

# Sri Lanka Telecom PLC and its Subsidiaries

Registration No - PQ 7

## Interim Financial Report

For the 6 months ended 30 June 2008



### **OUR VISION**

*To lead Sri Lanka to become the hub of telecommunications in South Asia.*

### **OUR MISSION**

*To anticipate and fulfil the communication requirements of all sectors of the nation,  
in a service oriented work ethic which will provide total customer satisfaction  
through the most modern telecommunication facilities.*



**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 30 June 2008**

**Consolidated Income Statement as specified**

*(All amounts in LKR Millions)*

|  | Group        |              |             | Company      |              |             | Group         |               |             | Company      |              |             |
|--|--------------|--------------|-------------|--------------|--------------|-------------|---------------|---------------|-------------|--------------|--------------|-------------|
|  | Apr-June     |              | change<br>% | Apr-June     |              | change<br>% | Jan-June      |               | change<br>% | Jan-June     |              | change<br>% |
|  | 2008         | 2007         |             | 2008         | 2007         |             | 2008          | 2007          |             | 2008         | 2007         |             |
| Revenue  | 11,758       | 9,710        | 21          | 9,232        | 8,348        | 11          | 23,358        | 20,675        | 13          | 18,621       | 17,982       | 4           |
| Operating costs  | (5,870)      | (5,247)      | 12          | (4,353)      | (4,475)      | (3)         | (11,460)      | (9,798)       | 17          | (8,728)      | (8,252)      | 6           |
| Operating profit before depreciation<br>and Amortization | <b>5,888</b> | <b>4,463</b> | 32          | <b>4,879</b> | <b>3,873</b> | 26          | <b>11,898</b> | <b>10,877</b> | 9           | <b>9,893</b> | <b>9,730</b> | 2           |
| Depreciation   | (2,388)      | (2,518)      | (5)         | (1,932)      | (2,215)      | (13)        | (5,014)       | (5,084)       | (1)         | (4,136)      | (4,482)      | (8)         |
| Amortisation of intangible assets                        | (75)         | (57)         | 32          | (30)         | (22)         | 36          | (148)         | (111)         | 33          | (58)         | (48)         | 21          |
| International Telecommunication<br>operators' Levy-(ITL) | (719)        | (702)        | 2           | (663)        | (670)        | (1)         | (1,490)       | (1,385)       | 8           | (1,383)      | (1,337)      | 3           |
| <b>Operating profit</b>                                  | <b>2,706</b> | <b>1,186</b> | 128         | <b>2,254</b> | <b>966</b>   | 133         | <b>5,246</b>  | <b>4,297</b>  | 22          | <b>4,316</b> | <b>3,863</b> | 12          |
| Voluntary Retirement Scheme<br>(VRS)-Note 1              | (370)        |              |             | (370)        |              |             | (370)         |               |             | (370)        |              |             |
| Other income   | 93           | 41           | 127         | 93           | 41           | 127         | 140           | 96            | 46          | 138          | 95           | 45          |
| Interest expenses and related charges                    | (493)        | (582)        | (15)        | (277)        | (369)        | (25)        | (1,058)       | (1,069)       | (1)         | (639)        | (658)        | (3)         |
| Interest income  | 265          | 282          | (6)         | 248          | 274          | (9)         | 572           | 569           | 1           | 526          | 541          | (3)         |
| <b>Profit before tax</b>                                 | <b>2,201</b> | <b>927</b>   | 137         | <b>1,948</b> | <b>912</b>   | 114         | <b>4,530</b>  | <b>3,893</b>  | 16          | <b>3,971</b> | <b>3,841</b> | 3           |
| Taxation   | (701)        | (367)        | 91          | (695)        | (364)        | 91          | (1,367)       | (1,353)       | 1           | (1,355)      | (1,343)      | 1           |
| <b>Net profit for the period</b>                         | <b>1,500</b> | <b>560</b>   | 168         | <b>1,253</b> | <b>548</b>   | 129         | <b>3,163</b>  | <b>2,540</b>  | 25          | <b>2,616</b> | <b>2,498</b> | 5           |
| <b>Earnings per share (Rs)</b>                           |              |              |             |              |              |             |               |               |             |              |              |             |
| -Basic   | <b>0.83</b>  | <b>0.31</b>  |             | <b>0.69</b>  | <b>0.30</b>  |             | <b>1.75</b>   | <b>1.41</b>   |             | <b>1.45</b>  | <b>1.38</b>  |             |
| -Annualized  | <b>3.32</b>  | <b>1.24</b>  |             | <b>2.78</b>  | <b>1.21</b>  |             | <b>3.50</b>   | <b>2.81</b>   |             | <b>2.90</b>  | <b>2.77</b>  |             |

