

Sri Lanka Telecom PLC



Condensed Consolidated Interim Financial Statements

For the Quarter ended

31 March 2020

Sri Lanka Telecom PLC

Company Registration No. PQ 7

Condensed Interim Financial Statements

Statement of Profit or Loss and other Comprehensive Income

(All amounts in LKR Millions)

	Group		Company	
	Jan - Mar		Jan - Mar	
	2020 (Reviewed)	2019 (Reviewed)	2020 (Reviewed)	2019 (Reviewed)
Revenue	22,139	21,329	12,490	12,240
Direct costs	(11,637)	(11,568)	(6,828)	(6,670)
Gross Profit	10,502	9,761	5,662	5,570
Sales and marketing cost	(2,696)	(2,333)	(1,258)	(780)
Administrative cost	(4,587)	(4,924)	(3,309)	(3,416)
Operating profit	3,219	2,504	1,095	1,374
Other income	262	67	344	160
Dividend Income	-	-	250	-
Interest expenses and finance cost	(526)	(209)	(150)	(140)
Foreign exchange (loss) /gain	(683)	172	(129)	20
Interest income	285	280	196	146
Share of profit from equity accounted investee	12	24	12	24
Profit before tax	2,569	2,838	1,618	1,584
Income tax expenses	(692)	(641)	(449)	(430)
Profit for the Period	1,877	2,197	1,169	1,154
Other comprehensive income				
Net movement in Cash flow hedges	91	145	91	145
Defined benefit plan actuarial (loss)/gain	14	22	12	21
Tax on other comprehensive income	(4)	(6)	(3)	(6)
Other comprehensive income for the period (net of tax)	101	161	100	160
Total Comprehensive Income for the Period	1,978	2,358	1,269	1,314
Profit Attributable to :				
Owners of the company	1,877	2,197	1,169	1,154
Total Comprehensive Income attributable to:				
Owners of the company	1,978	2,358	1,269	1,314
Earnings per share				
Basic (Rs.)	1.04	1.22	0.65	0.64

Statement of Financial Position
(All amounts in LKR Millions)

	Group		Company	
	31 Mar 2020 (Reviewed)	31 Dec 2019 (Audited)	31 Mar 2020 (Reviewed)	31 Dec 2019 (Audited)
Assets				
Non-Current Assets				
Property, plant and equipment	140,591	140,746	103,597	103,800
Right of use assets	6,840	7,462	393	513
Intangible assets and goodwill	7,982	7,416	1,933	1,151
Investments in subsidiaries	-	-	14,821	14,821
Investments in associates	66	54	66	54
Deferred tax assets	238	238	-	-
Contract assets	650	707	150	148
Other receivables	2,860	2,897	2,831	2,868
Total Non-current Assets	159,227	159,520	123,791	123,355
Current Assets				
Inventories	3,348	3,565	2,466	2,768
Trade and other receivables	36,775	33,021	22,852	20,865
Current tax receivables	889	852	889	852
Contract assets	744	711	90	87
Other investments	4,081	3,112	4,062	3,082
Cash and cash equivalents	5,862	5,457	1,216	645
Total Current Assets	51,699	46,718	31,575	28,299
Total Assets	210,926	206,238	155,366	151,654
Equity and Liabilities				
Equity				
Stated capital	18,049	18,049	18,049	18,049
Insurance reserve	938	917	938	917
Hedging reserve	(380)	(471)	(380)	(471)
Revaluation reserve	129	129	-	-
Retained earnings	61,440	59,574	42,835	41,678
Equity attributable to equity share holders of the company	80,176	78,198	61,442	60,173
Non controlling Interest	98	98	-	-
Total Equity	80,274	78,296	61,442	60,173
Non Current Liabilities				
Borrowings	48,659	49,178	42,821	42,820
Lease Liability	5,564	5,910	20	50
Deferred income	2,031	2,076	2,012	2,057
Contract liabilities	539	538	535	533
Deferred tax liabilities	7,951	7,499	7,937	7,485
Employee benefits	4,753	4,697	3,841	3,806
Trade and other payables	1,664	1,677	326	346
Total Non Current Liabilities	71,161	71,575	57,492	57,097
Current Liabilities				
Borrowings	14,142	12,498	11,246	9,650
Lease Liability	1,828	1,929	406	494
Deferred income	2,452	2,859	284	290
Contract liabilities	680	592	447	444
Current tax liabilities	388	308	-	-
Trade and other payables	40,001	38,181	24,049	23,506
Total Current Liabilities	59,491	56,367	36,432	34,384
Total Liabilities	130,652	127,942	93,924	91,481
Total Equity and Liabilities	210,926	206,238	155,366	151,654

