

It's about giving our customers the future. Right now.



THE FUTURE: NOW



Sri Lanka Telecom
One Country. One Voice.

**It used to be that the mystery and excitement
of life lay in not knowing what the future held.**

Not any more.

Sri Lanka Telecom presents: The Future.



For over 150 years, Sri Lanka Telecom has been the strength and backbone of Sri Lankan telecommunication, taking the nation through the years from the earliest days of telegraph and telephony to the exciting world of futuristic communication technologies we live in today. Every minute, every day, technologies and capabilities change, improve and innovate, almost as we watch. Sri Lanka Telecom is right there at the forefront of this wave of the future.



For high-speed broadband, mobile technologies, home and business telecommunications, we remain unmatched because we're simply way more experienced, way more resourced and way more connected across the island. That's how we bring the future of telecommunications to Sri Lanka - right now.

Sri Lanka Telecom. The Future: Now.



Sri Lanka Telecom (www.slt.lk) is one of Sri Lanka's most valuable blue chip companies with an annual turnover in excess of Rs.56 billion. Sri Lanka Telecom is the nation's number one integrated communications service provider and the leading broadband and backbone infrastructure services provider in the country. Listed on the Colombo Stock Exchange, the Company's market capitalisation as at 31 December 2012 topped Rs.80 billion.

The two main shareholders of Sri Lanka Telecom as at year end were the Government of Sri Lanka which held 49.5% through the Secretary to the Treasury and Global Telecommunication Holdings N.V. of Netherlands, which owned a 44.98% stake. The balance shares are publicly traded.

SLT provides facilities and services in the areas of voice, data, video and mobile to its customers. These services, which are unmatched in scope, range from domestic and international voice, advance data transmission services which include internet services on leased lines, broadband data circuits, to IP services such as IPVPN based on IP-MPLS technology, total corporate solutions, satellite uplink services, IP transit, IPVPN, IPLC and international voice traffic transit services to global telecom operators and corporates, NGN services, wholesale services and mobile telephony, mobile broadband and mobile enterprise solutions through its fully owned subsidiary Mobitel.

Sri Lanka Telecom takes immense pride in this year's results which reflect the achievement of many goals in the strategic growth trajectory that we mapped for ourselves over the past three years. As the country's premier integrated communications service provider, SLT has been a catalyst of change and transformation in post-war Sri Lanka truly connecting the entire nation as One Country. One Voice.

Read this report for more on how we have achieved The Future: Now.



Driving broadband based customer service

6



Tune in to world-class entertainment and news

24



Stay connected anytime anywhere

41



Enabling trade and small business across the island

68



Turbo charge your business connectivity

110

It's about giving our customers the future. Right now.

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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.

Our customers...

| | | | | | |
|---------------------------------------|--------------------------|--------------------------------------|------------------------|----------------|--------------|
| Multi-National & Enterprise Customers | Public sector Institutes | Other operators/ Wholesale Customers | SME & Retail Customers | Domestic Users | Mobile Users |
|---------------------------------------|--------------------------|--------------------------------------|------------------------|----------------|--------------|

We serve them through...

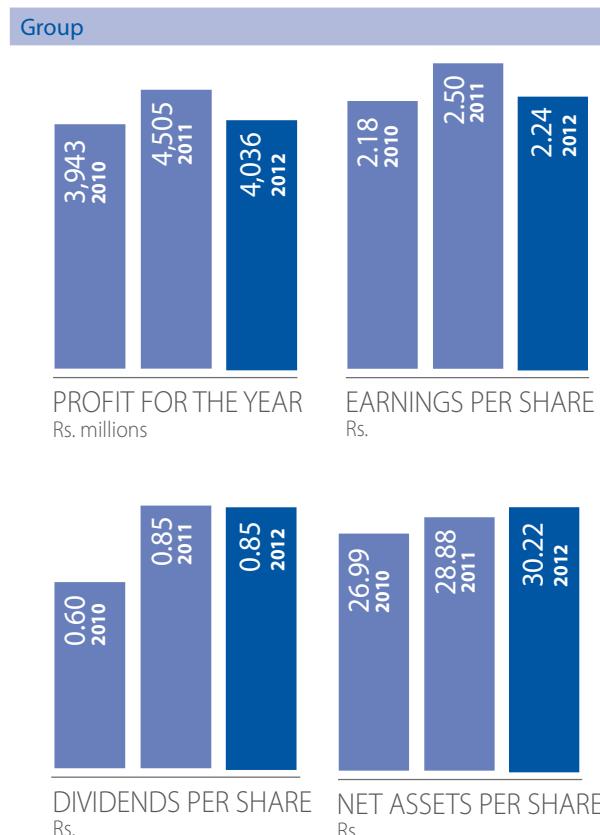
| | | | | |
|-----------------------|-----------------|------------------------------|----------------------|-----------------|
| Intelligent Solutions | Global services | Backbone/ Wholesale services | Triple-play services | Mobile services |
|-----------------------|-----------------|------------------------------|----------------------|-----------------|

By using...

| | | | | |
|---------------------------|---------------------|-------------------------------------------|------------|-----------|
| Strong Brand & Reputation | Dedicated workforce | Superior network and Technology platforms | Innovation | Suppliers |
|---------------------------|---------------------|-------------------------------------------|------------|-----------|

FINANCIAL HIGHLIGHTS

| Group | 2012 | 2011 | Growth |
|-----------------------------------|-------|-------|----------|
| Revenue (Rs. billion) | 56.77 | 51.64 | 9.93% |
| Operating profit (Rs. million) | 6,170 | 5,169 | 19.37% |
| Profit before tax (Rs. million) | 5,966 | 6,162 | (3.18%) |
| Profit for the year (Rs. million) | 4,036 | 4,505 | (10.41%) |
| Earnings per share (Rs.) | 2.24 | 2.50 | (10.41%) |
| Company | 2012 | 2011 | Growth |
| Revenue (Rs. billion) | 34.72 | 32.29 | 7.53% |
| Operating profit (Rs. million) | 2,697 | 2,343 | 15.11% |
| Profit before tax (Rs. million) | 4,682 | 4,488 | 4.32% |
| Profit for the year (Rs. million) | 3,361 | 3,340 | 0.63% |
| Earnings per share (Rs.) | 1.86 | 1.85 | 0.63% |



CUSTOMER TOUCH POINTS ISLAND-WIDE

TELESHOPS - 40

REGIONAL OFFICES - 34





THE SPEED OF CHANGE

Today, technology and capabilities change and progress as never before – requiring companies such as ours to be visionary, focused and prepared. The speed of such change is no longer in days, weeks or months, it is in the present moment.





THE FUTURE: NOW

WIN-WIN SOLUTIONS

... the Company has been shedding legacy platforms which are cumbersome and expensive. This has led to a win-win solution for both the Company and its customers, by bringing about cost savings, consolidation, improved efficiencies, faster service delivery, increased speed and performance, better visibility and monitoring, and new capabilities for future services.

SLT is committed to ensuring that homes and businesses receive ultra high speed internet and high quality PEO TV services while supporting and enhancing business capabilities via superior broadband services.

CREATING THE FUTURE, NOW

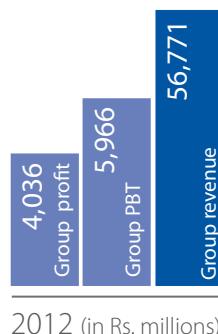
CHAIRMAN'S STATEMENT



The promise: Financial stability

The delivery:

Consistent growth in operating profits in 2012 demonstrates the strength, resilience and aligned growth strategy of our group of companies to deliver strong results



2012 (in Rs. millions)

Dear Stakeholder,

I am pleased to present to you the 2012 Annual Report and Audited Financial statements of your Company. Sri Lanka Telecom takes immense pride in this year's results which reflect the achievement of many goals in the strategic growth trajectory that we mapped for ourselves over the past three years. As the country's premier integrated communications service provider, SLT has been a catalyst of change and transformation in post-war Sri Lanka truly connecting the entire nation as One Country. One Voice.

Telecommunication by definition has expanded today to encompass not only the traditional areas of fixed line telephone service, but also advanced technology-based services including wireless communications, broadband services and advanced IP based services. Over the past decade, we have experienced a growth in mobile devices; exponential increase in data volume also known as "big data"; increased use of social media in the day to day lives of people and the use of cloud computing for data and application access; all of which have transformed the world to the hyperconnected environment we live in today.

The future is now; and globally, the telecommunications industry is experiencing a shift in consumer preferences where the internet and its associated services are accessible

instantaneously; where people and businesses communicate with each other in real time and where machines are interconnected and communicate with each other without any direct human intervention. All of this and more are redefining the way telecom companies around the world are doing business.

Macro Environment

The year 2012 was a challenging one for Sri Lanka, amidst the slow recovery in the global economy, rising domestic credit and adverse weather conditions throughout the Island which hindered economic performance. After two successive years of impressive growth exceeding 8 per cent, the growth in 2012 is around 6.5 per cent.

Controlled measures by policy makers such as higher policy rates, credit ceiling and lower levels of liquidity leading to higher market interest rates, helped slow the rapid expansion in credit and import demand. Monetary policy decisions taken during the year kept inflation in check at single digits where the December 2012 year-on-year inflation was at 9.2 per cent while the annual average inflation was 7.6 per cent.



Revenue growth is driven by Mobile voice, Broadband, PEO TV, Enterprise Data and Wholesale services.

The country also experienced a slide in the value of the Rupee when it depreciated from a USD/RS 113.88 in January 2012 to a high of Rs.133.60 by mid-year; it subsequently stabilised at Rs.127.19 as at December 2012.

With tight monetary policy yielding expected stabilisation, the Central Bank reduced policy rates and allowed the credit ceiling to expire at year end in order to provide some stimulus to the economy. The year 2013 is expected to yield better results with a projected real GDP growth of 7.5 per cent and inflation projected to stabilise at mid-single digit levels.

The development goals of the country are progressing on an accelerated path with the country's highway infrastructure being expanded further; the second international airport expected to commence operations in 2013 and the ports around the country being upgraded to meet increased demands. The Central Bank is confident that the country is well on its way to meeting the Per Capita Income target of US \$ 4,000 by 2016. The country has also witnessed a rapid development and expansion in the tourism sector, with the number of hotels and thus the number of rooms increasing to meet the country's target of welcoming 2.5 million tourists by 2016.

"Sri Lanka Telecom takes immense pride in this year's results which reflect the achievement of many goals in the strategic growth trajectory that we mapped for ourselves over the past three years."

NIMAL WELGAMA



CREATING THE FUTURE, NOW

CHAIRMAN'S STATEMENT

"As the country's premier integrated communications service provider, SLT has been a catalyst of change and transformation in post-war Sri Lanka truly connecting the entire nation as One Country. One Voice"

Global Telecommunication Outlook

The International Telecommunications Union (ITU) estimates on global fixed lines are indicative of a worldwide declining trend at 1.16 billion as at the end of 2011 when compared to 1.21 billion in 2009. Wireless service subscriptions worldwide as of November 2011 were approximately 5.9 billion and expected to grow rapidly, as low cost service providers are offering low enough prices that are affordable for consumers in emerging markets. Broadband penetration globally is on the low end which is estimated by ABI Research, a US based firm, to be 618.7 million at the end of 2012 up 7.3% from the previous year.

The Global Information Technology Report (GITR) 2012, a collaborative project between the World Economic Forum and INSEAD indicates that according to the research of the Gartner Group, worldwide sales of mobile devices reached 440.5 million units in the third quarter of 2011, while smartphone sales for the same period increased by 42 percent from the previous year. The GITR also reports that research by Ericsson estimates over 50 billion connected devices to be available in the world by 2020.

Increases in connected devices translate into escalating growth of data and data traffic. According to the International Data Corporation (IDC), one zettabyte of data (1 billion terabytes) was transmitted worldwide for the first time in 2010. Further growth is ensured with digital capability expected to double every two years.

Networked Readiness Index (NRI) which measures the degree to which economies leverage ICT for enhanced competitiveness, indicates that Nordic countries are the most successful where ICT is fully integrated in their strategies to boost innovation. As evident with the surveys made, ICT is present in all areas of society, such as education and healthcare. The Nordic countries: Sweden, Finland, Denmark, and Norway along with other advanced economies dominate the Top 10. Singapore leads the Group of the Asian Economies with an overall 2nd place behind Sweden; ahead of 11th

placed Taiwan – Republic of China, 12th placed Republic of Korea and 13th placed Hong Kong SAR. Our neighbour India, better known for ICT advancement in the country with many global BPO/KPO giants making it their home, have been placed 69th, two places ahead of Sri Lanka which is at 71st place.

ITU having understood the importance of accessibility to broadband services and the lack thereof in the developing countries, has introduced a policy document outlining four significant targets to be achieved by 2015: 1) Making broadband policy universal where all countries should have a national broadband plan or strategy or include broadband in their universal access/service (UAS) definitions, 2) Through adequate regulation and market forces, entry level broadband services should be made affordable in developing countries, 3) Connecting homes to broadband, where 40 per cent of households in developing countries should have Internet access, 4) Internet user penetration should reach 60 per cent worldwide, 50 per cent in developing countries and 15 per cent in Least Developed Countries (LDCs).

Sri Lankan Technological Environment and SLT

The development policy framework of the government identifies telecommunications as a necessary tool in Sri Lanka's transformation to be one of the strategically important economic hubs in the world. Though mobile penetration in Sri Lanka as at end of the third quarter of 2012 stood at 95%, the internet user penetration is a low 13% which the Government of Sri Lanka and SLT have recognised as a challenge that needs to be addressed in order to boost the growth of the country, along with connecting the citizens to better prosperity.

The network modernisation projects undertaken by SLT and Mobitel will enhance access to telecommunication services, especially broadband and internet throughout the Island. The geographic coverage expanding to the North and the East enables businesses and individuals to broaden their knowledge, advance their skill sets and enhance their societal wellbeing while contributing to the economic growth of the country. ICT access, especially in the East, will support the tourism development related projects that are in line with the country's development goals. SLT-Mobitel's active partnership in the Deyata Kirula –the national development exhibition - takes technology to the rural areas, enabling people in the remote areas of the country to gain knowledge and insights into the latest technologies available and the use of such technology for the advancement of themselves and their businesses to the next level.

The enterprise customers, rural and urban, are already being offered technological solutions in terms of voice, data hosting, networking and managed services. Cloud computing, the

latest buzz word in the IT world will be delivered to the enterprise customer's door step by SLT with additional benefits of significant cost savings, ease of implementation and enhanced remote access to information.

Group Performance

Your Company and Group achieved formidable growth in 2012. The results achieved as at 31st December 2012 when normalised for exchange losses on translation were significant.

- Group Revenue increased 10% from Rs.51.64 billion to 56.77 billion
- Group PBT increased 12% from Rs.6.41 billion to Rs.7.18 billion
- Group profit for the year increased 10% from Rs.4.75 billion to Rs.5.25 billion

However, the Rupee depreciation early in the year had an adverse effect on the financials of the Group on translation. When taking the exchange loss on translation into consideration.

- Group PBT decreased by 3 % from Rs.6.16 to Rs.5.97 billion
- Group profit for the year decreased 10% from Rs.4.50 billion to Rs.4.04 billion

Growth in the Group's financials is a result of the initiatives and strategies undertaken over the past few years. Revenue growth is driven by Mobile voice, Broadband, PEO TV, Enterprise Data and Wholesale services.

Investments in Infrastructure

The SLT Group has invested substantially in infrastructure expansion projects. In 2012 alone the Group invested Rs.17 billion and in the last 3 years the Group invested a cumulative total of Rs.42 billion. The network modernisation and expansion projects undertaken by SLT and Mobitel are at the forefront of transforming the telecommunications industry in the country.

SLT's Next Generation Network (NGN) implementation includes converging all access networks into a singular platform. Replacing historic legacy platforms will result in cost savings, improved efficiencies, faster service delivery, increased speed and performance and new capabilities for all future services. SLT, by demonstrating that its National Backbone Network (NBN) could meet the requirements of the TRCSL's (Telecommunication Regulatory Commission of Sri Lanka) National Backbone Network requirements, finalised discussions with authorities to grant a 10 year license to provide backbone services to the nation.

The "i-Sri Lanka" network modernisation project of SLT is revolutionising broadband access across the country. Currently

14,656km of fibre optics based networks have been built and on average 3,500km per year are targeted to be laid in the coming years, enabling customers to enjoy consistent, uninterrupted high speed internet services. The target of i-Sri Lanka is to achieve broadband speeds of up to 20 Mega Bits Per Second (Mbps) for more than 90% of the fixed line customers by end of 2013, enabling a digitised Sri Lanka to have affordable and competitive prices bridging the digital divide.

SLT has capitalised on the Group synergies as evidenced with the growth of our customer base. Megaline Customers have grown by 6% to reach the current 1 million base; Broadband customers have grown by 21% to 330,000; Mobile customers have grown by 14% to exceed 4.5 million and PEO TV customers by 48% to 68,000. The Network modernisation and expansion projects will bring about further growth of our customer base enabling most of Sri Lanka to enjoy the fruits of SLT Group synergies.

Completion of stage 6 of Mobitel's expansion plan increased the total number of 2G and 3G base stations by over a thousand sites which are all connected through SLT's fibre network ensuring high reliability, high quality and high capacity bandwidth connectivity. In December 2012, Mobitel achieved a first in Sri Lanka and in South Asia by being the first wireless service provider to be 4G LTE ready. Long Term Evolution (LTE) is the 4th generation (4G) mobile technology which is the leading technology for mobile broadband services globally.

An increase in SLT's customer base for double play (Telephone and Broadband or PEO TV) and triple play (Telephone, Broadband and PEO TV) was enabled with the expansion of the i-Sri Lanka network by reaching the far corners of Sri Lanka and bringing with it speed and clarity.

Internet protocol enabled PEO TV services which offer customers a reliable platform to enjoy the best of local and international news and entertainment, revolutionised traditional television viewing with another first in Sri Lanka in the form of TV Banking introduced during the year.

SLT Publications, whose proud product RAINBOW PAGES is the "national" telephone directory that is used by the entire nation, made many improvements to upscale its products.

SLT manpower services, entrusted with meeting the manpower requirements of the entire Group, specifically for recruiting, training, assessing, selecting, outsourcing and providing consultation etc and SLT Services, the backbone for the Group's data networking services which provides project management and consultancy services to the subsidiaries,

CREATING THE FUTURE, NOW

CHAIRMAN'S STATEMENT



The promise:
Business growth

The delivery:
Revenue streams including Fixed Broadband, PEO TV, Wholesale, Enterprise, Mobile and International were drivers of revenue growth

The Group has also taken measures to save the environment through substantial progress in the area of energy management, by identifying and implementing environmentally safe and sustainable practices within the organisation. The deployment of Next Generation technology discussed above and elsewhere in the report, allows for the minimum usage of energy thus reducing the resultant environmental impacts and allowing for better utilisation of existing resources. The Group joined hands with the Central Environment Authority during the year to carry out an island-wide electronic waste recycling programme, in addition to battery recycling and other "environmentally friendly" initiatives that are practiced throughout the organisation.

Awards and Accolades

The awards and accolades won by our Group this year are a testimony to the calibre of staff and their work ethics. The dedication with which they perform their duties is why the SLT brand is holding its own against the competition.

Amongst our other significant achievements for the year are being placed 10th in the Business Today 'Top Twenty Five' Awards 2010-2011; being ranked No. 6 in Sri Lanka LMD 100 ranking 2012; winning the overall GOLD award of National Business Excellence Award 2012 - Organised by The National Chamber of Commerce of Sri Lanka as well as three more GOLDS and one SILVER category award. SLT received due recognition for our work as an exemplary corporate citizen. We were recognised as one of the Ten Best Corporate Citizens in Sri Lanka within the CSR & Sustainable Business categories and also won the Category award of best performance for Economic Contribution at the Best Corporate Citizens Award 2012, conducted by the Ceylon Chamber of Commerce. We were adjudged the winner in 'Brand Leadership-Overall Category' at the 'Global Awards for Brand Excellence'.

Winning the Gold award for the 'Telecommunication Sector' category at the Annual Report Awards 2011 organised by the Institute of Chartered Accountants of Sri Lanka is indicative of our commitment to give the best returns to our stakeholders while being transparent in our disclosures.

SLT was also recognised at the HRM Awards 2012 conducted by the Association of Human Resource Professionals in partnership with AON Hewitt India. SLT won a Silver Award for the implementation of Best HR Practices and Techniques, giving us confidence that our HR practices are amongst the best, facilitating the retention of the best talent. Mobitel has been recognised in 2012 by the highest institute in the profession of Engineering, by winning the gold award for 'Best Demonstration' and a silver award for 'Best Display of Engineering Services' for the official stalls at the Techno 2012 Exhibition for the third consecutive year. Mobitel also won

have capitalised on synergies and brought in efficiencies to the Group's operations.

Organisational Transformation

During the year, SLT Group successfully transformed the internal processes and practices that will bring in efficiencies and increased productivity throughout the Group. Many Human Resource practices were enhanced while introducing much needed systems such as a Customer Relationship Management (CRM) system and a new Revenue Assurance System (RAS), along with best practices introduced throughout the Group. The Group also ensured that relevant staff were given training in their areas of expertise and on customer service, to enable us to serve the customer better with stronger commitment to service delivery and assurance.

In an effort to be more transparent and to ensure that good governance practices are strengthened within the organisation, SLT introduced enhanced governance practices. SLT also further strengthened the Risk Management practices and process in order to ensure that our stakeholders' investment in the Company is protected.

Sustainable Business Practices

The broader national ICT vision of the Government is complemented by the Group's practices of corporate citizenship. SLT and subsidiaries support education initiatives with universities, schools, vocational training institutes, National Online Distance Education Service and Rural ICT centres while also partnering with many professional bodies to expand their reach to members and society as a whole. Group subsidiaries also partner with and support the Government's efforts towards child protection and dengue eradication.

the coveted 'Excellence in Engineering' award, under the category 'Infrastructure – Service Sector: Large' at the Annual Engineering Excellence Awards 2012.

Future Now

Hyperconnectivity as mentioned earlier is transforming the world of ICT and societies in general. It is introducing new opportunities to increase the productivity and well-being of society by redefining how business is conducted, generating new products and services, and improving the manner in which public services are delivered. This has enabled us to live in a world where the distinction between rural and urban is losing its meaning. It has broken down boundaries of both time and space, bringing people and things together from all parts of the world at any given time. Hyperconnectivity has also given rise to a globalised "168" world, where the work day continues around the clock, 24 x 7, or 168 man hours per week. Equipping mankind with the knowledge and tools necessary to compete and be more productive in this fast paced world is upon us now.

We are dedicated to connecting every home in the country and bringing people online and connecting consumers across all continents enabling societies to "meet" and transact in a seemingly "borderless" world. Sri Lanka is ready to join the fast digitising world! The future is upon us and Sri Lanka Telecom is equipped to support the growth.

Appreciations

The achievements for 2012 were a true team effort. I must thank my Board of Directors for their valuable contribution and active participation in supporting and guiding the strategic vision of SLT. Together with the CEO of SLT and CEOs of each of the subsidiaries and the respective senior management teams and all the staff we set foot on a journey of transformation four years ago and together have brought SLT to meet the future now.

My sincere appreciation to the CEOs and the respective senior management teams and all the staff for their dedication and hard work in implementing the strategic objectives through the Group. To our valued stakeholders, thank you for your confidence, support and loyalty. The Future is Now. Our promise is to deliver faster and better services to you.

Nimal Welgama

Chairman

TRANSFORMING THE FUTURE, NOW

GROUP CEO'S STATEMENT



"Sri Lanka is now positioned on a platform of fast track development and ICT has emerged as a key driver of development and economic growth."

LALITH DE SILVA

Dear Stakeholder,

It is with an immense sense of responsibility and pride that I assume the role of Group CEO of your Company. I consider it an honour to serve my country as the first local CEO of SLT since its privatisation in 1997.

While my Chairman and my predecessor have reviewed the 2012 financial year in great detail, I wish to take this opportunity to assure you, our stakeholders, of my commitment to add value in every possible way to consolidate SLT's leadership position and to propagate the 'One Country. One Voice.' vision.

The Company's vision is clearly aligned to the government's ICT policy, as set forth in the 'Mahinda Chinthana' and we are fully cognizant of our role as a catalyst in building the ICT capacity and capability of the country.

Following three decades of strife, Sri Lanka's people and economy today reap the benefits of freedom. Sri Lanka has an unprecedented economic growth potential. The Government's vision to reach USD 4,000 per capita income by 2016 and a USD100 billion GDP economy is one that is shared by SLT as well. We are well focused towards this goal, and will play a great role in contributing towards the achievement of the projected national growth momentum.



Over the next few months, our stakeholders will see us unroll path-breaking ICT innovations that will further enrich their lives and businesses – a just reward for the trust and loyalty they have placed in us.

During its 150 year history, SLT has become inexorably enmeshed in the lives of Sri Lankans – these relationships are a heritage that we must leverage upon as we move forward. Over the next few months, our stakeholders will see us unroll path-breaking ICT innovations that will further enrich their lives and businesses – a just reward for the trust and loyalty they have placed in us.

Sri Lanka's ICT industry has been one of the most dynamic and competitive industries over the last few years. Sri Lanka is now positioned on a platform of fast track development and ICT has emerged as a key driver of development and economic growth. With ambitious investment plans to take the ICT industry to the next level, your Company will strengthen its position as a key contributor in making Sri Lanka the ICT hub it aspires to be.

The SLT team will be driven by a mission to strengthen our position in terms of size, making us the most sought-after integrated telecommunications provider in Sri Lanka amongst our key stakeholders. We will re-energise and align ourselves, introducing best-in-class corporate policies, processes and procedures propelling us to greater heights, further demonstrating our passion to be One Country. One Voice. One Team.

People are my passion. My people-centricity and outcome-oriented approach aims for a 360° transformation of the company, which will put us in a prime spot to strengthen our position in the industry, readying us ably to meet any challenge in the ever dynamic ICT environment.

I am excited at the opportunity to drive this world-class institution into a new era of innovation and triumph, and trust that the support of our stakeholders – from our customers and employees to our business partners and regulators - will continue unabated.

Lalith De Silva
Group Chief Executive Officer

AGILE, INTO THE FUTURE.

CHIEF EXECUTIVE OFFICER'S REVIEW

The transformation journey we embarked on four years ago was a formidable challenge to propel ourselves into a future ready, market driven, customer centric business organisation.

GREG YOUNG

Dear Shareholder,

Today, technology and capabilities change and progress as never before – requiring companies such as ours to be visionary, focused and prepared. The speed of such change is no longer in days, weeks or months, it is in the present moment. At Sri Lanka Telecom, we believe that our success depends on how well we deliver the future of telecommunication solutions, right now.

The transformation journey we embarked on four years ago was a formidable challenge to propel ourselves into a future ready, market driven, customer centric business organisation. We have worked tirelessly towards the optimisation of services and operations, modernisation of our network and leveraging synergies within the Group, through our medium to long term strategies and investments. The results we present to you in this report are a reflection of these best in class business practices and evidence of the well governed and transparent organisation that we have become.

In a highly competitive telecommunication market, across voice, broadband and TV in both the fixed and wireless segments, we have focused on the four goals of Services, Operations, Network and a Synergetic approach as key strategies that ensure the Group remains competitive.

2012 saw the fruition of many of the major initiatives undertaken during the Company's four year transformation journey: among the highlights were the Government of Sri Lanka licensing SLT to operate the Sri Lanka National Backbone Network (NBN); the expansion and acceleration of





The promise:
Most Awarded Corporate

The delivery:

Significantly, the awards bestowed on the blue-chip span all aspects of its functions which reflects the Company's diversity and strengths.



A leading provider of fixed broadband



Total fixedline customer base reached

the i-Sri Lanka project and the Next Generation Network (NGN) architecture, the introduction of a new Customer Relationship Management (CRM) system and a new Revenue Assurance System (RAS). The Company also made enhancements to internal operations, risk and governance structures, while embedding the need for improved service delivery and fulfillment as key tasks in 2012.

The sheer breadth of the work undertaken and the resultant achievements in 2012 have delivered one of the most meaningful and impactful years in the Company's journey, capped at the end of the year with numerous accolades.

Financial Performance

A strong focus on delivering our strategic plan efficiently and effectively has made the year under review one of considerable positive achievement for your Company. At the Group level this year's performance was unfortunately impacted by a volatile and depreciating exchange rate resulting in exchange losses on translation. The key indicators for the year, when normalised to exclude exchange losses on translation, included a 10% growth in revenue from Rs.51.64 billion to Rs.56.77 billion with profit before tax growing to 12% from Rs.6.41 billion to Rs.7.18 billion and profit for the year recorded at Rs.5.25 billion, a 10% increase over the Rs.4.75 billion recorded last year. At the Company level the impact of exchange loss is minimal and saw Company Revenue increasing 8% from Rs.32.29 billion to Rs.34.72 billion; Company PBT increased 4% from Rs.4.49 billion to Rs.4.68 billion, and Company profit for the year increased 1 % from Rs.3.34 billion to Rs.3.36 billion.

With the impact of macroeconomic policy decisions taken early in the year and the global economy yet to experience an upward trend, the GDP growth of the country saw a downward revision to 6.5% as at the end of 2012. The year-on-year inflation in December 2012 was at 9.2%. Amidst these macroeconomic conditions, SLT achieved considerable revenue growth during the year.

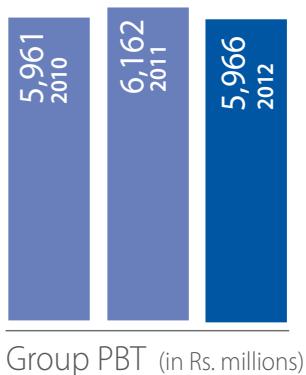
The Company has been making steady progress with quarter over quarter revenue growth of 1.3 % and 2.6% for third and fourth quarters respectively when compared to the immediate preceding quarter. When compared to the Asia Pacific telecom industry, the revenue growth for the Company for the year is above the industry annualised average of 5%-7%. Furthermore, at Company level, the exposure to foreign exchange losses has been minimised by measures taken to mitigate the risk and balance exposure, thereby neutralising the P&L impact of exchange variation.

Consistent with our long term strategy and the annual plan, revenue growth for the year was driven by non-traditional streams including fixed broadband, PEO TV, wholesale, enterprise and international services. Contrary to the global trend of declining traditional fixed line subscribers, SLT has demonstrated success in stabilising the revenue decline of Megaline voice by creating demand for high speed broadband and PEO TV among our fixed line customers through Megaline double play and triple play offers which attracted a significant number of new customers. We closed the year within a matter of days of achieving the milestone of 1 million Megaline

AGILE, INTO THE FUTURE.

CHIEF EXECUTIVE OFFICER'S REVIEW

We closed the year within a matter of days of achieving the milestone of 1 million Megaline customers, which now brings our Megaline capability and access to 4.5 million Sri Lankans across one million households.



customers, which now brings our Megaline capability and access to 4.5 million Sri Lankans across one million households.

Strong Focus on Expense Management

The ongoing focus on cost management efforts was further strengthened during the year, including the launch of the new Revenue Assurance System (RAS) to help identify and eliminate additional areas of revenue leakage.

SLT has been aggressive in its reduction of bad debt and has seen the debt holding ratio reduced from a peak of 69 days in 2011 to 62 days as at December 2012 for domestic services. Similarly, the Company has reduced the debt holding ratio for international services from a peak of 5 months to 3 months at the end of the current financial year.

The Company has been fortunate that the forex impacts on its business have been comparatively minimised, due to the natural hedging that it enjoys from transacting its international telephony business in US dollars. Though spiraling energy and fuel prices have had a serious impact on overheads, transportation and utility costs, SLT has implemented strategic

energy management initiatives to identify opportunities to reduce energy consumption. The NGN migration alone is expected to contribute Rs.15 million in energy savings while we expect a group-wide saving of 1% of energy costs through heightened awareness, energy saving equipment and practices.

A primary challenge that we are faced with going forward is rising staff-related costs, which, combined with an aging staff profile is driving our focus on revised HR strategies and updated policies to increase productivity and mitigate business continuity issues.

Investments in Infrastructure

In 2012, the Company invested over Rs.13.9 billion towards network modernisation and expansion projects designed to enhance the customer reach and customer experience.

Over the 2010-2012 period, our capital investment was more than double the preceding 10 year average, demonstrating our commitment to investing for the future and alignment of our vision with the Government ICT objectives.

The investments made in the i-Sri Lanka project linked with NGN and optical fibre network expansion bode well for the future of SLT and establish a foundation for advanced services to all customer segments. The i-Sri Lanka project which commenced in the latter part of the year 2010, enhances and upgrades the existing fixed access network by expanding the fibre closer to the customers through FTTN (Fibre to the Node) deployment. By reducing the existing copper cable length, the reliability, quality and broadband data speeds are significantly improved and SLT's quality and range of services places us on par with developed countries. The i-Sri Lanka project targets broadband data speeds of up to 20Mbps, for 90% of SLT's fixed customers by end of 2013.

During the year, 3,500 km of Optical Fibre were deployed around the country resulting in a total length of 14,656 km as at 31st December 2012. The deployments during the year catered to the i-Sri Lanka project as well as Mobitel's stage 6 expansion. A further 3,400 km are planned for 2013 to support the i-Sri Lanka project, Stage 7 of Mobitel expansion and the expansion of Megaline double and triple play services, while also facilitating the high capacity backbone requirements of other operators.

Subscriber Growth

Enhanced product offerings have paved the way for considerable growth in the subscriber base. Total fixed wire line connections have increased by 14% since 2009 to now reach 1million, and while the growth in subscribers remains modest, it opposes global trends and demonstrates the strong demand for our double play (Telephone and Broadband/PEO TV) and triple

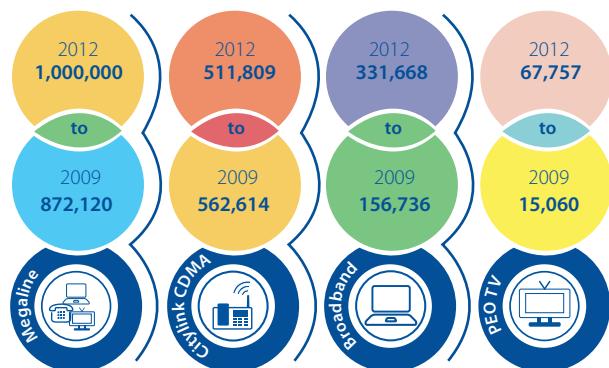
play (Telephone, Broadband and PEO TV) services delivered over a common Megaline connection - 'One line offering three unique experiences'.

Furthermore, we have designed our broadband packages to suit the many lifestyles and needs of our customers. New packages with higher data volumes and higher speeds allow users to select download speeds ranging from 2Mbps up to 16Mbps. Volume based packages were introduced to improve users' internet experience with data volumes starting from 2GB and ranging up to 300GB per month. The Company is adept at gauging and adopting telecom developments around the world and has been quick to respond to the social media revolution and the growing demand created by Smartphones and SmartTabs for WiFi access. We have promoted wireless internet access through the introduction of attractive prices and offers for Wi-Fi enabled office/home gateways, bringing increased flexibility and an incentive for customers to adopt our flagship 'SLT Broadband' product.

Citylink CDMA continues to provide connectivity to Sri Lankans in the remaining pockets not accessed by SLT wireline "Megaline" services. However the extension of our network through i-Sri Lanka has provided an opportunity to many CDMA Citylink customers to migrate to Megaline connections. Our special Megaline migration offers targeting our loyal and long standing CDMA customers have proven very popular.

During the year, SLT launched a suite of "Intelligent Solutions" targeting the enterprise customer segment. The portfolio of products emphasises our extensive product architecture and capability covering voice, data hosting, networking and managed services. IP based services along with virtual hosting and cloud computing are some of the key products targeted at the enterprise segment.

Customer Base Growth



The Enterprise IPVPN product has grown well in 2012; SLT's enterprise solutions now power all sectors of the country's economy.

Following the creation of a specific group in 2011 to focus on the SME segment, we have seen success from our focus on this important customer group almost doubling the customer base.

In a bid to strengthen engagement with key enterprise, corporate and SME customers, customer forums were introduced during the year to strengthen their relationships with our senior management. Eleven forums were held in 2012 covering all provinces and two were held exclusively for enterprise customers.

Transformation of Operations

Our transformation programme that we initiated 4 years ago covered all aspects of our organisation – it involved the restructuring, reorganising and refocusing of operations around new technologies and platforms on the one hand, while optimising staff and resources to deliver greater efficiencies and ensure improved service delivery and assurance on the other.

In the year under review, the Company focused heavily on streamlining the areas of service delivery and fulfillment, service assurance, repair and restoration. Among the major initiatives undertaken was the introduction of a new Customer Relationship Management (CRM) system which provides access to a 360° customer profile. The CRM brings in greater customer intimacy by improving our understanding of customer needs, enhancing customer interaction and strengthening our ability to make targeted offers, and streamlining our customer fulfillment process.

The Revenue Assurance System is yet another key implementation this year as part of the operational transformation. The system, which is integrated with the billing and all network platforms and customer touch points, brings efficiencies in identifying subscriber usage patterns and leakages. It has the capability of concurrent monitoring of multiple business processes while providing real time alerts and reporting capabilities to identify discrepancies between systems.

Organisational structure reforms this year were predominantly centred on the training needs of our Human Capital in order to provide optimum customer service in a fast changing competitive and technological environment. All customer touch points within the organisation were provided with

AGILE, INTO THE FUTURE.

CHIEF EXECUTIVE OFFICER'S REVIEW



The promise: Next Generation Infrastructure

The delivery:

The investments made in the i-Sri Lanka project linked with NGN and NBN expansion bode well for the future of SLT and establish a foundation for advanced services to all customer segments in the industry

extensive training on products and services to improve service fulfillment and service assurance. Migrating to NGN architecture, FTTH and the many network changes demanded the retraining of our field staff and restructure of field teams which have now been completed. Sales teams that were previously specialised in providing voice only services now have the tools and knowledge to facilitate customers converting to double and triple play services. Switching and transmission engineers were merged as network engineers to support overall service quality.

An SLT Network Operating Centre (SLTNOC) was opened this year to oversee and manage our islandwide network of all platforms and technologies. In essence, the INOC enabled the consolidation of services and functions that were decentralised and fragmented, now bringing increased focus on speedy service restoration.

The Company also took the opportunity this year to focus on much needed updates to many historic policies and processes governing human resources. Among the areas targeted for improvement were the streamlining of reporting structures and linking of staff objectives to the annual business and operational plans to facilitate better performance management.

Training and development received renewed focus this year to gear our Human Resources to respond to the demands of the new operational structure and to instill in them, the importance of excellence in service delivery and assurance. The retirement of SLT's old legacy network equipment necessitates the retraining and redeployment of a large number of employees to new areas.

Along with the plethora of unique services being offered by SLT, its success lies in the heavy investment in network modernisation and capacity improvement. The SLT Next Generation Network, involving the convergence of all access networks on to a singular platform, is currently in Phase 4 of implementation. By end 2012, 39% of the total customer base - nearly 400,000 customers – had already migrated to the modern NGN platform enabling a bundle of IP based value added services. Plans are on track to achieve the migration of 66% of the total customer base – surpassing 700,000 customers - to the NGN platform by the end of 2013.

The heavy investment in network modernisation and capacity improvement has meant that the Company has been shedding legacy platforms which are cumbersome and expensive. This has led to a win-win solution for both the Company and its customers, by bringing about cost savings, consolidation, improved efficiencies, faster service delivery, increased speed and performance, better visibility and monitoring, and new capabilities for future services.

The explosive growth and demand for high speed Broadband bodes well for SLT's investments in infrastructure and its marketing plans have been integrated to ensure that NGN benefits can be delivered islandwide.

SLT is committed to ensuring that homes and businesses receive ultra high speed internet and high quality PEO TV services while supporting and enhancing business capabilities via superior broadband services. The i-Sri Lanka project facilitates improved reliability and quality, and higher broadband speeds by reducing the copper cable length. This will ensure that SLT's quality and range of services remain on par with developed countries.

To achieve the pre-set targets, the SLT team installed more than 1,300 MSANs (fibre to copper nodes) around the country during the year across our Megaline footprint, enabling capacity for more than 350,000 customers. More than 400 additional MSANs are slated to be installed during the first half of 2013, targeting a further 250,000 customers.

Sustainable Business Practices

SLT has firmly embedded the principles of sustainability within its business strategy and operations. The Company has always been actively involved in connecting communities using modern technology – the customised communication solutions we provide empower people, businesses and the government.

The Company's vision of good corporate citizenship supports the broader national ICT vision, as set forth in the Mahinda Chinthana vision of the Government. By facilitating access to

The Company sustains its position as one of the largest investors towards the economic development of the country, with a cumulative investment of Rs.28.8 billion over the past 03 years.

broadband services in Sri Lanka, SLT aims to boost national GDP while supporting online education initiatives such as connecting universities (LEARN), connecting schools (SchoolNet) and vocational training institutes, National Online Distance Education Service (NODES) and rural ICT centres (Nenasala). SLT also partners with many professional bodies in order to uplift the standards of the community.

The Company sustains its position as one of the largest investors towards the economic development of the country, with a cumulative investment of Rs.28.8 billion over the past 03 years.

SLT's economic impact is significant – as the leading communication solutions provider and the national backbone network operator, our services facilitate all the operators in the country and make a robust contribution towards the booming mobile and broadband spaces. We are proud that we have provided a sophisticated communication system - on par with some of the best in the world - to Sri Lanka, thereby boosting investor confidence.

This year SLT made substantial progress in the area of energy management, through the appointment of an Energy Committee to study the current energy usage and overlook environmentally safe and sustainable practices within the organisation. The deployment of Next Generation technology allows for the minimisation of our environmental impacts and better utilisation of existing resources. As another component of "saving our planet" initiatives, the Company partnered with the Central Environment Authority to carry out an island-wide electronic waste recycling programme.

The Group's sustainability practices and corporate social responsibility initiatives are discussed in detail in the Sustainability Section of this report (from page 82 to 111), which is our first step in the adoption of the internationally accepted GRI framework for sustainability reporting parameters. This year's report is a B level (self-declared) report.

Governance and Risk Management

As a facilitator of commerce, SLT remains the single most influential provider of communication solutions across the entire spectrum of business – from large multinationals and corporates, to small and medium enterprises and micro business, as well as our own competitors. It is a position that we hold with a great sense of responsibility – and our governance structures and risk management framework, as detailed in the respective sections of the report, are geared to ensure that SLT is well-managed, risk-ready and accountable.



Modern Teleshops to serve customers better

A Strategic Governance Board (SGB) is in place to allow the Company to make pro-active and well-balanced Governance decisions based on compelling justification for investments and adequate reporting controls. The SGB is a cross functional governance secretariat with Chief Officer level representation from each functional area. The SGB is accountable to the Board of Directors and has six cross functional governance Boards operating within it, namely Transformation and Change Governance Board; Product Governance Board; IT Governance Board; Network Governance Board; Facilities and Services Governance Board, and Enterprise Solutions Governance Board. The Governance Boards evaluate new projects through a Stage-Gate process and have primary responsibility to ensure that new projects are aligned to business plans; have no overlaps or conflicts with other projects; represent business value; are a good use of Company resources; use proper project management tools and manage risks at level acceptable to the Company.

Industry and Regulatory Framework

SLT was successful this year in renewing its operating license for a period of ten years. By demonstrating that its Next Generation Network architecture has the capability of meeting National Backbone Network (NBN) requirements, SLT has

AGILE, INTO THE FUTURE.

CHIEF EXECUTIVE OFFICER'S REVIEW

By demonstrating that its Next Generation Network architecture has the capability of meeting National Backbone Network (NBN) requirements, SLT has been chosen by the government of Sri Lanka as the licensee to operate the NBN.

been chosen by the Government of Sri Lanka as the licensee to operate the NBN. The license conditions related to NBN operations have been included into the renewed SLT operating license along with other license obligations imposed on SLT. The appointment as NBN operator eliminates any unnecessary duplication of investment and allows for greater utilisation of the SLT backbone network, benefitting the industry and the nation as a whole to achieve better broadband penetration.

The National Backbone Network is a highspeed backbone network that can facilitate the traffic of all operators while enabling the achievement of the Government's objective of high speed broadband for all Sri Lankans.

The NBN contains an ultra modern fibre network covering 100% of the 168 electorates around the country and is formed on the basis of a layered structure containing a transport layer and a control layer, where the transport layer is capable of carrying the bandwidth of other operators. The NBN obligations entail covering the 239 divisional secretariats of the country with at least one access point in each within the next five years to allow other operators to access the NBN for backhauling of their traffic. Given its wholesale characteristics, the NBN conforms to the Company's wholesale business strategy and should bode well for the future of the wholesale segment.

SLT is well geared to meet the Sri Lankan Government's recently announced plans to introduce strict rules related to quality of service. SLT is already a step ahead with our enhanced ISP Core providing regular reporting and visibility to monitor and self assess performance. SLT has voluntarily granted access rights to the Regulator to test the performance of SLT services.

Following Sri Lanka's Accounting Standards Board aligning local financial reporting standards with the International Financial Reporting Standards (IFRSs) in the form of SLFRS, SLT is reporting the 2012 financial statements contained in this report as per the IFRS requirements.

Marketing and Branding

Under the value proposition 'One Country. One Voice', SLT positioned itself as the largest integrated telecommunications service provider in the country. The new corporate identity is national minded in focus and embodies the path that Sri Lanka is stepping into. As the national industry leader, this emphasises the role that we play in uniting the country under one vision while infusing the concept of connectivity as being a great unifier of the nation.

The 'One Country. One Voice' brand promise was fully implemented during the year with all visible points of SLT presence aligned with the new branding. An integrated programme ensured consistent branding across all media, including previously unexplored areas such as roadside cabinets. As a best practice, a Company-wide brand manual was introduced while a Brand Council was instituted with a mandate to build and protect the SLT Brand. The investment in promotion and advertising to reinforce the SLT brand has already begun to pay dividends with integrated and consistent branding across all aspects of SLT products and services.

'One Country. One Voice' heralds the introduction of unique and innovative products and services across voice, data and video, inspired by the vision of connecting all Sri Lankans seamlessly through world class telecommunication solutions. With Sri Lanka well on its way to becoming a knowledge economy, SLT's vast telecommunications capabilities play a pivotal role in deploying knowledge and information across the Island and as such, the Company has introduced many products, services and packages to suit the palettes of various consumer segments.



Intelligent Solutions product portfolio relaunched

Among the promotions launched during the year were two major initiatives that brought in higher than anticipated results : "Happy Broadband Year" targeting the existing and new customers with "rocket speeds" offering 9 high speed data packages and "Abhimaana" the broadband packages for Government employees and pensioners that brought in the highest ever sales for broadband.

Appreciations

With the completion of my four year contract as the CEO, I look back and reflect on the remarkable change that we have been able to achieve over the past years. I have proudly led the Company through a significant period of transformation and improving financial and business performance, it is with satisfaction that I can report to you, that your Company is now much stronger and better positioned to serve the needs of our customers, and indeed all Sri Lankans, whilst meeting our shareholder and stakeholder aspirations and goals.

I remain grateful to the Chairman and the Board of Directors for the trust that was placed in me carrying out the objectives of the Company and for the guidance and direction given throughout this and previous years. I acknowledge and thank the dynamic senior management team at SLT and all staff spread throughout the island for embracing the strategic goals and targets identified over the last few years, which has enabled SLT to be the leading telecommunications service provider in the country. Your contribution to the advancement of SLT not only as a business but also as a good corporate citizen has won us many awards and accolades.

The future is now! As Sri Lanka gears up for a new phase of economic growth and mega infrastructure development, SLT, as the national telecommunications provider, is well positioned to help power that growth by facilitating telecommunications services and playing a pivotal role in deploying knowledge and information to one and all across the length and breadth of the country.

I wish the Company every success in the future.

One Country, One Voice.

Greg Young
Chief Executive Officer

PEO TV

PEO TV opens up a new generation of entertainment and information to inspire and enhance everyday life.





THE FUTURE: NOW

**THE PLEASURES OF WORLD CLASS
ENTERTAINMENT**

Stay tuned and stay in touch. PEO TV brings the best of world class sports, entertainment and news into people's living rooms. Wherever they are, whatever they want, we're reinventing the way personalised entertainment is delivered to everyone.

THE BOARD OF DIRECTORS



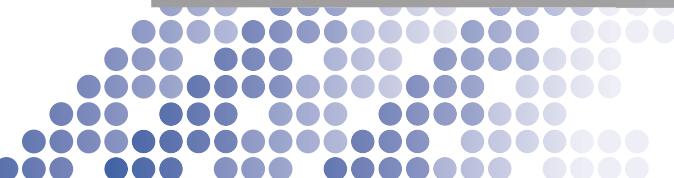
Mr. Nimal Welgama

Chairman/Director



Mr. Sandip Das

Director





Mr. Chan Chee Beng

Director



Mr. Jeffrey Jay Blatt

Director

THE BOARD OF DIRECTORS



Mr. Shameendra Rajapaksa
Director



Mr. Jayantha Dharmadasa
Director



Mr. Kalinga Indatissa
Director



Mr. Lawrence Paratz
Director

THE BOARD OF DIRECTORS



Ms. Pushpa Wellappili
Director



THE BOARD OF DIRECTORS PROFILES

Mr. Nimal Welgama

Chairman/Director

Mr. Nimal Welgama joined the Board of Sri Lanka Telecom PLC on 20th May 2010 and was appointed Chairman of the Board. He is also a Director/Chairman of Mobitel (Private) Limited, SLT Publications (Private) Limited, SLT Visioncom (Private) Limited, SLT Manpower Solutions (Private) Limited, SLT Hong Kong Ltd and Sky Network (Private) Limited and a Director of Sri Lanka Telecom (Services) Limited. Mr. Welgama is the CEO of the Upali Group of Companies and also serves as a member of the Monetary Board of the Central Bank of Sri Lanka.

Mr. Sandip Das

Director

Mr. Sandip Das was appointed to the Board of Sri Lanka Telecom PLC on 5th June 2008. He is also a member of the Board of Mobitel (Pvt) Ltd.

He is the Chief Executive Officer of Maxis Communications Berhad. He also serves as Chief Executive Officer and Executive Director on the Board of Maxis Berhad, Malaysia and as a Director on the Board of Aircel, India. In addition, he serves the Board of Bridge Mobile Pte Ltd, a strategic alliance of regional telecommunication providers. He was listed as one of the 100 most powerful people in the telecoms industry worldwide in Global Telecoms Business for three years running in the 2012, 2011 and 2010 GTB Power100 list. He was also voted as the Best CEO in Malaysia by FinanceAsia's 'Asia's Best Managed Companies' country listings in 2012.

Sandip has more than 33 years of work experience in the consumer durable, automobile and telecommunications industries. Prior to Maxis, he was Deputy Managing Director and a Director on the Board of Hutchison Essar Limited (now known as Vodafone Essar Limited, India). He joined Hutchison Essar, then known as Hutchison Max Telecom, and started that Company's operations in India with its paging business in 1994. Prior to that, he worked with Al Futtaim Motors, the Toyota franchise in Dubai, UAE, and 10 years with Indian durable giant Usha International.

He holds a Masters of Business Administration degree from the Faculty of Management Studies, University of Delhi, and a Bachelor's degree in Mechanical Engineering from the Regional Engineering College (now the National Institute of Technology), Rourkela, India.

Mr. Chan Chee Beng

Director

Mr. Chan Chee Beng, a Malaysian, was appointed to the Board of Directors on the 5th of June 2008 and subsequently to the Board of Mobitel (Pvt) Ltd. He also serves as a member of the Audit Committee.

He has more than 30 years of experience in investment banking, financial management and accounting including stints with Ernst & Young and Morgan Grenfell & Co. Ltd prior to joining the Usaha Tegas Sdn Bhd ("UTSB") Group in 1992 as head of corporate finance. He is presently an executive director of UTSB and serves on the Boards of several other companies in which UTSB has significant interests such as Maxis Berhad (listed on Bursa Malaysia Securities Berhad) ("Maxis"), Maxis Communications Berhad and Binariang GSM Sdn Bhd, having an operational base in Malaysia, Bumi Armada Berhad ("BAB") (listed on Bursa Malaysia Securities Berhad), an offshore oil and gas service provider.

He is also a director of Yu Cai Foundation and MEASAT Satellite Systems Sdn Bhd ("MSS"), a regional satellite operator, and a Director in a non-executive capacity on the Board of MEASAT Global Berhad ("MGB"), the holding Company of MSS. He is a member of the Audit and Nomination Committees of BAB and Maxis and a member of the Audit Committee of MGB.

Mr. Chan holds a degree in Economics and Accounting from the University of Newcastle-upon-Tyne, United Kingdom and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Jeffrey Jay Blatt

Director

Mr. Jeffrey Jay Blatt was appointed to the Board of Sri Lanka Telecom PLC on 5 June 2008, and sits on the Senior Tender Board and the Technology Sub Committee. He is also a Director of SLT Visioncom (Pvt) Ltd, and SLT Hong Kong Ltd. Mr. Blatt acts as Special Counsel to Astro All Asia Networks PLC ('Astro'), and Usaha Tegas Sdn. Bhd.('UT Group'), in Malaysia, and is Of Counsel at the law firm of Tilleke & Gibbins in Thailand leading its Telecom, Media and Communications ('TMT') practice. In 2011 and 2012 he was named as one of Asia's leading TMT lawyers by the Legal 500 Asia Pacific. Clients include Microsoft, Apple Computer, AT&T, Facebook and a variety of other international clients in the telecom, broadcasting and media space.

THE BOARD OF DIRECTORS PROFILES

Prior to his current positions, he was the Senior Vice President of Business Affairs and General Counsel, at Astro and the Group General Counsel of UT Group in Malaysia. Before moving to Malaysia, he was a partner in the nationally recognised law firms of Irell & Manella LLP, and Blakely, Sokoloff, Taylor and Zafman, in Los Angeles, California, and represented technology companies including Apple Computer, Sun Microsystems, Intel, Broadcom, and Sony Electronics. He also represented entertainment companies in multimedia and special effects matters including Sony Pictures Entertainment and Light Storm Entertainment.

Mr. Blatt attended the Lewis and Clark Law School, Oregon, USA and holds a Juris Doctor (J.D.) degree, cum laude, as well a Bachelor of Science (B.S.) degree in Engineering from the University of California, Los Angeles (UCLA) and a Master of Science (M.S.) degree with Distinction, from Tiffin University, Ohio. He is a member of the California and United States Federal Bars, and is a registered United States Patent Attorney.

Mr. Shameendra Rajapaksa

Director

Mr. Shameendra Rajapaksa joined the Board of Sri Lanka Telecom PLC on the 26th May 2010, and serves on the Senior Tender Board and the Technology Sub Committee. He also serves as a Director of SLT Publications (Private) Limited and SLT Hong Kong Ltd. Mr. Rajapaksa is a Director of Sri Lankan Airlines Ltd and is the Private Secretary to the Minister of Finance and Planning.

He had served as a Director of Sri Lanka Ports Authority and as the Private Secretary to the Minister of Ports and Aviation. His previous professional experience includes Head of Engineering Services at S2 Technologies Inc, Director of Development at Leads to Wealth Inc, Engineer at Sun Microsystems Inc and Software Team Lead at NASA ISS Earthkam Programme, all based in California, USA.

Mr. Rajapaksa holds a Bachelor of Science degree in Computer Engineering from the University of California, San Diego (UCSD). He is a member of the Institute of Electrical and Electronics Engineers (IEEE) and is an inducted member of Phi Theta Kappa, an international honours society.

Mr. Jayantha Dharmadasa

Director

Mr. Jayantha Dharmadasa is a business personality with over 35 years of experience in Business Management and over 27 years in the Health Care Industry. Having completed his education at S. Thomas' College, Mt. Lavinia, he joined the family business Conglomerate i.e. Nawaloka Group of Companies. Mr. Dharmadasa is a Fellow Member of the Institute of Certified Professional Managers (FCPM). He was appointed to the Board of Sri Lanka Telecom PLC as an independent Non-Executive Director with effect from 26th May 2010. He also serves as the Director of SLT Visioncom (Pvt.) Ltd., SLT Manpower Solutions (Pvt.) Ltd., and Galadari Hotels (Lanka) PLC. Mr. Dharmadasa is the Chairman of Nawaloka Holdings (Pvt.) Ltd. In addition, he holds the Chairmanship of Nawaloka Hospitals PLC, Nawaloka Medical Centres (Pvt.) Ltd., Nawaloka Metropolis Clinical Laboratories (Pvt.) Ltd., Nawaloka Constructions Co. (Pvt.) Ltd., Nawaloka Polysacks – Sharjah, Sasiri Polysacks (Pvt.) Ltd., Nawaloka Aviation (Pvt.) Ltd., Ceyoka (Pvt.) Ltd., Nawaloka Trading Co. Ltd., Kola (Pvt.) Ltd., Concord Ventures Exports Lanka (Pvt.) Ltd., Sahas Wear (Pvt.) Ltd., New Ashford International (Pvt.) Ltd., Nawaloka Petroleum (Pvt.) Ltd., and Nation Lanka Finance PLC.

He was the past Chairman of National Film Corporation, Sri Lanka Cricket Board and Past President of Asian Cricket Council. He is the Chairman of the Outstanding Song Creators Association (OSCA) and Cinestar Foundation.

Mr. Kalinga Indatissa

Director

Mr. Kalinga Indatissa joined the Board of Sri Lanka Telecom PLC on 26th May 2010 as an Independent Non-Executive Director and serves on the Audit Committee and the Senior Tender Board. He is also a Director of the SLT Manpower Solutions (Pvt) Ltd.

Mr. Indatissa is an attorney-at law of the Supreme Court of Sri Lanka and counts 24 years of practice at the Bar and currently serves as the head of a legal firm consisting of 20-25 lawyers.

