, the first date on which all Senior Liabilities have been fully and finally discharged to the satisfaction of each Senior Agent (in the case of the Senior Lender Liabilities) and each Hedge Counterparty (in the case of its Hedging Liabilities), whether or not as the result of an enforcement, and the Senior Creditors (in that capacity) are under no further obligation to provide financial accommodation to any of the Debtors under the Debt Documents.

"Senior Lender Discharge Date" means the first date on which all Senior Lender Liabilities have been fully and finally discharged to the satisfaction of each Senior Agent, whether or not as the result of an enforcement, and the Senior Lenders (in that capacity) are under no further obligation to provide financial accommodation to any of the Debtors under any of the Debt Documents.

"Senior Lender Liabilities" means the Liabilities owed by the Debtors to the Senior Lenders under or in connection with the Senior Finance Documents.

"Senior Lenders" means, generally, each Lender and any substantially equivalent term to that in each Permitted Senior Secured Facilities Agreement, as the context requires.

"Senior Liabilities" means the Senior Lender Liabilities and the Hedging Liabilities.

"Senior Secured Creditor Liabilities" means the Senior Lender Liabilities and the Senior Secured Notes Liabilities.

"Senior Secured Creditor Liabilities Finance Documents" means the Senior Finance Documents (including, for the avoidance of doubt, any Permitted Senior Secured Facilities Agreement) and the Senior Secured Notes Finance Documents.

"Senior Secured Creditors" means the Senior Creditors and the Senior Secured Notes Creditors.

"Senior Secured Discharge Date" means the first date on which the Senior Discharge Date and the Senior Secured Notes Discharge Date has occurred.

"Senior Secured Finance Documents" means the Senior Finance Documents (including, for the avoidance of doubt, any Permitted Senior Secured Facilities Agreement), the Hedging Agreements and the Senior Secured Notes Finance Documents.

"Senior Secured Liabilities" means the Senior Liabilities and the Senior Secured Notes Liabilities.

"Senior Secured Noteholders" means the registered holders, from time to time, of the Senior Secured Notes, as determined in accordance with the relevant Senior Secured Notes Indenture.

"Senior Secured Notes" means any notes, securities or other debt instruments issued or to be issued by a member of the Group which are designated as such by EHIL (in its discretion) by written notice to the Security Agent.

"Senior Secured Notes Creditors" means the Senior Secured Noteholders and each Senior Secured Notes Trustee.

"Senior Secured Notes Discharge Date" means the first date on which all Senior Secured Notes Liabilities have been fully and finally discharged to the satisfaction of each applicable Senior Secured Notes Trustee.

"Senior Secured Notes Liabilities" means all Liabilities owed by the Debtors to any Senior Secured Notes Finance Party under or in connection with the Senior Secured Notes Finance Documents, provided that the definition of "Senior Secured Notes Liabilities" shall not include the Senior Secured Notes Trustee Amounts.

"Senior Secured Notes Trustee" means any person acting as trustee or agent under any issue of Senior Secured Notes and which accedes to the Intercreditor Agreement, as such, pursuant to the terms of the Intercreditor Agreement.

"Subordinated Creditors" means the Original Subordinated Creditor and any other person that accedes to the Intercreditor Agreement as a Subordinated Creditor.

"Subordinated Documents" means any agreement providing for a loan by a Subordinated Creditor to a member of the Group or other agreement or instrument evidencing a loan incurred by any member of the Group to a Subordinated Creditor, but excluding any amount due to an Affiliate of a Subordinated Creditor which is not a member of the Group in the ordinary course of trade.

"Subordinated Liabilities" means all money and liabilities now or in the future due or owing to any Subordinated Creditor under any Subordinated Document in any currency, whether actual or contingent, whether incurred solely or jointly with any other person and whether as principal or surety, together with all accruing interests and all related costs, charges and expenses but excluding any amount due to an Affiliate of a Subordinated Creditor which is not a member of the Group in the ordinary course of trade.

"Transaction Security" means any security granted in favor of the Security Agent under any document entered into by an Obligor creating (or expressed to create) any security over all or part of its assets in respect of the obligations of the Obligors under the finance documents entered into in connection with the Senior Facilities Agreement.

"Transaction Security Documents" means any document entered into by any Debtor or the Original Subordinated Creditor (as the case may be) creating or expressed to create Transaction Security.

***Ranking and Priority***

*Priority of Debts*

The Intercreditor Agreement provides that the Liabilities owed by the Debtors to the Secured Creditors shall rank in right and priority of payment in the following order and are postponed and subordinated to any prior ranking Liabilities as follows:

- *first,* the Hedging Liabilities;
- *second,* the Senior Lender Liabilities, the Senior Secured Notes Liabilities and the Agent Liabilities pari passu and without any preference between them; and
- *third,* the Second Lien Lender Liabilities and the Second Lien Notes Liabilities, pari passu and without any preference between them.

*Priority of Security*

The Transaction Security shall rank and secure the relevant Liabilities (but only to the extent that such Transaction Security is expressed to secure the relevant Liabilities) in the following order:

- *first,* the Hedging Liabilities;

- *second,* the Liabilities owed to the Security Agent and the Agent Liabilities, the Senior Lender Liabilities and the Senior Secured Notes Liabilities, pari passu and without any preference between them; and
- *third,* the Second Lien Lender Liabilities and the Second Lien Notes Liabilities pari passu and without any preference between them.

*Intra-Group and Subordinated Liabilities*

The Intercreditor Agreement provides that the Intra-Group Liabilities and the Subordinated Liabilities are postponed and subordinated to the Liabilities owed by the Debtors to the Secured Creditors.

***Restrictions Relating to Senior Secured Creditor Liabilities***

The Debtors may make payments in respect of the Senior Secured Creditor Liabilities at any time in accordance with the Senior Secured Creditor Liabilities Finance Documents.

*Amendments and Waivers: Senior Secured Creditor Liabilities Finance Documents*

Generally, the relevant Senior Secured Creditors and the Debtors may amend or waive the terms of the Senior Secured Creditor Liabilities Finance Documents in accordance with their terms (and subject to any consent required under them) at any time.

*Security and Guarantees: Senior Secured Creditors*

Any of the Senior Creditors and the Senior Secured Notes Creditors (and/or the Security Agent, an Agent and/or any other person acting on behalf of any of them) may take, accept or receive the benefit of:

any Security from any member of the Group (the "Security Provider") in respect of the Senior Secured Liabilities (in addition to the Transaction Security), provided that, to the extent legally possible and subject to any Agreed Security Principles:

- the Security Provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity);
- all amounts actually received or recovered by any Senior Creditor or Senior Secured Notes Creditor with respect to any such Security shall immediately be paid to the Security Agent and applied as generally described under the caption "—Application of Proceeds" below; and
- such Security may only be enforced in accordance with the provisions of the Intercreditor Agreement.

any guarantee, indemnity or other assurance against loss from any member of the Group (the "Guarantee Provider") in respect of the Senior Secured Liabilities in addition to those in:

- the original form of Senior Facilities Agreement, in any Permitted Senior Secured Facilities Agreement or in any Senior Secured Notes Indenture;
- the Intercreditor Agreement; or
- any guarantee, indemnity or other assurance against loss in respect of any of the Liabilities, the benefit of which (however conferred) is, to the extent legally possible and subject to any Agreed Security Principles, given to all the Secured Parties in respect of their Liabilities (a "Common Assurance"),

*provided that*, generally, to the extent legally possible and subject to any Agreed Security Principles:

- the Guarantee Provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity); and
- such guarantee indemnity or assurance against loss is expressed to be subject to the terms of the Intercreditor Agreement.

***Restrictions Relating to Hedging Liabilities***

Prior to the later of (a) the Senior Lender Discharge Date and (b) the Senior Secured Notes Discharge Date, the Debtors shall not, and EHIL shall procure that no other member of the Group will, make any Payment of any Hedging Liabilities at any time unless the Payment is a "Permitted Hedging Payment" (as defined below) or receipt of the Payment is permitted after an Insolvency Event in the circumstances set out under the caption "*—Permitted Hedge Counterparty Enforcement after Insolvency Event*" below.

The term "Permitted Hedging Payment", generally, refers to any Payment by a Debtor to any Hedge Counterparty in respect of the Hedging Liabilities which is then due to that Hedge Counterparty under any Hedging Agreement in accordance with the terms of that Hedging Agreement:

(i) if the Payment is a scheduled Payment arising under the relevant Hedging Agreement;

(ii) to the extent that the relevant Debtor's obligation to make the Payment arises as a result of the operation of:

(A) any of sections 2(d) (*Deduction or Withholding for Tax*), 2(e) (*Default Interest; Other Amounts*), 8(a) (*Payment in the Contractual Currency*), 8(b) (*Judgments*) and 10 (*Expenses*) of the 1992 ISDA Master Agreement (if the Hedging Agreement is based on a 1992 ISDA Master Agreement);

(B) any of sections 2(d) (*Deduction or Withholding for Tax*), 8(a) (*Payment in the Contractual Currency*), 8(b) (*Judgments*), 9(h)(i) (*Prior to Early Termination*) and 10 (*Expenses*) of the 2002 ISDA Master Agreement (if the Hedging Agreement is based on a 2002 ISDA Master Agreement); or

(C) any provision of a Hedging Agreement which is similar in meaning and effect to any provision listed in paragraphs (A) or (B) above (if the Hedging Agreement is not based on an ISDA Master Agreement);

(iii) to the extent that the relevant Debtor's obligation to make the Payment arises from a Non Credit Related Close Out;

(iv) to the extent that:

(A) the relevant Debtor's obligation to make the Payment arises from a Credit Related Close Out in relation to that Hedging Agreement; and

(B) no Senior Event of Default or Senior Secured Notes Event of Default is continuing at the time of that Payment;

(v) if the Payment is a Payment pursuant to the provisions of the Intercreditor Agreement as generally described below under the caption "—*Application of Proceeds*";

(vi) if the Payment arises directly or indirectly as a result of any close-out, termination or other similar or equivalent action by a member of the Group and:

(A) such close-out, termination or other similar or equivalent action is not prohibited by any Secured Debt Document; and

(B) no Senior Event of Default or Senior Secured Notes Event of Default is continuing at the time of that Payment; or

(vii) generally, if the Instructing Group gives prior consent to the Payment being made,

*provided* that a Payment contemplated to be made to a Hedge Counterparty will not be a Permitted Hedging Payment if any scheduled Payment due from that Hedge Counterparty to a Debtor under a Hedging Agreement to which they are both party is due and unpaid.

Failure by a Debtor to make a Payment to a Hedge Counterparty which results solely from the restriction on the Debtor making that Payment where there is a scheduled payment due from a Hedge Counterparty, as described in the proviso in the paragraph above, shall not result in a default (howsoever described) in respect of that Debtor under that Hedging Agreement or any other Senior Secured Finance Document or Second Lien Finance Document (as applicable).

*Amendments and waivers: Hedging Agreements*

The Hedge Counterparties are not permitted to amend or waive any term of the Hedging Agreements unless the amendment or waiver is in accordance with the terms of that Hedging Agreement and does not breach any term of the Intercreditor Agreement.

*Security and Guarantees: Hedge Counterparties*

The Hedge Counterparties may not take, accept or receive the benefit of any Security, guarantee, indemnity or other assurance against loss from any member of the Group in respect of the Hedging Liabilities other than:

- the Transaction Security;
- any guarantee, indemnity or other assurance against loss contained in, generally:
- the Intercreditor Agreement or any substantially equivalent provision in a Permitted Senior Secured Facility Agreement;
- any Common Assurance; or

- the relevant Hedging Agreement as long as it is no greater in extent than any of those referred to in the foregoing two points above;

to the extent such Security, guarantee, indemnity or other assurance against loss has (or could have) been granted in compliance with or as otherwise contemplated as generally set out under the caption "—*Restrictions Relating to Senior Secured Creditor Liabilities —Security and Guarantees: Senior Secured Creditors*" above; and
the indemnities contained in the ISDA Master Agreements (in the case of a Hedging Agreement which is based on an ISDA Master Agreement) or any indemnities which, in terms of the rights to which they give rise, are similar in meaning and effect to those indemnities (in the case of a Hedging Agreement which is not based on an ISDA Master Agreement).
*Restriction on Enforcement—Hedge Counterparties*

Other than as generally described below under the captions "—*Permitted Hedge Counterparty Enforcement*" and "—*Required Hedge Counterparty Enforcement*", Hedge Counterparties are not permitted to take any Enforcement Action in respect of the Hedging Liabilities or any hedging transactions under the Hedging Agreements at any time.

*Permitted Hedge Counterparty Enforcement*

In certain circumstances as set out in the Intercreditor Agreement a Hedge Counterparty is entitled to terminate or close out a hedging transaction prior to its stated maturity.

In addition, if a Debtor has defaulted on a Payment due under a Hedging Agreement and the default has continued unwaived for more than 5 Business Days after notice of the default has been given to the Security Agent, the relevant Hedge Counterparty may, to the extent it is able to do so under the relevant Hedging Agreement, terminate or close out in whole or in part any hedging transaction under that Hedging Agreement, and, until such time as the Security Agent has given notice to that Hedge Counterparty that the Transaction Security is being enforced (or that any formal steps are being taken to enforce the Transaction Security), shall be entitled to exercise any right it might otherwise have to sue for, commence or join legal or arbitration proceedings against any Debtor to recover any Hedging Liabilities due under that Hedging Agreement.

To the extent permitted under applicable law, after the occurrence of an Insolvency Event in relation to any Obligor or Material Subsidiary, each Hedge Counterparty shall be entitled to exercise any right it may otherwise have in respect of that member of the Group to:

- prematurely close out or terminate any Hedging Liabilities of that member of the Group;
- make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Hedging Liabilities;
- exercise any right of set off or take or receive any Payment in respect of any Hedging Liabilities of that member of the Group; or
- claim and prove in the liquidation of that member of the Group for the Hedging Liabilities owing to it.

*Required Hedge Counterparty Enforcement*

Generally, and subject to certain exceptions as set out in the Intercreditor Agreement, a Hedge Counterparty shall promptly terminate or close-out in full any hedging transaction under all or any of the Hedging Agreements to which it is party prior to their stated maturity, following:

i. the occurrence of a Senior Acceleration Event or a Senior Secured Notes Acceleration Event and delivery to it of a notice from the Security Agent that a Senior Acceleration Event or Senior Secured Notes Acceleration Event (as applicable) has occurred; and

ii. delivery to it of a subsequent notice from the Security Agent (acting on the instructions of an Instructing Group) instructing it to do so.

If a Hedge Counterparty is entitled to terminate or close out any hedging transaction due to a payment default as described in the second paragraph under the caption "—*Permitted Hedge Counterparty Enforcement*" above, but the Hedge Counterparty has not terminated or closed out the hedging transaction, that Hedge Counterparty is required to promptly terminate or close out in full the relevant hedging transaction upon the request of the Security Agent (acting on the instructions of the Instructing Group).

***Security Agent and Notes Trustee Protections***

The Intercreditor Agreement contains customary protections for each of the Security Agent, each Senior Secured Notes Trustee and each Second Lien Notes Trustee in relation to their respective duties and obligations, some of which limit the liabilities and duties of the Security Agent and each such Senior Secured Notes Trustee and Second Lien Notes Trustee (as the case may be).

***Governing Law***

The Intercreditor Agreement is governed by English law.

