

ERC Ireland Preferred Equity Limited
(formerly BCM Ireland Preferred Equity Limited)
Fourth quarter and twelve-month results announcement
30 June 2009

ERC Ireland Preferred Equity Limited

Reconciliation of earnings before interest, taxation, amortisation, depreciation, impairment, non-cash pension credit, restructuring and other exceptional costs, net construction income and profit on disposal of property and investments to operating profit

	Quarter ended June 2008 €'m	Quarter ended June 2009 €'m	Twelve months ended June 2008 €'m	Twelve months ended June 2009 €'m
Operating profit/(loss)	95	20	464	(486)
Profit on disposal of property and investments	-	(3)	(78)	(3)
Net construction income	(3)	-	(37)	(6)
Restructuring and other exceptional costs	-	47	-	60
Non-cash pension credit	(11)	(3)	(50)	(10)
Operating profit/(loss) before non-cash pension credit, restructuring and other exceptional costs, net construction income and profit on disposal of property and investments	81	61	299	(445)
Depreciation	76	90	318	333
Amortisation	20	22	81	84
Goodwill impairment	-	-	-	720
EBITDA before non-cash pension credit, restructuring and other exceptional costs, net construction income and profit on disposal of property and investments	177	173	698	692
EBITDA before non-cash pension credit, restructuring and other exceptional costs, net construction income and profit on disposal of property and investments is split as follows:				
Fixed line	146	138	586	568
Mobile	31	35	112	124
	177	173	698	692

ERC Ireland Preferred Equity Limited

*Consolidated Income Statement - unaudited
For the Quarter ended 30 June 2009*

	30 June 2008	30 June 2009
	€'m	€'m
Revenue	512	479
Operating costs excluding amortisation, depreciation, goodwill impairment, restructuring and exceptional costs	(324)	(303)
Amortisation	(20)	(22)
Depreciation	(76)	(90)
Restructuring and other exceptional costs	-	(47)
Net construction income	3	-
Profit on disposal of property and investments	-	3
Operating profit	95	20
Finance costs	(83)	(40)
Finance income	5	2
Finance costs – net	(78)	(38)
Profit/(loss) before tax	17	(18)
Income tax (charge)/credit	(10)	28
Profit for the period	7	10

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

ERC Ireland Preferred Equity Limited

Consolidated Income Statement - unaudited
For the twelve-month period ended 30 June 2009

	Notes	<u>30 June 2008</u>	<u>30 June 2009</u>
		€'m	€'m
Revenue	3	2,061	1,997
Operating costs excluding amortisation, depreciation, goodwill impairment, restructuring and exceptional costs		(1,313)	(1,295)
Amortisation		(81)	(84)
Depreciation		(318)	(333)
Goodwill impairment	7	-	(720)
Restructuring and other exceptional costs	4	-	(60)
Net construction income		37	6
Profit on disposal of property and investments		78	3
Operating profit/(loss)	3	464	(486)
Finance costs		(333)	(389)
Finance income		14	11
Finance costs – net	5	(319)	(378)
Share of profit of associates		-	2
Profit/(loss) before tax		145	(862)
Income tax (charge)/credit	6	(28)	11
Profit/(loss) for the year		117	(851)

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

ERC Ireland Preferred Equity Limited

Consolidated Balance Sheet - unaudited As at 30 June 2009

	Notes	30 June 2008 €'m	30 June 2009 €'m
Assets			
Non-current assets			
Goodwill	7	2,342	1,622
Other intangible assets		740	701
Property, plant and equipment		2,161	2,105
Derivative financial instruments		89	-
Deferred tax assets		20	13
Other assets		25	3
		<u>5,377</u>	<u>4,444</u>
Current assets			
Inventories		13	10
Trade and other receivables	8	504	342
Receivables due from group undertakings and related parties		5	12
Financial assets at fair value through income statement		30	8
Other assets		26	24
Restricted cash		10	7
Cash and cash equivalents		359	336
		<u>947</u>	<u>739</u>
Total assets		<u>6,324</u>	<u>5,183</u>
Liabilities			
Non-current liabilities			
Borrowings	9	4,061	4,050
Derivative financial instruments		-	70
Trade and other payables		50	53
Deferred tax liabilities		254	205
Retirement benefit liability	10	113	109
Provisions for other liabilities and charges	11	183	198
		<u>4,661</u>	<u>4,685</u>
Current liabilities			
Borrowings	9	254	109
Derivative financial instruments		-	71
Trade and other payables		798	708
Inter-company payables to group undertakings		18	3
Current tax liabilities		43	24
Provisions for other liabilities and charges	11	78	76
		<u>1,191</u>	<u>991</u>
Total liabilities		<u>5,852</u>	<u>5,676</u>
Equity			
Equity share capital		2	2
Share premium account		447	447
Revaluation reserve		3	3
Cash flow hedging reserve		63	(51)
Retained profit/(loss)		(43)	(894)
Total equity		<u>472</u>	<u>(493)</u>
Total liabilities and equity		<u>6,324</u>	<u>5,183</u>