He was also a Director of the Sri Lanka Foundation and has been appointed as the Competent Authority reviewing underutilised assets and enterprises. He has also served as a Director at the Employees Trust Fund Board and Lecturer at Sri Lanka Law College and also as a visiting lecturer of Sri Lanka Hotel School and Sri Lanka Police Higher Training Institute. He served as a member of the Interim Committee of the Sri Lanka Cricket Board from 2010-2011.

Earlier he held the position of an Examiner and Lecturer in Civil Procedure, Law of Evidence and Criminal Law at the Sri Lanka Law College. He was a tutor in Criminal Law, Criminal Procedure, Administrative Law, Law of Evidence and Civil Procedure, Sri Lanka Law College.

He has also penned numerous books on the laws pertaining to computer crime, civil procedure and criminal law in Sri Lanka.

Mr. Lawrence Paratz

Director

Mr. Lawrence Paratz was appointed to the board of Sri Lanka Telecom PLC as an Independent Non-Executive Director with effect from 26th May 2010.

Mr. Lawrence Paratz holds an M. Sc. (Telecommunication Systems) with Distinction, and was awarded the Philips prize from Essex University, and an M. Eng. Sc. from the University of Queensland.

He is a Fellow of Engineers Australia (FIEAust) and an alumnus of the Stanford University Executive Development Programme. He also holds Bachelor's Degrees in Science and Engineering (Honours).

In 2011, he was elected as a Fellow of the Australian Academy of Technological Sciences and Engineering (ATSE).

Mr. Paratz has more than 30 years experience in all facets of the telecommunication industries including mobile, fixed, broadband, satellite and international networks both domestic and international. This includes capital and infrastructure development, operations, sales, customer service and

regulatory issues. As a Director and Chief Executive of Acacia Australia Pty Ltd, he was responsible for development of an integrated proposal for delivery of national broadband communication for Australia.

He is a Director of Maxis Communication Berhad, Chairman of the Technology Committee of the Board and a former senior executive of Telstra Corporation. He is also a Director of Vernet Pty Ltd, a Company providing ultra high speed Broadband to Universities and Research Establishments in Australia.

Mr. Paratz has had executive responsibility for multi-billion dollar programmes and integrations including network transformations and deployments across multiple technologies, with extensive experience in regional and rural communications. He previously served as a member of the Board of the Australian Government's Internet Assistance Programme. He has been an invited speaker at the Australian Health Informatics Conference, and the Australian Academy of Technological Sciences and Engineering.

He was formerly Chairman of the On-Trac@Peter Mac Adolescent and Young Adult Cancer Programme, and has been involved in a number of initiatives in e-health..

Ms. Pushpa Wellappili

Director

Ms. Pushpa Wellappili is a member of Sri Lanka Administrative Service. She holds a Bachelor of Science (Hons) Degree in Mathematics and Statistics from the University of Jaffna, a Bachelor of Laws Degree from the Open University of Sri Lanka and a Master of Laws (LL.M) degree from the University of Colombo. She is also an attorney- at law of the Supreme Court of Sri Lanka.

She currently holds the position of Deputy Secretary to the Treasury in the Ministry of Finance and Planning. She has over 30 years of experience in the public service and has held a various posts since joining the public service.

LEADERSHIP TEAM



Left to Right Standing

Lalith De Silva

Group Chief Executive Officer, Sri Lanka Telecom

Priyantha Perera

Chief Administrative Officer

K. A. Kiththi Perera

Chief Enterprise & Wholesale Officer

Ajantha Seneviratne

Chief Business Strategies Officer (Subsidiaries)

Shiron Gooneratne

Chief Financial Officer

Mohan Padmaperuma

Chief Transformation and Development Officer

D. W. R. Wijeweera

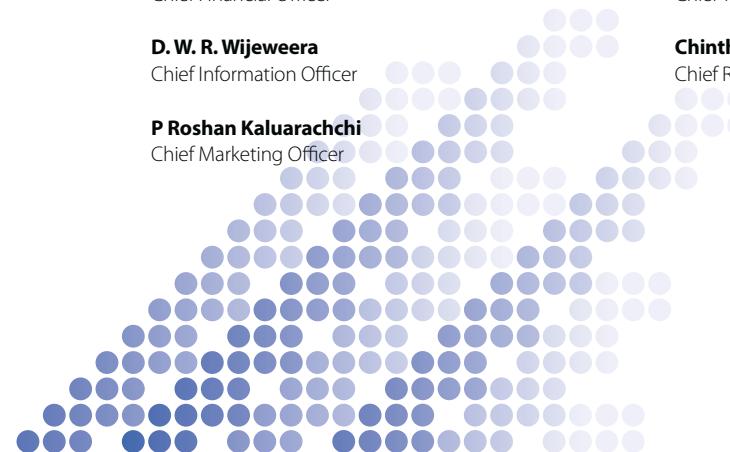
Chief Information Officer

Chinthaka C. Wijesuriya

Chief Regional Officer

P Roshan Kaluarachchi

Chief Marketing Officer





Left to Right Seated

Malraj Balapitiya

Chief Executive Officer, SLT Publications (Private) Limited & SLT Visioncom (Private) Limited.

Jayantha Thilakarathne

Chief Human Resource Officer

Prasanna Perera

Chief Executive Officer, Sri Lanka Telecom (Services) Limited

M. B. P. Fernandez

Chief Network Officer

Tilak De Silva

Chief Executive Officer, SLT Hong Kong Limited

S. K. Lal Ranjith

Chief Corporate Officer

Ranjith Ganganath Rubasinghe

Chief Executive Officer, SLT Manpower Solutions (Private) Limited

Mahinda B. Herath

Chief Executive Officer, Sky Network (Private) Limited

LEADERSHIP TEAM PROFILES

Lalith De Silva

Group Chief Executive Officer, Sri Lanka Telecom

Lalith De Silva joined Sri Lanka Telecom as its GCEO in 2013, making him the first local CEO following the company's privatisation in 1996. Prior to this appointment, De Silva was the CEO of Mobitel (Private) Limited, which is a wholly owned subsidiary of SLT, for two separate terms. The first was in 2002 - following the acquisition of Mobitel by SLT; and then in 2011. Having guided Mobitel in the establishment of its GSM network, he was instrumental in laying the foundation for its rapid technological and market growth.

Commencing his engineering career at IBM in Sri Lanka and then in Australia, De Silva is a recognised global ICT and Programme Management Specialist. Having worked as an Advisor to SLT, a Board Director/Consultant for SriLankan Airlines and a Senior Advisor to Saudi Telecom, De Silva is an experienced telecommunications professional, bringing to the table three decades of extensive international private sector experience spanning a wide range of industries. A Fellow of the Institute of Management Consultants, UK, De Silva is also the Founder Chairman of the Project Management Institute in Sri Lanka. He functioned as its Chairman until 2009, and currently serves as an Advisor. At present, De Silva is reading for a PHD at the University of Colombo.

Priyantha Perera

Chief Administrative Officer

Joined SLT in 1982, armed with a BSc from the University of Moratuwa in Electronics and Telecommunications. He is a Chartered Engineer with a Post Graduate Diploma in Marketing from the CIM (UK) and a Fellow and a Past Council Member of The Institution of Engineers, Sri Lanka, a member of IET (UK) and CIM (UK), and also a Competent Toastmaster. He has experience in areas such as regional management, project management, technology strategy formulation and execution, technical operation, technical evaluation, marketing management and Company transformation. He has led special Company-wide cross-functional teams on 'productivity improvement' and 'paradigm shift' in SLT such as 5S and Breakthrough Thinking.

S. K. Lal Ranjith

Chief Corporate Officer

Joined SLT in 1984 as an Engineer. He holds a BSc (1983) in Electronics and Communication from the University of Moratuwa and an MBA from the PIM of the University of Sri Jayawardanepura. He has also completed a Post Graduate Diploma in Marketing from the CIM (UK) and is a Chartered Marketer cum Chartered Engineer with membership of The Institution of Engineers, Sri Lanka and CIM (UK). He is also a Toastmaster.

K. A. Kiththi Perera

Chief Enterprise & Wholesale Officer

Joined SLT in 1994. He holds a MEng from University of Moratuwa in Electronics and Telecommunications Engineering and a Chartered Engineer of the Institute of Electrical Engineers and Engineering Council (UK). He has experience in International Transmission Systems, Submarine Cable Systems, Data and IP Networking and Project Management. He has experience in dealing with Enterprise and Government customers over the last 10 years and was instrumental in introducing Metro Ethernet Technology to Sri Lanka. He has provided voice-data integrated enterprise solutions connected with high speed resilient connectivity services to many customers.

Shiron Gooneratne

Chief Financial Officer

Joined SLT in 2009. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and a Member of the Institute of Certified Management Accountants, Australia and holds an MBA from the University of Leicester, UK. He has held senior finance positions both locally and overseas, including the position of Finance Director / Member of the Board of Directors of a leading multinational company operating in Sri Lanka.

Jayantha Thilakarathne

Chief Human Resource Officer

Joined SLT in 2011. He is an attorney-at law and obtained LL.B Degree from University of Colombo. He also holds a Master of Public Management (HR) and has 22 years of experience in the field of HR. He has held senior HR positions in both national and multinational companies. Before he joined SLT, he worked as Group General Manager-HR & Admin at Maliban Biscuit/Milk/Wonder Pack Manufactories (Pvt) Ltd. He has wide exposure to the fields of Human Resources, Personnel Administration, and Legal.

D. W. R. Wijeweera

Chief Information Officer

Joined SLT in 1982 and served as Head of the Billing Division in 2001 and became CIO of SLT in 2005. He is a member of The Institution of Engineers, Sri Lanka (C.Eng.), IIESL, IET (UK) and CSSL. He has been engaged in major IT projects to provide the strategic IT road map for SLT. As Programme Manager he implemented the Integrated OSS , BSS and in the recent past it was integrated with CRM system by him, as a project director.

P Roshan Kaluarachchi

Chief Marketing Officer

Mr. Kaluarachchi, DipM, MCIM (UK) and MSLIM, joined SLT in 2010 as Chief Marketing Officer. He is a Chartered Marketer who counts over 19 years of experience in the entire spectrum of marketing: communication, media, distribution channel management, product and brand management in the FMCG, consumer durables and telecom services sectors, in both multinational and local organizations in Sri Lanka. Prior to joining SLT, Mr. Kaluarachchi served as General Manager - Marketing at Mobitel where his aggressive strategic marketing leadership contributed towards the company becoming the second largest mobile operator within a short span of 3 years. The launch of SLT's "Abhimaana" was amongst many milestones achieved in 2012 under his marketing leadership.

M. B. P. Fernandez

Chief Network Officer

Joined SLT in 1991. He has a BSc Eng in Electronics and Telecommunications from the University of Moratuwa and an MBA from the University of Sri Jayewardenepura. He is a Chartered Engineer and a Fellow Member of the Institute of Engineers, Sri Lanka with 23 years of experience in operations, maintenance, project management, customer service and marketing. He also serves as Director of Sri Lanka Telecom (Services) Ltd. and an IPM Resource Person.

Chinthaka C.Wijesuriya

Chief Regional Officer

Joined SLT in 1984 and served as Regional Head in 2001 and became Chief Regional Officer of SLT in 2010. He obtained Graduate membership of Radio and Electronic Engineers (London, UK) and became a Chartered Engineer of the Institution of Electrical Engineers (London, UK). He is a Member of the Association of Professional Engineers Scientists and Managers Associations in Australia and holds an MBA (Technical Management) from La Trobe University of Australia. He has wide experience in the telecommunications industry, in areas such as operations, maintenance, sales, marketing, customer service, quality management and project management.

Mohan Padmaperuma

Chief Transformation and Development Officer

Joined SLT as an Engineer in 1984. He holds a BSc in Electronics and Telecommunication from University of Moratuwa (1983). He is a Chartered Engineer and a Fellow member of the Institution of Engineers, Sri Lanka. He brings with him experience in the Emirates Telecommunication Company from 1989 – 1991.



LEADERSHIP TEAM PROFILES

Ajantha Seneviratne

Chief Business Strategies Officer (Subsidiaries)

Joined SLT in 1993. He holds a BSc. (1987) in Electronics and Telecommunications from the University of Moratuwa and has obtained the Post Graduate Diploma in Industrial Engineering from OUSL. He has an MBA from the University of Sri Jayawardenepura. He is a Chartered Engineer and is a member of The Institution of Engineers, Sri Lanka. He brings with him over ten years of marketing experience.

Prasanna Perera

Chief Executive Officer, Sri Lanka Telecom Services

Prasanna Perera joined Sri Lanka Telecom Services in 2003 as Head of Marketing and was appointed CEO of the Company subsequently. He is a member of Sri Lanka Institute of marketing (SLIM), Higher National Diploma in Business Management(NIBM), Chartered Institute of Marketing (UK), and has a Master of Business Management from University of Lincoln, UK. Prior to moving to Sri Lanka Telecom Services, he served in several senior managerial positions at the Metropolitan Group, EDS Lanka and Lanka Communication Services. During his career spanning 22 years, Prasanna worked in the ICT industry with his exposure ranging from software development to communication companies and also serving as visiting Lecturer in marketing and management of some institutions.

Tilak De Silva

Chief Executive Officer, SLT Hong Kong Limited

Tilak De Silva joined SLT in 1984 and has more than 27 years of experience in the IT and communication fields. He has held the key positions of Head of IT, Chief Global Officer and Chief Network Officer at SLT. De Silva holds a Degree of Bachelor of Science of Engineering (Specialising in Electronics & Telecommunications Engineering) from University of Moratuwa and Degree of Master of Science in Data Communication from Brunel University U.K. He is a Chartered Engineer of Sri Lanka as well as U.K and a Chartered IT Professional of U.K. He serves as the President of Institution of Engineers Sri Lanka. He is a Fellow Member of IET - UK, Member of BCS –UK and Member of IEEE – USA.

Malraj Balapitiya

Chief Executive Officer, SLT Publications (Private) Limited & SLT Visioncom (Private) Limited.

Malraj Balapitiya is a professionally qualified Chartered Engineer and a Fellow Member of the Institute of Engineers of Sri Lanka. He counts over 28 years of work experience at various levels of the SLT Administration and has swiftly climbed the corporate ladder, starting as a Technical Officer and then holding positions such as Regional Telecom Engineer, Head of the Province and General Manager.

He has been able to transform the locally established RAINBOW PAGES to create a reputed brand that competes with international brands in the same category. Keeping national commitments in mind, he has established a common platform to extend directory services to customers of other operators via various media such as CD, Web, WAP e Directory etc.

Ranjith Ganganath Rubasinghe

Chief Executive Officer, SLT Manpower Solutions (Pvt) Ltd.

Ranjith G. Rubasinghe holds a wealth of experience in the fields of Communications and IT in various national and multi-national organisations and has been with Sri Lanka Telecom for 12 years. A Chartered Engineer and Fellow of the Institution of Engineers, Sri Lanka (IESL) with a MBA from the University of Colombo. Rubasinghe is also a certified member of the Sri Lanka Institute of Marketing (SLIM) and an associate member of the Institute of Personal Management (IPM). He adds to his diverse portfolio by displaying expertise in ICT Management, Human Resource Management, Marketing and Operational & Financial control. At SLT, he served as head of section "RAINBOW PAGES" (2006-2008) and as the Chief Executive Officer of SLT Manpower Solutions (Pvt) Ltd since 2008. He has led the organisation to win Asia's Best Employer Brand Award 2012 –for "Best HR Strategy in line with Business" and "Best in Recruitment and Consulting" at Asian Leadership Award 2011. Among his personal achievements, he was awarded Chartered Engineer of the Year 2011 at IESL's Engineering Excellence Awards and the 'HR LEADERSHIP AWARD' for his contribution at the Global HR Excellence Awards 2010 at the Asia Pacific HRM Congress in India.

Mahinda B. Herath

Chief Executive Officer, Sky Network Private Limited.

Mahinda is a Chartered Engineer holding a Degree in Engineering from University of Moratuwa and a Masters in Industrial Mathematics from University of Sri Jayawardenapura. In a career spanning over 28 years in the SLT Group, he has gained multi-disciplinary exposure in the fields of engineering, management, regulation and business; having previously held positions such as Engineer, Deputy General Manager, Head of Province and General Manager Regulatory Affairs and International Business. Apart from the wide-ranging technical and managerial training he has received from reputed international Operators such as Telia AB of Sweden, France Telecom, AT & T of USA and KDD of Japan, he has also gained certifications in Telecommunication Regulation from Commonwealth Telecommunications Organisation (CTO), Australian Communication & Media Authority (ACMA) and University of Florida. He has also been involved in the activities of ITU study groups, Sri Lanka Association for the Advancement of Science (SLAAS) and International Development Research Centre (IDRC), with several research papers and a book chapter to his credit.

THE FUTURE: NOW.

MANAGEMENT DISCUSSION & ANALYSIS

In line with the Government's vision of enabling all citizens with Information and Communications Technology (ICT), Sri Lanka Telecom's mission is to deliver innovative and exciting communication experiences to all Sri Lankans



"The telecommunication industry will be a strategic catalyst in achieving the Economic and Development goals ahead. Fulfilling this responsibility, as the national telecommunication solutions provider, we have made the country ready, now"

As the nation's leading integrated communication, broadband and backbone infrastructure services provider, SLT is well positioned to be a partner in the growth of the country's economy as Sri Lanka gears up for a new era of infrastructure development.

Overview

"One country. One Voice"- Sri Lanka Telecom (SLT) connects all Sri Lankans seamlessly through world class telecommunication services empowering the citizens of the nation to unify in an era of accelerated development.

In line with the Government's vision of enabling all citizens with Information and Communications Technology (ICT), Sri Lanka Telecom's mission is to deliver innovative and exciting communications experiences to all Sri Lankans. As the nation's leading integrated communications, broadband and backbone infrastructure services provider, SLT is well positioned to be a partner in the growth of the country's economy as Sri Lanka gears up for a new era of infrastructure development.

SLT provides facilities and services in the areas of voice, data, video and mobile. Together with its subsidiaries, the Group provides these services to over six million customers including multinational corporations, large and small corporations, the public sector, retail and domestic customers.

The Company has been awarded a National Long Term Rating of AAA (lka) and a BB- rating on Long term Local Currency and Foreign Currency by Fitch Ratings, followed by B+ local currency and foreign currency credit ratings by Standard & Poor's.

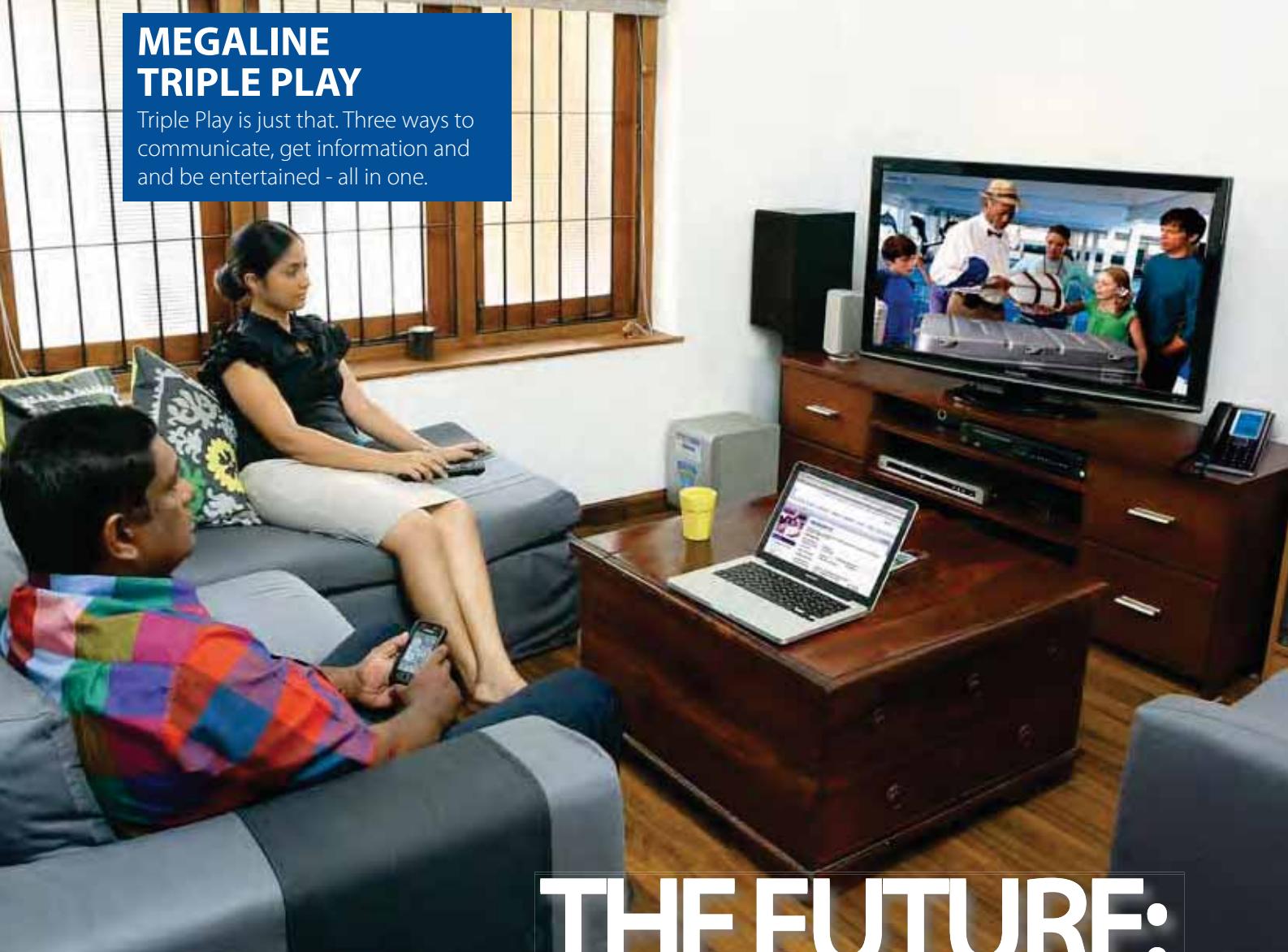
Macro Economic Conditions

The Sri Lankan economy achieved growth rates of above 8% for two consecutive years in 2010 and 2011. However the Central Bank has estimated that overall GDP growth slowed to 6.5% in 2012, following policies adopted to stabilise the economy in the face of a slow global recovery, rising domestic credit and adverse weather that affected output.

Inflation has been in single digits for over 47 months with year-on-year inflation at 9.2% and the annual average inflation at 7.6% as at December 2012. The Central Bank also reduced policy rates and allowed the credit ceiling to expire by end 2012 in order to provide some stimulus to the economy.

MEGALINE TRIPLE PLAY

Triple Play is just that. Three ways to communicate, get information and be entertained - all in one.



THE FUTURE: NOW

THE ULTIMATE CONVERGENCE

The ultimate in technological convergence, Triple Play Megaline gives customers one line that offers three unique experiences: best-in-quality telephone, uninterrupted, high speed internet and personalised entertainment, in packages designed for home and office.



MANAGEMENT DISCUSSION & ANALYSIS



The promise:
Transformation

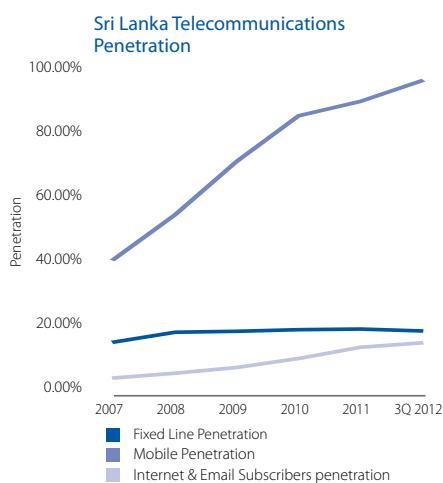
The delivery:

SLT Group successfully transformed the internal processes and practices that will bring in efficiencies and increased productivity throughout the Group. We have focused on the four goals of Services, Operations, Network and a Synergetic approach as key strategies that ensure the Group remains competitive

Mega infrastructure development projects have gained momentum with the transport network being expanded to include more highways and expressways and new ports and international airports being introduced as part of an accelerated development plan. The country greeted its millionth tourist in 2012 and is poised to meet a target of 2.5 million tourists by 2016. In this milieu, the demands on the Information and Communication Technology services sector in Sri Lanka are expanding.

Industry Analysis

Though Sri Lanka is classified as a developing nation, its adult literacy rate of 90 per cent and youth literacy rate of 98 per cent are on par with developed countries. The Government



Source: TRCSL

has recognised the importance of education and IT literacy and has undertaken initiatives to bring IT education to rural areas. However Sri Lanka is currently below the world average of fixed and mobile broadband penetration though national averages show a year on year increase. Below graph illustrates the national telephone density and the growth in the number of mobile and internet subscribers in Sri Lanka.

SLT Strategic Themes

Seven areas of strategic focuses have been defined at SLT, based on the four main strategic themes of Services, Operations, Network and Group Synergy.

1. Offer world class ICT and infotainment services to all Sri Lankans, anywhere, anytime
2. Best in class delivery of products and services
3. Modernise operational architecture to improve efficiency
4. SLT Company transformation (business model, process and organisation)
5. Single transport and aggregation network with multiple access networks
6. Be a catalyst for national GDP growth
7. A synergistic approach as a group

Strategic themes for SLT are developed and reviewed considering the present and future business context. The Annual Business Plan (ABP) is therefore derived from the strategic themes of the Company after considering the business priorities during the respective year. Agreed targets and milestone of the Annual Business Plan are then communicated throughout the organisation using awareness programmes so that all staff are aware and held accountable at their respective levels. These organisational targets are translated in to respective operational targets at group, divisional and sectional levels where these targets are linked with the personal targets of all employees after they have proven an awareness of overall organisational objectives.

To ensure the achievement of business objectives, monitoring and rectifying mechanisms are established at each level through monthly progress meetings, investment governance board meetings, transformation programme review meetings and other operational review meetings. Performance evaluations of an individual's contribution to achieving organisational objectives are then measured against established criteria. The overall transformation model focuses on process, people and organisation in the business planning, delivering and performance monitoring for improved quality service.

Accountability and Performance Evaluation Process

Process

SLT produced several important business capabilities during 2012, following the vision of the business transformation programme. "Align Planning to Strategy" and "Manage Business Planning" are two of the capabilities relevant to the business planning and monitoring process that were updated.

"Align Planning to Strategy" capability is delivered with a long range strategic planning model that can be revised annually. Additionally it aligns all new investments to the Company's vision, mission, values and business objectives. Business processes were updated to link people and systems with the new business culture to deliver the values.

The "Manage Business Planning" capability is delivered by reviewing the annual business planning process considering the transformation capabilities to deliver a single plan for the entire Company. In addition, it provides a framework to determine the total annual capital investment of the Company. Alignment of new product plans with Company direction, change capacity planning, and project portfolio mapping processes are defined during capability development.

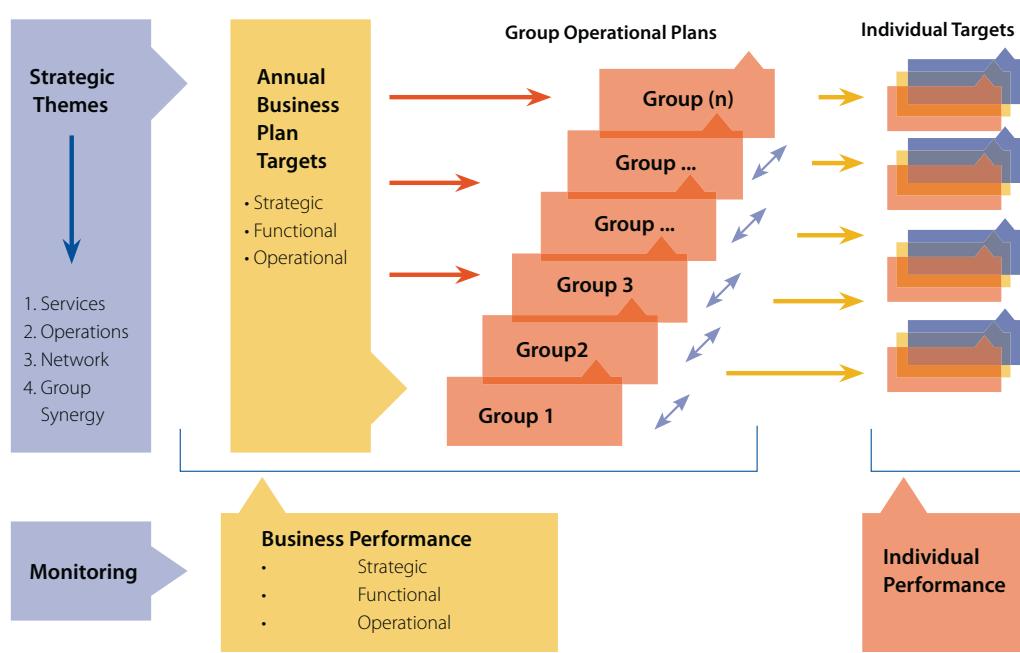
The coming years will see the Company focusing more on expanding the broadband footprint, upgrading the existing Megaline customers to double-play or triple-play, offering unmatched high speed internet and high quality entertainment services. Value-added services will bring in increased revenue to SLT while reducing the capital expenditure on network expansion.

Efficiency improvement initiatives are being undertaken to reduce operational expenditure while minimising below-the-line advertising to further reduce expenses on advertising and promotions. Furthermore, SLT has identified significant savings that can be made by replacing the legacy network elements with NGN elements. Recent initiatives such as implementing energy saving policies and increasing employee awareness will give us long term savings in energy consumption.

When introducing operational efficiencies that would increase revenue and decrease expenditure, SLT will ensure that these measures are taken in a manner in which customer services are not compromised. Service assurance and resolution of customer complaints will be enhanced through the newly introduced Network Operations Centre (NOC), Contact Centre and field staff integrated processes. Furthermore, SLT will expedite the efficiency that can be achieved by sharing resources, channels, space, etc., within the Group in order to provide customers with the best service possible.

Future Now

SLT is a vital power behind connectivity in Sri Lanka, delivering faster access to information and communication in all the key economic sectors of the country. As Sri Lanka gears up to service millions of tourists, the tourism related sectors such as airport and aviation, leisure and transportation are expected to keep up with the service needs of its customers. The Banking and Finance sectors play a key role in the country's economy which relies heavily on advanced communications systems and sophisticated technology platforms. SLT is happy to



MANAGEMENT DISCUSSION & ANALYSIS

become their communication backbone which facilitates all their business and banking transactions.

It is the future now and SLT is ready to lead the entire nation towards achieving prosperity. In 2010 and 2011 SLT completed the expansion of the fibre optic core network to the Northern peninsula and other areas, improving customer access to high performance broadband, empowering business expansion, enabling all telecommunications operators to expand their operations, enhancing quality, performance and capacity to meet all future ICT requirements of the Northern peninsula.

In 2012 SLT carried out a series of discussions with authorities pertaining to being granted the license to operate the Sri Lanka national ICT backbone. The Backbone would essentially enable all telecommunications operators to expand their operations, and introduce new facilities across the country. With this, all new development across the country would be linked, facilitating greater employment, economic growth, and new investment opportunities.

Network Modernisation and Transformation

The network modernisation and transformation project, consisting of the Next Generation Network (NGN) and i-Sri Lanka programme, will provide a host of IP based value added features and ultra high speed broadband coverage for the existing network throughout the country. This will revolutionise users' broadband experience.

Currently, SLT provides internet services via its nation-wide fibre optic backbone network by using access technologies such as copper based PSTN (Megaline), CDMA (Citylink), Fibre-to-the-Cabinet/FTTC (i-Sri Lanka), Fibre-to-the-Building/FTTB (Metro Ethernet) and Corporate VPN (Intelligent Solutions).

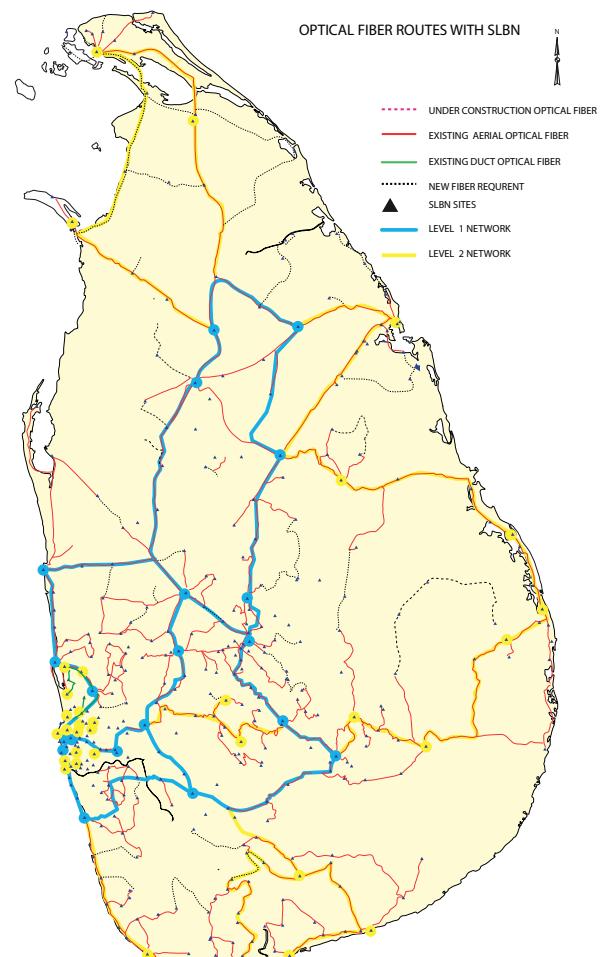
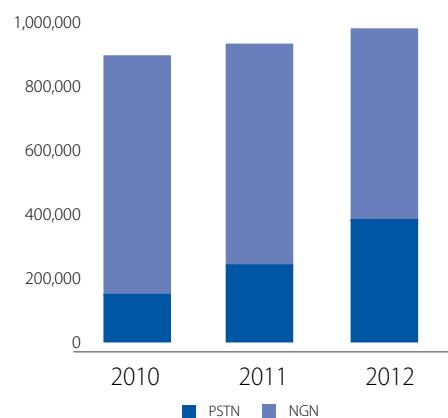
i-Sri Lanka

The capital intensive expansion programme launched by SLT a decade ago has delivered the future now. The first phase of the ultra high speed Broadband Network under the nation-wide network modernisation project - "i-Sri Lanka" - has brought in an additional 57,000 broadband connections during the year.

The project which commenced in late 2010 is progressing well with enhancements and upgrades to the existing fixed network, by expanding it to bring it closer to customers through Fibre-to-the-Node (FTTN) deployment of Multi-Service Access Nodes (MSANs). These Nodes that are located within 2km from customers will reduce the length of the copper connections, thereby significantly increasing reliability, quality and broadband data speeds whilst reducing maintenance and replacement costs.

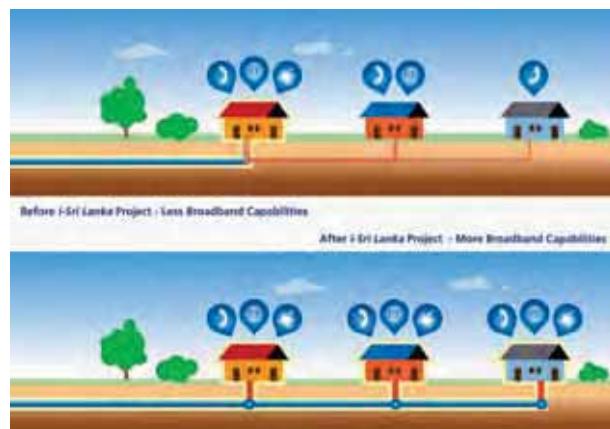
The i-Sri Lanka project which is fully integrated with the Company's Next Generation Network (NGN) modernisation project, has met its annual target of adding approximately 3,500km of fibre and by the end of 2012, had a total fibre network of 14,656km. The project will target a total capacity of over 600,000 broadband ports on its network by the end of 2013, and targets to achieve broadband speeds of up to

NGN Migration



20Mbps for more than 90 percent of the existing one million customers by then.

During the year, SLT Megaline registered its one millionth fixed line household, which translates into over 4.5 million people across the island. The technological upgrades made all across the country will not only deliver enhanced broadband experience with double and triple play features available with SLT's Megaline (fixed lines) connections, the one million households will also be introduced to a world of entertainment options through PEO TV. With a growing customer base which was at 68,000 by end 2012, PEO TV added capacity to meet the demands of 90,000 customers, with further expansion planned for the coming year.



Metro Ethernet

SLT Metro Ethernet service is a state-of-the-art Ethernet network operated by SLT to deliver high bandwidth connectivity solutions for high-rise buildings, main corporate offices and important commercial buildings, and is based on the well-known Ethernet standard of Metro Ethernet Forum (MEF). SLT Metro Ethernet is ready to offer reliable services in the demanding arena of data communications with the ever-increasing need for enterprise connectivity. A new aggregation network was introduced for improved service availability. The Metro Ethernet Network (MEN) connects more than 330 important commercial locations in metro areas, including cities outside Colombo.

Intelligent Solutions

The second component of SLT's next generation network (NGN), which is a part of the network transformation programme, will enable enterprise customers to experience an array of product offerings in the Intelligent Solutions portfolio. These are exclusively offered to corporate customers comprising Managed, Networking, Hosting and Enterprise voice services.

Case Study

The fact that the 'i-Sri Lanka' project is transforming whole communities can be evidenced by the progress made in regions where it has been implemented. Teldeniya in the Kandy district makes for an interesting case study of this.

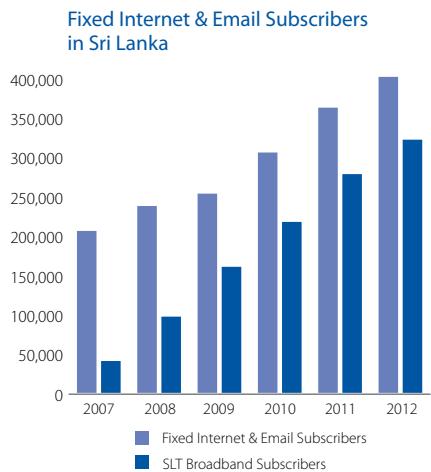
Teldeniya is an agri-based society with a growing middle class population and an estimated total population of 9,371 (2010 est.). Situated on the outskirts of Kandy City limits, the region had no Optical Fibre connectivity for telecommunications. Existing services were provided from 'Digana' Telephone exchange which is 16 km away, through copper cables.

Since the copper distance was more than five kilometers, it could support only the lowest speed of broadband with no ability to provide IPTV. There were 93 voice service customers out of whom only 11 had a broadband connection. SLT devised a solution using 'i-Sri Lanka' to provide Teldeniya with high speed broadband. The copper cable network linking Teldeniya with Digana was replaced by Optical Fibre, connecting Teldeniya directly to the SLT fibre backbone network. Simultaneously, all copper cable distances were reduced to less than 1.5 km. Within weeks, the broadband customer base increased from 11 to 193, marking a 17 fold increase while the customer base for voice services also increased.

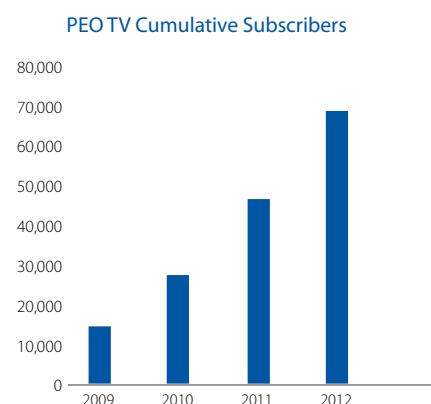
In a world where almost all forms of communications are now in digitised mode, advancements in communication technology have enabled communication via email, social networks, cloud computing etc to take place across a myriad of laptops, smart phones, tablets and other smart devices, giving users access to real time data and information.



MANAGEMENT DISCUSSION & ANALYSIS



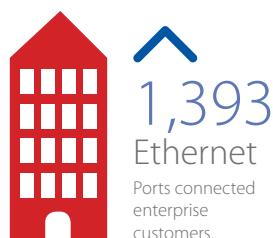
| i-Sri Lanka Promise – 2012 | Delivered |
|----------------------------------------------------------------------|-----------|
| 57,000 new broadband connections | ✓ |
| Fibre to the Node within 2km from the customer | ✓ |
| 3,500km of fibre optics added to network expansion | ✓ |
| Reliability, quality and high speed data | ✓ |
| Broadband capability improved to a total of 50% of the customer base | ✓ |
| PEOTV capability improved to a total of 50% of the customer base | ✓ |



SLT has understood the needs of the customer and is making cutting edge technology available now in order to enable its enterprise customers to compete in their respective industries. The Company is offering the enterprise customers with voice, networking, data hosting and managed services through the Intelligent Solutions portfolio.

The latest additions to the NGN architecture in 2012 helped enterprise customers make optimum use of their communication equipment both within and outside the organisation by replacing the traditional voice connections with Internet Protocol (IP) based product portfolios. The service which gives an organisation scalability and improved reach across multiple IP based infrastructures was made available using premium Virtual Private Network (VPN) for customers with high speed bandwidth requirements, and value VPN for customers with low speed bandwidth requirements.

During the year, SLT also successfully deployed IPv6, the world's latest IP version. The Company is the first Internet Service Provider (ISP) in Sri Lanka to have implemented its network transition towards an IPv6-ready platform. As a dominant player in the internet market, SLT is now able to provide fast access to information using VPN via its NGN architecture.



2012 also saw SLT expand capacity in the internet data centre (iDC) to better serve enterprise customers by catering to their unique and diverse data hosting requirements whether it be shared, virtual or dedicated hosting. SLT iDC, offers affordability and simplicity coupled with high end features such as operating system, security, data transfer, data backup and storage.

SLT has been at the forefront of offering a wide array of managed services such as customer relationship management, human resource management, and project management amongst many others by way of using concepts such as cloud computing. In 2012, by allowing customers to select packages based on their business and budgetary requirements, SLT successfully increased its customer base that is now using the futuristic technology of cloud computing.

Customer Centric Transformation

The past 4 years heralded changes at SLT with the Transformation Vision "To be a market driven, customer centric business" and Mission "To lead, define and execute a best practice approach for achieving the Transformation vision". The Company's values were to shape its behaviours and performance would be measured against these values on a qualitative basis.

The core values at SLT have driven the Company to transform itself from a Product/Network based organisation to a customer centric organisation; these values were "customers are at the centre of everything we do", "we are trustworthy", "we continuously invent new opportunities through creative thinking", "we are responsive", "we are one team working together to achieve a common goal", "we are committed to exceptional performance" and "we are dedicated to enhancing stakeholder value".



"SLT's state-of-the art data centre offerings empower your organisation to focus on strategic directives of the core business by minimising your daily fire-fights and helping to broaden your business horizons."

| Intelligent Solutions Portfolio Promise - 2012 | Delivered |
|------------------------------------------------------------------------------------------------------|-----------|
| Availability of replacing traditional voice connections with Internet Protocol (IP) related services | ✓ |
| Deployment of latest IP version – IPv6 | ✓ |
| Choice of Virtual Private Networks based on speed of connection | ✓ |
| Expansion of Data Centre to cater to diverse needs | ✓ |
| Availability of cloud computing services | ✓ |
| 'BizApps' solutions with managed service offerings | ✓ |
| VideoMeet introduced to conduct effective business meetings | ✓ |

The transformation process also focused on implementing processes and practices throughout the organisation that would increase productivity and efficiency. Whilst encouraging a stringent accountability and performance evaluation process, the Company also introduced many cost control measures especially in the operational areas such as vehicle usage and maintenance.

Operational Efficiencies

SLT, through its business re-engineering process, identified many opportunities for controlling costs and introduced programmes that brought about total savings of Rs.100million to the Company.

MANAGEMENT DISCUSSION & ANALYSIS

The core values at SLT have driven the Company to transform itself from a Product/Network based organisation to a customer centric organisation.

Energy committees were formed during the year to study the costs associated with energy usage and to explore possibilities for reducing energy consumption. One initiative implemented during the year was the introduction of energy efficient LED lighting. With increasing energy tariffs, it was essential that SLT made a concrete effort to reduce its energy costs.

Energy savings and cost efficiencies are expected to continue with the Company migrating 500 exchanges into "softswitch" that are NGN capable. The reduction in space consumed for the operation and the resultant energy savings due to lower electricity consumption in terms of power supply for the operation, charging of the battery back-ups to operate the generators, as well as reduced fuel costs needed for the maintenance of the fuel tanks, are expected to bring in substantial cost savings.

The Company has also taken active measures to control costs in operational areas. Besides the many programmes implemented, introduction of an in-house vehicle repair and maintenance programme has also resulted in significant annual savings.

Customer Centric Business Process Enhancements

Understanding customer needs in order to fulfill customer requirements was yet another challenge faced by SLT. The year 2012 saw the introduction of a Customer Service Management (CSM) that fill the gap in the present order management system. Along with the system and processes in place, the Company went through a comprehensive training programme on customer service. Staff at each customer touch point had to attend the mandatory training. This programme will be extend to implement Customer Relationship Management (CRM) system in end of year 2013.

In addition, a one-of-a-kind SLT Technology Experience Centre was set up in 2012 at the Company's head office premises at Fort, Colombo to provide a dedicated location for the demonstration of its technologies and services to enterprise and SME customers. The centre allows customers to experience

technologies and products that are available and also allows the Company to introduce innovative solutions whilst enhancing existing services, based on feedback received. The new Centre will also be used as a 'proof of concept' lab for systems integration solutions. Furthermore, it is also a place where focus group discussions and presentations can be conducted to target customers, thereby taking a step towards building long-standing relationships with potential and existing corporate customers.

In addition, a new teleshop was opened at the Fort CTO heritage building where customer experience is enhanced with additional features to provide a convenient "one-stop-shop" for our customers. The Teleshop provides the convenience of settling all SLT bills, obtaining any SLT service such as Megaline, Broadband internet, PEO TV, Citylink, internet and email services, and mobile services through Mobitel counters at the location. Further, the new teleshop will showcase the 'Experience Centre', to provide first-hand experience to customers on the products offered by SLT's high quality single play, double play and triple-play services. The SLT teleshop network is a key distribution channel for all SLT products and services including pre-paid and post-paid services and the purchase of new telecommunication equipment, as well as being a convenient channel for customers to make inquiries and complaints.

For the convenience of customers who are unable to access Teleshops, SLT launched a one of a kind "Mobile Experience Centre". Existing and potential customers are now able to walk in, interact with and experience firsthand the many services offered through this mobile experience centre that travels around the island. In addition to giving the masses the opportunity to experience for themselves the range of services offered by SLT, it also gives them the opportunity to speak with SLT representatives to gain further product knowledge and obtain clarification on any area related to SLT products and services. The SLT Mobile Experience Centre also has capability to access high speed broadband services and wireless capabilities on smart phones and tablets, allowing customers to experience 65 channels on PEO TV.





SLT also took a step further in building a strong, mutually beneficial relationship with customers by organising 11 customer forums during the year 2012 covering all provinces of the island. The presence of senior management of the Company helped build the trust and confidence of the attendees, and allowed customers and the Company to exchange information and bring about increased levels of customer satisfaction by understanding their concerns, providing quick solutions to issues and shortcomings they faced and carrying out improvements they saw necessary to SLT services.

A long term need to handle one of the biggest challenges in the telecommunications industry – revenue leakage – was introduced in 2012. A Revenue Assurance System (RAS) along with best practices in revenue assurance was implemented with adequate training for staff with a view to increasing operational efficiencies. The revenue assurance system will not only be used as an auditing tool but also as a business intelligence reporting system to assist decision making.

Service Assurance and Customer Fulfilment

The creation of the SLT Network Operating Centre (SLTNOC) has brought about operational efficiencies whilst enhancing service assurance and customer fulfillment by centralising services and functions. Island wide Operations and Maintenance Centres (OPMCs) ensures 24/7 end to end service manageability and delivery as well as post service assurance across the country. This also created a need for streamlining reporting structures, eliminating repetitive functions and introducing accounts and performance management systems. The employees involved were provided with extensive training as they needed to be educated on all vertical technological platforms, as the services require coordination between two or more platforms.

Furthermore, the Company believes that along with providing superior customer service, it also needs to provide a transparent and ethical process for customers to understand the "value for money" being provided. As such, the Company offers its internet users the "Broadband usage meter" facility which enables them to view their data usage and manage their budgets and data volumes each month.

| Customer Centric Transformation Promise - 2012 | Delivered |
|-----------------------------------------------------------------------------------------------------------------|-----------|
| Product development based on customer needs and requirements and the introduction of various broadband packages | ✓ |
| Comprehensive staff training on customer service and products and services offered by SLT | ✓ |
| Setting up of the Technology Experience Centre | ✓ |
| Centralised network management system through the SLT Network Operating Centre (SLTNOC) | ✓ |
| Introduction/enhancements to Service Assurance and Customer fulfillment | ✓ |
| Introduction of a CRM and RA System | ✓ |
| Introduction of customer forums, focus groups and other market research activities | ✓ |



The promise:
To empower enterprises.

The delivery:
Enterprise solutions strengthened with Managed, Networking, Hosting and Enterprise voice services.

MANAGEMENT DISCUSSION & ANALYSIS

Furthermore, SLT has identified significant savings that can be made by replacing the legacy network elements with NGN elements. Recent initiatives such as implementing energy saving policies and increasing employee awareness will give us long term savings in energy consumption.

Product Development

In 2012, SLT introduced "Brand Health track", a monthly study of consumer needs and preferences that is carried out by an external market research company. The information analysed from these reports as well as information gathered during customer forums, focus groups and feedback received from the Technology Experience Centre are utilised to improve and introduce product offerings. The newly introduced CRM system which captures data including complaints, compliments and preferences of customers are further analysed to assist in the research and development of new products and services.

SLT with its "customer first" approach, designed several broadband packages to suit the many lifestyles and needs of its customers, in an effort to make broadband affordable and accessible, connecting every home and bringing people online so that information and knowledge are easily shared. New packages with data volumes ranging from 2GB to 300GB per month were introduced, while the 'Rockets Speeds' campaign launched during the year promoted 9 high speed packages with speeds, ranging from 1Mbps to 16Mbps.

In keeping with the vision to provide affordable services for all, SLT in 2012 introduced night time broadband offers with free data volumes for the first time in Sri Lanka with additional free usage volumes from 1GB to 100GB based on the selected package. In order to fulfill a void in meeting customer needs, SLT added 'Bandwidth On Demand', which enables users to request additional volume with the same speed by calling the SLT Contact Centre through the newly introduced charge free hotline '1212' once threshold limits were reached.

SLT's expansion projects and enhanced access to broadband, also meant availability of PEOTV services to a broader customer base. Seven new channels were added during the year to enhance the local and international channel offerings. Video on Demand (VOD) grew to a total of 29 movies, 5 tele-dramas,



"Newest Teleshop opened in the 'Central Telegraph Office' (CTO), in Colombo Fort in keeping with company's commitment to offer enhanced customer care and a superior interactive brand experience."

4 tele-films and 16 documentaries in 2012. Subscriber video on demand (SVOD) introduced "Cinemaworld on demand" which offers a collection of 30 international movies a month at a nominal monthly rental fee. The corporate business solutions targeting the tourism sector introduced a pilot project during the year and TV banking made the headlines in 2012 as a first in Sri Lanka. Together with Union Bank, SLT facilitates banking transactions via the telephone including fund transfers, utility bill payments, and balance inquiries, providing convenient access to banking from the customer's own home. PEOTV introduced a new package "Silver Plus" in 2012 to those customers who preferred an upgraded service.

"Abhimaana", a broadband package targeting public sector employees and pensioners brought in the highest ever sales from a broadband promotion.

The interactive voice recognition service available through SLT was promoted by conducting an island-wide competition of folksongs unique to Sri Lanka which attracted 40,000 songs, thereby helping to preserve the heritage of the country.

Many other promotions such as "fly with IDD" promoting International Direct Dial services, "Dial and win" cricket promotions, and many other seasonal promotions were, also offered during the year.

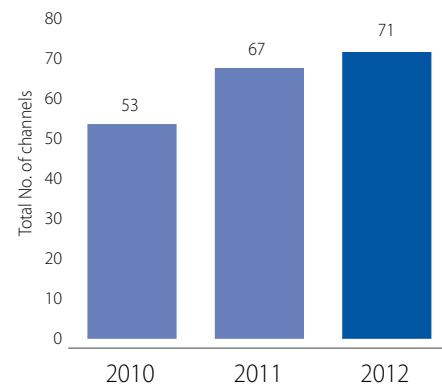
| Product Development Promise | Delivered |
|--------------------------------------------------------------------------|-----------|
| Product development based on customer needs and requirements | ✓ |
| Introduction of affordable broadband packages targeting various segments | ✓ |
| Special promotions for other products and services | ✓ |
| Introduction and enhancements to PEOTV Services | ✓ |

The efforts of SLT in enabling a "connected" society have contributed to the expansion of fixed broadband internet subscribers over the past few years. Furthermore, the 117km of optical fibre laid in 2011 along the Southern Expressway to facilitate the information superhighway for the Southern Province has significantly contributed towards revenue growth of the Company.

The SME customer base, the fastest growing segment of SLT, continued its positive trend and contributed to the Company's revenue significantly.

Year 2012 was one of achievements for SLT in providing superior technological services with unmatched customer service.

PEO-TV Number of Channels



One achievement in the provision of extensive communications and technical solutions was when SLT powered the 2012 Global Symposium for Regulators (GSR-12) held in Colombo. The ITU's Global Symposium for Regulators (GSR) is the pre-eminent international event for the regulatory community around the world and SLT provided Wi-Fi facilities for conference locations, LAN for communication among ITU and conference officials and delegates, Multiple Internet Lines for high speed internet connectivity at 30Mbps bandwidth, and audio visual language interpretation supporting 6 different languages.

| Product Offered | Target Market/Purpose |
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Megaline | |
| • Citylink Loyalty Reward Scheme - Special migration plans introduced | To provide a number of value added features such as high-speed internet and PEO TV etc. delivered through Megaline to enhance customer experience |
| • 0% interest scheme to credit card holders | Continued to add more product offers for customer convenience |
| • Dial & Win cricket quiz competition | To increase usage and establish "1298" as the competition portal of SLT |
| • Dial & Win Riddles competition | To increase usage and establish "1298" as the competition portal of SLT |
| • Jana Gee Tharuwa Wee competition launched | Promote "1298" Interactive Voice Recognition (IVR) portal whilst educating society on folk songs and preserving cultural heritage. |
| • Mega Twenty20 | Encourage subscription for Megaline connections through attractive offers |
| • New Year Connection campaign | To encourage subscription for new connections with discounts and give-aways |
| • Christmas Connection campaign | To encourage subscription for new connections with discounts and give-aways |

MANAGEMENT DISCUSSION & ANALYSIS

| Product Offered | Target Market/Purpose |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Broadband | |
| <ul style="list-style-type: none"> High speed volume based packages introduced at the beginning of the year | To create awareness among customers of the superior speeds, volumes and better range of packages that are on offer |
| <ul style="list-style-type: none"> Broadband promotional offer through 'Happy Broadband Year' campaign | To improve customer experience, offered with free data bundles with automatic speed upgrades to existing Broadband users |
| <ul style="list-style-type: none"> Abhimaana Broadband package for public sector employees and pensioners | Encourage subscription by Government sector employees and pensioners by offering special packages in recognition of their noble service to the nation |
| <ul style="list-style-type: none"> New Year connection campaign | To encourage subscription for new connections with discounts and give-aways |
| <ul style="list-style-type: none"> Christmas connection campaign | To encourage subscription for new connections with discounts and give-aways |
| PEO TV | |
| <ul style="list-style-type: none"> TV banking introduced | Banking portal facilitating online banking services using the TV as an interface |
| <ul style="list-style-type: none"> New channels added Shraddha TV, HiruTV, Max TV, Ten Action Plus, France 24, KBS World, Discovery Turbo, Discovery Science | Offering viewers a wide array of entertainment options. |
| <ul style="list-style-type: none"> Silver Plus package (Rs.999/=) introduced | Upgrade package offering to subscribers who require additional features |
| <ul style="list-style-type: none"> New Video on Demand (VOD) content added | Offering viewers a choice of entertainment options on demand |
| <ul style="list-style-type: none"> New Subscriber Video on Demand (SVOD) pack | Offering viewers a choice of movies through "Cinemaworld on demand" for a monthly rental fee |
| <ul style="list-style-type: none"> Advertising on PEO TV | Advertising initiated on 10 channels giving the advertisers the option of targeting a wider customer base. |
| <ul style="list-style-type: none"> New Year connection campaign | To encourage subscription for new connections with discounts and give-aways |
| <ul style="list-style-type: none"> Christmas connection campaign | To encourage subscription for new connections with discounts and give-aways |
| Citylink | |
| <ul style="list-style-type: none"> 0% interest scheme introduced for credit card holders | Continued promotion adding more product offers for customer convenience |
| <ul style="list-style-type: none"> Dial & win riddles completion | To increase usage and establish "1298" as the competition portal of SLT |
| <ul style="list-style-type: none"> Jana Gee Tharuwa Wee competition launched | Promote "1298" Interactive Voice Recognition (IVR) portal whilst educating society on folk songs and preserving cultural heritage. |
| <ul style="list-style-type: none"> Mega Twenty20 | Encourage subscription for Megaline connections through attractive offers |
| <ul style="list-style-type: none"> New Year connection campaign | To encourage subscription for new connections with discounts and give-aways |
| <ul style="list-style-type: none"> Christmas connection campaign | To encourage subscription for new connections with discounts and give-aways |
| IDD | |
| <ul style="list-style-type: none"> IDD national day offers throughout the year | Promote the use of the IDD feature and remind customers that all Megaline residential phones are IDD enabled by offering special rates on the national day of respective countries |
| <ul style="list-style-type: none"> Fly with IDD campaign | Encourage the frequency and duration of IDD calls by offering return air tickets as prizes |

| Product Offered | Target Market/Purpose |
|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Intelligent Solutions | |
| <ul style="list-style-type: none"> • Re-launch Intelligent Solutions product portfolio | SLT's Intelligent Solutions are aimed at equipping local businesses with the full range of ICT solutions to help succeed in the global arena. |
| <ul style="list-style-type: none"> • BizApps launched | SLT BizApps is an all-in-one offering to connect your business seamlessly and ease your processes through our cloud based application services. |
| <ul style="list-style-type: none"> • VideoMeet launched | To experience economical high quality web based video conferencing at its best |
| <ul style="list-style-type: none"> • SME product offerings introduced | To reinforce corporate packages available to existing and potential customers |

The SLT Contact Centre which was awarded the operations of the Call Centre for the Government Information Centre (GIC) in 2011 has been commended by the Presidential Secretariat for the successful handling of over 5,000 callers per day on the "1919" network. The GIC, established under the aegis of the Presidential Secretariat and the Information and Communication Technology Agency (ICTA) is the conduit which provides information to the general public pertaining to any service offered by the public sector. The number is also used as a facility to lodge complaints.