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

Signed

Sanjeewa Samaranyake
Group Chief Financial Officer

The Board of Directors is responsible for these financial statements. These financial statements were approved by the Board of Directors on 14 May 2020.

Signed for and behalf of the Board,

Signed

Rohan Fernando
Chairman

Signed

Lalith Seneviratne
Director

Statement of Changes in Equity

(All amounts in LKR Millions)

Group	Attributable to owners of the Company							
	Stated capital	Insurance reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total	Non controlling interest	Total equity
Balance as at 1 January 2019	18,049	791	(672)	-	55,456	73,624	96	73,720
Non Controlling interest	-	-	-	-	-	-	2	2
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	6,322	6,322	-	6,322
Other comprehensive income								
Net movement on cash flow hedges	-	-	201	-	-	201	-	201
Defined benefit plan actuarial (loss) / gain, net of tax	-	-	-	-	(183)	(183)	-	(183)
Revaluation reserve	-	-	-	129	-	129	-	129
Tax on Revaluation of Buildings	-	-	-	-	18	18	-	18
Total other comprehensive income for the year	-	-	201	129	(165)	165	-	165
Total comprehensive income for the year	-	-	201	129	6,157	6,487	2	6,489
Transactions with owners, recorded directly in equity								
Contribution by and distribution to owners								
Dividends to equity share holders	-	-	-	-	(1,913)	(1,913)	-	(1,913)
Insurance reserve								
Transferred to insurance reserve	-	126	-	-	(126)	-	-	-
Balance as at 31 December 2019	18,049	917	(471)	129	59,574	78,198	98	78,296
Balance as at 1 January 2020	18,049	917	(471)	129	59,574	78,198	98	78,296
Non controlling interest	-	-	-	-	-	-	-	-
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	1,877	1,877	-	1,877
Other comprehensive income								
Net movement on cash flow hedges	-	-	91	-	-	91	-	91
Defined benefit plan actuarial (loss)/gain, net of tax	-	-	-	-	10	10	-	10
Tax on revaluation	-	-	-	-	-	-	-	-
Total other comprehensive income for the period	-	-	91	-	10	101	-	101
Total comprehensive income for the period	-	-	91	-	1,887	1,978	-	1,978
Transactions with owners, recorded directly in equity								
Contribution by and distribution to owners								
Dividends to equity share holders	-	-	-	-	-	-	-	-
Insurance reserve								
Transferred to insurance reserve	-	21	-	-	(21)	-	-	-
Balance as at 31 March 2020	18,049	938	(380)	129	61,440	80,176	98	80,274

Statement of Changes in Equity

(All amounts in LKR Millions)