## 14. GLOSSARY

| Term | Definition |
| --- | --- |
| “ADSL” or “asymmetrical digital subscriber line” | an access technology that allows voice and high-speed data to be sent simultaneously over local exchange service copper facilities. |
| “ARO” or “Access Reference Offer” | details the wholesale offering of new access service to all access seekers (other operators). |
| “ARPU” | average revenue per user is a telecom industry metric generally calculated by dividing total revenue for a product group by the average number of subscribers during a period. |
| “B2B” | business to business. |
| “Broadband” | a descriptive term for evolving digital technologies that provide consumers with a packet-switched facility capable of supporting integrated access to voice, high-speed data service, video-demand services and interactive delivery services (typically at speeds greater than 512 kilobits per second). |
| “DSL” | digital subscriber line. |
| “FMC” | fixed/mobile convergence. |
| “FTTB” | Fibre to the Building. |
| “FTTC” | Fibre to the Cabinet. |
| “FTTH” | Fibre to the Home. |
| “Gbits/s,” “Gbps” or “Gb/s” | Gigabits per second. |
| “GSM” | Global System for Mobile communications. |
| “Interconnect” | the connection of one telecom operator’s network to another. |
| “IP” or “Internet protocol” | the protocol for data transfer between computer systems that provides a basic packet delivery service. |
| “ISDN” | Integrated Services Digital Network. An international standard which enables high speed simultaneous transmission of voice and/or data over the public telecommunications network. An ISDN Basic Rate Access (BRA) consists of two channels; a Primary Rate Access (PRA) consists of 30 channels. |
| “ISP” or “Internet service provider” | a business providing Internet access. |
| “Kbits/s,” “Kbps” and “Kb/s” | Kilobits per second. |
| “LLU” | Local loop unbundling, the regulatory process of allowing multiple telecommunications operators to use connections from the telephone exchange to the customer’s premises, See also “ULL”. |
| “M2M” | Mobile to mobile. |
| “MBB” | Mobile broadband. |
| “Mbps” or “Mb/s” | Megabits per second. |
| “MMS” | Multimedia Messaging Service |
| “MNO” | Mobile network operator. |
| “MTR” | Mobile termination rates. |
| “MVNO” | Mobile virtual network operator. |
| “Narrowband” | a network or circuit capacity of less than 64 bit/s. |
| “NBP” | National Broadband Plan. |
| “Next Generation Network” | a broad term that encompasses newer generation core and access network technologies with high capacities over which an operator is able to provide innovative services to its customers. |
| “NGA” | Our Next Generation Access fibre network. |
| “NRA” | National Regulatory Authority. |

| | |
|---|---|
| "OAO" or "Other Authorised Operators"..................................... | an authorised operator (other than eir) which operates telecommunications systems. |
| "OTT"........................................... | Over-the-top applications. |
| "Packet switching"......................... | the process of routing and transferring data by means of addressed packets, so that a channel is occupied during the transmission of the packet only, and upon completion of the transmission, the channel is made available for the transfer of other traffic packets. |
| "PSTN" or "public switched telephone network"........................ | a telecommunications network usually accessed by telephones, key telephone systems, private branch exchange trunks and data arrangements. A PSTN line consists of a single access channel. |
| "RGU" or "Revenue Generating Unit"............................................. | a measure of the total number of services purchased to reflect customers purchasing more than one service. |
| "RIO"............................................ | Reference Interconnect Offer. |
| "SABB" ....................................... | Standalone broadband, a service consisting of provision of broadband internet over a fixed access path where voice service is not provided by the same supplier. |
| "SMP" or "Significant Market Power"........................................... | is a classification on the basis of market analysis, they are assessed as being able to exert economic influence, alone or with others, that allows it to operate, to a considerable extent, independently of competitors, consumers or other users. |
| "SMS" or "short messaging service"......................................... | enables transmissions of alphanumeric messages of up to 160 characters among mobile subscribers on GSM and other digital mobile networks. |
| "Switched data services" .............. | services that are used to transfer data between specific points in a network by means of electronic, optical or electromechanical routing of signals, including frame relay, asynchronous transfer mode, and packet switching. |
| "Traffic"........................................ | calls or other transmissions being sent and received over a communications network. |
| "Transit services"........................... | conveyance services provided by a network between two points of interconnection. It is a service that links two networks that are not directly interconnected. |
| "Unbundled local loop" ................ | under the provision of the regulations of the European Parliament and European Council on Unbundled Access to the Local Loop, we are obliged to provide unbundled local access services to other licensed operators. |
| "VPN" or "Virtual private network" ...................................................... | a switched network with special services such as abbreviated dialling. |
| "VoBB" or "Voice over broadband" ...................................................... | voice services offered over broadband internet connections. |
| "VoIP" or "Voice over Internet Protocol"....................................... | a technology for the delivery of voice communications and multimedia sessions over private or public Internet Protocol (IP) networks. |
| "Voice Over LTE" or "Voice over long-term evolution"..................... | a technology specification that defines the standards and procedures for delivering voice communication and data over 4G LTE networks. |
| "Voice over WiFi" ....................... | a WiFi based VoIP service. |
| "WACC"....................................... | Weighted average cost of capital. |
| "WBA" ......................................... | Wholesale broadband access. |
| "White Label"............................... | a wholesale service provided to switchless resellers where the service is delivered entirely on eir's network and the reseller provides only customer functions such as sales, marketing and billing. |
| "WLR" or "Wholesale Line Rental" ...................................................... | a wholesale service that allows OAOs to resell eir's access service and provide customers with a single bill for access and call services. |

## 15. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF EHIL FOR THE YEAR ENDED JUNE 30, 2018

# *Independent auditors' report to the directors of eircom Holdings (Ireland) Limited*

## Report on the audit of the non-statutory financial statements

### Opinion

In our opinion, eircom Holdings (Ireland) Limited's group non-statutory financial statements (the "financial statements"):

- give a true and fair view of the group's assets, liabilities and financial position as at 30 June 2018 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

We have audited the financial statements which comprise:

- the Group balance sheet as at 30 June 2018;
- the Group income statement and the Group statement of comprehensive income for the year then ended;
- the Group cash flow statement for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the Notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)"). Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report for Bondholders other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities for Financial Statements set out on page F-4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinion, has been prepared for and only for the company's directors as a body for management purposes in accordance with our engagement letter dated 29 May 2018 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

# Other matter

We draw attention to the fact that these financial statements have not been prepared under section 293 of the Companies Act 2014 and are not the company's statutory financial statements.

PricewaterhouseCoopers
Chartered Accountants
Dublin
4 September 2018

# eircom Holdings (Ireland) Limited

## *Statement of Directors' Responsibilities for Financial Statements*
*For the Year Ended 30 June 2018*

The Directors are responsible for preparing the non-statutory consolidated financial statements for the bondholders in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and for being satisfied that they give a true and fair view of the state of the group's affairs at the end of the financial year and of the profit or loss and cash flows of the group for the financial year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- ensure that the financial statements comply with IFRS, as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website.

Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These non-statutory consolidated financial statements have been approved for issue by the Directors on 3 September 2018.

# eircom Holdings (Ireland) Limited

## *Group income statement*

*For the Year Ended 30 June 2018*

| | Notes | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|---|
| Revenue | 6 | 1,283 | **1,252** |
| Operating costs excluding amortisation, depreciation and exceptional items | 7 | (786) | **(742)** |
| Amortisation | 7, 13 | (108) | **(101)** |
| Depreciation | 7, 14 | (270) | **(291)** |
| Exceptional items | 7, 8 | (92) | **(87)** |
| Profit on disposal of property, plant and equipment | 7, 9 | 4 | **1** |
| **Operating profit** | | 31 | **32** |
| Finance costs | 10 (a) | (277) | **(102)** |
| Finance income | 10 (b) | - | **-** |
| Finance costs – net | 10 | (277) | **(102)** |
| Share of profit of investments accounted for using the equity method | | 10 | **5** |
| **Loss before tax** | | (236) | **(65)** |
| Income tax credit | 11 | 10 | **6** |
| **Loss for the financial year attributable to equity holders** | 29 | (226) | **(59)** |

## *Group statement of comprehensive income*

*For the Year Ended 30 June 2018*

| | Notes | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|---|
| **Loss for the financial year attributable to equity holders** | 29 | (226) | **(59)** |
| **Other comprehensive income/(expense):** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Defined benefit pension scheme actuarial gains: | | | |
| - Actuarial gain in year | 34 | 121 | **267** |
| - Tax on defined benefit pension scheme actuarial gains | 25 | (15) | **(33)** |
| | | 106 | **234** |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net changes in cash flow hedge reserve: | | | |
| - Fair value loss in year | 29 | - | **(2)** |
| -Transfer to income statement | 29 | - | **(2)** |
| Currency translation differences | 29 | (1) | **-** |
| | | (1) | **(4)** |
| Other comprehensive income, net of tax | | 105 | **230** |
| **Total comprehensive (expense)/income for the financial year attributable to equity holders** | 29 | (121) | **171** |

The accompanying notes form an integral part of the financial statements.

# eircom Holdings (Ireland) Limited

*Group balance sheet*
*As at 30 June 2018*

| | Notes | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 12 | 212 | **212** |
| Other intangible assets | 13 | 355 | **312** |
| Property, plant and equipment | 14 | 1,434 | **1,400** |
| Investments | 15 | 3 | **-** |
| Deferred tax asset | 16 | 3 | **2** |
| Other assets | 17 | 15 | **13** |
| | | 2,022 | **1,939** |
| **Current assets** | | | |
| Inventories | 18 | 16 | **11** |
| Trade and other receivables | 19 | 196 | **195** |
| Restricted cash | 20 | 18 | **5** |
| Cash and cash equivalents | 21 | 142 | **197** |
| | | 372 | **408** |
| **Total assets** | | 2,394 | **2,347** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 2,236 | **2,244** |
| Derivative financial instruments | 24 | - | **1** |
| Trade and other payables | 27 | 128 | **110** |
| Deferred tax liabilities | 25 | 44 | **63** |
| Retirement benefit liability | 34 | 258 | **23** |
| Provisions for other liabilities and charges | 26 | 110 | **104** |
| | | 2,776 | **2,545** |
| **Current liabilities** | | | |
| Derivative financial instruments | 24 | 5 | **1** |
| Trade and other payables | 27 | 438 | **485** |
| Current tax liabilities | | 10 | **3** |
| Provisions for other liabilities and charges | 26 | 67 | **37** |
| | | 520 | **526** |
| **Total liabilities** | | 3,296 | **3,071** |
| **EQUITY** | | | |
| Equity share capital | 28, 29 | - | **-** |
| Capital contribution | 29 | 54 | **62** |
| Cash flow hedging reserve | 29 | 2 | **(2)** |
| Retained loss | 29 | (958) | **(784)** |
| **Total equity** | 29 | (902) | **(724)** |
| **Total liabilities and equity** | | 2,394 | **2,347** |

The accompanying notes form an integral part of the financial statements.

# eircom Holdings (Ireland) Limited

## *Group cash flow statement*

*For the Year Ended 30 June 2018*

| | Notes | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 30 | 464 | **456** |
| Interest paid | | (105) | **(92)** |
| Income tax refund/(paid) | | 8 | **(14)** |
| Net cash generated from operating activities | | 367 | **350** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment ("PPE") | | (273) | **(254)** |
| Purchase of intangible assets | | (42) | **(66)** |
| Proceeds from sale of PPE | | 16 | **3** |
| Dividend received from joint arrangement | | 11 | **8** |
| Restricted cash | | (8) | **13** |
| Repayment of loan by related party | | - | **1** |
| Net cash used in investing activities | | (296) | **(295)** |
| **Cash flows from financing activities** | | | |
| Dividends paid to equity shareholders | | (1) | **(1)** |
| Capital contribution from equity shareholders | | - | **3** |
| Repayment on borrowings | | (1,061) | **-** |
| Repayment of discount on borrowings | | (317) | **-** |
| Proceeds from loan borrowings | | 1,115 | **-** |
| Proceeds from issuance of 4.5% Senior Secured Notes | | 200 | **-** |
| Premium on issuance of 4.5% Senior Secured Notes | | 3 | **-** |
| Debt issue costs | | (3) | **-** |
| Fees paid in respect of Revolving Credit Facility | | (1) | **-** |
| Debt related fees paid in respect of transaction offer | | - | **(2)** |
| Debt modification fees | | (12) | **-** |
| Net cash used in financing activities | | (77) | **-** |
| **Net (decrease)/increase in cash, cash equivalents and bank overdrafts** | | (6) | **55** |
| Cash and cash equivalents and bank overdrafts at beginning of financial year | | 148 | **142** |
| **Cash, cash equivalents and bank overdrafts at end of financial year** | 21 | 142 | **197** |

The accompanying notes form an integral part of the financial statements.

# eircom Holdings (Ireland) Limited

*Group statement of changes in equity*
*For the Year Ended 30 June 2018*

| | Notes | Total Equity €m |
|---|---|---|
| **Balance at 1 July 2016** | 29 | (782) |
| Total comprehensive expense for the financial year | 29 | (121) |
| Capital contribution in respect of MIP equity value event | 29 | 2 |
| Dividends relating to equity shareholders | 29 | (1) |
| **Balance at 30 June 2017** | 29 | (902) |
| **Balance at 1 July 2017** | 29 | **(902)** |
| Total comprehensive income for the financial year | 29 | **171** |
| Capital contribution in respect of MIP equity value event | 29 | **5** |
| Capital contribution in respect of long-term incentive plan | 29 | **3** |
| Dividends relating to equity shareholders | 29 | **(1)** |
| **Balance at 30 June 2018** | 29 | **(724)** |

The accompanying notes form an integral part of the financial statements.

## 1. General information

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

eircom Holdings (Ireland) Limited is incorporated as a company limited by shares in the Republic of Ireland, under the registered number 512352. The address of its registered office is 1 Heuston South Quarter, St. John's Road, Dublin 8. eircom Holdings (Ireland) Limited was incorporated on 23 April 2012 and directly holds 100% of the issued share capital of two principal subsidiaries: eircom Finco Sarl and eircom Limited. eircom Holdings (Ireland) Limited incorporated eircom Finco Sarl, a company registered in Luxembourg, on 24 May 2012.

On 11 June 2012, eircom Holdings (Ireland) Limited acquired 100% of the issued share capital of eircom Limited for €1.00 pursuant to a Scheme of Arrangement approved by the Irish High Court. The principal trading activities of the group are undertaken by eircom Limited and its subsidiaries. eircom Limited is the incumbent telecommunications operator in the Republic of Ireland.

NJJ Animation SAS France, a company registered in France, is the ultimate holding company. Xavier Niel is the ultimate controlling party. Eircom Holdco SA, a company registered in Luxembourg, is the immediate holding company.

## 2. Going concern

The financial statements have been prepared on the going concern basis.

The Directors believe that it is appropriate to adopt the going concern basis of accounting for the financial statements notwithstanding the net liability position of the group, as the Directors believe that based on the group's forecast of operational cash flows, and trading results, the group will be in a position to meet its obligations as they fall due for the foreseeable future. The net liabilities of the group, included in the balance sheet at 30 June 2018, include liabilities of €2,244 million in respect of borrowings which are measured at amortised cost, and the earliest date the borrowings are due are 31 May 2022 (see Note 23 for further information).

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

## 3. Accounting policies

The significant accounting policies adopted by the group are set out below.

### 3.1. Basis of preparation

The entity and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

The financial statements have been prepared on the going concern basis (see Note 2). A summary of the more important accounting policies is set out below.

The financial statements, which are presented in euro rounded to the nearest million, have been prepared under the historical cost convention except for the following:

- derivative financial instruments are stated at fair value; and
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the Notes.

*Standards, amendments and interpretations effective for the year ended 30 June 2018*

There were no standards, amendments or interpretations effective for the year ended 30 June 2018 that had a material impact on the group.

**3. Accounting policies – continued**

**3.2. Basis of consolidation**
The consolidated financial statements of the group comprise a consolidation of the financial statements of eircom Holdings (Ireland) Limited and its subsidiaries. The subsidiaries' financial period ends are all coterminous with those of eircom Holdings (Ireland) Limited included in the financial statements.

(i) *Subsidiaries*
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. Subsidiaries are deconsolidated from the group from the date that control ceases.

(ii) *Joint arrangements*
Under IFRS 11 'Joint Arrangements' investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The group holds 56% of the equity share capital in Tetra Ireland Communications Limited ("Tetra"). However, the group's interest in Tetra is subject to a contractual agreement with other shareholders, which prevents the group from exercising a majority of voting rights in key strategic, operational and financial decision-making. Accordingly, the group's interest is accounted for as a joint venture in accordance with IFRS 11 'Joint Arrangements'.

The group's interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet. The group's joint venture' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

(iii) *Acquisitions*
The purchase method of accounting is used to account for all business combinations, except for business combinations involving entities under common control and group reorganisations. Under the purchase method of accounting, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the group's share of the identifiable assets, liabilities and contingent liabilities recognised. The interest of non-controlling interest shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised, and does not include a gross-up for goodwill. The results of subsidiaries acquired during the period are brought into the consolidated financial statements from the date control transfers to the group. There were no acquisitions in the two years to 30 June 2018.

*(iv) Disposals*
The results of businesses sold during the period are included in the consolidated financial statements for the period up to the date control ceases. Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold.

*(v) Acquisitions involving entities under common control*
Business combinations involving entities under common control are not required to be accounted for using the purchase accounting method under IFRS. The group instead applies the predecessor accounting method for such transactions. Under the predecessor accounting method, which is also commonly referred to as the merger accounting method, the assets and liabilities acquired are recognised at the acquisition date at the carrying values stated in the consolidated financial statements of the highest entity which has common control for which consolidated IFRS financial statements are prepared. The goodwill recognised is limited to the goodwill previously recognised in the consolidated financial statements of the highest entity which has common control. The difference between the consideration and the net assets recognised at predecessor value is charged/credited to the merger reserve, in equity. The results of subsidiaries acquired during the period are brought into the consolidated financial statements from the date control transfers to the group.

**3. Accounting policies - continued**

**3.3. Goodwill**
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets, liabilities and contingent liabilities recognised of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is not amortised. Instead, goodwill is tested for impairment annually and is carried at cost less accumulated impairment losses. Impairment losses on goodwill may not be reversed in any circumstances.

Goodwill is allocated to cash generating units for the purpose of impairment testing in accordance with IAS 36 "Impairment of Assets". The allocation is made to cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates, including management's expectations of future revenue, operating costs, profit margins and capital requirements for each cash generating unit.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

Licence fees paid to the government, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period.

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

The following useful lives have been assigned to intangible assets:

| | Years |
|---|---|
| Computer software | 3 – 4 |
| Intangible assets from acquisitions: | |
| Trademark (Fixed) | 5 |
| Contracts and related customer relationships (Fixed) | 2 |
| TV content rights (Fixed) | 3 |
| Mobile licences | 15 – 18.5 (1) |

(1) Spectrum licences are amortised over the term of the relevant licences.

Intangible assets not yet available for use are tested for impairment in accordance with IAS 36 "Impairment of Assets" in the same manner as goodwill (see 3.3 above).

**3.5. Segmental reporting**
An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Management Team, which is the key management team that makes strategic decisions.

**3. Accounting policies - continued**

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

The group recognises revenue when the amount of the revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the actual terms of each arrangement.

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

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

*Fixed Line Revenue*
Fixed line revenue is recognised in the period earned by rendering of services or delivery of products. Fixed line revenues largely comprise access (rental and connections), voice traffic, data services and managed services.

Traffic revenue is recognised at the time the traffic is carried over the group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products (broadband, line rentals and traffic) are accounted for in the same manner as the unbundled products comprising the bundle.

Connection fee revenue is deferred over the life of the connection, which is estimated to be between four and five years. Connection lives are reviewed annually.

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

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

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

*Bundled Contract Revenue*
Revenue from the sale of bundled products is allocated to the separate elements of the bundle on the basis of each element's relative fair value and recognised in revenue when each individual element of the product or service is provided. The fair values of each element are determined based on the current market price of the elements when sold separately. Additionally, when allocating the bundled revenue to each element, amounts contingent upon provision of future service are not allocated to delivered elements. To the extent that there is a discount in the bundled product, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of each element.

