

# investor



Sri Lanka Telecom's quarterly newsletter for its stakeholders March 2005

www.slt.lk

Produced by:  
Investor Relations Division  
E-mail : mohanrat@sltnet.lk  
Fax : 94-11-2348049

### Major Shareholders.

Secretary to the Treasury : 49.50%  
NTT Com. : 35.20%

- Number of shares issued : 1,804,860,000
- Closing Share Prices (since the date of listing)  
Highest : Rs.29.00  
Lowest : Rs.10.75
- Highest market capitalization (since the date of listing)  
: Rs.52,341 mn.
- 3 months average daily volume (up to 31.03.2005)  
: 695.5 thou.

## Performance of SLT shares in CSE since 14.01.2003



## 2004 FOURTH QUARTER RESULTS AT A GLANCE

Rs.mn

	Jan. to Dec.							Jan. to Dec.					
	Group			Company				Group			Company		
	2004	2003	% change	2004	2003	% change		2004	2003	% change	2004	2003	% change
Turnover	29,588	25,553	16%	26,753	24,477	9%	Net Interest income/(expense)	(2,322)	(2,547)	-9%	(1,894)	(2,491)	-24%
Operational expenses	(14,129)	(10,924)	29%	(11,329)	(10,024)	13%	Non ope. Inc./expense	(186)	(599)	-69%	(178)	(599)	-70%
EBITDA	15,459	14,629	6%	15,424	14,453	7%	Int'l Operations Levy (ILT)	(2,474)	-	100%	(2,469)	-	100%
Depreciation	(9,036)	(8,241)	10%	(8,114)	(7,987)	2%	Tax	(148)	(993)	-85%	(148)	(993)	-85%
EBIT	6,423	6,388	1%	7,310	6,466	13%	EAT	1,293	2,249	-43%	2,621	2,383	10%

**Shuhei Anan**, Chief Executive Officer, Sri Lanka Telecom



SLT faced several challenges in 2004 which impacted the company's bottom line. The International Telecom Operator's Levy, tsunami disaster and bad debt provision were the main issues. However, as a result of 2004, net profit is better than that of 2003. SLT has faced strong competition and thus careful study of investment is further required in considering the synergy between Mobitel and SLT by sharing operational facility, manpower, technology and services to reduce overlap cost and enhance profitability.

World trends illustrate dynamic technology change each year. We feel that the SLT group must keep abreast with this new technology without any delay in order to provide global level service to its customers.

Furthermore, to obtain greater customer loyalty, brand establishment of SLT as well as Mobitel is being urgently targeted. The Investor Forum held on 31st March 2005 gave us much insight into the views of shareholders, brokers and financial institutions. We learnt how much they pay attention to SLT's management and corporate governance. SLT, a leading company in Sri Lanka today, is taking all possible measures to enhance its value continuously.

## The Story of Mobitel

### Background

Mobitel entered the cellular communication market in Sri Lanka as the third mobile operator in April 1993. The company's initial BOT (Build, Operate and Transfer) status was subsequently converted into a BOO (Build, Operate and Own) status. The two joint venture partners were Telstra of Australia and Sri Lanka Telecom, and the joint venture was operative till October 2002 when Sri Lanka Telecom acquired the company. The purchase transformed the SLT group into a service provider offering both fixed and mobile options to its customers in Sri Lanka.

The company initially entered the market with AMPS (Advance Mobile Phone System), an analog based technology and the area of coverage was mainly in the city and immediate suburbs. Because of the advances in technology, a parallel upgrade in technology was carried out with the introduction of TDMA (Time Divisional Multiple Access) digital standards and a programme to digitize the network was adopted. Mobitel continued its commitment with ongoing enhancements to both analogue and digital TDMA services, and gained a reputation as a network that focuses on coverage, clarity and customer care.

### SLT takeover and GSM roll out

In October 2002, SLT took over the operations from Telstra subsequent to purchasing Telstra's stake in the company. Plans were formulated to roll out a GSM network using Ericsson equipment and the GSM service was test launched in November 2003, followed by a full commercial launch in January 2004. The initial investment was US\$89 Mn and Mobitel was the first network in the world to have a fully EDGE (next generation GPRS) enabled network. Edge services, which allow faster download of content compared to GPRS, have been launched in some base stations in the Colombo business district.

