

Sri Lanka Telecom PLC and its Subsidiaries

Registration No. - PQ 7

Interim Financial Report 3 rd 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 30 September 2012

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group July-Sep			Company July-Sep			Group Jan-Sep			Company Jan-Sep		
	2012	2011	change %	2012	2011	change %	2012	2011	change %	2012	2011	change %
Revenue	14,574	12,620	15	8,672	8,123	7	42,072	37,473	12.3	25,822	24,111	7.1
Operating costs	(9,883)	(8,264)	20	(6,106)	(5,438)	12	(27,942)	(24,360)	14.7	(17,819)	(15,837)	12.5
Operating profit before depreciation and Amortization	4,691	4,356	8	2,566	2,685	(4)	14,130	13,113	7.8	8,003	8,274	(3.3)
Depreciation	(2,825)	(2,838)	(0)	(1,618)	(1,765)	(8)	(8,612)	(8,444)	2.0	(5,016)	(5,330)	(5.9)
Amortisation and impairment of intangible assets	(212)	(123)	72	(124)	(56)	121	(506)	(351)	44.2	(245)	(167)	46.7
Operating profit	1,654	1,395	19	824	864	(5)	5,012	4,318	16.1	2,742	2,777	(1.3)
Refund of Telecommunication -Development Charge(TDC)	-	-		-	-		309	-		309	-	
Dividend received	-	-		6	225	(97)	-	-		6	225	(97.3)
Other income	107	113	(5)	94	91	3	199	273	(27.1)	175	240	(27.1)
Interest expenses	(251)	(123)	104	(125)	(6)	1983	(768)	(387)	98.4	(408)	(18)	2,166.7
Foreign exchange (loss) / Gain	441	(16)	(2856)	(8)	(16)	(50)	(1,466)	70	(2,194.3)	76	(60)	(226.7)
Interest income	299	191	57	236	182	30	1,011	548	84.5	858	529	62.2
Profit before tax	2,250	1,560	44	1,027	1,340	(23)	4,297	4,822	(10.9)	3,758	3,693	1.8
Taxation	(449)	(502)	(11)	(276)	(386)	(28)	(1,435)	(1,327)	8.1	(963)	(983)	(2.0)
Net profit for the period	1,801	1,058	70	751	954	(21)	2,862	3,495	(18.1)	2,795	2,710	3.1
Attributable to :												
Equity holders of the company	1,801	1,058	70	751	954	(21)	2,862	3,495	(18.1)	2,795	2,710	3.1
Earnings per share (Rs)												
-Basic	1.00	0.59	70	0.42	0.53	(21)	1.59	1.94	(18.1)	1.55	1.50	3.1
-Annualized	3.99	2.34	70	1.66	2.11	(21)	2.11	2.58	(18.1)	2.06	2.00	3.1

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 30 September 2012

Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 30 Sep 2012	Audited as at 31 Dec 2011	Un-Audited as at 30 Sep 2012	Audited as at 31 Dec 2011
Assets				
Non-Current Assets				
Property, plant and equipment	69,516	67,936	39,447	36,754
Intangible assets	2,552	1,702	1,356	470
Financial prepayment	298	363	-	-
Investments in subsidiaries	-	-	14,569	13,431
Long term investments	101	697	101	697
Deferred income tax Assets	19	18	-	-
Non-current receivables	2,580	2,316	2,580	2,316
	75,066	73,032	58,053	53,668
Current Assets				
Inventories	2,147	1,741	1,963	1,465
Trade and other receivables	11,114	9,892	11,110	10,144
Current tax receivables	28	274	-	159
Short term investments	9,361	3,727	9,013	2,888
Cash and cash equivalents	4,978	8,137	2,602	7,093
	27,628	23,771	24,688	21,749
Total Assets	102,694	96,803	82,741	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	420	387	420	387
Exchange equalisation reserve	5	1	-	-
Retained earnings	36,478	35,153	35,982	34,724
	54,952	53,590	54,451	53,160
Minority interest in equity	0	0	-	-
Total Equity	54,952	53,590	54,451	53,160
Non Current Liabilities				
Grants	36	41	36	41
Borrowings	12,604	9,229	6,268	2,019
Deferred income	3,206	3,694	3,104	3,462
Deferred income tax liabilities	570	451	561	442
Retirement benefit obligation	2,374	2,090	2,211	1,936
Trade and other payables	3,061	3,778	246	284
	21,851	19,283	12,426	8,184
Current Liabilities				
Trade and other payables	16,558	16,067	12,245	12,221
Current tax liabilities	689	237	327	-
Borrowings	6,067	5,325	2,324	913
Deferred income	2,577	2,301	968	939
	25,891	23,930	15,864	14,073
Total Equity and Liabilities	102,694	96,803	82,741	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
Shiron Gooneratne
 Chief Financial Officer
 09-Nov-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 09 November 2012.

