

# *eircom* Group plc

Half year results to 30 September 2004

*24th November 2004*



**eircom**

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**Dr Philip Nolan - CEO**



**eircom**

# Key highlights for first half to September 2004



- ❑ **Adjusted EBITDA\* up 3% to €309 million**
- ❑ **Operating profit before restructuring programme costs and exceptional operating costs up 52% to €128 million**
- ❑ **Turnover ahead of plan**
- ❑ **Broadband momentum has increased - We have already exceeded our 31 December 2004 target of 100,000 DSL lines**
- ❑ **€98 million of capital investment in the first six months**
- ❑ **Accelerated ongoing restructuring programme costs of €54 million**

*\* Adjusted EBITDA is EBITDA before exceptional operating costs, pension amortisation and restructuring programme costs*

- ❑ **New broadband target of 500,000 by December 2007**
- ❑ **Awaiting regulatory assistance in mobile, in discussions with operators, spending on convergence trials**
- ❑ **Good cash position, 5 cent dividend announced, payable 17 December to shareholders on the register at 3 December 2004 - the share goes ex-dividend on 1 December 2004**

# H1 Financial highlights

	H1 ended		Percentage Change
	Sept '03	Sept '04	
<b>Turnover</b>	825	802	(3)%
<b>Gross profit</b>	606	611	1%
<b>Operating costs before restructuring programme costs, exceptionals, depreciation and goodwill amortised</b>	314	310	(1)%
<b>EBITDA before restructuring programme costs and exceptionals</b>	292	301	3%
<b>Adjusted EBITDA before restructuring programme costs, pension amortisation and exceptionals</b>	300	309	3%
<b>Operating profit before restructuring programme costs and exceptionals</b>	84	128	52%
<b>Capital expenditure cash outflow</b>	100	98	(2)%
<b>Net debt excluding capitalised fees</b>	2,247	1,991	(11)%

# H1 - Operational highlights

	H1 ended	
	Sept '03	Sept '04
Gross margin	73%	76%
EBITDA margin	35%	38%
Adjusted EBITDA margin	36%	39%
Operating Margin before restructuring programme costs	10%	16%

	H1 ended		Percentage Change
	Sept '03	Sept '04	
Total access channels ('000)	1,964	2,042	4%
Traffic minutes (millions)	6,606	5,989	(9%)
Wholesale minutes (millions)	3,532	3,813	8%
Average headcount	8,407	7,725	(8)%
Period-end headcount	8,335	7,527	(10)%

# H1 Revenue movement ...

H1 ended Sept '04	
€m	
<b>Core:</b>	
- Voice & other traffic	(32)
- Mobile termination charges	(6)
- Access: PSTN & ISDN	19
DSL	15
	(4)
<b>Other:</b>	
- Interconnect revenue	(18)
- Traffic & Leased Line discounts	7
- DSL discounts	(4)
- Other	(4)
	(19)
<b>Overall revenue reduction</b>	<b>(23)</b>

- ❑ Significant reduction in traffic compensated largely for by access tariff rebalancing and DSL
- ❑ Significant voice traffic losses, data moving to broadband
- ❑ Increases in origination and termination wholesale volumes offset by reductions in low margin transit traffic

# Traffic revenue falling...

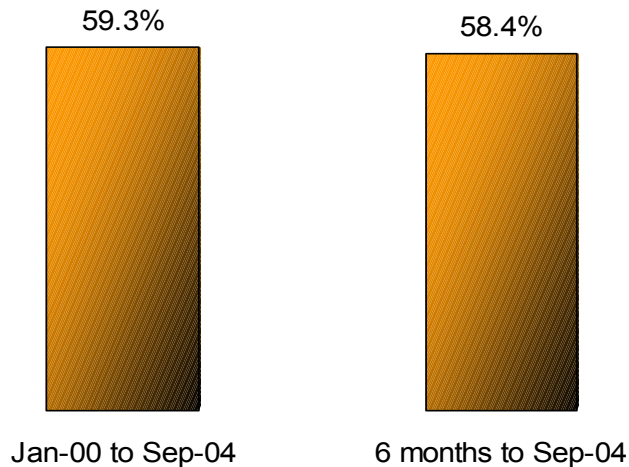
<i>Revenue movement YOY</i>	H1 ended Sept '04 €m
<b>Traffic:</b>	
- Voice traffic	(31)
- Data traffic	(7)
	<hr/>
	<b>(38)</b>
	<hr/>
- due to price	(8)
- due to data volumes	(5)
- due to voice volumes	(25)
	<hr/>
	<b>(38)</b>
	<hr/>

