

Sri Lanka Telecom PLC.-(SLT)

Financial Results for the Quarter Ending 31st March 2009

The SLT group continues to make profits in the midst of challenging economic conditions

“In spite of the adverse economic scenario and gloomy financial conditions prevailing worldwide, SLT has been able to show resilience to weather the storm and bring about performance.” Mrs. Leisha De Silva Chandresena, Chairperson of the SLT Group commented.

Owing to its strength and resilience to turbulent market conditions, the integrated telecommunication services provider, SLT was able to announce favorable results for its first quarter of the financial year ending 31st March 2009. The Group has achieved a net profit of Rs. 971 million during this quarter. The achievement was 42% below, the same quarter compared to that of the previous year due to the increase of operational expenditure and depreciation. Thus, the company achieved a net profit of Rs.734 million, a reduction of 46% compared to the corresponding quarter of the previous year as a result of revenue reductions.

	Group			Company		
	2009	2008	Growth	2009	2008	Growth
Revenue	11,837	11,600	2%	8,392	9,389	(11%)
Operating cost	(6,894)	(5,572)	24%	(4,702)	(4,375)	7%
Depreciation	(2,838)	(2,716)	4%	(2,150)	(2,232)	(4%)
ITL expenditure	(719)	(771)	(7%)	(637)	(720)	(12)
Other income/(charges)	65	46	41%	60	45	33%
Interest Income	345	307	12%	333	278	20%
Interest expenses	(502)	(565)	(11%)	248	362	(31%)
Taxation	(323)	(666)	(52%)	(314)	(660)	(52%)
Net profit after tax	971	1663	(42%)	734	1363	(46%)

❖ Revenue

During this quarter the group revenue was Rs. 11,837 million, 2% higher than the 1st quarter of 2008. Thus, the company level revenue had dropped by 11% to Rs. 8,392 million.

Group Revenue Composition

Rs. million

Revenue Components	1Q 2009	1 Q 2008	Growth
Wired Line revenue	3,298	4,054	(19%)
CDMA revenue	1,203	1,473	(18%)
International revenue	1,980	2,334	(15%)
Data and other operating revenue	1,595	1,276	25%
Mobitel revenue	3,601	2,431	48%
Other subsidiaries	160	32	400%
Total group revenue	11,837	11,600	2%

The company's strategy of developing the non-voice business sectors which is also consistent with the Government policy on ICT continued with the development of internet and data oriented services. Due to various innovative strategies such as the introduction of affordable packages for customers, expansion of the infrastructure facilities and augmenting improvements to the quality of service rendered, SLT has become a trend setter and recorded the largest share in the Broadband and Data Services market. During the quarter, Broadband and Data revenue has grown by 25% to Rs.1,595 million quarter on quarter.

Owing to the prevailing economic conditions, Wired and CDMA subscribers have been compelled to scale down usage while some customers have migrated to other fixed and mobile networks seeking budget price packages. As a result, these adverse conditions have brought down the Wired and CDMA revenue by 19% and 18% respectively. Various taxes and levies imposed on fixed services by the Government has further aggravated this problem and put much pressure on customers to be more conscious about scaling down usage.

Pressure from global recession has had an impact on international telecommunication traffic and pricing. These combined with emerging competitors, has brought down international revenues by 15% to Rs. 1,980 million..

❖ **Operational Cost and Depreciation**

Apart from the prevailing inflationary conditions, in line with the capacity and coverage expansions of Mobitel and other subsidiaries, the operating costs have increased by 24% to Rs. 6,894 million compared to the same quarter of the previous year. The company has been able to manage its operating cost at Rs. 4,702 million, an increase of only 7% compared to the corresponding period of the previous year. This is well below the prevailing inflationary level. The increase of operating expenditure of the company was mainly due to a 7% increase of staff cost, while the careful management of repair and maintenance costs and strict credit control on bad debts has led to the reduction of expenses.

Depreciation and amortization at the Group level has increased by 4% to Rs. 2,838 million, compared with the first quarter of 2008 while the corresponding amount of the company has dropped by 4% to Rs. 2,150 million. The Group level increase was due to a contribution by Mobitel in line with their recent capacity and coverage expansions.

❖ **Subsidiary Operations**

SLT has six fully owned and one partly owned subsidiary. Of these subsidiaries, Mobitel has performed well in the market. Performance of Mobitel is given separately below. Most of the other subsidiaries are still at their inception stage and are expected to achieve stable positions in the market soon.

❖ **Operations of Mobitel (Pvt) Ltd.,**

SLT's wholly owned subsidiary and mobile operator Mobitel (Pvt) Ltd., recorded a growth in the first quarter of 2009 despite the adverse macro economic conditions the telecom industry had to grapple with. The subscriber base increased by 73% to 2.81 million in March 2009 compared to the

corresponding period of last year. While prepaid subscriber acquisition contributed to the growth appreciably, the overwhelming demand for " Upahara " package resulted in a rapid growth in the postpaid subscriber base as well, achieving market leadership in postpaid.

Revenue recorded a steady growth of 48% despite price erosion as a result of the rapid growth in the subscriber base and initiatives undertaken by the company to drive usage. Revenue growth contributed to the growth in EBITDA and EBIT by 25% and 3% respectively. The above growth was achieved despite a substantial increase in spectrum fees, high inflation and energy prices and additional expenditure associated with subscriber registration etc. However, increased interest and depreciation expenditure stemming from rapid network expansions contributed towards a decline in NPAT for the 1st quarter of 2009. Nevertheless the company was able to maintain its profitability despite plummeting industry trends consequent to intensified competition and reducing prices.

<i>Year on Year Growth</i>	<i>Q1'09</i>	<i>Q1'08</i>	<i>%</i>
Subscribers (K)	2,813	1,629	73%
Revenue (Rs Mn)	3,601	2,431	48%
EBITDA (Rs Mn)	1,181	946	25%
EBIT (Rs Mn.)	495	480	3%
NPAT (Rs Mn)	250	301	-17%
Cash flow from Operations (Rs Mn)	2,229	499	347%