

# Financial Statements

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## Executive Management and Company Information

### Executive Management

Dr Philip Nolan	Group Chief Executive
Peter E. Lynch	Chief Financial Officer
Herb Hribar	Managing Director, networks and wholesale
Cathal Magee	Managing Director, retail
David McRedmond	Group Commercial Director
Brian Montague	Group Human Resources Director
John Mason	General Counsel

### Company Information

#### Auditors

PricewaterhouseCoopers  
Chartered Accountants and  
Registered Auditors  
Dublin

#### Registered Office

1 Park Row,  
Leeds  
LS1 5AB  
United Kingdom

#### Company Secretary

John Mason

## Directors' Report

The Directors present their report, together with the audited financial statements of the group for the year ended 31 March 2004.

### Background

*eircom* Group plc is a public limited company registered in England and Wales and was incorporated under the Companies Act 1985, as amended, of England and Wales on 9 July 2003. On 21 July 2003, *eircom* Group plc acquired the entire share capital of Valentia Telecommunications in consideration for which *eircom* Group plc issued shares. *eircom* Group plc re-registered as a public limited company on 8 March 2004, having previously been registered as a private limited company. *eircom* Group plc became listed on the London and Irish Stock Exchanges from 24 March 2004. These financial statements have been prepared using Merger Accounting under Financial Reporting Standard ("FRS") 6 "Acquisitions and Mergers".

The operating and financial review on pages 22 to 25, the discussion on corporate governance on pages 55 to 59, and the report on directors' remuneration on pages 37 to 54 form part of this report. The audited financial statements are presented on pages 63 to 113.

### Principal Activities

The group's principal activity is the provision of fixed line communications offering a wide range of voice, data and internet services. In the 2004 financial year, approximately 99.8% of group turnover arose from operations in the Republic of Ireland. The principal activities of the group are described in the operating and financial review on pages 22 to 25.

### Review of the Business

The directors consider that, in the conditions prevailing during the year, the development in the group's businesses and its financial position at the end of the year were satisfactory. A review of the business is included in the operating and financial review on pages 22 to 25.

### Future Developments

It is expected that revenue growth and operating margins in the core business will continue to face the challenge of a more competitive marketplace.

The group will continue to focus on maintaining its strong market position and control of both pay and non-pay costs. Investment will be prioritised towards areas that leverage the core business. A review of the development of the business is included in the operating and financial review on pages 22 to 25.

### Dividends

An interim dividend on ordinary shares of €400 million was paid on 8 August 2003.

Dividends paid and payable in respect of preference shares of €28 million (2003: €22 million) have been provided for in these financial statements.

### Research

The group trials emerging technologies prior to full scale deployment, and participates in collaborative research with other European companies through its shareholding in EURESCOM. The group is also involved in longer term Research through its participation in EU funded programmes.

The profit and loss account charge for research costs is set out in Note 2(a).

## Directors' Report – continued

### Donations

The policy of the group is not to make donations to political organisations. No contributions were made to UK registered charities.

Details of our support provided to various Irish organisations are included in the Supporting Ireland section on the inside back cover.

### Post Balance Sheet Events

Details of Post Balance Sheet Events are set out in Note 24 to the financial statements.

### Impact of International Financial Reporting Standards ("IFRS")

We expect to prepare our consolidated financial statements for the financial year ending 31 March 2006 in accordance with IFRS. Following a preliminary review, we expect that the adoption of IFRS may materially affect our financial results in the following areas: pensions, financial instruments, fixed assets revaluation, share based compensation and taxation.

### Directors and their interests

The Directors of the company, are listed on pages 26 to 27. The chief executive of the group is Dr Philip Nolan.

Dr Philip Nolan and Paul Carroll were appointed to the Board on 9 July 2003 on incorporation.

Sir Anthony O'Reilly, Con Scanlon, John Conroy, Niclas Gabran, John Hahn, Jonathan Nelson, Paul Salem, Ramez Sousou and Biswajit Subramanian were appointed to the Board on 21 July 2003.

Paul Carroll, Niclas Gabran, John Hahn, Jonathan Nelson, Paul Salem, Ramez Sousou and Biswajit Subramanian resigned from the Board with effect from 18 March 2004.

Peter E. Lynch, Cathal Magee, David McRedmond, Didier Delepine, Irial Finan, Kevin Melia, Pdraic O'Connor, Maurice Pratt and Donal Roche were appointed to the Board with effect from 18 March 2004.

Details of directors contracts of appointment are included in the Remuneration Report on pages 42 to 44.

Details of directors' interests in shares of the group are contained in the Remuneration Report on pages 53 and 54. There have been no changes in directors' interests in shares between 31 March 2004 and 28 June 2004.

### Company Secretary

Jordan Company Secretaries Limited was appointed as Company Secretary on 9 July 2003 and resigned as Company Secretary on 23 March 2004.

Goodbody Secretarial Limited was appointed as Company Secretary on 21 July 2003. John Mason was appointed as Company Secretary on 20 January 2004 and, on the same date, Goodbody Secretarial Limited resigned as Company Secretary.

### Non-executive directors

The independent non-executive directors are Sir Anthony O'Reilly, Didier Delepine, Irial Finan, Kevin Melia, Pdraic O'Connor, Maurice Pratt, and Donal Roche. The chairman of the group is Sir Anthony O'Reilly. The senior independent director of the group is Kevin Melia. All of the independent non-executive directors are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

## Directors' Report – continued

### Re-election of directors

Each of the directors is required to retire at the Annual General Meeting of the Company as this will be the first Annual General Meeting of *eircom* Group plc since the directors were appointed.

### Employees

Our people are vital to building a high performing flexible and effective organisation where exceptional leaders support committed service focused people.

#### Training and Development

*eircom* Group plc is committed to the growth and development of our people. Our purpose is to create, through people, a sustainable competitive advantage for the business. During the 2004 financial year we spent €2 million on training and development interventions that were aligned with *eircom* Group plc's business goals. Our regular training needs analyses ensure business relevance and cost effectiveness.

There was a focus on cultivating our management capability through a number of key initiatives including:

- Development programmes for our most talented senior managers.
- An organisation leadership capability analysis.
- A Modular Financial Skills Programmes were also delivered. To date, 321 employees have participated in this training.

Well managed, capable people are vital to our success, and a Management Fundamentals Programme was introduced to enable managers to get back to the basics of good people management practices. To date, 48 managers have participated in this programme.

#### Communications

*eircom* Group plc ensures that all employees are kept informed of relevant information about the group and company in relation to business strategy, objectives and performance, through a suite of internal communications channels. These communication channels allow employees to easily access relevant news and information regularly. Internal communications channels have played a key role in 2004, as *eircom* and its staff made the transition to *eircom* Group plc.

The various communications channels include:

- *eircom* live newspaper
- *eircom* livenet – the corporate intranet
- livefile – a weekly, three-minute audio bulletin

#### Health and Safety

We recognise that a high standard of health and safety performance is integral to our corporate values. We design and build in safety mitigation measures as an essential element of all processes, practices and equipment. We emphasise that responsibility for safety lies with everyone in the group. Accidents, when they occur, are fully investigated and corrective action is taken to avoid a re-occurrence. In the 2004 financial year the number of workplace accidents reduced by 33%, with a 59% reduction in the number of days lost compared to the 2003 financial year. Lessons learned are shared throughout the group. Safety performance is carefully monitored and reviewed by senior management to initiate improvements.

## Directors' Report – continued

### Employees – continued

#### Partnership

An estimated 87% of our employees belong to one of the five trade unions recognised by the group. We have a good record of industrial relations based on constructive engagement through partnership. *eircom* and the unions which represent its people, have since 1997 entered into a unique agreement – The Telecom Partnership. This is an agreement for the transformation of *eircom* into a world class telecommunications business, which reflects the approach to be taken in pursuing the staff, union, shareholders and group interests.

This vision is fostered through the Partnership Steering Group (“PSG”) whose remit is to ‘lead the partnership process in *eircom*, through regular consultation of the implications of strategic business issues, in a way which respects the core values of the partners, is visible and secures the commitment of all staff to meet evolving business needs.

Proposed changes are discussed and agreements drawn up in Partnership. Communication to staff plays a key role and regular team meetings and other meetings are held as required. This allows for the dissemination of information effectively through Partnership.

#### Diversity

*eircom* Group plc respects and values the diversity among our employees and all those with whom we do business. We participate in EQUAL, a European Union project aimed at finding new ways of tackling discrimination and inequality experienced by those in work and those seeking employment.

As part of this programme, *eircom* Group plc is involved in the ‘work-life balance’ project, which looks at key areas relating to a balanced working life. *eircom* Group plc in Partnership with the Unions conducted a work-life balance survey in March 2004, the purpose of which was to investigate and assess perceptions of, and attitudes to, *eircom*’s Group plc’s policies and procedures in the areas of work life balance and diversity.

*eircom* Group plc is also involved in promoting diversity outside the group as a Member of the Equality and Diversity Network, as the Project Manager in the “ease to e-working” project and through actively participating in the Fastrack Into Technology (“FIT”) initiative which looks at integration and social inclusion.

*eircom* Group plc has a Code of Practice relating to the employment of individuals with a disability. *eircom* Group plc is committed to creating and maintaining a work environment which does not discriminate, directly or indirectly, on grounds of disability.

Decisions on recruitment, selection, pay, terms and conditions, training and development, promotion, performance appraisal, access to benefits and termination of employment are based solely on objective and business related criteria.

In the recent work-life balance survey, 10% of employees surveyed stated that they had a disability as defined under the Employment Equality Act.

#### Flexible Working Options

*eircom* Group plc offers incentivised flexible working options to its employees. These options include reduced hours, career breaks, permanent part-time options and sabbatical leave (3, 6 or 9 months). These initiatives are supported by a dedicated team. Currently *eircom* Group plc has 608 people working part-time. In the 2004 financial year, we also conducted ‘Retirement Planning’ workshops that aim to assist people in adjusting to life in retirement.

## Directors' Report – continued

### Employees – continued

#### Employee Share Ownership

The ESOP is an Employee Share Ownership Plan for the employees of *eircom* ('the Company') and certain subsidiary companies. ESOP is a vehicle, which at 31 March 2004 held a 29.1% stake along with €173 million in convertible preference shares and €66 million trancheable redeemable preference shares in the group on behalf of the employees (including certain employees of its subsidiaries) and certain former employees of *eircom*.

All of *eircom's* employees who joined the group prior to 31 October 2002 are participants in the ESOP. For the 2004 financial year, the *eircom* ESOP Trustee distributed redeemable preference shares worth €66 million to the participants through the Approved Profit Sharing Scheme ("APSS"). In addition, it paid €1.8 million in tax-free cash payments to the personal representatives of deceased participants. This brought the total net value of assets distributed to participants from the ESOP since May 2002 to €202 million.

The *eircom* ESOP Trustee also announced in March 2004 that it would make a further distribution of trancheable redeemable preference shares worth €66 million to participants in April 2004 (note 24).

#### Pensions

The group operates a number of pension schemes. The *eircom* Main Superannuation Scheme provides pension benefits on a defined benefit basis to the majority of current and past employees. All graded staff are members of the Defined Benefit Scheme. For non-graded staff employed by the group from 25 March 1997, the group operates a Defined Contribution Scheme. Independent trustees control both Schemes. In addition, staff ineligible for membership of the above schemes are facilitated in accessing Personal Retirement Savings Accounts (PRSAs) in accordance with pensions legislation.

#### Policy and practice on payment of creditors

The group's policy is to use its purchasing power fairly and to pay promptly and as agreed. *eircom* Group plc has a variety of payment terms with its suppliers. The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers. It is *eircom* Group plc's policy to make payments for other purchases within 45 working days of the invoice date, provided that the relevant invoice is presented in a timely fashion and is complete. The group's payment terms are printed on the group's standard purchase order forms or, where appropriate, specified in individual contracts agreed with its suppliers.

*eircom* Group plc, as a holding company, did not have any amounts owing to trade creditors at 31 March 2004.

#### Substantial shareholdings

The group has been informed of the following notifiable interests in the issued share capital of *eircom* Group plc at 31 May 2004:

	% of issued capital
<i>eircom</i> ESOP Trustee Limited	29.14%
Goldman Sachs Securities (Nominees)	13.52%
Bank of Ireland Nominees Limited	6.92%
Morstan Nominees Limited	6.48%
Chase Nominees Limited	5.78%
Citibank Nominees (Ireland)	4.00%
The Bank of New York (Nominees)	3.29%

## Directors' Report – continued

### Contracts of significance

Details of related party transactions and transactions involving directors are set out in Note 32 to the financial statements. There were no other contracts or arrangements of any significance in relation to the company's business or that of its subsidiary or related companies in which the Directors or Secretary of the company had any beneficial interest.

### Auditors

The Auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, Dublin, have indicated their willingness to continue in office and a resolution that they be reappointed as auditors will be proposed at the annual general meeting.

By order of the Board:

John Mason  
Company Secretary

28 June 2004



## Remuneration Report Part 1

This report sets out the remuneration policy of *eircom* Group plc ("*eircom*") and details of the remuneration received by the Directors in respect of the financial year ended 31 March 2004. The report complies with the Directors' Remuneration Report Regulations 2002.

A number of the arrangements described in the report relate to the period prior to *eircom*'s Listing on the London and Irish Stock Exchanges on 24 March 2004 ("*Listing*"). Prior to Listing, remuneration for Executive Directors and other members of Senior Management was determined by the remuneration committee of the board of *eircom* Limited (a subsidiary of *eircom*) and payments to Executive Directors in respect of service during the financial year ending on 31 March 2004 largely reflect remuneration and policy in place prior to Listing.

This report is divided into two parts: Part I of this report contains unaudited information and Part 2 contains audited information (save that information regarding the directors' beneficial and non-beneficial interests in shares has not been audited).

### Part 1

#### Responsibilities and membership of the Remuneration Committee

##### *Role of the Remuneration Committee*

*eircom*'s Remuneration Committee, established with effect from Listing, is responsible for determining remuneration policy in relation to the Chairman, Chief Executive, the Chief Financial Officer, the other Executive Directors of the Company and the Company Secretary. The Committee determines all elements of the remuneration of the Executive Directors and Senior Management forming the Executive Group and monitors and recommends to the board the remuneration of other Senior Management below this level.

The Remuneration Committee will consult with other independent Non-Executive Directors in relation to the remuneration of the Chairman, the Executive Directors and the Company Secretary.

The Remuneration Committee administers all aspects of any share option scheme operated by the Company including the selection of those eligible to participate, to whom options should be granted, the timing of any grant, the number of shares, the exercise price and the performance conditions that must be satisfied.

The Remuneration Committee gives due regard to published or other available information relating to pay, bonuses and other benefits of executives in companies which are comparable to *eircom*.

The Remuneration Committee operates within agreed terms of reference.

The Remuneration Committee met once between its establishment on Listing and 31 March 2004 and it is intended that it will meet at least three times a year.

#### Composition of the Remuneration Committee

The Remuneration Committee is made up entirely of independent Non-Executive Directors. Other Directors may be invited to attend meetings of the Remuneration Committee. No Executive Director of the Company can participate at a meeting of the Remuneration Committee (or during the relevant part) at which any part of his remuneration is being discussed.

## Remuneration Report Part 1

The current members of the Remuneration Committee are:

Kevin Melia (Chairman)  
Padraic O'Connor  
Maurice Pratt  
Donal Roche

Prior to Listing, the members of the *eircom* Limited remuneration committee, all of whom retired from that committee (which no longer exists) with effect from Listing, were:

Con Scanlon (Chairman)  
Sir Anthony O'Reilly  
Paul Salem  
Ramez Sousou

### Advice provided to the Remuneration Committee

Advice is provided to the Remuneration Committee by the Group Human Resources Director. The Chief Executive and the Chairman were consulted about the remuneration of other Executive Directors.

The current Remuneration Committee and the previous *eircom* Limited remuneration committee received advice concerning benchmark remuneration competitiveness for the Executive Team during the financial year ended 31 March 2004 from external independent remuneration consultants, Hay Group, who were appointed initially on behalf of the *eircom* Limited remuneration committee and, from Listing, on behalf of the Remuneration Committee.

### Remuneration policy

#### *Executive remuneration review*

Since Listing, the newly formed independent Remuneration Committee has undertaken a review of Executive remuneration competitiveness and policy. The Remuneration Committee received advice for this review from the Hay Group including detailed benchmarking data on the remuneration arrangements for Executive Directors and Senior Management roles against Irish, UK and European comparators. The Remuneration Committee concluded that *eircom's* Executive remuneration arrangements are appropriate in the context of market practice and *eircom's* position in the Irish marketplace in all regards except that employer contribution rates to the Executive defined contribution pension scheme are relatively low for some Executive Directors.

Towers Perrin also provided assistance to the Remuneration Committee in connection with its review about:

- best practice in relation to remuneration policy and reporting, including the requirements under the Combined Code; and
- market practice and investor requirements in relation to share option schemes and long term incentive plans.

As a result of the review, the Remuneration Committee:

- confirmed existing Executive remuneration arrangements;

## Remuneration Report Part 1

- undertook to review the employer pension contribution rates for Peter E Lynch, Cathal Magee and David McRedmond; and
- decided that long term incentives for Executive Directors would be delivered through the *eircom* Group Employee Share Option Plan (the “Option Plan”) adopted at Listing. As described below, it is intended that share options in respect of *eircom* ordinary shares having a market value equal to 100% of the Executive Director’s base salary, at the time of grant, will be granted to each Executive Director no later than 12 July 2004.

### *Objectives of eircom’s remuneration policy*

The Remuneration Committee determines remuneration policies and practices which conform with best market practice, with the aim of attracting, retaining and motivating top class Executive Directors who will deliver excellent performance for the business and shareholders.

The objectives that underpin *eircom*’s remuneration policy are:

- To drive a high-performance culture where rewards are clearly linked to performance;
- To contribute to very focused business goals;
- To support the retention of high performers with strong leadership skills;
- To encourage the development of employees’ full potential;
- To develop cost-effective and market-based pay platforms; and
- To attract, retain and motivate high-performing employees with the required skills and competencies.

This report sets out *eircom*’s current policy on Executive Directors’ remuneration. The Remuneration Committee considers that a successful policy needs to be sufficiently flexible to take account of future changes in the group’s business environment and in remuneration practice and so the policy is subject to change. Any changes in policy for financial years after 2004 will be described in future Remuneration Reports.

### *Executive Directors’ remuneration*

Prior to Listing, remuneration of Executive Directors and Senior Management was determined by the remuneration committee of the board of *eircom* Limited. Remuneration packages for Executive Directors during the period before Listing consisted of base salary, annual and other bonuses, pension, share options and non-cash benefits.

Following Listing, *eircom*’s policy is that the remuneration awarded to Executive Directors should be competitive and comprise a mix of performance and non-performance related remuneration designed to incentivise Executive Directors. Benefits comprise base salary, pension arrangements, non-cash benefits, annual bonus, and with effect from 12 July 2004, will also include share options. Annual bonus payments and share options are performance-related; the Remuneration Committee regards these as key elements of the remuneration package.

Since Listing, total remuneration for Executive Directors has been referenced to the external market under the Hay Group job evaluation system.

## Remuneration Report Part 1

### *Base salary*

Base salaries for all Executive Directors are reviewed by the Remuneration Committee (but not necessarily increased) annually in April. In considering base salaries, the Remuneration Committee refers to market information and data for comparable positions in comparable businesses. Salary increases are awarded based on market information, business and individual performance and anticipated future contribution to the business.

For the financial year commencing 1 April 2004, the Remuneration Committee has decided to maintain Executive Directors' base salaries at the levels applicable at Listing: €707,000 for Dr Philip Nolan; €466,400 for Peter E Lynch; €466,400 for Cathal Magee and €330,000 for David McRedmond.

### *Annual bonus*

Bonus arrangements for the financial year ending 31 March 2004 were established by the *eircom* Limited remuneration committee prior to Listing. Under these arrangements, Executive Directors were each eligible to receive a bonus of 75% of base salary for the achievement of earnings before interest, depreciation, amortisation and taxation ("EBITDA") before exceptional costs and pension amortisation of €582 million and an additional bonus of a further 25% of base salary for the achievement of EBITDA before exceptional costs and pension amortisation exceeding €600 million for the year ending 31 March 2004. Executive Directors have been paid bonuses of 100% of base salary based on the achievement of actual EBITDA before exceptional costs and pension amortisation of €602 million for the financial year ending 31 March 2004.

