eircom Holdings (Ireland) Limited

Second Quarter and Half Year FY20 Unaudited Results

20 February 2020

eircom Holdings (Ireland) Limited

Unaudited second quarter and half year FY20 results to 31 December 2019

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eircom Holdings (Ireland) Limited

Trading highlights for the six months ended 31 December 2019 [1]

- Revenue of €615 million for the six months to 31 December 2019 decreased by €17 million or 3% compared to the corresponding prior year period. Growth in broadband, data services, and bundling was offset by a reduction in access, voice, managed services, and mobile revenue.
- Group adjusted EBITDA[2] of €289 million increased by €4 million or 1% compared to the corresponding prior year period, driven by continued operating cost savings.
- Fixed line revenue of €460 million decreased by €15 million or 3% compared to the corresponding prior year period. Growth in broadband, data services, and bundling revenue was offset by lower traditional access, voice and managed services revenue.
- The group broadband customer base[3] at 31 December 2019 was 947,000, an increase of 11,000 or 1% compared to the corresponding prior year period. The retail customer base decreased by 15,000 or 3%, while the wholesale base increased by 26,000 or 6%. There were 730,000 customers availing of fibre based high speed broadband services, an increase of 60,000 or 9% compared to the corresponding prior year period.
- Group fixed access paths decreased by 30,000 or 2% compared to the prior year; with a reduction in fixed line access net losses of 54,000[4].
- Mobile revenue of €173 million decreased by €1 million or 1% compared to the corresponding prior year period. A reduction in prepay and mobile broadband revenue was partially offset by an increase in postpay, roaming, and other mobile revenue.
- Total mobile customers at 31 December 2019 were 1,137,000[5], including 703,000 postpay customers and 434,000 prepay customers. The postpay customer base increased by 146,000 or 26% year on year driven by the launch of GoMo, bringing the number of customers on postpay contracts to 62%, an increase of 9 percentage points year on year. The prepay base reduced by 54,000 or 11% year on year mainly due to migration to postpay driven by the launch of GoMo.
- Group operating costs[6] of €326 million were reduced by €21 million or 7% compared to the corresponding prior year period.
- Full Time Equivalent (FTE) staff totalled 3,501 at 31 December 2019, an increase of 426 FTE or 14% compared to the corresponding prior year quarter, driven by customer care and sales insourcing and recruiting.
- Despite continued high levels of capital investment, the Group maintains strong liquidity with cash on hand of €104 million at 31 December 2019.

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

[2] Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash lease fair value credits, non-cash pension charge, management charge, profit on disposal of Property, Plant and Equipment and exceptional items.

[3] Combined retail and wholesale excluding LLU and line share, including SABB .

[4] Combined retail and wholesale access line losses including LLU.

[5] Mobile base is a combination of handset subscriptions, machine to machine and mobile broadband subscriptions.

[6] Operating costs are pay and non-pay costs before non-cash pension charge, lease fair value credits and management charge.

eircom Holdings (Ireland) Limited

KPIs for the six months ended 31 December 2019 (unaudited)

	As at and for the six months ended (unaudited)	**As at and for the six months ended (unaudited)**	
	31 December 2018	**31 December 2019**	**Better / (Worse) % N1**
Group Access Paths Base ('000)			
Retail Access Lines	658	624	(5%)
Retail SABB*	32	27	(16%)
Wholesale Access Lines	486	467	(4%)
Wholesale SABB [7]	151	180	20%
Wholesale LLU [8]	4	3	(29%)
Total	**1,331**	**1,301**	**(2%)**
Retail Voice Traffic (millions of minutes)	578	480	-17%
Broadband Lines ('000)			
Retail	465	450	(3%)
Wholesale	471	498	6%
Total	**936**	**947**	**1%**
Mobile Customers ('000)			
Prepay Handsets	481	429	(11%)
Prepaid MBB	7	5	(20%)
Total Prepaid Base	488	434	(11%)
Postpay Handsets (including M2M)	525	677	29%
Postpaid MBB	32	26	(20%)
Total Postpaid Base	557	703	26%
Total	**1,045**	**1,137**	**9%**
ARPU'S € N2 & N3			
Consumer Blended ARPU	49.5	50.1	1%
WLR PSTN ARPU	16.3	16.5	1%
Bitstream ARPU (including SABB)	15.2	13.5	(11%)
Prepaid ARPU (including MBB)	15.8	15.5	(2%)
Postpaid ARPU (including MBB/M2M)	32.5	29.2	(10%)
Closing Headcount	**3,075**	**3,501**	**(14%)**

[7] SABB - Standalone Broadband
[8] LLU - Local Loop Unbundled

eircom Holdings (Ireland) Limited

Basis of preparation

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – “Interim Financial Information” and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 31 December 2019. In addition, the group has prepared this financial information under the previous lease recognition standard: ‘IAS 17 Leases’ and will not be preparing financial information under IFRS 16, ‘Leases’ until the latter part of the financial year ending 30 June 2020.

The financial information for the period ended 31 December 2018 was prepared under the previous revenue recognition standard: ‘IAS 18 Revenue’, etc. and has been restated using the new standards IFRS 15, ‘Revenue from Contracts with Customers’ and IFRS 9, ‘Financial instruments’ as applied at the year ended 30 June 2019.

