

# Sri Lanka Telecom PLC and its Subsidiaries



Registration No - PQ 7



## Interim Financial Report

### For the 3 months ended 31 March 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 31 March 2010

**Consolidated Income Statement as specified**

(All amounts in LKR Millions)

	Group			Company		
	Jan-March	2009	change	Jan-March	2009	change
	2010		%	2010		%
Revenue	12,208	11,837	3	8,168	8,392	(3)
Operating costs	(7,359)	(6,771)	9	(5,061)	(4,579)	11
Operating profit before depreciation and Amortization	4,849	5,066	(4)	3,107	3,813	(19)
Depreciation	(2,811)	(2,853)	(1)	(1,841)	(2,226)	(17)
Amortisation and impairment of intangible assets	(141)	(108)	31	(68)	(47)	45
International Telecommunication operators' Levy-( ITL)	(666)	(719)	(7)	(472)	(637)	(26)
Operating profit	1,231	1,386	(11)	726	903	(20)
Voluntary Retirement Scheme -Note	(188)	-		(188)	-	
Other income	64	65	(2)	57	60	(5)
Interest expenses and finance cost	(299)	(502)	(40)	(91)	(248)	(63)
Interest income	135	345	(61)	128	333	(62)
Profit before tax	943	1,294	(27)	632	1,048	(40)
Taxation	(339)	(323)	5	(222)	(314)	(29)
Net profit for the period	604	971	(38)	410	734	(44)
Attributable to :						
Equity holders of the company	604	974	(38)	410	734	(44)
Minority interest	0	(3)		-	-	
	604	971	(38)	410	734	(44)
Earnings per share (Rs)						
-Basic	0.34	0.54		0.23	0.41	
-Annualized	1.36	2.16		0.92	1.64	

**Note - Voluntary Retirement Scheme (VRS)**

The Company has announced another VRS in March 2010 and received 101 applications from those who have opted for . Based on the number of applications and the defined plan identified for each grade of staff the cost of VRS is estimated at Rs 188 million.

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 31 March 2010**

**Consolidated Balance Sheet**

*(All amounts in LKR Millions)*

	Group		Company	
	Un-Audited as at 31 March 2010	Audited as at 31 Dec. 2009	Un-Audited as at 31 March 2010	Audited as at 31 Dec. 2009
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	64,085	65,896	34,907	36,261
Intangible assets	2,421	2,194	977	684
Investments in subsidiaries	-	-	11,522	11,317
Deffered income tax Assets	1,060	674	1,056	669
Non-current receivables	1,926	1,894	1,926	1,894
	<b>69,492</b>	<b>70,658</b>	<b>50,388</b>	<b>50,825</b>
<b>Current Assets</b>				
Inventories	2,444	1,982	2,280	1,742
Trade and other receivables	9,400	11,347	10,544	10,399
Current tax receivables	-	227	-	227
Cash and cash equivalents	8,125	6,094	7,141	5,445
	<b>19,969</b>	<b>19,650</b>	<b>19,965</b>	<b>17,813</b>
<b>Total Assets</b>	<b>89,461</b>	<b>90,308</b>	<b>70,353</b>	<b>68,638</b>
<b>Equity and Liabilities</b>				
<b>Capital and Reserves</b>				
Stated Capital (Represented by 1,804,860,000 shares)	18,049	18,049	18,049	18,049
Insurance reserve	322	281	322	281
Exchange equalisation reserve	(5)	(6)	-	-
Retained earnings	28,879	28,275	30,922	30,512
	<b>47,245</b>	<b>46,599</b>	<b>49,293</b>	<b>48,842</b>
Minority interest in equity	0	0	-	-
<b>Total Equity</b>	<b>47,245</b>	<b>46,599</b>	<b>49,293</b>	<b>48,842</b>
Deferred income	4,222	4,356	4,222	4,356
<b>Non Current Liabilities</b>				
Grants	106	110	53	54
Borrowings	8,504	8,034	1,056	1,059
Retirement benefit obligation	1,548	1,458	1,460	1,373
Trade and other payable:	2,723	2,548	290	290
	<b>12,881</b>	<b>12,150</b>	<b>2,859</b>	<b>2,776</b>
<b>Current Liabilities</b>				
Trade and other payables	18,696	20,175	10,797	10,636
Current tax liabilities	533	137	359	-
Borrowings	4,183	5,317	1,823	1,136
Deferred income	1,701	1,574	1,000	892
	<b>25,113</b>	<b>27,203</b>	<b>13,979</b>	<b>12,664</b>
<b>Total Equity and Liabilities</b>	<b>89,461</b>	<b>90,308</b>	<b>70,353</b>	<b>68,638</b>

Signed on behalf of the Board.

