

# Media release

## Sri Lanka Telecom PLC. (SLT) - Financial results for the year 2009

### SLT records profits despite adverse market condition

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Sri Lanka Telecom (SLT) announced its Company and Group financial achievements during the 4th quarter and the whole 2009 financial year. The Group comprises of SLT and seven subsidiaries. As common to all the Corporates, year 2009 was a challenging one to the SLT group as well. Despite the challenges SLT and the group reported Rs. 1,232 mn and Rs. 778 mn after tax profit for the year respectively. However, the 4th quarter of the year recorded losses of Rs. 214 mn and Rs. 379 mn respectively by the Company and the Group mainly due to provisions on some exceptional items.

Group Chairperson Mrs. Leisha De Silva Chandrasena is of the view that compared to the prevailing economic situation locally and internationally and the high competitive nature of the industry the group has displayed its strong foot print in the market place achieving comparatively better results during the year 2009. The ongoing transformation program of SLT will further enhance its strengths.

#### Company performance

Pressure on prices from the competition and cost conscious behavior of subscribers have resulted in the revenue drop by 6% during the year 2009, compared to the year 2008. However as a result of the positive impact of measures taken by the company to arrest the situation throughout the year the revenue declining trend has been mitigated, bringing down the corresponding reduction during the 4th quarter to a negligible amount, this follows the previous two quarters where favorable increase in revenue have been observed. This shows on ongoing favorable trend of stable revenue for the company. Introduction of new packages for voice services, expansion of broad band and data services, strengthening of focus on wholesale business, provisioning of more value added services (VAS) and widening of customer bases are some of the actions taken by the Company in this respect.

The company experienced a 21% increase in its operating costs during the year mainly due to the inflationary situation and provisions made during the fourth quarter of the year on some exceptional items. A provision of Rs. 770 mn was made as changing carrying value of inventories. Further Rs. 157mn was charged to profits as impairment cost due to migration of some switches to NGN. As most of the company switches are reaching a level of full depreciation and the Company strategy is to migrate to NGN in several phases over coming years, the risk of large provisions for impairment is minimal. Without the impact of provisions for exceptional items the increase of operating cost compared to the previous year would have been about 16%.

Owing to the provision on exceptional items the company has made a net loss of Rs. 214 mn, during the fourth quarter of the year.

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While turning around the declining trend of revenues, the Company is focused on managing costs. During the year the Company spent Rs. 480 mn on another Voluntary Retirement Scheme (VRS) with 310 employees availing themselves of the benefits of this scheme. Benefits of the scheme will derive over the coming years.

## Performance of the Subsidiaries

SLT has seven subsidiaries. Our subsidiary structure is to focus on emerging market opportunities.

One of SLT's subsidiaries, SLT Publications (Pvt.) Ltd., achieved a milestone and became a profit making company, during the year. SLT PL shoulders the SLT's regulatory responsibility of publication of telephone directory. During the year under review the subsidiary earned a profit Rs. 109mn after absorbing directory publication costs. SLT expects a significant contribution from this subsidiary through its innovative services.

Mobitel (Pvt) Ltd., the mobile arm of the group continued to grow its revenue. During the year, the subsidiary revenue has grown by 28% to Rs. 15,429 mn. The increase was mainly contributed by the expansion of subscriber base, which was 3.4m at the end of year 2009. However, direct costs increased more than proportionate to revenue as a result of deteriorating margins, increase in industry specific costs, increase in customer acquisition costs etc. Also heavy investments in capacity building, 3G Expansion and Branding had an adverse impact on operating expenses, Depreciation and Interest expense which resulted in a net loss of 395 m for the financial year before consolidation.

SLT Vision Com (Pvt.) Ltd., the subsidiary responsible for IPTV services continued to grow its customer base, while SLT Sky Network (Pvt.) Ltd. will soon to launch its WiMax wireless broad band service. Voice business of SLT Hong Kong Ltd., has grown significantly during the year 2009, mainly due to the rapid growth of Mobitel termination traffic. The company handles transit voice traffic destination to Sri Lanka as well as to other countries.

SLT Manpower Solutions (Pvt.) Ltd. operates as the contract manpower provider to companies in SLT group supply flexible and efficient resource management.

Sri Lanka Telecom Services Ltd. continued to provide project implementation and consultancy services to SLT for telecom development projects.

## Repayment of US\$ 100m International Bond

As the first corporate in Sri Lanka, SLT entered into the International Bond market in 2004 and issued US\$ 100mn bonds. During the year 2009, the company repaid the entire bonds, using the sinking fund built up in this respect. This has resulted in building confidence amongst the investing community.