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

The financial information, as at and for the period ended 31 December 2019, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2019. For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of EHIL for the year ended 30 June 2019.

Reconciliation of statutory financial statements [9] to the results presented in the management discussion and analysis section within this quarterly document

	In the quarter ended 31 December 2018 [10]			**In the quarter ended 31 December 2019**		
	Reported €m	**Adjusted €m**	**Statutory €m**	**Reported €m**	**Adjusted €m**	**Statutory €m**
Revenue	320	(4)	316	**312**	**(4)**	**308**
Operating costs excluding non-cash pension charge and fair value lease credits	(176)	2	(174)	**(164)**	**1**	**(163)**
Adjusted EBITDA[11]	144	(2)	142	**148**	**(3)**	**145**
Closing Cash	222	(3)	219	**104**	**(6)**	**98**

	In the six months ended 31 December 2018 [10]			**In the six months ended 31 December 2019**		
	Reported €m	**Adjusted €m**	**Statutory €m**	**Reported €m**	**Adjusted €m**	**Statutory €m**
Revenue	632	(9)	623	**615**	**(9)**	**606**
Operating costs excluding non-cash pension charge and fair value lease credits	(347)	4	(343)	**(326)**	**4**	**(322)**
Adjusted EBITDA [11]	285	(5)	280	**289**	**(5)**	**284**
Closing Cash	222	(3)	219	**104**	**(6)**	**98**

[9] The statutory financial statements are prepared in accordance with IFRS accounting principles (excluding IFRS 16) and include the results of the group’s joint ventures using the equity accounting basis rather than on a proportionate consolidation basis. The management discussion and analysis section of this quarterly report presents results on a management accounting basis and therefore includes the results of the group’s joint ventures on a proportionate basis, reflected in group revenue, operating costs and EBITDA.
[10] Prior year periods have been restated for IFRS 15 effective on accounting periods after 1 January 2018.
[11] Adjusted EBITDA is earnings before interest, taxation, amortisation, depreciation, non-cash pension charge, management charge, non-cash lease contracts, exceptional items and profit on disposal of property, plant and equipment.

eircom Holdings (Ireland) Limited

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

	Second quarter ended Dec 2018	Second quarter ended Dec 2019	Six months ended Dec 2018 €m	Six months ended Dec 2019 €m
Operating profit	36	**47**	81	**91**
Exceptional items	10	**3**	10	**6**
Management charge	-	**4**	-	**4**
Non-cash pension charge	5	**3**	8	**7**
Operating profit before non-cash pension charges and exceptional items	51	**57**	99	**108**
Depreciation	70	**70**	140	**138**
Amortisation	23	**19**	45	**39**
EBITDA before non-cash pension charges and exceptional items	144	**146**	284	**285**
IFRS 3 unfavourable lease fair value adjustment	(2)	**(1)**	(4)	**(1)**
Adjusted EBITDA before non-cash lease fair value credits, non-cash pension charges and exceptional items	142	**145**	280	**284**
EBITDA of joint ventures using proportionate consolidation	2	**3**	5	**5**
Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges and exceptional items	144	**148**	285	**289**

Reported EBITDA* before non-cash lease fair value credits, non-cash pension charges and exceptional items is split as follows:				
Fixed line	122	**122**	241	**239**
Mobile	22	**26**	44	**50**
	144	**148**	285	**289**

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

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited
For the second quarter ended 31 December 2019

	Notes	31 Dec 2018	31 Dec 2019
		€m	**€m**
Revenue	3	316	**308**
Operating costs excluding amortisation, depreciation and exceptional items		(177)	**(169)**
Amortisation	3	(23)	**(19)**
Depreciation	3	(70)	**(70)**
Exceptional items	3, 4	(10)	**(3)**
Operating profit	3	36	**47**
Finance costs – net	5	(23)	**(28)**
Share of profit of joint venture		6	**2**
Profit before tax		19	**21**
Income tax charge	6	(3)	**(3)**
Profit for the period		16	**18**

eircom Holdings (Ireland) Limited

Consolidated Income Statement – unaudited
For the six-month period ended 31 December 2019

	Notes	31 Dec 2018	31 Dec 2019
		€m	€m
Revenue	3	623	**606**
Operating costs excluding amortisation, depreciation and exceptional items		(347)	**(332)**
Amortisation	3	(45)	**(39)**
Depreciation	3	(140)	**(138)**
Exceptional items	3, 4	(10)	**(6)**
Operating profit	3	81	**91**
Finance costs – net	5	(47)	**(51)**
Share of profit of joint venture		7	**4**
Profit before tax		41	**44**
Income tax charge	6	(8)	**(8)**
Profit for the period		33	**36**

Group statement of comprehensive income – unaudited
For the six-month period ended 31 December 2019

	31 Dec 2018	31 Dec 2019
	€m	€m
Profit for the financial period attributable to equity holders of the parent	**33**	**36**
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss		
Defined benefit pension scheme remeasurement (losses)/gains:		
- Remeasurement (loss)/gain in period	**(24)**	**2**
- Tax on defined benefit pension scheme remeasurement losses/(gains)	**3**	**-**
Other comprehensive (expense)/income, net of tax	**(21)**	**2**
Total comprehensive income for the financial period	**12**	**38**

