

Sri Lanka Telecom PLC and its Subsidiaries

Registration No - PQ 7

Interim Financial Report

For the 9 months ended 30 September 2009



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 September 2009

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group July-Sep			Company July-Sep			Group Jan-Sep			Company Jan-Sep		
	2009	2008	change %	2009	2008	change %	2009	2008	change %	2009	2008	change %
Revenue	12,305	11,691	5	8,626	8,863	(3)	35,890	35,049	2	25,493	27,484	(7)
Operating costs	(7,942)	(6,383)	24	(5,169)	(4,649)	11	(22,233)	(17,842)	25	(15,101)	(13,377)	13
Operating profit before depreciation and Amortization	4,363	5,308	(18)	3,457	4,214	(18)	13,657	17,207	(21)	10,392	14,107	(26)
Depreciation	(2,761)	(2,533)	9	(1,986)	(2,046)	(3)	(8,234)	(7,546)	9	(6,128)	(6,182)	(1)
Amortisation of intangible assets International Telecommunication operators' Levy-(ITL)	(113)	(82)	38	(49)	(37)	32	(331)	(230)	44	(144)	(95)	52
	(746)	(732)	2	(589)	(665)	(11)	(2,219)	(2,222)	(0)	(1,869)	(2,048)	(9)
Operating profit	743	1,961	(62)	833	1,466	(43)	2,873	7,209	(60)	2,251	5,782	(61)
Voluntary Retirement Scheme (VRS)	(480)	-		(480)	-		(480)	(370)	30	(480)	(370)	30
Other income	41	38	8	15	37	(59)	136	178	(24)	100	175	(43)
Interest expenses and related charges	(620)	(561)	11	(290)	(301)	(4)	(1,696)	(1,619)	5	(844)	(940)	(10)
Interest income	321	304	6	312	295	6	989	875	13	958	821	17
Profit before tax	5	1,742	(100)	390	1,497	(74)	1,822	6,273	(71)	1,985	5,468	(64)
Taxation	(194)	(507)	(62)	(92)	(504)	(82)	(665)	(1,874)	(65)	(539)	(1,859)	(71)
Net profit for the period	(189)	1,235	(115)	298	993	(70)	1,157	4,399	(74)	1,446	3,609	(60)
Attributable to :												
Equity holders of the company	(186)	1,235	(115)	298	993	(70)	1,164	4,399	(74)	1,446	3,609	(60)
Minority interest	(3)	-		-	-		(7)	-		-	-	
	(189)	1,235	(115)	298	993	(70)	1,157	4,399	(74)	1,446	3,609	(60)
Earnings per share (Rs)												
-Basic	(0.10)	0.68		0.17	0.55		0.64	2.44		0.80	2.00	
-Annualized	(0.42)	2.74		0.66	2.20		0.85	3.25		1.07	2.67	

Note - 1 Voluntary Retirement Scheme (VRS)

Based on the defined plan identified for each grade of staff the cost of VRS was Rs.480 Mn.

The above figures are provisional and unaudited

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2009

Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 30 Sep. 2009	Audited as at 31 Dec. 2008	Un-Audited as at 30 Sep. 2009	Audited as at 31 Dec. 2008
Assets				
Non-Current Assets				
Property, plant and equipment	62,056	57,072	36,668	38,489
Intangible assets	2,019	2,165	613	632
Investments in subsidiaries	-	-	10,821	10,172
Advance against investments	-	-	-	30
Deferred Tax Assets	790	-	790	-
Non-current receivables	1,953	1,572	1,953	1,572
	66,818	60,809	50,845	50,895
Current Assets				
Inventories	2,487	2,583	2,325	2,330
Trade Receivables and prepayments	12,288	11,060	10,668	10,779
Cash and cash equivalents	16,514	18,746	15,936	17,971
	31,289	32,389	28,929	31,080
Total Assets	98,107	93,198	79,774	81,975
Equity and Liabilities				
Capital and Reserves				
Stated Capital (Represented by 1,804,860,000 shares)	18,049	18,049	18,049	18,049
Hedging reserve	-	(32)	-	(32)
Insurance reserve	280	236	280	236
Exchange equalisation reserve	(3)	1	-	-
Retained earnings	28,629	29,270	30,725	31,084
	46,955	47,524	49,054	49,337
Minority interest in equity	1	31	-	-
Total Equity	46,956	47,555	49,054	49,337
Deferred income	4,518	4,932	4,518	4,932
Non Current Liabilities				
Grants	56	61	56	61
Deferred tax liabilities	-	1,097	-	1,097
Borrowings	6,373	5,228	44	680
Retirement benefit obligation	1,312	1,217	1,229	1,144
Trade and other payables	289	289	289	289
	8,030	7,892	1,618	3,271
Current Liabilities				
Trade and other payables	18,567	13,163	9,705	8,772
Current tax liabilities	1,281	1,633	1,179	1,619
Borrowings	17,125	16,488	12,805	13,154
Deferred income	1,630	1,535	895	890
	38,603	32,819	24,584	24,435
Total Equity and Liabilities	98,107	93,198	79,774	81,975

Signed on behalf of the Board.

