



Commission for
Communications Regulation

Vodafone submission

Wholesale access pricing review

Reference: ComReg 15/67c R

Date: 31/8/2015

An Coimisiún um Rialáil Cumarsáide
Commission for Communications Regulation

Abbey Court Irish Life Centre Lower Abbey Street Dublin 1 Ireland

Telephone +353 1 804 9600 Fax +353 1 804 9680 Email info@comreg.ie Web www.comreg.ie

Key observation on the reported Regulatory Performance

eircom 2011 to 2014

24th June 2015





Contents

Summary	3
Background	4
Key Observations	5
Historical Regulatory Analysis	9
Summary of Regulatory Financial Performance	10
Statutory Accounts – Overview of eircom Fixed Line	11
Historical Cost Separated Accounts Analysis – Total Wholesale	13
Historical Cost Separated Accounts Analysis – Market Level	15



Summary

Confidential



Background

- This presentation has been based on the following primary information sources:
 - eircom Historical Cost Separated Accounts for the year ended 30th June 2011, 2012, 2013 and 2014 <http://www.eircom.net/regulatoryinformation/separated-accounts/> ;
 - eircom Limited Financial Statement 30 June 2006 to 30th June 2013; and
 - eircom Holdings (Ireland) Limited (“EHIL”) Annual Report for Bondholders for the year ended 30th June 2013, 2014 <http://www.eircom.net/investorrelations/reports/2014/> ;
 - ComReg publications, including the **Irish Communications Market Quarterly Reports**, 2011 to 2014;

- With reference to the eircom Historical Cost Separated Accounts (HCAs) the following should be noted:
 - These annually Separated Accounts involves the publication of key information on the various parts of eircom’s regulated business⁴, a key features of which is providing transparent and consistent reporting of revenues, costs and performance for use by the Regulator, industry, consumers and other stakeholders;
 - The overall concept of the Separated Accounts is to present Wholesale and Retail Markets as if it were separate independent entities, trading on a ‘arms length’ basis, with a key measure of performance being the Returns on Mean Capital Employed reported for the various regulated markets / products.

⁴ ComReg Accounting Separation and Cost Accounting Review of eircom Limited (D08/10, 10/67, 31 August 2010) <http://www.comreg.ie/fileupload/publications/ComReg1067.pdf>



Key observation

Illustration of current Wholesale Access Pricing⁵

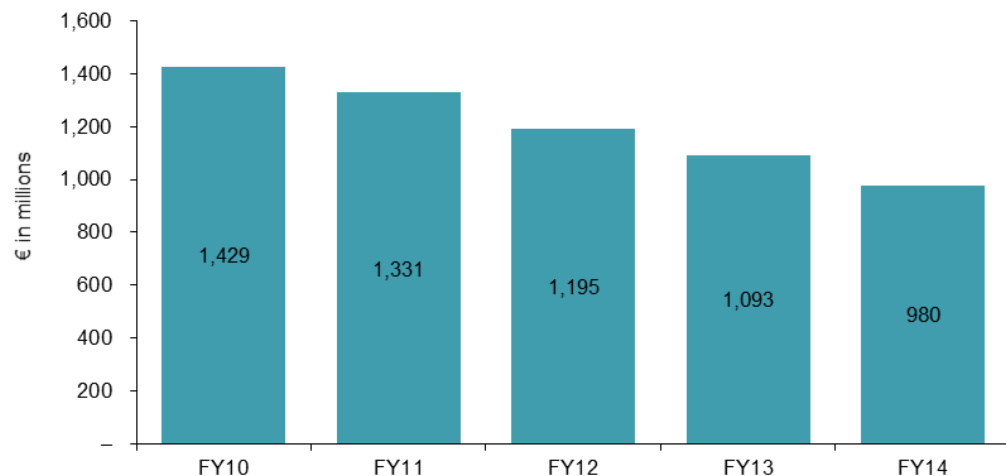
Confidential



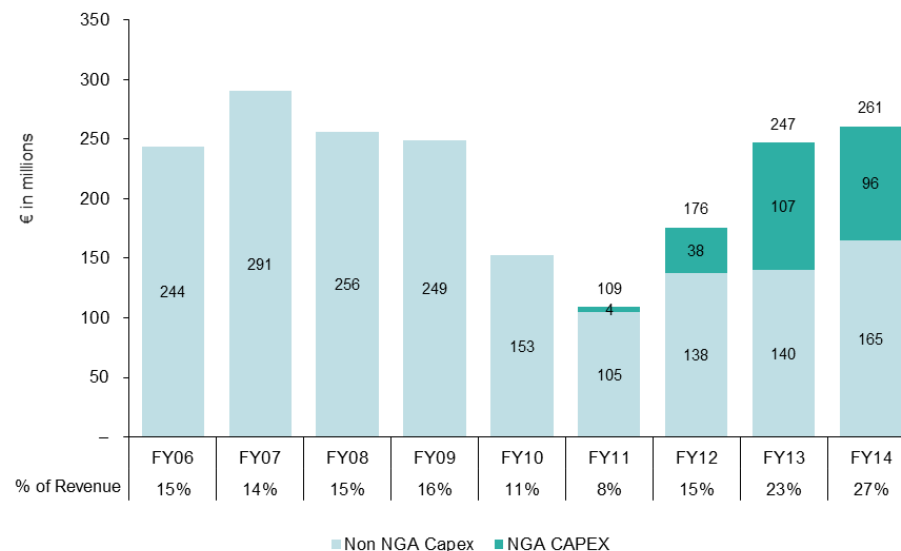
Key observation

Fixed Line Revenues and CAPEX⁶

Fixed Line Revenue



Fixed Line CAPEX



- Revenues for eircom fixed lined business have been declining steadily since FY10, the average annual decline against the prior year is 9% driven by reductions in volume and Average Revenue per User.
- The average eircom fixed line capital expenditure for the last 9 years has been 16%. This is in line with overall telecoms industry capital expenditure which is in the order of 15 - 17%³

⁶ Information used above is taken from eircom's Statutory Accounts and Historical Cost Separated Accounts

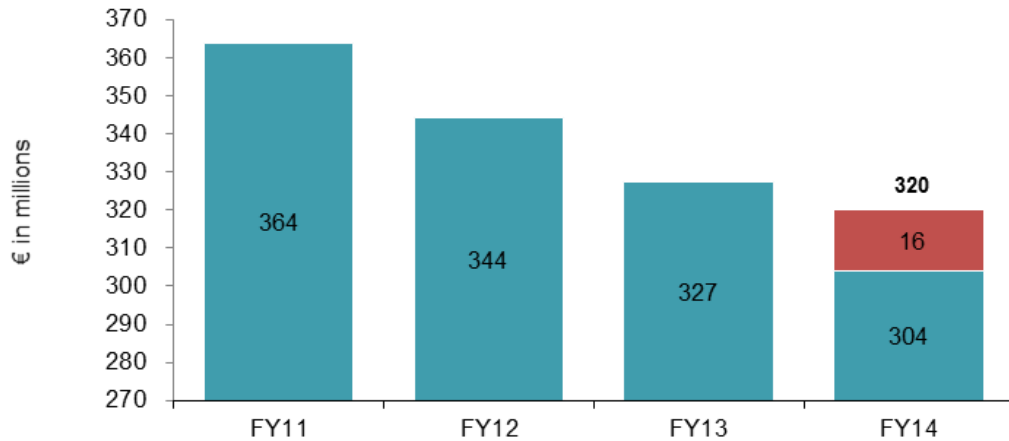
³ DAE SCOREBOARD 2013 - 1-THE eCOMM SECTOR - EU Report on Telecoms in Europe; Ovum December 2014 Telecoms CAPEX Analysis;