**3.7. Exceptional items**
The group has adopted an income statement format which seeks to highlight significant items within group results for the year. The group believe that this presentation provides additional analysis as it highlights significant or one-off items. Such items include, where significant, restructuring costs, curtailment gains and losses in respect of pensions, charges in respect of certain management incentive plans, impairment of surplus properties, onerous contracts and reinstatement/dilapidation provisions. Judgement is used by the group in assessing the particular items, which, by virtue of their scale and nature, are disclosed in the group income statement and related notes as exceptional items.

**3. Accounting policies - continued**

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

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

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

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

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

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

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

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

**3.11. Taxation**
eircom Holdings (Ireland) Limited is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland.

Current tax is calculated on the profits of the period. Current tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised in other comprehensive income or directly in equity, if the tax relates to items that are credited or charged, in the same or a different period, in other comprehensive income or directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**3. Accounting policies - continued**

**3.12. Financial instruments**

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

Where the terms of borrowings are amended, if the revised terms are substantially different from the original terms, the transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are considered to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any gain or loss on the extinguishment of the original liability is recognised immediately in the income statement. If the new terms are not substantially different from the original terms, the impact of the change in the cash flows on the financial instrument's amortised cost is recognised in the income statement over the modified instrument's remaining contractual period.

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

*(ii) Derivative financial instruments*
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each subsequent balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The group designates certain derivatives as hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Derivative assets or liabilities are presented as current or non-current based on expected realisation or settlement dates.

*(iii) Cash flow hedges*
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income. Any ineffective portion of the hedge is recognised in the income statement.

Amounts accumulated in equity are recycled in the income statement within finance costs in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

*(iv) Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. The group's loans and receivables are set out in Note 22.

**3. Accounting policies - continued**

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

*Depreciation*
Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives, from the date the asset is available for use. The estimated economic lives assigned to property, plant and equipment are as follows:

| Asset Class | Estimated Economic Life (Years) |
|---|---|
| **Buildings** | 40 |
| **Network Plant** | |
| **Transmission Equipment** | |
| Duct | 20 |
| Overhead cable/poles | 8-15 |
| Underground cable | 14 |
| Other local network | 6-15 |
| **Exchanges** | |
| Exchange line terminations | 8 |
| Core hardware/operating software | 3-4 |
| **Others** | 3-14 |

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

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

*Assets in the course of construction*
Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. The estimated amount of interest incurred, directly attributable to constructing qualifying assets that necessarily take a substantial period of time to get ready for their intended use, is capitalised based on the weighted average interest rate on outstanding borrowings.

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

**3.14. Impairment of non financial assets – group**
Assets that have an indefinite useful life, principally goodwill and intangible assets not yet available for use, are not subject to amortisation, and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill and secondly against the other assets (including other intangible assets) in the cash generating unit on a pro-rata basis based on the carrying amount of each asset in the cash generating unit.

Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses recognised in respect of goodwill are not reversed in any circumstances.

**3. Accounting policies – continued**

**3.15. Leased assets**
The group applies the principles of lease accounting where an arrangement is dependent upon the use of specific assets and conveys the right to use the assets. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

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

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

*Where the group is lessor*
The cost of equipment assets of the group provided to customers as part of arrangements which constitute operating leases is included in property, plant and equipment and depreciated over the estimated useful life of the asset.

The cost of equipment assets of the group provided to customers as part of arrangements which constitute finance leases is expensed to the income statement upon delivery to the customer.

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

As part of the strategy to acquire new customers and retain existing customers, the group sells certain mobile handsets, in connection with a service contract, at below the acquisition cost. As the mobile handset subsidy is part of the group's strategy for acquiring new customers and retaining existing customers, the loss on the sale of mobile handsets is recognised at the time of the sale or provision to the customer on a free of charge basis and included in the income statement.

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

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

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

**3.19. Indefeasible rights of use ("IRU")**
The group accounts for IRU contracts that are not leases in the following manner:

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

(ii) Purchase contracts are accounted for as service contracts with the pre-paid balance recorded as an asset and amortised on a straight-line basis as an expense over the period of the relevant contracts.

**3. Accounting policies – continued**

**3.20. Employee benefits**

(i) *Pension obligations*
Group companies operate various pension schemes. The schemes are generally funded through payments determined by periodic actuarial calculations to independent trustee-administered funds. The group operates both defined benefit and defined contribution plans.

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

Typically, defined benefit plans define an amount of future pension benefit that employees have earned in return for their services to date. The pension benefit that an employee will receive on retirement is usually dependent on factors such as age, years of service and compensation. The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the group's defined benefit obligation at the balance sheet date, less the fair value of plan assets. Plan assets are valued at their market value at the balance sheet date using bid values. The defined benefit obligation, and the related current service cost, and, where applicable, past service cost, are calculated by independent actuaries using the projected unit credit method. The defined benefit obligation is calculated annually unless there has been a material change in the obligations, where it is then recalculated during the year. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an appropriate discount rate based on current market yields at the balance sheet date of high quality corporate bonds that are denominated in euros, and reflect the duration of the related pension liability.

The amounts of current service cost and net interest cost recognised in the income statement are computed based on actuarial assumptions at the start of the financial year. Costs of administering the defined benefit plans, other than investment management costs, are recognised within operating expenses in the income statement as the administrative services are received.

Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, are charged or credited directly to reserves through the statement of other comprehensive income.

Past service costs and negative past service costs are recognised immediately in the group income statement.

Settlements and curtailments trigger immediate recognition of the consequent change in obligations and related assets or liabilities in the group income statement. Before the effect of a curtailment or settlement is determined, the defined benefit obligation is re-measured using current actuarial assumptions.

The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

(ii) *Other bonus plans*
The group recognises a liability and an expense for bonuses where contractually obliged, or where there is past practice that has created a constructive obligation.

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

(iii) *Other long term incentive arrangements*
Long term incentive arrangements include share-based payment obligations, the accounting for such arrangements differs depending on whether the obligations are equity-settled, cash-settled and where the cost is borne by the immediate parent company. Under the plans currently in existence, the group has no obligations in respect of share based payments, which are borne by the immediate parent company, eircom Holdco SA. As the relevant individuals provide services to the group, the group is required to recognise a charge to the income statement and a corresponding increase in equity. The total charge for the equity-settled award is computed by reference to the fair value of the award at the grant date, and is not re-measured. The allocation of the charges over the vesting period is based on the service vesting conditions, and the impact of potential accelerated vesting events. For cash settled share based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(iv) *Termination benefits*
Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following: (a) when the group can no longer withdraw the offer of those benefits; or (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Termination benefits comprise the estimated benefits payable to staff availing of voluntary leaving schemes and the associated pension impact.

**3. Accounting policies – continued**

**3.21. Provisions**
A provision is recognised when, and only when (a) the group has a present obligation (legal or constructive) as a result of a past event, (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation.

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

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract, or the estimated cost to exit it, where appropriate.

**3.22. Financial guarantee contracts**
Liabilities are initially measured at fair value in respect of financial guarantees issued by the group for the benefit of third parties, and subsequently at the higher of the amount determined in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

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

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

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

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

**3.26. Dividends**
Dividend income is recognised when the right to receive payment is established.

## 4. Financial risk management

**Financial risk factors**
The group's activities expose it to a variety of financial risks: liquidity risk, market rate risk (including cash flow, interest rate risk, currency risk and price risk) and credit risk. The group's overall risk management program focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the financial performance of the group. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risks, and ageing analysis for credit risk. Responsibility for managing these risks rests with the Board.

There have been no significant changes in the types of financial risks or the group's risk management program (including methods used to measure the risks) since 30 June 2017.

### 4.1. Liquidity risk
The objective of liquidity management is to ensure the availability of sufficient funds to meet the group's requirements and to repay maturing debt and other liabilities as they fall due.

As set out in Note 2, having reviewed the group's business plans and cash flow forecasts, the Directors consider that the group will be able to realise its assets and discharge its liabilities in the ordinary course of business for the foreseeable future. Management of the group's liquidity risk is fundamental to its operations. The nature of the group's business, its working capital management activities and investment in network assets has often resulted in minimal current assets or net current liabilities.

The eircom Holdings (Ireland) Limited group has net current liabilities of €118 million at 30 June 2018. The current liabilities at that date include deferred revenue of €101 million. There is no cash outflow requirement associated with deferred revenue.

**Maturities of financial liabilities**
The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the interest rates effective at the balance sheet date and includes the margins applicable to the relevant debt.

| | Within 1 Year €m | Between 1 & 2 Years €m | Between 2 & 5 Years €m | After 5 Years €m | Total €m |
|---|---|---|---|---|---|
| Borrowings | | | | | |
| **- At 30 June 2018** | **-** | **-** | **700** | **1,600** | **2,300** |
| - At 30 June 2017 | - | - | 700 | 1,600 | 2,300 |
| Interest on borrowings | | | | | |
| **- At 30 June 2018** | **84** | **85** | **221** | **45** | **435** |
| - At 30 June 2017 | 84 | 84 | 253 | 98 | 519 |
| Derivative financial instruments | | | | | |
| **- At 30 June 2018** | **1** | **1** | **-** | **-** | **2** |
| - At 30 June 2017 | 5 | 1 | (1) | - | 5 |
| Trade and other payables | | | | | |
| **- At 30 June 2018** | **331** | **8** | **16** | **-** | **355** |
| - At 30 June 2017 | 266 | 8 | 24 | - | 298 |
| TIS annuity scheme | | | | | |
| **- At 30 June 2018** | **3** | **3** | **4** | **1** | **11** |
| - At 30 June 2017 | 4 | 3 | 5 | 1 | 13 |
| Onerous contracts | | | | | |
| **- At 30 June 2018** | **11** | **3** | **4** | **14** | **32** |
| - At 30 June 2017 | 14 | 10 | 6 | 13 | 43 |
| Deferred consideration | | | | | |
| **- At 30 June 2018** | **3** | **-** | **-** | **-** | **3** |
| - At 30 June 2017 | 1 | 3 | - | - | 4 |

**4. Financial risk management – continued**

**4.2. Capital risk management**
The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders over the long term. The capital structure of the group consists of the borrowings as set out above, and equity comprising issued capital, reserves and accumulated losses as set out in Note 29.

**4.3. Credit risk**
Credit risk refers to the loss that the group would incur if a debtor or other counter-party fails to perform under its contractual obligations. Credit risks are mainly related to counter-party risks associated with cash and cash equivalents, restricted cash, trade and other debtors, amounts owed by related companies and derivative contracts.

The group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Ireland. Exposure to credit loss and subscriber fraud is actively monitored on a regular basis, including some processing of current credit information on subscribers from third-party sources (subject to availability) and, where appropriate, a provision for doubtful debtors is made.

The credit risk and net exposure on key accounts, particularly other authorised operators and international carriers, is monitored separately through continual risk assessments of customers with material balances. In terms of the overall exposure from credit risk, the receivables from these counter-parties are not so extensive as to be considered significant concentrations of credit risk.

**Ageing of trade receivables**
The ageing analysis of trade receivables is set out below.

| | **Past due but not impaired** | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 30 days | Between 31 and 60 days | Between 61 and 90 days | More than 90 days | **Neither impaired nor past due** | **Impaired** | **Total** |
| | **€m** | **€m** | **€m** | **€m** | **€m** | **€m** | **€m** |
| **Trade receivables** | | | | | | | |
| **- at 30 June 2018** | **17** | **10** | **8** | **7** | **65** | **8** | **115** |
| - at 30 June 2017 | 18 | 7 | 4 | 21 | 69 | 10 | 129 |

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The group held collateral on trade receivables in the form of cash deposits of €1 million (30 June 2017: €1 million) as security.

The group is exposed to credit risk relating to its cash and cash equivalents. The group treasury policy is designed to limit exposure with any one institution and to invest its excess cash in low risk investment accounts with authorised banking counter-parties and with institutions whose long-term Standard & Poor's (S&P) credit rating is "BBB+" or above (or Moody's equivalent rating of "Baa1") or is an acceptable bank as defined in the Senior Facilities Agreement.

The credit quality of cash and cash equivalents can be assessed by reference to S&P credit ratings in the table below.

| | **30 June 2017** | **30 June 2018** |
|---|---|---|
| | **€m** | **€m** |
| Cash and cash equivalents | | |
| A+ | - | **76** |
| A | 105 | **81** |
| BBB+ | 1 | **4** |
| BBB | 12 | **4** |
| BBB- | 24 | **32** |
| | 142 | **197** |

**4. Financial risk management – continued**

**4.4. Market rate risk**
Market rate risk refers to the exposure of the group's financial position to movements in interest rates, currency rates and general price risk. The group has limited exposure to equity, currency and price risk, other than the impact of those risks on the group's defined benefit pension scheme.

The principal aim of managing the interest rate risk is to limit the adverse impact on cash flows and shareholder value of movements in interest rates.

Cash and cash equivalents and borrowings at variable rates expose the group to cash flow interest rate risk. Cash and cash equivalents and borrowings at a fixed rate expose the group to fair value interest rate risk.

The group uses derivative financial instruments to hedge certain interest rate risk exposures on group borrowings.

In April 2017, the group entered into three forward starting interest rate swaps with hedging counterparties for a notional principal amount totalling €650 million for a period of two years from 11 June 2018. The swaps meet the requirements for hedge accounting.

As at reporting date, the group had the following cash and cash equivalents (Note 21), floating-rate borrowings (Note 23) and interest rate swap contracts outstanding (Note 24):

| | **30 June 2017** | | **30 June 2018** | |
|---|---|---|---|---|
| | **Weighted average Interest rate %** | **Balance €m** | **Weighted average Interest rate %** | **Balance €m** |
| Cash and cash equivalents | - | 142 | **-** | **197** |
| Bank borrowings (Facility B) | 3.25% | (1,600) | **3.25%** | **(1,600)** |
| Interest rate swaps (Notional principal amount) | | 1,200 | | **650** |
| **Net exposure to interest rate risk** | | (258) | | **(753)** |

**Interest rate sensitivity analysis**
Based on the financial instruments held at the balance sheet date, if interest rates are 25 basis points ("bps") higher/lower and all other variables are held constant, the group's profit/(loss) after tax for the year ended 30 June 2018 will increase or decrease by the amounts set out in the table below:

| **Group – after tax** | **Increase by 25 bps €m** | **Decrease by 25 bps €m** |
|---|---|---|
| Profit for the year - (lower)/higher | **(2)** | **2** |

A sensitivity of 25 bps has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

**Currency risk**
The group conducts its business primarily in Ireland and, therefore, operating and investing cash flows are substantially denominated in euro. A limited level of foreign exchange risk arises in relation to a foreign subsidiary, capital expenditure denominated in foreign currencies and foreign exchange settlements with international third party telecommunications carriers.

Given the limited level of risk the group does not hedge its foreign exchange risk arising on transactions and capital expenditure denominated in foreign currencies.

**Price risk**
The group is exposed to price risk on the assets held by the group's defined benefit pension scheme (see Note 34).

**4.5. Fair value estimation**
The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

See Note 22 for information on financial instruments fair value measurements within a three-level fair value hierarchy.

**4. Financial risk management – continued**

**4.6. Hedging instruments**

As at the reporting date, the group had entered into a number of swaps to cover interest rate exposure on various debt obligations. The details of the effective interest rate and maturity of these instruments is:

**Derivatives ineligible for hedge accounting**

These instruments are ineligible for hedge accounting under IAS 39 and movements in the fair value of these derivatives have been taken through the income statement.

| | Principal value | Fair Value | Weighted average Interest rate | Maturity date – principal value | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Within 1 Year | Between 1 & 2 Years | Between 2 & 3 Years | Between 3 & 4 Years | Between 4 & 5 Years | After 5 Years |
| | €m | €m | % | €m | €m | €m | €m | €m | €m |
| **Derivatives ineligible for hedge accounting** | | | | | | | | | |
| **- at 30 June 2018** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - at 30 June 2017 | 1,200 | (5) | 0.099% | 1,200 | - | - | - | - | - |

**Derivatives designated and eligible for hedge accounting**

These instruments have been designated as cash flow hedges under IAS 39 and movements in the effective portion of the fair value of the hedges have been taken through the cash flow hedge reserve.

| | Principal value | Fair Value | Weighted average Interest rate | Maturity date – principal value | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Within 1 Year | Between 1 & 2 Years | Between 2 & 3 Years | Between 3 & 4 Years | Between 4 & 5 Years | After 5 Years |
| | €m | €m | % | €m | €m | €m | €m | €m | €m |
| **Designated active interest rate swap** | | | | | | | | | |
| **- at 30 June 2018** | **650** | **(2)** | 0.222% | - | **650** | **-** | **-** | **-** | **-** |
| - at 30 June 2017 | 650 | - | 0.222% | - | - | 650 | - | - | - |

See Note 24 for further information on the group's interest rate swaps.

**5. Critical Accounting Judgements and Estimates**

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are noted below. Further details are included in the Notes to the financial statements.

The areas involving significant estimates or judgements are:

- Estimation of current tax payable and recognition of deferred tax (Note 11)
- Making appropriate assumptions on non-financial asset impairment reviews (Note 12)
- Establishing lives for amortisation purposes of intangible assets (Note 13)
- Establishing lives for depreciation purposes of property, plant and equipment (Note 14)
- Providing for doubtful debts (Note 19)
- Estimation of cash outflows on onerous contracts (Note 26(c))
- Making appropriate assumptions in calculating asset retirement obligations (Note 26 (d))
- Providing for litigation, contingencies and other constructive obligations (Note 26 (e))
- Making appropriate long-term assumptions in calculating pension liabilities, surpluses and costs (Note 34)

Judgements and estimates are continually evaluated. They are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 6. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group which are regularly reviewed by the 'Chief Operating Decision Maker' in order to allocate resources to the segments and to assess their performance.