The above figures are provisional and unaudited

**Note -1**

**Voluntary Retirement Scheme -VRS**

A Voluntary Retirement Scheme (VRS) has been announced on 8 May 2008 by the company. Accordingly based on the number of applications and the defined plan identified for each grade of staff the cost of VRS is estimated at Rs 370 Mn.

**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 30 June 2008**

**Consolidated Balance Sheet**

*(All amounts in LKR Millions)*

|   | Group                               |                                  | Company                             |                                  |
|---|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------|
|   | Un-Audited<br>as at<br>30 June 2008 | Audited<br>as at<br>31 Dec. 2007 | Un-Audited<br>as at<br>30 June 2008 | Audited<br>as at<br>31 Dec. 2007 |
| <b>Assets</b>   |                                     |                                  |                                     |                                  |
| <b>Non-Current Assets</b>                               |                                     |                                  |                                     |                                  |
| Property, plant and equipment                           | 54,290                              | 53,881                           | 40,105                              | 41,350                           |
| Intangible assets                                       | 1,593                               | 1,614                            | 458                                 | 376                              |
| Investments in subsidiaries                             |                                     | -                                | 8,911                               | 7,782                            |
| Non-current receivables                                 | 1,490                               | 1,268                            | 1,490                               | 1,268                            |
|   | <b>57,373</b>                       | <b>56,763</b>                    | <b>50,964</b>                       | <b>50,776</b>                    |
| <b>Current Assets</b>                                   |                                     |                                  |                                     |                                  |
| Inventories   | 2,114                               | 1,476                            | 2,011                               | 1,373                            |
| Receivables and prepayments -(Note 1)                   | 12,206                              | 9,938                            | 12,325                              | 10,064                           |
| Cash and cash equivalents                               | 16,068                              | 17,195                           | 15,567                              | 16,689                           |
|   | <b>30,388</b>                       | <b>28,609</b>                    | <b>29,903</b>                       | <b>28,126</b>                    |
| <b>Total Assets</b>                                     | <b>87,761</b>                       | <b>85,372</b>                    | <b>80,867</b>                       | <b>78,902</b>                    |
| <b>Equity and Liabilities</b>                           |                                     |                                  |                                     |                                  |
| <b>Capital and Reserves</b>                             |                                     |                                  |                                     |                                  |
| Stated Capital<br>(Represented by 1,804,860,000 shares) | 18,049                              | 18,049                           | 18,049                              | 18,049                           |
| Hedging reserve   | (40)                                | (58)                             | (40)                                | (58)                             |
| Insurance reserve                                       | 230                                 | 204                              | 230                                 | 204                              |
| Retained earnings                                       | 25,063                              | 23,705                           | 27,099                              | 26,288                           |
|   | <b>43,302</b>                       | <b>41,900</b>                    | <b>45,338</b>                       | <b>44,483</b>                    |
| Deferred income   | 6,148                               | 6,429                            | 6,148                               | 6,429                            |
| <b>Non Current Liabilities</b>                          |                                     |                                  |                                     |                                  |
| Grants  | 65                                  | 68                               | 65                                  | 68                               |
| Deferred tax liabilities                                | 1,718                               | 2,777                            | 1,718                               | 2,777                            |
| Borrowings  | 15,232                              | 16,660                           | 11,852                              | 12,366                           |
| Retirement benefit obligation                           | 1,487                               | 1,329                            | 1,407                               | 1,272                            |
| Trade and other payables                                | 286                                 | 279                              | 286                                 | 279                              |
|   | <b>18,788</b>                       | <b>21,113</b>                    | <b>15,328</b>                       | <b>16,762</b>                    |
| <b>Current Liabilities</b>                              |                                     |                                  |                                     |                                  |
| Trade and other payables                                | 13,520                              | 11,409                           | 10,478                              | 8,537                            |
| Current tax liabilities                                 | 2,487                               | 1,896                            | 2,464                               | 1,858                            |
| Borrowings  | 3,516                               | 2,625                            | 1,111                               | 833                              |
|   | <b>19,523</b>                       | <b>15,930</b>                    | <b>14,053</b>                       | <b>11,228</b>                    |
| <b>Total Equity and Liabilities</b>                     | <b>87,761</b>                       | <b>85,372</b>                    | <b>80,867</b>                       | <b>78,902</b>                    |

**Note -1**

Investments in Sky Network Private Ltd and SLT Publications Private Ltd amounting to Rs 109 mn is included in Receivables and Prepayments.