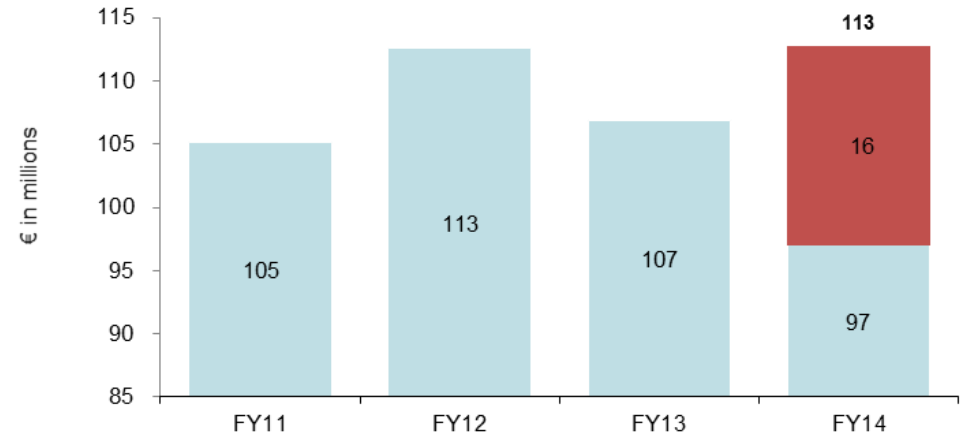
Key observation

Wholesale Fixed Narrowband Access⁷

Revenues



Returns



- Revenues for **Wholesale Fixed Narrowband Access** (PSTN and ISDN WLR) have declined between FY2011 and FY2014. This was primarily due to volume reductions in PSTN and ISDN lines, which have decreased by an average of 5% year on year. The reduction in Revenues for FY2014 compared to FY2013 is partly attributable to the €3 monthly discount per lines which was discussed earlier. The impact of this reduction on Revenues and Returns for FY2014 is illustrated in the above graphics.
- The Return on Capital Employed (ROCE) has remained relatively static at c.13% for the last four financial years.

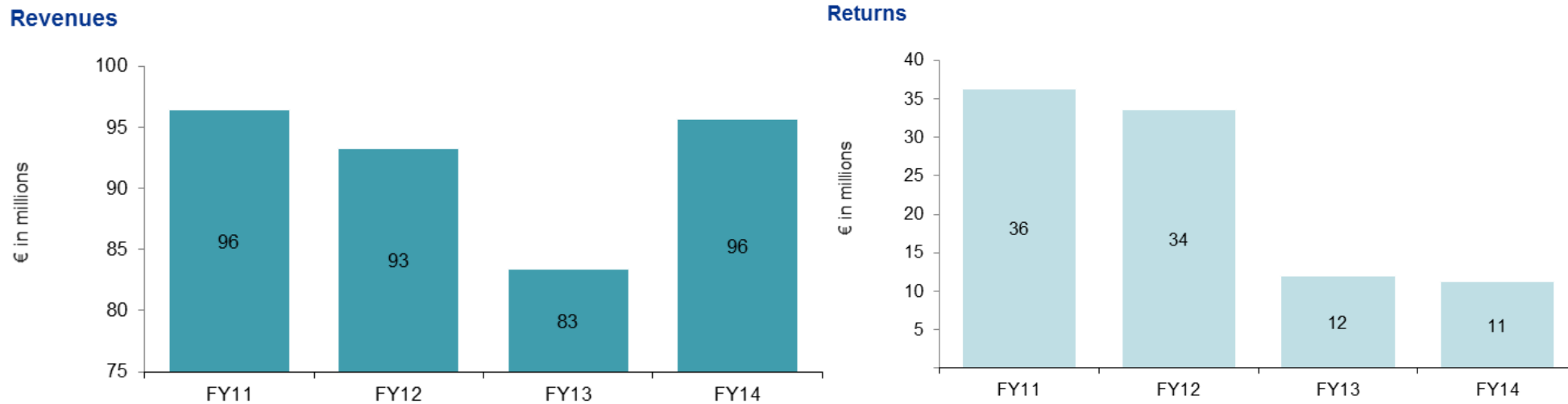
⁷ Information used above is taken from eircom's Statutory Accounts and Historical Cost Separated Accounts

⁸ eircom Results Presentation May 18, 2015, Third Quarter and nine months FY14/15, <http://www.eircom.net/investorrelations/reports/2014/>;



Key observation

Wholesale Broadband Access⁹



- Broadband revenues for FY2014 were up 13% on FY2013 driven by the increased volumes, primarily for the NGA Broadband product. Returns have dropped in the last 2 years relative to FY2011 and FY2012 reflecting the NGA investments which have increased Depreciation and Mean Capital Employed¹⁰.
- Cumulative over the period 2011 to 2014, eircom's **Wholesale Broadband Access**¹ (WBA) Market returns have been marginally higher than the 10.21% allowable WACC. Underlying this are HCA reported returns on MCE, when compared to the Regulated WACC.
- There have been increases in overall broadband volumes of 5.4% from FY2013 to FY2014 as reported by eircom in their HSA which is most likely driven by NGA. Based on ComReg reports there has been growth in overall broadband volumes of 5.8% for the period from Q4 2013 to Q4 2014.

⁹ Information used above is taken from eircom's Statutory Accounts and Historical Cost Separated Accounts.

¹⁰ See eircom HCA, year ended 30 June 2014, Network Cost Market Summary(Pages 25 & 26)



Historical Regulatory Financial Analysis



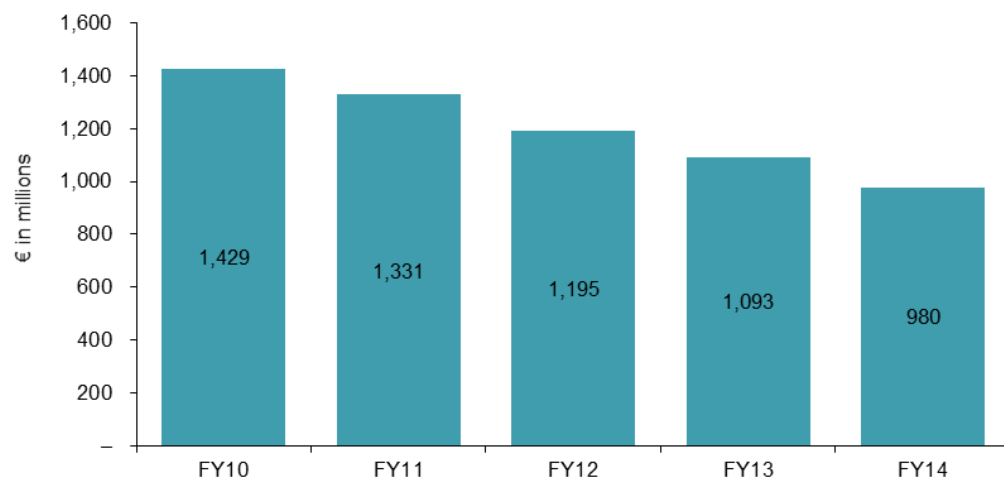
Summary of Regulatory Financial Performance

