

Sri Lanka Telecom PLC

and its Subsidiaries

Registration No - PQ 7

Interim Financial Report

For the 3 months ended 31 March 2011

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 PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 March 2011

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company		
	Jan- Mar		change	Jan- Mar		change
	2011	2010	%	2011	2010	%
Revenue	12,410	12,208	2	8,019	8,168	(2)
Operating costs	(7,911)	(8,025)	(1)	(5,114)	(5,533)	(8)
Operating profit before depreciation and Amortization	4,499	4,183	8	2,905	2,635	10
Depreciation	(2,760)	(2,811)	(2)	(1,760)	(1,841)	(4)
Amortisation and impairment of intangible assets	(113)	(141)	(20)	(56)	(68)	(18)
Operating profit	1,626	1,231	32	1,089	726	50
Voluntary Retirement Scheme (VRS)		(188)	(100)		(188)	(100)
Other income	67	64	5	64	57	12
Interest expenses and finance cost	(154)	(299)	(48)	(31)	(91)	(66)
Interest income	176	135	30	174	128	36
Profit before tax	1,715	943	82	1,296	632	105
Taxation	(420)	(339)	24	(307)	(222)	38
Net profit for the period	1,295	604	114	989	410	141
Attributable to :						
Equity holders of the company	1,295	604	114	989	410	141
Minority interest	-	-		-	-	
	1,295	604	114	989	410	141
Earnings per share (Rs)						
-Basic	0.72	0.33	114	0.55	0.23	141
-Annualized	2.87	1.34	114	2.19	0.91	141

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 2011

Consolidated Balance Sheet
(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 31 March 2011	Audited as at 31 Dec 2010	Un-Audited as at 31 March 2011	Audited as at 31 Dec 2010
Assets				
Non-Current Assets				
Property, plant and equipment	61,993	61,258	34,430	34,075
Intangible assets	1,553	1,585	523	570
Financial prepayment	258	272	-	-
Investments in subsidiaries	-	-	11,522	11,522
Long term investments	720	673	720	626
Deferred income tax Assets	14	13	-	-
Non-current receivables	2,086	1,991	2,086	1,991
	66,624	65,792	49,281	48,784
Current Assets				
Inventories	1,363	1,281	1,239	1,158
Trade and other receivables	10,699	11,053	10,441	10,494
Current tax receivables	57	457	46	446
Short term investments	4,055	3,617	3,933	3,487
Cash and cash equivalents	4,838	4,830	4,279	4,133
	21,012	21,238	19,938	19,718
Total Assets	87,636	87,030	69,219	68,502
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	370	344	370	344
Exchange equalisation reserve	(4)	(7)	-	-
Retained earnings	31,673	31,463	32,157	32,253
	50,088	49,849	50,576	50,646
Minority interest in equity	0	-	0	-
Total Equity	50,088	49,849	50,576	50,646
Non Current Liabilities				
Grants	86	91	46	48
Borrowings	5,247	5,380	74	72
Deferred income	3,826	3,965	3,826	3,965
Deferred income tax liabilities	130	248	130	248
Retirement benefit obligation	1,877	1,796	1,743	1,664
Trade and other payables	1,528	1,659	288	289
	12,694	13,139	6,107	6,286
Current Liabilities				
Trade and other payables	19,735	18,848	11,477	10,550
Current tax liabilities	299	287	-	-
Borrowings	2,776	2,970	28	28
Deferred income	2,044	1,937	1,031	992
	24,854	24,042	12,536	11,570
Total Equity and Liabilities	87,636	87,030	69,219	68,502

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

Shiron Gooneratne
Chief Financial Officer

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 May 2011.

Signed on behalf of the Board.

Sgd.
Nimal Welgama
Chairman

Sgd.
D. Widanagamachchi
Director

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 March 2011

Statement of Changes in Equity - 1 Jan 2010 to 31 March 2011

(All amounts in LKR Millions)

Group

	Stated Capital	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Minority Interest	Total Equity
Balance as at 1 January 2010						
As previously reported	18,049	281	(6)	28,275	0	46,599
-Effect of adopting SLAS 16 (Revised 2005)				(111)		(111)
-Effect of adopting SLAS 14 (Revised 2005)				(159)		(159)
-Effect of adopting SLAS 10 (Revised 2005)				(18)		(18)
Restated balance as at 1 January 2010	18,049	281	(6)	27,987	0	46,311
Insurance reserve						0
-Charged to income statement		41				41
Effect of movement in foreign exchange rates			1			1
Net Profit for the period				604	-	604
Restated balance as at 31 March 2010	18,049	322	(5)	28,591	0	46,957
Insurance reserve						-
-Charged to income statement		6				6
-Transferred to insurance reserve		16		(16)		-
Effect of movement in foreign exchange rates			(2)			(2)
Dividend in respect of 2009				(451)		(451)
Net Profit for the period				3,339	0	3,339
Balance as at 31 December 2010	18,049	344	(7)	31,463	0	49,849
Balance as at 1 January 2011	18,049	344	(7)	31,463	0	49,849
Insurance reserve						-
-Charged to income statement		24				24
-Transferred to insurance reserve		2		(2)		-
Effect on movement in foreign exchange rates			3			3
Dividend in respect of 2010				(1,083)		(1,083)
Net Profit for the period				1,295	0	1,295
Balance as at 31 March 2011	18,049	370	(4)	31,673	0	50,088