The company currently has 268 sites on air and a further 30 sites are in the process of being completed in the next few

weeks. The board of directors has approved further expansion of the network with the goal of providing islandwide coverage in the near future.

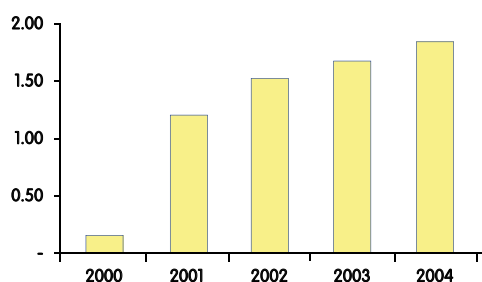
Mobitel offers both pre-paid and post-paid packages and special corporate packages that are designed to fit the business communication needs of Sri Lankan corporate subscribers. A novel feature of Mobitel's pre-paid service is the ability to access Mobitel's suite of SMS based information services and data services, a first for pre-paid subscribers in Sri Lanka.

Mobitel is the leader in providing value-added information services to its GSM customers. Currently Mobitel's customers have the ability to access nine categories of information, namely financial information such as local and international stock market indices and exchange rates, customer account information such as current mobitel bill usage and payment information, information services which have updates on news and lottery information and also includes a dictionary and thesaurus, messaging services such as blink SMS and the ability to set personnel reminders via SMS, infotainment services which give reviews of the top movies and songs of the week as well as schedules for channels such as HBO, Cinemax and AXN, Download services which allow you to download ringtones and wallpaper to your mobile phone, Fun services which allow subscribers to use Mobitel's MMS portal for dating and chatting as well as information with regard to horoscopes and jokes, and finally, games which allow you to play games such as soccer scrabble hangman via SMS.

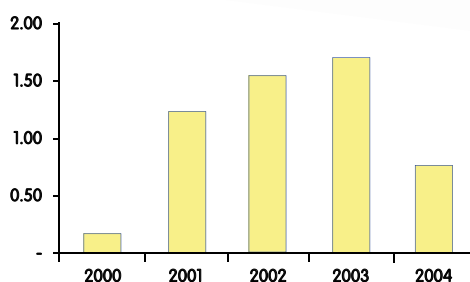
Mobitel pioneered the use of over the air technology, which enables the company or its subscribers to update new services without the need of the customer to change their SIM card or to come to a Mobitel retail outlet.

As a fully owned subsidiary of SLT, Mobitel offers its subscribers some of the cheapest IDD rates available for mobile subscribers. Mobitel's IDD service is complemented by its roaming service, which allows you to roam in over 100 countries worldwide.

EPS – Before ITL and Loss of Tsunami (Rs.)



EPS - After ITL and Loss of Tsunami (Rs.)



## International Telecommunication Operator's Levy (ITL)

According to Finance Act No. 11 of 2004, International Telecommunications Operators are required to make a contribution to the Government at the rate of US\$0.038 per international incoming traffic minute with effect from 3rd March 2003.

The total amount of the levy in respect of SLT from 3rd March 2003 to 31st December 2004 has been estimated at Rs.2,469 million and has been recognised

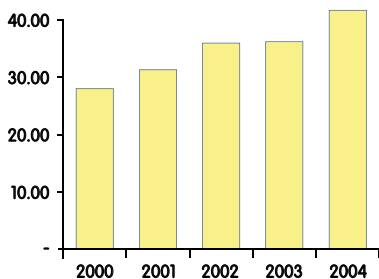
as an expense in the current financial year out of which Rs.402 million relates to the current quarter. The corresponding liability has been recognised in the balance sheet. The respective amounts with regards to Mobitel are Rs.5 million and Rs.1 million which have also been recognised in the same manner.