Regulatory Market	Summary observations	Primary Source of Data: eircom limited statutory accounts & historical separated accounts
eircom Fixed Line	<ul style="list-style-type: none"> ■ Revenues for eircom fixed lined business have been declining steadily since FY2010, the average annual decline against the prior year is driven by reductions in volume and Average Revenue per User (ARPU), both at the wholesale and retail level. ■ CAPEX has increased in the last 3 financial years due to the investments made in NGA, eircom reported this NGA investment at approximately €240 million. ■ As reported by ComReg, Wholesale Broadband Market volumes are increasing year on year, c. +5%, with OAOs broadband lines increased over 17% between 2014 and 2015. In addition, both ComReg and eircom are reporting a potential stabilisation of Wholesale Access Lines between 2014 and 2015. 	
Wholesale Fixed Narrowband	<ul style="list-style-type: none"> ■ Revenues for Wholesale Fixed Narrowband (Wholesale PSTN and ISDN Lines, <i>i.e.</i>, WLR) have dropped primarily due to volume reductions in PSTN and ISDN lines which have decreased at an average of 5% year on year since FY11. ■ Returns have not decreased at a similar rate, with the Return on Capital Employed (ROCE) has remained relatively static at c.13% for the last four financial years, this was achieved for FY2014 , allowing for a “Large Exchange Area” PSTN WLR discount (when purchased with NGA Broadband) of €3/month, contributed to a drop of c.€16m in both Revenues and Return for this Regulated Market, a drop of 1.6% in ROCE. ■ ‘Network Costs for Repairs and Provisions’ have reduced year on year since FY2011 at an average of 11%. 	
Wholesale Broadband Access	<ul style="list-style-type: none"> ■ Broadband revenues for FY14 were up 13% on FY2013 driven by the increased volumes primarily in NGA. ■ Returns have declined in the last 2 years relative to FY2011 and FY2012, reflecting NGA investments which have resulted in increased depreciation and Capital Employed in this market. 	

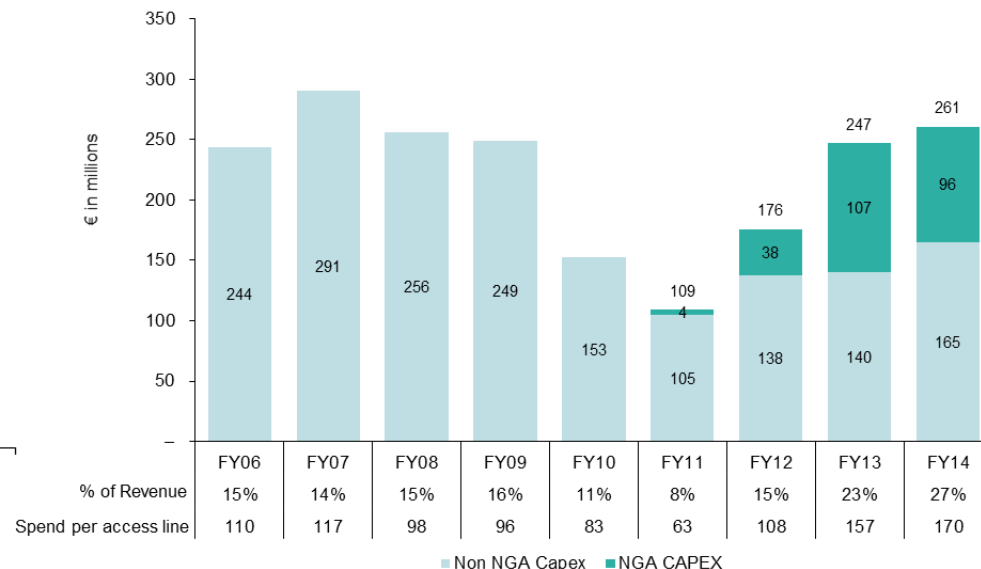


Statutory Accounts – Overview of eircom Fixed Line

Fixed Line Revenue



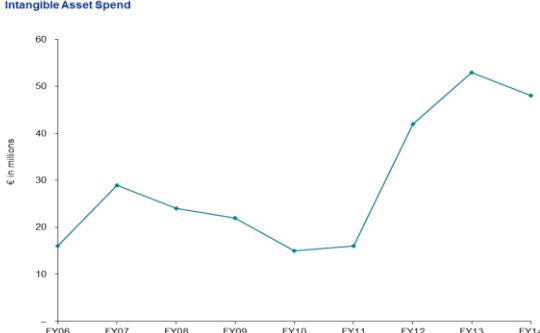
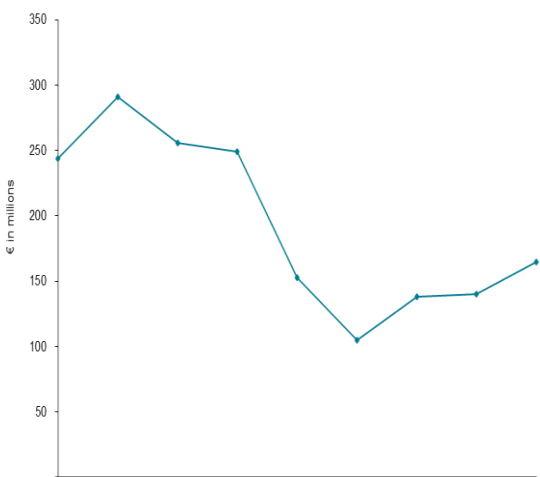
Fixed Line CAPEX



Area	Summary observations	Primary Source of Data: eircom limited statutory accounts 2006 – 2014
Revenues	<ul style="list-style-type: none"> Revenues for eircom fixed lined business have been declining steadily since FY2010, the average annual decline against the prior year is 9% driven by reductions in volume and Average Revenue per User (ARPU) both at the Retail and Wholesale levels. FY2014 revenue compared to FY2010 revenue shows a 31% reduction over the period. ARPU has decreased year on year across eircom Wholesale and Retail since FY2011 - between Q4 FY2014 and FY2011 reported ARPU was down an average of 13% 	



Statutory Accounts – Overview of eircom Fixed Line

Area	Summary observations	Primary Source of Data: eircom limited statutory accounts 2006 – 2014																				
CAPEX	<ul style="list-style-type: none"> There has been an increase in the Fixed Line Capital Expenditure over the past 3 years. In FY2014 and FY2013 there was a year on year increase in capital spend of 6% and 40% respectively. It should be noted that CAPEX spend in FY2011 was the lowest % to revenue in the period FY2006 to 2015. The increase in CAPEX is reflective of the investment made in the NGA Network which accounted for 37% and 43% of all CAPEX in FY2014 and FY2013 respectively. It should be noted the recent CAPEX investments includes significant investments in Intangible Assets (eircom list these as computer software and systems related), in the last 3 years this investment has averaged c. €48 million whereas in the 6 years prior it averaged c. €20 million. Since FY2005 the average capital spend per Customer Access Channel has been €111 over the same period with a low in FY2011 of €63 and a high in FY14 of €170 (<i>driven by NGA Investments</i>). Expressed in terms of revenue, average capital spend has averaged 16% over the same period with a low in F20Y11 of 8% and a high in FY2014 of 27%. It is stated in of the Annual Report for Bondholders Year Ended 30 June 2014 (Page 43) that it is expected that the recent level of CAPEX will decrease over the next number of years as investment in NGA nears completion. 	 <p>Intangible Asset Spend</p> <table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>€ in millions</th> </tr> </thead> <tbody> <tr><td>FY06</td><td>15</td></tr> <tr><td>FY07</td><td>30</td></tr> <tr><td>FY08</td><td>25</td></tr> <tr><td>FY09</td><td>22</td></tr> <tr><td>FY10</td><td>15</td></tr> <tr><td>FY11</td><td>16</td></tr> <tr><td>FY12</td><td>42</td></tr> <tr><td>FY13</td><td>53</td></tr> <tr><td>FY14</td><td>48</td></tr> </tbody> </table>	Fiscal Year	€ in millions	FY06	15	FY07	30	FY08	25	FY09	22	FY10	15	FY11	16	FY12	42	FY13	53	FY14	48
Fiscal Year	€ in millions																					
FY06	15																					
FY07	30																					
FY08	25																					
FY09	22																					
FY10	15																					
FY11	16																					
FY12	42																					
FY13	53																					
FY14	48																					
Indicative Volume Numbers	<ul style="list-style-type: none"> Total eircom PTSN line (Wholesale and Retail) volumes are down 13% in FY2014 compared against FY2011, with ISDN line numbers are down 20% for the same period. Overall this represents a 5% per annum drop in volumes. There have been volumes increases in broadband of over 5% per annum from FY2013 to FY2015, primarily driven by the NGA Broadband growth. eircom's Half Year Results Presentation for FY2015 show an increase in OAOs broadband lines of over 17% between Q2 2015 and Q2 2014. In ComReg's 2014 Q4 Market Report, and eircom's FY2015 Q3 Results Presentation, overall Access lines were reported as potentially stabilising between 2014 and 2015, this against a backdrop of over 5 years of declining volumes. 	 <p>CAPEX spend excluding NGA</p> <table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>€ in millions</th> </tr> </thead> <tbody> <tr><td>FY06</td><td>240</td></tr> <tr><td>FY07</td><td>290</td></tr> <tr><td>FY08</td><td>255</td></tr> <tr><td>FY09</td><td>250</td></tr> <tr><td>FY10</td><td>150</td></tr> <tr><td>FY11</td><td>105</td></tr> <tr><td>FY12</td><td>135</td></tr> <tr><td>FY13</td><td>140</td></tr> <tr><td>FY14</td><td>165</td></tr> </tbody> </table>	Fiscal Year	€ in millions	FY06	240	FY07	290	FY08	255	FY09	250	FY10	150	FY11	105	FY12	135	FY13	140	FY14	165
Fiscal Year	€ in millions																					
FY06	240																					
FY07	290																					
FY08	255																					
FY09	250																					
FY10	150																					
FY11	105																					
FY12	135																					
FY13	140																					
FY14	165																					



