

Sri Lanka Telecom PLC. (SLT)
Financial results- year 2007

SLT group results continue to grow

Integrated telecommunication services provider Sri Lanka Telecom PLC (SLT) reported an after tax group net profit of Rs.5.6 billion during the year 2007 compared to Rs.5.4billion of the previous year. The group has achieved a 3.7% growth despite the reduction of call and rental chargers of fixed lines and reduction of CDMA connection chargers during the year.

Profit after tax at the company level has dipped by 2% to Rs. 5.4 billion due to price reductions and inflationary factors.

Summarized financial results.

Rs. Million

| | Group | | Growth | Company | | Growth |
|-----------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| | 2007 | 2006 | | 2007 | 2006 | |
| Revenue | 43,234 | 40,691 | 6.2% | 37,068 | 36,109 | 2.7% |
| Operating cost | (20,748) | (17,915) | 15.8% | (17,231) | (15,351) | 12.2% |
| Depreciation | (10,416) | (10,174) | 2.4% | (8,978) | (8,898) | 0.9% |
| ITL | (2,851) | (2,282) | 24.9% | (2,727) | (2,280) | 19.6% |
| VRS cost | (43) | (425) | - | (43) | (425) | - |
| Other income/(charges) | 169 | 180 | (6.1%) | 166 | 175 | (5.1%) |
| Net Interest cost | (946) | (848) | 11.56% | (124) | (101) | 22.8% |
| Taxation | (2,759) | (3,789) | (27.2%) | (2,743) | (3,732) | (26.5%) |
| Net profit after tax | 5,640 | 5,438 | 3.7% | 5,388 | 5,497 | (2%) |

Group Earnings per share (EPS) rose to Rs. 3.10 from Rs. 3.01 in 2006.

Mr. Shoji Takahashi, CEO, SLT stated "Year 2007 was a year of mixed result. During the year we have achieved several milestones such as business diversifications, improvements to credit ratings, gaining BOI duty concessions etc, while reducing prices. This is important to maintain our competitive position in the market even though there is a marginal impact on our current year results. Our strategy to move from traditional voice business to package solutions will definitely differentiate SLT from others in the market place."

Revenue

Rs. Million

| Revenue Components | 2007 | 2006 | Growth |
|--------------------------------|---------------|---------------|-----------|
| Domestic revenue | 19,397 | 20,181 | (4%) |
| CDMA new connection charges | 3,432 | 3,865 | (11%) |
| International revenue | 9,114 | 8,264 | 10% |
| Mobitel revenue | 7,001 | 5,298 | 32% |
| Data & other operating revenue | 4,290 | 3,083 | 39% |
| Total group revenue | 43,234 | 40,691 | 6% |

Domestic revenue:

Domestic revenue comprises of rental and local call charges from both wired and CDMA connections and the applicable portion of differed new connection charges of wired lines.

Despite the reduction of local call charges and rentals over 8% effective from January 2007 the company has been able to maintain the effective revenue reduction rate as low as 4%, by increasing the customer base. Company expects a further recovery of the drop through increased usage of phones due to the more competitive tariff.

The fixed line customer base increased from 1.18 million at end 2006 to 1.43 million as at end 2007.

CDMA connection charges:

CDMA connection charge is immediately recognized in the income statement as revenue. During the year over 224,000 new CDMA connections have been given compared to 223,000 given in 2006. In achieving this number SLT reduced the connection charge in May from Rs.18,400 to Rs.12,500 and in November introduced the CDMA Vplus package at a charge of Rs.7,500 for customers who wish to use the phone only for voice services. The main purpose of the reduction of connection charges was to pass the benefit of duty concessions and reduced cost to the customers. The price reductions have dipped the revenue by 11% to Rs.3.4billion. The impact on margins is minimal as the corresponding purchasing costs are reduced.

SLT introduced a pre-paid CDMA service in December 2007.

International Revenue:

International Revenue comprises of International settlement in payments and IDD call charges. International revenue has grown by 32% as the international incoming traffic has increased. International call revenue continues to drop due to competition. Further actions are being taken to enhance the Voice over Internet Protocol (VoIP). MaxTalk prepaid card service introduced to meet competition.

Data and other operating revenue:

Data and other operating revenue mainly consist of revenues from Broad band services, Data circuits and internet services. This is key for the future growth prospects of the company. During the year the growth was 39%. By the end of 2007 the company had more more than 54,000 ADSL customers and 88,000 post paid Internet dial up customers. IPVPN facilities to corporate customers, international leased line services and pre-paid internet dial up services are some other services available.

Mobitel

SLT's mobile arm and the fully owned subsidiary, Mobitel has shown a strong growth during the year in terms of Revenue, Subscriber base & Profitability. Mobitel has achieved a 32% growth in its revenue to Rs. 7 billion whilst posting a net profit of Rs. 254 million for the year against the loss of Rs. 64 million reported in the year 2006.

| | 2007 | 2006 | Growth |
|-------------------------------------|-------|-------|--------|
| Subscribers – 000' | 1,401 | 885 | 58% |
| Revenue (Rs. mil) | 7,002 | 5,298 | 32% |
| EBITDA (Rs. mil) | 2,531 | 2,021 | 25% |
| Net profits after tax (Rs. mil) | 254 | (64) | 497% |
| Cash Flow from Operations (Rs. mil) | 4,197 | 2,504 | 67% |

Mobitel customer base reached 1.4 million by the end of year end compared to 0.885 million at the end of year 2006. Mobitel continued to expand its coverage Island wide and had over 1000 base stations deployed by the yearend.

Under the stage III expansion program Mobitel Introduced 3.5G (M3) High Speed Packet Access (HSPA) technology enabled with 14.4 Mbps downlink and upto 1.9Mbps uplink speed to the Sri – Lankan market becoming the first operator to introduce this technology to South Asia. M3 also offers High Speed Internet access for laptop, desktop, to download, upload, surf, stream, mail, chat, blog and do everything you wanted to do on the Internet.

Dividend

The board of directors, of SLT has decided to pay Rs. 1.00 as first and final dividend for the year 2007. The pay out ratio is 32%.

Credit Ratings

SLT, one of the leading corporates in Sri – Lanka, has been rated at AAA (Sri) by Fitch Ratings for local currencies. Creating another milestone, Standard & Poors raised its long term foreign currency rating to BB -, one notch above the country rating, signaling SLT's strong debt servicing capabilities. SLT is the only corporate in Sri – Lanka having international credit ratings from world recognized Standard & Poors and Fitch Credit Rating agencies.

BOI approval

During the year 2007 Board of Investment of Sri Lanka (BOI) granted duty concessions to SLT under section 17 of the BOI law. As SLT spends a large amount of money in Capital expenditure for the import of equipments annually, this approval will save a significant amount of duty to the company.

Share holding

49.5% of SLT shares are owned by the Government of Sri Lanka (GoSL) and 35.2% owned by NTT Corporation Japan. The balance is with employees and general public. During the year NTT Corporation expressed their intention to divest a portion of its holdings. A due diligence study on the group was carried out by Global Telecommunications Holdings (GTH). However the transaction has been suspended due to legal proceedings.