NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees million)

1. 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 Separate Financial Statements relates to Sri Lanka Telecom PLC. The Consolidated Financial Statement of the Company as at and for the year ended December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Financial Statements of all Companies within the Group are prepared for a common financial year which ends on 31 December 2018.

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

2. Basis of preparation

(a) Statement of compliance

The Financial Statements of the Group and the Company which comprises the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS & LKAS) as laid down by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 07 and 2007.

(b) Approval of Financial Statement by Directors

The Financial Statements were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 21 February 2019.

(c) Basis of measurement

The Financial Statements have been prepared on the historical cost basis applied consistently with no adjustments being made for inflationary factors affecting the financial statements except for the following item:

- The liability for defined benefit obligation recognised are actuarially valued and recognised at the present value of the defined benefit obligation. The Financial Statements have been prepared on a going concern basis.

(d) Functional and presentation currency

These Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency and the Group's presentation currency. All financial information presented in rupees has been rounded to the nearest million, unless otherwise indicated.

(e) Use of estimates and judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standard requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 14 – Property, plant and equipment
- Note 15 – Intangible Assets
- Note 20 – Trade and other Receivables
- Note 23 – Deferred Tax
- Note 24 – Deferred Income
- Note 26 – Employee Benefits

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in financial statements, and have been applied consistently by the Group entities, except new accounting standards effective from 1 January 2018 as described in Note 3 (x).

(a) Basis of consolidation

(i) Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain or bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements from the date on which control commences until the date on which control ceases.

(ii-a) Critical Judgements in applying the entity's accounting policies

The directors have concluded that the Group controls all subsidiaries as it has majority control and voting rights over its subsidiaries as depicted in Note (ii-b), below:

(ii-b) Interest in subsidiaries

Set out below are the group's principal subsidiaries as at 31 December 2018

Name of entity	Place of business/ country of incorporation	Percentage of ownership	Principal activities
Mobitel (Private) Limited	Colombo/Sri Lanka	100%	Mobile service provider.
Sri Lanka Telecom (Services) Limited	Colombo/Sri Lanka	99.99%	Providing network solutions for corporate customers and small businesses.
SLT VisionCom (Private) Limited	Colombo/Sri Lanka	100%	Providing IPTV support services.
SLT Digital Info Services (Private) Limited	Colombo/Sri Lanka	100%	Directory information and publication services
SLT Human Capital Solutions (Private) Limited	Colombo/Sri Lanka	100%	Providing workfoce solutions.
Sky Network (Private) Limited	Colombo/Sri Lanka	99.94%	Wireless broadband operations
SLT Property Management (Private) Limited	Colombo/Sri Lanka	100%	Managing SLT's real estate resources
SLT Campus (Private) Limited	Colombo/Sri Lanka	100%	Higher educational services of ICT and Business Management.
eChannelling PLC	Colombo/Sri Lanka	87.59%	Providing information infrastructure for the healthcare industry

(iii) Non-controlling interest (NCI)

NCI are measured at their proportionate share of acquiree's identifiable net assets at the date of acquisition. Changes in the group interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Loss of control

When the group loses control over a subsidiary, it derecognises the asset and liabilities of the subsidiary and any related NCI (if applicable) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest in the former subsidiary is measured at fair value when control is lost.

(v) Transaction eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in statement of profit or loss and other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(C) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(i-ii) Non-derivative financial liabilities – Measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(i-iii) Fair Value Measurement

SLFRS 13 defines fair value as the price that would be received to sell and asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date.

A Fair value measurement requires an entity to determine all the following:

1. The particular asset or liability that is the subject of the measurement.
2. For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
3. The principal (or most advantageous) market for the asset or liability.
4. The valuation technique (s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.
5. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Determination of Fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

- **Level 1** – Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.,as prices) or indirectly (i.e., derived from prices);and
- **Level 3** – Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

Amortised Cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(i-iv) Reclassification

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted following initial recognition:

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholder's equity prior to the date of reclassification is amortised to the profit or loss over the remaining life of the financial asset, using the effective interest method.

(i-v) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposure.

Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in the statement of Profit or Loss and Other Comprehensive Income as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are generally recognised in profit or loss.

(i-vi) Impairment

Non-derivative financial assets.

Financial assets not classified at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes;

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost	The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the Statement of Profit or Loss and Other Comprehensive Income.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the Statement of Profit or Loss and Other Comprehensive Income. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in Statement of Profit or Loss and Other Comprehensive Income If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through statement of profit or loss; otherwise, it is reversed through OCI.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

In the year of acquisition depreciation is computed on proportionate basis from the month the asset is put into use and no depreciation will be charged to the month in which the particular asset was disposed. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate The estimated useful lives for the assets are as follows:

Freehold buildings	5-40 years
Submarine cables	19-25 years
Motor Vehicles	5 years
CDMA Handsets	3 years
PABX System	1-6 years
IT systems	5-10 years
Other Fixed Assets	4-10 years
Network equipment	
Ducts, cables and other outside plant	5-20 years
Telephone exchanges and transmission equipment	8-12.5 years
Towers	12.5-40 years

(iv) Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

Major spare parts and project related inventory qualify as Property, plant and equipment when the entity expects to use them during more than one year period and are used in connection with specific items of Property, plant and equipment.

(v) Derecognition

The carrying amount of an item of property, plant & equipment is derecognised on disposal. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the statement of Profit or Loss and Other Comprehensive Income. When replacement costs are recognised in the carrying amount of an item of property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

(vi) Borrowing cost

Borrowing cost directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.
Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill at initial recognition, see note 3 (a) (i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Licences

Separately acquired licences are shown at historical cost. Expenditures on licence fees that is deemed to benefit or relate to more than one financial year is classified as licence fee and is being amortised over the Licence period on a straight line basis.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	2-10 years
Licence and spectrum fees	2-10 years

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

For operating leases, the leased assets are not recognised on the Group's statement of Financial Position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle. Value of inventories includes expenditure incurred in acquiring, conversion costs and other costs incurred in bringing them to their existing location and condition.

(h) Share capital

Ordinary Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(i) Government Grants

Government grants are recognised initially at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the statement of Profit or Loss and Other Comprehensive Income as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the profit or loss on a systematic basis over the useful life of the asset.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which contributions are made into a separate fund and the entity will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plan are recognised as an employee benefit expense in profit or loss in the periods during services is rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Employees' Provident Fund

All employees of the Company are members of the Sri Lanka Telecom Provident Fund to which the Company contributes 15% of such employees' basic salary and allowances.
All employees of subsidiaries of the Group are members of Employees' Provident Fund (EPF), to which the respective subsidiaries contribute 12% of such employees' basic salary and allowances. Employees of Sri Lanka Telecom (Services) Limited are members of Employees' Provident Fund (EPF), where the company contribute 15% of such employees' basic salary and allowances.

Employees' Trust Fund

The Company and other subsidiaries contribute 3% of the salary of each employee to the Employees' Trust Fund.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by an independent actuary using Projected Unit Credit method as recommended by LKAS 19 "Employee Benefits". The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the yield on Government Bonds at the reporting date and have maturity dates approximating to the terms of the Company's obligations. The Group recognises actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan in other comprehensive income. The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the defined retirement benefit obligations are given in Note 26. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 "Employee Benefits". However, under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or leave encashment plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Revenue

(i) Goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Equipment Sale

Revenue from sales of telecommunications equipment is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. The total consideration on arrangements with multiple revenue generating activities (generally the sale of telecommunications equipment and ongoing service) is allocated to those components that are separable based on the estimated fair value of the components.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

Sale of Directories

Revenue from publication sales relating to advertising revenue is recognised on publishing the advertisement on the telephone directory and a copy delivered to the subscriber on a percentage of completion method.

(ii) Services

Revenue from services is recognised as the services are provided. Revenue from service contracts that cover periods of greater than 12 months is recognised in the profit and loss in proportion to the services delivered at the reporting date. In respect of services invoiced in advance, amounts are deferred until provision of the service.

Domestic and international call revenue and rental income

Fixed Line

Revenue for call time usage by customers is recognised as revenue as services are performed on accrual basis. Fixed rental is recognised as income on a monthly basis in relation to the period of services rendered.

Mobile Revenue

Mobile revenue comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, and the provision of other mobile telecommunications services. Mobile monthly access charges are invoiced and recorded as part of a periodic billing cycle. Air time, either from contract customers as part of the invoiced amount or from prepaid customers through the sale of prepaid cards, is recorded in the period in which the customer uses the service.

Revenue from other network operators and international settlements

The revenue received from other network operators, local and international, for the use of the Group's telecommunication network are recognised, net of taxes, based on usage taking the traffic minutes/per second rates stipulated in the relevant agreements and regulations and based on the terms of the lease agreements for fixed rentals.

Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the Group's network and presented on gross basis. The relevant revenue accrued is recognised under income in the Income Statement and interconnection expenses recognised under operating costs in profit or loss.

Revenue from broadband

Revenue from Data services and IPTV services is recognised on usage and the fixed rental on a monthly basis when it is earned net of taxes, rebates and discounts.

Revenue from other ICT services

The revenue from other telephone services are recognised on an accrual basis based on fixed rental contracts entered between the Group and subscribers.

Deferred income

The connection fees relating to Public Switch Telephone Network (PSTN) are deferred over a period of 15 years. Revenue is recognised on an annual basis irrespective of the date of connection.

IRU revenue relating to leasing of SEA-ME-WE 4 cable capacity are recognised on a straight line basis over the period of the contracts. Amounts received in advance for any services are recorded as deferred revenue. In the event that a customer terminates an IRU prior to the expiry of the contract and releases the Company from the obligation to provide future services, the remaining unamortised deferred revenue is recognised in the period the contract is terminated.

Backhauling revenue which is leasing of SEA-ME-WE 3 cable capacity is recognised on a straight line basis over the period of contracts. Amounts received in advance for any services are recorded as deferred revenue.

Revenue from the sale of prepaid CDMA cards is deferred until such time as the customer uses the call time, downloadable quota or the credit expires.

Sale of mobile recharge cards and reloads for prepaid subscribers are initially recognised as deferred revenue until such time as the subscribers use the services or credit period expires.

CDMA revenue

The connection fees relating to Code Divisional Multiple Access (CDMA) connections are recognised as revenue at the point the connection is activated.

(l) Expenditure

The expenses are recognised on an accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant and equipment in a state of efficiency is charged against income in arriving at the profit for the year

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed. Determining whether an arrangement contains a lease.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specific asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(n) Finance income and expenses

The Group's finance income and finance cost include:

- Interest income from repurchase agreements
- Interest income from fixed deposits
- Staff loan interest income
- Interest expense from borrowings
- Interest expense arising from Leases
- Foreign exchange gains or losses

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income.

(i) Current Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised or profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income.

Provisions for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act (IRD) No. 10 of 2006 and from 1 April 2018 new IRD Act No. 24 of 2017.

(ii) Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in nor taxable profit or loss and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax is not recognised for the undistributed profits of subsidiaries as the Parent Company has control over the dividend policy of its subsidiaries and distribution of those profits. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

No deferred taxation is provided for Mobitel (Private) Limited due to fact that the income taxes are computed and paid at 2% on revenue.

(iii) Economic service charge (ESC)

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed payment can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

(iv) Sales tax

Revenue, expenses and assets are recognised net of the amount of sale tax, except: where sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable.

(p) Earnings per share

The Group presents basic Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determinated by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) Insurance reserve

The Company transfers annually from the retained earnings an amount equal to 0.25% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment. The insurance reserve is maintained to recover any losses arising from damage to property, plant and equipment, except for motor vehicles, that are not insured with a third party insurer.

(r) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders.

(s) Comparatives

Except when a standard permits or requires otherwise, comparative information is disclosed in respect of the previous period. Where the presentation or classification of items in the Financial Statements are amended, comparative amounts are reclassified unless it is impracticable.

(t) Cash flow statement

The cash Flow Statement has been prepared using the "indirect method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS 07) – "Statement of Cash Flows". Cash and Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice.

(u) Events after the reporting period

All material events after the reporting date have been considered and where appropriate, adjustments or disclosures have been made in respective notes to the financial statements.

(v) Directors' responsibility statement

The Board of Directors of the company is responsible for these Financial Statements.

(w) Critical accounting estimates, assumptions and judgements

In the preparation of these Financial Statements, a number of estimates and assumptions have been made relating to the performance and the financial position of the Group. Results may differ significantly from those estimates under different assumptions and conditions. The Directors consider that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the presentation of its financial performance and position. These particular policies require subjective and complex judgements, often as a result of the need to make estimates about the effect of matters that are uncertain.

(i) Depreciation of property, plant and equipment

The Company assigns useful lives and residual values to property, plant and equipment based on periodic studies of actual asset lives and the intended use for those assets. Changes in circumstances such as technological advances, prospective economic utilisation and physical condition of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Where the Company determines that the useful life of property, plant and equipment should be shortened or residual value reduced, it depreciates the net carrying amount in excess of the residual value over the revised remaining useful life, thereby increasing depreciation expense. Any change in an asset's life or residual value is reflected in the Company's Financial Statements when the change in estimate is determined.

(ii) Impairment of property, plant and equipment and intangible assets

The Company assesses the impairment of property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or otherwise as required by accounting standards. Factors that are considered important and which could trigger an impairment review include the following:

(a) obsolescence or physical damage;

(b) significant changes in technology and regulatory environments;

(c) significant under performance relative to expected historical or projected future operating results;

(d) significant changes in the use of its assets or the strategy for its overall business;

The identification of impairment indicators, the estimation of future cash flows and the determination of the recoverable amount for assets or cash generating units require significant judgement.