Signed on behalf of the Board.

Signed
Nimal Welgama
 Chairman
 09-Nov-2012

Signed
Jayantha Dharmadasa
 Director
 09-Nov-2012

Sri Lanka Telecom PLC and its Subsidiaries
 Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2012

Statement of Changes in Equity - 1 January 2011 to 30 September 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						
-Charged to income statement		35				35
-Transferred to insurance reserve		4		(4)		-
Effect of movement in foreign exchange rates			4			4
Dividend in respect of 2010				(1,083)		(1,083)
Net profit for the period				3,495	-	3,495
Balance as at 30 September 2011	18,049	383	(3)	33,871	0	52,300
Balance as at October 2011	18,049	383	(3)	33,871	0	52,300
Insurance reserve						-
-Charged to income statement		-				-
-Transferred to insurance reserve		4		(4)		-
Effect of movement in foreign exchange rates			4			4
Net Profit for the period				1,286		1,286
Balance as at 31 December 2011	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		30				30
-Transferred to insurance reserve		3		(3)		-
Effect on movement in foreign exchange rates			4			4
Dividend in respect of 2011				(1,534)		(1,534)
Net profit for the period				2,862	0	2,862
Balance as at 30 September 2012	18,049	420	5	36,478	0	54,952

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Statement of Changes in Equity - 1 January 2011 to 30 September 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		35		35
-Transferred to insurance reserve		4	(4)	
Dividend in respect of 2010			(1,083)	(1,083)
Net profit for the period			2,710	2,710
Balance as at 30 September 2011	18,049	383	33,876	52,308
Balance as at October 2011	18,049	383	33,876	52,308
-Charged to income statement		-		-
-Transferred to insurance reserve		4	(4)	-
Net profit for the period			852	852
Balance as at 31 December 2011	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		30		30
-Transferred to insurance reserve		3	(3)	-
Dividend in respect of 2011			(1,534)	(1,534)
Net profit for the period			2,795	2,795
Balance as at 30 September 2012	18,049	420	35,982	54,451

Sri Lanka Telecom PLC and its Subsidiaries
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Consolidated Cash Flow Statement for the 9 months ended 30 September

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2012	2011	2012	2011
Operating activities				
Cash generated from operations	12,467	15,639	7,096	9,055
Interest received	985	551	832	532
Interest paid	(947)	(474)	(385)	(105)
Tax paid	(619)	(782)	(358)	(369)
Gratuity paid	(50)	(37)	(40)	(35)
Net cash generated from operating activities	11,836	14,897	7,145	9,078
Investing activities				
Acquisition of property, plant and equipment	(10,323)	(10,987)	(7,832)	(5,284)
Acquisition of intangible assets	(1,293)	(634)	(1,131)	(131)
Proceeds from disposal of property, plant and equipment	72	44	72	44
Proceeds /(Purchase) of short term investments	(4,393)	(1,574)	(5,123)	(1,487)
Proceeds /(Purchase) of long term investments	332	(341)	332	(388)
Investments in subsidiaries	-	-	(1,138)	(1,000)
Net cash used in investing activities	(15,605)	(13,492)	(14,820)	(8,246)
Financing activities				
Proceeds from borrowings	8,649	3,708	6,992	2,498
Finance lease principal re-payments	(36)	(28)	(29)	(28)
Re-Payment on borrowings	(6,091)	(1,678)	(2,240)	-
Dividend paid to the company's share holders	(1,534)	(1,083)	(1,534)	(1,083)
Net cash generated/(used) in financing activities	988	919	3,189	1,387
Increase/(Decrease) in cash and cash equivalents	(2,781)	2,324	(4,486)	2,219
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	224	12	224	12
	7,399	4,180	7,088	4,145
Increase/(Decrease) in cash and cash equivalents	(2,781)	2,324	(4,486)	2,219
Cash and cash equivalents at 30 September	4,618	6,504	2,602	6,364