SLT is proud to report that after an assessment of SLT's performance during the first 2 years of operating the 1919 service and after a competitive tender process, the Government awarded SLT a further 2 year contract to operate this service from January 2013.

SLT achieved a milestone in providing "Intelligent Solutions" when SLT empowered ICC World Twenty20 2012 in Sri Lanka by providing dedicated internet through Ethernet connectivity, high speed Wi-Fi access and optical fibre connectivity to all venues across the country. By being the premier telecommunication services provider for the ICC T20 World Championship 2012, SLT showcased its capability to cater to mega events with a global outreach, where the delivery of consistent, high quality services is a must.

The requirements for the event in 2012 were significantly higher than those provided for the ICC World Cup held in 2011. The demand for high speed internet bandwidth in larger capacities and the need for Wi-Fi accessibility for the World Cup venues empowering ICC officials, photographers, journalists, broadcasters and the wide range of media personnel who cover the entire event with second by second updates were greater. Therefore, SLT invested heavily to extend the latest infrastructure to cover a larger area, with SLT personnel providing 24 x 7 assistance throughout the duration of the tournament.

Through the e-government initiative by the Government of Sri Lanka and ICT Agency, SLT provides the communication infrastructure to connect all the Government institutes to the Lanka Government Network (LGN), linking them to provide faster, streamlined services to the public. During the year SLT has already upgraded connectivity to higher bandwidth speeds for 240 locations out of a total of 465 connected locations island wide.

LEARN is the national research and education network of Sri Lanka that connects academic and research institutions in the country. SLT is proud to have provided this project with high bandwidth connectivity up to 10Mbps via IP-VPN links to the University Grants Commission (UGC) and 13 universities island wide. During the year, the Company upgraded LEARN with a dedicated Internet Leased Line of 264Mbps, upgraded 3 VPLS connections to universities and 5 new VPLS connections to 5 universities opening up new possibilities for Sri Lanka's researchers and academics.

The Company has also completed significant upgrades and introduced new services to meet the voice and data communication requirements of all state banks in the country during the year 2012.

During the year many of the foremost corporate entities in Sri Lanka engaged SLT to provide communications solutions such as data centre, backup, disaster recovery, managed, networking, hosting services and IP/VPN services.

Improving Global Reach

Sri Lanka Telecom has the largest internet backbone with multiple access points to the Internet. Geographical coverage has been established by connecting to major POPs in North America, Europe, Far East Asia, South Asia and India to ensure high performance connectivity to the internet through multiple Tier 01 Global Internet Service Provider's Networks. Sri Lanka Telecom has taken steps to further strengthen its

MANAGEMENT DISCUSSION & ANALYSIS



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Government Information Centre
අරசාங்கத் தகவல் மையம்

"Won the Government contract for the second time for operation of the 1919 dedicated hotline that empowers the Government Information Centre."

global presence by partnering with global IP network service providers during the year. As a result of these initiatives, SLT's global business capabilities have exceeded the boundaries of unparalleled global connectivity and SLT is in a position to offer reliable bandwidth solutions, thereby adding more value to its growing customer base in Sri Lanka.

In line with this objective, strategic moves such as strengthening and expanding business relationships with global and regional operators and selling international bandwidth to facilitate their operations, are currently in play. This also includes providing world class international connectivity by utilising capacities of the Company's undersea cable system.

SLT has been aggressively pursuing new markets in the region with a technology strategy that fully supports it. Its global coverage has been significantly strengthened with the undersea optical fibre links: SEA-ME-WE 3, SEA-ME-WE 4, Bharat-Lanka submarine cable (between India and Sri Lanka) and Dhiraagu, the SLT submarine cable system between the Maldives islands and Sri Lanka. Sri Lanka's strategic location ensures that the country plays a crucial role in the process of unfolding new technologies across different regions.

Improved ICT infrastructure can encourage a smarter workforce and a well informed population through fast and simple access to information and services, which in turn helps fight poverty and enhances economic growth.

Future Outlook

Globalisation has brought the world closer together with customers being educated and informed of the availability of products and standards of services in other countries. The telecommunications industry will be faced with the challenge of having to deliver larger capacities at the lowest prices. With a saturated market where customer demands for services are ever increasing, all the operators are competing to provide attractive packages to customers. Efficient infrastructure will be the key to survival in the present day economic environment. SLT's network and operational transformation process aimed at bringing its network architecture to the next level of ICT will benefit our customers today and in the future.

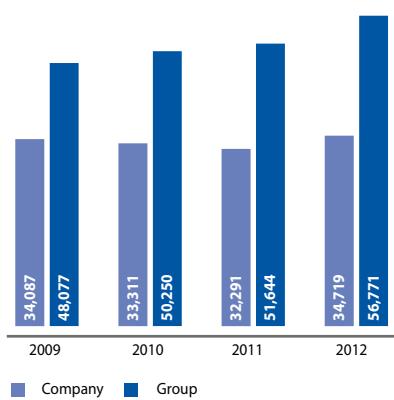
Furthermore, as a developing country, SLT can realise economic benefits through reliable telecommunication infrastructure. Improved ICT infrastructure can encourage a smarter workforce and a well informed population through fast and simple access to information and services, which in turn helps fight poverty and enhances economic growth. SLT has been a proud partner in the journey of economic progress in the country and through advanced technologies, is helping Sri Lanka attain its economic development plans while bringing the future, now to its citizens.

MANAGEMENT DISCUSSION & ANALYSIS : SRI LANKA TELECOM FINANCIAL REVIEW

Revenue

Revenue at Group level reached Rs.56.77 billion, termed through 10% growth, primarily driven by mobile voice, broadband, wholesale and enterprise data. At Company level, SLT experienced a significant increase in revenue mainly driven by broadband, wholesale and enterprise data, and international revenue. SLT revenue has increased to Rs.34.72 billion in 2012 from Rs.32.29 billion in 2011, recording a growth of 8%, the highest revenue growth recorded since 2006. Subscriber numbers experienced an upward curve of 6% in wire line, while CDMA saw a decline of 4%. Non-traditional revenue lines including broadband, wholesale, enterprise data and PEO TV recorded significant growth levels.

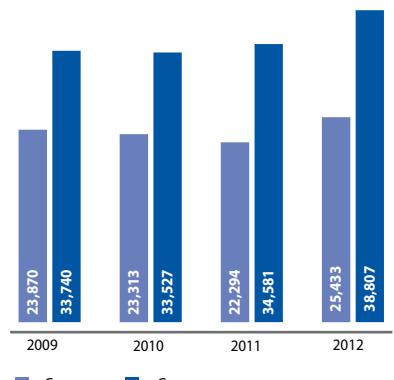
REVENUE - Rs millions



Expenditure

Having worked on strategies of prudently managing expenditure in the past, this year too the process was continued with even more emphasis, placing it as a key priority across the Group. However, 2012 has been a challenging year for SLT Group with the increase in fuel prices and hike in energy costs which exerted excessive pressure on profitability. Volume driven costs also contributed significantly in controlling operating expenses at Company level.

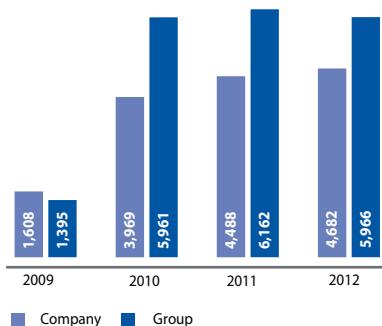
OPEX - Rs millions



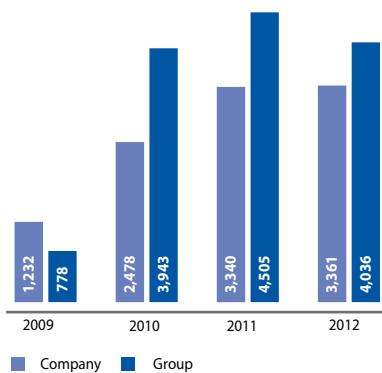
Interest Cost

There was a noteworthy increase in interest costs, mainly driven by an increased level of borrowings, which negatively impacted the bottom line results of the group as well as of the company.

PROFIT BEFORE TAX - Rs millions



PROFIT FOR THE YEAR - Rs millions



Profitability

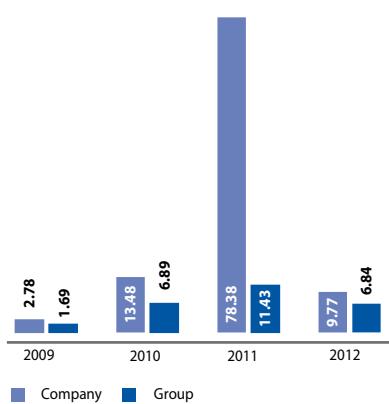
The Group recorded a Profit Before Tax (PBT) of Rs.5.97 billion and Profit for the year of Rs.4.04 billion, a decline of 3% and 10% respectively. Despite the gain on foreign exchange translation in the second half of the year due to the appreciation of the Rupee against the first half, cumulative translation loss on exchange for the full year has diluted the Group Profit before Tax (PBT) and Profit for the year. At Company level, SLT posted PBT of Rs.4.68 billion, an increase of 4% and profit of Rs.3.36 billion, an increase of 1%.

Interest Cover

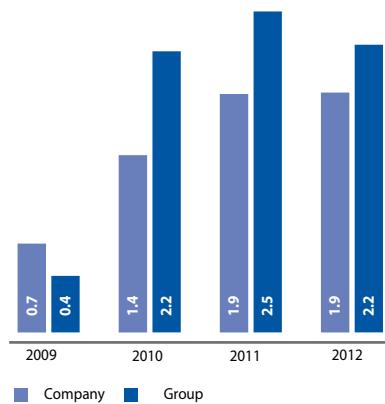
Group interest cover saw a decrease due to the increase in interest expenses. Interest cover decreased from 11.4 in 2011 to 6.8 in 2012 at the Group level, while at Company level, there was a substantial decline to 9.77 from 78.4 last year.

MANAGEMENT DISCUSSION & ANALYSIS : SRI LANKA TELECOM FINANCIAL REVIEW

INTEREST COVER - No of times



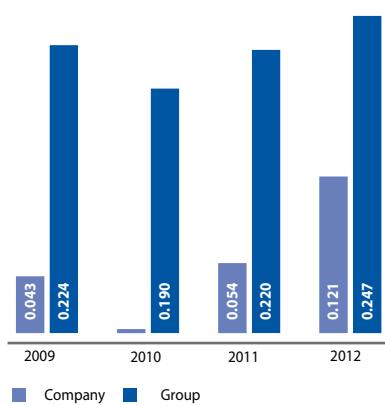
EPS - Rs



Gearing

At Group level, gearing as at 31st December 2012 and 2011 was 0.25 and 0.22 respectively, while at Company level it stood at 0.12 in 2012 compared to 0.05 in 2011.

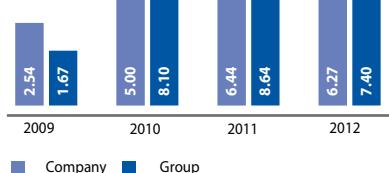
GEARING



Non-Current Assets

Total non-current assets of the Group increased to Rs.77.36 billion, as against Rs.70.71 billion from the previous year.

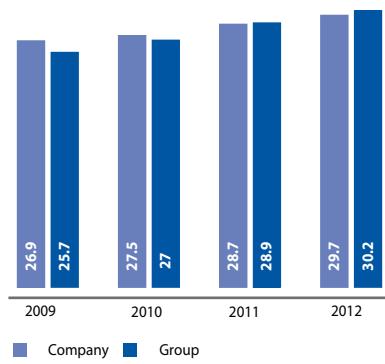
ROE - (%)



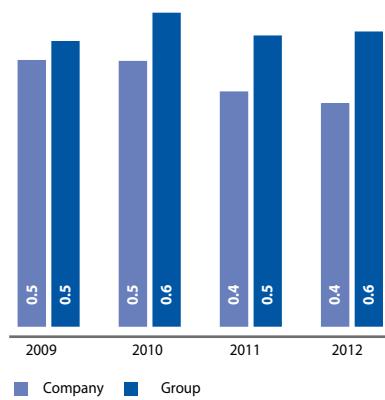
Property, Plant and Equipment

Group property, plant and equipment increased by Rs.6.01 billion from Rs.66.15 billion in 2011 to Rs.72.16 billion in 2012.

NET ASSETS PER SHARE - Rs



ASSETS TURN OVER



2011 and 2012 Financials are based on new Sri Lanka Accounting Standards applicable for the financial period beginning 1 January 2012.

MANAGEMENT DISCUSSION & ANALYSIS: MOBITEL (PRIVATE) LIMITED

Mobitel's mobile data download speeds have increased upto a maximum of 42 Mbps with the introduction of Dual Carrier HSPA+ MIMO technology.

LALITH DE SILVA



A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER, MOBITEL: LALITH DE SILVA

As Mobitel celebrates its 20th anniversary, the past year, 2012, has been nothing short of exciting. For over two decades, Mobitel has been a catalyst of innovation and global expertise, making it a much-loved mobile services brand of the people, a further testament of our brand promise 'We Care. Always.' that we continue to consistently deliver year-on-year.

The year 2012 though dotted with numerous changes and challenges saw us achieving exemplary growth rates: our subscriber base grew by 14% and our revenue by 13%. We achieved all this and more despite facing heavy competition amongst four international giants.

The past year 2012, marked a year of significant growth and expansion, with a strong commitment towards supporting the Nation's transformation strategy, focusing on taking ICT to the rural areas. We also proudly launched exciting new products and services, with new growth sectors earmarked; focusing on going beyond the customer's basic needs.

We also focused on re-inventing and improving our corporate culture, raising the bar to meet international standards. The 'CHANGE TO LEAD. NOW' organisational transformation campaign has led to integral cost saving, innovation and a crucial change in our work ethic.

While continuing to uplift lives, create new opportunities and develop Sri Lanka's ICT landscape, Mobitel looks towards 2013 with optimism, towards being the driving force of the ICT industry, contributing towards Sri Lanka becoming the 'Wonder of Asia'.

Lalith De Silva
CEO, Mobitel

MANAGEMENT DISCUSSION & ANALYSIS: MOBITEL (PRIVATE) LIMITED



The success of the initiatives undertaken is reflected in the growth which was regained during the year, an increase of 14% in the subscriber base and an impressive revenue growth of 13%.

Macro Environment

The macro challenges faced in the form of a depreciating rupee dominated the Sri Lankan financial trajectory in the early part of the year, giving disturbing signs to an imports dependent economy which was already trying to tackle high international oil and commodity prices. Adding to the dilemma, the sudden increases in energy costs that were persistent throughout the year also contributed towards a generally difficult year for the mobile telecommunication business. Notwithstanding the challenging conditions, investment in infrastructure development continued at the industry level. Mobitel leading the way, with good foresight, invested heavily in deriving a competitive advantage over industry players both systematically and in a timely manner, spanning all key areas of the organisation.

The telecom sector, one of Sri Lanka's most vibrant sectors, led the way in economic growth in recent years predominantly due to the vast potential unleashed in the mobile telecommunications subsector. Mobitel's consistent investments in the best and latest of technology and network expansion have paved the way for the Company to succeed as a leading mobile telephony operator in Sri Lanka. The intensity of competition in all forms, coupled with rupee devaluation and increasing fuel and energy costs affected the profit growth experienced in 2012 by the mobile telecom sector, despite an overall increase in market penetration and considerable revenue growth. However, through the effects of transformational change adopted at the organisational level since early 2012, complemented by increased revenues and marginal appreciation of the rupee towards the latter half of the year, Mobitel was able to successfully wipe off the losses and report healthy profits by the end of the year.

Broadband for Growth

As per the Telecommunications Regulatory Commission of Sri Lanka, by end 2012 Sri Lanka's total mobile penetration reached 100% with 20.32 million subscribers connected. Voice growth, echoing global trends showed signs of slowing while internet penetration is on the rise. The decision by the government to cut down the levy on internet services by half, from 20% to 10% is a welcome move and signals the government's intention to accelerate the ICT literacy level of the country. This in turn would serve as a multiplier in the country's economic growth process. The State's recognition that the telecom sector can perform a pivotal and integral role in accelerating economic growth is a significant development which was translated into action.

Mobile Industry Trends

The telecommunication industry is a rapidly evolving industry; one that is continually undergoing numerous transformations. According to observations made, mobile telephony has had a greater impact on the lives of more people, more rapidly than any other technology. As the mobile industry globally crossed 6.5 billion subscribers, the prospect of a whole world consisting of networked people is becoming a real possibility.

One of the significant developments is that mobile internet devices are becoming the epicentre of the industry. Reduction of prices and size of laptops coupled with the increasing power and versatility of mobile handsets, is leading to a new range of devices that combine power, versatility and greater portability such as Tablets, Smartphones etc. It is observed that smartphone adoption is growing rapidly across the globe, which is clearly the way to steal a lead in mobile data services. The conventional subscriber to subscriber environment is transcending from machine to machine with embedded SIMs. Venturing into NFC (Near Field Communication) technology springs the possibility of becoming a crucial enabler for an array of solutions spreading across many spheres. Smartphones which initiated a considerable incline in broadband access have opened up a space for services like mCommerce to become a success.

Mobitel Growth Trajectory

Proceeding from a year that tested the endurance of all mobile operators, Mobitel's growth trajectory in 2012 revolved around building and consolidating its existing position through the strengthening of voice business, driving growth in data business, exploiting new avenues of growth and establishing key partnership for mutual value creation. The success of the initiatives undertaken is reflected in the growth which was regained during the year, an increase of 14% in the subscriber base and an impressive revenue growth of 13%.



"The 'Change' programme which was initiated in early 2012 started to show dramatic results towards the latter part of the year. Within the first few months, over 500 new initiatives of different scales were adopted."

The sound growth in the Company's subscriber base and revenue flows from meticulously planned and implemented superior technology and network expansion in the recent years, which were duly complemented by the well planned and executed product and service offering and the timely efforts at making these services available to the entire population. The underlying strategy behind the network expansion is providing the "best customer experience" as Mobitel's success stems from the keen and clear understanding of customer expectations and aspirations. As a customer-centric organisation, Mobitel's philosophy revolves around creating value to the customer while Technology, Distribution, Packages, Value Added Services and Support serves as means to this end. Customer satisfaction is central to everything the Company does and this is well engraved into its operating philosophy "We care. Always".

Network Expansion Drive

Mobitel, over the years has aggressively invested in building and future proofing its network. In mid 2012 it successfully concluded the Stage VI network expansion drive by increasing the number of base stations by 1,000 to ensure that a world class, state of the art network with the widest reach is in place. Being aligned with the Government's broader vision of making Sri Lanka the knowledge hub of Asia, Mobitel successfully managed to upgrade its network in coverage, quality, capacity and speed to cater to the ever growing demands. With the completion of the Stage VI expansion, Mobitel became a leading operator in the North and East following the liberation of those areas which is a priority component of the Government's development strategy. These areas also offer new opportunities in abundance, with high demand for mobile communication and broadband services being a potent prospect available to the Company.

In late 2012, Mobitel's Stage VII expansion drive commenced and is deemed to be the single largest telecom project in

the history of Sri Lanka. This latest network expansion assures enhanced value to a growing market, and to Mobitel - the prospect of assuming a position of dominance. It ensures 100% population coverage, enhanced 3G services, introduction of new technology (4G) and a further increase in the network capacity and speed, thus developing the country's ICT infrastructure, leading it towards an info-com and knowledge-rich society.

Upgrading and scaling the present network in line with new technology and market developments is a very real advantage the Company possesses. Although lagging few years behind the competition in GSM adoption, Mobitel was able to regain its technological leadership position in December 2007 with the launch of its 3.5G High Speed Packet Access (HSPA) technology based service, capable of delivering 14.4Mbps on downlink and up to 1.98Mbps on uplink. At that time Mobitel was the first and only operator in all of South Asia and among the top ten networks in the world to implement a Super 3.5G network. In December 2009 Mobitel went on to successfully demonstrate HSPA + MIMO technology with down link speed up to 28.8 Mbps. Further it was the first in the South Asian region to carry out a successful trial of 4G/LTE Technology in May 2011. In 2012 Mobitel introduced Dual Carrier HSPA+ (DC-HSPA+) technology, which was backed by SLT's extensive fibre network offering an enhanced product through faster broadband speeds of up to a theoretical maximum of 42Mbps. 4G/LTE, Mobitel's latest technology initiative in late 2012; it is the natural successor of the telecommunication evolution of the world. Mobitel awaits approval from the Telecommunications Regulatory Commission of Sri Lanka for the commercial launch of the latest addition to its technology portfolio. With these technological capabilities, Mobitel becomes one of the best equipped operators in the world offering FD LTE, HSPA+ DC, HSPA, UMTS and 2G services. This enables the provision of enhanced and diversified services to the customer. Mobitel has the advantage of future

MANAGEMENT DISCUSSION & ANALYSIS: MOBITEL (PRIVATE) LIMITED

proofing investments in technology upgrades, while offering unparalleled service quality, be it in voice and video telephony, high speed internet, video streaming, mobile TV, music streaming, online music and other non-voice services.

Product Suite to Meet the Future Now

Mobitel, clear in its resolve and focus to grow its core business, harnessed its technological and market prowess and broke new ground in captive segments.

Driven by a strategy revolving around value innovation and with the tri-objectives of appreciably strengthening brand perception, maximising asset utilisation and becoming the leader in the Sri Lankan telecommunications industry, the Company introduced an array of revolutionary products which catered to various customer segments.

The UPAHARA INTERNET broadband package launched together with Ministry of Telecommunication and Information Technology, offers state sector employees and pensioners a free data bundle of 5GB to be utilised in two time bands for a nominal price of Rs.299 per month. The demand for the UPAHARA INTERNET broadband package has been overwhelming which resulted in consolidation of Mobitel's market leadership position in the mobile broadband arena. UPAHARA INTERNET has been a great success. The imitation by competition of its concept and characteristics are evidence of its success.

An innovative prepaid offering under the name "Bandham" designed to cater to the need of the Sri Lankan community especially in the North and East geographies was introduced. Most people living in these areas have friends and family in India and other countries making communication an indispensable part of their lives. Therefore Bandham not only fulfills all the communication needs via a mobile connection, but also offers the target segment the lowest rates for roaming, IDD and domestic call rates at the best quality. Furthermore, all existing subscribers were also given the opportunity of opting for the Bandham on their pre-paid connection, dialing a specified short code to avail themselves of the offer.

Creating value to the less privileged segments of society and making services available at affordable prices were key priorities when Mobitel designed products in line with the Government vision of making ICT accessible to all. A timely example is the birth of "Liyasara" package on International Women's Day in 2012, aimed exclusively at the women in rural Sri Lanka with the objective of empowering them whilst bridging the gender gap. An area of social responsibility that is easily overlooked, Mobitel was able to capture the inherent needs and wants of this segment and develop a comprehensive product catering to a range of key elements essential to their daily lives, from health topics to cookery,

4G/LTE - Mobitel's latest technology initiative in late 2012 - is the natural successor of the telecommunication evolution of the world.

fashion and beauty tips. With this product a novel concept was introduced by way of a special insurance cover with Sri Lanka Insurance Corporation to the Liyasara subscriber where the premium for the insurance cover is included in the monthly rental, as a nominal fee. Later on this special insurance cover via a Mobitel connection was extended to the entire Mobitel customer base with the launch of the product "mlnsurance" in partnership with Janashakthi Insurance.

The migrant worker community plays an integral part in strengthening the Sri Lankan economy. Aimed at enhancing their experience and transition to countries abroad, Mobitel launched an exclusive prepaid SIM under the name of "Aachara" in early 2012. Aachara allows users to make calls on credit up to a specified limit without having to first reload or recharge. The SIM is made freely available to migrant workers arriving or leaving the country at both Arrival and Departure counters at the Airport or at Mobitel Branches.

Mobitel continued to introduce value added services designed to be customer centric while being innovative. Mobitel's "Doc Call" Service, a joint effort with the Sri Lanka Medical Association (SLMA) is one such service, which enables a Mobitel user to receive initial medical advice from a qualified doctor affiliated to the SLMA, simply by dialing 247 on their Mobitel phone. This service, which is available for a nominal fee in all three languages 24/7/365, is currently available only to Mobitel's subscriber base. Plans are under way to make this valuable service available to all other mobile and fixed line users in the near future.

Mobitel has a long standing partnership with Sri Lanka Cricket. Extending this relationship further, Mobitel, utilising its mTicketing platform launched a service that enables users to purchase tickets for cricket matches being held in Sri Lanka by dialing 365. This service was launched at an apt time, when tickets for cricket matches were a sought-after commodity, leading to long queues and wasted time.

In line with its strong vision 'to lead Sri Lanka towards an info-com and knowledge-rich society through its service offerings', Mobitel was instrumental in launching a series of innovative and dynamic Business Solutions for corporates and small and



The demand for the UPAHARA INTERNET broadband package has been overwhelming which resulted in the consolidation of Mobitel's market leadership position in the mobile broadband arena.

medium scale businesses, in order to create higher levels of efficiency and improve livelihoods – thereby facilitating growth in the country. Equipped with the latest technology, Mobitel's goal is to enable these businesses and corporate entities to access mobile enterprise solutions that would help them increase efficiency, productivity and re-engineer their processes. All solutions are targeted at improving productivity, minimising cost structures and improving employee satisfaction as well as customer satisfaction – thus minimising business risks. Some of these solutions include Conference Bridge services, mTrack (the GPS based fleet tracking system), m-Locator (the SIM based tracking solution), bulk SMS/ESMS services and call centre solutions.

Rapid changes and advancements in digital technology and especially broadband technology mean that people are spared the need for frequent travel, thus revolutionising the way people and businesses interact in their day to day activities. This brings to mind the phrase coined by Sir Arthur C Clarke, "Don't Commute; Communicate". Mobitel's innovative product mEvent is testimony to how this is conceptualised in society today. mEvent facilitates event organisers with a fully-fledged webcasting platform which includes services such as event scheduling, creating a list of invitees, composing and sending invitations. The invitations emailed to the participants contain the web link providing them with access to watch the event live. In addition to webcasting, m-Event allows event organisers and invitees to watch the event, as recorded, within a pre-specified period of time. During the year, Mobitel partnered with the Project Management Institute and the Institute of Chartered Accountants of Sri Lanka to webcast their respective conferences to participants in Sri Lanka and abroad.

NFC (Near Field Communication) is one of the latest technologies to be deployed on mobile phones. Considered the 'next best thing' for portable electronic devices, NFC is widely used for several purposes. In 2012, Mobitel employing

the use of NFC technology launched a number of services. One of them was NFC enabled fuel cards for corporates, where eligible employees drive into a designated fuel station, pump fuel and use their NFC-technology enabled card to make a payment. These cards are preloaded with their respective allowances. Usage and amount is then transmitted real time using a secure web interface which provides the utilisation information to the Company, enabling the employees and the corporate to have a hassle-free and efficient fuel allowance system.

In addition, Mobitel also launched the iCard - a student identity card, solution that works on NFC technology. This was launched for the first time in Sri Lanka at the Royal College - Colombo premises. The NFC card reader devices which are set up at entrance points to the school, allow students to 'tap' in their attendance and a pre-defined cut off time informs the parents via an SMS of the child's absenteeism. The iCard which bears vital information of the student serves as a building access card, travel card, canteen card and library card in addition to being a means of monitoring attendance. It is also used as a management tool to generate valuable reports increasing the productivity and efficiency of the school administration.

Mobitel also launched the industry's first NFC based loyalty programme –Club Magnate. This ground-breaking product is yet another innovative addition to Mobitel's growing portfolio.

With a view to promoting mLearning, a unique and novel approach to making higher education accessible to everyone, anytime, anywhere, Mobitel further strengthened ties with the University of Colombo with the launch of several new initiatives. mLearning, also known as mobile learning, is the process of teaching and learning through the use of mobile



Liyasara, a special package designed to empower women of Sri Lanka was launched on International Women's Day 2012.

MANAGEMENT DISCUSSION & ANALYSIS: MOBITEL (PRIVATE) LIMITED

and hand held devices such as Mobile Phones, Personal Digital Assistants (PDA), Laptops and Tablet Personal Computers. Further, in 2012, Mobitel signed a strategic agreement with the General Sir John Kotelawala Defence University to facilitate online learning of the university's professional studies through the Mobitel mLearning platform. The globally accessible online learning and content delivery platform enables academics and lecturers to connect live with virtual classrooms from anywhere in the world, in real-time.

As the National Mobile Service Provider, Sri Lanka Telecom Mobitel believes in the real prospect of value added services and synergies through selective collaborations and partnerships. Constantly striving to empower all government institutions to be conversant in technology, Mobitel partnered with the National Transport Commission to supply Mobile Enterprise Solutions with the latest technology driven mobile communications services.

Mobitel teams up with like-minded partners to serve existing markets as well as to enter new markets and in support of national causes. Such strategic partnerships have given access to many new service platforms and new market segments and in so doing produced mutual gains. Some such collaborations include: Immigration Department, Ministry of Telecommunications and Information Technology, Sri Lanka Post, Health Ministry, Airport and Aviation, Foreign Employment Bureau, Southern Province Road Passenger Transport Authority, National Child Protection Authority, National Transport Commission and Universities.

During the year the Company in collaboration with the Southern Province Road Passenger Transport Authority (SPRPTA) provided taxi services in Galle and its vicinity under the name "mTaxi". Mobitel also joined hands with the Ministry of Health's Epidemiology Unit to conduct a vaccination project, which is in trial at Gampaha. Recently Mobitel also opened a service centre at the Department of Immigration and Emigration in Colombo and was instrumental in piloting the "ETA project". ETA (Electronic Travel Authorisation) is a web based system for tourists to obtain visa prior to arrival in Sri Lanka. The system comprises of a software solution by Mobitel to facilitate the Department of Immigration and Emigration to receive and process visa applications for visit purposes and to notify the applicant regarding the outcome of the application.

Mobitel's strong product suite is further complemented by a formidable distribution network capable of extensive reach. The 1,000+ outlets comprise our own branches, Singer Mega outlets, SLT offices, online dealers, post offices (for prepaid services), banks and Keells supermarkets (Payment Centres) and Arpico Super Centres.

Transformational Change

The beginning of 2012 was a significant juncture for Mobitel where change was transpiring in every direction. The transformation was occurring at an unprecedented pace both on a global scale as well as at country level. This necessitated a revitalisation process, which was necessary to view this change from an optimistic angle and harness the opportunities that it presented. As a result a committed, determined effort under the theme "Change" was launched to achieve an organisational change across the board. The programme entailed the following objectives: a culture change towards adapting to constant change, nurturing and encouraging initiatives and innovation, instilling a sense of urgency, cost optimisation, improving process efficiencies across the board, enriching the workforce with knowledge and skills, and renewed customer focus. New strategies, new policies, new processes, new technologies and new ideas were put in place to transform Mobitel to achieve unparalleled growth and leadership in the ICT industry.

The 'Change' programme which was initiated in early 2012 started to show dramatic results towards the latter part of the year. Within the first few months, over 500 new initiatives of different scales were adopted. These were all based on suggestions made by the staff. Cost savings achieved through these collective efforts ran into several hundred millions.

Empowering Team Mobitel

Mobitel is endowed with a rich pool of talent that is passionately committed to providing the highest quality of service and value. Thus with the 'Change' campaign, employees displaying outstanding levels of commitment towards achieving the Company's objectives were duly recognised as "Change Leaders".

During the year, the HR department adopted a number of new initiatives making Mobitel an employer of choice. The Performance Management System was further strengthened, reinforcing a performance driven culture. An open door policy for staff was encouraged with clear channels of communication; where escalating issues to the highest level of authority was made simple. Added to this, periodic opinion surveys are also conducted where results are discussed and addressed. Mobitel believes in investing in human capital by enriching their knowledge and skills through proper training and development, which will ultimately lead the Company forward to meet the 'future now'.

As an employee centric organisation which focuses on providing enhanced opportunities for employees to develop their skills and knowledge, Mobitel introduced "Mobitel Talent Extravaganza", a talent search to bring out and recognise the

As a customer-centric organisation Mobitel's philosophy revolves around creating value to customers while Technology, Distribution, Packages, Value Added Services & Support serves as means to this end.

various talents within the organisation. The Talent Extravaganza which was carried out in three phases, ended with the grand finale crowning winners of the Group and Solo categories for singing and dancing. Events of this nature, not only promote leadership, solidarity, finesse and unity amongst the Mobitel family but also motivate staff through recognition and appraisal of their talents, and encourage camaraderie among colleagues.

Risk Management Framework

Mobitel considers Enterprise Risk Management as a core competency throughout the organisation. Mobitel has been committed to maintaining a risk management framework and to enhancing the organisation's ability to manage uncertainty by protecting assets and safeguarding shareholders' interests whilst ensuring compliance with applicable laws and regulations. The existing risk management practices were further strengthened during the year with a new organisational unit being formed directly under the purview of the Chief Executive Officer. A comprehensive programme was rolled out with the goal of creating a risk management culture across the organisation through awareness creation and training. A risk management representative was appointed to each division to facilitate the process, while all divisions were mandated to identify risks, including operational risks. They were also asked to evaluate and brainstorm controlling or mitigating procedures. An organisational-wide risk registry was created, with periodic updates to be escalated to the Audit Committee and the Board of Directors as necessary. In addition, all major projects and engagements had a separate risk review and evaluation procedure established for all major phases of the life cycle.

Taking the Future to the Rural Sector

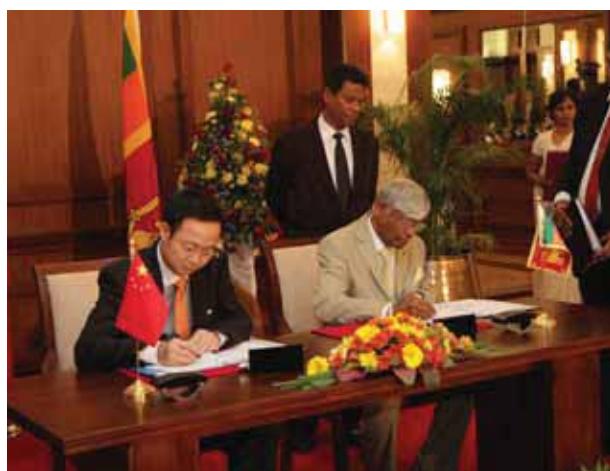
In its continuous mission to lead Sri Lanka's ICT transformation across the island, Mobitel opened its first regional contact centre at Sooriyawewa in Hambantota in early 2012. Mobitel's commitment towards the development of ICT in rural areas of Sri Lanka was further endorsed by the opening of a second regional contact centre in Mullaitivu - giving the area a well-deserved ICT boost. Mullaitivu is also the best location for a technologically advanced customer care contact centre

that will cater exclusively to the Tamil-speaking segment of the population. Further complementing this commendable proposition of leading the ICT Transformation across the rural areas, Mobitel opened a de-centralised IT centre in Kegalle introducing technology to the region whilst creating a significant number of job opportunities. Expansion into the rural areas takes place in an ideal setting as these communities prepare to embrace upcoming opportunities in order to meet the future now.

Green Initiatives

One of the greatest challenges the world faces today is preserving our natural environment for future generations. Mobitel believes in protecting the environment and thus operates an ecologically friendly business. Mobitel has integrated the practices of a green business in all its operations. While fully adhering to the environmental regulations meted out by the Central Environment Authority, the Company believes in going over and beyond statutory requirements, and voluntarily engages in environmentally sustainable practices.

Mobitel promotes the concept of sharing towers with other operators. This will help minimise the impact caused to the environment by the erection of towers. In addition to this, Mobitel has adopted an aesthetically pleasing camouflage structure when constructing towers in the vicinity of world heritage sites, cities of archeological importance and wildlife sanctuaries.



Signing of the Stage VII expansion project with Huawei and ZTE Corporation which is the single largest telco project in Sri Lanka adding a further 1,700 base stations to the Mobitel Network

MANAGEMENT DISCUSSION & ANALYSIS: MOBITEL (PRIVATE) LIMITED

As an environment friendly practice, sound-proof generators are used at all base station sites and core network locations in order to reduce noise pollution. Furthermore, Mobitel, in an effort to minimise the emission of greenhouse gasses, is reducing the number of generators used while focusing more on commercial power consumption in an efficient manner. In recent years, Mobitel has recycled and reused more than 1,200 batteries within the core power management system with the objective of reducing hazardous waste.

Mobitel was instrumental in carrying out numerous energy conservation projects with the use of energy efficient technology and cost reduction measures. Among the steps taken to reduce electrical consumption from the National Grid are: the deployment of highly energy efficient base stations; the modernisation of energy efficient radio frequency units with the help of the latest technology; adoption of dynamic power saving technology for all base stations during the low network traffic periods; deployment of green shelters for base stations which has vast benefits including lower power consumption; use of inverter type air conditioners which are highly efficient, cooling systems that would reduce the cost of power for the network; deployment of in-house developed energy efficient free cooling systems for indoor base stations; deployment of outdoor base stations which do not require air conditioning; installation of wind mills at communication towers to generate green power required for the operation of the site; diesel generator and battery hybrid system for off grid base stations; and the use of solar powered aviation lamp systems as a means of protection from aircrafts. Mobitel is thus focusing on adopting energy efficient equipment and renewable power sources for base stations in order to create a network architecture with optimised energy consumption and a reduced carbon footprint.

Mobitel's Service to the Nation

Mobitel caring approach is extended not only to its customers, but to the entire nation. Many initiatives were undertaken in 2012 in a concerted effort to provide assistance to issues of national importance.

Mobitel extended its unwavering support to the National Child Protection Authority (NCPA) towards achieving its vision of creating a child friendly and protective environment for children. Initial involvement included promoting the NCPA's 24-hour hotline: 'Child Line' - 1929 while also working towards strengthening their call centre through training programmes as well as an infrastructure upgrade. Mobitel is also involved in several other initiatives such as fundraiser projects that will help develop the NCPA.

Mobitel embarked on an awareness and facilitation campaign together with the Ministry of Health to eradicate the growing epidemic of dengue. During the early part of the year, the dengue epidemic took a turn for the worse, making it a nationwide threat. The awareness creation campaign launched by Mobitel along with the Ministry of Health used SMS technology, while at branch level educational banners were displayed and leaflets distributed.

Playing a pivotal role in empowering the ICT sector in Sri Lanka, Mobitel was the Official Mobile Service Provider for the 'Deyata Kirula 2012' exhibition held at Oyamaduwa in Anuradhapura. This is the 4th year that Mobitel has extended its support towards the national exhibition, which has consistently upheld its objective of enlightening the public on national pride and the nation's development targets. The Company made use of this opportunity to showcase the endless possibilities in mobile technology through its latest products and services.

Awards and Endorsements

For the third consecutive year The Institution of Engineers of Sri Lanka honoured Mobitel with the "Excellence in Engineering Award" under the category, 'Infrastructure - Services Sector: Large'. It is a testament to Mobitel's drive to adopt and employ the latest technologies in the industry. This accolade is also representative of Mobitel's exceptional achievements encompassing effective capacity utilisation, superior planning and execution, unparalleled operational excellence, technological prowess, service, consistent quality, innovative strength and high standards in productivity achieved by following world-class best practices.



Mobitel's commitment towards the development of ICT in rural areas of Sri Lanka was further endorsed by the opening of a second regional contact centre in Mullaitivu

Mobitel also won two awards at the National Engineering and Technology Awards 2012 organised by the Institution of Engineers Sri Lanka for its official stall at the exhibition, winning Gold for 'Best Demonstration' and Silver for the 'Best Display of Engineering Services'.

Mobitel – Future Now

2012 has been a year where Mobitel has unwaveringly delivered all the promises made in the past to all its key stakeholders. In its resolve for 2013, Mobitel aims to create more value to the customer, capturing and capitalising on opportunities available while weathering challenges that the Company may encounter. Propelled by the vision to "Lead Sri Lanka towards an Info-com and Knowledge Rich Society" and viewing the entire country as one Mobitel family, Mobitel will drive mobile ICT in the country, strengthen its technological leadership, strive for optimum asset utilisation and pursue a core strategy based on cost leadership. Growth in 3G and the introduction of 4G will strategically figure in all future value innovations of the Company, which will thereby leap into a new phase of growth with renewed purpose, courage and vigour. In the future, advanced world communications will without doubt occupy an essential place, and as the National Mobile Service Provider, Mobitel has assumed for itself a key role in leading Sri Lanka into that future. Now.



MANAGEMENT DISCUSSION & ANALYSIS: MOBITEL (PRIVATE) LIMITED

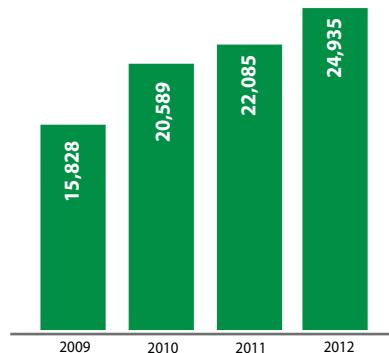
Financial Review - Mobitel

Year 2012 was overshadowed by many challenges in the competitive landscape, macro environment as well as constraints from other externalities. Yet these deterrents were unable to deny a remarkable performance by Mobitel, the mobile arm of the SLT Group. In an industry that is indicative of a voice market fast approaching saturation while the broadband market is yet to gain full momentum, Mobitel emerged a strong player achieving an impressive revenue growth of 13%. In absolute terms, the Company reached Rs.24.93 billion in revenue during year 2012 compared to Rs.22.08 billion in 2011, an increase of Rs.2.85 billion. This significant feat is ensuing from the corresponding increase of 14% in Mobitel's subscriber base despite the stepped up intensity in competition in the mobile telephony sector. The increase in subscribers was backed by the comprehensive network expansion drive completed towards mid 2012 with the objectives of attaining enhanced coverage, increased capacity and speed together with a special focus towards pursuing an extensive coverage expansion in the North and East geographies of Sri Lanka. Accordingly, Mobitel was able to extend its reach to the furthest corners of the island offering the best customer experience duly complemented by an array of innovative products and superior service which eventually triggered a significant growth in subscribers and revenues. 2012 experienced increasing industry supply arising from aggressive investments by all operators. Further, the industry also witnessed increased competition in the broadband arena stemming from relatively new entrants to the broadband market. However Mobitel was able to withstand the competitive pressures and report a healthy performance in all aspects of the business.

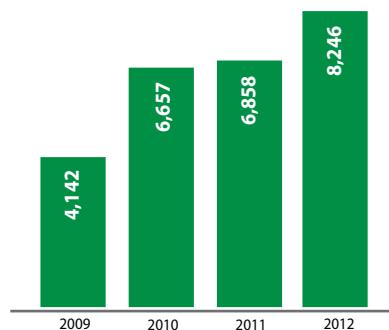
It has been a trying year with the Company's profitability challenged due to increased operational costs. Soaring fuel prices coupled with increased power and energy costs exerted excessive pressure on the profitable growth of the Company. Proactive and pragmatic measures undertaken to optimise cost, enhance revenue and increase productivity ensured that Mobitel was able to withstand the inflationary pressures to record a noteworthy growth in operational profitability. Accordingly Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) grew by 20% to Rs.8.25 billion in 2012 compared to Rs.6.86 billion in 2011 while Earnings before Interest and Tax (EBIT) increased by 17% to Rs.3.21 billion in 2012, compared to Rs.2.74 billion in 2011. The EBITDA margin grew by two percentage points from 31% in 2011 to 33% in 2012 which is a significant achievement considering the drawbacks the industry had to tackle in the wake of increasing expenditure. Thus a healthy EBITDA margin of 33% is a testimony to prudent cost management and operational efficacy of the organisation.

Macro developments in the first half of 2012 by way of a depreciating rupee affected the overall profitability of the entire industry. Mobitel too was not insulated from this occurrence - the magnitude of the exchange loss incurred in 2012 was a staggering Rs.1.25 billion. However, despite this massive setback, Mobitel successfully reversed the impact of the exchange loss towards the latter half of the year by reporting a healthy net profit of Rs.1.14 billion. A substantial increase in revenue duly complemented by the cost optimising initiatives and marginal appreciation of the rupee toward the latter months of 2012 proved fruitful, as Mobitel was able to withstand all deficiencies of a difficult year and achieve a commendable performance.

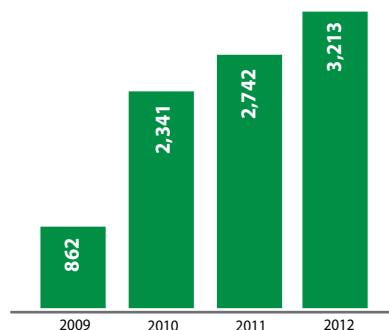
REVENUE - Rs Mn



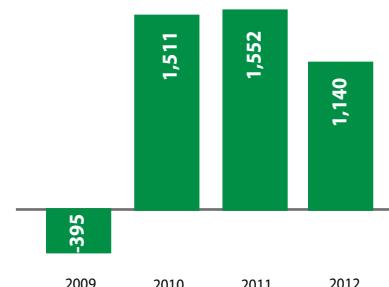
EBITDA - Rs Mn



EBIT - Rs Mn



Profit for the year - Rs Mn



MANAGEMENT DISCUSSION & ANALYSIS: SLT PUBLICATIONS (PRIVATE) LIMITED



"All the leading mobile networks utilise the RAINBOW PAGES database to serve the information needs of their clients. This has created a big revolution in enjoying information on the go and is fast gaining popularity all across the country."

Malraj Balapitiya

*Chief Executive Officer, SLT Publications (Private) Limited
and SLT Visioncom (Private) Limited*

SLT Publications (Private) Limited. was originally formed to serve the TRC stipulation of providing directories to SLT customers. Over the years the Company has grown and crossed the boundary from being a print directory publisher to producing innovative media products to disseminate directory information via an array of media devices that includes the Directory CD, Call Centre Services, Web Portal, e-Directory and Mobi App for people to make prompt decisions anywhere in real time for national productivity.

These efforts have received much recognition with the most recent award has being the eSwabhimani Award from Digital Media for high tech Mobi App for the growing mobile smart phone community. This user friendly mobile application enables users to access directory information in a fast and easy way, at any time, anywhere, from any network.

This award yet again recognises the innovation of SLT RAINBOW PAGES in providing information to the nation.

SLT RAINBOW PAGES – the National Business Directory has become the most comprehensive Business Directory in our country with Government recognition as being the sole information provider to all government institutions and organisations for procurement purposes. More and more private sector organisations and NGOs, also use the SLT Directory for all their procurement needs.

SLT RAINBOW PAGES continuously updates the database to provide socially valuable and useful information to the public. All the leading mobile networks utilise the RAINBOW PAGES database to serve the information needs of their clients. This has created a big revolution in enjoying information on the go and is fast gaining popularity all across the country. We also team up with national organisations such as the Export Development Board, the Ministry of Indigenous Medicine, the Ministry of Tourism and the Gem and Jewellery Authority to promote their industries and collaborate with leading professional associations such as the Institute of Personnel Management, Chartered Institute of Accountants, SLIM, etc., to produce directories for their individualised needs. By linking professionals with one another and the rest of the country, SLT Publications assists national development.

The directory features an annual theme for the cover page. This is dedicated to a product, service category or industry and articles on industries that need to be promoted are published. Last year's Ayurvedha theme was well received and indigenous medicine of our country experienced a resurgence in interest through our efforts. The directory theme for 2013/14 is the Gem and Jewellery industry.

Apart from the traditional print classified directories, RAINBOW PAGES has launched industry specific directories to cater to niche markets such as tourism, weddings etc., where there is growing demand.

Our commitment to provide information to the nation and the recognition received spur us forward to continue empowering the nation with ease of access to directory information.





THE FUTURE: NOW

ANYWHERE, ANYTIME

As the telecom service provider to the nation, we know what people want. Over one hundred and fifty years experience in serving Sri Lankans means we understand local requirements, better.

MOBILE COMMUNICATIONS

We help Sri Lankans from all regions of the island discover the joys of communicating anywhere, anytime...

CORPORATE GOVERNANCE

Sri Lanka Telecom and its Board of Directors are committed to the highest standards of governance designed to protect the interests of all stakeholders while promoting integrity, transparency and accountability.

SLT ensures that the Company is in compliance with applicable legal and regulatory requirements including meeting the requirements of the listing rules of the Colombo Stock Exchange (CSE), the Companies Act of 2007 and all other applicable laws.

The Board of Directors

Composition of the Board

As at the last Annual General Meeting (AGM) of SLT, held on 29th March 2012, the Board consisted of 9 Directors comprising of all non-executive Directors (NED) of which 7 were Independent Directors.

As at 31 December 2012, the Board consists of 9 directors.

New Appointments and Expertise of Board Members

A new Board member was appointed to fill the vacancy created by the resignation of one Board member and the resume of the new Director, including her experience and expertise in relevant functional areas were announced to the Colombo Stock Exchange (CSE) and the public as at 29th June 2012.

Profiles of all the Board of Directors detailing their areas of expertise are included separately in this Annual Report.

Independence of Directors

The independence of the Directors has been determined in accordance with CSE Listing Rules and the 7 independent non-executive members have submitted signed confirmations of their independence.

Duties of the Board

The Board is responsible for the formulation and implementation of the Company's short term, medium term and long term strategies. The Board also ensures that the CEO and the Senior Management team have the skill set, expertise and the knowledge to implement these strategies and that there is an adequate succession plan in place.

The Board also has the ultimate responsibility to ensure that controls are in place for the following:

- securing integrity of information
- internal controls
- risk management;

| CSE Rule No. | Promise | Delivered |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 7.10.1(a) | 2 or at least 1/3 of the total number of Directors should be NEDs | ✓ |
| 7.10.2(a) | 2 or 1/3 of NEDs, whichever is higher, should be independent | ✓ |
| 7.10.2(b) | Each NED should submit a declaration of independence | ✓ |
| 7.10.3(a) | The Board shall annually determine the independence or otherwise of the NEDs Names of IDs should be disclosed in the Annual Report (AR) | ✓ ✓ |
| 7.10.3(b) | The basis for the Board's determination of ID, if criteria specified for independence is not met | NA |
| 7.10.3(c) | A brief resume of each Director should be included in the AR including the Director's areas of expertise | ✓ |
| 7.10.3(d) | Provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a), (b) and (c) to the CSE | ✓ |
| 7.10.4 (a-h) | Requirements for meeting Independence criteria | ✓ |

NED : Non-executive Director

The Board ensures that all Company decisions at all times are in compliance with laws and regulations of the country and that each decision meets the highest ethical standards. The Board through the Audit Committee ensures that the Company follows accounting standards as set by the Sri Lanka Financial Reporting Standards (SLFRS) and all financial statements are in compliance with financial regulations.

The Board, in addition to keeping all stakeholder interests a priority when considering corporate decisions, also keeps the CSE and the public informed of all such significant decisions. The Board also annually reviews the Company's forecasted budget, actual performance against budgets on a regular basis and discusses and recommends action on other decisions that are of significance to the Company.

Delegation of Authority

Delegation to the Chief Executive Officer (CEO)

The Board has delegated the authority to the CEO over the day to day management of the Company and their respective operations by the Articles of Association of the Company. The

CEO is responsible for delivering services according to the strategic plan, within the policies and budgets approved by the Board. A team of Senior Management oversees the day-to-day operations of the organisation under the general direction of the CEO.

Delegation to Board Members

The Board has delegated certain functions and duties to sub committees that comprise of Board Members and others as necessary. Functions and duties of each subcommittee-Audit Committee, Remuneration Committee, Technology Subcommittee and Senior Tender Board are discussed later in the governance section.

Training, Adequate Time and Meeting Attendance

| Board Member | Meetings Attended/Meetings Held | | | | |
|-------------------------------------|---------------------------------|-------------------------|--------------------------------|--------------------------|---------------------|
| | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Technology Sub Committee | Senior Tender Board |
| Mr. Nimal Welgama - Chairman | 8/8 | - | 1/1 | - | - |
| Mr. Sandip Das | 4/8 | 3/5 | 1/1 | - | - |
| Mr. Chan Chee Beng | 5/8 | 3/5 | - | - | - |
| Mr. Jeffrey Jay Blatt | 8/8 | - | - | 8/8 | 8/8 |
| Mr. Jayantha Dharmadasa* | 6/8 | 2/5 | 1/1 | - | - |
| Mr. Shameendra Rajapaksa*** | 8/8 | - | - | 1/8 | 8/8 |
| Mr. Kalinga Indatissa | 1/8 | - | - | - | 4/8 |
| Mr. Lawrence Michael Paratz** | 8/8 | - | - | 8/8 | 8/8 |
| Mr. D. Widanagamachchi ¹ | 2/8 | 3/5 | - | - | - |
| Ms. Pushpa Wellappili ² | 4/8 | 1/5 | - | - | - |

*Chair – Audit Committee and Chair-Remuneration Committee **Chair-Technology Sub Committee ***Chair-Senior Tender Board

¹Resigned with effect from 13th June 2012 ²Appointed with effect from 28th June 2012

In addition, all new Directors including Ms. Pushpa Wellappili the new Board member have been inducted to the organisation and the industry we operate in with appropriate informal training. The Board is also encouraged to seek independent professional advice when necessary, at the Company's expense and also have access to the Company Secretary to obtain advice and services as necessary.

Appraisal of Board Performance

The SLT Board is aware that appraising their own performance periodically would enhance the understanding of individual performance and the Board as a whole. However, though there is no formal appraisal system in place, the Board members ensure that Board responsibilities are satisfactorily discharged.

All Board members and subcommittee members allocate adequate time to their duties as indicated in the table below.

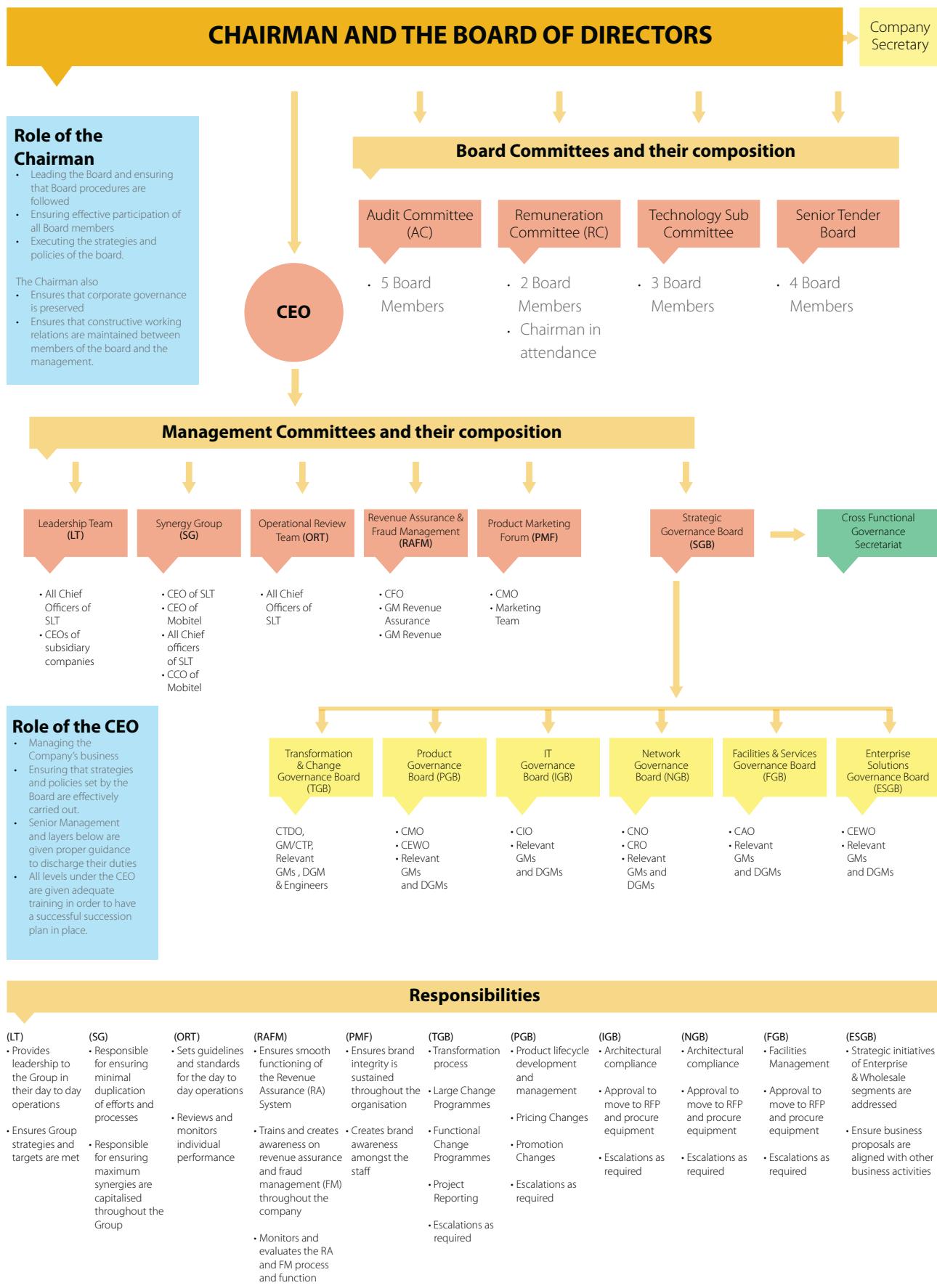
The Board met a total of 8 times in 2012 with meetings scheduled every other month on a regular basis with additional meetings held as necessary. Board papers are prepared in advance and delivered to each Board member at least 7 days in advance in order for them to have sufficient time to prepare and request for any clarifications or any additional material as necessary.