Historical Cost Separated Accounts Analysis – Total Wholesale

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014																																																											
Revenues	<ul style="list-style-type: none"> Wholesale revenues have reduced at an average of 9% year on year since FY2011 driven by both volume, COS and price reductions. There was a average price drop in PSTN WLR in FY2014 from €18.02 - €16.97, reflecting a €3/month on each PSTN line purchased with NGA Broadband in the ComReg defined “Large Exchange Areas”. FY2014 compared to FY2011 reported a volume drops in WLR of 13%, an annum drop of c.5% Wholesale Revenues as a percentage of overall eircom Fixed Line revenues have remained stable for the last 4 years at c. 40%. External revenues for Broadband versus internal revenues for eircom Retail have continued to increased proportionally year on year and are now at 36% of all revenue, whereas in FY12 it was 30%. 	<p data-bbox="1127 376 1520 405">Income Statement 4 year summary</p> <p data-bbox="1127 414 1404 442">Wholesale markets only</p> <table border="1" data-bbox="1127 451 2018 1042"> <thead> <tr> <th data-bbox="1127 494 1147 522">€</th> <th data-bbox="1458 494 1541 522">FY11</th> <th data-bbox="1603 451 1707 522">Restated FY12</th> <th data-bbox="1748 451 1852 522">Restated FY13</th> <th data-bbox="1893 451 1997 522">Restated FY14</th> </tr> <tr> <th></th> <th>Total</th> <th>Total</th> <th>Total</th> <th>Total</th> </tr> <tr> <th></th> <th>€000</th> <th>€000</th> <th>€000</th> <th>€000</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>892,878</td> <td>795,197</td> <td>731,358</td> <td>682,791</td> </tr> <tr> <td>Cost of Sales*</td> <td>186,038</td> <td>120,590</td> <td>98,923</td> <td>83,486</td> </tr> <tr> <td>Margin</td> <td>706,840</td> <td>674,607</td> <td>632,435</td> <td>599,305</td> </tr> <tr> <td>Other Operating Costs</td> <td>298,451</td> <td>277,061</td> <td>261,805</td> <td>232,151</td> </tr> <tr> <td>EBITDA</td> <td>408,389</td> <td>397,546</td> <td>370,630</td> <td>367,154</td> </tr> <tr> <td>Depreciation</td> <td>150,518</td> <td>145,417</td> <td>150,170</td> <td>159,315</td> </tr> <tr> <td>Exceptional (Gain) / Loss</td> <td>(1,827)</td> <td>163</td> <td>(232)</td> <td>-</td> </tr> <tr> <td>Return</td> <td>213,331</td> <td>196,317</td> <td>165,457</td> <td>152,556</td> </tr> </tbody> </table> <p data-bbox="1127 1090 1645 1119">*COS includes transfer charges from wholesale</p>					€	FY11	Restated FY12	Restated FY13	Restated FY14		Total	Total	Total	Total		€000	€000	€000	€000	Revenue	892,878	795,197	731,358	682,791	Cost of Sales*	186,038	120,590	98,923	83,486	Margin	706,840	674,607	632,435	599,305	Other Operating Costs	298,451	277,061	261,805	232,151	EBITDA	408,389	397,546	370,630	367,154	Depreciation	150,518	145,417	150,170	159,315	Exceptional (Gain) / Loss	(1,827)	163	(232)	-	Return	213,331	196,317	165,457	152,556
€	FY11	Restated FY12	Restated FY13	Restated FY14																																																									
	Total	Total	Total	Total																																																									
	€000	€000	€000	€000																																																									
Revenue	892,878	795,197	731,358	682,791																																																									
Cost of Sales*	186,038	120,590	98,923	83,486																																																									
Margin	706,840	674,607	632,435	599,305																																																									
Other Operating Costs	298,451	277,061	261,805	232,151																																																									
EBITDA	408,389	397,546	370,630	367,154																																																									
Depreciation	150,518	145,417	150,170	159,315																																																									
Exceptional (Gain) / Loss	(1,827)	163	(232)	-																																																									
Return	213,331	196,317	165,457	152,556																																																									
Margin, EBITDA & Returns	<ul style="list-style-type: none"> While the Revenues have declined by on average 9%, (Gross) Margin has reduced by an average of 5% year on year since FY2011, reflecting the impact of reductions in Cost of Sales, such as in MTRs and outpayments to OAOs. EBITDA has reduced at 3% per annum over the same period which indicates that Operating Costs have been reducing at a greater rate than Wholesale Revenues. Returns are down an average of 10% year on year since FY2011 which is partly attributable to the increased depreciation due to the FY2011 to FY2014 Capital Investments in NGA of an eircom reported c. €240 m. 																																																												

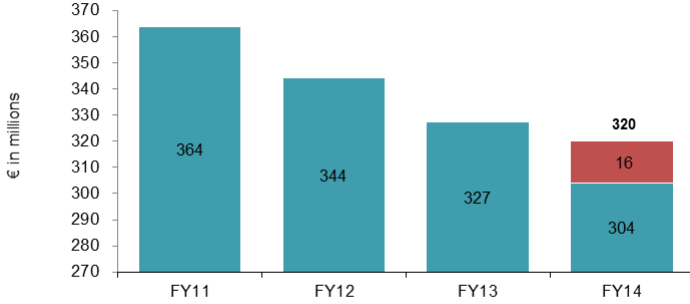
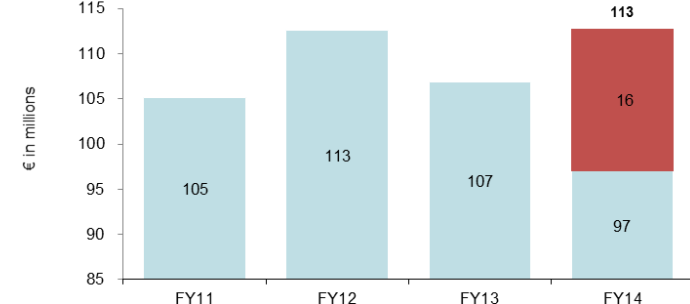