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

eircom Holdings (Ireland) Limited

Consolidated Balance Sheet – unaudited
As at 31 December 2019

	Notes	30 June 2019	31 Dec 2019
		€m	€m
Assets			
Non-current assets			
Goodwill		212	**212**
Other intangible assets		240	**217**
Property, plant and equipment		1,365	**1,339**
Retirement benefit asset		200	**194**
Deferred tax assets		2	**2**
Other assets		13	**13**
		2,032	**1,977**
Current assets			
Inventories		14	**23**
Trade and other receivables	7	219	**207**
Contract assets		45	**47**
Restricted cash		9	**5**
Cash and cash equivalents		255	**98**
		542	**380**
Total assets		2,574	**2,357**
Liabilities			
Non-current liabilities			
Borrowings	8	2,530	**2,532**
Trade and other payables		26	**26**
Deferred tax liabilities		89	**85**
Provisions for other liabilities and charges	10	183	**172**
		2,828	**2,815**
Current liabilities			
Borrowings	8	100	**-**
Derivative financial instruments		1	**1**
Trade and other payables		485	**423**
Current tax liabilities		-	**3**
Provisions for other liabilities and charges	10	32	**29**
		618	**456**
Total liabilities		3,446	**3,271**
Equity			
Equity share capital		-	**-**
Capital contribution		62	**62**
Cash flow hedging reserve		(1)	**(1)**
Retained loss		(933)	**(975)**
Total equity		(872)	**(914)**
Total liabilities and equity		2,574	**2,357**

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

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the second quarter ended 31 December 2019

	Notes	31 Dec 2018	31 Dec 2019
		€m	**€m**
Cash flows from operating activities			
Cash generated from operations	11	153	**158**
Interest paid		(30)	**(27)**
Income tax paid		(5)	**(3)**
Net cash generated from operating activities		118	**128**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(54)	**(70)**
Purchase of intangible assets		(5)	**(8)**
Dividend received from joint arrangement		7	**4**
Restricted cash		(9)	**1**
Net cash used in investing activities		(61)	**(73)**
Cash flows from financing activities			
Dividends paid to equity shareholders		-	**(80)**
Repayment on borrowings		-	**(700)**
Proceeds from issuance of 1.75% Senior Secured Notes		-	**350**
Proceeds from issuance of 2.625% Senior Secured Notes		-	**350**
Repayment on Revolving Credit Facility		-	**(100)**
Debt issue costs		-	**(3)**
Net cash used in financing activities		-	**(183)**
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		57	**(128)**
Cash, cash equivalents and bank overdrafts at beginning of period		162	**226**
Cash, cash equivalents and bank overdrafts at end of period		219	**98**

eircom Holdings (Ireland) Limited

Consolidated cash flow statement – unaudited
For the six-month period ended 31 December 2019

	Notes	31 Dec 2018	31 Dec 2019
		€m	€m
Cash flows from operating activities			
Cash generated from operations	11	198	**228**
Interest paid		(44)	**(43)**
Income tax paid		(5)	**(3)**
Net cash generated from operating activities		149	**182**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(107)	**(146)**
Purchase of intangible assets		(9)	**(15)**
Dividend received from joint arrangement		7	**4**
Restricted cash		(18)	**4**
Net cash used in investing activities		(127)	**(153)**
Cash flows from financing activities			
Dividends paid to equity shareholders		-	**(80)**
Repayment on borrowings		-	**(700)**
Proceeds from issuance of 1.75% Senior Secured Notes		-	**350**
Proceeds from issuance of 2.625% Senior Secured Notes		-	**350**
Repayment on Revolving Credit Facility		-	**(100)**
Debt issue costs		-	**(4)**
Debt modification fees		-	**(2)**
Net cash used in financing activities		-	**(186)**
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		22	**(157)**
Cash, cash equivalents and bank overdrafts at beginning of period		197	**255**
Cash, cash equivalents and bank overdrafts at end of period		219	**98**

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

eircom Holdings (Ireland) Limited

Consolidated statement of changes in shareholders' equity – unaudited
For the six-month period ended 31 December 2019

	Equity share capital €m	Capital contribution €m	Cash flow hedging reserve €m	Retained loss €m	Total equity €m
Balance at 30 June 2018	**-**	**62**	**(2)**	**(784)**	**(724)**
Profit for the period	-	-	-	33	33
Defined benefit pension scheme remeasurement loss	-	-	-	(24)	(24)
Tax on defined benefit pension scheme remeasurement loss	-	-	-	3	3
Total comprehensive income	-	-	-	12	12
Balance at 31 December 2018	**-**	**62**	**(2)**	**(772)**	**(712)**
Balance at 30 June 2019	**-**	**62**	**(1)**	**(933)**	**(872)**
Profit for the period	**-**	**-**	**-**	**36**	**36**
Defined benefit pension scheme remeasurement gain	**-**	**-**	**-**	**2**	**2**
Total comprehensive income	**-**	**-**	**-**	**38**	**38**
Dividends relating to equity shareholder	**-**	**-**	**-**	**(80)**	**(80)**
Balance at 31 December 2019	**-**	**62**	**(1)**	**(975)**	**(914)**

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

eircom Holdings (Ireland) Limited

Selected notes to the condensed interim financial information – unaudited

1. General information

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

This condensed consolidated interim financial information was approved for issue on 20 February 2020.

