

Chairman's Statement  
*eircom* Annual General Meeting  
25<sup>th</sup> July 2005

**“Delivering Mobile”**

Shareholders, Ladies & Gentlemen

Today, on the occasion of *eircom*'s second Annual Meeting since its flotation, your company has announced its plans for a dramatic re-entry to the Mobile market. We have won the bid for Meteor Mobile Communications and it is with great pleasure that I can therefore report to you today that *eircom* has now delivered on the strategy as outlined at the re-flotation in March 2004.

And if you permit me a personal indulgence, the acquisition of Meteor also sees *eircom* realise the plans I had envisioned when the consortium I led acquired the company after the Telecoms crash in 2001. At that time some industry commentators questioned the deal:

“It is hard not to feel that Valentia is overpaying for the *eircom* rump. It remains to be seen whether O'Reilly's bid is the result of misplaced nationalism,

the overheated business process, or an inspired business plan” (*HSBC August 2001*).

Eircom today is a very different proposition.

Since re-flotation, the commitments made by the board and management at the time of the IPO have been transparently delivered to our investors. The core business has defended its share in an increasingly competitive market. In the past year profitability has improved at both adjusted EBITDA and operating profit levels. Shareholders have received dividends that met expectations, the value of the stock has appreciated and bondholders have seen their investment secured.

And now, today, the company has met its promise to re-enter the mobile market. This has been the stated aim of the company ever since the non-compete provision with Vodafone expired in May 2004.

In last year’s Annual Report I stated that eircom would return to the mobile business as soon as a commercially viable option emerged. At the AGM I went further when I said that the company was “hugely frustrated that it continues to be prevented from applying eircom’s lower

prices in mobile telephony. Eircom must get back into mobile and we are building the commercial case for re-entry.” And in this year’s Annual Report I noted that one of my great pleasures in the past year, on behalf of eircom, has been to lead the charge for customers to get a fair deal on mobile.

It is my conviction that without Mobile eircom’s future would have been unnaturally limited and consequently Irish consumers would have been disadvantaged. Despite the tremendous work undertaken by eircom’s management to reduce costs, to defend market share and to grow Broadband, substantial growth is not available in the Fixed Line industry. For a great national enterprise such as eircom, new growth is an imperative and only Mobile can provide this in a substantial way. Re-entering mobile doubles the addressable market for eircom, from the €2bn spent annually on Fixed Line Telecoms to a potential market in excess of €4bn annual revenues.

Meteor, as several commentators noted, is the obvious best way back into Mobile. Meteor’s management team has grown the company impressively, doubling its subscriber base in the last eighteen months to achieve a market share of 10% and its network has been greatly

strengthened. The company has established a significant presence in the pre-paid market through a reputation for low prices.

It is no surprise that Meteor is more valuable to eircom than to other bidders who have little presence in Ireland. Our publicly stated intention is to double its market share over the next three to four years as we combine Meteor's expertise with eircom's exceptional reach into the Irish telecoms market.

We will keep it low cost and we will make it ubiquitous.

In the short-term that is our strategy: to double market share by delivering a fair deal for Irish mobile customers. In the longer term we all recognise the opportunity for 'convergence' by combining eircom's drive in Broadband with our new Mobile capability. This will deliver sustainable growth for eircom and value creation for our investors.

The issue of "3G" will also arise. The ever-increasing drive for bandwidth is a feature of our industry, providing ever-wider highways for data traffic. Our job, management's job is to focus on answering two very real questions: What services do consumers want and what prices are they

willing to pay for them? The classic marketing axiom applies: If there is a gap for consumers we have to ask is there a market in that gap. As yet this is unproven but we shall be watching this on your behalf with extreme vigilance.

The company has also announced today that the acquisition will be funded by a fully underwritten rights issue. This, your board believes, is the most appropriate way to fund the company's growth strategy. In recommending this acquisition I would also remind you of what I wrote in this year's annual report:

"eircom, or particularly an eircom back in the mobile business, is well positioned now to take advantage of this new wave in telecoms. But investors are more realistic this time around and want both medium term growth and cash returns. Management will do well to heed this conservatism and in this regard eircom's investors are exceptionally well-served".

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Last year I went to considerable lengths to set the record straight on eircom. I noted how the company had become a pioneer in the context of Ireland's new economy: The first major state privatisation; one of the first Irish utilities to access international equity markets; and one of the most vigorously re-structured and re-shaped Irish enterprises at the start of the 21<sup>st</sup> century. My assessment then was that eircom had achieved all of the objectives set by the Government prior to its first flotation.

