

Sri Lanka Telecom PLC and its Subsidiaries

Registration No. - PQ 7

Interim Financial Report 4th Quarter 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

One Country. One Voice.

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

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company			Group			Company		
	Oct.-Dec.		change	Oct.-Dec.		change	Jan.- Dec.		change	Jan.- Dec.		change
	2011	2010	%	2011	2010	%	2011	2010	%	2011	2010	%
Revenue	13,467	12,913	4	8,180	8,336	(2)	50,950	50,250	1	32,291	33,311	(3)
Operating costs	(9,427)	(8,857)	6	(6,358)	(5,968)	7	(33,788)	(33,527)	1	(22,195)	(23,313)	(5)
Operating profit before depreciation and Amortization	4,040	4,056	(0)	1,822	2,368	(23)	17,162	16,723	3	10,096	9,998	1
Depreciation	(2,516)	(2,798)	(10)	(1,726)	(1,656)	4	(10,960)	(11,090)	(1)	(7,056)	(7,017)	1
Amortisation and impairment of intangible assets	(206)	(112)	84	(55)	(57)	(4)	(557)	(489)	14	(222)	(227)	(2)
Operating profit	1,318	1,146	15	41	655	(94)	5,645	5,144	10	2,818	2,754	2
Refund of Telecommunication -Development Charge(TDC)	553	-		360	-		553	152	264	360	152	137
Voluntary Retirement Scheme (VRS)	-	-		-	-		-	(189)		-	(189)	
Dividend received	-	-		423	-		-	-		648	26	2,392
Other income	30	1,055	(97)	13	797	(98)	294	1,232	(76)	253	943	(73)
Interest expenses and finance cost	(471)	(173)	172	3	(27)	(111)	(788)	(1,012)	(22)	(75)	(318)	(76)
Interest income	283	199	42	274	189	45	831	634	31	803	601	34
Profit before tax	1,713	2,227	(23)	1,114	1,614	(31)	6,535	5,961	10	4,807	3,969	21
Taxation	(427)	(685)	(38)	(262)	(541)	(52)	(1,754)	(2,018)	(13)	(1,245)	(1,491)	(16)
Net profit for the Year	1,286	1,542	(17)	852	1,073	(21)	4,781	3,943	21	3,562	2,478	44
Attributable to :												
Equity holders of the company	1,286	1,542	(17)	852	1,073	(21)	4,781	3,943	21	3,562	2,478	44
Minority interest	-	-		-	-		-	-		-	-	
	1,286	1,542	(17)	852	1,073	(21)	4,781	3,943	21	3,562	2,478	44
Earnings per share (Rs)												
-Basic	0.71	0.85	(17)	0.47	0.59	(21)	2.65	2.18	21	1.97	1.37	44
-Annualized	2.85	3.42	(17)	1.89	2.38	(21)	2.65	2.18	21	1.97	1.37	44

The above figures are provisional and unaudited

Sri Lanka Telecom PLC and its Subsidiaries
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Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group (Restated)		Company	
	Un-Audited as at 31 Dec 2011	Audited as at 31 Dec 2010	Un-Audited as at 31 Dec 2011	Audited as at 31 Dec 2010
Assets				
Non-Current Assets				
Property, plant and equipment	67,936	61,258	36,754	34,075
Intangible assets	1,702	1,585	470	570
Financial prepayment	363	272	-	-
Investments in subsidiaries	-	-	13,431	11,522
Long term investments	697	673	697	626
Deferred income tax Assets	18	13	-	-
Non-current receivables	2,316	1,991	2,316	1,991
	73,032	65,792	53,668	48,784
Current Assets				
Inventories	1,741	1,281	1,465	1,158
Trade and other receivables	9,892	11,053	10,144	10,494
Current tax receivables	274	457	159	446
Short term investments	3,727	3,617	2,888	3,487
Cash and cash equivalents	8,137	4,830	7,093	4,133
	23,771	21,238	21,749	19,718
Total Assets	96,803	87,030	75,417	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	387	344	387	344
Exchange equalisation reserve	1	(7)	-	-
Retained earnings	35,153	31,463	34,724	32,253
	53,590	49,849	53,160	50,646
Minority interest in equity	0	0	-	-
Total Equity	53,590	49,849	53,160	50,646
Non Current Liabilities				
Grants	41	48	41	48
Borrowings	9,229	6,774	2,019	72
Deferred income	3,694	3,965	3,462	3,965
Deferred income tax liabilities	451	248	442	248
Retirement benefit obligation	2,090	1,796	1,936	1,664
Trade and other payables	3,778	1,659	284	289
	19,283	14,490	8,184	6,286
Current Liabilities				
Trade and other payables	16,067	15,882	12,221	10,550
Current tax liabilities	237	287	-	-
Borrowings	5,325	4,542	913	28
Deferred income	2,301	1,980	939	992
	23,930	22,691	14,073	11,570
Total Equity and Liabilities	96,803	87,030	75,417	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
17 February 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 17 February 2012.