2. Basis of preparation

This financial information has been prepared to make available certain unaudited condensed consolidated financial information to the holders of the group's Senior Secured Notes. Accordingly, the group has not prepared this financial information in accordance with IAS 34 – "Interim Financial Information" and has not carried out an impairment review of the carrying value of goodwill and other non-current assets as at 31 December 2019. In addition, the group has prepared this financial information under the previous lease recognition standard: 'IAS 17 Leases' and will not be preparing financial information under IFRS 16, 'Leases' until the latter part of the financial year ending 30 June 2020.

The financial information for the period ended 31 December 2018 was prepared under the previous revenue recognition standard: 'IAS 18 Revenue', etc. and has been restated using the new standards IFRS 15, 'Revenue from Contracts with Customers' and IFRS 9, 'Financial instruments' as applied at the year ended 30 June 2019.

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

The financial information, as at and for the period ended 31 December 2019, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2019. For a more complete discussion of our significant accounting policies and other information, including our critical accounting judgements and estimates, this report should be read in conjunction with the financial statements of EHIL for the year ended 30 June 2019.

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

3. Segment information

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

The segment results for the six-month period ended 31 December 2019 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	460	173	(18)	**615**	(9)	**606**
EBITDA **	239	50	-	**289**	(5)	**284**
Non-cash lease fair value credits	1	-	-	**1**	-	**1**
Non-cash pension charges	(7)	-	-	**(7)**	-	**(7)**
Management charge	(4)	-	-	**(4)**	-	**(4)**
Amortisation	(29)	(10)	-	**(39)**	-	**(39)**
Depreciation	(124)	(15)	-	**(139)**	1	**(138)**
Exceptional items	(6)	-	-	**(6)**	-	**(6)**
Operating profit	**70**	**25**	**-**	**95**	**(4)**	**91**

The segment results for the six-month period ended 31 December 2018 are as follows:

	Fixed line €m	Mobile €m	Inter-segment €m	Reported* €m	Adjusted €m	Statutory* €m
Revenue	475	174	(17)	**632**	(9)	**623**
EBITDA **	241	44	-	**285**	(5)	**280**
Non-cash lease fair value credits	4	-	-	**4**	-	**4**
Non-cash pension charges	(8)	-	-	**(8)**	-	**(8)**
Amortisation	(35)	(10)	-	**(45)**	-	**(45)**
Depreciation	(124)	(14)	-	**(138)**	(2)	**(140)**
Exceptional items	(10)	-	-	**(10)**	-	**(10)**
Operating profit	**68**	**20**	**-**	**88**	**(7)**	**81**

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

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

4. Exceptional items

	31 Dec 2018 €m	31 Dec 2019 €m
Restructuring programme costs	1	**6**
Group re-organisation costs	4	**-**
Other exceptional costs	5	**-**
	10	**6**

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

Restructuring programme costs
The group included an exceptional charge of €6 million for restructuring programme costs in respect of staff exits in the period ended 31 December 2019 (31 Dec 2018: €1 million).

Group re-organisation costs
The group included an exceptional charge of €4 million for re-organisation costs in the period ended 31 December 2018.

Other exceptional costs
The group recognised an exceptional charge of €5 million in respect of legal related matters in the period ended 31 December 2018.

5. Finance costs – net

	31 Dec 2018 €m	31 Dec 2019 €m
(a) Finance costs:		
Interest payable on bank loans and other debts	44	**44**
Net interest cost on net pension liability	1	**(1)**
Amortisation of debt issue costs and debt modification fees	1	**1**
Other unwinding of discount	1	**1**
	47	**45**
Write off of debt modification fees	-	**6**
	47	**51**
(b) Finance income:		
Interest income	-	**-**
	-	**-**
Finance costs – net	47	**51**

6. Income tax charge

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

	31 Dec 2018 €m	31 Dec 2019 €m
Profit before tax	41	**44**
Tax calculated at Irish standard tax rate of 12.5%	5	**5**
Effects of:-		
Non-deductible expenses	9	**8**
Origination and reversal of temporary differences	(5)	**(5)**
Utilisation of losses carried forward	(1)	**-**
Tax charge for the period	8	**8**

eircom Holdings (Ireland) Limited

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

7. Trade and other receivables

During the period ended 31 December 2019, the group recognised a provision for impaired receivables of €5 million (31 December 2018: €4 million), reversed provisions for impaired receivables of €1 million (31 December 2018: €Nil) and utilised provisions for impaired receivables of €1 million (31 December 2018: €3 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

8. Borrowings

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

	Within 1 Year €m	Between 1 & 2 Years €m	Between 2 & 5 Years €m	After 5 Years €m	Total €m
As at 31 December 2019					
Bank borrowings (Facility B)	**-**	**-**	**-**	**1,100**	**1,100**
Debt modification fees	**-**	**-**	**-**	**(9)**	**(9)**
	-	**-**	**-**	**1,091**	**1,091**
3.5% Senior Secured Notes due 2026	**-**	**-**	**-**	**750**	**750**
1.75% Senior Secured Notes due 2024	**-**	**-**	**350**	**-**	**350**
2.625% Senior Secured Notes due 2027	**-**	**-**	**-**	**350**	**350**
Debt issue costs	**-**	**-**	**(2)**	**(7)**	**(9)**
	-	**-**	**348**	**1,093**	**1,441**
	-	**-**	**348**	**2,184**	**2,532**
As at 30 June 2019					
Bank borrowings (Facility B)	-	-	455	1,345	1,800
Debt modification fees	-	-	(3)	(11)	(14)
	-	-	452	1,334	1,786
3.5% Senior Secured Notes due 2026	-	-	-	750	750
Debt issue costs	-	-	-	(6)	(6)
	-	-	-	744	744
Revolving credit facility	100	-	-	-	100
	100	-	452	2,078	2,630

