

Sri Lanka Telecom PLC.-(SLT)

Financial results for the nine months ending 30th September 2009

SLT group maintains revenue growth

Sri Lanka Telecom, the incumbent telecommunications service provider released its financial results for the 9 months ending 30th Sep. 2009. The group remains positive about the results that have been delivered under challenging economic conditions that continue to prevail and the ongoing intense competition in the Sri Lankan Telecommunications industry, which combined have impacted the overall results of the group.

Group Chairperson Mrs. Leisha De Silva Chandrasena is of the view that these challenging & adverse conditions prevailing in the market place are common to all. However the Sri Lanka Telecom group with its highly valued brand & national footprint that delivers a full suite of Telecommunications & Information products and services remains strongly positioned to face these all current & future obstacles.

Revenue

The group revenue for the 1st nine months of 2009 has grown by 2% to Rs. 35,890 mil. from Rs. 35,049 mil during the same period in 2008. Mobile and Other Revenue segments have positively contributed to this growth, a demonstration that our diverse portfolio of services across the group serves us well. The recent introduction of new flexible and innovative price packages for PSTN & CDMA fixed customers has positioned these sectors against the competitive pressure, however the revenues from PSTN and CDMA segments have dipped, as the Company expected.

SLT, the only wire-line broadband service provider in Sri Lanka, continues to focus on its broadband strategy of driving and capturing growth in this important sector, which positions us well to deliver additional information and entertainment services now and into the future. During the period under review the broadband segment revenue has grown by 12% as the ADSL customer base continues to grow. The company has taken several measures including the introduction of new price packages to increase the customer base. Introduction of the SLT PeoTV (IPTV) service further leverages and drives the demand for broadband ADSL service. Furthermore through its subsidiary Sky Networks, SLT is moving to introduce wireless broadband service also, a further expansion of our diverse access network strategy.

Through the introduction of the new fixed telephone packages and a focus on customer service & retention through new value added services, SLT has focused on our existing fixed line telephone customers.

Operating Expenditure

During the 1st nine months of 2009, the group operating expenditure has increased, by 25% to Rs. 22,233 mil compared to Rs. 17,842 mil of the same period of previous year owing to high inflationary factors and increase of advertising and sales commissions of Mobitel in line with the increase of their sales.

The Company has been able to maintain the operating expenditure at Rs. 15,101 mil. during the 1st nine months of 2009, when compared to the same period of 2008. This is a 13% increase.

Depreciation

During the 1st nine month of 2009, the group depreciation has grown by 9% to Rs. 8,234 mil from Rs. 7,546 mil of the same period of 2008, due to the impact large investment of Mobitel for their Service expansions. There has been a dip in depreciation of the Company during the period under review by 1% to Rs. 6,128 mil. compared to Rs. 6,182 mil. of the same period of 2008.

Voluntary Retirement Scheme (VRS)

Aiming of cost reductions, opportunities to bring-in high skilled and active labour the Company continues to invest in Voluntary Retirement Schemes (VRS). Compared to Rs.370 mil. of the year 2008, Rs. 480 mil. has been distributed among about 300 employees who opted to enjoy benefits of the VRS during the year 2009.

Net profit after tax

Despite the revenue increase, as a result of increase of depreciation, operational costs, finance costs and Mobitel income tax liability arises due to expiry of the BOI tax holiday, the group after tax net profit for the 1st nine months of the year 2009 has dipped by 74% to Rs. 1,157 mil when compared to Rs. 4,399 mil. of the same period of 2008. Net profit after tax of the Company has dipped by 60% to Rs. 1,446 mil from Rs. 3,609 mil. of the 1st nine months of 2008.

Company Transformation

Sri Lanka Telecom has recognized that the company should be changed in line with the various changes that have taken place in the market place. Technologies are constantly changing, competition is high, the customer needs and desires are changing and costs are pushed by inflation, while the company is driving through technology focused strategies rather than customer driven strategies. Therefore, the Company has

already started a process of transformation in order to drive the company through customer focused strategies whilst improving the efficiencies of the Company. The Company expects medium to long term benefits from this transformation.

Mobitel performance

Mobitel subscriber base exceeded 3 Mn while recording a growth of 42 per cent from a total of 2.3 Mn at the end of 3rd quarter of 2008 to a subscriber base of 3.2 Mn by the end of September 2009. The growth in subscriber base has been the key driver of revenue and for the first nine months of 2009 revenue was 34% more than the corresponding period in 2008. At an industry level increasing intensity of competition to capture, hold and grow a maturing market led to progressive price reductions notwithstanding additional cost outlays to finance enhanced product and service expectations of the market. However Mobitel was able to record an appreciable revenue growth in the light of competition and also despite tariff revisions which saw nearly 50% reduction of market reference price. In addition to industry specific cost escalation, the intense oligopolistic competition has caused an increase in the overall promotional activities in an attempt to acquire more subscribers, however creating turbulence in the market thus deteriorating profitability in comparison to previous year.

Despite the adverse market conditions Mobitel was able to distance competition by creating value through innovation and customer centricity. Although Mobitel was unable to realize the full benefit of price revisions in the first quarter due to capacity constraints, the company was able to record a strong revenue growth. The Company continued its aggressive expansion to cater to its growing customer base and traffic through the course of the year which saw escalation of related costs such as Depreciation, Interest and Network Operating Expenses thus resulting in decline in profitability. Furthermore Costs such as Spectrum Fees increased substantially compared to first nine months of 2008 affecting the profitability of the period under review.