

Sri Lanka Telecom PLC and its Subsidiaries

Registration No - PQ 7

Interim Financial Report

For the 6 Months ended 30 June 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 June 2009

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company			Group			Company		
	Apr-June		change	Apr-June		change	Jan-June		change	Jan-June		change
	2009	2008	%	2009	2008	%	2009	2008	%	2009	2008	%
Revenue	11,748	11,758	(0)	8,475	9,232	(8)	23,585	23,358	1	16,867	18,621	(9)
Operating costs	(7,397)	(5,870)	26	(5,230)	(4,353)	20	(14,291)	(11,460)	25	(9,932)	(8,728)	14
Operating profit before depreciation and Amortization	4,351	5,888	(26)	3,245	4,879	(33)	9,294	11,898	(22)	6,935	9,893	(30)
Depreciation	(2,743)	(2,388)	15	(2,039)	(1,932)	6	(5,473)	(5,014)	9	(4,142)	(4,136)	0
Amortisation of intangible assets	(110)	(75)	47	(48)	(30)	60	(218)	(148)	47	(95)	(58)	64
International Telecommunication operators' Levy-(ITL)	(754)	(719)	5	(643)	(663)	(3)	(1,473)	(1,490)	(1)	(1,280)	(1,383)	(7)
Operating profit	744	2,706	(73)	515	2,254	(77)	2,130	5,246	(59)	1,418	4,316	(67)
Voluntary Retirement Scheme (VRS)	-	(370)		-	(370)		-	(370)		-	(370)	
Other income	30	93	(68)	25	93	(73)	95	140	(32)	85	138	(38)
Interest expenses and related charges	(574)	(493)	16	(306)	(277)	10	(1,076)	(1,058)	2	(554)	(639)	(13)
Interest income	323	265	22	313	248	26	668	572	17	646	526	23
Profit before tax	523	2,201	(76)	547	1,948	(72)	1,817	4,530	(60)	1,595	3,971	(60)
Taxation	(148)	(701)	(79)	(133)	(695)	(81)	(471)	(1,367)	(66)	(447)	(1,355)	(67)
Net profit for the period	375	1,500	(75)	414	1,253	(67)	1,346	3,163	(57)	1,148	2,616	(56)
Attributable to :												
Equity holders of the company	376	1,500	(75)	414	1,253	(67)	1,350	3,163	(57)	1,148	2,616	(56)
Minority interest	(1)	-		-	-		(4)	-		-	-	
	375	1,500	(75)	414	1,253	(67)	1,346	3,163	(57)	1,148	2,616	(56)
Earnings per share (Rs)												
-Basic	0.21	0.83		0.23	0.69		0.75	1.75		0.64	1.45	
-Annualized	0.83	3.32		0.92	2.78		1.49	3.50		1.27	2.90	

The above figures are provisional and unaudited

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Quarterly Interim Financial Report as of 30 June 2009

Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 30 June. 2009	Audited as at 31 Dec. 2008	Un-Audited as at 30 June. 2009	Audited as at 31 Dec. 2008
Assets				
Non-Current Assets				
Property, plant and equipment	59,619	57,072	36,889	38,489
Intangible assets	2,065	2,165	604	632
Investments in subsidiaries	-	-	10,702	10,172
Advance against investments	-	-	-	30
Deferred Tax Assets	400	-	400	-
Non-current receivables	1,819	1,572	1,819	1,572
	63,903	60,809	50,414	50,895
Current Assets				
Inventories	2,342	2,583	2,112	2,330
Trade Receivables and prepayments	11,799	11,060	10,422	10,779
Cash and cash equivalents	16,760	18,746	16,086	17,971
	30,901	32,389	28,620	31,080
	94,804	93,198	79,034	81,975
Total Assets				
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	(14)	(32)	(14)	(32)
Insurance reserve	275	236	275	236
Exchange equalisation reserve	-	1	-	-
Retained earnings	28,815	29,270	30,427	31,084
	47,125	47,524	48,737	49,337
Minority interest in equity	27	31	-	-
Total Equity	47,152	47,555	48,737	49,337
Deferred income	4,613	4,932	4,613	4,932
Non Current Liabilities				
Grants	58	61	58	61
Deferred tax liabilities	-	1,097	-	1,097
Borrowings	6,522	5,228	373	680
Retirement benefit obligation	1,355	1,217	1,274	1,144
Trade and other payable:	289	289	289	289
	8,224	7,892	1,994	3,271
Current Liabilities				
Trade and other payables	14,653	13,163	8,119	8,772
Current tax liabilities	1,799	1,633	1,775	1,619
Borrowings	16,816	16,488	12,906	13,154
Deferred income	1,547	1,535	890	890
	34,815	32,819	23,690	24,435
Total Equity and Liabilities	94,804	93,198	79,034	81,975

Signed on behalf of the Board.