At 31 December 2019, the group has Senior Bank borrowings of €1,100 million with a maturity date of 15 May 2026, 3.5% Senior Secured Notes of €750 million with a maturity date of 15 May 2026, 1.75% Senior Secured Notes of €350 million with a maturity date of 1 November 2024 and 2.625% Senior Secured Notes of €350 million with a maturity date of 15 February 2027.

Interest accrued on borrowings at 31 December 2019 is €8 million (30 June 2019: €7 million). This is included in trade and other payables.

9. Pensions

The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature. The group undertakes a full review of the retirement benefit liability at each quarter end in accordance with IAS 19 (Revised). The balance sheet presented as at 31 December 2019 reflects the IAS 19 (Revised) surplus of €194 million as at 31 December 2019.

Pension scheme obligation

The status of the principal scheme at 31 December 2019 is as follows:

	30 June 2019 €m	31 Dec 2019 €m
Present value of funded obligations	(4,277)	**(4,345)**
Fair value of scheme assets	4,477	**4,539**
Asset recognised in the Balance Sheet	200	**194**

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2019	At 31 Dec 2019
Rate of increase in salaries	1.00%	1.15%
Rate of increase in pensions in payment	1.00%	1.15%
Discount rate	1.35%	1.35%
Inflation assumption	1.20%	1.35%
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old male	87 years	87 years
Mortality assumptions – Pensions in payment – Implied life expectancy for 65 year old female	89 years	89 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old male	90 years	90 years
Mortality assumptions – Future retirements – Implied life expectancy for 65 year old female	91 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.

eircom Holdings (Ireland) Limited

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

10. Provisions for other liabilities and charges

	Onerous Contracts €m	TIS Annuity Scheme €m	Asset Retirement Obligations €m	Other €m	Total €m
At 30 June 2019	**115**	**8**	**54**	**38**	**215**
Charged to consolidated income statement:					
- Additional provisions	-	-	-	2	**2**
- Non-cash fair value lease credits	(1)	-	-	-	**(1)**
Transfer to receivables	-	-	-	(6)	**(6)**
Utilised in the financial period	(6)	(1)	-	(2)	**(9)**
At 31 December 2019	**108**	**7**	**54**	**32**	**201**

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

	30 June 2019 €m	31 Dec 2019 €m
Non-current	183	**172**
Current	32	**29**
	215	**201**

11. Cash generated from operations

	31 Dec 2018 €m	31 Dec 2019 €m
Profit after tax	33	**36**
Add back:		
Income tax charge	8	**8**
Share of profit of joint venture	(7)	**(4)**
Finance costs – net	47	**51**
Operating profit	81	**91**
Adjustments for:		
- Depreciation and amortisation	185	**177**
- Non-cash lease fair value credits	(4)	**(1)**
- Non cash retirement benefit charges	8	**7**
- Restructuring programme costs	1	**6**
- Non cash exceptional items	7	**-**
- Other non cash movements in provisions	1	**2**
Cash flows relating to restructuring, onerous contracts and other provisions	(76)	**(17)**
Changes in working capital		
Inventories	(8)	**(9)**
Trade and other receivables	(27)	**(1)**
Trade and other payables	30	**(27)**
Cash generated from operations	198	**228**

12. Post Balance Sheet Events

There have been no significant events affecting the group since the period ended 31 December 2019.

13. Contingent liabilities

There have been no material changes in our contingent liabilities since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2019.

14. Guarantees

There have been no material changes in our credit guarantees and in derivatives since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2019.

15. Seasonality

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

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

16. Commitments

Operating lease commitments
The group's operating lease contractual obligations and commitment payments were €264 million at 31 December 2019 (30 June 2019: €269 million). The payments due on operating leases are in respect of lease agreements in respect of properties, vehicles, plant and equipment for which the payments extend over a number of years.

Capital commitments
The group's capital contractual obligations and commitment payments were €51 million at 31 December 2019 (30 June 2019: €35 million).

17. Related party transactions

There have been no material changes in our related party transactions since the publication of the financial statements of EHIL in the bondholder's report for the year ended 30 June 2019.

Management discussion and analysis on results of operations for the six months ended 31 December 2019

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 six months ended 31 December 2019 applies the equity method of accounting for the investment in Tetra.

