

HISTORICAL COST SEPARATED ACCOUNTS

**FOR THE YEAR ENDED
30 JUNE 2009**

**ACCOUNTING
DOCUMENTS**

Historical Cost Accounting Documents – 30 November 2009

Contents

	Page
Introduction	2
1. Regulatory Accounting Principles	8
2. Businesses	9
3. Attribution Methods	
3.1 Introduction	10
3.2 Businesses	11
3.3 Attribution Methodologies	12
3.4 Revenue	16
3.5 Costs	18
3.6 Mean Capital Employed	21
3.7 Apportionment of appropriated Network costs	24
3.8 Network transfer charges	27
3.9 Regulatory decisions	28
4. Transfer Charges	
4.1 Background and overview	29
4.2 Network charges	29
4.3 Transfer charges from the Core Network Business	30
4.4 Transfer charges from the Local Access Network Business	31
4.5 Public Payphones	32
4.6 Other intra-eircom transfer charges	32
4.7 Reporting of transfer charges	33
5. Historical Cost Accounting Policies	
5.1 Basis of Accounting	34
5.2 Basis of Consolidation	34
5.3 Goodwill	35
5.4 Intangible Assets	35
5.5 Revenue Recognition	36
5.6 Amounts paid and payable to other operators	37
5.7 Customer Acquisition Costs	37
5.8 Foreign Currencies	37
5.9 Taxation	38
5.10 Financial instruments	38
5.11 Property Plant and Equipment	39
5.12 Impairment	40
5.13 Leased Assets	40
5.14 Inventories	40
5.15 Trade Receivables	41
5.16 Cash and Cash Equivalents	41
5.17 Indefeasible Rights of Use	41
5.18 Employee Benefits	41
5.19 Provisions	42
5.20 Share Capital	43
5.21 Dividend Distribution	43
5.22 Financial Guarantee Contracts	43
5.23 Construction Contracts	43
5.24 Exceptional Items	44
Appendix	
A.1 Definition of Local Access Network Elements	45

Introduction

eircom is required, under Condition 15 of the General Telecommunications Licence (“the Licence”), dated 1 December 1998, granted by the Office of the Commission for Communications Regulation (“ComReg”) to eircom, to maintain accounting records in a form which enables the activities of any business unit specified in any direction given by the Director of Telecommunications Regulation (“the Director”) to be separately identifiable, and which the Director considers to be sufficient to show and explain the transactions of each of these business units.

Directive 97/33/EC of the European Parliament, as enacted into Irish law by Statutory Instrument No. 15 of 1998, establishes the legal and regulatory framework for the interconnection of telecommunication networks within the EU, including a requirement for accounting separation. The requirements on electronic communications network providers are now imposed under Regulation 24 of S.I. No. 307 2003 and Regulation 12 of S.I. No.305 of 2003.

The detailed framework and Financial Statement disclosure has been set out in ComReg Decision Notices D5/99 & D10/99 ‘Accounting Separation and Publication of Financial Information for Telecommunication Operators’, dated May 1999 & August 1999 respectively, D8/99 ‘Costing methodologies for use in Accounting Separation’, dated July 1999, D9/00 and D10/00 ‘Accounting Separation and Publication of Financial Information for Telecommunication Operators’, dated August 2000 and September 2000 respectively, D7/01 ‘Accounting Separation and Publication of Financial Information for Telecommunication Operators’, dated April 2001, D12/01 ‘Revision of Timetable for Publication of Separated Accounts and Financial Information by eircom’, dated August 2001, D3/03 ‘Review of Price Cap on Certain Communication Services’ dated February 2003 and D01/08 ‘eircom’s Cost of Capital’ dated 22 May 2008 (“the Decision Notices”).

Financial Statements have to be prepared for the following Businesses and, where applicable, Activities within the Businesses:-

Business	Activities
Local Access Network	Not applicable
Core Network	Not applicable
Retail	Access Local Calls National Calls International Calls Calls to Mobile Directory Enquiry Leased Lines Public Payphones Calls to Internet Internet Services Supply Supplemental Services Remaining Activities
Other Business	Apparatus Supply Other Remaining Activities Meteor Other Subsidiaries

The full definition of the Businesses and Activities are set out on pages 4 to 7.

The Financial Statements are prepared in accordance with the Accounting Documents which set out the framework under which the statements have been prepared.

The Accounting Documents are made up of the following:-

1. Regulatory Accounting Principles - which lay out the general rules by which the Financial Statements should be prepared, for example that all balances should be attributed with reference to cost causality.
2. Attribution Methods - which explain how revenue, costs including transfer charges, assets and liabilities are attributed to the Businesses and Network Elements and Activities within those Businesses, following the Regulatory Accounting Principles, on a fully allocated basis.
3. Transfer Charges – which explain how charges are raised from the Core Network and Local Access Network Businesses to the Retail Business for its use of the respective networks.
4. Accounting Policies - which detail the accounting policies adopted in preparing the underlying financial information.

This introduction does not form part of the Accounting Documents.

eircom Accounting records

eircom is a unitary business having one network with support functions. It consists of a number of customer facing divisions and divisions responsible for providing customers with telephony services, maintaining the core switching and transmission networks, and providing and maintaining customer connections to this network. A number of additional services are supplied by subsidiary companies which maintain separate accounting records.

eircom records its transactions in its accounting records in accordance with statutory and legal requirements and Generally Accepted Accounting Principles. Within these records detailed data is maintained in respect of the manner in which the transactions have arisen. Assets, liabilities, income and costs are recorded by type.

For those cost types that are of a "direct" nature, such as provision and installation cost, there is a system for recording time and items, such as stores, to a range of sub-accounts, known as "appropriation codes". These appropriation codes describe the type of equipment being maintained, installed or more generally supported, in further detail. It is therefore possible, for example, to identify separately the direct pay costs and related stores costs incurred in the maintenance of exchanges.

For those cost types of an indirect nature, costs are booked to 'non-appropriated codes' on a cost centre basis. These costs are mapped to one of forty seven expenditure headings (refer to section 3.5.1). These expenditure headings are allocated into seven business processes, six support processes and one strategic process.

Basis of Preparation of Financial Statements

The structure of the Businesses required under the Decision Notices (i.e. Local Access Network, Core Network, Retail and Other Business) does not correspond to the way in which the group is organised and hence the way the statutory accounting records are structured. The Financial Statements are therefore produced by overlaying the requirements of the Decision Notices on the statutory accounting record structure of eircom.

These Financial Statements are prepared by attributing the balances in eircom's general ledgers and other accounting records to the Businesses and disaggregated Activities (as amended by Directions published by ComReg). As required by the Decision Notices, wherever possible, revenue, costs, assets and liabilities are directly associated with a Business, Activity or Network element using information recorded within eircom's accounting records and are directly attributed to that item. Where no such direct attribution is possible, the revenue, costs, assets and liabilities are apportioned between two or more Activities, Network Elements or Businesses on a basis that reflects the causality of the revenue, cost, asset or liability. Residual costs for which no direct or indirect method of apportionment can be identified are allocated using an equal proportionate mark-up method. Details of this process are given in section 3.3.3 of the Attribution Methodologies section within these Accounting Documents.

Definitions of the Businesses**Local Access Network**

The Local Access Network provides connections to the Core Network both internally and externally. The accounts for the Local Access Network Business include the costs and capital employed associated with providing and maintaining these connections. For Accounting Separation, the Local Access Network Business includes all the customer-dedicated components of the network including, for example, the line cards and ports located at concentrators and/or exchanges. In respect of DSL, the Local Access Network Business includes all relevant equipment between the Main Distribution Frame (MDF) and the Internet Service Provider (ISP) point of presence. The Core Network Business includes all other network components. Customer line rental is a service provided by the Retail Business. The revenue from line rental and connections provided to eircom's retail customers is therefore recorded in the Retail Business. The cost of providing customer lines is recorded against the Local Access Network Business and a transfer charge of costs to the Retail Business is levied in order to match revenues with their associated costs. Costs charged to the Retail Business are based on the fully allocated costs of Local Access Network Elements including a cost of capital, set at 10.21% (2008: 11.36%), as directed by ComReg. The revenue from providing services on a wholesale basis to other authorised operators is included in the Local Access Network.¹

Core Network

The Core Network Business provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls. The revenue of the Core Network Business derives from the sale of interconnection services to the Retail Business of eircom and to other operators.

The Core Network also includes payments to other operators, dedicated transmission and capacity for leased lines and the provision of directory enquiry services. Costs charged to the Retail Business are based on the fully allocated costs of the Core Network including a cost of capital, as directed by ComReg.