(iii) Revenue recognition

Judgement is required in assessing the application of the principles of revenue recognition in respect of revenues. This includes presentation of revenue as principal or as agent in respect of income received from transmission of content provided by third parties.

(iv) Valuation of receivables

The provision for impairment losses for trade and other receivables reflects the Company's estimates of losses arising from the failure or inability of customers to make required payments. The provision is based on the ageing of customer accounts, customer credit-worthiness and the Company's historical write-off experience etc. Changes to the provision may be required if the financial condition of its customers improves or deteriorates. An improvement in financial condition may result in lower actual write-offs.

(x) New accounting standards

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which are applicable for the financial periods beginning on or after 1 January 2018.

SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

No material effect to the financial statement recognition and presentation for all periods presented, due to the adoption of SLFRS 9, except for following changes in accounting policies.

(i) Classification and measurement

Group's financial instruments solely constitute with debt instruments. As per SLFRS 9 the classification of debt instruments are based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding and accordingly classified as financial assets designated as fair value through OCI with recycling of cumulative gains or losses and financial assets at amortised cost.

Since financial assets of the Group meet the SPPI criteria and hold to collect contractual cash flows, they are classified as financial assets at amortised cost. The assets are included in the Statements of financial position as trade and other receivables and other investments.

There are no changes in classification and measurement for the Group's financial liabilities due to the adoption of SLFRS 9.

(ii) Impairment assessment on financial assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs.

Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Investments in fixed deposits, Treasury Bills and Bonds are considered as low risk of default.

(iii) Hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the "Cash flow hedge reserve". The ineffective portion of the gains or losses on the hedge instrument is recognised immediately in the Profit and Loss.

When the hedge cash flow affect the Income Statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the Income Statement. When a hedging instrument expires, or is sold, terminated, exercised or when a hedge no longer meet the criteria for hedge accounting, any cumulative gains/losses existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedge forecast transaction ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur the cumulative gains/loss was reported in other comprehensive income is immediately transferred to the Income Statement.

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 31 December 2018 is, as follows:

	LKAS 39 measurement		Reclassification as per SLFRS 9	
Financial assets	Category	Amount LKR Mn.	Amount	Category
Group				
Trade and other receivables	L&R	25,274	25,274	Amortised Cost
Staff loans	L&R	3,650	3,650	Amortised Cost
Fixed deposits	L&R	9,456	9,456	Amortised Cost
Repurchase agreements	L&R	2,135	2,135	Amortised Cost
Cash and bank balance	L&R	3,163	3,163	Amortised Cost
Company				
Loans and receivables				
Trade and other receivables	L&R	17,675	17,675	Amortised Cost
Staff loans	L&R	3,617	3,617	Amortised Cost
Fixed deposits	L&R	3,569	3,569	Amortised Cost
Cash and bank balance	L&R	671	671	Amortised Cost

SLFRS 15 – Revenue from contracts

SLFRS 15 supersedes LKAS 11 Construction Contracts, LKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

SLFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the Standard requires relevant disclosures.

The Group adopted SLFRS 15 using the modified retrospective method of adoption. The effect of the transition on the current period has been disclosed in Note 24.

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*, voice and broadband services, domestic and international leased circuits, broadband, satellite uplink, maritime transmission, IPTV service and directory publishing service.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

Sale of equipment

Before adopting SLFRS 15, revenue from sale of telecommunications equipment is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

Under SLFRS 15, revenue from sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. After this stage, this equipment is considered as an asset of the customer and the Group does not have any control over the equipment.

This equipment is sold separately to the bundled services provided by the Group since the customer could enhance the service by installing advanced customer premises equipment at their own expense. This sale does not involve any credit terms.

Performance obligations relevant to contracts

As a telecommunication service provider, the Group's performance obligation related to service contracts include the installation services and maintenance services provided and the uninterrupted telecommunication service which will be provided throughout the connection period.

The Group expects that the above performance obligations would be satisfied throughout the connection period.

Installation services

The Group provides installation services that are bundled together with the sale of equipment to a customer.

Before adopting SLFRS 15, the revenue generated from the installation services were identified as they incurred.

Under SLFRS 15, when the performance obligation relevant to installation service is performed and when a customer premises equipment is provided to the customer, this equipment is considered as an asset of the Group as long as the contract with the customer is valid. Accordingly, the Group allocates a bundled price for the equipment and installation services.

Rental and usage charge

The Group charge a fixed rental charge from the customer on monthly basis for the use of Group subsidised customer premises equipment in order to provide the telecommunication service.

The Group charge a variable usage charge from the customer on monthly basis depending on the usage of the service by the customer in the respective month.

The Group expects that these revenues are recognised as and when the relevant performance obligation is fulfilled for a given month.

Cost to obtain a contract

The Group pays sales commission to its employees for each new connection contract that they obtain.

Before adopting SLFRS 15, the sales commission relevant for new connection were charged as expense as they incurred.

Under SLFRS 15, the Group identifies the sales commission paid to employees for each new contract as contract asset that would be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

Judgements

The Group applied the following judgement that significantly affect the determination of the amount and timing of revenue from contracts with customers.

Determining the timing of satisfaction of installation services

The Group concluded that revenue for installation services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the installation that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group identifies the revenue for installation services as contract liability and recognise the revenue on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer with the notion that the satisfaction for the installation services will be consumed by the customer over the contract period.

(1) Contract Assets

As per SLFRS 15, the costs directly attributable to customer contracts are recognized as contract assets and amortized on a systematic basis in line with the achievement of the performance obligations. Previously, these costs were directly charged to the Statement of Profit or Loss. However, if the amortization period is one year or less, the Group and the Company identify the additional cost of acquiring a contract as an expenditure when incurred.

The opening balance as at 1st January 2018 indicates the contract asset representing the existing customer contracts which is charged to statement of Profit or Loss before 1 January 2018. The contract asset movements are provided below.

	Group LKR Mn.	Company LKR Mn.
Opening adjustment – 1 January 2018	515	212
Addition	770	104
Amortisation	(350)	(100)
Balance as at 31 December 2018	935	216

(2) Contract Liabilities

As per SLFRS 15 revenue is recognised when the individual performance obligations specified in a contract are satisfied. The total consideration received or receivable has been allocated between separate performance obligations based on the relative stand-alone selling price.

The group and Company reclassify customer contracts previously shown as deferred income to contract liabilities.

The figure shows the contract liabilities due to unsatisfied performance obligations as at 1 January 2018.

	Group LKR Mn.	Company LKR Mn.
Opening adjustment – 1 January 2018	982	982
Addition	668	512
Amortisation	(537)	(490)
Balance as at 31 December 2018	1,113	1,004

(3) Retained Earnings

The following is a summary of transition adjustments to the Company and Group's Retained Earnings from the application of SLFRS 15.

	Group LKR Mn.	Company LKR Mn.
Recognition of contract assets	515	212
Recognition of contract liabilities	(982)	(982)
Impact to the retained earnings as at 1 January 2018	(467)	(770)

(4) Impact to the Statement of Profit and Loss and Other Comprehensive Income

The following is a summary of the transition adjustments to the Company and Group's Revenue and Selling and Marketing cost from the application of SLFRS 15.

	Group		Company	
	Revenue LKR Mn.	Selling and marketing cost LKR Mn.	Revenue LKR Mn.	Selling and marketing cost LKR Mn.
As per LKAS 18	82,160	(10,089)	47,408	(4,113)
Adjustment	(715)	723	(19)	4
As per SLFRS 15	81,445	(9,366)	47,389	(4,109)

New standards issued but not effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Accounting Standards which will become applicable for the financial periods beginning on or after 1 January 2019. The Group has not assessed the potential impact of its Financial Statements resulting from their application.

SLFRS 16 – Leases

SLFRS 16 introduce a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify lease as finance or operating leases.

SLFRS 16 replaces existing leases guidance including LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Leases, SIC-15 Operating Lease Incentive and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a lease.

The standard is effective for annual period beginning on or after 1 January 2019.

Possible impact on the financial statements

The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

4. Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management processes are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed regularly to reflect changes in market conditions and the Group activities.

The Audit Committee oversees how Management monitors compliance with the Group's risk management processes/ guidelines and procedures, and reviews the adequacy of the risk management framework in relation to the risks. The Audit Committee is assisted in its oversight role by internal reviews of risk management controls and procedures. The results of which are reported to the Audit Committee.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives , policies and processes for measuring and managing risk and the Group's Management of capital. Further quantitative disclosures are included throughout these Financial Statements.

4.1 Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arise principally from the Group's receivables from customers.

Carrying amount of financial assets represents the maximum credit exposure

4.1.1 Trade receivables

The Group having a very well-established credit policy for both International Interconnect customers and Domestic customers to minimise the credit risk. A separate committee has been established to evaluate and recommend the credit worthiness for the International Interconnect customer. Further, Prepaid sales are used as a means of mitigating credit risk.

Domestic service is offered to a new customer only after scrutinising through a internal blacklisted data base. The group has a well-established credit control policy and process to minimise the credit risk. Customers are categorised according to the segments and credit limit has been fixed as per their average monthly bill value. Customer usage and bill payments are monitored as per the credit limit. Credit limit will be periodically revised as per the past monthly bill value. High risk voice customers are subjected to auto disconnection when they reached the threshold limit. Credit control actions and recovery actions are taken for the overdue customers and defaulted customers to minimise the credit risk. High revenue generated customers including corporate customers are monitored individually.

As at 31 December 2018, the Maximum exposure to credit risk for trade by geographic region was as follows:

LKR Mn.	Group		Company	
	2018	2017	**2018**	2017
Sri Lanka	**21,851**	20,225	**15,378**	14,500
Middle East	**188**	285	**117**	223
Asia	**1,480**	1,268	**726**	799
Europe	**1,354**	1,164	**1,176**	1,007
Australia	**249**	66	**222**	54
Other	**152**	262	**51**	180
Total trade receivables	**25,274**	23,270	**17,670**	16,763

As at 31 December 2018, the maximum exposure to credit risk for trade receivables by type of counterparty was as follows:

LKR Mn.	Group		Company	
	2018	2017	**2018**	2017
Wholesale customers	**3,905**	3,582	**3,816**	3,468
Retail customers	**18,257**	17,107	**13,393**	12,597
Others	**3,112**	2,581	**461**	698
	25,274	23,270	**17,670**	16,763

As at 31 December the Group's most significant customer was Lanka Government Information Infrastructure (Private) Limited which accounted for LKR 1,104 Mn. of trade receivables (2017 – LKR 421 Mn.)

Impairment

As at 31 December 2018, the aging of trade receivables that were not impaired was as follows:

LKR Mn.	Group		Company	
	2018	2017	**2018**	2017
Past due 1 year	**574**	171	**353**	73
Past due 2 years and above	**127**	96	**121**	96
	701	267	**474**	169

Management believes that the unimpaired amounts that are past due more than 2 years are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk.

The Movement in the allowance for impairment in respect of trade receivables during the year is as follows:

LKR Mn.	Group impairment	Company impairment
Balance as at 1 January 2017	7,669	5,397
– Impairment loss recognised	1,653	1,086
– Amounts written off	(1)	–
Balance as at December 2017	9,321	6,483
– Impairment loss recognised	1,166	606
– Amounts written off	(697)	(697)
– Adjustments	(900)	(900)
Balance as at 31 December 2018	8,890	5,492

4.1.2 Other investments

The Group limits its exposure to credit risk by investing only in Government Debt Securities, Repos and in short-term deposits with selected bankers with Board approval.

4.1.3 Cash and Cash equivalents

The Group held cash and cash equivalents of LKR 10,935 Mn. as at 31 December 2018 (2017 LKR 4,277 Mn.).

4.1.4 Employee Loans

The Group limits its exposure to credit risk by ensuring the loan balance are recovered from the employees monthly salary, or if the employee leaves such amounts are recovered from the employees EPF balance.

4.2 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures its liquidity is maintained by investing in short, medium and long-term financial instruments to support operational and other funding requirements. The Group determines its liquidity requirements by the use of both short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and the same is reviewed on an annual basis.

Short and medium-term requirements are regularly reviewed and managed by the treasury division.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted:

LKR Mn.	Carrying value	Up to 1 year	Up to 2 years	Up to 5 years	Over 5 years
Group					
As at 31 December 2018					
Bank overdrafts	**6,460**	**6,460**	**–**	**–**	**–**
Bank borrowings and others	**47,764**	**9,479**	**8,710**	**19,950**	**9,625**
Vendor financing	**1,528**	**982**	**245**	**301**	**–**
Lease liabilities	**83**	**28**	**43**	**12**	**–**
	55,835	**16,949**	**8,998**	**20,263**	**9,625**
As at 31 December 2017					
Bank overdrafts	13,323	13,323	–	–	–
Bank borrowings and others	26,525	12,036	6,285	6,564	1,640
Vendor financing	1,803	1,432	268	103	–
Lease liabilities	160	100	34	26	–
	41,811	26,891	6,587	6,693	1,640

LKR Mn.	Carrying value	Up to 1 year	Up to 2 years	Up to 5 years	Over 5 years
Company					
As at 31 December 2018					
Bank overdrafts	**5,638**	**5,638**	**–**	**–**	**–**
Bank borrowings and others	**40,392**	**9,464**	**5,018**	**16,285**	**9,625**
Lease liabilities	**2**	**2**	**–**	**–**	**–**
	46,032	**15,104**	**5,018**	**16,285**	**9,625**
As at 31 December 2017					
Bank overdrafts	12,406	12,406	–	–	–
Bank borrowings and others	26,502	12,013	6,285	6,564	1,640
Lease liabilities	70	67	3	–	–
	38,978	24,486	6,288	6,564	1,640

4.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

4.3.1 Currency risk

The Group is exposed to currency risk on services provided, services received and borrowings that are denominated in a currency other than the Sri Lankan Rupees (LKR).

