

Sri Lanka Telecom PLC and its Subsidiaries

Registration No. - PQ 7

Interim Financial Report 2 nd 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 June 2012

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group Apr-June			Company Apr-June			Group Jan-June			Company Jan-June		
	2012	2011	change %	2012	2011	change %	2012	2011	change %	2012	2011	change %
Revenue	13,964	12,443	12	8,562	7,969	7	27,498	24,853	11	17,150	15,988	7
Operating costs	(9,440)	(8,185)	15	(6,055)	(5,285)	15	(18,059)	(16,096)	12	(11,713)	(10,399)	13
Operating profit before depreciation and Amortization	4,524	4,258	6	2,507	2,684	(7)	9,439	8,757	8	5,437	5,589	(3)
Depreciation	(2,895)	(2,846)	2	(1,698)	(1,805)	(6)	(5,787)	(5,606)	3	(3,398)	(3,565)	(5)
Amortisation and impairment of intangible assets	(131)	(115)	14	(47)	(55)	(15)	(294)	(228)	29	(121)	(111)	9
Operating profit	1,498	1,297	15	762	824	(8)	3,358	2,923	15	1,918	1,913	0
Refund of Telecommunication -Development Charge(TDC)	-	-		-	-		309	-		309	-	
Other income	51	93	(45)	43	85	(49)	92	160	(43)	81	149	(46)
Interest expenses	(284)	(132)	115	(164)	(3)	5367	(517)	(264)	96	(283)	(12)	2,258
Foreign exchange (loss) / Gain	(472)	108	(537)	(4)	(22)	(82)	(1,907)	86	(2,317)	84	(44)	(291)
Interest income	353	181	95	315	173	82	712	357	99	622	347	79
Profit before tax	1,146	1,547	(26)	952	1,057	(10)	2,047	3,262	(37)	2,731	2,353	16
Taxation	(450)	(405)	11	(283)	(290)	(2)	(986)	(825)	20	(687)	(597)	15
Net profit for the period	696	1,142	(39)	669	767	(13)	1,061	2,437	(56)	2,044	1,756	16
Attributable to :												
Equity holders of the company	696	1,142	(39)	669	767	(13)	1,061	2,437	(56)	2,044	1,756	16
Earnings per share (Rs)												
-Basic	0.39	0.63	(39)	0.37	0.42	(13)	0.59	1.35	(56)	1.13	0.97	16
-Annualized	1.54	2.53	(39)	1.48	1.70	(13)	1.18	2.70	(56)	2.26	1.95	16

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 June 2012

Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 30 June 2012	Audited as at 31 Dec 2011	Un-Audited as at 30 June 2012	Audited as at 31 Dec 2011
Assets				
Non-Current Assets				
Property, plant and equipment	70,000	67,936	38,230	36,754
Intangible assets	1,882	1,702	634	470
Financial prepayment	323	363	-	-
Investments in subsidiaries		-	14,569	13,431
Long term investments	138	697	138	697
Deferred income tax Assets	18	18	-	-
Non-current receivables	2,469	2,316	2,469	2,316
	74,830	73,032	56,040	53,668
Current Assets				
Inventories	2,393	1,741	2,221	1,465
Trade and other receivables	11,581	9,892	10,870	10,144
Current tax receivables	61	274	-	159
Short term investments	10,768	3,727	8,594	2,888
Cash and cash equivalents	3,498	8,137	2,999	7,093
	28,301	23,771	24,684	21,749
Total Assets	103,131	96,803	80,724	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	413	387	413	387
Exchange equalisation reserve	6	1	-	-
Retained earnings	34,678	35,153	35,232	34,724
	53,146	53,590	53,694	53,160
Minority interest in equity	0	0	-	-
Total Equity	53,146	53,590	53,694	53,160
Non Current Liabilities				
Grants	38	41	38	41
Borrowings	13,430	9,229	6,467	2,019
Deferred income	3,325	3,694	3,223	3,462
Deferred income tax liabilities	483	451	474	442
Retirement benefit obligation	2,281	2,090	2,119	1,936
Trade and other payables	4,901	3,778	246	284
	24,458	19,283	12,567	8,184
Current Liabilities				
Trade and other payables	15,896	16,067	10,735	12,221
Current tax liabilities	724	237	375	-
Borrowings	6,038	5,325	2,394	913
Deferred income	2,869	2,301	959	939
	25,527	23,930	14,463	14,073
Total Equity and Liabilities	103,131	96,803	80,724	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- Aug-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 August 2012.

Signed on behalf of the Board.

Signed
Nimal Welgama
 Chairman
 09- Aug-2012

Signed
Jayantha Dharmadasa
 Director
 09- Aug-2012

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

Statement of Changes in Equity - 1 January 2011 to 30 June 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		28				28
-Transferred to insurance reserve		4		(4)		
Effect of movement in foreign exchange rates			3			3
Dividend in respect of 2010				(1,083)		(1,083)
Net profit for the period				2,437	-	2,437
Balance as at 30 June 2011	18,049	376	(4)	32,813	0	51,234
Balance as at July 2011	18,049	376	(4)	32,813	0	51,234
Insurance reserve						
-Charged to income statement		7				7
-Transferred to insurance reserve		4		(4)		-
Effect of movement in foreign exchange rates			5			5
Net Profit for the period				2,344		2,344
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		24				24
-Transferred to insurance reserve		2		(2)		-
Effect on movement in foreign exchange rates			5			5
Dividend in respect of 2011				(1,534)		(1,534)
Net profit for the period				1,061	0	1,061
Balance as at 30 June 2012	18,049	413	6	34,678	0	53,146