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

ERC Ireland Preferred Equity Limited

Consolidated cash flow statement - unaudited
For the Quarter ended 30 June 2009

	30 June 2008	30 June 2009
	€'m	€'m
Cash flows from operating activities		
Cash generated from operations	208	182
Interest received	4	2
Interest paid	(11)	(25)
Income tax paid	(35)	(16)
Dividends paid to preference shareholders	(1)	(1)
Net cash generated from operating activities	165	142
Cash flows from investing activities		
Purchase of property, plant and equipment (PPE)	(80)	(49)
Proceeds from sale of PPE and investments (net of expenses)	1	9
Purchase of intangible assets	(22)	(16)
Restricted cash	(3)	3
Loans advanced to group undertakings	(3)	(5)
Net cash used in investing activities	(107)	(58)
Cash flows from financing activities		
Redemption of preference shares	(71)	(72)
Lease payments	(1)	(1)
Proceeds from loan borrowings	85	79
Net cash generated from financing activities	13	6
Net increase in cash, cash equivalents and bank overdrafts	71	90
Cash, cash equivalents and bank overdrafts at beginning of period	282	244
Cash, cash equivalents and bank overdrafts at end of period	353	334

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	30 June 2008	30 June 2009
	€'m	€'m
Cash and cash equivalents	359	336
Bank overdrafts	(6)	(2)
	353	334

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

ERC Ireland Preferred Equity Limited

*Consolidated cash flow statement - unaudited
For the twelve-month period ended 30 June 2009*

	Note	<u>30 June 2008</u>	<u>30 June 2009</u>
		€'m	€'m
Cash flows from operating activities			
Cash generated from operations	12	630	769
Interest received		13	12
Interest paid		(250)	(255)
Income tax refund		35	-
Income tax paid		(35)	(18)
Dividends paid to preference shareholders		(6)	(4)
Net cash generated from operating activities		387	504
Cash flows from investing activities			
Dividend received from associate undertaking		-	2
Purchase of property, plant and equipment (PPE)		(274)	(291)
Proceeds from sale of PPE and investments		155	13
Purchase of intangible assets		(57)	(44)
Restricted cash		(3)	3
Loans advanced to group undertakings		(3)	(5)
Net cash used in investing activities		(182)	(322)
Cash flows from financing activities			
Redemption of preference shares		(71)	(72)
Repayment of borrowings		(58)	(221)
Lease payments		(5)	(3)
Proceeds from loan borrowings		121	96
Debt issue costs paid		-	(1)
Net cash used in financing activities		(13)	(201)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		192	(19)
Cash, cash equivalents and bank overdrafts at beginning of year		161	353
Cash, cash equivalents and bank overdrafts at end of year		353	334

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Note	<u>30 June 2008</u>	<u>30 June 2009</u>
		€'m	€'m
Cash and cash equivalents		359	336
Bank overdrafts	9	(6)	(2)
		353	334

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

ERC Ireland Preferred Equity Limited

*Consolidated statement of changes in shareholders' equity – unaudited
For the twelve-month period ended 30 June 2009*

	Equity share capital €'m	Share premium account €'m	Revaluation €'m	Cash flow hedging reserve €'m	Retained (loss)/ profit €'m	Total equity €'m
Balance at 30 June 2007	2	447	3	37	(159)	330
Currency translation differences	-	-	-	-	(1)	(1)
Cash flow hedge, net of tax	-	-	-	26	-	26
Net income/(expense) recognised directly in equity	-	-	-	26	(1)	25
Profit for the year	-	-	-	-	117	117
Total recognised income for the year	-	-	-	26	116	142
Balance at 30 June 2008	2	447	3	63	(43)	472
Balance at 30 June 2008	2	447	3	63	(43)	472
Cash flow hedge:						
- Fair value loss in year	-	-	-	(137)	-	(137)
- Tax on fair value loss	-	-	-	32	-	32
- Transfer to income statement	-	-	-	(9)	-	(9)
Net expense recognised directly in equity	-	-	-	(114)	-	(114)
Loss for the year	-	-	-	-	(851)	(851)
Total recognised expense for the year	-	-	-	(114)	(851)	(965)
Balance at 30 June 2009	2	447	3	(51)	(894)	(493)

