

Sri Lanka Telecom PLC.(SLT) - Financial results for the year 2008

Resilience in diversity makes SLT profits rise

SLT recently announced the Company and Group financial statistics for the year 2008. The group has been able to achieve a 31% growth in Net Profit after Taxation (NPAT), of Rs. 7,367 million when compared to Rs.5,640 million of the previous year. Apart from the TDC refund, this growth was the result of remarkable achievements of SLT's fully own subsidiary Mobitel and expansion of data and IP related services of SLT. In achieving the results the group has allocated Rs.2,193 million for the government revenue by way of Corporate Taxation apart from the indirect taxes and levies.

The NPAT of SLT has grown by 23% to Rs. 6,601 million in comparison to Rs. 5,388 million of the previous year, showing resilience to the to the difficult conditions that prevailed in the market and economy.

Mrs. Leisha De Silva Chandrasena, the Chairperson of SLT and of its subsidiaries is of the view that the diversification strategies and customer centric business operations have paid off and resulted in achieving impressive results in a turbulent and chaotic environment. She hopes that the group will continue to traverse the same path towards progress and growth, while concentrating more on cost base strategies.

Summarized results

Rs. million

	<i>Group</i>			<i>Company</i>		
	2008	2007	Growth	2008	2007	Growth
Revenue	47,044	43,234	9%	36,113	37,068	(3%)
Operating cost	(25,095)	(20,748)	21%	(18,635)	(17,231)	8%
Depreciation	(10,763)	(10,416)	3%	(8,346)	(8,978)	(7%)
ITL expenditure	(2,987)	(2,851)	5%	(2,736)	(2,727)	-
TDC refund	2,183	-	-	2,183	-	-
VRS cost	(390)	(43)	807%	(390)	(43)	807%
Other income/(charges)	419	169	148%	228	166	37%
Dividend received	-	-	-	349	-	-
Net Interest cost	(851)	(946)	(10%)	6	(124)	-
Taxation	(2,193)	(2,759)	(21%)	(2,171)	(2,743)	21%
Net profit after tax	7,367	5,640	31%	6,601	5,388	23%

Revenue

During the year under review the group has achieved 9% increase of revenue that amounts to Rs. 47,044 million when compared to Rs. 43,234 million of the previous year. This growth was generated by the subsidiaries and data and IP related services of SLT.

Group Revenue Composition

Rs. million

Revenue Components	2007	2008	Growth
Wired LIne revenue	16,856	15,107	(10%)
CDMA revenue	5,973	5,133	(14%)
International revenue	9,114	8,649	(5%)
Broadband, data and other operating revenue	4,180	5,725	37%
Mobitel	7,002	12,065	72%
Other subsidiaries	109	365	232%
Total group revenue	43,234	47,044	9%

Wired line revenue

Wired line revenue includes the deferred new connections revenue, call charges, domestic interconnection revenue and rental charges.

Wired line revenue had dropped by 10% to Rs. 15,107 million when compared to Rs. 16,856 million in 2007. This is due to the intense competition and the reduction of call and rental tariffs in November 2007 in accordance with a Supreme Court decision.

In keeping line with wire line Strategy, SLT introduced the "Mega Line" package bundling Voice and data value added services, and will continue to move forward with the same wire line strategy in order to utilize the competitive advantage of the sector.

During the year under review, SLT has been able to provide over 28,000 wired line new connections.

CDMA

Rental and call charges of CDMA and CDMA new connection charges are included within the category CDMA revenue. Compared to 2007, the revenue has dropped by 14% to Rs. 5,133 million. This is due to the reduction of tariff. SLT continued to promote CDMA technology throughout the year and about 150,000 new connections were registered.

International Revenue

SLT continued to be the leading International Gateway Operator in Sri Lanka. International revenue comprises international out going call charges, settlements for international incoming traffic and international interconnection revenue.

The main reason for the decline of revenue by 5% to Rs. 8,649 million was due to the reduction of IDD call charges and competitive international settlement rates. In line with the recent reductions of IDD call charges by 45% to 86% depending on the country, SLT expects a growth in IDD traffic that would help to boost revenue while creating opportunities to negotiate with foreign operators for better settlement rates.

Broadband, data and other services revenue

Broadband, data and other services consist of Broad Band, Internet, Leased Circuits, IDC and other IP related products. Substantial growth in data oriented service is the key for maintaining the future growth prospects of the company. Being a fixed wired line operator SLT has recognized its opportunity of having fiber infrastructure to facilitate the growth of in non-voice area through ADSL technology.