For the financial year commencing 1 April 2004 and subsequent financial years, annual bonus may not exceed 100% of base salary for Dr Philip Nolan and 75% of base salary for the other Executive Directors. Annual bonus payments are determined by the Remuneration Committee based on the achievement of corporate and personal performance objectives set by the Remuneration Committee. For the financial year commencing 1 April 2004, 80% of the bonus target will relate to business performance and 20% will relate to performance against individual objectives. It is vital that the bonus targets incorporate real opportunity and risk. To reflect this the business performance element is linked to business EBITDA performance. The Remuneration Committee has agreed a bonus ratchet for the financial year ending 31 March 2005 with target EBITDA performance achieving a maximum 80% of the business performance element of the respective Executive Director's bonus.

Bonus payments are non-pensionable.

### *Share incentives*

An important element of the remuneration policy for the Senior Management Group (including the Executive Directors) is to create long term incentives aligned to the interests of shareholders. This objective is to be delivered through the Option Plan.

The Option Plan allows eligible employees (including Executive Directors and Senior Management) to be granted options over existing or unissued Ordinary Shares. It is intended that annual grants of options will be made under the Option Plan to selected senior employees, with the first grant of options to the Senior Management group (including the Executive Directors) to be made no later than 12 July 2004. The exercise price for these options will be set at the middle market closing quotation for an *eircom* share as derived from the Daily Official list of the London Stock Exchange; and where bargains in *eircom* shares other than those done at special prices were recorded in the Official list of the London Stock Exchange for the relevant

## Remuneration Report Part 1

date, the price if any, at which these were recorded, or if more than one was recorded, the price half way between the highest and lowest of such prices; provided that the option price shall not be less than the nominal value of a share.

The exercise of any options granted under the Option Plan will be conditional on achievement of performance targets over a three year period. The Remuneration Committee has determined that the performance conditions that will apply to the first grant of options under the Option Plan will be (i) that the Company's normalised adjusted earnings per share (calculated in accordance with the accounting policies applied by *eircom* at the date of Listing and subject to certain agreed adjustments determined by the Remuneration Committee) for the financial year ending on 31 March 2007 must exceed 12.05 cents and (ii) payment of a dividend of not less than 11 cents per share in each of the financial years ending 31 March 2005, 31 March 2006 and 31 March 2007 which reflects the assumed dividend yield as described in the Listing Particulars published in connection with Listing. Normalised adjusted earnings per share will be calculated by an independent third party.

Prior to Listing, the Executive Directors and other members of Senior Management were granted awards to acquire ordinary shares under the *eircom* Group Key Executive Share Award Plan as a reward and retention incentive for their contribution to the development and growth of the Group in the period prior to Listing. Awards vest in two equal instalments on 24 March 2005 and 24 March 2006, in each case subject generally to the participant remaining in employment on the vesting date. The vesting of awards is not subject to any performance conditions (other than the condition relating to a participant's continued employment). No further awards will be granted under this Plan.

The Employee Share Ownership Plan ("ESOP") is a form of share scheme approved by the Irish Revenue which legislation requires is open to all employees that meet the relevant qualifying service. All Executive Directors are members of the ESOP. The ESOP was established in March 1999 to acquire and hold shares for the benefit of all eligible employees. The ESOP consists of two separate trusts, the *eircom* Employee Share Ownership Trust ("ESOT") and the *eircom* Approved Profit Sharing Scheme ("APSS"). Prior to Listing, all Executive Directors held notional interests under the ESOT Trust. Dr Philip Nolan, Peter E Lynch and David McRedmond have waived all entitlements under the ESOT for a period of two years and one month from Listing.

Details of the other options granted to the Executive Directors during the financial year ending 31 March 2004 are contained in the section "Historical information" and Part II of this report.

### *Pension*

It is *eircom's* policy that all Executive Directors will have the opportunity to participate in a defined contribution pension scheme and that employer contribution rates should reflect individual service, seniority and market practice.

Each Executive Director participates in a defined contribution pension scheme operated by the Group. In accordance with historical arrangements, Cathal Magee also participates in the Group's main defined benefit pension scheme (the Telecom Eireann Main Superannuation Scheme).

*eircom* Limited makes employer contributions to each of these schemes in respect of the Executive Directors. Employer contributions are applied in respect of Cathal Magee at the rate certified by the scheme actuary to the Telecom Eireann Main Superannuation Scheme and at the rate of 2.8% of base salary to a defined contribution pension scheme. Employer pension contributions are paid to a defined contribution pension scheme at the rate of 50% of base salary for Dr Philip Nolan, 14% of base salary for Peter E Lynch and 9.7% of base salary for David McRedmond.

## Remuneration Report Part 1

Con Scanlon also receives pension benefits on a defined benefit basis relating to his employment with the *eircom* Group prior to his retirement as an employee of *eircom* Limited in 2003. Further information about Con Scanlon's pension arrangements is contained in the section "Historical information" below.

### *Non-cash benefits*

All Executive Directors are entitled to a company car including petrol (or allowance), mobile and fixed line phones, private health insurance and life assurance benefits.

### **Fees payable to Executive Directors for external non-executive directorships**

Where Executive Directors wish to serve as Non-Executive Directors on the Boards of other companies they must first obtain approval of the Board. Approval will not be given where such directorships create a commercial conflict. The individual is permitted to retain earnings from such directorships unless otherwise determined by the Board. The other directorships held by the Executive Directors for which they receive remuneration are; Dr Philip Nolan is a Non Executive Director of De La Rue and received earnings of GBP£26,000 for the period from 1 April 2003 to 31 March 2004 and Cathal Magee is a Non-Executive Director of EBS Building Society and he received fees of €36,500 for the period from 1 April 2003 to 31 March 2004.

### **Non-Executive Directors' remuneration**

The remuneration of Non-Executive Directors is a matter for the Chairman of the Board and the Executive members of the Board.

The Board of Directors determines the remuneration of Non-Executive Directors annually. The fees paid to Non-Executive Directors are set at a level which will attract individuals with the necessary experience and ability to make a substantial contribution to the Group's affairs, and reflect the time demands of their Board duties.

A basic fee is paid in respect of service as a Non-Executive Director and additional fees are paid to Sir Anthony O'Reilly and Con Scanlon to reflect their additional duties as Chairman and Vice-Chairman of the Board. No additional fee is payable for membership of Board committees.

The basic fee for Non-Executive Directors for the financial year commencing 1 April 2004 is €75,000 per year. Sir Anthony O'Reilly is entitled to annual fees of €132,500 (inclusive of the basic fee) and Con Scanlon is entitled to annual fees of €106,000 (inclusive of the basic fee).

Non-Executive Directors are not eligible to receive bonuses or share options.

### **Directors' service contracts**

It is the Remuneration Committee's policy that Executive Directors will have service contracts that may be terminated by not more than one year's notice. Service contracts are Combined Code compliant and generally reflect public company best practice.

Each Executive Director has a service agreement with *eircom* Limited dated 18 March 2004. Service agreements have a notice period of one year.

## Remuneration Report Part 1

### Termination payments to Directors

Under the terms of Dr Philip Nolan's service agreement, if *eircom* Limited terminates Dr Philip Nolan's employment without notice (other than in circumstances where it is entitled to terminate the employment summarily), it must pay Dr Philip Nolan an amount equal to 12 months' salary and the gross value of the car, insurance benefits and pension contributions provided under his service agreement. There are no other provisions for compensation payable on early termination of the service agreements. *eircom* Limited may suspend an Executive Director from his duties at any time after notice has been given, provided he continues to receive full salary.

### Non-Executive Directors' letters of appointment

Each Non-Executive Director has a letter of appointment under which he has been appointed for an initial period of three years effective from 18 March 2004. The appointments are subject to the Companies Act 1985 and *eircom's* Articles of Association, in particular the need for periodic re-election. Either party may terminate the appointment at any time by giving one month's notice (except for Sir Anthony O'Reilly whose appointment may be terminated by either party giving three months' notice). The letters of appointment do not contain any provision for termination payments.

## Remuneration Report Part 1

### Summary of service contracts/letters of appointment

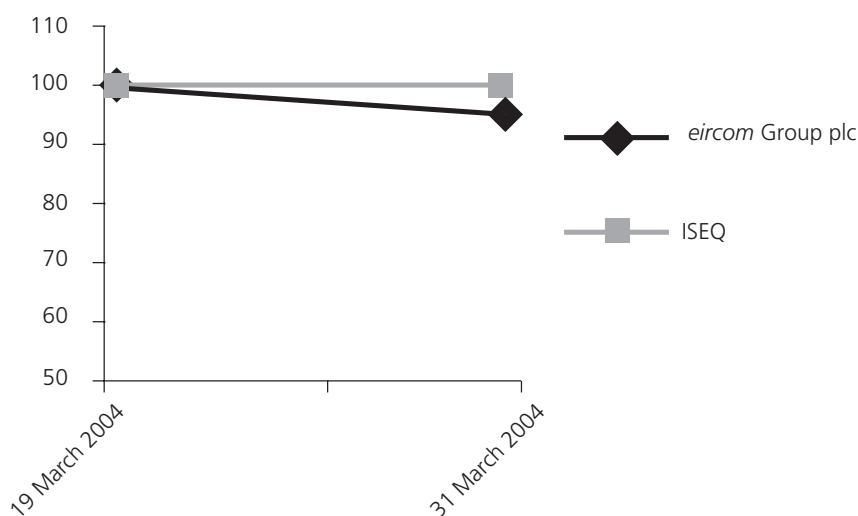
The details of the service contracts of those who served as Directors as at 31 March 2004 are:

	Contract date/ letter of appointment	Unexpired term	Notice period	Contractual termination payments
<b>Executive Directors</b>				
Dr P Nolan	18 March 2004	N/A	12 months	12 months salary and the gross value of car, insurance benefits and pension contributions.
P E Lynch	18 March 2004	N/A	12 months	N/A
C Magee	18 March 2004	N/A	12 months	N/A
D McRedmond	18 March 2004	N/A	12 months	N/A
<b>Chairman</b>				
Sir A O'Reilly	18 March 2004	2 years 11 months	3 months	N/A
<b>Non-Executive Directors</b>				
C Scanlon	18 March 2004	2 years 11 months	1 month	N/A
J Conroy	18 March 2004	2 years 11 months	1 month	N/A
D Delepine	18 March 2004	2 years 11 months	1 month	N/A
I Finan	18 March 2004	2 years 11 months	1 month	N/A
K Melia	18 March 2004	2 years 11 months	1 month	N/A
P O'Connor	18 March 2004	2 years 11 months	1 month	N/A
M Pratt	18 March 2004	2 years 11 months	1 month	N/A
D Roche	18 March 2004	2 years 11 months	1 month	N/A

## Remuneration Report Part 1

### Performance Graph

The graph below shows the total shareholder return of *eircom* Group plc compared with the ISEQ Overall index from the date conditional dealing began on the London and Irish Stock Exchanges, 19 March 2004 to 31 March 2004 based on a hypothetical investment of €100. In the opinion of the directors, the ISEQ Overall index is the most appropriate broad market index against which the total shareholder returns of *eircom* Group plc should be measured. The ISEQ Overall Index is a capitalisation-weighted index of all Official listed equities on the Irish Stock Exchange.



### Historical Information

This section of the report contains further details about some of the historical remuneration arrangements for Directors under which benefits were received during the financial year ended 31 March 2004. These arrangements do not form part of the Remuneration Committee's policy for the remuneration of Executive Directors going forward.

#### *Reorganisation and refinancing bonuses*

Prior to Listing, in connection with the reorganisation and refinancing of the Group, *eircom* Limited paid additional bonuses to the Executive Directors and at the same time paid an amount to Peter E Lynch, Cathal Magee and David McRedmond in return for giving up entitlements in relation to proposed leveraged co-investment arrangements. The total amounts under these reorganisation and refinancing bonuses (including the payments in respect of the foregone leveraged co-investment arrangements for Peter E Lynch, Cathal Magee and David McRedmond of €317,867 each) were €4,314,200 in respect of Dr Philip Nolan, €2,135,621 in respect of Peter E Lynch, €2,035,621 in respect of Cathal Magee and €1,606,184 in respect of David McRedmond. Part of these amounts were, in respect of each Executive Director, paid by way of employer pension contributions: namely, €2,157,100 in respect of Dr Philip Nolan, €847,361 in respect of Peter E Lynch, €1,535,621 in respect of Cathal Magee and €144,000 in respect of David McRedmond. The payments to Peter E Lynch, Cathal Magee and David McRedmond were not made in respect of qualifying services as Directors.

## Remuneration Report Part 1

### *Share options*

Prior to Listing, *eircom* operated the *eircom* Group Executive Share Option Plan (C Shares), (the "C Scheme") under which options to acquire 5c C Shares were granted to the Executive Directors and other members of senior management. All options were exercised prior to Listing and no further options will be granted under this plan. A proportion of the ordinary shares which each Executive Director holds resulting from the exercise of options under the C Scheme (and the subsequent conversion of C Shares into ordinary shares) remain subject to lock-up arrangements, entered into, in connection with Listing, until 31 December 2004. The relevant proportion is 100% of the total number of ordinary shares that Dr Philip Nolan acquired as a result of exercising his options under the C Scheme, and the subsequent conversion of C Shares allotted to him into ordinary shares, and 80% for all other Executive Directors.

### *Con Scanlon's pension arrangements*

Con Scanlon, the Vice-Chairman, was an employee of *eircom* Limited between September 1970 and September 2003 (and was on secondment to the Communication Workers Union from 1990). In September 2003 he resigned as an employee of *eircom* Limited to ensure a formal separation between his position as an employee and his duties as chairman of the ESOT. As an employee, Con Scanlon was an active member of the Telecom Eireann Superannuation Scheme. Following his resignation and in recognition of loss of future service as an active member of that scheme, *eircom* put in place supplementary pension benefits for Con Scanlon. These include the payment of an immediate pension of €70,092 per annum which will be paid through a defined benefit arrangement, the *eircom* Executive Defined Benefit Scheme. The cost of funding these supplementary benefits has been actuarially calculated as €1 million, and now that approval for the *eircom* Executive Defined Benefit Scheme has been received from the Irish Revenue Commissioners, *eircom* has paid this sum to the scheme. Pending receipt of this approval, the first 5 months of Con Scanlon's pension was paid by *eircom* Limited. From age 60, the amount of pension payable under these supplementary arrangements will reduce to reflect the amounts which will then become payable to or in respect of Con Scanlon from the Telecom Eireann Superannuation Scheme.

Con Scanlon received from *eircom* Limited a cash lump sum of €210,275 in return for agreeing to waive his entitlement to a cash lump sum at age 60 under the Telecom Eireann Superannuation Scheme (which it is estimated, based on his salary as at September 2003 and service to that date, would have been approximately €173,000, although had Con Scanlon remained in active service such amount would have increased to reflect both additional service and salary increases).

## Remuneration Report Part 2

### Additional information

The following information has been audited by the Company's auditors, PricewaterhouseCoopers, as required by Schedule 7A to the Companies Act 1985.

### Directors' remuneration

#### Directors' detailed emoluments

							Financial year-ended 31 March 2004	Financial year-ended 31 March 2003
	Salary & fees	Benefits in kind	Expense allowance	Performance related annual bonus	Other payments	Other benefits	Total	Total
	€	1 €	€	2 €	3 €	4 €	€	€
<b>Executives</b>								
Dr P Nolan	707,000	383,115	-	2,864,100	1,652,000	-	5,606,215	1,306,136
P E Lynch *	17,938	121	998	17,938	-	-	36,995	-
C Magee *	17,938	1,390	-	17,938	-	-	37,266	-
D McRedmond *	12,692	953	-	12,692	-	-	26,337	-
<b>Chairman</b>								
Sir A O'Reilly	132,500	-	-	-	-	-	132,500	125,000
<b>Non-Executives</b>								
C Scanlon (Vice- Chairman)	106,000	-	-	-	-	581,250	687,250	94,541
J Conroy	48,164	-	-	-	-	193,750	241,914	45,000
D Delepine *	1,442	-	-	-	-	-	1,442	-
I Finan *	1,442	-	-	-	-	-	1,442	-
K Melia *	1,442	-	-	-	-	-	1,442	-
P O'Connor *	1,442	-	-	-	-	-	1,442	-
M Pratt *	1,442	-	-	-	-	-	1,442	-
D Roche *	1,442	-	-	-	-	-	1,442	-
<b>Former directors (non-executive)</b>								
N Gabran +	46,722	-	-	-	-	-	46,722	45,000
J Hahn +	46,722	-	-	-	-	-	46,722	45,000
J Nelson +	46,722	-	-	-	-	-	46,722	45,000
P Salem +	46,722	-	-	-	-	-	46,722	45,000
R Sousou +	46,722	-	-	-	-	-	46,722	45,000
B Subramanian+	46,722	-	-	-	-	-	46,722	45,000
	1,331,216	385,579	998	2,912,668	1,652,000	775,000	7,057,461	1,840,677

\* appointed as director on 18 March 2004

+ resigned as director on 18 March 2004

## Remuneration Report Part 2

1. Benefits in kind for each executive director comprise the use of a company car, medical and life insurance and fixed line and mobile phones. Benefits in kind provided during the financial year and prior to Listing to Dr Philip Nolan also include relocation benefits of €8,598, accommodation payments of €117,000 and a final payment of €214,285 in settlement of pre-Listing accommodation and relocation arrangements
2. Bonus payments may be made to Executive Directors based on achievement of business objectives. In the case of Peter E Lynch, Cathal Magee and David McRedmond the annual bonuses are pro-rated to reflect their time as Directors (from the 18th March to 31st March 2004). Other Pre-Listing reorganisation and refinancing bonuses received by Peter E Lynch, Cathal Magee and David McRedmond are not included in the table above, as the payments were not made in respect of qualifying services as Directors.
3. Other payments to Dr Philip Nolan comprise a sign-on fee of €1,652,000, which was a contractual commitment from the commencement of Dr Philip Nolan's contract on 2 January 2002, and payment was made in August 2003.
4. *Other benefits – share awards*

On Admission and in acknowledgement of their respective contributions to the group, Con Scanlon received 375,000 ordinary shares and John Conroy received 125,000 ordinary shares. The ordinary shares received by Con Scanlon and John Conroy are subject to lock up arrangements, pursuant to which they agreed not to dispose of any ordinary shares until 31 December 2004 other than the ordinary shares sold by them in the Global Offer and not to dispose of more than 50% of their holding of ordinary shares until 31 December 2005. The benefit received has been calculated based on the initial share price on 19 March 2004.

## Remuneration Report Part 2

### Share options

#### Executive share option scheme C shares

	Date of grant and earliest exercise date	Expiry date	Exercise price (cents)	Number at 1 April 2003	Granted in Period	Exercised in Period	No. of ordinary shares following conversion	Lapsed in Period	Number at 31 March 2004
<b>P Nolan</b>									
5c C ordinary shares (1)	1 December 2003	1 March 2004	17.8	-	1,166,000	1,166,000	1,585,760	-	-
<b>P E Lynch</b>									
5c C ordinary shares (1)	1 December 2003	1 March 2004	17.8	-	464,258	464,258	631,390	-	-
<b>C Magee</b>									
5c C ordinary shares (1)	1 December 2003	1 March 2004	17.8	-	464,258	464,258	631,390	-	-
<b>D McRedmond</b>									
5c C ordinary shares (1)	1 December 2003	1 March 2004	17.8	-	348,194	348,194	473,545	-	-

No director was granted any share options in respect of shares in *eircom* Group plc at any time in the year-ended 31 March 2003.

#### Notes

- (1) The 5c C ordinary share options were granted under the C Scheme at a subscription price of €0.178 per share to the Directors with an additional premium payable on conversion of the C Shares into E ordinary shares of €5.642 per share.

All options granted to the Directors under the C Scheme were exercised between 8 and 12 January 2004. In accordance with the rules of the scheme, 50% of the C shares to which participants were entitled on exercise of their options were allotted unconditionally to them on 29 January 2004. The allotment of remaining C shares to participants was made conditionally on 29 January 2004, the relevant condition was satisfied at Listing and the allotment became unconditional on 24 March 2004.

