

Sri Lanka Telecom PLC and its Subsidiaries

Registration No. - PQ 7

Interim Financial Report 1 st Quarter 2012

OUR VISION

All Sri Lankans seamlessly connected with world class information, communication and entertainment services.

OUR MISSION

Your trusted and proven partner for innovative and exciting communication experiences delivered with passion, quality and commitment.



Sri Lanka Telecom

One Country. One Voice.

Sri Lanka Telecom PLC and its Subsidiaries

Company Registration No. PQ 7

Quarterly Interim Financial Report as of 31 March 2012

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company		
	Jan-Mar		change	Jan-Mar		change
	2012	2011	%	2012	2011	%
Revenue	13,534	12,410	9	8,588	8,019	7
Operating costs	(8,619)	(7,911)	9	(5,658)	(5,114)	11
Operating profit before depreciation and Amortization	4,915	4,499	9	2,930	2,905	1
Depreciation	(2,892)	(2,760)	5	(1,700)	(1,760)	(3)
Amortisation and impairment of intangible assets	(163)	(113)	44	(74)	(56)	32
Operating profit	1,860	1,626	14	1,156	1,089	6
Refund of Telecommunication -Development Charge(TDC)	309	-		309	-	
Other income	41	67	(39)	38	64	(41)
Interest expenses and finance cost	(1,668)	(154)	983	(31)	(31)	-
Interest income	359	176	104	307	174	76
Profit before tax	901	1,715	(47)	1,779	1,296	37
Taxation	(536)	(420)	28	(404)	(307)	32
Net profit for the period	365	1,295	(72)	1,375	989	39
Attributable to :						
Equity holders of the company	365	1,295	(72)	1,375	989	39
Earnings per share (Rs)						
-Basic	0.20	0.72	(72)	0.76	0.55	39
-Annualized	0.81	2.87	(72)	3.05	2.19	39

The above figures are provisional and unaudited

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 March 2012

Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 31 Mar 2012	Audited as at 31 Dec 2011	Un-Audited as at 31 Mar 2012	Audited as at 31 Dec 2011
Assets				
Non-Current Assets				
Property, plant and equipment	67,862	67,936	37,682	36,754
Intangible assets	1,718	1,702	513	470
Financial prepayment	490	363	-	-
Investments in subsidiaries			14,569	13,431
Long term investments	879	697	688	697
Deferred income tax Assets	18	18	-	-
Non-current receivables	2,408	2,316	2,408	2,316
	73,375	73,032	55,860	53,668
Current Assets				
Inventories	2,329	1,741	2,146	1,465
Trade and other receivables	11,718	9,892	10,655	10,144
Current tax receivables	110	274	-	159
Short term investments	10,644	3,727	7,986	2,888
Cash and cash equivalents	7,962	8,137	7,597	7,093
	32,763	23,771	28,384	21,749
Total Assets	106,138	96,803	84,244	75,417
Equity and Liabilities				
Capital and Reserves				
Stated Capital (Represented by 1,804,860,000 shares)	18,049	18,049	18,049	18,049
Insurance reserve	406	387	406	387
Exchange equalisation reserve	6	1	-	-
Retained earnings	33,984	35,153	34,565	34,724
	52,445	53,590	53,020	53,160
Minority interest in equity	0	0	-	-
Total Equity	52,445	53,590	53,020	53,160
Non Current Liabilities				
Grants	39	41	39	41
Borrowings	14,156	9,229	7,547	2,019
Deferred income	3,447	3,694	3,345	3,462
Deferred income tax liabilities	436	451	427	442
Retirement benefit obligation	2,189	2,090	2,030	1,936
Trade and other payables	4,391	3,778	246	284
	24,658	19,283	13,634	8,184
Current Liabilities				
Trade and other payables	18,604	16,067	14,297	12,221
Current tax liabilities	459	237	194	-
Borrowings	7,168	5,325	2,163	913
Deferred income	2,804	2,301	936	939
	29,035	23,930	17,590	14,073
Total Equity and Liabilities	106,138	96,803	84,244	75,417

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

Signed
Chief Financial Officer
14 May 2012

The Board of Directors is responsible for the preparation and presentation of these consolidated financial statements. These financial statements were approved by the Board of Directors on 14 May 2012.