<i>Retail traffic revenue movement</i>	H1 ended Sept '04 €m
<b>Gross reduction in traffic revenue</b>	(38)
Due to reduction in mobile termination charges	6
Reduction in discounts	7
	<hr/>
<b>Net reduction in traffic revenue</b>	<b>(25)</b>
	<hr/>

- ❑ Retail traffic volumes down by c. 9% compared to same period last year
- ❑ We estimate that market volumes have dropped by approx. 3% ...
- ❑ ... while eircom's market share has fallen by 5.3 percentage points (Mkt share 73.4% end of September'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

To end October 2004:	
Gross losses ytd	(129,000)
Winbacks ytd	74,000
Net losses ytd	(55,000)

## Competition for market share

### Competitive marketplace features

- ➔ Large number of OAO's, resellers and brokers e.g. IFA Telecom, Gaelic Telecom - we currently estimate that one new competitor comes on the market each week
- ➔ We are starting to see the take-up of Wholesale Line Rental by our competitors. Currently 3 operators have contracted for this - we expect the number to increase

### eircom's winback response

- ➔ New Talktime discount has helped drive strong winbacks - estimated that since launch it is responsible for c. 40% increase in winbacks
- ➔ High sales conversions of Inbound Calls from Talktime marketing campaign
- ➔ Increased Feet on the Street (FOTS) agents deployed to increase door to door sales

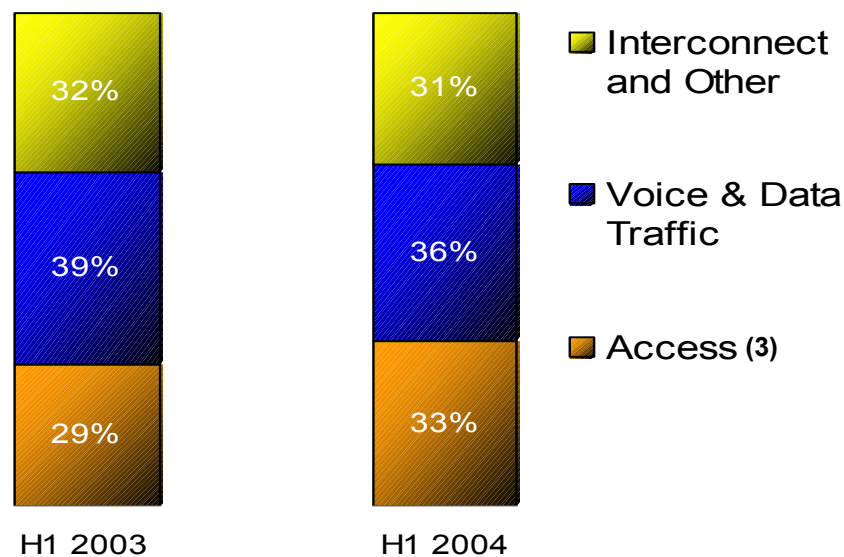
- ❑ eircom's traffic minute market share is now approx. 73%

- ❑ **Launched on 1 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 173,000 packages sold by end September 2004, (c. 193,000 by 19 November)
  - ➔ Almost 85,000 of these customers purchased an add-on service
  - ➔ c. 85% of packages sold to the Residential market

# Change in revenue mix drives gross margin expansion - H1

## Revenue breakdown (1)

(% total of turnover)