Sgd.  
Leisha De Silva Chandrasena  
Chairperson  
23- April- 2010

Sgd.  
U.R. Seneviratne  
Director  
23- April- 2010

**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 31 March 2010**

**Statement of Changes in Equity - 1 Jan 2009 to 31 March 2010**

*(All amounts in LKR Millions)*

**Group**

	Stated Capital	Hedging Reserve	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Minority Interest	Total Equity
<b>Balance at 1 January 2009</b>							
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			34				34
Dividend in respect of 2008					(1,805)		(1,805)
Net Profit / (Loss) for the period					974	(3)	971
<b>Balance at 31 March 2009</b>	<b>18,049</b>	<b>(14)</b>	<b>270</b>	<b>1</b>	<b>28,440</b>	<b>28</b>	<b>46,774</b>
Balance at 1 April 2009	18,049	(14)	270	1	28,440	28	46,774
Hedging reserve							
-Foreign currency translation difference		1					1
-Charged to income statement		13					13
Insurance reserve -charged to income statement			11				11
Effect of movement in foreign exchange rates				(7)			(7)
Dilution of minority interest on acquisition of shares					24	(24)	-
Net Profit / (Loss) for the period					(189)	(4)	(193)
<b>Balance at 31 December 2009</b>	<b>18,049</b>	<b>-</b>	<b>281</b>	<b>(6)</b>	<b>28,275</b>	<b>0</b>	<b>46,599</b>
Balance at 1 January 2010	18,049	-	281	(6)	28,275	0	46,599
Insurance reserve -charged to income statement			41				41
Effect on movement in foreign exchange rates				1			1
Net Profit for the period					604	0	604
<b>Balance at 31 March 2010</b>	<b>18,049</b>	<b>-</b>	<b>322</b>	<b>(5)</b>	<b>28,879</b>	<b>0</b>	<b>47,245</b>

**Sri Lanka Telecom PLC & its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 31 March 2010**

**Statement of Changes in Equity - 1 Jan 2009 to 31 March 2010**

*(All amounts in LKR Millions)*

**Company**

	<b>Stated Capital</b>	<b>Hedging Reserve</b>	<b>Insurance Reserve</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance at 1 January 2009</b>					
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			34		34
Dividend in respect of 2008				(1,805)	(1,805)
Net Profit for the period				734	734
<b>Balance at 31 March 2009</b>	<b>18,049</b>	<b>(14)</b>	<b>270</b>	<b>30,014</b>	<b>48,319</b>
Balance at 1 April 2009	18,049	(14)	270	30,014	48,319
Hedging reserve					
-Foreign currency translation difference		1			1
-Charged to income statement		13			13
Insurance reserve -charged to income statement			11		11
Net Profit for the period				498	498
<b>Balance at 31 December 2009</b>	<b>18,049</b>	<b>-</b>	<b>281</b>	<b>30,512</b>	<b>48,842</b>
Balance at 1 January 2010	18,049	-	281	30,512	48,842
Insurance Reserve- charged to income statement			41		41
Net Profit for the period				410	410
<b>Balance at 31 March 2010</b>	<b>18,049</b>	<b>-</b>	<b>322</b>	<b>30,922</b>	<b>49,293</b>

**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 31 March 2010**

**Consolidated Cash Flow Statement for 3 months ended 31 March**

*(All amounts in LKR Millions)*

	GROUP		COMPANY	
	2010	2009	2010	2009
<b>Operating activities</b>				
Cash generated from operations	4,203	4,934	1,923	2,636
Interest received	265	433	258	421
Interest paid	(268)	(450)	(60)	(196)
Tax paid	(108)	(1,139)	(30)	(1,124)
<b>Net cash generated from operating activities</b>	<b>4,092</b>	<b>3,778</b>	<b>2,091</b>	<b>1,737</b>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(1,021)	(4,237)	(508)	(1,743)
Acquisition of intangible assets	(368)	(103)	(361)	(64)
Proceeds from disposal of property, plant and equipment	9	4	9	4
Investments in subsidiaries	-	-	(205)	(400)
<b>Net cash used in investing activities</b>	<b>(1,380)</b>	<b>(4,336)</b>	<b>(1,065)</b>	<b>(2,203)</b>
<b>Financing activities</b>				
Proceeds from borrowings	1,467		1,000	
Finance lease principal re-payments	(7)	(3)	(7)	(3)
Re-Payment on borrowings	(767)	(525)	(309)	(366)
<b>Net cash used in financing activities</b>	<b>693</b>	<b>(528)</b>	<b>684</b>	<b>(369)</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>3,405</b>	<b>(1,086)</b>	<b>1,710</b>	<b>(835)</b>
<b>Movement in Cash and cash equivalents</b>				
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	(14)	225	(14)	225
	3,885	18,095	5,431	18,196
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>3,405</b>	<b>(1,086)</b>	<b>1,710</b>	<b>(835)</b>
<b>Cash and cash equivalents at 31 March</b>	<b>7,290</b>	<b>17,009</b>	<b>7,141</b>	<b>17,361</b>