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

Revenue

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

	For the six months ended		
	31 Dec 2018 (unaudited)	**31 Dec 2019 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Fixed line services and other revenue	475	460	(3%)
Mobile services revenue	174	173	(1%)
Total segmental revenue	649	633	(3%)
Intracompany eliminations	(17)	(18)	3%
Total revenue	632	615	(3%)

Reported group revenue of €615 million for the six months ended 31 December 2019 decreased by 3% when compared to the corresponding prior year period. The fixed line revenue decrease of 3% was mainly driven by a reduction in access and voice traffic revenues, partly offset by an increase in data services revenue. The mobile revenue decrease of 1% was driven by a decrease in prepay and mobile broadband revenue, partially offset by an increase in postpay, roaming, and other revenue.

Fixed line services and other revenue

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

	For the six months ended		
	31 Dec 2018 (unaudited)	**31 Dec 2019 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Access (Rental and Connections)	227	224	(1%)
Voice Traffic (including Foreign Inpayments)	116	103	(11%)
Data Services	50	52	6%
Other Products and Services	82	81	(1%)
Total fixed line services and other revenue	475	460	(3%)

Total fixed line services and other revenue for the six months ended 31 December 2019 (before intra company eliminations) decreased by 3% compared to the corresponding prior year period. The decrease was driven by a decline in voice traffic revenue of 11%, as well as a 1% decrease in access and other revenue, driven by a 2% decrease in access lines for the period. The decrease in other products and services related mainly due to a reduction in managed services revenue.

Access (rental and connections)

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

	For the six months ended		
	31 Dec 2018 (unaudited)	**31 Dec 2019 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Access revenue			
Retail PSTN/ISDN rental and connection	96	93	(3%)
Wholesale PSTN/ISDN/LLU rental and connection	54	52	(4%)
Broadband rental and connection	77	79	2%
Total access revenue	227	224	(1%)
Access paths	**'000**	**'000**	
Retail Access Lines	658	624	(5%)
Wholesale Access Lines	486	467	(4%)
Wholesale LLU	4	3	(29%)
SABB	183	207	14%
Total PSTN/ISDN/LLU/SABB	1,331	1,301	(2%)
Broadband and Bitstream	**'000**	**'000**	
Retail Broadband	465	450	(3%)
Wholesale Broadband	471	497	6%
Total Broadband (including SABB)	936	947	1%

Access revenues of €224 million for the six months ended 31 December 2019 decreased by 1% compared to the corresponding prior year period. The decline was driven by a 3% and 4% decline in retail and wholesale access line revenues respectively.

Retail access revenue declined by 3% in the six months ended 31 December 2019 compared to the corresponding prior year period, mainly due to continuing declines in PSTN and ISDN lines. Retail access lines of 624,000 declined by 5% when compared to 31 December 2018.

Wholesale access revenue declined by 4% in the six months ended 31 December 2019 compared to the corresponding prior year period. Wholesale access lines at 31 December 2019 of 467,000 declined by 4% when compared to the prior year period ended 31 December 2018.

Broadband revenue for the six months ended 31 December 2019 of €79 million increased by 2% compared to the corresponding prior year period, driven by broadband base growth of 1% or 11,000 lines. The retail broadband customer base of 450,000 decreased by 3% compared to the corresponding prior year period. The wholesale broadband base of 497,000 increased by 6% when compared to the prior year period ended 31 December 2018.

Traffic

The following table shows total traffic revenue and volumes and the percentage changes for the periods indicated:

	For the six months ended		
	31 Dec 2018 (unaudited)	31 Dec 2019 (unaudited)	% Change 2018/2019
	€m	€m	
Traffic revenue			
Retail	86	77	(10%)
Wholesale (including Foreign Inpayments)	30	26	(15%)
Total traffic revenue	116	103	(11%)
	(in millions of minutes, except percentages)		
Traffic minutes			
Retail	578	480	(17%)
Wholesale (including Foreign Traffic Minutes)	1,758	1,496	(15%)
Total traffic minutes	2,336	1,976	(15%)

Traffic revenue decreased by 11% for the six months ended 31 December 2019 when compared to the corresponding prior year period, driven by a declining access base.

Data communications

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

	For the six months ended		
	31 Dec 2018 (unaudited)	31 Dec 2019 (unaudited)	% Change 2018/2019
	€m	€m	
Data communications revenue			
Leased lines	30	27	(9%)
Switched data services	4	7	80%
Next generation data services	16	18	18%
Total data communications revenue	50	52	6%

Data communications revenue increased by 6% for the six months ended 31 December 2019 when compared to the corresponding prior year period. A decrease in leased lines revenue of 9% was offset by increases in switched data services and next generation data services revenue, reflecting the continuing shift from legacy products to next generation services.

Other products and services

Other products and services revenue includes our 56% share of revenue from Tetra, TV, eir Sport, our operations in UK/NI, operator services, managed services, data centres and other revenue.

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

	For the six months ended		
	31 Dec 2018 (unaudited)	31 Dec 2019 (unaudited)	% Change 2018/2019
	€ m	€ m	
Other products and services			
TV and content	20	22	11%
Managed services and solutions	23	21	(11%)
Tetra	11	11	(1%)
UK	12	11	(10%)
Data centre	4	4	8%
Other revenue	12	12	1%
Other products and services revenue	82	81	(1%)

Other products and services revenue decreased by 1% for the six months ended 31 December 2019 when compared to the corresponding prior year period. TV and content revenue increased by 11%. Managed services revenue decreased by 11% due to a reduction in low margin revenue related to eir Business. UK revenue decreased by 10% year on year. Tetra and data centre and other revenue remained broadly stable year on year.