The Group manages its currency risk by a natural hedging mechanism to a certain extent by matching currency outflows for repayments of foreign currency loans and services with currency inflows for services settled in foreign currencies.

The summary of quantitative data about the Group's exposure to foreign currency was as follows:

	Group USD Mn.
As at 31 December 2018	
Foreign trade receivables	**18**
Secured bank loans	**(48)**
Unsecured loans	**(56)**
Trade payables	**(10)**
Net statement of financial position exposure	**(96)**
As at 31 December 2017	
Foreign trade receivables	20
Secured bank loans	(12)
Unsecured loans	(103)
Trade payables	(13)
Net statement of financial position exposure	(108)

	Company USD Mn.
As at 31 December 2018	
Foreign trade receivables	**14**
Secured bank loans	**–**
Unsecured loans	**(56)**
Trade payables	**(7)**
Net statement of financial position exposure	**(49)**
As at 31 December 2017	
Foreign trade receivables	15
Secured bank loans	–
Unsecured loans	(103)
Trade payables	(8)
Net statement of financial position exposure	(96)

The following significant exchange rates have been applied during the year:

	Average rate		Year end spot rate	
LKR	**2018**	2017	**2018**	2017
USD	**162.54**	152.40	**182.71**	153.23
EUR	**191.71**	171.73	**209.07**	191.18

Sensitivity analysis

A reasonable possible strengthening (weakening) USD would have an impact on the Group's borrowings. This analysis assumes that all other variables in particular interest rates remain constant.

	Profit or loss		Balance sheet	
	Strengthening	Weakening	Strengthening	Weakening
Group				
2018 December USD (10%)	**(1,418)**	**1,418**	**(1,418)**	**1,418**
2017 December USD (10%)	(2,064)	2,064	(2,064)	(2,064)
Company				
2018 December USD (10%)	**1,027**	**(1,027)**	**1,027**	**(1,027)**
2017 December USD (10%)	1,581	(1,581)	1,581	(1,581)

4.3.2 Interest rate risk

Interest rate risk mainly arises as a result of Group having interest sensitive assets and liabilities, which are directly, impacted by changes in the interest rates. The Group's borrowings and investments are maintained in a mix of fixed and variable interest rate instruments and periodical maturity gap analysis is carried out to take timely action and to mitigate possible adverse impact due to volatility of the interest rates.

To minimise the adverse impact of variable interest rate borrowings due to an upward movement of USD interest rates in the market, the Company has obtained an interest rate SWAP and arrangements are being made to obtain an interests rate CAP.

Short-term interest rate management is delegated to the treasury operations while long-term interest rate management decisions require approval from the Board of Directors.

Interest rate sensitivity of the Company was computed within the floor interest rate (Minimum) of 2.5% as stipulated in the loan agreement. The Group interest rate sensitivity was computed based on a 100 basis point increase or decrease. This analysis assumes that all other variables, in particular, foreign currency exchange rates, remain constant. The sensitivity of interest rate movement is shown below:

LKR Mn.	Profit or loss	
	Increase in interest rate	Decrease in interest rate
Group		
2018 December Variable rate instruments	**(274)**	**274**
2017 December Variable rate instruments	(181)	181
Company		
2018 December Variable rate instruments	**(182)**	**182**
2017 December Variable rate instruments	(18)	18

4.4 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of stated capital and reserves The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	**2018**	2017
Total borrowings	**55,835**	41,811	**46,032**	38,978
Total equity	**73,624**	71,309	**58,140**	59,220
Total capital	**129,459**	113,120	**104,172**	98,198
Gearing ratio (%)	**43.1**	37.0	**44.2**	39.7

5. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Board of Directors, (the Chief Operating Decision Maker-CODM) reviews internal management reports on at least quarterly basis. The following summary describes the operations in each of the Group's reportable segments.

- Fixed ICT operations includes supply of fixed telecommunication services.
- Mobile ICT operations includes supply of mobile telecommunication services.
- Other Segment operations includes Directory publication and support services. None of these segments meet the quantitative thresholds for determining reportable Segments in 2018 or 2017.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax. As included in the internal management reports that are reviewed by the Board of Directors (BOD). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about reportable segments

	Fixed telephony operations		Mobile operations		Other segments operations		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
External revenues	**43,307**	40,616	**36,739**	34,037	**1,399**	1,088	**81,445**	75,741
Inter-segment revenue	**4,082**	3,921	**2,142**	2,462	**3,257**	2,352	**9,481**	8,735
Reportable segment revenue	**47,389**	44,537	**38,881**	36,499	**4,656**	3,440	**90,926**	84,476
Reportable segment profit before tax	**3,142**	2,129	**4,404**	4,113	**340**	135	**7,886**	6,377
Interest revenue	**443**	562	**200**	439	**42**	39	**685**	1,040
Interest expenses	**(93)**	(12)	**(106)**	(121)	**(40)**	(26)	**(239)**	(159)
Depreciation and amortisation	**(11,616)**	(11,121)	**(6,294)**	(6,077)	**(38)**	(89)	**(17,948)**	(17,287)
Reportable segment assets	**138,525**	133,574	**56,395**	43,601	**2,982**	2,173	**197,902**	179,348
Capital expenditure	**13,129**	18,440	**8,158**	8,531	**129**	52	**21,416**	27,023
Reportable segment liabilities	**80,385**	74,354	**27,524**	17,948	**2,235**	1,846	**110,144**	94,148

	2018	2017
Revenues		
Total revenue for reportable segments	**86,270**	81,036
Revenue for other segments	**4,656**	3,440
Reportable segment revenue	**90,926**	84,476
Elimination of inter-segment revenue	**(9,481)**	(8,735)
Consolidated revenue	**81,445**	75,741
Profit or loss		
Total Profit or loss for reportable segments	**7,546**	6,242
Profit or loss for other segments	**340**	135
Reportable segment Profit before tax	**7,886**	6,377
Elimination of inter-segment profits	**(717)**	(849)
Consolidated profit before tax	**7,169**	5,528

Information about reportable segments

	2018	2017
Assets		
Total assets for reportable segments	**194,920**	177,175
Assets for other segments	**2,982**	2,173
	197,902	179,348
Elimination of inter-segment assets	**(17,467)**	(20,142)
Consolidated total assets	**180,435**	159,206
Liabilities		
Total liabilities for reportable segments	**107,909**	92,302
Liabilities for other segment	**2,235**	1,846
	110,144	94,148
Elimination of inter-segment liabilities	**(3,429)**	(6,346)
Consolidated total liabilities	**106,715**	87,802

	Reportable segment totals	Adjustments	Consolidated totals
Other material items (2018)			
Interest revenue	**685**	**–**	**685**
Interest expense	**(239)**	**–**	**(239)**
Capital expenditure	**21,416**	**–**	**21,416**
Depreciation and amortisation	**(17,948)**	**–**	**(17,948)**
Other material items (2017)			
Interest revenue	1,040	–	1,040
Interest expense	(159)	–	(159)
Capital expenditure	27,023	–	27,023
Depreciation and amortisation	(17,287)	–	(17,287)

6. Revenue

The significant categories under which revenue is recognised are as follows:

	Group		Company	
	2018	2017	**2018**	2017
Release of deferred connection charges	**392**	434	**392**	434
Rental income	**7,261**	7,194	**4,696**	4,852
Domestic call revenue	**22,826**	23,706	**4,048**	4,485
Receipts from other network operators – Domestic	**1,894**	1,896	**578**	597
International call revenue	**774**	960	**306**	403
Receipts from other network operators – International	**94**	112	**–**	–
International settlements (in-payments)	**8,183**	8,305	**5,842**	5,879
CDMA revenue	**531**	912	**531**	912
Broadband revenue	**19,572**	16,497	**10,206**	9,297
Data and other services	**19,918**	15,725	**20,790**	17,678
	81,445	75,741	**47,389**	44,537

7. Operating costs

The following items have been included in arriving at operating profit :

	Group		Company	
	2018	2017	**2018**	2017
Staff costs (Note 7.1)	**17,750**	17,117	**11,759**	11,864
Directors' emoluments	**41**	31	**16**	12
Payments to international network operators	**1,260**	1,119	**1,260**	1,119
Payments to other network operators				
– International	**1,164**	1,323	**1,166**	1,247
– Domestic	**2,589**	2,675	**735**	936
International Telecommunication Operators Levy (Note 8)	**2,054**	2,157	**1,055**	1,129
Auditors' remuneration				
Audit				
– Ernst & Young	**12**	11	**7**	7
– Other Auditors	**–**	2	**–**	2

	Group		Company	
	2018	2017	**2018**	2017
Non-audit				
– Ernst & Young	**8**	3	**8**	3
– Other Auditors	**1**	5	**1**	5
Repairs and maintenance expenditure	**6,530**	6,134	**5,124**	4,446
Provision for doubtful debts	**1,127**	1,767	**605**	1,266
Impairments/(reversals) of inventory	**(281)**	97	**(281)**	68
Impairment of property, plant and equipment (Note 13)	**40**	100	**29**	100
Other operating expenditure	**23,590**	21,995	**12,448**	10,954
Depreciation	**16,850**	16,461	**11,361**	10,926
Amortisation	**1,097**	826	**255**	195
Total direct costs, sales and marketing costs, and administrative cost	**73,832**	71,823	**45,548**	44,279

7.1 Staff costs

	Group		Company	
	2018	2017	**2018**	2017
Salaries, wages, allowances and other benefits	**15,600**	14,878	**10,170**	10,097
Staff prepaid cost	**108**	186	**108**	186
Post-employment benefits				
– Defined contribution plans	**1,381**	1,371	**956**	988
– Defined benefit obligations (Note 26)	**661**	682	**525**	593
	17,750	17,117	**11,759**	11,864
Average number of persons employed	**10,242**	9,931	**5,403**	5,576

8. Refunds on Telecommunication Development Charge (TDC)

In accordance with the Finance Act No. 11 of 2004, all Telecommunication Gateway Operators are required to pay a levy defined as the Telecommunication Development Charge (TDC) to the Government of Sri Lanka, based on international call minutes terminated in the country. This levy was made effective from 3 March 2003 where initially the levy was defined in such a way that Operators were allowed to claim the 2/3rd of the TDC against the costs of network development charges.

The TDC Refund received in 2014 corresponds to the period from April 2009 to July 2010 which was the last claim obtained under the respective regulation. As the said regulation was received with effect from July 2010 while eliminating the reimbursement process, the final claim requested from TRC applicable for the above period was received on year 2014.

First revision to this regulation was introduced with effect from 15 July, 2010 with an International Telecommunication Operators Levy (ITOL) TDC rate change from USD cents 3.80 to USD cents 1.50. Through the same revision, the disbursement process of TDC was removed from the regulation. As stated above the revised ITOL rate prevailed until such time the rate was revised to USD cents 3.00 per minute with effect from January 2012, in accordance with the Budget Proposal for 2012 and ITOL rate was further revised again to USD cents 6.00 per minute with effect from January 2016 in accordance with the Budget Proposal for 2016.

Mobitel Private Limited Recognises Telecommunications Development Charge (TDC) in profit or loss on a straight-line basis over 10 years, as disclosed in Note 34.

9. Interest expense and finance costs

	Group		Company	
	2018	2017	**2018**	2017
Rupee loans [see Note (a) below]	**2,346**	1,058	**2,271**	1,038
Foreign currency loans [see Note (a) below]	**662**	904	**602**	790
Debenture	**628**	–	**628**	
Other charges [see Note (b) below]	**638**	847	**627**	834
Total interest and finance cost	**4,274**	2,809	**4,128**	2,662
Interest capitalised	**(4,035)**	(2,650)	**(4,035)**	(2,650)
Net total interest and finance cost	**239**	159	**93**	12

(a) Interest cost of the Company relates to the USD loans and Rupee loans. Interest cost of the group relates to rupee loans, USD loans and vendor financing.

(b) Other charges mainly include interest cost of finance leases and overdraft facilities.

9.a Foreign exchange (loss)/gain

	Group		Company	
	2018	2017	**2018**	2017
Net foreign exchange (loss)/gain	**(1,809)**	(478)	**(1,200)**	(471)

(a) Foreign Currency (loss) or gain of the group mainly includes –

i. Exchange gain of LKR 333 Mn. (2017 – of LKR 63 Mn.) arising from revaluation of the receivables, fixed deposits and bank balances maintained in USD.

ii. Exchange loss of LKR 944 Mn. on payment to foreign suppliers (2017 – LKR 70 Mn.).

iii. Exchange loss of LKR 1,198 Mn. (2017 – LKR 471 Mn.) arising from revaluation of USD syndicate loan and other term loans.