Historical Cost Separated Accounts Analysis – Total Wholesale

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014
Cost of Sales (including transfer charges)	<ul style="list-style-type: none"> ■ COS at wholesale level have reduced year on year since FY2011 at an average rate of 23% which is predominantly attributable to reductions in payments to other operators (e.g. MTRs) and access to Operator Services. 	
Other Operating Costs	<ul style="list-style-type: none"> ■ The trend of other operating costs at wholesale level shows an annual average reduction of 8% for the last four financial years. There was an 11% decrease between FY2014 and FY2013. ■ ‘Network Costs for Repairs and Provisions’ is the most significant area of expenditure (42% of operating costs overall). Year-on-year reduction in these costs since FY2011 have been at an average of 11% per annum. 	
Depreciation	<ul style="list-style-type: none"> ■ The depreciation charge for wholesale assets has increased at an average 2% year on year for the since FY2011. ■ This incremental increase in depreciation should be considered in context of the large CAPEX investments made in the NGA programme. ■ In FY2014 Wholesale Fixed Assets i.e, eircom defined “Property Plant Equipment” was c. €1.4 billion, an increase of 4% on the previous year. This represented 84% of all PPE for eircom Fixed Line, with the remaining mainly in eircom Retail. 	



Historical Cost Separated Accounts Analysis – Market Level: Wholesale Fixed Narrowband Access

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014																				
Revenues	<ul style="list-style-type: none"> ■ This market accounted for 45% of all eircom Wholesale revenues in FY2014 and FY2013. ■ Revenues dropped by 7% in FY2014 compared to FY2013 or c. €23 million reflecting the change in PSTN prices (with the average PSTN WLR monthly prices reducing from €18.02 per line to €16.97) and a volume reduction of approximately 2%. <ul style="list-style-type: none"> ■ <i>PSTN WLR reduction due to €3 monthly discount for PSTN lines taken with a Broadband line in LEA. Sensitised graphic opposite shows the effect of the discount.</i> ■ Revenues for this market have dropped an average of 6% year on year since FY2011 mainly attributable to a 5% p.a. volume drop in the same period. 	<p>Revenues</p>  <table border="1"> <caption>Revenues (€ in millions)</caption> <thead> <tr> <th>Fiscal Year</th> <th>Total Revenue</th> <th>Component 1</th> <th>Component 2</th> </tr> </thead> <tbody> <tr> <td>FY11</td> <td>364</td> <td>-</td> <td>-</td> </tr> <tr> <td>FY12</td> <td>344</td> <td>-</td> <td>-</td> </tr> <tr> <td>FY13</td> <td>327</td> <td>-</td> <td>-</td> </tr> <tr> <td>FY14</td> <td>320</td> <td>16</td> <td>304</td> </tr> </tbody> </table>	Fiscal Year	Total Revenue	Component 1	Component 2	FY11	364	-	-	FY12	344	-	-	FY13	327	-	-	FY14	320	16	304
Fiscal Year	Total Revenue	Component 1	Component 2																			
FY11	364	-	-																			
FY12	344	-	-																			
FY13	327	-	-																			
FY14	320	16	304																			
Returns & Capital Employed	<ul style="list-style-type: none"> ■ This market accounted for 65% of all eircom Wholesale returns in FY2014 and FY2013. ■ FY2014 reported Returns have decreased compared against FY2011 by 8%, with Capital Employed has decreased by an average of 4% year on year since FY11. The Return on Capital Employed (ROCE) has remained relatively static at c.13% for the last four financial years. 	<p>Returns</p>  <table border="1"> <caption>Returns (€ in millions)</caption> <thead> <tr> <th>Fiscal Year</th> <th>Total Returns</th> <th>Component 1</th> <th>Component 2</th> </tr> </thead> <tbody> <tr> <td>FY11</td> <td>105</td> <td>-</td> <td>-</td> </tr> <tr> <td>FY12</td> <td>113</td> <td>-</td> <td>-</td> </tr> <tr> <td>FY13</td> <td>107</td> <td>-</td> <td>-</td> </tr> <tr> <td>FY14</td> <td>113</td> <td>16</td> <td>97</td> </tr> </tbody> </table>	Fiscal Year	Total Returns	Component 1	Component 2	FY11	105	-	-	FY12	113	-	-	FY13	107	-	-	FY14	113	16	97
Fiscal Year	Total Returns	Component 1	Component 2																			
FY11	105	-	-																			
FY12	113	-	-																			
FY13	107	-	-																			
FY14	113	16	97																			



Historical Cost Separated Accounts Analysis – Market Level: Wholesale Fixed Narrowband Access

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014
Other Operating Costs	<ul style="list-style-type: none"> ■ Other operating costs excluding COS and depreciation have reduced year on year since FY2011 at an average of 11%. ■ 'Network Costs for Repairs and Provisions' have accounted for 50% of other operating costs on average since FY2011 and have reduced year on year for the same period at an average of 11%. 	
Depreciation	<ul style="list-style-type: none"> ■ The depreciation charge was up 3% in FY2014 having dropped the previous two financial years by 1% and 4% respectively. ■ The increase contrasts with the movement in Fixed Assets / Property Plant and Equipment which was down 3% in FY14 and by the same amount on average since FY2011 most likely down to the effect of the NGA programme i.e., increased expenditure on Duct. 	
Indicative Volume Numbers	<ul style="list-style-type: none"> ■ Total PSTN and ISDN line volumes have decreased year on year since FY2011 at an average rate of 5%. PSTN and ISDN line volumes have decreased by c. 197,000 lines (13%) comparing FY2014 to FY2011. ■ In ComReg's 2014 Q4 Market Report, and eircom's FY2015 Q3 Results Presentation, overall Access lines were reported as potentially stabilising between 2014 and 2015, this against a backdrop of over 5 years of declining volumes. 	



Historical Cost Separated Accounts Analysis – Market Level: Wholesale Broadband Access

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014																									
Revenues	<ul style="list-style-type: none"> In FY2014 Wholesale Broadband Access revenues were 14% of overall eircom Wholesale revenues. Revenues for FY2014 were up 13% on FY2013 driven by the increased volumes primarily in NGA Broadband . There was less than 1% difference in revenues between FY2014 and FY2011, reflecting similar broadband volumes between the two years, and similar average Broadband ARPUs. 	<p>Revenues</p> <table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>Revenues (€ in millions)</th> </tr> </thead> <tbody> <tr> <td>FY11</td> <td>96</td> </tr> <tr> <td>FY12</td> <td>93</td> </tr> <tr> <td>FY13</td> <td>83</td> </tr> <tr> <td>FY14</td> <td>96</td> </tr> </tbody> </table>	Fiscal Year	Revenues (€ in millions)	FY11	96	FY12	93	FY13	83	FY14	96															
Fiscal Year	Revenues (€ in millions)																										
FY11	96																										
FY12	93																										
FY13	83																										
FY14	96																										
Returns & Capital Employed	<ul style="list-style-type: none"> FY2014 returns have decreased compared against FY2011 by c. €25 million, which corresponds with the relative increase in the Depreciation and Capital Employed, driven by NGA investments Given the increase in NGA investment the ROCE has declined from 22% in FY2011 to 4% in FY2014. 	<p>Returns</p> <table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>Returns (€ in millions)</th> </tr> </thead> <tbody> <tr> <td>FY11</td> <td>36</td> </tr> <tr> <td>FY12</td> <td>34</td> </tr> <tr> <td>FY13</td> <td>12</td> </tr> <tr> <td>FY14</td> <td>11</td> </tr> </tbody> </table> <p>Mean Capital Employed</p> <table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>Mean Capital Employed (€ in millions)</th> <th>Return on Capital Employed (% WACC)</th> </tr> </thead> <tbody> <tr> <td>FY11</td> <td>165</td> <td>22%</td> </tr> <tr> <td>FY12</td> <td>174</td> <td>18%</td> </tr> <tr> <td>FY13</td> <td>214</td> <td>5%</td> </tr> <tr> <td>FY14</td> <td>283</td> <td>4%</td> </tr> </tbody> </table>	Fiscal Year	Returns (€ in millions)	FY11	36	FY12	34	FY13	12	FY14	11	Fiscal Year	Mean Capital Employed (€ in millions)	Return on Capital Employed (% WACC)	FY11	165	22%	FY12	174	18%	FY13	214	5%	FY14	283	4%
Fiscal Year	Returns (€ in millions)																										
FY11	36																										
FY12	34																										
FY13	12																										
FY14	11																										
Fiscal Year	Mean Capital Employed (€ in millions)	Return on Capital Employed (% WACC)																									
FY11	165	22%																									
FY12	174	18%																									
FY13	214	5%																									
FY14	283	4%																									