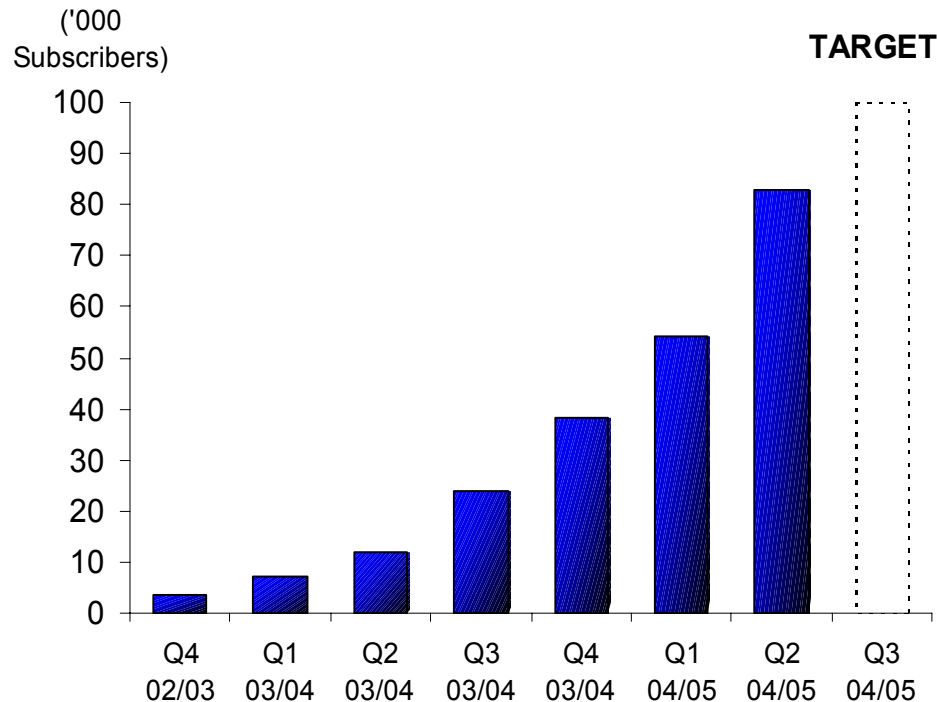


<b>Revenue (€m)</b>	<b>825</b>	<b>802</b>
<b>Gross Margin (%) (2)</b>	<b>73</b>	<b>76</b>

**Notes:**

- <sup>1</sup> Discounts allocated to voice, traffic and data revenues
- <sup>2</sup> Gross margin on continuing operations adjusted for intragroup costs of discontinued businesses
- <sup>3</sup> Access includes ADSL and Bitstream revenue.

## DSL take up and targets

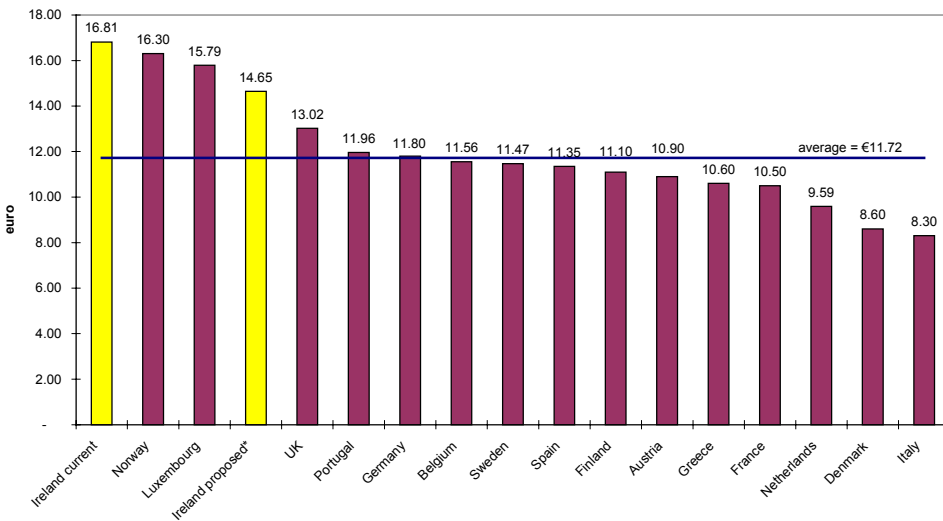


- ❑ **Capturing market opportunity**
  - ➔ Approx. 102k\* subscribers week ending 19 November
  - ➔ ~77% Retail market share
  - ➔ Penetration rate of 6%
- ❑ **Making DSL available**
  - ➔ Over 1.1 million lines connected to DSL enabled exchanges
- ❑ **Driving market development**
  - ➔ March 04: New price points
  - ➔ May 04: FRIACO promotion
  - ➔ June ~ Aug 04: Summer Surfing promotion
  - ➔ Aug ~ Dec 04: Free trial promotion
  - ➔ Oct ~ Dec 04: PC promotion
  - ➔ Further offers likely

- ❑ **500,000 users by December 2007**
  
- ❑ **Target could be reached earlier, subject to:**
  - ➔ regulatory support for our investment
  - ➔ positive government approach to our investment
  - ➔ increases in PC penetration
  - ➔ market development