Mobile services revenue

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

	For the six months ended 31 Dec 2018 (unaudited)	For the six months ended 31 Dec 2019 (unaudited)	% Change 2018/2019
	€m	€m	
Mobile services revenue			
Prepay handset	47	42	(11%)
Postpay handset (incl. M2M)	79	80	1%
Mobile broadband	5	4	(20%)
Roaming	5	6	20%
Other	39	41	4%
Total mobile services revenue	174	173	(1%)
Total subscribers	**'000**	**'000**	
Prepay handset customers	481	429	(11%)
Postpay handset customers (incl. M2M)	525	677	29%
Mobile broadband customers	39	31	(20%)
Of which are prepay customers	7	5	(20%)
Of which are postpay customers	32	26	(20%)
Total subscribers	1,045	1,137	9%

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

Mobile revenue of €173 million for the six months ended 31 December 2019 decreased by 1% when compared to the corresponding prior year period.

Reported postpay handset revenue increased by 1%, mainly due to a year on year increase in postpay handset (including M2M) subscribers of 152,000 or 29%. Prepay handset revenue declined by 11% when compared to the corresponding prior year period, due to a decline in prepay customers of 11% largely driven by customers migrating to postpay.

There was a total of 1,137,000 mobile subscribers at 31 December 2019, an increase of 9% when compared to the corresponding prior year period. The mix of customers continues to improve, with the proportion of postpay customers (including mobile broadband and M2M) increasing from 53% at 31 December 2018 to 62% at 31 December 2019, representing an increase of 146,000 net additional postpay subscribers (including mobile broadband and M2M).

Mobile broadband revenue decreased by 20%, driven by the decline in the mobile broadband base of 20%.

Other mobile revenue increased by 4%, driven by a decision to purchase handsets directly from manufacturers over an intermediary, resulting in an uplift in revenue and cost of sales in the first quarter of the financial year 2020. Other revenue was partially offset by a decrease in equipment revenue for the six months ended 31 December 2019, compared to the corresponding prior year period.

Operating costs before amortisation, depreciation and exceptional items

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

	For the six months ended		
	31 Dec 2018 (unaudited)	**31 Dec 2019 (unaudited)**	**% Change 2018/2019**
	€m	**€m**	
Cost of sales			
Foreign outpayments	5	4	(16%)
Interconnect	38	33	(12%)
Equipment cost of sales	35	33	(7%)
Other including subsidiaries and new business	64	69	8%
Total cost of sales	142	139	(2%)
Pay costs			
Wages and salaries and other staff costs	84	96	14%
Social welfare costs	5	6	35%
Pension cash costs—defined contribution plans	1	2	49%
Pension cash costs—defined benefit plans	7	6	(5%)
Pay costs before non-cash pension charge and capitalisation	97	110	15%
Capitalised labour	(25)	(27)	(10%)
Total pay costs before non-cash pension charge	72	83	16%
Non pay costs			
Materials and services	10	7	(28%)
Other network costs	8	9	2%
Accommodation	48	44	(9%)
Sales and marketing	26	14	(45%)
Bad debts	4	4	(5%)
Transport and travel	5	5	(5%)
Customer services	16	5	(67%)
Insurance and compensation	2	3	82%
Professional and regulatory fees	3	2	(18%)
IT costs	8	9	12%
Other non-pay costs	3	2	(27%)
Total non-pay costs	133	104	(22%)
Operating costs before non-cash pension charge, amortisation, depreciation, and exceptional items	347	326	(7%)
Non cash pension charge/(credit)	8	7	(13%)
Non cash fair value lease credits	(4)	(1)	75%
Management charge	-	4	*N.M.*
Operating costs before, amortisation, depreciation, and exceptional items	351	336	(7%)

Total operating costs for the six months ended 31 December 2019 before non-cash pension charge, non-cash lease fair value credits, amortisation, depreciation, management charge, and exceptional items decreased by 7%, compared with the corresponding quarter of the prior year.

Cost of Sales

Cost of sales decreased by 2% for the six months ended 31 December 2019 compared to the corresponding prior year period. Movements include:

- Foreign outpayments and Interconnect payments to other telecommunications operators decreased by 16% and 12% respectively when compared to the prior year, mainly due to declining fixed traffic revenue and mobile traffic minutes.
- Equipment costs of sales decreased by 7% when compared to prior year, due to timing of commercial investment.
- Other cost of sales increased by 8% when compared to the prior year, driven mainly by the move to a direct handset purchasing model and increased sports content costs year on year.

Pay costs

Total pay costs before non-cash pension charges increased by 16% in the six months ended 31 December 2019 when compared to the corresponding prior year period, driven by a higher FTE headcount due to insourcing and recruiting in customer care, sales and other activities FTE headcount at 31 December 2019 was 3,501, representing a net increase of 426 FTE compared to 31 December 2018.

Total non-pay costs

Non-pay costs decreased by 22% in the six months ended 31 December 2019 compared to the corresponding prior year period.

Key movements include:

- Sales and marketing costs were 45% or €12 million lower compared to the corresponding prior year period due to a decision to move away from agency-led marketing to a direct media buying model.
- Customer services costs were 67% or €11 million lower than the period year period due to insourcing and recruitment of customer care, sales, and other activities.
- Accommodation costs decreased by 9% or €4 million compared to the corresponding prior year period primarily driven by optimisation of the company’s property portfolio.
- Materials and services costs were 28% or €3 million lower than the prior year period due mainly to timing of activities.