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Quarterly Interim Financial Report as of 30 September 2012

Segmental Reporting -for the 9 months ended 30 September 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	11,295	7,204	13,722	13,303	45,524
Inter Segment Revenue	(291)	(277)	(203)	(2,681)	(3,452)
Revenue from external customers	11,004	6,927	13,519	10,622	42,072
Segment results / operating profits	957	621	1,611	1,823	5,012
Refund of Telecommunication -Development Charge(TDC)					309
Other Income					199
Interest expenses					(768)
Foreign exchange (loss) / Gain					(1,466)
Interest income					1,011
Profit before tax					4,297
Taxation					(1,435)
Net Profit for the period					2,862

Segmental Reporting -for the 9 months ended 30 September 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	11,937	5,750	12,728	10,671	41,086
Inter Segment Revenue	(327)	(609)	(214)	(2,463)	(3,613)
Revenue from external Customers	11,610	5,141	12,514	8,208	37,473
Segment results / operating profits	982	481	1,499	1,356	4,318
Other Income					273
Refund of Telecommunication -Development Charge(TDC)					-
Interest expenses					(387)
Foreign exchange (loss) / Gain					70
Interest income					548
Profit before tax					4,822
Taxation					(1,327)
Net Profit for the period					3,495

Sri Lanka Telecom PLC and its Subsidiaries

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Quarterly Interim Financial Report as of 30 September 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. 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.

3. 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 30 million has not been recognized in the Financial Statements as at 30 September 2012.

4. 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.

(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 was filed against SLT for alleged failure to reconnect the respective telephone facility. On the last day of Trial (13 September 2012) when the Case came up for trial, Plaintiff was not present in the Court and the Case was dismissed accordingly.

(g) case no 506/2011 MR filed by H/S Communication Limited against SLT and SLT Vision Com (Private) Limited claiming US\$ 486,000 from SLT and SLT Vision Com (Pvt) Ltd., in respect of purported services provided by H/S Communication.

Application for injunction seeking to prohibit airing certain channels was withdrawn by HS Communication Ltd.

Notes to the Financial Statements (Contd.)

5) 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 30 September 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).

6). 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.

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Investor Information

Ratios

	Group		Company	
	30 Sep 2012	31 Dec. 2011	30 Sep 2012	31 Dec. 2011
Net assets value per share (Rs)	30.45	29.69	30.17	29.45
Gearing ratio -Number of times	0.25	0.21	0.14	0.05
Quick asset ratio - Number of times	0.98	0.92	1.43	1.44

	For the 9 months ended		For the 9 months ended	
	30 Sep 2012	30 Sep 2011	30 Sep 2012	30 Sep 2011
Interest cover - Number of times	6.60	13.46	10.21	206.17

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 Sep 2012	3 Months to 30 Sep 2011
-Highest	49.40	61.00
-Lowest	35.20	47.70
-Last Traded price	44.40	49.00

Dividend Payment

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

Share trading from 1 July 2012 to 30 September 2012.

	3 Months to 30 Sep 2012
-No of Transactions	1,655
- No of Shares Traded	892,019
-Value of Shares Traded (Rs)	38,024,189

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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.	14,403,316	0.80
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	1,024,500	0.06
12 The Incorporated Trustees of the Church of Ceylon	414,100	0.02
13 Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	395,886	0.02
14 Union Assurance PLC/No -01 a/c	288,200	0.02
15 E.W.Balasuriya & Co (Pvt) Ltd	265,839	0.01
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

(2) Percentage of Public Holding as at 30 September 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