As a result of the amendments to the Company's Articles of Association adopted on 18 March 2004, participants in the C Scheme were no longer required to pay a conversion premium in relation to the C Shares acquired by them, but received a reduced number of E Ordinary Shares on conversion of their C Shares, so that the participants' overall economic position remained the same as if the participant had been required to pay the conversion premium. All such E Ordinary Shares automatically converted into Ordinary Shares at Listing.

In relation to options exercised during the financial year, the market price of the Company's C shares on the date on which the options were exercised was €1.44. The market price is based on a valuation of shares performed at the date the options were exercised. Prior to Listing C Shares carried very limited rights under the company's Articles of Association. The Articles also included restrictions on the transfer of C Shares. Consequently, there was no available market to dispose of the shares or otherwise realise a gain on the exercise of the options prior to Listing.

## Remuneration Report Part 2

### Group key executive share award plan

	Date of grant	Earliest exercise date	Exercise price (cents)	Number at 1 April 2003	Granted in Period	Exercised in Period	Lapsed in Period	Number at 31 March 2004
<b>Dr P Nolan</b>								
10c ordinary shares (2)	24 March 2004	24 March 2005	Nil	-	433,316	-	-	433,316
<b>P E Lynch</b>								
10c ordinary shares (2)	24 March 2004	24 March 2005	Nil	-	324,987	-	-	324,987
<b>C Magee</b>								
10c ordinary shares (2)	24 March 2004	24 March 2005	Nil	-	249,032	-	-	249,032
<b>D McRedmond</b>								
10c ordinary shares (2)	24 March 2004	24 March 2005	Nil	-	188,019	-	-	188,019

- (2) The 10c ordinary share awards were granted to Executives prior to Listing under the *eircom* Group Key Executive Share Award Plan. No amount was payable for the grant of awards.

Each award takes the form of a right to acquire ordinary shares, and vests in two equal instalments. The first instalment vests on the first anniversary of Admission (24 March 2005) and the second instalment vests on the second anniversary of Admission (24 March 2006), in each case subject generally to the participant remaining in service with the Group on the vesting date. The vesting of awards is not subject to any performance conditions (other than the condition relating to a participant's continued employment) and no payment will normally be required from the participant for the issue or transfer of the Ordinary Shares.

As noted in the table above all 10c share awards were granted for nil consideration. The charge in respect of these awards has been included in the profit and loss account for the year-ended 31 March 2004.

The range of prices for 10c ordinary shares since the Listing on 24 March 2004 was €1.45 to €1.55.

## Remuneration Report Part 2

### Directors' pension entitlements

Set out below is details of the pension benefits to which each of the executive directors and Con Scanlon are entitled. Con Scanlon's entitlements arise from his status as a former employee of *eircom* Limited and not by virtue of his position as a director of *eircom* Group plc.

### Retirement benefits

	Cathal Magee	Con Scanlon
	Financial year-ended 31 March 2004 €'000	Financial year-ended 31 March 2004 €'000
Increase in accrued entitlements earned in year (pension)	15	21
Increase/(decrease) in accrued entitlements earned in year (gratuity)	46	(142)
Accrued entitlement at end of year (pension)	173	70
Accrued entitlement at end of year (gratuity)	520	-
Transfer value at beginning of year	2,678	818
Transfer value at end of year	3,205	1,692
Increase in transfer value less directors' contributions	495	870
Increase in accrued entitlements (excluding inflation) (pension)	10	21
Increase/(decrease) in accrued entitlements (excluding inflation) (gratuity)	30	(144)
Transfer value of increase/(decrease) in accrued benefits (excluding inflation and directors contributions)	156	849

The table above has been presented based on rounded information.

The accrued pension entitlements are the amount that the Director would receive if he left service at the end of the year.

The increase in the accrued entitlements is the difference between the accrued entitlements at the year-end and that at the previous year-end. As required by the UKLA's Listing Rules, this is disclosed excluding inflation.

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits. They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

The increase in the transfer value less director's contributions is the increase in the transfer value of the accrued benefits during the year after deducting the director's personal contributions to the scheme.

The transfer value of the increase in accrued benefits (excluding inflation), required by the Listing Rules, discloses the current value of the increase in accrued benefits that the director has earned in the year, whereas the change in this transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value

## Remuneration Report Part 2

of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the year as well as the additional value earned in the year.

### Con Scanlon's pension arrangements

Con Scanlon, the Vice-Chairman, was an employee of *eircom* Limited between September 1970 and September 2003 (and was on secondment to the Communication Workers Union from 1990). In September 2003 he resigned as an employee of *eircom* Limited to ensure a formal separation between his position as an employee and his duties as chairman of the ESOT. As an employee, Con Scanlon was an active member of the Telecom Eireann Superannuation Scheme. Following his resignation and in recognition of loss of future service as an active member of that scheme, *eircom* put in place supplementary pension benefits for Con Scanlon. These include the payment of an immediate pension of €70,092 per annum, which will be paid through a defined benefit arrangement, the *eircom* Executive Defined Benefit Scheme. The cost of funding these supplementary benefits has been actuarially calculated as €1 million, and now that approval for the *eircom* Executive Defined Benefit Scheme has been received from the Irish Revenue Commissioners, *eircom* has paid this sum to the scheme. Pending receipt of this approval, the first 5 months of Con Scanlon's pension has been paid by *eircom* Limited. From age 60, the amount of pension payable under these supplementary arrangements will reduce to reflect the amounts which will then become payable to, or in respect of, Con Scanlon from the Telecom Eireann Superannuation Scheme.

Mr Scanlon has also received from *eircom* Limited a cash lump sum of €210,275 in return for agreeing to waive his entitlement to a cash lump sum at age 60 under the Telecom Eireann Superannuation Scheme (which it is estimated, based on his salary as at September 2003 and service to that date, would have been approximately €173,000, although had Con Scanlon remained in active service such amount would have increased to reflect both additional service and salary increases).

### Value of Directors' death and ill health retirement benefits

The following cover is provided as part of the defined benefit scheme.

	Cathal Magee	Con Scanlon
	As at 31 March 2004 €'000	As at 31 March 2004 €'000
Total risk cost for year-ended	12	2

## Remuneration Report Part 2

Dr Philip Nolan, Peter E Lynch, Cathal Magee and David McRedmond are members of the executive defined contribution pension scheme. *eircom* Limited contributions to those schemes in respect of those Directors, for the period for which they were Directors, were as follows:-

	Financial year-ended 31 March 2004 €	Financial year-ended 31 March 2003 €
Dr P Nolan	2,510,600	328,190
P E Lynch	2,511	-
C Magee	1,471	-
D McRedmond	1,231	-

The remainder of the Remuneration Report is unaudited.

### Beneficial and non-beneficial interests

The interests of the directors in the shares of the Company and other Group companies were:-

#### Valentia Telecommunications – an unlimited public company

	On date of appointment		As at 31 March 2004	
	Ordinary shares	ESOT	Ordinary shares	ESOT
Executive				
Dr P Nolan	-	2,190*	-	-

\* Represents notional allocation under *eircom* employee share ownership plan only.

## Remuneration Report Part 2

### eircom Group plc

	On date of appointment			As at 31 March 2004	
	5c Ordinary shares	ESOT	10c Ordinary shares	ESOT	Redeemable shares 1 € each
<b>Executives</b>					
Dr P Nolan	-	-	1,585,760+	5,731*	1,927
P E Lynch	464,258	12,183*	505,112	12,183*	4,098
C Magee	464,258	32,957*	505,112	32,957*	-
D McRedmond	348,194	18,545*	378,836	18,545*	-
<b>Non-executive</b>					
C Scanlon	-	29,416*	233,250	32,225*	-
J Conroy	-	-	77,750	-	-
D Delepine	-	-	25,806	-	-
I Finan	-	-	64,516	-	-
K Melia	-	-	64,516	-	-
P O'Connor	-	-	38,709	-	-
M Pratt	-	-	48,387	-	-
D Roche	-	-	10,000	-	-

\* Represents notional allocation of units under *eircom* employee share ownership plan only and does not represent existing share entitlements. Dr Philip Nolan, Peter E Lynch and David McRedmond have waived all entitlements under the ESOT for a period of two years and one month from Listing.

+ Includes shares held by a company owned and controlled by Dr Philip Nolan.

All directors' interests are beneficially owned (see above re shares held by a company owned and controlled by Dr Philip Nolan). There has been no change in the interests set out above between 31 March 2004 and 28 June 2004.

On behalf of the Board

Chairman of the Remuneration Committee

28 June 2004

## Corporate Governance

The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they apply the Principles of Good Governance and the extent to which they comply with the Provisions set out in the Combined Code on Corporate Governance issued by the Hampel Committee on Corporate Governance in 1998 ("the Combined Code"). This Report, together with the information set out in the Remuneration Report on pages 37 to 54 is published pursuant to the Combined Code which deals with directors, directors' remuneration, relations with and accountability to shareholders and the audit of the Company.

*eircom* Group plc (formerly registered as a private company under the name of *eircom* Group Limited between 26 February 2004 and 8 March 2004 and under the name of Valentia Holdings Limited prior to 26 February 2004) was re-registered as a public limited company on 8 March 2004.

Prior to 8 March 2004, *eircom* Limited ("*eircom*") (the principal trading subsidiary) was fully committed to complying as far as practicable with the provisions of the Combined Code: Principles of Good Governance and Code of Best Practice" adopted by the London and Irish Stock Exchanges.

As *eircom* was a private limited company, certain provisions of the Code were not relevant – in particular, those related to re-election and terms of office of Directors; the appointment of a Senior Independent Director; and disclosures on Directors' remuneration.

The company's shareholder resolved, pursuant to Article 163 of the Articles of Association of Valentia Telecommunications and the Irish Single Member Company Regulations 1994, to dispense with the holding of Annual General Meetings for *eircom*.

*eircom* Group plc is fully committed to complying with the provisions of the Combined Code. The Board of Directors note that during 2003 a revised Combined Code on Corporate Governance issued by the Financial Reporting Council was published and will replace the existing Code for reporting years commencing on or after 1 November 2003. The Directors have reviewed the Group's corporate governance arrangements in the context of the new Code and with rules issued by the US Securities and Exchange Commission to implement the Sarbanes – Oxley Act of 2002.

This Statement explains how the company has applied the provisions of Section 1 of the 1998 Combined Code and reports on compliance where relevant. The company will report on its compliance with the new Code next year.

### Directors

The Board of Directors leads and controls the company. The names of the Directors and appointments/resignations during the year can be found in the Directors' Report on page 32 of the annual report. The Board has approved a schedule of matters specifically reserved for the Board which covers the company's strategy and operations, governance, Companies Acts requirements, and other policy matters.

At least five meetings of the Board are scheduled each year and additional meetings are arranged as necessary. The Board has adopted general principles and rules of procedure relevant to Board meetings and these are strictly observed. In advance of each meeting, Directors are provided with the information required to enable them to discharge their duties. All Directors have full access to the company secretary and procedures are in place to enable Directors to obtain independent professional advice at the company's expense.

## Corporate Governance – continued

At 31 March 2004, the Board comprised thirteen Directors, of whom nine were non-executive Directors and four were executive Directors. The Chairman and Vice Chairman are non-executive Directors. The role of the Chairman is separate from the role of the Chief Executive with clearly defined responsibilities attached to each role. The Directors have varied backgrounds and experience. All Directors bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

Kevin Melia is the current senior independent non-executive director who has served since 18 March 2004. The other independent non-executive directors are Sir Anthony O'Reilly, Didier Delepine, Irial Finan, Kevin Melia, Padraic O'Connor, Maurice Pratt and Donal Roche. All of the independent non-executive directors are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Directors who retire may be re-appointed. All Directors who are appointed receive a full introduction to the group and its operations and training is provided on request.

All Directors are fully aware of their responsibilities as Directors of a UK listed company.

### Board Committees

The Board has an effective Committee structure to assist in the discharge of its responsibilities. Each Committee has formal terms of reference approved by the Board and is governed by a statement of general principles and rules of procedure adopted by the Board. Each Committee periodically reports to the Board on its activities.

### Audit Committee

Current members:

Irial Finan (Chairman)

Kevin Melia

Padraic O'Connor

Maurice Pratt

Prior to 18 March 2004 the members were as follows:-

John Hahn (Chairman)

Sir Anthony O'Reilly

John Conroy

Niclas Gabran

Biswajit Subramanian

The Chief Financial Officer, Group Internal Auditor and External Auditors normally attend meetings of the Audit Committee.

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing *eircom* Group plc's annual financial statements, considering the scope of *eircom* Group plc's annual audit, monitoring the extent of non-audit work to be performed by the company's external auditors to ensure that the provision of non-audit services does not impair their independence or objectivity, approving the *eircom* Group plc's internal audit programme, advising on the appointment of external auditors and reviewing the effectiveness of the *eircom* Group plc's internal control systems.

The Committee met four times during the year.

## Corporate Governance – continued

### **Nominations Committee**

Current members:

Sir Anthony O'Reilly (Chairman)

John Conroy

Didier Delepine

Padraic O'Connor

Donal Roche

Prior to 18 March 2004 the members were as follows:-

John Hahn (Chairman)

Sir Anthony O'Reilly

Con Scanlon

Dr Philip Nolan

Ramez Sousou

The nominations committee assists the Board in discharging its responsibilities relating to the composition of the Board. The nominations committee is responsible for reviewing, from time to time, the structure of the Board, determining succession plans for the chairman and chief executive officer, and identifying and recommending suitable candidates for appointment as directors.

The Committee did not meet during the year.

### **Remuneration Committee**

Current members:

Kevin Melia (Chairman)

Padraic O'Connor

Maurice Pratt

Donal Roche

Prior to 18 March 2004 the members were:-

Con Scanlon (Chairman)

Sir Anthony O'Reilly

Paul Salem

Ramez Sousou

The remuneration committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the group's policy on executive remuneration, determining the individual remuneration and benefits of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

The Committee met five times during the year.

## Corporate Governance – continued

### Finance Committee

Current members:

Padraic O'Connor (Chairman)

Maurice Pratt

Donal Roche

Peter E Lynch

Prior to 18 March 2004 the members were:-

Sir Anthony O'Reilly

Con Scanlon

Niclas Gabran

Biswajit Subramanian

The Chief Financial Officer and other senior management normally attend meetings of the Committee.

The Committee assists the Board in discharging its responsibilities in relation to the control of expenditure. The Committee reviews all projects involving capital expenditure in excess of €1 million and makes recommendations to the Board with regard to such projects.

The Committee met four times during the year.

In addition to the above committees, the Board has from time to time established committees to deal with particular matters which have arisen. Such committees operate on the same basis as permanent Committees of the Board.

### Accountability and Audit

The Directors' responsibility for preparing the financial statements is explained on page 60 and the Auditors' responsibilities are set out on pages 61 and 62.

The Board is responsible by law for keeping proper accounting records which disclose at any time the financial position of the company and the group. The Board is also responsible for overall management of the company and the group including strategy, policy and reporting. In discharging these mandates the Board pays particular attention to economic and regulatory issues, marketing strategy, investment programmes, financial performance and personnel matters.

### Going Concern

After making enquiries, the Directors are satisfied that the company, and the group as a whole, has adequate resources to continue in operational existence for the foreseeable future. For this reason, they adopt the going concern basis in preparing the financial statements.

### Internal Controls

The Directors have overall responsibility for the group's system of internal control.

The Directors have delegated responsibility for the implementation of the system of internal control to executive management. This system includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the group's accounting records. The Audit Committee, a formally constituted committee of the Board, meets on a regular basis with the Group head of internal audit and satisfies itself as to the adequacy of the group's internal control systems. The Audit Committee also meets with and receives reports from the external auditors. The group's system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives and therefore provide reasonable, though not absolute, assurance that assets are safeguarded, transactions authorised and recorded properly and that material errors or irregularities are either prevented or detected within a timely period.

## Corporate Governance – continued

The Directors have performed an annual review of the effectiveness of the group's systems of internal control for the year ended 31 March 2004, and up to and including the date of approval of the financial statements. The group has in place procedures to identify, evaluate and manage significant risks in accordance with the Turnbull Guidelines on the Combined Code. These procedures were in place for the full year under review, and up to and including the date of approval of the financial statements, and accord with the Turnbull guidance. The process is subject to regular review by the Board.

The key procedures established by the Directors with a view to providing effective internal control include the following:

- the Board have responsibility for the identification of key business risks faced by the group;
- the organisation structure has clearly defined lines of authority;
- there is a formal schedule of matters reserved for the board;
- recruitment of quality personnel;
- a comprehensive system of financial reporting involving periodic reporting, budgeting and variance analysis;
- an Audit Committee, made up of independent non-executive Directors which reviews key control matters;
- an internal audit function;
- all capital expenditure and investments are subject to formal levels of authorisation and approval.

The group has also put in place a system of identifying and reporting on risks and associated controls. The Board has reviewed the outputs from this process during the year and adopted the risks and controls as appropriate for monitoring and reporting. The Board has also reviewed the risks identified to ensure they are still relevant for monitoring.

Associated undertakings are not subject to the Turnbull reporting requirements.

### Remuneration

Disclosures regarding Directors' Remuneration are set out in the Remuneration Report on pages 39 to 54.

### Compliance Statement

As *eircom* Group plc was a private company up to 8 March 2004 and only became listed on the London and Irish Stock Exchanges on 24 March 2004 certain provisions of the Code were not relevant prior to 24 March 2004. In particular those relating to re-election and terms of office of Directors, the appointment of a senior independent Director and disclosure of certain details on Directors' Remuneration were not relevant.

The Directors confirm that, except in relation to the matters set out in the paragraph above, the company has complied with the Code provisions set out in Section 1 of the 1998 Combined Code during the period from 1 April 2003 to the date of approval of the financial statements.

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing the financial statements, the directors are required to:-

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board:

John Mason  
Company Secretary

28 June 2004

## Independent auditors' report on the financial statements

### Independent auditors' report to the members of *eircom* Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movements in group shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act, 1985 contained in the directors' remuneration report ('the auditable part').

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

The maintenance and integrity of the *eircom* Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with Section 235 of the Companies Act, 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act, 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the group chief executive's review, the financial and operational highlights, the operating and financial review and the corporate governance statement.

## Independent auditors' report on the financial statements – continued

### Respective responsibilities of directors and auditors – continued

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2004 and of the loss and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers**

**Chartered Accountants and Registered Auditors**

**Dublin**

28 June 2004

## Principal accounting policies and estimation techniques

The significant accounting policies and estimation techniques adopted by the group are as follows:-

### 1. Basis of Accounting and Reporting Currency

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, in accordance with the Companies Act 1985 and applicable accounting standards. The group financial statements consolidate the financial statements of the company and its subsidiary undertakings. The subsidiary undertakings' financial years are all coterminous with those of the company. A summary of the more important group accounting policies is set out below.

The accounting policies have been consistently applied. The group has adopted FRS 5 "Reporting the Substance of Transactions" Application Note G for Revenue Recognition. The adoption of this Application Note did not have a material impact on the results of the group.

The preparation of the financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts included in the profit and loss account for the year.

Actual results could differ from those estimates. Estimates are used principally when accounting for interconnect revenue, provisions required in respect of doubtful debts, payments to telecommunications operators, depreciation, impairment charges, amortisation of goodwill, pension schemes, provisions for liabilities and charges, including amounts required to settle self insured liabilities, and taxation payable.

As permitted by paragraph 3 (3) of Schedule 4 of the Companies Act, 1985, the directors have adapted the prescribed format of the profit and loss account in a manner appropriate to the nature of the group's business.

The consolidated financial statements of the group are presented in euro denoted by the symbol "€".

### 2. Basis of Consolidation

The consolidated financial statements of the group comprise a consolidation of the financial statements of the company, *eircom* Group plc, and its subsidiary undertakings.