According to the Finance Act. No. 11 of 2004, regulations may be made for disbursement of these levies. The regulations

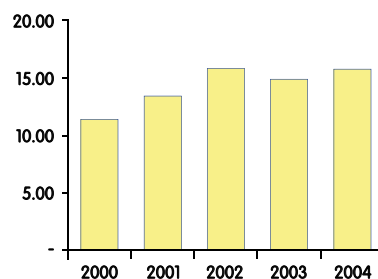
are still under preparation. It is likely that 2/3rd of the levy will be refunded to the International Telecommunication Operators for rolling out the network in rural areas. Accordingly, the refund to SLT has been estimated at Rs.1,646 million but has not been recognised in the financial statements as the regulations for such refund have not yet been gazetted.

The corresponding amount in respect of Mobitel is Rs.3 million.

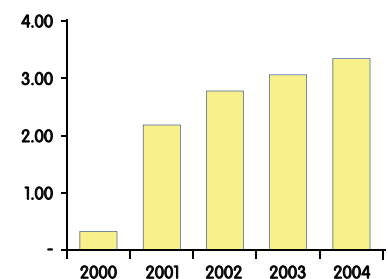
Revenue (Rs.bn)



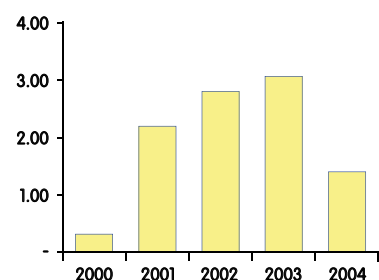
Operating Profit Before Depreciation (Rs.bn)



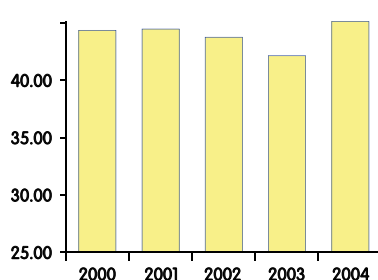
Earnings Before ITL and Loss of Tsunami after Tax (Rs.bn)



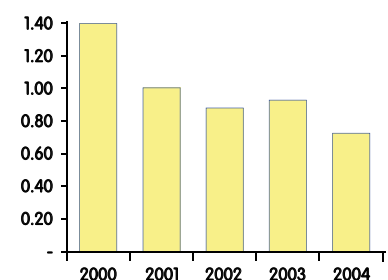
Earnings after Tax and ITL (Rs.bn)



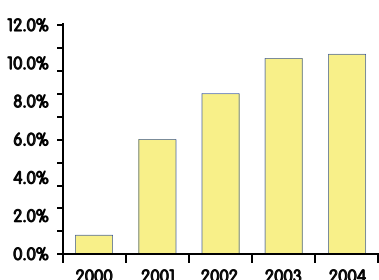
Net Assets Per Share (Rs.)



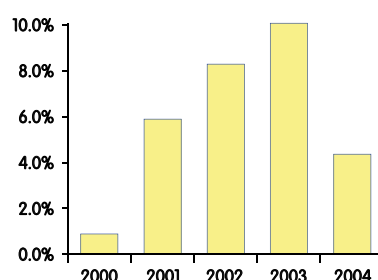
Debt to Equity



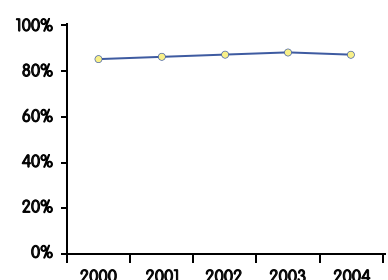
ROE - Before ITL and Loss of Tsunami



ROE - After ITL and Loss of Tsunami



SLT Market Share



## Financial and Market Indicators (Group)

		2000	2001	2002	2003	2004
<b>BASIC DATA</b>						
Revenue	<i>Rs.mill</i>	19,605	22,060	25,383	25,553	29,588
EBITDA	<i>Rs.mill</i>	11,104	13,183	15,557	14,629	15,459
EBIT	<i>Rs.mill</i>	4,984	6,314	7,953	6,388	6,423
Taxation	<i>Rs.mill</i>	(693)	(1,515)	(2,522)	(993)	(148)
Net Profits (after tax)	<i>Rs.mill</i>	221	2,103	2,685	2,249	1,293
Income Tax Rate		35%	35%	35%	30%	30%
Cash	<i>Rs.mill</i>	3,637	3,789	5,974	4,624	10,704
Other current assets	<i>Rs.mill</i>	8,576	9,983	9,989	10,027	11,711
Fixed assets	<i>Rs.mill</i>	61,498	59,093	56,722	55,763	54,350
Other long term assets	<i>Rs.mill</i>	2,046	2,083	2,080	1,984	2,368
Current liabilities	<i>Rs.mill</i>	11,539	11,481	12,048	12,474	11,883
Borrowings	<i>Rs.mill</i>	34,633	31,534	25,926	21,081	25,229
Share capital	<i>Rs.mill</i>	18,049	18,049	18,049	18,049	18,049
Shareholders' funds	<i>Rs.mill</i>	35,820	37,043	29,024	30,600	31,064

