

Sri Lanka Telecom PLC and its Subsidiaries



Registration No - PQ 7

Interim Financial Report

For the 6 months ended 30 June 2010



OUR VISION

All Sri Lankans seamlessly connected with world class information, communication and entertainment services.

OUR MISSION

Your trusted and proven partner for innovative and existing communication experiences delivered with passion, quality and commitment.

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 June 2010

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group Apr-June			Company Apr-June			Group Jan- June			Company Jan- June		
	2010	2009	change %	2010	2009	change %	2010	2009	change %	2010	2009	change %
Revenue	12,360	11,748	5	8,227	8,475	(3)	24,568	23,585	4	16,395	16,867	(3)
Operating costs	(7,664)	(7,198)	6	(5,374)	(5,031)	7	(15,023)	(13,968)	8	(10,435)	(9,609)	9
Operating profit before depreciation and Amortization	4,696	4,550	3	2,853	3,444	(17)	9,545	9,617	(1)	5,960	7,258	(18)
Depreciation	(2,825)	(2,942)	(4)	(1,848)	(2,238)	(17)	(5,636)	(5,796)	(3)	(3,689)	(4,465)	(17)
Amortisation and impairment of intangible assets	(120)	(110)	9	(45)	(48)	(6)	(261)	(218)	20	(113)	(95)	19
International Telecommunication operators' Levy-(ITL)	(620)	(754)	(18)	(430)	(643)	(33)	(1,286)	(1,473)	(13)	(902)	(1,280)	(30)
Operating profit	1,131	744	52	530	515	3	2,362	2,130	11	1,256	1,418	(11)
Refund of Telecommunication -Development Charge(TDC)	151	-		151	-		151	-		151	-	
Voluntary Retirement Scheme	-	-		-	-		(188)	-		(188)	-	
Other income	45	30	50	31	25	24	109	95	15	88	85	4
Interest expenses and finance cos	(264)	(574)	(54)	(92)	(306)	(70)	(563)	(1,076)	(48)	(183)	(554)	(67)
Interest income	150	323	(54)	136	313	(57)	285	668	(57)	264	646	(59)
Profit before tax	1,213	523	132	756	547	38	2,156	1,817	19	1,388	1,595	(13)
Taxation	(444)	(148)	200	(312)	(133)	135	(783)	(471)	66	(534)	(447)	19
Net profit for the period	769	375	105	444	414	7	1,373	1,346	2	854	1,148	(26)
Attributable to :												
Equity holders of the company	769	376	105	444	414	7	1,373	1,350	2	854	1,148	(26)
Minority interest	-	(1)		-	-		-	(4)		-	-	
	769	375	105	444	414	7	1,373	1,346	2	854	1,148	(26)
Earnings per share (Rs)												
-Basic	0.43	0.21	105	0.25	0.23	7	0.76	0.75	2	0.47	0.64	(26)
-Annualized	1.70	0.83	105	0.98	0.92	7	1.52	1.49	2	0.95	1.27	(26)