Historical Cost Separated Accounts Analysis – Market Level: Wholesale Broadband Access

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014
Operating Costs including Cost of Sales and Depreciation	<ul style="list-style-type: none"> ■ Operating costs overall for Wholesale Broadband have increased by an average of 10% in the last 4 financial years, which is a marked contrast with the decrease in wholesale operating costs overall. ■ There has been a consistent year on year decrease of 'Network Costs for Repairs and Provisions' averaging 8% since FY2011. 	
Depreciation	<ul style="list-style-type: none"> ■ The depreciation charge has increased annually between FY2014 and FY2011 at an average of 13%. ■ This increase is reflective of the increase in Fixed Assets / Property Plant and Equipment over the same period of 17% on average year on year relating to the investment in its NGA network, and greater usage of the eircom's Core Transmission Network by Broadband (as reported in the eircom Network Cost Market Summary for FY2014 versus FY2013). 	
Indicative Volume Numbers	<ul style="list-style-type: none"> ■ There have been increases in overall broadband volumes of 5.4% from FY2013 to FY2014 as reported by eircom in their HSA which is most likely driven by NGA. Based on ComReg reports there has been growth in overall broadband volumes of 5.8% for the period from Q4 2013 to Q4 2014. 	



Historical Cost Separated Accounts Analysis – Market Level: Other Markets

Area	Summary observations	Primary Source of Data: eircom limited separated accounts 2011 – 2014
Wholesale Residual (Regulated)	<ul style="list-style-type: none"> ■ As detailed by eircom in its Primary Accounting Documents, this Market is primarily made up of Products such as Access to Call Services (directory enquiries, premium rate services etc.), and Interconnection Links (which provide interconnection between eircom and other operators). ■ Revenues have decreased by an average of 13% year on year since FY2011, with Returns also decreasing by an average of 25% year on year since FY2011. 	
Retail Fixed Line	<ul style="list-style-type: none"> ■ In the Retail PSTN and ISDN Access market total operating costs as a percentage of revenue have been 17% for FY2014 and FY2013 having been 14% in FY2011. ■ Wholesale Line Rental (PSTN and ISDN) are priced on a retail minus basis of the Retail Price less 14%, with the 14% Retail Margin having been set in 2008 on the basis of the HCA reported eircom's PSTN and ISDN retailing costs. 	



Vodafone Fixed Business: regulatory update

1st May 2015



Agenda

1. Introduction to Vodafone fixed financials
2. Key observations from review of published eircom financial data
3. Regulatory environment & Access pricing review





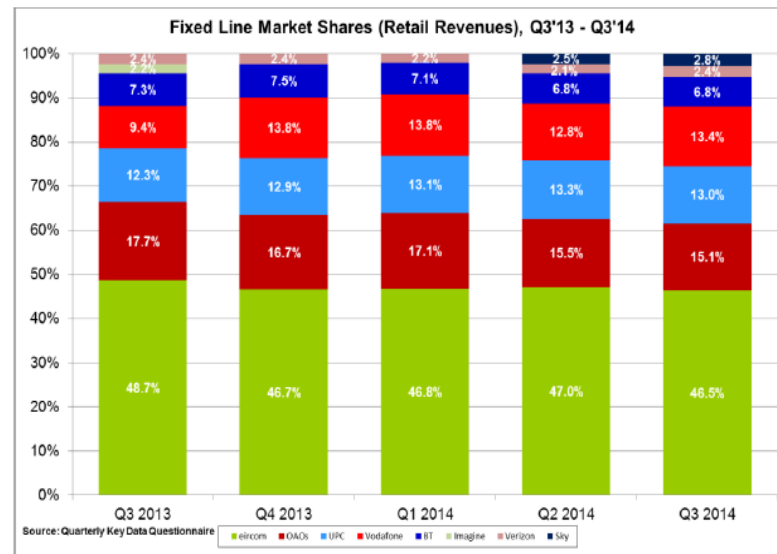
Overview of Vodafone fixed activity



Overview of fixed market

- Vodafone have invested significantly in fixed (e.g. acquisition of Perlico, BT Residential)
- Subscriber growth makes Vodafone one of the strongest competitors and constraints on eircom – above 300k in Business and Consumer segments circa 13% MS
- Vodafone have made significant investments on FTTH through the launch of ESB JV
- Eircom remain dominant wholesale provider of Copper based and FTTC products into the future
- Recent price changes significantly impact Vodafone

Figure 2.1.1.1 – Fixed Retail Revenue Market Shares



Vodafone not profitable in fixed market despite scale

Comparison with eircom retail and wholesale raises concern – Vodafone commissioned KPMG to examine eircom regulated accounts

eircom

■ Retail EBITDA ■ Retail Revenue ■ Wholesale EBITDA ■ Wholesale Revenue

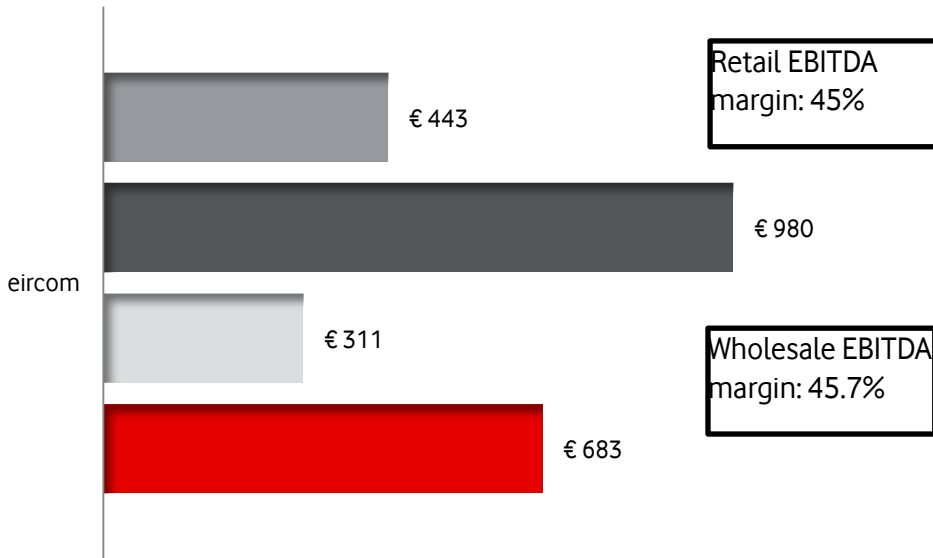
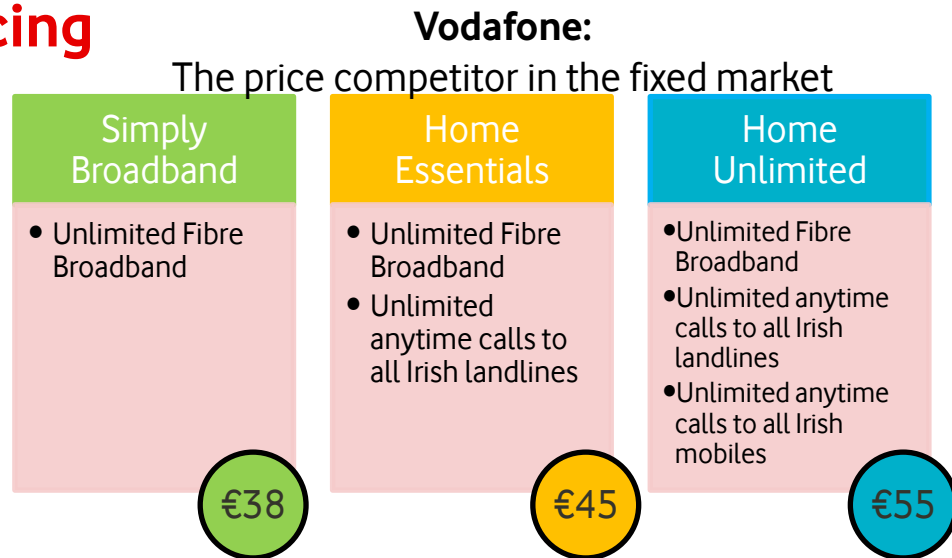