Sri Lanka Telecom PLC & its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 March 2011

Statement of Changes in Equity - 1 Jan 2010 to 31 March 2011

(All amounts in LKR Millions)

Company

Stated Capital	Insurance Reserve	Retained Earnings	Total
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Balance as at 1 January 2010

As previously reported	18,049	281	30,512	48,842
-Effect of adopting SLAS 16 (Revised 2005)			(111)	(111)
-Effect of adopting SLAS 14 (Revised 2005)			(159)	(159)

Restated balance as at 1 January 2010	18,049	281	30,242	48,572
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Insurance reserve				-
-Charged to income statement		41		41
Net Profit for the period			410	410

Restated balance as at 31 March 2010	18,049	322	30,652	49,023
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Insurance reserve				
-Charged to income statement		6		6
-Transferred to insurance reserve		16	(16)	-
Dividend in respect of 2009			(451)	(451)
Net Profit for the period			2,068	2,068

Balance as at 31 December 2010	18,049	344	32,253	50,646
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Balance as at 1 January 2011	18,049	344	32,253	50,646
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Insurance reserve				
-Charged to income statement		24		24
-Transferred to insurance reserve		2	(2)	0
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
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Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 March 2011

Consolidated Cash Flow Statement for the 3 months ended 31 March

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2011	2010	2011	2010
Operating activities				
Cash generated from operations	4,775	4,253	2,936	1,974
Interest received	182	265	181	257
Interest paid	(228)	(268)	(59)	(60)
Tax paid	(127)	(108)	(30)	(30)
Gratuity paid	(18)	(9)	(17)	(9)
Net cash generated from operating activities	4,584	4,133	3,011	2,132
Investing activities				
Acquisition of property, plant and equipment	(3,550)	(1,021)	(2,170)	(508)
Acquisition of intangible assets	(67)	(368)	(9)	(361)
Proceeds from disposal of property, plant and equipment	-	9	-	9
Sale /(Purchase) of short term investments	(468)	(1,100)	(477)	(1,230)
Sale /(Purchase) of long term investments	(142)	15	(189)	(32)
Investments in subsidiaries	-	-	-	(205)
Net cash (used)/generated in investing activities	(4,227)	(2,465)	(2,845)	(2,327)
Financing activities				
Proceeds from borrowings	207	1,467	-	1,000
Finance lease principal re-payments	(13)	(7)	(11)	(7)
Re-Payment on borrowings	(787)	(767)	-	(309)
Net cash used in financing activities	(593)	693	(11)	684
Increase/(Decrease) in cash and cash equivalents	(236)	2,361	155	489
Movement in Cash and cash equivalents				
Cash and cash equivalents at beginning of the year	4,168	854	4,133	2,630
Effect on exchange fluctuation on cash and cash equivalents	(9)	(14)	(9)	(14)
	4,159	840	4,124	2,616
Increase/(Decrease) in cash and cash equivalents	(236)	2,361	155	489
Cash and cash equivalents at 31 March	3,923	3,201	4,279	3,105

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Quarterly Interim Financial Report as of 31 March 2011

Segmental Reporting -for the 3 months ended 31 March 2011

(All amounts in LKR Millions)

Primary Segment - Business Segments

	Fixed	ONO	Mobile	Other	Total
Revenue					
Total Segment Revenue	3,725	2,573	3,847	3,452	13,597
Inter Segment Revenue		(415)	(7)	(765)	(1,187)
Revenue from external customers	3,725	2,158	3,840	2,687	12,410
Segment results / operating profits	428	74	550	574	1,626
Other Operating Income					67
Interest expenses and finance cost					(154)
Interest income					176
Profit before tax					1,715
Taxation					(420)
Net Profit for the period					1,295

Segmental Reporting -for the 3 months ended 31 March 2010

(All amounts in LKR Millions)

Primary Segment - Business Segments

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

Note-

Fixed	Fixed telephony operations including CDMA
ONO	Other Networks Operations
Mobile	Mobile telephony operations
Other	Other value added services