Re-Election of Board Members

In conformity with the Company's Articles of Association, members comprising one third of the Board of Directors, except a Director appointed to the office of Chairman or Chief Executive Officer, are required to stand for retirement by rotation at least once in three years. Retiring Directors are subject to re-election by shareholders at the Annual General Meeting (AGM). All Directors including the Chairman of the Board are subject to election by shareholders at the very next AGM after their appointment, and as such, Ms. Wellappili will be standing for re-election at the next AGM to be held on 24th April 2013.

All members that are up for re-election at the next AGM are listed on the Notice of Meeting given separately in this Annual Report.

CORPORATE GOVERNANCE



Appraisal of the Chief Executive Officer

The Board has periodic discussions with the CEO on the performance of the short, medium and long-term objectives of the Company including financial and non financial indicators.

Remuneration Committee (RC)

The Remuneration Committee of SLT comprises of 2 NEDs that are also Independent Directors with the Chairman of the Board in attendance during RC meetings. The RC is responsible for ensuring that the Company's remuneration policies are adequate to attract and retain top talent. The RC is also responsible for recommending the remuneration of the CEO. The aggregated remuneration of Board of Directors and the Senior Management team are disclosed in the notes to the financial statements.

| CSE Rule No. | Promise | Delivered |
|--------------|--------------------------------------------------------------------------------------|-----------|
| 7.10.5 | A listed Company shall have a RC | ✓ |
| 7.10.5(a) | RC Shall comprise of NEDs, a majority of whom will be independent | ✓ |
| 7.10.5.(b) | The RC shall recommend the remuneration of the Chief Executive Officer (CEO) and EDs | ✓ |
| 7.10.5.(c) | • Names of Directors comprising the RC | ✓ |
| | • Statement of Remuneration Policy | ✓ |
| | • Aggregated remuneration paid to EDs and NEDs | ✓ |

| CSE Rule No. | Promise | Delivered |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 7.10.6 | The Company shall have an AC | ✓ |
| 7.10.6(a) | <ul style="list-style-type: none"> • Shall comprise of NEDs a majority of whom will be Independent • A NED shall be appointed as the Chairman of the Committee • CEO and Chief Financial Officer (CFO) should attend AC meetings • The Chairman of the AC or one member should be a member of a professional accounting body | ✓ ✓ ✓ ✓ |

NED : Non-executive Director

AC : Audit Committee

RC : Remuneration Committee

| CSE Rule No. | Promise | Delivered |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| 7.10.6(b) | <p>Overseeing of the –</p> <ul style="list-style-type: none"> • Preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards • Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements • Processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards • Assessment of the independence and performance of the external auditors • Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors, and approve the remuneration and terms of engagement of the external auditor | ✓ ✓ ✓ ✓ ✓ |
| 7.10.6(c) | <ul style="list-style-type: none"> • Names of Directors comprising the AC • The AC shall make a determination of the independence of the Auditors and disclose the basis for such determination • The AR shall contain a Report of the AC setting out the manner of compliance with their functions • The Report of the Remuneration Committee given separately in this Annual Report details the functions and duties of the Committee and the specific objectives met in the current financial year. | ✓ ✓ ✓ |

CORPORATE GOVERNANCE

Audit Committee (AC)

The Audit Committee comprises of 5 NEDs of which 3 are Independent and one member is a fellow of the Institute of Chartered Accountants of England and Wales. The CEO, Chief Internal Auditor (CIA) and the Chief Financial Officer (CFO) attend meetings regularly.

The Report of the Audit Committee given separately in this Annual Report details the functions and duties of the Committee and the specific objectives met in the current financial year.

Internal Controls

The Board through delegation to the Audit Committee ensures that the Company maintains a sound system of internal controls to safeguard investments and Company assets. Therefore, the Audit Committee conducts a review of the effectiveness of the Company's system of internal controls annually.

Technology Sub Committee (TSC)

The TSC comprising of 3 NEDs with technical expertise were formed for the purpose of studying available technology and providing a platform for engaging in intense technical discussions and looking at roadmaps with a long term perspective.

The TSC focuses on: best strategies to increase organisational efficiencies; support the advancement of professional staff capabilities; and develop a flexible delivery system to effectively respond to new technological advances and information.

The responsibilities of the Committee are to review the following four key areas with members of its group;

- Review existence and appropriateness of plans
- Review existence and appropriateness of processes
- Review planned and achieved Network Performance and Methods of Assessment.
- Review the Company's Technology, People and Skill Plans and their implementation

Senior Tender Board (STB)

The Senior Tender Board (STB), comprises of seven members including four NEDs that are independent. Three other members: the CEO, the CFO and the Chief Corporate Officer (CCO) are appointed by the Board to review the Group procurement needs.

The procurement function involves a standard procurement process approved by the Board where, all common procurement processes are consolidated at the Group level for SLT and its subsidiaries in order to increase efficiencies and reduce risk.

In order to increase efficiencies, during the financial year the Senior Tender Board delegated the approval limits of procurement as follows:

- Board of Directors: exceeding Rs.50 million
- STB : Rs.25 million – Rs.50 million
- Junior Tender Board comprising of 4 members (Chief Transformation and Development Officer, General Manager-Legal, General Manager-Financial Planning & Investor Relations, General Manager-Revenue Assurance): Upto Rs.25 million
- Technical Evaluation Team and Commercial Evaluation Team was appointed to carry out the technical evaluation as well as the commercial evaluation of the projects.

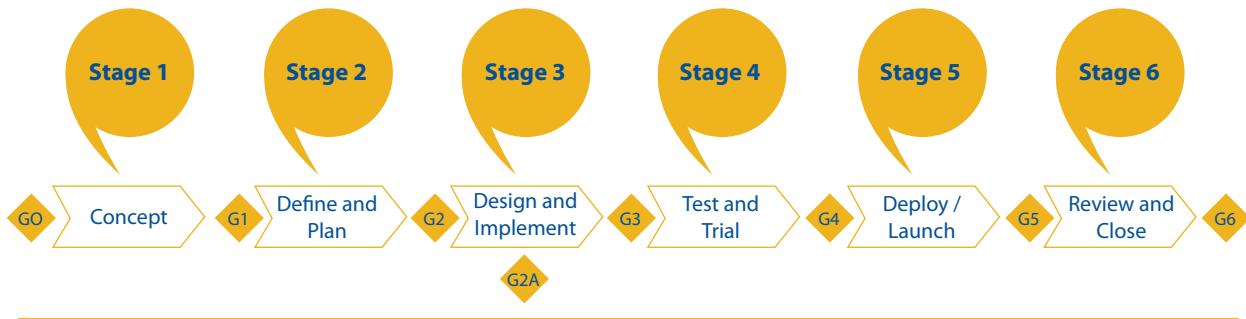
Strategic Governance Board (SGB)

Strategic Governance Board comprising the CEO and the Chief Officers of each functional area was created to study the requirements of the cross functional areas and introduce solutions in a more transparent manner whilst bringing efficiencies to each of the new processes, projects or investments through structured planning, governance and controlled project delivery. The introduction of governance boards consisting of cross functional decision making teams have eliminated the common bottlenecks associated with introducing and implementing new programmes and reducing the investment risk. More importantly these governance boards have introduced methodical evaluation of new projects/programmes and post evaluations of the projects in order to allocate resources only to those projects that meet the strategic objectives of the Company. There are six cross functional governance boards - Transformation and Change Governance Board, Product Governance Board, IT Governance Board, Network Governance Board, Facilities and Services Governance Board, and Enterprise Solutions Governance Board-that operate under the CEO headed by each of the relevant Chief Officers.

Governance Boards- process involved

A Stage-Gate process was introduced consisting

- Six stages during which a project is progressively taken from conception through to review and closed
- Eight gates of review where the first seven present an opportunity for the Governance Board to assess whether or not to allocate further resources to the project and the last gate to allow review of the success of the project



Investor Relations and Communications to Shareholders

Proper use of the Annual General Meeting (AGM)

The SLT Board uses the AGM, press releases and releases to the CSE to communicate with its shareholders. SLT ensures that the notice of the AGM along with the Annual Report containing the performance of the Company are delivered to the shareholders at least 15 working days prior to the scheduled meeting. The Chairman of the Board ensures that the Chairs of each subcommittee especially that of the Audit Committee and the Remuneration Committee are present at the AGM to provide necessary information if requested by shareholders.

Company Secretary

The Company Secretary ensures that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary also liaises with the CSE on all of the Company's communications. The Company Secretary also is responsible for announcing the AGM and any EGMs to the Shareholders and for accurate recording of proxy voting. Any decisions on the removal of the Company Secretary lie within the Board as a whole.

Major Transactions

The Board of Directors, as required by the Company's Act, has been disclosing to shareholders all proposed corporate transactions detailing all facts associated with such transactions that are of material value to the SLT. There were no major transactions entered into by SLT for the year 2012.

Whistleblowing Policy

This policy introduced in 2012, addresses the commitment of SLT to uphold the integrity and ethical behaviour by helping to foster and maintain an environment where an employee can act appropriately without fear of retaliation. To maintain the standards of business conduct and ethics, the Company encourages its employees who have concerns about

suspected serious misconduct or any breach or suspected breach of law or regulation that may adversely affect the Company, to come forward and express these concerns without fear of punishment or unfair treatment.

Objectives of the policy

- To provide avenues for employees to raise concerns and define ways to handle these concerns.
- To enable the management to be informed at an early stage about acts of misconduct.
- To reassure employees that they will be protected from punishment or unfair treatment for disclosing concerns in good faith in accordance with this procedure.
- To help develop a culture of openness, accountability and integrity.

Whistleblowing Committee

A committee consisting of seven members was formed to handle any cases referred. The quorum for the meeting is four members including Chairman, CEO, Chief Financial Officer and Chief Human Resources Officer. The Chief Officer who represents the subject has no voting power if he is represented in the Committee. The Secretary of the Whistleblowing Committee is to submit reports endorsed by its Chairman at every Audit Committee meeting.

Outlook

As a giant ICT provider in the country, SLT and its Board are constantly exploring ways to enhance its transparency in all decisions made. Thus, the staff, customers and all other stakeholders are encouraged to provide feedback in order for the management to have an understanding of the areas that need to be strengthened. The processes already in place captures the majority of concerns and complaints made by stakeholders and the Company is constantly evaluating these comments to enhance the governance process at SLT.

RISK MANAGEMENT

Enterprise Risk Management (ERM)

In the present context of a dynamic and volatile business environment, it is vital for an organisation to be adequately prepared to face the seen and the unforeseen challenges. SLT, like many other business enterprises have understood the importance of being prepared to capitalise on the opportunities in order to create value for the organisation and its customers, while accepting or mitigating the threats to minimise losses. In recent years, SLT has experienced challenges posed by the booming telecom industry with heightened competition and the resultant demands of customers. Therefore, under the direction of SLT's Board of Directors, a formal risk management process was introduced towards the latter part of 2010 and established the Enterprise Risk Management (ERM) framework in 2011.

The ERM process introduced the development of a company-wide risk register and a risk escalation arrangement via various risk forums held throughout the organisation. The ERM process which is aligned to meet the ISO 31000 standards and also include components of COSO (Committee of Sponsoring Organisations of the Treadway Commission) recommendations will help develop a risk intelligent culture within the organisation bringing value to SLT, our customers and other stakeholders.

Risk Management Process

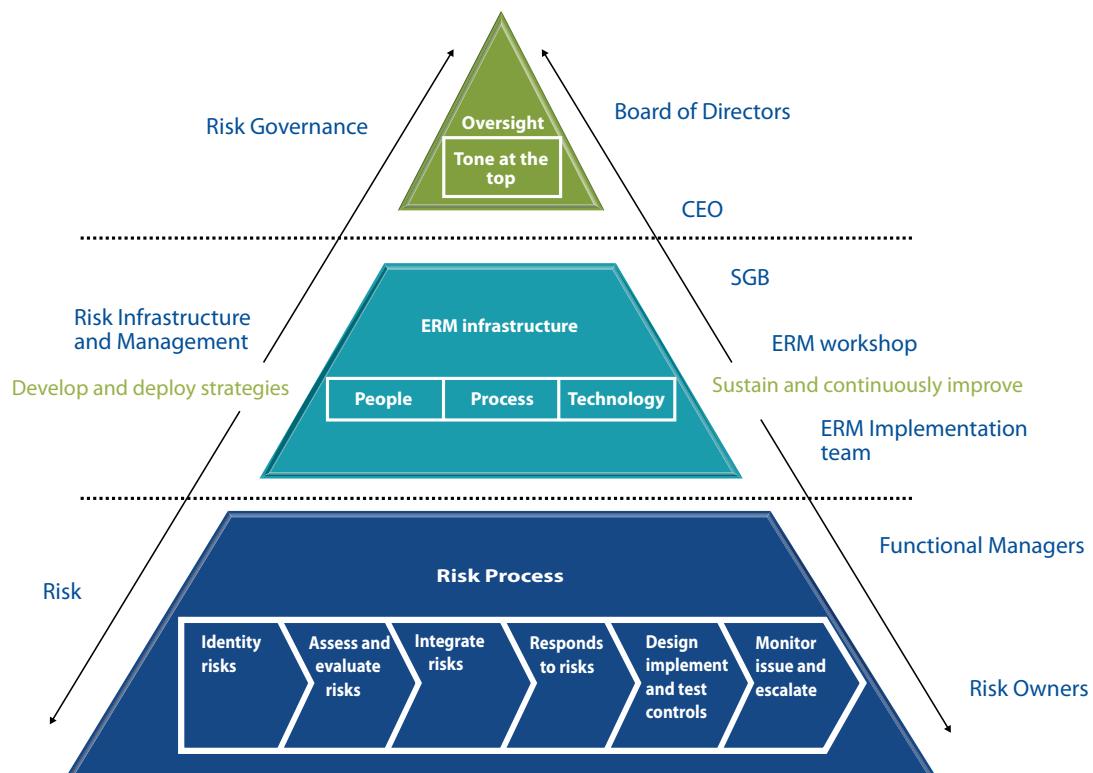
The Risk Management Process at SLT encourages a bottom-up approach whereby all staff are expected to participate in the risk identification process. The identified risks are then recorded in the risk registers which are maintained at Group level. The identified risks are then formally assessed with an assigned magnitude and escalated to the higher authorities of the Company for treatment.

The escalation process based on the magnitude of the risk can be elevated up to the level of the Board of Directors who is the ultimate governing body of ERM. The Board of Directors have recognised risk as a priority in the organisation, and assists with the efforts of the senior management team and the respective staff in enabling and creating a risk intelligent culture within the organisation. The Board of Directors has also delegated authority to the Audit Committee to ensure the level of effectiveness of the ERM process during respective implementation phases of the ERM programme.

Implementation of ERM

During the financial year under review, the Company carried out comprehensive programmes to create awareness on risk management throughout the organisation, covering the senior management team and key staff members.

ERM Governance Structure at SLT



These awareness programmes mainly focused on;

- Visualising business critical risks and uncertainties
- Handling of such identified risks and uncertainties at the appropriate time
- Becoming a risk intelligent organisation where the ERM process is to reach its full maturity within a period of approximately five years, commencing 2012.
- Creating ERM ownership among top management (CEO and other Chief Officers) and the implementation of risk management processes at functional and project levels in several phases.

Successful completion of training of all senior executives and the feedback received has enabled SLT to incorporate new project concepts into its 2013 annual business plan. These new project concepts are to enable SLT to become a SMART (Service, Management, Application, Relationship and Technology) player in the industry.

The financial year also saw the successful creation of functional teams under each operational group of the Company that will assist in implementing the risk management process. These teams have commenced their work and will progressively identify, analyse, evaluate, treat and monitor risks of the company.

Development of components of the ERM process such as creation of risk registers, designing of the risk assessment process, defining of Key Risk Indicators (KRIs), identification of risk appetite levels etc. are in progress. Risk appetite - the amount of risk exposure or potential adverse impact from an event that the entity's Board and senior management are willing to accept are defined by the Board of Directors after careful analysis and deliberations with the Risk Management committees.

Regulatory Risks

National Backbone Network (NBN)

License granted to Sri Lanka Telecom in 1991 was renewed during the financial year with new conditions of converting the existing network to a National Backbone Network (NBN). As per the license, NBN operations have to commence after three (03) months from the date of issuance of the license and the network is to be developed with a roll out target to be achieved in five years. The target is such that in five years, NBN should be capable of providing services from 329 access points covering all Divisional Secretariats in the country.

Noncompliance of aforesaid target will be subject to a penalty charge of Rs.500,000 * (X-Y) where X is number of electorates to be covered and Y is actual number of electorates covered in each year. A performance bond worth of US\$ 2,000,000 has also been imposed as a performance security of NBN. With the

implementation of NBN, the SLT backbone services presently being provided under the business of SLT's wholesale division will have to be operated on regulated terms governed by the SLT license conditions.

Mitigating factor: SLT's preparedness to meet these conditions of NBN license so as to not have a penalty imposed in the future.

Regulation of Tariffs

With the introduction of NBN, the prices of wholesale products provided may need to be revised as NBN services are regulated on the basis of cost of the service. In this context, the existing backbone charges will need to be revised to reduce the existing rates and approval for the revised charges will be obtained from TRCSL. Since the demand for the NBN is not yet foreseen and non-committed, the price revision of existing wholesale products might have a negative impact on the revenues of the wholesale products.

In the retail market, heavy competition especially in the international voice and broadband market is very challenging to SLT. The implications are such that sustainability of the revenues has become an issue which has ultimately resulted in eroding of margins of the same services.

Mitigating factor: SLT is in regular dialogue with the TRCSL to have pricing policies implemented in such areas.

Other policies of TRC

The Government has notified that new policies are yet to be introduced to the telecom sector. Though guidelines for broadband operations have already been issued to all operators for immediate implementation, a new Broadband Policy is to be issued in the near future. Furthermore, the Next Generation Network (NGN) Framework and review of the Telecommunication Act 25 of 1991 with new amendments are also to be issued by TRC.

Legal Risks

Litigation

It must be noted that it is impractical to forecast the outcome of any particular case or the amount of any possible verdict in respect of ongoing litigation. Nevertheless, the defences taken in those cases have the judicious features of both the law and the facts. SLT was a party to several court and out-of-court proceedings with other parties and detailed below is the summary of the material litigation during 2012.

Global Electroteks Limited has initiated legal action under High Court Case No. 20/2006 claiming damages of USD 12 million from SLT PLC for alleged unlawful disconnection of interconnection services.

RISK MANAGEMENT

Just In Time Holding (Pvt) Ltd (JIT) filed a case against SLT in ICLP Arbitration Centre. JIT is claiming USD 4,738,846.57, as payments due to them from SLT under the contract. The award was delivered on 30.03.2013 in favour of JIT, with damages, costs and legal interests. SLT has already filed an appeal against the Arbitral Award which is presently proceeding and SLT has received legal advise that it has sufficient legal grounds to challenge the arbitral award including damages, costs and legal interest under the award.

Legal action filed by SLT against Colombo Municipal Council, against the arbitrary increase of assessment value for Headquarters premises from Rs.84 million to Rs.96 million. The quarterly assessment tax in 2006 was increased from Rs.7,350,000/- to Rs.8,452,5000/-.

Legal action was initiated by H/S Communication Ltd., against SLT & SLT Visioncom (Pvt) Ltd., seeking a stay order against airing of certain channels by SLT Visioncom (Pvt) Ltd., and to recover arrears of US \$ 486,000/. SLT made representations and no stay order was granted, and HS Communication Ltd withdrew their application for the stay order. The main claim against SLT and SLT Visioncom (Pvt) Ltd. is proceeding.

Directories Lanka (Pvt) Limited claimed damages of Rs.250 million for alleged unfair competition with regard to artwork on the cover page of Directory of SLT. The order was delivered in favour of SLT and Directories Lanka has appealed against this order.

An inquiry was initiated by the Customs Department regarding the importation of CDMA equipment which was detained and subsequently released on a bank guarantee of Rs.122 million and presently this matter is being negotiated for a settlement.

Financial Risks

Liquidity Risk

Liquidity Risk is defined as a situation where the company finds it is unable to fulfill due payment obligations in a timely manner. This is a result of the company not having sufficient financial resources to meet the obligations thus requiring financing on unfavourable terms. This risk mainly arises from mismatches in the timing or maturity of cash flows.

A Company is vulnerable to Liquidity Risk if its credit rating falls. It experiences sudden unexpected cash outflows or some other event that causes counterparties to avoid trading with or lending to the company.

The liquidity of a company will depend on several factors such as:

- Company's short-term need for cash
- Cash on hand
- Available lines of credit

- The liquidity of the company's financial assets
- The Company's reputation in the market place (i.e. how willing will counterparties be to transact trades with or lend to the company)

In order to manage this risk, SLT employs regular financial planning and monitoring systems to ensure that sufficient cash flows are available to meet all financial commitments as they fall due and ensure adequate credit lines are in place with Banks for emergency financing. Further, the investment of any excess funds is made in highly liquid instruments such as Government Securities, Repos and short term Fixed Deposits.

Credit Risk

The risk of the possibility of a loss being incurred as a result of inability of a debtor or a counterparty honouring its contractual obligations is known as Credit Risk. This can arise as a result of diminution of credit quality of debtors and other counterparties. This risk may not be limited to Statement of financial position items, but can also arise as a result of Off-Statement of financial position items such as Financial Guarantees.

In assessing Credit Risk from a single customer/counterparty, a company has to consider three main issues.

- Default probability – the likelihood of the customer/counterparty defaulting on its obligations.
- Credit exposure – In the event of a default, how large will the outstanding obligation be.
- Recovery rate – In the event of a default, what fraction of the exposure may be recovered.

In order to manage this risk, SLT ensures that comprehensive systems and procedures are in place to monitor and evaluate debtors/counterparties and recoveries. Further, pre-paid sales are used as a means of mitigating Credit Risk.

In relation to investments, proper screening is done considering the Credit Ratings of such investing institutions/Banks.

Interest Rate Risk

The impact on the Company as a result of changes in the market interest rate is known as Interest Rate Risk. This would be inevitable for a company having interest sensitive assets and liabilities and would arise mainly due to the following.

- Maturities of all interest sensitive assets cannot be identically matched with liabilities.
- Changes in market interest rates in response to market forces.

SLT's debt and investments are maintained in a mix of fixed and variable interest rate instruments with caps and floors where

possible and periodic maturity gap analysis is carried out to take timely action and to mitigate possible adverse impact due to volatility of the interest rates.

Exchange Rate Risk

Foreign Exchange Risk, which is also known as Currency Risk is a major source of market risk and is unavoidable in any entity where re-pricing of Foreign Currency Assets and Liabilities are not identically matched. This risk represents the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. The company is exposed to Foreign Exchange Risk whenever it transacts in any other currency other than SLT's base currency, Sri Lankan Rupees (LKR). This can be due to both transaction and translation risks.

The fluctuations of the Foreign Currency Rates in the global market can have adverse impacts on the company's foreign currency denominated assets and liabilities. The company manages its foreign exchange exposure by maintaining foreign currency accounts for related inflows and using same for paying off some of its liabilities in foreign currency. This serves as an effective hedging mechanism against foreign currency exposure. As a further measure, only optimum amounts are maintained in these foreign currency accounts and any excesses are converted to SLT's base currency (LKR) after carefully studying the future forecasts of the currency movements.

HR Related Risks

In the context of changing telecom business models, human capital is exceedingly important. Employee skill development, employee retention, aging workforce and escalation of employee cost are the most challenging areas in the present industry scenario. SLT has been successful in moulding existing employees according to future requirements, while maintaining one of the lowest employee turnover ratios in the industry. SLT faces the challenge of managing more than 6,000 permanent employees. Hence, maintaining healthy relations among unions and the management and maintaining industrial harmony is imperative for the well being of the Company. SLT was able to resolve industrial conflicts during the year 2012, providing long term solutions through Memorandum of Understanding (MOU) with the employee unions, management and shareholders and also through series of awareness sessions.

SUSTAINABILITY REPORT



The promise:

To be a key player in the drive to build Sri Lankan growth potential.

The delivery:

We continue our steadfast drive to be the backbone of Sri Lankan development and growth as our operations expand to include and assist key sectors such as tourism, ports and aviation, ICT, BPO and KPO and business ventures across the country.

Sri Lanka Telecom's sustainability agenda focuses on three dimensions, the Economic, Social and Environmental and identified areas within these dimensions. The model developed includes our stakeholders and our key areas of impact to ensure that there is a balanced focus on these areas. It also includes themes such as ICT, Education, Heritage and Sports beyond the scope of sustainability standards and models as we acknowledge our responsibility to promote culture and celebrate communities coming together under a single banner as encapsulated in our "One Country, One Voice" brand identity.

"As an integrated operator, we must be able to sell the entire range of our services while offering a very high quality relationship to each and every customer..."

Economic Dimension

As the country's leading driver of innovation and technology, we are mindful of the responsibility Sri Lanka Telecom has to deliver on the information communication technology strategy for the economic prosperity of the country. It is a responsibility that we have carried since our inception and we have a proud history of delivering on our promises as evinced by our many milestones. The economic dimension of our sustainability model looks at how we engage with providers of capital, how we perform in driving the country's economic progress, how we deliver value and derive value to and from our customers and our governance practices which underpin our performance.



IT'S ALL ABOUT THE FUTURE

SUSTAINABILITY REPORT

"Through sustainable operations, improving access to telecom services and by empowering our communities, we create more value than the profits we make."



SUSTAINABILITY REPORT

As the country's leading driver of innovation and technology, we are mindful of the responsibility Sri Lanka Telecom has to deliver on the information communication technology strategy for the economic prosperity of the country.

**Social Dimension**

The Social Dimension of our sustainability model reviews how we engage with our team and how we engage with the community in which we operate – the people factors. As one of the country's largest employers, we seek to ensure that our people are engaged, inspired and motivated to lead and implement Sri Lanka Telecom's ambitious growth plans. As we connect people to the world, our vision of a world where people have equal access to information and education becomes a reality as the mere connection enables communities and individuals to reach higher and empower themselves to achieve their aspirations. We complement this

with platforms for structured learning for targeted segments where the right to education must be upheld as it determines their future and the competitiveness of our country.

Empowering Generation C is an exhilarating prospect as we are more closely knit with their world than we have ever been in the history of mankind and we look forward to the world they will shape as digital natives. Our role as a leading brand in the country enables us to support the nation's social objectives as well as through targeted sponsorships and other community engagements which uphold our culture and influence values and social norms.

Environment Dimension

Sri Lanka Telecom's footprint relative to the country is necessarily a large one and managing it is a strategic imperative in as much as it impacts our bottom line and our brand. As a large consumer of energy, a separate division is devoted to managing this critical function with the strategic objective of reducing energy consumption and the related costs. We focus on management of e-waste as SLT together with its customers account for a significant proportion of the e-waste generated in the country and reduction of the carbon footprint. This has the potential to negatively impact our brand unless it is managed.

Performance Highlights

| Economic | | 2012 |
|--------------------------------------|---------------------------------------------------------------------|-------------------|
| Economic Value Added | | |
| • Employees | | Rs.11,866 million |
| • Shareholders | | Rs.1,534 million |
| • Lenders | | Rs.2,233 million |
| • Government | | Rs.6,585 million |
| • Business Expansion & Growth | | |
| • Depreciation | | Rs.11,794 million |
| • Retained Income | | Rs.2,502 million |
| Social | | |
| No. of customers | 1.5 million Fixed Telephones connect more than 4 million population | |
| All Island Book Distribution Project | Rs.300 million worth 122,414 books | |

Ratings

The following ratings have been awarded by Fitch Ratings Lanka Ltd.

Foreign Currency Rating

Long-Term Foreign-Currency IDR: BB–
Long-Term Local-Currency IDR: BB–

National

Long-Term Rating: AAA(lka)

Outlooks

Long-Term Foreign: Currency IDR: Stable
Long-Term Local-Currency IDR: Stable
National Long-Term Rating: Stable



The promise:

To deliver real shareholder value.



The delivery:

Sri Lanka Telecom remains one of the largest capitalised companies on the Colombo Bourse. This year the Group achieved revenues of Rs.56 billion, a growth of 10 % YoY.

The following ratings have been awarded by Standard & Poor's

Long term foreign currency – "B+" outlook stable
Long term local currency – "B+" outlook stable

Awards

- Best Corporate Citizen - Among the Top Ten Best Corporate Citizens in Sri Lanka within the CSR & Sustainable Business categories and also won a Category award of best performance for Economic Contribution at the Best Corporate Citizens Award 2012, conducted by the Ceylon Chamber of Commerce
- National Business Excellence - National Business Excellence Award 2012 - Organised by the National Chamber of Commerce of Sri Lanka. The Company was adjudged the Overall Winner - Gold Award; Sector Award- Best Capacity Builder; Winner - Gold, Sector Award - Infrastructure and Utilities; Winner - Gold, Sector Award - Extra Large Business Category; Winner - Gold and Sector Award - Best Tech-Savvy Company; Runner up - Silver.
- Brand Excellence - Brand Leadership Award at the Global Awards for Brand Excellence held in India
- Financial Reporting – Won the Gold award at the Annual Report Awards 2011 organised by the Institute of Chartered Accountants of Sri Lanka under the 'Telecommunication Sector' category.
- Human Resource Management – Silver Award from the Association of Human Resource Professionals in partnership with AON Hewitt India.

SUSTAINABILITY REPORT

SRI LANKA TELECOM THE MOST AWARDED CORPORATE IN SRI LANKA, 2012



National Business
Excellence Award 2012
Overall Winner – Gold

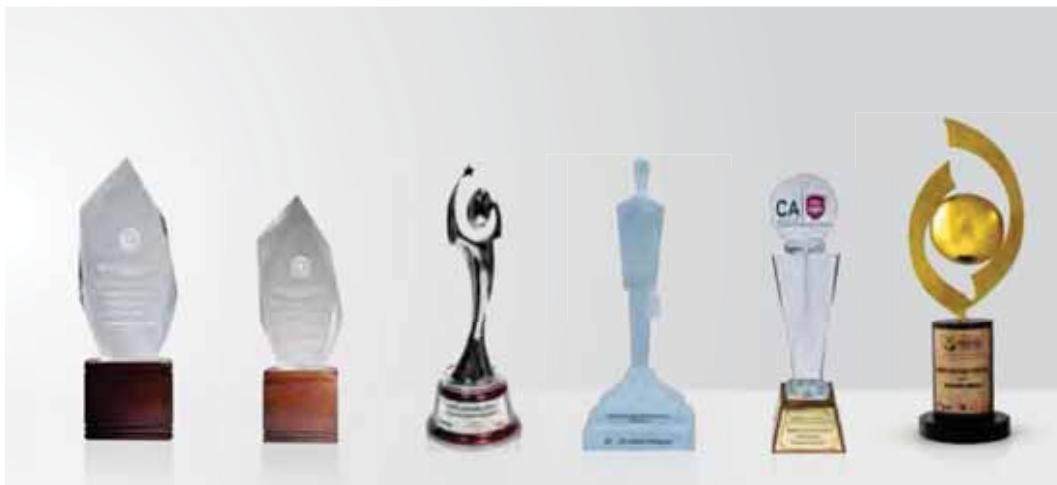
National Business
Excellence Award 2012
Extra Large Business
Winner – Gold

National Business
Excellence Award 2012
Infrastructure and Utilities
Winner – Gold

National Business
Excellence Award 2012
Best Capacity Builder
Winner - Gold

National Business
Excellence Award 2012
Best Tech - Savvy
Company Runner-up-Silver

The number of sparkling accolades SLT has won locally and internationally in 2012, is proof of exceptional performance across multiple areas of our transformation. Each accolade is the result of tireless work and unfailing dedication everyday, towards reinventing product offerings, embracing innovation, nurturing customer care, and pioneering development in ICT.



Best Corporate
Citizens Awards 2012
CSR & Sustainable Business
Ten Best Corporate Citizens

Best Corporate
Citizens Awards 2012
Best Performance
for Economic Contribution

HRM Awards
2012 - Silver

Business Today
'Top Twenty Five'
Awards 2010-2011
Rank 10

Chartered Accounts
Annual Report
Awards 2012
Telecommunication
Gold

Global Awards
for Brand Excellence
Mumbai 2012
Overall Brand Leadership

SLT remains focused on service and product excellence. We take our pledge of 'One Country, One Voice' to heart and our every endeavour is to uplift the people of the nation as one. The recognition that SLT receives in the local and international arena is a testimony of our enduring dedication to delivering our brand promise.



"We were entrusted by many corporates because we deliver a comprehensive array of services helping them to blaze ahead with stronger convergence capabilities, extended reliability, improved scalability, flexibility and cost effective implementation"

Business Rankings

- Ranked No.6 in LMD Ranking of Leading Listed Companies
- Ranked No.8 in LMD Most Valuable Ranking
- Ranked No.10 in Business Today's Top Twenty Five

Report Parameters

Sri Lanka Telecom presents its sustainability report combining our economic, social and environmental performance in context within this Sustainability Report. Sustainability Reporting is the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards sustainable development. This initiative follows 5 years of producing Annual Reports and Sustainability Reports, of which the most recent were for the financial year ended 31st December 2011.

Sri Lanka Telecom adheres to the internationally recognised Global Reporting Initiative Sustainability Reporting Guidelines which is a voluntary standard comprising a set of indicators for economic, environmental and social aspects of business performance that enables stakeholders to compare companies' performance. We have used the G3.1 guidelines and a Compliance Index is provided for easy reference on pages 105 to 109 of this report. Our disclosures have been drawn upto an Application Level B according to the criteria set out in the guidelines.

The Financial Statements for the year ended 31st December 2012 have been audited by KPMG are set out on pages 122 to 188 of this report together with the Accounting Policies and significant assumptions used in the preparation of the financial statements. The environment, social and governance information relates to Sri Lanka Telecom, excluding its subsidiaries and is derived mainly from factual records

maintained by the Business Units within the Company using standard measurements and does not require assumptions or complex calculations to be performed in this regard except in the case of Energy Management where the method of computation has been disclosed.

The materiality of the social and environmental issues presented in the Annual Report are determined based on our sustainability model which has been conceptualised giving due consideration to how we engage with our stakeholders and in response to identified needs. In doing so we have also considered the national priorities which are relevant to the industry in which we operate such as targets for digital inclusion. We have considered the severity of impact and the probability of occurrence in assessing the materiality of issues discussed in the report to ensure that our report remains relevant, complete and concise.

Information on Financial Performance, Governance and Risk Management are detailed in separate segments included in this sustainability report and are not duplicated in this segment. The Management Discussion & Analysis preceding the Sustainability Report also contains information relevant to stakeholders including commentary on our economic performance. References to relevant sections of these reports are provided in the GRI Index for the convenience of our readers.

Outlook

We will continue to provide economic, social and environmental information in a single report on an annual basis and plan to add to the number of indicators as our programme of integrating sustainability and business strategy continues.

FOCUSING OUR EFFORTS

SUSTAINABILITY REPORT CEO'S MESSAGE

CEO's Message

"Our key areas of focus remain on water, carbon emissions, energy, waste and people, but there is an increasing focus on biodiversity and community engagement."



SLT has aligned its strategy to the national objectives and has established superior ICT communications and transformed businesses through the deployment of high speed broadband.

Lalith De Silva
Group Chief Executive Officer

Sri Lanka Telecom's long standing commitment to sustainability is clearly expressed in our vision, mission and the strategic role that we have played in shaping the country's socio economic prosperity. Superior ICT has the potential to transform the way we function, enabling a low carbon society whilst facilitating economic development by connecting people to opportunity, locally and globally. We support the

national ICT vision by partnering Government initiatives aimed at creating an enabling ICT environment to support the country's vision of becoming South Asia's Economic Hub and achieving digital inclusion for all Sri Lankans.

Broadband is a critical infrastructure in the growing global digital economy today and the World Bank has estimated that a 1.21% increase in broadband penetration would yield a 1.21% and 1.38% increase in GDP growth on average for high-income and low/middle-income countries respectively. Sri Lanka has 15% broadband penetration but needs a higher rate of penetration to support the national strategy and the undeniably technology savvy youth. SLT has aligned its strategy to national objectives and has established superior ICT communications and transformed businesses through the deployment of high speed broadband. As the single largest telecommunication company in the country, we are the largest investor towards the economic development of the country and have invested Rs.13.9 billion in 2012 to build telecommunications infrastructure in Sri Lanka for the future requirements. The investment was focused on our NGN, capacity enhancement and fixed network modernisation programme and mobile network expansions and other investments. Projects like i-Sri Lanka require immediate and significant investment, as do network modernisation, increasing broadband capacity and coverage, expansion of fibre aggregation and access networks.

By popularising broadband services in Sri Lanka, SLT aims to boost national GDP, support online education initiatives such as connecting universities (LEARN), connecting

schools (SchoolNet), vocational training institutes, National Online Distance Education Service (NODES) and rural ICT centres (Nenasala). We believe that online education can transform communities as we enable access to high quality content in outlying communities that have been underserved in this vital area due to paucity of resources which are typically concentrated in cities.

The success story of Sri Lanka's IT and Business Process Outsourcing sector has been enabled by SLT's superior technology and will be a key beneficiary of our investments made during the year. Growth of this sector has provided the country with 35,000 jobs and US\$ 600million in exports and is today the 5th largest export category and one of the fastest growing. Its goal to create 80,000 jobs and US\$ 1 billion by 2015 is one that we support, and believe is on the path to achieve it using the infrastructure now in place. We note with satisfaction the efforts of this sector to assist in the regional development plans of the country which are now possible due to the investments made in broadband by SLT. As the lead communications provider to this vital and vibrant growth sector, we are indeed proud to be part of the success story and are committed to working in partnership with the key players to ensure that their business communication needs are met in the future.

Our focus on people has enabled us to serve our customers better through a highly motivated and inspired staff who have responded enthusiastically to programmes launched for their development. The programmes launched in 2012 to embed a customer centric culture into the group has been a key factor in the enhanced performance in the Company and we are committed to maintaining our focus on training and developing our people in the coming years as well. Industrial relations with the numerous trade unions have improved significantly through frequent dialogue and consistent application of HR policies. We have also focused on Health & Safety issues, particularly with employees and have prevention and screening programmes which are delivered through a number of platforms.

This year we embarked on a process of integrating sustainability principles into our core business strategy. This process has been rewarding as we gained a deeper appreciation of many aspects that were already in place and were able to improve other areas in a structured



The promise:
To empower the growing IT/BPO sector.



The delivery:
The Company is at the forefront of supporting the IT/BPO industry as the communication backbone with relevant and reliable communication solutions.

manner. As we progressed, it was evident that many of the sustainability concepts are part of the culture of the organisation such as energy management, equality and diversity and respect for human rights. We look forward to reporting on more areas in the years to come as our information tracking on indicators and policies and procedures are formulated for managing them.



In the right direction to facilitate the future generation

SUSTAINABILITY REPORT

We believe that better company performance through the completion of i-Sri Lanka programme and brand building activities will fuel SLT's performance in the CSE.

Economy

Our business strategies are aligned to national priorities of digital inclusion for all Sri Lankans to promote the socio economic development of our country and we have a proud history of over 150 years of empowering the nations' progress. SLT's achievements vis a vis the targets set out in the 10 year Development Plan of the Telecommunications Regulation Commission are given below.

A detailed review of performance is available in the Chairman's Statement, CEO's Review and the Management Discussion sections of this report.

| Criteria | Country Target for 2016 | Current Status | SLT Group |
|----------------------------------------------|-------------------------|---------------------|--------------------------|
| Teledensity | 30.0% | 16.9% | 7.3% |
| Fixed Subscribers | - | 3.5 million | 1.5 million |
| Cellular Subscribers | 16 million | 19.6 million | 4.5 million |
| Telecommunication sector contribution to GDP | 167 billion in 2015 | 147 billion in 2012 | 56 billion in 2012 (37%) |

Sources:

(TRCSL)

(TRCSL)

(SLT)

Economic Dimension

Investors

Sri Lanka Telecom is one of Sri Lanka's most valuable blue chip companies with an annual Group turnover in excess of Rs.56 billion. We are Sri Lanka's number one integrated communications service provider and the leading broadband and backbone infrastructure services provider in the country. Our market capitalisation on the Colombo Stock Exchange exceeds Rs.80 billion as at 31st December 2012.

Nearly 95% of Company shares were held by two shareholders by the end of year 2012, leaving the balance shares amongst approximately 13,000 shareholders including Government institutes, large international institutional investors and small retail investors. The main shareholder at year end was the Government of Sri Lanka which held 49.5% through the Secretary to the Treasury and Global Telecommunication Holdings N.V. of Netherlands, being the second largest shareholder owned a 44.98% stake.

Our share price fluctuated between Rs.34 and Rs.50 during the year indicating volatility driven by various factors such as interest rates, economic conditions, market perceptions etc. We believe that better company performance through the completion of i-Sri Lanka programme and brand building activities will fuel SLT's performance in the CSE.



MSAN installation under the i-Sri Lanka programme

SLT launched the i-Sri Lanka project in the latter part of 2010 to enhance and upgrade the existing fixed access network, by expanding the fibre network through FTTN (Fibre to the Node) deployment. By reducing the copper cable length, reliability is improved as are quality and broadband data speeds. Fully

integrated into the NGN Modernisation Programme, we believe that the growth and strong market share in broadband is evidence that i-Sri Lanka is adding the required foundation for future plans. This will ensure that SLT's quality and range of services remain on par with developed countries, a definite competitive edge in the current context. As discussed under the Management Discussion & Analysis, the i-Sri Lanka programme targets a broadband data speed of up to 20Mbps within a 2 km copper cable length, with a plan to achieve this for more than 90% of our fixed customers by the end 2013.

We have also aligned our strategy in line with the national goal of regional expansion and digital inclusion for all Sri Lankans. Our performance in this vital area is necessary for the stability and growth of our country is depicted in the table below.



Modern banking services powered by state-of-the-art communication solutions

Provincial Distribution of Fixed phones

| Province | Population | Sri Lanka fixed telephones | SLT Fixed telephones = connected households | Assuming a family = 4 members | % of the population SLT connects directly |
|---------------|------------|----------------------------|---------------------------------------------|-------------------------------|-------------------------------------------|
| Western | 5,821,710 | 1,414,723 | 752,935 | 3,011,740 | 51% |
| Southern | 2,464,732 | 382,404 | 138,687 | 554,748 | 22% |
| Central | 2,558,716 | 362,506 | 153,266 | 613,064 | 23% |
| Sabaragamuwa | 1,918,880 | 280,444 | 97,004 | 388,016 | 20% |
| Uva | 1,259,900 | 233,964 | 73,749 | 294,996 | 23% |
| North Central | 1,259,567 | 211,937 | 57,676 | 230,704 | 18% |
| North West | 2,370,075 | 319,890 | 106,418 | 425,672 | 17% |
| East | 1,551,381 | 134,136 | 75,469 | 301,876 | 19% |
| North | 1,058,762 | 99,894 | 55,959 | 223,836 | 21% |
| Total | 20,277,597 | 3,439,898 | 1,511,163 | 6,044,652 | 30% |

Sources: (Department of Census (TRCSL – Sep'12) and Statistics-2012) (SLT - Dec'12)

We are the largest communications provider to the corporate sector of the country and provide the technology platforms that are used by many to enhance their productivity and grow their businesses in size and profitability. The ICT/BPO sector which is one of the top 5 revenue earners for the country is powered by SLT and is set to grow as a high value adding industry creating jobs and opportunities for our youth.

We are committed to supporting the SME growth of the country as well and our ability to grow the SME customer base from 900 in 2010 to 6,000 as at end 2012 bears testimony to our efforts in this direction.

Customer Forums were held in the Central and Southern provinces based on the theme 'Beyond Borders,' which saw the participation of a large number of customers in product presentations, a demonstration of SLT products as well as relationship building activities. These and other initiatives are described more fully in the Management Discussion & Analysis section.

SUSTAINABILITY REPORT



"To enhance the services provided to Enterprise and SME customers and improve relationships, customer forums were conducted in several parts of the country."

Customers

The Sri Lanka Telecom Group serves over 6 million customers in Sri Lanka through a plethora of telecommunication products which helps enhance their lifestyle and connects them with opportunity for business and relationships with their loved ones, both globally and locally. We monitor global trends, customer feedback and market research to improve our products and services to ensure that appropriate technology is deployed for the various customer segments in line with their needs and national goals. Our customers include multinational corporations, large and small corporates, public sector, retail and individuals who rely on us to connect with people, opportunity and information. We recognise the need to proactively drive technological innovation to enable Sri Lankans to stay connected to people and opportunity.

We provide facilities and services in the areas of voice, data, video and mobile to customers and offer many value added features to enhance customer experience. It must also be noted that our deployment of next generation products and services has created jobs and enabled a host of online applications such as e-commerce, e-learning, e-governance, telemedicine and so on, which has enhanced capabilities, governance and benefitted millions of citizens.

Our current product portfolio is summarised on page 93, while it is described in greater detail in the Management Discussion & Analysis section.



Abhimaana Broadband package introduced for public sector employees and pensioners

Our Products

| Product | Feature updates |
|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MEGALINE Telephone Broadband PeoTV | Single Play, Double Play & Triple Play offering for Telephone, Broadband and PeoTV enabling the customer to choose the combination that is appropriate for envisaged usage. Available for home and office. |
| BROADBAND Powered by Megaline | Ten Broadband packages available in the market to enable users to choose one that suits their specific needs. |
| PEO TV Powered by Megaline | Platform for best of local and international news and entertainment from around the world at the touch of a button revolutionising traditional TV experience with features such as digital quality pictures, Time Shifted TV, Rewind TV to play pause live, and Video on demand with movie, music and educational content |
| CITYLINK | Four main categories of services which provide post paid packages, prepaid packages, payphones and wireless modem using CDMA technology. |
| IDD | All SLT residential phones are now IDD enabled and 232 number of countries connected with direct links to provide better quality international service |
| INTELLIGENT SOLUTIONS Voice Networking Data Hosting Managed Services | Exclusively offered to Corporate & SME customers comprising Managed, Networking, Hosting and Enterprise voice services with enhanced managed services through BIZAPPS and Video conferencing facility through VideoMeet solution. |

Engaging with our customers

Understanding and delivering the right customer experience has been critical to the retention of customers and expansion of business across the island. The table below summarises how

we engaged with our customers and our responses to the challenges identified.

| How we engaged | Response to challenges identified |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Feedback received from customer touch points • Customer Forums for SME and Corporate customers • Account Managers for Key Clients • Market research and intelligence • Customer behaviour and product adoption in overseas markets • Telecom industrial forums and conferences | <ul style="list-style-type: none"> • Value additions to existing Megaline customers by adding Broadband and PEO TV offers and tariff options • Improved response time for service requests • Expanding footprint, capacity and capability through the i-Sri Lanka programme • Introduced special packages for Double-play and Triple-play potential customers. • Conversion of CDMA customers to Megaline for enhanced experience • IDD enabled to all fixed lines to promote greater connectivity to customers • Quality of service improved to Broadband customers through automatic upgrade by adding free volumes and increased speed • Wireless routers introduced at low prices to promote greater mobility, wireless and wi-fi in homes and offices • Abhimaana broadband package introduced to government employees and pensioners |

SUSTAINABILITY REPORT



The promise:
To improve Quality and Service Fulfillment

The delivery:
SLT Service Fulfillment Centre has been formed as the interface between relevant customer relationship management teams and service and resource operations teams in order to provide improved service

The following activities have been carried out to strengthen the relationship and enhance customer engagement.

- Improvement of Customer Service Centres island-wide in convenient locations and offering a courteous service to customers.
- Appointment of Account Managers and Regional Sales Managers to attend to all communication needs of corporate and SME segments
- For the consumer end of the market, various forums and events are organised annually at regional level. These events take the form of professional gatherings, mega promotional campaigns, or simple door to door customer visits.
- Conduct educational programmes for school children on communication services.
- Round the clock free access to Contact Centres for customer communication
- Improved total solutions product portfolio and customised solutions to offer better quality and cost effective services to customers
- We operate a contact centre to ensure that we provide additional support for our products and services so that our customers are assured of a high level of service at all times.

Quality Assurance through Service Fulfillment

The SLT Customer Service Fulfillment process/responsibilities have been formulated to match the supply of services with consistently high levels of quality and reliability to meet promises to consumers and Service Level Agreements (SLAs) to enterprise and wholesale customers. It further aims to keep up with increasing subscriber expectations in today's market and to ensure a "first time right" customer experience. It organises the current business fulfillment processes, applications and information to improve the customer relationship management by improving service and resource management in an organised environment. The fulfillment operational model identifies main business processes and functions required to fulfill the service delivery and clearly demarcates the responsibilities of different operational teams to carry out those functions. The SLT Service Fulfillment Centre has been formed as the interface between relevant customer relationship management teams and service and resource operations teams in order to provide a better end to end service delivery path with a dedicated team located centrally for service fulfillment.

Business Partners

Our progress requires the support of our business partners and how we interact with them forms an important part of our business processes. We work with over 2000 local suppliers and over 125 foreign suppliers each year and have set in place policies and procedures to ensure that there is greater transparency in evaluation of tenders and proposals to strengthen the selection process. All SLT purchases go through a meticulous and competitive tendering process. The current procurement strategy adopted by SLT is the optimum cost method of acceptable quality levels of products and/or services.

e-Tendering system

e-Tender and supplier ranking criteria were key initiatives that were improved this year to streamline our tender process. e-Tendering is aimed at shaping the procurement activities of SLT to a higher degree of efficiency, convenience, information-rich and information sharing. In line with the e-Tender architecture, SLT invites proposals or quotations from suppliers for tenders. Proposals and quotations can be submitted online or offline as specified in the tender documents. This initiative has enabled us to create a paperless system for tenders contributing to lean consumption within the organisation and enhancing productivity. The vendor ranking criteria which include delivery, compliance with specifications, financial considerations, communication, after sales service and other considerations have also improved. This adds greater transparency to the process and captures our experience.

Benefits to Suppliers

SLT recognises that our suppliers may be exposed to risks that could substantially impact their profitability and liquidity in the present economic conditions. Therefore we have provided specific concessions to enable them to hedge such risks which include considering prevailing rates at the London Metal Exchange on date of placing order for copper cables and the linking of contract prices to USD rates. Additionally, the benefits received due to healthy long term relationships with suppliers are passed down to customers.

Governance

Sri Lanka Telecom has established Corporate Governance procedures which are described in the Corporate Governance Report. An executive Governance Board (GB) structure was strengthened, in which the Strategic Governance Board (SGB) is accountable for the Board of Directors while all other functional GBs report to SGB. The Governance Secretariat was formed to coordinate all GBs. Each Governance Board has its own Terms of Reference which covers the Mission, Objectives, Members and other guidance notes which are approved by the Governance Secretariat. The new structure is expected to facilitate better project management and efficient resource utilisation.

More information on the corporate governance structure and practices can be found in the Corporate Governance section of this report.

Social Dimension

Employees

Sri Lanka Telecom has one of the country's largest talent pools comprising 6,000 permanent employees who serve islandwide supporting the backbone of the country's telecommunication systems. We recruited 35 new team members in 2012 for new jobs created to meet our strategic business needs contributing to an overall growth in our talent pool in 2012. We have 33 unions which represent the interests of 99.99% of our employees with whom we work together to achieve our strategic goals.

A highly motivated and engaged team with the right skills and attitude is necessary to succeed as a service organisation and our rankings in prestigious business indices, awards and accolades are testimony to the strength of our team at SLT. It is a team that celebrates diversity in geography, gender, race, religion and political views that come together to make a stronger organisation which progresses through respect for each other's values, the best of which are encapsulated in the policies and procedures that are in place for governance of the HR function. There is transparency and consistent application of policies and collective agreements where workers' rights are upheld to a very high standard.



"We deliver high quality IP based services through our experienced and knowledgeable work force."

Enabling Environment, Equality and Diversity

Sri Lanka Telecom is an equal opportunity employer adhering to relevant ILO standards, statutory regulations and best practices in HR Management. The principle of equality underlies key HR functions across gender, religion and ethnic origin in an environment where meritocracy prevails in determining career progression, benefits, remuneration and other rewards for performance. Our strong policy framework provides the foundation for an enabling work environment that is ethical and responsible where workers are empowered to function according to their roles. It also provides for a workplace that is free from harassment and discrimination with formal grievance handling and disciplinary procedures in place in case of exceptions. The digital connectivity provided and automated systems enhance the performance of a technically oriented talent pool who are looking to push boundaries in the rapidly evolving communication technology inextricably woven with the prosperity of our country.

SUSTAINABILITY REPORT

Our strong policy framework provides the foundation for an enabling work environment that is ethical and responsible where workers are empowered to function according to their roles.

Improving Employee Experience

We continued our Company transformation that began in 2009 with the launch of our brand identity "One Country, One Voice" in 2011. This builds on the strong platform of HR practices already in operation to ensure that our talent pool is actively engaged in pursuance of corporate objectives. Performance related pay for executives, annual performance reviews, codes of conduct, international best practices and collective bargaining through trade unions are all interwoven in to the rich tapestry of corporate culture at SLT.

Award schemes were continued to inspire and motivate staff and to recognise their efforts in driving the performance of the Company. Accordingly, the 'Star Awards' were held for the SLT Contact Centre staff and 'Sales Excellence Awards' were held for the Sales Staff. Also the 'Collection Awards' and

'Service Excellence Awards' were held for billing & collection, service delivery teams respectively, to recognise best and performance among staff. We are encouraged with the results and enthusiasm generated from award schemes and plans to roll out the concept to other areas of the business as well.

The SLT Quality Competitions were held during the year with the concept of Quality Teams to influence employees to work in teams to solve problems identified by Management using shared experiences of team members as well as Quality Circles tools and a formal problem solving approach.

Employee competency matrices have been introduced to ensure that employees and line managers are equally aware of the skill levels expected at their present jobs and also the skills required for career progression.

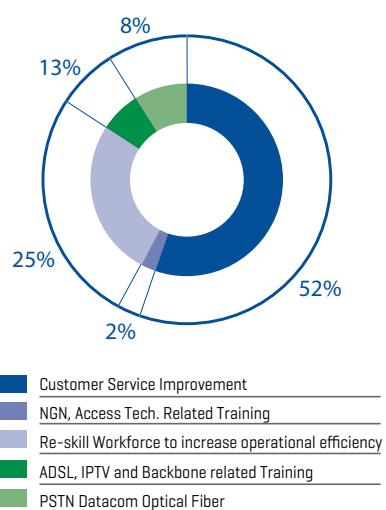
Training & Development

Aligning performance, career development, training and personal development has been a key goal embedded in our core strategy. Training requirements are identified during annual performance evaluations, through the Annual Business Planning process, project formulation stages of special or future projects and through special requests by line managers. An extensive training calendar is planned based on the requirements identified and implemented by the Training & Development division through four dedicated Training



| No. of Participants | | |
|---------------------|-------------|----------------|
| | Achievement | Training Weeks |
| Technical | 1,618 | 657 |
| Datacom | 239 | 138 |
| IT | 1,071 | 395 |
| Management | 389 | 130 |
| General | 247 | 72 |
| Overall | 3,564 | 1,392 |

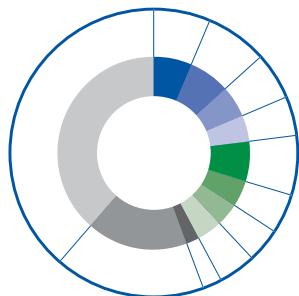
Training Distribution - 2012





"Front line staff participating in SLT Quiz programme, which provides a broad spectrum of the subjects at hand, while heralding an era of increased customer service levels."

Geographical Distribution of Total Staff



| | |
|-------------------------------|-------|
| Central | 520 |
| North Central & North Western | 537 |
| Western North | 412 |
| Sabaragamuwa | 364 |
| South | 519 |
| Uva | 342 |
| Western South | 315 |
| East | 323 |
| North | 180 |
| Metro area | 1,338 |
| Head Quarters | 3,030 |

Including company's permanent and other staff

| Employee Category | Male | Female | Total |
|---------------------|-------|--------|-------|
| Senior Management | 19 | 2 | 21 |
| Middle Management | 130 | 35 | 165 |
| Executives | 570 | 252 | 822 |
| Non-Executive Staff | 3,550 | 1,450 | 5,000 |
| Total | 4,269 | 1,739 | 6,008 |

Company permanent staff distribution and employee category

Centres located in Moratuwa, Peradeniya, Welisara and Galle. e-Learning is also available for employees in contact centre, sales and front offices on related topics. Additional external training courses are provided for employees who require specialist skills outside the curriculum of the internal training centres. We also provide overseas training for specialised areas identified in the Business Plan. Fees are reimbursed for

certification examinations obtained in areas relevant to work and we also encourage post graduate education through special education loans for Masters degrees, Post Graduate Diplomas and qualifications outside the Industrial Certifications scheme.

We trained 7,497 employees during the year in total and are delighted that our training targets were surpassed in 2012 with year on year improvements.