## LLU - Monthly Rental

Fully Unbundled Local Loop - Monthly Rental Charge



➔ Secured LLU price at €14.65 from end-2004, index-linked to 2008

### Key Pricing Developments

- ➔ WLR proposed at retail minus 10% until 2008
- ➔ Interconnect Rates unchanged
- ➔ Agreed Broadband promotions

### New EU Regulatory Framework

- ➔ Market assessments see rollover of current regulations

### General

- ➔ ComReg focus on billing, sales, pricing practices

### Major issues pending

- ➔ Review of interconnect rates
- ➔ Consultation on Line Share price being vigorously challenged
- ➔ Review of USO scope / funding
- ➔ Other market assessments likely to be challenged

- ❑ We are continuing discussions with network operators on MVNO opportunities
- ❑ However, we are not currently being offered the margin necessary to make this attractive
- ❑ The regulator's report on the mobile consultation process has been delayed ...
- ❑ ... and the mobile operators are indicating that this report should be available before material progress can be made
- ❑ We expect greater regulatory clarity by the end of the year ...
- ❑ ... and would anticipate better commercial clarity from the mobile operators early next year
- ❑ Our enthusiasm for this market is undimmed, and technology convergence is an increasing opportunity

# Peter E. Lynch - CFO



eircom

# Historical revenue breakdown - H1

	Sept '03 €m	Sept '04 €m
Access: rental & connections	231	250
DSL	6	21
<b>% growth</b>		<b>14%</b>
Traffic and Data Communications	462	419
<b>% growth</b>		<b>(9%)</b>
<b>Total Access, Traffic and Data</b>	699	690
<b>% growth</b>		<b>(1%)</b>
Interconnect/Other	171	154
<b>Gross turnover</b>	<b>870</b>	<b>844</b>
Discounts	(45)	(42)
<b>Total turnover</b>	<b>825</b>	<b>802</b>
<b>% growth</b>		<b>(3%)</b>

DSL revenue shown gross. Discounts include €4 million incurred to acquire customers

# Historical operating performance - H1

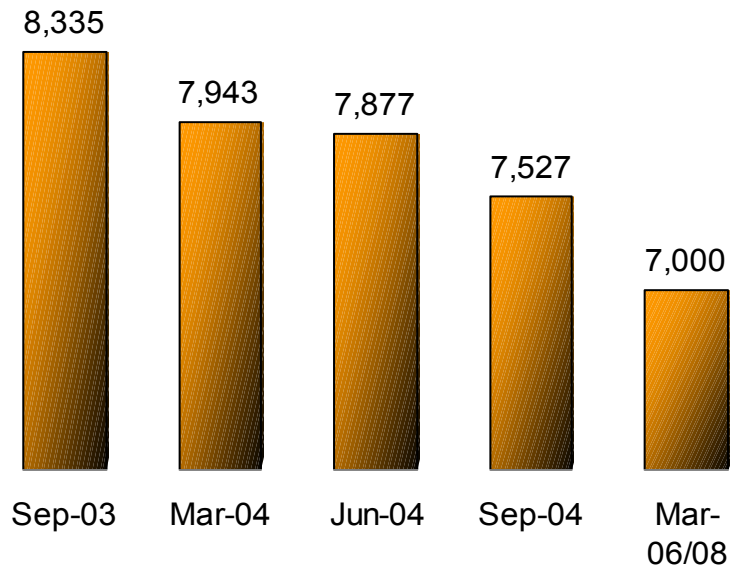
	H1 ended	
	Sept '03	Sept '04
	€m	€m
<b>Turnover</b>	<b>825</b>	<b>802</b>
Gross profit	606	611
<i>Gross margin %</i>	73%	76%
<b>Adjusted EBITDA *</b>	<b>300</b>	<b>309</b>
<b><i>Adjusted EBITDA margin %</i></b>	<b>36%</b>	<b>39%</b>
<b>Capex</b>	<b>100</b>	<b>98</b>
<b><i>Capex % revenue</i></b>	<b>12%</b>	<b>12%</b>
<b>Operating profit before restructuring</b>	<b>84</b>	<b>128</b>
<b>Charge for restructuring</b>		<b>(54)</b>
<b>Exceptional operating costs</b>	<b>(16)</b>	
<b>Operating profit</b>	<b>68</b>	<b>74</b>

Notes:

- Adjusted EBITDA is EBITDA from continuing operations before exceptional operating costs, restructuring programme costs and pension amortisation

## Headcount Evolution

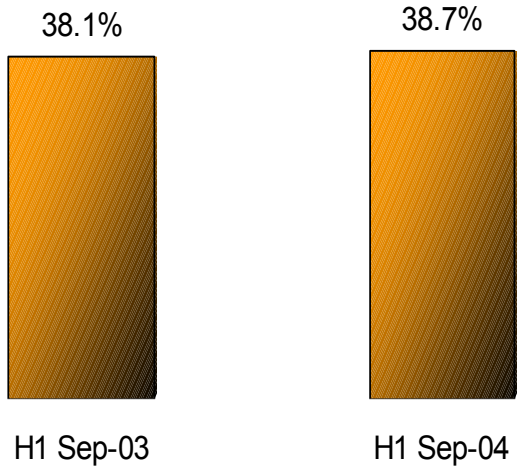
(Number of employees)



- ❑ 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
- ❑ 416 people have left the organisation since 31 March
- ❑ €140M over 4 years to reduce headcount by 1,000. *eircom* has moved early in tackling this objective
- ❑ Approximately 600 VL planned for this year

## Opex (Note)

(% of turnover)



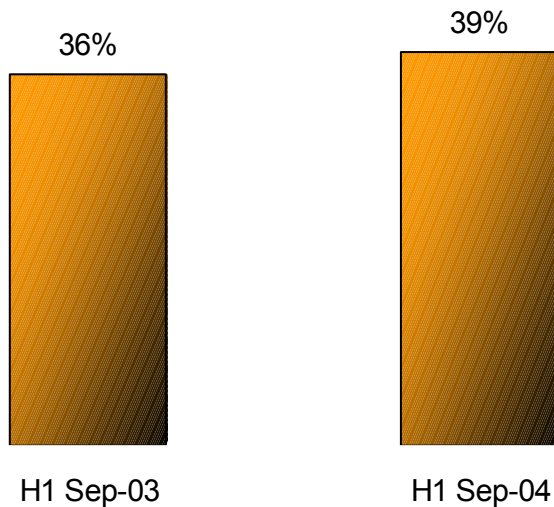
€m	314	310
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- ❑ Disposals/closures still on the agenda
- ❑ Cost consciousness objective restated for 2005
- ❑ Outsourcing in scope
- ❑ Office consolidation continues

Notes:  
• Before restructuring programme costs

## Adjusted EBITDA

(% Margin)



€m

300

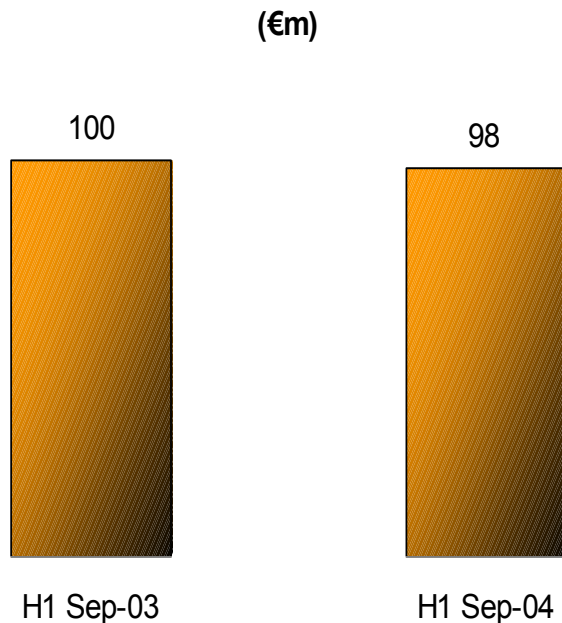
309

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

Note:

1. Adjusted EBITDA is EBITDA from continuing operations before exceptional operating costs, restructuring programme costs and pension amortisation