(Sgd.)
Leisha De Silva Chandrasena
Chairperson
7-Aug- 2009

(Sgd.)
Sidath Fernando
Director
7-Aug- 2009

Sri Lanka Telecom PLC and its Subsidiaries
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Statement of Changes in Equity - 1 Jan 2008 to 30 June 2009

(All amounts in LKR Millions)

Group

	Stated Capital	Hedging Reserve	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Total Share holders Funds	Minority Interest	Total Equity
6 Months ended 30 June 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		15						15
Insurance reserve -charged to income statement			26					26
Dividend in respect of 2007					(1,805)			(1,805)
Profit for the period					3,163			3,163
Balance at 30 June 2008	18,049	(40)	230	-	25,063	-	-	43,302
6 Months ended 30 June 2009								
Balance at 1 July 2008	18,049	(40)	230	-	25,063	-	-	43,302
Cash flow hedges								
-Foreign currency translation difference		(7)						(7)
-Charged to income statement		15						15
Insurance reserve -charged to income statement			6					6
Effect of movement in foreign exchange rates				1				1
Minority interest arising on business combination							34	34
Profit for the period					4,207		(3)	4,204
Balance at 31 December 2008	18,049	(32)	236	1	29,270	-	31	47,555
6 Months ended 30 June 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		18						18
Insurance reserve -charged to income statement			39					39
Effect on movement in foreign exchange rates				(1)				(1)
Dividend in respect of 2008					(1,805)			(1,805)
Profit for the period					1,350		(4)	1,346
Balance at 30 June 2009	18,049	(14)	275	-	28,815	-	27	47,152

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

(All amounts in LKR Millions)

Company

	Stated Capital	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
6 Months ended 30 June 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		15			15
Insurance reserve -charged to income statement			26		26
Dividend in respect of 2007				(1,805)	(1,805)
Profit for the period				2,616	2,616
Balance at 30 June 2008	18,049	(40)	230	27,099	45,338
Balance at 1 July 2008	18,049	(40)	230	27,099	45,338
Cash flow hedges					
-Foreign currency translation difference		(7)			(7)
-Charged to income statement		15			15
Insurance reserve -charged to income statement			6		6
Profit for the period				3,985	3,985
Balance at 31 December 2008	18,049	(32)	236	31,084	49,337
6 Months ended 30 June 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		18			18
Insurance Reserve- charged to income statement			39		39
Dividend in respect of 2008				(1,805)	(1,805)
Profit for the period				1,148	1,148
Balance at 30 June 2009	18,049	(14)	275	30,427	48,737

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Consolidated Cash Flow Statement for 6 months ended 30 June

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2009	2008	2009	2008
Operating activities				
Cash generated from operations	8,629	9,287	5,315	7,170
Interest received	625	380	603	334
Interest paid	(1,187)	(1,007)	(665)	(588)
Tax paid	(1,802)	(1,833)	(1,788)	(1,807)
Net cash generated from operating activities	6,265	6,827	3,465	5,109
Investing activities				
Acquisition of property, plant and equipment	(8,003)	(5,423)	(2,525)	(2,891)
Acquisition of intangible assets	(118)	(163)	(68)	(140)
Proceeds from disposal of property, plant and equipment	10	6	10	6
Investments in subsidiaries	-	-	(500)	(1,129)
Net cash used in investing activities	(8,111)	(5,580)	(3,083)	(4,154)
Financing activities				
Finance lease principal re-payments	(5)	-	(5)	-
Proceeds from borrowings	2,493			
Re-Payment on borrowings	(1,643)	(914)	(670)	(91)
Dividends paid	(1,805)	(1,805)	(1,805)	(1,805)
Net cash used in financing activities	(960)	(2,719)	(2,480)	(1,896)
Increase/(Decrease) in cash and cash equivalents	(2,806)	(1,472)	(2,098)	(941)
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	213	(181)	213	(181)
	18,083	16,739	18,184	16,508
Increase/(Decrease) in cash and cash equivalents	(2,806)	(1,472)	(2,098)	(941)
Cash and cash equivalents at 30 June	15,277	15,267	16,086	15,567

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Investor Information

Ratios

	Group		Company	
	30 June. 2009	31 Dec. 2008	30 June. 2009	31 Dec. 2008
Net Assets per Share (Rs)	26.11	26.33	27.00	27.34
Debt / Equity ratio -Number of times	0.33	0.31	0.21	0.22
Quick Asset Ratio - Number of times	0.82	0.91	1.11	1.18

	For the period ended		For the period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Interest Cover - Number of times	2.69	5.28	3.88	7.21

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 June 2009	3 Months to 30 June 2008
-Highest	51.00	49.75
-Lowest	33.50	42.00
-Last Traded price	48.75	45.25

Dividend Payment

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

Share trading from 1 April 2009 to 30 June 2009

	3 Months to 30 June 2009
-No of Transactions	3,182
- No of Shares Traded	6,169,772
-Value of Shares Traded (Rs)	262,698,333