One year later I am even more convinced of the success of privatisation for eircom and for telecoms in Ireland. I have not tired over the past couple of years to remind you of eircom's achievements in reducing prices, rolling out new technology, increasing efficiency and delivering returns to you the shareholders.

But let me contrast this record of a privatised utility with the recent results of a state-owned company. The ESB is currently proposing further price increases of 10% bringing the overall increase in electricity prices for consumers to an incredible 55% over the past four years, or 37% in real terms (inflation adjusted). Contrast this with eircom, whose prices have fallen by 50% in real terms in the past seven years. eircom has no fewer than 60 licensed competitors

that now hold a significant combined market share. Compare this to the electricity industry. There are only six providers and only the ESB has a significant retail presence. eircom's employees have done particularly well in such a competitive environment to defend market share by offering good service, competitively priced.

The best guarantee for the future of telecoms in Ireland lies with eircom, the new eircom, a publicly-quoted eircom, serving all sectors of the telecommunications market and putting the customer first. I have not shied from raising my profound concerns regarding the path of Regulation in Ireland. I repeat what I wrote in this year's annual report: it remains beyond comprehension why a cable into a house is unregulated, a mobile signal is unregulated, a satellite service is unregulated but a copper wire is regulated to within an inch of its life.

If ComReg is unable to do its best to ensure that there is an adequate incentive for investors, then they should at least practice forbearance in the face of unpredictable markets for new technologies. The physician's motto *primum non nocere* (first, do no harm) should be carved above the Regulator's door.

It is time for the key principle behind the European regulatory framework to be met: lighten regulation and use competition law as the sole model for regulating a fiercely competitive telecoms market.

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A key focus of media and political commentary has been Broadband. But a word that simply defines bandwidth has been misleadingly and wrongly extended to define Internet usage, the state of Telecoms or, even further, the technological advancement of the Nation. As Chairman of the company that has delivered 95% of all Broadband connections in the country please allow me to make some informed observations about this market:

- Internet penetration in Ireland, as defined by the number of users, is close to the EU average
- Almost 800,000 Irish homes and businesses use the Internet, mainly on eircom's network
- In a very short period, more than one in ten households have signed up for Broadband and nearly one in four homes with PCs have been connected to Broadband
- Broadband has been rolled out by eircom to every town in Ireland, and we are continuing this programme into

smaller communities with the intention of achieving 90% coverage by March 2006

- Eircom's Broadband prices compare very favourably with other EU countries and have been benchmarked at below the EU average price

Yet a massive number of Internet users, 415,000 with eircom alone, remain as dial-up customers rather than Broadband customers. Some of these customers cannot get Broadband (while we are straining every sinew to make it available to as many people as possible) but many simply do not yet see a sufficient benefit. This is not altogether surprising. Over half of the remaining dial-up market spends less than €10 a month on Internet usage. It is more economical for these customers to use an excellent and competitively priced dial-up service than to switch to Broadband. This is their choice and we are delighted in eircom to serve the needs of every Internet customer whether an occasional dial-up user or the most advanced Broadband consumer.

We also call on Government to respond positively to eircom's proposal for near- 100% availability of Broadband (eircom having itself committed to roll out to 90% of the

country). In Northern Ireland and Scotland, The UK Government co-funded the enablement of uneconomic exchanges jointly with the incumbent (British Telecom) and the same can be achieved here.

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Let me finish with where I started: the news today that eircom has won the auction to acquire Meteor. Eircom is now fully restored as the national telecoms company, listed on the London and Dublin stock exchanges, in Fixed and Mobile Telephony. Your management has been utterly steadfast and determined over the past few years to restore the company to good health, not resorting to populism and not shirking difficult decisions.

On behalf of the shareholders and the employees I have felt the strong need several times over the past couple of years to look back, to review eircom's progress in an historical context, to set the record straight. But the acquisition of a Mobile company is a watershed. Now that we have delivered on the promise to lead eircom back into Mobile, and in so doing delivered on our strategy as outlined at the time of the IPO, it is time to look forward. In this regard my Annual Report statement sets the

challenge for management, to build the company around the principle that the customer is always right.

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As your Chairman I am enthusiastic about the prospects. There is much work to be done at eircom, a company I commend to you for the future.

Sir Anthony O'Reilly

25<sup>th</sup> July 2005

Dublin