

Sri Lanka Telecom PLC



Condensed Consolidated Interim Financial Statements

For the Quarter ended

31 December 2016



KPMG
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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

REVIEW REPORT TO THE SHAREHOLDERS OF SRI LANKA TELECOM PLC

Introduction

We have reviewed the accompanying condensed statement of financial position of Sri Lanka Telecom PLC as at 31 December 2016, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the condensed interim financial information. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with LKAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The corresponding figures presented for the period ended 31 December 2015 are based on the audited financial statements.

Scope of Review

We conducted our review in accordance with the Sri Lanka Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Sri Lanka Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at 31 December 2016 is not prepared, in all material respects, in accordance with LKAS 34, 'Interim Financial Reporting'.

Chartered Accountants
Colombo

28 February 2017

Statement of Profit or Loss and other Comprehensive Income

(All amounts in LKR Millions)

	Group		Company		Group		Company	
	Oct-Dec		Oct-Dec		Jan - Dec		Jan - Dec	
	2016	2015	2016	2015	2016	2015	2016	2015
	(Reviewed)	(Not Reviewed)	(Reviewed)	(Not Reviewed)	(Reviewed)	(Audited)	(Reviewed)	(Audited)
Revenue	18,133	17,182	10,740	10,342	73,801	68,022	43,131	40,565
Operating costs	(13,957)	(13,593)	(8,837)	(8,457)	(53,611)	(48,014)	(33,164)	(30,421)
Operating profit before depreciation and amortization	4,176	3,589	1,903	1,885	20,190	20,008	9,967	10,144
Depreciation	(3,773)	(3,193)	(2,452)	(1,905)	(13,776)	(12,567)	(8,509)	(7,524)
Amortisation of intangible assets	(155)	(161)	(55)	(61)	(624)	(652)	(227)	(249)
Operating profit	248	235	(604)	(81)	5,790	6,789	1,231	2,371
Other income	428	64	358	14	988	280	874	171
Dividend Income	-	-	749	713	-	-	749	713
Interest expenses and finance cost	(43)	68	(10)	90	(250)	(270)	(25)	(30)
Foreign exchange (loss) /gain	(455)	(360)	(353)	(164)	(979)	(2,128)	(570)	(916)
Interest income	253	98	95	(11)	948	844	384	486
Profit before tax	431	105	235	561	6,497	5,515	2,643	2,795
Income tax expenses	(307)	(488)	(160)	(286)	(1,707)	(1,791)	(918)	(1,067)
Profit for the Period	124	(383)	75	275	4,790	3,724	1,725	1,728
Other comprehensive income								
Re-measurement of Defined benefit liability	236	319	252	331	233	(8)	249	4
Tax on other comprehensive income	(71)	(93)	(71)	(93)	(70)	(1)	(70)	(1)
Other comprehensive income for the period (net of tax)	165	226	181	238	163	(9)	179	3
Total Comprehensive Income for the Period	289	(157)	256	513	4,953	3,715	1,904	1,731
Profit Attributable to :								
Owners of the company	124	(383)	75	275	4,790	3,724	1,725	1,728
Total Comprehensive Income attributable to:								
Owners of the company	289	(157)	256	513	4,953	3,715	1,904	1,731
Earnings per share								
Basic (Rs.)	0.07	(0.21)	0.04	0.15	2.65	2.06	0.96	0.96

Statement of Financial Position
(All amounts in LKR Millions)