**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 31 March 2010**

**Investor Information**

**Ratios**

	<b>Group</b>		<b>Company</b>	
	<b>31 Mar. 2010</b>	<b>31 Dec. 2009</b>	<b>31 Mar. 2010</b>	<b>31 Dec. 2009</b>
Net Assets per Share (Rs)	26.18	25.82	27.31	27.06
Debt / Equity ratio -Number of times	0.21	0.22	0.06	0.05
Quick Asset Ratio - Number of times	0.70	0.65	1.27	1.27

  

	<b>For the period ended</b>		<b>For the period ended</b>	
	<b>31 Mar 2010</b>	<b>31 Mar 2009</b>	<b>31 Mar 2010</b>	<b>31 Mar 2009</b>
Interest Cover - Number of times	4.15	3.58	7.95	5.23

**Market Value of Shares**

<b>Market Value of the Ordinary Shares of the Company (Rs)</b>	<b>3 Months to 31 Mar 2010</b>	<b>3 Months to 31 Mar 2009</b>
-Highest	<b>46.50</b>	38.00
-Lowest	<b>36.00</b>	31.00
-Last Traded price	<b>36.25</b>	31.50

**Share trading from 1 January 2010 to 31 March 2010**

	<b>3 Months to 31 Mar 2010</b>
-No of Transactions	<b>1,589</b>
- No of Shares Traded	<b>2,062,600</b>
-Value of Shares Traded ( Rs )	<b>82,496,625</b>

## 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 handsets. 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

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 effect from 3 March 2003. The total amount of the levy payable by the Group and Company for the period from 1 January 2010 to 31 March 2010 was estimated at Rs 666 million and Rs 472 million respectively and has been recognised 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 2006 in fixed wire line connections as well as for CDMA network rollout as per guideline 1 and are yet to be approved by the TRC. SLT has also made submission for the period 1st April 2006 to 31st March 2007 for the both fixed wired connections and CDMA network rollout as per guideline II.

### 3. 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.

### 4. 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 2,712 mn and Rs 11 mn from Mobitel and Sky Network (Private) Limited respectively, has not been recognized in the Financial Statements as at 31 March 2010.

### 5. 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.

### 6. 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 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 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/-

### 7. 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.



**Sri Lanka Telecom PLC and its Subsidiaries**  
**Company Registration No. PQ 7**  
**Quarterly Interim Financial Report as of 31 March 2010**

**Segmental Reporting -for 3 Months ended 31 March 2010**

*(All amounts in LKR Millions)*

**Primary Segment - Business Segments**

	Fixed	OGO	Mobile	Other	Total
<b>Revenue</b>					
Total Segment Revenue	4,151	2,635	3,663	2,976	13,425
Inter Segment Revenue	-	(678)	(7)	(532)	(1,217)
Revenue from external Customers	4,151	1,957	3,656	2,444	12,208
<b>Segment results / operating profits</b>	<b>326</b>	<b>114</b>	<b>538</b>	<b>253</b>	<b>1,231</b>
Voluntary Retirement Scheme (VRS)					(188)
Non Operating Income					64
Interest expenses and finance cost					(299)
Interest income					135
Profit before tax					943
Taxation					(339)
Net Profit for the period					<b>604</b>

**Segmental Reporting -for 3 Months ended 31 March 2009**

*(All amounts in LKR Millions)*

**Primary Segment - Business Segments**

	Fixed	OGO	Mobile	Other	Total
<b>Revenue</b>					
Total Segment Revenue	4,905	1,848	2,934	2,564	12,251
Inter Segment Revenue	-	(36)	(10)	(368)	(414)
Revenue from external Customers	4,905	1,812	2,924	2,196	11,837
<b>Segment results / operating profits</b>	<b>283</b>	<b>187</b>	<b>589</b>	<b>327</b>	<b>1,386</b>
Voluntary Retirement Scheme -Note					-
Non Operating Income					65
Interest expenses and finance cost					(502)
Interest income					345
Profit before tax					1,294
Taxation					(323)
Net Profit for the period					<b>971</b>

**Note-**

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

## 1) Top 20 ShareHolders

<u>Name &amp; 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.	5,180,900	0.29
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	1,390,000	0.08
10. Aviva NDB Insurance PLC A/C No. 3	1,019,900	0.06
11. Bank of Ceylon- NO. 2 A/C	750,000	0.04
17. Heraymila Investments Limited	698,000	0.04
10. Aviva NDB Insurance PLC A/C No. 7	686,800	0.04
14. Bank of Ceylon A/C Ceybank Century Growth Fund	523,800	0.03
15. Ellawala Exports (Pvt) Ltd	500,000	0.03
13. Deutsche Bank AG-Ceylon Index Fund	499,100	0.03
16. 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. Mr Vandrrvala Cyrus Kersie	358,000	0.02
20. The Ceylon Chamber of Commerce Account No. 02	290,400	0.02
	<u>1,773,535,190</u>	<u>98.26</u>

(2) Percentage of Public Holding as at 31 March 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