Signed on behalf of the Board.

Nimal Welgama
Chairman
17 February 2012

Jayantha Dharmadasa
Director
17 February 2012

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Statement of Changes in Equity - 1 January 2010 to 31 December 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	18,049	281	(6)	27,987	0	46,311
Insurance reserve						0
-Charged to income statement		47				47
-Transferred to insurance reserve		16		(16)		
Effect of movement in foreign exchange rates			(1)			(1)
Dividend in respect of 2009				(451)		(451)
Net Profit for the year				3,943	-	3,943
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	-	49,849
Insurance reserve						-
-Charged to income statement		35				35
-Transferred to insurance reserve		8		(8)		-
Effect on movement in foreign exchange rates			8			8
Dividend in respect of 2010				(1,083)		(1,083)
Net Profit for the year				4,781	0	4,781
Balance as at 31 December 2011	18,049	387	1	35,153	0	53,590

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Statement of Changes in Equity - 1 January 2010 to 31 December 2011

(All amounts in LKR Millions)

Company

	Stated Capital	Insurance Reserve	Retained Earnings	Total
Balance as at 1 January 2010	18,049	281	30,242	48,572
Insurance reserve				-
-Charged to income statement		47		47
-Transferred to insurance reserve		16	(16)	
Dividend in respect of 2009			(451)	(451)
Net Profit for the year			2,478	2,478
Balance as at 31 December 2010	18,049	344	32,253	50,646
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		8	(8)	-
Dividend in respect of 2010			(1,083)	(1,083)
Net Profit for the year			3,562	3,562
Balance as at 31 December 2011	18,049	387	34,724	53,160

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Consolidated Cash Flow Statement for the year ended 31 December

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2011	2010	2011	2010
Operating activities				
Cash generated from operations	21,575	16,656	13,311	11,257
Interest received	858	793	830	671
Interest paid	(446)	(838)	(17)	(345)
Tax paid	(1,423)	(1,268)	(764)	(872)
Gratuity paid	(62)	(83)	(48)	(80)
Net cash generated from operating activities	20,502	15,260	13,312	10,631
Investing activities				
Acquisition of property, plant and equipment	(17,851)	(6,472)	(9,964)	(4,822)
Acquisition of intangible assets	(804)	(208)	(122)	(113)
Proceeds from disposal of property, plant and equipment	77	129	44	87
Proceeds /(Purchase) of short term investments	(122)	(701)	587	(754)
Proceeds /(Purchase) of long term investments	(349)	(723)	(396)	(723)
Investments in subsidiaries	-	-	(2,120)	(205)
Net cash used in investing activities	(19,049)	(7,975)	(11,971)	(6,530)
Financing activities				
Proceeds from borrowings	5,891	1,723	2,498	1,000
Finance lease principal re-payments	(43)	(26)	(37)	(23)
Re-Payment on borrowings	(3,223)	(5,211)	-	(3,118)
Dividend paid to the company's share holders	(1,083)	(451)	(1,083)	(451)
Net cash generated/(used) in financing activities	1,542	(3,965)	1,378	(2,592)
Increase/(Decrease) in cash and cash equivalents	2,995	3,320	2,719	1,509
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	12	(6)	12	(6)
	4,180	848	4,145	2,624
Increase/(Decrease) in cash and cash equivalents	2,995	3,320	2,719	1,509
Cash and cash equivalents at 31 December	7,175	4,168	6,864	4,133

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Quarterly Interim Financial Report as of 31 December 2011

Segmental Reporting -for the year ended 31 December 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	15,821	7,459	17,080	15,319	55,679
Inter Segment Revenue	(430)	(719)	(280)	(3,300)	(4,729)
Revenue from external customers	15,391	6,740	16,800	12,019	50,950
Segment results / operating profits					
	1,060	571	2,428	1,586	5,645
Refund of Telecommunication -Development Charge(TDC)					553
Voluntary Retirement Scheme (VRS)					0
Other Income					294
Interest expenses and finance cost					(788)
Interest income					831
Profit before tax					6,535
Taxation					(1,754)
Net Profit for the period					4,781