¹ Appendix A.1 contains definitions of the revised Local Access Network Elements

Retail

The Retail business includes all those Activities involving the selling of telephony services to end-users, including, line rental and connection, leased lines, calls, payphones and the provision of directory information. The accounts for the Retail Business include the costs, revenues and capital employed associated with the provision of these services to end-users. The costs allocated to the Retail Business include the transfer charges related to the use of network resources or services provided by Local Access Network Business and the Core Network Business, and the marketing, billing and other costs associated with the provision of end-user services.

The disaggregated activities within the Retail Business are as follows:-

1. Access

The business relating to the supply of customer line connections and rental (PSTN, ISDN, DSL and VPN) and its associated costs.

2. Local Calls

Local (inland calls charged at local rates, including local calls to Northern Ireland, excluding calls to internet using geographic numbers) dialled calls originating from any telephone exchange line, including a public telephone exchange line.

3. National Calls

National (inland calls charged at national or regional call rates, including calls to Northern Ireland and excluding calls to internet using geographic numbers) dialled calls originating from any telephone exchange line, including a public telephone exchange line.

4. International Calls

International dialled calls (excluding calls to Northern Ireland) originating from any telephone exchange line, including a public telephone exchange line. Also includes international inpayments and callnet.

5. Calls to Mobile

Calls to national mobile telephones originating on any telephone exchange line, including a public telephone exchange line.

6. Directory Enquiry

Calls by eircom retail customers to Directory Enquiry Services (eircom and OAO), originating from any telephone exchange line, including a public telephone exchange line, whereby a telephone caller may be advised of telephone numbers of persons identified by the telephone caller.

7. Leased Lines

Business of connection, rental, maintenance, and provisioning of national and international leased lines, including Partial Private Circuits, which provide for transparent transmission capacity between network termination points and which do not include connection to the PSTN network.

8. Public Payphones

Local, national, international dialled calls and calls to mobile, originating from public payphones, using cash, phone cards or credit cards. Advertising revenue earned from public payphones and revenue from internet kiosks is also included as public payphone revenue.

9. Calls to Internet

Calls to non-geographic (1891,1892, excess 1893 minutes and equivalent numbers as and when brought into service) and geographic numbered internet service providers, originating from any ordinary exchange lines, excluding public telephone exchange lines and excluding periodic subscription charges.

10. Internet Services Supply

The business relating to the subscription for narrowband Internet services, including Internet related Value Added Services (VAS) such as online advertising, security products and web hosting for ISP customers.

11. Supplemental Services

The business relating to the supply of certain advanced data services. Examples of these services are BIP, Ethernet, Frame Relay and ATM.

12. Remaining Activities

All other telecommunications services that are within the Retail Business. This includes operator assistance, international and national Freephone calls (excluding those elements of freephone calls charged at local rates which are included in local calls), premium rate services, managed answering services, fixed SMS and VPN/IVPN & VOIP calls. This business also includes the costs associated with the provision of the 999 service to eircom retail customers for which no costs are charged to the customers.

Other Business

eircom provides a wide range of other services including mobile services and the rental, repair and maintenance of customer equipment. For the purposes of Accounting Separation, the costs, revenues and capital employed associated with these activities are separately identified.

The disaggregated activities within Other Business are as follows:-

1. Apparatus Supply

The business relating to the rental, maintenance and sale of customer premises equipment.

2. Other Remaining Activities

All other remaining activities such as gains on disposals of subsidiary undertakings, repayment works, IT Services, property related revenue, other Web hosting, eircom mobile and consultancy services.

3. Meteor

The business relating to the provision of mobile telephony services by Meteor Mobile Communications Limited ('Meteor').

4. Other Subsidiaries

Activities of eircom's subsidiaries including eircom's share of the activities of Tetra Ireland Communications Limited, a joint venture in which eircom holds an interest of 56%.

1. Regulatory Accounting Principles

The following Regulatory Accounting Principles are applied in the production of the Historical Cost Financial Statements, in the application of the Attribution Methods, the Transfer Charging system, and the Accounting Policies.

- **Priority:** within the Regulatory Accounting Principles, insofar as there is conflict between the requirements of any or all of these Principles, the Principles are to be applied in the same order of priority in which they appear in this document.
- **Definition:** Any word or expression used in the Accounting Documents shall, unless the context otherwise requires, have the same meaning as it has in the Licence.
- **Causality:** Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and businesses or disaggregated businesses in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.
- **Objectivity:** The attribution shall be objective and not intended to benefit the Significant Market Power (SMP) operator or any other operator, product, service, component, business or disaggregated business.
- **Consistency:** There shall be consistency of treatment from period to period. Where there are material changes to the Regulatory Accounting Principles, the Attribution Methods, or the Accounting Policies that have a material effect on the information reported in the Financial Statements of the Businesses, the parts of the previous year's Financial Statements affected by the changes shall be restated.
- **Transparency:** The Attribution Methods used should be transparent. Costs and revenues, which are allocated to Businesses or activities, shall be separately distinguished from those that are apportioned.

2. Businesses

In accordance with the Decision Notices, Financial Statements are produced for the following Businesses and, where applicable, Activities within those Businesses:

Business	Activities
Local Access Network	Not applicable
Core Network	Not applicable
Retail	Access Local Calls National Calls International Calls Calls to Mobile Directory Enquiry Leased Lines Public Payphones Calls to Internet Internet Services Supply Supplemental Services Remaining Activities
Other Business	Apparatus Supply Other Remaining Activities Meteor Other Subsidiaries

3. Attribution Methods**3.1 Introduction**

This document describes the Attribution Methodologies used to allocate fully eircom's revenue, costs, assets and liabilities to its Businesses and, where applicable, their disaggregated Activities and gives an explanation of the different methods used for attributing revenue, costs and capital employed. Cost types and the processes involved in their allocation or apportionment are described, showing how costs are treated from their initial appearance in eircom's accounting records to their ultimate attribution to Businesses, Activities or Network Elements. It explains both the system used to produce the Financial Statements and the methodologies employed in that system.

The purpose of Accounting Separation is to provide an analysis of information derived from financial records to reflect as closely as possible the performance of parts of a business as if they were operating as separate businesses. It is necessary for competing operators to have confidence that eircom is not discriminating between its own Retail Activities and competing operators or between one competitor and another when providing similar services.

The aim of Accounting Separation is to assist in ensuring that charges are cost-based, transparent and non-discriminatory. This in turn promotes a competitive environment in a number of ways, including:-

- a) the publication of accounts that are transparent and allow other operators to understand how eircom's revenues relate to costs;
- b) the Financial Statements data demonstrates that wholesale products and services are treated fairly and equitably, regardless of the purchaser of those products and services; and
- c) the publication of detailed cost statements showing the average cost build of products and services provided by an SMP operator will increase and raise the confidence of competitors that there is no anti competitive cross subsidisation.

The fundamental feature of this approach to attribution is the principle of causality. Each item of income, cost and capital employed recorded in the eircom Limited group accounts is attributed to the Activities and Network Elements which make up the separate Businesses defined under Accounting Separation.

Attribution Methodologies are regularly reviewed and enhancements introduced to reflect, for example, changing technologies while the apportionment bases, which are the practical application of these methods to actual values, are updated at least annually.

3.2 Businesses

Under Accounting Separation, Financial Statements are produced that show eircom's revenue, costs and capital employed attributed between the following Businesses:

Local Access Network Business

The Local Access Network Business provides the Retail Business with links between eircom's customers and the Core Network. The Local Access Network Business receives revenue from the eircom Retail Business in the form of a transfer charge equal to its costs plus a return on capital employed of 10.21% (2008: 11.36%). The Local Access Network Business also provides Other Authorised Operators with links between their customers and the Core Network. The Local Access Network Business receives revenue from Other Authorised Operators based on the regulated price to provide the service.

Core Network Business

The Core Network Business sells a range of network services to meet the differing needs both of Other Authorised Operators and the Retail Business. The Core Network Business receives revenue from the eircom Retail Business in the form of a transfer charge equal to its cost plus a return on capital employed of 10.21% (2008: 11.36%). The Core Network Business receives revenue from Other Authorised Operators based on the regulated price to provide the service.