Signed on behalf of the Board.

Signed
Director
14 May 2012

Signed
Director
14 May 2012

Sri Lanka Telecom PLC and its Subsidiaries
 Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 March 2012

Statement of Changes in Equity - 1 January 2011 to 31 March 2012

(All amounts in LKR Millions)

Group

	Stated Capital	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Minority Interest	Total Equity
Balance as at 1 January 2011	18,049	344	(7)	31,463	0	49,849
Insurance reserve						0
-Charged to income statement		24				24
-Transferred to insurance reserve		2		(2)		
Effect of movement in foreign exchange rates			3			3
Dividend in respect of 2010				(1,083)		(1,083)
Net profit for the period				1,295	-	1,295
Balance as at 31 March 2011	18,049	370	(4)	31,673	0	50,088
Balance as at 1 April 2011	18,049	370	(4)	31,673	0	50,088
Insurance reserve						
-Charged to income statement		11				11
-Transferred to insurance reserve		6		(6)		-
Effect of movement in foreign exchange rates			5			5
Net Profit for the period				3,486		3,486
Balance as at 31 December	18,049	387	1	35,153	0	53,590
Balance as at 1 January 2012	18,049	387	1	35,153	-	53,590
Insurance reserve						-
-Charged to income statement		19				19
-Transferred to insurance reserve		-		-		-
Effect on movement in foreign exchange rates			5			5
Dividend in respect of 2011				(1,534)		(1,534)
Net profit for the period				365	0	365
Balance as at 31 March 2012	18,049	406	6	33,984	0	52,445

Sri Lanka Telecom PLC & its Subsidiaries
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Statement of Changes in Equity - 1 January 2011 to 31 March 2012

(All amounts in LKR Millions)

Company

	Stated Capital	Insurance Reserve	Retained Earnings	Total
Balance as at 1 January 2011	18,049	344	32,253	50,646
Insurance reserve				-
-Charged to income statement		24		24
-Transferred to insurance reserve		2	(2)	
Dividend in respect of 2010			(1,083)	(1,083)
Net profit for the period			989	989
Balance as at 31 March 2011	18,049	370	32,157	50,576
Balance as at 31 Dec 2011				
Balance as at 1 April 2011	18,049	370	32,157	50,576
-Charged to income statement		11		11
-Transferred to insurance reserve		6	(6)	-
Net profit for the period			2,573	2,573
Balance as at 31 December	18,049	387	34,724	53,160
Balance as at 1 January 2012	18,049	387	34,724	53,160
Insurance reserve				
-Charged to income statement		19		19
-Transferred to insurance reserve			-	-
Dividend in respect of 2011			(1,534)	(1,534)
Net profit for the period			1,375	1,375
Balance as at 31 March 2012	18,049	406	34,565	53,020

Sri Lanka Telecom PLC and its Subsidiaries
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Quarterly Interim Financial Report as of 31 March 2012