Benefits

Sri Lanka Telecom provides a wide range of benefits which are both monetary and non-monetary. These include special allowances for a wide variety of reasons, such as partial reimbursements of interest on housing loans and reimbursement of fees for related certification examinations and post graduate qualifications. Maternity leave of 84 working days can be extended with Child Care leave of one year inclusive of holidays on a no pay basis, to encourage women



Creating an online environment

SUSTAINABILITY REPORT



"Training and Development have taken many initiatives to uplift the competencies and capabilities of our staff during year 2012. Internal and external training workshops are conducted with aligning to training needs"

to remain in the workforce at SLT. We also have seven holiday bungalows which can be booked by staff for holidays at concessionary rates. These bungalows are located at Havelock Town, Bandarawela, Namunukula, Anuradhapura, Kandy, Sigiriya and Nuwara Eliya.

Industrial Relations

Industrial relations highlights about 33 unions and 12 (1) agreement.

SLT management signed an MOU with SLT Unions under the clause 12(1) of the Industrial Dispute Act in the presence of the Labour Commissioner in August 2011 and continued awareness programmes on Collective Agreement and Collective Bargaining for union leaders, arranged for the purpose of signing a collective agreement with them in the year 2012. Awareness programmes on business realities were also conducted for trade union leaders.

Further negotiations are being held with trade union leaders for signing a collective agreement in order to ensure industrial peace within the Company.

For a new trade union to be recognised by the management, a circular was published with information regarding the required percentage of membership representation. Management has been able to comply with the conditions of the 12(1) agreement which was entered into between management and trade unions.

Grievance Handling and Disciplinary Procedures

A formal grievance handling procedure is in place which allows employees to even go to the Chairman / CEO of SLT if he / she is not satisfied with the solutions provided. More emphasis on adhering to this procedure in a more effective manner was addressed during the year 2012.

Health & Safety

As a responsible corporate citizen, we take a proactive approach to promote the safety and well-being of our employees and others who may be impacted by us. We adhere to a robust Health & Safety regime that is supported by established policy guidelines and best practices.

The health and safety of our employees is given significant attention as they spend a considerable time of their lives in



Contact Centre - Annual Star Awards ceremony



SLT badminton championship

the workplace. Much attention is given to prevention which is our first line of defence and we use a number of platforms to create awareness amongst our employees of health and safety issues and best practices by addressing these.

Prevention of issues is our primary goal and we devote much time and effort to ensure that there is coverage of relevant topics for our employees' physical and mental wellbeing. Seminars during 2012 covered topics such as early pregnancy problems, screening for fatal abnormalities & early detection of gynecological cancers, gastritis and bowel disease, diabetes, stroke prevention, personal nutrition management, heart disease prevention and hearing and speech which were conducted by consultants in the relevant specialisations. We also held several programmes on First Aid, Work Life Balance and fire safety during the year.

Our health & safety Newsletters and emails covered ergonomics for computer users, fire safety, first aid, lightning hazards, dengue prevention, precautions during floods, planning for workplace emergencies, precautions for lightning, stroke prevention and preventing water borne diseases.

SLT Safety Week was held from 15th to 19th October to coincide with the National Safety Week to inculcate a safety culture among employees ensuring a healthy workforce that is capable of delivering a high level of customer service. The Health & Safety week commenced with a health awareness programme followed by a poster campaign on general health and safety, a safety quiz conducted through the e-Learning system and two practical safety programmes that were conducted in Batticaloa and Trincomalee. All employees were encouraged to participate in these programmes. Our staff benefits include annual health checks for all employees at identified facilities where we have specific arrangements in place through the Suwatha Programme.

Community

Technology connects people and communities changing the way we interact with each other and impacting our lifestyles. It enables us to leap frog generations of organic growth to an era where there is greater equality in knowledge and ability. By investing in Next Generation Technology we are fulfilling our promise to the community of providing enabling platforms. However, we also look beyond this to ensure that progress in the digital sphere is achieved whilst upholding our cultural values, appreciating our arts and a celebration of human physical achievement through encouragement of sports.

Education

We believe that technology holds the key to social equality through cost effective education and ensure that all students have access to high quality education. Technology also has the



The promise:
Healthy work environment.

The delivery:
Improved productivity by preventing and controlling all forms of industrial accidents and diseases in order to ensure overall safety and health at SLT.

ability to transform the way students engage in the process of learning making it more interactive and experiential. Globally education is changing rapidly as more content and examinations are made available online. All three platforms of internet, mobile and television are yet to be exploited to their full potential in this important field and we look to drive the change in Sri Lanka through providing enabling platforms for visionary educators to use in shaping the future of our youth. This is our most significant contribution to supporting education and we take a proactive approach in encouraging educational institutions to be part of the change that is happening globally. At present we support online education through initiatives such as connecting universities (LEARN), connecting schools (SchoolNet) and vocational training institutes, National Online Distance Education Service (NODES) and rural ICT Centres (Nenasala).

We also sponsor exhibitions that showcase ICT developments as it is vital for our workforce and for aspiring students to understand how technology is transforming the world we live in. Accordingly we sponsored Techno 2012 and the 30th National Information Technology Conference (NITC) organised by the Computer Society of Sri Lanka.

Sri Lanka Telecom has been collaborating with the Asia Foundation to provide high quality text books supporting a broad range of subjects to schools, universities and public libraries for ten years. The objective of this programme is to ensure that students have access to knowledge in an easily accessible form within their local communities to promote learning and English Literacy. All books provided are in English, sourced from the USA and from publishers of repute. This year SLT, together with Asia Foundation donated 122,414 books to 864 libraries in 25 districts in the country. The books ranged from primary education texts to tertiary education texts enabling students to learn in diverse subject areas ranging

SUSTAINABILITY REPORT



Staff awareness on future focused business plan

| SUMMARY OF DISTRICTWISE BOOK DISTRIBUTION | NO. OF BOOKS |
|-------------------------------------------|----------------|
| Ampara | 8,472 |
| Anuradhapura | 6,205 |
| Badulla | 5,541 |
| Batticaloa | 3,693 |
| Colombo | 37,940 |
| Galle | 8,043 |
| Gampaha | 4,088 |
| Hambantota | 1,225 |
| Jaffna | 8,877 |
| Kalutara | 5,594 |
| Kandy | 6,801 |
| Kegalle | 3,306 |
| Killinochchi | 2,101 |
| Kurunegala | 1,340 |
| Mannar | 1,898 |
| Matale | 458 |
| Matara | 694 |
| Moneragala | 1,315 |
| Mullaitivu | 2,162 |
| Nuwara Eliya | 3,163 |
| Polonnaruwa | 2,088 |
| Puttalam | 1,488 |
| Ratnapura | 2,234 |
| Trincomalee | 1,634 |
| Vavuniya | 2,054 |
| TOTAL | 122,414 |

from Biology to Arts. We are committed to supporting this programme in the future as well and look to cover all districts in the coming year.

Professionalism

SLT sponsors conferences of professional bodies to promote greater sharing of knowledge and highlight how technology enhances the capability of a professional. Such conferences ensure that professionals in Sri Lanka are globally relevant and provide a forum to debate and discuss current topics providing useful insights into possible solutions, their pros and cons. We also sponsor awards and competitions to promote specific areas of excellence within the profession.

Empowering National Enterprise Deyata Kirula 2012

Our support to the national agenda of developing all areas of the country is demonstrated through our partnership of the Deyata Kirula exhibition, focusing on empowering rural communities to develop and contribute to the macro



SLT Manpower Solutions (Pvt) Ltd conferred with the Award for "Best HR Strategy in line with Business" at the 3rd Asia's Best Employer Brand Awards 2012 held on 19th of July 2012 in Singapore.

| Conference | Professional Body |
|----------------------------------------------------------------------------|---------------------------------------------------|
| CIMA Annual Conference | Chartered Institute of Management Accountants, UK |
| National HR Conference | Institute of Personnel Management |
| ICA Annual Conference | Institute of Chartered Accountants of Sri Lanka |
| Regional Conference and National Project Management Excellence Awards 2012 | Project Management Institute |
| SLIM Pull Forum | Sri Lanka Institute of Marketing |
| CIM Annual conference | Chartered Institute of Marketing, UK |



"The SLT 2013 calendar focuses on the Rush & Reed Craft of Sri Lanka, as it is a unique craft that has been passed down from generation to generation and holds pride of place in Sri Lanka's legacy of handicrafts."

economy. Sri Lanka Telecom continues to be an integral partner of Deyata Kirula, with the goal to empower the community through ICT enablement, as evidenced through our investment in improving telecommunication infrastructure in the Moneragala district and Anuradhapura district in year 2011 and 2012 respectively. Currently, SLT's development plans are being implemented in the Ampara district which will host Deyata Kirula in 2013.

Heritage

Sri Lanka has a proud heritage that has been enriched with feats of engineering, healing, visual and performing arts which have enriched our lives through generations. Our country is also home to one of the top 25 bio diversity hotspots with many endemic species of flora and fauna. Sri Lankan culture, as with most ancient cultures, has a marked respect for nature's bounty and progress made in science complemented nature in recognition of the need to preserve our fragile eco systems. Art forms thrived on natural themes reflecting appreciation of the surroundings and the co-existence of the people through song, dance, carvings and paintings. Our traditions and rituals also reflect the respect for the balance of nature. Generations of healers, artists and craftsmen have had their craft passed down to them through their ancestors and communities which are unique to Sri Lanka.

Heritage Themed Complimentary items

In recognition of the need to preserve our rich heritage, Sri Lanka Telecom embarked on a project in 2001 to produce our calendars and complimentary items on themes from our heritage including arts, culture and bio-diversity. The primary objective of this is to raise awareness amongst the general public on the importance of preserving our rich heritage for future generations. Past themes have included Endemic birds of Sri Lanka [2003], Endemic orchids of Sri Lanka [2005] Kolam masks of Sri Lanka [2006], Endemic fresh water fish of Sri Lanka

[2007] Gok Art of Sri Lanka [2008], Endemic butterflies of Sri Lanka [2009], The Heritage of Sinharaja [2010], Rediscovering hidden heritage [2011] and Drums of Sri Lanka [2012].

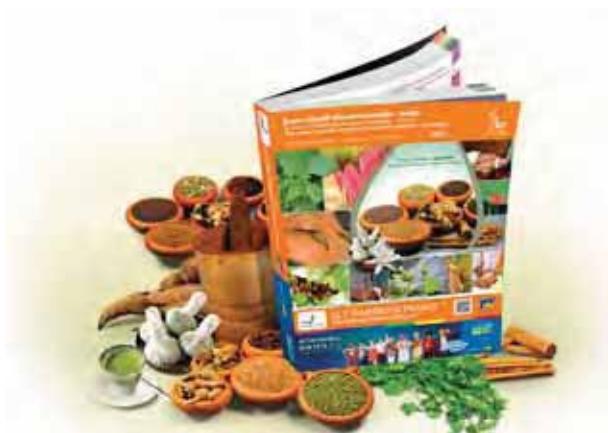
Our calendar for 2013 focuses on the Rush and Reed Craft of Sri Lanka which is an ancient art that has been developed over thousands of years. The intricate patterns woven into utility items such as mats, baskets and wallets etc. are inspired by nature and require careful planning using mathematics and geometry. The artist's skill is reflected in the colourful items that are made from natural materials such as gal aha, thulhiriya, palm leaves and pandanus that are coloured using mostly pigments extracted from plants and trees. It is important to preserve this industry due to its impact on the economy, environment as well as culture or traditions. For example, some varieties of rush have the ability to purify the soil by their ability to remove harmful chemicals from it. Furthermore, the industry provides an economic reason for continued growth of these important links in our eco systems and a craft that reflects our culture to enrich the growing tourism industry.

Jana Gee Tharuwa Wee competition

During the Sinhala and Tamil New Year season, a competition was launched to celebrate Sri Lankan Folk Songs (Jana Gee) which combined the heartsongs of our people handed down over generations with SLT Interactive Voice Recognition services. The competition was open to anyone who could call in using SLT Megaline or an SLT Citylink telephone to submit the folksong which could be in Sinhala or Tamil. We received 44,000 folk song submissions from contestants who were mainly students. This was encouraging as it demonstrated that they too were interested in engaging in the preservation of our culture. Winners were selected by an eminent panel of judges at a grand finale held at BMICH and were awarded generous cash prizes.

SUSTAINABILITY REPORT

Our technical skills were used to develop e-directories and the Ministry's official website as part of our project to promote indigenous medicine and Ayurveda.



Ayurvedic images of SLT RAINBOW PAGES 2012 directory

SLT RAINBOW PAGES National Directory Theme

SLT RAINBOW PAGES has been in the forefront of providing timely and accurate information to the nation as the only business directory now circulating in Sri Lanka.

As a socially responsible entity, SLT RAINBOW PAGES annually selects a local industry which has a national interest to be promoted in order to increase its value among general public as well as the stakeholders in the industry. In the year 2012, we selected indigenous medicine as the industry to be made popular during the year. As such, all our resources were used to promote this industry during the year 2012.

Accordingly the SLT RAINBOW PAGES 2012 directory cover consisted of Ayurvedic images as part of our strategy to communicate the message to general public. To stimulate the indigenous medicine usage, there were several articles about herbal plants, Ayurvedic treatments, Ayurvedic simple remedies etc.

Apart from the print directory, our other simultaneous products such as CD, e- directory, website etc., also carried important information on indigenous medicine and Ayurveda to the local as well as the global market.

To promote the industry we worked together with the Ministry of Indigenous Medicine and other groups and organisations related to this industry. Our technical skills were used to develop e-directories and the Ministry's official website as part of our project to promote indigenous medicine and Ayurveda. By supporting such a socially and nationally valuable industry, the demand, value and popularity of the directories began to increase.

The theme for the year 2013 is the vibrant Gem & Jewellery Industry of Sri Lanka.



The Company's contribution to "Books for Asia" programme in Sri Lanka



The first house was built under the "Sihina niwasa" housing project by SLT Manpower Solutions (Pvt) Ltd at Pugoda during 2012 for Mr. A M Jayasundara, an employee of the company.

Arts & Culture

Arts and Culture are important aspects of society as they enrich the lives of people and provide a medium for expression and communication without language barriers. It is important to ensure that Sri Lankan arts and culture is appreciated by present generations, preserved and also progressed to ensure relevance in modern society. It is equally important to ensure that we explore other cultures and appreciate their arts as we integrate to become citizens of the world.

Sports

The importance of sports in promoting peace and harmony is one that has been used by great leaders of our time and throughout history. This important aspect has the ability to unite people under one banner cutting through social and economic inequality. We contribute to this vision by uplifting and encouraging local sporting talent and athletes through the sponsorship of sporting events, bodies and sports men / women and contingents.

Other

We have carried out a number of community projects which have fulfilled specific needs in the community we operate in and some of these are listed below. The majority of these projects were initiated by our employees who volunteered their time and efforts to achieve a successful outcome.

- Bi-annual blood donation programmes - SLT conducts blood donation programmes twice a year, with the help of the Blood Bank. Many employees have even donated blood more than 20 times during their service at SLT.
- Hope for less fortunate children – Employees of SLT volunteered of their time to visit several orphanages and schools in order to build relationships with the children to help meet their psychological and emotional needs and to instill in their hearts the assurance that they are valued, respected and loved. These programmes involved spending time with the children over refreshments, presenting them small gifts, distributing books in collaboration with Asia Foundation as well as other entertainment programmes. These programmes were all funded by the employees of SLT.
- Relief in times of natural disasters – SLT is prompt to respond in times of natural disasters and also encourages employees to actively contribute to relief efforts. During the heavy flooding experienced during the latter part of 2012, SLT and its employees came together to provide relief to affected victims by way of contributions such as cash donations and dry rations.

Environmental Dimension

Our products enable people and businesses all over the world to reduce local and international travel everyday whilst remaining connected to loved ones or opportunity, thus enabling reduction of the carbon footprint of all mankind. This is the telecom industry's greatest contribution to the environment although it is difficult to measure. We are also mindful of the necessarily large footprint the organisation makes in providing enabling technologies and strive to manage and minimise it as part of our business processes as there are substantial benefits to be gained as a result of lean consumption and waste management. Inculcating the concepts of sustainability in this manner ensures that there is continuity of measures taken to identify, monitor and manage the key issues as part of the business objectives of the Company, an imperative for continued action on sustainability. Employees are engaged in these initiatives by educating field staff on minimising environment pollution and damages including minimising the cutting down of trees and finding alternative ways of carrying out daily activities such as cabling etc. without harming the existing geographic landscapes. Educating employees on environment pollution and its threat to life as well as educating and encouraging ways of minimising wastage through SLT's bi-monthly magazine Amathuma, emails, posters and seminars is an ongoing programme. As a responsible corporate citizen we are aware that there is more that needs to be done and are inspired to push the boundaries by our achievements so far.

Energy Management

Energy management is a strategic imperative as there is tremendous potential for savings in this vital area. It is the focus of a separate division who are mandated to ensure that SLT manages energy in a responsible way to meet its strategic needs. SLT also endeavours to make technological changes to protect the environment and reduce energy use by adapting to new technologies such as Next Generation Networks (NGN) and also low power consumption technology such as Passive Optical networks (PON) and also minimising damages on environment. The most significant initiatives implemented during the year are discussed below.

SUSTAINABILITY REPORT



"We received 44,000 folk song submissions from contestants who were mainly students. This was encouraging as it demonstrated that they too were interested in engaging in the preservation of our culture."

Next generation technology

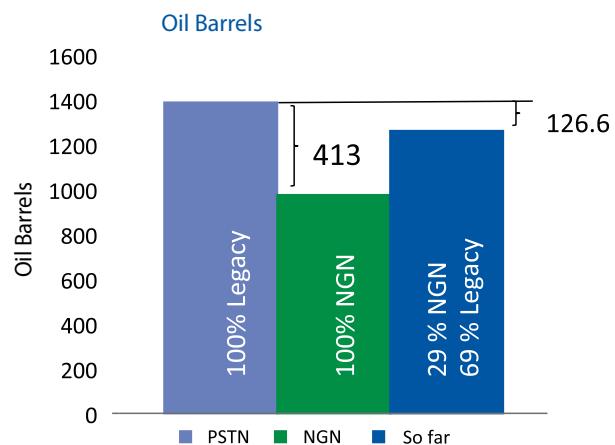
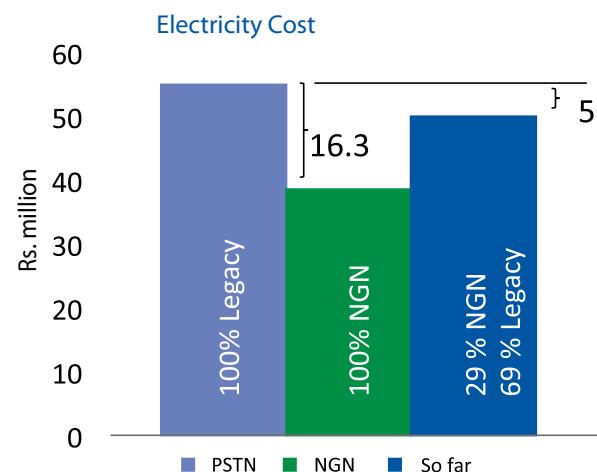
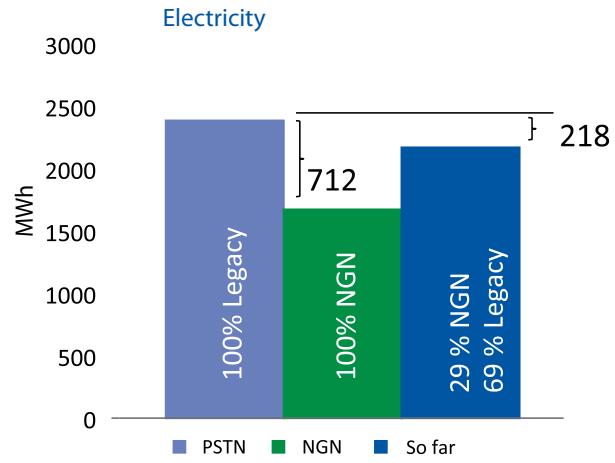
We have completed the migration of all international circuits from three legacy TDM international gateways into fully softswitch architecture featuring two modern switches. This leads to high levels of redundancy, improved performance and monitoring and tremendous savings on energy as estimated below. The savings were estimated by computing per subscriber monthly energy consumption from sample measurements on CDMA BTS, legacy & NGN exchanges and using these to calculate weighted average monthly consumption for CDMA, legacy and NGN Systems. A fixed ratio of 29% NGN and 69% Legacy subscribers (the current status of the project) was used for the computations indicated in green.

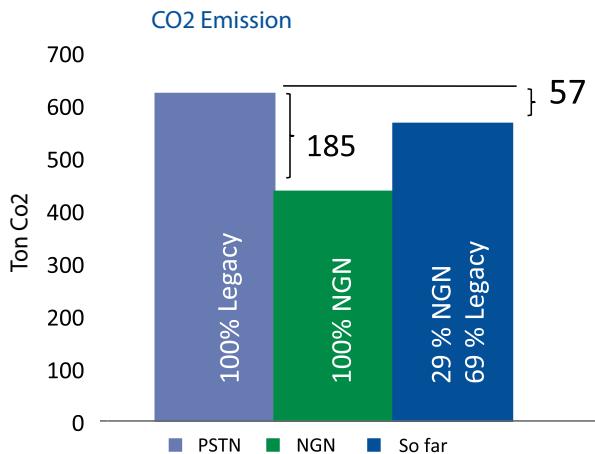
Maximum utilisation

A new fuel management system was introduced in the first half of the year which reduced fuel consumption by 126.6 oil barrels during the year.

Minimum impact

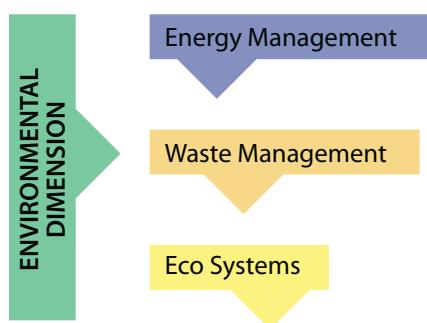
A new policy on Deployment of Power Plants at SLT was introduced in order to establish a clear policy on deploying and managing all power plants within SLT. The aim of this is to save energy costs and to help reduce damage to environment from unnecessary energy usage and leverage the benefits from





the NGN migration associated with the i-Sri Lanka programme. Highlights of the initiatives are:

- The standard minimum temperature maintained
- Replace all conventional type rectifiers currently in use before end 2013. All new installations should be energy efficient type, and able to be controlled, monitored and supervised remotely.
- Other projects for saving energy include a proposal for natural lighting at the Peliyagoda stores complex, replacing of CRT monitors with LCD monitors and improving lighting efficiency through use of LEDs, T5 retrofit tubes and occupancy sensors which are expected to save approximately Rs.5.7 million annually.



Waste Management

We work with the Central Environmental Authority, Local Government Authorities, Wildlife Department, Forest Department and the Geological Department to ensure compliance with regulations as we expand our network islandwide. A team of staff are appointed to overlook the environment management of the Company which includes the proper usage of resources etc. The following actions are also taken to ensure that we minimise our impact on the environment:



Air emissions

We use only approved refrigerants for air conditioners and ECO tests is followed for air emissions. Additionally, SLT workshop uses AC gas recovery system made by employees to reduce air emissions by vehicle air conditioners.



Liquid Effluents

We minimise liquid effluents used in new projects and during maintenance activities. A water treatment plant has been implemented at the SLT Vehicle Service Station for which CEA approval has also been obtained. Maintenance free batteries are used in new projects and replacements (SMF batteries), and Ph value is balanced before disposing of battery acids. We also retreat exhaust from the vehicle servicing plant at Peliyagoda.



Hazardous waste

SLT does not use high power broadcasting transmitters in our towers and use sound proof generators to minimise sound pollution. We have implemented a programme of converting existing machines to become sound proof and a policy to purchase only sound proof machines in the future. Employee awareness in microwave operations and maintenance has been increased through awareness programmes. We also provide e-waste bins at SLT Teleshops to enable customers to dispose of electronic items in a green manner.

SUSTAINABILITY REPORT



Solid waste

Equipment vendors and suppliers are strictly advised to recover solid waste and follow proposed dismantling procedures at the end of projects - packaging, polythene, safety cushions etc. Solid waste is categorised and issued for recycling:

- Paper – given to the paper corporation
- Furniture – given to manufacturers and users if reusable
- Metallic waste – given over for recycling purposes
- Solid waste – Toner cartridge collecting bins organised and distributed to all island wide SLT offices.

- Creating awareness among customers, and business partners - SLT has incorporated the following practices in to its operations to encourage compliance with the Company's environmental policy.
- Suppliers - The e-tendering process encourages suppliers to comply with SLT's organisation policy
- Customers - Online bill payments reduce the printing of receipts and thus reduces paper wastages. Time and fuel wasted in travelling to a payment location is also reduced. SLT encourages customers to make payments using the online bill payment facility.
- The introduction of the Conference Call facility encourages customers to avoid wasting excessive amounts of time / fuel etc. in travelling to hold meetings and discussions and contributes indirectly to the environment.

e-Waste Management

e-Waste collecting bins have been placed in all the SLT premises to collect all the electronic wastes such as; telephone instruments, mobile phones, batteries, etc. in partnership with the Central Environment Authority.

Eco Systems

Preservation of eco systems is vital to the future of the planet and we aim to highlight this important fact through our corporate complimentary items, calendars and other gifts.

As dengue has claimed many lives in epidemics that are preventable, we held Shramadhana (volunteer) campaigns to prevent the breeding of dengue mosquitos through cleaner environments. This was carried out in June and July 2012 under the instructions of the Medical Officers of Health. Different sections were assigned different areas of the premises to inspect and clean during the allotted time to ensure the working environment is free from dengue mosquitos.



The promise:

To make the planet a better place.

The delivery:

Our products enable people and businesses all over the world to reduce local and international travel everyday whilst remaining connected to loved ones or opportunity, thus enabling reduction of the carbon footprint of all mankind.

GRI INDEX

| G3.1 Content Index - GRI Application Level C | | | |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------|
| STANDARD DISCLOSURES PART I: Profile Disclosures | | | |
| 1. Strategy and Analysis | | | |
| Profile Disclosure | Disclosure | Level of Reporting | Response/Location of disclosure |
| 1.1 | Statement from the most senior decision-maker of the organisation. | Full | Pg 8 - 13 |
| 2. Organisational Profile | | | |
| 2.1 | Name of the organisation. | Full | Pg 2, 114 |
| 2.2 | Primary brands, products, and/or services. | Full | Pg 4, 91 |
| 2.3 | Operational structure of the organisation | Full | Pg 112, IBC |
| 2.4 | Location of organisation's headquarters. | Full | IBC |
| 2.5 | Number of countries where the organisation operates | Full | Sri Lanka |
| 2.6 | Nature of ownership and legal form. | Full | Pg 112 |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | Full | Pg 89, IBC |
| 2.8 | Scale of the reporting organisation. | Full | Pg 112 |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | Full | No significant changes |
| 2.10 | Awards received in the reporting period. | Full | Pg 83 - 84 |
| 3. Report Parameters | | | |
| 3.1 | Reporting period | Full | 1st January to 31 December 2012 |
| 3.2 | Date of most recent previous report | Full | February 2012 |
| 3.3 | Reporting cycle | Full | Annual |
| 3.4 | Contact point for questions regarding the report | Full | Mrs.Vijitha Ratnayake Deputy Chief Corporate Officer vijitha9@slt.com.lk Mr. Lal Ranjith - CCO sklal@slt.com.lk |
| 3.5 | Process for defining report content. | Full | Pg 85 |
| 3.6 | Boundary of the report | Full | Pg 85 |
| 3.7 | Any specific limitations on the scope or boundary of the report | Full | Pg 85 |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, etc | Full | Pg 85 |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports | Full | Changes due to IFRS explained in Notes to Accounts |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | Full | No significant changes |
| 3.12 | Table identifying location of Standard Disclosures | Full | Pg 105 - 109 |
| 4. Governance, Commitments, and Engagement | | | |
| Profile Disclosure | Disclosure | Level of Reporting | Location of disclosure |
| 4.1 | Governance structure of the organisation | Full | Pg 72 |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | Full | Pg 72. Chairman is non-executive |
| 4.3 | The number and gender of Board members and their roles (independent and/or non-executive) | Full | Pg 31 - 33 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations to Board | Full | Pg 77 |
| 4.14 | List of stakeholder groups engaged by the organisation. | Full | Pg 80 - 104 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | Full | Pg 80 - 104 |

GRI INDEX

| Indicator | Disclosure | Level of Reporting | Location of disclosure |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------|
| STANDARD DISCLOSURES PART III: Performance Indicators | | | |
| Economic | | | |
| Economic performance | | | |
| EC1 | Direct economic value generated and distributed | Full | Pg 83 |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. `` | Partial | Pg 101 - 103 |
| EC3 | Coverage of the organisation's defined benefit plan obligations. | - | - |
| EC4 | Significant financial assistance received from government. | - | - |
| Market presence | | | |
| EC5 | Range of ratios of standard entry level wage by gender | - | - |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | - | - |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | - | - |
| Indirect economic impacts | | | |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit | Partial | Pg 97 |
| EC9 | Understanding and describing significant indirect economic impacts | - | - |
| Environmental | | | |
| Materials | | | |
| EN1 | Materials used by weight or volume. | Partial | Pg 102 - 103 |
| EN2 | Percentage of materials used that are recycled input materials. | - | - |
| Energy | | | |
| EN3 | Direct energy consumption by primary energy source. | - | - |
| EN4 | Indirect energy consumption by primary source. | - | - |
| EN5 | Energy saved due to conservation and efficiency improvements. | Full | Pg 102 -103 |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and resultant reductions in energy requirements | Partial | Pg 102 - 104 |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | Partial | Pg 104 |
| Water | | | |
| EN8 | Total water withdrawal by source. | - | - |
| EN9 | Water sources significantly affected by withdrawal of water. | - | - |
| EN10 | Percentage and total volume of water recycled and reused. | - | - |
| Biodiversity | | | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity | - | - |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity | - | - |
| EN13 | Habitats protected or restored. | - | - |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | - | - |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations | - | |
| Emissions, effluents and waste | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | Partial | Pg 102 -103 |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | - | - |

| Indicator | Disclosure | Level of Reporting | Location of disclosure |
|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------------|
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | Partial | Pg 102 -103 |
| EN19 | Emissions of ozone-depleting substances by weight. | - | - |
| EN20 | NOx, SOx, and other significant air emissions by type and weight. | - | - |
| EN21 | Total water discharge by quality and destination. | - | - |
| EN22 | Total weight of waste by type and disposal method. | - | - |
| EN23 | Total number and volume of significant spills. | Full | No such spills |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. | - | No hazardous waste |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. | - | - |
| Products and services | | | |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | Partial | Pg 105 |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | - | - |
| Compliance | | | |
| EN28 | Significant fines and non-monetary sanctions for non-compliance with environmental laws and regulations. | Full | No fines or sanctions imposed |
| Transport | | | |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. | - | - |
| Overall | | | |
| EN30 | Total environmental protection expenditures and investments by type. | - | - |
| Social: Labour Practices and Decent Work | | | |
| Employment | | | |
| LA1 | Total workforce by employment type, employment contract, and region, broken down by gender. | Full | Pg 94 |
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | Partial | Pg 94 |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | - | - |
| LA15 | Return to work and retention rates after parental leave, by gender. | - | - |
| Labour/management relations | | | |
| LA4 | Percentage of employees covered by collective bargaining agreements. | Partial | Pg 96 |
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. | - | - |
| Occupational health and safety | | | |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes. | Full | Pg 97 |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender. | - | - |
| LA8 | Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases. | Full | Pg 97 |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | - | - |

GRI INDEX

| Indicator | Disclosure | Level of Reporting | Location of disclosure |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------|
| Training and education | | | |
| LA10 | Average hours of training per year per employee by gender, and by employee category. | Full | Pg 94, 95 |
| LA11 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | - | - |
| LA12 | Percentage of employees receiving regular performance and career development reviews, by gender. | - | - |
| Diversity and equal opportunity | | | |
| LA13 | Composition of governance 'bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | Partial | Pg 72, 95 |
| Equal remuneration for women and men | | | |
| LA14 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | - | - |
| Social: Human Rights | | | |
| Investment and procurement practices | | | |
| HR1 | Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening. | - | - |
| HR2 | Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening | - | - |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations | - | - |
| Non-discrimination | | | |
| HR4 | Total number of incidents of discrimination and actions taken. | - | - |
| Freedom of association and collective bargaining | | | |
| HR5 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights. | Full | No such operations/ suppliers identified |
| Child labour | | | |
| HR6 | Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour. | Full | We adhere to ILO principles on child labour. No violations were reported. |
| Forced and compulsory labour | | | |
| HR7 | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour. | Full | No such operations or suppliers identified. |
| Security practices | | | |
| HR8 | Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. | - | - |
| Indigenous rights | | | |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | Full | No such violations. |
| Assessment | | | |
| HR10 | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments. | - | - |
| Remediation | | | |
| HR11 | Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms. | Full | No such grievances filed. |

| Indicator | Disclosure | Level of Reporting | Location of disclosure |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------------|
| Social: Society | | | |
| Local communities | | | |
| SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programmes. | - | - |
| SO9 | Operations with significant potential or actual negative impacts on local communities. | - | - |
| SO10 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities. | - | - |
| Corruption | | | |
| SO2 | Percentage and total number of business units analysed for risks related to corruption. | - | 100% All business units. |
| SO3 | Percentage of employees trained in organisation's anti-corruption policies and procedures. | - | 100% |
| SO4 | Actions taken in response to incidents of corruption. | - | - |
| Public policy | | | |
| SO5 | Public policy positions and participation in public policy development and lobbying. | - | - |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | - | - |
| Anti-competitive behavior | | | |
| SO7 | Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes. | Full | Pg 77 - 78 |
| Compliance | | | |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | Full | No such fines. |
| Social: Product Responsibility | | | |
| Customer health and safety | | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | - | - |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. | Full | No such incidents reported. |
| Product and service labelling | | | |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | - | - |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. | - | - |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | - | - |
| Marketing communications | | | |
| PR6 | Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship. | - | |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes. | Full | No such incidents reported. |
| Customer privacy | | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | - | - |
| Compliance | | | |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | - | - |

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ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors present their Annual Report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 31 December 2012. The Corporate Governance Report set out on pages 70 to 75 forms part of the Directors' Report.

1. Formation

Sri Lanka Telecom (SLT) was formed by an Incorporation Order made under Section 2 of the State Industrial Corporations Act No. 49 of 1957 and published in the Extraordinary Gazette No. 596/11 of 6 February 1990. Subsequently, in terms of an order made by the Minister of Posts and Telecommunications ["the Minister"] on 24 July 1991 under Section 23 of the Sri Lanka Telecommunications Act No. 25 of 1991 and published in the Gazette No. 675 of 9 August 1991, all properties, rights and liabilities (other than those excluded by the agreement entered into between the Minister and SLT as per sub-section 2 of Section 23 of the Sri Lanka Telecommunication Act) to which the Department of Telecommunications (DOT) was entitled or subject to immediately before the transfer date of 1 September 1991 were vested with SLT.

On 25 September 1996, SLT was converted to a public limited company under the Conversion of Public Corporations of Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987, vide Extraordinary Gazette No. 942/7 dated 25 September 1996.

On 5 August 1997, the Government of Sri Lanka as the sole shareholder of SLT divested 35% [631,701,000 ordinary shares] of the issued ordinary share capital to Nippon Telegraph and Telephone Corporation (NTT) and entered into an agreement to transfer the management of SLT to NTT. On 2 July 1998, the Government of Sri Lanka divested a further 3.5% of the issued ordinary share capital by transfer of 63,170,010 ordinary shares to the employees of SLT. On 22 March 2000, NTT transferred the entire 35% of their holding in SLT to NTT Communications Corporation (NTT Com).

The Government of Sri Lanka divested a further 12% of its holding to the public through a listing on the Colombo Stock Exchange in November 2002, reducing its holding to 49.5%.

On 4 June 2007, SLT was re-registered under the Companies Act No. 07 of 2007 as Sri Lanka Telecom PLC [SLT PLC].

On 1 April 2008, NTT Com of Japan who held 635,076,318 ordinary shares, which constituted 35.2% of the total issued stated capital of SLT PLC, sold their entire holding to Global Telecommunications Holdings N.V. of Netherlands (GTH) at a price of Rs.50.50 per share. Following the share trade by NTT Com, GTH, in terms of the Takeovers and Mergers Code, announced a mandatory offer to the remaining shareholders which was closed on 2 June 2008. At the close of the mandatory offer, GTH had acquired additional 9.78% of the stated capital of SLT PLC, making the total shareholding to 44.98% of the total issued stated capital of SLT PLC. Since the expiration of the management agreement with NTT, no management agreement had been entered into by SLT PLC.

2. Principal group activities and review of the business

The Group provides a broad portfolio of telecommunication services across Sri Lanka, the main activity being domestic and international fixed and mobile telephone services. In addition, the range of services provided by the Group include, inter-alia, internet services, IPTV, Wimax operations, data services, domestic and international leased circuits, frame relay, satellite uplink and maritime transmission.

The Company's interest in subsidiaries and the business activities of respective subsidiaries are as follows:

A detailed review of the Company's activities, the development of its businesses, and an indication of likely future developments are given under Management Discussion and Analysis.

| Name of the subsidiary | Business activity |
|------------------------------------------|--------------------------------|
| Mobitel (Private) Limited | Mobile telephone services |
| Sri Lanka Telecom (Services) Limited | Total network solutions |
| SLT (Hong Kong) Limited | IP transit services |
| SLT Publications (Private) Limited | Directory publication services |
| SLT Manpower Solutions (Private) Limited | Manpower solutions |
| SLT VisionCom (Private) Limited | IPTV services |
| Sky Network (Private) Limited | Wi-Max services |

A detailed review of the Company's activities, the development of its businesses, and an indication of likely future developments are given under Management Discussion and Analysis.

3. Board of Directors

The Directors of Sri Lanka Telecom PLC as at the date of this report are as follows;

| Name of Director | Position | Date of Appointment | Date of Re-election | Date of Resignation |
|-----------------------------|----------|---------------------|---------------------|---------------------|
| Mr. Nimal Welgama | Chairman | 20.05.2010 | 28.03.2011 | |
| Mr. Sandip Das | Director | 05.06.2008 | 28.03.2011 | |
| Mr. Chan Chee Beng | Director | 05.06.2008 | 29.03.2012 | |
| Mr. Jeffrey Jay Blatt | Director | 05.06.2008 | 29.03.2012 | |
| Mr. Jayantha Dharmadasa | Director | 26.05.2010 | 29.03.2012 | |
| Mr. Shameendra Rajapaksa | Director | 26.05.2010 | 28.03.2011 | |
| Mr. Kalinga Indatissa | Director | 26.05.2010 | 28.03.2011 | |
| Mr. Lawrence Michael Paratz | Director | 26.05.2010 | 28.03.2011 | |
| Mr. D. Widanagamachchi | Director | 05.07.2010 | 28.03.2011 | 13.06.2012 |
| Ms. Pushpa Wellappillai | Director | 28.06.2012 | | |

Director election and re-election

Ms. Pushpa Wellappillai, having been appointed as a Director by the Board during the year, will retire at the Annual General Meeting and will be proposed for election as required by the Company's Articles of Association. Messers Shameendra Rajapaksa and Kalinga Indatissa, will be proposed for re-election this year, at the forthcoming AGM in accordance with the Company's Articles of Association

4. Directors' interest in contracts with the Company

The particulars of entries made in the Interests Register pertaining to General Disclosures made by the Directors of the Company in terms of the Companies Act No. 7 of 2007 during the financial year under review, are given below:

SLT Directors and their directorships in other companies

| Director | Company | Position |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. Nimal Welgama | Mobitel (Pvt) Ltd Sri Lanka Telecom Services Ltd SLT Publication (Pvt) Ltd SLTVisioncom (Pvt) Ltd SLT Manpower Solutions (Pvt) Ltd Sky Network (Pvt) Ltd SLT Hong Kong Ltd Upali Group of Companies Monetary Board of the Central Bank Sri Lanka | Chairman/ Director Director Chairman/ Director Chairman/ Director Chairman/ Director Chairman/ Director Chairman/ Director CEO Member |
| Mr. Sandip Das | Mobitel (Pvt) Ltd Maxis Communications Berhad Maxis Berhad, Malaysia Aircel Ltd Aircel Cellular Ltd Dishnet Wireless Ltd Bridge Mobile (Pte) Ltd Maxis Mobile Sdn Bhd | Director Director/CEO Director/CEO Director Director Director Director Director |

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

| Director | Company | Position |
|--------------------------|------------------------------------------------------------|--------------------|
| | Maxis Broadband Sdn Bhd | Director |
| | Maxis Mobile Services Sdn Bhd | Director |
| | Maxis International Sdn Bhd | Director |
| | Advanced Wireless Technologies Sdn Bhd | Director |
| | UMTS (Malaysia) Sdn Bhd | Director |
| | Maxis Asia Access Pte Ltd | Director |
| | South Asia Communications Private Limited | Director |
| | Deccan Digital Networks Private Limited | Directors |
| | PT Maxis Communications | Commissioner |
| Mr. Chan Chee Beng | Mobitel (Private) Limited | Director |
| | Usaha Tegas Sdn. Bhd | Executive Director |
| | Maxis Communications Berhad | Director |
| | Maxis Berhad, Malaysia | Director |
| | Maxis Mobile Sdb Bhd | Director |
| | Maxis Broadband Sdn Bhd | Director |
| | Maxis Mobile Services Sdn Bhd | Director |
| | Maxis International Sdn Bhd | Director |
| | Aircel Limited | Director |
| | Aircel Cellular Limited | Director |
| | Binariang GSM Sdn. Bhd | Director |
| | Bumi Armada Berhad | Director |
| | Dishnet Wireless Limited | Director |
| | South Asia Communications Private Limited | Director |
| | PT Axis Telekom Indonesia | Commissioner |
| | (Formerly known as PT Natrindo Telepon Seluler) | |
| | PT Maxis Communications | Commissioner |
| | Global Telecommunications Holdings N.V. | Director |
| Mr. Jeffrey Jay Blatt | SLT Hong Kong Ltd | Director |
| | SLT Visioncom (Private) Limited | Director |
| Mr. Shameendra Rajapaksa | SLT Publications (Private) Limited | Director |
| | SLT Hong Kong Ltd | Director |
| | Sri Lankan Airlines Limited | Director |
| Mr. Jayantha Dharmadasa | SLT Visioncom (Private) Limited | Director |
| | SLT Manpower Solutions (Private) Limited | Director |
| | Nawaloka Hospitals PLC | Chairman |
| | New Ashford International (Pvt) Ltd | Chairman |
| | Concord Ventures Export Lanka Ltd. | Chairman |
| | Sasiri Polysacks (Pvt) Ltd | Chairman |
| | Nawaloka Metropolis Clinical Laboratories (Pvt) Ltd, India | Chairman |
| | Nawaloka Medical Centers (Pvt) Ltd | Chairman |
| | Nawaloka Construction Co.Ltd | Chairman |
| | Nawaloka Polysacks Sharjah Ceyoka (Pvt) Ltd | Chairman |
| | Nawaloka Trading Co. Ltd | Chairman |
| | Koala (Pvt) Ltd | Chairman |
| | Sahas Wear (Pvt) Ltd | Chairman |
| | Nawaloka Petroleum (Pvt) Ltd | Chairman |
| | Nawaloka Aviation (Pvt) Ltd | Chairman |
| | Galadari Hotels (Lanka) PLC | Director |
| | Nawaloka Holdings (Pvt) Ltd | Chairman |
| | Nation Lanka Finance PLC | Chairman |

| Director | Company | Position |
|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| Mr. Kalinga Indatissa | SLT Manpower Solutions (Private) Limited Interim Committee of the Sri Lankan Cricket Board Sri Lanka Foundation Institute | Director Member Director |
| Mr. Dayananda Widanagamachchi (Resigned w.e.f 13 June 2012) | Ministry of Finance & Planning | Deputy Secretary to the Treasury |
| Mr. Lawrence Paratz | Mobitel (Private) Limited Sky Network (Private) Limited Maxis Communication Berhad Vernet Pty Ltd. | Director Director Director Director |
| Ms. Pushpa Wellappili | Ministry of Finance & Planning | Deputy Secretary to the Treasury |

5. Remuneration and other benefits of Directors

The remuneration and other benefits of the Directors are given in Note 6 to the consolidated financial statements on page 140.

6. Directors' interests in shares of the Company

As at 31 December 2012, none of the Directors held shares in the Company or its subsidiaries.

7. Share capital

As per the share register, the following shareholders held more than 5% of the 1,804,860,000 ordinary shares in issue as at 31 December 2012.

| | |
|--------------------------------------------------------|--------|
| Secretary to the Treasury (Government of Sri Lanka) | 49.50% |
| Global Telecommunications Holdings N.V. of Netherlands | 44.98% |
| Shares held by the public | 5.52% |
| | ----- |
| | 100% |

8. Financial statements

The financial statements which include the statement of comprehensive income, statement of financial position, statements of changes in equity and the notes to the financial statements of the Group and the Company for the year ended 31 December 2012 are set out on pages 122 to 188. All amounts are stated in Sri Lanka Rupees million, unless otherwise stated.

9. Financial results

The operations before depreciation and amortisation for 2012 and 2011 were as follows;

| | 2012 (Rs. million) | | 2011 (Rs. million) | |
|-------------------|--------------------|----------|--------------------|----------|
| | Group | Company | Group | Company |
| Operating Revenue | | 56,771 | 34,719 | 51,644 |
| Operating Costs | | (38,807) | (25,433) | (34,581) |

Details are given in the Statement of Comprehensive Income of the Financial Statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

10. Profit

| | 2012 (Rs. million) | | 2011 (Rs. million) | |
|---------------------|---------------------------|--------------|---------------------------|---------|
| | Group | Company | Group | Company |
| Profit Before Tax | | 5,966 | 4,682 | 6,162 |
| Profit for the year | | 4,036 | 3,361 | 4,505 |
| | | | | 3,340 |

11. Dividends

On recommendation of the Board of Directors, the Company distributed a first and final dividend of Rs.0.85 per share amounting to Rs.1,534,131,000 for the year ended 31 December 2011 before providing for the 10% Withholding Tax.

The entire cost of the first and final dividend was funded by the profits of the Company for 2011 and hence there was no capitalisation of reserves.

As required by section 56(2) of the Companies Act No. 07 of 2007, the Board of Directors confirmed that the Company has satisfied the Solvency Test in accordance with section 57 of the Companies Act No.07 of 2007 and obtained a certificate from the external auditors for the same.

The Directors recommend that a first & final dividend of Rs.0.85 per existing share, amounting to Rs.1,534,131,000, before providing for the 10% Withholding Tax subject to approval at the forthcoming AGM. The final dividend will be payable on 7th May 2013 to shareholders on the register at the close of business on 24th April 2013.

12. Reserves

Total Reserves of the Company stood at Rs.53,617 million as at 31 December 2012, details of which are given in the Statement of Changes in Equity on pages 124 & 125 of the Annual Report.

13. Respective Responsibilities of Directors and Auditors for the Financial Statements

The Directors are responsible for the preparation of the Financial Statements so that they present a true and fair view of the state of affairs of the Company. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Companies Act No.7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995 and the Continuing Listing Rules of the Colombo Stock Exchange.

14. Independent auditors' report

The independent auditors' report is set out on page 121.

15. Changes in accounting policies

The accounting policies adopted by the Company and its subsidiaries have been consistently applied from previous years.

16. Property, plant and equipment

The movements in property, plant and equipment during the year are set out in Note 14 to the consolidated financial statements. Current status of value of properties is disclosed in pages 146 to 148.

17. Amounts payable to the firm holding office as an Auditor

The remuneration payable by the Company to the Independent Auditors is given in Note 06 to the consolidated financial statements on page 140.

18. Auditors' relationship or any interest with the Company

The Directors are satisfied that, based on written representations made by the Independent Auditors to the Board, they did not have any relationship or any interest with the Company and its subsidiaries that would impair their independence.

19. Statutory payments

All statutory payments due to the Government of Sri Lanka and on behalf of employees have been made or accrued for, at the statement of financial position date.

20. Environmental protection

After making adequate enquiries from Management, the Directors are satisfied that the Company and its subsidiaries operate in a manner that minimises the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Group operates.

21. Donations

During the year the Directors had approved donations amounting to Rs.1,068,846 for charitable purposes (2011 - Rs.766,500). The amount includes contributions on account of Corporate Social Responsibility (CSR) initiatives as well.

22. Employment policies

Sri Lanka Telecom has a range of employment policies covering such issues as diversity, employee well-being and equal opportunities. The Company takes its responsibilities to the disabled seriously and seeks not to discriminate against current or prospective employees because of any disability. Employees who become disabled during their career at SLT will be retained in employment wherever possible and given help with rehabilitation and training

23. Sustainability Reporting

The Group is conscious of the impact, direct and indirect, on the environment due to its business activities. Every endeavour is made to minimise the adverse effects on the environment to ensure sustainable continuity of our natural resources. The activities undertaken by the Group in recognition of its responsibility as a corporate citizen are disclosed more fully on pages 80 to 104 of this Report.

24. Post statement of financial position events

No events had occurred since the statement of financial position date and the approval of these consolidated financial statements, which would require adjustments to, or disclosure in, these consolidated financial statements.

25. Appointment of auditors

KPMG, has expressed their willingness to continue in office as auditor of the Company and a resolution proposing their re-appointment will be put to shareholders at the AGM.

After proper consideration, the Audit Committee is satisfied that the Company's auditor, KPMG, continues to be objective and independent of the Company. In coming to this conclusion the Audit Committee gave full consideration to the non-audit work carried out by KPMG.

26. Risks and uncertainties

Appended to this Annual Report is the Board's analysis of what it believes to be the main risks and uncertainties facing the Company. Full details can be seen on pages 76 to 79.

27. Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the accounts.

28. Annual General Meeting

The AGM will be held at 10.00 am on 24 April 2013 at Kings Court, Cinnamon Lakeside, Colombo. The Notice of Meeting is enclosed with this report.

By order of the Board

Nimal Welgama
Chairman

Jayantha Dharmadasa
Director

PW Corporate Secretarial (Pvt) Ltd
Secretaries

STATEMENT OF DIRECTORS IN RELATION TO THEIR RESPONSIBILITY FOR THE PREPARATION OF FINANCIAL STATEMENTS

The responsibility of the Directors in relation to the financial statements of the Company and the Group is set out in the following statement. The responsibility of the Independent Auditors, in relation to the financial statements, prepared in accordance with the provisions of the Companies Act No. 07 of 2007 ("the Act"), is set out in the Independent Auditors' Report on page 121.

The financial statements comprise of:

- Statement of Comprehensive Income, which present a true and fair view of the profit and loss of the Company and the Group for the financial year; and
- Statement of Financial Position, which present a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and which comply with the requirements of the Act.

The Directors are required to ensure that, in preparing these financial statements:

- appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- all applicable Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, as relevant, have been followed;
- judgments and estimates have been made which are reasonable and prudent.

The Directors are also required to ensure that the Company and the Group have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and of the Group and to ensure that the financial statements presented, comply with the requirements of the Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

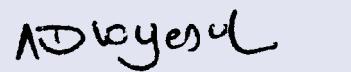
The Directors are required to prepare the financial statements and to provide the independent auditors with every opportunity to take whatever steps and undertake whatever inspections that they may consider to be appropriate to enable them to give the independent auditors' opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the statement of financial position date have been paid, or where relevant provided for, except as specified in Note 33 to the financial statements covering contingent liabilities.

By Order of the Board
Sri Lanka Telecom PLC


P W Corporate Secretarial (Pvt) Ltd.
18 February 2013
Colombo

AUDIT COMMITTEE REPORT

Purpose

The Audit Committee (the "Committee") is established as a committee of the Board. The purpose of the Committee is to assist the Board of Directors of the Company in fulfilling its responsibilities in respect of:

- overseeing the Company's financial reporting process, including the internal control structure and procedures for financial reporting and monitoring the integrity and adequacy of the Group's financial statements;
- the manner in which the Company's management ensures and monitors the adequacy of financial, operational and compliance internal controls and risk management processes designed to manage significant risk exposures;
- the selection, compensation, independence and performance of the Company's external auditors; and
- the independence and performance of the Group's internal auditors.

Role

The responsibilities of the Audit Committee include:

- Reviewing the Group's quarterly, half-yearly and full year financial statements and recommending them to the Board for approval.
- Reviewing the Group's systems for internal financial control, financial reporting and risk management.
- Monitoring and reviewing the effectiveness of the Group's internal audit function and considering regular reports from Internal Audit on internal financial controls and risk management.
- Considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the Board in relation to their appointment to be put to shareholders for approval at a general meeting.

- Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, recommending their remuneration, and considering their reports on the Group's accounts, their reports to shareholders and their evaluation of the systems of internal financial control and risk management

Composition

The Audit Committee comprises 5 non-executive directors of which 3 directors are independent as defined in the CSE Listing Rules. Biographical details of the Committee members are set out in the Board of Directors section.

Ms. Pushpa Wellappilli replaced Mr. D Widanagamachchi as a member of the Audit Committee in July 2012 on his resignation from the Board. Details of Ms. Wellappilli's present and previous roles, experience and qualifications are set in the Board of Directors section.

The Chief Executive, the Chief Financial Officer, the Chief Internal Auditor and the external auditor attend Audit Committee meetings by invitation. The Committee also meets separately with the Head of Internal Auditor and with the external auditor without Management being present.

The Assistant Company Secretary is Secretary to the Audit Committee.

Main Activities in the Year

The Audit Committee met five times during the year ended 31 December 2012, on the following dates, and it conducted the following business:

| Meeting date | Main activities |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 02 Feb. 2012 | <ul style="list-style-type: none"> • Considered a report from the external auditor on its audit on the Company and its Group and its review of the accounts including accounting policies and disclosure requirements under the accounting standards. |
| 17 Feb. 2012 | <ul style="list-style-type: none"> • Reviewed the Group's interim management statement for the fourth quarter of the financial year 2011. • Reviewed and recommended the draft report and accounts for the financial year 2011 and the Group's assessment of going concern. • Considered reports on internal audit reports from the internal auditors • Reviewed the proposed external audit fees and audit scope for the financial year 2011 • The review of the external auditor was used to confirm the appropriateness of its reappointment and included assessment of its independence, qualification, expertise and resources, and effectiveness of the audit process • Recommended to the board the reappointment of KPMG, Chartered Accountants as statutory auditor |

AUDIT COMMITTEE REPORT

| Meeting date | Main activities |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06 May 2012 | <ul style="list-style-type: none"> Reviewed and recommended for approval of the Board the Group's first quarter results and announcement for the financial year 2012. Considered reports on internal audits and follow up actions from the internal auditors. Considered the status update on the International Financial Reporting gap analysis to M/s KPMG. Reviewed the proposal for a review of the performance of the Internal Audit Dept. submitted by M/s KPMG. Reviewed the draft whistle blowing policy formulated by the CIA for further development. |
| 19 Sep. 2012 | <ul style="list-style-type: none"> Reviewed and recommended for approval of the Board the Group's third quarter results and announcement. Reviewed the Group's management letter for the financial year 2011 received from the External Auditors. The Committee met the external auditors and discussed the issues considered to be of immense importance. Reviewed the status of the assignment on performance review of the internal audit Dept. Reviewed the Group's draft whistleblowing policy and procedure. Reviewed the revision exercise to the delegation of authority levels. |
| 09 Nov. 2012 | <ul style="list-style-type: none"> Reviewed the proposed external audit fees and audit scope for the financial year 2012. Reviewed and authorised the Chairman of the Committee to sign the Audit Engagement letter for the financial year 2012. The external auditors presented the audit strategy and plan for the financial year 2012 and other connected matters pertaining to the accounting policies and standards and risk management, controls and governance. Received the reports on the revenue assurance and fraud management system implementation from the Revenue Assurance and Fraud Management Division. Recommended the final draft on whistleblowing policy for approval of the Board for implementation. Reviewed the status update on the management letter of financial year 2011. Recommended the policy on delegation of authority reviewed by the KPMG for approval of the Board for implementation. Reviewed the internal audit report and progress of monitoring the audit issues. The Committee met the KPMG on the review of the performance of the SLT's Internal Audit Dept. |

Independence of External Auditor

Both the Board and the external auditor have for many years had safeguards in place to avoid the possibility that the auditor's objectivity and independence could be compromised. The issue of auditor independence is taken as an important governance requirement and is reviewed annually. A senior partner has been involved in providing greater senior level coverage. The fees for the services provided by them must be approved by the Board on the recommendation of the Audit Committee. The split between audit and non-audit fees for the year ended 31 December 2012 and information on the nature of non-audit fees appear Note 6 on page 140 of the accounts.

Internal Audit

Internal audit independently reviews the risks and control processes operated by management. It carries out independent audits in accordance with an internal audit plan which is agreed with the Audit Committee before the start of the financial year. As part of this process the Committee looks at the resources devoted to the function to ensure they are adequate to deliver the plan.

Internal audit reports include recommendations to improve internal controls together with agreed Management action plans to resolve the issues raised. Internal audit follows up the implementation of recommendations and reports progress to senior management and the Audit Committee.

The Audit Committee reviews the findings of the internal audits completed during the year.

The effectiveness of the internal audit function is reviewed and discussed on an annual basis.

On behalf of the Audit Committee:

Jayantha Dharmadasa
Chairman of the Audit Committee

18 February 2013

INDEPENDENT AUDITOR'S REPORT



KPMG
 (Chartered Accountants)
 32A, Sir Mohamed Macan Markar Mawatha,
 P. O. Box 186,
 Colombo 00300,
 Sri Lanka.