Retail Business

The Retail Business is made up of a number of activities as follows:

- a) Access
- b) Local Calls
- c) National Calls
- d) International Calls
- e) Calls to Mobile
- f) Directory Enquiry
- g) Leased Lines
- h) Public Payphones
- i) Calls to Internet
- j) Internet Services Supply
- k) Supplemental Services
- l) Remaining Activities

Other Business

The Other Business is made up of a number of activities as follows:

- a) Apparatus Supply
- b) Other Remaining Activities
- c) Meteor
- d) Other Subsidiaries

3.3 Attribution Methodologies**3.3.1 Overview**

eircom's approach to attribution is to identify income and costs which can be directly attributed to Businesses, Activities or Network Elements. For all remaining items eircom identifies the appropriate driver for each item, and, as far as possible, uses objective operational and/or financial data relevant to that driver to generate apportionment bases.

This approach to the process of attribution of balances to Businesses, Activities and Network Elements can be summarised as follows:

- review each balance;
- establish the cost driver, i.e. the process that caused the cost to be incurred or the revenue to be earned;
- use the driver to allocate or apportion the balance to Retail Activities, the Local Access Network Business or, to the Core Network; and
- allocate revenue to Retail Activities, the Local Access Network Business or to the Core Network Business.

The general methods for revenue and cost attribution in Accounting Separation are set out below. The attribution of mean capital employed, which follows the same principles, is also described below.

3.3.2 Revenue

Revenue is recorded in the accounting records in such a manner that it is usually possible to allocate it directly to Retail Activities, to the Local Access Network Business, to the Core Network Business or to Other Businesses. Revenue is stated net of all discounts. Please refer to section 3.4 for further detail.

3.3.3 Costs

Costs are drawn from the accounting records. The methodologies applied to the costs, which vary according to the nature of the costs and the way in which they are recorded, are set out below.

3.3.3.1 Direct and directly attributable costs

Certain costs can be allocated to specific Businesses, Activities or Network Elements and, therefore, do not require apportionment. These costs include most of the costs directly related to customer-facing activities, such as maintenance of customer premises equipment. They also include directly appropriated and plant costs which relate solely to individual elements of the network. Some of these specific costs can be directly allocated to Network Elements, such as International Transmission.

3.3.3.2 Indirectly attributable costs

Other costs cannot be directly associated with particular Businesses, Activities or Network Elements, and require indirect apportionment. These costs include general costs of eircom's business units, which service various Businesses, Activities and Network Elements, which are recorded on a cost centre basis using the Activity Based Costing process outlined in section 3.5 below, where a specific apportionment base can be identified and measured.

The above cost type will also include other costs, such as the costs of transmission equipment, which are used to provide a number of network services. These costs are grouped and then apportioned to Network Elements using network statistics, surveys or other methods of analysis (see section 3.7).

3.3.3 Unattributable Costs

As stated above eircom utilises, wherever possible, objective data relating to cost drivers. There is, however, some expenditure for which no specific apportionment bases can be readily derived. These costs mainly represent central corporate overheads, such as the costs of central accounting and human resource functions. These costs are apportioned to Businesses, Activities and Network Elements using the equal proportionate mark-up method i.e. any individual Business will receive a proportionate allocation of unattributable costs equal to its proportionate allocation of attributable costs.

3.3.4 Mean Capital Employed

Mean Capital employed is defined, by eircom, as the mean of

(a) total assets, excluding goodwill, intangible assets arising on acquisitions (with the exception of software assets and licence fees), and Retirement Benefit Assets/Liabilities; less

(b) total liabilities excluding current and deferred tax liabilities, dividends payable and borrowings except to the extent those borrowings relate specifically to the funding requirements of an individual business.

Fixed assets are recorded by capital appropriation codes and can be segmented into three categories:

- 1) those assets that can be directly allocated to Businesses, Activities or Network Elements, e.g. satellite earth stations, which are directly attributable to the International Transmission Network Element;
- 2) assets relating to a group of Businesses, Activities and Network Elements which are apportioned on the basis of cost drivers, e.g. exchange line termination equipment asset classes, which provide both concentrating and switching functions and are thus apportioned both to the Local Access Network Business and various core switching Network Elements; and
- 3) assets of a general nature, for example, general mainframe computers or motor transport, where an appropriate apportionment base, derived from the attribution of the operating costs of that element, is applied.

For current assets and liabilities, those elements that can be directly attributed to Businesses, Activities and Network Elements (specific debtors, creditors and stock) are directly allocated; for the remainder appropriate apportionment bases are derived for each element.

Cash balances are attributed to Businesses, Activities and Network Elements on the basis of an analysis of operating and capital expenditure in those Businesses, Activities and Network Elements in the year.

Provisions are either allocated specifically to Businesses, Activities and Network Elements or are apportioned using a basis appropriate to the particular provision.

3.3.5 Non-Financial Data

Wherever costs cannot be directly allocated to Activities and appropriation codes, or when appropriation codes do not map exactly to Network Elements, an apportionment is required. Depending on the cost involved the appropriate basis of apportionment may be of a non-financial nature. In these instances the relevant data may be extracted from non-financial data sources, such as operational systems recording core transmission and usage, or may be collected through activity analysis.

By way of example, the apportionment to Activities and appropriation codes of the pay costs that relate to a cost centre identified by the Accounting Separation process may be apportioned on the basis of a survey of the time spent by the staff whose pay is being apportioned on a sample basis. Such surveys will typically involve analyses of the tasks undertaken by staff and the percentage of time spent on those tasks. These tasks will then be linked to Activities. These surveys are re-performed annually and in some instances more frequently.

3.3.6 Sampling

A number of the bases used to apportion costs and capital employed to Businesses, Activities and Network Elements are constructed using sample data. Sample data has been used to allocate certain indirect costs, which have no comprehensive allocation base, to products and services. Where sample data has been used in an apportionment base, this has been disclosed in this document where the impact is significant. For instance the allocation of duct costs is based upon physical examination of a sample of duct routes. Network Element route factors are also based upon call volume data drawn from a number of representative sample periods in the financial year.

Where sample data has been used the sample has been constructed so as to meet the following principles;

- it is unbiased/objective;
- the sample size has been assessed to be statistically significant;
- it is representative of the entire population;
- it is not skewed by seasonal or other factors;
- it is based on either generally accepted statistical techniques or other methods designed to deliver an equivalent result; and
- it will be updated annually.

3.3.7 Summary

Revenue, costs and capital employed are attributed, by allocation and apportionment, either directly to Businesses, Activities or Network Elements; or via a series of steps of indirect allocation through analysis of appropriation codes or the Activity Based Costing process; or through the apportionment of unattributable overheads.

eircom's approach to attribution is to identify the appropriate cost drivers for each revenue, cost or capital employed type and, as far as possible, to use objective operational and/or financial data relevant to that cost driver to generate apportionment bases. Sample data has been used where appropriate and samples have been constructed on generally accepted statistical principles.

Apportionment bases will be reviewed at least annually and methodologies regularly reviewed with enhancements introduced to reflect, for example, changing technologies.

3.4 Revenue**3.4.1 Overview**

Turnover, which is net of discounts, value added tax and other sales tax, is made up of the value of services provided and equipment sales. Typically turnover can be analysed by Activity directly from the accounting records. The turnover arises from calls, line rentals, connection charges, equipment sales and other activities.

3.4.2 Discounts

A wide range of discount schemes are provided to retail and wholesale customers, in respect of services such as connections, calls and data services. Discounts on traffic products are automatically applied as part of the flexible tariffing module in the billing system. Rental or connection promotional discounts and discount plan subscription charges (eg Talktime plans) are billed by type of service package/discount plan and then reallocated to the products to which they relate.

3.4.3 Local Access Network Business

Revenues arising from Other Authorised Operators in respect of access network services are separately identified in the accounting records and directly allocated to the Business.

The revenue arising from the provision of services to the Retail Business is calculated within the Transfer Charge element of the Accounting Separation system, rather than in eircom's main accounting systems, on the basis of recorded volumes of usage.

3.4.4 Core Network Business

Revenues arising from Other Authorised Operators in respect of calls originating on their networks and terminating on, or in transit through, the Core Network are separately identified in the accounting records and directly allocated to the Business. Other revenues from OAOs in respect of Operator Assistance, DQ services and PRS services are also separately identified and directly allocated to the business.

The revenue arising from the provision of services to the Retail Business is calculated within the Transfer Charge element of the Accounting Separation system, rather than in eircom's main accounting systems, on the basis of recorded volumes of usage.

3.4.5 Retail Business**3.4.5.1 Retail Access**

Retail access revenue, which is separately identifiable from the accounting records, is in respect of connection and rental income related to the provision of narrowband, DSL and VPN lines to retail customers. This revenue is stated net of promotional discounts in respect of PSTN, ISDN and DSL connection revenue but does not include any discounts attributable to bundled access and calls products.