(b) Foreign Currency (loss) or gain of the company mainly includes –

i. Exchange gain of LKR 263 Mn. (2017 – LKR 17 Mn.) arising from revaluation of receivables, fixed deposits and bank balances maintained in USD.

ii. Exchange loss of LKR 265 Mn. on payment to foreign suppliers (2017 – loss LKR 33 Mn.).

iii. Exchange loss of LKR 1,198 Mn. (2017 – LKR 455 Mn.) arising from revaluation of USD syndicate loan.

10. Interest income

	Group		Company	
	2018	2017	**2018**	2017
Interest income from:				
Treasury bonds	**–**	1	**–**	–
Treasury bills	**4**	–	**–**	–
Repurchase agreement – Repos	**143**	404	**20**	3
Fixed deposits	**225**	183	**111**	108
Staff loan interest	**307**	452	**306**	451
Interest income – Debenture issue	**6**	–	**6**	–
	685	1,040	**443**	562

The interest income on Bank deposits reflect the prevailing rates on the date of respective investments.

(a) The weighted average interest rates on restricted funds in Bank deposits and Government Securities in LKR were 12.08% and Nil (2017 – 12.33% and 8.65%) and USD was 3.34% (2017 – 2.86%). The weighted average interest rate on Bank deposits in LKR was 11.5%.

(b) The weighted average interest rates on investments in Government Securities was 7.92% (2017 – Nil).

(c) The weighted average interest rates on staff loans are between 12% and 15% (2017 – 12% and 14%).

11. Income tax expenses

Tax recognised in Statement of Profit or Loss

	Group		Company	
	2018	2017	**2018**	2017
Current tax expense				
Current year	**960**	966	**24**	73
Tax on dividends	**102**	–	**–**	–
	1,062	966	**24**	73
Deferred tax expense				
Origination and reversal of temporary differences (Note 23)	**1,456**	1,258	**1,509**	1,283
Tax losses	**(297)**	(636)	**(297)**	(655)
	1,159	622	**1,212**	628
Tax expense	**2,221**	1,588	**1,236**	701

Tax recognised in other comprehensive income – Group

	2018			2017		
	Before tax	**Tax (expense) benefit**	**Net of tax**	Before tax	Tax (expense) benefit	Net of tax
Defined benefit plan actuarial (loss)/gain	**125**	**(13)**	**112**	543	(155)	388
	125	**(13)**	**112**	543	(155)	388

Tax recognised in other comprehensive income – Company

	2018			2017		
	Before tax	**Tax (expense) benefit**	**Net of tax**	Before tax	Tax (expense) benefit	Net of tax
Defined benefit plan actuarial (loss)/gain	**85**	**(23)**	**62**	553	(155)	398
	85	**(23)**	**62**	553	(155)	398

Reconciliation between income tax expenses and accounting profit

	Group		Company	
	2018	2017	**2018**	2017
Accounting profit before tax	**7,169**	5,528	**3,142**	2,129
Non-taxable receipts/gains	**(628)**	(730)	**(628)**	(730)
Exempt profit				
Aggregate disallowable expenses	**14,858**	14,492	**14,469**	14,399
Aggregate allowable expenses	**(17,322)**	(17,848)	**(17,210)**	(17,811)
Utilisation of tax losses	**(143)**	(275)	**(47)**	(223)
Current year tax losses not utilised	**649**	2,236	**620**	2,236
Taxable income	**4,828**	4,307	**87**	–
Other adjustments				
Standard rate of 28%	**116**	44	**24**	–
Concessionary rate of 14%	**–**	–	–	–
Concessionary rate of 10%	**–**	4	–	–
Other rates	**844**	845	–	–
Tax on dividend income	**102**	73	–	73
Tax on current year profits	**1,062**	966	**24**	73

Current income tax charge of the Group/Company is made up as follows:

	Group		Company	
	2018	2017	**2018**	2017
Sri Lanka Telecom PLC	**24**	73	**24**	73
Mobitel (Private) Limited	**844**	844	**–**	–
Sri Lanka Telecom (Services) Limited	**–**	5	**–**	–
SLT Human Capital Solutions (Private) Limited	**3**	4	**–**	–
SLT Digital Info Services (Private) Limited	**61**	17	**–**	–
SLT VisionCom (Private) Limited	**30**	23	**–**	–
Sky Network (Private) Limited	**–**	–	**–**	–
SLT Property Management (Private) Limited	**–**	–	**–**	–
SLT Campus (Private) Limited	**–**	–	**–**	–
	962	966	**24**	73

(a) Pursuant to agreements dated 15 January 1993 and 26 February 2001 entered into with the Board of Investment of Sri Lanka under Section 17 of the Board of Investment Act No. 04 of 1978, 15 years tax exemption period granted to Mobitel (Private) Limited expired on 30 June 2009 and as per the agreement, Mobitel (Private) Limited opted for the turnover based tax option in which 2% was charged on the turnover for a further period of 15 years commencing from 1 July 2009.

(b) As per the agreement with the Board of Investement of Sri Lanka (BOI) dated 19 November 2009 under Section 17 of BOI Act No. 04 of 1978 the Sky Network (Private) Limited is exempt from income tax for a period of 6 years. For the above purpose the year of assessment shall be reckoned from the year in which the Company commences to make profits or any year of assessment not later than two years reckoned from the date on which the Company commences commercial operation, whichever is earlier as may be specified in a certificate issued by the Board. In view of the above the Company is not liable to income tax on business profit.

12. Net movement on Cash Flow hedges

The composition of the cash flow hedge reserve is given below:

	Group LKR Mn.	Company LKR Mn.
Recognition of loan impact under Other Comprehensive Income	888	888
Recognition of revenue impact under Other Comprehensive Income	(216)	(216)
Balance as at 31 December 2018	**672**	**672**

13. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2018	2017	**2018**	2017
Net profit attributable to equity holders (LKR Mn.)	**4,948**	3,940	**1,906**	1,428
Weighted average number of ordinary shares in issue (Mn.)	**1,805**	1,805	**1,805**	1,805
Basic earnings per share (LKR)	**2.74**	2.18	**1.06**	0.79

Diluted EPS is the same as computed above as the Company does not have any instrument that will potentially dilute the share holdings.

14. Property, plant and equipment

14.1 Property, plant and equipment – Group

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	IT systems	Motor vehicles	Other fixed assets	Capital work-in-progress	Total
Cost										
As at 1 January 2017	357	3,496	125,120	27,256	87,360	12,323	2,738	9,204	20,027	287,881
Additions at cost	–	–	1,559	1,925	2,773	1,727	199	1,709	15,064	24,956
Transfers from capital work-in-progress	–	229	5,309	134	3,500	305	–	1,282	(10,759)	–
Disposals	–	(2)	(853)	(114)	(33)	(26)	(45)	(78)	–	(1,151)
As at 31 December 2017	**357**	**3,723**	**131,135**	**29,201**	**93,600**	**14,329**	**2,892**	**12,117**	**24,332**	**311,686**
Accumulated depreciation										
As at 1 January 2017	–	(2,026)	(92,749)	(18,444)	(48,475)	(8,299)	(2,095)	(7,144)	–	(179,232)
Disposals	–	2	853	114	28	25	44	76	–	1,142
Impairment loss	–	–	(62)	(28)	(10)		–	–	–	(100)
Depreciation charge	–	(99)	(5,455)	(1,559)	(6,901)	(1,292)	(302)	(853)	–	(16,461)
As at 31 December 2017	**–**	**(2,123)**	**(97,413)**	**(19,917)**	**(55,358)**	**(9,566)**	**(2,353)**	**(7,921)**	**–**	**(194,651)**
Carrying value as at 31 December 2017	**357**	**1,600**	**33,722**	**9,284**	**38,242**	**4,763**	**539**	**4,196**	**24,332**	**117,035**

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	IT systems	Motor vehicles	Other fixed assets	Capital work-in-progress	Total
Cost										
As at 1 January 2018	357	3,723	131,135	29,201	93,600	14,329	2,892	12,117	24,332	311,686
Additions at cost	–	4	748	–	1,303	249	23	670	20,728	23,725
Transfers from capital work-in-progress	–	112	3,116	184	2,518	1,574		24	(7,529)	–
Disposals	–	–	(249)	(18)	(597)	(52)	(21)	(80)		(1,017)
As at 31 December 2018	**357**	**3,839**	**134,750**	**29,367**	**96,824**	**16,100**	**2,894**	**12,731**	**37,531**	**334,393**
Accumulated depreciation										
As at 1 January 2018	–	(2,123)	(97,413)	(19,917)	(55,358)	(9,566)	(2,353)	(7,921)	–	(194,651)
Disposals	–		249	18	597	52	21	61	–	998
Impairment loss	–	(8)					(21)	(11)	–	(40)
Depreciation charge	–	(101)	(5,482)	(1,569)	(6,959)	(1,410)	(241)	(1,088)	–	(16,850)
As at 31 December 2018	**–**	**(2,232)**	**(102,646)**	**(21,468)**	**(61,720)**	**(10,924)**	**(2,594)**	**(8,959)**	**–**	**(210,543)**
Carrying value as at 31 December 2018	**357**	**1,607**	**32,104**	**7,899**	**35,104**	**5,176**	**300**	**3,772**	**37,531**	**123,850**

14.2 Property, plant and equipment – Company

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	IT systems	Motor vehicles	Other fixed assets	Capital work-in-progress	Total
Cost										
As at 1 January 2017	357	3,469	125,120	27,256	32,569	12,310	2,486	5,691	18,729	227,987
Additions at cost	–	–	1,559	1,925	1,351	1,727	86	929	13,380	20,957
Transfers from capital work-in-progress	–	229	5,309	134	1,962	305		1,282	(9,221)	–
Disposals	–	(2)	(853)	(114)	(1)	(26)	(45)	–	–	(1,041)
As at 31 December 2017	**357**	**3,696**	**131,135**	**29,201**	**35,881**	**14,316**	**2,527**	**7,902**	**22,888**	**247,903**
Accumulated depreciation										
As at 1 January 2017	–	(2,026)	(92,749)	(18,444)	(18,278)	(8,287)	(1,907)	(4,772)	–	(146,463)
Disposals	–	2	853	114	1	25	44	–	–	1,039
Impairment loss	–	–	(62)	(28)	(10)			–	–	(100)
Depreciation charge	–	(99)	(5,455)	(1,559)	(1,974)	(1,291)	(262)	(286)	–	(10,926)
As at 31 December 2017	**–**	**(2,123)**	**(97,413)**	**(19,917)**	**(20,261)**	**(9,553)**	**(2,125)**	**(5,058)**	**–**	**(156,450)**
Carrying value as at 31 December 2017	**357**	**1,573**	**33,722**	**9,284**	**15,620**	**4,763**	**402**	**2,844**	**22,888**	**91,453**

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	IT systems	Motor vehicles	Other fixed assets	Capital work-in-progress	Total
Cost										
As at 1 January 2018	357	3,696	131,135	29,201	35,881	14,316	2,527	7,902	22,888	247,903
Additions at cost		4	748	–	962	244	22	196	13,809	15,985
Transfers from capital work-in-progress		112	3,116	184	1,693	1,574		24	(6,703)	–
Disposals			(249)	(18)	(13)	(52)	(20)	–		(352)
As at 31 December 2018	**357**	**3,812**	**134,750**	**29,367**	**38,523**	**16,082**	**2,529**	**8,122**	**29,994**	**263,536**
Accumulated depreciation										
As at 1 January 2018	–	(2,123)	(97,413)	(19,917)	(20,261)	(9,553)	(2,125)	(5,058)	–	(156,450)
Disposals	–		249	18	13	52	20	–	–	352
Impairment loss	–		(8)					(21)	–	(29)
Depreciation charge	–	(101)	(5,482)	(1,569)	(2,092)	(1,410)	(195)	(513)	–	(11,361)
As at 31 December 2018	**–**	**(2,224)**	**(102,654)**	**(21,468)**	**(22,340)**	**(10,911)**	**(2,300)**	**(5,592)**	**–**	**(167,489)**
Carrying value as at 31 December 2018	**357**	**1,588**	**32,096**	**7,899**	**16,183**	**5,171**	**229**	**2,530**	**29,994**	**96,047**

14.3 Reclassification of Property, Plant and Equipment – Group

The Other fixed asset total Net Book Value of LKR 18,215 Mn. as at 31 December 2017 presented with in other fixed assets category has been reclassified for better presentation purposes in to the following asset categories.