The group's operating segments are reported based on financial information provided to the Senior Management Team ("SMT"), which is the key management team and represents the 'Chief Operating Decision Maker'. The SMT is chaired by the Group Chief Executive and the other members are the Group Chief Financial Officer, Chief Technology Officer, Chief Information Officer, Business Directors, Customer Operations Director, HR Director, Director of Regulatory & Public Policy and General Counsel.

The SMT considers the business from a fixed line and mobile perspective and assesses the performance of the operating segments based on a measure of adjusted EBITDA. Adjusted EBITDA is before non-cash lease contracts, non-cash pension charge and exceptional items. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, curtailment gains and losses in respect of pensions, charges in respect of certain management incentive plans, onerous contracts and other charges/income. The non-cash lease contracts credit included in the income statement during the year is in respect of the unfavourable lease fair value adjustment which arose on acquisition of eircom Limited. The non-cash pension charge is determined based on the difference between the charge determined under IAS 19 and employer contributions payable in respect of the financial year. Interest costs on borrowings are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the borrowings position of the group.

Sales between segments for telecommunication services are carried out on an arm's length basis. Other recharges in respect of non-telecommunication services are based on actual cost of employee remuneration or other external costs incurred. The revenue from external parties reported to the SMT is measured in a manner consistent with that in the group income statement.

The segment results for the year ended 30 June 2018 are as follows:

| | Fixed line €m | Mobile €m | Inter-segment €m | Reported[2] €m | IFRS 11 €m | Published[2] €m |
|---|---|---|---|---|---|---|
| **Revenue** | **965** | **338** | **(33)** | **1,270** | **(18)** | **1,252** |
| **Adjusted EBITDA** [1] | **443** | **85** | **-** | **528** | **(10)** | **518** |
| Non-cash lease contracts | **7** | **-** | **-** | **7** | **-** | **7** |
| Non-cash pension charge | **(15)** | **-** | **-** | **(15)** | **-** | **(15)** |
| Amortisation | **(79)** | **(22)** | **-** | **(101)** | **-** | **(101)** |
| Depreciation | **(265)** | **(30)** | **-** | **(295)** | **4** | **(291)** |
| Exceptional items (Note 8) | **(80)** | **(7)** | **-** | **(87)** | **-** | **(87)** |
| Profit on disposal of PPE | **1** | **-** | **-** | **1** | **-** | **1** |
| **Operating profit** | **12** | **26** | **-** | **38** | **(6)** | **32** |
| Finance costs | | | | **(102)** | **-** | **(102)** |
| Share of profit of investments accounted for using the equity method | | | | **-** | **5** | **5** |
| **Loss before income tax** | | | | **(64)** | **(1)** | **(65)** |
| Income tax credit | | | | **5** | **1** | **6** |
| **Loss for the financial year** | | | | **(59)** | **-** | **(59)** |

[1] *Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash pension charge, non-cash lease contracts, exceptional items and profit on disposal of property, plant and equipment.*

[2] *Reported EBITDA includes the results of the group's joint ventures on a proportionate basis. The published basis includes the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis.*

**6. Segment information – continued**

The segment results for the year ended 30 June 2017 are as follows:

| | Fixed line €m | Mobile €m | Inter-segment €m | Reported[(2)] €m | IFRS 11 €m | Published[(2)] €m |
|---|---|---|---|---|---|---|
| **Revenue** | 993 | 341 | (35) | 1,299 | (16) | 1,283 |
| **Adjusted EBITDA** [(1)] | 452 | 68 | - | 520 | (11) | 509 |
| Non-cash lease contracts | 7 | - | - | 7 | - | 7 |
| Non-cash pension charge | (19) | - | - | (19) | - | (19) |
| Amortisation | (84) | (24) | - | (108) | - | (108) |
| Depreciation | (243) | (26) | - | (269) | (1) | (270) |
| Exceptional items (Note 8) | (92) | - | - | (92) | - | (92) |
| Profit on disposal of PPE | 4 | - | - | 4 | - | 4 |
| **Operating profit** | 25 | 18 | - | 43 | (12) | 31 |
| Finance costs | | | | (277) | - | (277) |
| Share of profit of investments accounted for using the equity method | | | | - | 10 | 10 |
| **Loss before income tax** | | | | (234) | (2) | (236) |
| Income tax credit | | | | 8 | 2 | 10 |
| **Loss for the financial year** | | | | (226) | - | (226) |

[(1)] *Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash pension charge, non-cash lease contracts, exceptional items and profit on disposal of property, plant and equipment.*

[(2)] *Reported EBITDA includes the results of the group's joint ventures on a proportionate basis. The published basis includes the results of the group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis.*

Other segment items included in the income statement are as follows:

| | Year ended 30 June 2017 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Fixed line €m | Mobile €m | Group €m | Fixed line €m | Mobile €m | Group €m |
| Impairment of trade receivables (Note 19) | 7 | 2 | 9 | **5** | **3** | **8** |
| Reversal of trade receivable impairments (Note 19) | - | - | - | **-** | **-** | **-** |
| Impairment of inventory (Note 18) | - | - | - | **-** | **-** | **-** |

**6. Segment information – continued**

The segment assets and liabilities and capital expenditure are as follows:

| | 30 June 2018 | | | |
|---|---|---|---|---|
| | **Fixed line €m** | **Mobile €m** | **Unallocated €m** | **Group €m** |
| **Assets** | **2,016** | **329** | **2** | **2,347** |
| **Liabilities** | **622** | **131** | **2,318** | **3,071** |
| **Capital expenditure:** | | | | |
| Intangible assets (Note 13) | **34** | **23** | **-** | **57** |
| Property, plant and equipment (Note 14) | **246** | **15** | **-** | **261** |

| | 30 June 2017 | | | |
|---|---|---|---|---|
| | **Fixed line €m** | **Mobile €m** | **Unallocated €m** | **Group €m** |
| **Assets** | 2,052 | 336 | 6 | 2,394 |
| **Liabilities** | 859 | 136 | 2,301 | 3,296 |
| **Capital expenditure:** | | | | |
| Intangible assets (Note 13) | 23 | 11 | - | 34 |
| Property, plant and equipment (Note 14) | 226 | 38 | - | 264 |

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, inventories, receivables and operating cash. They exclude taxation and investments.

Segment liabilities comprise operating liabilities, retirement benefit liability and provisions for liabilities and other charges. They exclude items such as taxation, borrowings, interest payable and derivatives.

Capital expenditure comprises additions to intangible assets (Note 13) and property, plant and equipment (Note 14).

*Geographical information*
The group is domiciled in the Republic of Ireland. The group operates in two countries, Republic of Ireland and the United Kingdom, though substantially all of the group's revenues arise in the Republic of Ireland. For the purposes of the geographical allocation of revenue, the group identifies revenues earned by entities operating in each country. Total revenue of the group for the current year is €1,252 million (30 June 2017: €1,283 million) of which €1,217 million (30 June 2017: €1,246 million) was earned by group entities operating in the Republic of Ireland and €35 million (30 June 2017: €37 million) was earned by group entities operating in the United Kingdom. Total non-current assets of the group, other than investments and deferred tax assets as at year end are €1,937 million (30 June 2017: €2,016 million), of which €1,931 million were located in the Republic of Ireland (30 June 2017: €2,009 million) and €6 million were located in the United Kingdom (30 June 2017: €7 million).

The group has one single external customer where revenue of €131 million is 10% of the group's total revenue for the current year of €1,252 million. These revenues were earned by both the fixed line and mobile segments.

**7. Operating costs**

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | 232 | **222** |
| Social insurance costs | 12 | **12** |
| Pension costs – defined contribution plans (Note 34) | 5 | **5** |
| Pension costs – defined benefit plans (Note 34) | 34 | **30** |
| | 283 | **269** |
| Staff costs capitalised | (74) | **(70)** |
| **Net staff costs included in operating costs (a)** | 209 | **199** |
| Other operating costs: | | |
| Amounts paid and payable to telecommunications operators | 100 | **96** |
| Purchase of goods for resale, commission and related costs | 189 | **172** |
| Materials and services | 17 | **16** |
| Other network costs | 13 | **14** |
| Accommodation | 87 | **81** |
| Sales and marketing | 69 | **64** |
| Customer services | 39 | **38** |
| Transport and travel | 11 | **11** |
| IT costs | 24 | **27** |
| Provision for impaired receivables | 9 | **8** |
| Other costs | 19 | **16** |
| **Total other operating costs** | 577 | **543** |
| **Operating costs excluding amortisation, depreciation, restructuring and other exceptional items** | 786 | **742** |
| Amortisation (Note 13) | 108 | **101** |
| Depreciation of property, plant & equipment (Note 14) | 270 | **291** |
| Exceptional items (Note 8) | 92 | **87** |
| **Total operating costs** | 1,256 | **1,221** |
| Profit on disposal of property, plant and equipment (Note 9) | (4) | **(1)** |
| **Total operating costs (net)** | 1,252 | **1,220** |

**(a) Operating costs are stated after charging:**

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Staff costs | 283 | **269** |
| Exceptional restructuring programme costs (Note 8) | 52 | **68** |
| Exceptional incentive plans (Note 8) | 2 | **8** |
| Total staff costs | 337 | **345** |
| Staff costs capitalised | (74) | **(70)** |
| **Total staff costs (net of staff costs capitalised)** | 263 | **275** |
| Research costs | - | **-** |
| Hire of plant and machinery | 3 | **3** |
| Other operating lease rentals | 41 | **34** |

## 8. Exceptional items

| | Year ended 30 June 2017 €m | **Year ended 30 June 2018 €m** |
|---|---|---|
| Restructuring programme costs (a) | 52 | **68** |
| Management incentive plan (b) | 2 | **8** |
| Onerous lease contracts (c) | 27 | **(1)** |
| Transaction related and strategic review costs (d) | 6 | **10** |
| Other exceptional items (e) | 5 | **2** |
| **Exceptional charge** | 92 | **87** |

***(a) Restructuring programme costs***
The group included an exceptional charge of €68 million (30 June 2017: €52 million) for restructuring programme costs in the year ended 30 June 2018. The exceptional charge includes €67 million for staff who had either exited the business, or were committed to exiting the business, at 30 June 2018 and provision for future staff exits of €1 million.

The charge of €68 million at 30 June 2018 includes an IAS 19 (Revised) defined benefit pension charge in relation to past service costs of €6 million (30 June 2017: €2 million).

***(b) Management incentive plan***
The group recognised a charge of €5 million (30 June 2017: €2 million) in its income statement in the year ended 30 June 2018, with a corresponding increase in equity, in respect of contractual rights under the MIP awarded by the immediate parent company, eircom Holdco S.A., to the group's employees, for which the group has no obligation to make any payment.

Also during the year ended 30 June 2018, the group recognised a charge of €3 million in respect of a long-term incentive plan ("LTIP") for certain group employees in its income statement.

***(c) Onerous lease contracts***
During the year ended 30 June 2018, €1 million was released from the onerous lease contracts provision as a result of a change in the group's estimate of the expected outflows under the relevant leases.

During the year ended 30 June 2017, the group recognised an exceptional charge of €27 million in respect of onerous contracts on its leasehold properties. The group no longer requires these properties as a result of the rationalisation of the group’s accommodation requirements and provision has been made in respect of the estimated cash flow required to meet the future lease payments net of any sub-lease income for these leases.

***(d) Transaction related and strategic review costs***
The group recognised an exceptional charge of €10 million for costs incurred by the group, in connection with the acquisition by NJJ Telecom Europe (“NJJ”), alongside Iliad SA (“Iliad”), to acquire a major stake in the eir group, and for strategic review and other project related costs (30 June 2017: €6 million) incurred in the year ended 30 June 2018.

***(e) Other exceptional items***
During the year ended 30 June 2018, the group recognised an exceptional charge of €1 million (30 June 2017: €4 million) in respect of legal related matters and €1 million (30 June 2017: €1 million) for the deferred consideration arrangement following the acquisition of a subsidiary undertaking in April 2016.

## 9. Profit on disposal of property, plant and equipment

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Profit on disposal of property, plant and equipment | 4 | **1** |
| | 4 | **1** |

During the year ended 30 June 2018, the group sold a number of properties that were no longer required for €3 million (30 June 2017: €16 million). See Note 30(b) for further information.

## 10. Finance costs - net

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| (a) Finance costs: | | |
| Interest payable on bank loans and other debts | 105 | **92** |
| Interest amortisation on non-current borrowings | 20 | **5** |
| Net interest cost on net pension liability | 6 | **5** |
| Amortisation of debt issue costs and debt modification fees | 4 | **3** |
| Other unwinding of discount | 2 | **2** |
| Amortisation of 'Cash Flow Hedge Reserve' derivatives | - | **(2)** |
| Fair value movements on derivatives not qualifying for hedge accounting | (8) | **(5)** |
| | 129 | **100** |
| Loss on extinguishment of debt | 131 | **-** |
| Write off of debt issue costs and debt modification fees | 15 | **-** |
| Revolving credit facility arrangement fee and other fees | 2 | **2** |
| | 277 | **102** |
| (b) Finance income: | | |
| Interest income | - | **-** |
| | - | **-** |
| **Finance costs – net** | 277 | **102** |

During the year ended 30 June 2017, the refinancing of Facility B borrowings included new money commitments, as well as the exchange of borrowings under the existing facilities at par. The prepayment of the existing borrowings was accounted for as an extinguishment under IAS 39 resulting in an accounting loss of €131 million in the income statement within 'finance costs'.

See Note 23 for further information.

**11. Income tax credit**

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| (a) **Recognised in the income statement** | | |
| **Current tax expense** | | |
| Current financial period | 8 | **10** |
| Adjustments for prior periods | (1) | **(3)** |
| | 7 | **7** |
| **Deferred tax expense** | | |
| Origination and reversal of temporary difference | (17) | **(15)** |
| Adjustments for prior periods | - | **2** |
| | (17) | **(13)** |
| **Total income tax credit in income statement** | (10) | **(6)** |

The tax credit for the year ended 30 June 2018 includes a credit of €9 million (30 June 2017: €10 million) in respect of exceptional items (see Note 8).

(b) **Reconciliation of effective tax rate**
The tax on the group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated companies as follows:

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| **Loss before tax** | (236) | **(65)** |
| Tax calculated at Irish tax rates | (29) | **(8)** |
| ***Effects of:-*** | | |
| Non deductible expenses | 21 | **4** |
| Income taxable at higher rate | 1 | **1** |
| Utilisation of losses carried forward | (1) | **(2)** |
| Income not subject to taxation | (1) | **-** |
| Adjustments in respect of prior periods | (1) | **(1)** |
| **Tax credit for financial period (Note 11(a))** | (10) | **(6)** |

The weighted average applicable tax rate was 12.5% (30 June 2017: 12.5%).

**(c) Significant estimates and judgements**

*Current tax*
The actual tax the group pays is determined according to complex tax laws and regulations. Where the effect of these laws and regulations are unclear, the group uses estimates in determining the liability for the tax to be paid. The group believes the estimates, assumptions and judgements are reasonable but the estimates can involve complex issues which may take a number of years to resolve. The final determination of tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement in future periods. The value of the group's current tax liability is disclosed on the balance sheet.

*Deferred tax*
Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. The carrying value of the group's deferred tax assets and liabilities are disclosed in Notes 16 and 25, respectively.

**12. Goodwill**

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| **Cost** | | |
| At beginning of financial period | 754 | **754** |
| **At end of financial period** | 754 | **754** |
| | | |
| **Accumulated impairments** | | |
| At beginning of financial period | (542) | **(542)** |
| Recognised during the financial period | - | **-** |
| **At end of financial period** | (542) | **(542)** |
| | | |
| **Net book value at end of financial period** | 212 | **212** |

Goodwill is not subject to amortisation. Instead, goodwill is tested for impairment annually as part of the cash generating unit ("CGU") to which it relates, and is carried at cost less accumulated impairment losses.

The majority of the group's goodwill carried forward from prior years relates to the acquisition of eircom Limited in June 2012, pursuant to a Scheme of Arrangement of creditors approved by the High Court. eircom Holdings (Ireland) Limited acquired 100% of the share capital of eircom Limited for consideration of €1. Goodwill of €836 million was recognised as the difference between the purchase consideration and the fair value of the individual assets and liabilities at the date of acquisition, 11 June 2012. The goodwill arose in part because eircom Limited was acquired for a nominal amount pursuant to the Scheme of Arrangement and because the pension obligation and the deferred tax balances were recognised in accordance with the measurement requirements of IAS 19 and IAS 12 respectively and not at fair value. No goodwill was allocated to the Mobile CGU. The group identified an impairment of €542 million in the year ended 30 June 2012 relating to the Fixed Line CGU.

In the year ended 30 June 2013, eircom Limited sold its 100% shareholding in eircom Phonewatch Limited and recognised disposal of goodwill of €102 million as a result of the transaction.

On 1 April 2016, the group acquired 100% of the share capital of Setanta Sports Channel Ireland Limited (a company incorporated in Ireland) as well as the Irish residential subscriber business and assets of Setanta Sports Hibernia Sàrl (together "Setanta Sports Ireland"). Goodwill of €20 million was recognised on the acquisition of Setanta Sports Ireland and allocated to the group's Fixed Line CGU.

The CGU summary of the goodwill allocation is as follows:

| | Fixed Line 30 June 2017 €m | Mobile 30 June 2017 €m | Fixed Line 30 June 2018 €m | Mobile 30 June 2018 €m |
|---|---|---|---|---|
| Goodwill | 212 | - | **212** | **-** |

An impairment test of the Fixed Line CGU was performed as of 30 June 2018 and no impairment was identified.

