

# Media release

Sri Lanka Telecom PLC.-(SLT) - Financial results for the six months ending 30<sup>th</sup> June 2009.

## SLT group moves forward with positive results

- **Performance overview**

Sri Lanka Telecom Group, the country's number one integrated telecommunication service provider, with its subsidiary companies continued to be aggressive in the expanded telecommunication market in fixed, mobile, data, internet, IPTV, international and other diversified areas, achieving revenue and generating a subscriber base of more than 5 Million customers as at the end of the first half of 2009. The Group's after tax net profit was Rs. 1,346 million. Even though the result is a 57% dip from Rs. 3,163 million of the same period of last year, the group achieved these favourable results despite severe competition within the industry and the economic downturn which affected all industries.

Releasing the results, the Group Chairperson Mrs. Leisha De Silva Chandrasena stated that "In spite of the adverse economic scenario and critical financial conditions prevailing worldwide, SLT has been able to show resilience to weather the storm and bring about performance. SLT and its subsidiaries is of the view that the diversification strategies and customer centric business operations have paid off and resulted in achieving positive results in the face of turbulent economic conditions".

Adding further she said, "We have carefully analyzed the market conditions in the region against the performance of the top players in the region. Results project the same as in our country. Considering the situations we are very comfortable in managing SLT Group performance in this level".

### Summarized financial results

Rs. Million

|                             | Group<br>(Jan. to June) |              |              | Company<br>(Jan. to June) |              |              |
|-----------------------------|-------------------------|--------------|--------------|---------------------------|--------------|--------------|
|                             | 2009                    | 2008         | Growth       | 2009                      | 2008         | Growth       |
| Revenue                     | 23,585                  | 23,358       | 1%           | 16,867                    | 18,621       | (9%)         |
| Operating cost              | (14,291)                | (11,460)     | 25%          | (9,932)                   | (8,728)      | 14%          |
| Depreciation                | (5,691)                 | (5,162)      | 10%          | (4,237)                   | (4,194)      | 1%           |
| ITL expenditure             | (1,473)                 | (1,490)      | (1%)         | (1,280)                   | (1,383)      | (7%)         |
| Cost of VRS                 | -                       | (370)        | -            | -                         | (370)        | -            |
| Other Income Charges        | 95                      | 140          | (32%)        | 85                        | 138          | (38%)        |
| Net Interest income         | (408)                   | (486)        | (16%)        | 92                        | (113)        |              |
| Taxation                    | (471)                   | (1,367)      | (66%)        | (447)                     | (1,355)      | (67%)        |
| <b>Net profit after tax</b> | <b>1,346</b>            | <b>3,163</b> | <b>(57%)</b> | <b>1,148</b>              | <b>2,616</b> | <b>(56%)</b> |

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- **Revenue**

SLT group revenue has grown by 1% to Rs.23,585 million from Rs.23,358 million in the same period of last year, with Significant growth from Mobitel (mobile) and data related services across the group offsetting the impacts of increased competition in the voice and international businesses that resulted in a dip in SLT company revenue by 9% to Rs.16,867 million.

Though the SLT Group's top line growth is recorded at only 1% revenue growth, the revenue contribution is aligned with the SLT group long term strategy of growing its Mobile and data businesses, which have seen a growth of 40% and 15% respectively, SLT strongly believes that there will be a huge potential in these sectors in the future.

The country's total telecommunication market has expanded to a penetration rate of around 75% of the 20 million population with around 60% of the covered population served by the mobile sector.

Today, the telecommunication market is quickly transforming from voice to a data driven market. Sri Lanka Telecom foresaw this trend long ago and laid an extensive optical fibre network connecting the far corners of the island. The Company has already rolled out necessary state of the art technologies such as IP-MPLS on the optical fibre backbone network in order to cater for future data solution demands and any IP technology based demands such as broadband solutions, including IP-TV. Today, Sri Lanka Telecom's optical fibre and IP-MPLS network caters to almost all top corporates in the country. SLT expects to strengthen this further.