- IT systems
- Motor vehicles
- Ducts, cables, and other outside plants
- Telephone exchanges
- Transmission equipment

As presented in audited Financial Statement 2017

Cost	Other Fixed Assets
As at 1 January 2017	50,884
Additions at cost	5,567
Transfers from capital work-in-progress	4,450
Disposals	(232)
As at 31 December 2017	60,669
Accumulated depreciation	
As at 1 January 2017	(33,558)
Disposals	229
Impairment loss	–
Depreciation charge	(4,929)
As at 31 December 2017	(38,258)
Carrying value as at 31 December 2017	22,411

Comparative Figures as presented in current Financial Statements

	IT Systems	Motor Vehicles	Ducts, cables and other outside plant	Telephone Exchanges	Transmission Equipment	Total Reclassified Value	Remaining Other Fixed Assets	Total
Cost								
As at 1 January 2017	12,323	2,738	20,518	617	5,484	41,680	9,204	50,884
Additions at cost	1,727	199	1,013	–	919	3,858	1,709	5,567
Transfers from capital work-in-progress	305	–	992	–	1,871	3,168	1,282	4,450
Disposals	(26)	(45)	(83)	–	–	(154)	(78)	(232)
As at 31 December 2017	14,329	2,892	22,440	617	8,274	48,552	12,117	60,669
Accumulated depreciation								
As at 1 January 2017	(8,299)	(2,095)	(15,017)	(43)	(960)	(26,414)	(7,144)	(33,558)
Disposals	25	44	83	–	1	153	76	229
Impairment loss	–	–	–	–	–	–	–	–
Depreciation charge	(1,292)	(302)	(1,729)	(60)	(693)	(4,076)	(853)	(4,929)
As at 31 December 2017	(9,566)	(2,353)	(16,663)	(103)	(1,652)	(30,337)	(7,921)	(38,258)
Carrying value as at 31 December 2017	4,763	539	5,777	514	6,622	18,215	4,196	22,411

14.4 Reclassification of Property, Plant and Equipment - Company

The Other fixed asset total Net Book Value of LKR 18,140 Mn. as at 31 December 2017 presented with in other fixed assets category has been reclassified for better presentation purposes in to the following asset categories.

- IT systems
- Motor vehicles
- Ducts, cables, and other outside plants
- Telephone exchanges
- Transmission equipment

As presented in audited Financial Statement 2017

Cost	Other Fixed Assets
As at 1 January 2017	47,925
Additions at cost	4,678
Transfers from capital work-in-progress	4,450
Disposals	(154)
As at 31 December 2017	56,899
Accumulated depreciation	
As at 1 January 2017	(31,684)
Disposals	153
Impairment loss	–
Depreciation charge	(4,384)
As at 31 December 2017	(35,915)
Carrying value as at 31 December 2017	20,984

Comparative Figures as presented in current financial statements

	IT Systems	Motor Vehicles	Ducts, cables and other outside plant	Telephone Exchanges	Transmission Equipment	Total Reclassified Value	Remaining Other Fixed Assets	Total
Cost								
As at 1 January 2017	12,310	2,486	21,290	595	5,553	42,234	5,691	47,925
Additions at cost	1,727	86	1,013	–	923	3,749	929	4,678
Transfers from capital work-in-progress	305	–	992	–	1,871	3,168	1,282	4,450
Disposals	(26)	(45)	(83)	–	–	(154)	–	(154)
As at 31 December 2017	14,316	2,527	23,212	595	8,347	48,997	7,902	56,899
Accumulated depreciation								
As at 1 January 2017	(8,287)	(1,907)	(15,722)	(17)	(979)	(26,912)	(4,772)	(31,684)
Disposals	25	44	83	–	1	153	–	153
Impairment loss		–	–	–	–	–	–	–
Depreciation charge	(1,291)	(262)	(1,792)	(60)	(693)	(4,098)	(286)	(4,384)
As at 31 December 2017	(9,553)	(2,125)	(17,431)	(77)	(1,671)	(30,857)	(5,058)	(35,915)
Carrying value as at 31 December 2017	4,763	402	5,781	518	6,676	18,140	2,844	20,984

(a) On 1 September 1991, the Department of Telecommunications (DoT) transferred its entire telecommunications business and related assets and liabilities to SLT. A valuation of the assets and liabilities transferred to SLT was performed by the Government of Sri Lanka. The net amount of those assets and liabilities represents SLT's Contributed Capital on incorporation and the value of property, plant and equipment as determined by the Government of Sri Lanka. Valuers were used to determine the opening cost of fixed assets on 1 September 1991 in the first statutory accounts of SLT. Further, SLT was converted into a public limited company, Sri Lanka Telecom Limited (SLTL), on 25 September 1996 and on that date, all business and the related assets and liabilities of SLT were transferred to SLTL as part of the privatisation process.

(b) The cost of fully-depreciated assets still in use in the Company as at 31 December 2018 was LKR 74,396 Mn. (2017 – LKR 69,661 Mn.). The cost of fully-depreciated assets still in use in the Group as at 31 December 2018 was LKR 88,189 Mn. (2017 – LKR 78,715 Mn.).

(c) No assets have been mortgaged or pledged as security for borrowings of the Group.

(d) The Directors believe, pertaining to lands and buildings which were vested from the corporation to the Company, that the Company has freehold title to land and buildings transferred at incorporation of the Company (to take over the assets and liabilities of the corporation at the Conversion of SLT into a public limited company on 25 September 1996), by operation of law, although no specific title documents are available for each of such lands. The Company has initiated a process to obtain a title document from the Government authorities, in order to confirm the list of lands so vested with the Company.

(e) The number of buildings as at 31 December 2018, is 1,180 (2017 – 1,175)

(f) All the motor vehicles have been insured. An insurance reserve has been created together with a sinking fund investment to meet any potential losses with regard to uninsured property, plant and equipment. At the reporting date , the insurance reserve amounted to LKR 791 Mn. (2017 – LKR 691 Mn.) (Note 27).

(g) Impairment of assets mainly consists of the carrying value of Next Generation Network (NGN) LKR Nil (2017 LKR – 28 Mn.), PSTN CPE LKR Nil (2017 – LKR 18 Mn.), Cable Net Work Beyond DP LKR 15 Mn. (2017 – LKR 44 Mn.) and National Transmission Equipment Nil (2017 – LKR 10 Mn.) Cable Net Work Upto DP LKR 7 Mn. (2017 – LKR Nil) were impaired due to the flood. Impairment provision for pay phones LKR 5 Mn. (2017 – NIL.) and IPTV CPE LKR 62 Mn. (2017 – NIL).

(h) The Company capitalised borrowing costs amounting to LKR 4,035 Mn. during the year (2017 – LKR 2,650 Mn). Borrowing cost capitalised from a Group perspective amounted to LKR 4,035 Mn. (2017 – LKR 2,650 Mn.)

(i) The property, plant and equipment includes assets acquired under finance leases, the net book value of which is made up as follows:

	Group		Company	
	2018	2017	**2018**	2017
Cost	**777**	667	**440**	440
Accumulated depreciation	**(535)**	(493)	**(438)**	(396)
Carrying value	**242**	174	**2**	44

(j) Property, plant and equipment include submarine cables. The total cost and accumulated depreciation of all cables under this category in as follows;

	Group/Company	
	2018	2017
Cost	**11,975**	11,873
Accumulated depreciation at 1 January	**(5,560)**	(5,197)
Depreciation charge for the year	**(332)**	(363)
Carrying amount	**6,083**	6,313

15. Intangible assets

15.1 Intangible assets – Group

	Goodwill	Licences	Software	Others	Total
Cost					
Balance as at 1 January 2017	804	4,083	3,588	485	8,960
– Acquisitions	–	4,822	152	–	4,974
Balance as at 31 December 2017	804	8,905	3,740	485	13,934
Balance as at 1 January 2018	804	8,905	3,740	485	13,934
– Acquisitions	–	616	255	17	889
Balance as at 31 December 2018	**804**	**9,521**	**3,995**	**502**	**14,822**
Accumulated amortisation					
Balance as at 1 January 2017	253	2,040	2,621	333	5,247
– Amortisation	–	727	99	–	826
Balance as at 31 December 2017	253	2,767	2,720	333	6,073
Balance as at 1 January 2018	253	2,767	2,720	333	6,073
– Amortisation	–	851	246	–	1,097
Balance as at 31 December 2018	253	3,618	2,966	333	7,170
Carrying Amounts					
December 2018	551	5,903	1,029	169	7,652
December 2017	551	6,138	1,020	152	7,861

The goodwill in the Group consists of goodwill arising on acquisition of Mobitel (Private) Limited eChannelling PLC. Goodwill is allocated to the Group's Cash-Generating Units (CGUs). A summary of the goodwill allocation is presented below:

	2018	2017
Mobitel (Private) Limited	**141**	141
eChannelling PLC	**410**	410
Total	**551**	551

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections, based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	2018 %	2017 %
Growth rate	**2-7**	2-7
Discount rate	**12**	12

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. No impairment charge has been recognised for the year ended 31 December 2018 for the above CGU (2017 – Nil).

15.2 Intangible assets – Company

	Licences	Software	Others	Total
Cost				
Balance as at 1 January 2017	1,430	1,727	330	3,487
– Acquisitions	383	–	–	383
Balance as at 31 December 2017	1,813	1,727	330	3,870
Balance as at 1 January 2018	1,813	1,727	330	3,870
– Acquisitions	4	308	–	312
Balance as at 31 December 2018	**1,817**	**2,035**	**330**	**4,182**
Accumulated amortisation				
Balance as at 1 January 2017	603	1,675	330	2,608
– Amortisation	195	–	–	195
Balance as at 31 December 2017	798	1,675	330	2,803
Balance as at 1 January 2018	798	1,675	330	2,803
– Amortisation	143	112		255
Balance as at 31 December 2018	941	1,787	330	3,058
Carrying Amounts	876	248	–	1,124
December 2018	876	248	–	1,124
December 2017	1,015	52	–	1,067

16. Investments in subsidiaries and associates

16.1 Investments in subsidiaries

	2018	2017
Opening net book amount	**14,206**	14,220
Impairment of Investment	**–**	(14)
Additions	**160**	–
Closing net book amount	**14,366**	14,206

16.2 Investment in associates

The company has 40% interest in Galle Submarine Cable Depot (Private) Limited situated at Galle which is involved in maintenance of marine cables. The Company's interest in Galle Submarine Cable Depot (Private) Limited is accounted for using the equity method in the Company's financial statements. The Company did not have operations during the financial year.

	Company	
	2018	2017
As at 1 January	**28**	28
Share of loss from associate company	**(28)**	–
As at 31 December	**–**	28

Details of the subsidiary companies in which the Company had control as at 31 December are set out below:

Name of the Company	2018		2017	
	Investment LKR Mn.	**Company holding %**	Investment LKR Mn.	Company holding %
Mobitel (Private) Limited [See Note (b) below]	**13,980**	**100**	13,980	100
SLT VisionCom (Private) Limited [See Note (e) below]	**100**	**100**	100	100
SLT Digital Info Services (Private) Limited [See Note (c) below]	**50**	**100**	50	100
Sri Lanka Telecom (Services) Limited [See Note (a) below]	**25**	**99.99**	25	99.99
SLT Human Capital Solutions (Private) Limited [See Note (d) below]	**1**	**100**	1	100
Sky Network (Private) Limited (See Note (f) below)	**–**	**99.94**	–	
SLT Property Management (Private) Limited (See Note (g) below)	**–**	**100**	–	100
SLT Campus (Private) Limited [See Note (h) below]	**210**	**100**	50	100
	14,366		14,206	
Sub-subsidiaries				
eChannelling PLC [see Note (i) below]	**642**	**87.59**	642	87.59

The Directors believe that the fair value of each of the companies listed above do not differ significantly from their book values.

(a) This investment in subsidiary company consists of 2,500,000 shares representing 99.99 % of stated capital of Sri Lanka Telecom (Services) Limited.

(b) The Company owns 1,320,013,240 shares representing 100% of the entire Ordinary Share capital of Mobitel (Private) Limited.

(c) This investment in subsidiary company consists of 5,000,000 shares representing the entire stated capital of SLT Digital Info Services (Private) Limited.

(d) This investment in subsidiary company consists of 50,000 shares representing the entire stated capital of SLT Human Capital Solutions (Private) Limited

(e) This investment in subsidiary company consists of 10,000,000 shares representing the entire stated capital of SLT VisionCom (Private) Limited.

(f) This investment in subsidiary company consists of 42,071,251 shares representing a 99.94% holding of the issued stated capital and 6,000,000 12% cumulative and redeemable preference shares of Sky Network (Private) Limited. The investment is fully impaired.

(g) This investment in subsidiary company consists of 1,500,001 shares representing the entire stated capital of SLT Property management (Private) Limited. The investment is fully impaired.

(h) This investment in subsidiary company consists of 5,000,001 shares representing the entire stated capital of SLT Campus (Private) Limited. The Company invested LKR 160 Mn. on ordinary share capital in SLT Campus (Private) Limited during the year 2018.

(i) This investment in subsidiary Company consists of 106,974,618 shares representing the 87.59% holding of the issued Share Capital of eChannelling PLC.

17. Other investments

Current investments

	Group		Company	
	2018	2017	**2018**	2017
Fixed deposits/ Repo	**3,665**	1,842	**3,569**	1,780
Investment in equity share	**–**	2	**–**	–
	3,665	1,844	**3,569**	1,780

Fixed deposits and Repo are classified as financial assets and measured at amortised cost. Fixed deposits of foreign currency with carring value of LKR 2,780 Mn. (2017 – LKR 1,111 Mn.) and Fixed deposits and Repo with a carrying value of LKR 786 Mn. (2017 – LKR 669 Mn.) are restricted at bank. Fixed Deposit carrying value of LKR 3 Mn (2017 – Nil).

Investment in equity shares comprises of investment made by eChannelling PLC in other companies.

	Group		Company	
	2018 **%**	2017 %	**2018** **%**	2017 %
Fixed deposits – Restricted at bank	**12.08**	12.33	**12.08**	12.33
Repurchase agreement – Restricted at bank	**–**	8.65	**–**	8.65
Fixed Deposits – LKR	**11.50**	–	**11.50**	–
Fixed Deposits – USD	**3.34**	2.86	**3.34**	2.86
Repurchase agreement – Repo	**7.92**	–	**7.92**	–

The group's exposure to credit and market risk and fair value information related to other investment are disclosed in Note 4.