The above figures are provisional and unaudited

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Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 30 June 2010	Audited as at 31 Dec. 2009	Un-Audited as at 30 June 2010	Audited as at 31 Dec. 2009
Assets				
Non-Current Assets				
Property, plant and equipment	62,985	65,896	34,548	36,261
Intangible assets	2,004	2,194	608	684
Investments in subsidiaries	-	-	11,522	11,317
Deffered income tax Assets	1,305	674	1,300	669
Non-current receivables	1,938	1,894	1,938	1,894
	68,232	70,658	49,916	50,825
Current Assets				
Inventories	1,828	1,982	1,639	1,742
Trade and other receivables	9,771	11,347	11,059	10,399
Current tax receivables	-	227	-	227
Cash and cash equivalents	8,302	6,094	7,421	5,445
	19,901	19,650	20,119	17,813
Total Assets	88,133	90,308	70,035	68,638
Equity and Liabilities				
Capital and Reserves				
Stated Capital (Represented by 1,804,860,000 shares)	18,049	18,049	18,049	18,049
Insurance reserve	329	281	329	281
Exchange equalisation reserve	(7)	(6)	-	-
Retained earnings	29,197	28,275	30,915	30,512
	47,568	46,599	49,293	48,842
Minority interest in equity	0	0	0	0
Total Equity	47,568	46,599	49,293	48,842
Deferred income	4,177	4,356	4,177	4,356
Non Current Liabilities				
Grants	101	110	51	54
Borrowings	7,763	8,034	842	1,059
Retirement benefit obligation	1,598	1,458	1,506	1,373
Trade and other payables	2,234	2,548	290	290
	11,696	12,150	2,689	2,776
Current Liabilities				
Trade and other payables	17,856	20,175	10,142	10,636
Current tax liabilities	1,105	137	892	-
Borrowings	3,946	5,317	1,833	1,136
Deferred income	1,785	1,574	1,009	892
	24,692	27,203	13,876	12,664
Total Equity and Liabilities	88,133	90,308	70,035	68,638

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No.07 of 2007.

Shiron Gooneratne
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors on 13 August 2010.

Signed on behalf of the Board.

Sgd.
Nimal Welgama
Chairman

Sgd.
D. Widanagamachchi
Director

Notes to the Financial Statements

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 year ended 31 December 2009

The company has changed its accounting policy on CDMA hand sets. The previous policy was to identify cost of CDMA handsets as CDMA expenditure in the income statement. This policy was changed from 1 January 2009. Accordingly at the time of connection is given, cost is recognised under property, plant and equipment. Simultaneously, cost of handset is written down to Rs 1/= by transferring the carrying value to income statement

2. International Telecommunication Operators' Levy (ITL)

In terms of the Finance Act No. 11 of 2004, International Telecommunications Operators are required to make a contribution to the Government of Sri Lanka at the rate of US\$ 0.038 per international incoming traffic minute with effective from 3 March 2003. The total amount of the levy payable by the Group and Company for the period from 1 January 2010 to 30 June 2010 was estimated at Rs 1286 million and Rs 902 million respectively and has been recognized as expenses in the current financial period. The corresponding liability, net of payments, has been recognised in the balance sheet

The Gazette notification No. 1386/24 of 31 March 2005 states that the levy will be credited as Incoming Local Access Charge (ILAC) and Telecommunications Development Charge (TDC) as per the rates specified in the Table B and C to these regulations. These regulations also allow the domestic PSTN operators to claim two thirds of TDC within three years against the cost of development of its telecommunications network in un-served and underserved areas of Sri Lanka as determined by the Telecommunications Regulatory Commission (TRC). As per the "Guidelines for disbursement of two third of the TDC Fund for The Fixed Wire Line Operator" issued by the TRC, the Company is entitled to claim Rs 25,000 (cost per line) for every connection provided in un-served and underserved areas specified by TRC. As per the "Guidelines for disbursement of two third of the TDC Fund for The Fixed CDMA Operator" guideline I and also guideline II which is effective from April 2006, the Group can claim cost of development of its telecommunication network in un-served and underserved areas.

The Company has made claim submissions for the period from 1st January 2006 to 31st March 2009 in fixed wire line connections as well as for CDMA network rollout as per guideline I and guideline II where the disbursement are yet to be approved by the TRC.

In addition, under the Directive issued by the TRCSL, it has been informed that the Ministry of Finance and Planning has revised the International Telecommunication Operators' levy regulations and rates with effect from 15th July, 2010. According to the revised regulations, the TDC rate has been reduced from US\$ 0.038 to US\$ 0.015 per minute. However the corresponding Government Gazette is yet to be released.

3. Disallowed input taxes of Value Added Tax (VAT)

Rs.387 million has been recognized in Financial Statements under operating costs, in respect of disallowed input taxes of VAT by the Department of Inland Revenue for prior years.

Above disallowed input tax is related to International Gateway Operations.