During the year, *eircom* Group plc became the ultimate holding company of the group, by acquiring the entire issued share capital of Valentia Telecommunications and its subsidiaries in a share for share exchange. This acquisition has been accounted for in accordance with the principles of merger accounting. Under FRS 6 "Acquisitions and Mergers" merger accounting is permitted to be used in the case of a group restructuring provided that the conditions set out in FRS 6 are met, including that merger accounting is not prohibited by the Companies Act. Accordingly, the acquisition of Valentia Telecommunications has been accounted for in accordance with the principles of merger accounting.

The comparative figures for, and at, the financial year ended 31 March 2003 are based on the audited consolidated financial statements of Valentia Telecommunications and its subsidiaries.

Other acquisitions of companies are accounted for under acquisition accounting rules. Investments in associated undertakings are accounted for using the equity method of accounting. All inter-group transactions are eliminated as part of the consolidation process. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes.

## Principal accounting policies and estimation techniques – continued

### 3. Goodwill

The goodwill arising from the purchase of subsidiary undertakings is capitalised and amortised on a straight line basis over its expected useful life. Goodwill represents the excess of the consideration paid for the acquisition of shares in subsidiaries and associated undertakings over the fair value of the separable net assets acquired. The useful lives of goodwill, related to acquired businesses have been determined by reference to the years over which the values of the underlying businesses are expected to exceed the values of their identifiable net assets, and are presumed not to exceed twenty years. The presumption that the useful life of goodwill is twenty years is considered appropriate based on the useful life of the underlying assets and the nature of the business acquired.

### 4. Revenue Recognition

Turnover comprises the fair value of consideration received in respect of all services provided and equipment sold to third parties, exclusive of value added tax and after discounts. Turnover is recognised in the period earned by rendering of services or delivery of products. Turnover includes sales by group undertakings including the group's share of its associates' turnover but excludes all intercompany sales.

Turnover from calls is recognised at the time the call is made over the group's networks. Turnover from rentals is recognised evenly over the period to which the charges relate. Turnover from installation and connection activities is recognised in the same period as the related costs. Turnover from equipment sold to third parties is recognised at the point of sale. Turnover arising from the provision of other services, including maintenance contracts, is recognised over the term of the contract.

Billings for telephone services are made on a monthly or bi-monthly basis. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided.

Commissions paid to agents are recognised on an incurred basis.

The group acts as principal in the vast majority of transactions with its customers. Where the group sells services to customers as a network provider as opposed to service provider, the circumstances of these transactions are reviewed, and on balance the group believes that it carries all of the risks of the relationship and sale to the end customer, and settlement with the service originator are separate and unrelated. Therefore, the group considers itself the principal in these transactions and accounts for the settlement and revenue recognition as two distinct transactions.

The group is required to interconnect their networks with other telecommunications operators. In some instances, as is normal practice in the telecommunications industry, reliance is placed on other operators to measure the traffic flows interconnecting with our networks. In addition, the prices at which services are charged are often regulated and can be subject to retrospective adjustment. Estimates are used in these cases to determine the amount of income receivable from, or payments we need to make to, these other operators and to establish appropriate provisions.

### 5. Cost of Sales

Cost of sales are mainly settlement fees that the group pays to other authorised operators for traffic that is routed on their networks. Cost of sales also include the cost of equipment sold and commissions paid to agents, including calling card services. Costs are recognised in the same period as the related turnover.

## Principal accounting policies and estimation techniques – continued

### 6. Research

Expenditure on research is written off as incurred.

### 7. Foreign Currencies

Transactions denominated in foreign currencies are translated into euro at the rate of exchange ruling at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date, or rates of exchange contracted for under various currency management instruments, with the resulting gain or loss being dealt with through the profit and loss account.

The financial statements of foreign subsidiaries are translated at year end rates for the balance sheet and the weighted average rates for the year for the profit and loss account. Translation gains and losses arising are reported as a movement on reserves. All other differences are taken to the profit and loss account.

### 8. Taxation

The company is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland.

Corporation tax is calculated on the profits for the year as adjusted for Group relief. Tax losses utilised for Group relief are transferred between group members. Charges for Group relief are determined on a case by case basis.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### 9. Capital Instruments

The group enters into transactions in the normal course of business using a variety of financial instruments in order to hedge against exposures to fluctuating exchange and interest rates. Firmly committed transactions and the related receivable, or payable, may be hedged with forward exchange contracts.

Currency swap agreements and forward exchange contracts are used to cover the group's foreign currency debt position. These are valued at year-end exchange rates and the resulting gains and losses are offset against gains and losses on the translation of the related debt. The interest element of the contracts is reflected in interest payable and similar charges.

Interest rate swap agreements are used to reduce the effect of interest rate fluctuations. Interest differentials, arising from these agreements, are accrued and reflected in interest payable and similar charges. Gains or losses arising from interest rate swaps which are terminated upon the repayment of the related debt are reflected in interest payable and similar charges.

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments out-standing.

## Principal accounting policies and estimation techniques – continued

### 9. Capital Instruments – continued

Accrued finance costs attributable to borrowings are included in accrued charges within current liabilities. Accrued issue costs are netted against the carrying value of borrowings.

### 10. Investments

Investments included in the company balance sheet represent interests in group companies. The company's investment in Valentia Telecommunications and subsidiaries was determined based on the fair value of the shares of Valentia Telecommunications and subsidiaries at the acquisition date. Investments in group companies are shown at cost or fair value at the date of acquisition less provision for impairment in value.

### 11. Tangible Fixed Assets

Tangible fixed assets are stated at historical cost or valuation, less accumulated depreciation. Cost in the case of network plant comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials and labour and related overheads directly attributable to the cost of construction. Land and buildings, are stated at a valuation, the basis of which is depreciated replacement cost or open market value, as appropriate. Depreciated replacement cost is the gross replacement cost of fixed assets less depreciation based on that cost and on the age of the assets.

#### Depreciation

Depreciation is provided on tangible fixed assets (excluding land), on a straight line basis, so as to write off their historical cost/valuation less residual amounts over their estimated economic lives. A full year's depreciation is charged to the profit and loss account, on tangible fixed assets (excluding land), in the year the asset becomes available for use. The estimated economic lives assigned to tangible assets are as follows:

Asset Class	Estimated Economic Life (Years) 2004
Buildings	40
<b>Network Services</b>	
Transmission Equipment	
Duct	20
Overhead Cable/Poles	10-15
Underground Cable	14
<b>Exchanges</b>	
Exchange line Terminations	8
Core Hardware	4
Others	3-7

The group's policy is to review the remaining economic lives of tangible fixed assets on an annual basis and to adjust the depreciation charge to reflect the remaining estimated lives of tangible fixed assets.

Fully depreciated assets are retained in the cost/valuation of tangible fixed assets and related accumulated depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the financial statements and the net amount, less proceeds from disposal, is charged or credited to the consolidated profit and loss account.

## Principal accounting policies and estimation techniques – continued

### 11. Tangible Fixed Assets – continued

#### Assets in the course of construction

Assets in the course of construction represent the cost of purchasing, constructing and installing tangible fixed assets ahead of their own productive use. No depreciation is charged on assets in the course of construction.

### 12. Impairment

The group undertakes a review for impairment of tangible or intangible fixed assets if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset is written down to its recoverable amount. The value in use of fixed assets is determined from estimated discounted future net cash flows.

### 13. Capital Grants

Non-repayable grants are accounted for as deferred income, which is amortised to the profit and loss account at the same rate as the related assets are depreciated.

### 14. Leased Assets

The capital cost of fixed assets acquired under finance leases is included in tangible assets and written off over the estimated useful life of the asset. The outstanding capital element of the lease obligations is included in loans and other debt, while the interest is charged to the profit and loss account over the primary lease term.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease as incurred.

### 15. Stocks

Stocks comprise consumable items, which may be used in the construction or maintenance of plant and goods held for resale. Stocks are stated at the lower of cost and net realisable value. Cost includes invoice price, import duties and transportation costs. Where necessary, provisions are made for damaged, deteriorated, obsolete and unusable items.

### 16. Debtors

Debtors are stated in the balance sheet at estimated net realisable value. Net realisable value is the invoiced amount less provisions for bad and doubtful debts. Provisions are made specifically against debtors where there is evidence of a dispute or an inability to pay. An additional provision is made based on an analysis of balances by age of debtor, payment history, previous losses experienced and general economic conditions.

### 17. Pension Costs

The pension entitlements of employees, arising from their service with the group, are secured by contributions from the group and the employees to separately administered superannuation schemes.

The group operates funded defined benefit pension schemes, which are independent of the group's finances, for the majority of its employees. Actuarial valuations of the main scheme are carried out, as determined by the trustees, at intervals of not more than three years. The rates of contribution payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The cost of providing pensions is charged against profits over employees' working lives with the group using the projected unit method. Variations from this regular cost are allocated on a straight-line basis over the average remaining service lives of current employees.

## Principal accounting policies and estimation techniques – continued

### 17. Pension Costs – continued

Additional contributions are made to superannuation schemes in respect of employees who take early retirement. These contributions are based on the advice of a professionally qualified actuary.

The group also operates defined contribution pension schemes and the profit and loss account is charged with the contributions payable by the group.

The disclosures required under the transitional arrangements of Financial Reporting Standard 17 “Retirement Benefits” for the year ended 31 March 2004 are shown in Note 27.

### 18. Provisions

A provision is defined as a liability of uncertain timing or amount. Provisions are recognised when the group has a legal or constructive obligation as a result of past events and a reliable estimate of that obligation can be made. Provisions are measured where material, on a discounted basis.

### 19. Onerous Contracts

In accordance with the requirements of FRS 12 “Provisions, Contingent Liabilities and Contingent Assets”, provision is made against the net cash outflow expected to arise from contracts where the unavoidable costs under the contract exceed the economic benefit expected to be received under the contract.

### 20. ESOT

The *eircom* Employee Share Ownership Plan consists of two separate trusts, the *eircom* Employee Share Ownership Trust (“ESOT”) and the *eircom* Approved Profit Sharing Scheme (“APSS”). *eircom* ESOP Trustee Limited is the corporate trustee for both trusts. *eircom* Group plc is the registered holder of all issued shares but does not exercise control over *eircom* ESOP Trustee Limited or have any beneficial interest in the assets of either the ESOT or the APSS. Consequently, the accounts of the trustee have not been, and are not, consolidated in the financial statements.

### 21. Share Option Schemes

Under Urgent Issues Task Force Abstract (UITF) 17, the company is required to recognise as a charge to the profit and loss account the amount by which the value of shares at the date of granting share options to employees exceeds the value at which employees can exercise the options granted. These costs are normally recognised over the vesting period except where the directors are satisfied that the options have been granted in recognition of past performance. The charge is included in operating costs in the profit and loss account. The charge is notional in that there is no underlying cash flow or other financial liability associated with the charge, nor does it give rise to a reduction in assets or shareholders’ funds. In addition, there is no impact on distributable profits.

## Consolidated Profit and Loss Account

For the Year Ended 31 March 2004

	Notes	2004 €'m	2003 €'m
Turnover	1	1,628	1,682
Cost of sales		(410)	(499)
Gross profit		1,218	1,183
Operating costs before exceptional operating costs, depreciation and goodwill amortised	2	(632)	(648)
Exceptional operating costs	2, 3	(24)	(13)
Depreciation (net)	2, 11	(368)	(399)
Exceptional fixed asset impairment	2, 11	(38)	-
Goodwill amortised on subsidiary undertakings	2, 9	(38)	(38)
Total operating costs	2	(1,100)	(1,098)
Operating profit		118	85
Exceptional gain on the disposal of fixed assets		-	2
Exceptional gain on the exit from subsidiaries		1	1
Profit on ordinary activities before interest and taxation		119	88
Interest payable and similar charges (net)	4	(157)	(134)
Exceptional interest payable and similar charges	5	(51)	-
Loss on ordinary activities before taxation		(89)	(46)
Tax (charge)/credit on loss on ordinary activities	6	(14)	6
Loss on ordinary activities after taxation		(103)	(40)
Dividend paid and proposed (including dividends and other appropriations in respect of non-equity shares)	7	(428)	(22)
Loss for the financial year	21	(531)	(62)
		€	€
Loss per 10 cent ordinary share – Basic and diluted	8	(0.24)	(0.12)
Adjusted earnings/(loss) per 10 cent ordinary share (before exceptional costs and goodwill amortisation) – Basic and diluted	8	0.03	(0.03)

All of the group's activities are continuing.

The accompanying notes form an integral part of these financial statements.

## Group Balance Sheet

As at 31 March 2004

	Notes	2004 €'m	2003 €'m
<b>Fixed assets</b>			
Goodwill	9	669	710
Tangible assets	11	2,140	2,257
		2,809	2,967
<b>Current assets</b>			
Stocks	12	10	10
Debtors: amounts falling due within one year	13	307	361
Debtors: amounts falling due after more than one year	13	177	192
Restricted cash at bank and in hand	14	70	-
Cash at bank and in hand		352	440
		916	1,003
<b>Creditors: Amounts falling due within one year</b>	17	661	783
<b>Net current assets</b>		255	220
<b>Total assets less current liabilities</b>		3,064	3,187
<b>Creditors: Amounts falling due after more than one year:</b>			
Loans and other debt	15	2,263	2,125
<b>Provisions for liabilities and charges</b>	18	242	293
<b>Capital grants</b>	19	10	12
		2,515	2,430
<b>Net assets</b>		549	757
<b>Capital and reserves</b>			
<i>Called up share capital</i>			
- Equity share capital	20	74	108
- Non-equity share capital	20	122	252
<i>Reserves</i>			
- Share premium account	21	247	539
- Revaluation reserve	21	91	7
- Capital redemption reserve	21	33	-
- Group merger reserve	21	180	-
- Other reserves	21	8	-
- Profit and loss account	21	(206)	(149)
<b>Total shareholders' funds (including non-equity interests)</b>		549	757
<b>Shareholders' funds are split as follows:</b>			
Equity shareholders' funds		306	505
Non-equity shareholders' funds		243	252
		549	757

The financial statements on pages 63 to 113 were approved by the board of directors on 28 June 2004 and were signed on its behalf by:

Dr Philip Nolan  
Director

The accompanying notes form an integral part of these financial statements.

## Company Balance Sheet

As at 31 March 2004

	Notes	2004 €'m
<b>Fixed assets</b>		
Investments	10	588
		588
<b>Current assets</b>		
Debtors: amounts falling due within one year	13	107
Restricted cash at bank and in hand	14	70
Cash at bank and in hand		67
		244
<b>Creditors: Amounts falling due within one year</b>	<b>17</b>	<b>56</b>
<b>Net current assets</b>		<b>188</b>
<b>Net assets</b>		<b>776</b>
<b>Capital and reserves</b>		
<i>Called up share capital</i>		
– Equity share capital	20	74
– Non-equity share capital	20	122
<i>Reserves</i>		
– Share premium account	21	247
– Capital redemption reserve	21	33
– Merger reserve	21	188
– Other reserves	21	8
– Profit and loss account	21	104
<b>Total shareholders' funds (including non-equity interests)</b>		<b>776</b>
<b>Shareholders' funds are split as follows:</b>		
Equity shareholders' funds		533
Non-equity shareholders' funds		243
		776

The financial statements on pages 63 to 113 were approved by the board of directors on 28 June 2004 and were signed on its behalf by:

Dr Philip Nolan  
Director

### Group Restructuring

All disclosures relating to the parent company show the state of affairs of *eircom* Group plc, which was incorporated on 9 July 2003. Accordingly there are no comparatives for the year ended 31 March 2003.

The accompanying notes form an integral part of these financial statements.

## Consolidated Cash Flow Statement

For the Year Ended 31 March 2004

	Notes	2004 €'m	2003 €'m
Net cash inflow from operating activities	23(a)	490	497
Returns on investments and servicing of finance	23(b)	(278)	(140)
Taxation	23(c)	(14)	4
Capital expenditure and financial investment	23(d)	(227)	(239)
Acquisitions and disposals	23(e)	(1)	185
Dividends paid to equity shareholders		(400)	-
Cash (outflow)/inflow before use of liquid resources and financing		(430)	307
Financing	23(f)	342	(182)
(Decrease)/increase in net cash		(88)	125

### Reconciliation of net cash flow to (increase)/decrease in net debt

	Notes	2004 €'m	2003 €'m
(Decrease)/Increase in cash in the financial year		(88)	125
Cash flow from (increase)/decrease in loans and other debt		(80)	182
(Increase)/decrease in net debt	23(g)	(168)	307

The accompanying notes form an integral part of these financial statements.

## Group statement of total recognised gains and losses

For the Year Ended 31 March 2004

	2004 €'m	2003 €'m
Loss on ordinary activities after taxation	(103)	(40)
Unrealised surplus on revaluation of properties	87	7
<b>Total recognised losses for the year</b>	<b>(16)</b>	<b>(33)</b>

### Note of group historical cost profits and losses

The reported loss on ordinary activities before tax is €89 million (2003: loss of €46 million).

If adjustments were made to reflect the impact of assets carried at valuation on a historical cost basis, this loss would be decreased by €3 million (2003: €nil), to produce a historical cost loss on ordinary activities before taxation of €86 million (2003: loss of €46 million). The historical cost loss absorbed after taxation and dividends would be €528 million (2003: loss of €62 million).

### Reconciliation of movements in group shareholders' funds

	2004 €'m	2003 €'m
Loss on ordinary activities after taxation	(103)	(40)
Dividends and appropriations	(428)	(22)
<b>Loss for the financial year</b>	<b>(531)</b>	<b>(62)</b>
Share capital issued		
– Equity	20	-
– Non-equity	33	-
Share premium on share capital issued (gross)	317	-
Expenses paid and payable in respect of shares issued	(66)	-
Redemption of preference shares	(76)	-
Other reserves created in respect of share option schemes	8	-
Revaluation surplus	87	7
<b>Net reduction in total shareholders' funds</b>	<b>(208)</b>	<b>(55)</b>
<b>Total shareholders' funds at beginning of year</b>	<b>757</b>	<b>812</b>
<b>Total shareholders' funds at end of year</b>	<b>549</b>	<b>757</b>
<b>Shareholders' funds are split as follows:</b>		
Equity shareholders' funds	306	505
Non-equity shareholders' funds	243	252
	549	757

The accompanying notes form an integral part of these financial statements.

## Notes to the Financial Statements

For the Year Ended 31 March 2004

### 1. Turnover and Segmental Analysis by Class of Business

The group provides communications services, principally in Ireland. The group is managed on a unitary basis and has no segments. Further analysis is included on pages 22 to 25 in the operational and financial review and while additional information is given, it is not a segmental analysis.

### 2. Operating Costs

	2004 €'m	2003 €'m
Staff costs		
Wages and salaries	376	372
Social welfare costs	14	15
Pension costs	41	41
	431	428
Staff costs capitalised	(54)	(44)
Net staff costs included in operating costs	377	384
Other operating costs	255	264
	632	648
Exceptional operating costs (including certain staff costs (note 3))	24	13
Depreciation (net) (note 11)	368	399
Exceptional fixed asset impairment (note 11)	38	-
Goodwill amortised on subsidiary undertakings (note 9)	38	38
<b>Total operating costs</b>	<b>1,100</b>	<b>1,098</b>

#### (a) Other operating costs are stated after charging/(crediting):

	2004 €'000	2003 €'000
Research costs	50	154
Hire of plant and machinery	3,053	2,891
Other operating lease rentals	22,449	22,748
Net exchange differences on foreign currency borrowings less deposits (gain)	(1,134)	(6,238)

#### (b) Services provided by the group's auditor and network firms

During the year the group obtained the following services from the group's auditor as detailed below:

	2004 €'000	2003 €'000
<b>Audit services</b>		
Statutory audit	730	575
Other audit related services (including non-statutory audits)	2,985	361
Audit related regulatory reporting	2,085	1,421
	5,800	2,357
<b>Further assurance services</b>	3,958	1,444
<b>Tax advisory services</b>	144	966
	9,902	4,767

Included in the table above are group audit fees and expenses paid to the group's auditor of €0.73 million (2003: €0.575 million), of which €0.14 million (2003: €nil million) was paid in respect of the parent company.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 2. Operating Costs – continued

Total fees paid to PricewaterhouseCoopers, Dublin in respect of services (other than the statutory audit) in the year ended 31 March 2004 were €7.85 million (2003: €3.86 million).