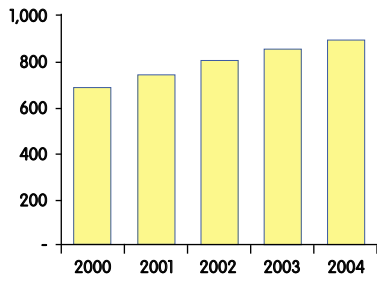
<b>CASH FLOWS</b>						
Working capital increase / (Decrease)	<i>Rs.mill</i>	(90)	1,617	1,624	(1,738)	8,346
Cash tax (Paid)	<i>Rs.mill</i>	-	-	-	-	-
Cash interest (Paid)	<i>Rs.mill</i>	3,352	3,214	3,054	3,040	2,829
Free cash flow	<i>Rs.mill</i>	183	4,892	7,689	7,160	(2,437)
FCF growth		103%	(2579%)	57%	(7%)	(134%)

<b>SUBSCRIBER DATA</b>						
Total SLT lines in service	<i>No.s</i>	653,144	708,200	768,620	822,997	860,468
SLT market share in fixed lines		85%	85%	87%	88%	87%
Mobitel subscribers (Active Customers only)	<i>No.s</i>	73,447	107,049	114,009	142,704	285,000
Number of SLT email & internet subscribers	<i>No.s</i>	20,910	32,937	42,257	44,731	49,444

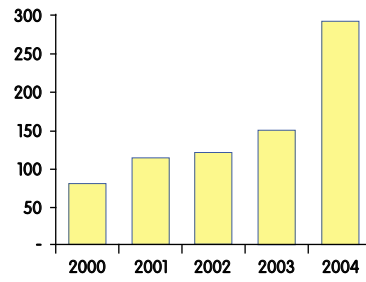
<b>INVESTMENTS &amp; FINANCING INDICATORS</b>						
Capex	<i>Rs.mill</i>	8,672	4,464	3,460	7,282	7,623
Net gearing		87%	75%	69%	54%	47%
Cash flow coverage ratio	<i>Times</i>	0.1	0.7	1.4	0.5	0.64
Total Capex as a % of Sales		44%	20%	14%	28%	26%
Gearing (Borrowing/Shareholders fund)		87%	85%	89%	69%	81%
Total debt/Capital	<i>Times</i>	1.92	1.75	1.44	1.17	1.40
Interest Coverage	<i>Times</i>	1.21	2.27	2.85	2.27	1.62

<b>EARNINGS AND PROFITABILITY INDICATORS</b>						
Sales growth rate		7%	13%	15%	1%	16%
EBITDA margin		57%	60%	61%	57%	52%
EBITDA growth rate.		10%	19%	18%	(6%)	6%
Net margin		1%	10%	11%	9%	4%
ROA (Before Interest and tax)		7%	8%	11%	8%	5%
ROE		1%	6%	9%	10%	4%
Reported EPS	<i>Rs.</i>	0.12	1.17	1.49	1.64	0.72
EPS growth rate.		(96%)	852%	28%	(16%)	(56%)