18. Other receivables

	Group		Company	
	2018	2017	**2018**	2017
Non-current	**2,970**	3,150	**2,938**	3,127
Current	**680**	677	**679**	676
	3,650	3,827	**3,617**	3,803
Employee Loans	**3,229**	3,355	**3,196**	3,331
Prepaid staff cost	**421**	472	**421**	472
	3,650	3,827	**3,617**	3,803
Prepaid staff cost 1 January	**472**	487	**472**	487
Additions	**108**	186	**108**	186
Amortisation	**(159)**	(201)	**(159)**	(201)
Prepaid staff cost at 31 December	**421**	472	**421**	472

The Group provides loans to employees at concessionary rates. These employee loans are fair valued at initial recognition using level 2 inputs. The fair value of the employee loans are determined by discounting expected future cash flows using market related rates for the similar loans.

The difference between the cost and fair value of employee loans is recognised as prepaid staff cost. Benefit amount in 2018 is LKR 108 Mn. (2017 – LKR 186 Mn.).

19. Inventories

	Group		Company	
	2018	2017	**2018**	2017
Customer Premises Equipment	**1,188**	2,345	**1,188**	2,345
Cable & networks	**842**	393	**701**	393
Other consumables	**1,069**	1,590	**321**	543
	3,099	4,328	**2,210**	3,281
Provision for change in carrying value of inventories	**(926)**	(1,167)	**(770)**	(1,053)
	2,173	3,161	**1,440**	2,228

(a) Inventories include telecommunication hardware, consumables and office stationery. Inventory is stated net of provisions for slow-moving and obsolete items.

20. Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
Domestic trade receivables	**21,846**	20,196	**15,373**	14,471
Foreign trade receivables	**3,428**	3,074	**2,297**	2,292
	25,274	23,270	**17,670**	16,763
Less: Provision for bad and doubtful receivables	**(8,890)**	(9,321)	**(5,492)**	(6,483)
Less: Interest/revenue in suspense	**–**	(19)	**–**	–
Trade receivables – net	**16,384**	13,930	**12,178**	10,280
Amount due from subsidiaries [Note 33.1 (k)]	**–**	–	**2,042**	3,460
Amount due from related companies	**148**	38	**147**	38
Advances and prepayments [See Note (a) below]	**8,561**	5,101	**2,360**	3,266
Employee loans (Note 18)	**680**	677	**679**	676
Other receivables [See Note (b) below]	**1,567**	985	**135**	134
Amounts due within one year	**27,340**	**20,731**	**17,541**	**17,854**

(a) Advances and prepayments of the Company mainly consist of advances on foreign and local suppliers' advances LKR 1,720 Mn. (2017– LKR 2,843 Mn.), payments for software maintenance of LKR 70 Mn. (2017 – LKR 341 Mn.) Advances and prepayments of the Group mainly consist of advances on foreign & local suppliers advances LKR 5,911 Mn. (2017 – LKR 3,393 Mn.), payments for software maintenance of LKR 70 Mn. (2017 – LKR 341 Mn.) advances on Building and tower rent of LKR 138 Mn. (2017 – LKR 107 Mn.) Prepaid TRC Frequency LKR 804 Mn. (2017 – LKR 246 – Mn.) and free phone offer LKR 283 Mn. (2017– LKR 249 Mn.)

(b) Other receivables of the Company consist of refundable deposits of LKR 132 Mn. (2017 – LKR 125 Mn.). Other receivables of the Group mainly consist of refundable deposits of LKR 132 Mn. (2017 – LKR 125 Mn.), receivables from sales agents LKR 122 Mn. (2017 – LKR 128 Mn.) and site rentals receivables from other operators LKR 864 Mn. (2017 – Rs 302 Mn.)

21. Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
Cash at bank and in hand	**3,163**	1,973	**671**	796
Call deposits	**–**	–	**–**	–
Fixed deposits	**5,791**	258	**–**	–
Repurchase agreements – Repo	**2,135**	2,046	**–**	–
	11,089	4,277	**671**	796

21.a For cash flow purpose:

Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
Cash and cash equivalents	**11,089**	4,277	**671**	796
Bank overdrafts	**(6,460)**	(13,323)	**(5,638)**	(12,406)
	4,629	(9,046)	**(4,967)**	(11,610)

22. Borrowings

	Group		Company	
	2018	2017	**2018**	2017
Current (due within one year)				
Bank overdrafts	**6,460**	13,323	**5,638**	12,406
Bank borrowings and others [See Note 22 (e) below]	**9,479**	12,036	**9,464**	12,013
Vendor financing	**982**	1,432	**–**	–
Lease liabilities	**28**	99	**2**	67
	16,949	26,890	**15,104**	24,486
Non-current (due after one year)				
Bank borrowings and others [See Note 22 (e) below]	**38,285**	14,489	**30,928**	14,489
Vendor financing	**546**	371	**–**	–
Lease liabilities	**55**	61	**–**	3
	38,886	14,921	**30,928**	14,492
Total borrowings	**55,835**	41,811	**46,032**	38,978

(a) The interest rate exposure of the borrowings of the Group and the Company were as follows:

	Group		Company	
	2018	2017	**2018**	2017
– At fixed rates	**17,633**	23,097	**17,355**	23,008
– At floating rates	**38,202**	18,714	**28,677**	15,970
	55,835	41,811	**46,032**	38,978

The currency exposure of the borrowings of the Group and the Company as at the reporting date were as follows:

	Group		Company	
	2018	2017	**2018**	2017
Foreign currency	**19,125**	17,613	**10,268**	15,811
Local currency	**36,710**	24,198	**35,764**	23,167
	55,835	41,811	**46,032**	38,978

(b) Effective interest rates of the Company and the Group are as follows:

	Group		Company	
	2018 %	2017 %	**2018 %**	2017 %
Average effective interest rates:				
– bank overdrafts	**10.00 – 14.40**	10.00 – 14.00	**11.71**	11.88
– bank borrowings (USD loan)	**4.74**	4.30	**4.74**	4.30
– bank borrowings	**12.18 – 12.75**	12.22	**12.18**	12.22
– Debenture	**12.75**	–	**12.75**	–
– lease liabilities	**8.00 – 16.00**	8.00 – 16.00	**8.00-10.00**	8.00-10.00
– Vendor financing	**LIBOR+3.8%**	LIBOR+3.8%	**–**	–

(c) Maturity analysis of the Company and the Group is as follows:

	Group		Company	
	2018	2017	**2018**	2017
Maturity of non-current borrowings (excluding finance lease liabilities):				
– Between 1 and 2 years	**8,956**	6,553	**5,018**	6,285
– Between 3 and 5 years	**20,250**	8,307	**16,285**	8,204
– Over 5 years	**9,625**	–	**9,625**	–
	38,831	14,860	**30,928**	14,489

(d) Analysis of the finance lease liabilities of the Group and Company are as follows:

	Group		Company	
	2018	2017	**2018**	2017
Finance lease liabilities – minimum lease payments				
– Not later than 1 year	**42**	115	**2**	72
– Later than 1 year and not later than 5 years	**54**	73	**–**	3
	96	188	**2**	75
Less: future finance charges on finance leases	**(13)**	(28)	**–**	(5)
Present value of finance lease liabilities	**83**	160	**2**	70
Representing lease liabilities:				
– Current	**28**	99	**2**	63
– Non-current	**55**	61	**–**	3

(e) Movement of the borrowings is given below – Group

	Borrowings	Bank overdraft	Lease liabilities	**Total**
Balance as at 1 Jan 2018	28,328	13,323	160	**41,811**
Additions during the year	32,142	9,968	-	**42,110**
Net repayment during the year	(11,178)	(16,831)	(77)	**(28,086)**
	49,292	6,460	83	**55,835**

Movement of the borrowings is given below – Company

	Borrowings	Bank overdraft	Lease liabilities	**Total**
Balance as at 1 Jan 2018	26,502	12,406	70	**38,978**
Additions during the year	23,050	7,878	–	**30,928**
Net repayment during the year	(9,160)	(14,646)	(68)	**(23,874)**
	40,392	5,638	2	**46,032**

(f) During the year company, drew down LKR 23.05 Bn. from the term loan and short term loans in Rupees.

(g) The loan covenants include submission of audited financial statements to the lenders within a specified period from the financial year end, maintainance of covenant ratios and to maintain adequate accounting records in accordance with Sri Lanka Accounting Standards.

(h) The Directors believe that the Company and the Group will have sufficient funds available to meet its present loan commitments.

(i) Lease liabilities of the Company and the Group are effectively secured by the lessor against the rights to the title of the asset.

(j) Bank borrowings and supplier credits of Mobitel (Private) Limited, a subsidiary of the Company, are secured, *interalia*, by corporate guarantees given by the Company.

(k) Mobitel (Private) Limited has borrowed LKR 9,092 Mn. during the year for the purpose of Capital Expansion Projects.

(l) Guarantee facilities amounting to LKR 77 Mn., (2017 – LKR 102 Mn.) were provided to Mobitel (Private) Limited for the GSM rollout 6 and 7.

(m) Guarantee facilities amounting to LKR 26 Mn. (2017 – LKR 26 Mn.) were provided to Sri Lanka Telecom (Services) Limited to obtain facilities for working Capital requirements.

23. Deferred income tax liabilities and assets.

Recognised deferred income tax (assets) and liabilities

Deferred income tax (assets) and liabilities are calculated on all taxable and deductible temporary differences arising from differences between accounting bases and tax bases of assets and liabilities. Deferred income tax is provided under the liability method using a principal tax rate of 28% (for the year 2017 – 28%).

The movement in the deferred income tax account is as follows:

	Group		Company	
	2018	2017	**2018**	2017
At the beginning of the year	**5,872**	4,459	**5,945**	4,507
Release to Statement of Comprehensive Income (Note 11)	**1,159**	1,258	**1,212**	1,283
Release to Statement of Other Comprehensive Income (Note 11)	**13**	155	**23**	155
(Over)/under provision of DT relevant to previous years	**(655)**	–	**(655)**	–
At the end of the year	**6,389**	5,872	**6,525**	5,945

The amounts shown in the statement of Financial Position represents the following:

	Group		Company	
	2018	2017	**2018**	2017
Deferred tax liabilities	**6,537**	5,956	**6,525**	5,945
Deferred tax assets	**(148)**	(84)	**-**	-
	6,389	5,872	**6,525**	5,945

The taxable and deductible temporary differences mainly arise from property, plant and equipment, deferred income, provision for defined benefit obligations and other provisions.

Deferred tax assets and liabilities of the Group are attributable to the following:

Group	Assets		Liabilities		Net	
	2018	2017	**2018**	2017	**2018**	2017
Property, plant and equipment	**–**	–	**12,759**	10,466	**12,759**	10,466
Defined benefit obligations	**(566)**	(670)	**–**	–	**(566)**	(670)
Provisions	**(2,434)**	(2,552)	**–**	–	**(2,434)**	(2,552)
Deferred income	**(712)**	(736)	**–**	–	**(712)**	(736)
Tax losses	**(2,658)**	(636)	**–**	–	**(2,658)**	(636)
Tax (assets)/liabilities before set-off	**(6,370)**	(4,594)	**12,759**	10,466	**6,389**	5,872
Set-off of tax	**6,370**	4,594	**(6,370)**	(4,594)	**–**	–
Net tax (assets)/liabilities	**–**	–	**6,389**	5,872	**6,389**	5,872

Movement in deferred tax balances during the year – Group

	Balance 1 January 2017	Recognised in comprehensive income	Recognised in other comprehensive income	Recognised directly in equity	Balance 31 December 2017	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018
Property, plant and equipment	10,012	1,524	–	–	11,536	1,223	–	12,759
Defined benefit obligations	(982)	157	155	–	(670)	91	13	(566)
Provisions	(2,094)	(458)	–	–	(2,552)	118	–	(2,434)
Deferred income	(771)	35	–	–	(736)	24	–	(712)
Tax losses	(1,706)	–	–	–	(1,706)	(297)	–	(2,003)
Adjustment to Tax Losses								(655)
	4,459	1,258	155		5,872	1,159	13	6,389

Deferred tax assets and liabilities of the Company are attributable to the following:

Company	**Assets**		**Liabilities**		**Net**	
	2018	2017	**2018**	2017	**2018**	2017
Property, plant and equipment	**–**	–	**12,758**	11,530	**12,758**	11,530
Defined benefit obligations	**(510)**	(663)	**–**	–	**(510)**	(663)
Provisions	**(2,351)**	(2,479)	**–**	–	**(2,351)**	(2,479)
Deferred income	**(713)**	(737)	**–**	–	**(713)**	(737)
Tax losses	**(2,658)**	(1,706)	**–**	–	**(2,658)**	–
Tax (assets) liabilities before set-off	**(6,232)**	(5,585)	**12,758**	11,530	**6,525**	5,945
Set-off of tax	**6,232**	5,585	**(6,232)**	(5,585)	**–**	–
Net tax (assets) liabilities	**–**	–	**6,525**	5,945	**6,525**	5,945

Movement in deferred tax balances during the year – Company

	Balance 1 January 2017	Recognised in comprehensive income	Recognised in other comprehensive income	Recognised directly in equity	Balance 31 December 2017	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018
Property, plant and equipment	10,006	1,524	–	–	11,530	1,228	–	12,758
Defined benefit obligations	(975)	157	155	–	(663)	130	23	(510)
Provisions	(2,046)	(433)	–	–	(2,479)	128	–	(2,351)
Deferred income	(772)	35	–	–	(737)	24	–	(713)
Tax losses	(1,706)	–	–	–	(1,706)	(297)	–	(2,003)
Adjustment to Tax Losses								(655)
	4,507	1,283	155	–	5,945	1,212	23	6,525

24. Deferred Income

- The connection fees relating to Public Switch Telephone Network (PSTN) are deferred over a period of 15 years. Revenue is recognised on an annual basis irrespective of the date of connection.
- Revenue from the sale of prepaid credit, Internet is deferred until such time as the customer uses the call time, downloadable quota or the credit expires.
- Backhauling revenue which is leasing of SEA-ME-WE 3 cable capacity is recognised on a straight line basis over the period of the contracts. Amounts received in advance for any services are recorded as deferred revenue.
- IRU revenue relating to leasing of SEA-ME-WE 4 cable capacity is recognised on a straight line basis over the period of the contracts. Amounts received in advance for any services are recorded as deferred revenue. In the event that a customer terminates an IRU prior to the expiry of the contract and releases the Company from the obligation to provide future services, the remaining unamortsed deferred revenue is recognised in the period the contract is terminated.