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

ERC Ireland Preferred Equity Limited

Selected notes to the condensed interim financial information – unaudited

1. General information

ERC Ireland Preferred Equity Limited ('the Company')(formerly BCM Ireland Preferred Equity Limited), and its subsidiaries together, ('the Group') provide fixed line and mobile telecommunications services in Ireland. ERC Ireland Preferred Equity Limited ("ERCIPE") is registered in the Cayman Islands and is tax resident in Ireland. The address of its registered office is Maples & Calder Corporate Services Limited, Uglund House, South Church Street, Grand Cayman, Cayman Islands.

This condensed consolidated interim financial information was approved, for issue on 26 August 2009.

2. Basis of preparation

The financial information, as at and for the period ended 30 June 2009, in respect of the group has been prepared using the same accounting policies as applied for the year ended 30 June 2008. 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 ERCIPE for the year ended 30 June 2008.

After making appropriate enquiries and on the basis of current financial projections and debt facilities available, the Directors believe that the group has adequate resources to meet the group's financial needs and obligations for the foreseeable future. Therefore the Directors consider it appropriate to adopt the going concern basis in preparing the financial information.

This financial information has been prepared to meet the group's commitment to make available certain unaudited condensed consolidated financial information to the holders of the group's Floating Rate Senior PIK Notes. Accordingly, the group has not prepared this financial information in accordance with IFRS.

3. Segment information

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

The segment results for the twelve months ended 30 June 2009 are as follows:

	Fixed line €'m	Mobile €'m	Inter-segment €'m	Group €'m
Revenue	1,558	496	(57)	1,997
Goodwill impairment (Note 7)	(405)	(315)	-	(720)
Operating loss/Segment result	(189)	(297)	-	(486)

The segment results for the twelve months ended 30 June 2008 are as follows:

	Fixed line €'m	Mobile €'m	Inter-segment €'m	Group €'m
Revenue	1,650	482	(71)	2,061
Operating profit/Segment result	436	28	-	464

ERC Ireland Preferred Equity Limited

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

4. Restructuring and other exceptional costs

	Year ended 30 June 2008 €'m	Year ended 30 June 2009 €'m
Restructuring programme costs	-	27
Impairment of surplus properties	-	17
Other exceptional costs	-	16
	-	60

Restructuring programme costs

In May 2007, the group announced a voluntary leaving plan to reduce its workforce by c.900 over three years and included a provision of €157 million in the 2007 financial statements to reflect the estimated costs associated with that plan.

In March 2009, the group announced a plan to reduce its workforce by 1,200 in the period from 1 April 2009 to 30 June 2011 through voluntary leaving, contractor reductions and natural turnover. The group included a further provision of €27 million in the year ended 30 June 2009 to reflect the additional estimated costs associated with this plan. The provisions comprise the estimated benefits payable to staff availing of the voluntary leaving schemes and the associated pension impact. The estimation of the cost is based on past experience. The group has a constructive obligation in respect of the costs of this staff restructuring programme. As these are voluntary schemes, the timing of individual exits and individual staff participating requires estimation. Changes in those estimates over the life of the plans directly affect the income statement.

Impairment of surplus properties

The group incurred impairment charges of €17 million in respect of a small number of surplus properties, which have been identified for future disposal. The charge reflects the decline in the fair value of these properties at 30 June 2009.

Other exceptional costs

The group has a significant property portfolio comprising of freehold and leasehold properties to accommodate the group's network and office accommodation required for its staff. As part of the group's overall portfolio, the group also leases a number of properties from third parties under long-term lease arrangements. Where the group no longer requires these properties, the group sub-leases the properties to third parties or disposes of properties no longer required. As a result of the rationalisation of the group's accommodation requirements there are a number of leased properties which are vacant or where rental contracts with sub-lease tenants are not sufficient to meet all of the lease obligations. Provision has been made in respect of the estimated cash outflow required to settle the group's obligation under these leases.

The group have included an exceptional charge of €26 million for onerous contracts in the year ended 30 June 2009 reflecting an increase in the onerous contract provision of €29 million, offset by a once-off receipt of €3 million.