**Impairment test of Fixed Line CGU as at 30 June 2018**
An impairment test of the Fixed Line CGU was performed as at 30 June 2018 in accordance with IAS 36, Impairment of Assets. The impairment test has been undertaken at the year end date. Tangible and intangible assets are an integrated part of the CGU carrying values and are tested together with the goodwill.

An impairment test of the Fixed Line CGU is required annually as it contains goodwill. An impairment test of the Mobile CGU is not required as at 30 June 2018 as the group held no Mobile intangible assets not yet available for use for which the recoverable amount could not be estimated on an individual asset basis. The Directors concluded that there was no indicator of impairment and consequently no test of impairment was required to be performed.

***Impairment testing methodology***
The recoverable amount of the CGU is determined on the basis of the higher of the fair value less costs to sell and value-in-use, using the discounted cash flow (DCF) method. Cash flows for the years beyond the approved business plans are extrapolated using the estimated long-term growth rates stated below. The cash flows are discounted using the discount rates stated below.

The impairment test was based on fair value less costs to sell which is higher than value in use because of the investment in infrastructure development required by the group's CGU. The cash flows and assumptions used as of 30 June 2018 for the impairment test are consistent with the assumptions that would be made by a market participant acquiring the CGU.

**12. Goodwill - continued**

*Key assumptions*
The key assumptions are based on past experience, adjusted for expected changes in future conditions. Key assumptions involved in the calculation of fair value less costs to sell include management's estimates of future operating cash-flows, capital expenditure requirements, tax considerations, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were benchmarked against external information on comparable companies in similar markets.

The group considers the business plan and long-term projections to be reasonable in view of the anticipated long-term performance of the Irish economy and consistent with the assumptions that would be used by a market participant. Adjustments are made to the business plan cash flows to take account of possible variations in the amount or timing of cash flows, which can be affected by factors such as increased competitor activity, the roll-out of new technologies and the timing of the introduction of new services, pricing trends, termination rates, customer acquisition costs, margin levels and restructuring programmes, such that the estimated cash flows reflect the range of possible outcomes for each CGU's future trading performance.

The fixed line fair value less costs to sell is not observable in a quoted market and accordingly it has been determined with reference to various assumptions, which are considered to result in a "level 3" valuation.

*Fair Value less Costs to Sell – cash flow projections*
At 30 June 2018 and 30 June 2017, these calculations used post-tax cash flow projections based on business plans approved by management, as adjusted for market participant assumptions, covering a period up to 30 June 2021.

The other key assumptions used for fair value less costs to sell calculations for the Fixed Line and Mobile CGUs are as follows:

| | Fixed Line 30 June 2017 | Mobile 30 June 2017 | Fixed Line 30 June 2018 | Mobile 30 June 2018 |
|---|---|---|---|---|
| Long-term growth rates | -0.75% | N/A | **-0.75%** | **N/A** |
| Discount rates (Post-tax) | 7.16% | N/A | **7.16%** | **N/A** |
| Budgeted EBITDA[1] | 1.73% | N/A | **2.56%** | **N/A** |
| Budgeted capital expenditure[2] | 14%-22% | N/A | **14%-28%** | **N/A** |

**Notes:**
[1] Budgeted EBITDA is expressed as the compound annual growth rates over the periods covered by the business plans for all cash-generating units of the plans used for impairment testing.

[2] Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue (for all periods covered by the business plans plus the terminal value).

*Long Term Growth Rates*
The long-term growth rates are determined based on the long-term historical growth rates of the sectors in which the CGUs operate, and reflect an assessment of the long-term growth prospects of the sectors. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

*Discount Rates*
The discount rates used reflect specific risks relating to the CGUs. The assumptions used have been benchmarked to externally available data. The methodology is based on the Capital Asset Pricing Model (CAPM). At 30 June 2018, the yield on ten-year Irish government bonds provided the basis for the risk free rate, which was then adjusted to take account of market risks specific to the CGUs. The group has used Irish government bond yields as the basis for the risk-free rate in keeping with its observations of practices applied by external market analysts in determining appropriate weighted average costs of capital for Irish companies. In estimating the discount rate under CAPM, in addition to the risk-free rate, other inputs required are the equity market risk premium (that is the excess return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment factor known as beta is applied to reflect the risk of the specific CGU operations relative to the market as a whole. In determining the risk adjusted discount rate, management has applied an adjustment for the risk of the group's CGUs determined using an average of the observed betas of comparable companies.

**12. Goodwill - continued**

**Significant estimates and judgements**
*Making appropriate assumptions on non-financial asset impairment reviews*
The group undertakes a review for impairment of goodwill, intangible assets not yet available for use annually and for other non-financial assets if events or circumstances indicate that the carrying amount may not be recoverable.

Factors which the group consider could trigger an impairment include, but are not limited to the following: (1) significant negative industry or economic trends, (2) current, historical or projected losses that demonstrate continuing losses, (3) results of fair market valuations performed or (4) changes in key assumptions underpinning the fair value less cost to sell and value in use calculations. These impairment charges under IFRS are based upon the excess of the carrying amount of the asset over its recoverable amount, which is the higher of the fair value less cost to sell and its value in use, based on discounted future cash flows. When an asset is not recoverable in full, impairment is measured as the excess of carrying value over the recoverable amount of the long-life asset. Management incorporates estimates when evaluating the carrying amount, the recoverable amount, the value in use and the fair value less cost to sell. Changes in these estimates directly affect management's assessment of whether an impairment charge is required and the amount of the impairment charge recorded.

The discount rate used in impairment testing is derived from a weighted average cost of capital ("WACC") which is impacted by interest rates and market risk premiums, estimated for companies in the telecommunications sector. There is a risk that the WACC could increase significantly in future periods, depending on market volatility. There is also a risk of deterioration in the budgeted future cash flows as a result of the current economic environment.

Any significant deterioration in the budgeted future cash flows or changes in WACC or estimates in respect of terminal growth rates could result in a further impairment of our goodwill and/or non-financial assets, which could have a further negative effect on operating profits and assets. Future cash flows would not be impacted by any impairment provision.

**13. Other intangible assets**

| | Computer software €m | Trademarks €m | Contracts and related customer relationships €m | TV content rights €m | Licence €m | Total €m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 July 2016 | 328 | 127 | 54 | 15 | 195 | 719 |
| Additions | 34 | - | - | - | - | 34 |
| **At 30 June 2017** | **362** | **127** | **54** | **15** | **195** | **753** |
| Additions | **45** | **-** | **-** | **-** | **12** | **57** |
| Transfer from tangible assets | **1** | **-** | **-** | **-** | **-** | **1** |
| **At 30 June 2018** | **408** | **127** | **54** | **15** | **207** | **811** |
| **Accumulated Amortisation** | | | | | | |
| At 1 July 2016 | 174 | 19 | 48 | 1 | 48 | 290 |
| Charge for the financial year | 64 | 25 | 3 | 5 | 11 | 108 |
| **At 30 June 2017** | **238** | **44** | **51** | **6** | **59** | **398** |
| Charge for the financial year | **57** | **26** | **3** | **4** | **11** | **101** |
| **At 30 June 2018** | **295** | **70** | **54** | **10** | **70** | **499** |
| **Net Book Value at 30 June 2018** | **113** | **57** | **-** | **5** | **137** | **312** |
| Net Book Value at 30 June 2017 | 124 | 83 | 3 | 9 | 136 | 355 |

Assets in the course of completion and other intangible assets not yet available for use included in other intangibles assets are €20 million (30 June 2017: €10 million).

Computer software relates to internal and external capitalised software development costs.

**Significant estimates and judgements**
*Establishing lives for amortisation purposes of intangible assets*
The group has significant levels of intangible assets. The amortisation charge is dependent on the estimated lives allocated to each type of intangible asset. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives and the expected pattern of consumption of the future economic benefits embodied in the asset. Where the useful life of an intangible asset is reassessed as finite rather than indefinite a test for impairment is carried out. Changes in asset lives can have a significant impact on amortisation charges for the period.

For additional information see details of the useful lives set out in Note 3.4.

**14. Property, plant and equipment ("PPE")**

| | Land and Buildings €m | Network, Plant And Equipment €m | Total €m |
|---|---|---|---|
| **Cost** | | | |
| At 1 July 2016 | 249 | 2,253 | 2,502 |
| Additions | - | 264 | 264 |
| Exchange adjustments | - | (1) | (1) |
| Disposals/retirements | (12) | (5) | (17) |
| **At 30 June 2017** | **237** | **2,511** | **2,748** |
| Additions | **-** | **261** | **261** |
| Transfer to intangible assets | **-** | **(1)** | **(1)** |
| Disposals/retirements | **(2)** | **(2)** | **(4)** |
| **At 30 June 2018** | **235** | **2,769** | **3,004** |
| **Accumulated Depreciation** | | | |
| At 1 July 2016 | 75 | 976 | 1,051 |
| Charge for financial year | 17 | 253 | 270 |
| Disposals/retirements | (2) | (5) | (7) |
| **At 30 June 2017** | **90** | **1,224** | **1,314** |
| Charge for financial year | **17** | **275** | **292** |
| Disposals/retirements | **-** | **(2)** | **(2)** |
| **At 30 June 2018** | **107** | **1,497** | **1,604** |
| **Net Book Value at 30 June 2018** | **128** | **1,272** | **1,400** |
| Net Book Value at 30 June 2017 | 147 | 1,287 | 1,434 |

The group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value. The review for the year ended 30 June 2018 and 30 June 2017 resulted in no material adjustments to asset lives.

Assets in the course of construction included in property, plant and equipment are €78 million (30 June 2017: €73 million).

The depreciation charged in the income statement is net of capital grants amortised during the financial year as follows:-

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Depreciation | 270 | **292** |
| Amortisation of capital grants | - | **(1)** |
| | 270 | **291** |

**Significant estimates and judgements**

*Establishing lives for depreciation purposes of property, plant and equipment*

Long-life assets, consisting primarily of property, plant and equipment, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation, physical condition of the assets concerned and other factors that may impact on the remaining useful lives of assets. Changes in asset lives can have a significant impact on depreciation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis as asset lives are individually determined and there are a significant number of asset lives in use. The impact of any change would vary significantly depending on the individual changes in assets and the classes of assets impacted.

For additional information see details of the useful lives set out in Note 3.13.

**15. Investments**

**Investments in Joint ventures**

At 30 June 2018, the group has a joint venture in Tetra Ireland Communications Limited ("Tetra"). The following tables presents, on a condensed basis, the summarised financial information of Tetra. The information disclosed reflects the amount reported in the financial statements of Tetra and not the group's share of those amounts.

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Revenue | 35 | **37** |
| Operating costs excluding depreciation | (16) | **(19)** |
| Depreciation | 3 | **(8)** |
| **Operating profit** | 22 | **10** |
| Finance costs – net | - | **-** |
| **Profit before tax** | 22 | **10** |
| Income tax charge | (3) | **(2)** |
| **Profit for the financial year** | 19 | **8** |

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| **Profit for the financial year** | 19 | **8** |
| Other comprehensive income | - | **-** |
| **Total comprehensive income for the financial year** | 19 | **8** |

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| **ASSETS** | | |
| Non-current assets | 15 | **8** |
| Current assets | 12 | **13** |
| **Total assets** | 27 | **21** |
| | | |
| **LIABILITIES** | | |
| Non-current liabilities | 8 | **7** |
| Current liabilities | 13 | **14** |
| **Total liabilities** | 21 | **21** |
| | | |
| **EQUITY** | | |
| Total equity | 6 | **-** |
| **Total equity** | 6 | **-** |
| | | |
| **Total liabilities and equity** | 27 | **21** |

## 16. Deferred tax asset

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

**Recognised deferred tax assets**
Deferred tax assets are attributable to the following:

| | Assets 30 June 2018 €m | Liabilities 30 June 2018 €m | Net 30 June 2018 €m |
|---|---|---|---|
| Tax loss carry forward | **1** | **-** | **1** |
| Property, plant and equipment | **1** | **-** | **1** |
| | **2** | **-** | **2** |

| | Assets 30 June 2017 €m | Liabilities 30 June 2017 €m | Net 30 June 2017 €m |
|---|---|---|---|
| Tax loss carry forward | 2 | - | 2 |
| Property, plant and equipment | 1 | - | 1 |
| | 3 | - | 3 |

The movement in deferred tax assets during the year ended 30 June 2018 is as follows:

| | 1 July 2017 €m | Recognised in income statement credit/(charge) €m | Recognised in other comprehensive income €m | 30 June 2018 €m |
|---|---|---|---|---|
| Tax loss carry forward | **2** | **(1)** | **-** | **1** |
| Property, plant and equipment | **1** | **-** | **-** | **1** |
| | **3** | **(1)** | **-** | **2** |

The movement in deferred tax assets during the year ended 30 June 2017 is as follows:

| | 1 July 2016 €m | Recognised in income statement credit/(charge) €m | Recognised in other comprehensive income €m | 30 June 2017 €m |
|---|---|---|---|---|
| Tax loss carry forward | 3 | (1) | - | 2 |
| Property, plant and equipment | 1 | - | - | 1 |
| | 4 | (1) | - | 3 |

**17. Other assets**

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| Deposits and other non-current assets | 1 | **-** |
| Loan advanced to holding company | 14 | **13** |
| | 15 | **13** |

**18. Inventories**

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| Network development and maintenance stocks | 11 | **7** |
| Consumable and other stocks | 5 | **4** |
| | 16 | **11** |

The cost of inventories recognised as an expense and included in “operating costs” amounted to €71 million (30 June 2017: €93 million). The net replacement cost of stocks is not expected to be materially different from that shown above.

During the year ended 30 June 2018, the group recognised a loss for impaired inventories of €Nil (30 June 2017: €Nil), reversed previous recognised impaired inventories of €Nil (30 June 2017: €Nil), and utilised provisions for impaired inventories of €Nil (30 June 2017: €Nil). The creation and reversal of provisions for impaired inventories have been included in “operating costs” in the income statement.

## 19. Trade and other receivables

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| **Current assets:** | | |
| Trade receivables | 129 | **115** |
| Less: Provision for impairment of trade receivables | (10) | **(8)** |
| Trade receivables – net | 119 | **107** |
| Prepayments and accrued income | 72 | **81** |
| Other current assets | 3 | **5** |
| Amounts due from joint ventures | 2 | **2** |
| | 196 | **195** |

The fair values of trade and other receivables approximate to their carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of 30 June 2018, trade receivables of €8 million (30 June 2017: €10 million) were impaired and provided for on the basis that a portion of these trade receivables is expected to be recovered.

The amount of the provision for impairment of trade receivables was €8 million as of 30 June 2018 (30 June 2017: €10 million). Total additional provisions of €8 million (30 June 2017: €9 million) relate to individual impairments of €Nil (30 June 2017: €Nil) and collective impairments of €8 million (30 June 2017: €9 million). Total reversals of unused provisions of €Nil (30 June 2017: €Nil) relate to individual impairments of €Nil (30 June 2017: €Nil) and collective impairments of €Nil (30 June 2017: €Nil).

**Significant estimates and judgements**
*Providing for doubtful debts*
The group provides services to individuals and business customers on credit terms. The group expects that some debts due will not be paid as a result of the default of a small number of customers. The group uses estimates based on historical and current experience in determining the level of debts which may not be collected. These estimates include such factors as the current state of the Irish economy and particular industry issues. If the Irish economy deteriorated or negative industry trends, there might be an increase in the estimated level of debts that may not be collected, which would negatively impact the operating results. The level of provision required is reviewed on an ongoing basis.

**Provision for impairment of trade receivables**
The following table shows the movements on the provision for impairment of trade receivables:

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| At beginning of financial period | 11 | **10** |
| Charged to income statement: | | |
| - Additional provisions | 9 | **8** |
| Utilised in the financial year | (10) | **(10)** |
| **At end of financial period** | 10 | **8** |

The creation and reversal of provisions for impaired receivables are included in “operating costs” in the income statement.

### 20. Restricted cash

The restricted cash of €5 million (30 June 2017: €18 million) is in relation to cash lodged for performance guarantees of €1 million (30 June 2017: €14 million) and €4 million (30 June 2017: €4 million) security in respect of ancillary facilities. The interest earned on these deposits, after deduction of any taxation payable, is due to the group.

*Performance guarantees*
Performance guarantee deposits have been lodged in respect of the group's obligation to make payments to third parties in the event that the group does not perform its contracted commitments under the terms of certain contracts. At 30 June 2018, these include €Nil (30 June 2017: €1 million) in respect of undertakings arising in relation to the roll out of our 3G network in Ireland and €1 million (30 June 2017: €13 million) in relation to other deposits, including obligations under certain commercial contracts.

The maximum exposure to credit risk at the reporting date is €5 million (30 June 2017: €18 million).

### 21. Cash and cash equivalents

| | 30 June 2017<br>€m | 30 June 2018<br>€m |
|---|---|---|
| Cash at bank and on hand | 37 | **40** |
| Short-term bank deposits | 105 | **157** |
| **Cash and cash equivalents** | 142 | **197** |

The book value of cash and cash equivalents approximates their fair value. At 30 June 2018, the effective interest rate on short term bank deposits was -0.359%. These deposits had a weighted average maturity of 9 days.

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents mentioned above.