Sgd.
Leisha De Silva Chandrasena
Chairperson
13-Nov 2009

Sgd.
U.R.Seneviratne
Director
13-Nov 2009

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2009

Statement of Changes in Equity - 1 Jan 2008 to 30 September 2009

(All amounts in LKR Millions)

Group

	Stated Capital	Hedging Reserve	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Minority Interest	Total Equity
9 Months ended 30 September 2008							
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 statement		29					29
Insurance reserve -charged to income statement			29				29
Dividend in respect of 2007					(1,805)		(1,805)
Share of Minority Interest						(2)	(2)
Profit for the period					4,399		4,399
Balance at 30 September 2008	18,049	(26)	233	-	26,299	(2)	44,553
Balance at 1 October 2008	18,049	(26)	233	-	26,299	(2)	44,553
Cash flow hedges							-
-Foreign currency translation difference		(7)					(7)
-Charged to income statement		1					1
Insurance reserve -charged to income statement			3				3
Effect of movement in foreign exchange rates				1			1
Minority interest arising on business combination						34	34
Profit / (Loss) for the period					2,971	(1)	2,970
Balance at 31 December 2008	18,049	(32)	236	1	29,270	31	47,555
9 Months ended 30 September 2009							
Balance at 1 January 2009	18,049	(32)	236	1	29,270	31	47,555
Cash flow hedges							-
-Foreign currency translation difference		-					-
-Charged to income statement		32					32
Insurance reserve -charged to income statement			44				44
Effect on movement in foreign exchange rates				(4)			(4)
Dividend in respect of 2008					(1,805)		(1,805)
Profit / (Loss) for the period					1,164	(7)	1,157
Loss of holding						(23)	(23)
Balance at 30 September 2009	18,049	-	280	(3)	28,629	1	46,956

Sri Lanka Telecom PLC & its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2009

Statement of Changes in Equity - 1 Jan 2008 to 30 September 2009

(All amounts in LKR Millions)

Company

	Stated Capital	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
9 Months ended 30 September 2008					
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 statement		29			29
Insurance reserve -charged to income statement			29		29
Dividend in respect of 2007				(1,805)	(1,805)
Profit for the period				3,609	3,609
Balance at 30 September 2008	18,049	(26)	233	28,092	46,348
Balance at 1 October 2008	18,049	(26)	233	28,092	46,348
Cash flow hedges					
-Foreign currency translation difference		(7)			(7)
-Charged to income statement		1			1
Insurance reserve -charged to income statement			3		3
Profit / (Loss)for the period				2,992	2,992
Balance at 31 December 2008	18,049	(32)	236	31,084	49,337
9 Months ended 30 September 2009					
Balance at 1 January 2009	18,049	(32)	236	31,084	49,337
Cash flow hedges					
-Foreign currency translation difference		-			-
-Charged to income statement		32			32
Insurance Reserve- charged to income statement			44		44
Dividend in respect of 2008				(1,805)	(1,805)
Profit / (Loss)for the period				1,446	1,446
Balance at 30 September 2009	18,049	-	280	30,725	49,054

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2009

Consolidated Cash Flow Statement for 9 months ended 30 September

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2009	2008	2009	2008
Operating activities				
Cash generated from operations	14,694	14,618	8,396	10,822
Interest received	976	533	945	479
Interest paid	(1,652)	(1,444)	(800)	(765)
Tax paid	(2,916)	(2,966)	(2,878)	(2,933)
Net cash generated from operating activities	11,102	10,741	5,663	7,603
Investing activities				
Acquisition of property, plant and equipment	(13,201)	(8,354)	(4,290)	(3,868)
Acquisition of intangible assets	(191)	(415)	(126)	(290)
Proceeds from disposal of property, plant and equipment	15	13	15	9
Investments in subsidiaries	-	-	(619)	(1,679)
Net cash used in investing activities	(13,377)	(8,756)	(5,020)	(5,828)
Financing activities				
Finance lease principal re-payments	(8)	(4)	(8)	(4)
Proceeds from borrowings	3,177	1,398	-	900
Re-Payment on borrowings	(2,485)	(1,507)	(1,058)	(774)
Dividends paid	(1,805)	(1,805)	(1,805)	(1,805)
Net cash used in financing activities	(1,121)	(1,918)	(2,871)	(1,683)
Increase/(Decrease) in cash and cash equivalents	(3,396)	67	(2,228)	92
Cash and cash equivalents at beginning of the year	17,870	16,920	17,971	16,689
Effect on exchange fluctuation on cash and cash equivalents	193	(168)	193	(168)
	18,063	16,752	18,164	16,521
Increase/(Decrease) in cash and cash equivalents	(3,396)	67	(2,228)	92
Cash and cash equivalents at 30 September	14,667	16,819	15,936	16,613

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2009

Investor Information

Ratios

	Group		Company	
	30 Sep. 2009	31 Dec. 2008	30 Sep. 2009	31 Dec. 2008
Net Assets per Share (Rs)	26.02	26.33	27.18	27.34
Debt / Equity ratio -Number of times	0.33	0.31	0.21	0.22
Quick Asset Ratio - Number of times	0.75	0.91	1.08	1.18
	For the period ended		For the period ended	
	30 Sep 2009	30 Sep 2008	30 Sep 2009	30 Sep 2008
Interest Cover - Number of times	2.07	4.87	3.35	6.82

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 Sep 2009	3 Months to 30 Sep 2008
-Highest	48.50	47.50
-Lowest	40.00	40.50
-Last Traded price	44.75	41.50

Dividend Payment

Final Dividend for the year 2008 -Rs 1.00 per share paid on 4 April 2009.