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 Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF SRI LANKA TELECOM PLC **Report on the Financial Statements**

We have audited the accompanying financial statements of Sri Lanka Telecom PLC (the "Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 122 to 188 of the Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2012, and the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries dealt with thereby as at 31 December 2012 and of its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

18 February 2013
 Colombo, Sri Lanka

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

| | | |
|------------------------------------------------------------------------------|---------------------------|------------------------|
| M.R. Mihular FCA | Ms. M. P. Perera FCA | P.Y.S. Perera FCA |
| C.P. Jayatilake FCA | T.J.S. Rajakarier FCA | W.W.J.C. Perera FCA |
| Ms. S. Joseph FCA | Ms. S.M.B. Jayasekara ACA | W.K.D.C Abeyrathne ACA |
| S.T.D.L. Perera FCA | G.A.U. Karunaratne ACA | R.M.D.B. Rajapakse ACA |
| Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA | | |

STATEMENT OF COMPREHENSIVE INCOME

(all amounts in Sri Lanka Rupees million)

| For the year ended 31 December | Notes | GROUP | | COMPANY | |
|-----------------------------------------------------------------|-------|--------------|--------------|--------------|--------------|
| | | 2012 | 2011 | 2012 | 2011 |
| Revenue | 5 | 56,771 | 51,644 | 34,719 | 32,291 |
| Operating costs | 6 | (38,807) | (34,581) | (25,433) | (22,294) |
| Operating profit before depreciation and amortisation | | 17,964 | 17,063 | 9,286 | 9,997 |
| Depreciation | 14 | (11,063) | (11,337) | (6,262) | (7,432) |
| Amortisation and impairment of intangible assets | 15 | (731) | (557) | (327) | (222) |
| Operating profit | | 6,170 | 5,169 | 2,697 | 2,343 |
| Refunds on Telecommunication Development Charge [TDC] | 8 | 309 | 553 | 309 | 360 |
| Other income | | 254 | 294 | 228 | 253 |
| Dividend income | | - | - | 691 | 648 |
| Interest expense and finance costs | 9 | (1,021) | (591) | (534) | (58) |
| Foreign exchange (loss)/gain | 9.a | (1,212) | (250) | 75 | (17) |
| Interest income | 10 | 1,466 | 987 | 1,216 | 959 |
| Profit before tax | | 5,966 | 6,162 | 4,682 | 4,488 |
| Income tax expenses | 11 | (1,930) | (1,657) | (1,321) | (1,148) |
| Profit for the year | | 4,036 | 4,505 | 3,361 | 3,340 |
| Other comprehensive income | | | | | |
| Foreign currency translation differences -foreign operations | | 3 | 8 | - | - |
| Net change in fair value of available for sale financial assets | | 3 | 1 | 3 | 1 |
| Defined benefit plan actuarial losses | 26 | (91) | (30) | (88) | (30) |
| Tax on other comprehensive income | 11 | 25 | 8 | 25 | 8 |
| Other comprehensive income for the year net of tax | | (60) | (13) | (60) | (21) |
| Total comprehensive income for the year | | 3,976 | 4,492 | 3,301 | 3,319 |
| Profit Attributable to: | | | | | |
| Owners of the Company | | 4,036 | 4,505 | 3,361 | 3,340 |
| Total Comprehensive income Attributable to: | | | | | |
| Owners of the Company | | 3,976 | 4,492 | 3,301 | 3,319 |
| Earnings per share | | | | | |
| - Basic (Rs) | 12 | 2.24 | 2.50 | 1.86 | 1.85 |

The notes on pages 127 to 188 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(all amounts in Sri Lanka Rupees million)

| as at 31 December | Notes | GROUP | | | COMPANY | | | |
|----------------------------------------------|-------|----------------|---------------|---------------|---------------|---------------|---------------|--|
| | | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 | |
| Assets | | | | | | | | |
| Non-current assets | | | | | | | | |
| Property, plant and equipment | 14 | 72,165 | 66,153 | 59,851 | 42,478 | 34,971 | 32,668 | |
| Intangible assets | 15 | 2,419 | 1,702 | 1,585 | 1,326 | 470 | 570 | |
| Financial Prepayments | 15 a | 274 | 363 | 272 | - | - | - | |
| Investments in subsidiaries | 16 | - | - | - | 14,192 | 13,431 | 11,522 | |
| Other investments | 17 | - | 101 | 692 | - | 101 | 645 | |
| Deferred tax assets | 23 | 23 | 75 | 159 | - | 57 | 146 | |
| Other receivables | 18 | 2,480 | 2,316 | 1,991 | 2,480 | 2,316 | 1,991 | |
| Total Non-current assets | | 77,361 | 70,710 | 64,550 | 60,476 | 51,346 | 47,542 | |
| Current assets | | | | | | | | |
| Inventories | 19 | 2,601 | 1,741 | 1,281 | 2,396 | 1,465 | 1,158 | |
| Trade and other receivables | 20 | 11,417 | 9,733 | 10,938 | 12,189 | 9,985 | 10,378 | |
| Current tax receivable | | 415 | 274 | 457 | 385 | 159 | 446 | |
| Other investments | 17 | 7,381 | 9,459 | 4,478 | 7,064 | 9,227 | 4,349 | |
| Assets classified as held for sale | | 11 | - | - | - | - | - | |
| Cash and cash equivalents | 21 | 3,887 | 3,134 | 4,046 | 873 | 1,484 | 3,349 | |
| Total Current assets | | 25,712 | 24,341 | 21,200 | 22,907 | 22,320 | 19,680 | |
| Total assets | | 103,073 | 95,051 | 85,750 | 83,383 | 73,666 | 67,222 | |
| Equity | | | | | | | | |
| Capital and reserves | | | | | | | | |
| Stated capital | 29 | 18,049 | 18,049 | 18,049 | 18,049 | 18,049 | 18,049 | |
| Insurance reserve | 27 | 435 | 387 | 344 | 435 | 387 | 344 | |
| Translation reserve | | 4 | 1 | (7) | - | - | - | |
| Fair value reserve | | (3) | (6) | (7) | (3) | (6) | (7) | |
| Retained earnings | | 36,065 | 33,694 | 30,337 | 35,136 | 33,420 | 31,228 | |
| Equity attributable to owners of the Company | | 54,550 | 52,125 | 48,716 | 53,617 | 51,850 | 49,614 | |
| Non controlling interest | | - | - | - | - | - | - | |
| Total equity | | 54,550 | 52,125 | 48,716 | 53,617 | 51,850 | 49,614 | |
| Liabilities | | | | | | | | |
| Non-current liabilities | | | | | | | | |
| Grants | 28 | 35 | 41 | 48 | 35 | 41 | 48 | |
| Borrowings | 22 | 11,577 | 9,383 | 6,875 | 4,814 | 2,019 | 72 | |
| Deferred income | 24 | 3,263 | 3,694 | 3,965 | 3,173 | 3,462 | 3,965 | |
| Deferred tax liabilities | 23 | 782 | 9 | - | 780 | - | - | |
| Employee benefits | 26 | 2,494 | 2,090 | 1,796 | 2,300 | 1,936 | 1,664 | |
| Trade and other payables | 25 | 2,281 | 3,778 | 1,659 | 246 | 284 | 289 | |
| Total Non-current liabilities | | 20,432 | 18,995 | 14,343 | 11,348 | 7,742 | 6,038 | |
| Current liabilities | | | | | | | | |
| Borrowings | 22 | 6,275 | 5,326 | 4,542 | 2,577 | 914 | 28 | |
| Deferred income | 24 | 2,401 | 2,301 | 1,980 | 753 | 939 | 992 | |
| Current tax liabilities | | 392 | 237 | 287 | - | - | - | |
| Trade and other payables | 25 | 19,023 | 16,067 | 15,882 | 15,088 | 12,221 | 10,550 | |
| Total Current liabilities | | 28,091 | 23,931 | 22,691 | 18,418 | 14,074 | 11,570 | |
| Total liabilities | | 48,523 | 42,926 | 37,034 | 29,766 | 21,816 | 17,608 | |
| Total equity and liabilities | | 103,073 | 95,051 | 85,750 | 83,383 | 73,666 | 67,222 | |

I certify that these consolidated 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 consolidated financial statements were approved by the Board of Directors on 18 February 2013.

Signed for and behalf of the board



Nimal Welgama
Chairman



Jayantha Dharmadasa
Director

The notes on pages 127 to 188 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees million)

| | Notes | Attributable to owners of the Company | | | | | | Non controlling interest | Total Equity |
|-------------------------------------------------------------------|-------|---------------------------------------|----------------------|-----------------------|------------------------|----------------------|---------|--------------------------------|-----------------|
| | | Stated capital | Insurance reserve | Fair Value reserve | Translation reserve | Retained earnings | Total | | |
| For the year ended 31 December 2012 | | | | | | | | | |
| Group | | | | | | | | | |
| Balance at 1 January 2011 | | 18,049 | 344 | (7) | (7) | 30,337 | 48,716 | - | 48,716 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year 2011 | | - | - | - | - | 4,505 | 4,505 | - | 4,505 |
| Other comprehensive income | | | | | | | | | |
| - Foreign currency translation differences - foreign operations | | - | - | - | 8 | - | 8 | - | 8 |
| - Net change in fair value of Available for sale financial assets | | - | - | 1 | - | - | 1 | - | 1 |
| - Defined benefit plan actuarial losses, net of tax | | - | - | - | - | (22) | (22) | - | (22) |
| Total other comprehensive income | | - | - | 1 | 8 | (22) | (13) | - | (13) |
| Total comprehensive income for the year | | - | - | 1 | 8 | 4,483 | 4,492 | - | 4,492 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Contribution by and distribution to owners | | | | | | | | | |
| Dividend to equity share holders | 13 | - | - | - | - | (1,083) | (1,083) | - | (1,083) |
| Insurance reserve | | | | | | | | | |
| - transfer to Insurance Reserve | 27 | - | 43 | - | - | (43) | - | - | - |
| Balance at 31 December 2011 | | 18,049 | 387 | (6) | 1 | 33,694 | 52,125 | - | 52,125 |

| | Notes | Attributable to owners of the Company | | | | | | Non controlling interest | Total Equity |
|-------------------------------------------------------------------|-------|---------------------------------------|----------------------|-----------------------|------------------------|----------------------|---------|--------------------------------|-----------------|
| | | Stated capital | Insurance reserve | Fair Value reserve | Translation reserve | Retained earnings | Total | | |
| For the year ended 31 December 2012 | | | | | | | | | |
| Group | | | | | | | | | |
| Balance at 1 January 2012 | | 18,049 | 387 | (6) | 1 | 33,694 | 52,125 | - | 52,125 |
| As previously reported | | | | | | | | | |
| Consolidation adjustment | 34 | - | - | - | - | (17) | (17) | - | (17) |
| Restated balance at 1 January 2012 | | 18,049 | 387 | (6) | 1 | 33,677 | 52,108 | - | 52,108 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year 2012 | | - | - | - | - | 4,036 | 4,036 | - | 4,036 |
| Other comprehensive income | | | | | | | | | |
| - Foreign currency translation differences - foreign operations | | - | - | - | 3 | - | 3 | - | 3 |
| - Net change in fair value of Available for sale financial assets | | - | - | 3 | - | - | 3 | - | 3 |
| - Defined benefit plan actuarial losses, net of tax | | - | - | - | - | (66) | (66) | - | (66) |
| Total other comprehensive income | | - | - | 3 | 3 | (66) | (60) | - | (60) |
| Total comprehensive income for the year | | - | - | 3 | 3 | 3,970 | 3,976 | - | 3,976 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Contribution by and distribution to owners | | | | | | | | | |
| Dividend to equity share holders | 13 | - | - | - | - | (1,534) | (1,534) | - | (1,534) |
| Insurance reserve | | | | | | | | | |
| - transfer to Insurance Reserve | 27 | - | 48 | - | - | (48) | - | - | - |
| Balance at 31 December 2012 | | 18,049 | 435 | (3) | 4 | 36,065 | 54,550 | - | 54,550 |

The notes on pages 127 to 188 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees million)

| For the year ended 31 December 2012 | Notes | Attributable to owners of the Company | | | | | Total Equity |
|-------------------------------------------------------------------|-------|---------------------------------------|----------------------|-----------------------|----------------------|--------|-----------------|
| | | Stated capital | Insurance reserve | Fair Value reserve | Retained earnings | | |
| Company | | | | | | | |
| Balance at 1 January 2011 | | 18,049 | 344 | (7) | 31,228 | 49,614 | |
| Total comprehensive income for the year | | | | | | | |
| Profit for the year 2011 | | - | - | - | 3,340 | 3,340 | |
| Other comprehensive income | | | | | | | |
| - Net change in fair value of Available for sale financial assets | | - | - | 1 | - | 1 | |
| - Defined benefit plan actuarial losses net of tax | | - | - | - | (22) | (22) | |
| Total other comprehensive income | | - | - | 1 | (22) | (21) | |
| Total comprehensive income for the year | | - | - | 1 | 3,318 | 3,319 | |

Transactions with owners, recorded directly in equity

| Contribution by and distribution to owners | Notes | Stated capital | Insurance reserve | Fair Value reserve | Retained earnings | Total Equity |
|--------------------------------------------|-------|-------------------|----------------------|-----------------------|----------------------|-----------------|
| Dividend to equity share holders | 13 | - | - | - | (1,083) | (1,083) |
| Insurance reserve | | | | | | |
| - transfer to Insurance Reserve | 27 | - | 43 | - | (43) | - |
| Balance at 31 December 2011 | | 18,049 | 387 | (6) | 33,420 | 51,850 |

| For the year ended 31 December 2012 | Notes | Attributable to owners of the Company | | | | | Total Equity |
|-------------------------------------------------------------------|-------|---------------------------------------|----------------------|-----------------------|----------------------|--------|-----------------|
| | | Stated capital | Insurance reserve | Fair Value reserve | Retained earnings | | |
| Company | | | | | | | |
| Balance at 1 January 2012 | | 18,049 | 387 | (6) | 33,420 | 51,850 | |
| Total comprehensive income for the year | | | | | | | |
| Net profit for the year 2012 | | - | - | - | 3,361 | 3,361 | |
| Other comprehensive income | | | | | | | |
| - Net change in fair value of Available for sale financial assets | | - | - | 3 | - | 3 | |
| - Defined benefit plan actuarial losses net of tax | | - | - | - | (63) | (63) | |
| Total other comprehensive income | | - | - | 3 | (63) | (60) | |
| Total comprehensive income for the year | | - | - | 3 | 3,298 | 3,301 | |

Transactions with owners, recorded directly in equity

| Contribution by and distribution to owners | Notes | Stated capital | Insurance reserve | Fair Value reserve | Retained earnings | Total Equity |
|--------------------------------------------|-------|-------------------|----------------------|-----------------------|----------------------|-----------------|
| Dividend to equity share holders | 13 | - | - | - | (1,534) | (1,534) |
| Insurance reserve | | | | | | |
| - transfer to Insurance Reserve | 27 | - | 48 | - | (48) | - |
| Balance at 31 December 2012 | | 18,049 | 435 | (3) | 35,136 | 53,617 |

The notes on pages 127 to 188 form an integral part of these financial statements

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

(all amounts in Sri Lanka Rupees million)

| For the year ended 31 December | Notes | GROUP | | COMPANY | |
|-------------------------------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2012 | 2011 | 2012 | 2011 |
| Cash flows from operating activities | | | | | |
| Cash generated from operations | 31 | 16,863 | 21,220 | 10,294 | 12,862 |
| Interest received | | 1,502 | 1,014 | 1,252 | 986 |
| Interest paid | | (1,119) | (499) | (500) | (16) |
| Tax paid | | (1,091) | (1,423) | (686) | (772) |
| Gratuity paid | 26 | (61) | (62) | (52) | (48) |
| Net cash generated from operating activities | | 16,094 | 20,250 | 10,308 | 13,012 |
| Cash flows from investing activities | | | | | |
| Acquisition of property, plant and equipment | | (17,414) | (17,851) | (13,928) | (9,964) |
| Acquisition of intangible assets | 15 | (1,361) | (804) | (1,183) | (122) |
| Proceeds from disposal of property, plant and equipment | | 100 | 77 | 100 | 44 |
| Proceeds / (Purchase) of short term investments | | 3,212 | (4,981) | 3,058 | (4,878) |
| Proceeds / (Purchase) of long term investments | | 101 | 591 | 101 | 544 |
| Investments in subsidiaries | | - | - | (1,138) | (2,120) |
| Net cash used in investing activities | | (15,362) | (22,968) | (12,990) | (16,496) |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | | 8,214 | 5,892 | 5,982 | 2,498 |
| Finance lease principal re-payments | | (47) | (43) | (38) | (37) |
| Re-payment of borrowings | | (6,459) | (3,272) | (2,437) | - |
| Dividends paid to equity shareholders | 13 | (1,534) | (1,083) | (1,534) | (1,083) |
| Net cash generated in financing activities | | 174 | 1,494 | 1,973 | 1,378 |
| (Decrease) / Increase in cash and cash equivalents | | 906 | (1,224) | (709) | (2,106) |
| Movement in cash and cash equivalents | | | | | |
| Cash and cash equivalents at beginning of year | 21 a | 2,172 | 3,384 | 1,255 | 3,349 |
| Effect of exchange fluctuation on cash and cash equivalents | | 191 | 12 | 191 | 12 |
| | | 2,363 | 3,396 | 1,446 | 3,361 |
| (Decrease) / Increase in cash and cash equivalents | | 906 | (1,224) | (709) | (2,106) |
| At end of year | 21 a | 3,269 | 2,172 | 737 | 1,255 |

The notes on pages 127 to 188 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 REPORTING ENTITY

Sri Lanka Telecom PLC (the "Company") is a company domiciled in Sri Lanka. The address of the Company's registered office is Lotus Road, Colombo 1. The consolidated financial statements of the Company as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in providing broad portfolio of telecommunication services across Sri Lanka. In addition, the range of services provided by the Group include, inter-alia, internet services, data services, domestic and international leased circuits, broadband, satellite uplink, maritime transmission, IPTV service and directory publishing service. The Company is a quoted public Company which has its listing on the Colombo Stock Exchange.

2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with new Sri Lanka Accounting Standards (SLFRS) as laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 07 of 2007. These are the Group's first consolidated financial statements prepared in accordance with the new Sri Lanka Accounting Standards - SLFRS 1 First - time adoption of Sri Lanka Accounting Standards.

An explanation on how the transition to Sri Lanka Accounting Standards (SLFRSs) has affected the previously reported financial position, financial performance and cash flows of the Group is provided in Note 38.

The consolidated financial statements were authorised for issue by the Board of Directors on 18 February 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following ;
 *available for sale financial assets which are measured at fair value.
 *the liability for defined benefit obligation is recognised are actuarially valued and recognised as the present value of the defined benefit obligation.
 The financial statements have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the Group's functional currency, and the Group's presentation currency. All financial information presented in Sri Lankan rupees has been rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in notes;

- Note 14 - Property, plant and equipment
- Note 15 - Intangible Assets
- Note 20 - Trade and other Receivables
- Note 23 - Deferred Tax
- Note 24 - Deferred Income
- Note 26 - Employee Benefits
- Note 30 - Financial Risk Management

3 CONSISTENCY IN ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

Subsidiaries

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011 , the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group elects on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or its proportionate share of the recognised amount of the identifiable net assets , at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to 1 January 2011

As part of its transition to SLFRSs the Group elected not to restate business combinations that occurred on or before 31 December 2010. In respect of acquisitions prior to 31 December 2010, goodwill represents the amount recognised under the Group's previous accounting framework. ["SLAS"]

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders.

Therefore no goodwill is recognised as a result of such transactions.

(iii) Subsidiaries are entities controlled by the Group.

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The Consolidated Financial Statements are prepared to common financial year end of 31st December.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to Parent in the form of cash dividends or to repay loans and advances.

All Subsidiaries of the Group have been incorporated in Sri Lanka except SLT (Hong Kong) Limited.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which is recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on

acquisition, are translated into Rupees at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Rupees at spot exchange rates at the dates of the transactions.

Foreign currency differences on the translation of foreign operations are recognised in Other Comprehensive Income.

Since 1 January 2011, the Group's date of transition to SLFRSs, such differences have been recognised in the translation reserve.. When a foreign operation is disposed off, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

(c) Financial assets and financial liabilities

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at the fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts intends either to settle on a net basis or realise the assets and settle the liability simultaneously. The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sales decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held to-maturity financial assets.

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held -to -maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, staff loans and trade and other receivables, including related party receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Available-for-sale financial assets comprise debt instruments including government securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities :loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary Share Capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. As disclosed in Note 14, property, plant and equipment of the Department of Telecommunications were transferred to Sri Lanka Telecom at a valuation performed by the Government of Sri Lanka and was used as the opening cost of fixed assets. (The cost of certain items of property, plant

and equipment was determined by reference to a previous GAAP. The Group elected to apply the optional exemption to use this previous valuation as deemed cost at 1 January 2011, the date of transition.)

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. In the year of acquisition depreciation is computed on proportionate basis from the month the asset is put in to use and no depreciation will be charged to the month in which the particular asset was disposed. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Estimates in respect of certain item of property, plant and equipment were revised with effect from 1 January 2011.

The estimated useful lives for the assets are as follows:

| | |
|------------------------------------------------|----------------|
| Freehold Buildings | 5 – 40 years |
| Ducts ,cables and other outside plant | 5 – 12.5 years |
| Submarine cables | 19 – 25 years |
| Telephone exchanges and transmission equipment | 8 – 12.5 years |
| Transmission equipment and Towers | 10 – 40 years |
| Motor Vehicles | 5 years |
| CDMA Handsets | 3 years |
| PABX System | 1-6 years |
| Other Fixed Assets | 4- 10 years |

(iv) Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation.

(v) Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal.Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.For measurement of goodwill at initial recognition,see note 3(a)(i). The Group has elected to not apply SLFRS 3 retrospectively to past business combinations. Therefore, in respect of acquisitions occurred prior to 1 January 2011 goodwill represents the amount recorded under previous GAAP.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Licenses

Separately acquired licences are shown at historical cost. Expenditures on license fees that is deemed to benefit or relate to more than one financial year is classified as license fee and is being amortised over the License period on a straight line basis.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

| | |
|----------|------------|
| Software | 3- 5 years |
|----------|------------|

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. For operating leases the leased assets are not recognised on the Group's statement of financial position.

For operating leases, the leased assets are not recognised on the Group's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle and FIFO basis on certain categories.Value of inventories includes expenditure incurred in acquiring,conversion costs and other costs incurred in bringing them to their existing location and condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(h) Impairment

(i) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ii) Financial assets

A financial asset not carried at fair value through profit

or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reserved through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative

loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(i) Government Grants

Government grants are recognised initially at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which contributions are made into a separate fund and the entity will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plan are recognised as an employee benefit expense in profit or loss in the periods during services is rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Employee Provident Fund

All employees of the Company are members of the Sri Lanka Telecom Provident Fund to which the Company contributes 15% of such employees' basic salary and allowances.

All employees of subsidiaries of the Group except for Sri Lanka Telecom (Hong Kong) Limited and SLT Services (Private) Ltd are members of Employees' Provident Fund (EPF), to which respective subsidiaries contribute 12% of such employees' basic salary and allowances. Employees of SLT Services (Private) Ltd are members of Employees' Provident Fund (EPF), where the Company contribute 15% of such employees' basic salary and allowances.

Employee Trust Fund

The Company and other subsidiaries contribute 3% of the salary of each employee to the Employees' Trust Fund.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The valuation is performed annually by a qualified actuary using the projected unit credit method. When the valuation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans directly in the other comprehensive income and all expenses related to defined benefit plan in personnel expense in profit or loss.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the liability. Unwinding of discount is recognised as finance cost.

(l) Revenue

Revenue from services rendered in the course of ordinary activities is measured at fair value of the consideration received or receivable net of trade discounts, volume rebates and after eliminating the sales within the Group.

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable and the amount of revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The revenue is recognised as follows:

(i) Domestic and international call revenue, rental income

Revenue for call time usage by customers is recognised as revenue as services are performed on accrual basis. Fixed rental is recognised as income on a monthly basis in relation to the period of services rendered.

(ii) Revenue from other network operators and international settlements

The revenue received from other network operators, local and international, for the use of the Group's telecommunication network are recognised, net of taxes, based on usage taking the traffic minutes/per second rates stipulated in the relevant agreements and regulations and based on the terms of the lease agreements for fixed rentals.

Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the Group's network and presented on gross basis. The relevant revenue accrued is recognised under income in the statement of comprehensive income and interconnection expenses recognised under operating costs in the statement of comprehensive income.

(iii) Revenue from broadband

Revenue from broadband service is recognised on usage and the fixed rental on a monthly basis when it is earned net of taxes, rebates and discounts.

(iv) Revenue from other telephony services

The revenue from Data services, IPTV and other telephony services are recognised on an accrual basis based on fixed rental contracts entered between the Group and subscribers.

(v) Connection fees

The connection fees relating to Public Switched Telephone Network (PSTN) are deferred over a period of 15 years based on customer churn data. Revenue is recognised on an annual basis irrespective of the date of connection.

The connection fees relating to Code Divisional Multiple Access (CDMA) connections are recognised as revenue at the point the connection is activated.

(vi) Service Agreements revenue

Capacity contracts which do not convey the right to use a specified capacity in an identified fiber cable are accounted as service arrangements. Revenues from capacity contracts under service arrangements are recognised on a straight line basis over the period of the contracts. Amounts received in advance for any services are recorded as deferred revenue. In the event that a customer terminates an IRU prior to the expiry of the contract and releases the Company from the obligation to provide future services, the remaining unamortised deferred revenue is recognised in the period the contract is terminated.

(vii) Prepaid Card revenue

Revenue from the sale of prepaid card on CDMA, Internet is deferred until such time as the customer uses the call time, downloadable quota or the credit expires.

(viii) Equipment Sales

Revenue from sale of equipment is recognised, net of taxes, once the equipment is delivered.

(ix) Sales of services

Revenue from publication sales relating to advertising revenue is recognised on publishing the advertisement on the telephone directory and a copy delivered to the subscriber on a percentage of completion method.

(m) Expenditure

The expenses are recognised on an accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant and equipment in a state of efficiency is charged against income in arriving at the profit for the year.

(n) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed. Determining whether an arrangement contains a lease.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specific asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(o) Finance income and expenses

Finance income comprises interest income on funds invested (including available for sale financial assets), dividend income, gains on the disposal of available for sale financial assets. Interest income is recognised as it accrues in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings.

Foreign currency gains and losses are reported on a net basis, as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income.

(i) Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividend.

(ii) Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Economic Service Charge (ESC)

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed payment can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(r) Insurance reserve

The Company transfers annually from the retained earnings an amount equal to 0.1% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment. The insurance reserve is maintained to recover any losses arising from damage to property, plant and equipment, except for motor vehicles, that are not insured with a third party insurer.

(s) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders.

(t) Comparatives

Except when a standard permits or requires otherwise, comparative information is disclosed in respect of the previous period. Where the presentation or classification of items in the financial statements are amended, comparative amounts are reclassified unless it is impracticable.

(u) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of stated capital, reserves and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2012, the Group's strategy, which was unchanged from 2011, was to maintain the gearing ratio below 25%. The gearing ratios at 31 December 2012 and 2011 and 1 January 2011 were as follows:

| | GROUP | | | COMPANY | | |
|------------------|--------|--------|------------|---------|--------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Total borrowings | 17,852 | 14,709 | 11,417 | 7,391 | 2,933 | 100 |
| Total equity | 54,550 | 52,125 | 48,716 | 53,617 | 51,850 | 49,614 |
| Total capital | 72,402 | 66,834 | 60,133 | 61,008 | 54,783 | 49,714 |
| Gearing ratio | 24.7% | 22.0% | 18.99% | 12.1% | 5.4% | 0.20% |

(v). **New standards and interpretations not yet adopted**
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) **SLFRS 9 Financial Instruments (2010), SLFRS 9 Financial Instruments (2009)**
SLFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under SLFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. SLFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of SLFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.
SLFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of SLFRS 9 (2010) is expected to have an impact on the Group's financial assets, but not any impact on the Group's financial liabilities.

(ii) **SLFRS 10 Consolidated Financial Statements, SLFRS 11 Joint Arrangements, SLFRS 12 Disclosure of Interests in Other Entities (2011)**
SLFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

Under SLFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. SLFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. SLFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.
These standard's effective dates have been deferred for after 1 January 2013 with early adoption permitted.

(iii) **SLFRS 13 Fair Value Measurement (2011)**
SLFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout SLFRS. Subject to limited exceptions, SLFRS 13 is applied when fair value measurements or disclosures are required or permitted by other SLFRSs. The Group is currently reviewing its methodologies in determining fair values (see Note 5). SLFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Board of Directors (the Chief Operating Decision Maker - CODM) reviews internal management reports on at least quarterly basis. The following summary describes the operations in each of the Group's reportable segments.

- Fixed Telephony operations includes supply of fixed telecommunication services.
- Mobile Telephony operations includes supply of mobile telecommunication services.
- Other Segment operations includes publication & support services. None of these segments meet the quantitative thresholds for determining reportable Segments in 2012 and 2011.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Board of Directors (BOD). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about reportable segments.

| | Fixed Telephony Operations | | Mobile Operations | | Other Segments Operations | | Total | |
|--------------------------------------|-----------------------------------|---------|--------------------------|---------|----------------------------------|-------|-----------------|----------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| External revenue | 32,179 | 29,788 | 23,819 | 21,089 | 773 | 767 | 56,771 | 51,644 |
| Inter-segment revenue | 2,540 | 2,503 | 1,116 | 996 | 1,274 | 1,230 | 4,930 | 4,729 |
| Reportable segment revenue | 34,719 | 32,291 | 24,935 | 22,085 | 2,047 | 1,997 | 61,701 | 56,373 |
| Reportable segment profit before tax | 4,682 | 4,488 | 1,691 | 2,011 | (1) | 176 | 6,372 | 6,675 |
| Interest revenue | 1,216 | 959 | 210 | 12 | 40 | 16 | 1,466 | 987 |
| Interest expense | (534) | (58) | (480) | (528) | (7) | (5) | (1,021) | (591) |
| Depreciation and amortisation | (6,589) | (7,654) | (5,045) | (4,117) | (88) | (51) | (11,722) | (11,822) |
| Reportable segment assets | 83,383 | 73,666 | 38,466 | 37,366 | 1,509 | 1,734 | 123,358 | 112,766 |
| Capital expenditure | 15,111 | 10,086 | 3,659 | 8,559 | 7 | 10 | 18,777 | 18,655 |
| Reportable segment liabilities | 29,766 | 21,816 | 23,989 | 24,504 | 1,167 | 1,293 | 54,922 | 47,613 |

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

| | 2012 | 2011 |
|------------------------------------------------------------------|---------------------------------|---------------------------------------|
| Revenue | | |
| Total revenue for reportable segments | 59,654 | 54,376 |
| Revenue for other segments | 2,047 | 1,997 |
| | 61,701 | 56,373 |
| Elimination of inter-segment revenue | 4,930 | 4,729 |
| Consolidated revenue | 56,771 | 51,644 |
| Profit or loss | | |
| Total Profit or loss for reportable segments | 6,373 | 6,499 |
| Profit or loss for other segments | (1) | 176 |
| | 6,372 | 6,675 |
| Elimination of inter-segment profits | 406 | 513 |
| Consolidated profit from continuing operations before tax | 5,966 | 6,162 |
| Assets | | |
| Total assets for reportable segments | 121,849 | 111,032 |
| Assets for other segments | 1,509 | 1,734 |
| | 123,358 | 112,766 |
| Elimination of inter-segment assets | 20,285 | 17,715 |
| Consolidated total assets | 103,073 | 95,051 |
| Liabilities | | |
| Total liabilities for reportable segments | 53,755 | 46,320 |
| Liabilities for other segment | 1,167 | 1,293 |
| | 54,922 | 47,613 |
| Elimination of inter-segment liabilities | 6,399 | 4,687 |
| Consolidated total liabilities | 48,523 | 42,926 |
| Other material items (2012) | | |
| | Reportable segment totals | Consolidated Adjustments totals |
| Interest revenue | 1,466 | - 1,466 |
| Interest expense | (1,021) | - (1,021) |
| Capital expenditure | 18,777 | - 18,777 |
| Depreciation and amortisation | (11,722) | (72) (11,794) |
| Other material items (2011) | | |
| | Reportable segment totals | Consolidated Adjustments totals |
| Interest revenue | 987 | - 987 |
| Interest expense | (591) | - (591) |
| Capital expenditure | 18,655 | - 18,655 |
| Depreciation and amortisation | (11,822) | (72) (11,894) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE

The significant categories under which revenue is recognised are as follows:

| | GROUP | COMPANY | | |
|-------------------------------------------------------|---------------|---------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Release of deferred connection charges (Note 24) | 784 | 854 | 784 | 854 |
| Rental income | 6,222 | 6,231 | 4,685 | 4,532 |
| Domestic call revenue | 19,681 | 18,681 | 5,342 | 5,589 |
| Receipts from other network operators – domestic | 1,684 | 1,621 | 896 | 1,001 |
| International call revenue | 2,215 | 2,078 | 1,050 | 1,048 |
| Receipts from other network operators – International | 117 | 70 | 46 | 47 |
| International settlements (in-payments) | 9,090 | 6,976 | 6,363 | 5,194 |
| CDMA revenue | 2,186 | 2,696 | 2,186 | 2,696 |
| Broadband revenue | 6,092 | 5,156 | 4,704 | 4,091 |
| Data and other services | 8,700 | 7,281 | 8,663 | 7,239 |
| | 56,771 | 51,644 | 34,719 | 32,291 |

6 OPERATING COSTS

The following items have been included in arriving at Operating profit before depreciation and amortisation:

| | GROUP | COMPANY | | |
|-------------------------------------------------------|---------------|---------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Staff costs (Note 7) | 11,866 | 10,573 | 8,981 | 8,052 |
| Directors' emoluments | 15 | 12 | 12 | 8 |
| Payments to international network operators | 1,666 | 1,603 | 1,657 | 1,628 |
| Payments to other network operators | | | | |
| - international | 1,844 | 1,208 | 1,389 | 849 |
| - domestic | 1,987 | 1,955 | 873 | 933 |
| Int'l Telecommunication Operators Levy (Note 8) | 2,371 | 1,002 | 1,688 | 722 |
| Independent auditors' remuneration | | | | |
| - audit and audit related service fees | 11 | 8 | 7 | 5 |
| - non-audit fees | 1 | 1 | 1 | 1 |
| Repairs and maintenance expenditure | 2,754 | 2,358 | 2,008 | 1,704 |
| Provision for doubtful debts | 733 | 938 | 543 | 624 |
| Other impairments / (reversals) | 108 | (89) | 477 | 122 |
| Impairment of property, plant and equipment (Note 14) | 305 | 276 | 125 | 267 |
| Other operating expenditure | 15,146 | 14,736 | 7,672 | 7,379 |
| | 38,807 | 34,581 | 25,433 | 22,294 |

7 STAFF COSTS

| | GROUP | | COMPANY | |
|----------------------------------------------------------------------------|--------|--------|---------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Salaries, wages, allowances and other benefits | 10,565 | 9,397 | 7,942 | 7,102 |
| Post employment benefits | | | | |
| - defined contribution plans | 927 | 850 | 712 | 660 |
| - defined benefit obligations (Note 26) | 374 | 326 | 327 | 290 |
| | 11,866 | 10,573 | 8,981 | 8,052 |
| Average number of persons employed by the Group / Company during the year: | 9,860 | 9,884 | 6,080 | 6,226 |

8 REFUNDS ON TELECOMMUNICATION DEVELOPMENT CHARGE (TDC)

In accordance with the Finance Act No. 11 of 2004, all Telecommunication Gateway Operators are required to pay a levy defined as the Telecommunication Development Charge (TDC) to the Government of Sri Lanka, based on international call minutes terminated in the country. This levy has made effective from 03rd March, 2003 where initially the levy was defined in such a way that Operators were allowed to claim the 2/3rd of the TDC against the costs of network development charges.

First revision to this regulation was introduced with effect from 15th July, 2010 with a TDC rate change from USD cents 3.80 to USD cents 1.50. Through the same revision the disbursement process was removed from the regulation. The revised rates prevailed until such time the rate was again revised to USD cents 3.0 per minute with effect from January, 2012 in accordance with the Budget Proposal for 2012.

The total amount of the levy payable by the Group and Company for the period from 1 January 2012 to 31 December 2012 was estimated at Rs.2.371 million (2011-Rs.1,002 million) and Rs.1,688 million (2011- Rs.722 million) respectively and has been recognised as expenses in the current financial year. The corresponding liability, net of payments, has been recognised in the statement of financial position.

9 INTEREST EXPENSES AND FINANCE COST

| | GROUP | | COMPANY | |
|---------------------------------------------|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Rupee loans [see Note (a) below] | 338 | 389 | 39 | - |
| Foreign currency loans [see Note (a) below] | 665 | 156 | 480 | 35 |
| Other charges [see Note (b) below] | 18 | 46 | 15 | 23 |
| | 1,021 | 591 | 534 | 58 |

- (a) Interest cost of the company Rs.519 million (2011 - Rs.35 million) relates to the rupee loan and USD syndicate loan obtained in 2011. Interest cost of group related to rupee loans, syndicate loans and overdraft facilities from local banks.
- (b) Other charges mainly include interest cost of finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INTEREST EXPENSES AND FINANCE COST

9.a Foreign Exchange (Loss) /gain Contd.

| | GROUP | COMPANY | | |
|------------------------------------|---------|---------|------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Net foreign exchange (loss) / gain | (1,212) | (250) | 75 | (17) |

(a) Foreign currency (loss) or gain of the Company includes,

i. Exchange gain of Rs.1,101 million (2011- Rs.98 million) arising from revaluation of the fixed deposits and bank balances denominated in USD

ii. Exchange gain of Rs.5 million on payment to foreign suppliers (2011 loss - Rs.30 million)

iii. Exchange loss of Rs.1,031 million (2011- Rs.85 million) arising from revaluation of USD syndicate loan

(b) Foreign currency (loss) or gain of the Group includes,

i. Exchange gain of Rs.1,339 million (2011- Rs.136 million) arising from revaluation of the fixed deposits and bank balances denominated in USD

ii. Exchange loss of Rs.1,028 million on payment to foreign suppliers (2011- Rs.220 million)

iii. Exchange loss of Rs.1,523 million (2011- Rs.147 million) arising from revaluation of USD syndicate loan and other term loans.

10 INTEREST INCOME

| | GROUP | COMPANY | | |
|-------------------------------|--------------|---------|--------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Interest income from: | | | | |
| Treasury Bond | 24 | 65 | 24 | 65 |
| Treasury Bills | 3 | 108 | - | 100 |
| Repurchase agreements - Repos | 281 | 296 | 197 | 296 |
| Fixed Deposits | 901 | 212 | 738 | 192 |
| Staff Loan Interest | 257 | 306 | 257 | 306 |
| | 1,466 | 987 | 1,216 | 959 |

The interest income on bank deposits and Government Securities reflect the prevailing rates on the date of respective investments.

- (a) The weighted average interest rates on bank deposits in LKR and USD were 12.80% (2011 - 7.84%) and 5.42 % (2011 - 4.64%) respectively.
- (b) The weighted average interest rates on investments in Government Securities were 9.81% (2011 - 7.21%)
- (c) The average market interest rates on staff loans are between 11.5 % and 20% (2011 - 11.5% and 13.5%).
- (d) According to the section 137 of the Inland Revenue Act No 10. of 2006, any person who derives income from the secondary market transactions in government securities is entitled to a notional tax credit in relation to the tax payable by such person. Notional tax credit would be determined by grossing up of the income from the secondary market transactions to an amount equal to 1/9 of same and credit to be afforded for a like sum. Accordingly , Company has accounted for Rs.23 million as notional tax credit for the year 2012. (2011 Rs.49 million)

11 INCOME TAX EXPENSES

Tax recognised in profit or loss

| | GROUP | | COMPANY | |
|--------------------------------------------------------------|--------------|--------------|--------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Current tax expense | | | | |
| Current year | 1,084 | 1,545 | 459 | 1,040 |
| Adjustment for prior years | (4) | 11 | - | 11 |
| | 1,080 | 1,556 | 459 | 1,051 |
| Deferred tax expense | | | | |
| Originatioin and reversal of temporary differences (Note 23) | 850 | 206 | 862 | 202 |
| (Over)/under provision of DT relevant to prior years | - | (105) | - | (105) |
| | 850 | 101 | 862 | 97 |
| Tax expense from continuing operations | 1,930 | 1,657 | 1,321 | 1,148 |

Tax recognised in other comprehensive income - Group

| | 2012 | | 2011 | | |
|--------------------------------------------|-------------|-----------------------|-------------|-------------|-----------------------|
| | Before tax | Tax (expense) benefit | Net of tax | Before tax | Tax (expense) benefit |
| Foreign currency translation differences - | | | | | |
| foreign operations | 3 | - | 3 | 8 | - |
| Available-for-sale financial assets | 3 | - | 3 | 1 | - |
| Defined benefit plan actuarial losses | (91) | 25 | (66) | (30) | 8 |
| | (85) | 25 | (60) | (21) | 8 |
| | | | | | (13) |

Tax recognised in other comprehensive income - Company

| | 2012 | | 2011 | | |
|---------------------------------------|-------------|-----------------------|-------------|-------------|-----------------------|
| | Before tax | Tax (expense) benefit | Net of tax | Before tax | Tax (expense) benefit |
| Available-for-sale financial assets | | | | | |
| Available-for-sale financial assets | 3 | - | 3 | 1 | - |
| Defined benefit plan actuarial losses | (88) | 25 | (63) | (30) | 8 |
| | (85) | 25 | (60) | (29) | 8 |
| | | | | | (21) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX EXPENSES CONTD.

Reconciliation of effective tax rate

| | GROUP | | |
|----------------------------------------------------------------|---------------|--------------|--------|
| | 2012 | 2011 | |
| Profit before tax continuing operations | 5,966 | 6,162 | |
| Tax using the Company's domestic tax rate | 28.00% | 1,670 | 28.00% |
| Effect of different Tax rates (Note a&b bellow) | 1.24% | 74 | -0.23% |
| Non-deductible expenses | 9.87% | 589 | 5.71% |
| Income not subject to tax | -6.75% | (403) | -5.06% |
| (Over) / Under provision of DT relevant to prior years | 0.00% | - | -1.70% |
| (Over) / Under provision of Income Tax relevant to prior years | 0.00% | - | 0.18% |
| | 32.36% | 1,930 | 26.90% |
| | | | 1,657 |

Reconciliation of effective tax rate

| | COMPANY | | |
|----------------------------------------------------------------|---------------|--------------|--------|
| | 2012 | 2011 | |
| Profit before tax continuing operations | 4,682 | 4,488 | |
| Tax using the Company's domestic tax rate | 28.00% | 1,311 | 28.00% |
| Non-deductible expenses | 8.56% | 401 | 6.44% |
| Income not subject to tax | -8.35% | (391) | -6.77% |
| (Over) / Under provision of DT relevant to prior years | 0.00% | - | -2.34% |
| (Over) / Under provision of Income Tax relevant to prior years | 0.00% | - | 0.25% |
| | 28.21% | 1,321 | 25.57% |
| | | | 1,148 |

Current income tax charge of the Group / Company is made up as follows:

| | Group | Company | |
|------------------------------------------|--------------|--------------|------------|
| | 2012 | 2011 | |
| Sri Lanka Telecom PLC | 459 | 1,040 | 459 |
| Mobitel (Private) Limited | 551 | 460 | - |
| Sri Lanka Telecom Services Limited | 2 | 2 | - |
| SLT Hong Kong Limited | - | 4 | - |
| SLT Manpower Solutions (Private) Limited | 3 | 2 | - |
| SLT Publications (Private) Limited | 66 | 30 | - |
| SLT VisionCom (Private) Limited | 1 | 5 | - |
| Sky Network (Private) Limited | 2 | 2 | - |
| | 1,084 | 1,545 | 459 |
| | | | 1,040 |

- (a) Pursuant to agreements dated 15 January 1993 and 26 February 2001 entered into with the Board of Investment of Sri Lanka under Section 17 of the Board of Investment Act No. 4 of 1978, 15 years tax exemption period granted to Mobitel (Private) Limited expired on 30 June 2009 and as per the agreement, Mobitel (Private) Limited opted for the turnover based tax option in which 2% was charged on the turnover for a further period of 15 years commencing from 1 July 2009.

- (b) As per the amendment to Inland Revenue Act no 22 of 2011, for the year of assessment 2012/2013, SLT Manpower Solutions (Pvt) Limited is liable for income taxes at the rate of 10 % on their taxable income. SLT (Hong Kong) Limited is liable for income tax at the rate of 16.5%.
- (C) As per the agreement with the Board of Investment of Sri Lanka (BOI) dated 19 November 2009 under Section 17 of BOI Act No.4 of 1978 the Sky Network (Private) Ltd is exempt from income tax for a period of 6 years. For the above purpose the year of assessment shall be reckoned from the year in which the Company commences to make profits or any year of assessment not later than two years reckoned from the date of on which the Company commences commercial operation, whichever is earlier as may be specified in a certificate issued by the Board. In view of the above the Company is not liable to income tax on business profit. The Current tax wholly consists of tax on interest income.

12 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the net profit attributable to owners by the weighted average number of ordinary shares in issue during the year.

| | GROUP | | COMPANY | |
|------------------------------------------------------------------|--------------|-------|--------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Net profit attributable to owners (Rs. million) | 4,036 | 4,505 | 3,361 | 3,340 |
| Weighted average number of ordinary shares in issue (million) | 1,805 | 1,805 | 1,805 | 1,805 |
| Basic earnings per share (Rs) | 2.24 | 2.50 | 1.86 | 1.85 |

13 DIVIDENDS

In respect of 2011, a first and final dividend of Rs.0.85 (2010 - Rs.0.60) per share amounting to a Rs.1,534,131,000 (2010 - Rs.1,082,916,000) was paid during the current year.

The Board has recommended a first and final dividend of Rs.0.85 per share amounting to Rs.1,534,131,000 for the year ended 31 December 2012. This is to be approved by the shareholders at the Annual General Meeting to be held on 24th April 2013. As stipulated by LKAS - 10 - Events After the Reporting Date, the proposed dividend is not recognised as a liability as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT

Group

| | Freehold land | Freehold buildings | Ducts, cables and other outside plant | Telephone exchanges | Transmission equipment | Other fixed assets | Capital work-in-progress | Total |
|----------------------------------------------|---------------|--------------------|---------------------------------------|---------------------|------------------------|--------------------|--------------------------|------------------|
| Cost | | | | | | | | |
| At 1 January 2011 | 355 | 2,563 | 75,278 | 18,326 | 56,184 | 24,981 | 4,646 | 182,333 |
| Additions at cost | 1 | - | 672 | 39 | 5,487 | 1,335 | 10,489 | 18,023 |
| Transfers from capital work-in-progress | - | 285 | 4,003 | 1,108 | 3,138 | 726 | (9,260) | - |
| Transfer to intangible Software | - | - | - | - | - | - | (8) | (8) |
| Write offs | - | - | - | (16) | (2,117) | (442) | - | (2,575) |
| Disposals at cost | - | - | (64) | (21) | (43) | (74) | - | (202) |
| Cost of Assets impaired | - | - | - | (1,452) | - | (13) | - | (1,465) |
| Adjustments | - | (2) | 41 | - | (41) | (65) | - | (67) |
| As at 31 December 2011 | 356 | 2,846 | 79,930 | 17,984 | 62,608 | 26,448 | 5,867 | 196,039 |
| Accumulated depreciation | | | | | | | | |
| At 1 January 2011 | - | (1,653) | (61,908) | (14,190) | (25,732) | (18,999) | - | (122,482) |
| Accumulated depreciation on adjustments | - | - | - | - | - | 4 | - | 4 |
| Accumulated depreciation on write offs | - | - | - | 15 | 2,117 | 443 | - | 2,575 |
| Accumulated depreciation on disposals | - | - | 45 | 20 | 32 | 68 | - | 165 |
| Accumulated depreciation on impairments | - | - | - | 1,185 | - | 4 | - | 1,189 |
| Depreciation charge | - | (59) | (2,896) | (1,046) | (5,042) | (2,294) | - | (11,337) |
| As at 31 December 2011 | - | (1,712) | (64,759) | (14,016) | (28,625) | (20,774) | - | (129,886) |
| Carrying value as at 31 December 2011 | 356 | 1,134 | 15,171 | 3,968 | 33,983 | 5,674 | 5,867 | 66,153 |

Group

| | Freehold land | Freehold buildings | Ducts, cables and other outside plant | Telephone exchanges | Transmission equipment | Other fixed assets | Capital work-in-progress | Total |
|--------------------------------------------------|---------------|--------------------|---------------------------------------|---------------------|------------------------|--------------------|--------------------------|------------------|
| Cost | | | | | | | | |
| At 1 January 2012 | 356 | 2,846 | 79,930 | 17,984 | 62,608 | 26,448 | 5,867 | 196,039 |
| Additions at cost | - | 1 | 209 | 33 | 1,833 | 1,250 | 14,101 | 17,427 |
| Transfers from capital work-in-progress | - | 46 | 3,372 | 1,648 | 3,146 | 1,629 | (9,841) | - |
| Disposals at cost | - | - | (64) | (177) | (19) | (44) | - | (304) |
| Assets held for sale | - | - | - | - | (20) | - | - | (20) |
| As at 31 December 2012 | 356 | 2,894 | 83,447 | 19,488 | 67,548 | 29,283 | 10,127 | 213,142 |
| Accumulated depreciation | | | | | | | | |
| At 1 January 2012 | - | (1,712) | (64,759) | (14,016) | (28,625) | (20,774) | - | (129,886) |
| Accumulated depreciation on disposals | - | - | 29 | 177 | 19 | 43 | - | 268 |
| Accumulated depreciation on Impairment | - | - | (180) | (125) | - | - | - | (305) |
| Accumulated depreciation on Assets held for sale | - | - | - | - | - | 9 | - | 9 |
| Depreciation charge | - | (61) | (2,503) | (916) | (5,226) | (2,357) | - | (11,063) |
| As at 31 December 2012 | - | (1,773) | (67,413) | (14,880) | (33,823) | (23,088) | - | (140,977) |
| Carrying value as at 31 December 2012 | 356 | 1,121 | 16,034 | 4,608 | 33,725 | 6,195 | 10,127 | 72,165 |

14 PROPERTY, PLANT AND EQUIPMENT CONTD.

Company

| | Freehold land | Freehold buildings | Ducts, cables and other outside plant | Telephone exchanges | Transmission equipment | Other fixed assets | Capital work-in-progress | Total |
|----------------------------------------------|---------------|--------------------|---------------------------------------|---------------------|------------------------|--------------------|--------------------------|------------------|
| Cost | | | | | | | | |
| At 1 January 2011 | 355 | 2,563 | 75,128 | 18,326 | 16,999 | 23,465 | 3,979 | 140,815 |
| Additions at cost | 1 | - | 289 | 26 | - | 1,198 | 8,555 | 10,069 |
| Transfers from capital work-in-progress | - | 258 | 3,764 | 1,108 | 1,664 | 745 | (7,539) | - |
| Disposals at cost | - | - | (64) | - | - | (25) | - | (89) |
| Cost of Assets impaired | - | - | - | (1,452) | - | - | - | (1,452) |
| Adjustments | - | (2) | 41 | - | (41) | (46) | - | (48) |
| As at 31 December 2011 | 356 | 2,819 | 79,158 | 18,008 | 18,622 | 25,337 | 4,995 | 149,295 |
| Accumulated depreciation | | | | | | | | |
| At 1 January 2011 | - | (1,653) | (61,726) | (14,189) | (12,476) | (18,103) | - | (108,147) |
| Accumulated depreciation on disposals | - | - | 45 | - | - | 25 | - | 70 |
| Accumulated depreciation on impairments | - | - | - | 1,185 | - | - | - | 1,185 |
| Depreciation charge | - | (59) | (2,870) | (1,036) | (1,415) | (2,052) | - | (7,432) |
| As at 31 December 2011 | - | (1,712) | (64,551) | (14,040) | (13,891) | (20,130) | - | (114,324) |
| Carrying value as at 31 December 2011 | 356 | 1,107 | 14,607 | 3,968 | 4,731 | 5,207 | 4,995 | 34,971 |

Company

| | Freehold land | Freehold buildings | Ducts, cables and other outside plant | Telephone exchanges | Transmission equipment | Other fixed assets | Capital work-in-progress | Total |
|----------------------------------------------|---------------|--------------------|---------------------------------------|---------------------|------------------------|--------------------|--------------------------|------------------|
| Cost | | | | | | | | |
| At 1 January 2012 | 356 | 2,846 | 79,158 | 18,008 | 18,622 | 25,337 | 4,995 | 149,295 |
| Additions at cost | - | 1 | 209 | 23 | 28 | 1,093 | 12,575 | 13,929 |
| Transfers from capital work-in-progress | - | 46 | 3,372 | 1,648 | 1,752 | 1,629 | (8,447) | - |
| Disposals at cost | - | - | (64) | (169) | (19) | (32) | - | (284) |
| As at 31 December 2012 | 356 | 2,866 | 82,675 | 19,510 | 20,383 | 28,027 | 9,123 | 162,940 |
| Accumulated depreciation | | | | | | | | |
| At 1 January 2012 | - | (1,712) | (64,551) | (14,040) | (13,891) | (20,130) | - | (114,324) |
| Accumulated depreciation on disposals | - | - | 29 | 169 | 19 | 32 | - | 249 |
| Accumulated depreciation on Impairment | - | - | - | (125) | - | - | - | (125) |
| Depreciation charge | - | (61) | (2,440) | (905) | (711) | (2,145) | - | (6,262) |
| As at 31 December 2012 | - | (1,773) | (66,962) | (14,901) | (14,583) | (22,243) | - | (120,462) |
| Carrying value as at 31 December 2012 | 356 | 1,093 | 15,713 | 4,609 | 5,800 | 5,784 | 9,123 | 42,478 |

- (a) On 1 September 1991, the Department of Telecommunications (DoT) transferred its entire telecommunications business and related assets and liabilities to SLT. A valuation of the assets and liabilities transferred to SLT was performed by the Government of Sri Lanka. The net amount of those assets and liabilities represents SLT's Contributed Capital on incorporation, and the value of property, plant and equipment as determined by the Government of Sri Lanka valuers was used as the opening cost of fixed assets on 1 September 1991 in the first statutory accounts of SLT. Further, SLT was converted into a public limited company, Sri Lanka Telecom Limited (SLTL), on 25 September 1996 and on that date, all of the business and the related assets and liabilities of SLT were transferred to SLTL as part of the privatisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT CONTD.

- (b) The cost of fully depreciated assets still in use in the Company as at 31 December 2012 was Rs.92,822 million (2011 - Rs.70,521 million). The cost of fully depreciated assets still in use in the Group as at 31 December 2012 was Rs.93,476 million (2011 - Rs.70,821 million).
- (c) No assets have been mortgaged or pledged as security for borrowings of the Company. However, Mobitel (Private) Limited, a subsidiary of the Company, has pledged its assets at a value of Rs.9.7 billion as at 31 December 2012 (2011- Rs.9.7 billion) for its bank borrowings [Note 22 (k)].
- (d) The Directors believe that the Company has freehold title to the land and buildings transferred on incorporation (conversion of SLT into a public limited company on 25 September 1996), although the vesting orders specifying all the demarcations and extents of such land and buildings could not be traced. The Company has initiated action to transfer legal title documentations.
- (e) The property, plant and equipment is not insured except for third party motor vehicle insurance. An insurance reserve has been created together with a sinking fund investment to meet any potential losses with regard to uninsured property, plant and equipment. At the statement of financial position date, the insurance reserve amounted to Rs.435 million (2011 - Rs.387 million) (Note 27).
- (f) Impairment of assets mainly consist of the carrying value of switches Rs.125 million that were impaired as a result of implementation of Next Generation Network (NGN) phase 3b (2011 - Rs.267 million).
- (g) Additions include assets costing Rs.Nil (2011 - Rs.57 million) obtained under finance leases (where the Company is the lessee) and the additions of the Group includes assets costing Rs.Nil obtained under finance leases (2011 - Rs.82 million) where the Group is the lessee.
- (h) The property, plant and equipment includes motor vehicles acquired under finance leases, the net book value of which is made up as follows:

| | GROUP | | | COMPANY | | |
|--------------------------|-----------|------------|------------|-----------|------------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Cost | 230 | 230 | 167 | 205 | 205 | 148 |
| Accumulated depreciation | (146) | (111) | (66) | (136) | (101) | (61) |
| Carrying value | 84 | 119 | 101 | 69 | 104 | 87 |

- (i) Property, plant and equipment include submarine cables which are jointly controlled. The total cost and accumulated depreciation of all cables under this category as follows;

| | COMPANY / GROUP | | |
|---------------------------------------|-----------------|--------------|--------------|
| | 2012 | 2011 | 1 Jan 2011 |
| Cost | 6,336 | 6,399 | 6,431 |
| Accumulated depreciation at 1 January | (4,401) | (3,947) | (3,481) |
| Depreciation charge for the year | (149) | (454) | (467) |
| Carrying amount | 1,786 | 1,998 | 2,483 |

15 INTANGIBLE ASSETS

Group

| | Goodwill | Licences | Software | Others | Total |
|-----------------------------------------------|------------|--------------|------------|------------|--------------|
| At 1 January 2011 | | | | | |
| Cost | 394 | 748 | 1,082 | 1,184 | 3,408 |
| Accumulated amortisation and impairment | (253) | (271) | (443) | (856) | (1,823) |
| Carrying amount | 141 | 477 | 639 | 328 | 1,585 |
| Year ended 31 December 2011 | | | | | |
| Opening net book amount | 141 | 477 | 639 | 328 | 1,585 |
| Additions at cost | - | 322 | 289 | - | 611 |
| Amortisation charge | - | (147) | (347) | - | (494) |
| Carrying amount | 141 | 652 | 581 | 328 | 1,702 |
| At 31 December 2011 | | | | | |
| Cost | 394 | 1,070 | 1,371 | 1,184 | 4,019 |
| Accumulated amortisation and impairment | (253) | (418) | (790) | (856) | (2,317) |
| Carrying amount as at 31 December 2011 | 141 | 652 | 581 | 328 | 1,702 |
| Year ended 31 December 2012 | | | | | |
| Opening net book amount | 141 | 652 | 581 | 328 | 1,702 |
| Additions at cost | - | 908 | 370 | 63 | 1,341 |
| Amortisation charge | - | (245) | (254) | (125) | (624) |
| Carrying amount | 141 | 1,315 | 697 | 266 | 2,419 |
| At 31 December 2012 | | | | | |
| Cost | 394 | 1,978 | 1,741 | 1,247 | 5,360 |
| Accumulated amortisation and impairment | (253) | (663) | (1,044) | (981) | (2,941) |
| Carrying amount as at 31 December 2012 | 141 | 1,315 | 697 | 266 | 2,419 |

The goodwill in Group consists of goodwill arising on acquisition of Mobitel (Private) Limited.

