

eircom Group plc

Quarter 1 results to 30 June 2004

27 August 2004



eIRCOM

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Dr Phil Nolan - CEO



eircom

Key highlights for quarter 1 ended June 2004



- ❑ **Adjusted EBITDA* up 10% to €156 million** due to improved gross margins and lower operating costs, giving an increased Adjusted EBITDA* margin of 39%.
- ❑ **Operating profit before restructuring programme costs up 86% to €65 million**, giving an operating margin of 16%, up from 9%.
- ❑ **Operating costs** down 4% to €153 million**, due primarily to reduced pay costs, increased capitalised labour costs and improved cost control.
- ❑ **Over €57 million of capital investment in Q1**, reaffirming our target of €200 million for the year
- ❑ **Broadband momentum has increased**, with c. 54,000 users at Q1, rising to 73,000 currently.
- ❑ **Turnover, while down 2%**, is slightly ahead of plan, as access and DSL revenue growth compensates for traffic reductions.
- ❑ **Accelerated ongoing reorganisation** led to a charge of €48 million in Q1 to reduce headcount by c. 400.

* before exceptional items, pension amortisation and restructuring costs

** before exceptional items, restructuring costs, depreciation and amortisation of goodwill

Financial highlights

	Q1 ended		Percentage Change
	June '03	June '04	
Turnover	410	402	(2)%
Gross profit	297	305	3%
Operating costs before restructuring programme costs, depreciation and goodwill amortised	159	153	(4)%
EBITDA before restructuring programme costs	138	152	10%
Adjusted EBITDA before restructuring programme costs and pension amortisation	142	156	10%
Operating profit before restructuring programme costs	35	65	86%
Capital expenditure cash outflow	68	57	(17)%

Operational highlights

	Q1 ended	
	June '03	June '04
Gross margin	72%	76%
EBITDA margin	34%	38%
Adjusted EBITDA margin	35%	39%
Operating Margin before restructuring programme costs	9%	16%

	Q1 ended		Percentage Change
	June '03	June '04	
Total access channels (thousands)	1,952	2,019	3%
Traffic minutes (millions)	3,369	3,071	(9)%
Wholesale minutes (millions)	1,765	1,882	7%
Average headcount	8,478	7,908	(7)%
Period-end headcount	8,412	7,877	(6)%

Revenue movement...

	Q1 ended June '04 €m
Core:	
- Traffic & Data	(17)
- Access: PSTN & ISDN	12
DSL	6
	1
Other:	
- Transit interconnect traffic	(12)
- Other	3
	(9)
Overall revenue reduction	(8)

- ❑ Significant reduction in traffic compensated for by tariff rebalancing and DSL.
- ❑ Significant voice traffic losses, data moving to broadband.

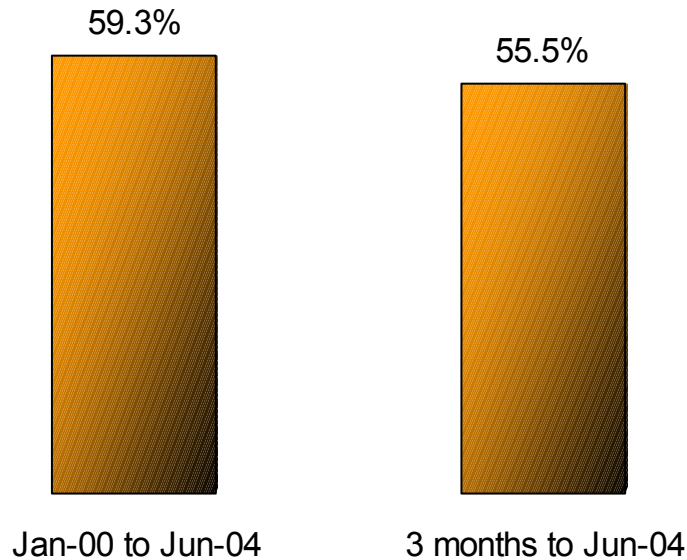
Traffic revenue falling...

<i>Revenue movement YOY</i>	Q1 ended June '04 €m
Traffic & Datacomms:	
- Voice traffic	(14)
- Data traffic	(3)
- Datacomms (mainly leased lines)	(4)
- Discounts	4
	(17)
- due to price	(3)
- due to data volumes	(2)
- due to voice volumes	(12)
	(17)

- ❑ Traffic volumes down by over 8.5% compared to same period last year
- ❑ We estimate that market volumes have dropped by approx. 2.8% ...
- ❑ ... while eircom's market share has fallen by 4.7 percentage points (Mkt share 75% end of June '04)
- ❑ We are seeing displacement of dial-up internet minutes to DSL and other flat rate internet packages

Winback

(Winback as % of gross losses)



Source: Company estimates

Competition for market share

- ❑ **Competitive marketplace features**
 - ➔ Large number of OAO's, resellers and brokers e.g. IFA Telecom, Gaelic Telecom.
 - ➔ Approximately 5k lines from one customer, CPS'd in June 2004.