Total services, included in the table above, in the amount of €5.6 million have not been included in operating costs as they relate to audit related and other services provided by the auditors in respect of the group's issue of Senior and Senior Subordinated Notes and also acting as reporting accountants in respect of the *eircom* Group plc Listing on the London and Irish Stock Exchanges. The share issue costs have been charged against share premium and the debt issue costs have been offset against the fair value of the related debt and will be amortised over the life of the related debt. This amount is stated exclusive of irrecoverable VAT of €1.2 million.

#### (c) Directors

	2004 €'m	2003 €'m
Aggregate gains made on the exercise of share options	3	-

For further details of directors remuneration, refer to the Remuneration Report on pages 37 to 54 of the annual report to the Financial Statements. Certain elements of the aggregate gains on the exercise of share options are effectively a notional gain based on a valuation of shares performed at the date the options were exercised and the number of options granted to individuals who were directors during the year. This includes gains in respect of directors, appointed during the year, where they were not directors on the date the options were granted. At the date certain options were exercised *eircom* Group plc was a private company. Consequently, there was no available market to dispose of these shares or otherwise realise the notional gain included above.

### 3. Exceptional Operating Costs

	2004 €'m	2003 €'m
Exceptional operating costs	24	13

The exceptional costs include bonus amounts payable to executives of €19 million, relating to contractual entitlements triggered by the refinancing, which were not capitalised as debt issue costs under UK GAAP, €8 million in respect of share options issued to certain employees, in respect of shares where the market price of the shares exceeded their exercise price at the date the options were granted, and costs incurred of €1 million in connection with refinancing. These costs were partially offset by a €3 million credit relating to compliance matters and €1 million credit relating to restructuring. The net tax effect of the exceptional charge was to reduce the Group tax charge by €2 million.

During the financial year ended 31 March 2004, the group granted options to certain employees of the company over C Shares and E Ordinary Shares. At the time of the granting of the options in respect of the E Ordinary Shares the market value of the shares, over which options were granted, were not in excess of their exercise price at the date of grant and, consequently, there was no profit and loss account charge in respect of these schemes. A charge of €5 million arose on the granting of shares under the options plan in respect of C shares as the market value of the shares at the date of grant was in excess of the exercise price at the date of grant. All of the options under the C and E share plans vested as a result of the initial public offering of shares in the company. Further charges of €3 million arose as a result of awards granted to certain directors and senior

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 3. Exceptional Operating Costs – continued

management, on Admission to the London and Irish Stock Exchanges, under the *eircom* Group Key Executive Share Award Plan. Although the awards do not vest for between 12 and 24 months, the full charge has been included in the Profit and Loss account as the options were granted in recognition of past performance at the date of Admission.

During the financial year ended 31 March 2003, the group incurred a number of non-recurring costs principally in relation to (i) costs incurred in connection with potential refinancing and (ii) charges in relation to a deficit on an annuity scheme provided as part of the restructuring programme. The net tax effect of the exceptional charge was to reduce the group tax charge by €1 million.

The cash outflows resulting from exceptional charges for the year ended 31 March 2004 were €40 million (2003: €19 million). This includes certain cashflows in respect of exceptional charges included in the Profit and Loss account in earlier years.

### 4. Interest Payable and Similar Charges (net)

	2004 €'m	2003 €'m
Interest and associated finance costs payable in respect of bank loans and other debt:		
Repayable within 5 years not by instalments	36	15
Repayable within 5 years by instalments	7	2
Repayable wholly or partly in more than 5 years	113	142
Amortisation of debt issue costs	7	-
<b>Total interest payable and similar charges</b>	<b>163</b>	<b>159</b>
Less: Interest receivable	(6)	(25)
<b>Net interest payable</b>	<b>157</b>	<b>134</b>
Exchange differences arising on foreign currency borrowings		
Unrealised gains	(20)	(1)
Hedging contract losses	20	1
<b>Net interest payable and similar charges</b>	<b>157</b>	<b>134</b>

### 5. Exceptional Interest Payable and Similar Charges

	2004 €'m	2003 €'m
Debt issue costs write off	27	-
Costs arising on exit from interest rate swaps	24	-
	51	-

The exceptional interest charge relates to the write-off of debt issue costs on funds borrowed of €1,250 million as part of a reorganisation and refinancing in August 2003. Debt issue costs incurred in respect of this facility were written-off in accordance with FRS 4 "Capital Instruments" which requires that debt issue costs are amortised up to the earliest date on which the repayment option can be exercised, unless there is no genuine possibility that the option will be exercised on that date. The related debt was repaid in March 2004.

In addition, the exceptional interest charge includes €24 million relating to the early exit from interest rate swaps arising as a result of the early payment of the related debt in conjunction with the group refinancing in March 2004.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 6. Tax charge/(credit) on Loss on Ordinary Activities

	2004 €'m	2003 €'m
<b>(a) Analysis of charge/(credit) in year</b>		
<b>Current tax:</b> Irish corporation tax on loss for the year	21	11
Adjustments in respect of previous periods	(7)	(27)
<b>Total current tax charge /(credit) (note 6(b))</b>	<b>14</b>	<b>(16)</b>
<b>Deferred tax:</b> Origination and reversal of timing differences (note 18)	-	10
<b>Tax charge/(credit) on loss on ordinary activities</b>	<b>14</b>	<b>(6)</b>

#### (b) Factors affecting tax charge for year

The tax assessed for the year is different than the tax charge that would arise on applying the standard rate of corporation tax, 12.5%, in the Republic of Ireland. The differences are explained below: -

	2004 €'m	2003 €'m
Loss on ordinary activities before tax	(89)	(46)
Loss on ordinary activities multiplied by standard rate of corporation tax 12.5% (2003: 15.125%)	(11)	(7)
Effects of:-		
Adjustment in respect of previous periods	(7)	(27)
Utilisation of tax losses	(1)	(1)
Capital Allowances in excess of Depreciation	(4)	(7)
Timing differences	5	-
Tax losses unutilised	2	3
Income not taxable	-	(2)
Gains taxed in prior periods	(2)	(2)
Expenses not deductible for tax purposes	31	27
Income liable at higher rates	1	-
<b>Current tax charge/(credit) for year (note 6(a))</b>	<b>14</b>	<b>(16)</b>

#### (c) Factors that may affect future tax charges

There are no known material factors that are expected to affect future current tax charges. The proposed adoption of IFRS for the financial year ending 31 March 2006 onwards may materially affect the future deferred tax charge.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 7. Dividends Paid and Proposed

	2004 €'m	2003 €'m
<b>Equity – Ordinary:</b>		
Paid interim dividends	400	-
<b>Non-equity – Preference:</b>		
Preference dividends paid and payable on ESOT Preference shares	26	21
Preference dividends paid and payable on Convertible Preference shares	1	-
Preference dividends paid and payable on Non-Voting Adviser Preference shares	-	1
Preference dividends paid and payable on Non-Voting Third Party Preference shares	1	-
Preference dividends paid and payable on Redeemable Preference shares	-	-
Preference dividends paid and payable on Trancheable Redeemable Preference shares	-	-
	428	22

The ordinary dividend paid during the financial year ended 31 March 2004 was funded utilising the reserves arising on the cancellation of share premium of Valentia Telecommunications, which was available by way of merger relief to *eircom* Group plc as a consequence of the share-for-share exchange.

### 8. Earnings/(loss) per share

	2004		2003	
	Cent Per Share	€'m	Cent Per Share	€'m
Loss on ordinary activities after taxation		(103)		(40)
Dividends and appropriations in respect of preference shares		(28)		(22)
Basic loss attributable to ordinary shareholders	(24)	(131)	(12)	(62)
Exceptional gain on the disposal of fixed assets (net of tax)	-	-	-	(2)
Exceptional gain on the exit from subsidiaries (net of tax)	-	(1)	-	(1)
Exceptional fixed asset impairment (net of €Nil tax) (note 11 (a))	7	38	-	-
Goodwill amortised on subsidiary undertakings (note 9)	7	38	7	38
Exceptional operating costs (net of tax) (note 3)	4	22	2	12
Exceptional interest payable and similar charges (net of €Nil tax) (note 5)	9	51	-	-
Earnings/(loss) per share before exceptional items and goodwill amortisation.	3	17	(3)	(15)
Basic and diluted basic loss attributable to ordinary share	(24)		(12)	
Basic and diluted adjusted earnings/(loss) per ordinary share before exceptional costs and goodwill amortisation.	3		(3)	

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 8. Earnings/(loss) per share – continued

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares in issue is 545,600,926 (2003: 541,422,144). There are no dilutive potential ordinary shares in respect of basic loss per share.

For diluted adjusted earnings/(loss) per share before exceptional costs and goodwill amortisation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has two classes of dilutive potential ordinary shares (note 20). The weighted average number of ordinary shares on a diluted basis is 549,320,829 for the year ended 31 March 2004. There were no dilutive potential ordinary shares in respect of loss per share, before exceptional costs and goodwill amortisation for the year ended 31 March 2003.

The alternative earnings/(loss) per ordinary share has been presented to eliminate the effect of exceptional items and goodwill. The reconciliation of the loss attributable to ordinary shareholders to adjusted earnings/(loss) used in the calculations are set out above.

### 9. Goodwill

	€'m
<b>Cost</b>	
At 31 March 2003	764
Goodwill adjustment	(3)
At 31 March 2004	761
<b>Amortisation</b>	
At 31 March 2003	54
Charge for year	38
At 31 March 2004	92
<b>Net book amount</b>	
At 31 March 2004	669
At 31 March 2003	710

Goodwill arising on the acquisition of *eircom* Limited is being amortised over 20 years, its expected useful life.

### 10. Investments

	Group 2004 €'m	Group 2003 €'m	Company 2004 €'m
<b>Shares in group undertakings</b>			
At beginning of year – unlisted	-	-	-
Additions	-	-	880
Provision for impairment	-	-	(512)
Capital contribution to subsidiary undertaking	-	-	220
At end of year – unlisted	-	-	588

The provision for impairment arose as a result of dividends received from subsidiary undertakings in the amount of €512 million.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 11. Tangible Fixed Assets

a)	Land & Buildings €'m	Network, Plant & Equipment €'m	Total €'m
<b>Cost or Valuation</b>			
At 31 March 2003	412	2,398	2,810
Additions	1	206	207
Disposals/retirements	-	(3)	(3)
Exit from subsidiaries	(2)	(1)	(3)
Revaluation surplus	70	-	70
At 31 March 2004	481	2,600	3,081
Cost	1	2,600	2,601
Valuation	480	-	480
<b>Accumulated Depreciation</b>			
At 31 March 2003	5	548	553
Charge for year (note 11(c))	17	345	362
Impairment charge (note 11(c))	-	9	9
Exceptional impairment charge	38	-	38
Disposals/retirements	-	(2)	(2)
Exit from subsidiaries	(1)	(1)	(2)
Revaluation surplus	(17)	-	(17)
At 31 March 2004	42	899	941
Total Net Book Value at 31 March 2004	439	1,701	2,140
Total Net Book Value at 31 March 2003	407	1,850	2,257

b) A valuation carried out by Lisney, Estate Agents, Auctioneers and Valuers, as at December 2003 valued the properties at €442 million. Properties were valued, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market value and existing use value except for specialised properties which were valued on a depreciated replacement cost basis. As a result the carrying value of land and buildings was revalued upwards by €87 million. In addition, there was a revaluation deficit below the net book value of certain land and buildings of €38 million, which has been charged to the profit and loss account.

If these land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

	2004 €'m	2003 €'m
Cost	438	439
Accumulated Depreciation	(90)	(39)
Net Book Value	348	400

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 11. Tangible Fixed Assets – continued

c) The depreciation charged in the profit and loss account is net of capital grants amortised during the year as follows:-

	2004 €'m	2003 €'m
Depreciation	362	387
Impairment charge included in depreciation	9	15
Amortisation of capital grants (note 19)	(3)	(3)
	368	399

The group's policy is to review asset lives annually and to adjust depreciation accordingly.

The impairment charge included in depreciation relates to Global Crossing, International Cable and Synchronous Digital Hierarchy ("SDH") equipment, which has been written off.

d) Analysis of net book value of land and buildings is as follows:-

	2004 €'m	2003 €'m
Freehold	289	274
<b>Leasehold:</b>		
Over 50 years unexpired	113	98
Under 50 years unexpired	37	35
	439	407

e) Included in tangible fixed assets is plant and equipment acquired under finance leases as follows:-

	2004 €'m	2003 €'m
Cost	63	65
Accumulated depreciation	(37)	(26)
Net book value	26	39
Depreciation charge for the year	13	14

f) Assets in course of construction

Included in tangible fixed assets are assets in the course of construction of €75 million (2003: €47 million).

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 12. Stocks

	2004 €'m	2003 €'m
Network development and maintenance stocks	4	5
Consumable and other stocks	6	5
	10	10

The net replacement cost of stocks is not expected to be materially different from that shown above.

### 13. Debtors

	Group 2004 €'m	Group 2003 €'m	Company 2004 €'m
<b>Amounts falling due within one year:</b>			
Trade debtors	219	205	-
Prepayments and accrued income	88	106	-
Dividends due from group undertakings	-	-	107
Amounts due from ESOT	-	50	-
	307	361	107
<b>Amounts falling due after more than one year:</b>			
Pension scheme	177	192	-

Two subsidiaries of the company are party to a financing transaction under which credit balances and debit balances of the entities may be offset. This offset has been effected in the group balance sheet. The balances of the group so offset were €159 million (2003: €168.5 million) lease receivables and €159 million (2003: €168.5 million) bank loans.

The defined benefit pension scheme, operated by *eircom* Limited, was assessed, at the date of the acquisition of *eircom* Limited, by the group's independent actuaries on a basis consistent with generally accepted accounting principles. As part of the adjustments to determine the fair value of the assets acquired, an amount of €208 million was included in the balance sheet, representing the funding surplus at the acquisition date. This surplus is being amortised in accordance with Statement of Standard Accounting Practice 24 ("Accounting for Pension Costs").

### 14. Restricted cash at bank and in hand (Group and Company)

The restricted cash balance €70 million can only be used by the company for the purposes of redeeming the outstanding Redeemable Preference Shares and Trancheable Redeemable Preference Shares. The interest earned on this deposit, after deduction of any taxation payable, is payable as part of the redemption price in respect of the Redeemable Preference Shares and Trancheable Redeemable Preference Shares to the extent not elected to be received as pre-redemption dividend.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 15. Loans and other debt – Group

	Within 1 Year €'m	Between 1 & 2 Years €'m	Between 2 & 5 Years €'m	After 5 Years €'m	Total €'m
Loans	-	-	1,240	-	1,240
7.25% Senior Notes due 2013 (listed)	-	-	-	532	532
8.25% Senior Subordinated Notes due 2013 (listed)	-	-	-	491	491
	-	-	1,240	1,023	2,263
Overdrafts (note 17)	1	-	-	-	1
At 31 March 2004	1	-	1,240	1,023	2,264
At 31 March 2003	106	-	150	1,975	2,231

Included in the above amounts are: -

	2004 €'m	2003 €'m
Wholly repayable within 1 year	1	102
Wholly repayable within 5 years	-	150
Repayable, by instalments, within 5 years	1,250	4
Repayable, otherwise than by instalments, due after 5 years	1,060	1,975
Debt issue costs (offset against loans due within 5 years)	(10)	-
Debt issue costs (offset against Senior Notes and Senior Subordinated Notes due after more than 5 years)	(37)	-
	2,264	2,231

Loans and other debt are split as follows:

	2004 €'m	2003 €'m
Secured (Senior Credit Facility)	1,250	2,125
Unsecured	1,061	106
	2,311	2,231
Debt issue costs	(47)	-
	2,264	2,231

The Senior Credit Facility is secured, amongst other things, by a pledge of the shares in *eircom* Limited and Irish Telecommunications Investments Limited ("ITI") and a fixed and floating charge over the assets (subject to some exceptions) of Valentia Telecommunications, *eircom* Limited and ITI.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 16. Financial Instruments

The group holds or issues financial instruments for the following main purposes:-

- To finance its operations;
- To employ surplus funds;
- To manage the interest rate and currency risks arising from its operations and from its sources of finance.

The group finances its operations out of operating cash flows, bond issues, bank borrowings, finance leases and preference shares.

Derivative instruments are contractual agreements whose value reflects price movements in an underlying asset and liability. The group uses derivatives, where appropriate, to generate the desired effective profile of currency and interest rate risk. Derivative activity is carefully controlled and appropriately used and is an effective means of managing risk.

The main risks arising from the use of financial instruments are market rate risk, liquidity risk and credit risk. Responsibility for managing these risks rests with the Board of *eircom* Group plc and, in respect of certain activities, the Treasury Committee, an *eircom* Group plc management committee chaired by the Chief Financial Officer. It is, and has been throughout the year under review, the group's policy not to trade in financial instruments.

Debtors, creditors and provisions for liabilities and charges have been excluded from all the numerical disclosures below. The group conducts its business primarily in Ireland and, therefore, operating and investing cash flows are substantially denominated in euro. A limited level of foreign exchange risk arises in relation to certain capital expenditures and foreign exchange settlements with international third party telecommunications carriers.

#### Market rate risk

Market rate risk is defined as the exposure of the group's financial position to movements in interest and foreign exchange rates. The principal aim of managing these risks is to limit the adverse impact on shareholder value of movements in interest rates and foreign exchange rates.

The main derivatives used are interest rate swaps and currency swaps. It is group policy to hedge all currency risk in currencies, which are not denominations of the euro. The group seeks to manage the fixed/floating mix of its borrowings with the aim of controlling cost while mitigating its exposure to interest rate risk. The group achieves fixed rates on its borrowings either directly through the use of fixed rate debt or indirectly through the use of interest rate swaps. Under interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount.

#### Interest rate risk profile of financial assets

There were floating rate deposits outstanding of €352 million at 31 March 2004 (2003: €440 million). The interest rate on these is generally based on the appropriate Euribor rate. This excludes the restricted cash at bank and in hand, totalling €70 million as at 31 March 2004.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 16. Financial Instruments – continued

#### Interest rate risk profile of the group's financial liabilities

##### Bank and Other Borrowing (Debt net of Swaps)

	Local Currency		Total	Local Currency		Total
	Fixed	Floating		Fixed	Floating	
	2004	2004	2004	2003	2003	2003
	€'m	€'m	€'m	€'m	€'m	€'m
EUR	1,335	751	2,086	1,201	1,030	2,231
Other currencies	225	-	225	-	-	-
<b>Total all currencies</b>	<b>1,560</b>	<b>751</b>	<b>2,311</b>	<b>1,201</b>	<b>1,030</b>	<b>2,231</b>

The group has no interest-free financial liabilities.

At 31 March 2004, the group had currency swap contracts of €225 million (2003: €10 million) outstanding. Variable rates on loans and swaps are based on Euribor. After adjusting for the effect of swaps, €1,560 million (2003: €1,201 million) of bank and other debt (excluding preference shares) bore interest at fixed rates, with a weighted average interest rate of 6.6% (2003: 7.1%).

The weighted average life of the fixed rate debt (excluding preference shares) and swaps is set out in the following table:-

	Weighted Average Residual Maturity in Years of Fixed-Rate	
	2004	2003
Underlying Debt	9.4	0.5
Swaps:		
we receive fixed interest	-	0.3
we pay fixed interest	3.0	1.9

##### Preference shares

The interest rate risk profile of the group's preference shares are set out in Note 20.

The effective interest rate on the group's preference shares is as follows:

Holders of convertible preference shares are entitled to a fixed cumulative preferential cash dividend at a rate of 12.25% of the deemed subscription price of €1 per convertible preference share. Dividends are paid in arrears at six monthly intervals commencing from 29 September 2004. Interest will accrue at 12.25%, on any unpaid dividends.

The holders of redeemable preference shares and trancheable redeemable preference shares are entitled to receive a dividend based on the aggregate interest received by *eircom* Group plc on the funds standing to the credit of the designated bank account for such redeemable preference shares and trancheable redeemable preference shares (less the aggregate taxation and/or costs or expenses suffered or incurred by *eircom* Group plc in respect of such interest and the aggregate amount of dividends paid by *eircom* Group plc to the holders of redeemable preference shares and trancheable redeemable preference shares).