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Statement of Changes in Equity - 1 January 2011 to 30 June 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		28		28
-Transferred to insurance reserve		4	(4)	
Dividend in respect of 2010			(1,083)	(1,083)
Net profit for the period			1,756	1,756
Balance as at 30 June 2011	18,049	376	32,922	51,347
Balance as at July 2011	18,049	376	32,922	51,347
-Charged to income statement		7		7
-Transferred to insurance reserve		4	(4)	-
Net profit for the period			1,806	1,806
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		24		24
-Transferred to insurance reserve		2	(2)	-
Dividend in respect of 2011			(1,534)	(1,534)
Net profit for the period			2,044	2,044
Balance as at 30 June 2012	18,049	413	35,232	53,694

Sri Lanka Telecom PLC and its Subsidiaries
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Quarterly Interim Financial Report as of 30 June 2012

Consolidated Cash Flow Statement for the 6 months ended 30 June

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2012	2011	2012	2011
Operating activities				
Cash generated from operations	7,948	8,741	2,899	5,966
Interest received	704	324	614	314
Interest paid	(471)	(335)	(260)	(83)
Tax paid	(254)	(279)	(120)	(71)
Gratuity paid	(31)	(28)	(27)	(27)
Net cash generated from operating activities	7,896	8,423	3,106	6,099
Investing activities				
Acquisition of property, plant and equipment	(7,920)	(6,773)	(4,943)	(3,956)
Acquisition of intangible assets	(436)	(246)	(285)	(87)
Proceeds from disposal of property, plant and equipment	18	-	18	-
Proceeds /(Purchase) of short term investments	(5,446)	(770)	(4,365)	(749)
Proceeds /(Purchase) of long term investments	406	(216)	406	(263)
Investments in subsidiaries		-	(1,138)	-
Net cash used in investing activities	(13,378)	(8,005)	(10,307)	(5,055)
Financing activities				
Proceeds from borrowings	6,374	720	5,992	-
Finance lease principal re-payments	(22)	(22)	(20)	(19)
Re-Payment on borrowings	(3,445)	(826)	(1,241)	-
Dividend paid to the company's share holders	(1,534)	(1,083)	(1,534)	(1,083)
Net cash generated/(used) in financing activities	1,373	(1,211)	3,197	(1,102)
Increase/(Decrease) in cash and cash equivalents	(4,109)	(793)	(4,004)	(58)
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	139	(9)	139	(9)
	7,314	4,159	7,003	4,124
Increase/(Decrease) in cash and cash equivalents	(4,109)	(793)	(4,004)	(58)
Cash and cash equivalents at 30 June	3,205	3,366	2,999	4,066

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Quarterly Interim Financial Report as of 30 June 2012

Segmental Reporting -for the 6 months ended 30 June 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	7,543	4,818	9,047	8,411	29,819
Inter Segment Revenue	(196)	(204)	(134)	(1,787)	(2,321)
Revenue from external customers	7,347	4,614	8,913	6,624	27,498
Segment results / operating profits	674	431	1,095	1,158	3,358
Refund of Telecommuication -Development Charge(TDC)					309
Other Income					92
Interest expenses					(517)
Foreign exchange (loss) / Gain					(1,907)
Interest income					712
Profit before tax					2,047
Taxation					(986)
Net Profit for the period					1,061

Segmental Reporting -for the 6 months ended 30 June 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	7,924	3,911	8,375	6,971	27,181
Inter Segment Revenue	(219)	(463)	(143)	(1,503)	(2,328)
Revenue from external Customers	7,705	3,448	8,232	5,468	24,853
Segment results / operating profits	752	297	977	897	2,923
Other Income					160
Refund of Telecommuication -Development Charge(TDC)					-
Interest expenses					(264)
Foreign exchange (loss) / Gain					86
Interest income					357
Profit before tax					3,262
Taxation					(825)
Net Profit for the period					2,437

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Investor Information

Ratios

	Group		Company	
	30 June 2012	31 Dec. 2011	30 June 2012	31 Dec. 2011
Net assets value per share (Rs)	29.45	29.69	29.75	29.45
Gearing ratio -Number of times	0.27	0.21	0.14	0.05
Quick asset ratio - Number of times	1.01	0.92	1.55	1.44

	For the 6 months ended		For the 6 months ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Interest cover - Number of times	4.96	13.36	10.65	197.08

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 June 2012	3 Months to 30 June 2011
-Highest	46.90	61.00
-Lowest	34.00	52.90
-Last Traded price	39.10	54.20

Dividend Payment

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

Share trading from 1 April 2012 to 30 June 2012.

	3 Months to 30 June 2012
-No of Transactions	1,065
- No of Shares Traded	1,080,992
-Value of Shares Traded (Rs)	45,188,397

Sri Lanka Telecom PLC and its Subsidiaries

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Quarterly Interim Financial Report as of 30 June 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 28 million has not been recognized in the Financial Statements as at 30 June 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 is filed for alleged failure to reconnect the respective telephone facility. The trial is proceeding. (based on the opinion received from lawyers, it is noted there is a strong possibility that estimation of outflow may not be applicable)

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

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 June 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.

Sri Lanka Telecom PLC and its Subsidiaries
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Quarterly Interim Financial Report as of 30 June 2012

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.	14,030,845	0.78
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	952,295	0.05
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
	1,782,846,055	98.78

(2) Percentage of Public Holding as at 30 June 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