3.4.5.2 Calls

Call revenue relates to customers' calls and are accounted for on an accruals basis. eircom's billing system facilitates the identification of volumes and durations of all calls by type. This system is used to identify the revenue by call types including local, national, international, calls to mobile, directory enquiry and calls to internet in the accounting records. Therefore, this revenue can be allocated directly to the relevant Retail Activities. Discounts attributable to bundles access and call packages are netted against call and voice mailbox revenue.

3.4.5.3 Leased Lines

Rental and connection charges for leased lines, including Partical Private Circuits, can be separately identified in the accounting records and the revenue can therefore be directly allocated to the relevant activity.

3.4.5.4 Public payphones

Public payphone revenue arises from the collection of cash from payphones, the sale of callcards, advertising revenue earned from Payphones sites and revenue from internet access points. These can be identified directly from the accounting records and can therefore be directly allocated to the relevant activity.

3.4.5.5 Internet Services Supply, Supplemental Services and Retail Remaining

Rental, connection, calls and other revenue for all of the above categories can be separately identified in the accounting records and the revenue can therefore be directly allocated to the relevant activity.

3.4.6 Other Business**3.4.6.1 Apparatus Supply**

Apparatus supply revenue relates to the rental, sale, maintenance and installation of telephone apparatus, each of which are separately identified in the accounting records and directly allocated to this activity.

3.4.6.2 Other Remaining Activities

Remaining activities revenue relates to the supply of non-telephony activities. Examples of these services are repayment works order revenue (earned in relation to work undertaken repairing plant damaged by third parties), staff on loan, hosting and mobile revenue. The revenue can be identified directly from the accounting records and allocated directly to these activities.

3.4.6.3 Subsidiary Activities (including Meteor)

Each subsidiary maintains its own accounting records. Revenue relating to subsidiary activities can thus be separately identified and directly allocated to this activity. Meteor has an individual profit and loss account and statement of mean capital employed included in the Regulatory Financial Statements.

3.5 Costs

As noted earlier, non-appropriated costs are apportioned using an Activity Based Costing methodology. This consists of a two stage process comprising apportionment of non-appropriated costs to defined Activity Based Costing activities and a mapping of these activities to Businesses, Activities and Network Elements as defined by Accounting Separation.

3.5.1 Apportionment to Activity Based Costing activities

The non-appropriated cost information is held by cost centre and cost type. The cost types are compiled from general ledger account codes from the accounting records. The cost types are mapped to approximately 47 expenditure headings also known as Summary Resource Types ("SRT"), each SRT being an amalgamation of like cost types which have the same cost driver e.g. the pay costs SRT is made up of basic pay, bonuses, payroll subsistence, employers' PRSI, pension and contract staff costs. The cost driver for these costs is an analysis of employees time spent, based on the operational information.

The cost centres are amalgamated into approximately 125 nodes. These nodes consist of cost centres that are ultimately under the responsibility of one person. It is the responsibility of each Node manager to produce an allocation of the costs within the Node to activities defined in a compiled Activity Dictionary. This is performed by identifying a cost driver for each SRT and apportioning the cost to the defined activities using the defined driver volumes.

The Activity Dictionary consists of approximately 650 Activities which are aggregated into the main processes within eircom. The core dictionary defines seven business processes, six support processes, and a strategic process, "Manage the Business".

Each process is broken into a 3 level hierarchy:

- level 1 - the process itself
- level 2 - the sub processes
- level 3 - the activity dimension

The sub-processes assist in defining the activity costs more accurately, as they ensure that all aspects of the activities are combined to result in the complete cost of the particular activity.

Costs are allocated against the activity dimension. The cost of a process or sub-process is identified by aggregating the costs against the activity dimensions of which they are composed.

3.5.1.1 Business processes

Business processes are defined as the collection of activities arising from the development, supply and management of products and services supplied to eircom's customers. The seven business processes are:

1. Innovation, Product Development and Management - activities involved in developing and delivering a fully managed set of products and services to customers.
2. Marketing and Sales - this involves the sales and marketing and account management of all eircom products and group companies' products and services, where appropriate.
3. Provisioning - this covers all aspects of the supply of eircom products and services to the customer.
4. Billing - this covers all aspects of call measurement, customer billing, cash collection and credit management.
5. Repair - this covers the resolution of service difficulties reported by the customer and covers the full range of products of the group.
6. Operator services - this provides operator assisted services to customers.
7. Manage the Network – this covers all activities involved in managing the Core and Local Access Networks.

3.5.1.2 Support processes

Support processes support the business processes i.e. they provide services across all customer-related activities. The six support processes are:

1. People - this involves all aspects of the human resources function.
2. Finance - this process involves all activities within the finance function.
3. IT Support - this process includes all activities within the IT function, including system design, implementation and support.
4. Corporate Communications - this process involves strategic policy development and branding.
5. Corporate Services - this process involves various activities, including security and risk management, regulatory management, and strategic business planning.
6. Procurement – this process involves acquisition, management and maintenance of physical resources to be used by the company's activities.

3.5.1.3 Manage the Business process

The 'Manage the Business' process involves planning, organising, controlling and leading the group. The process involves the development of corporate strategy, development of the management system, and implementation of corporate strategy.

This is a strategic process and is thus distinct from the business and support processes.

3.5.2 Mapping of Activity Based Costing activities to Businesses/Activities/Network Elements

A further apportionment process is required to produce final allocations as the Activity Based Costing activities do not always directly map to the Businesses, Activities and Network Elements defined under Accounting Separation.

This apportionment can take any of the following forms:

- an activity may be wholly attributable to a Business, Activity or Network element regardless of the node in which the costs reside, e.g. costs within the DQ11818 International activity will be pointed to the International Directory Enquiries network element regardless of the node in which the cost resides;
- some activities may be attributed to different Businesses, Activities or Network Elements depending upon the node in which the cost falls, e.g. accommodation management activity is attributed in different proportions to Businesses, Activities or Network Elements depending on the nature of the node in which the activity has been identified; and
- some activities may not be wholly attributable to a single Business, Activity or Network element. In this case an appropriate apportionment base has been created to apportion the costs within the Activity Based Costing activity to Businesses, Activities and Network Elements. For example the activities under the billing process have been apportioned to Activities and Network Elements by identifying the cost driver relevant to each activity.

3.6 Mean Capital Employed**3.6.1 Overview**

The definition of mean capital employed for Accounting Separation purposes is contained in section 3.3.4. The apportionment of mean capital employed follows a similarly detailed and careful approach to that for operating costs. For some items, such as trade debtors, turnover is the appropriate driver rather than costs where balances can not be specifically attributed to Businesses. Where reference is made to processes described elsewhere, full details of these processes are not repeated here.

For example, reference may be made to apportionment on the basis of "total pay". This is used wherever pay is the causal driver, e.g. for payroll creditors. Thus, the attribution of payroll creditors will follow the same procedure as the corresponding pay costs. The record of pay costs attributed to Businesses, Activities and Network Elements in the cost attribution process is used to attribute related creditors in such a way as to reflect fully the complexities of the analysis of those pay costs.

3.6.2 Fixed assets

Some network equipment assets can be allocated directly to Businesses or Network Elements on the basis of the asset class recorded in the general ledger, or apportioned to Businesses or Network Elements on the basis of network studies. These include the following categories of plant:

- Local Access lines cable
- Exchange equipment
- Transmission cable
- Duct

Motor vehicles, computers, land and buildings are apportioned across Businesses, Activities and Network Elements using bases which replicate the total apportionment to services of the costs of the operations supported by the assets concerned. The fixed assets of specialist operating units are directly allocated to the appropriate Business, Network Element or Activity by virtue of the operations undertaken by those specialist units. Where direct allocation is not possible each unit will apportion the relevant assets between activities using an appropriate cost driver specifically selected to reflect the operations concerned.

3.6.3 Stocks

Stock is directly allocated to the activity or business to which it relates based on management review of stock on hand.

3.6.4 Debtors

Debtors are analysed by type and sub-analysed where appropriate (e.g. by billing system) from information in the accounting records. At this stage, the appropriate apportionment bases (e.g., relevant turnover) are then applied. Debtors include the following categories:

- Trade debtors are directly allocated to Businesses, Activities and relevant Network Elements on the basis of relevant turnover, or where applicable directly to a business (e.g. Leased Line debtors are directly pointed to the Leased Line business).