Share trading from 1 July 2009 to 30 September 2009

	3 Months to 30 Sep 2009
-No of Transactions	2,050
- No of Shares Traded	3,961,612
-Value of Shares Traded (Rs)	175,284,882

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 2008.

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 amount to be claimed from TDC against the cost of telecommunications network roll-out in un-served and underserved areas by the Company for the period from 1 January 2006 to 31 March 2006, has been submitted to TRC. The estimated refund as at 30 Sep 2009 has not been recognised in the income statement pending approval by the TRC.

3. Investments in Subsidiary

A fresh capital infusion of Rs. 600,000,000 was made by SLT for which Mobitel issued 60,000,000 14% ordinary Shares of Rs.10/- each during the period.

Also a fresh capital infusion of Rs.19,000,000 was made by SLT in SkyNetwork (Pvt) Ltd. for which SkyNetwork (Pvt) Ltd. issued 1,900,000 Ordinary Shares of Rs.10/- each. As a result of this SLT's holding in SkyNetwork (Pvt) Ltd increased to 99% from 75%.

4. 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.

5. 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 2008.

6. 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
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2009

Segmental Reporting -for the 9 months ended 30 September 2009

(All amounts in LKR Millions)

Primary Segment - Business Segments

	<u>PSTN</u>	<u>CDMA</u>	<u>OGO</u>	<u>Mobile</u>	<u>Other</u>	<u>Total</u>
Revenue						
Total Segment Revenue	10,855	3,892	6,163	8,399	8,535	37,844
Inter Segment Revenue	-	-	(171)	(32)	(1,751)	(1,954)
Revenue from external Customers	10,855	3,892	5,992	8,367	6,784	35,890
Segment results / operating profits	468	253	575	493	1,084	2,873
Voluntary Retirement Scheme (VRS)						(480)
Non Operating Income						136
Finance Cost						-1,696
Interest income						989
Profit before tax						1,822
Taxation						(665)
Net Profit for the period						1,157

Segmental Reporting -for the 9 months ended 30 September 2008

(All amounts in LKR Millions)

Primary Segment - Business Segments

	<u>PSTN</u>	<u>CDMA</u>	<u>OGO</u>	<u>Mobile</u>	<u>Other</u>	<u>Total</u>
Revenue						
Total Segment Revenue	12,921	4,037	6,081	6,231	6,773	36,043
Inter Segment Revenue	-	-	(250)	(44)	(700)	(994)
Revenue from external Customers	12,921	4,037	5,831	6,187	6,073	35,049
Segment results / operating profits	1,746	893	952	1,135	2,483	7,209
Voluntary Retirement Scheme (VRS)						(370)
Non Operating Income						178
Finance Cost						(1,619)
Interest income						875
Profit before tax						6,273
Taxation						(1,874)
Net Profit for the period						4,399

Note-

PSTN	Public Switch Telephone Network
CDMA	Code Divisional Multiple Access
OGO	Other Gateway Operators

1) Top 20 ShareHolders

Name & Address	Share Holding	Percentage
1. Secretary to the Treasury	893,405,709	49.5
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.	3,767,400	0.21
7. Employees Trust Fund Board	3,302,188	0.18
8. Sri Lanka Insurance Corporation Ltd-General Fund	3,164,200	0.18
9. Alchemy Heavy Metals (Pvt) Ltd	1,344,400	0.07
10. Eagle Insurance Company Limited A/C No. 3	1,169,900	0.06
11. Bank of Ceylon- NO. 2 A/C	750,000	0.04
12. Eagle Insurance Company Limited-A/C No. 7	644,400	0.04
13. Bank of Ceylon A/C Ceybank Century Growth Fund	511,700	0.03
14. Deutsche Bank AG-Ceylon Index Fund	508,200	0.03
15. Heraymila Investments Limited	500,000	0.03
16. Ellawala Exports (Pvt) Ltd	500,000	0.03
17. The Incorporated Trustees of the Church of Ceylon	414,100	0.02
18 HSBC Intl Non Ltd-HSBC Fund Services a/C 006-JF Asia New Fortires Fund	367,500	0.02
19 Asian Alliance Insurance PLC-A/C 02 (Life Fund)	335,800	0.02
20 The Ceylon Chamber of Commerce Account No. 02	290,400	0.02
	<u>1,771,960,490</u>	<u>98.19</u>

(2) Percentage of Public Holding as at 30.09.09

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