- ❑ **eircom's winback response**
 - ➔ New Talktime discount helped drive strong winbacks of 11,830 lines in June 2004.
 - ➔ High sales conversions of Inbound Calls from Talktime marketing campaign.
 - ➔ Increased Feet on the Street (FOTS) agents deployed to increase door to door sales.

- ❑ **eircom's traffic minute market share**
75%

- ❑ **Launched on 1st June (following 3 week pre-launch campaign)**
 - ➔ Provides customers with a range of residential and business phone packages. Standard line rental bundled with:
 - call minute allowances
 - add-on phone services

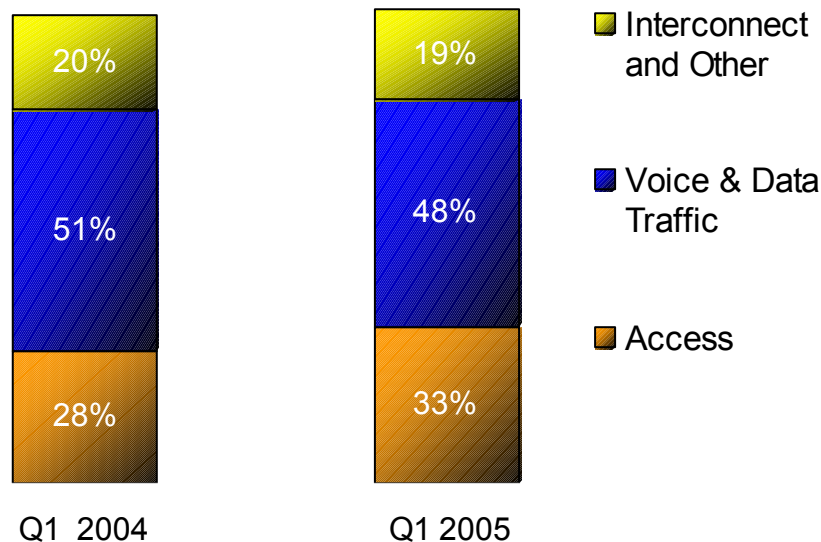
- ❑ **The products have been well received.**
 - ➔ Over 52,000 packages sold by end June 2004
 - ➔ 27,500 of these customers purchased an add-on service
 - ➔ 78% of packages sold to the Residential market

Total Talktime revenue to end of June of approx. €1 million, net of discounts

Change in revenue mix drives gross margin expansion

Revenue breakdown (1)

(% total of turnover)



Revenue (€m)	410	402
Gross Margin (%) (2)	72	76

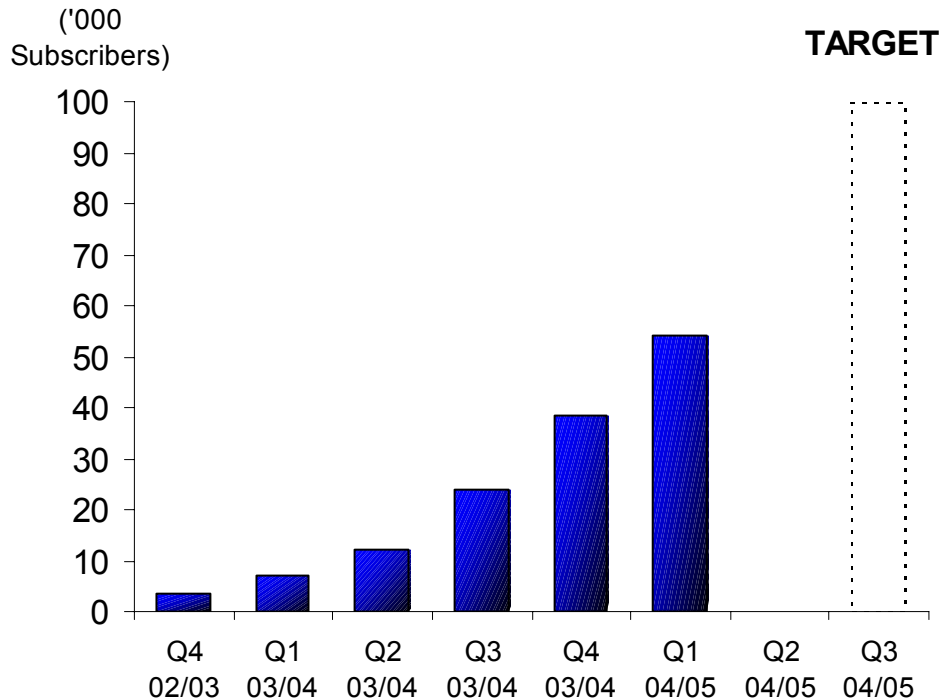
Notes:

(1) Discounts allocated to voice, traffic and data revenues

(2) Gross margin on continuing operations adjusted for intragroup costs of discontinued businesses

Access includes ADSL and Bitstream revenue.

DSL take up and targets



- ❑ **Capturing market opportunity**
 - ➔ 73,000 customers currently
 - ➔ ~80% Retail market share at Q1
 - ➔ Penetration rate of 4%
- ❑ **Making DSL available**
 - ➔ Over 1.1 million lines connected to DSL enabled exchanges
- ❑ **Driving market development**
 - ➔ June ~ Aug 04 Summer Surfing promotion
 - ➔ new offers coming

* Retail and wholesale

- ➔ We are continuing discussions with network operators on MVNO opportunities
- ➔ We are not being offered the margin necessary to make this attractive
- ➔ The regulator has stated that he wants to see MVNO offered in Ireland before December 2004 ...
- ➔ ... and the question is whether the operators are going to make commercial deals before they are directed
- ➔ We expect clarity on this matter by the end of the year ...
- ➔ ... and are determined in our approach to the mobile market.

❑ Key Prices secured for 12-18 months

- ➔ Wholesale Line Rental retail minus 10% until October 2005
- ➔ PPCs unchanged until April 2005
- ➔ Retail Price Cap @ CPI minus 0 until January 2006

❑ Implementation of New EU Regulatory Framework

- ➔ Some relaxation of regulation is proposed: International Leased Lines market and the national high bandwidth retail market
- ➔ Focus on reducing interconnect charges paid to mobile operators
- ➔ Strict regulation reinforced on *eircom* in the Access Network: Local Loop Unbundling
- ➔ New controls proposed on broadband retail pricing and promotions

❑ Activation of Government Role in Wholesale Market

- ➔ Appointment of eNet to sell capacity on Government Metropolitan Area Networks
Further expansion announced for Government network

❑ Major issues pending

- ➔ LLU: Discussions ongoing with ComReg on amendments to current price of €16.81
- ➔ Universal Service Obligation: Scope and funding issues under discussion

Peter E. Lynch - CFO



eircom

Historical revenue breakdown

	Q1 ended	
	June '03	June '04
	€m	€m
Access: rental & connections	113	125
DSL	2	8
<i>% growth</i>		16%
Traffic and Data Communications	234	213
<i>% growth</i>		-9%
Total Access, Traffic and Data	349	346
<i>% growth</i>		-1%
Interconnect/Other	84	75
Gross turnover	433	421
Discounts	(23)	(19)
Total turnover	410	402
<i>% growth</i>		-2%

Historical operating performance

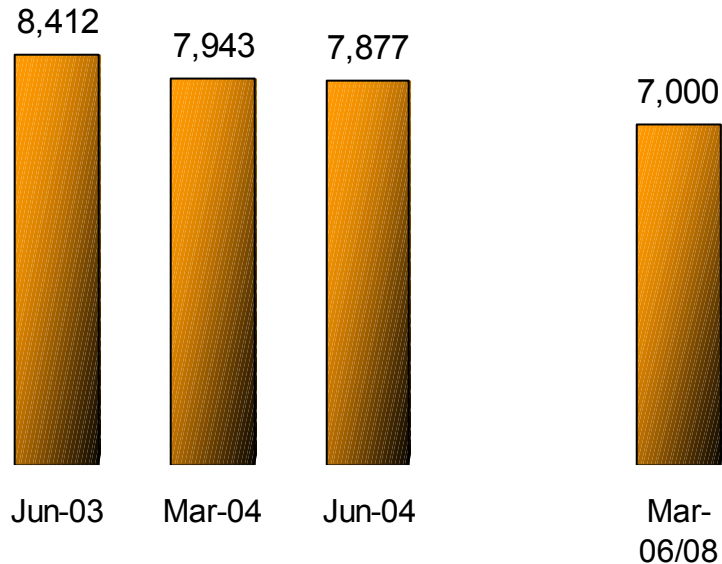
	Q1 ended	
	June '03 €m	June '04 €m
Turnover	410	402
Gross profit	297	304
<i>Gross margin %</i>	72%	76%
Adjusted EBITDA *	142	156
<i>Adjusted EBITDA margin %</i>	34%	38%
Capex	68	57
<i>Capex % revenue</i>	17%	14%
Operating profit before restructuring	35	65
Charge for restructuring		(48)
Operating profit after restructuring	35	17