The group finalised the agreement of management fees payable to ERC Ireland Equity SPC ("ERCIE")(formerly BCM Ireland Equity SPC) for the three years ended 30 June 2009 which included a saving of €10 million in respect of management fees accrued as payable in prior years.

5. Finance costs – net

	30 June 2008 €'m	30 June 2009 €'m
Finance costs	(333)	(389)
Finance income	14	11
Finance costs - net	(319)	(378)

In the twelve months ended 30 June 2009, finance costs includes €83 million to reflect movements in the fair value of derivatives, which did not qualify for hedge accounting during the period.

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

6. Income tax charge

Reconciliation of effective tax rate

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

	30 June 2008 €'m	30 June 2009 €'m
Profit/(loss) before tax	145	(862)
Tax calculated at Irish standard tax rate of 12.5%	18	(108)
<i>Effects of:-</i>		
Goodwill impairment – non deductible	-	90
Other non deductible expenses	20	16
Effect of changes in capital gains tax rates	-	10
Income not subject to taxation	(10)	-
Tax losses utilised	(2)	-
Income taxable at higher rate	3	1
Adjustment in respect of prior periods	(1)	(20)
Tax charge/(credit) for the year	28	(11)

7. Goodwill

	30 June 2008 €'m	30 June 2009 €'m
Opening balance	2,403	2,342
Disposals	(61)	-
At end of financial year	2,342	2,342
Accumulated impairments	-	(720)
At end of financial year	-	(720)
Net book value at end of financial year	2,342	1,622

Goodwill is not subject to amortisation. Instead, goodwill is tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying value might be impaired, and is carried at cost less accumulated impairment losses.

The impairment losses recognised in the consolidated income statement, as a separate line item within operating profit, in respect of goodwill are as follows:

	30 June 2008 €'m	30 June 2009 €'m
Fixed Line	-	405
Mobile	-	315
	-	720

ERC Ireland Preferred Equity Limited

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

7. Goodwill - continued

Impairment test of goodwill and other indefinite life assets

The goodwill arising on the acquisition of eircom Group has been allocated to the group's CGUs identified according to business segments. The group has two CGU's, fixed line and mobile. A segment level summary of goodwill and other indefinite lived assets is presented below.

	30 June 2008 €'m	30 June 2009 €'m
Goodwill:		
- Fixed line	1,631	1,631
- Accumulated impairments	-	(405)
Fixed line goodwill	1,631	1,226
Fixed line trademark	262	262
Fixed line goodwill and other indefinite lived assets	1,893	1,488
- Mobile	711	711
- Accumulated impairments	-	(315)
Mobile goodwill	711	396
Goodwill	2,342	1,622
Total goodwill and other indefinite lived assets	2,604	1,884

The value of indefinite life assets were tested as at 30 June 2009, after business planning had been completed. The impairment test has been performed at an individual CGU level.

Impairment testing methodology

The recoverable amount of a CGU is determined on the basis of value-in-use, using the discounted cash flow (DCF) method. These calculations use post-tax cash flow projections based on business plans approved by the Board of Directors covering a two-year period. The forecast operating cash flows for the individual CGUs include the benefits of restructuring, where the group is committed to the restructuring as at 30 June 2009 and provision for the related restructuring costs is included at 30 June 2009. Cash flows beyond the two-year period are extrapolated using the estimated long-term growth rates stated below. The cash flows are discounted using the discount rates stated below.

Key assumptions

The key assumptions are based on past experience, adjusted for expected changes in future conditions. Key assumptions involved in the calculation of value in use include management's estimates of future operating cash-flows, replacement capital expenditure requirements, tax considerations, future retirement benefits cash-flows, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were evaluated with regard to 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.

The key assumptions used for value-in-use calculations are as follows:

	30 June 2009	
	Fixed line %	Mobile %
Long-term growth rates	0.25%	0.75%
Discount rates (Pre-tax)	9.68%	10.28%
Discount rates (Post-tax)	8.5%	9.0%
	30 June 2008	
	Fixed line %	Mobile %
Long-term growth rates	0.5%	2%
Discount rates (Post-tax)	8.64%	9.2%

ERC Ireland Preferred Equity Limited

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

7. Goodwill - continued

Long Term Growth Rates

The long-term growth rates are determined based on the long-term historical growth rates of the sectors in which the CGU operates, and reflect an assessment of the long-term growth prospects of the sector. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

Discount Rates

The discount rates used are post tax and reflect specific risks relating to the relevant CGUs. The discount rate applied to the cash flows of the group's segments are based on the risk free rate for ten year plus Irish government bonds. In estimating the discount rate, inputs required are the equity market risk premium (that is the required increased 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, beta, applied to reflect the risk of the specific CGUs 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 betas of comparable companies.