### 22. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

| **Assets as per balance sheet** | **Assets at fair value through profit or loss**<br>**€m** | **Loans and receivables**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|
| Other assets | **-** | **13** | **13** |
| Trade receivables | **-** | **107** | **107** |
| Other current assets | **-** | **5** | **5** |
| Amounts due from joint ventures | **-** | **2** | **2** |
| Restricted cash | **-** | **5** | **5** |
| Cash and cash equivalents | **-** | **197** | **197** |
| **At 30 June 2018** | **-** | **329** | **329** |
| Other assets | - | 14 | 14 |
| Trade receivables | - | 119 | 119 |
| Other current assets | - | 3 | 3 |
| Amounts due from joint ventures | - | 2 | 2 |
| Restricted cash | - | 18 | 18 |
| Cash and cash equivalents | - | 142 | 142 |
| **At 30 June 2017** | - | 298 | 298 |

**22. Financial instruments by category – continued**

The accounting policies for financial instruments have been applied to the line items below:

| **Liabilities as per balance sheet** | **Liabilities at fair value through profit or loss €m** | **Derivatives used for hedging €m** | **Loans and other liabilities €m** | **Total €m** |
|---|---|---|---|---|
| Borrowings | **-** | **-** | **2,244** | **2,244** |
| Derivative financial instruments | **-** | **2** | **-** | **2** |
| Trade payables | **-** | **-** | **155** | **155** |
| Interest payable | **-** | **-** | **6** | **6** |
| Accruals | **-** | **-** | **198** | **198** |
| TIS Liabilities | **-** | **-** | **11** | **11** |
| **At 30 June 2018** | **-** | **2** | **2,614** | **2,616** |
| Borrowings | - | - | 2,236 | 2,236 |
| Derivative financial instruments | 5 | - | - | 5 |
| Trade payables | - | - | 145 | 145 |
| Interest payable | - | - | 6 | 6 |
| Accruals | - | - | 150 | 150 |
| TIS Liabilities | - | - | 14 | 14 |
| **At 30 June 2017** | 5 | - | 2,551 | 2,556 |

*Fair value hierarchy*
The table below shows for the group's financial assets and liabilities that are recognised and subsequently measured at fair value their classification within a three-level fair value hierarchy.

**Level 1** comprises financial assets and liabilities valued using quoted market prices in active markets at the balance sheet date. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an arm's length basis on an ongoing basis.

**Level 2** comprises financial assets and liabilities valued using techniques based significantly on observable market data. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

**Level 3** comprises financial assets and liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument.

| **Financial liabilities held at fair value** | **Level 1 €m** | **Level 2 €m** | **Level 3 €m** | **Total €m** |
|---|---|---|---|---|
| Derivative financial instruments | **-** | **2** | **-** | **2** |
| **At 30 June 2018** | **-** | **2** | **-** | **2** |
| Derivative financial instruments | - | 5 | - | 5 |
| **At 30 June 2017** | - | 5 | - | 5 |

**23. Borrowings**

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | **30 June 2017 €m** | **30 June 2018 €m** | **30 June 2017 €m** | **30 June 2018 €m** |
| **Non-current liabilities** | | | | |
| Bank borrowings (Facility B) | 1,600 | **1,600** | 1,616 | **1,600** |
| Unamortised fair value difference on borrowings | (44) | **(39)** | - | **-** |
| Debt modification fees | (13) | **(11)** | - | **-** |
| | 1,543 | **1,550** | 1,616 | **1,600** |
| 4.5% Senior Secured Notes due 2022 | 700 | **700** | 734 | **718** |
| Debt issue costs | (7) | **(6)** | - | **-** |
| | 693 | **694** | 734 | **718** |
| **Total Borrowings** | 2,236 | **2,244** | 2,350 | **2,318** |

*Bank borrowings (Facility B)*
At 30 June 2018, the group has Senior Bank borrowings (Facility B) of €1,600 million, which are subject to a Senior Facilities Agreement, with a maturity date of 19 April 2024.

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 30 June 2018 was €39 million.

In August 2016, the group used proceeds from the Senior Secured Notes tap issue to repay €201 million of the pre-existing Facility B3 Senior Bank borrowings. Also, during August 2016, the group agreed amendments to the terms of its Senior Facilities Agreement, which resulted in the total outstanding Facility B3 borrowings of €1,662 million being transferred to a new Facility B4, with identical interest (EURIBOR plus 4.5%) and repayment terms.

In October 2016, the group used its existing cash to repay €51 million of its Senior Facility borrowings and also agreed amendments to the terms of its Senior Facilities Agreement, which resulted in the total outstanding Facility B4 borrowings of €1,611 million being transferred to a new Facility B5, with interest at EURIBOR plus 4% (a reduction from EURIBOR plus 4.5% applicable to Facility B4).

In April 2017, the group repaid €11 million of its Senior Bank Borrowings from its cash reserves and entered into a new €1,600 million Senior Facilities Agreement with a maturity date of April 2024 to replace the existing Senior Facilities Agreement. The new borrowings are subject to EURIBOR plus 3.25% margin (a reduction from EURIBOR plus 4% applicable to Facility B5). The terms of the Senior Facilities Agreement have also been improved by reducing the covenant compliance framework which will allow the group greater operational flexibility in the future. The group complied with covenant tests during the year ended 30 June 2017 and the year ended 30 June 2018.

The refinancing of Facility B borrowings during the year ended 30 June 2017 included new money commitments, as well as the exchange of borrowings under the existing facilities at par. The prepayment of the existing borrowings was accounted for as an extinguishment under IAS 39 resulting in an accounting loss of €131 million in the income statement within ‘finance costs’.

*Senior Secured Notes*
In August 2016, the group issued €200 million in additional Senior Secured Notes with a maturity date of 31 May 2022, and at an offering price of 101.5%. The €200 million issue, for which cash proceeds of €203 million were received before deduction of transaction costs, was structured as a tap issue to the €500 million Senior Secured Notes issued in June 2016. The Notes were issued by the group’s wholly owned subsidiary, eircom Finance DAC. The Notes rank equally in priority of payment with the existing borrowings subject to the Senior Facilities Agreement. The Notes are subject to fixed rate cash-pay interest at 4.5% payable in semi-annual instalments in May and November each year.

Transaction costs are initially deferred and are subsequently amortised over the expected life of the borrowings through finance costs in the income statement using the effective interest method under IAS 39.

*Fair values*
The fair value of borrowings are determined by reference to quoted market prices in active markets at the balance sheet date (classified as level 1 in the fair value hierarchy).

**23. Borrowings – continued**

**Maturity of financial borrowings**
The maturity profile of the carrying amount of the group's borrowings is set out below:

| | Within 1 Year €m | Between 1 & 2 Years €m | Between 2 & 5 Years €m | After 5 Years €m | Total €m |
|---|---|---|---|---|---|
| Bank borrowings (Facility B) | **-** | **-** | **-** | **1,600** | **1,600** |
| Unamortised fair value difference on borrowings | **-** | **-** | **-** | **(39)** | **(39)** |
| Debt modification fees | **-** | **-** | **-** | **(11)** | **(11)** |
| | **-** | **-** | **-** | **1,550** | **1,550** |
| 4.5% Senior Secured Notes due 2022 | **-** | **-** | **700** | **-** | **700** |
| Debt issue costs | **-** | **-** | **(6)** | **-** | **(6)** |
| | **-** | **-** | **694** | **-** | **694** |
| **At 30 June 2018** | **-** | **-** | **694** | **1,550** | **2,244** |
| Bank borrowings (Facility B) | - | - | - | 1,600 | 1,600 |
| Unamortised fair value difference on borrowings | - | - | - | (44) | (44) |
| Debt modification fees | - | - | - | (13) | (13) |
| | - | - | - | 1,543 | 1,543 |
| 4.5% Senior Secured Notes due 2022 | - | - | 700 | - | 700 |
| Debt issue costs | - | - | (7) | - | (7) |
| | - | - | 693 | - | 693 |
| **At 30 June 2017** | - | - | 693 | 1,543 | 2,236 |

**Borrowing facilities**
The group has a €150 million revolving credit facility, which was undrawn at 30 June 2018.

**Currency**
All of the group's borrowings are denominated in euro.

**24. Derivative financial instruments**

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | **30 June 2017** | **30 June 2018** | **30 June 2017** | **30 June 2018** |
| | **€m** | **€m** | **€m** | **€m** |
| **Non-current liabilities** | | | | |
| Interest rate swaps – cash flow hedges | - | **1** | - | **1** |
| **Current liabilities** | | | | |
| Interest rate swaps – cash flow hedges | - | **1** | - | **1** |
| Interest rate swaps – ineligible for hedge accounting | 5 | **-** | 5 | **-** |
| **Total liabilities** | 5 | **2** | 5 | **2** |

The group does not use derivatives for trading or speculative purposes.

*Interest rate swaps – cash flow hedges*
In April 2017, the group entered into three forward starting interest rate swaps designated and eligible for hedge accounting with a total notional principal amount of €650 million for the period from 11 June 2018 to 11 June 2020. The fixed interest rate on the swaps was between 0.222% and 0.223% and the floating rate was based on Euribor. These swaps replaced the previous three year swaps which expired on 11 June 2018.

*Interest rate swaps –ineligible for hedge accounting*
In November 2014, the group entered into two forward starting interest rate swaps with a total notional principal amount of €1,200 million for a period of three years from 11 June 2015 to 11 June 2018. On initial recognition, the interest rate swaps were designated as cash flow hedges in accordance with IAS 39. On 11 June 2015, the group effected an amendment and extension of the terms of its Facility B borrowings and the 'Amendment and Restatement' included the introduction of a floor for LIBOR and EURIBOR of zero. There was no corresponding floor in the group's interest rate swaps and therefore, the group's interest rate swaps ceased to meet the criteria for hedge accounting under IAS 39. The fair value of these derivatives were recognised immediately in the income statement.

The unrealised gain recognised in the income statement during the year ended 30 June 2018 that arises from derivatives ineligible for hedge accounting is €5 million (30 June 2017: €8 million). These amounts have been classified in the income statement within 'finance costs'.

## 25. Deferred tax liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Unused tax losses for which no deferred tax asset has been recognised were €16 million at 30 June 2018 (30 June 2017: €26 million), which would equate to a potential tax benefit of €2 million at the standard Irish corporation tax rate of 12.5%. The losses were incurred by a subsidiary undertaking which was acquired during the year ended 30 June 2016.

**Recognised net deferred tax liabilities**

Net deferred tax liabilities are attributable to the following

| | Assets 30 June 2018 €m | Liabilities 30 June 2018 €m | Net 30 June 2018 €m |
|---|---|---|---|
| Intangibles | **-** | **(10)** | **(10)** |
| Property, plant and equipment | **-** | **(68)** | **(68)** |
| Deferred revenues | **1** | **-** | **1** |
| Leases | **11** | **-** | **11** |
| Pensions | **3** | **-** | **3** |
| | **15** | **(78)** | **(63)** |

| | Assets 30 June 2017 €m | Liabilities 30 June 2017 €m | Net 30 June 2017 €m |
|---|---|---|---|
| Intangibles | - | (14) | (14) |
| Property, plant and equipment | - | (75) | (75) |
| Deferred revenues | 1 | - | 1 |
| Leases | 12 | - | 12 |
| Pensions | 32 | - | 32 |
| | 45 | (89) | (44) |

The movement in net deferred tax liabilities was as follows:

| | 1 July 2017 €m | Recognised in income statement credit/(charge) €m | Recognised in other comprehensive income €m | 30 June 2018 €m |
|---|---|---|---|---|
| Intangibles | **(14)** | **4** | **-** | **(10)** |
| Property, plant and equipment | **(75)** | **7** | **-** | **(68)** |
| Deferred revenues | **1** | **-** | **-** | **1** |
| Leases | **12** | **(1)** | **-** | **11** |
| Pensions | **32** | **4** | **(33)** | **3** |
| | **(44)** | **14** | **(33)** | **(63)** |

| | 1 July 2016 €m | Recognised in income statement credit/(charge) €m | Recognised in other comprehensive income €m | 30 June 2017 €m |
|---|---|---|---|---|
| Intangibles | (18) | 4 | - | (14) |
| Property, plant and equipment | (86) | 11 | - | (75) |
| Deferred revenues | 1 | - | - | 1 |
| Leases | 13 | (1) | - | 12 |
| Pensions | 43 | 4 | (15) | 32 |
| | (47) | 18 | (15) | (44) |

**26. Provisions for other liabilities and charges**

| | TIS Annuity Scheme €m | Restructuring Costs €m | Onerous Contracts €m | Asset Retirement Obligations €m | Deferred consideration €m | Other €m | Total €m |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2016** | 18 | - | 24 | 60 | 3 | 37 | 142 |
| Charged/(credited) to consolidated income statement: | | | | | | | |
| - Additional provisions | - | 34 | 27 | - | 1 | 3 | 65 |
| - Unused amounts reversed | - | - | (1) | - | - | (1) | (2) |
| - Unwinding of discount | - | - | 1 | - | - | - | 1 |
| Decrease in provision capitalised as asset retirement obligation | - | - | - | (9) | - | - | (9) |
| Utilised in the financial year | (4) | - | (8) | (1) | - | (7) | (20) |
| **At 30 June 2017** | **14** | **34** | **43** | **50** | **4** | **32** | **177** |
| Charged/(credited) to consolidated income statement: | | | | | | | |
| - Additional provisions | **-** | **1** | **-** | **-** | **1** | **3** | **5** |
| - Unused amounts reversed | **-** | **-** | **(1)** | **-** | **-** | **(2)** | **(3)** |
| Transfer to receivables | **-** | **-** | **-** | **-** | **-** | **5** | **5** |
| Increase in provision capitalised as asset retirement obligation | **-** | **-** | **-** | **3** | **-** | **-** | **3** |
| Utilised in the financial year | **(3)** | **(26)** | **(10)** | **(1)** | **(2)** | **(4)** | **(46)** |
| **At 30 June 2018** | **11** | **9** | **32** | **52** | **3** | **34** | **141** |

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

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| Non-current | 110 | **104** |
| Current | 67 | **37** |
| | 177 | **141** |

**(a) Temporary income stream ("TIS") annuity scheme**

The eircom Limited group established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of ten years. The group estimates the annuity liability as the present value of the fixed payment stream due to employees. At 30 June 2018, the remaining TIS annuity scheme provision is expected to be substantially utilised over a period of five years.

**(b) Restructuring costs**

The group has a constructive obligation at 30 June 2018 in respect of the remaining exits under a staff restructuring programme announced in April 2018 when the group announced a plan to reduce its workforce through an incentivised exit scheme for employees. The group recognised a provision of €1 million as at 30 June 2018 (30 June 2017: €34 million) to reflect the estimated costs associated with the plan.

As these are voluntary schemes, the timing of individual exits and individual staff participating requires estimation. The estimation of the cost is based on actual costs in respect of those staff who have already exited the business during the year. Changes in these estimates over the life of the current plan directly affect the income statement.

**26. Provisions for other liabilities and charges - continued**

**(c) Onerous Contracts**
The group has onerous contracts associated with vacant offices and leasehold properties, arising principally from operational restructurings. The group also has onerous contracts associated with ongoing data centre operations and in relation to the settlement of certain legal matters. At 30 June 2018, the liabilities are expected to be discharged over a period of one to fifteen years.

**Significant estimates and judgements**
The group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows reflect current economic conditions and estimates are used in determining the level of provisions required in respect of leasehold properties, including properties still in use. The estimation of outflows also reflects current economic conditions and judgements in respect of sub lease income on certain properties. If the group were unable to sublet the properties for the duration of the lease an additional provision of €26 million would be required in the financial statements.

**(d) Asset Retirement Obligations**
The group has provisions for costs arising from certain obligations in relation to the retirement and decommissioning of assets, mainly certain poles, batteries, international cable and dismantling and restoration of mobile antenna sites. It is expected that most of these costs will be paid during the period 2019 to 2033, and these anticipated cash flows are discounted using a real rate of return of between 2% and 4%.

**Significant estimates and judgements**
Significant judgement is required in determining the amount and timing of cash flows associated with the asset retirement obligations as some of the cash flows are anticipated up to 15 years in the future, and there has been no significant retirement or decommissioning costs incurred to date. There are also ongoing changes in legislation which impact on the group's assessment on the level of cost and the manner in which certain asset retirement obligations can be met. Any adverse changes in legislation or interpretations of existing legislation could have a significant impact on the group's estimate of its asset retirement obligations.

**(e) Deferred consideration**
The deferred consideration arrangement arising on the business combination in the year ended 30 June 2016 requires the group to make a payment of €3 million to the former owners of Setanta Sports Channel Ireland Limited following the acquisition of the subsidiary undertaking by the group on 1 April 2016. This liability will become due on 1 October 2018, subject to warranties set out in the Share Purchase Agreement.

The additional provision of €1 million included in the year ended 30 June 2018 (30 June 2017: €1 million) and charged to exceptionals in the income statement was paid in April 2018.

**(f) Other**
The group is self insured in respect of certain personal injury and damage claims for the estimated cost of incidents which have occurred up to 30 June 2018, based on a case by case review with actuarial assistance. The payments will be made as the cases are settled. The group also has provisions for costs arising from certain compliance matters, consisting primarily of commercial matters, which are being handled and defended in the ordinary course of business.

**Significant estimates and judgements**
In determining whether provisions are required with respect to pending or threatened litigation, management reviews the following: (1) the period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred, (2) the degree of probability of an unfavourable outcome, and (3) the ability to make a reasonable estimate of the amount of loss. Upon considering the above and other known relevant facts and circumstances, the group recognises any loss that is considered probable and that can be measured reliably as of the balance sheet date. In addition, the group provides for other items of an uncertain timing or amount, such as liabilities arising as a result of self-insurance and disputes with third parties, including regulatory and taxation authorities. These provisions are recognised when the group has a legal or constructive obligation as a result of past events and a reliable estimate of that obligation can be made. Estimates and judgements are used in determining the level of provisioning required and the timing of payments.

For additional information see details of the contingent liabilities set out in Note 37.

**27. Trade and other payables**

| | 30 June 2017 €m | 30 June 2018 €m |
|---|---|---|
| **Non-current liabilities: -** | | |
| Unfavourable lease contracts arising on acquisition | 85 | **77** |
| Trade payables | 43 | **33** |
| | 128 | **110** |
| **Current liabilities: -** | | |
| Unfavourable lease contracts arising on acquisition | 8 | **8** |
| Trade payables | 116 | **133** |
| Interest payable | 6 | **6** |
| Other tax and social insurance payable | 42 | **39** |
| Accruals | 150 | **198** |
| Deferred income | 116 | **101** |
| | 438 | **485** |

The fair values of trade and other payables approximate to their carrying amounts.