**Signed on behalf of the Board.**

Leisha De Silva Chandrasena  
Chairman  
29 -July -2008

P.A Abeysekera  
Director  
29 -July-2008

**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 30 June 2008**

**Statement of Changes in Equity - 1st Jan 2007 to 30 th June 2008-Group**

*(All amounts in LKR Millions )*

|  | Stated<br>Capital | Hedging<br>Reserve | Insurance<br>Reserve | Retained<br>Earnings | Total         |
|--|-------------------|--------------------|----------------------|----------------------|---------------|
| <b>Period ended 30 June 2007</b>         |                   |                    |                      |                      |               |
| Balance at 1 January 2007                | 18,049            | (236)              | 183                  | 19,870               | 37,866        |
| Cash flow hedges                         |                   |                    |                      |                      |               |
| -Foreign currency translation difference |                   | (10)               |                      |                      | (10)          |
| -Charged to income                       |                   | 138                |                      |                      | 138           |
| Insurance reserve -charged to income     |                   |                    | 18                   |                      | 18            |
| Dividend in respect of 2006              |                   |                    |                      | (1,805)              | (1,805)       |
| Profit for the period                    |                   |                    |                      | 2,540                | 2,540         |
| <b>Balance at 30 June 2007</b>           | <b>18,049</b>     | <b>(108)</b>       | <b>201</b>           | <b>20,605</b>        | <b>38,747</b> |
| <b>Period ended 31 December 2007</b>     |                   |                    |                      |                      |               |
| Balance at 1 July 2007                   | 18,049            | (108)              | 201                  | 20,605               | 38,747        |
| Cash flow hedges                         |                   |                    |                      |                      |               |
| -Foreign currency translation difference |                   | (7)                |                      |                      | (7)           |
| -Charged to income                       |                   | 57                 |                      |                      | 57            |
| Insurance Reserve- charged to income     |                   |                    | 3                    |                      | 3             |
| Profit for the period                    |                   |                    |                      | 3,100                | 3,100         |
| <b>Balance at 31 December 2007</b>       | <b>18,049</b>     | <b>(58)</b>        | <b>204</b>           | <b>23,705</b>        | <b>41,900</b> |
| <b>Period ended 30 June 2008</b>         |                   |                    |                      |                      |               |
| Balance at 1 January 2008                | 18,049            | (58)               | 204                  | 23,705               | 41,900        |
| Cash flow hedges                         |                   |                    |                      |                      |               |
| -Foreign currency translation difference |                   | 3                  |                      |                      | 3             |
| -Charged to income                       |                   | 15                 |                      |                      | 15            |
| Insurance Reserve- charged to income     |                   |                    | 26                   |                      | 26            |
| Dividend in respect of 2007              |                   |                    |                      | (1,805)              | (1,805)       |
| Profit for the period                    |                   |                    |                      | 3,163                | 3,163         |
| <b>Balance at 30 June 2008</b>           | <b>18,049</b>     | <b>(40)</b>        | <b>230</b>           | <b>25,063</b>        | <b>43,302</b> |

**Sri Lanka Telecom PLC & its Subsidiaries**  
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**Statement of Changes in Equity - 1st Jan 2007 to 30 th June 2008 -Company**