Accounting Documents

Attribution Methods

- Wholesale call conveyance debtors and creditors are attributed to the Core and Local Access Networks within the Outpayments Network Elements.
- Other wholesale debtors and creditors are apportioned to specific business areas.
- Prepaid and accrued income is directly allocated to Businesses, Activities and Network Elements on the basis of relevant turnover, or where applicable directly to a business.
- Other debtors and prepayments are apportioned to Businesses, Activities and Network Elements using bases appropriate to the particular debtor type.

3.6.5 Cash at bank and in hand

eircom Limited cash balances and the cash balance apportioned from ITI are apportioned on the basis of operating and capital expenditure in the year.

ITI is the finance function of the group. The ITI cash balance is allocated to eircom Limited and subsidiary undertakings on the basis of an analysis of the components of its cash balance at the relevant year end. The ITI cash balances attributable to eircom Limited and subsidiary undertakings is apportioned on the basis of mean balances held with ITI by the respective entities in the group.

3.6.6 Loans and other borrowings falling due within one year

This category includes bank overdrafts and short term loans, which are apportioned on the basis of operating and capital expenditure in the year.

This category also includes borrowings specifically related to the funding requirements of individual businesses which are apportioned directly to those businesses.

3.6.7 Creditors

Creditors (including accruals) are analysed by type from the general ledger codes and the appropriate apportionment bases then applied in the following categories:

- Trade creditors including Capital Creditors are apportioned directly to Businesses, Activities and Network Elements where applicable or on the basis of operating and capital expenditure excluding pay and international outpayments.
- Payroll creditors are apportioned to Businesses, Activities and Network Elements on the same basis as total pay or directly to individual businesses where applicable.
- VAT balances are segmented into specific balances and a residual general balance. The specific balances are allocated to the activity to which they relate. The residual balance is further segmented into VAT output tax payable and VAT input tax receivable balances. VAT payable is apportioned to Businesses, Activities and Network Elements on the basis of external turnover. VAT receivable is apportioned on the basis of total external costs (excluding pay and foreign admin costs).
- Other creditors are apportioned to Businesses, Activities and Network Elements using bases appropriate to the particular creditor type.

3.6.8 Provisions

Provisions are either allocated directly to Businesses, Network Elements or Activities or are apportioned using a base appropriate to the particular provision.

3.7 Apportionment of appropriated Network costs**3.7.1 Overview**

The process to apportion appropriated network costs to Network Elements where they relate to the Core Network Business and to the Local Access Network Business is based upon a series of network studies, which make use of relevant engineering data, operational systems and/or sample data.

Taken together, Network Elements make up all the costs and capital employed of the separated Core Network and Local Access Network Businesses.

3.7.2 Exchange equipment

The main cost drivers for exchange equipment are connections, call set up and call durations. Exchange equipment costs are allocated to the appropriate drivers on the basis of an in-depth engineering study undertaken, together with the equipment suppliers, to analyse the functionality of this equipment.

In certain cases e.g. Line Cards, ComReg has directed eircom to make certain adjustments to the manufacturers' studies. eircom have been directed to treat line cards as 100% line sensitive.

The apportionment approach identifies the allocation of total exchange costs between the Local Access Network Business and the Core Network Business. The specific equipment affected by this study is exchange line terminations, trunk terminations, core hardware, operating software and application software.

Exchange expenditure is assigned to the main cost drivers, as follows:

- Connections – costs that are associated with equipment that has the function of providing access to the network.
- Call set-up - costs that are associated with equipment that has the function of establishing and clearing an end to end network path.
- Call duration - Costs associated with equipment that has the function of holding the network path open for the duration that a link is made across the network.

3.7.3 Transmission

The 'transmission network' provides the following type of links;

- links between customer connections and exchange locations, including underground and overhead paths;
- links between Remote Subscriber Unit (RSU) locations and exchange locations (primary, secondary and tertiary); and
- links between exchange locations.

These paths are recorded in the Fixed Asset Register as cable and associated equipment. The network is used both to carry calls on paths dedicated to PSTN, and to provide dedicated paths for other services, such as leased lines. Most routes would have some level of sharing between PSTN and other services.

The process for apportioning transmission equipment costs takes into account, and costs individually, each of the main building blocks (cable, line equipment and multiplexors), by the various technology types of the equipment, to reflect the different cost drivers of the specific transmission requirements of particular activities. The main cost drivers are weighted transmission length and the type of transmission path, with weighting factors applied to reflect the transmission capacity utilised.

Costs are segregated into those driven by the number of links (e.g. multiplexing equipment) and those driven by the total weighted length of the link (e.g. cable) on the basis of the equipment type.

3.7.4 Underground Access cables

The underground access cables provide physical connectivity between the exchange and the cabinet and from the cabinet to the last distribution point. These cables are separately recorded in the fixed asset register as underground copper and fibre cables. Underground access copper cables are used to carry local access services such as PSTN, ISDN and DSL as well as services such as private circuits that require dedicated paths. The main cost driver is the number of cable pairs.

The process for apportioning the costs of access copper cables between the exchange side and the distribution side is based on a two stage engineering study. The first stage stratifies total access copper cables into two categories; exchange side and distribution side. The second stage apportions access copper cables to network elements on the basis of cable pairs length. The apportionment is based on an examination of a representative sample of access copper cable records.

Underground fibre cable costs are fully attributed to the fibre/high speed length dependent access network element.

3.7.5 Duct

The duct network provides physical underground paths as listed in section 3.7.3 above. These path types are recorded in the Fixed Asset Register as underground civils and plant. The network is used both to carry local access services such as PSTN, ISDN and DSL as well as services such as private circuits that require dedicated paths. It is also used to carry core transmission links. The primary cost driver for duct is total duct kilometres.

The process for apportioning the costs of duct between the Local Access Network Business and the Core Network Business is based upon a three stage engineering study. The first stage stratifies total duct kilometres into three categories; Access only, Core only and shared duct. The second stage attributes the shared duct between Access and Core on the basis of the number of core/access cables in shared duct track. The final stage apportions Core and Access duct to Network Elements on the basis of duct usage.

The duct apportionment is based on a representative sample of duct routes and data maintained on the GeoUpdate database.

3.7.6 Overhead plant

The overhead network provides physical overhead paths as listed in section 3.7.3 above. These path types are recorded in the Fixed Asset Register as overhead poles and equipment. The network is used both to carry local access services such as PSTN, ISDN and DSL as well as services such as private circuits that require dedicated paths. It is also used to carry core transmission links. The primary cost driver for overhead plant is cable kilometres.

The process for apportioning the costs of overhead plant between the Local Access Network Business and the Core Network Business is based upon a three stage engineering study. The first stage stratifies total overhead kilometres into three categories; Access only, Core only and shared. The second stage attributes the shared element between Access and Core on the basis of the number of core and access cables on shared overhead routes. The final stage apportions Core and Access overhead plant to Network Elements on the basis of cable length.

The apportionment of overhead plant is based on a representative sample of overhead plant records maintained on the GeoUpdate database.

3.7.7 Other appropriated costs

In other cases where apportionment of appropriated costs is required, appropriate bases are derived by reviewing the causal links of the appropriated costs. For example the apportionment of maintenance activities to Network Elements is based upon an analysis of time spent for a representative sample period.

The fully allocated costs of most appropriated network costs can be directly linked to Network Elements, with no further analysis.

3.8 Network transfer charges**3.8.1 Overview**

The transfer charges from the Core and Access Network Business to Retail Businesses are based on the relative usage of the Core and Local Access Network Elements including the applicable rate of return on the Mean Capital Employed.

3.8.2 Creation of the Core Network Business account

The Core Network Business account is made up of interconnect revenues from Other Authorised Operators and the transfer charge income from the Retail Business and the cost and capital employed of all Core Network Elements.

3.8.3 Creation of the Local Access Network Business Account

The Local Access Network Business Account is made up of revenue on access services from Other Authorised Operators and the transfer charge income from the Retail Business and the cost and capital employed of all Local Access Network Elements.

3.8.4 Creation of the Retail Business account

The Retail Businesses are attributed with all their income, costs and capital employed including transfer charges for their use of the Core Network and Local Access Network.

3.9 Regulatory decisions

eircom is required to ensure that the Accounting Documents (including this Attribution Methods document) are consistent with, and give effect to, a range of actions including directions, consents and determinations made by ComReg. This chapter summarises the key determinations relevant to the statements not outlined elsewhere in this document.