	Group		Company	
	31-Dec-16 (Reviewed)	31-Dec-15 (Audited)	31-Dec-16 (Reviewed)	31-Dec-15 (Audited)
Assets				
Non-Current Assets				
Property, plant and equipment	108,649	99,283	81,524	70,081
Intangible assets and goodwill	3,713	2,891	879	1,084
Investments in subsidiaries	-	-	14,220	14,220
Deferred tax assets	51	37	-	-
Other receivables	3,033	2,908	3,021	2,908
Total Non-current Assets	115,446	105,119	99,644	88,293
Current Assets				
Inventories	1,585	874	1,146	561
Trade and other receivables	18,287	14,033	16,162	13,091
Current tax receivables	17	1	17	-
Other investments	764	1,043	705	641
Cash and cash equivalents	6,682	5,475	314	475
Total Current Assets	27,335	21,426	18,344	14,768
Total Assets	142,781	126,545	117,988	103,061
Equity and Liabilities				
Equity				
Stated capital (Represented by 1,804,860,000 shares)	18,049	18,049	18,049	18,049
Insurance reserve	680	605	680	605
Retained earnings	49,858	46,586	40,271	40,048
Equity attributable to equity share holders of the company	68,587	65,240	59,000	58,702
Non controlling Interest	91	-	-	-
Total Equity	68,678	65,240	59,000	58,702
Non Current Liabilities				
Grants	9	16	9	16
Borrowings	14,859	14,949	13,809	12,025
Deferred income	2,340	2,370	2,297	2,315
Deferred tax liabilities	4,388	3,600	4,378	3,594
Employee benefits	4,538	4,353	3,984	3,892
Trade and other payables	2,743	2,935	252	252
Total Non Current Liabilities	28,877	28,223	24,729	22,094
Current Liabilities				
Borrowings	18,081	9,446	14,726	4,147
Deferred income	1,435	2,027	576	661
Current tax liabilities	413	447	-	15
Trade and other payables	25,297	21,162	18,957	17,442
Total Current Liabilities	45,226	33,082	34,259	22,265
Total Liabilities	74,103	61,305	58,988	44,359
Total Equity and Liabilities	142,781	126,545	117,988	103,061

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

Signed

Udeni Samararatne

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 28th February 2017.

Signed for and behalf of the Board.

Signed
Chandra Ekanayake
Director

Signed
Rohan De Silva
Director

Condensed Interim Financial Statements**Statement of Changes in Equity*****(All amounts in LKR Millions)***

Company	Attributable to owners of the Company			
	Stated Capital	Insurance Reserve	Retained Earnings	Total
Balance as at 1 January 2015	18,049	560	39,968	58,577
Total comprehensive income for the year				
Net profit for the year			1,728	1,728
Other comprehensive income				-
Re-measurement of Defined benefit liability			3	3
Total comprehensive income for the year	-	-	1,731	1,731
Transactions with owners, recorded directly in equity				
contribution by and distribution to owners				
Dividends to equity share holders			(1,606)	(1,606)
Insurance reserve				
-Transferred to insurance reserve		45	(45)	-
Balance as at 31 December 2015	18,049	605	40,048	58,702
Balance as at 1 January 2016	18,049	605	40,048	58,702
Total comprehensive income for the year				
Net profit for the year			1,725	1,725
Other comprehensive income				
Re-measurement of Defined benefit liability			179	179
Total comprehensive income for the year	-	-	1,904	1,904
Transactions with owners, recorded directly in equity				
contribution by and distribution to owners				
Dividends to equity share holders			(1,606)	(1,606)
Insurance reserve				
-Transferred to insurance reserve		75	(75)	
Balance as at 31 December 2016	18,049	680	40,271	59,000

Sri Lanka Telecom PLC
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Statement of Changes in Equity

(All amounts in LKR Millions)

Group	Attributable to owners of the Company					
	Stated Capital	Insurance Reserve	Retained Earnings	Total	Non controlling interest	Total Equity
Balance as at 1 January 2015	18,049	560	44,522	63,131	-	63,131
Total comprehensive income for the year					-	-
Net profit for the year			3,724	3,724	-	3,724
Other comprehensive income					-	-
Re-measurement of Defined benefit liability			(9)	(9)	-	(9)
Total comprehensive income for the year	-	-	3,715	3,715	-	3,715
Transactions with owners, recorded directly in equity contribution by and distribution to owners					-	-
Dividends to equity share holders			(1,606)	(1,606)	-	(1,606)
Insurance reserve					-	-
-Transferred to insurance reserve		45	(45)	-	-	-
Balance as at 31 December 2015	18,049	605	46,586	65,240	-	65,240
Balance as at 1 January 2016	18,049	605	46,586	65,240	-	65,240
Non controlling interest					91	91
Total comprehensive income for the year					-	-
Net profit for the year			4,790	4,790	-	4,790
Other comprehensive income					-	-
Re-measurement of Defined benefit liability			163	163	-	163
Total comprehensive income for the year	-	-	4,953	4,953	91	5,044
Transactions with owners, recorded directly in equity contribution by and distribution to owners					-	-
Dividends to equity share holders			(1,606)	(1,606)	-	(1,606)
Insurance reserve					-	-
-Transferred to insurance reserve		75	(75)	-	-	-
Balance as at 31 December 2016	18,049	680	49,858	68,587	91	68,678

Statement of Cash Flows for the Year ended 31 December
(All amounts in LKR Millions)