## Group Revenue Composition

Rs. million

| Revenue Components               | 1 <sup>st</sup> half 2009 | 1 <sup>st</sup> half 2008 | Growth    |
|----------------------------------|---------------------------|---------------------------|-----------|
| Wired Line revenue               | 6,464                     | 7,920                     | (18%)     |
| CDMA revenue                     | 2,427                     | 2,757                     | (12%)     |
| International revenue            | 4,131                     | 4,605                     | (10%)     |
| Data and other operating revenue | 3,237                     | 2,803                     | 15%       |
| Subsidiaries                     | 7,326                     | 5,273                     | 39%       |
| <b>Total group revenue</b>       | <b>23,585</b>             | <b>23,358</b>             | <b>1%</b> |

## Wired line revenue:

Wired line revenue comprises of deferred wired line new connection charges, rental, usage charges, value added services revenue and revenues from domestic interconnections. Intense competition, and the economic downturn has had an adverse effect on the revenue, with a reduction of 18% to Rs. 6,464 million during the 1st half of 2009, compared to Rs. 7,920 million during the same period of the last year. The customer base of wired lines at the end of June 2009 was 871,114.

The reason behind the revenue drop in the wire-line area is mainly due to "cost-cutting" measures carried out by all customers, from large corporates to entrepreneurs, a trend also observed in our residential customer base. Due to the present financial situation, the purchasing power of people has reduced, making them very price sensitive.

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SLT has observed that even in the face of severe competition and price wars, customers are really enjoying SLT services with a bundle of value added services and continuous monthly discounts on their bill, which has been a benefit enjoyed over many years, even before the economic recession.

Domestic interconnection revenue has dropped by over 95% due to the determination issued by the Telecommunication Regulatory Commission in November 2008, while corresponding expenditure dropped by 100% from Rs. 226 million in the 1st half of 2008 at company level.

## CDMA Revenue

CDMA (Code Division Multiple Access) is the wireless solution for voice services and SLT has widely used this technology to connect rural areas, where the provision of a wired line is not technically or economically feasible. Recently the company introduced a prepaid card system as an option for low end users. The CDMA revenue has dropped during the 1st half of 2009 by 12% to Rs. 2,427 million, from Rs. 2,757 million of the same period of the last year.

Sri Lanka's total fixed telecommunication market has expanded to around 16.7% penetration of the total population. Of these users now enjoying modern nearly 3.3 million customers uses either a fixed wired or wireless telephone connection. CDMA customers are typically very price sensitive due to their increased switching power between operators.

SLT owns and operates the largest CDMA network in the country with the highest number of base stations across the island, covering 92% of the island geographically. In an attempt to reach the more rural communities, SLT started a roll-out campaign whereby the CDMA facility was provided to rural areas, starting with Anuradhapura. We have also recently increased the coverage & capacity to serve the Northern Peninsula customers who are also now able to access improved telecommunications that are comparable with Customers Island wide.

## Revenue from International gateway operations.

SLT alone has more than 60% market share of international gateway operations. A major portion of the revenues are generated from settlements with overseas operators for international incoming traffic terminations. Locally and internationally, the current trend is tariff reduction. Locally this trend is very aggressive as the mobile and fixed line operators are compelling each other to reduce tariffs to remain competitive whilst some customers are moving out of the market due to technology substitutes such as Skype. The revenue of the sector during the first six months of 2009 was Rs. 4,131, a 10% drop compared to the same period of the previous year.

The IDD market also has expanded with intense competition amongst all the mobile and fixed operators. SLT's IDD revenue has been adversely affected mainly because of the intense competition as well as the emergence of new technologies such as VOIP which is influencing customers to switch from IDD, a trend noticed by many major IDD operators around the world.

SLT always maintains the highest quality of international calling services whilst strengthening relationships with the world's tier 1 international telecommunication operators.

# Media release

## Data and Other Services

One of SLT's long term strategies is to grow the data segment, and during the first half of 2009, SLT has achieved revenue of Rs. 3,237 million, recording a 15% growth compared to the same period of the previous year.

SLT provides data solutions to all sectors of the country including financial sector, making a significant contribution to the national economy.

Presently, SLT is connected to the global internet with more than 5Gbps of international bandwidth connected through diversified and multiple access points globally. SLT is the leader in the ADSL broadband category, with a customer base 120,000, which is over 50% of market share.

- **Operating Expenditure**

Prevailing inflationary conditions coupled with the cost of group expansions, has caused the operating expenditure to increase by 25% to Rs. 14,291 million, when compared to Rs. 11,460 million of same period the year before. At the company level the operating expenditure increased by 14% to Rs. 9,932 million, compared to Rs. 8,728 million of the same period of the last year.