Impairment Testing Results

At 31 December 2008, indicators of impairment existed which required the group to test its indefinite life assets, including goodwill, for impairment. The goodwill in relation to the group's fixed line and mobile operations was impaired by €405 million and €315 million respectively. The impairment charge in the fixed line business reflects the cash outflows required to fund the group's unrecognised actuarial losses in respect of the group's pension deficit at 31 December 2008 and the deterioration in the Irish economic environment and the outlook for the business. The impairment charge in the mobile business reflects the deterioration in the Irish economic environment and the outlook for the business.

A subsequent test was carried out at 30 June 2009. No further impairment was identified. All key assumptions, including the cash flow projections within the business plans used for the impairment testing, were updated from those used at 31 December 2008.

Sensitivity analysis

The results of sensitivity analysis on the key assumptions used in the value in use calculations are detailed below:

The percentages shown in the table below represent the increase or decrease in the individual sensitivity factors that would lead to the recoverable amount equalling the carrying value of the assets.

	30 June 2009	
	Fixed line %	Mobile %
Discount rate (increase)	0.3%	0.1%
Long term growth rate (decrease)	0.3%	0.1%
EBITDA (decrease)	1.9%	0.9%

Any adverse changes in a key assumption underpinning the value in use calculation may cause a further impairment loss to be recognised in future periods.

8. Trade and other receivables

During the twelve months ended 30 June 2009, the group recognised a provision for impaired receivables of €18 million (30 June 2008: €18 million), reversed provisions for impaired receivables of €1 million (30 June 2008: €1 million) and utilised provisions for impaired receivables of €13 million (30 June 2008: €20 million). The creation and reversal of provisions for impaired receivables have been included in "operating costs" in the income statement.

Trade receivables at 30 June 2009 include construction revenue receivable of €Nil (30 June 2008: €128 million).

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

9. 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 30 June 2009					
Floating rate notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	559	559
Other borrowings	95	47	342	2,814	3,298
Debt issue costs	(13)	(13)	(35)	(15)	(76)
Finance leases – defeased	24	1	-	-	25
Finance leases	1	-	-	-	1
Bank overdraft	2	-	-	-	2
	109	35	307	3,708	4,159
As at 30 June 2008					
Floating rate notes due 2016	-	-	-	350	350
Floating rate senior PIK notes due 2017	-	-	-	501	501
Other borrowings	233	69	344	2,848	3,494
Debt issue costs	(13)	(13)	(36)	(26)	(88)
Finance leases – defeased	26	22	1	-	49
Finance leases	2	1	-	-	3
Bank overdraft	6	-	-	-	6
	254	79	309	3,673	4,315

Other borrowings, at 30 June 2009, include Senior Preference Shares of €Nil (30 June 2008: €72 million), borrowings under a Senior Credit Facility of €3,272 million (30 June 2008: €3,350 million), borrowings by our property development company of €Nil (30 June 2008: €72 million) and our share of borrowings in respect of our joint venture, Tetra Ireland Communications Limited (“Tetra”), of €26 million (30 June 2008: €Nil).

Interest accrued on borrowings at 30 June 2009 is €37 million (30 June 2008: €66 million). This is included in trade and other payables.

10. Pensions

The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature. The group has applied the corridor approach, which leaves some actuarial gains and losses unrecognised as permitted by IAS 19. The corridor approach has been applied from the acquisition date of eircom Group, 18 August 2006.

Pension scheme obligation

The status of the principal scheme at 30 June 2009 is as follows:

	30 June 2008 €'m	30 June 2009 €'m
Fair value of scheme assets	2,746	2,201
Present value of funded obligations	(2,726)	(2,636)
Scheme assets in excess of benefit obligation/(Benefit obligation in excess of scheme assets)	20	(435)
Unrecognised actuarial (gains)/losses	(133)	326
Liability recognised in the Balance Sheet	(113)	(109)

Under the corridor approach, excess gains and losses are recognised as a pension credit or charge over the expected average remaining working lives of the employees based on the unrecognised actuarial gains and losses at the start of the financial year (i.e. 1 July 2008) and consequently the charge for the twelve months ended 30 June 2009 does not reflect the movements in the assets and liabilities of the pension scheme since 1 July 2008.