	GROUP		COMPANY	
	2016	2015	2016	2015
Operating activities				
Cash generated from operations	21,333	23,454	11,300	12,980
Interest received	931	849	367	491
Interest paid	(1,487)	(1,209)	(1,243)	(709)
Tax paid	(1,053)	(1,665)	(236)	(177)
Gratuity paid	(258)	(164)	(223)	(143)
Net cash generated from operating activities	19,466	21,265	9,965	12,442
Cash flows from Investing activities				
Acquisition of property, plant and equipment	(23,800)	(20,340)	(20,610)	(16,113)
Acquisition of intangible assets	(1,363)	(37)	(22)	(7)
Proceeds from disposal of property, plant and equipment	404	40	388	20
Proceeds /(Purchase) of short term investments	412	5,962	67	6,011
Investments in subsidiaries	-	-	-	(25)
Net cash used in investing activities	(24,347)	(14,375)	(20,177)	(10,114)
Cash flows from Financing activities				
Proceeds from borrowings	9,513	3,464	9,032	2,816
Finance lease principal re-payments	(72)	(68)	(50)	(47)
Re-payment on borrowings	(8,195)	(7,855)	(3,626)	(4,291)
Dividend paid to equity share holders	(1,606)	(1,606)	(1,606)	(1,606)
Net cash generated/(used) from financing activities	(360)	(6,065)	3,750	(3,128)
Increase/(Decrease) in cash and cash equivalents	(5,241)	825	(6,462)	(800)
Movement in Cash and cash equivalents				
Cash and cash equivalents at beginning of the year	4,620	3,774	223	1,002
Effect on exchange fluctuation on cash and cash equivalents	5	21	5	21
	4,625	3,795	228	1,023
Increase/(Decrease) in cash and cash equivalents	(5,241)	825	(6,462)	(800)
Cash and cash equivalents at 31 December (Note 1)	(616)	4,620	(6,234)	223
Note 1				
Cash and cash equivalents	6,682	5,475	314	475
Bank overdraft	(7,298)	(855)	(6,548)	(252)
	(616)	4,620	(6,234)	223

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 relates to Sri Lanka Telecom PLC. These condensed consolidated interim financial statements (‘interim financial statements’) as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the ‘Group’).

The Group is primarily involved in providing 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 a quoted public Company which has its listing on the Colombo Stock Exchange.

II. Basis of Accounting

These interim financial statements have been prepared in accordance with LKAS 34 Interim Financial Reporting. They 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 to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements as at and for the year ended 31 December 2015.

These interim financial statements were authorized for issue by the Company’s Board of Directors on 28 February 2017.

III. Significant Accounting Policies

The accounting policies applied in these interim financial statements are the same as those applied in the financial statements as at and for the year ended 31 December 2015.

IV. Use of Judgment and Estimates

In preparing these interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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 that applied to the financial statements as at and for the year ended 31 December 2015.

V. Operating segments

- (a) Information about reportable segments
(All amounts are in Rs.Mn)

	Fixed ICT Operations		Mobile Operations		Other Segments Operations		Total	
	31 Dec		31 Dec		31 Dec		31 Dec	
	2016	2015	2016	2015	2016	2015	2016	2015
External revenues	39,766	37,213	33,556	30,195	479	614	73,801	68,022
Inter-segment revenue	3,365	3,352	2,401	2,363	2,383	2,379	8,149	8,094
Reportable segment revenue	43,131	40,565	35,957	32,558	2,862	2,993	81,950	76,116
Reportable segment Profit before tax	2,643	2,795	4,909	3,363	(206)	170	7,346	6,328
Interest revenue	384	486	529	332	35	26	948	844
Interest expenses	(25)	(30)	(206)	(228)	(19)	(12)	(250)	(270)
Depreciation and Amortization	(8,736)	(7,773)	(5,581)	(5,364)	(83)	(82)	(14,400)	(13,219)

Revenues	2016	2015
Total revenue for reportable segments	79,088	73,123
Revenue for other segments	2,862	2,993
Reportable segment revenue	81,950	76,116
Elimination of inter-segment revenue	(8,149)	(8,094)
Consolidated revenue	73,801	68,022
Profit or loss		
Total Profit or loss for reportable segments	7,552	6,158
Profit or loss for other segments	(206)	170
Reportable segment Profit before tax	7,346	6,328
Elimination of inter-segment profits	(849)	(813)
Consolidated profit before tax	6,497	5,515

	Fixed ICT Operations		Mobile Operations		Other Segments Operations		Elimination of inter segment balances		Consolidated assets and liabilities	
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Reportable segment assets	117,988	103,061	45,464	42,606	1,868	1,940	(22,539)	(21,062)	142,781	126,545
Reportable segment liabilities	58,988	44,359	22,335	22,936	1,617	1,462	(8,837)	(7,452)	74,103	61,305

VI. Acquisition of Subsidiary

Mobitel (Pvt) limited acquired 87.59% shares of E-channeling through a voluntary offer for a total consideration of Rs 641.85 mn. The transaction of the acquisition was completed on 14 September 2016. E-channeling PLC is consolidated as a subsidiary for the financial year ended 31 December 2016.