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Investor Information

Ratios

	Group		Company	
	31 Mar. 2010	31 Dec. 2010	31 Mar. 2010	31 Dec. 2010
Net assets value per Share (Rs)	27.75	27.62	28.02	28.06
Gearing ratio -Number of times	0.14	0.14	0.00	0.00
Quick asset ratio - Number of times	0.79	0.83	1.49	1.60
	For the 3 months ended		For the 3 months ended	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Interest cover - Number of times	12.14	4.15	42.81	7.95

Market Value of Shares

**Market Value of the Ordinary
Shares of the Company (Rs)**

	3 Months to 31 Mar 2011	3 Months to 31 Mar 2010
-Highest	64.50	46.50
-Lowest	47.00	36.00
-Last Traded price	57.00	36.25

Dividend Payment

Share trading from 1 Januaryr 2010 to 31 March 2011

	3 Months to 31 Mar 2011
-No of Transactions	648
- No of Shares Traded	828,702
-Value of Shares Traded (Rs)	46,544,678

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 2010.

2. International Telecommunication Operators' Levy (ITL)

In terms of the Finance Act No. 11 of 2004, International Telecommunications Operators were required to make a contribution to the Government of Sri Lanka at the rate of US\$ 0.038 per international incoming traffic minute with effective from 3 March 2003. However as per the gazette notification No 1662/1 of 12 July 2010, Telecommunication Development Charge (TDC) rate has been revised from US\$ 0.038 to US\$ 0.015 per minute with effect from 15 July 2010. Further with the new rate of TDC, the disbursement process (2/3 of TDC) what has been established through the Finance Act No. 11 of 2004 has been removed from the TDC settlement process effective from 15 July 2010.

The total amount of the levy payable by the Group and Company for the period from 1 January 2011 to 31 March 2011 was estimated at Rs 258 million (2010-Rs 666 million) and Rs 198 million (2010- Rs 472 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, 2006 to 31st March, 2009 which have already been submitted to TRC are still due to SLT. The claims for the period from 01st April, 2009 up to 14th July, 2010 are yet to be submitted to TRC.

3. Dividends on Cumulative redeemable preference shares

Mobitel has issued 175,000,000 12% and 200,000,000 14% Cumulative redeemable preference shares of Rs.10/- each and Sky Network (Private) Limited also has issued 6,000,000 12% Cumulative redeemable preference shares of Rs.10/-each. The estimated balance dividends of Rs 1,249 mn and Rs 18 mn from Mobitel and Sky Network (Private) Limited respectively , has not been recognized in the Financial Statements as at 31 March 2011.

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 2010, except followings;

(a) IPTV case

Just In Time Holdings (Pvt.) Ltd (JIT) is claiming USD 4,738,846.57, as payments due to them from SLT under the contract. SLT has lodged a counterclaim of Rs. 437,970,137.00 under its statements of Defense. Claimants cross examination concluded and SLT is required to start its case. Next Dates 30 May 2011 and 01 June 2011.

(b) Rates & Taxes

Application against the unreasonable increase of Assessment Tax of SLT Headquarters, to Rs. 8,452,500.00 per Quarter from the year 2006.SLT substituted Special Commissioner in place of dissolved Colombo Municipal Council. SLT to the amended plaint on 12 May 2011.

(c) Case filed by Global Electrotecks

Global Electrotecks Ltd filed Case no 20/2006 in Commercial High Court Colombo against SLT claiming damages of US\$ 12 million for alleged unlawful termination of interconnection service provided to them. Trial on 26 May 2011.

5. 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.

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	18,891,689	1.05
4 Sri Lanka Insurance Corporation Ltd-Life Fund	17,713,735	0.98
5 National Savings Bank	13,158,700	0.73
6 Bank of Ceylon A/C Ceybank Unit Trust.	10,923,600	0.61
7 Employees Trust Fund Board	3,302,188	0.18
8 Sri Lanka Insurance Corporation Ltd-General Fund	3,164,200	0.18
9 Associated Electrical Corp. Ltd	1,565,800	0.09
10 Deutsche Bank AG-London	1,200,000	0.07
11 Bank of Ceylon A/C Ceybank Century Growth Fund	988,900	0.05
12 Ellawala Exports (Pvt) Ltd	500,000	0.03
13 Union Assurance PLC 01A/C	488,200	0.03
14 The Incorporated Trustees of the Church of Ceylon	414,100	0.02
15 Mr M.R.S.Samaravijaya	410,000	0.02
16 HSBC Intl Nom Ltd-HSBC Fund Services A/C 006-JF Asia New Forntiers Fund	314,200	0.02
17 The Ceylon Chamber of Commerce Account No. 02	290,400	0.02
18 E.W. Balasuriya & Co (Pvt) Ltd	272,200	0.02
19 Seylan Bank PLC A/C NO 3	250,000	0.01
20 Mr C.K.Vandrrvala /Mrs P Hiranandani	231,500	0.01
	<u>1,779,242,990</u>	<u>98.58</u>

(2) Percentage of Public Holding as at 31 March 2011 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