Company	Attributable to owners of the Company				
	Stated capital	Insurance reserve	Hedging reserve	Retained earnings	Total
Balance as at 1 January 2019	18,049	791	(672)	39,972	58,140
Total comprehensive income for the year					
Net profit for the year	-	-	-	3,780	3,780
Other comprehensive income					-
Net movement on cash flow hedges			201		201
Defined benefit plan actuarial (loss)/gain, net of tax	-	-	-	(35)	(35)
Total other comprehensive income for the year	-	-	201	(35)	166
Total comprehensive income for the year	-	-	201	3,745	3,946
Transactions with owners, recorded directly in equity					
Contribution by and distribution to owners					
Dividends to equity share holders	-	-	-	(1,913)	(1,913)
Insurance reserve					
Transferred to insurance reserve	-	126	-	(126)	-
Balance as at 31 December 2019	18,049	917	(471)	41,678	60,173
Balance as at 1 January 2020	18,049	917	(471)	41,678	60,173
Total comprehensive income for the period					
Net profit for the period	-	-	-	1,169	1,169
Other comprehensive income					
Net movement on cash flow hedges	-	-	91	-	91
Defined benefit plan actuarial (loss)/gain, net of tax	-	-	-	9	9
Total other comprehensive income for the period	-	-	91	9	100
Total comprehensive income for the period	-	-	91	1,178	1,269
Transactions with owners, recorded directly in equity					
Contribution by and distribution to owners					
Dividends to equity share holders	-	-	-	-	-
Insurance reserve					
Transferred to insurance reserve	-	21	-	(21)	-
Balance as at 31 March 2020	18,049	938	(380)	42,835	61,442

Statement of Cash Flows for period ended 31 March*(All amounts in LKR Millions)*

	GROUP		COMPANY	
	2020	2019	2020	2019
Operating activities				
Cash generated from operations	6,718	4,167	3,989	3,114
Interest received	288	297	199	163
Interest paid	(2,233)	(1,409)	(1,656)	(1,260)
Tax paid	(164)	(294)	-	(70)
Gratuity paid	(114)	(126)	(109)	(116)
Net cash generated from operating activities	4,495	2,635	2,423	1,831
Cash flows from Investing activities				
Acquisition of property, plant and equipment	(3,043)	(3,753)	(1,749)	(2,219)
Acquisition of intangible assets	(908)	(113)	(877)	(101)
Proceeds from disposal of property, plant and equipment	20	54	14	52
Proceeds /(Purchase) of short term investments	(947)	579	(937)	609
Net cash used in investing activities	(4,878)	(3,233)	(3,549)	(1,659)
Cash flows from Financing activities				
Proceeds from borrowings	5,453	13,481	5,250	13,350
Finance lease principal re-payments	(6)	(11)	-	(1)
Re-payment on borrowings	(4,659)	(10,578)	(3,460)	(10,111)
Net cash generated / (used) from financing activities	788	2,892	1,790	3,238
Increase / (Decrease) in cash and cash equivalents	405	2,294	664	3,410
Movement in Cash and cash equivalents				
Cash and cash equivalents at beginning of the year	1,718	4,629	(2,620)	(4,967)
Increase / (Decrease) in cash and cash equivalents	405	2,294	664	3,410
Cash and cash equivalents at 31 March (Note 1)	2,123	6,923	(1,956)	(1,557)

Note 1Cash and cash equivalents
Bank overdraft

Cash and cash equivalents	5,862	10,826	1,216	1,645
Bank overdraft	(3,739)	(3,903)	(3,172)	(3,202)
	2,123	6,923	(1,956)	(1,557)

I. Reporting Entity

Sri Lanka Telecom PLC (the 'Company') is a company domiciled in Sri Lanka. The address of the Company's registered office is Lotus Road, Colombo 1. The condensed separate interim financial statements relate to Sri Lanka Telecom PLC. These condensed consolidated interim financial statements ('interim financial statements') as at 31 March 2020 and for the three months ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in providing a broad portfolio of telecommunication services across Sri Lanka. In addition, the range of services provided by the Group include, inter-alia, internet services, data services, domestic and international leased circuits, broadband, satellite uplink, maritime transmission, IPTV service and directory publishing service. The Company is listed on the Colombo Stock Exchange.

II. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with Sri Lanka Accounting Standard - LKAS 34, 'Interim Financial Reporting' and do not include all the information required for a complete set of SLFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant for an understanding of the changes in the Group's financial position and performance since the last audited financial statements as at 31 December 2019 and for the year ended 31 December 2019.