VII. Seasonal or Cyclical Factors

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

VIII. Significant Unusual Items affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows due to their nature, size or incidence or the period ended 31 December 2016.

IX. Property Plant and Equipment

(a) Acquisitions and disposals

During the year ended 31 December 2016, the Group acquired assets with a cost of Rs 31,069 mn (year ended 31 December 2015: Rs 12,390 mn). This amount excludes capitalized borrowing costs.

Assets with a carrying amount of Rs Nil were disposed of during year ended 31 December 2016 (year ended 31 December 2015: Rs 7 mn), resulting in a gain on disposal of Rs 404 mn (year ended 31 December 2015: gain of Rs 33 mn), which was included in 'other income' in the condensed statement of profit or loss and OCI.

(b) Capital commitments

	Group (Rs. Mn)		Company (Rs. Mn)	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Property plant and equipment				
Approved but not contracted	19,261	28,468	19,261	28,468
Approved and contracted	13,229	13,724	12,863	11,438

X. Capital and Reserves

(a) Stated Capital

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

(b) Dividends

No dividend was declared by the company for the quarter ended 31 December 2016. A dividend of Rs. 1,606 Mn was paid 24 May 2016 for the financial year ended 31 December 2015.

XI. Loans and Borrowings

Material repayment of loans and borrowings at group level for the period is as follows.

Repayments	Currency	Amount (Rs.Mn)
Bank loan – 31 Dec.2016	LKR	8,195

XII. Contingencies

There has not been a significant change in the nature of the contingent liabilities, which were disclosed in the audited financial statements for the year ended 31 December 2015.

XIII. Related Parties

Material related party transaction during the quarter are as follows;

Company	Nature of Transaction	Transaction value (Rs. Mn)		Amount due (to)/ from related parties (Rs.Mn)	
		31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Mobitel (Private) Limited	Sale of goods and services	3,334	3,335	3,861	3,266
	Purchase of goods and services	2,374	2,358	(3,389)	(2,372)

XIV. Events after the Reporting Date

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

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Investor Information

Ratios

	Group		Company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Net asset value per share (Rs)	38.05	36.15	32.69	32.52
Gearing ratio -Number of times	0.32	0.27	0.33	0.22
Quick asset ratio - Number of times	0.57	0.62	0.50	0.64

	For the Quarter ended		For the Quarter ended	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Interest cover - Number of times	4.53	5.62	2.11	3.58

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 31 Dec. 2016	3 Months to 31 Dec. 2015
-Highest	39.90	49.50
-Lowest	33.30	45.00
-Last Traded price	36.00	47.00

Dividend Payment

First and Final dividend for the year 2015-Rs 0.89 per share paid on 24 May 2016.

Share trading from Oct 2016 to 31 Dec 2016

	3 Months to 31 Dec. 2016
-No of Transactions	615
- No of Shares Traded	247,834
-Value of Shares Traded (Rs)	8,891,250

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1) List of 20 Major 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	25,324,104	1.40
4 Bank of Ceylon A/C Ceybank Unit Trust.	17,986,362	1.00
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	1,425,536	0.08
10 Mr.Vandrevala	231,500	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 Mr.Tanaka	169,980	0.01
14 Ceylon Biscuits Limited	162,000	0.01
15 Pinnacle Trust (Pvt) Limited	160,000	0.01
16 People's Leasing & Finance PLC / C.N Jayasooriya	150,000	0.01
17 Mrs.Edirisinghe	145,000	0.01
18 Sinharaja Hills Plantation Pvt Limited	107,491	0.01
19 Mr Van Starrex	97,638	0.01
20 Elgin Investment Limited	93,531	0.01
	1,787,870,471	99.06

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- 2) Percentage of public holding as at 31 December 2016 5.52%
- 3) Number of shareholders representing the public holding - 12,213
- 3) Directors' holding & Chief Executive Officers'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.