4. Investments in Subsidiaries

A fresh capital infusion of Rs. 205,000,000 was made by SLT for which Sky Networks (Private) Limited issued 20,500,000 Ordinary shares of Rs.10/- each during the period.

5. Dividends on Cumulative redeemable preference shares

Mobitel has issued 675,000,000 12% and 200,000,000 14% Cumulative redeemable preference shares of Rs.10/- each and Sky Network (Private) Limited also has issued 6,000,000 12% Cumulative redeemable preference shares of Rs.10/-each. The estimated balance dividends of Rs 2,985 mn and Rs 13 mn from Mobitel and Sky Network (Private) Limited respectively, has not been recognized in the Financial Statements as at 30 June 2010

6. Deemed Dividend Tax on Public Corporations – years of assessment 93/94 and 94/95

The Department of Inland Revenue issued assessments for the years of assessment 1993/94 and 1994/95 charging tax, on deemed dividend, based on book profits of the company. The company appealed against those assessments, on the ground that deemed dividend tax should be calculated on tax adjusted profits. The total liability for years of assessment 93/94 and 94/95 as per the said assessments, amounts to Rs.642,986,293/-.

Accordingly, this appeal was referred to the Board of Review for hearing and the Board of Review confirmed these assessments. However, the company has appealed against the Board determination to the Court of Appeal.

7. Contingent Liabilities.

There has not been a significant change in the nature of the contingent liabilities, which were disclosed in the Annual Report for the year ended 31 December 2009, except following;

Arbitration between SLT and Just in Time Holdings (Pvt) Ltd, (JIT) regarding IPTV Contract

Just In Time Holdings (Pvt) Ltd initiated Arbitration proceedings against Sri Lanka Telecom PLC on 23 December 2009 at ICLP Arbitration Center to claim USD 4,738,846.57, alleged by Just In Time Holdings (Pvt) Ltd to be due to from SLT as payment to JIT under the Contract of Purchase to IPTV system for Broadband Services.

Objection in relation to the above matter was filed by SLT on 19 April 2010 at the Arbitration Centre, with a Counter Claim of Rs. 437,970,137/-

8. Events 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, except change in the rate of Telecommunications Development Charge (TDC) which is stated in note no 2.

Sri Lanka Telecom PLC and its Subsidiaries
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Quarterly Interim Financial Report as of 30 June 2010

Statement of Changes in Equity - 1 Jan 2009 to 30 June 2010

(All amounts in LKR Millions)

Group

	Stated Capital	Hedging Reserve	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Minority Interest	Total Equity
Balance at 1 January 2009							
As previously reported	18,049	(32)	236	1	29,270	31	47,555
-Effect of adopting SLAS 10 (Revised 2005)	-	-	-	-	1	-	1
As restated	18,049	(32)	236	1	29,271	31	47,556
Hedging reserve							
-Foreign currency translation differences		(1)					(1)
-Charged to income statement		19					19
Insurance reserve -charged to income statement			39				39
Effect of movement in foreign exchange rates				(1)			(1)
Dividend in respect of 2008					(1,805)		(1,805)
Net Profit / (Loss) for the period					1,350	(4)	1,346
Balance at 30 June 2009	18,049	(14)	275	0	28,816	27	47,153
Balance at 1 July 2009	18,049	(14)	275	0	28,816	27	47,153
Hedging reserve							
-Foreign currency translation difference		1					1
-Charged to income statement		13					13
Insurance reserve -charged to income statement			6				6
Effect of movement in foreign exchange rates				(6)			(6)
Dilution of minority interest on acquisition of shares					24	(24)	-
Net Profit / (Loss) for the period					(565)	(3)	(568)
Balance at 31 December 2009	18,049	-	281	(6)	28,275	0	46,599
Balance at 1 January 2010	18,049	-	281	(6)	28,275	0	46,599
Insurance reserve -charged to income statement			48				48
Effect on movement in foreign exchange rates				(1)			(1)
Dividend in respect of 2009					(451)		(451)
Net Profit for the period					1,373	0	1,373
Balance at 30 June 2010	18,049	-	329	(7)	29,197	0	47,568

