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SRI LANKA TELECOM PLC - Quarterly Interim Financial Results – 30 June 2010

SLT Group quarter 2 PBT up by 132% to Rs. 1.21 Billion

Sri Lanka Telecom PLC, (SLT) the national leading integrated Telecommunications Service provider released the financial results of the company and group for the quarter ended 30 June 2010 and for the first half of year 2010. During the second quarter, the group has recorded a Profit before Tax (PBT) of Rs. 1.21 billion, an impressive 132% growth when compared to Rs. 523 million Profit before Taxation (PBT) in the corresponding quarter of the previous year. Group PBT shows significant growth of 158% to Rs. 1.35 billion after normalizing for non recurring expenses and a refund of Telecommunication Development Charge (TDC). Group Profit after Tax (PAT) for the second quarter rose to Rs. 769 million, registering a growth of 105%, or after normalization for non recurring expenses, a resulting growth of 127% in PAT (Rs. 851 million) against the second quarter of 2009.

Group revenue for the second quarter has increased by 5% to Rs.12.36 billion compared to the same quarter of previous year.

For the 1 half 2010, the Group recorded a PBT of Rs. 2.16 billion against the 1st half 2009, an increase of 19% while PAT increased by 2% to Rs.1.37 billion mainly due to an increase in corporate tax by 66%. This increase in corporate tax compared to 1 half of 2009 is mainly driven by the expiry of the Mobitel tax holiday in second quarter 2009. After normalization for non recurring expenses and TDC refund, a resulting Group PBT of Rs. 2.57 billion (42% increase) and Group PAT of Rs. 1.64 billion (22% increase).

Group revenue for the 1 half 2010 has increased by 4% to Rs. 24.57 billion compared to the same period in 2009.

The total group customer base has risen to 5.15 M as at June 2010, an increase of 15% over the last 12 months driven largely by rapid growth of mobile customers.

Sri Lanka Telecom PLC, CEO, Mr. Greg Young releasing the results, expressed his confidence on the future progress of the group, through the strategic and operational initiatives taken to enhance the efficiencies of the group and capture future customer growth. While Mobitel has outperformed the

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industry by recording 30% growth in revenue for the 1 half of 2010, whilst Fixed and Mobile broad band have delivered exceptional performance, registering customer growth of 47% and over 500% respectively for the 1 Half of 2010. The SLT Group is poised to seize opportunities in non-traditional revenue areas while focusing on initiatives to protect revenues from our traditional business.

SLT company revenue declined by 3% to Rs. 16.39 billion for the first half 2010. This decline was mainly driven by a reduction in revenue from traditional voice business, mainly CDMA. However, an increasing trend in fixed wired line customers which began in quarter 3 2009, has continued during first half of 2010 driven by strong demand for ADSL broadband connections. The fixed wired line customer base has grown by 1% to reach 882,000 from a year earlier while the fixed wireless customer base stands at 558,000. Average revenue per user (ARPU) on fixed lines has declined over the last year mainly due to an expected switch from fixed to mobile which is an industry trend locally as well as globally. However, rapid growth of fixed broadband revenue has minimized the negative impact from the reduction in fixed line voice ARPU. SLT expects stabilization in revenue from fixed lines from the floor rate and the interconnection regime recently introduced by the Telecommunications Regulatory Commission (TRC), coupled with several new price plans recently introduced by SLT. Future revenue growth is expected from the rapidly growing broad band customer base and increased business volumes from our network expansions in North and East.

Profit before Tax of SLT company for 1 Half 2010 is Rs. 1.39 billion, a 13% reduction Year on Year and Profit after Tax for the 1 Half 2010 is Rs. 854 million, a decline of 26%. However, after normalization for non recurring expenses and TDC refund, normalized PBT and PAT of SLT company is Rs. 1.81 billion (14% increase) and Rs. 1.12 billion (2% Decrease). Group synergy is one of the key priorities of SLT and several initiatives have been taken in strengthening this area. Investments in Next Generation Networks (NGN) will also help to reduce future operational expenses.

Equally importantly, the SLT group has been able to improve its debt recovery process as a result of several recent initiatives which have resulted in reducing bad debts by 25% and 32% respectively in the group and at the company level. Initiatives taken for debt recovery include the introduction of improved credit management controls with greater emphasis on pre-paid packages, legal action against defaulting customers and other credit control process.

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Mobitel

For the second quarter, Mobitel recorded a Profit before Tax (PBT) of Rs. 440 million, compared to the loss of Rs. 34 million in the second quarter of the previous year. Profit after Tax for the second quarter 2010 is Rs. 336 million as against Rs. 36 million loss in the second quarter of 2009, making an impressive turnaround. The reported profit for the previous quarter of 2010 was Rs.204 million making the Profit after Tax figure for the first half Rs. 540 million. Despite having to provide for corporate tax of over Rs 200 million in the first half of 2010, Mobitel was able to record this Profit after Tax figure achieving a growth of 152% compared to the same period in the previous year.

The profit growth in the 2010 first half is a result of impressive 30% improvement in the revenue of the company against the first half of 2009. In absolute terms Mobitel recorded a sales turnover of Rs. 9.4 billion in the first half of 2010 compared to Rs. 7.3 billion in the first half of 2009, an increase of over Rs. 2 billion. This significant feat was possible due to a growth in the customer base by 720,000 over the last 12 months despite the intensified competition in the mobile telephony sector. By the end of the second quarter of 2010, Mobitel customer based has now exceeded 3.7 million.

It is creditable that the 2010 first half profit was achieved after incurring an incremental depreciation charge of Rs. 637 million, 44% higher when compared to the first half 2009. Higher depreciation is attributed to the new investments in technology and network expansion during 2009.

The heightened competition with the entry of the fifth mobile operator during the first quarter of 2009 saw an escalating price war that eroded margins of all existing mobile operators and a pattern of customer switching between operators. Mobitel too was not insulated from this industry turbulence and was forced to adjust to the market realities. It is commendable that despite the pressure on margins and increased customer acquisition costs in the face of intense competition, Mobitel has returned a commendable performance reporting healthy improvements in all performance indicators including Customer base, revenue, EBITDA, EBIT and NPAT during the first half of 2010.