	Group		Company	
	2018	2017	**2018**	2017
At the end of the year				
Representing contract assets – Current	**497**	–	**103**	–
Representing contract assets – Non-current	**438**	–	**113**	–
	935	–	**260**	–

	Group		Company	
	2018	2017	**2018**	2017
At the end of the year				
Representing deferred income – Current	**2,469**	2,143	**385**	468
Representing deferred income – Non-current	**2,186**	2,239	**2,155**	2,208
	4,655	4,382	**2,540**	2,676

24(a) Contract Assets

The Contract Asset movements are provided below:

	Group LKR Mn.	Company LKR Mn.
Opening adjustment 1 January 2018	**515**	212
Additions	**770**	104
Amortisations	**(350)**	(100)
Balance as at 31 December 2018	**935**	216

24 (b) Contract Liabilities

As per SLFRS 15 revenue is recognized when the individual performance obligations specified in a contract are satisfied. The total consideration received or receivable has been allocated between separate performance obligations based on the relative ~~stand-alone~~ selling price.

The group and Company reclassify customer contracts previously shown as deferred income to contract liabilities.

The figure shows the contract liabilities due to unsatisfied performance obligations as at 1 January 2018.

	Group LKR Mn.	Company LKR Mn.
Opening adjustment – 1 January 2018	**982**	**982**
Addition	**668**	**512**
Amortization	**(537)**	**(490)**
Balance as at 31 December 2018	**1,113**	**1,004**

	Group		Company	
	2018	2017	**2018**	2017
At the end of the year				
– Representing contract liabilities – Current	**565**	–	**471**	–
– Representing contract liabilities – Non-Current	**548**	–	**533**	–
	1,113	–	**1,004**	–

25. Trade and other payables

	Group		Company	
	2018	2017	**2018**	2017
Amounts due within one year				
Domestic trade payables	**5,044**	2,841	**391**	508
Foreign trade payables	**2,093**	1,990	**1,237**	1,175
Amount due to subsidiaries [Note 33.1 (k)]	**–**	–	**1,065**	2,540
Amount due to related companies	**132**	32	**132**	32
Capital expenditure payables [See Note (a) below]	**10,767**	9,345	**6,989**	7,249
Social security and other taxes [See Note (b) below]	**1,079**	1,511	**903**	602
Interest payable	**222**	33	**–**	–
Other payables [See Note (c) below]	**12,646**	12,698	**9,513**	10,395
	31,983	28,450	**20,230**	22,501
Amounts due after one year				
International direct dialling deposits	**157**	232	**157**	232
Advance on LGN project	**280**	280	**280**	280
PSTN guarantee deposits	**19**	20	**19**	20
Domestic Trade Payables	**695**	848	**–**	–
Capital expenditure payables	**790**	1,064	**–**	–
	1,941	2,444	**456**	532

(a) Capital expenditure payables of the Company mainly consist of contractors' payables and retention of LKR 6,083 Mn. (2017 – LKR 6,218 Mn.) and advances on network restoration after road works of LKR 906 Mn. (2017 – LKR 1,019 Mn.). Capital expenditure payables of the Group mainly consist of contractors' payable and retention of LKR 9,670 Mn. (2017 – LKR 8,178 Mn.) and advances on network restoration after road works of LKR 906 Mn. (2017 – LKR 1,017 Mn.).

(b) Social security and other taxes of the Company mainly consist of Telecommunication Levy (TL) of LKR 190 Mn. (2017 – LKR 417 Mn.), Cess LKR 92 Mn. (2017 – LKR 64 Mn.), IDD Levy of LKR 4 Mn. (2017 – LKR 7 Mn.), EPF payable of LKR 106 Mn. (2017 – LKR 112 Mn.). Social security and other taxes of the Group mainly consist of Telecommunication Levy (TL) of LKR 449 Mn. (2017 – LKR 792 Mn.), Cess of LKR 378 Mn. (2017 – LKR 150 Mn.). IDD Levy payable of LKR 9 Mn. (2017 – LKR 9 Mn.),EPF payable of LKR 106 Mn. (2017 – LKR 112 Mn.) and NBT payable LKR 113 Mn. (2017 – LKR 119 Mn.).

(c) Other payables of the Company mainly consist of dividend payable to the Government of Sri Lanka of LKR 244 Mn. (2017 – LKR 244 Mn.), payable for unpaid supplies of LKR 7,623 Mn. (2017 – LKR 7,570 Mn.), International Telecommunication Operators' Levy payable of LKR 190 Mn. (2017 – LKR 148 Mn.) and accrued expenses and other payables of LKR 255 Mn. (2017 – LKR 214 Mn.). Other payables of the Group mainly consist of dividend payable to the Government of Sri Lanka of LKR 244 Mn. (2017 – LKR 244 Mn.), payable for unpaid supplies of LKR 7,623 Mn. (2017 – LKR 7,570 Mn.), International Telecommunication Operators' Levy payable of LKR 190 Mn. (2017 – LKR 148 Mn.), and accrued expenses and other payables of LKR 3,275 Mn. (2017 – LKR 1,739 Mn.).

26. Employee benefits

	Group		Company	
	2018	2017	**2018**	2017
Total employee benefit liability as at 1 January	**4,355**	4,538	**3,719**	3,984
Movement in present value of employee benefit liabilities				
Current service cost	**445**	461	**375**	438
Interest cost	**216**	221	**150**	155
Actuarial (gain)/loss	**(125)**	(543)	**(85)**	(553)
Benefit paid during the year	**(652)**	(322)	**(561)**	(305)
Balance as at 31 December	**4,239**	4,355	**3,598**	3,719
Expenses recognised in the Income Statement				
Current service cost	**445**	461	**375**	438
Interest cost	**216**	221	**150**	155
	661	682	**525**	593
Recognised in Other Comprehensive Income				
Actuarial (gain)/loss	**(125)**	(543)	**(85)**	(553)
	(125)	(543)	**(85)**	(553)

The principal actuarial assumptions used were as follows:

	Group		Company	
	2018 %	2017 %	**2018 %**	2017 %
Discount rate (long-term)	**11.0 - 12.2**	10.0 - 10.4	**12.2**	10.4
Future salary increases	**7.5 - 10.0**	8.5 - 10.0	**7.5**	8.5

In addition to above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2018,1967/70 Mortality Table issued by the Institute of Actuaries London (2017 – 1967/70 Mortality Table) was taken as the base for the valuation.

The provisions for defined obligations of Sri Lanka Telecom PLC, SLT Human Capital Solution (Private) Limited, SLT Digital Info Services (Private) Limited, Sri Lanka Telecom (Services) Limited, SLT Campus (Private) Limited, SLT Visioncom (Private) Limited and Mobitel (Private) Limited are actuarially valued by Messrs Actuarial and Management Consultants (Private) Limited and Messrs Piyal S Goonetilleke and Associates respectively.

The provision for defined benefit obligations is not externally funded.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions consultant, would have affected the defined benefit obligation by the amount shown below:

The sensitivity of the statement of profit or loss and other comprehensive income and the statement of financial position is the effect of the assumed changes in discount rate and salary increment rate as depicted in the following table:

Sri Lanka Telecom PLC

	Effect on charge to the Statement of Profit or Loss and Other Comprehensive Income		Effect on net defined benefit liability	
	Increase	Decrease	Increase	Decrease
2018				
Discount rate (Change by 1%)	**(140)**	**156**	**(140)**	**156**
Salary increment rate (Change by 1%)	**177**	**(162)**	**177**	**(162)**

	Effect on charge to the Statement of Profit or Loss and Other Comprehensive Income		Effect on net defined benefit liability	
	Increase	Decrease	Increase	Decrease
2017				
Discount rate (Change by 1%)	(132)	144	(132)	144
Salary increment rate (Change by 1%)	167	(156)	167	(156)

Mobitel Private Limited

	Effect on charge to the Statement of Profit or Loss and Other Comprehensive Income		Effect on net defined benefit liability	
	Increase	Decrease	Increase	Decrease
2018				
Discount rate (Change by 1%)	**(26)**	**29**	**(26)**	**29**
Salary increment rate (Change by 1%)	**36**	**(32)**	**36**	**(32)**

	Effect on charge to the Statement of Profit or Loss and Other Comprehensive Income		Effect on net defined benefit liability	
	Increase	Decrease	Increase	Decrease
2017				
Discount rate (Change by 1%)	(31)	35	(31)	35
Salary increment rate (Change by 1%)	37	(33)	37	(33)

27. Insurance reserves

	Group/Company	
	2018	2017
As at 1 January	**691**	680
Transferred to retained earnings	**100**	11
As at 31 December	**791**	691

As stated in Accounting Policy 3 (s) the Company transfers annually from the retained earnings an amount equal to 0.25% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment.

Management regularly monitors the charges made against the insurance reserve and the adequacy of the provision made.

28. Grants

	Group		Company	
	2018	2017	**2018**	2017
Balance at 1 January	**3**	9	**3**	9
Grant credited to Profit or loss	**(3)**	(6)	**(3)**	(6)
Balance at 31 December	**–**	3	**–**	3

Grant in Company and Group consists of Exchange equipment received from Alcatel CIT France in 2005.

29. Stated capital

	Group/Company	
Issued and fully paid	**2018**	2017
1,804,860,000 ordinary shares	**18,049**	18,049

30. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	Note	Group		Company	
		2018	2017	**2018**	2017
Profit before tax		**7,169**	5,528	**3,142**	2,129
Adjustments for:					
Depreciation	7	**16,850**	16,461	**11,361**	10,926
Grant received less amortisation	28	**(3)**	(6)	**(3)**	(6)
Amortisation of intangible assets	15	**1,097**	826	**255**	195
Provision/write-off of bad and doubtful debts		**1,127**	1,767	**605**	1,266
Provision for falling value of inventories		**(281)**	97	**(281)**	68
Interest expense and finance costs	9	**239**	159	**93**	12
Foreign exchange (loss)/Gain	9.a	**1,809**	478	**1,200**	471
Interest income	10	**(685)**	(1,040)	**(443)**	(562)
Connection fees less amortisation		**273**	607	**(136)**	(197)
Profit on sale of property, plant and equipment		**(332)**	(681)	**(306)**	(677)
Impairment of assets	14	**40**	100	**29**	100
Impairment of investment	16	**–**	14	**–**	14
Impairment of investment in associate company		**28**		**28**	–
Provision for retirement benefit obligations	26	**661**	682	**525**	593
Net movement on cash flow hedges		**(672)**	–	**(672)**	–
Contract assets SLFRS 15 adjustment		**(290)**	–	**16**	–
		27,030	24,992	**15,413**	14,332
Changes in working capital:					
– Receivables and prepayments		**(7,556)**	(4,318)	**(103)**	(3,064)
– Inventories		**2,137**	(1,923)	**1,937**	(1,400)
– Payables		**2,441**	2,983	**(2,344)**	3,825
Cash generated from operations		**24,052**	21,734	**14,903**	13,693

31. Capital commitments

The Group and the Company have purchased commitments in the ordinary course of business as at 31 December 2018 as follows:

	Group		Company	
	2018	2017	**2018**	2017
Property, plant and equipment				
– Approved but not contracted	**2,582**	25,984	**2,582**	25,984
– Approved and contracted	**13,085**	1,774	**4,742**	1,400
	15,667	27,758	**7,324**	27,384
Operating lease commitments				
The future minimum lease payments and other commitment payments are as follows:				
– Not later than 1 year	**48**	93	**48**	93
– Later than 1 year and not later than 5 years	**116**	160	**116**	160
	164	253	**164**	253

Other financial commitments

Except for any regular maintenance contracts entered into with third parties in the normal course of business, there are no other material financial commitments that requires separate disclosure.

32. Contingencies

(a) Global Electroteks Limited initiated legal action under High Court Case No. 20/2006 claiming damages of USD 12 Mn. from Sri Lanka Telecom PLC ("SLT") for alleged unlawful disconnection of interconnection services. Corrections of proceedings 6 March 2019.

(b) Appeal Case filed by Directories Lanka (Private) Limited (DLPL) against SLT against the dismissal of CHC 2/200 6(3) claimed damages of LKR 250 Mn., for alleged unfair competition with regard to artwork on the cover page of the Directory by SLT. DLPL appealed against the above order. Argument SE/CHC/Appeal 31/2010.