Assumptions of actuarial calculations

The main financial assumptions used in the valuations were:

	At 30 June 2007	At 30 June 2008	At 30 June 2009
Rate of increase in salaries	3.50%	3.50%	2.80%*
Rate of increase in pensions in payment	3.50%	3.50%	2.80%*
Discount rate	5.35%	6.25%	5.75%
Inflation assumption	2.25%	2.50%	2.00%

* The assumptions reflect the agreed pay freeze up to 30 June 2011, which result in a 0% increase assumption up to that date.

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

10. Pensions - continued

Mortality assumptions used at 30 June 2008 were still applicable at 30 June 2009. Details of mortality assumptions are set out in the annual report and financial statements of ERCIPE for the year ended 30 June 2008.

11. Provisions for other liabilities and charges

	TIS Annuity Scheme €'m	Onerous Contracts €'m	Restruc- turing €'m	Other €'m	Total €'m
At 30 June 2008	103	14	61	83	261
Charged to consolidated income statement:					
- Additional provisions	3	29	27	8	67
- Unused amounts reversed	-	-	-	(3)	(3)
- Unwinding of discount	5	-	-	1	6
- Change in discount rate	5	-	-	-	5
Transfer to retirement benefit liability	-	-	(6)	-	(6)
Increase in provision capitalised as asset retirement obligation	-	-	-	7	7
Utilised in the financial year	(21)	(3)	(32)	(7)	(63)
At 30 June 2009	95	40	50	89	274

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

	30 June 2008 €'m	30 June 2009 €'m
Non-current	183	198
Current	78	76
	261	274

12. Cash generated from operations

	30 June 2008 €'m	30 June 2009 €'m
Profit/(loss) after tax	117	(851)
Add back:		
Income tax charge/(credit)	28	(11)
Share of profit of associates	-	(2)
Finance costs – net	319	378
Operating profit/(loss)	464	(486)
Adjustments for:		
- Profit on disposal of property and investments	(78)	(3)
- Net construction income	(37)	(6)
- Depreciation, amortisation and impairment	399	434
- Goodwill impairment	-	720
- Non cash retirement benefit credit	(50)	(10)
- Non cash movement in restructuring provisions	-	27
- Other non cash movements in provisions	6	35
Cash flows relating to restructuring, onerous contracts and other provisions	(88)	(40)
Cash flows relating to construction contract	(36)	123
Changes in working capital		
Inventories	2	3
Trade and other receivables	(13)	34
Trade and other payables	53	(46)
Inter-company payables to group undertakings (net)	8	(16)
Cash generated from operations	630	769

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

13. Contingent liabilities

Allegations of anti-competitive practices

On 17 October 2002, ComReg determined that eircom were not in compliance with their obligations under the voice telephony regulations by providing telephone services to specific customers at prices which were not in accordance with the specific terms and conditions of eircom's discount schemes and published prices. No penalties were levied on eircom as a result of this determination.

Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court in December 2002 against eircom seeking damages including punitive damages resulting from the matters that were the subject of the ComReg determination. eircom submitted their defence on 26 January 2004 and intend to defend the proceedings vigorously.

The plaintiffs submitted general particulars of their damages claim on 3 February 2004 under the headings loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs have identified claims for loss of revenue on existing customers (€7.4 million), failure to meet the plaintiffs' alleged budgeted growth (€25 million) and loss of revenue on the plaintiffs' pricing (€5 million). The particulars also include further unquantified damages. The plenary summons and statement of claim of Ocean Communications Limited and ESAT Telecommunications Limited were amended, inter alia, in April 2005 to include a claim for alleged breach of certain constitutional rights. Even if the plaintiffs could establish a liability on eircom's part under each of these headings, eircom's directors do not believe that these figures represent damages which would be properly recoverable from eircom.

Claims by Smart Telecom

On 8 June 2005, Smart Telecom instituted proceedings against eircom in the Irish High Court, challenging the validity of a notice of termination issued by eircom to Smart Telecom terminating the interconnection agreement between the parties, and alleging that the notice of termination was an abuse by eircom of its dominant position in the telecommunications market. Smart Telecom further alleges that eircom was abusing its dominant position by refusing to provide network access in the form of Local Loop Unbundling ("LLU") to Smart Telecom in the manner required by Smart Telecom. The relief sought by Smart Telecom was declarations that the notice of termination was invalid and an abuse of dominance, that eircom was abusing its dominance by failing to meet Smart Telecom's LLU requirements and unspecified damages, including exemplary damages, for breach of contract and violation of the Competition Act 2002 and the EC Treaty. eircom delivered its defence in the proceedings on 23 December 2005.

eircom's directors believe that the notice of termination was validly issued in accordance with the interconnection agreement, and that eircom provides access to its network fully in accordance with its obligations, and intends to defend the proceedings vigorously. Smart Telecom submitted general particulars of their damages claim under the headings wasted expenditure (€1.6 million), delayed sales/lost customers (€3.8 million per annum), and capitalisation of losses (€41.7 million per annum). Even if Smart Telecom could establish liability on eircom's part under each of these headings, eircom's directors do not believe that these figures represent damages that would be properly recoverable from eircom.