Segmental Reporting -for the year ended 31 December 2010

(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	16,924	10,825	15,719	12,792	56,260
Inter Segment Revenue	(273)	(2,674)	(190)	(2,873)	(6,010)
Revenue from external Customers	16,651	8,151	15,529	9,919	50,250
Segment results / operating profits					
	838	747	2,134	1,425	5,144
Voluntary Retirement Scheme (VRS)					(189)
Other Income					1,232
Refund of Telecommunication -Development Charge(TDC)					152
Interest expenses and finance cost					(1,012)
Interest income					634
Profit before tax					5,961
Taxation					(2,018)
Net Profit for the period					3,943

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Investor Information

Ratios

	Group		Company	
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Net assets value per share (Rs)	29.69	27.62	29.45	28.06
Gearing ratio -Number of times	0.21	0.19	0.05	0.00
Quick asset ratio - Number of times	0.92	0.88	1.44	1.60
	For the year ended		For the year ended	
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Interest cover - Number of times	9.29	6.89	65.09	13.48

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 31 Dec. 2011	3 Months to 31 Dec. 2010
-Highest	52.00	51.00
-Lowest	44.00	40.10
-Last Traded price	48.00	49.00

Dividend Payment

Final dividend for the year 2010-Rs 0.60 per share paid on 4 April 2011

Share trading from 1 October 2011 to 31 December 2011

	3 Months to 31 Dec. 2011
-No of Transactions	940
- No of Shares Traded	1,081,800
-Value of Shares Traded (Rs)	53,857,770

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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. 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 1st January 2011 to 31 December 2011 was estimated at Rs 1,002 million (2010-Rs 1,928 million) and Rs 722 million (2010- Rs 1,367 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, 2007 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.

3. Investment in Subsidiaries

A fresh capital infusion of Rs 2,120,000,000 was made in Mobitel (Private) Limited a fully owned subsidiary of SLT to purchase 212,000,000 Ordinary shares of Rs.10/- each during the year.

During the year 175,000,000 12% and 200,000,000 14% cumulative and redeemable preference shares with a value of Rs 10 per share has been converted to Ordinary shares of Mobitel (Private) Limited.

4. Dividends on Cumulative redeemable preference shares

Mobitel (Private) Limited has issued 175,000,000 12% and 200,000,000 14% Cumulative redeemable preference shares of Rs.10/- each (Converted to Ordinary shares during the year) and preference dividends of Rs 1,403 million at 31 December 2011 were in arrears (2010 - Rs 1,128 million). No accrual has been made in the Company's financial statements as the Board of Directors has decided to waive off the right to receive the same.

Sky Network (Private) Limited has issued 6,000,000 12% Cumulative redeemable preference shares of Rs.10/-each and preference dividends of Rs 24 million has not been recognized in the Financial Statements as at 31 December 2011.

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 2010, 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. SLT has lodged a counterclaim of Rs. 437,970,137.00 under its statements of Defense. Proceedings are concluded and order is due.

(c) 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.

Notes to the Financial Statements (Contd.)

5. Contingent Liabilities (Contd.)

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

(e) Case no. 4055/M in District Court Gampaha is filed for failure to reconnect the respective telephone facility . The trial is proceeding.

(f) 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.

(g) 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. Comparative

The presentation and classification of following items in these financial statements are amended to ensure comparability with the current year.

As reported previously in Group Balance sheet

	Group 2010
Grants	91
Borrowings - Non Current	5,380
Borrowings - Current	2,970
Trade & Other Payable -Current	18,848
Deferred income - Current	1,937

Current Presentation Balance Sheet

Grant	a	48
Borrowings-Non current	b	6,774
Borrowings -current	c	4,542
Trade & Other Payable -Current	b & c	15,882
Deffered Income -Current	a	1,980

(a) Telecommunication Development Charges (TDC) of Rs.43 million received in previous years by Mobitel (Pvt) Ltd.,which was Included in Grants in the previous year was recognized under deferred income-current in this year for a better presentation of the financial statements.

(b) Non-current portion of vendor financing of Mobitel (Pvt) Ltd Rs.1,394 Million included in Trade & other payables (current) in previous year was recognized under Borrowings (non- current) in this year for a better presentation of the financial statements.

(c) Current portion of the above vendor financing of Mobitel (Pvt) Ltd Rs.1,572 Million included in Trade & other payables (current) in previous year was recognized under Borrowings (current) in this year for a better presentation of the financial statements.

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, except following;

Depreciation of Sri Lankan Rupees against United States Dollar

Sri Lankan Rupees which is the presentation currency for these Financial Statements materially depreciated against United States Dollar after the reporting date. Due to the above, loss on foreign exchange fluctuation is Rs.726 million.

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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.	13,246,000	0.73
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	1,027,200	0.06
11 Associated Electrical Corp. Ltd	925,100	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
	1,782,035,590	98.74

(2) Percentage of Public Holding as at 31 December 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