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

SLT Group 9 Months Pre Tax Profit Tops Rs. 3.73 Bn, an increase of 105%

Sri Lanka Telecom (SLT), the National Leading Integrated Telecommunications Service Provider released its Group and Company Financial Results for the 9 months ended 30th September 2010. The SLT group comprises of its parent company (SLT) and seven subsidiaries including the mobile arm Mobitel.

During the first nine months of 2010, the group has recorded a Profit before Tax (PBT) of Rs.3.73 Bn and a Group Profit after Tax (PAT) of Rs 2.40 Bn with YoY growth rates of 105% and 108% respectively.

PBT of Rs. 1.58 Bn has been recorded for the 3rd Quarter which is an exceptional growth compared to PBT of Rs. 5 Mn recorded in the corresponding period of the previous year. Recorded Group PAT for the 3rd quarter is Rs.1.03 Bn, a Year on Year (YoY) growth of 643% from a loss of Rs.189 mil.

After normalization for non recurring expenses and Telecommunication Development Charge (TDC) refunds, the Group recorded a PBT of Rs.4.49 Bn for the 9 months which is an increase of 95% YoY.

The Group reported revenue of Rs. 37.34 Bn. for the 9 months and Rs. 12.77 Bn for Q3, recording a growth of 4% YoY for both periods. Group revenue also grew by 3% on an adjacent Quarter on Quarter (QoQ) basis. Meanwhile the major Group Key Performance Indicators marked positive trends. The group EBITDA (after International Telecommunication Levy - ITL) for the 9 months grew by 7% to Rs. 12.67 Bn while EBITDA (after ITL) margin rose from 33% to 34% YoY. PAT margin of the group for the 9 month period rose from 3% to 6%.

During the first nine months of 2010, the Group Free Cash Flow grew by 448% to Rs.7,308 Mn, from a negative Rs.2,099 Mn of same period of the previous year. The growth was mainly attributed by lower capital investments coupled with better performance of Mobitel.

Releasing the results the Chairman, Sri Lanka Telecom Group, Mr. Nimal Welgama stated that, the SLT group has built a well diversified business portfolio with strong market positions in Fixed, Mobile, International, Data and Broadband services to seize new market opportunities and capture a strong share of the underlying economic growth occurring across all sectors of the country. The SLT Group has clearly displayed its resilience by delivering strong performance both QoQ and on a YoY basis. Meanwhile the business transformation of the main business entity is well underway as we transform our company into a customer focused and market centric organization, he said.

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During the first nine months of 2010, SLT Company achieved a PBT of Rs. 2.35 Bn, with YoY growth of 19% and PAT of Rs.1.40 Bn with a YoY marginal decline of 3%.

On a normalized basis the company recorded a PBT of Rs. 3.12 Bn and PAT of Rs. 1.93 Bn with YoY growth rates of 26% and 7% respectively.

The company experienced a drop of just under 2% in its operating revenue during the first nine months of the year 2010 on a YoY basis; however strong revenue growth was recorded at 4% on an adjacent QoQ basis.

Strategic initiatives such as our ongoing company transformation program to become a more customer centric organization, network modernization, expansion and migration to NGN technology, ICT services, together with cost management initiatives have put the company on a strong footing to deliver strong financial performance. In addition, SLT has significantly benefitted from the recent decision of the Telecommunication Regulatory Commission to reduce the ITL.

Fixed wired line customers have grown by 20,000 YoY, while during the same period the Fixed wireless (CDMA) customer base has declined by around 17,000, a trend underpinned by the strong customer demand for fixed broadband ADSL service. Further, the Average Revenue per User (ARPU) of fixed line voice has declined compared to the previous year mainly due to the migration from fixed to mobile voice consistent with market and global trends. Meanwhile in line with our strategic growth plan, the fixed broadband customer base recorded very strong growth of 40% and which is over 56,000 customers YoY, and has recently passed the milestone of 200,000 customers.

The mobile arm of the SLT Group, Mobitel recorded a Profit before Tax (PBT) of Rs.1.36 Bn and a Profit after Tax (PAT) of Rs 1.05 Bn for the 9 months of 2010 crossing the milestone of rupees one billion PAT, compared to Rs. 197 Mn and Rs.283 Mn pre tax and post tax losses respectively in the corresponding period of 2009. For the third quarter, Mobitel recorded a PBT of Rs.628 Mn and a PAT of Rs.514 Mn compared to Losses of before Tax and after Tax of Rs.413Mn and Rs.496 Mn respectively. EBITDA for the 9 months 2010 reached Rs. 5.01 Bn with a growth rate of 72% YoY. Mobitel was able to bounce back in 2010 reporting excellent performance underpinned by strong growth in all profitability indicators. This remarkable growth in profit was achieved despite having to provide a corporate tax of over Rs 315 Mn for the entire nine months of 2010 whereas during the year 2009 the provision was only Rs.86Mn as corporate tax was liable only from 1st July 2009 due to the expiry of the Mobitel tax holiday.

EBITDA and profit growth attained by Mobitel during the period under review is a result of an impressive 32% increase in revenue of the company over the same period of 2009. In absolute terms revenue of Rs.14.8 Bn in the first nine months of 2010 was recorded by Mobitel compared to Rs.11.2 billion in the first nine months of 2009, an increase of over Rs.3.6 billion. This significant feat was possible due to growth in the subscriber base

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by almost 20% to the end September 2010 compared to same period in 2009, and was complemented by growth in ARPU and new products such as Mobile Broadband.

Growth in revenue of Mobitel has driven improvement in all other profitability indicators inching EBITDA margin up, towards 35% during the 3rd Quarter of 2010. Earnings Before Interest and Tax (EBIT) also grew by over 200% although the incremental depreciation charge was 39% higher compared to the first nine months of 2009 consistent with ongoing investment in network expansion. Further the company bottom line was able to withstand the negative impact of the interconnection regime introduced by the Telecommunication Regulatory Commission of Sri Lanka (TRCSL) in June 2010.

Across the group, other subsidiaries and other business areas continue to show positive progress including the PEOTV entertainment and interactive service which was launched in Q4 2008 and has recorded customer growth of 157% for the 9 months YoY. SLT PEOTV is the pioneer of IPTV services in Sri Lanka, and has revolutionized the traditional TV watching experience, through its unique features enabling customers to enjoy Digital quality pictures even during rain, Time Shift Television (TSTV) facility to watch missed programs up to 48 hours, Rewind TV (Pause, Rewind live television) and video on-demand (a video gallery) of movies, dramas & documentaries in addition to local and International channels.

The SLT Group publishing arm, SLT Publications (Pvt) Ltd. shoulders SLT's responsibility to publish telephone directories and has positively contributed Rs194 Mn. PBT during the first nine months of this year. The SLT Directory, previously confined only to the printed book has now expanded to many electronic formats enabling customers to access directory information through a CD, a Web based internet portal, WAP on their mobile phone, e - Directory and Call Center service. The call center service alone provides information access to over 14 million customers in Sri Lanka. These multiple media services make directory & other service information accessible to anybody at anytime from anywhere.