Chart source: eircom full year financial results & eircom separated accounts, June 2014
Vodafone 2014/15 Forecast full year

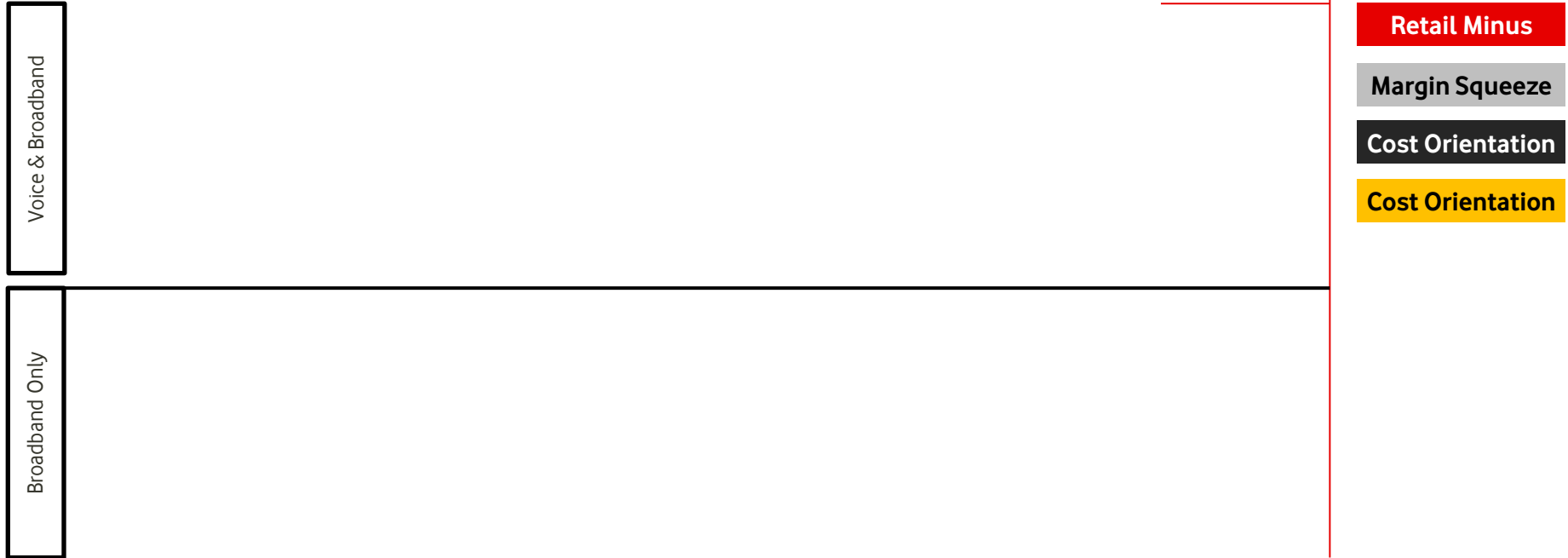


Vodafone continue to grow base in fixed markets – challenges on provisioning along with pricing

- Provisioning issues with new lines – delays in planning, repeat appointments, poor customer experience
- Vodafone predominantly resell Eircom wholesale with some BT LLU.
- New Lines in excess of 2k per month - no effective SLAs in place
- Acquisition costs are high and high churn makes business case a challenge
- Vodafone will present separately on provisioning, fault repair and non-price issues



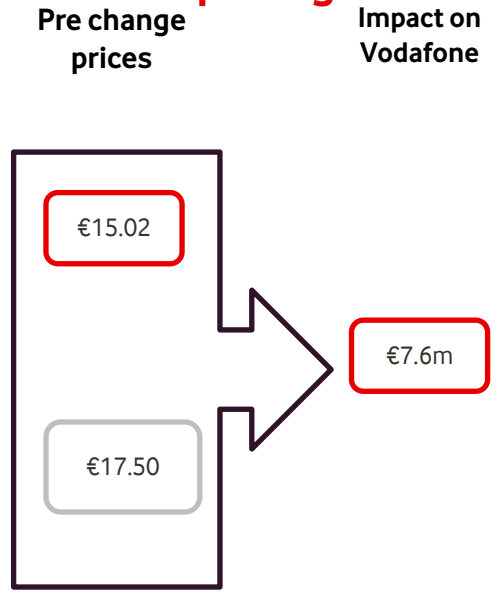
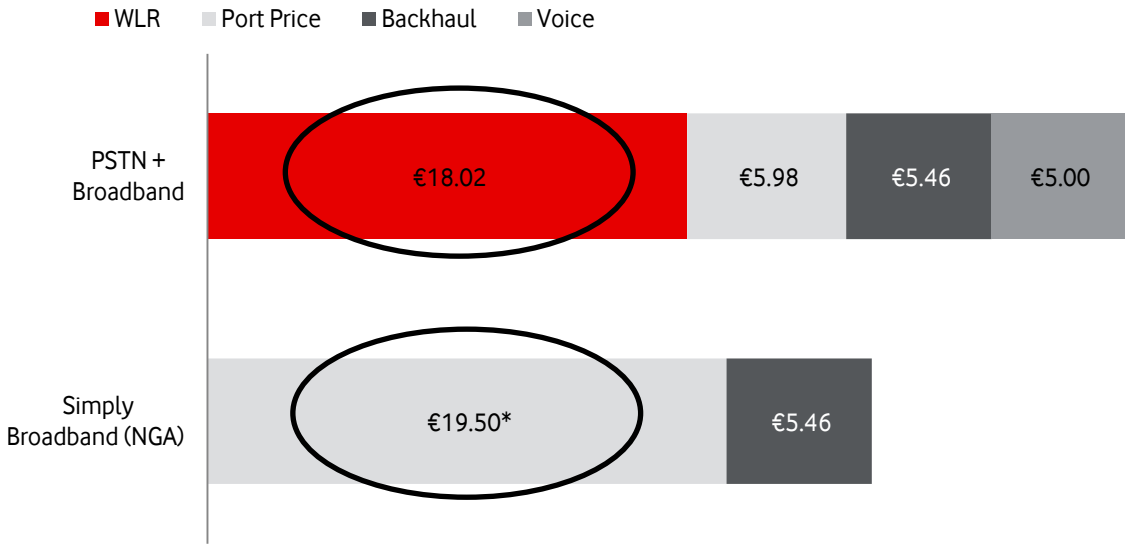
Large percentage of fixed base on retail minus/margin squeeze products



*€18.02 for eircom WLR



Eircom pricing strategy manipulates pricing regime wholesale increases designed to impact competitors and removal of UPC pricing constraint



* Including €2 price increase from 1st July 2015.