In October 2006, eircom terminated the interconnection agreement with Smart Telecom on grounds unconnected with the proceedings. In 2006 and 2007, eircom introduced the LLU functionality that is the subject of Smart's claim in the proceedings.

eircom bundled products - Riposte

On 8 May 2009, ComReg issued enforcement proceedings in the High Court seeking orders to enforce its findings in an Opinion of Non-Compliance which was issued by ComReg on 2 April 2009 in relation to certain eircom bundled product offerings. The Opinion of Non-Compliance found that eircom had breached its obligation not to unreasonably bundle set out in ComReg Decision D07/61 ("the Compliance Proceedings"). Amongst the relief sought by ComReg in the Compliance Proceedings is the imposition of an unspecified fine on eircom. eircom is defending these Compliance Proceedings.

ComReg then issued a Direction to eircom of 9 April 2009 directing it to refrain from launching new bundled products for a period of three months ("April Direction"). eircom issued an appeal in the High Court on 27 April 2009 against the Opinion of Non-Compliance and against the April Direction ("the Riposte Appeal"). ComReg adopted a new direction on 7 July 2009 which extends the April Direction for a further period of 9 months. eircom intends to appeal the Direction of 7 July ("July Direction"). Both the Riposte Appeal and the Compliance Proceedings have been admitted in the Commercial List of the High Court and pleadings have been exchanged. The Court has ordered that the appeal of the July Direction once lodged be listed for hearing with the other proceedings on the 13 October 2009.

Business exits - Towercom claim

In connection with the demerger of eircom's mast business, and its subsequent acquisition by Towercom Holdings Limited on 18 September 2007, eircom gave warranties to Towercom Holdings Limited in respect of various matters. On 12 March 2009, Towercom Holdings Limited instituted a claim in the Commercial division of the High Court for €22 million in respect of alleged breaches of those warranties. A Statement of Claim was delivered on 25 March 2009. eircom's Defence was filed on 12 May 2009 denying liability. In order to understand the basis on which the claim is made, eircom has raised detailed queries in relation to the claim and requested voluntary discovery from Towercom on 9 July 2009. Voluntary Discovery is to be exchanged between the parties by 28 September 2009. The matter is due to be mentioned in the Commercial division of the High Court on the 5 October 2009.

On 29 May 2009, eircom received a further letter of claim from solicitors for Towercom in relation to the acquisition of the mast business. This claim is being investigated.

ERC Ireland Preferred Equity Limited

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

13. Contingent liabilities - continued

Other

Hearing Loss claims

eircom has received letters before action in relation to potential hearing loss claims from one hundred and thirteen current and former employees, six of which have been withdrawn. These claims will have to progress through the compulsory Injuries Board (formerly the Personal Injuries Assessment Board) process. Thirty four of these claims have progressed to the stage where Court proceedings have issued. In eighteen of these cases, Court proceedings have been served on eircom and are progressing through the Court process and are at various stages in that process. eircom denies liability in all cases and intends to defend all claims.

USO obligations

eircom is obliged to meet certain legally binding quality of performance standards set by ComReg in Decision Notice D02/08. ComReg is due to publish information on eircom's performance in relation to its Universal Service Obligations for Q2 2009 and period 1 July 2008 to 30 June 2009 in September 2009. ComReg will then assess whether eircom has achieved and complied with performance targets including its legally binding targets in respect of fault rate occurrence and fault repair times. ComReg has indicated that it is concerned with eircom's performance to date however, we are not currently aware of nor is eircom subject to any direction, opinion or proceedings by ComReg in relation to non compliance with performance targets.

Performance bonds

Performance bonds have been issued 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. Group performance bonds at 30 June 2009 include €39 million (30 June 2008: €47 million) in respect of undertakings to roll out a 3G network in Ireland, including achieving certain agreed milestones and €9 million of other performance bonds and guarantees. No material losses are expected in respect of these obligations.