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Statement of Changes in Equity - 1 Jan 2009 to 30 June 2010

(All amounts in LKR Millions)

Company

	Stated Capital	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Balance at 1 January 2009					
As previously reported	18,049	(32)	236	31,084	49,337
-Effect of adopting SLAS 10 (Revised 2005)				1	1
As restated	18,049	(32)	236	31,085	49,338
Hedging reserve					
-Foreign currency translation differences		(1)			(1)
-Charged to income statement		19			19
Insurance reserve -charged to income statement			39		39
Dividend in respect of 2008				(1,805)	(1,805)
Net Profit for the period				1,148	1,148
Balance at 30 June 2009	18,049	(14)	275	30,428	48,738
Balance at 1 July 2009					
Balance at 1 July 2009	18,049	(14)	275	30,428	48,738
Hedging reserve					
-Foreign currency translation difference		1			1
-Charged to income statement		13			13
Insurance reserve -charged to income statement			6		6
Net Profit for the period				84	84
Balance at 31 December 2009	18,049	-	281	30,512	48,842
Balance at 1 January 2010					
Balance at 1 January 2010	18,049	-	281	30,512	48,842
Insurance Reserve- charged to income statement			48		48
Dividend in respect of 2009				(451)	(451)
Net Profit for the period				854	854
Balance at 30 June 2010	18,049	-	329	30,915	49,293

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Consolidated Cash Flow Statement for 6 months ended 30 June

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2010	2009	2010	2009
Operating activities				
Cash generated from operations	7,547	8,629	4,107	5,315
Interest received	368	625	351	603
Interest paid	(551)	(1,187)	(171)	(665)
Tax paid	(231)	(1,802)	(60)	(1,788)
Net cash generated from operating activities	7,133	6,265	4,227	3,465
Investing activities				
Acquisition of property, plant and equipment	(2,716)	(8,003)	(1,967)	(2,525)
Acquisition of intangible assets	(71)	(118)	(37)	(68)
Proceeds from disposal of property, plant and equipment	9	10	9	10
Investments in subsidiaries	-	-	(205)	(500)
Net cash used in investing activities	(2,778)	(8,111)	(2,200)	(3,083)
Financing activities				
Proceeds from borrowings	1,467	2,493	1,000	
Finance lease principal re-payments	(13)	(5)	(13)	(5)
Re-Payment on borrowings	(1,798)	(1,643)	(558)	(670)
Dividend paid to the company's share holders	(451)	(1,805)	(451)	(1,805)
Net cash used in financing activities	(795)	(960)	(22)	(2,480)
Increase/(Decrease) in cash and cash equivalents	3,560	(2,806)	2,005	(2,098)
Movement in Cash and cash equivalents				
Cash and cash equivalents at beginning of the year	3,899	17,870	5,445	17,971
Effect on exchange fluctuation on cash and cash equivalents	(29)	213	(29)	213
	3,870	18,083	5,416	18,184
Increase/(Decrease) in cash and cash equivalents	3,560	(2,806)	2,005	(2,098)
Cash and cash equivalents at 30 June	7,430	15,277	7,421	16,086

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Investor Information

Ratios

	Group		Company	
	30 June. 2010	31 Dec. 2009	30 June. 2010	31 Dec. 2009
Net Assets per Share (Rs)	26.36	25.82	27.31	27.06
Debt / Equity ratio -Number of times	0.20	0.22	0.05	0.04
Quick Asset Ratio - Number of times	0.73	0.65	1.33	1.27
	For the period ended		For the period ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Interest Cover - Number of times	4.83	2.69	8.58	3.88

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 June 2010	3 Months to 30 June 2009
-Highest	39.50	51.00
-Lowest	36.00	33.50
-Last Traded price	37.00	48.75

Dividend Payment

Final Dividend for the year 2009 -Rs 0.25 per share paid on 7 May 2010.