Consolidated Cash Flow Statement for the 3 months ended 31 March

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2012	2011	2012	2011
Operating activities				
Cash generated from operations	5,529	4,775	2,661	2,936
Interest received	308	182	256	181
Interest paid	(266)	(228)	(93)	(59)
Tax paid	(165)	(127)	(66)	(30)
Gratuity paid	(13)	(18)	(11)	(17)
Net cash generated from operating activities	5,393	4,584	2,747	3,011
Investing activities				
Acquisition of property, plant and equipment	(4,104)	(3,550)	(2,666)	(2,170)
Acquisition of intangible assets	(345)	(67)	(117)	(9)
Proceeds from disposal of property, plant and equipment	18	-	18	-
Proceeds /(Purchase) of short term investments	(5,758)	(468)	(4,139)	(477)
Proceeds /(Purchase) of long term investments	(274)	(142)	(83)	(189)
Investments in subsidiaries		-	(1,138)	-
Net cash used in investing activities	(10,463)	(4,227)	(8,125)	(2,845)
Financing activities				
Proceeds from borrowings	5,991	207	5,989	-
Finance lease principal re-payments	(12)	(13)	(9)	(11)
Re-Payment on borrowings	(1,241)	(787)	-	-
Dividend paid to the company's share holders				
Net cash generated/(used) in financing activities	4,738	(593)	5,980	(11)
Increase/(Decrease) in cash and cash equivalents	(332)	(236)	602	155
Movement in Cash and cash equivalents				
Cash and cash equivalents at beginning of the year	7,175	4,168	6,864	4,133
Effect on exchange fluctuation on cash and cash equivalents	131	(9)	131	(9)
	7,306	4,159	6,995	4,124
Increase/(Decrease) in cash and cash equivalents	(332)	(236)	602	155
Cash and cash equivalents at 31 March	6,974	3,923	7,597	4,279

Sri Lanka Telecom PLC and its Subsidiaries
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Quarterly Interim Financial Report as of 31 March 2012

Segmental Reporting -for the 3 months ended 31 March 2012

(All amounts in LKR Millions)

Primary Segment - Business Segments

	Fixed Telephony Operations	International Gateway Operations	Mobile Telephony Operations	Other Services	Total
Revenue					
Total Segment Revenue	3,834	2,400	4,575	3,936	14,745
Inter Segment Revenue	(101)	(132)	(71)	(907)	(1,211)
Revenue from external customers	3,733	2,268	4,504	3,029	13,534
Segment results / operating profits	319	290	626	625	1,860
Refund of Telecommunication -Development Charge(TDC)					309
Other Income					41
Interest expenses and finance cost					(1,668)
Interest income					359
Profit before tax					901
Taxation					(536)
Net Profit for the period					365

Segmental Reporting -for the 3 months ended 31 March 2011

(All amounts in LKR Millions)

Primary Segment - Business Segments

	Fixed Telephony Operations	International Gateway Operations	Mobile Telephony Operations	Other Services	Total
Revenue					
Total Segment Revenue	3,977	2,011	4,158	3,451	13,597
Inter Segment Revenue	(112)	(239)	(71)	(765)	(1,187)
Revenue from external Customers	3,865	1,772	4,087	2,686	12,410
Segment results / operating profits	358	168	507	593	1,626
Other Income					67
Refund of Telecommunication -Development Charge(TDC)					-
Interest expenses and finance cost					(154)
Interest income					176
Profit before tax					1,715
Taxation					(420)
Net Profit for the period					1,295

Sri Lanka Telecom PLC and its Subsidiaries
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Quarterly Interim Financial Report as of 31 March 2012

Investor Information

Ratios

	Group		Company	
	31 Mar 2012	31 Dec. 2011	31 Mar 2012	31 Dec. 2011
Net assets value per share (Rs)	29.06	29.69	29.38	29.45
Gearing ratio -Number of times	0.29	0.21	0.15	0.05
Quick asset ratio - Number of times	1.05	0.92	1.49	1.44

	For the 3 months ended		For the 3 months ended	
	31 Mar.2012	31 Mar.2011	31 Mar.2012	31 Mar.2011
Interest cover - Number of times	4.90	14.50	16.21	260.20

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 31 Mar.2012	3 Months to 31 Mar.2011
-Highest	50.00	64.50
-Lowest	42.50	47.00
-Last Traded price	46.30	57.00

Dividend Payment

First and Final dividend for the year 2011-Rs 0.85 per share paid on 10 April 2012.

Share trading from 1 January 2012 to 1 March 2012.

	3 Months to 31 Mar.2012
-No of Transactions	1,409
- No of Shares Traded	726,148
-Value of Shares Traded (Rs)	34,083,560

Sri Lanka Telecom PLC and its Subsidiaries

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Quarterly Interim Financial Report as of 31 March 2012

Notes to the Financial Statements

1. Accounting Policies

These Financial Statements are in compliance with Sri Lanka Accounting Standards 35- Interim Financial Reporting.