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 16. Financial Instruments – continued

#### Currency exposures

As at 31 March 2004, after taking into account the effects of currency swaps and forward foreign exchange contracts, the group has no material currency exposure.

#### Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale.

The following tables provide comparisons of the carrying amounts and fair values of the group's fixed-rate financial assets and financial liabilities, including derivatives. The fair values of short-term deposits, floating-rate loans and overdrafts approximate to their carrying amounts.

On an interest rate swap, the same notional principal amount is used for the paying and receiving sides. Consequently the carrying value of an interest rate swap is zero. The fair value reflects the difference between the fixed rate and current market rates. The carrying value of currency swaps is affected by movements in the exchange rates of the currencies concerned, while the fair value reflects both interest rate and exchange rate movements.

	31 March 2004		31 March 2003	
	Book Value €'m	Fair Value €'m	Book Value €'m	Fair Value €'m
<b>Financial assets</b>				
Cash	352	352	440	440
<b>Liabilities</b>				
<b>Underlying debt</b>				
Fixed Rate	1,040	1,116	105	109
Floating rate	1,251	1,251	2,126	2,126
<b>Total</b>	<b>2,291</b>	<b>2,367</b>	<b>2,231</b>	<b>2,235</b>
<b>Debt net of swaps</b>				
Fixed rate	1,560	1,642	1,201	1,246
Floating rate	751	751	1,030	1,030
<b>Total</b>	<b>2,311</b>	<b>2,393</b>	<b>2,231</b>	<b>2,276</b>
<b>Preference shares</b>	<b>122</b>	<b>243</b>	<b>252</b>	<b>252</b>
<b>Interest rate swaps liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(41)</b>
<b>Currency swaps liability</b>	<b>(20)</b>	<b>(26)</b>	<b>-</b>	<b>-</b>

The fair value of preference shares is determined as the deemed redemption price, together with any accrued dividends not yet declared, as no market exists in respect of these shares.

#### Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to meet the group's requirements and to repay maturing debt. This objective is met by monitoring and controlling potential cash flows and maintaining an appropriate buffer of readily realisable assets and standby credit lines.

The maturity profile of group debt is set out in note 15 of the financial statements.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 16. Financial Instruments – continued

#### Liquidity risk – continued

The group has a €150 million committed borrowing facility expiring in March 2009 which was undrawn at 31 March 2004. All conditions precedent had been met at 31 March 2004.

#### Credit risk

The group is exposed to credit risk relating to its cash and current financial assets. The group places its cash and current financial assets with highly rated financial institutions. The group's policy is designed to limit exposure with any one institution and to invest its excess cash in low risk investment accounts. The group has not experienced any losses on such accounts.

Credit risks are mainly related to counterparty risks associated with prepayments, amounts owed by related companies, interest in debt securities, derivative contracts, equity investments in related companies and other debtors.

Equity investments and amounts owed by related companies are limited to the authorities issued by the Board of Directors of *eircom* Group plc.

The group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Ireland. Exposure to credit loss and subscriber fraud is actively monitored on a daily basis, including the processing of current credit information on subscribers from third-party sources.

Transactions involving derivative contracts are managed by ITI; a wholly owned subsidiary, within a framework of limits approved by the Treasury Committee, which restrict the group's dealings to highly rated financial institutions.

#### Hedges

Under the company's accounting policy, foreign currency borrowings and currency swap agreements are valued at year end exchange rates.

Interest differentials arising on swap agreements are accrued and reflected in interest payable. Consequently changes in fair value attributable to movements in interest rates are not recognised.

The table below shows the extent to which the group had unrecognised losses, in terms of fair value, at the beginning and end of the year.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 16. Financial Instruments – continued

	2004 €'m
<b>Unrecognised losses</b>	
Loss on contracts outstanding at 31 March 2003	(41)
Of which:	
Included in 2004 charges	(41)
Not included in 2004 charges	-
Loss arising in 2004	(6)
Loss on contracts as at 31 March 2004	(6)
Of which:	
Expected to be included in 2005 charges	(1)
Expected to be included in later years	(5)

17. Creditors: Amounts falling due within one year: -	Group 2004 €'m	Group 2003 €'m	Company 2004 €'m
Bank loans and overdrafts (note 15)	1	106	-
Trade creditors	108	145	-
Amounts owed to subsidiary companies	-	-	20
Corporation tax payable	50	50	-
Other tax and social security payable	32	31	-
Accruals and deferred income	469	417	35
Dividends payable	1	34	1
	661	783	56

The amounts due to subsidiary companies are unsecured, interest free and repayable within one year.

### 18. Provisions for Liabilities and Charges

	Staff Restructuring €'m	Onerous Contracts €'m	Other €'m	Deferred Taxation €'m	Total €'m
At beginning of year	126	10	75	82	293
Utilised in year	(45)	(10)	(6)	-	(61)
Profit and loss (credit)/charge	(1)	-	11	-	10
At end of year	80	-	80	82	242

#### Staff Restructuring

The group has a constructive obligation in respect of the costs of a fundamental staff restructuring. The amount of the provision is based on the group's past experience of restructuring and the discussions to date with employees and their representative unions. Included within this provision is a net deficit on an annuity plan of €72 million (2003: €58 million) offered as part of the restructuring programme. As at 31 March 2004, the annuity plan element of the provision is expected to be utilised over a period of nine years. The remaining €8 million element of the provision at 31 March 2004, is expected to be substantially utilised over the next few months.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 18. Provisions for Liabilities and Charges – continued

During the year ended 31 March 2004, €45 million of the provision was utilised primarily to pay for staff exits under the fundamental Restructuring Programme. There was a release of €1 million in relation to a provision for restructuring in the year ended 31 March 2004.

#### Onerous Contracts

The group had onerous contracts in relation to international capacity commitments. The provision was based on contracted terms and the liability has been paid during the year ended 31 March 2004.

#### Other

The group is self insured in respect of certain personal injury and damage claims. There is a provision for the estimated cost of incidents which have occurred up to 31 March 2004, based on a case by case review with actuarial assistance. The payments will be made as the cases are settled. The group also has a provision for costs arising from certain compliance matters. There was a release of €3 million in relation to a provision for costs arising from certain compliance matters in the year ended 31 March 2004.

#### Deferred Taxation

In accordance with FRS 19, the group's policy is to provide for taxation on a full liability basis. Deferred taxation liabilities arise from capital allowances and other timing differences.

The deferred taxation provision consists of:

	2004 €'m	2003 €'m
Timing difference on pension prepayment	22	24
Capital allowances and other timing differences	60	58
	82	82

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over. The total amount unprovided for is estimated at €60 million. Such deferred tax would become payable only if the fixed assets were sold.

### 19. Capital Grants

	2004 €'m	2003 €'m
<b>Received/receivable</b>		
At beginning of year	22	21
Received/receivable during year	1	1
At end of year	23	22
<b>Amortisation</b>		
At beginning of year	10	7
Amortisation to profit and loss (note 11(c))	3	3
At end of year	13	10
Net book value at end of year	10	12

The capital grants received by the group relate to programmes to develop the Irish telecommunications infrastructure and were sponsored by the European Union.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital

As a result of the *eircom* Group plc acquisition of Valentia Telecommunications, pursuant to a share for share exchange, *eircom* Group plc now owns all of the share capital in Valentia Telecommunications. The acquisition qualified as a group reconstruction under FRS 6 and has been accounted for in accordance with the principles of merger accounting.

As at 31 MARCH 2004

AUTHORISED			ISSUED	
Number and Class of Share	Amount €	Nominal Value per Share	Number and Class of Share	Amount €
3,029,999,480 Ordinary Shares	302,999,948	€0.10 each	741,796,320 Ordinary Shares	74,179,632
<b>Ordinary Share Capital</b>	<b>302,999,948</b>		<b>Ordinary Share Capital</b>	<b>74,179,632</b>
5,000,000 Redeemable Preference Shares	2,500,000	€0.50 each	4,169,893 Redeemable Preference Shares	2,084,947
173,000,000 Convertible Preference Shares	86,500,000	€0.50 each	173,000,000 Convertible Preference Shares	86,500,000
66,000,000 Trancheable Redeemable Preference Shares	33,000,000	€0.50 each	66,000,000 Trancheable Redeemable Preference Shares	33,000,000
50,000 Sterling Deferred Shares	73,260	£1.00 each	50,000 Sterling Deferred Shares	73,260
52,000 Non- Voting Deferred Shares	52	€0.001 each	52,000 Non- Voting Deferred Shares	52
<b>Preference and non-equity Share Capital</b>	<b>122,073,312</b>		<b>Preference and non-equity Share Capital</b>	<b>121,658,259</b>
<b>Total Share Capital</b>	<b>425,073,260</b>		<b>Total Share Capital</b>	<b>195,837,891</b>

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

The share capital at 31 March 2003, reflects the authorised and issued share capital of Valentia Telecommunications and was as set out below:-

As at 31 MARCH 2003

AUTHORISED			ISSUED	
Number and Class of Share	Amount €	Nominal Value per share	Number and Class of Share	Amount €
100,000,000 A Ordinary Shares	100,000,000	€1.00 each	100,000,000 A Ordinary Shares	100,000,000
10,000,000 B Ordinary Shares	10,000,000	€1.00 each	7,940,000 B Ordinary Shares	7,940,000
<b>Ordinary Share Capital</b>	<b>110,000,000</b>		<b>Ordinary Share Capital</b>	<b>107,940,000</b>
5,000 ESOT Preference Shares	500,000,000	€100,000 each	2,390 ESOT Preference Shares	239,000,000
10,000,000 Non-Voting Third Party Preference Shares	10,000,000	€1.00 each	8,000,000 Non-Voting Third Party Preference Shares	8,000,000
10,000,000 Non-Voting Advisor Preference Shares	10,000,000	€1.00 each	5,000,000 Non-Voting Advisor Preference Shares	5,000,000
100,000 Balancing Deferred Shares	1,000	€0.01 each	10,000 Balancing Deferred Shares	100
<b>Preference and non-equity Share Capital</b>	<b>520,001,000</b>		<b>Preference and non-equity Share Capital</b>	<b>252,000,100</b>
<b>Total Share Capital</b>	<b>630,001,000</b>		<b>Total Share Capital</b>	<b>359,940,100</b>

*eircom* Group plc was incorporated on 9 July 2003 with an authorised share capital of €2 divided into 2,000 Ordinary Shares of €0.001 each, of which one share was issued. *eircom* Group plc was admitted to the London and Irish Stock Exchanges on 24 March 2004, at which time it issued shares at a premium for a total of €1.45 per share (see (n) and (o)).

The detailed alterations to the authorised and issued share capital of *eircom* Group plc that have taken place between the date of incorporation and Admission on 24 March 2004, are as set out below:-

- (i) On 19 July 2003, 1,000 Ordinary Shares of €0.001 each were allotted and issued, fully-paid up in cash at par;
- (ii) On 21 July 2003, 999 Ordinary Shares of €0.001 each were allotted and issued, fully-paid up in cash at par;
- (iii) On 21 July 2003, the authorised share capital of *eircom* Group plc of €2, divided into 2,000 Ordinary Shares of €0.001 each, was redesignated as 2,000 Non-Voting Deferred Shares of €0.001 each;
- (iv) On 21 July 2003, the authorised share capital of *eircom* Group plc was increased from €2 to €321,105,002 divided into:
  - 100,200,000 A Ordinary Shares of €0.50 each;
  - 10,000,000 B Ordinary Shares of €0.50 each;
  - 8,300,000 E Ordinary Shares of €0.50 each;
  - 3,700,000 C Shares of €0.05 each;
  - 5,000 ESOT Preference Shares of €50,000 each;
  - 100,000 Balancing Voting Deferred Shares of €0.005 each;

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

- 10,000,000 Adviser Preference Shares of €0.50 each;
  - 10,000,000 Third Party Preference Shares of €0.50 each;
  - 2,000 Non-Voting Deferred Shares of €0.001 each; and
  - €1,669,500, in unclassified shares;
- (v) On 21 July 2003, shares in *eircom* Group plc were allotted and issued fully paid up in consideration for the transfer to *eircom* Group plc of the entire issued share capital of Valentia Telecommunications pursuant to a share exchange agreement of 21 July 2003 entered into between *eircom* Group plc and each of the shareholders of Valentia Telecommunications:
- 100,000,000 A Ordinary Shares of €0.50 each;
  - 7,940,000 B Ordinary Shares of €0.50 each;
  - 2,390 ESOT Preference Shares of €50,000 each;
  - 10,000 Balancing Voting Deferred Shares of €0.005 each;
  - 5,000,000 Adviser Preference Shares of €0.50 each; and
  - 8,000,000 Third Party Preference Shares of €0.50 each;
- (vi) On 7 August 2003, the authorised share capital of *eircom* Group plc was increased from €321,105,002 to €389,435,502 divided into the classes of share described in (iv) above excluding unclassified shares, of €1,669,500 but including 140,000,000 Redeemable Preference Shares of €0.50 each;
- (vii) On 7 August 2003, 66,000,000 Redeemable Preference Shares of €0.50 each were allotted and issued to the ESOT fully paid up in cash at a subscription price of €1 per share;
- (viii) On 7 August 2003, 660 ESOT Preference Shares of €50,000 each were redeemed at a premium in accordance with their terms;
- (ix) On 7 August 2003, each of the 1,730 issued ESOT Preference Shares of €50,000 each and each of the remaining 3,270 unissued ESOT Preference Shares of €50,000 each were subdivided into 100,000 ESOT Preference Shares of €0.50 each so that there were 173,000,000 issued ESOT Preference Shares of €0.50 each and 327,000,000 unissued ESOT Preference Shares of €0.50 each;
- (x) On 22 October 2003, 164,632 A Ordinary Shares of €0.50 each were allotted and issued, fully paid up in cash at €2.1105 per share;
- (xi) During the period from 15 December 2003 to 31 March 2004, 61,830,107 Redeemable Preference Shares of €0.50 each were redeemed at a premium, in accordance with their terms;
- (xii) On 23 December 2003, 5,000,000 Adviser Preference Shares of €0.50 each were redeemed in accordance with their terms;
- (xiii) On 29 January 2004, 1,804,255 C Shares of €0.05 each were allotted and issued, fully paid up in cash in accordance with their terms;
- (xiv) On 29 January 2004, 1,804,255 C Shares of €0.05 each were conditionally allotted;

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

(xv) On 8 March 2004, the authorised share capital of *eircom* Group plc was increased to €389,435,502 and £50,000 by the creation of 50,000 Sterling Deferred Shares of £1 each, all of which were allotted and issued, fully paid up in cash at par;

(xvi) On 18 March 2004, 4 E Ordinary Shares of €0.50 each were allotted and issued, fully paid up in cash;

(xvii) On 18 March 2004, the authorised share capital of *eircom* Group plc was increased to €389,745,834 and £50,000 by the creation of 6,206,640 C shares of €0.05 each.

#### On Admission

The following actions took place upon Admission on 24 March 2004:

(a) the 1,804,255 C Shares of €0.05 each, at (xiv) above, became unconditionally allotted and issued, fully paid up in cash at €0.178 per C Share;

(b) €310,332 standing to the credit of *eircom* Group plc's merger reserve was capitalised and applied in paying up the nominal value of 6,206,640 C Shares of €0.05 each, which were allotted and issued to the holders of *eircom* Group plc's issued C Shares pro rata to their existing shareholdings;

(c) the 9,815,150 issued C Shares of €0.05 each were consolidated so that every 10 such C Shares were consolidated into one C Share of €0.50 each;

(d) €49,998 standing to the credit of *eircom* Group plc's merger reserve was capitalised and applied in paying up the nominal value of 99,996 E Ordinary Shares of €0.50 each which were allotted and issued to the holders of *eircom* Group plc's issued E Ordinary Shares pro rata to their existing shareholdings;

(e) the 981,515 issued C Shares of €0.50 each were converted into 981,515 E Ordinary Shares of €0.50 each following which there are no longer any issued C Shares of €0.50 each;

(f) the 173,000,000 issued ESOT Preference Shares of €0.50 each (all of which were held by the ESOT) were consolidated into one ESOT Preference Share of €86,500,000;

(g) the authorised share capital of *eircom* Group plc was increased to €425,000,000 and £50,000 by the creation of 22,541,660 Ordinary Shares of €0.10 each and 173,000,000 Convertible Preference Shares of €0.50 each and the authorised but unissued share capital of *eircom* Group plc was redesignated so that, the authorised share capital is divided into:

- (i) 3,029,999,480 Ordinary Shares;
- (ii) 5,000,000 Redeemable Preference Shares;
- (iii) 173,000,000 Convertible Preference Shares;
- (iv) 66,000,000 Trancheable Redeemable Preference Shares;
- (v) 50,000 Sterling Deferred Shares; and
- (vi) 52,000 Non-Voting Deferred Shares;

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

(h) the 100,164,632 issued A Ordinary Shares of €0.50 each were sub-divided into 500,823,160 Ordinary Shares, as a result of which, there are no longer any issued A Ordinary Shares;

(i) the 7,940,000 issued B Ordinary Shares of €0.50 each were sub-divided into 39,700,000 Ordinary Shares, as a result of which, there are no longer any issued B Ordinary Shares;

(j) the 1,081,515 issued E Ordinary Shares of €0.50 each were sub-divided into 5,407,575 Ordinary Shares, as a result of which, there are no longer any issued E Ordinary Shares;

(k) the one ESOT Preference Share of €86,500,000 was sub-divided into:

- (i) 107,000,000 Convertible Preference Shares; and
- (ii) 66,000,000 Trancheable Redeemable Preference Shares,

as a result of which, there are no longer any issued ESOT Preference Shares;

(l) the 10,000 issued Balancing Voting Deferred Shares of €0.005 each were sub-divided into 50,000 Non Voting Deferred Shares of €0.001 each, as a result of which, there are no longer any issued Balancing Voting Deferred Shares;

(m) *eircom* Group plc allotted and issued 66,000,000 Convertible Preference Shares of €0.50 each to the ESOT, each at a price of €1.00 per Convertible Preference Share in cash;

(n) *eircom* Group plc allotted and issued, 193,548,386 Ordinary Shares in consideration of the payment of €1.55 per share (“the Offer Price”) in cash;

(o) *eircom* Group plc allotted and issued 64,516 Ordinary Shares at the Offer Price to Kevin Melia, 38,709 Ordinary Shares at the Offer Price to Padraic O’Connor, 48,387 Ordinary Shares at the Offer Price to Maurice Pratt, 25,806 Ordinary Shares at the Offer Price to Didier Delepine, 64,516 Ordinary Shares at the Offer Price to Irial Finan and 10,000 Ordinary Shares at the Offer Price to Donal Roche, all of whom are directors of the group;

(p) the 8,000,000 issued Non-Voting Third Party Preference Shares of €0.50 each were redeemed in accordance with their terms, at a premium, for an aggregate price of €10,027,045. The redemption was funded out of the proceeds of the allotment and issue of Ordinary Shares upon Admission referred to in sub-paragraph (n) (as to €8,000,000) and out of *eircom* Group plc’s distributable profits (as to balance of €2,027,045), as a result of which, there are no longer any issued Non-Voting Third Party Preference Shares; and

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

q) between Admission and 31 March 2004, 2,065,265 Ordinary Shares were allotted and issued, under the *eircom* Group Executive Share Option Plan, fully paid up in cash at a price of €1.164 per share.

#### Potential Issue of Ordinary Shares

Certain senior executives hold options to subscribe for 2,247,705 Ordinary Shares in the company at €1.164 per share under the *eircom* Group Executive Share Option Plan approved by the shareholders in September 2003. These options must be exercised by 24 March 2005.

Certain directors and senior management were awarded 1,472,198 free shares under the *eircom* Group Key Executive Share Award Plan (note 3). These shares vest in equal portions in March 2005 and March 2006.

#### Rights attaching to the classes of shares

The rights attaching to the classes of shares are as follows:

##### (a) Ordinary Shares

Every member who is present in person shall have one vote on a show of hands and every member present in person or by proxy shall have one vote for every Ordinary Share held on a poll.

On a distribution of the assets of the company, the holders of Ordinary Shares are entitled to receive the amount paid up on their ordinary shareholding plus a share of any surplus arising after satisfaction in full of the rights of the holders of the various classes of Preference Shares and Sterling Deferred Shares but before the rights of the holders of Non-Voting Deferred Shares.