Share trading from 1 April 2010 to 30 June 2010

	3 Months to 30 June 2010
-No of Transactions	1,746
- No of Shares Traded	6,854,776
-Value of Shares Traded (Rs)	254,623,625

1) Top 20 ShareHolders

<u>Name & Address</u>	<u>Share Holding</u>	<u>Percentage</u>
1 Secretary to the Treasury	893,405,709	49.50
2 Global Telecommunications Holdings NV	811,757,869	44.98
3 Employees Provident Fund	18,354,289	1.02
4 Sri Lanka Insurance Corporation Ltd-Life Fund	17,713,735	0.98
5 National Savings Bank	13,158,700	0.73
6 Bank of Ceylon A/C Ceybank Unit Trust.	5,818,000	0.32
7 Employees Trust Fund Board	3,302,188	0.18
8 Sri Lanka Insurance Corporation Ltd-General Fund	3,164,200	0.18
9 Heraymila Investments Limited	1,017,800	0.06
10 Miss Bollagala Mayuri Damayanthi	754,500	0.04
11 Seylan Bank PLC/Janashakthi Limited	637,500	0.04
12 Bank of Ceylon A/C Ceybank Century Growth Fund	557,100	0.03
13 Alchemy Heavy Metals (Pvt) Ltd	505,600	0.03
14 Ellawala Exports (Pvt) Ltd	500,000	0.03
15 Mr Vandrrvala Cyrus Kersie	463,000	0.03
16 David Peiris Motor Company Limited	436,400	0.02
17 The Incorporated Trustees of the Church of Ceylon	414,100	0.02
18 HSBC Intl Nom Ltd-HSBC Fund Services A/C 006-JF Asia New Fornters Fund	367,500	0.02
19 The Ceylon Chamber of Commerce Account No. 02	290,400	0.02
20 Mr De Silva Charitha Prasanna	264,800	0.01
	<u>1,772,883,390</u>	<u>98.23</u>

(2) Percentage of Public Holding as at 30 June 2010 5.52

(3) Directors' Holding & Chief Executive Officer's holding in shares of the equity - None of
the Directors and the CEO held shares of the Company

(4) Number of Shares representing the Entity's stated capital - 1,804,860,000 Ordinary Shares issued
at Rs 10 per share

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Segmental Reporting -for 6 Months ended 30 June 2010

(All amounts in LKR Millions)

Primary Segment - Business Segments

	Fixed	OGO	Mobile	Other	Total
Revenue					
Total Segment Revenue	8,261	5,405	7,522	6,036	27,224
Inter Segment Revenue	-	(1,496)	(14)	(1,145)	(2,655)
Revenue from external Customers	8,261	3,909	7,508	4,891	24,568
Segment results / operating profits	552	240	949	621	2,362
Refund of Telecommunication					
-Development Charge(TDC)					151
Voluntary Retirement Scheme (VRS)					(188)
Non Operating Income					109
Interest expenses and finance cost					(563)
Interest income					285
Profit before tax					2,156
Taxation					(783)
Net Profit for the period					1,373

Segmental Reporting -for 6 Months ended 30 June 2009

(All amounts in LKR Millions)

Primary Segment - Business Segments

	Fixed	OGO	Mobile	Other	Total
Revenue					
Total Segment Revenue	9,811	3,935	5,754	5,288	24,788
Inter Segment Revenue	-	(163)	(20)	(1,019)	(1,202)
Revenue from external Customers	9,811	3,772	5,734	4,269	23,585
Segment results / operating profits	661	257	642	570	2,130
Non Operating Income					-
Interest expenses and finance cost					95
Interest income					(1,076)
Profit before tax					668
Taxation					1,817
Net Profit for the period					(471)
					1,346

Note-

Fixed	Fixed telephony operations including CDMA
OGO	Other Gateway Operations
Mobile	Mobile telephony operations
Other	Other value added services