Impairment test for goodwill

Goodwill is allocated to the Group's Cash-Generating Units (CGUs). A summary of the goodwill allocation is presented below:

| | 2012 | 2011 |
|---------------------------|------------|------------|
| Mobitel (Private) Limited | 141 | 141 |
| Total | 141 | 141 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre - tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS CONTD.

The key assumptions used for value-in-use calculations are as follows:

| | 2012 | 2011 |
|---------------|------|------|
| Growth rate | 15% | 14% |
| Discount rate | 12% | 12% |

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. No impairment charge has been recognised for the year ended 31 December 2012 for the above CGU (2011 - Rs.Nil).

Company

| | Licences | Software | Others | Total |
|-----------------------------------------------|------------|------------|----------|--------------|
| At 1 January 2011 | | | | |
| Cost | - | 1,235 | 330 | 1,565 |
| Accumulated amortisation and impairment | - | (665) | (330) | (995) |
| Carrying amount | - | 570 | - | 570 |
| Year ended 31 December 2011 | | | | |
| Opening net book amount | - | 570 | - | 570 |
| Additions at cost | - | 122 | - | 122 |
| Amortisation charge | - | (222) | - | (222) |
| Carrying amount | - | 470 | - | 470 |
| At 31 December 2011 | | | | |
| Cost | - | 1,357 | 330 | 1,687 |
| Accumulated amortisation and impairment | - | (887) | (330) | (1,217) |
| Carrying amount as at 31 December 2011 | - | 470 | - | 470 |
| Year ended 31 December 2012 | | | | |
| Opening net book amount | - | 470 | - | 470 |
| Additions at cost | 816 | 367 | - | 1,183 |
| Amortisation charge | (75) | (252) | - | (327) |
| Carrying amount | 741 | 585 | - | 1,326 |
| At 31 December 2012 | | | | |
| Cost | 816 | 1,724 | 330 | 2,870 |
| Accumulated amortisation and impairment | (75) | (1,139) | (330) | (1,544) |
| Carrying amount as at 31 December 2012 | 741 | 585 | - | 1,326 |

15 INTANGIBLE ASSETS CONTD.

15.a Financial prepayments

| | GROUP | 2012 | 2011 | 1 Jan 2011 |
|----------------------------------------|-------|--------------|-------|------------|
| As at 01 January | | 1,077 | 884 | 884 |
| Acquired/Incurred during the period | | 20 | 193 | - |
| As at 31 December | | 1,097 | 1,077 | 884 |
| Amortisation | | | | |
| As at 01 January | | 619 | 556 | 466 |
| Amortisation for the year | | 107 | 63 | 90 |
| As at 31 December | | 726 | 619 | 556 |
| Carrying amount- Current [Note 20 (a)] | | 97 | 95 | 56 |
| Carrying amount- Non Current | | 274 | 363 | 272 |
| As at 31 December | | 371 | 458 | 328 |

Financial charges for the guarantee issued by The Swedish Export Credit Guarantee Board (EKN) for SCB loan, insurance premium for the guarantee issued by China Export and Credit Insurance Corporation for HSBC loan and other financial prepayments.

16 INVESTMENTS IN SUBSIDIARIES

| Unquoted shares | 2012 | 2011 | 1 Jan 2011 |
|--------------------------------|---------------|--------|------------|
| Opening net book amount | 13,431 | 11,522 | 11,317 |
| Impairment of Investment | (377) | (211) | - |
| Additions | 1,138 | 2,120 | 205 |
| Closing net book amount | 14,192 | 13,431 | 11,522 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INVESTMENTS IN SUBSIDIARIES CONTD.

Details of the subsidiary companies in which the Company had control as at 31 December are set out below:

| Name of company | 2012 | | 2011 | | 1 Jan 2011 | |
|------------------------------------------------------------------|---------------------------|--------------------|---------------------------|--------------------|---------------------------|--------------------|
| | Investment Rs. million | Company holding | Investment Rs. million | Company holding | Investment Rs. million | Company holding |
| Mobitel (Private) Limited [See Note (a) below] | 13,980 | 100% | 12,842 | 100% | 10,722 | 100% |
| SLT VisionCom (Private) Limited [See Note (b) below] | 100 | 100% | 100 | 100% | 100 | 100% |
| SLT Publications (Private) Limited [See Note (c) below] | 50 | 100% | 50 | 100% | 50 | 100% |
| SLT Hong Kong Ltd [See Note (d) below] | 36 | 100% | 36 | 100% | 36 | 100% |
| Sri Lanka Telecom (Services) Limited [See Note (e) below] | 25 | 99.99% | 25 | 99.99% | 25 | 99.99% |
| SLT Manpower Solutions (Private) Limited [See Note (f) below] | 1 | 100% | 1 | 100% | 1 | 100% |
| Sky Network (Private) Limited [See Note (g) below] | - | 99.94% | 377 | 99.94% | 588 | 99.94% |
| | 14,192 | | 13,431 | | 11,522 | |

The directors believe that the fair value of each of the companies listed above do not differ significantly from their book values.

- (a) The Company owns 1,320,013,240 shares representing 100% of the entire Ordinary Share capital of Mobitel (Private) Limited, at 31 December 2012.

Additions during the year, comprise the capital infusion of Rs.1,138 million in ordinary shares with a value of Rs.10 per share of Mobitel (Private) Limited.

At 31 December 2012, preference dividends amounting to Rs.980 million were in arrears (2011 - Rs.1,403 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.

- (b) This investment in subsidiary company consists of 10,000,000 shares representing the entire stated capital of SLT VisionCom (Private) Limited.
- (c) This investment in subsidiary company consists of 5,000,000 shares representing the entire stated capital of SLT Publications (Private) Limited.
- (d) This investment in subsidiary company consists of 2,500,000 shares representing the entire stated capital of SLT (Hong Kong) Limited incorporated in Hong Kong.
- (e) This investment in subsidiary company consists of 2,500,000 shares representing 99.99 % of stated capital of Sri Lanka Telecom (Services) Limited.
- (f) This investment in subsidiary company consists of 50,000 shares representing the entire stated capital of SLT Manpower Solutions (Private) Limited.

(g) This investment in subsidiary company consists of 42,071,251 shares representing a 99.94% holding of the issued stated capital and 6,000,000 12% cumulative and redeemable preference shares of Sky Network (Private) Limited.

At 31 December 2012, preference dividends amounting to Rs.30 million (2011 - Rs.24 million) has not been recognised in the financial statements.

All the subsidiaries except for Mobitel (Private) Limited and SLT (Hong Kong) Limited are audited by KPMG.

17 OTHER INVESTMENTS

Non Current Investments

| | GROUP | | | COMPANY | | |
|----------------|-------|------|------------|---------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Treasury bonds | - | 101 | 692 | - | 101 | 645 |
| | - | 101 | 692 | - | 101 | 645 |

Current Investments

| | GROUP | | | COMPANY | | |
|----------------|-------|-------|------------|---------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Treasury bonds | 103 | 615 | 1,703 | 103 | 615 | - |
| Treasury bills | - | - | - | - | - | 1,704 |
| Fixed deposits | 7,278 | 8,844 | 2,775 | 6,961 | 8,612 | 2,645 |
| | 7,381 | 9,459 | 4,478 | 7,064 | 9,227 | 4,349 |

All government securities are classified as available for sale and measured at fair value and fixed deposits are classified as loans and receivables and measured at amortised cost.

Treasury bond with a carrying value of Rs.103 million (2011 - Rs.101 million and 2010 - Rs.Nil) and fixed deposits with a carrying value of Rs.342 million (2011 - Rs.290 million and 2010 - Rs.359 million) are restricted at bank.

Interest rates of other investments are as follows:

| | GROUP | | | COMPANY | | |
|-------------------------------------|--------|--------|------------|---------|--------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Non Current Assets | | | | | | |
| Available for sale | | | | | | |
| Treasury Bonds - Escrow investment | 8.50% | 8.50% | - | 8.50% | 8.50% | - |
| Treasury Bonds | 13.50% | 13.50% | 13.50% | 13.50% | 13.50% | 13.50% |
| Current Assets | | | | | | |
| Available for sale | | | | | | |
| Loans and Receivables | | | | | | |
| Fixed Deposits - Restricted at bank | 12.22% | 12.22% | 12.29% | 12.22% | 8.73% | 12.29% |
| Fixed Deposits | 12.51% | 7.77% | 5.49% | 12.51% | 7.77% | 5.69% |
| Repurchase agreements - Repo | 9.81% | 7.21% | 7.99% | 9.81% | 7.21% | 7.99% |

The Group's exposure to credit and market risk and fair value information related to other investment are disclosed in Note No. 30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 OTHER RECEIVABLES

| | GROUP | | | COMPANY | | |
|---------------------------------------|--------------|-------|------------|--------------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Non current | 2,480 | 2,316 | 1,991 | 2,480 | 2,316 | 1,991 |
| Current (Note 20) | 615 | 494 | 482 | 610 | 494 | 482 |
| | 3,095 | 2,810 | 2,473 | 3,090 | 2,810 | 2,473 |
| Employee loans | 2,434 | 2,337 | 2,065 | 2,429 | 2,337 | 2,065 |
| Pre paid staff cost | 661 | 473 | 408 | 661 | 473 | 408 |
| | 3,095 | 2,810 | 2,473 | 3,090 | 2,810 | 2,473 |
| Movement of prepaid staff cost | | | | | | |
| Prepaid staff cost 1 January | 473 | 408 | - | 473 | 408 | - |
| Additions | 307 | 229 | 408 | 307 | 229 | 408 |
| Amortisation | (119) | (164) | - | (119) | (164) | - |
| Prepaid staff cost at 31 December | 661 | 473 | 408 | 661 | 473 | 408 |

The Group provides loans to employees at concession rates. These employee loans are fair valued at initial recognition using level 2 inputs by discounting expected future cash flows using market related rates for the similar loans.

The difference between the cost and fair value of employee loans is recognised as prepaid staff cost. The employee loans are classified as loans and receivables and subsequently measured at amortised cost. Employee loans are repayable in monthly installments over the loan period not exceeding eight years. The amount shown as other receivables represent staff loan installment falling due after 1 January 2014. No loans were given to directors of the Company.

19 INVENTORIES

| | GROUP | | | COMPANY | | |
|----------------------------------------------------------|--------------|---------|------------|--------------|---------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| CDMA Equipments | 964 | 924 | 1,061 | 964 | 924 | 1,061 |
| Cable & Networks | 2,272 | 1,546 | 1,073 | 2,272 | 1,339 | 883 |
| Other consumables | 699 | 532 | 666 | 494 | 432 | 512 |
| | 3,935 | 3,002 | 2,800 | 3,730 | 2,695 | 2,456 |
| Provision for change in carrying value of inventories | (1,334) | (1,261) | (1,519) | (1,334) | (1,230) | (1,298) |
| | 2,601 | 1,741 | 1,281 | 2,396 | 1,465 | 1,158 |

- (a) Inventories consist of trading and capital inventory of which include telecommunication hardware, CDMA handsets, consumables and office stationery. Inventory is stated net of provisions for slow-moving and obsolete items.

20 TRADE AND OTHER RECEIVABLES

| | GROUP | | | COMPANY | | |
|---------------------------------------------------|---------------|---------|------------|---------------|---------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Domestic trade receivables | 11,251 | 9,649 | 8,857 | 8,761 | 7,562 | 7,067 |
| Foreign trade receivables | 2,663 | 2,115 | 2,855 | 2,135 | 1,572 | 2,404 |
| | 13,914 | 11,764 | 11,712 | 10,896 | 9,134 | 9,471 |
| Less: Provision for impairment | (4,863) | (3,968) | (3,059) | (3,946) | (3,331) | (2,802) |
| Less: Interest / revenue in suspense | (19) | (19) | (19) | - | - | - |
| Trade receivables - net | 9,032 | 7,777 | 8,634 | 6,950 | 5,803 | 6,669 |
| Amount due from subsidiaries [Note 35.3 (f)] | - | - | - | 4,152 | 3,360 | 2,802 |
| Amount due from related companies [Note 35.3 (g)] | 213 | 38 | 168 | 180 | 36 | 168 |
| Advances and prepayments [See Note (a) below] | 892 | 766 | 1,118 | 176 | 187 | 117 |
| Employee loans {Note 18} | 615 | 494 | 482 | 610 | 494 | 482 |
| Other receivables [See Note (b) below] | 665 | 658 | 536 | 121 | 105 | 140 |
| Amounts due within one year | 11,417 | 9,733 | 10,938 | 12,189 | 9,985 | 10,378 |

- (a) Advances and prepayments of the Company mainly consist of advances on Building rent of Rs.12 million (2011 - Rs.16 million and 2010 - Rs.8 million), payments for software maintenance of Rs.120 million (2011 - Rs.136 million and 2010 - Rs.72 million) and Purchase advance of Rs.15 million (2011-Rs.11 million and 2010 - Rs.2 million.) Advances and prepayments of the Group mainly consist of advances on Building rent of Rs.129 million (2011 - Rs.134 million and 2010 - Rs.114 million) and payments for software maintenance of Rs.352 million (2011 - Rs.368 million and 2010 - Rs.72 million) and prepayment for advertising hordings Rs.15 million (2011- 70 million and 2010 - Rs.312 million) and current portion of financial prepayment Rs.97 million (2011- Rs.95 million and 2010 - Rs.56 million)
- (b) Other receivables of the Company mainly consist of refundable deposits of Rs.98 million (2011 - Rs.98 million and 2010 - Rs.85 million) and dishonoured cheques of Rs.3 million (2011 - Rs.2 million and 2010 - Rs.3 million.) Other receivables of the Group mainly consist of refundable deposits of Rs.179 million (2011- Rs.176 million and 2010 - Rs.162 million) VAT receivable of Rs.Nil (2011 - Rs.52 million and 2010 - Rs.181 million), receivables from sales agents Rs.85 million (2011-Rs.97 million and 2010 - Rs.101 million) site rentals receivables from other operators Rs.304 million (2011-Rs.287 million and 2010 - Rs.226 million)

21 CASH AND CASH EQUIVALENTS

| | GROUP | | | COMPANY | | |
|------------------------------|--------------|-------|------------|------------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Cash at bank and in hand | 3,379 | 1,296 | 856 | 403 | 261 | 267 |
| Repurchase agreements - Repo | 508 | 1,838 | 3,190 | 470 | 1,223 | 3,082 |
| | 3,887 | 3,134 | 4,046 | 873 | 1,484 | 3,349 |

21 (a) For cash flow purpose:

Cash and cash equivalents

| | GROUP | | | COMPANY | | |
|---------------------------|--------------|-------|------------|------------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Cash and cash equivalents | 3,887 | 3,134 | 4,046 | 873 | 1,484 | 3,349 |
| Bank overdrafts | (618) | (962) | (662) | (136) | (229) | - |
| | 3,269 | 2,172 | 3,384 | 737 | 1,255 | 3,349 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 BORROWINGS

| | GROUP | | | COMPANY | | |
|-----------------------------------------------------------|---------------|---------------|---------------|--------------|--------------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Current (due within one year) | | | | | | |
| Bank overdrafts (See Note (a) below) | 618 | 962 | 662 | 136 | 229 | - |
| Bank borrowings and others [See Note 22 (f)&(k) below] | 4,285 | 2,481 | 2,276 | 2,404 | 647 | - |
| Vender financing | 1,326 | 1,836 | 1,572 | - | - | - |
| Lease liabilities | 46 | 47 | 32 | 37 | 38 | 28 |
| | 6,275 | 5,326 | 4,542 | 2,577 | 914 | 28 |
| Non-current (due after one year) | | | | | | |
| Bank borrowings and others [See Note 22 (f)&(k) below] | 8,781 | 7,420 | 5,396 | 4,769 | 1,937 | - |
| Vender financing | 2,734 | 1,855 | 1,394 | - | - | - |
| Lease liabilities | 62 | 108 | 85 | 45 | 82 | 72 |
| | 11,577 | 9,383 | 6,875 | 4,814 | 2,019 | 72 |
| Total borrowings | 17,852 | 14,709 | 11,417 | 7,391 | 2,933 | 100 |

- (a) Although bank overdrafts are reflected in the Company, no bank accounts are overdrawn in real terms.
- (b) The interest rate exposure of the borrowings of the Group and Company are as follows:

| | GROUP | | | COMPANY | | |
|---------------------|---------------|---------------|---------------|--------------|--------------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Total borrowings | | | | | | |
| - at fixed rates | 108 | 155 | 785 | 82 | 120 | 100 |
| - at floating rates | 17,608 | 14,325 | 10,632 | 7,173 | 2,584 | - |
| | 17,716 | 14,480 | 11,417 | 7,255 | 2,704 | 100 |

The currency exposure of the borrowings of the Group and the Company at the statement of financial position date was as follows:

| | GROUP | | | COMPANY | | |
|------------------|---------------|---------------|---------------|--------------|--------------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Foreign currency | | | | | | |
| Local currency | 15,066 | 10,573 | 6,841 | 7,173 | 2,584 | - |
| | 2,650 | 3,907 | 4,576 | 82 | 120 | 100 |
| | 17,716 | 14,480 | 11,417 | 7,255 | 2,704 | 100 |

Borrowings (Bank overdraft) of Rs.136 million (2011 - Rs.229 million) reflected in the Company & Group was not included under either in interest rate exposure nor in currency exposure since same is not interest liable as bank accounts are not overdrawn in real terms.

(c) Effective interest rates of the Company and the Group are as follows:

| | GROUP | | | COMPANY | | |
|----------------------------------------|------------------|-----------|------------|------------------|-----------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Average effective interest rates: | | | | | | |
| - bank overdrafts | 14.05% | 7.50% | 9.41% | - | - | - |
| - foreign bank borrowings | 1.65% | 1.53% | 3.05% | - | - | - |
| - government borrowings | - | - | 11.41% | - | - | 11.41% |
| - bank borrowings (USD Syndicate loan) | 5.40% | 5.30% | - | 5.40% | 5.30% | - |
| - bank borrowings | 14.65% | 9.47% | 10.86% | - | - | 10.37% |
| - lease liabilities | 21% - 25% | 21% - 25% | 21% - 25% | 21% - 25% | 21% - 25% | 21% - 25% |
| - Vendor financing | 3.24% | 3.24% | 2.80% | - | - | - |

(d) Maturity analysis of the Company and the Group is as follows:

| | GROUP | | | COMPANY | | |
|---------------------------------------|---------------|-------|------------|--------------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Maturity of non current borrowings : | | | | | | |
| (excluding finance lease liabilities) | | | | | | |
| - between 1 and 2 years | 6,121 | 5,748 | 1,990 | 2,395 | 1,292 | - |
| - between 3 and 5 years | 4,989 | 3,527 | 4,739 | 2,374 | 645 | - |
| - over 5 years | 405 | - | 61 | - | - | - |
| | 11,515 | 9,275 | 6,790 | 4,769 | 1,937 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 BORROWINGS CONTD.

- (e) Analysis of the finance lease liabilities of the Company and the Group is as follows:

| | GROUP | | | COMPANY | | |
|----------------------------------------------------|------------|------------|------------|-----------|------------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Finance lease liabilities - minimum lease payments | | | | | | |
| - not later than 1 year | 57 | 69 | 52 | 45 | 53 | 45 |
| - later than 1 year and not later than 5 years | 70 | 124 | 103 | 50 | 95 | 88 |
| | 127 | 193 | 155 | 95 | 148 | 133 |
| Less : future finance charges on finance leases | (19) | (38) | (38) | (13) | (28) | (33) |
| Present value of finance lease liabilities | 108 | 155 | 117 | 82 | 120 | 100 |

Representing lease liabilities:

| | | | | | | |
|---------------|----|-----|----|----|----|----|
| - current | 46 | 49 | 32 | 37 | 38 | 28 |
| - non-current | 62 | 106 | 85 | 45 | 82 | 72 |

- (f) During the year, company drew down the 2nd and final tranche of USD syndicate loan USD 52.5 million (equivalent to LKR 5,982 million). The total loan amount of syndicate loan was USD 75.0 million.
- (g) The loan covenants include submission of audited financial statements to the lenders within specified periods from the financial year end, and to maintain adequate accounting records in accordance with generally accepted accounting principles.
- (h) The Directors believe that the Company and the Group will have sufficient funds available to meet its present loan commitments.
- (i) Lease liabilities of the Company and the Group are effectively secured by the lessor against the rights to the title of the asset.
- (j) Bank borrowings and bank overdrafts of Mobitel (Private) Limited, a subsidiary of the Company, are secured, inter alia, by corporate guarantees given by the Company.
- (k) Bank borrowings of Mobitel (Private) Limited are secured by a pledge over its property, plant and equipment at a value of Rs.9.7 billion [See Note 14 (c)]
- (l) Mobitel (Private) Limited has borrowed Rs.2,241 million during the year for the purpose of Capital Expansion Projects.

23 DEFERRED INCOME TAX

Recognised deferred income tax (assets) / liabilities

Deferred income tax (assets) and liabilities are calculated on all taxable and deductible temporary differences arising from differences between accounting bases and tax bases of assets and liabilities. Deferred income tax is provided under the liability method using a principal tax rate of 28% (for the year 2011 - 28%).

The movement in the deferred income tax account is as follows:

| | GROUP | | COMPANY | |
|----------------------------------------------------------------|------------|-------------|------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| At beginning of year | (66) | (159) | (57) | (146) |
| Release to Profit or Loss (Note 11) | 850 | 206 | 862 | 202 |
| Release to Other Comprehensive Income (Note 11) | (25) | (8) | (25) | (8) |
| (Over)/under provision of Deferred Tax relevant to prior years | - | (105) | - | (105) |
| At end of year | 759 | (66) | 780 | (57) |

23 DEFERRED INCOME TAX CONTD.

The amount shown in the statement of financial position represent the following.

| | GROUP | | COMPANY | |
|---------------------------------|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Deferred income tax liabilities | 782 | 9 | 780 | - |
| Deferred income tax assets | (23) | (75) | - | (57) |
| | 759 | (66) | 780 | (57) |

The taxable and deductible temporary differences mainly arise from property, plant and equipment, deferred income, provision for defined benefit obligations and other provisions.

The movement in deferred income tax assets and liabilities of the Group during the year, without taking into consideration the off-setting of balances within the same tax jurisdiction, is as follows:

Group

| | Assets | | Liabilities | | Net | |
|-----------------------------------------|---------|---------|-------------|---------|---------|---------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Property,plant and equipment | - | - | 3,770 | 2,788 | 3,770 | 2,788 |
| Defined Benefit Obligations | (646) | (546) | - | - | (646) | (546) |
| Provisions | (1,312) | (1,116) | - | - | (1,312) | (1,116) |
| Deferred Income | (1,053) | (1,192) | - | - | (1,053) | (1,192) |
| Tax (assets) liabilities before set off | (3,011) | (2,854) | 3,770 | 2,788 | 759 | (66) |
| Set off of tax | 3,011 | 2,854 | (3,011) | (2,854) | - | - |
| Net tax (assets) liabilities | - | - | 759 | (66) | 759 | (66) |

Movement in deferred tax balances during the year

| | Balance 1 January 2011 | Recognised in Profit or Comprehensive Loss | Recognised in Other Comprehensive Income | Recognised directly in Equity | Balance 31 December 2011 | Recognised in Profit or Loss | Recognised in Other Comprehensive Income | Balance 31 December 2012 |
|------------------------------|---------------------------|-----------------------------------------------------|---------------------------------------------------|-------------------------------------|--------------------------------|---------------------------------------|---------------------------------------------------|--------------------------------|
| Property,plant and equipment | 2,695 | 198 | - | (105) | 2,788 | 982 | - | 3,770 |
| Defined Benefit Obligations | (475) | (63) | (8) | - | (546) | (75) | (25) | (646) |
| Provisions | (1,027) | (89) | - | - | (1,116) | (196) | - | (1,312) |
| Deferred Income | (1,352) | 160 | - | - | (1,192) | 139 | - | (1,053) |
| | (159) | 206 | (8) | (105) | (66) | 850 | (25) | 759 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 DEFERRED INCOME TAX CONTD.

Company

| | Assets | | Liabilities | | Net | |
|-----------------------------------------|---------|---------|-------------|---------|---------|---------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Property, plant and equipment | - | - | 3,771 | 2,777 | 3,771 | 2,777 |
| Defined Benefit Obligations | (644) | (542) | - | - | (644) | (542) |
| Provisions | (1,294) | (1,100) | - | - | (1,294) | (1,100) |
| Deferred Income | (1,053) | (1,192) | - | - | (1,053) | (1,192) |
| Tax (assets) liabilities before set off | (2,991) | (2,834) | 3,771 | 2,777 | 780 | (57) |
| Set off of tax | 2,991 | 2,834 | (2,991) | (2,834) | - | - |
| Net tax (assets) liabilities | - | - | 780 | (57) | 780 | (57) |

Movement in deferred tax balances during the year

| | Balance 1 January 2011 | Recognised in Profit or Loss | Recognised in Other Comprehensive Income | Recognised directly in Equity | Balance 31 December 2011 | Recognised in Profit or Loss | Recognised in Other Comprehensive Income | Balance 31 December 2012 |
|-------------------------------|---------------------------|---------------------------------------|---------------------------------------------------|-------------------------------------|--------------------------------|---------------------------------------|---------------------------------------------------|--------------------------------|
| Property, plant and equipment | 2,694 | 188 | - | (105) | 2,777 | 994 | - | 3,771 |
| Defined Benefit Obligations | (466) | (68) | (8) | - | (542) | (77) | (25) | (644) |
| Provisions | (1,022) | (78) | - | - | (1,100) | (194) | - | (1,294) |
| Deferred Income | (1,352) | 160 | - | - | (1,192) | 139 | - | (1,053) |
| | (146) | 202 | (8) | (105) | (57) | 862 | (25) | 780 |

Unrecognised deferred income tax (assets) and liabilities

Deferred income tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred Tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefit there from. The Group did not recognise deferred tax assets in respect of tax losses of subsidiaries amounting to Rs.207 million (2011 - Rs.259 million and 2010 - Rs.285 million) that can be carried forward against future taxable income.

The adjusted tax losses available to carry forward as at 31 December 2012 are as follows:

| | Adjusted tax losses available for carry forward as at 31 December | | |
|---------------------------------|-------------------------------------------------------------------------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 |
| SKY Network (Private) Limited | 54 | 59 | 61 |
| SLT Visioncom (Private) Limited | 153 | 200 | 224 |
| | 207 | 259 | 285 |

24 DEFERRED INCOME

Deferred connection charges of the Company represents the connection charges relating to PSTN network, net of amounts amortised to the statement of comprehensive income. The connection charges are deferred over a period of 15 years as stated in Accounting Policy p(v). The deferred Indefeasible Right of Use (IRU) sales of the Company includes the revenue arising on sale of SEA-ME-WE 4 cable capacity which is recognised over the lease period of 15 years. Release of Backhauling charges represent the revenue arising from lease of SEA-ME-WE 3 cable capacity. Deferred Pre-paid card revenue in company represents un-used CDMA and SLT Passport cards. In addition, the deferred income of the Group mainly represents un-used pre-paid card revenue and refund of Telecommunication Development Charges (TDC) received in 2009 from Telecommunication Regulatory Commission in connection with the cost of network rollout by Mobitel (Private) Limited.

| | GROUP | | | COMPANY | | |
|------------------------------------------------------------|-----------------|----------|------------|----------------|---------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| At beginning of year | 5,995 | 5,945 | 5,986 | 4,401 | 4,957 | 5,248 |
| Connection fees for the year | 308 | 302 | 275 | 308 | 302 | 275 |
| Pre-paid card revenue | 16,240 | 14,078 | 12,264 | 328 | 430 | - |
| Income from Indefeasible Right of Use (IRU) of SEA-ME-WE 4 | - | - | 222 | - | - | 222 |
| Backhauling charges | 126 | 73 | 227 | 126 | 73 | 227 |
| Deferred network equipment cost | - | 119 | - | - | - | - |
| Deferred directory income | 35 | 130 | - | - | - | - |
| Release of deferred connection charges (Note 5) | (784) | (854) | (897) | (784) | (854) | (897) |
| Release of directory income | (131) | - | - | - | - | - |
| Release of Pre-paid card revenue | (16,005) | (13,654) | (12,001) | (345) | (389) | - |
| Release of Refund of Telecommunication Development Charges | - | (21) | (13) | - | - | - |
| Release of deferred IRU Sales | (21) | (20) | (12) | (21) | (20) | (12) |
| Release of deferred Network equipment cost | (12) | (5) | - | - | - | - |
| Release of Backhauling charges | (87) | (98) | (106) | (87) | (98) | (106) |
| Total amount credited to statement of comprehensive income | (17,040) | (14,652) | (13,029) | (1,237) | (1,361) | (1,015) |
| At end of year | 5,664 | 5,995 | 5,945 | 3,926 | 4,401 | 4,957 |

Representing deferred income:

| | | | | | | |
|---------------|--------------|-------|-------|--------------|-------|-------|
| - current | 2,401 | 2,301 | 1,980 | 753 | 939 | 992 |
| - non-current | 3,263 | 3,694 | 3,965 | 3,173 | 3,462 | 3,965 |
| | 5,664 | 5,995 | 5,945 | 3,926 | 4,401 | 4,957 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 TRADE AND OTHER PAYABLES

| | GROUP | | | COMPANY | | |
|------------------------------------------------------|--------|--------|------------|---------|--------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Amounts due within one year | | | | | | |
| Domestic trade payables | 1,814 | 1,218 | 1,963 | 429 | 350 | 462 |
| Foreign trade payables | 235 | 323 | 418 | 120 | 109 | 160 |
| Amount due to subsidiaries [Note 35.3 (f)] | - | - | - | 2,974 | 2,340 | 1,936 |
| Amount due to related companies [Note 35.3 (g)] | 80 | 8 | 9 | 80 | 7 | 9 |
| Capital expenditure payables [See Note (a) below] | 8,942 | 6,451 | 8,168 | 6,381 | 3,279 | 1,130 |
| Social security and other taxes [See Note (b) below] | 1,006 | 865 | 349 | 676 | 581 | 397 |
| Interest payable | 140 | 252 | 201 | - | - | - |
| Other payables [See Note (c) below] | 6,806 | 6,950 | 4,774 | 4,428 | 5,555 | 6,456 |
| | 19,023 | 16,067 | 15,882 | 15,088 | 12,221 | 10,550 |
| Amounts due after one year | | | | | | |
| International direct dialling deposits | 234 | 234 | 235 | 234 | 234 | 235 |
| Prepayments on VOIP services | - | - | 12 | - | - | 12 |
| PSTN guarantee deposits | 12 | 50 | 42 | 12 | 50 | 42 |
| Domestic Trade Payables | 532 | 495 | - | - | - | - |
| Capital expenditure payables | 1,503 | 2,999 | 1,370 | - | - | - |
| | 2,281 | 3,778 | 1,659 | 246 | 284 | 289 |

- (a) Capital expenditure payables of the Company mainly consist of contractors' payable & retention of Rs.5,676 million (2011 - Rs.2,747 million and 2010 - Rs.748 million) and advances on network restoration after road works of Rs.676 million (2011- Rs.531 million and 2010 - Rs.382 million). Capital expenditure payables of the Group mainly consist of contractors' payable of Rs.8,237 million (2011 - Rs.5,933 million and 2010 - Rs.7,786 million) and advances on network restoration after road works of Rs.676 million (2011 - Rs.531 million and 2010 - Rs.382 million.)
- (b) Social security and other taxes of the Company mainly consist of and Telecommunication Levy (TL) of Rs.379 million (2011 - Rs.356 million and 2010 - Rs.Nil), Cess Rs.59 million (2011-Rs.66 million and 2010 - Rs.Nil), IDD Levy of Rs.40 million (2011-Rs.27 million and 2010 - Rs.Nil), EPF payable of Rs.80 million (2011 - Rs.76 million and 2010 - Rs.71 million). Social security and other taxes of the Group mainly consist of Telecommunication Levy (TL) of Rs.712 million (2011- Rs.649 million and 2010 - Rs.Nil), Cess of Rs.112 million (2011 - Rs.114 million and 2010 - Rs.Nil). IDD Levy payable of Rs.64 million (2011- Rs.46 million and 2010 - Rs.Nil)
- (c) Other payables of the Company mainly consist of dividend payable to the Government of Sri Lanka of Rs.244 million (2011 - Rs.249 million and 2010- Rs.249 million), payable for unpaid supplies of Rs.2,281 million (2011 - Rs.963 million and 2010- Rs.462 million), International Telecommunication Operators' Levy payable of Rs.305 million (2011 - Rs.3,125 million and 2010- Rs.4,508 million) and accrued expenses and other payables of Rs.1,194 million (2011 - Rs.809 million and 2010- Rs.686 million). Other payables of the Group mainly consist of dividend payable to the Government of Sri Lanka of Rs.244 million (2011 - Rs.249 million and 2010- Rs.249 million), payable for unpaid supplies of Rs.2,281 million (2011 - Rs.963 million and 2010- Rs.462 million), International Telecommunication Operators' Levy payable (without netting off TDC refunds)of Rs.330 million (2011 - Rs.3,150 million and 2010- Rs.4,660 million), and accrued expenses and other payables of Rs.3,122 million (2011 - Rs.1,931 million and 2010- Rs.1,415 million).

26 EMPLOYEE BENEFITS

(1) Movement in present value of employee benefit liabilities

| | GROUP | | | COMPANY | | |
|----------------------------------------------|--------------|-------|------------|--------------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Employee benefit liability at 1 January | 2,090 | 1,796 | 1,458 | 1,936 | 1,664 | 1,373 |
| Current service cost | 162 | 147 | 136 | 134 | 124 | 114 |
| Interest cost | 212 | 179 | 160 | 193 | 166 | 151 |
| Actuarial (losses) / gains | 91 | 30 | 125 | 88 | 30 | 106 |
| Benefits paid | (61) | (62) | (83) | (52) | (48) | (80) |
| Employee benefit liability as at 31 December | 2,494 | 2,090 | 1,796 | 2,300 | 1,936 | 1,664 |

(2) The expenses recognised in the statement of comprehensive income

| | GROUP | | | COMPANY | | |
|--------------------------------------|------------|------|------------|------------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Current service cost | 162 | 147 | 136 | 134 | 124 | 114 |
| Interest cost | 212 | 179 | 160 | 193 | 166 | 151 |
| Defined benefit obligations (Note 7) | 374 | 326 | 296 | 327 | 290 | 265 |

The expenses are recognised under staff cost in statement of comprehensive income

(3) As stated in Accounting Policy 3. (j) (ii) s at 31 December 2012, an actuarial valuation was carried out by an independent actuary.

The principal actuarial assumptions used were as follows:

| | GROUP | | | COMPANY | | |
|-----------------------------|------------|----------|------------|------------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Discount rate [long - term] | 12% | 9.5%-10% | 10% - 11% | 12% | 10% | 10% |
| Future salary increases | 9% | 8% - 10% | 8% - 10% | 9% | 8% | 8% |

In addition to above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2012, 1967/70 Mortality Table issued by the Institute of Actuaries London (2011 - 1967/70 Mortality Table and 2010 - 1967/70 mortality table) was taken as the base for the valuation.

The provisions for defined obligations of Sri Lanka Telecom PLC, SLT Manpower Solutions (Private) Ltd and Mobitel (Private) Limited are actuarially valued by Messrs Actuarial and Management Consultants (Private) Limited and Piyal S Goonetilake respectively. The employee benefit liability of all other companies in the Group are based on gratuity formula in Appendix E of LKAS 19.

The provision for defined benefit obligations is not externally funded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 INSURANCE RESERVES

| | GROUP / COMPANY | | |
|---------------------------------|-----------------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 |
| At 1 January | 387 | 344 | 281 |
| Transfer from retained earnings | 48 | 43 | 63 |
| At 31 December | 435 | 387 | 344 |

As stated in Accounting Policy 3.(r) the Company transfers annually from the retained earnings an amount equal to 0.1% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment.

Management regularly monitors the charges made against the insurance reserve and the adequacy of the provision made.

28 GRANT

| | GROUP | | | COMPANY | | |
|-----------------------------------------------------|-------|------|------------|---------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Balance at 1 January | 41 | 48 | 54 | 41 | 48 | 54 |
| Grant credited to statement of comprehensive income | (6) | (7) | (6) | (6) | (7) | (6) |
| Balance at 31 December | 35 | 41 | 48 | 35 | 41 | 48 |

- (a) Grant in Company and Group consists of Exchange equipment received from Alcatel CIT France in 2005.

29 STATED CAPITAL

Company

| | 2012 | 2011 | 1 Jan 2011 |
|---------------------------------------------------------|--------|--------|------------|
| 1,804,860,000 ordinary shares issued at Rs.10 per share | 18,049 | 18,049 | 18,049 |

The stated capital is made up as follows:

| | 2012 | | 2011 | | 1 Jan 2011 | |
|-----------------------------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| | Holding percentage | Number of shares | Holding percentage | Number of shares | Holding percentage | Number of shares |
| Government of Sri Lanka | 49.50% | 893,405,709 | 49.50% | 893,405,709 | 49.50% | 893,405,709 |
| Global Telecommunications Holdings N.V. | 44.98% | 811,757,869 | 44.98% | 811,757,869 | 44.98% | 811,757,869 |
| Public shareholders | 5.52% | 99,696,422 | 5.52% | 99,696,422 | 5.52% | 99,696,422 |
| | 100% | 1,804,860,000 | 100% | 1,804,860,000 | 100% | 1,804,860,000 |

30 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management processes are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committees oversee how management monitors compliance with the Group's risk management processes/guidelines and procedures and reviews the adequacy of the risk management framework in relation to the risks. The Audit Committees are assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee

30.a Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligation, and arise principally from the Group's receivables from customers

Carrying amount of financial assets represents the maximum credit exposure

The maximum exposure to credit risk at the reporting date was as follows;

Carrying value

| | GROUP | | | COMPANY | | |
|---------------------------|--------|--------|------------|---------|--------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Other investments | 7,381 | 9,560 | 5,170 | 7,064 | 9,328 | 4,994 |
| Trade & Other receivables | 13,800 | 11,954 | 12,873 | 14,669 | 12,301 | 12,369 |
| Financial Prepayments | 371 | 458 | 328 | - | - | - |
| Cash and cash equivalents | 3,887 | 3,134 | 4,046 | 873 | 1,484 | 3,349 |
| | 25,439 | 25,106 | 22,417 | 22,606 | 23,113 | 20,712 |

Trade and other receivables

The Group has a very well established credit policy for both International Interconnect customers and Domestic customers to minimise credit risk. A separate committee has been established to evaluate and recommend the credit worthiness of the International Interconnect customers. Further prepaid sales are used as a means of mitigating credit risk.

Domestic service is offered to a new customer, only after scrutinising the internal blacklisted data base. The Group has a well-established credit control policy and process to minimise credit risk. Customers are categorised according to the segments and credit limits have been fixed as per their average monthly bill value. Customer usage and bill payments are monitored as per the credit limit. Credit limit will be periodically revised as per the past monthly bill values. High risk voice customers are subjected to automated disconnection when they reach the threshold limits. Credit control actions and recovery actions are taken for overdue customers and defaulted customers to minimise credit risk. High revenue generating customers including corporate customers are monitored individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 FINANCIAL RISK MANAGEMENT CONTD.

Impairment losses

The aging of trade and other receivables at the reporting date that were impaired are as follows

| | GROUP | | COMPANY | | | |
|-------------------------------------------|-------|-------|------------|-------|-------|-------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | |
| Trade and other receivables over 1 year | 3,246 | 2,382 | 2,739 | 2,725 | 2,087 | 2,665 |
| Provision for impairment over 1 year | 3,246 | 2,382 | 2,739 | 2,725 | 2,087 | 2,665 |
| Provision for impairment less than 1 year | 1,617 | 1,586 | 320 | 1,221 | 1,244 | 137 |
| | 4,863 | 3,968 | 3,059 | 3,946 | 3,331 | 2,802 |

The movement in the provision for impairment in respect of trade and other receivables during the year was as follows

Collective impairment

| | |
|------------------------------|-------|
| Balance 1/1/2011 | 3,059 |
| Impairment losses recognised | 995 |
| Write offs | (86) |
| Balance 31/12/2011 | 3,968 |
| Impairment losses recognised | 895 |
| Write offs | - |
| Balance 31/12/2012 | 4,863 |

Other investments

The Group limits its exposure to credit risk by investing only in government debt securities, repos and in short term deposits with selected bankers with Board approval.

Guarantees

Sri Lanka Telecom PLC provides corporate guarantee to its subsidiaries only.

30. b Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures its liquidity is maintained by investing in short, medium and long-term financial instruments to support operational and other funding requirements. The Group determines its liquidity requirements by the use of both short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period and the same is reviewed on an annual basis.

Short and medium-term requirements are regularly reviewed and managed by the treasury division

Repayment of the Foreign Currency borrowings of the Company has been arranged in semiannual installments avoiding any unforeseen risk on liquidity compared to a bullet repayment.

The following are the contractual maturities of financial liabilities, including estimated interest.

The maturity analysis of liabilities - Group

| As at 31 December 2012 | Carrying Value | Current | | Non Current | |
|------------------------|----------------|----------|-------------|-------------|------------|
| | | Upto 1yr | up to 2 yrs | up to 5 yrs | over 5 yrs |
| Bank overdrafts | 618 | 618 | - | - | - |
| Bank borrowings | 13,066 | 4,285 | 5,436 | 3,346 | - |
| Vender financing | 4,060 | 1,326 | 685 | 1,643 | 405 |
| Leases | 108 | 46 | 40 | 22 | - |
| | 17,852 | 6,275 | 6,161 | 5,011 | 405 |

| As at 31 December 2011 | Carrying Value | Current | | Non Current | |
|------------------------|----------------|----------|-------------|-------------|------------|
| | | Upto 1yr | up to 2 yrs | up to 5 yrs | over 5 yrs |
| Bank overdrafts | 962 | 962 | - | - | - |
| Bank borrowings | 9,901 | 2,481 | 5,009 | 2,411 | - |
| Vender financing | 3,691 | 1,836 | 739 | 1,116 | - |
| Leases | 155 | 47 | 59 | 49 | - |
| | 14,709 | ,5326 | 5,807 | 3,576 | - |

| As at 1 January 2011 | Carrying Value | Current | | Non Current | |
|----------------------|----------------|----------|-------------|-------------|------------|
| | | Upto 1yr | up to 2 yrs | up to 5 yrs | over 5 yrs |
| Bank overdrafts | 662 | 662 | - | - | - |
| Bank borrowings | 7,672 | 2,276 | 1,435 | 3,900 | 61 |
| Vender financing | 2,966 | 1,572 | 555 | 839 | - |
| Leases | 117 | 32 | 42 | 43 | - |
| | 11,417 | 4,542 | 2,032 | 4,782 | 61 |

The maturity analysis of liabilities - Company

| As at 31 December 2012 | Carrying Value | Current | | Non Current | |
|------------------------|----------------|----------|-------------|-------------|------------|
| | | Upto 1yr | up to 2 yrs | up to 5 yrs | over 5 yrs |
| Bank overdrafts | 136 | 136 | - | - | - |
| Bank borrowings | 7,173 | 2,404 | 2,395 | 2,374 | - |
| Leases | 82 | 37 | 25 | 20 | - |
| | 7,391 | 2,577 | 2,420 | 2,394 | - |

| As at 31 December 2011 | Carrying Value | Current | | Non Current | |
|------------------------|----------------|----------|-------------|-------------|------------|
| | | Upto 1yr | up to 2 yrs | up to 3 yrs | over 5 yrs |
| Bank overdrafts | 229 | 229 | - | - | - |
| Bank borrowings | 2,584 | 647 | 1,292 | 645 | - |
| Leases | 120 | 38 | 42 | 40 | - |
| | 2,933 | 914 | 1,334 | 685 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| As at 1 January 2011 | Carrying Value | Current | | Non Current | |
|----------------------|----------------|----------|-------------|-------------|------------|
| | | Upto 1yr | up to 2 yrs | up to 5 yrs | over 5 yrs |
| Leases | 100 | 28 | 42 | 30 | - |
| | 100 | 28 | 42 | 30 | - |

30.c Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Group is exposed to currency risk on services provided, services received and borrowings that are denominated in a currency other than the Sri Lankan rupees (LKR)

The Group manages its currency risk by a natural hedging mechanism to a certain extent by matching currency outflows for repayments of foreign currency loans and services with currency inflows for services settled in foreign currencies.

The summary of quantitative data about the Group's exposure to foreign currency was as follows:

| USD in million | GROUP | | | COMPANY | | |
|-------------------------|-------|------|------------|---------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Trade Receivables | 21 | 19 | 26 | 17 | 14 | 22 |
| Cash & Cash Equivalents | 52 | 35 | 20 | 52 | 35 | 20 |
| Borrowings | 117 | 94 | 62 | 56 | 23 | - |
| Trade Payables | 2 | 3 | 4 | 1 | 1 | 1 |

Interest Rate Risk

Interest rate risk mainly arises as a result of Group having interest sensitive assets and liabilities, which are directly impacted by changes in the interest rates. The Group's borrowings and investments are maintained in a mix of fixed and variable interest rate instruments and periodical maturity gap analysis is carried out to take timely action and to mitigate possible adverse impact due to volatility of the interest rates.

Foreign currency borrowing at variable rate of interest or variable interest rate with a cap minimising any adverse impact due to an upward movement of USD interest rate in the market

Short-term interest rate management is delegated to the treasury operations while long-term interest rate management decisions require approval from the board of directors

31 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

| | GROUP | | COMPANY | |
|--------------------------------------------------------|---------------|--------|---------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Profit before tax | 5,966 | 6,162 | 4,682 | 4,488 |
| Adjustments for: | | | | |
| Depreciation (Note 14) | 11,063 | 11,337 | 6,262 | 7,432 |
| Grant received less amortisation (Note 28) | (6) | (7) | (6) | (7) |
| Amortisation of intangible assets (Note 15) | 624 | 494 | 327 | 222 |
| Amortisation of financial prepayments (Note 15 a) | 107 | 63 | - | - |
| Provision/write off of bad and doubtful debts | 733 | 938 | 543 | 624 |
| Provision for falling value of inventories | 108 | (89) | 100 | (89) |
| Other impairments / (reversals) | - | - | 377 | 211 |
| Interest expense and finance costs (Note 9) | 1,021 | 591 | 534 | 58 |
| Foreign exchange (loss) / gain (Note 9 a) | 1,212 | 250 | (75) | 17 |
| Interest income (Note 10) | (1,466) | (987) | (1,216) | (959) |
| Connection fees less amortisation | (331) | 50 | (476) | (556) |
| Profit on sale of property, plant and equipment | (66) | (59) | (66) | (26) |
| Impairment of assets (Note 14) | 305 | 276 | 125 | 267 |
| Provision for Retirement benefit obligations (Note 26) | 374 | 326 | 328 | 290 |
| | 19,644 | 19,345 | 11,438 | 11,972 |
| Changes in working capital: | | | | |
| - receivables and prepayments | (2,615) | (124) | (2,947) | (583) |
| - inventories | (968) | (371) | (1,031) | (217) |
| - payables | 802 | 2,370 | 2,834 | 1,690 |
| Cash generated from operations | 16,863 | 21,220 | 10,294 | 12,862 |

32 CAPITAL COMMITMENTS

The Group and the Company have purchase commitments in the ordinary course of business as at 31 December 2012 as follows:

| | GROUP | | | COMPANY | |
|-------------------------------|---------------|--------|------------|--------------|-------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 |
| Property, plant and equipment | | | | | |
| - approved but not contracted | 1,754 | 723 | 1,155 | 1,754 | 220 |
| - approved and contracted | 19,986 | 9,540 | 9,494 | 8,118 | 7,687 |
| | 21,740 | 10,263 | 10,649 | 9,872 | 7,907 |
| | | | | | 6,071 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Operating Lease commitments

The future minimum lease payments under operating leases are as follows:

| | GROUP | | | COMPANY | | |
|------------------------------------------------|------------|------|------------|------------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| - not later than 1 year | 290 | 143 | 102 | 290 | 143 | 102 |
| - later than 1 year and not later than 5 years | 28 | 150 | 165 | 28 | 150 | 165 |
| | 318 | 293 | 267 | 318 | 293 | 267 |

Other financial commitments

Except for any regular maintenance contracts entered into with third parties in the normal course of business, there are no other material financial commitments that require separate disclosure.

33 CONTINGENCIES

- 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 alleged unlawful disconnection of interconnection services. The Trial is proceeding. Next date 05 March 2013.
- (b) SC (CHC) 31/2010 - Directories Lanka (Private) Limited (DLPL)
Appeal Case filed by DLPL against SLT PLC, against the dismissal of CHC 2/2006 (3) by which DLPL claimed damages of Rs.250 million for alleged unfair competition with regard to artwork on the cover page of Directory by SLT PLC. The case is proceeding. Court of Appeal to issue notice to SLT PLC to collect brief.
- (c) SC (CHC) 27/2010 - Directories Lanka (Private) Limited (DLPL)
Appeal Case filed by DLPL against SLT PLC, against the dismissal of CHC 39/2003(3) by which DLPL claimed damages of Rs.164,100,716/- (SLT PLC cross claim Rs.42,329,605/-), due to purported infringement of IP rights and unfair competition by SLT. The case is proceeding. Next date of argument on 15 May 2013.
- (d) 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 PLC 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 PLC is proceeding with an appeal against the award delivered based on these substantial legal arguments. Next date 13 March 2013.
- (e) Rates & 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 PLC against Colombo Municipal Council, against the arbitrary increase of assessment value of headquarters 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. Next date of Arguments on 07 May 2013.
- (f) WP/HCCA/COL/106/LA -Appeal made by Colombo Municipal Council against the stay order granted in favor of SLT PLC precluding CMC levying the aforementioned Assessment taxes from SLT PLC is pending in Court.
The case is proceeding. Next date of Argument s on 15 may 2013.
- (g) Case no. 4055/M in District Court Gampaha was filed against SLT PLC for alleged failure to reconnect the respective telephone facility. The order was given in favour of SLT PLC on 13 September 2012.

- (h) **Case no. CHC 506/2011/MR in Commercial High Court Colombo** was filed by HS Communications Ltd against SLT & SLT VisionCom Ltd seeking judgment and declaration purporting that the agreement to acquire certain channels/content dated 27.12.2010 between HS Communication Ltd and SLT & SLT VisionCom Ltd are in force. Further claim of USD 324,000 as payments due to Defendants for alleged services provided and a sum of USD 162,000 per month from November 2011 are included under Petition of the case. Accordingly it was purported that SLT and SLT VisionCom Ltd are obliged to make payments for down linking/telecasting etc. according to the said agreement. This case is Fixed for Trial on 28.02.2013.
- (i) **12/2008 CBCU, An Inquiry started by Sri Lanka Customs** - A consignment of CDMA equipment were detained in October 2008 by the Customs Authority. Subsequently the equipment were cleared pending inquiry, based on a Cash deposit and Bank guarantee Submitted by SLT for the total value of Rs.122,189,514/. Currently under this inquiry no further date has been given to SLT to proceed with the matter.
- (j) A frequency fee amounting to Rs.300 million, payable to TRC by Sky Networks (Private) Limited which has not been recognised, pending negotiations with TRC regarding license conditions.
- (k) Further, as stated in Note 8 to the accounts, Operators were allowed to claim the 2/3rd of the Telecommunication Development Charge (TDC) against the costs of network development charges. Company has retained 2/3 rd of TDC charge, awaiting the claims in respect of network development charges were determined by the TRC. However, TRC has intimated a surcharge on TDC retained by the Company on above, which is being discussed with TRC currently.

The Company has provided guarantees on behalf of its Subsidiaries for following credit and trade finance facilities.

- (i) Facilities amounting to Rs.6,730 million (2011 - Rs.6,730 million) and USD 159.4 million (2011 - USD 132.9 million) for Mobitel (Private) Limited for the GSM rollout stage 2, 3, 4, 5 ,6.and 7
- (ii) Facilities amounting to Rs.26 million (2011-Rs.26 million) for Sri Lanka Telecom (Services) Limited to obtain facilities for working Capital requirement.
- (iii) Facilities amounting to Rs.112.8 million (2011- Rs.112.8 million) for Sky Network (Private) Limited to facilitate WIMAX turnkey solution project.

With regard to cases detailed above, pending the outcome of the appeals and hearings, no provisions have been recognised in the financial statements up to 31 December 2012.

In addition to the above referred cases, there are more issues in relation to claims by employees and third parties for damages. In the opinion of the Directors none of these actions are likely to result in a material liability to the Company and its subsidiaries.

34 COMPARATIVE

Adjustment of Rs.17 million have been made to the Group retained earnings, subsequent to the consolidation of group accounts in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS

35.1 The Company had following transactions with its subsidiaries during the year under review:

(a) Mobitel (Private) Limited

| | COMPANY | |
|-----------------------------------------|--------------|--------------|
| | 2012 | 2011 |
| Sale of goods and services: | | |
| - Provision of E1 links | 1,270 | 1,100 |
| - Leased Line | 648 | 583 |
| - Interconnection charges | 382 | 430 |
| - TDM, VOIP Platform and Transit | 228 | 105 |
| | <u>2,528</u> | <u>2,218</u> |
| Purchase of goods and services: | | |
| - Call charges on official mobile phone | 39 | 35 |
| - Interconnection charges | 630 | 518 |
| - Antenna tower space | 463 | 423 |
| | <u>1,132</u> | <u>976</u> |

The Company has provided guarantees on behalf of Mobitel for following loans and obligations.

Facilities amounting to Rs.6,730 million (2011 - Rs.6,730 million) and USD 159.40 million (2011 - USD 132.9 million) for Mobitel (Private) Limited for the GSM rollout stage 2, 3, 4, 5,6 and 7.

(b) SLT (Hong Kong) Limited

| | COMPANY | |
|---------------------------------------------------------------|----------|------------|
| | 2012 | 2011 |
| Sale of goods and services: | | |
| - Calls terminated to SLT subscribers | - | 162 |
| - Calls terminated to subscribers of other domestic operators | - | 107 |
| - Leased circuits | - | 17 |
| | <u>-</u> | <u>286</u> |
| Purchase of goods and services: | | |
| - Time Division Multiplexing Transit (TDM Transit) | - | 41 |
| - Leased circuits | - | 25 |
| | <u>-</u> | <u>66</u> |

(c) SLT Publications (Private) Limited

| | COMPANY | |
|---------------------------------|---------|------|
| | 2012 | 2011 |
| Sale of goods and services: | | |
| - Supply of services | 3 | 3 |
| Purchase of goods and services: | | |
| - Directory distribution | 32 | - |

(d) Sri Lanka Telecom (Services) Limited

| | COMPANY | |
|---------------------------------|----------------|------|
| | 2012 | 2011 |
| Sale of goods and services: | | |
| - Supply of services | 4 | 2 |
| Purchase of goods and services: | | |
| - Project related services | 135 | 99 |

The Company has provided guarantees on behalf of Sri Lanka Telecom (Services) Limited for following loans and obligations.

Facilities amounting to Rs.26 million (2011-Rs.26 million) for Sri Lanka Telecom (Services) Limited to obtain facilities for working capital requirements.

(e) SLT Manpower Solutions (Private) Limited

| | COMPANY | |
|---------------------------------|----------------|------|
| | 2012 | 2011 |
| Sale of goods and services: | | |
| - Supply of services | 2 | 1 |
| Purchase of goods and services: | | |
| - Provision of manpower service | 1,085 | 678 |

(f) SLT VisionCom (Private) Limited

| | COMPANY | |
|---------------------------------|----------------|------|
| | 2012 | 2011 |
| Sale of goods and services: | | |
| - Supply of services | 3 | 5 |
| Purchase of goods and services: | | |
| - Service provisioning | 120 | 136 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS CONTD.

- (g) Sky Network (Private) Limited

| COMPANY | 2012 | 2011 |
|---------------------------------|------|------|
| Sale of goods and services: | | |
| - Supply of services | - | 8 |
| Purchase of goods and services: | | |
| Service provisioning | 1 | |

Sale of goods and services:

- Supply of services

Purchase of goods and services:

- Service provisioning

The Company has provided guarantees on behalf of Sky Network (Private) Limited for following loans and obligations.

Facilities amounting to Rs.112.8 million (2011- Rs.112.8 million) for Sky Network (Private) Limited to facilitate WIMAX turnkey solution project.

- (h) Fees for secondment of personnel and services provided to / by SLT PLC

| | COMPANY | |
|------------------------------------------|----------------|------|
| | 2012 | 2011 |
| SLT Publications (Private) Limited | 38 | 36 |
| SLT Manpower Solutions (Private) Limited | 8 | 6 |
| SLT VisionCom (Private) Limited | - | 10 |
| Sky Network (Private) Limited | 8 | 16 |
| | 54 | 68 |

35.2 Related party relationships

SLT Group Directors and their directorships in other companies where transactions were carried out with SLT and disclosed in Note 35.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 RELATED PARTY TRANSACTIONS CONTD.