Note:

- Adjusted EBITDA can be derived by adjusting EBITDA from continuing operations for exceptional charges, restructuring costs and pension amortisation

Headcount Evolution

(Number of employees)

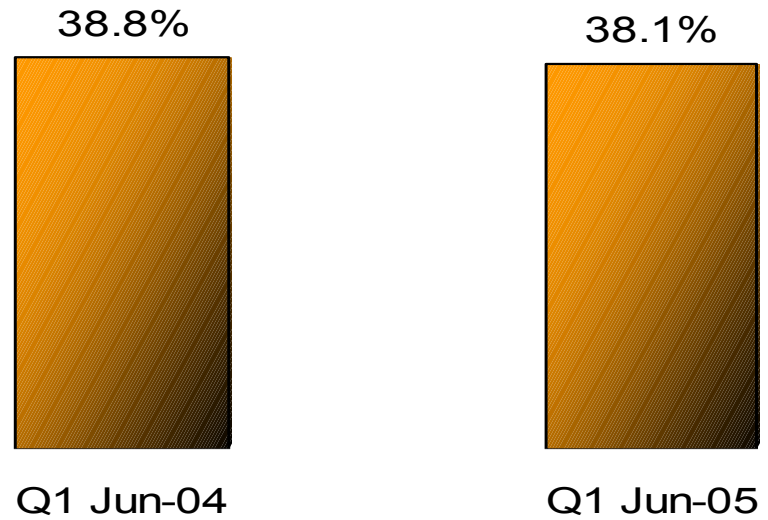


- ❑ Substantial progress made to date, further reductions planned and launched.
- ❑ Headcount target of 7,000 by March 2008 or sooner.
- ❑ New Voluntary Leaving (VL) programme introduced in this quarter.
- ❑ c. 400 people have accepted VL.
- ❑ €140 million over 4 years to reduce headcount by 1,000. *eircom* has moved early in tackling this objective
- ❑ Approximately 600 VL planned for this year.

Improving Opex spend control

Opex

(% of turnover)



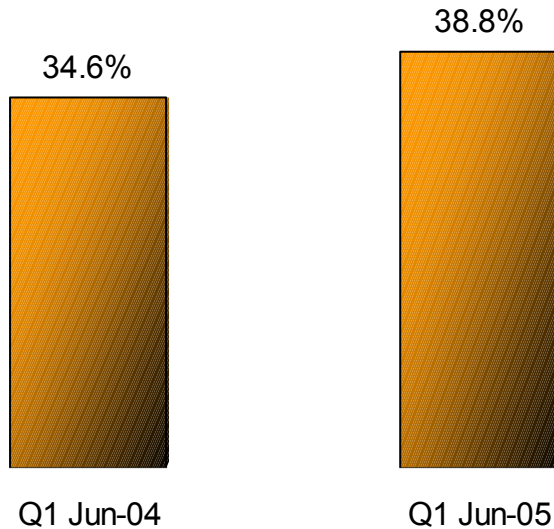
€m	159	153
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Note: before restructuring programme costs

We continue to control our operating expenditure

Adjusted EBITDA

(% Margin)



€m

142

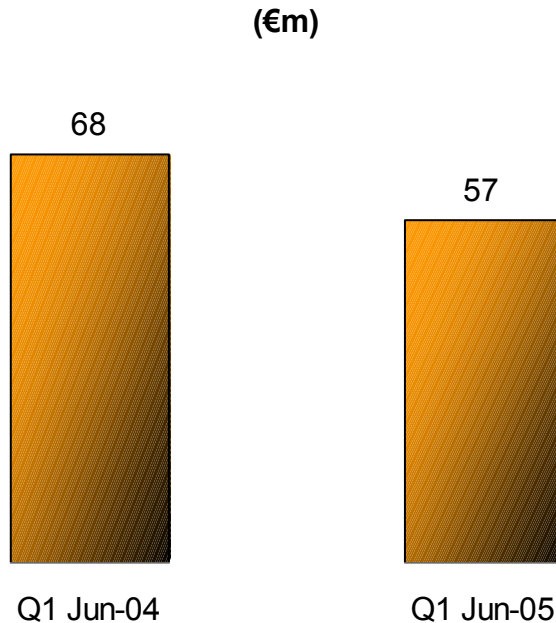
156

- **Margin improvement continues**
- **Higher margin targeted**
 - ➔ Gross margin improvement
 - ➔ Workforce restructuring to continue
 - ➔ Non pay cost reductions to be progressed