These interim financial statements were authorized for issue by the Company's Board of Directors on 14 May 2020.

III. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the audited financial statement as at 31 December 2019 and for the year ended 31 December 2019.

IV. Use of Judgments and estimates

The management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense when preparing these interim financial statements. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied to the audited financial statements as at 31 December 2019 and for the year ended 31 December 2019.

V. Operating segments

Information relevant to the operating segments are presented in a method consistent with the management reporting provided to those charged with governance.

(a) Information about reportable segments

(All amounts in Rs.Mn)

	Fixed ICT Operations		Mobile Operations		Other Segments Operations		Total	
	31 Mar		31 Mar		31 Mar		31 Mar	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
External revenues	11,412	11,296	10,369	9,611	358	422	22,139	21,329
Inter- segment revenue	1,078	944	321	520	941	561	2,340	2,025
Reportable segment revenue	12,490	12,240	10,690	10,131	1,299	983	24,479	23,354
Reportable segment Profit before tax	1,618	1,584	1,142	1,336	58	(69)	2,818	2,851
Interest revenue	196	146	89	127	-	7	285	280
Interest expenses	(150)	(140)	(403)	(60)	(15)	(9)	(568)	(209)
Depreciation and Amortization	(3,472)	(2,873)	(1,961)	(1,651)	(29)	(14)	(5,462)	(4,538)

Revenues	31 Mar <u>2020</u>	31 Mar <u>2019</u>
Total revenue for reportable segments	23,180	22,371
Revenue for other segments	1,299	983
Reportable segment revenue	24,479	23,354
Elimination of inter- segment revenue	(2,340)	(2,025)
Consolidated revenue	22,139	21,329
Profit or loss		
Total profit or loss for reportable segments	2,760	2,920
Profit or loss for other segments	58	(69)
Reportable segment profit before tax	2,818	2,851
Elimination of inter- segment profits	(249)	(13)
Consolidated profit before tax	2,569	2,838

Assets & Liabilities

	31 Mar 2020	31 Dec 2019
Assets		
Total assets for reportable segments	231,317	226,904
Assets for other segments	4,715	4,394
	236,032	231,298
Elimination of inter- segment assets	(25,106)	(25,060)
Consolidated total assets	210,926	206,238
Liabilities		
Total liabilities for reportable segments	137,712	135,238
Liabilities for other segments	3,506	3,226
	141,218	138,464
Elimination of inter- segment liabilities	(10,566)	(10,522)
Consolidated total liabilities	130,652	127,942

VI. Seasonal or cyclical factors

The operations of the Group were not significantly affected by any seasonal or cyclical factors.

VII. Significant unusual items affecting assets, liabilities, equity, net income or cash flows

The outbreak of Covid-19 pandemic across many countries in the world (WHO announced the pandemic in March 2020) has caused widespread concern on the changed consumer behavior, operation of businesses and on the communities at large. The telecommunication industry has experienced immediate increase in usage of Broadband and IPTV services by the residential sector and data products by the business sector in shifting towards work from home arrangements in continuing the businesses. The telecommunication service has been categorized as an essential service by the Government of Sri Lanka.

As a response to the pandemic, following the guidelines of the Company's Business Continuity Plan (BCP), SLT has effected changes in operations, supply chain, workforce movements, investments and on the strategies while continuing to provide an uninterrupted service to the nation.

The below summarizes the financial impact to the Company:

a) Impact to Earnings

Adverse impact to macro economy due to Covid-19 pandemic and restrictions for business operations of many companies have caused pressure on our revenues, growth plans and scheduled investments. In the short run, the Company experiences positive impact in areas such as Broadband, online services and IPTV related services due to the increased utilization from the residential sector. At the same time, there are opportunities for future as there is demand from corporates and individuals for online and distance services to operate from home.