3.9.1 Relevant Costs

- Transfer charge Debtors and Creditors have been excluded from the statements and have not been included in the transfer charge from the Local Access or Core Network businesses to the Retail Businesses. ComReg have further determined that all working capital associated with interconnect traffic is attributed to services on a combined basis.
- Exceptional costs attributable to the Core Network have been deemed by ComReg to be non-relevant and are excluded from the separated accounts. Exceptional costs are those costs which were categorised as exceptional for the purposes of the Statutory Financial Statements. The provisions relating to exceptional costs attributable to the core network, contained in the Mean Capital Employed Statement, are also excluded from the separated accounts.
- ComReg have determined that for the purposes of calculating the net book value and the depreciation charge to be used in the statements, the company must use the asset lives which were applicable to the 1997/98 Statutory Financial Statements, with the exception of land and buildings, poles and access network overhead cable where specific lives have been directed by ComReg.²

3.9.2 Treatment of Line Card

Line cards in switching equipment are to be allocated 100% to the Local Access Network Business per D7/01.

3.9.3 Route Factors

Route factors have been calculated by eircom based on its network plan and actual traffic samples. Under D7/01 ComReg reserves the right to require amendments to these route factors where ComReg deems them not to represent 'efficient operator' route factors.

3.9.4 Recovery of Switching Costs

The allocations of core switching equipment cost between call set up and duration elements is based upon the allocations arising from the manufacturers studies of cost components. The treatment is in compliance with current ComReg guidance.

3.9.5 Cost of Capital Employed (WACC)

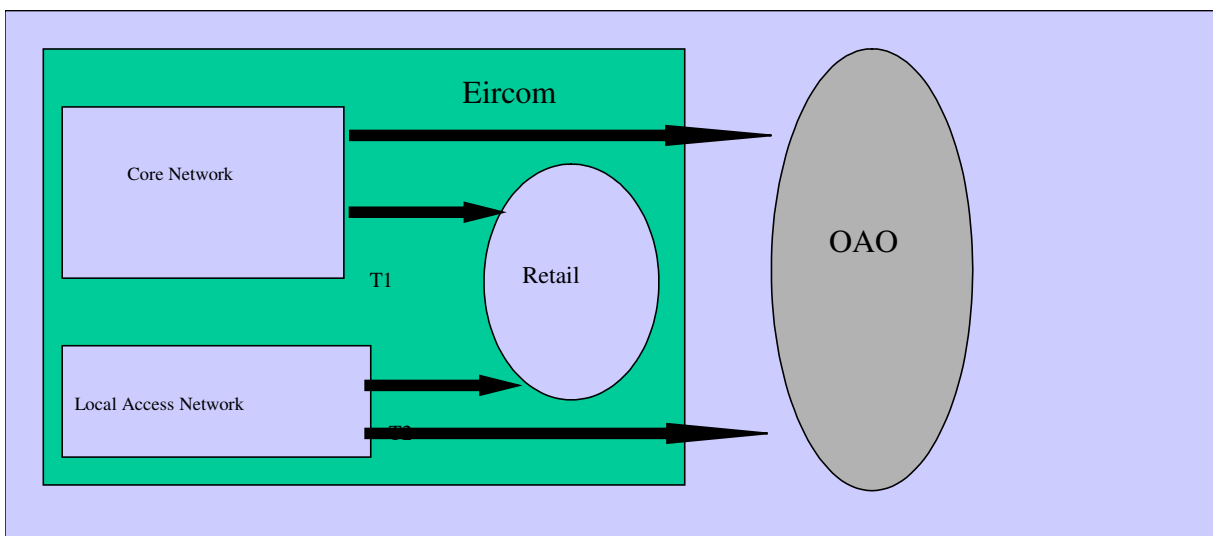
The applicable Rate of Return used in these Financial Statements is 10.21% (2008: 11.36%). The annual Rate of Return was mandated by ComReg in Decision 4.3.4 of Decision Notice D9/00, maintained in D7/01 and amended in D1/08. The annual rate of return was 11.5% from 1 July 2007 to 22 May 2008 and 10.21% from 22 May 2008 to date. The rate of return in the 2008 comparatives reflects the applicable rates of return for the financial year on a time apportioned basis.

² On the 11th of August 2009 ComReg issued a revised set of Asset Lives to be used in the separated accounts of eircom. These revised lives will first come into effect in the regulatory financial statements for the year ending 30 June 2010.

4. Transfer charges

4.1 Background and overview

Under Accounting Separation eircom prepares disaggregated separated Financial Statements for its businesses: Core Network, Local Access Network, Retail and Other Business. eircom is required to prepare Financial Statements on an historical cost basis using Transfer Charges calculated in accordance with the principles outlined below.



4.2 Network charges

The Core Network Business sells a range of network services to meet the differing needs of Other Authorised Operators and the Retail Business respectively. The price of each service is based on the fully allocated cost of the Network Elements or parts thereof, including a return on capital, used to provide the service.

A Network Element is a unit of network plant or activity which can be separately costed but, in most cases, cannot be separately supplied, e.g. a primary to secondary link. All services sold by the Core Network Business, either to Other Authorised Operators or the Retail Business, are built up from combinations of one or more Network Elements.

4.3 Transfer charges from the Core Network Business**4.3.1 Principle**

Transfer charges, and charges to other operators, are based on the product of unit costs and usage. eircom produces Regulatory Financial Statements containing transfer charges based upon the calculated unit costs and usage for the period in question.

4.3.2 Volumes and usage data requirements

The system used to calculate the transfer charges and produce the Financial Statements contains non-financial data, including detailed analyses of service volumes and network usage data. The main classes of information have been summarised below.

Call conveyance and Network Element usage

- Call traffic by product/service (in minutes)
- Route factors by Network Element by product/service
- Network Element usage (in minutes/km minutes)

Ancillary services

- Various volume and usage information by product/service

4.3.3 Calculation of the Core Network Business transfer charges to the Retail Business

Calculated Network Element charges form the basis of both Network Businesses transfer charges to the Retail Business. eircom Retail's route factors and volumes are applied to the calculated Network Element charges to derive its transfer charge. The route factors are calculated using four, two week samples of call data for all products and services.

Transfer charges are calculated in three stages:

- aggregation of unit Network Element charges into unit network service charges;
- application of time of day gradient to network service charges; and
- multiplication of unit network service charges and network service volumes.

The following is an example of the processes for conveyance charging.

Stage 1 Unit network service charge

	Network element 1	Network element 2	Network element n	Service specific	Overall cost
Unit cost	A	A	A		
Route factor	B	B	B		
Service charge	$A \times B = C$	$A \times B = C$	$A \times B = C$	D	$C + D$

Stage 2 Time of day specific unit network service charge

Time of day specific unit network service charges are calculated by applying a time of day gradient to the average 24 hour network service charge calculated in stage 1 above. This stage is only appropriate to conveyance services.

The time of day gradients for 'day', 'evening' and 'weekend' charge periods are based on the retail tariffs as outlined in Decision 8.8.2 of Decision Notice D7/00.

Stage 3 Overall time of day specific unit network service charges

Overall service charges are calculated by applying time of day unit network service charges to service charge volumes by time of day.

The above example is specific to a conveyance service.

The calculation for non-conveyance services operates in a similar manner.

4.4 Transfer charges from the Local Access Network Business

4.4.1 Principle

Transfer charges, and charges to Other Authorised Operators, are based on the product of unit costs and usage. eircom produces Regulatory Financial Statements containing transfer charges based upon the calculated unit cost (including the applicable return on capital employed) and usage for the period in question.

4.4.2 Volumes and usage data requirements

The system used to calculate the transfer charges and produce the Financial Statements contains non-financial data, including detailed analyses of service volumes and network usage data. The main classes of information have been summarised below:-

Local Access Network Element Usage

- Volumes by product/services;
- Usage factor by local access network elements by product/service;
- Local Access Network Element Usage

Ancillary Services:-

- Various volumes and usage information by product/service.

4.4.3 Calculation of the Local Access Network Business transfer charges to the Retail Business

Calculated Network Element charges form the basis of the Local Access Network Business transfer charges to the Retail Business. eircom Retail volumes are applied to the calculated Local Access Network Element charges to derive its transfer charge.

Transfer charges are calculated in two stages:

- aggregation of unit Network Element charges into unit network service charges;
- multiplication of unit network service charges and network service volumes.

4.5 Public Payphones

The network conveyance charges relating to calls made from payphones and access charges related to lines are initially charged to the Retail activity related to the type of call being made, e.g. Local, National etc. A further transfer charge is then levied from the relevant retail activity to the Public Payphone activity based upon a discounted retail rate equivalent to that charged to other payphone operators.

4.6 Other intra-eircom transfer charges

eircom's Businesses sell services to each other. The basis on which charges are made from the Core Network Business and the Local Access Network Business to the Retail Business is set out above.