The Company and Group have adopted consistent accounting policies as disclosed in the Annual Report for the year ended 31 December 2011.

2. Telecommunication Development Charge (TDC)

In accordance with the Finance Act. No. 11 of 2004, with effect from 03rd March, 2003, all Telecommunication Gateway Operators are required to make a payment defined as the Telecommunication Development Charge (TDC) to the Government of Sri Lanka, based on international call minutes terminated in the country. This also included a disbursement process through which 2/3rd of TDC payment made by the operators would be disbursed to the operators by the Government based on the rural developments made by them.

Through a Gazette Notification No. 1662/1 issued on 12th July, 2010 a revision of the per minute rate of TDC was declared, while imposing a new rate of USD 0.015 with effect from 15th July, 2010. Along with the review the government also took measures to remove the disbursement process from the TDC payment process which had lasted since 2003.

The total amount of the levy payable by the Group and Company for the period from 1 st January 2011 to 31 March was estimated at Rs 558 million (2011-Rs 258 million) and Rs 417 million (2011- Rs 198 million) respectively and has been recognized as expenses in the current financial year. The corresponding liability, net of payments, has been recognised in the balance sheet.

The claims corresponding to the periods from 01st April, 2008 to 31st March, 2009 which have already been submitted to Telecommunication Regulatory Commission (TRC) are still pending. The claims for the period from 01st April, 2009 up to 14th July, 2010 are yet to be submitted to TRC and awaiting guidelines from TRC for the submission.

3. Investment in Subsidiaries

A fresh capital infusion of Rs 1,138,000,000 was made in Mobitel (Private) Limited a fully owned subsidiary of SLT to purchase 113,800,000 Ordinary shares of Rs.10/- each during the year.

4. Dividends on Cumulative redeemable preference shares

Sky Network (Private) Limited has issued 6,000,000 12% Cumulative redeemable preference shares of Rs.10/-each and preference dividends of Rs 26 million has not been recognized in the Financial Statements as at 31 March 2012.

5. Contingent Liabilities.

There has not been a significant change in the nature of the contingent liabilities, which were disclosed in the Annual Report for the year ended 31 December 2011, except followings;

(a) Global Electroteks Limited has initiated legal action under High Court Case No. 20/2006 claiming damages of USD 12 million from SLT PLC for unlawful disconnection of interconnection services. The Trial is proceeding.

(b) Just In Time Holdings (Pvt.) Ltd (JIT) is claiming USD 4,738,846.57, as payments due to them from SLT under the contract with damages. Proceedings are concluded and award was delivered in favour of JIT on 30 March 2012 with damages, costs and legal interest. SLT has received legal advice that it has sufficient legal grounds to challenge the arbitral award including damages, costs and legal interest under the award. SLT is proceeding with an appeal against the award delivered based on these substantial legal arguments.

(c) Directories Lanka (Private) Limited (DLPL) filed case No. 2/2006 (3) in Commercial High Court against SLT PLC claiming Rs 250 million, damages for purported unfair competition with regard to Artwork on the cover page of SLT Directory Publication. Order delivered on 23 April .2010 dismissing the claim lodged by Directories Lanka (Private) Limited and DLPL had appealed against the said order Appeal is pending.

Notes to the Financial Statements (Contd.)

5. Contingent Liabilities. (contd.)

(d) Rates and Taxes-DSP/00111/08, Application against the unreasonable increase of Assessment Tax of SLT Headquarters, to Rs. 8,452,500.00 per Quarter from the year 2006. Legal action filed by SLT against Colombo Municipal Council, against the arbitrary increase of assessment value of head quarters premises from 84 million to 96 million. The quarterly assessment tax increase from 2006 was Rs 7,350,000.00 to Rs 8,452,500.00.
The case is proceeding.

(e) WP/HCCA/COL/106/LA -Appeal made by Colombo Municipal Council against the stay order granted in favor of SLT precluding CMC levying the aforementioned Assessment taxes from SLT is pending in Court.