During the year under review revenue from data oriented services increased from 37% to Rs. 5,725 million, compared to Rs. 4,180 million of the previous year. SLT maintains over 60% market share in the internet related market. Our company is the leader in broad band services with a customer base of over 97,500 and 88% market share at the end of 2008.

Operating Costs and Depreciation

The group was hit by the adverse economic conditions that prevailed globally during the year 2008, and incurred an increased operational cost from 21% to Rs. 25,095 million, when compared to Rs. 20,748 million of the previous year. The operational cost increase of Mobitel in tandem with its business expansion contributed to the operating cost increase of the group.

SLT operating cost has mainly increased by 8% due to the increase of staff cost by 7%, repair and maintenance cost by 28%, provisions for bad debts by 53% and utility related expenses by 21%. Provision for Bad debts had increased from Rs. 1,036 million in 2007 to Rs. 1,580 million in 2008, due to recovery issues on CDMA usage and connection charges. SLT has taken a few measures to minimize bad debt loss by way of introducing a CDMA pre-paid card, and reducing the number of installments for new connections. The company has taken action to minimize other operational expenses too.

During the year the depreciation cost has increased by 3% at group level due to heavy Capital Expenditure incurred as a result of Mobitel expansion. At company level there was a drop in depreciation by 7%, as the depreciation on large scale Capital Expenditure incurred in the past is now being bridged.

International Telecom Operators Levy (ITL)

ITL was introduced in 2005 with retroactive effect from March 2003 requiring International Telecommunication Gateway Operators to credit US\$ 0.38 per international incoming minute as the Telecommunication Development Charge (TDC) to the government. Operators are entitled to reclaim up to 2/3 of the contribution to the TDC, within three years against the funds expended for network roll out to the unserved and underserved areas of Sri Lanka.

SLT contributed to the TDC and expended for network roll out to unserved and underserved areas and was entitled to reclaim 2/3 of ITL. In December 2008, the Telecommunications Regulatory Commission

(TRC) released the refund of 2/3 ITL for the period March 2003 to December 2005 which is shown as the TDC refund in the financial statements.

Internet Protocol Television (IPTV)

SLT launched IPTV service for the first time in Sri Lanka on 22nd September 2008, though it's newly established subsidiary Vision Com (Pvt.) Ltd. This service gives customers a totally new experience and features the latest functionality in the field of pay TV, including non-interruption to rain, ability of viewing programs at your convenience (TS-TV), ability to rewind, pause and forward the TV program (Trick Play) and receiving the latest movies on demand (VOD).

Operations of Mobitel (Pvt.) Ltd.,

SLT's mobile arm Mobitel performed exceptionally well during the financial year 2008 despite adverse macro conditions and the intense competition it had to face within the aggressive mobile industry. Revenue grew by 72%, i.e. from Rs. 7,002 million in 2007 to Rs.12, 065 million in 2008. This growth in revenue was mainly due to the rapid uptake and affinity of subscribers to the prepaid subscriber base complemented by a strong growth in postpaid subscribers with the introduction of the "Upahara" Package towards the latter part of the year under review. The overall subscriber base increased by 92%, i.e., from 1.4 million in 2007 to 2.69 million in 2008. Mobitel's approach of introducing products and features seemed more appealing to distinct niche market segments and gave rise to the phenomenal growth of Mobitel Subscribers. In spite of the constantly falling prices in the mobile telephony sphere, Mobitel was able to manage the Average Revenue Per User (ARPU) with the introduction of innovative pricing plans that were widely adopted. Mobitel's strategy of value innovation was further complemented by rapid growth in the distribution channels, product suite etc.

This positive trend continues across the spectrum with company's profitability indicators growing. Thus, EBITDA grew by 71%, EBIT by 75% and net profit soared to 360% that helped to exceed the one billion mark for the first time. This remarkable feat was accomplished in spite of the many challenges that had to be faced in the form of increased supply side costs arising from macro environment as well as those from within the mobile industry such as rising inflation, increase in energy costs, increased frequency charges and costs associated with the mandatory registration of all mobile subscribers. Therefore the sharp increase in profitability is attributable to optimum asset utilization and increased productivity.

Growth in revenues helped to promote strong growth in the company cash flows and this is reflected by 45% increase in cash flow from operations that amounted to Rs.6,044 million in 2008 when compared to Rs.4,183 million in 2007.

Summarized Mobitel Performance

	2008	2007	Growth
Subscribers (thou.)	2,686	1,401	92%
Revenue (Rs.mil.)	12,065	7,002	72%
EBITDA (Rs.mil.)	4,269	2,493	71%
NPAT (Rs.mil.)	1,168	254	360%
CFO (Rs.mil.)	6,044	4,183	45%