Rs. million

|   | 1H 2009       | 1H 2008       | Increase   |
|---|---------------|---------------|------------|
| Staff Cost                                  | 3,418         | 3,217         | 6%         |
| Cost of CDMA sales                          | 401           | 471           | (15%)      |
| Provision for doubtful debts                | 823           | 782           | 5%         |
| Payments to international network operators | 983           | 632           | 56%        |
| Payments to domestic network operators      | 238           | 478           | (50%)      |
| Repair and Maintenance                      | 834           | 755           | 10%        |
| Operating expenditure of subsidiaries       | 4,936         | 3,268         | 51%        |
| Other expenses                              | 2,658         | 1,857         | 43%        |
| <b>Total</b>                                | <b>14,291</b> | <b>11,460</b> | <b>25%</b> |

A significant increase in the expenditure of the group can be attributed to the increase in the operating expenditure of Mobitel, mainly due to expansions. At SLT Company level the operating expenditure has grown by 14% to Rs. 9,932 million when compared to Rs. 8,728 million of the same period of the previous year. Staff costs, payments to international network operators and utility expenses have mainly contributed to this increase.

SLT Publications is moving forward, fulfilling the responsibility of directory publications, whilst being vigilant for new revenue sources.

# Media release

WiMAX, the wireless broadband solution will be launched by the subsidiary Sky Networks soon to complete the broadband portfolio of SLT which will then consist of ADSL, Mobile 3G and WiMAX. It will bring its customers a low cost, wireless broadband option that supports the Company's triple play services and will ensure the ability of SLT to embrace quad play services when they come on stream.

Other subsidiaries are performing well in their respective businesses.

As the national telecommunications service provider, Sri Lanka Telecom has extended its fullest support to the Government of Sri Lanka by continuously upgrading and expanding its communication backbone to the areas in the north and east of the country. As GoSL has requested from local and international bodies for investment opportunities in North and East areas, SLT will support them by providing quality ICT services to any of these bodies which come forward to develop Sri Lanka.

- **Mobitel**

Mobitel subscriber base closed up on the 3 million mark just after the end of June 2009 growing by 61% from a total of 1.8 million at the end of first half 2008. The growth in subscriber base has been the key driver of revenue and revenue for the first half of 2009 was 40% higher than the corresponding period in 2008. This growth was achieved mainly through the contribution which was generated from the postpaid segment complemented by the Upahara Package introduced at the latter half of 2008 while amidst growing competition witnessed in the Sri Lanka mobile market causing rapid reduction in tariff.

|                      | <b>1H 2009</b> | <b>1H 2008</b> | <b>Increase</b> |
|----------------------|----------------|----------------|-----------------|
| Subscribers (Thous.) | 2,993          | 1,855          | 61%             |
| Revenue (Rs.mil)     | 7,261          | 5,191          | 40%             |
| EBITDA (Rs.mil)      | 2,169          | 1,932          | 12%             |
| EBIT (Rs.mil)        | 719            | 966            | -26%            |
| NPAT (Rs.mil)        | 214            | 582            | -63%            |
| CFO (Rs.mil)         | 3,340          | 2,097          | 59%             |

Mobitel recorded EBITDA growth despite industry losing profitability. However the growth in EBITDA is not in line with the growth in revenue as a result of increasing costs associated with network expansion and industry specific cost escalation. Mobitel continued its aggressive expansion to cater growing customer base and traffic, thus resulted in EBIT and NPAT decreasing by 26% and 63% respectively. The decline in EBIT and increase in borrowing costs associated with network expansion has contributed to the decline in net profit during 1st half of 2009.

However during the period the growth in revenues drove strong growth in company cash flows reflected by 59% increase in cash flow from operations to Rs.3.34 billion in first half of 2009 compared to Rs.2.1 billion in the same period of 2008.

# Media release

- **Other Subsidiaries**

SLT has six fully owned subsidiaries - Mobitel (Pvt) Ltd., SLT Publications, SLT VisionCom, SLT Manpower Solutions, SLT Services, SLT Hong Kong Ltd.; and one partly owned subsidiary – Sky Network (Pvt) Ltd.

SLT VisionCom continues to expand its customer base, which is over 10,000 to date. IPTV is a value addition to broadband, which is a value addition to wire line. IPTV provides customers a single product that can deliver never before enjoyed features such as video-on-demand, Time Shift TV, Trick Play plus a host of other interactive features as well as allowing access to e-mail, internet directory services, telephony and all other business communications through one converged IP broadband network, delivered through a single converged line offering triple services - data, voice and multimedia.