(f) Case no. 4055/M in District Court Gampaha is filed for failure to reconnect the respective telephone facility . The trial is proceeding.(based on the opinion received from lawyers,it is noted that estimation of outflow may not applicable

(g) A license fee amounting to Rs. 300 Mn, payable to TRC by Sky Networks (Pvt) Ltd which has not been recognised,pending final negotiation with the TRC regarding license conditions.

(h) case no 506/2011 MR filed by H/S Communication Limited against SLT and SLT Visioncom (Private) Limited seeking stay order against airing of certain channels by SLT amounting to Rs 60 million.

6) New Accounting Standards effective from 01st January 2012

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued a new volume of Sri Lanka Accounting Standards -2011, applicable for financial periods beginning on or after 1st January 2012. These Standards have many changes and consequential changes. The new Accounting Standards are prefixed both SLFRS and LKAS which correspond to the relevant IFRS and IAS.

On 2nd March 2012, (CA Sri Lanka) issued a ruling on the comparative figures in the Interim Financial Statements. As per the ruling, one of the options is to prepare the interim financial statements in accordance with Sri Lanka Accounting Standards existed immediately prior to 1st January 2012 (SLASs), with disclosures on impact to the statement of comprehensive income for the period and net assets based on SLFRS/LKAS. If determination of that impact is impracticable, an entity shall disclose that fact.

Accordingly, Quarterly Interim Financial Report as of 31 March 2012 has been prepared in accordance with Sri Lanka Accounting Standards existed immediately prior to 1st January 2012. However, impact to the Statement of Comprehensive Income for the period and net assets based on SLFRS/LKAS has not been disclosed as the entity is still in the process of quantifying the impact.

Annual Financial Statements for the year ending 31st December 2012 will be prepared, based on full Sri Lanka Accounting Standards (SLFRS / LKAS).

7. Events after the Balance sheet date

No material events have arisen since Balance Sheet date which would require adjustments to, or disclosure in the Financial Statements.

Sri Lanka Telecom PLC and its Subsidiaries
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1) Top 20 ShareHolders

<u>Name & Address</u>	<u>Share Holding</u>	<u>Percentage</u>
1 Secretary to the Treasury	893,405,709	49.50
2 Global Telecommunications Holdings NV	811,757,869	44.98
3 Employees Provident Fund	20,942,989	1.16
4 Sri Lanka Insurance Corporation Ltd-Life Fund	17,713,735	0.98
5 Bank of Ceylon A/C Ceybank Unit Trust.	13,712,750	0.76
6 National Savings Bank	13,158,700	0.73
7 Employees Trust Fund Board	3,302,188	0.18
8 Sri Lanka Insurance Corporation Ltd-General Fund	3,032,200	0.17
9 Deutsche Bank AG-London	1,200,000	0.07
10 Bank of Ceylon A/C Ceybank Century Growth Fund	1,032,200	0.06
11 Associated Electrical Corp. Ltd	934,700	0.05
12 The Incorporated Trustees of the Church of Ceylon	414,100	0.02
13 Ellawala Exports (Pvt) Ltd	396,100	0.02
14 Union Assurance PLC/No -01 a/c	288,200	0.02
15 E.W.Balasuriya & Co (Pvt) Ltd	272,200	0.02
16 Mr C.K.Vandrevala /Mrs P Hiranandani	231,500	0.01
17 Bank of Ceylon No 1 Account	214,000	0.01
18 Mr H. Tanaka	175,000	0.01
19 Mrs. U.S.N. Edirisinghe	170,000	0.01
20 Ceylon Biscuits Limited	162,800	0.01
	1,782,516,940	98.76

(2) Percentage of Public Holding as at 31 March 2012 5.52%

(3) Directors' Holding & Chief Executive Officer's holding in shares of the equity - None of the Directors and the CEO held shares of the Company

(4) Number of Shares representing the Entity's stated capital - 1,804,860,000 Ordinary Shares issued at Rs 10 per share