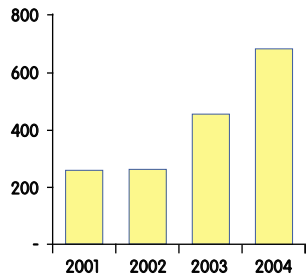
Fixed Lines - '000



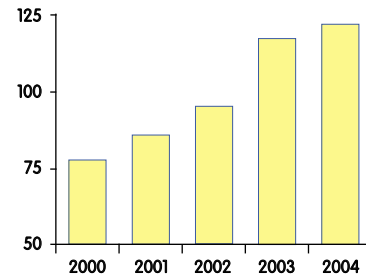
Mobile Lines - '000



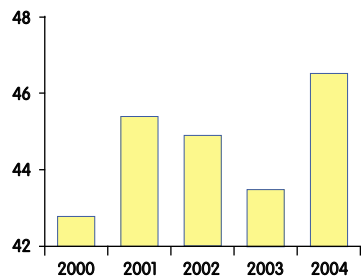
Mobile lines per employee



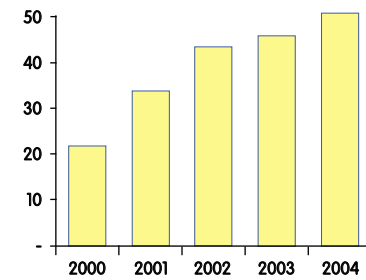
Fixed lines per employee



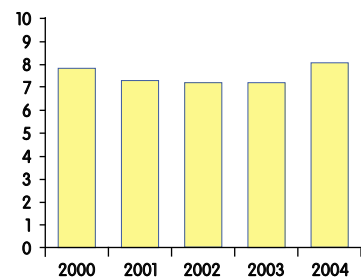
Call Completions Ratio - %



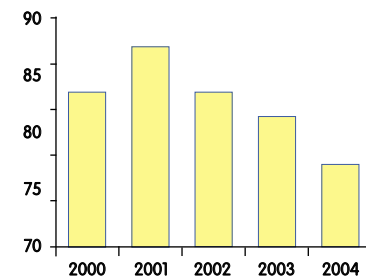
Internet Subscribers - '000



Fault Rate - %



Fault Clearance Rate - %



**Anil Obeyesekere, P. C., Chairman, Sri Lanka Telecom**



## SLT Looks For New Avenues

One of the highlights for the company last year was our entry into the debt capital market through an International Bond Issue which was oversubscribed by over US\$1.1 billion at launch, which was over 10 times the issue. As such, SLT was the first Sri Lankan company to go in for such an Issue, which was given an international rating of B+ from both Standards and Poor and Fitch. This strategic initiative of the company will undoubtedly pave the way for other local companies to source alternative funding. The country too will benefit in the long term through an inflow of competitive funding from overseas.

In August 2004 an MoU was signed with BSNL to establish an optical fibre submarine cable system between India and Sri Lanka, further enhancing services. This venture is expected to improve the company's bottom line as BSNL has a huge customer base.

SLT's fully owned subsidiary, Mobitel's strategy is to leverage its supremacy in technology, value added services and customer care to expand coverage, offer the best and most modern mobitel telecom solutions in the market, and become Sri Lanka's No. 1 Mobile Telecom Operator in terms of the 4 Cs – Coverage, Customer Care, Clarity and Content.

For many years now, SLT has been conscious of being responsible to its stakeholders. We will strive to be responsive as well as responsible for the needs and wants that will eventually lead to the growth of the economy, the preservation of the environment and the creation of a healthy social setting in building strong rural and urban societies.

We are also extremely proud to have received a SL AAA (Sri) from Fitch Ratings Lanka, in recognition of SLT's lowest expectation of credit risk. Only companies with exceptionally strong capacity to meet their financial commitments in full and one time are recipients of such a high honour.

SLT's successes have been built upon rock solid ground. We have worked extremely hard over a number of years to build the company into a true Sri Lankan blue chip corporate, shedding our earlier image of a slow giant and transforming ourselves into a vibrant, modern and competitive institution at the cutting edge of a sophisticated and futuristic world of communications.

A key area of diversification of revenue streams will consist of the company marketing its considerable capacities and expertise in network, system integration and advanced technology to other telecommunications operators in South Asia and elsewhere in the world.

A key strategy is also the development of SLT's brand image into that of a technologically advanced, reliable and customer focused telecommunications service provider with global reach. These are the true hallmarks of a company, which will be the catalyst for others to follow. I as Chairman will endeavour to take SLT to the next level of excellence and continue to lead this large blue chip company into the future. ■