*(All amounts in LKR Millions )*

|  | Stated<br>Capital | Hedging<br>Reserve | Insurance<br>Reserve | Retained<br>Earnings | Total         |
|--|-------------------|--------------------|----------------------|----------------------|---------------|
| <b>Period ended 30 June 2007</b>         |                   |                    |                      |                      |               |
| Balance at 1 January 2007                | 18,049            | (236)              | 183                  | 22,705               | 40,701        |
| Cash flow hedges:                        |                   |                    |                      |                      |               |
| -Foreign currency translation difference |                   | (10)               |                      |                      | (10)          |
| -Charged to income                       |                   | 138                |                      |                      | 138           |
| Insurance Reserve- charged to income     |                   |                    | 18                   |                      | 18            |
| Dividend in respect of 2006              |                   |                    |                      | (1,805)              | (1,805)       |
| Profit for the period                    |                   |                    |                      | 2,498                | 2,498         |
| <b>Balance at 30 June 2007</b>           | <b>18,049</b>     | <b>(108)</b>       | <b>201</b>           | <b>23,398</b>        | <b>41,540</b> |
| Balance at 1 July 2007                   | 18,049            | (108)              | 201                  | 23,398               | 41,540        |
| Cash flow hedges:                        |                   |                    |                      |                      |               |
| -Foreign currency translation difference |                   | (7)                |                      |                      | (7)           |
| -Charged to income                       |                   | 57                 |                      |                      | 57            |
| Insurance reserve -charged to income     |                   |                    | 3                    |                      | 3             |
| Profit for the period                    |                   |                    |                      | 2,890                | 2,890         |
| <b>Balance at 31 December 2007</b>       | <b>18,049</b>     | <b>(58)</b>        | <b>204</b>           | <b>26,288</b>        | <b>44,483</b> |
| <b>Period ended 30 June 2008</b>         |                   |                    |                      |                      |               |
| Balance at 1 January 2008                | 18,049            | (58)               | 204                  | 26,288               | 44,483        |
| Cash flow hedges:                        |                   |                    |                      |                      |               |
| -Foreign currency translation difference |                   | 3                  |                      |                      | 3             |
| -Charged to income                       |                   | 15                 |                      |                      | 15            |
| Insurance Reserve- charged to income     |                   |                    | 26                   |                      | 26            |
| Dividend in respect of 2007              |                   |                    |                      | (1,805)              | (1,805)       |
| Profit for the period                    |                   |                    |                      | 2,616                | 2,616         |
| <b>Balance at 30 June 2008</b>           | <b>18,049</b>     | <b>(40)</b>        | <b>230</b>           | <b>27,099</b>        | <b>45,338</b> |

**Sri Lanka Telecom PLC and its Subsidiaries**  
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**Consolidated Cash Flow Statement for the 6 months ended 30 June**

*(All amounts in LKR Millions )*

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2008           | 2007           | 2008           | 2007           |
| <b>Operating activities</b>                                 |                |                |                |                |
| Cash generated from operations                              | 9,287          | 9,230          | 7,170          | 8,198          |
| Interest received   | 380            | 797            | 334            | 769            |
| Interest paid   | (1,007)        | (1,205)        | (588)          | (767)          |
| Tax paid  | (1,833)        | (1,692)        | (1,807)        | (1,687)        |
| <b>Net cash generated from operating activities</b>         | <b>6,827</b>   | <b>7,130</b>   | <b>5,109</b>   | <b>6,513</b>   |
| <b>Investing activities</b>                                 |                |                |                |                |
| Acquisition of property, plant and equipment                | (5,423)        | (3,813)        | (2,891)        | (2,441)        |
| Acquisition of intangible assets                            | (163)          | -              | (140)          | -              |
| Proceeds from disposal of property, plant and equipment     | 6              | 4              | 6              | 4              |
| Investments in subsidiaries                                 | -              | -              | (1,129)        | -              |
| <b>Net cash used in investing activities</b>                | <b>(5,580)</b> | <b>(3,809)</b> | <b>(4,154)</b> | <b>(2,437)</b> |
| <b>Financing activities</b>                                 |                |                |                |                |
| Proceeds from borrowings                                    | -              | 1,183          | -              | -              |
| Payment on borrowings                                       | (914)          | (1,522)        | (91)           | (778)          |
| Dividend payment  | (1,805)        | (1,805)        | (1,805)        | (1,805)        |
| <b>Net cash used in financing activities</b>                | <b>(2,719)</b> | <b>(2,144)</b> | <b>(1,896)</b> | <b>(2,583)</b> |
| <b>Increase/(Decrease) in cash and cash equivalents</b>     | <b>(1,472)</b> | <b>1,177</b>   | <b>(941)</b>   | <b>1,493</b>   |
| <b>Movement in Cash and cash equivalents</b>                |                |                |                |                |
| <b>Cash and cash equivalents at 1 January</b>               | 16,920         | 14,335         | 16,689         | 14,390         |
| Effect on exchange fluctuation on cash and cash equivalents | (181)          | 385            | (181)          | 385            |
|   | 16,739         | 14,720         | 16,508         | 14,775         |
| Increase / (Decrease )                                      | (1,472)        | 1,177          | (941)          | 1,493          |
| <b>Cash and cash equivalents at 30 June</b>                 | <b>15,267</b>  | <b>15,897</b>  | <b>15,567</b>  | <b>16,268</b>  |