Trade and other creditors are payable at various dates in the next three months in accordance with the suppliers' usual and customary credit terms.

Tax and social insurance are repayable at various dates over the coming months in accordance with the applicable statutory provisions.

**28. Equity Share Capital**
The share capital at 30 June 2018 and 30 June 2017 is set out below:-

**AS AT 30 JUNE 2018 AND 30 JUNE 2017**

| AUTHORISED | | | ISSUED –PRESENTED AS EQUITY | |
|---|---|---|---|---|
| Number and Class of Share | **Amount €** | Nominal Value per Share | Number and Class of Share | **Amount €** |
| 10,000,000 Ordinary shares | 10,000,000 | €1.00 each | 2 Ordinary shares | 2 |
| **Equity share capital** | **10,000,000** | | **Equity share capital** | **2** |

There were no alterations to the issued share capital of eircom Holdings (Ireland) Limited during the year ended 30 June 2018.

**Rights attaching to the ordinary shares are as follows:**
The Ordinary Shares carry the right to receive notice of, attend and vote at, general meetings of the Company. The Ordinary shares carry the right to receive dividends as and when declared by the Directors. On a winding-up of the Company the Ordinary shares carry the right to share in any surplus assets of the Company.

**29. Reconciliation of total shareholders' equity**

| | Equity share capital €m | Capital Contribution €m | Cash flow hedging reserve €m | Retained earnings /(loss) €m | Total equity €m |
|---|---|---|---|---|---|
| At 1 July 2016 | - | 52 | 2 | (836) | (782) |
| Loss for the financial year | - | - | - | (226) | (226) |
| Defined benefit pension scheme remeasurement gain | - | - | - | 121 | 121 |
| Tax on defined benefit pension scheme remeasurement gain | - | - | - | (15) | (15) |
| Currency translation differences | - | - | - | (1) | (1) |
| Capital contribution in respect of MIP equity value event | - | 2 | - | - | 2 |
| Dividends relating to equity shareholders | - | - | - | (1) | (1) |
| **Balance at 30 June 2017** | **-** | **54** | **2** | **(958)** | **(902)** |
| Loss for the financial year | **-** | **-** | **-** | **(59)** | **(59)** |
| Defined benefit pension scheme remeasurement gain | **-** | **-** | **-** | **267** | **267** |
| Tax on defined benefit pension scheme remeasurement gain | **-** | **-** | **-** | **(33)** | **(33)** |
| Cash flow hedges: | | | | | |
| - Fair value loss in year | **-** | **-** | **(2)** | **-** | **(2)** |
| -Transfer to income statement | **-** | **-** | **(2)** | **-** | **(2)** |
| Capital contribution in respect of MIP equity value event | **-** | **5** | **-** | **-** | **5** |
| Capital contribution in respect of long-term incentive plan | **-** | **3** | **-** | **-** | **3** |
| Dividends relating to equity shareholders | **-** | **-** | **-** | **(1)** | **(1)** |
| **Balance at 30 June 2018** | **-** | **62** | **(2)** | **(784)** | **(724)** |

**30. Cash generated from operations**
Reconciliation of consolidated operating profit to net cash inflow from operating activities:

**a) Cash generated from operations**

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Loss after taxation | (226) | **(59)** |
| Addback: | | |
| Income tax credit | (10) | **(6)** |
| Share of profit of joint venture | (10) | **(5)** |
| Finance costs – net | 277 | **102** |
| Operating profit | 31 | **32** |
| Adjustments for: | | |
| - Profit on disposal of property, plant and equipment | (4) | **(1)** |
| - Depreciation and amortisation | 378 | **392** |
| - Non cash lease contracts | (7) | **(7)** |
| - Non cash retirement benefit charge | 19 | **15** |
| - Restructuring programme costs | 52 | **68** |
| - Other non cash exceptional items | 32 | **8** |
| - Other non cash movements in provisions | 2 | **-** |
| Cash flows relating to restructuring and provisions | (46) | **(52)** |
| Cash flows relating to construction contracts | (1) | **(1)** |
| **Changes in working capital** | | |
| - Inventories | (4) | **5** |
| - Trade and other receivables | 20 | **(3)** |
| - Trade and other payables | (8) | **-** |
| **Cash generated from operations** | 464 | **456** |

b) In the group cash flow statement, proceeds from sale of property, plant and equipment (PPE) comprise:

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Profit on disposal of property, plant and equipment | 4 | **1** |
| Proceeds from sale of property held on account with third party | 2 | **-** |
| Net book value of PPE disposals (Note 14) | 10 | **2** |
| **Proceeds from sale of PPE** | 16 | **3** |

**30. Cash generated from operations - continued**

**c) Net debt reconciliation**

The net debt and the movements in net debt are as follows:

| | **Year ended 30 June 2017 €m** | **Year ended 30 June 2018 €m** |
|---|---|---|
| Cash and cash equivalents | 142 | **197** |
| Borrowings – repayable within one year | - | **-** |
| Borrowings – repayable after one year | (2,236) | **(2,244)** |
| **Net debt** | (2,094) | **(2,047)** |
| Cash and cash equivalents | 142 | **197** |
| Gross debt – fixed interest rates | (693) | **(694)** |
| Gross debt – variable interest rates | (1,543) | **(1,550)** |
| **Net debt** | (2,094) | **(2,047)** |

| | **Cash €m** | **Borrowings due within one year €m** | **Borrowings due after one year €m** | **Total €m** |
|---|---|---|---|---|
| Net debt at 1 July 2017 | **142** | **-** | **(2,236)** | **(2,094)** |
| Cash flows | **55** | **-** | **-** | **55** |
| Other non-cash movements | **-** | **-** | **(8)** | **(8)** |
| **Net debt at 30 June 2018** | **197** | **-** | **(2,244)** | **(2,047)** |

### 31. Post Balance Sheet Events

There have been no significant events affecting the group since the year ended 30 June 2018.

### 32. Principal Subsidiaries and Joint Ventures

| | Interest in Ordinary Shares at 30 June 2018 | Business | Registered Office and Country of Incorporation |
|---|---|---|---|
| eircom Limited | 100% | Provision of telecommunications and related services | **Registered office (Irish Branch):**<br>1 Heuston South Quarter,<br>St. John's Road,<br>Dublin 8, Ireland.<br><br>**Registered office (Jersey):**<br>22 Grenvile Street,<br>St. Helier,<br>Jersey JE4 8PX,<br>Channel Islands. |
| Meteor Mobile Communications Limited | 100% | Provision of mobile telecommunications and related services | 1 Heuston South Quarter,<br>St. John's Road,<br>Dublin 8, Ireland. |
| eircom Finco Sarl | 100% | Finance Company | 4 Rue du Fort Wallis,<br>L-2714 Luxembourg,<br>Grand Duchy of Luxembourg. |
| eircom Finance DAC | 100% | Finance Company | 1 Heuston South Quarter,<br>St. John's Road,<br>Dublin 8, Ireland. |
| Irish Telecommunications Investments DAC | 100% | Telecommunications Financing and Treasury Management | 1 Heuston South Quarter,<br>St. John's Road,<br>Dublin 8, Ireland. |
| eircom UK Limited | 100% | Provision of Telecommunications and Related Services | Davenport House,<br>16 Pepper Street, Glengall Bridge,<br>London E14 9RP, UK. |
| eircom Sport Limited | 100% | Provision of Television Programme Services | 1 Heuston South Quarter,<br>St. John's Road,<br>Dublin 8, Ireland. |
| Tetra Ireland Communications Limited<br>(Joint venture) | 56% | Build and Operate National Digital Radio Services Network | 1 Heuston South Quarter,<br>St. John's Road,<br>Dublin 8, Ireland. |

### 33. Employees

The total number of persons employed by the group as at 30 June 2018 and 30 June 2017 were as follows:-

| | 30 June 2017 | 30 June 2018 |
|---|---|---|
| Fixed line | | |
| Operations/Technical | 2,072 | **1,825** |
| Sales/Customer Support | 617 | **482** |
| Administration | 266 | **192** |
| Total | 2,955 | **2,499** |
| Mobile | | |
| Operations/Technical | 121 | **97** |
| Sales/Customer Support | 173 | **180** |
| Administration | 30 | **22** |
| Total | 324 | **299** |
| Total fixed line and mobile | 3,279 | **2,798** |

Certain employees work in both the fixed and mobile businesses. The employee numbers are based on the entity that entered into the employment contract with the individual employees. The employee costs are recharged between the fixed and mobile segments based on estimates of the time spent by individual employees on fixed and mobile activities.

**34. Retirement benefit liability**
(a) The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature.

The total group pension charge is split between the schemes as follows:

| | Notes | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|---|
| Defined Benefit Schemes (the principal scheme) | | | |
| Operating costs – staff pension costs | 7 | 34 | **30** |
| Exceptional - restructuring programme costs | 8 | 2 | **6** |
| Finance costs - net interest cost on net pension liability | 10 | 6 | **5** |
| **Defined Benefit Schemes** | | 42 | **41** |
| **Defined Contribution Schemes** | 7 | 5 | **5** |
| Total | | 47 | **46** |

**Defined Benefit Schemes**
The group sponsors a defined benefit scheme for members in Ireland, the eircom Main Superannuation Scheme. In the year ended 30 June 2014, the group established a separate, limited scope ancillary scheme, the eircom Limited early retirement pension scheme ('Early Retirement Trust'). At 30 June 2018, the eircom Main Superannuation Fund accounts for in excess of 99% of the group's defined benefit obligations measured in accordance with IAS 19 (Revised) "Employee Benefits".

The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds, the eircom Main Superannuation Fund and the Early Retirement Trust.

**Regulatory Framework**
The group operates the defined benefit plans under broadly similar regulatory frameworks. Benefits under the Schemes are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. Plan assets are held in trusts and are governed by local regulations and practice in each country.

**eircom Main Superannuation Scheme**
The Scheme is closed to new entrants. However, benefits continue to accrue to members in active service, and benefits in deferment and in payment are subject to discretionary increases on the part of the group.

Retirement benefits under the Main Superannuation Scheme are calculated by reference to pensionable service and pensionable salary at normal retirement date. Principal benefits comprise of:

(i) Retirement pension, calculated at $1/80^{th}$ of pensionable pay for each year of reckonable service, up to a maximum of 40/80ths (that is, half pensionable pay). Pensionable pay in most cases is made up of a member's wages or salary at the last day of service plus certain pensionable allowances
(ii) Retirement gratuity (also known as "lump-sum"), calculated at $3/80^{th}$ of pensionable pay for each year of reckonable service, up to a maximum of 120/80ths (that is, one and a half times pensionable pay).
(iii) Death gratuity, for in-service members, of at least one year's pensionable pay subject to a limit of one and a half times pensionable salary calculated in the same manner as the retirement gratuity.

On an ongoing basis, the Scheme's liabilities consist of obligations to make benefit payments to current and potential future beneficiaries.

As a result of the Pensions Accord, agreed with Trade Unions in 2010, pension increases, if any, will be capped at the lowest of the following:

- the percentage increase in actual pay awarded;
- the percentage increases in consumer prices in the year as measured by the Consumer Price Index (CPI) published by the CSO for the prior year to 31 December; and
- a specified maximum annual increase as follows:
  - 4.00% in 2017
  - 3.25% in each of 2018, 2019 and 2020
  - 2.50% in each year thereafter

**34. Retirement benefit liability - continued**

**Early Retirement Trust**
The Early Retirement Trust was established in the year ended 30 June 2014 to provide benefits to staff exiting under the Incentivised Exit Programme who opted to avail of an enhanced early retirement option with up to five years added service. In addition to their pre-existing membership of the eircom Main Superannuation Scheme, those individuals became members of the Early Retirement Trust, which provides fixed pension benefits between the last day of service and age sixty. At age sixty, benefits from the Early Retirement Trust cease and the preserved benefits under the eircom Main Superannuation Scheme become payable. The Early Retirement Trust is closed to future accrual of benefits.

**eircom Main Superannuation Scheme Actuarial Valuation and Funding**
The actual contribution rate in respect of the principal scheme is 8.5% of pensionable emoluments, subject to a floor of €8.5 million payable in any given year for the period from 1 October 2016 to 30 September 2019, as advised by the group's actuaries. The last actuarial valuation of the principal scheme was carried out using the attained age method, as at 30 September 2016, by Mercer, who are actuaries to the Scheme but are neither officers nor employees of the group. The actuarial method used involved determining an appropriate future group contribution rate designed to fund the projected liabilities of the Scheme related to service subsequent to 1 January 1984 (see Note 34 (b)) over the remaining working lifetime of the current members.

The actuarial valuation as at 30 September 2016 was determined by reference to the following critical assumptions: (1) an assumed rate of pensionable pay and pension inflation of 1.47% per annum from 30 June 2018 and (2) an assumed rate of investment return of 2.12%. At the date of the last actuarial valuation, the market value of the pension scheme assets was €4,413 million, and the actuarial valuation of the assets attributable to the pension fund was sufficient to meet more than 100% of the value of the scheme's accrued liabilities making due allowance for future increases in salaries and pensions.

The actuarial valuation report also indicated that the Scheme met the Minimum Funding Standard as at 30 September 2016, and included a completed Actuarial Funding Certificate confirming this outcome. The actuarial report is available for inspection by the members of the scheme at 1 Heuston South Quarter, St. John's Road, Dublin 8. The actuarial report is not available for public inspection.

While it is intended that the next scheduled formal valuation of the Scheme will be undertaken at 30 September 2019, the financial position of the Scheme may need to be reviewed if a significant event occurs which materially affects either the financial position of the Scheme or the Trustees' funding policy.

Mercer also perform all annual valuations required under IAS 19 "Employee Benefits". These valuations are performed on the projected unit basis.

**34. Retirement benefit liability - continued**

**Defined Benefit Schemes obligations**
The status of the defined benefit schemes, as measured in accordance with IAS 19 (Revised) "Employee Benefits", is as follows:

| | **30 June 2017 €m** | **30 June 2018 €m** |
|---|---|---|
| Present value of funded obligations | 4,455 | **4,311** |
| Fair value of scheme assets | (4,197) | **(4,288)** |
| Liability recognised in the Balance Sheet | 258 | **23** |

| **Reconciliation of defined benefit obligation** | **30 June 2017 €m** | **30 June 2018 €m** |
|---|---|---|
| At beginning of financial period | 4,730 | **4,455** |
| Current service cost | 33 | **29** |
| Interest cost | 77 | **92** |
| Past service costs and curtailment losses | 2 | **6** |
| Remeasurements: | | |
| - Gain from change in demographic assumptions | - | **(142)** |
| - (Gain)/loss from change in financial assumptions | (232) | **80** |
| - Experience gain | (49) | **(95)** |
| Contributions by employees | 7 | **7** |
| Benefits paid | (113) | **(121)** |
| Total – Defined benefit obligation | 4,455 | **4,311** |

| **Defined benefit obligation by member status** | **30 June 2017 €m** | **30 June 2018 €m** |
|---|---|---|
| Actives | 1,231 | **1,209** |
| Vested deferreds | 1,317 | **1,298** |
| Retirees | 1,907 | **1,804** |
| Total – Defined benefit obligation | 4,455 | **4,311** |

| **Reconciliation – Fair value of plan assets** | **30 June 2017 €m** | **30 June 2018 €m** |
|---|---|---|
| At beginning of financial period | 4,384 | **4,197** |
| Interest income on plan assets | 71 | **87** |
| Administration costs | (1) | **(1)** |
| Remeasurements: Return on plan assets, excluding amounts included in interest income | (160) | **111** |
| Contributions paid by group | 9 | **8** |
| Contributions by employees | 7 | **7** |
| Benefits paid | (113) | **(121)** |
| Total – Fair value of plan assets | 4,197 | **4,288** |

**34. Retirement benefit liability - continued**

The components of the amounts recognised in the income statement are as follows:

| | Year ended 30 June 2017 €m | Year ended 30 June 2018 €m |
|---|---|---|
| Current service cost | 33 | **29** |
| Administration costs | 1 | **1** |
| Interest on obligation | 77 | **92** |
| Interest income on plan assets | (71) | **(87)** |
| Total net charge included in the income statement excluding restructuring | 40 | **35** |
| Past service costs and curtailment losses | 2 | **6** |
| Total net charge included in the income statement | 42 | **41** |
| Actual return on scheme assets | (89) | **198** |

The expected contribution level for the year ended 30 June 2019 for the defined benefit scheme is €9 million.

The weighted average duration of scheme liabilities at 30 June 2018 was estimated to be 16 years (30 June 2017: 17 years).

**Pension scheme assets**
The fair value of scheme assets as at 30 June 2018 was €4,288 million (30 June 2017: €4,197 million).