##### (b) Redeemable Preference Shares.

Holders of Redeemable Preference Shares are entitled (such entitlement ranking at all times in priority to the rights of holders of Convertible Preference Shares, Ordinary Shares, Sterling Deferred Shares and Non-Voting Deferred Shares and ranking equally with the rights of holders of the Trancheable Redeemable Preference Shares) to a preferential cash dividend on a maximum of four dates falling in each financial year. The dividend is calculated by apportioning the aggregate interest received by *eircom* Group plc on the funds standing to the credit of the designated bank account for such Redeemable Preference Shares (less the aggregate taxation and/or costs or expenses suffered or incurred by *eircom* Group plc in respect of such interest and the aggregate amount of dividends previously paid by *eircom* Group plc to the holders of Redeemable Preference Shares) between the holders of the Redeemable Preference Shares.

On a distribution of assets of *eircom* Group plc among its members on a winding up of *eircom* Group plc (or other return of capital other than a redemption or purchase by *eircom* Group plc of its own shares) the holders of the Redeemable Preference Shares are entitled (such entitlement ranking in priority to the rights of holders of Convertible Preference Shares, Ordinary Shares, Sterling Deferred Shares and Non-Voting Deferred Shares and ranking equally with the rights of holders of Trancheable Redeemable Preference Shares) to receive an amount equal to the subscription price of €1 for each Redeemable Preference Share (less any capital duty payable by *eircom* Group plc on the issue of such share) plus the aggregate interest received by *eircom* Group plc on the amount of the subscription price in respect of each such

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

share deposited in the designated bank account of such Redeemable Preference Shares (less any tax and/or costs or expenses incurred by *eircom* Group plc in respect of such interest) less any amount declared and/or distributed or payable by way of dividend or capitalised in respect of any bonus issue or distributed upon any repayment of capital in respect of such Redeemable Preference Share (the "Redeemable Preference Amount").

Holders of Redeemable Preference Shares are not entitled to receive notice of or to attend or vote at general meetings of *eircom* Group plc.

*eircom* Group plc is required to redeem some or all of the Redeemable Preference Shares which at any time have been appropriated to the Beneficiaries, provided that the applicable Release Date (as defined in the ESOT Trust Deed and/or APSS Trust Deed) has passed, and *eircom* Group plc has received notice, in accordance with the Articles, from the holder of the Redeemable Preference Shares. *eircom* Group plc has the option to redeem some or all of the Redeemable Preference Shares at any time after 31 October 2006 by giving notice to the holders of the Redeemable Preference Shares.

#### (c) *Convertible Preference Shares*

Holders of Convertible Preference Shares are entitled (such entitlement ranking after the rights of the holders of Redeemable Preference Shares and Trancheable Redeemable Preference Shares and in priority to the holders of any other class of share) to a fixed cumulative preferential cash dividend at the rate of 12.25% of the deemed subscription price per annum of each Convertible Preference Share held by them (being €1 per Convertible Preference Share). Such dividends will be paid in arrears at six monthly intervals commencing from 29 September 2004. If such dividend is not paid it shall accumulate and, from the date which it is due until the date of actual payment, accrue notional dividend interest at a rate of 12.25% per annum.

On a distribution of assets of *eircom* Group plc among its members on a winding up of *eircom* Group plc (or other return of capital other than a redemption or purchase by *eircom* Group plc of its own shares) the holders of Convertible Preference Shares are entitled (such entitlement ranking after the rights of holders of Redeemable Preference Shares and Trancheable Redeemable Preference Shares and ranking in priority to the rights of holders of any other class of share) to receive an amount equal to the aggregate amount of any unpaid arrears or accruals of the dividend (including any notional dividend interest that has arisen on unpaid dividends), whether earned or declared or not, calculated up to and including the date of redemption, sale or return of capital or, as the case may be, the date of commencement of winding up, plus the deemed subscription price of that Convertible Preference Share (the "CPS Redemption Amount").

Holders of Convertible Preference Shares are entitled to receive notice of and to attend and speak at but not to vote at general meetings of *eircom* Group plc.

*eircom* Group plc has the option to redeem some or all of the Convertible Preference Shares by giving notice to the holders thereof on or within 30 days after an offer to acquire the whole or any part of the issued share capital of *eircom* Group plc, as a result of which the offeror will acquire the right to cast more than 50% of the votes which may ordinarily be

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

cast at a general meeting, is declared unconditional in all respects. *eircom* Group plc has the option to redeem some or all of the Convertible Preference Shares by giving notice to the holders thereof, unless the holders of Convertible Preference Shares have first notified the Company of their election for redemption or conversion, at any time on or after 2 November 2013.

The holders of Convertible Preference Shares have the option to redeem some or all of the Convertible Preference Shares by notifying *eircom* Group plc on or within 30 days after an offer to acquire the whole or any part of the issued share capital of *eircom* Group plc, as a result of which the offeror will acquire the right to cast more than 50% of the votes which may ordinarily be cast at a general meeting, is declared unconditional in all respects.

The holders of Convertible Preference Shares have the option to redeem some or all of the Convertible Preference Shares at any time on or after 2 November 2013 by giving the Company notice.

The holders of the Convertible Preference Shares have the option to convert, in aggregate, up to 14,416,667 Convertible Preference Shares into Ordinary Shares on the first eleven conversion dates (the first such date being 30 March 2005 and, thereafter, falling at 6 monthly intervals until 29 September 2010), and to convert 14,416,663 Convertible Preference Shares into Ordinary Shares on the last conversion date, such conversion to be made on a pro rata basis amongst holders of Convertible Preference Shares.

The number of Ordinary Shares into which any Convertible Preference Share shall convert is calculated by dividing the CPS Redemption Amount of that Convertible Preference Share by the volume weighted average price of an Ordinary Share on the relevant conversion date, Deferred Conversion Date (see below) or on 2 November 2013 (as appropriate).

Any conversion of Convertible Preference Shares into Ordinary Shares on a Conversion Date, Deferred Conversion Date (see below) or on 2 November 2013 (as appropriate) is limited so that no holder of Convertible Preference Shares would (together with persons acting in concert with him) hold, following conversion, more than a cap of 29.9% of the Ordinary Shares in issue on that date. Furthermore, if on a Conversion Date or a deferred conversion date or on 2 November 2013 the volume weighted average price of the Ordinary Shares on that date falls below 85% of the Offer Price (the "Floor Price"), no Convertible Preference Shares will convert on that date (the "Floor Price Restriction").

On 2 November 2013, to the extent that any Convertible Preference Shares remain in issue and these shares have been prevented from converting on the correct deferred conversion date due to either the operation of the Floor Price Restriction or the existence of a non-routine close period, the holders of such shares shall have the option to convert them into Ordinary Shares (again, subject to the 29.9% Cap and the Floor Price Restriction). If, at any time after 2 November 2013, such option is not exercised and the holders of Convertible Preference Shares have not elected to redeem the Convertible Preference Shares then in issue, *eircom* Group plc will have the option to convert or redeem such shares.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

#### (d) *Trancheable Redeemable Preference Shares*

Holders of Trancheable Redeemable Preference Shares are entitled (such entitlement ranking in priority to the rights of holders of Convertible Preference Shares, Ordinary Shares, Sterling Deferred Shares and Non-Voting Deferred Shares and ranking equally with the rights of holders of any of the Trancheable Redeemable Preference Shares and Redeemable Preference Shares) to a preferential cash dividend on the first date in any financial year of *eircom* Group plc, following the date on which the shares are issued or arise on conversion, on which such holders notify *eircom* Group plc in writing of their wish for a dividend to be declared and paid and on up to a maximum of four other dates falling in each financial year. The dividend is calculated by apportioning the aggregate interest received by *eircom* Group plc on the funds standing to the credit of the designated bank account for such shares (less the aggregate taxation and/or costs or expenses suffered or incurred by *eircom* Group plc in respect of such interest) and the aggregate amount of dividends previously paid by *eircom* Group plc to the holders of the Trancheable Redeemable Preference Shares.

On a distribution of assets of *eircom* Group plc among its members on a winding up of *eircom* Group plc (or other return of capital other than a redemption or purchase by *eircom* Group plc of its own shares) the holders of the Trancheable Redeemable Preference Shares are entitled (such entitlement ranking in priority to the rights of holders of Convertible Preference Shares, Ordinary Shares, Sterling Deferred Shares and Non-Voting Deferred Shares and ranking equally with the rights of holders of any other Trancheable Redeemable Preference Shares and Redeemable Preference Shares) to receive an amount equal to the subscription price of each Trancheable Redeemable Preference Share (less any capital duty payable by *eircom* Group plc on the issue of such share) plus the aggregate interest received by *eircom* Group plc on the funds standing to the credit of the designated bank account for such tranche (less the aggregate taxation and/or costs or expenses suffered or incurred by *eircom* Group plc in respect of such interest) less any amount declared and/or distributed or payable by way of dividend or capitalised in respect of any bonus issue or distributed upon any repayment or reduction of capital in respect of such Trancheable Redeemable Preference Share (the "Trancheable Redeemable Preference Amount").

Holders of Trancheable Redeemable Preference Shares are not entitled to receive notice of or to attend, speak or vote at general meetings of *eircom* Group plc.

*eircom* Group plc is required to redeem some or all of the Trancheable Redeemable Preference Shares which at any time have been appropriated to the Beneficiaries, provided that the applicable Release Date (as defined in the ESOT Trust Deed and/or APSS Trust Deed) has passed, and *eircom* Group plc has received notice, in accordance with the Articles, from the holder of the Trancheable Redeemable Preference Shares. *eircom* Group plc has the option to redeem some or all of the Trancheable Redeemable Preference Shares at any time after 2 November 2013.

#### (e) *Sterling Deferred Shares*

The holders of Sterling Deferred Shares are not entitled to any dividend. On a distribution of assets of *eircom* Group plc among its members on a winding up of *eircom* Group plc (or other return of capital other than a redemption or purchase by *eircom* Group plc of its own shares) the holders of the Sterling Deferred Shares are entitled (such entitlement ranking after the rights of holders of Redeemable Preference Shares, Trancheable Redeemable

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 20. Share Capital – continued

Preference Shares and Convertible Preference Shares and in priority to the rights of holders of Ordinary Shares and Non-Voting Deferred Shares) to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each Sterling Deferred Share.

The holders of Sterling Deferred Shares are not entitled to receive notice of or to attend, speak or vote at general meetings of *eircom* Group plc.

Subject to the Act, *eircom* Group plc has the option to redeem at any time some or all Sterling Deferred Shares (provided that such shares are credited as fully paid) at a price not exceeding £1 for all of the Sterling Deferred Shares redeemed at any one time.

#### (f) *Non-Voting Deferred Shares*

The holders of Non-Voting Deferred Shares are not entitled to any dividend. On a winding up of *eircom* Group plc or other return of capital, the holders of Non-Voting Deferred Shares are entitled to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each Non-Voting Deferred Share, only after repayment to the holders of Ordinary Shares of the nominal amount paid up thereon and the payment of €1,000,000 on each Ordinary Share.

Holders of Non-Voting Deferred Shares are not entitled to receive notice of or to attend, speak or vote at general meetings of *eircom* Group plc.

*eircom* Group plc has the option to redeem at any time some or all Non-Voting Deferred Shares in issue (save for any of such Non-Voting Deferred Shares which were created on the conversion of shares which were not created as redeemable shares) at a price not exceeding one cent for all of the Non-Voting Deferred Shares redeemed at any one time.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 21. Reserves

Group	Share Premium Account €'m	Revaluation Reserve €'m	Capital Redemption Reserve €'m	Group Merger Reserve €'m	Others Reserves €'m	Profit and Loss Account €'m
At beginning of year	539	7	-	-	-	(149)
Surplus on nominal value of shares issued	-	-	-	180	-	-
Loss for the financial year	-	-	-	-	-	(531)
Revaluation surplus	-	87	-	-	-	-
Transfer on realisation of revalued assets	-	(3)	-	-	-	3
Premium arising on issue of shares	317	-	-	-	-	-
Expenses payable in respect of shares issued	(66)	-	-	-	-	-
Share options granted	-	-	-	-	8	-
Transfer to capital redemption reserve on redemption of shares	-	-	33	-	-	(33)
Premium on redemption of shares	(4)	-	-	-	-	(35)
Bonus issue and cancellation of shares	(539)	-	-	-	-	539
At end of year	247	91	33	180	8	(206)

Company	Share Premium Account €'m	Revaluation Reserve €'m	Capital Redemption Reserve €'m	Merger Reserve €'m	Others Reserves €'m	Profit and Loss Account €'m
At beginning of year	-	-	-	-	-	-
Surplus on nominal value of shares issued	-	-	-	700	-	-
Loss for the financial year	-	-	-	-	-	(340)
Premium arising on issue of shares	317	-	-	-	-	-
Expenses payable in respect of shares issued	(66)	-	-	-	-	-
Share options granted	-	-	-	-	8	-
Transfer to capital redemption reserve on redemption of shares	-	-	33	-	-	(33)
Premium on redemption of shares	(4)	-	-	-	-	(35)
Transfer to Profit and Loss Account on impairment of Investments	-	-	-	(512)	-	512
At end of year	247	-	33	188	8	104

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 22. Profit of Holding Company

As permitted by Section 230 of the Companies Act 1985 the parent company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation, including dividend receivable and before dividends payable, was €122 million.

### 23. Amounts in Group Cash Flow Statement

Amounts included in the group cash flow statement are reconciled or analysed as follows: -

#### (a) Net Cash Flow from all Operating Activities

	2004 €'m	2003 €'m
Operating profit	118	85
Depreciation, impairment and amortisation	444	437
Amortisation of pension surplus	16	16
Cash flows relating to fundamental restructuring, business exits and other provisions	(59)	(63)
Non-cash exceptional charges	3	10
Cash flows relating to prior year exceptional charges	(8)	(7)
<b>Working Capital</b>		
Decrease in stocks	-	4
Decrease in creditors	(32)	(127)
Decrease in debtors	8	142
<b>Net cash inflow from operating activities</b>	<b>490</b>	<b>497</b>

#### (b) Return on Investment and Servicing of Finance

	2004 €'m	2003 €'m
Interest received	4	24
Interest paid	(146)	(161)
Debt issue cost paid	(75)	(3)
Non-equity dividends paid	(61)	-
	<b>(278)</b>	<b>(140)</b>

#### (c) Taxation

	2004 €'m	2003 €'m
Corporation tax refund received	-	17
Corporation tax paid	(14)	(13)
	<b>(14)</b>	<b>4</b>

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 23. Amounts in Group Cash Flow Statement – continued

#### (d) Capital Expenditure and Financial Investment

	2004 €'m	2003 €'m
Payments to acquire tangible fixed assets	(209)	(197)
Repayment from/(payment to) ESOT	50	(50)
Movement in restricted cash balance (net)	(70)	-
Receipts from disposal of fixed assets	1	8
Capital grants received	1	-
	(227)	(239)

#### (e) Acquisitions and disposals

	2004 €'m	2003 €'m
Purchase of subsidiary undertakings	-	(9)
Disposal of subsidiary undertakings	-	3
Receipt in respect of assets held for resale	-	191
Cash disposed with subsidiary undertakings	(1)	-
	(1)	185

#### (f) Financing

	2004 €'m	2003 €'m
Repayment of loan capital	(2,230)	(181)
Issue of senior and subordinated notes	1,060	-
Additions to loan capital	1,250	-
Issue of share capital (gross)	370	-
Expenses paid in respect of shares issued	(32)	-
Redemption of preference shares	(76)	-
Capital element of finance lease payments	-	(1)
Net cash inflow/(outflow) from financing	342	(182)

#### (g) Analysis of Net Debt

	At 31 March 2003 €'m	Cashflow €'m	Other €'m	At 31 March 2004 €'m
Cash at bank and in hand	440	(88)	-	352
Overdrafts	(1)	-	-	(1)
	439	(88)	-	351
Debt due within one year	(105)	105	-	-
Debt due after one year	(2,125)	(185)	47	(2,263)
	(1,791)	(168)	47	(1,912)

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 24. Post Balance Sheet Events

#### Changes to Share Capital

The following changes to the share capital of the company have occurred between 31 March 2004 and 28 June 2004:

- 62,310,188 Trancheable Redeemable Preference Shares of €0.50 each were redeemed at a premium in accordance with their terms;
- 805,322 Redeemable Preference Shares of €0.50 each were redeemed at a premium in accordance with their terms;
- 394,780 Options over ordinary shares have been exercised.

### 25. Principal Subsidiary and Associated Undertakings

Subsidiary Companies	Interest in Ordinary Shares at 31 March 2004	Business	Registered Office and Country of Incorporation
Valentia Telecommunications (an unlimited public company)	100%	Holding Company	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom Funding (an unlimited public company)	100%	Financing Company	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom Limited	100%	Provision of telecommunications and related services	114 St. Stephen's Green West, Dublin 2, Ireland.
Irish Telecommunications Investments Limited	100%	Telecommunications Financing and Treasury Management	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom (U.S.) Limited	100%	Marketing of Telecom Services in U.S.A.	114 St. Stephen's Green West, Dublin 2, Ireland.
Eirtrade Services Limited	100%	Provision of Electronic Trading Services	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom Phonewatch Limited	100%	Installation, Monitoring and Maintenance of Residential Security Systems	114 St. Stephen's Green West, Dublin 2, Ireland.
Indigo Group Limited	100%	Provision of Internet Services	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom UK Limited	100%	Provision of Telecommunications and Related Services	South Quay Plaza II, 183 Marsh Wall, London E14 9SH, United Kingdom.
Lan Communications Limited	100%	Systems Integrator	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom Investments BV	100%	Investment Holding Company	Strawinskylaan 3105 1077 ZX, Amsterdam, The Netherlands.
Eircable Limited	100%	Investment Holding Company	114 St. Stephen's Green West, Dublin 2, Ireland.
eircom Holdings Limited	100%	Investment Holding Company	114 St. Stephen's Green West, Dublin 2, Ireland.
Continuous Communications Systems Limited	100%	Communications Contractors	114 St. Stephen's Green West, Dublin 2, Ireland.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 25. Principal Subsidiary and Associated Undertakings – continued

Subsidiary Companies	Interest in Ordinary Shares at 31 March 2004	Business	Registered Office and Country of Incorporation
<i>eircom</i> (Infonet Ireland) Limited	100%	Provision of Global Data Services	114 St. Stephen's Green West, Dublin 2, Ireland.
GoFree Limited	100%	Property Investment Company	114 St. Stephen's Green West, Dublin 2, Ireland.
Topsource Recruitment Limited	100%	Employment Agency	114 St. Stephen's Green West, Dublin 2, Ireland.
<i>eircom</i> Net BV	100%	Investment Holding Company	Strawinskylaan 3105 1077 ZX, Amsterdam, The Netherlands.
<i>eircom</i> International Networks Limited	100%	Provision of Telecommunications and Related Services	114 St. Stephen's Green West, Dublin 2, Ireland.

Associated undertakings	Interest in Ordinary Shares at 31 March 2004	Business	Registered Office and Country of Incorporation
<i>eircom</i> Enterprise Fund Limited	50%	Seed Capital Company and Early Stage Fund Company	114 St. Stephens Green West Dublin 2, Ireland.
Beacon Integrated Solutions Limited	49%	Information Technology Consultancy	Howley's Quay, Limerick, Ireland.
Telecom Engineering Services Limited	35%	Telecommunications Engineering Services	Unit 14, Cherry Orchard Industrial Estate, Dublin 10, Ireland.
Altion Limited	33%	Telecommunications Software Solutions	AIB Investment Building, Percy Place, Dublin 4, Ireland.
Buy4Now Limited	22%	E-commerce Software Developer	9 The Mall, Beacon Road, Sandyford Industrial Estate, Dublin 18, Ireland.

Telecom Engineering Services Limited has a financial year ending on 31 July 2003.