(c) 12/2008 CBCU, an inquiry by Sri Lanka Customs – A consignment of CDMA equipment was detained in October 2008 by the Customs Authority. Subsequently the equipment were cleared pending the Inquiry, based on a cash deposit and bank guarantee submitted by SLT. The Order was delivered in October 2014 imposing a mitigated forfeiture of LKR 1,820,502,062.00 on SLT. SLT has filed Case in Court of Appeal under CA/writ/387/2014 against this Order and interim order was issued by Court on 9 March 2016, precluding Respondents from enforcing Order dated 17 October 2014. Next date of the case is 15 May 2019.

(d) Customs Case No. ADP/031/2009 – Goods valued at USD 996,785.65, which was imported under the last consignment of equipment for NGN Phase II expansion project, was detained by the Customs in May 2009. Subsequently, the equipment was cleared in July 2009, pending the Inquiry. Presently awaiting the decision of the Customs Department.

(e) Debt Recovery Officers who were attached to SLT had filed legal proceedings in Labour Department (Labour Commissioner) and Labour Tribunal and number of proceeding initiated under each forum are 47 and 21 respectively. The relief claimed includes EPF, ETF and compensation with regard to proceedings initiated before the Labour Commissioner and includes re-instatement or compensation under the Proceedings before Labour Tribunal. An appeal is pending (WR232/2015) filed against the proceeding before Labour Commission. Appeals filed in High Court in regard to the proceedings before Labour Tribunal.

(f) On 18 July 2017 DBN filed a Case bearing Number HC/Civil/23/2017 against SLT regarding violation of Intellectual Property Rights in the Commercial High Court and an *ex-parte* interim injunction was issued on 19 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.

Further permanent injunction and damages of LKR 7, 800,000,000.00 is prayed under the petition.

SLT filed revocation paper on 10 August 2017 and supported its application for the Preliminary Objections and the order was delivered in favour of SLT on 8 August 2018.

Subsequently Dialog Broad Band Network (Pvt) Ltd appealed to the Supreme Court under the Case bearing number (SC/HC/LA 82/2018) S.C. Appeal number 139/2018 against the aforesaid Order. Dialog supported the matter in Court to obtain leave to proceed with their application and leave was granted in a limited manner with regard to legal points. This means the case will proceed further to argue certain points of law leaving the original order given under the High Court intact. Both parties filed written submissions and the Case fixed for arguments on 28 October 2019.

In addition to the above referred cases there are other claims by employees and third parties for damages and other relief. In the opinion of the Directors none of these actions are likely to result in a material liability to the Company and its subsidiaries.

The Company has provided guarantees on behalf of its subsidiaries for following credit and trade finance facilities.

(i) USD 77 Mn. (2017 – USD 102 Mn.) for Mobitel (Private) Limited for the GSM rollout Stage 6 and 7

(ii) Facilities amounting to LKR 26 Mn. (2017 – LKR 26 Mn.) for Sri Lanka Telecom (Services) Limited to obtain facilities for working Capital requirement.

With regard to cases detailed above, pending the outcome of the appeals and hearings, no provisions have been recognised in the Financial Statements up to 31 December 2018.

33. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. A related party transaction takes place with a transfer of resources or obligations between related parties, regardless of whether a price is charged.

33.1 Transactions with related entities

(a) Mobitel (Private) Limited

	Company	
	2018	2017
Sale of goods and services:		
Provision of E1 links	**3,613**	3,572
Interconnection charges	**390**	282
TDM, VOIP Platform and Transit	**28**	27
ERP Rental	**631**	–
	4,662	3,881
Purchase of goods and services:		
Call charges on official mobile phone	**131**	97
Interconnection charges	**1,029**	1,243
Antenna tower space	**816**	846
Buliding rent	**5**	4
Commission on bill collection	**4**	6
	1,985	2,196

As per the TRC approval dated 19 May 2014, Mobitel is entitled to receive discounts if the Company uses more than 3500 E1 Links.

Further, Mobitel receives discounts on infrastructure services provided by Sri Lanka Telecom PLC

The Company has provided guarantees on behalf of Mobitel for the following loans and obligations:

USD 77 Mn. (2017 – USD 102 Mn.) for Mobitel (Private) Limited for the GSM rollout Stages 6 and 7.

(b) SLT Digital Info Services (Private) Limited

	Company	
	2018	2017
Sale of goods and services:		
Supply of services	**6**	6
Purchase of goods and services:		
Directory distribution and other services	**3**	8

SLT Digital Info Services (Private) Limited provides event management services to SLT PLC. As per the agreement, SLT Digital Info Services (Private) Limited entitle to receive a retainer for the services provided.

(c) Sri Lanka Telecom (Services) Limited

	Company	
	2018	2017
Sale of goods and services:		
Supply of services	**8**	5

The Company has provided guarantees on behalf of Sri Lanka Telecom (Service) Limited for the following loans and obligations:

Facilities amounting to LKR 26 Mn. (2017 – LKR 26 Mn.) for Sri Lanka Telecom (Services) Limited to obtain facilities for working Capital requirements.

(d) SLT Human Capital Solutions (Private) Limited

	Company	
	2018	2017
Sale of goods and services:		
Supply of services	**7**	4
Purchase of goods and services:		
Provision of manpower service	**1,778**	1,650

(e) SLT VisionCom (Private) Limited

	Company	
	2018	2017
Sale of goods and services:		
Supply of services	**17**	10
Purchase of goods and services:		
Service provisioning	**804**	330

Ad-insertion revenue:

Sri Lanka Telecom received an ad-insertion revenue from SLT VisionCom (Private) Limited amounting to LKR 13 Mn. (2017 – LKR 10 Mn.) SLT's share of revenue is based on the following percentages:

Advertisement on PEO TV – EPG	34%
Channel advertisement	17%

Service fee:

Sri Lanka Telecom PLC pays VisionCom (Private) Limited a unit rate based fee computed at the rate of LKR 65.00 per cumulative billable subscriber which amounted to LKR 297 Mn. in 2018 (2017 – LKR 254 Mn.) Total cost incurred plus a 5% margin in 2018.

(f) SLT Campus (Private) Limited

	Company	
	2018	2017
Sale of goods and services:		
Supply of services	**15**	15
Purchase of goods and services:		
Service provisioning	**–**	0

(g) Fees for secondment of personnel and services provided to/by SLT PLC

	Company	
	2018	2017
SLT Digital Info Services (Private) Limited	**51**	46
	51	46

(k) Outstanding balances arising from sale/purchase of services

	Company	
	2018	2017
Receivable from subsidiaries:		
Mobitel (Private) Limited	**1,277**	2,684
SLT Digital Info Services (Private) Limited	**140**	136
SLT Human Capital Solutions (Private) Limited	**155**	157
SLT VisionCom (Private) Limited	**–**	–
Sri Lanka Telecom (Services) Limited	**181**	150
Sky Network (Private) Limited	**–**	11
SLT Property Management (Private) Limited	**31**	38
SLT Campus (Private) Limited	**258**	284
	2,042	3,460
Payable to subsidiaries:		
Mobitel (Private) Limited	**53**	1,681
SLT Digital Info Services (Private) Limited	**197**	212
SLT Human Capital Solutions (Private) Limited	**283**	306
SLT VisionCom (Private) Limited	**238**	130
Sri Lanka Telecom (Services) Limited	**273**	190
Sky Network (Private) Limited	**1**	1
SLT Campus (Private) Limited	**20**	20
	1,065	2,540

33.2 Transactions with other related parties
(a) Maxis Communications Berhad and its subsidiaries

	Group		Company	
	2018	2017	**2018**	2017
Sale of goods and services:				
Sale of SEA-ME-WE 3 Cable capacity	**6**	16	**6**	16
International incoming traffic	**3**	42	**3**	38
International incoming traffic	**9**	58	**9**	54
Purchase of goods and services:				
International outgoing traffic	**1**	33	**1**	33

(b) Outstanding balances arising from sale/purchase of services

	Group		Company	
	2018	2017	**2018**	2017
Receivable from related companies:				
Maxis Communications Berhad and its subsidiaries	**148**	141	**147**	141
	148	141	**147**	141
Payable to related company:				
Maxis Communications Berhad and its subsidiaries	**132**	119	**132**	119

(C) Government-related key institutions

The Government of Sri Lanka holds 49.5% of the voting rights of the Company as at 31 December 2018 through the secretary to the Treasury and those have significant influence over the financial and operating policies of the Company. Accordingly, the Company has considered the Government of Sri Lanka as a related party according to LKAS 24 related Party Disclosure.

During the year ended 31 December 2018, the Company has carried out transactions with the Government of Sri Lanka and other Government-related entities in the ordinary course of business.

The Company identified individually significant transactions with key Government related entities as given below:

(i) Revenue from provision of telecommunication services during the year ended 31 December 2018 amounted to LKR 4,789 Mn. (2017– LKR 3,769 Mn.) and credit receivables as at 31 December 2018 amounted to LKR 2,948 Mn. (2017 – LKR 1,606 Mn.)

(ii) Deposits, repurchase agreements (Repo) and Borrowings of the Group at/from Government banks amounted to LKR 3,569 Mn. (2017 LKR 1,790 Mn.) and LKR 20,752 Mn. (2017 – LKR 11,532 Mn.) as at 31 December 2018.

(iii) Dividend payable to the Government amounting to LKR 244 Mn. (2017 – LKR 244 Mn.)

33.3 Transactions with key management personnel

Key management personnel comprise the Directors & chief officers of the Company and the Group.

	Group		Company	
	2018	2017	**2018**	2017
Short term benefits	**270**	268	**189**	227
Post employment benefits	**16**	26	**15**	22
Salaries and other benefits	**286**	294	**204**	249

All transactions during the year and balances as at the reporting date between the following companies have been eliminated in preparing the Consolidated Financial Statements:

- Mobitel (Private) Limited
- Sri Lanka Telecom (Services) Limited
- SLT Digital Info Services (Private) Limited
- SLT Human Capital Solutions (Private) Limited
- SLT VisionCom (Private) Limited
- Sky Network (Private) Limited
- SLT Property Management (Private) Limited
- SLT Campus (Private) Limited
- eChannelling PLC

Related party transactions disclosed above should be read in conjunction with Note 16 to the Financial Statements.

34. Non-uniform accounting policies

The impact of non-uniform accounting policies adopted by the subsidiary company has been adjusted in the Consolidated Financial Statements as set out below:

Adjustment due to different accounting policies of the parent and the Group entity

Sri Lanka Telecom PLC accounts for refunds on Telecommunication Development Charge (TDC) on cash basis when the payment is received whereas Mobitel (Private) Limited recognises it in the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis.

Therefore, the recognition of the refund by Mobitel (Private) Limited was eliminated and is recognised on cash basis in the consolidated accounts.

	Company	
	2018	2017
Reversal of deferred revenue recognised in Statement of Profit or Loss and Other comprehensive Income by Mobitel (Private) Limited	(87)	(98)

35. Fair value disclosure

Set out below is a comparison by class of the carrying amounts and fair values of the Financial instruments that are carried in the Financial Statements.

	Carrying Amount				Fair Value			
	Group		Company		Group		Company	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Financial Assets								
Trade and other receivables	**18,779**	15,630	**15,181**	14,588	**18,779**	15,630	**15,181**	14,588
Short term deposits	**11,591**	4,146	**3,569**	1,780	**11,591**	4,146	**3,569**	1,780
Cash at bank and in hand	**3,163**	1,973	**671**	796	**3,163**	1,973	**671**	796
Total	**33,533**	21,749	**19,421**	17,164	**33,533**	21,749	**19,421**	17,164
Financial Liabilities								
Obligations under Finance leases	**83**	160	**2**	70	**83**	160	**2**	70
Borrowings	**47,764**	26,525	**40,392**	26,502	**31,203**	20,071	**27,013**	20,234
Trade and other payables	**32,845**	29,383	**19,783**	22,431	**32,005**	28,326	**19,586**	22,201
Bank overdrafts	**6,460**	13,323	**5,638**	12,406	**6,460**	13,323	**5,638**	12,406
Total	**87,152**	69,391	**65,815**	61,409	**69,751**	61,880	**52,239**	54,911

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption was used to estimate the fair values:

Cash and bank balances, Short term deposits, Trade receivables, Trade payables (current) and bank overdraft approximate their carrying amounts lastly due to the short term maturities of these investments.

Fair Value of Trade and Other Payables and Borrowings have been arrived by discounting gross values by the year end AWFDR rate.

36. Events after the reporting date

The Board of Directors of the Company has recommended a first and final dividend of LKR 1.06 per share (2017 – LKR 0.89 per share) on voting shares of the Company to be paid by way of cash dividend for the financial year ended 31 December 2018.

Further, this dividend is to be approved at the Annual General Meeting to be held on 28 March 2019. This proposed final dividend has not been recognised as a liability as at 31 December 2018. Under the Inland Revenue Act No. 24 of 2017, a WHT of 14% has been imposed on dividend declared. Final dividend proposed for the year amounts to LKR 1,913,151,600, in compliance with Section 56 and 57 of Companies Act No.07 of 2007. As required by Section 56 of the Companies Act No.07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on 21 February 2019 has been audited by Messrs Ernst & Young.

Except as disclosed above, no other events have arisen since the Statement of Financial Position date which require changes to, or disclosure in the Financial Statements.