We are yet to observe the impact on revenue from the international business sector, and Sri Lankan expatriates who are using our services.

b) Impact to Cashflows

Low disposable income levels of the customers coupled with regulatory instructions to refrain from disconnecting the subscribers who have not paid, the collection of billed revenue is a challenge in this financial year. Nevertheless, the Government's decision on extending the due dates for the payment of some taxes and levies has eased off the situation in the short term. In order to mitigate the cash-flow related challenges, the Group has decided to limit capital nature expenditure only for the critical areas and to utilize the procurement models with deferred payment plans.

c) Impact from Exchange Rate Variation

Some of the expenses of the Company are in the form of foreign currencies. The impact of these expenses due to the prevailing depreciation of the Rupee is being mitigated by timely action to minimize such expenses or to renegotiate with suppliers on prices.

The Company has assessed the impact on property, plant and equipment and the spectrums of the Company and at this stage does not foresee an impact due to the pandemic.

The Company will continue to take appropriate actions to mitigate any potential impact, and will continue its contingency plans and risk management measures as the situation evolves.

However, it is too early to reasonably estimate the impact on financial results since pandemic is still not fully brought under control.

There were no other events or transactions that require disclosures or adjustments to in financial statements for the period ended 31 March 2020.

VIII. Property Plant and equipment**(a) Acquisitions and disposals**

During the three months ended 31 March 2020, the Group acquired assets at a cost of Rs.4,244 Mn (three months ended 31 March 2019 - Rs.2,351 Mn).

Assets fully depreciated were disposed during the three months ended 31 March 2020 (three months ended 31 March 2019 - Nil), resulting in a gain on disposal of Rs. 6 Mn (three months ended 31 March 2019: gain of Rs. 54 Mn), which was included in 'other income' in the condensed Consolidated Statement of Profit or Loss and other comprehensive income.

(b) Capital commitments

	Group (Rs. Mn)		Company (Rs. Mn)	
	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019
Property plant and equipment				
Approved but not contracted	42,837	5,250	42,837	5,250
Approved and contracted	10,154	15,491	4,953	9,744

IX. Capital and reserve

(a) Stated Capital

Stated capital of the Company consists of 1,804,860,000 ordinary shares.

X. Loans and Borrowings

Material addition to loans and borrowing at Group level for the period under review:

Additions	Currency	Amount (Rs.Mn)
Bank loan – 31 March 2020	LKR	5,453

Material repayment of loans and borrowings at Group level for the period is under review:

Repayments	Currency	Amount (Rs.Mn)
Bank loan – 31 March 2020	LKR	4,659

XI. Contingencies

- (a) Dialog Axiata PLC (“Dialog”) floated Request for Proposal (“RFP”) to provide fixed wired services commissioning of GPON active solution. Accordingly, SLT filed a case on 6th June 2017 in the District Court of Colombo seeking an enjoining order against Dialog restraining from floating a RFP. On 18th July 2017 Dialog Broad Band Network (Pvt) Limited (“DBN”) filed a case against SLT regarding violation of Intellectual Property Rights in the Commercial High Court and an ex-parte interim injunction was issued on 19th July 2017 requiring SLT to disclose the source/party who revealed the RFP and to furnish the original under the provisions of Intellectual Property Act. The order made by Court on 18th July 2017 in favour of DBN.

Further permanent injunction and damages of Rs.7, 800,000,000/- is prayed under the petition.

Petition of DBN was dismissed by Court on 08th August 2018.

- (b) Dialog Broad Band Network (Pvt) Ltd (“DBN”) appealed to the Supreme Court under the case against the aforesaid order. Dialog supported the matter in court to obtain leave to proceed with their application and the Court granted Leave in a limited manner. Both parties filed written submissions based on above and the next date of the case will be **7th September 2020** for hearing.

XII. Related Parties

Material related party transactions during the quarter under review:

Company	Nature of Transaction	Transaction Value (Rs. Mn)		Amount due (to)/ from related parties (Rs. Mn)	
		31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Dec 2019
Mobitel (Private) Limited	Sale of goods and services	1,051	933	1,544	1,288
	Purchase of goods and services	321	484	(1,043)	(849)

XIII. Events after the Reporting date

No material events have arisen since the date of the statement of financial position up to the date of this report which require changes to, or disclosure in the financial statements.