For all other inter-Business sales, the transfer charges are, as required by ComReg's Decision Notices, to ensure no preferential treatment is given to Businesses within eircom, set at a rate equivalent to the charge that would be levied if the product/service were sold externally rather than internally.

The costs of a Business will not ordinarily arise wholly within one operating division of eircom. For internal management purposes transfers of cost may take place. These costs are attributed to Businesses using the methodologies described in the Attribution Methods section of the Accounting Documents and do not constitute Transfer Charges as referred to in this section of the Accounting Documents.

4.7 Reporting of transfer charges

The Financial Statements record transfer charges as specified above as:

- revenue in the Core Network Business from eircom Retail Activities;
- revenue in the Local Access Network Business from eircom Retail Activities;
- Payphone Access Charge; and
- Operating costs in the Retail Activities.

At the time the Financial Statements are produced, the system produces detailed reports and analyses of all Transfer Charges between the separated Businesses, together with volumes purchased.

The Retail Business purchases from the Core Network Business and the Local Access Network Business are analysed in the general form described within the proforma Financial Statements as set out in the Decision Notices.

5. Historical Cost Accounting policies

The significant accounting policies adopted by the group and company are set out below.

5.1. Basis of preparation

The Financial Statements are prepared in accordance with the Accounting Documents in the order of priority:

- The Regulatory Accounts Principles
- The Attribution Methods
- The Transfer Charges
- The Accounting Policies

The Financial Statements are required to give primacy to Regulatory Decisions.

The Financial Statements are prepared in accordance with the historical cost convention. Land and Buildings, which were previously revalued on 31 December 2003, were frozen at deemed cost, based on their fair values at 1 April 2004 under IFRS 1 transition rules.

The 2009 Regulatory Financial Statements have been prepared based on the Statutory Financial Statements prepared in accordance with IFRS.

5.2. Basis of consolidation

The consolidated Financial Statements of the group comprise a consolidation of the Financial Statements of the company, eircom Limited, and its subsidiaries. The subsidiaries' financial period ends are all coterminous with those of the company.

(i) Subsidiaries

Subsidiaries are entities over which the group has the power to govern the financial and operating policies in order to obtain benefits from their activities. Control is presumed to exist where the group owns more than 50% of the voting rights, unless in exceptional circumstances it can be demonstrated that ownership does not constitute control. The consolidated Financial Statements include all the assets, liabilities, revenues and expenses of eircom Limited and its subsidiaries after eliminating inter-company balances and transactions.

(ii) Joint ventures

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The group's interests in jointly controlled entities are accounted for by proportionate consolidation. The group combines its share of the joint ventures' individual income and expenses, assets and liabilities on a line-by-line basis with similar items in the group's Financial Statements.

(iii) Associates

An associate is an entity, which is neither a subsidiary nor a joint venture, over whose operating and financial policies the group exercises significant influence but not control. Significant influence is presumed to exist where the group holds between 20% and 50% of the voting rights, but can also arise where the group holds less than 20% if the group is actively involved and influential in policy decisions affecting the entity. The group's share of the net assets, post tax results and reserves of associates are excluded in the Regulatory Financial Statements.

(iv) Acquisitions and disposals

The purchase method of accounting is used to account for all business combinations, except for business combinations involving entities under common control and group reorganisations. Under the purchase method of accounting, the cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in the Statutory Financial Statements. Goodwill is excluded from the regulatory allocation model and appears as a reconciling item in the reconciliation statement in the Regulatory Financial Statements.

The results of subsidiaries acquired during the period are brought into the consolidated Financial Statements from the date control transfers to the group; the results of businesses sold during the period are included in the consolidated Financial Statements for the period up to the date control ceases. Gains or losses on disposal are calculated as the difference between the sale proceeds (net of expenses) and the net assets attributable to the interest which has been sold.

5.3. Goodwill

Goodwill is excluded from the regulatory allocation model and appears as a reconciling item in the reconciliation statement in the regulatory Financial Statements.

5.4. Intangible assets

Acquired computer software licences and associated costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. IT development costs include only those costs directly attributable to the development phase and are only capitalised following completion of a technical feasibility study and where the group has an intention and ability to use the asset which will contribute future period financial benefits through revenue generation and/or cost reduction. Internal costs associated with developing computer software programmes are also capitalised on the same basis. These costs are amortised over their estimated useful lives (three to four years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Other intangible assets, which comprise primarily acquired intangible assets, are capitalised at fair value and amortised using the straight-line method over their estimated useful lives, from the date the intangible assets are in use.

The following useful lives have been assigned to intangible assets:

	Years
Computer software	3 - 4
Monitoring contracts	3
Intangible assets from acquisitions:	
Pre-paid customer relationships (mobile)	1.5
Post-paid customer relationships (mobile)	4
Roaming customer relationships (mobile)	5
Mobile trademark	12
GSM license	15
3G license	20

Intangible assets arising solely as a result of purchase price allocations on acquisition are excluded from the regulatory costing model and appear in the reconciliation statement in the Regulatory Financial Statements.

Other Intangible assets are included in the regulatory costing model.

5.5. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Amounts disclosed as revenue are net of discounts and value added tax. Total revenue includes sales by group entities but excludes all inter-company sales. Revenue included within individual businesses includes revenue from other separated businesses where appropriate.

The group recognises revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the actual terms of each arrangement.

The group is required to interconnect its 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 the group's 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 required to be made to, these other operators and to establish appropriate provisions.

When the group acts as principal bearing the risk and rewards of a transaction, revenue is recorded on a gross basis. However when the group acts as an agent on behalf of third parties, revenue is reported at the net amounts receivable from those third parties.

Fixed Line Revenue

Fixed line revenue is recognised in the period earned by rendering of services or delivery of products.

Traffic revenue is recognised at the time the traffic is carried over the group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products (broadband, line rentals and traffic) are accounted for in the same manner as the unbundled products comprising the bundle. The discount to standard rates is applied to the traffic element of the bundle.

Connection fee revenue is deferred over the life of the connection, which is estimated to be between three and seven years. Connection lives are reviewed annually.

Revenue from equipment sold to third parties is recognised when the equipment is delivered to the customer. Revenue arising from the provision of other services, including maintenance contracts, is recognised evenly over the term of the contract.

Billings for telephone services are made on a monthly, bi-monthly or quarterly 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.

Mobile Revenue

Mobile revenue consists principally of charges to customers for traffic from mobile network services, revenue from providing network services to other telecommunications operators, and the sale of handsets.

Revenue from the sale of bundled products is allocated to the separate elements of the bundle on the basis of each element's relative fair value and recognised in revenue when each individual element of the product or service is provided. The fair values of each element are determined based on the current market price of the elements when sold separately. To the extent that there is a discount in the bundled product, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of each element.

5.6. Amounts paid and payable to other operators

Amounts paid and payable to other operators are mainly settlement fees that the group pays to other telecommunications operators for traffic that is routed on their networks. Costs associated with these payments are recognised in the period in which the traffic is carried.

5.7. Customer acquisition costs

The group pays commissions to dealers for the acquisition and retention of mobile subscribers and certain fixed line products. Customer acquisition costs are expensed as incurred in the profit and loss accounts.

The costs associated with the group's advertising and marketing activities are also expensed as incurred.

5.8. Foreign currencies

Functional and presentation currency

Items included in the Financial Statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These consolidated Financial Statements are presented in euro, which is the company's functional and presentation currency and is denoted by the symbol "€".

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss accounts, except when deferred in equity as qualifying cash flow hedges.

Group entities

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss accounts are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in equity.

5.9. Taxation

Current and deferred tax is excluded from the regulatory costing model and appears in the reconciliation statements in the Regulatory Financial Statements.

5.10. Financial instruments**(i) Borrowings**

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Borrowings are subsequently stated at amortised cost.

Borrowings are classified as current liabilities, unless the group has an unconditional right to defer settlement for the liability for at least 12 months after the balance sheet date.

Borrowings and related finance costs are excluded from the regulatory costing model except to the extent that the borrowings relate specifically to the funding requirements of individual businesses or assets.

(ii) Derivative financial instruments

The fair value of a derivative financial instruments and the resulting gains or losses are excluded from the regulatory costing model and appear in the reconciliation statements in the Regulatory Financial Statements.

(iii) Financial assets held at fair value through profit or loss

A financial asset is classified in this way if acquired principally for the purpose of selling in the short term or if so designated by management. These financial assets are measured at fair value, and changes in the fair value are recognised in the profit and loss accounts. Assets in this category are classified as debtors in the Regulatory Financial Statements.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in debtors in the Regulatory Financial Statements.