Other than as disclosed above, a number of other lawsuits, claims and disputes with third parties including regulatory authorities have arisen in the normal course of business. While any litigation 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.

14. Guarantees

Credit guarantees

The credit guarantees comprise guarantees and indemnities of bank or other facilities, including those in respect of the group's subsidiary undertakings. The group has guaranteed financial indebtedness for €3.6 billion in respect of the Senior Credit Facility and Floating Rate Notes.

Senior Credit Facility

The Senior Credit Facility of the group consists of a €3.4 billion term and revolving credit facility which has the benefit of guarantees and security for all amounts borrowed under the terms of the Senior Credit Facility. The Senior Credit Facility is secured by a first-priority pledge over the assets of ERC Ireland Holdings Limited ("ERCIH")(formerly BCM Ireland Holdings Limited), a wholly owned subsidiary of ERCIF, and, a pledge over all of the assets of BCM Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited. The subsidiaries guaranteeing the Senior Credit Facility are BCM Luxembourg Limited Sarl, eircom Group Limited, Valentia Telecommunications, eircom Limited, Irish Telecommunications Investments Limited and Meteor Mobile Communications Limited.

Floating Rate Notes

The Floating Rate Notes of €350 million issued by ERCIF, are guaranteed on a senior subordinated basis by ERCIH and the subsidiaries guaranteeing the Senior Credit Facility. The Floating Rate Notes are general senior obligations of ERCIF and rank equally in right of payment with all existing and future senior indebtedness of ERCIF. The Floating Rate Notes are also secured by a first-priority pledge over all the shares of ERCIH.

PIK notes

The Payment-In-Kind ("PIK") notes of €559 million are senior obligations of ERCIPE and rank equally in right of payment with all existing and future senior indebtedness of ERCIPE. These Notes are effectively subordinated to any existing and future indebtedness of ERCIPE's subsidiaries.

ERC Ireland Preferred Equity Limited

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

15. Seasonality

Fixed line

eircom's traffic volumes tend to decline during December and March or April as a result of a decline in business traffic over the Christmas and Easter holiday periods. eircom also tend to experience relatively higher fixed line traffic volumes in the Spring and Winter months, other than Christmas and Easter of each year. The group does not believe this 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 prepaid subscriber growth and related costs of handset subsidies and commissions in November and December. Visiting-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 €473 million at 30 June 2009 (30 June 2008: €492 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 €82 million at 30 June 2009 (30 June 2008: €96 million).

17. Related party transactions

The following transactions occurred with related parties:

During the twelve months ended 30 June 2009, the group paid €0.4 million (30 June 2008: €0.4 million) on behalf of the Employee Share Ownership Trust (ESOT) for the administrative expenses incurred in its capacity as trustee of the ESOT and the Approved Profit Share Scheme (APSS). These were recharged to ERC ESOT Services Limited and the amount outstanding in respect of these costs is €1.3 million at 30 June 2009 (30 June 2008: €0.9 million).

During the year ended 30 June 2009, the group recharged operating costs and other costs incurred on behalf of Tetra of €4.3 million (30 June 2008: €4.3 million). The amount outstanding in respect of these costs is €2.5 million at 30 June 2009 (30 June 2008: €1.2 million).

During the year ended 30 June 2009, the group recharged costs paid on behalf of ERCIE of €4.7 million (30 June 2008: €3.4 million). The amount outstanding in respect of these costs is €9 million at 30 June 2009 (30 June 2008: €4.3 million).

The income statement includes management charges from ERCIE of €3.2 million (30 June 2008: €9.7 million) and a credit of €10.1 million arising on the finalisation of management charges payable in respect of prior years. The amount outstanding in respect of these costs is €3.2 million at 30 June 2009 (30 June 2008: €18.1 million).

The income statement includes salary-related charges from BCM Enterprises Limited of €0.3 million (30 June 2008: €0.6 million). There are no amounts outstanding in respect of these costs at 30 June 2009 (30 June 2008: €0.02 million).

During the prior year the company's parent company, ERCIE committed to introducing an incentive scheme for certain executives and key management of the ERCIPE Group. The costs of this scheme will be borne by ERCIE and ERCIPE and its subsidiaries will not be recharged for the costs incurred by ERCIE in meeting its obligations under this incentive scheme. Consequently, no charge or liability in respect of this incentive scheme is reflected in the ERCIPE Group.

18. Comparative information

Certain comparative information have been regrouped and restated in accordance with the presentation adopted in the current financial period.