## **Notes to the Financial Statement**

### **1. Accounting Policies**

These Financial Statements are in compliance with Sri Lanka Accounting Standards 35- Interim Financial Reporting.

The Company and Group have adopted consistent accounting policies as disclosed in the Annual Report for the financial year ended 31 December 2007.

### **2. International Telecommunication Operators' Levy**

As in the previous year, the Company continues to recognize the expense arising on International Telecommunication Operator's Levy (ITL) as an expense in arriving at the results for the period. The Gazette notification of 31 March 2005 provides that each domestic PSTN operator may claim two thirds of the Telecommunications Development Charge (TDC) funds, for the development of their telecommunications network in unserved and underserved areas of Sri Lanka as may be determined by the Telecommunications Regulatory Commission (TRC) within a period of three years.

The documentation supporting the Network roll out in unserved and underserved areas has been submitted to the TRC. The refund as at 30 June 2008 has not been recognized in the income statement, since TRC's determination of the refund is yet awaited.

### **3. Investments in Subsidiary**

A fresh capital infusion of Rs. 1,000,000,000 was made by SLT for which Mobitel issued 100,000,000 12% Cumulative redeemable Preference Shares of Rs.10/- each during the period.

### **4. Dividends on Cumulative redeemable preference shares**

Mobitel has not declared dividends for 675,000,000 12% Cumulative redeemable preference shares of Rs.10/- each, issued to SLT. Therefore, the estimated amount of dividends of Rs 1,336 Mn as at 30 June 2008, has not been recognized in the Financial Statements.

### **5. Event after the Balance sheet date**

No material events have arisen since Balance Sheet date which would require adjustments to, or disclosure in the Financial Statements.

**Sri Lanka Telecom PLC and its Subsidiaries**  
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**Investor Information**

**Ratios**

|                                      | <b>Group</b>                  |                         | <b>Company</b>                |                         |
|--------------------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|
|                                      | <b>30 June<br/>2008</b>       | <b>31 Dec.<br/>2007</b> | <b>30 June<br/>2008</b>       | <b>31 Dec.<br/>2007</b> |
| Net Assets per Share (Rs)            | 23.99                         | 23.22                   | 25.12                         | 24.65                   |
| Debt / Equity ratio -Number of times | 0.30                          | 0.32                    | 0.22                          | 0.23                    |
| Quick Asset Ratio - Number of times  | 1.45                          | 1.70                    | 1.98                          | 2.38                    |
|                                      | <b>For the 6 Months ended</b> |                         | <b>For the 6 Months ended</b> |                         |
|                                      | <b>30 June 2008</b>           | <b>30 June2007</b>      | <b>30 June 2008</b>           | <b>30 June2007</b>      |
| Interest Cover - Number of times     | 5.28                          | 4.64                    | 7.21                          | 6.84                    |

**Market Value of Shares**

**Market Value of the Ordinary  
Shares of the Company (Rs)**

- Highest
- Lowest
- Last Traded price

|                    | <b>3 Months to<br/>30 June 2008</b> | <b>3 Months to<br/>30 June2007</b> |
|--------------------|-------------------------------------|------------------------------------|
| -Highest           | 49.75                               | 39.25                              |
| -Lowest            | 42.00                               | 34.50                              |
| -Last Traded price | 45.25                               | 36.50                              |

**Dividend Payment**

Final Dividend for the year 2007 -Rs 1.00 per share paid on 4 April 2008.

**Share trading from 1 April 2008 to 30 June 2008**

|                                | <b>3 Months to<br/>30 June 2008</b> |
|--------------------------------|-------------------------------------|
| -No of Transactions            | 5,047                               |
| - No of Shares Traded          | 774,266,806                         |
| -Value of Shares Traded ( Rs ) | 38,882,315,984                      |