### 26. Employees

The average number of persons employed by the group during the year was as follows:-

	31 March 2004	31 March 2003
Fixed line network and other communications		
Operations/Technical	5,335	5,700
Sales/Customer Support	2,439	2,871
Administration	532	558
<b>Total</b>	<b>8,306</b>	<b>9,129</b>

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 27. Pensions

(a) The group's pension commitments are funded through separately administered Superannuation Schemes and are principally of a defined benefit nature. The total group pension charge, including contributions and amortisation of the pension surplus, in respect of the year ended 31 March 2004 was €41 million (2003: €41 million). In respect of the principal scheme, the contributions represent a rate of 8.2% of pensionable emoluments, as advised by the group's Actuaries. The results for the year ended 31 March 2004 include amortisation of €16 million (2003: €16 million) in respect of a pension surplus of €208 million, arising on the Valentia Telecommunications acquisition of *eircom* limited.

The last Actuarial Valuation of the principal scheme was carried out, using the attained age method, as at 31 March 2002 by Mercer Human Resource Consulting who are actuaries to the Scheme but are neither officers nor employees of the group.

The actuarial method used involved determining an appropriate future group contribution rate designed to fund the projected liabilities of the Scheme related to service subsequent to 1 January 1984 over the remaining working lifetime of the current members. The primary financial assumption underlying the actuarial valuation was that the Scheme's investments will earn a real rate of investment return, over and above salary inflation and pension increases, of 2.5% per annum. At the date of the last actuarial valuation, the market value of the pension scheme assets was €2,065 million and the actuarial valuation of the assets attributable to the pension fund was sufficient to meet more than 100% of the value of the scheme's accrued liabilities making due allowance for future increases in salaries and pensions.

The actuarial report is available for inspection by the members of the scheme at 114 St. Stephen's Green West, Dublin 2. The actuarial report is not available for public inspection.

(b) The Irish Minister for Finance is responsible for meeting and discharging the liability of: (i) the pension costs of former staff of the Irish Department of Posts and Telegraphs who retired or died before the vesting Day (1 January 1984); (ii) costs in respect of the pension entitlements, related to pre-vesting day reckonable service, of staff who transferred to *eircom* from the Irish Civil Service. Such benefit payments are made from the *eircom* Number 2 Pension Fund, which was established in March 1999 and received a contribution of €1,016 million from the Irish Minister for Finance in accordance with arrangements set out in the *eircom* Superannuation (Amendment) Scheme, 1999. However, the Minister retains liability for these payments.

(c) Financial Reporting Standard 17 'Retirement Benefits' disclosures

An actuarial valuation of the principal group scheme as at 31 March 2002, was updated at 31 March 2003 and 31 March 2004, for Financial Reporting Standard 17 disclosure purposes by a qualified independent actuary. The main financial assumptions used in the valuation were:

	2004	2003	2002
Rate of increase in salaries	3.50%	3.50%	4.00%
Rate of increase in pensions in payment	3.50%	3.50%	4.00%
Discount rate	5.00%	5.50%	6.10%
Inflation assumption	2.25%	2.25%	2.25%

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 27. Pensions – continued

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2004	Market Value at 31 March 2004 €'m	Long-term rate of return expected at 31 March 2003	Market Value at 31 March 2003 €'m	Long-term rate of return expected at 31 March 2002	Market Value at 31 March 2002 €'m
Equities	7.50%	1,419	7.75%	1,027	8.00%	1,479
Bonds	4.50%	248	4.75%	294	5.00%	349
Cash	3.00%	67	3.00%	60	3.50%	98
Property	6.00%	334	6.25%	309	6.50%	240
		2,068		1,690		2,166

The following amounts at 31 March 2004, 31 March 2003 and 31 March 2002 were measured in accordance with the requirements of Financial Reporting Standard 17:

	2004 €'m	2003 €'m	2002 €'m
Total market value of assets	2,068	1,690	2,166
Present value of scheme liabilities	(2,360)	(2,015)	(1,807)
(Deficit)/Surplus in the scheme	(292)	(325)	359
Related deferred tax asset/(liability)	36	41	(45)
Net pension (liability)/asset	(256)	(284)	314

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserves at 31 March 2004, 31 March 2003 and 31 March 2002 would be as follows:-

	2004 €'m	2003 €'m	2002 €'m
Net assets excluding FRS 17 pension (liability)/asset	549	757	812
Net FRS 17 Pension (liability)/asset	(256)	(284)	314
Liability already recognised in financial statements (net of deferred taxation)	64	51	32
Pension asset already recognised in financial statements (net of deferred taxation)	(155)	(168)	(182)
Net assets including pension (liability)/asset	202	356	976
Profit and loss reserves excluding pension (liability)/asset	(206)	(149)	(87)
Net FRS 17 Pension (liability)/asset	(256)	(284)	314
Liability already recognised in financial statements (net of deferred taxation)	64	51	32
Pension asset already recognised in financial statements (net of deferred taxation)	(155)	(168)	(182)
Profit and loss reserves including pension (liability)/asset	(553)	(550)	77

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 27. Pensions – continued

The following amounts would have been recognised in the performance statements for the year ended 31 March 2004 and 31 March 2003 under the requirements of FRS 17.

	2004 €'m	2003 €'m
<b>Operating profit</b>		
Current service cost	40	36
Past service cost	-	8
	40	44
	2004 €'m	2003 €'m
<b>Other finance income</b>		
Expected return on pension scheme assets	114	154
Interest on pension scheme liabilities	(111)	(112)
	3	42
	2004 €'m	2003 €'m
<b>Statement of total recognised gains and losses</b>		
Actual return less expected return on pension scheme assets	292	(623)
Changes in assumptions underlying the present value of the scheme liabilities	(211)	(34)
Experience gains and losses arising on the pension scheme liabilities	(32)	(47)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	49	(704)
	2004 €'m	2003 €'m
<b>Movement in surplus/(deficit) during the year</b>		
(Deficit)/surplus in scheme at beginning of year	(325)	359
Current service cost	(40)	(36)
Contributions paid	21	22
Past service costs	-	(8)
Other finance income	3	42
Actuarial gain/(loss)	49	(704)
Deficit in scheme at end of year	(292)	(325)
	2004 €'m	2003 €'m
<b>Experience gains and losses for the year</b>		
Difference between the expected returns and actual return on scheme assets	292	(623)
Percentage of scheme assets	14%	(37%)
Experience gains and losses on scheme liabilities	(32)	(47)
Percentage of the present value of scheme liabilities	(1%)	(2%)
Total recognised in statement of total recognised gains and losses	49	(704)
Percentage of the present value of scheme liabilities	2%	(35%)

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 27. Pensions – continued

Only two years information is included in relation to the experience gains and losses as this represents all of the data available since the adoption of the transitional arrangements under FRS 17 by the group.

### 28. Operating Lease Commitments

At 31 March 2004 the group had annual commitments in respect of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The analysis of the group's annual commitments is as follows:-

	2004		2003	
	Property €'m	Vehicles plant and equipment €'m	Property €'m	Vehicles plant and equipment €'m
Annual commitments under non-cancellable operating lease expiring:				
Within one year	-	1	-	1
Within two to five years	-	2	-	2
After five years	22	-	22	-
	22	3	22	3

### 29. Contingent Liabilities

#### Regulatory Compliance Matters

On 17 October 2002, the Commission for Communications Regulation ("ComReg"), the Irish regulator for telecommunications, determined that the group was not in compliance with its 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 the group's discount schemes and published prices. No penalties were levied on the group as a result of this review. By agreement with ComReg and at its direction, the group put internal controls in place that the group believe will prevent this from re-occurring and an independent audit of these internal controls has been conducted. The final audit findings report including management comments, *eircom* Limited's Statement of Compliance and an unqualified audit opinion were submitted to ComReg on 30 January 2004. If ComReg concludes that the group is not complying with its obligations, ComReg could begin an enforcement action. If the group is found to be in violation of applicable laws and regulations, it may become subject to substantial criminal and civil penalties and fines.

Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court in December 2002 against the group, seeking damages including punitive damages resulting from the matters that were the subject of the ComReg decision. The group submitted its defence on 26 January 2004. 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 budget growth (€25 million) and loss of revenue on the plaintiffs' pricing (€5 million). The Directors do not believe that these figures represent damages which would be properly recoverable from the group even if it had a liability to the plaintiffs, which is denied by the group in the proceedings. The particulars also include further unquantified damages. The Directors intend to defend the proceedings vigorously.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 29. Contingent Liabilities – continued

#### Demerger of the Eircell Mobile business

Consequent on the Demerger of Eircell in May 2001, the group has given certain warranties and indemnities to Eircell 2000 plc and Vodafone Group plc, some of which are subject to various limitations. The group has also given indemnities to Vodafone Group plc, unlimited in time and quantum, in relation to the efficacy of the Demerger. Except for certain warranties relating to taxation and the indemnities in relation to the efficacy of the Demerger (in respect of which the liability of the group is unlimited in quantum), the liability of the group for breach of the warranties is limited to €500 million. The group has no liability in respect of claims under the warranties unless and until the amount of such claims, excluding claims which are for amounts less than €250,000 each, exceeds €25 million, in which event Vodafone Group plc are entitled to recover the full value of the claims including claims previously notified.

*eircom* Limited has undertaken that it will not take any action, other than in the ordinary course of business, which would have the effect of reducing the net asset value of its assets below €200 million at any time up to 27 May 2005 without the prior consent of Vodafone.

*eircom* Limited has covenanted that it will not, and will procure that no other member of its group or person, firm or Company carrying on the fixed line business of *eircom* Limited in succession to *eircom* Limited ("*eircom* transferee") will not, for a period of three years following the completion of the Vodafone Offer (i.e. up to 13 May 2004), carry on any mobile telecommunications business in competition with the business conducted by Eircell Limited (now Lercie Limited) and its subsidiaries as at 21 December 2000 nor have any significant financial interest in such business.

*eircom* Limited has agreed certain other indemnities in relation to costs and liabilities. The Directors are not aware of any such liabilities which would have a material effect on the group's financial position.

#### Exit from Golden Pages

The group has given certain warranties to Promedia GCV following the exit from Golden Pages. The liability period for non-tax warranties has expired. The group has also given certain taxation indemnities and undertakings, which are generally subject to a cap of €10 million.

#### Disposal of Cablelink

The group gave various tax and other warranties and indemnities to NTL Communications Corporation in connection with the disposal of its shareholding in Cablelink Limited in July 1999. The liability period for non-tax warranties has expired. Notice of any breach in respect of tax warranties must be given by 9 July 2006 and the group's liability is capped at approximately €500 million.

#### Other

Other than disclosed above, a number of other lawsuits or claims arise in the normal course of business. While any litigation has an element of uncertainty, the directors believe that there were no other contingent liabilities which would have a material adverse effect on the group's financial position.

In the normal course of business, the group has entered into contracts involving the exchange or purchase and sale of foreign currencies and various performance bonds. No material losses are expected in respect of these transactions other than losses for which provision has been made in the financial statements.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 30. Guarantees

#### Senior Credit Facility

The Senior Credit Facility consists of a €1.4 billion credit facility which has the benefit of guarantees of all amounts payable by a borrower under the terms of the Senior Credit Facility. The Senior Credit Facility and its related guarantee are secured, amongst other things, by a charge of the shares in *eircom* Limited and ITI and a fixed and floating charge over the assets (subject to some exceptions) of Valentia Telecommunications, *eircom* Limited and ITI.

The borrowers under the Senior Credit Facility are Valentia Telecommunications and *eircom* Limited. Valentia Telecommunications is the borrower of the €1.250 billion term loan facility and *eircom* Limited is a borrower under the €150 million revolving credit facility, which is currently undrawn.

The obligations of Valentia Telecommunications, *eircom* Limited and ITI under the Senior Credit Facilities are guaranteed by Valentia Telecommunications, *eircom* Limited and ITI.

Valentia Telecommunications has granted a security interest over substantially all of its assets, including a fixed charge over all estates and freehold interests; benefits, rights, title and interest in contracts or leases; equipment; securities; intellectual property; insurance proceeds; debts, revenue and claims and accounts and a floating charge over all of its other undertakings and assets. In addition, the shares of *eircom* Limited have been charged in favour of Deutsche Bank AG London as security agent for the creditors under the senior credit facility.

*eircom* Limited and ITI have granted a security interest over substantially all of their assets, including a demise over their mortgaged property, fixed charges over all registerable mortgaged property; estates and freehold interests; benefits, rights, title and interest in contracts or leases; equipment; shares and derivative assets; securities; intellectual property; insurance proceeds; debts, revenue and claims; rights from the local authority under covenants, agreements or statute and accounts and a floating charge over all of its other undertakings and assets.

#### Senior Notes

There is a full and unconditional guarantee of all amounts of Senior Notes payable. This is a senior, unsecured obligation by *eircom* Limited, ranking equally in right of payment with all existing and future unsecured senior indebtedness of *eircom* Limited.

#### Senior Subordinated Notes

Both Valentia Telecommunications and *eircom* Limited have guaranteed all amounts payable in respect of all Senior Subordinated Notes. The Valentia Telecommunications guarantee is an unsecured, senior subordinated obligation which ranks junior in right of payment to all existing and future senior indebtedness of Valentia Telecommunications, including the Senior Credit Facility and the Senior Notes, and ranks at least equally in right of payment with any existing or future unsecured subordinated indebtedness of Valentia Telecommunications. The *eircom* Limited guarantee of all amounts payable under the Senior Subordinated Notes is an unsecured senior subordinated obligation which ranks junior in right of payment to all existing and future senior indebtedness of *eircom* Limited, including its obligation under the Senior Credit Facility, and ranks at least equally in right of payment with any existing or future unsecured subordinated indebtedness of *eircom* Limited. In addition, *eircom* Group plc has also guaranteed on a subordinated basis all amounts payable in respect of all Senior Subordinated Notes. The *eircom* Group plc guarantee is a general, unsecured subordinated obligation which ranks junior in right of payment to all existing and future senior indebtedness of *eircom* Group plc.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 31. Commitments

#### Preference Shares

The holders of certain preference shares have the right to require the company to redeem such shares at the redemption price and dates as set out in note 20 to the financial statements.

#### Capital Commitments

Capital commitments of the group, approved by the Board, amounted to €200 million (2003: €207 million) of which €29 million (2003: €17 million) was contracted for by the group at 31 March 2004.

### 32. Related Party Transactions

The company has availed of the exemption contained in Financial Reporting Standard 8 'Related Party Disclosures' in respect of subsidiaries, 90 per cent or more of whose voting rights are controlled within a group. Consequently the financial statements do not include disclosure of transactions with entities in the group.

#### 31 March 2004

During the financial year ended 31 March 2004, entities affiliated with Soros Private Equity Partners ("Soros"), to which at that time certain directors of the company were affiliated, were paid €0.3 million of arrangement fees in respect of commitments to subscribe for shares under certain circumstances. This amount was charged to the profit and loss account. There were no amounts outstanding at 31 March 2004.

During the financial year ended 31 March 2004, entities affiliated with Providence Equity Partners Inc ("Providence"), to which at that time certain directors of the company were affiliated, were paid €0.7 million of arrangement fees in respect of commitments to subscribe for shares under certain circumstances. This amount was charged to the profit and loss account. There were no amounts outstanding at 31 March 2004.

During the financial year ended 31 March 2004, Lionheart Ventures (Overseas) Limited, a company which Sir Anthony O'Reilly owns and controls, were paid €0.1 million of arrangement fees in respect of commitments to subscribe for shares under certain circumstances. This amount was charged to the profit and loss account. There were no amounts outstanding at 31 March 2004.

During the financial year ended 31 March 2004, A&L Goodbody, solicitors, a partnership that Paul Carroll, who was a director of Valentia Telecommunications and *eircom* Group plc up to 18 March 2004, is a partner of, provided legal services to the group. The total fees in respect of these services amounted to €5.8 million. During the year, costs of €1.5 million, in relation to the Reorganisation and Refinancing, were included as debt issue costs and costs of €3.1 million, in relation to the flotation were capitalised against share premium. The remaining costs incurred of €1.2 million were included in operating costs in the profit and loss account. At 31 March 2004, there was a balance due to A&L Goodbody solicitors of €3.4 million in respect of these costs. The amounts are stated exclusive of VAT.

During the financial year ended 31 March 2004, Lionheart Ventures (Overseas) Limited invoiced the group for costs of €0.5 million in relation to the Reorganisation and Refinancing of the group. These costs are included as debt issue costs. There were no amounts outstanding at 31 March 2004.

During the financial year ended 31 March 2004, Soros invoiced the group for costs of €1.8 million in relation to the Reorganisation and Refinancing of the group. These costs are included as debt issue costs. There were no amounts outstanding at 31 March 2004.

## Notes to the Financial Statements – continued

For the Year Ended 31 March 2004

### 32. Related Party Transactions – continued

During the financial year ended 31 March 2004, Providence invoiced the group for costs of €4.5 million in relation to the Reorganisation and Refinancing of the group. These costs are included as debt issue costs. There were no amounts outstanding at 31 March 2004.

During the financial year ended 31 March 2004, the ESOT, which controlled over 20% of the voting rights of *eircom* Group plc, reclaimed €3 million of professional fees that it incurred in relation to the Reorganisation and Refinancing of the group. These costs are included as debt issue costs. The ESOT also reclaimed €3 million of professional fees that it incurred in relation to the flotation of the group. These costs were capitalised against share premium. At 31 March 2004, there was a balance due to ESOT of €4.1 million in respect of these costs.

During the financial year ended 31 March 2004, €6.4 million of the payments to related parties in respect of the amounts included as debt issue costs have been charged to the profit and loss account as a result of the exceptional write off of certain debt issue costs and amortisation of debt issue costs included in the interest payable.

#### 31 March 2003

During the financial year ended 31 March 2003, A&L Goodbody solicitors, provided legal services to the group. The total fees in respect of these services amounted to €5.1 million. All of these costs were expensed in the year in the Profit and Loss Account.

During the financial year ended 31 March 2003, the ESOT was loaned €50 million by Valentia Telecommunications. This loan was unsecured, interest free and originally had a fixed repayment date within one year but this was extended to October 2003. The ESOT agreed to waive their dividend entitlements in relation to 474 ESOT preference shares for the duration of the ESOT loan from Valentia Telecommunications. This loan was repaid during the year ended 31 March 2004.

During the financial year ended 31 March 2003, Lionheart Ventures (Overseas) Limited, was paid €0.2 million of arrangement fees in respect of commitments to subscribe for shares under certain circumstances. This amount was charged to the profit and loss account. There were no amounts outstanding at 31 March 2003.

During the financial year ended 31 March 2003, Soros were paid €0.7 million of arrangement fees in respect of commitments to subscribe for shares under certain circumstances. This amount was charged to the profit and loss account. There were no amounts outstanding at 31 March 2003.

During the financial year ended 31 March 2003, Providence were paid €1.7 million of arrangement fees in respect of commitments to subscribe for shares under certain circumstances. This amount was charged to the profit and loss account. There were no amounts outstanding at 31 March 2003.



## **Notes to the Financial Statements – continued**

For the Year Ended 31 March 2004

### **33. Approval of Financial Statements**

The financial statements were approved by the Board of Directors on 28 June 2004.



# Notes



**Notes**



# Notes

# Supporting Ireland

Every year, *eircom* supports a diverse range of activities in communities nationwide. These are some of the sports, social and business organisations we supported last year:

Football Association of Ireland

Exclusive Primary Sponsor of Irish soccer including: Senior National team (and all teams)

Title sponsor of the National League's Premier and First Division

Special Olympics Ireland

Special Olympics World Games, Ireland, June 2003

European Eventing Championships

The Irish Film and Television Awards 2003

Dublin Theatre Festival 2003

National Concert Hall

Business to Arts

Business in the Community

e-Week in association with Dublin Chamber of Commerce

Small Firms Association

The Ireland Funds

Communications supplier to Ireland's EU Presidency

World Association Newspaper Congress, Dublin

National Parents Council

People in Need Trust Including: Telethon 2004

Irish Cancer Society

Rape Crisis Centres

Athlone  
Castlebar  
Clonmel

Rape Crisis Centres

Cork  
Dublin  
Dundalk  
Galway  
Kerry  
Limerick  
Tullamore  
Waterford  
Wexford

Kilkenny Social Services

Muscular Dystrophy Ireland

Parkinsons Association of Ireland

Huntingtons Disease Association

Irish Motor Neurone Disease Association

ISPCC

The Samaritans



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