No cost justification for reversal of 'discounts' in LEA – KPMG study shows very healthy post 'discount' return



Vodafone are reviewing activity in fixed and have examined a number of scenarios to improve margin

- *All calculations based on customer revenue, direct wholesale cost and acquisition and retention costs.*
- *All marketing, Advertising, customer care costs are excluded from above*





Review of eircom published regulated accounts

Key observations of KPMG review of eircom public financial statements



Illustration of ComReg wholesale broadband access controls

** Pricing information used above is taken from the latest reference offers on eircom wholesale. In addition to "Cost Stack" information based on ComReg D03/13.*



View on fixed revenue and capex

**Information used above is taken from eircom's Statutory Accounts and Historical Cost Separated Accounts*

***[Ovum December 2014 Telecoms CAPEX Analysis Piece](#)*



Wholesale narrowband access

**Information used above is taken from eircom's Statutory Accounts and Historical Cost Separated Accounts*



Wholesale Broadband Access

** Information used above is taken from eircom's Statutory Accounts and Historical Cost Separated Accounts.*

*** See 2014 HCA, Network Cost Market Summary*





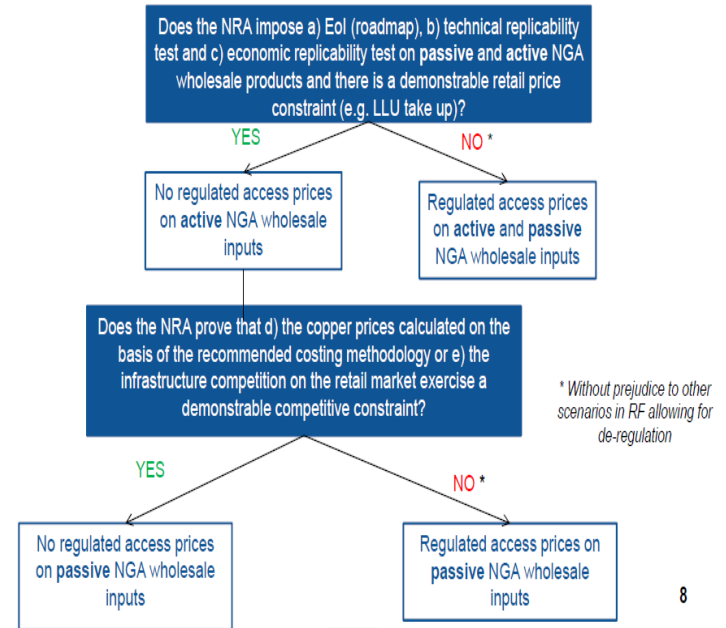
3

Regulatory environment & Access pricing review

Access Pricing review needs to reflect EU Commission non-discrimination/costing approaches

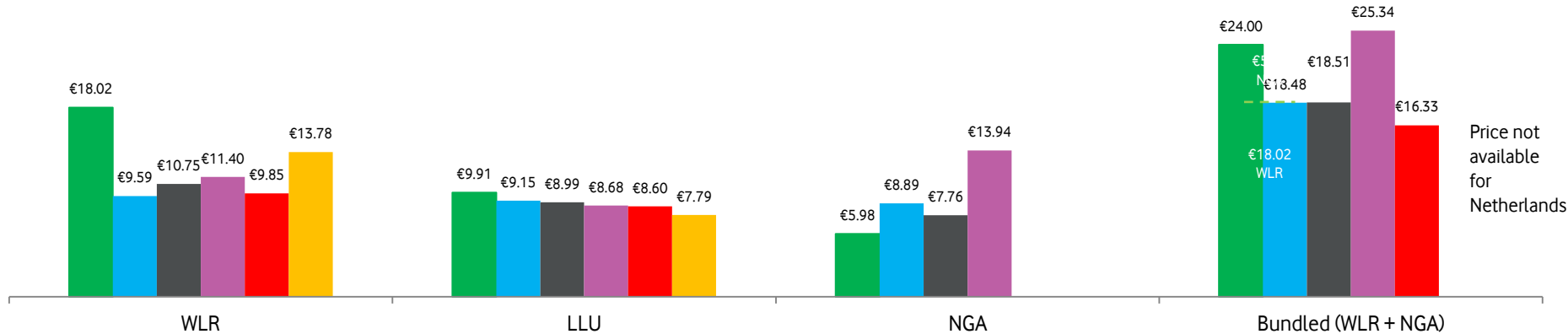
- NGA pricing flexibility assumes replicability tests and equivalence is in the market
- Without such tests cost oriented prices need to be in the market to allow competitive entry
- No adequate SLAs are in place – industry fora have not made progress
- No pricing or competitive constraint exists for eircom
- Risk of re-monopolisation through dominance of vDSL/FTTC investment – likely to continue despite investments in FTTH by eircom and ESB/JV

WHEN TO PRICE REGULATE OR NOT NGA?



Benchmarking regulated prices across EU shows WLR out of line

■ Ireland ■ UK ■ Portugal ■ Italy ■ Spain ■ Netherlands

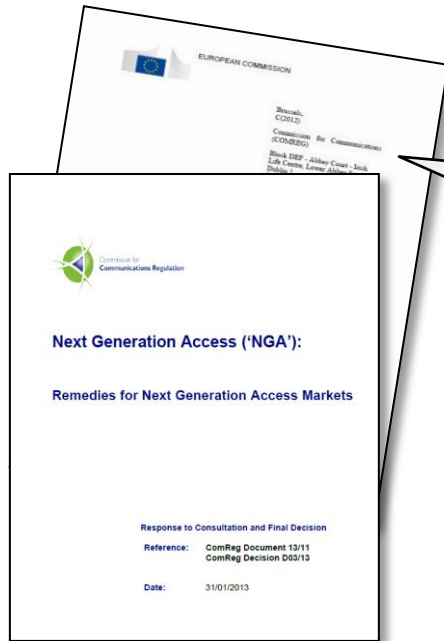


The only product where Ireland is significantly out of line with other countries is in terms of WLR. Historically this has been driven by high LLU pricing. Recent reductions in Irish LLU pricing to bring it in line with European norms have not been reflected in reductions in WLR.

The LLU reductions were also too late to justify an investment in unbundling as the market had already moved to VDSL. Recent decisions in Italy, Spain and Finland show a trend to reduce high wholesale prices



In 2013 NGA Remedies decision ComReg asked by EU to revisit regime in line with Recommendation on non-discrimination



At page 410 of the document:

“The Commission highlights that the Commission is working towards the adoption of a Recommendation on the consistent application of non-discrimination obligations and cost methodologies to promote competition and enhance the broadband investment environment, which will give some guidance on the design of an ex ante economic replicability test. This test should be used in case pricing flexibility is granted to the SMP operator for NGA wholesale inputs in the presence of other competitive safeguards. Accordingly, the Commission invites ComReg to revisit the proposed margin squeeze tests along the lines of the forthcoming Recommendation once adopted.”



Conclusions

- Vodafone fixed business is growing and Vodafone active investor and offer competitive alternative nationally to eircom
- Eircom have no price constraint in retail which was in place in the past - increases in wholesale prices and retail price increases will further strengthen the incumbent and lead to returns in excess of regulatory indicators
- Eircom's future investment should not be used to argue for regulatory relief as eircom have legacy of underinvestment and investment is driven more by competitive pressures on FTTH
- Access pricing review needs to reflect commission recommendation on cost based copper and NGA pricing – pricing flexibility should only be in place if E of I measures are in place
- Further engagement needed on provisioning and SLA issues