The table below presents a breakdown of the various types of investment in which the pension assets are invested:

| | 30 June 2017 | | | | 30 June 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted €m | Unquoted €m | Total €m | % | Quoted €m | Unquoted €m | Total €m | % |
| Equities & other assets | 196 | 223 | 419 | 10% | **214** | **77** | **291** | **7%** |
| Bonds | 2,775 | 328 | 3,103 | 74% | **3,300** | **-** | **3,300** | **77%** |
| Property | - | 647 | 647 | 15% | **-** | **543** | **543** | **13%** |
| Cash | - | 28 | 28 | 1% | **-** | **154** | **154** | **3%** |
| Total pension assets | 2,971 | 1,226 | 4,197 | 100% | **3,514** | **774** | **4,288** | **100%** |

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

| | At 30 June 2017 | At 30 June 2018 |
|---|---|---|
| Rate of increase in salaries | 1.55% | 1.65% |
| Rate of increase in pensions in payment | 1.55% | 1.65% |
| Discount rate | 2.10% | 2.10% |
| Inflation assumption | 1.65% | 1.85% |
| Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old male | 88 years | 87 years |
| Mortality assumptions – Pensions in payment - Implied life expectancy for 65 year old female | 90 years | 89 years |
| Mortality assumptions – Future retirements - Implied life expectancy for 65 year old male | 91 years | 90 years |
| Mortality assumptions – Future retirements - Implied life expectancy for 65 year old female | 93 years | 91 years |

*The above assumptions reflect the imposition of a cap on the increases in pensionable pay to the lower of CPI, salary inflation or agreed fixed annual rates.*

**34. Retirement benefit liability - continued**

**Sensitivity of defined benefit obligation to key assumptions**
The table below sets out the sensitivity of defined benefit obligation to changes in key assumptions:

| | **Change in Assumption** | **Impact on actuarial liabilities** |
|---|---|---|
| Discount rate | 0.25% increase | **(163)** |
| Rate of increase in salaries and pensions in payment | 0.25% increase | **173** |
| Life expectancy | 1 year increase | **159** |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

**Risks and risk management**
Through its defined benefit pension schemes, the group is exposed to a number of areas of risk. The key areas of risk, and the ways in which the group has sought to manage them, are set out below.

***Asset volatility***
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The funds hold a certain proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

There is also an element of credit risk attaching to the bond portfolio and currency risk to the extent that assets are denominated in currencies other than the euro and are not correspondingly hedged.

***Changes in bond yields***
From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.

***Inflation risk***
The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation.

***Life expectancy***
The majority of the schemes' obligations are to provide a pension for the life of the member and that of the member's widowed spouse, which means that increases in life expectancy will result in an increase in the plans' liabilities.

**Significant estimates and judgements**
*Making appropriate long-term assumptions in calculating pension liabilities, surpluses and costs*
The group operates a funded defined benefit scheme, which is independent of the group's finances, for the majority of employees. Valuations of the main scheme are carried out by the scheme actuaries. The rates of contribution payable and the pension cost are determined on the advice of the actuaries. The cost of these benefits and the present value of the pension liabilities depend on the assumptions made in respect of such factors as the life expectancy of the members of the scheme, the salary progression of current employees, and the interest rate at which the future pension payments are discounted. The group uses estimates for all of these factors in determining the pension costs, surpluses or deficits arising on acquisitions and assets and liabilities reflected in the financial statements.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

The group agreed certain caps in 2010 on future increases in pensionable salaries. The maximum increase in any given year is set at the lower of pre-determined fixed annual rates, the rate of CPI or salary inflation. However, there is still a significant level of uncertainty in relation to ultimate pensionable salaries that will apply in determining benefits payable. Differences between assumptions made and actual experience and changes in assumptions made also impact on pension charges. The effect of changes in assumptions on the pension scheme valuation is shown in the above sensitivity analyses.

(b) The Irish Minister for Finance is responsible for meeting and discharging the liability of: (i) the pension costs of former staff of the Irish Department of Posts and Telegraphs who retired or died before the vesting Day (1 January 1984); (ii) costs in respect of the pension entitlements, related to pre-vesting day reckonable service, of staff who transferred to eircom from the Irish Civil Service. Such benefit payments are made from the eircom Number 2 Pension Fund, which was established in March 1999 and received a contribution of €1,016 million from the Irish Minister for Finance in accordance with arrangements set out in the eircom Superannuation (Amendment) Scheme, 1999. However, the Minister retains full liability for these payments.

### 35. Operating lease commitments

At 30 June 2018, the group had operating lease contractual obligations and commitments in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The total contracted payments due on operating leases are as follows:-

| | 30 June 2017<br>€m | 30 June 2018<br>€m |
|---|---|---|
| Payable: | | |
| No later than one year | 37 | **38** |
| Later than one year but no later than five years | 98 | **87** |
| Later than five years | 192 | **171** |
| | 327 | **296** |

### 36. Credit guarantees and securities

*Credit guarantees*
The credit guarantees comprise guarantees and indemnities of bank or other facilities, including those in respect of the group's subsidiary undertakings.

*Senior Credit Facility*
At 30 June 2018 eircom Holdings (Ireland) Limited and certain of its subsidiaries have guaranteed financial indebtedness for €1.6 billion of eircom Finco Sarl pursuant to the Senior Credit Facility of eircom Holdings (Ireland) Limited Group. The group also has an undrawn €150 million revolving credit facility.

The Senior Credit Facility of the eircom Holdings (Ireland) Limited Group consists of a €1.6 billion term loan and €150 million undrawn revolving credit facility which has the benefit of guarantees and security for all amounts borrowed under the terms of the Senior Credit Facility. The guarantees rank equally in right of payment with all existing and future indebtedness that is not subordinated to the Senior Credit Facility, including the guarantee of the Senior Secured Notes. The guarantees are contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement. The Senior Credit Facility is secured by pledges over the shares in eircom Holdings (Ireland) Limited, pledges over certain bank accounts, intercompany claims and related security of eircom Finco Sarl, and fixed and floating charges over the assets of eircom Limited (Jersey), eircom Limited, Irish Telecommunications Investments DAC, Meteor Mobile Communications Limited and eircom UK Limited, subject to certain exclusions specified in the security documents. The companies guaranteeing the Senior Credit Facility are eircom Holdings (Ireland) Limited, eircom Finco SARL, eircom Limited (Jersey), eircom Limited, Irish Telecommunications Investments DAC, Meteor Ireland Holdings LLC, Meteor Mobile Holdings Limited, Meteor Mobile Communications Limited and eircom UK Limited.

*Senior Secured Notes*
eircom Holdings (Ireland) Limited and certain of its subsidiaries have guaranteed financial indebtedness for €700 million of eircom Finance DAC, a subsidiary of the group, pursuant to the Senior Secured Notes issued in June and August 2016.

The guarantees are general senior obligations of each guarantor and rank equally in right of payment with all existing and future indebtedness that is not subordinated to the Notes, including the guarantee of the Senior Credit Facility. The guarantees are contractually subordinated in right of payment to certain hedging obligations pursuant to the Intercreditor Agreement.

The Senior Secured Notes are secured by pledges over the equity interests in eircom Finance DAC and each Guarantor, pledges over certain bank accounts, intercompany claims and related security of eircom Finco Sarl and fixed and floating charges over the assets of the guarantors, subject to certain exclusions specified in the security documents. The guarantors of the Senior Secured Notes are eircom Holdings (Ireland) Limited, eircom Finco SARL, eircom Limited (Jersey), eircom Limited, Irish Telecommunications Investments DAC, Meteor Ireland Holdings LLC, Meteor Mobile Holdings Limited, Meteor Mobile Communications Limited and eircom UK Limited.

*Hedging obligations*
The group has entered into derivative financial instruments which are subject, amongst other things, to an Intercreditor Agreement. In accordance with this agreement, the liabilities to hedging counterparties rank in priority to liabilities arising under the Senior Credit Facility and Senior Secured Notes in the event of enforcement action.

*Tetra Securities*
The Senior Credit Facility of the eircom Holdings (Ireland) Limited Group and the Senior Secured Notes of eircom Finance DAC are secured by a second pledge over eircom Limited's shares of Tetra.

## 37. Contingent liabilities

*Enforcement by ComReg*
On 16 November 2016, eircom Limited received five opinions of non-compliance from ComReg. On 20 June 2017, ComReg issued enforcement proceedings in the High Court, filed two notices of motion seeking declarations of non-compliance with the Access Regulations (The European Communities (Electronic Communications Networks and Services) (Access) Regulations 2011) ("the Access Regulations") for five alleged breaches and orders seeking financial penalties. One notice of motion relates to case 568 and the other to case 481. The penalties sought in the High Court were substantially reduced from those originally indicated by ComReg in their correspondence in November 2016. On 3 July 2017, the proceedings were moved into the Commercial List of the High Court.

In response, eircom Limited commenced proceedings on 30 June 2017 against the Minister for Communications, Climate Action and Environment and others seeking to quash the financial penalty provisions of the Access Regulations on which the ComReg claim is relying in its enforcement proceedings against eircom Limited. The ComReg proceedings have been stayed pending the outcome of the proceedings against the Minister for Communications, Climate Action and Environment, Ireland and the Attorney General.

The hearing on this matter was due to commence in the High Court in June 2018 however, ComReg and eircom Limited are in discussions on a possible agreed resolution of the litigation. As a result, ComReg, together with eircom Limited and the State, have jointly approached the High Court and requested the hearing date be vacated to allow time for further discussions to continue. The High Court has consented to this request.

If an agreed resolution cannot be reached by both parties the case taken by eircom Limited seeking to quash the financial penalty provisions of the Access Regulations is next due for mention in Court on 8 October 2018 where the group will be seeking a hearing date for the proceedings in the next Court term.

The group believes it has a strong defence to the ComReg proceedings and intends to defend them vigorously.

*Other*
Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties including regulatory and taxation authorities have arisen in the normal course of business. While any litigation or dispute with regulatory and tax authorities has an element of uncertainty, the Directors believe that there were no contingent liabilities which would have a material adverse effect on the group's financial position.

## 38. Commitments

Capital commitments of the group which have been contracted for were €20 million at 30 June 2018 (30 June 2017: €53 million).

*Network share agreement with Three*
Three and the group signed a network sharing agreement in August 2015. At the end of 2016, all commercially beneficial site consolidation was fully complete and the opportunity for further commercial synergy was limited. The network sharing agreement remains as is to 2030 and both organisations collaborate on all existing shared sites.

The network sharing agreement between Three and the group is determined to be a joint operation in accordance with the guidance in IFRS 11. The group accounts for its own rights and obligations as well as its share of any joint rights and obligations.

## 39. Related party transactions

The following transactions were carried out with related parties:

### a) Key management compensation

| | Year ended 30 June 2017 €m | **Year ended 30 June 2018 €m** |
|---|---|---|
| Salaries and other short-term employee benefits | 6.3 | **6.2** |
| Other long-term employee benefits | - | **1.3** |
| Post-employment benefits | 0.3 | **0.7** |
| | 6.6 | **8.2** |
| Termination benefits | 3.4 | **3.4** |
| Share based payments | 2.0 | **4.6** |
| | 12.0 | **16.2** |

*Management and long-term incentive plans*

The management incentive plan ("MIP") was initiated in the year ended 30 June 2013 by the group’s immediate parent company, eircom Holdco S.A., for certain directors and senior executives in the group. During the year ended 30 June 2018, the group recognised a final charge of €5 million (30 June 2017: €2 million) in its income statement, with a corresponding increase in equity, in respect of contractual rights under the MIP awarded by the immediate parent company, eircom Holdco S.A., to the group's employees. These instruments settle on vesting by eircom Holdco S.A., and there is no obligation for the group to make any cash payments.

Also during the year ended 30 June 2018, the group recognised a charge of €3 million in its income statement in respect of a long-term incentive plan ("LTIP") for certain group employees.

A cumulative capital contribution of €62 million is recorded on the balance sheet as at 30 June 2018 (30 June 2017: €54 million).

As of 30 June 2018, the MIP and LTIP awards were fully vested and there is no additional charge expected in the future.

### b) Other related parties transactions

During the year ended 30 June 2015, the group advanced loans totalling €14 million to the immediate parent company, eircom Holdco S.A. and eircom MEP STAR Trust. The amount outstanding at 30 June 2018 is €13 million (30 June 2017: €14 million).

During the year ended 30 June 2018, the group provided transmission and infrastructure services and recharged operating costs incurred on behalf of Tetra Ireland Communications Limited of €5.2 million (30 June 2017: €6.1 million). The amount outstanding in respect of these costs is €2 million at 30 June 2018 (30 June 2017: €1.9 million).

**40. Standards, interpretations and amendments not yet adopted**

Certain new standards, interpretations and amendments have been published that are not mandatory for the group's 30 June 2018 reporting period and have not been early adopted by the group. The group's assessment of the impact of these is set out below.

**IFRS 9, 'Financial instruments'.** (Effective for annual periods beginning on or after 1 January 2018). The new standard principally addresses classification and measurement of financial assets. IFRS 9 replaces the multiple classification models in IAS 39 with a model that has two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets. IFRS 9 removes the requirement to separate embedded derivatives from financial asset host instruments and the cost exemption for unquoted equities. IFRS 9 also specifies that when the payments due under a financial liability are modified, the entity must adjust the carrying value of the financial liability to equal the present value of the revised future cash flows discounted using the original effective interest rate, even if the modification is not substantial. This contrasts with the practice adopted by the group in applying IAS 39 in respect of non-substantial modifications, whereupon no gain or loss was recognised.

The group has considered the requirements of the new standard and has concluded that IFRS 9 will not have a material impact on the group's provisioning for credit losses on financial assets. However, as the group has previously renegotiated certain of its financial liabilities, the change in accounting for any non-substantial modifications of financial liabilities will result in a restatement of the effective interest charges arising from the amortisation of transaction costs and initial fair value adjustments for prior periods.

**IFRS 15, 'Revenue from Contracts with Customers'.** (Effective for periods beginning on or after 1 January 2018). IFRS 15 sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous revenue Standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition: IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services. The standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. The core principle in that framework is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The group has identified significant and material changes in its financial reporting upon implementation of the new standard, more specifically:

- Under current revenue accounting policies applied by the group, when allocating revenue to deliverables, amounts contingent upon provision of future service are not allocated to delivered elements. This will no longer be the case under IFRS 15, and the group will therefore be required to recognise additional revenue at the time of transfer of subsidised handsets sold directly to customers in conjunction with a service contract, and less revenue as services are delivered over the service contract term.

- To the extent that unbilled revenue is recognised upon delivery of handsets, this will be reflected in the balance sheet as a contract asset, which will be subject to ongoing impairment review. Where revenue is recognised earlier than under current standards, impairment charges and tax charges will similarly be recognised earlier.

- IFRS 15 also includes requirements for accounting for some costs that are related to a contract with a customer. The group will recognise contract assets for (i) the incremental costs of obtaining a contract and (ii) costs incurred to fulfil a contract, to the extent that those costs are expected to be recovered. Once a performance obligation is satisfied, any related contract costs must be recognised in the income statement, The group has identified that certain of its contract acquisition and fulfilment costs, which are currently expensed to the income statement as incurred, but which will be deferred on the balance sheet under IFRS 15 and amortised as revenue is recognised under the related contract. Costs within the scope of this change include, amongst others, commissions payable to dealers for the acquisition and retention of mobile subscribers and the costs of providing fixed line and mobile services that do not currently meet the criteria for recognition as assets under other standards;

- The accounting for subscriber acquisition costs in the Mobile segment will be impacted by whether or not the company has acted as principal in satisfying the delivery of the subsidised handset to the customer. The new standard also includes updated guidance on identifying the principal where an intermediary is party to a transaction. This guidance places emphasis on control of goods prior to delivery to the customer, which contrasts with the IAS 18 guidance which focussed on the bearer of the substantial risks and rewards associated with the transaction. Such accounting is subject to change in line with commercial practices put in place between the group and its partners, but under existing arrangements the group does not act as principal where handsets are supplied by third parties.

**40. Standards, interpretations and amendments not yet adopted - continued**

**IFRS 15, 'Revenue from Contracts with Customers' - continued**
At the singular contract level, for example, where a subsidised Mobile handset is sold in conjunction with an airtime contract, the effect of the above changes is expected to result in increased initial profit, or reduced initial loss, though this will reduce the subsequent profit reported during the remainder of the contract, and these timing differences will not impact the total profit reported for a customer contract over the total contract term.

Notwithstanding the expectation that at a singular contract level, initial profit may increase with lower subsequent profit over the contract term, the requirement to retrospectively apply the standard will mean that the increase in initial profit for new contracts in any given financial period will be offset by the reduction in subsequent profit arising from existing contracts. This may have the effect of leading to a net reduction in profit for any given reportable period by comparison with how such profit would have been measured in accordance with existing IFRS.

The group also anticipates that, based on the tax legislation currently in force, the prospective deferral of cost and advance recognition of revenue will result in increased current tax charges in the years immediately following adoption.

The group anticipates that at the adoption date, it will recognise a contract asset by way of increase to retained earnings. In the Fixed Line segment, this contract asset will largely be represented by costs previously expensed in full in respect of sales commissions and customer premises broadband installation costs. In the Mobile segment, this asset will largely be represented by costs previously expensed in respect of subsidised handsets supplied to customers and commissions payments to third parties for the acquisition of customers.

**IFRS 16, 'Leases'.** (Effective for periods beginning on or after 1 January 2019). IFRS 16 specifies how an entity will recognise, present and disclose leases and will replace the previous lease Standard: IAS 17 Leases. IFRS 16 will require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The new standard will however, include two recognition exemptions for leases: (i) leases of 'low-value' assets and (ii) short term leases. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events e.g. a change in the lease term. Lessor accounting will remain substantially unchanged under the new standard. Lessors will continue to classify all leases using the same classification principle as currently exists under IAS 17. The group is assessing the impact of the accounting changes that will arise under IFRS 16; however, the changes are expected to have an impact on the consolidated income statement and consolidated statement of financial position. The largest single impact of the standard is expected to be the increase in total assets and total liabilities arising from the recognition of lease assets and liabilities in respect of leases of land and buildings which are currently accounted for as operating leases under IAS 17, off-balance sheet, and for which outstanding commitments at the balance sheet date are currently only disclosed in the notes to the financial statements. On the income statement, the charges for operating leases are expected to be classified as depreciation and finance costs under the new standard, by contrast with their recognition as operating costs under IAS 17.

There are no other standards that are not yet effective and that would be expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

**41. Approval of financial statements**
These financial statements were authorised for issue by the Board of Directors on 3 September 2018.