Note:

1. Adjusted EBITDA can be derived by adjusting EBITDA from continuing operations for exceptional charges, restructuring costs and pension amortisation

Historical Capital Expenditure



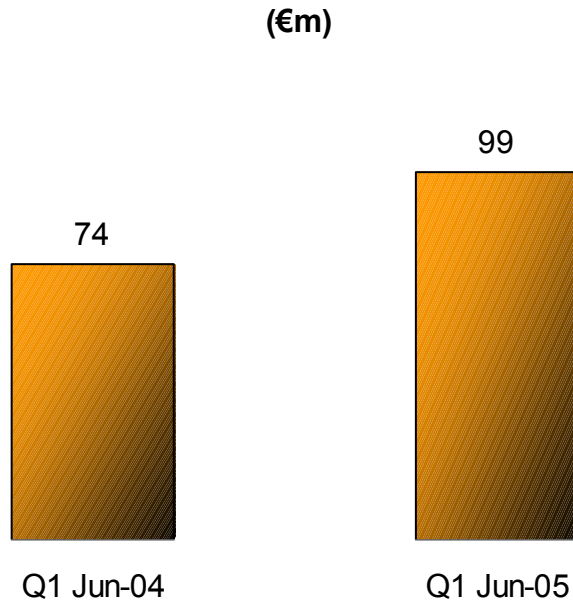
- Investing at 14% of sales
 - c. €200 m per year for operations
 - In line with EU average
 - targeted 3 year programmes
 - Focus on network renewal, maintenance and improvement, to support DSL and improve network quality.

% Sales	16.6	14.2
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Note:

1. Capital expenditure is amount of payments made to acquire fixed assets in the year.

Adjusted EBITDA – Capex ⁽¹⁾⁽²⁾



- ☐ **Good cash flow available for**
 - ➔ interest payments
 - ➔ dividends,
 - ➔ voluntary leaver payments,
 - ➔ and de-gearing.

Notes:

- All continuing business restated as appropriate, Capex not restated for Golden Pages
- Adjusted EBITDA can be derived by adjusting EBITDA from continuing operations for exceptional charges, restructuring costs and pension amortisation

	Quarter ending	
	March '04	June '04
	€m	€m
Bonds(1)	1,060	1,060
Term loans(2)	1,250	1,250
Overdrafts & other	1	1
Total debt	2,311	2,311
Cash on hand	(352)	(373)
Net total debt(3)	1,959	1,938
<i>Fixed interest proportion</i>	<i>68%</i>	<i>67%</i>
<i>Blended interest rate</i>	<i>5.6%</i>	<i>5.6%</i>

NB: Fixed interest proportion includes amounts hedged

Notes:

1. *Unsecured high yield notes, maturing 2013, fixed interest rates*
2. *Secured loan, maturing in 5 years; interest @ IBOR + 1.5%; €500m swapped to fixed interest rate*
3. *Net debt is shown inclusive of debt issue costs of €46m that have been deducted from the total in arriving at net debt in the financial statements (Accounting requirement)*

- ❑ **Net total debt of €1.94 Bn** (*incl. Issue costs*)
High level of fixed debt (67.5%)

- ❑ **Credit statistics - covenant levels well within target**
 - ➔ Net Debt / Adjusted EBITDA of 3.23x (*covenant 4.0x*)
 - ➔ Adjusted EBITDA / Net Interest of 3.54x (*covenant 3.25x*)
 - ➔ Senior debt / Adjusted EBITDA of 2.93x (*covenant 3.5x*)

- ❑ **After the restructuring programme costs in Q1 the Group has a buffer in excess of €200 million at June 04, from which it can pay dividends**
- ❑ **€106 million sits at parent level from which we expect to pay the dividends for this year**
- ❑ **The adoption of IAS 19 permits a smoothing approach to pension surpluses or deficits and this reduces the volatility of reserve movements**

Phil Nolan - CEO



eircom

- ❑ **Solid results - EBITDA and operating profit have increased**
- ❑ **Access and DSL growth have compensated for the reduction in traffic revenues**
- ❑ **Costs and CAPEX under control**
- ❑ **Good cash position**
- ❑ **Broadband take-off, affirming 100,000 broadband connections target for December 2004.**
- ❑ **New VL programme launched with c. 400 people leaving.**