(1) **TOP 20 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	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. Employees Trust Fund Board	3,302,188	0.18
7. Sri Lanka Insurance Corporation Ltd-General Fund	3,164,200	0.18
8. Bank of Ceylon A/C Ceybank Unit Trust.	2,677,500	0.15
9. Alchemy Heavy Metals (Pvt) Ltd	1,344,400	0.07
10. Eagle Insurance company Limited A/C No. 3	1,224,900	0.07
11. Bank of Ceylon- NO. 2 A/C	750,000	0.04
12. Eagle Insurance company Limited-A/C No. 7	530,200	0.03
13. Ellawala Exports (Pvt) Ltd	500,000	0.03
14. Bank of Ceylon A/C Ceybank Century Growth Fund	499,700	0.03
15. Deutsche Bank AG-Ceylon Index Fund	471,700	0.03
16. The Incorporated Trustees of the Church of Ceylon	414,100	0.02
17. Thurston Investments Limited	353,000	0.02
18. Deutsche Bank AG-National Equity Fund	350,000	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
	-----	-----
	1,770,598,390	98.12
Shares held by Directors	Nil	Nil
Balance held by 14872 shareholders	34,261,610	1.88
	-----	-----
Total	1,804,860,000	100

(2) Percentage of Public Holding as at 30.06.09 - 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.

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 June 2009 has not been recognised in the income statement pending approval by the TRC.

3. Investments in Subsidiary

A fresh capital infusion of Rs. 500,000,000 was made by SLT for which Mobitel issued 50,000,000 14% Cumulative redeemable Preference Shares of Rs.10/- each during the period.

4. Dividends on Cumulative redeemable preference shares

Mobitel has issued 675,000,000 12% and 160,000,000 14% Cumulative redeemable preference shares of Rs.10/- each. The estimated balance dividends of Rs 1,901 Mn as at 30 June 2009, has not been recognized in the Financial Statements.

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. Payment of Income Tax on cost of CDMA Telephone Equipments issued for new connections in 2007

As per accounting policies of SLT, proceeds receivable/received on provision of CDMA connections and the related cost of CDMA equipments are recognized as revenue and cost of sales in the income statement in the period in which such transaction occurred. Further, the cost of CDMA equipments was fully allowed in arriving at the tax liabilities for that year of assessment

However, the Department of Inland Revenue (IRD) by its letter dated 22nd December 2008 has stated that the cost of CDMA equipments should be treated as expenditure of capital nature as per the section 26(1) (h) of the Inland Revenue Act No.10 of 2006. Accordingly, any expenditure of a capital nature is not allowed to deduct in full for the purpose of ascertaining the taxable profits or income and the capital allowances to be claimed as per the rates stipulated by the IRD.

Subsequent to the determination of the IRD, and on the advice of the Tax Consultants, SLT recomputed the income tax payable of Rs536 million that is pertaining to the cost of CDMA equipments issued for new connections during the year 2007 and allowed in full in arriving at the taxable profit. Rs.250million of the total liability was paid on 29th June 2009 and the balance is due to be paid in 6 monthly installments. The income statement impact of Rs.536 million was recognized in the current period (2009) and corresponding liability net of Rs 250 million already paid has been identified as a liability in the balance sheet.

The cost of CDMA equipments issued for new connections during the year 2008 and first six months of 2009 has been considered as expenses of capital nature for tax purposes of the respective periods even though they are recognized as expenses of revenue nature for accounting purposes. As the cost of CDMA equipments is now considered as expenditure of capital nature for tax purposes, SLT is allowed to claim capital allowances at 12.5% per year for 8 years which will reduce the income tax liability for future years commencing from year 2008.

Therefore, a deferred tax asset of Rs.536 million arising due to accelerated depreciation for financial reporting purposes has been recognized as at 30 June 2009 by reducing the deferred tax liability in the balance sheet. As such there was no impact on the profits for the period ended 30 June 2009 from the additional tax charge arising from the determination of the IRD by the letter dated 22 December 2008.

7. 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.

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Segmental Reporting -for the 6 months ended 30 June 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	7,251	2,560	3,935	5,377	5,664	24,787
Inter Segment Revenue	-	-	(163)	(20)	(1,019)	(1,202)
Revenue from external Customers	<u>7,251</u>	<u>2,560</u>	<u>3,772</u>	<u>5,357</u>	<u>4,645</u>	<u>23,585</u>
Segment results / operating profits	<u>247</u>	<u>158</u>	<u>303</u>	<u>611</u>	<u>811</u>	<u>2,130</u>
Non Operating Income						95
Finance Cost						(1,076)
Interest income						668
Profit before tax						<u>1,817</u>
Taxation						(471)
Net Profit for the period						<u><u>1,346</u></u>

Segmental Reporting -for the 6 months ended 30 June 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	8,695	2,921	4,104	3,937	4,237	23,894
Inter Segment Revenue	-	-	(160)	(34)	(342)	(536)
Revenue from external Customers	<u>8,695</u>	<u>2,921</u>	<u>3,944</u>	<u>3,903</u>	<u>3,895</u>	<u>23,358</u>
Segment results / operating profits	<u>1,412</u>	<u>736</u>	<u>657</u>	<u>757</u>	<u>1,684</u>	<u>5,246</u>
Voluntary Retirement Scheme (VRS)						(370)
Non Operating Income						140
Finance Cost						(1,058)
Interest income						572
Profit before tax						<u>4,530</u>
Taxation						(1,367)
Net Profit for the period						<u><u>3,163</u></u>

Note-

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