Investor InformationRatios

	Group		Company	
	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019
Net asset value per share (Rs)	44.42	43.33	34.04	33.34
Debt/equity ratio - Number of times	0.88	0.89	0.89	0.88
Quick asset ratio - Number of times	0.81	0.77	0.80	0.74

	For the Qtr ended		For the Qtr ended	
	31 Mar 2020	31 Mar 2019	31 Mar 2020	31 Mar 2019
Interest cover - Number of times	1.76	2.38	1.28	1.42

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

-Highest

-Lowest

-Last Traded price

	3 Months to 31 Mar 2020	3 Months to 31 Mar 2019
-Highest	31.80	27.50
-Lowest	21.90	27.50
-Last Traded price	22.00	21.40

Share trading from 1 January to 31 March 2020

	3 Months to 31 Mar 2020
-No of Transactions	627
-No of Shares Traded	143,738
-Value of Shares Traded (Rs)	3,975,312

Sri Lanka Telecom PLC

Company Registration No. PQ 7

Condensed Interim Financial Statements

Investor Information Contd.....

Progress of the utilization of funds raised via Debenture issue

Objective number	Objective as Per Prospectus	Amount allocated as Per prospectus in LKR	Proposed date of Utilization as Per prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amounts utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested (eg. whether lent to related party)
1	Retire short term maturing and high interest paying debt	5,000,000,000	Not stated	5,000,000,000	71.43%	5,000,000,000	100%	Not applicable
2	Partly finance capital expenditure	2,000,000,000	Not stated	2,000,000,000	28.57%	2,000,000,000	100%	Not applicable

Sri Lanka Telecom PLC**Company Registration No. PQ 7****Condensed Interim Financial Statements**

1) List of 20 Major Shareholders

Name & Address	Share Holding	Percentage %
1 Secretary to the Treasury	893,405,709	49.50
2 Global Telecommunications Holdings NV	811,757,869	44.98
3 Employees Provident Fund	25,324,104	1.40
4 Bank of Ceylon A/C Ceybank Unit Trust.	18,697,853	1.04
5 Sri Lanka Insurance Corporation Ltd-Life Fund	17,713,735	0.98
6 National Savings Bank	13,158,700	0.73
7 Employees Trust Fund Board	3,302,188	0.18
8 Sri Lanka Insurance Corporation Ltd-General Fund	2,041,538	0.11
9 Bank of Ceylon A/C Ceybank Century Growth Fund	1,610,469	0.09
10 Sampath Bank PLC /Mr D.K.L Chanadrasena	254,485	0.01
11 The Incorporated Trustees of the Church of Ceylon	223,590	0.01
12 Bank of Ceylon No 1 Account	214,000	0.01
13 Pinnacle Trust (Pvt) Limited	183,984	0.01
14 Ceylon Biscuits Limited	161,825	0.01
15 Sinharaja Hills Plantation Pvt Limited	107,491	0.01
16 Mr Tanaka	100,000	0.01
17 Mr.Deraniyagala	100,000	0.01
18 Mrs.Edirisinghe	100,000	0.01
19 Mr Weerasinghe	70,000	0.00
20 Mr Munasinghe	69,400	0.00
	1,788,596,940	99.10

- | | |
|--|--------------------|
| 2) Percentage of public holding as at 31 March 2020 | 5.52% |
| 3) Number of shareholders representing the public holding | 12,373 |
| 4) Float adjusted Market Capitalization | Rs.2,191,821,984/- |
| 5) Directors' Holding | None |
| 6) Chief Executive Officer's (CEO) including the spouse shareholding | 3,689 |
| 7) Number of shares representing the Entity's stated capital 1,804,860,000 Ordinary shares issued at Rs.10/- per share | |