The remaining costs in the six months ended 31 December 2019 were broadly in line with the corresponding prior year period.

Non-cash pension charge/ (credit)

The non-cash pension charge represents the difference between the amount of cash contributions that the company has agreed to make to the fund during the period, 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 the company applies in measuring its EBITDA. Therefore the non-cash pension charge is included as an adjustment in the reconciliation of EBITDA to operating profit.

Non-cash lease fair value credits

The non-cash lease fair value credit included in the income statement is in respect of the unfavourable lease fair value adjustment which arose on acquisition of eircom Limited. At the date of acquisition, the group was required to recognise a liability for the difference between the amount of future rental payments that had been contractually committed to and the 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 that the company applies in measuring its EBITDA. Therefore an adjustment for the non-cash fair value credit is included in the reconciliation of EBITDA to operating profit.

Amortisation

Amortisation charges for the quarter ended 31 December 2019 were €19 million, €4 million lower than the prior year quarter, mainly due to lower amortisation on computer software and TV content rights been fully amortised in the period ended 31 July 2019.

Depreciation of property, plant and equipment

Depreciation charges for the quarter ended 31 December 2019 were €71 million, which is €5 million higher than the prior year charge for the same period of €66 million. The increase in depreciation is due to lower depreciation in the prior year quarter as a result of the increase in the asset lives of certain network assets (Tetra).

Exceptional costs

The exceptional restructuring charge of €3 million is for staff exits in the quarter ended 31 December 2019.

The exceptional charges in the quarter ended 31 December 2018 of €10 million includes €4 million for group re-organisation costs, €5 million for certain legal matters and €1 million for restructuring programme costs for IAS 19 (Revised) defined benefit pension past service costs on staff exits.

Finance costs (net)

The group's net finance costs for the quarter ended 31 December 2019 of €28 million were €5 million higher than the prior year corresponding quarter of €23 million. The increase in finance costs is mainly due to the write off of debt modification fees as a result of the €700 million prepayment of Facility B borrowings.

Taxation

The tax charge for the quarter ended 31 December 2019 was €3 million and is in line with the prior year corresponding quarter tax charge of €3 million.

Liquidity

Net cash generated from operating activities

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

During the quarter ended 31 December 2019, net cash generated from operating activities (including our share of Tetra) was €132 million compared with €120 million in the prior year corresponding quarter, an increase of €12 million. The increase is due to lower voluntary leaving payments in the quarter.

Cash flows from investing activities

Total cash used in investing activities was €77 million for the quarter ended 31 December 2019, compared with €68 million for the prior year corresponding quarter, an increase of €9 million. The increase is due to higher capital expenditure payments in the quarter of €19 million offset by inflows on restricted cash deposits of €1 million and prior year outflows of €9 million.

Cash flows from financing activities

In the quarter ended 31 December 2019, the group issued €350 million of 1.75% Senior Secured Notes and €350 million of 2.625% Senior Secured Notes and used the proceeds to prepay €700 million Facility B borrowings. The group also repaid its revolving credit facility of €100 million in the quarter. Debt issue costs of €3 million on the Senior Secured Notes were paid in the period as well.

Separately, in December 2019, a dividend distribution of €80 million was paid to our equity shareholders, Wexford Limited.

eircom Holdings (Ireland) Limited

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Other Data

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

Notes:

1. Percentage changes have been calculated based on unrounded data rather than on the rounded data presented in these tables. Certain comparative figures have been re-grouped and re-stated where necessary on the same basis as those for the current financial quarter.
2. Fixed ARPU Calculations:
   A. We define “Blended consumer fixed ARPU” as the average of the total consumer subscriber revenue divided by the average number of access subscribers (including SABB) in each month. Subscriber revenue is equal to total fixed line consumer revenue excluding revenue from eir Sport and Operator Services.
   B. We define “WLR PSTN ARPU” as the average of Wholesale PSTN line rental revenue divided by the average number of PSTN WLR access subscribers in each month.
   C. We define “Bitstream ARPU” as the average of bitstream rental revenue including SABB (recurring revenue) divided by the average number of Wholesale bitstream (including SABB) subscribers in each month.
   D. We define “the average number of subscribers in the month” as the average of the total number of subscribers at the beginning of the month and the total number of subscribers at the end of the month.
   E. All Fixed ARPUs are adjusted to reflect the average number of days in a month.
3. Mobile ARPU Calculations:
   F. We define “Prepay ARPU” as the measure of the sum of the total prepay mobile subscriber revenue including revenue from incoming traffic in the period divided by the average number of prepay mobile subscribers in the period divided by the number of months in the period.
   A. We define “Postpay ARPU” as the measure of the sum of the total postpay mobile subscriber revenue including revenue from incoming traffic in a period divided by the average number of postpay mobile subscribers in the period divided by the number of months in the period.
   B. We define “the average number of mobile subscribers in the period” as the average of the total number of mobile subscribers at the beginning of the year and the total number of mobile subscribers at the end of the year.
4. N/M - percentage movement is not meaningful.