5.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Cost in the case of network plant comprises expenditure up to and including the last distribution point before customer's 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 deemed cost. Land and buildings, which were previously revalued on 31 December 2003, were frozen at deemed cost, based on their fair values at 1 April 2004, under IFRS 1 transition rules.

Depreciation

Depreciation is provided on property, plant and equipment (excluding land), on a straight-line basis, so as to write off their cost less residual amounts over their estimated economic lives. As discussed in Section 3.9.1 above, the estimated economic lives assigned to tangible assets in the Financial Statements are as directed by ComReg per D07/01 and not the asset lives used to prepare the Statutory Financial Statements.

The estimated economic lives assigned to property, plant and equipment directed by ComReg in respect of the year ended 30 June 2009 are as follows:

Asset Class	Estimated Economic Life (Years)
Buildings	40
Network Plant	
Transmission-Equipment	
Duct	20
Overhead-cable/poles	10-15
Underground cable	14
Other local network	8
Exchanges	
Exchange line terminations	8
Core hardware/operating software	6
Others	4-9

Fully depreciated property, plant and equipment are retained in the cost of property, plant and equipment 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 profit and loss account as an exceptional item.

Assets in the course of construction

Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. The estimated amount of interest incurred, based on the weighted average interest rate on outstanding borrowings, while constructing capital projects is capitalised.

Asset retirement obligations

The group has certain obligations in relation to the retirement of assets mainly poles, batteries and international cable. The group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. The group capitalises the future discounted cash flows associated with these asset retirement obligations and depreciates these assets over the useful life of the related asset.

5.12. Impairment of non financial assets

Assets that are subject to amortisation and depreciation are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

5.13. Leased assets

The fair value of property, plant and equipment acquired under finance leases is included in property, plant and equipment and depreciated over the shorter of the lease term and the estimated useful life of the asset. The outstanding capital element of the lease obligations is included in current and non-current liabilities, as applicable, while the interest is charged to the profit and loss accounts over the primary lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss accounts on a straight-line basis over the period of the lease.

5.14. Inventories

Inventories comprise mainly of consumable items and goods held for resale. Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis and includes invoice price, import duties and transportation costs. Where necessary, write-downs in the carrying value of inventories are made for damaged, deteriorated, obsolete and unusable items, on the basis of a review of individual items included in inventory. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

5.15. Trade receivables

Trade receivables are recognised initially at fair value, which is normally the original invoiced amount and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or a financial re-organisation, default or delinquency in payments and general economic conditions are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of the bad debt provision account, and the amount of the loss is recognised in the profit and loss accounts. When a trade receivable is uncollectible, it is written off against the bad debt provision account.

5.16. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturity of less than three months.

5.17. Indefeasible rights of use ("IRU")

The group accounts for IRU contracts in the following manner:

(i) Sales contracts are accounted for as service contracts with the entire income being deferred and recognised on a straight-line basis over a 17 to 25 year period, being the period of the relevant contracts.

(ii) Purchase contracts are accounted for as service contracts with the pre-paid balance recorded as a deferred debtor and amortised on a straight-line basis as an expense over a 7 year period, being the period of the relevant contracts.

5.18. Employee benefits**(i) Pension obligations**

Group companies operate various pension schemes. The schemes are generally funded through payments determined by periodic actuarial calculations to independent trustee-administered funds. The group operates both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate fund. Under defined contribution plans, the group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

Typically, defined benefit plans define an amount of future pension benefit that employees have earned in return for their services to date. The pension benefit that an employee will receive on retirement is usually dependent on factors such as age, years of service and compensation.

Pre 1 January 1984, past-service costs are the responsibility of the Irish Minister for Finance. Post 1 January 1984, past-service costs are recognised immediately in the profit and loss accounts, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The pension asset and additional charge representing the amounts determined in accordance with IAS 19 "Employee benefits" has been excluded from the statement of Mean Capital Employed. In addition, the charge included in the Regulatory Financial Statements in respect of pension costs is the actual amounts payable for the group's defined contribution schemes and the current service charge for the group's defined benefit schemes. The current service charge represents the actual cost of meeting the group's pension obligations over employees working lives and excludes the impact of related finance income and costs, which are required to be excluded from the Regulatory Financial Statements.

(ii) Share-based compensation

Share appreciation rights scheme ("SARS")

One of the group's subsidiaries operates a cash settled share appreciation rights scheme ("SARS"). The SARS entitle certain employees to receive performance units. The group grants performance units and measures the employee services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the group re-measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in the profit and loss accounts. Non-market vesting conditions are included in assumptions about the number of performance units that are expected to vest. At each balance sheet date, the group revises the estimate of the number of performance units that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss accounts, and a corresponding adjustment to liabilities as appropriate over the remaining vesting period.

(iii) Other bonus plans

The group recognises a provision and an expense for bonuses where contractual or constructive obligation exists.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The cost of termination benefits and related provisions are excluded from the profit and loss account and statement of MCE of the Core Network.

5.19. Provisions

Provisions for obligations relating to the disposal and dismantling of certain assets and related restoration requirements, onerous contracts on property, restructuring programme costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

A constructive obligation, for restructuring cost, exists where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken on or before the balance sheet date.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract or, the estimated cost to exit it, where appropriate.

5.20. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

5.21. Dividend distribution

Final dividend distributions to equity shareholders are recognised as a distribution in the group's Statutory Financial Statements in the period in which the dividends are approved by the equity shareholders. Interim dividend distributions to equity shareholders are recognised as a distribution in the group's Financial Statements in the period in which the dividends are paid.

Dividends and dividends payable are excluded from the regulatory costing model and appear in the reconciliation statement in the Regulatory Financial Statements.

5.22. Financial guarantee contracts

Financial guarantees issued by the group, for the benefit of third parties, are recognised as a financial liability at the time the guarantee is issued.

The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantee contracts are excluded dividends and dividends payable are excluded from the regulatory costing model and appear in the reconciliation statement in the Regulatory Financial Statements.

5.23. Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Only those contract costs that reflect work performed are included in costs incurred to date.

The group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs have been incurred plus recognised profit (less recognised losses).

5.24. Exceptional items

The group has adopted a profit and loss account format which seeks to highlight significant items within group results for the year. The group believe that this presentation provides additional analysis as it highlights one-off items. Such items include, where significant, restructuring, onerous contracts, impairment of individual assets and gains or losses on disposal of Property, Plant and equipment and intangible assets. Judgement is used by the group in assessing the particular items, which by virtue of their scale and nature, are disclosed in the group profit and loss account as exceptional items. Exceptional gains and losses and related MCE balances are excluded from the Core Network profit and loss account and statement of mean capital employed and appear in the reconciliation statements in the Regulatory Financial Statements.

A. Appendix

A.1 Definition of Local Access Network Elements

The Local Access Network Elements (NEs) listed below are produced on a fully allocated cost accounting basis. For example, the Subscriber Unit network element in the Access Network is based on the line sensitive switching costs but would also include the associated assets such as accommodation and power costs as well as an attribution of general overheads. Similarly the copper and Fibre network elements would include the associated pole and duct costs.

The **Subscriber Unit** network element comprises the costs of switching infrastructure such as line cards that is sensitive to the number of lines served by an exchange.

The **Copper network** elements comprise the cost associated with the local access copper network including customer carriers.

The **Fibre network** elements comprise the costs associated with the deployment of local access fibre.

Access backhaul comprises the costs of inter-exchange transmission used in supporting the delivery of access services such as DSL.

DSL equipment includes the costs of equipment that is specific to DSL and Bitstream services such as DSLAMs and BAS.

Access equipment comprises the share of data equipment such as ATM and IP equipment that supports the delivery of access services including DSL/Bitstream and ISDN.

Carrier Support comprises the costs of product management, carrier billing and carrier account management activities associated with access products and services.

The **Provisioning** network element comprises the costs of the range of network provision and installation activities required to provide access network services such as retail and wholesale exchange lines (including LLU), Co-Location and Bitstream. It includes the cost of all line work for access services, including jumpering and testing, from the last distribution point up to the Network Terminating Units in the customers' premises. It also includes the costs of order handling activities for wholesale services such as bitstream and LLU.

The **Repair** network element comprises costs associated with the resolution of service difficulties in reaction to fault reports. It excludes the reception of retail fault reports and retail customer facing activities during the fault repair process but includes back office processes required to track and resolve fault reports and the costs of field repair staff. It differs from the network maintenance process in that Network maintenance includes preventative maintenance and responding to faults in the access network up to the last distribution point while repair handles all faults from the last distribution point up to and including the customer premises.