## Historical Capital Expenditure



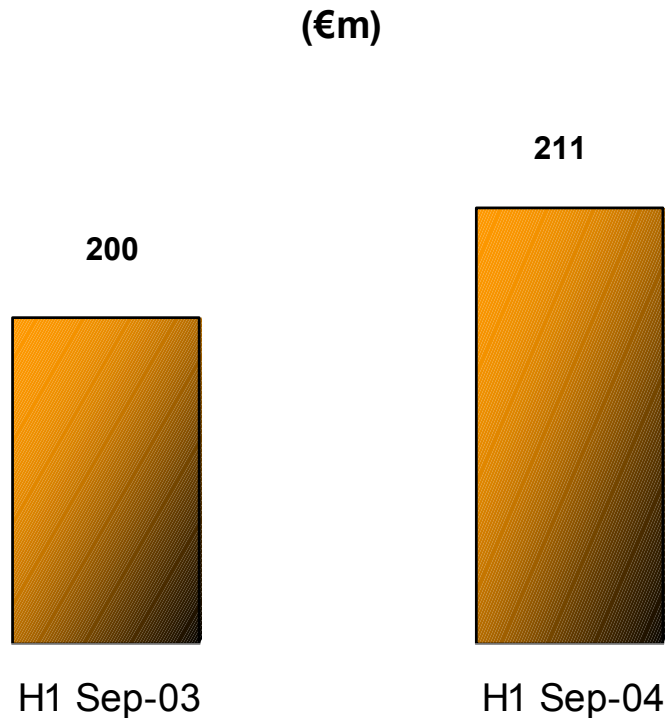
% Sales

12.1

12.2

- ❑ **€1.3 Bn invested since 2001**
- ❑ **Investing at 12% of sales**
  - ➔ c. €200m 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

## Adjusted EBITDA – Capex <sup>(1)</sup>



- **Good cash flow available for**
  - ➔ interest payments
  - ➔ dividends
  - ➔ voluntary leaver payments
  - ➔ de-gearing

*Notes:*

1. *Adjusted EBITDA is EBITDA from continuing operations before exceptional operating costs, restructuring programme costs and pension amortisation*

	March '04 €m	June '04 €m	Sept '04 €m
Bonds(1)	1,060	1,060	1,060
Term loans(2)	1,250	1,250	1,250
Overdrafts & other	1	1	1
<b>Total debt</b>	<b>2,311</b>	<b>2,311</b>	<b>2,311</b>
Cash on hand	(352)	(373)	(320)
<b>Net total debt(3)</b>	<b>1,959</b>	<b>1,938</b>	<b>1,991</b>
<i>Fixed interest proportion</i>	<i>68.0%</i>	<i>67.5%</i>	<i>67.5%</i>
<i>Blended interest rate</i>	<i>5.6%</i>	<i>5.6%</i>	<i>5.6%</i>

NB: Fixed interest proportion includes amounts hedged

Increase in net debt at September is due to cash outflow, primarily for payment of tax liability on Golden Pages exit (€38m), as well as additional spending on restructuring.

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 €44m that have been deducted from the total in arriving at net debt in the financial statements (Accounting requirement)

- ❑ **After charging restructuring programme costs of €54 million, the Group has a buffer in excess of €200 million at September 2004, from which it can pay dividends**
- ❑ **€61 million sits at parent level from which we expect to pay the remaining dividends for this year**
- ❑ **After this years charges we expect to have enough reserves to meet next years planned dividends**
- ❑ **At 31st March 2004 the group had a pension deficit of €256 million, which under IAS 19 is permitted to be charged against profits over several years. This will reduce the volatility of reserve movements**

- ❑ **Net total debt of €1.99 Bn** (*incl. Issue costs*)  
High level of fixed debt (67.5%)
  
- ❑ **Credit statistics - covenant levels well within target**
  - ➔ Net Debt / Adjusted EBITDA of 3.33x (*covenant 4.0x*)
  - ➔ Adjusted EBITDA / Net Interest of 3.61x (*covenant 3.25x*)
  - ➔ Senior debt / Adjusted EBITDA of 2.94x (*covenant 3.5x*)

**Dr Philip Nolan - CEO**



**eircom**

- ❑ **Solid results - adjusted EBITDA and operating profit for the first 6 months have increased**
- ❑ **Access and DSL growth are compensating for the reduction in traffic revenues**
- ❑ **New VL programme launched. Approx. 416 people have left the organisation since March**
- ❑ **Costs and CAPEX under control**
- ❑ **Broadband take-off - we have achieved our 100,000 target almost 6 weeks ahead of schedule**
- ❑ **Aggressive new target of 500,000 broadband lines - over 30% of homes - by 2007**
- ❑ **Mobile ambition undimmed, but increasingly, convergence coming into play**
- ❑ **Good cash position, dividends announced - 5 cent per ordinary share, payable 17 December**