35.3 Transactions with other related parties

(a) Maxis Communications Berhad and its subsidiaries

| | GROUP | | COMPANY | |
|--------------------------------------|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sale of goods and services: | | | | |
| - Sale of SEA-ME-WE 3 Cable capacity | 10 | 9 | 10 | 9 |
| - International incoming traffic | 308 | 89 | 179 | 71 |
| | 318 | 98 | 189 | 80 |

Purchase of goods and services:

| | | | | |
|----------------------------------|-----|----|----|----|
| - International outgoing traffic | 101 | 49 | 99 | 47 |
|----------------------------------|-----|----|----|----|

(b) Upali Group of Companies

(Appointed as Chairman/Director from 20 May 2010)

| | GROUP | | COMPANY | |
|--|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |

Sale of goods and services:

| | | | | |
|-----------------------------------|----|----|----|----|
| - Providing Voice & Data services | 11 | 10 | 11 | 10 |
|-----------------------------------|----|----|----|----|

(c) Nawaloka Group

(Appointed as a Director from 26 May 2010)

| | GROUP | | COMPANY | |
|-----------------------------------|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sale of goods and services: | | | | |
| - Providing Voice & Data services | 3 | 4 | 3 | 4 |
| Purchase of goods and services: | | | | |
| - Medical services | 22 | 21 | 22 | 21 |

(d) Sri Lankan Airlines Limited

| | GROUP | | COMPANY | |
|----------------------------------------------------|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sale of goods and services: | | | | |
| - Providing Voice , Data & infrastructure services | 49 | 16 | 49 | 16 |

(e) Sri Lanka Cricket Board

| | GROUP | | COMPANY | |
|---------------------------------------------------|-------|------|---------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Sale of goods and services: | | | | |
| - Providing Voice, Data & infrastructure services | 1 | - | 1 | - |
| Purchase of goods and services: | | | | |
| - Cricket Team and umpire sponsorship | 142 | 142 | - | - |

(f) Outstanding balances arising from sale / purchase of services

| | COMPANY | | |
|------------------------------------------|---------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 |
| Receivable from subsidiaries: | | | |
| Mobitel (Private) Limited | 3,688 | 2,882 | 2,373 |
| SLT Hong Kong Ltd | 23 | 83 | 2 |
| SLT Publications (Private) Limited | 140 | 124 | 80 |
| SLT Manpower Solutions (Private) Limited | 118 | 91 | 53 |
| SLT VisionCom (Private) Limited | 47 | 53 | 225 |
| Sri Lanka Telecom (Services) Limited | 16 | 15 | 11 |
| Sky Network (Private) Limited | 120 | 112 | 58 |
| | 4,152 | 3,360 | 2,802 |

| | COMPANY | | |
|------------------------------------------|---------|-------|------------|
| | 2012 | 2011 | 1 Jan 2011 |
| Payable to subsidiaries: | | | |
| Mobitel (Private) Limited | 2,706 | 2,167 | 1,766 |
| SLT Publications (Private) Limited | 32 | - | - |
| SLT Hong Kong Ltd | - | 9 | 82 |
| SLT Manpower Solutions (Private) Limited | 182 | 125 | 61 |
| Sri Lanka Telecom (Services) Limited | 53 | 38 | 27 |
| Sky Network (Private) Limited | 1 | 1 | - |
| | 2,974 | 2,340 | 1,936 |

(g) Outstanding balances arising from sale / purchase of services

| | GROUP | | | COMPANY | | |
|--------------------------------------------------|-------|------|------------|---------|------|------------|
| | 2012 | 2011 | 1 Jan 2011 | 2012 | 2011 | 1 Jan 2011 |
| Receivable from related companies: | | | | | | |
| Upali Group of Companies | 4 | - | 2 | 4 | - | 2 |
| Sri Lankan Airlines Limited | 22 | 13 | 5 | 22 | 13 | 5 |
| Sri Lanka Cricket Board | 5 | - | - | 5 | - | - |
| Maxis Communications Berhad and its subsidiaries | 182 | 25 | 161 | 149 | 23 | 161 |
| | 213 | 38 | 168 | 180 | 36 | 168 |
| Payable to related company: | | | | | | |
| Maxis Communications Berhad and its subsidiaries | 80 | 8 | 9 | 80 | 7 | 9 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(h) Government related key institutions

The Government of Sri Lanka holds 49.5% of the voting rights of the Company as at 31 December 2012 through the Secretary to the Treasury and those have significant influence over the financial and operating policies of the Company. Accordingly the Company has considered the Government of Sri Lanka as a related party according to LKAS 24 Related Party Disclosure.

During the year ended 31 December 2012, the Company has carried out transactions with the Government of Sri Lanka and other Government related entities in the ordinary course of business.

The Company identified individually significant transaction with Key Government Related entities as given below;

- (i) Revenue from provision of Telecommunication services during the year ended 31 December 2012 amounted to Rs.3,206 million and credit receivables as at 31 December 2012 amounted to Rs.988 million.
- (ii) Deposits, Repurchase agreements (Repo) and Borrowings of the Group at / from Government banks amounted to Rs.7,431 million and Rs.7,173 million respectively as at 31 December 2012.
- (iii) Treasury bills and bonds of the Group as at 31 December 2012 amounted to Rs.103 million.

35.4 Transactions with key management personnel

Key management personnel comprise the directors & chief officers of the Company and the Group

| | GROUP | COMPANY | | |
|-----------------------------|------------|---------|------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Short term benefits | 250 | 208 | 185 | 163 |
| Post employment benefits | 29 | 28 | 21 | 19 |
| Salaries and other benefits | 279 | 236 | 206 | 182 |

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. A related party transaction takes place with a transfer of resources or obligations between related parties, regardless of whether a price is charged.

All transactions during the year and balances as at the statement of financial position date between the following companies have been eliminated in preparing the consolidated financial statements.

Mobitel (Private) Limited
Sri Lanka Telecom (Services) Limited
SLT Hong Kong Ltd
SLT Publications (Private) Limited
SLT Manpower Solutions (Private) Limited
SLT VisionCom (Private) Limited
Sky Network (Private) Limited

Related party transactions disclosed above should be read in conjunction with Notes 16 and 35 to the financial statements.

36 GROUP REPORTING DATES

The annual financial statements of the subsidiaries, Sri Lanka Telecom (Services) Limited, SLT Hong Kong Ltd, SLT Publications (Private) Limited, Mobitel (Private) Limited, SLT Manpower Solutions (Private) Limited, SLT VisionCom (Private) Limited and Sky Network (Private) Limited are prepared at 31 December each year.

37 POST STATEMENT OF FINANCIAL POSITION EVENTS

No events have arisen since the statement of financial position date which would require adjustments to, or disclosure in, these consolidated financial statements.

38 EXPLANATION OF TRANSITION TO SLFRS

As stated in Note 2 (a) these are the Group's first consolidated financial statements prepared in accordance with SLFRSs.

The accounting policies set out in Note 3 have been applied in preparing the Financial Statements for the year ended 31 December 2012, the comparative information presented in these Financial Statements in the 31 December 2011 and in the preparation of opening SLFRS statement of Financial Position in 1 January 2011. (The Group's first date of transition)

The preparing its opening SLFRS Statement of Financial Position the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with Sri Lanka previous GAAP. An explanation of how the transition from previous GAAP to SLFRS has affected the Group's Financial Position, Financial Performance and Cash Flows is set out in the following tables and notes that accompany the tables.

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

RECONCILIATION OF SHAREHOLDERS EQUITY

a) Group

| As at | Notes | Previous GAAP 31-Dec 2011 | Effect of Transition to SLFRS | SLFRS 31-Dec 2011 | Previous GAAP 1 Jan 2011 | Effect of Transition to SLFRS | SLFRS 1 Jan 2011 |
|----------------------------------------------|-------|---------------------------------|----------------------------------------|-------------------------|--------------------------------|----------------------------------------|------------------------|
| Assets | | | | | | | |
| Non-current assets | | | | | | | |
| Property, plant and equipment | A | 67,936 | (1,783) | 66,153 | 61,258 | (1,407) | 59,851 |
| Intangible assets and goodwill | | 1,702 | - | 1,702 | 1,585 | - | 1,585 |
| Financial Prepayments | | 363 | - | 363 | 272 | - | 272 |
| Other Investments | B | 697 | (596) | 101 | 673 | 19 | 692 |
| Deferred income tax assets | E | 18 | 57 | 75 | 13 | 146 | 159 |
| Other receivables | C.1 | 2,316 | - | 2,316 | 1,991 | - | 1,991 |
| Total Non-current Assets | | 73,032 | (2,322) | 70,710 | 65,792 | (1,242) | 64,550 |
| Current assets | | | | | | | |
| Inventories | C | 1,741 | - | 1,741 | 1,281 | - | 1,281 |
| Trade and other receivables | | 9,892 | (159) | 9,733 | 11,053 | (115) | 10,938 |
| Current tax assets | | 274 | - | 274 | 457 | - | 457 |
| Other investments | B | 3,727 | 5,732 | 9,459 | 3,617 | 861 | 4,478 |
| Cash and cash equivalents | D | 8,137 | (5,003) | 3,134 | 4,830 | (784) | 4,046 |
| Total Current Assets | | 23,771 | 570 | 24,341 | 21,238 | (38) | 21,200 |
| Total assets | | 96,803 | (1,752) | 95,051 | 87,030 | (1,280) | 85,750 |
| Equity | | | | | | | |
| Capital and reserves | | | | | | | |
| Stated capital | | 18,049 | - | 18,049 | 18,049 | - | 18,049 |
| Insurance reserve | | 387 | - | 387 | 344 | - | 344 |
| Exchange equalisation reserve | | 1 | - | 1 | (7) | - | (7) |
| Fair value reserve | G | - | (6) | (6) | - | (7) | (7) |
| Retained earnings | H | 35,153 | (1,459) | 33,694 | 31,463 | (1,126) | 30,337 |
| Equity attributable to owners of the company | | 53,590 | (1,465) | 52,125 | 49,849 | (1,133) | 48,716 |
| Non controlling interest | | - | - | - | - | - | - |
| Total equity | | 53,590 | (1,465) | 52,125 | 49,849 | (1,133) | 48,716 |
| Liabilities | | | | | | | |
| Non-current liabilities | | | | | | | |
| Grants | F | 41 | - | 41 | 48 | - | 48 |
| Borrowings | | 9,229 | 154 | 9,383 | 6,774 | 101 | 6,875 |
| Deferred income | | 3,694 | - | 3,694 | 3,965 | - | 3,965 |
| Deferred income tax liabilities | E | 451 | (442) | 9 | 248 | (248) | - |
| Employee benefits | | 2,090 | - | 2,090 | 1,796 | - | 1,796 |
| Trade and other payables | | 3,778 | - | 3,778 | 1,659 | - | 1,659 |
| Total Non - current liabilities | | 19,283 | (288) | 18,995 | 14,490 | (147) | 14,343 |
| Current liabilities | | | | | | | |
| Borrowings | | 5,325 | - | 5,326 | 4,542 | - | 4,542 |
| Deferred income | | 2,301 | - | 2,301 | 1,980 | - | 1,980 |
| Current tax liabilities | | 237 | - | 237 | 287 | - | 287 |
| Trade and other payables | | 16,067 | - | 16,067 | 15,882 | - | 15,882 |
| Total current liabilities | | 23,930 | - | 23,931 | 22,691 | - | 22,691 |
| Total liabilities | | 43,213 | (288) | 42,926 | 37,181 | (147) | 37,034 |
| Total equity and liabilities | | 96,803 | (1,752) | 95,051 | 87,030 | (1,280) | 85,750 |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

RECONCILIATION OF SHAREHOLDERS EQUITY CONTD.

b) Company

| | Notes | Previous GAAP 31-Dec 2011 | Effect of Transition to SLFRS | SLFRS 31-Dec 2011 | Previous GAAP 1 Jan 2011 | Effect of Transition to SLFRS | SLFRS 1 Jan 2011 |
|----------------------------------------------|-------|------------------------------------|----------------------------------------|-------------------------|-----------------------------------|----------------------------------------|------------------------|
| Assets | | | | | | | |
| Non-current assets | | | | | | | |
| Property, plant and equipment | A | 36,754 | (1,783) | 34,971 | 34,075 | (1,407) | 32,668 |
| Intangible assets and goodwill | | 470 | - | 470 | 570 | - | 570 |
| Investments in subsidiaries | | 13,431 | - | 13,431 | 11,522 | - | 11,522 |
| Other Investments | B | 697 | (596) | 101 | 626 | 19 | 645 |
| Deferred income tax assets | E | - | 57 | 57 | - | 146 | 146 |
| Other receivables | C.1 | 2,316 | - | 2,316 | 1,991 | - | 1,991 |
| Total Non-current Assets | | 53,668 | (2,322) | 51,346 | 48,784 | (1,242) | 47,542 |
| Current assets | | | | | | | |
| Inventories | C | 1,465 | - | 1,465 | 1,158 | - | 1,158 |
| Trade and other receivables | | 10,144 | (159) | 9,985 | 10,494 | (116) | 10,378 |
| Current tax assets | | 159 | - | 159 | 446 | - | 446 |
| Other investments | B | 2,888 | 6,339 | 9,227 | 3,487 | 862 | 4,349 |
| Cash and cash equivalents | D | 7,093 | (5,609) | 1,484 | 4,133 | (784) | 3,349 |
| Total Current Assets | | 21,749 | 571 | 22,320 | 19,718 | (38) | 19,680 |
| Total assets | | 75,417 | (1,751) | 73,666 | 68,502 | (1,280) | 67,222 |
| Equity | | | | | | | |
| Capital and reserves | | | | | | | |
| Stated capital | | 18,049 | - | 18,049 | 18,049 | - | 18,049 |
| Insurance reserve | | 387 | - | 387 | 344 | - | 344 |
| Fair value reserve | G | - | (6) | (6) | - | (7) | (7) |
| Retained earnings | H | 34,724 | (1,304) | 33,420 | 32,253 | (1,025) | 31,228 |
| Equity attributable to owners of the company | | 53,160 | (1,310) | 51,850 | 50,646 | (1,032) | 49,614 |
| Non controlling interest | | - | - | - | - | - | - |
| Total equity | | 53,160 | (1,310) | 51,850 | 50,646 | (1,032) | 49,614 |
| Liabilities | | | | | | | |
| Non-current liabilities | | | | | | | |
| Grants | | 41 | - | 41 | 48 | - | 48 |
| Borrowings | | 2,019 | - | 2,019 | 72 | - | 72 |
| Deferred income | | 3,462 | - | 3,462 | 3,965 | - | 3,965 |
| Deferred income tax liabilities | E | 442 | (442) | - | 248 | (248) | - |
| Employee benefits | | 1,936 | - | 1,936 | 1,664 | - | 1,664 |
| Trade and other payables | | 284 | - | 284 | 289 | - | 289 |
| Total Non - current liabilities | | 8,184 | (442) | 7,742 | 6,286 | (248) | 6,038 |
| Current liabilities | | | | | | | |
| Borrowings | | 913 | - | 914 | 28 | - | 28 |
| Deferred income | | 939 | - | 939 | 992 | - | 992 |
| Trade and other payables | | 12,221 | - | 12,221 | 10,550 | - | 10,550 |
| Total current liabilities | | 14,073 | - | 14,074 | 11,570 | - | 11,570 |
| Total liabilities | | 22,257 | (442) | 21,816 | 17,856 | (248) | 17,608 |
| Total equity and liabilities | | 75,417 | (1,751) | 73,666 | 68,502 | (1,280) | 67,222 |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

RECONCILIATION OF COMPREHENSIVE INCOME

GROUP

| | Previous GAAP 31-Dec 2011 | Effect of Transition to SLFRS | SLFRS 31-Dec 2011 |
|-------------------------------------------------------|------------------------------------|----------------------------------------|-------------------------|
| For the year ended | | | |
| Revenue | 50,950 | 694 | 51,644 |
| Operating costs | (33,788) | (793) | (34,581) |
| Operating profit before depreciation and amortisation | 17,162 | (99) | 17,063 |
| Depreciation | (10,960) | (376) | (11,337) |
| Amortisation and impairment of intangible assets | (557) | - | (557) |
| Operating profit | 5,645 | (475) | 5,169 |
| Refunds on Telecommunication Development Charge [TDC] | 553 | - | 553 |
| Other income | 294 | - | 294 |
| Foreign exchange (loss) / gain | - | (250) | (250) |
| Interest expense and finance costs | (788) | 197 | (591) |
| Interest income | 831 | 156 | 987 |
| Profit before tax | 6,535 | (372) | 6,162 |
| Income tax expenses | (1,754) | 97 | (1,657) |
| Profit for the year | 4,781 | (275) | 4,505 |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

RECONCILIATION OF COMPREHENSIVE INCOME

COMPANY

| | Previous GAAP 31-Dec 2011 | Effect of Transition to SLFRS | SLFRS 31-Dec 2011 |
|-------------------------------------------------------|------------------------------------|----------------------------------------|-------------------------|
| For the year ended | | | |
| Revenue | 32,291 | - | 32,291 |
| Operating costs | (22,195) | (99) | (22,294) |
| Operating profit before depreciation and amortisation | 10,096 | (99) | 9,997 |
| Depreciation | (7,056) | (376) | (7,432) |
| Amortisation and impairment of intangible assets | (222) | - | (222) |
| Operating profit | 2,818 | (475) | 2,343 |
| Refunds on Telecommunication Development Charge [TDC] | 360 | - | 360 |
| Other income | 253 | - | 253 |
| Dividend received | 648 | - | 648 |
| Foreign exchange (loss) / gain | - | (17) | (17) |
| Interest expense and finance costs | (75) | 17 | (58) |
| Interest income | 803 | 156 | 959 |
| Profit before tax | 4,807 | (319) | 4,488 |
| Income tax expenses | (1,245) | 97 | (1,148) |
| Profit for the year | 3,562 | (222) | 3,340 |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

NOTES TO THE RECONCILIATIONS

Note - A

Property, plant and equipment

SLFRS requires to identify components within an item of property plant and equipment and assess useful lives of property plant and equipment at each reporting date.

Accordingly, the Company has identified components and reassessed the useful lives of property plant and equipment. The resultant impact is adjusted to retained earnings at the transition date as follows;

| | GROUP | | COMPANY | |
|----------------------------------------|--------------------|-------------------|--------------------|-------------------|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 |
| Statement of Financial Position | | | | |
| As reported under Previous GAAP | 67,936 | 61,258 | 36,754 | 34,075 |
| Increase in Accumulated Depreciation | (1,783) | (1,407) | (1,783) | (1,407) |
| As reported under SLFRSs | 66,153 | 59,851 | 34,971 | 32,668 |

| | GROUP | COMPANY |
|------------------------------------------|-------------------------|-------------------------|
| | Year ended 31-Dec-11 | Year ended 31-Dec-11 |
| Statement of comprehensive income | | |
| Depreciation | (376) | (376) |
| Adjustment before income tax | (376) | (376) |
| Deferred tax effect | 105 | 105 |
| Adjustment after income tax | (271) | (271) |

Note - B

Other Investments

In accordance with the SLFRS, treasury bills and bonds classified as available-for-sale have been recognised at fair value. These assets were previously carried at cost. Fixed deposits were reclassified from cash and cash equivalents and are classified as loans and receivables and recognised at amortised cost.

At the date of transition, the fair value of the treasury bills classified as available-for-sale financial assets were adjusted to opening reserve. Impact of financial statements is summarised as follows.

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

| | GROUP | | COMPANY | |
|-----------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|--------------------|-------------------|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 |
| As reported under Previous GAAP | 4,424 | 4,290 | 3,585 | 4,113 |
| Fixed deposits reclassified from cash and cash equivalent to other investments | 5,004 | 785 | 5,610 | 785 |
| Interest receivable reclassified from trade and other receivable to other investments and adjusted for amortised cost | 138 | 102 | 139 | 103 |
| Impact from fair valuation | (6) | (7) | (6) | (7) |
| As reported under SLFRSs | 9,560 | 5,170 | 9,328 | 4,994 |
| Fixed deposits at amortised cost | 8,844 | 2,775 | 8,612 | 2,645 |
| Treasury bills and bonds at fair value | 716 | 2,395 | 716 | 2,349 |
| As reported under SLFRSs | 9,560 | 5,170 | 9,328 | 4,994 |
| Carrying value of treasury bills and bonds | 722 | 2402 | 722 | 2356 |
| Impact from fair valuation | (6) | (7) | (6) | (7) |
| Fair value of treasury bills and bonds as reported under SLFRSs | 716 | 2,395 | 716 | 2,349 |
| As reported under SLFRSs | 9,459 | 4,478 | 9,227 | 4,349 |
| Current | 101 | 692 | 101 | 645 |
| Non current | | | | |
| | 9,560 | 5,170 | 9,328 | 4,994 |

Note - C

Trade and other receivables

In accordance with SLFRSs, interest receivable on debt securities (fixed deposits, government securities and investment in repurchase agreements) are reclassified out from trade and other receivables and included in amortised cost calculation of the respective financial assets

Impact of Financial Statements is summarised as follows;

| | GROUP | | COMPANY | |
|------------------------------------------------|--------------------|-------------------|--------------------|-------------------|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 |
| Statement of Financial Position | | | | |
| As reported under Previous GAAP | 9,892 | 11,053 | 10,144 | 10,494 |
| Interest receivable transferred to Investments | (159) | (115) | (159) | (116) |
| As reported under SLFRSs | 9,733 | 10,938 | 9,985 | 10,378 |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

Note - C.1

Other receivables

The Group provides loans to employees at concession rates. In accordance with SLFRS, these employee loans are fair valued at initial recognition using level 2 inputs. The fair value of the employee loans are determined by discounting expected future cash flows using market related rates for the similar loans.

The difference between the cost and fair value of employee loans is recognised as prepaid staff cost.

| | GROUP | | COMPANY | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------|-------------------------|--------------------|--|--|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 | | |
| Statement of Financial Position | | | | | | |
| As reported under Previous GAAP | | | | | | |
| Non current | 2,316 | 1,991 | 2,316 | 1,991 | | |
| Current | 494 | 482 | 494 | 482 | | |
| | 2,810 | 2,473 | 2,810 | 2,473 | | |
| Employee loans initially recognised at Fair value | 2,337 | 2,065 | 2,337 | 2,065 | | |
| Prepaid staff cost | 473 | 408 | 473 | 408 | | |
| | 2,810 | 2,473 | 2,810 | 2,473 | | |
| Statement of Comprehensive Income | | | | | | |
| Cash and cash equivalents | | | | | | |
| Staff cost | | | (164) | (164) | | |
| Interest income | | | 164 | 164 | | |
| Adjustment before income tax | | | - | - | | |
| | | GROUP | COMPANY | | | |
| | | Year ended 31-Dec-11 | Year ended 31-Dec-11 | | | |
| Note - D | | | | | | |
| Cash and cash equivalents | | | | | | |
| As described in note B and C, fixed deposits are reclassified under other investments and cash and cash equivalents are recognised under amortised cost. | | | | | | |
| Impact to financial statements is summarised as follows | | | | | | |
| <i>In Sri Lanka Rupees million</i> | | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | | |
| | | | | As at 1-Jan-11 | | |
| Statement of Financial Position | | | | | | |
| As reported under Previous GAAP | | | | | | |
| Fixed deposits reclassified from/to | | 8,137 | 4,830 | 7,093 | | |
| other investments from/to cash and cash equivalents | | (5,004) | (785) | (5,610) | | |
| Interest receivable reclassified from trade and other | | | | (785) | | |
| receivable to cash and cash equivalents and adjusted for amortised cost | 1 | 1 | 1 | 1 | | |
| As reported under SLFRSs | | 3,134 | 4,046 | 1,484 | | |
| | | | | 3,349 | | |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

Note - E

Deferred income tax assets (liabilities)

Impact on deferred tax arising from the changes related to adoption of SLFRS is summarised as follows;

| | GROUP | | COMPANY | |
|---------------------------------------------------------------------------------|--------------------|-------------------|--------------------|-------------------|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 |
| As reported under Previous GAAP | | | | |
| Deferred income tax assets | 18 | 13 | - | - |
| Deferred income tax liabilities | (451) | (248) | (442) | (248) |
| Net Deferred income tax assets (liabilities) | (433) | (235) | (442) | (248) |
| Impact arising from decrease in carrying value of property, plant and equipment | | | | |
| | 499 | 394 | 499 | 394 |
| As reported under SLFRSs | | | | |
| Deferred income tax assets | 75 | 159 | 57 | 146 |
| Deferred income tax liabilities | (9) | - | - | - |
| Net Deferred income tax assets (liabilities) | 66 | 159 | 57 | 146 |

Note - F

Borrowings - Non current

Loans and borrowings were recognised at cost under the previous GAAP and subsequent to the convergence the Group has recognised loans & borrowings at amortised cost using EIR method

Impact to financial statements is summarised as follows:

| | GROUP | |
|-------------------------------------------------|-------------------------|------------------------|
| | Year ended 31-Dec-11 | Year ended 1-Jan-11 |
| Statement of Financial Position | | |
| As reported under Previous GAAP | 9,229 | 6,774 |
| Impact arising from interest computed using EIR | 154 | 101 |
| As reported under SLFRSs | 9,383 | 6,875 |

| | GROUP |
|------------------------------------------|-------------------------|
| | Year ended 31-Dec-11 |
| Statement of comprehensive income | |
| Interest expense | 53 |
| Adjustment before income tax | (53) |

EXPLANATION OF TRANSITION TO SLFRS

(all amounts in Sri Lanka Rupees million)

Note -G

Fair value reserve

| | GROUP | | COMPANY | |
|----------------------------------------|--------------------|-------------------|--------------------|-------------------|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 |
| Statement of Financial Position | | | | |
| As reported under Previous GAAP | - | - | - | - |
| Impact from fair valuation | (6) | (7) | (6) | (7) |
| As reported under SLFRSs | (6) | (7) | (6) | (7) |

Note - H

Retained earnings

The above changes increase/(decrease) retained earnings as follows:

| | GROUP | | COMPANY | |
|------------------------------------------|---------------------|-------------------|--------------------|-------------------|
| | As at 31-Dec-11 | As at 1-Jan-11 | As at 31-Dec-11 | As at 1-Jan-11 |
| Statement of Financial Position | | | | |
| As reported under Previous GAAP | 35,153 | 31,463 | 34,724 | 32,253 |
| Property, plant and equipment | Note - A (1,783) | (1,407) | (1,783) | (1,407) |
| Other Investments | Note - B (21) | (12) | (20) | (12) |
| Deferred income tax assets (liabilities) | Note - E 499 | 394 | 499 | 394 |
| Borrowings | Note - F (154) | (101) | - | - |
| As reported under SLFRSs | 33,694 | 30,337 | 33,420 | 31,228 |

TEN YEAR PROGRESS - GROUP

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------------------------------------------|----------------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
| Financial Position - (Rs. million) | | | | | | | | | | |
| Property Plant & Equipment | 72,165 | 66,153 | 61,258 | 65,896 | 57,073 | 53,881 | 54,202 | 56,151 | 54,360 | 55,763 |
| Total Assets | 103,073 | 95,051 | 87,030 | 90,220 | 93,199 | 85,372 | 84,042 | 81,520 | 78,872 | 72,373 |
| Current Assets | 25,712 | 24,341 | 21,238 | 19,764 | 32,389 | 28,609 | 27,292 | 23,843 | 22,144 | 14,626 |
| Current Liabilities | 28,091 | 23,931 | 22,691 | 27,403 | 32,819 | 16,830 | 16,370 | 13,892 | 11,378 | 12,440 |
| Borrowings | 17,852 | 14,709 | 11,316 | 13,351 | 21,716 | 19,285 | 20,785 | 22,840 | 25,370 | 21,081 |
| Equity | 54,550 | 52,125 | 49,849 | 46,311 | 47,525 | 41,900 | 37,866 | 33,793 | 31,064 | 30,600 |
| Performance - (Rs. million) | | | | | | | | | | |
| Revenue | 56,771 | 51,644 | 50,250 | 48,077 | 47,044 | 43,234 | 40,691 | 32,515 | 29,516 | 25,553 |
| Operating Profit | 6,170 | 5,169 | 5,144 | 2,547 | 7,809 | 9,176 | 9,895 | 6,087 | 3,275 | 5,678 |
| Finance Cost | 2,233 | 841 | 1,012 | 2,024 | 2,130 | 2,232 | 1,884 | 2,085 | 2,252 | 2,863 |
| Earnings before Tax | 5,966 | 6,162 | 5,961 | 1,395 | 9,560 | 8,399 | 9,227 | 4,812 | 1,441 | 3,242 |
| Taxation | 1,930 | 1,657 | 2,018 | 617 | 2,193 | 2,759 | 3,789 | 1,719 | 148 | 993 |
| Earnings after Tax | 4,036 | 4,505 | 3,943 | 778 | 7,367 | 5,640 | 5,438 | 3,093 | 1,293 | 2,249 |
| Cash Flow - (Rs. million) | | | | | | | | | | |
| Net Operating Cash Flows | 16,094 | 20,250 | 15,260 | 18,213 | 16,214 | 15,090 | 13,435 | 17,200 | 10,402 | 11,429 |
| Net Cash used in Investing Activities | 15,362 | 22,968 | 7,975 | 7,238 | 15,288 | 10,073 | 9,197 | 10,686 | 7,611 | 7,278 |
| Net Cash used in /(from) Financing Activities | 174 | 1,494 | 3,965 | 11,408 | 526 | 2,555 | 5,093 | 2,571 | (3,314) | 5,525 |
| Key Financial Indicators | | | | | | | | | | |
| Earnings per Share (Rs.) | 2.24 | 2.50 | 2.18 | 0.44 | 4.08 | 3.12 | 3.01 | 1.70 | 0.70 | 1.25 |
| Return on Assets (%) | 5.99% | 5.44% | 5.91% | 2.82 | 8.38 | 10.75 | 11.77 | 7.50 | 4.20 | 7.84 |
| Return on Equity (%) | 7.40% | 8.64% | 7.91% | 1.68 | 15.50 | 13.46 | 14.36 | 9.20 | 4.20 | 7.34 |
| Operating Margin (%) | 10.87% | 10.01% | 10.24% | 5.30 | 16.60 | 21.22 | 24.32 | 18.70 | 11.10 | 22.20 |
| Asset Turnover (No. of times) | 0.55 | 0.54 | 0.58 | 0.53 | 0.50 | 0.51 | 0.48 | 0.40 | 0.37 | 0.35 |
| Current Ratio (No. of times C.L.) | 0.92 | 1.02 | 0.94 | 0.72 | 0.99 | 1.70 | 1.67 | 1.72 | 1.95 | 1.18 |
| Quick Asset Ratio (No. of times C.L.) | 0.82 | 0.94 | 0.88 | 0.65 | 0.91 | 1.61 | 1.58 | 1.66 | 1.83 | 1.12 |
| Gearing Ratio (Debt to Rs.1/- of Equity) | 0.25 | 0.22 | 0.19 | 0.22 | 0.31 | 0.32 | 0.35 | 0.40 | 0.45 | 0.41 |
| Interest Cover (No. of times Interest) | 6.84 | 11.43 | 6.89 | 1.69 | 5.49 | 4.76 | 5.90 | 4.35 | 1.70 | 2.27 |

* 2011 and 2012 financials are based on new Sri Lanka Accounting Standards applicable for the financial periods beginning 01 January 2012.

INVESTOR RELATIONS INFORMATION

Investor relations

Government of Sri Lanka and Global Telecommunication Holdings N.V, together hold more than 94% of issued share capital of the Company, while remaining less than 6% to the general public. Sri Lanka Telecom continued communicating the company performance to the shareholders and various interested parties including the investing community through media releases, Web portal and announcements to the Colombo Stock Exchange etc. during the year under review. Award winning Annual Reports of the company with comprehensive details on timely manner complements the communication process.

Focusing mainly the lenders to Sri Lanka Telecom group, the company continued to maintain its credit ratings through globally recognised two rating agencies, Standard and Poor's rating services (S & P) and Fitch Ratings. End of the financial year under review, Sri – Lanka Telecom was rated at "B+" on both local currency and foreign currency Corporate Credit rating by S & P. Fitch Ratings has rated at "AAA (Ika)" on long term national and "BB-" on both long term foreign currency and local currency. However, these ratings have been constrained by the sovereign.

Distribution of Shares

| Shareholdings | Resident | | | Non Resident | | | Total | | |
|-----------------------------|------------------------|--------------|----------------|------------------------|--------------|----------------|------------------------|---------------|----------------|
| | Number of Shareholders | No of Shares | Percentage (%) | Number of Shareholders | No of Shares | Percentage (%) | Number of Shareholders | No of Shares | Percentage (%) |
| 1 to 1000 shares | 9,811 | 3,217,666 | 0.18 | 21 | 9,900 | 0.00 | 9,832 | 3,227,566 | 0.18 |
| 1001 to 10,000 shares | 2,656 | 11,014,456 | 0.61 | 33 | 166,144 | 0.01 | 2,689 | 11,180,600 | 0.62 |
| 10,001 to 100,000 shares | 321 | 6,121,057 | 0.34 | 8 | 275,100 | 0.02 | 329 | 6,396,157 | 0.36 |
| 100,001 to 1,000,000 shares | 10 | 2,075,248 | 0.11 | 3 | 802,386 | 0.04 | 13 | 2,877,634 | 0.15 |
| over 1,000,000 shares | 9 | 968,220,174 | 53.65 | 2 | 812,957,869 | 45.04 | 11 | 1,781,178,043 | 98.69 |
| | 12,807 | 990,648,601 | 54.89 | 67 | 814,211,399 | 45.11 | 12,874 | 1,804,860,000 | 100.00 |

| Categories of shareholders | Number of Shareholders | Number of Shares |
|----------------------------|------------------------|------------------|
| Individual | 12,733 | 20,383,237 |
| Institutional | 141 | 1,784,476,763 |
| | 12,874 | 1,804,860,000 |

List of 20 major shareholders based on their shareholdings as at 31 December 2012

| Name of Shareholder | Shareholding | Percentage (%) |
|----------------------------------------------------------------|---------------|----------------|
| Secretary to the Treasury | 893,405,709 | 49.5 |
| Global Telecommunications Holdings NV | 811,757,869 | 44.98 |
| Employees Provident Fund | 20,942,989 | 1.16 |
| Sri Lanka Insurance Corporation Ltd - Life Fund | 17,713,735 | 0.98 |
| Bank of Ceylon A/c Ceybank Unit Trust | 14,599,053 | 0.81 |
| National Savings Bank | 13,158,700 | 0.73 |
| Employees Trust Fund Board | 3,302,188 | 0.18 |
| Sri Lanka Insurance Corporation Ltd - General Fund | 3,032,200 | 0.17 |
| Deutsche Bank AG - London | 1,200,000 | 0.07 |
| Bank of Ceylon A/c Ceybank Century Growth Fund | 1,036,700 | 0.06 |
| Associated Electrical Corporation Ltd | 1,028,900 | 0.06 |
| The Incorporated Trustees of the Church of Ceylon | 414,100 | 0.02 |
| Standard Chartered Bank Singapore S/A HL Bank Singapore Branch | 395,886 | 0.02 |
| Amana Bank Limited | 376,000 | 0.02 |
| Union Assurance PLC/No - 01A/C | 288,200 | 0.02 |
| Mr. Vandrevala / Mrs. P. Hiranandani | 231,500 | 0.01 |
| Bank of Ceylon No. 1 Account | 214,000 | 0.01 |
| Mr. Tanaka | 175,000 | 0.01 |
| Mrs. Edirisinghe | 170,000 | 0.01 |
| Ceylon Biscuits Limited | 162,800 | 0.01 |
| | 1,783,605,529 | 98.82 |

Share Price Trend

| Share price trend | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Highest Value (Rs.) | 50.00 | 64.50 | 51 | 48 | 49.75 | 43.25 | 29.75 | 27 |
| Lowest Value (Rs.) | 34.00 | 44 | 35 | 39.50 | 29.75 | 28 | 14.75 | 15.50 |
| Last Traded Price (Rs.) | 44.50 | 48 | 49 | 46 | 31 | 31.50 | 27.75 | 16.50 |
| Market Capitalisation (Rs. billion) | 80.32 | 86.63 | 88.44 | 83.02 | 55.95 | 56.85 | 50.08 | 29.78 |

Returns to Shareholders

| | | |
|-----------|------------------------|---------------|
| 31-Dec-04 | First & Final dividend | 902,430,000 |
| 31-Dec-05 | First & Final dividend | 1,353,645,000 |
| 31-Dec-06 | First & Final dividend | 1,804,860,000 |
| 31-Dec-07 | First & Final dividend | 1,804,860,000 |
| 31-Dec-08 | First & Final dividend | 1,804,860,000 |
| 31-Dec-09 | First & Final dividend | 451,215,000 |
| 31-Dec-10 | First & Final dividend | 1,082,916,000 |
| 31-Dec-11 | First & Final dividend | 1,534,131,000 |
| 31-Dec-12 | First & Final dividend | 1,534,131,000 |

Trading Activity

| | 2012 | 2011 |
|------------------------------|-------------|-------------|
| No. of Transactions | 5,344 | 6,798 |
| No. of Share traded | 3,612,869 | 10,731,300 |
| Values of Shares Traded (Rs) | 156,598,735 | 587,769,460 |

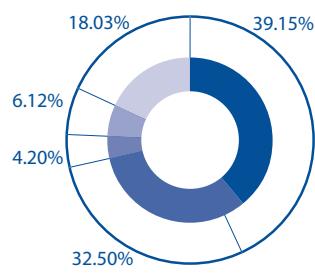
VALUE ADDED STATEMENT

| | 2012 | 2011 |
|-----------------------------------------------|----------|----------|
| Value Added | | |
| Revenue | 56,771 | 51,644 |
| Other Income | 2,029 | 1,834 |
| | 58,800 | 53,478 |
| Goods & Services purchased from other sources | (22,286) | (21,282) |
| Value creation | 36,514 | 32,196 |

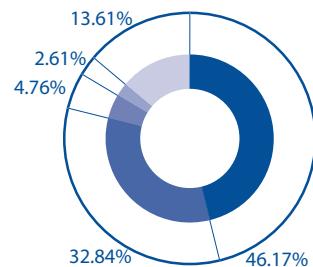
Distribution of Value Added

| | | | | |
|-------------------------------------|--------|--------|--------|--------|
| To Employees | | | | |
| - Salaries, wages, & other benefits | 11,866 | 32.50% | 10,573 | 32.84% |
| To providers of capital | | | | |
| - Dividend to share holders | 1,534 | 4.20% | 1,534 | 4.76% |
| To Government | | | | |
| - Taxes & Regulatory fees | 6,585 | 18.03% | 4,383 | 13.61% |
| To Lenders | | | | |
| - Interest & Related charges | 2,233 | 6.12% | 841 | 2.61% |
| To Business Expansion & Growth | | | | |
| - Depreciation & amortisation | 11,794 | 32.30% | 11,894 | 36.94% |
| - Retained Income | 2,502 | 6.85% | 2,971 | 9.23% |
| | 36,514 | 100% | 32,196 | 100% |
| To Business Expansion & Growth | 39.15% | 46.17% | | |
| To Employees | 32.50% | 32.84% | | |
| To providers of capital | 4.20% | 4.76% | | |
| To Lenders | 6.12% | 2.61% | | |
| To Government | 18.03% | 13.61% | | |

Value Added Statement - 2012



Value Added Statement - 2011



● To Business Expansion & Growth 39.15%
● To Employees 32.50%
● To providers of capital 4.20%
● To Lenders 6.12%
● To Government 18.03%

● To Business Expansion & Growth 46.17%
● To Employees 32.84%
● To providers of capital 4.76%
● To Lenders 2.61%
● To Government 13.61%

PORTFOLIO OF LANDS

Valuation of lands transferred on incorporation (conversion of SLT into a public limited company in 1996) and lands acquired after the incorporation, are based on valuation reports submitted by a firm of incorporated valuers. These lands and respective values are as follows:

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|------------------------------------------------------------|---------------------|-----------------------------------|
| No.108 & 109, Walawwaththa Rd, Anuradhapura | 0.2434 | 24 |
| Maithreepala Senanayake Mw, Anuradhapura | 0.1125 | 56 |
| Maithriepala Senanayake Mawatha, Anuradhapura | 0.3355 | 166 |
| Galkandehena, Kekirawa | 0.1310 | 12 |
| 14, Nivanthaka Chethiya Road, Anuradhapura | 0.0466 | 4 |
| Mannar Rd, Medawachchiya | 0.3315 | 5 |
| Medawachchiya Road, Medawachchiya | 0.1468 | 2 |
| Nochchiyagama Idama, Nochchiyagama | 0.1800 | 9 |
| Behind the Mosque, Maithripala Senanayake Mw, Anuradhapura | 0.1769 | 24 |
| Nivanthaka Chethiya Road, Anuradhapura | 0.0971 | 12 |
| Galkantha Mawatha, Ampara | 0.7657 | 91 |
| Ratnapura Road, Eheliyagoda | 0.0802 | 14 |
| Station Road, Batticaloa | 0.4383 | 61 |
| Lower King's Street, Badulla | 0.4020 | 48 |
| Batticaloa Road, Bibile | 0.0890 | 9 |
| Lower King's Street, Badulla | 0.0340 | 4 |
| Ridikotaliyagama, Mahiyangana | 0.0790 | 5 |
| Circuit Bangalow, Namunukula | 0.2100 | 10 |
| Senanayake Mw, Bandarawela | 0.0705 | 11 |
| Anduwakelepathana, Haputale | 0.4080 | 32 |
| 06, Senanayake Mw, Bandarawela | 0.2380 | 56 |
| 8, Wakwella Road, Galle | 0.1697 | 50 |
| Court Road, Gampaha | 0.1523 | 54 |
| Lotus Road, Colombo 1 | 1.3154 | 2,600 |
| Dickmans Road, Colombo 05 | 0.3360 | 291 |
| No. 5, Anderson Road, Colombo 05 | 0.1889 | 299 |
| No. 7, Anderson Road, Colombo 05 | 0.1363 | 216 |
| No. 9, Anderson Road, Colombo 05 | 0.1949 | 308 |
| No. 17, Sugathodaya Mawatha, Colombo 02 | 0.2190 | 346 |
| Main Street, Kalutara | 0.3035 | 108 |
| Primrose Hill, Kandy | 0.0534 | 4 |
| Prince Street, Kandy | 0.2251 | 89 |
| Punchi Borella, Maradana | 0.2625 | 212 |
| Base Line Rd, Welikada | 3.0880 | 1,099 |
| Tangalle Road, Matara | 0.2880 | 148 |
| Satellite Earth Station, Padukka | 13.8960 | 165 |
| Nalandarama Road, Nugegoda | 0.1970 | 156 |
| High Level Rd, Nugegoda | 0.1170 | 116 |
| Polhengoda Road, Narahenpita | 0.3030 | 240 |
| Pottoda, Katunayaka | 0.3039 | 12 |
| Thimbirigaskatuwa, Pottode, Negombo | 0.6037 | 24 |
| Thimbirigaskatuwa, Pottode, Negombo | 1.7160 | 68 |

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|---------------------------------------------|---------------------|-----------------------------------|
| St. Joseph's Street, Negombo | 0.6787 | 191 |
| Queen Elizabeth Drive, Nuwara Eliya | 0.2354 | 93 |
| Main Street, Panadura | 0.2542 | 126 |
| Bandaragama | 0.2803 | 55 |
| Anguruwatta Road, Horana | 0.2177 | 52 |
| Sri Gunarathena Mw, Panadura | 0.2952 | 47 |
| Hotel Rd, Mount Lavinia | 0.1913 | 95 |
| Air Port Junction, Ratmalana | 0.2076 | 62 |
| Main Street, Rathnapura | 0.3645 | 86 |
| Old Negombo Rd, Ja-Ela | 0.0870 | 43 |
| Minuwangoda Rd, Kotugoda | 8.0937 | 440 |
| Ragama Road, Ragama | 0.2048 | 40 |
| Negombo Rd, Welisara | 2.2280 | 484 |
| Old Negombo Rd, Wattala | 0.1012 | 80 |
| Aliyamalagala, Anuradhapura. | 0.2027 | 2 |
| Post Office Rd, Eppawela. | 0.0914 | 3 |
| Kuda Galnewa Rd, Galnewa. | 0.1453 | 1 |
| Police Station Rd, Horowapothana. | 0.4180 | 2 |
| Kahatagasdigiliya, Anuradhapura. | 0.0993 | 1 |
| Padaviya Rd, Kebithigollewa | 0.2628 | 8 |
| Anuradhapura, Kurunagala Rd, Thambuttegama. | 0.0860 | 7 |
| Hospital Rd, Inginiyagala | 0.0470 | 1 |
| Badulla Rd, Padiyatatalawa. | 0.1020 | 2 |
| Panama Rd, Pottuvil. | 0.2570 | 15 |
| No.63,Cemetery Rd,Veedukkadu, Batticaloa. | 0.1019 | 5 |
| Ketawala Rd, Hali ela | 0.0940 | 22 |
| Ella Rd, Namunukula. | 0.1485 | 9 |
| Dammeria Estate Rd, Passara. | 0.2460 | 17 |
| Poonagala Rd, Balagala. | 0.1264 | 5 |
| Railway Station Rd, Ella | 0.0330 | 4 |
| Haputalegama Rd, Diyathalawa. | 0.0226 | 6 |
| Wellawaya Rd, Koslanda. | 0.0440 | 3 |
| Ettampitiya Rd, Pattiyyagedara. | 0.1568 | 6 |
| Wellawaya Rd, Monaragala. | 0.3160 | 41 |
| Vishaka Hill, Bandarawela. | 0.0958 | 11 |
| Divitotawela,Welimada. | 0.1112 | 11 |
| Ella Rd,Wellawaya. | 0.1300 | 10 |
| Kurunegala Rd,mukalanhena Village | 0.3190 | 9 |
| Old Town-Madampe Rd, Ihalagama Village. | 0.1048 | 12 |
| Marawila-Nattandiya Rd, Ihalagama Village. | 0.0507 | 5 |
| Puttalam. | 0.3054 | 42 |
| Galle Main Street, Baddegama | 0.1340 | 8 |

PORTFOLIO OF LANDS

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|------------------------------------------------------|---------------------|-----------------------------------|
| Galle Rd, Elpitiya. | 0.1460 | 6 |
| Galle Rd, Gintota. | 0.0513 | 5 |
| Galle Rd, habaraduwa | 0.0796 | 8 |
| Akurassa Rd, Imaduwa. | 0.2150 | 4 |
| Galle Rd, Kosgoda. | 0.0920 | 6 |
| Galle Rd, Nagoda. | 0.1230 | 1 |
| Church Street, Galle. | 0.2520 | 50 |
| Donald Janz Rd, galle. | 0.0510 | 5 |
| Makumbura Rd, Udugama. | 0.1391 | 3 |
| Dunaly Estate, Galaha. | 0.1253 | 2 |
| Gonahena, Nawalapitiya. | 0.2782 | 22 |
| No.6, Galaha Rd, Peradeniya. | 0.1089 | 28 |
| Pussellewa Exchange, Nuwara Eliya Road. | 0.2155 | 9 |
| Udawalagedara Watta, Gampola. | 0.0285 | 6 |
| Nittambuwa Rd, Kirindiwela. | 0.2129 | 17 |
| Naligama Rd, Mirigama. | 0.1874 | 15 |
| Kandy Rd, Pasyala. | 0.0534 | 4 |
| Negombo Rd, Veyangoda. | 0.0889 | 7 |
| New Kandy Rd, Waliveriya. | 0.0438 | 7 |
| Rideeyagama Rd, Ambalanthota. | 0.1720 | 3 |
| No. 66, Barrak Street, Hambantota. | 0.1920 | 7 |
| No. 6, Tower Hill Raod, Hambantota. | 0.2150 | 11 |
| Kotuwegoda Rd, Tangalle. | 0.1960 | 31 |
| Tissamaharama Rd, Tissamaharama. | 0.0820 | 5 |
| Beliatta Rd, Walasmulla. | 0.0803 | 8 |
| Kotabo Rd, Weeraketiya. | 0.1700 | 10 |
| Danbar Road, Hatton | 0.8306 | 41 |
| Pundalaoya. | 0.2620 | 2 |
| Talawakelle. | 0.1813 | 9 |
| Debathgama Rd, Gevilipitiya. | 0.1200 | 1 |
| Kandy Rd, Ballapana. | 0.1031 | 4 |
| Bulathkohupitiya Rd, Kegalle. | 1.4515 | 244 |
| Kegalle Rd, Ampe North, Kotiyakumbura. | 0.1012 | 6 |
| Aranayaka Rd, Mawanella. | 0.0910 | 6 |
| Nawa Rohala Rd, Warakapola. | 0.0867 | 6 |
| Alawwa Giriulla Rd, Alawwa. | 0.0760 | 3 |
| No.67, Gettuwana, Kurunegala. | 0.2730 | 27 |
| No. 116/53, Tank Circular Rd, Kurunegala. | 0.2060 | 24 |
| Galgamuwa Ehetuwewa Rd, Arsonewwa. | 0.1580 | 2 |
| Pannala Kurunegala Rd, Pahala Narangamuwa. | 0.1010 | 1 |
| Hettipola Rd, Dolahamuna. | 0.0980 | 5 |
| No.07, Gattuwana Circular Rd, Gettuwana, Kurunegala. | 0.1210 | 12 |
| Madampe Narammala Rd, Kuliyapitiya. | 0.2298 | 45 |
| No.139, Kandy Road, Kurunegala. | 0.9200 | 164 |
| Wariyapola Rd, Narammala. | 0.0970 | 5 |

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|------------------------------------------------|---------------------|-----------------------------------|
| Anuradapura Rd, Nikadalupotha. | 0.1180 | 1 |
| Puttalum Rd, Nikaweratiya. | 0.0850 | 4 |
| Negombo Rd, Pannala. | 0.0940 | 3 |
| Polgahawela Kegalle Rd, Galaboda, Polgahawela. | 0.1998 | 8 |
| Wriyapola Ganewatta Rd, Wariyapola. | 0.1077 | 4 |
| Kalmunai Rd, Akkaraipattu | 0.2050 | 49 |
| Yard Rd, Kalmunai. | 1.2250 | 170 |
| Telecom Rd, Paiyagala North. | 0.0253 | 3 |
| Mangala Rd, Beruwala. | 0.2100 | 21 |
| Telecom Rd, Palligoda, Matugama. | 0.0597 | 8 |
| Telecom Rd, Pahala Welgama, Bulathsinghala. | 0.1934 | 1 |
| Telecom Rd, Meegahatenna. | 0.2618 | 2 |
| Digana | 0.1986 | 8 |
| Galagedara Exchange, Rambukkana Road. | 0.1386 | 5 |
| Kadugannawa Exchange, Kandy Road. | 0.0356 | 3 |
| Primrose hill, Kandy. | 0.1233 | 2 |
| Rikillagaskada | 0.1300 | 4 |
| Station Rd, Mannar. | 0.3238 | 10 |
| Akuressa | 0.0711 | 14 |
| Matugoba, Kotapola | 0.1770 | 2 |
| Dickwella | 0.1554 | 2 |
| Beruwewela, Hakmana. | 0.1260 | 6 |
| Kamburupitiya | 0.0890 | 7 |
| Godauda, Dickwella. | 0.1036 | 4 |
| Ihala Ganegama, Malimbada | 0.0690 | 7 |
| Urubokka | 0.1290 | 4 |
| Pelena, Weligama | 0.1069 | 15 |
| Matale Rd, Dambulla. | 0.4150 | 25 |
| Naula | 0.3050 | 6 |
| No.1/3, King Street, Matale | 0.3342 | 66 |
| Akuramboda Watta, Pallepola | 0.0970 | 3 |
| Exchange Building, Badalgama. | 0.0303 | 1 |
| Negombo-Mirigama Rd, Kelepitimulla Village | 0.1710 | 6 |
| St.Christopher Lane, Kochchikade | 0.0410 | 5 |
| Wennappuwa-Lunuwila Rd, Wennappuwa. | 0.0900 | 5 |
| Police Station Rd, Ragala. | 0.0791 | 10 |
| Gonakele-Maturata. | 0.1670 | 5 |
| Gampola Rd, Thawalantenna. | 0.0982 | 12 |
| Welimada Rd, Udupussellawa. | 0.0906 | 4 |
| Ragala Rd, Wathumulla. | 0.0770 | 3 |
| Telecom Rd, Urugala- Ingiriya. | 0.2800 | 28 |
| Batticaloa Rd, Pollonnaruwa. | 0.3129 | 9 |
| New Town, Ratnapura. | 0.0632 | 5 |
| Ebilipitiya Pelmadulla Rd, Kahawatta. | 0.0250 | 1 |
| Kalawana Weddagala Rd, Obokka. | 0.2060 | 2 |

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|--------------------------------------------|---------------------|-----------------------------------|
| Ratnapura Rd, Kiriella. | 0.0875 | 2 |
| Ratnapura Rd, Kolonna. | 0.3320 | 3 |
| Kuruwita Udagoda Rd, Delgamuwa, Kuruwita | 0.0653 | 2 |
| New Town, Ratnapura. | 0.0531 | 4 |
| Nivitigala Kahawatta Rd, Nivitigala | 0.2830 | 3 |
| Pelmadulla Kuttapiya Rd, Pelmadulla. | 0.0950 | 5 |
| Rakwana Godakawela Rd, Rakwana. | 0.2035 | 2 |
| Batticaloa Rd, China Bay. | 0.0678 | 4 |
| Lane Off Inner Harbour Rd, Trincomalee. | 0.3294 | 65 |
| Post Office Rd, Kantai. | 0.1244 | 9 |
| Mannar Rd, Vavuniya. | 0.3060 | 33 |
| Station Rd, Vavuniya. | 0.1500 | 18 |
| Saviapragasa Vidyalai Veethy Rd, Vavuniya. | 0.4047 | 40 |
| Eramadu Rd, Pulmoddai. | 0.3103 | 5 |
| Nilaveli Rd, Nilaveli. | 0.0581 | 2 |
| Temple Rd, Mutur | 0.2838 | 8 |
| Pulmoddai Rd, Kuchchaveli. | 0.0690 | 1 |
| Periyathumunai Rd, Kinniya. | 0.1080 | 7 |
| Off Main Street, Hingurakgoda | 0.0583 | 4 |
| Main Street Valachchenai. | 0.2036 | 6 |
| Trinco Rd, Eravur | 0.0925 | 13 |
| Kandapola. | 0.0894 | 7 |
| Badalgama-Mahaoya Rd, Badalgama | 0.0984 | 4 |
| Digana, Ahaspokuna. | 0.3560 | 4 |
| Balungala Watta. | 0.2317 | 1 |
| Telicom Boad Pahala - Nebeda | 0.1032 | 1 |
| Telicom Boad Agalawatta | 0.0080 | 1 |
| Ibbagamuwa Keppettipola Rd, Rideegama. | 0.2530 | 3 |
| Bulathkohupitiya Rd, Moradana Pahala | 0.0969 | 1 |
| Watawala | 0.1210 | 4 |
| Watagoda | 0.1850 | 2 |
| Upcot | 0.1495 | 1 |
| Maskeliya | 0.1046 | 2 |
| Ginigathenna Land, Kurundugolla | 0.1310 | 2 |
| Killarney Estate Rd, Bogawantalawa. | 0.1247 | 3 |
| Mavihena Rd, Kandalama | 0.1555 | 2 |
| Pathirajakanda Estate Rd, Pathirajakanda. | 0.1010 | 1 |
| Galle Rd, Ambalangoda. | 0.7900 | 15 |
| Chilaw- Puttalam Rd, Rajakadaluwa. | 0.1490 | 6 |
| Chilaw-Puttalam Rd, Kuruwikkulam | 0.2023 | 3 |
| Poonagala Estate Ampitikanda | 0.1920 | 5 |
| Haldumulla | 0.0990 | 2 |
| Beddegama Namunukula | 0.1373 | 3 |
| Madolsima | 0.3870 | 15 |
| Batticaloa Rd, Lunugala | 0.1346 | 13 |

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|------------------------------------------------|---------------------|-----------------------------------|
| Mahakele Rd, Kandaketiya | 0.0253 | 2 |
| Minnana Town, Awissawella | 0.3655 | 22 |
| Havelock Road, Colombo 5 | 0.0253 | 30 |
| Vaverset Place, Colombo 5 | 0.0179 | 18 |
| IDH Road, Kalapaluwawa, Angoda | 0.0364 | 6 |
| Godaporagahalanda, Malambe | 0.0248 | 3 |
| Madiwela, Kotte | 0.0278 | 4 |
| Kongahawatta, Talawathugoda, Kotte | 0.0278 | 4 |
| Battaramulla, Kotte | 0.0185 | 6 |
| 478, Kaduwela Road, Thalangama North | 0.0354 | 8 |
| Udumullahena Watta, Kotuwegoda, Kotte | 0.0311 | 5 |
| Bogahawta, Nawala | 0.0304 | 12 |
| Millennium City, Athurugiriya | 0.0197 | 2 |
| Asdiyapokunawatta, Mulleriyawa, Angoda | 0.0379 | 4 |
| Primrose Hill, Kandy | 0.0751 | 6 |
| Heiyanduwa, Biyagama | 0.0506 | 7 |
| Hettiyaovita, Biyagama | 0.0374 | 5 |
| Walawewatta, Delgoda | 0.0320 | 3 |
| Ketakelaghawatta, Ranmuthugala, Kadawatha | 0.0329 | 5 |
| Ihala Karagahamuna, Kadawatha | 0.0430 | 3 |
| Puwakgahalanda, Siyambalape | 0.0202 | 2 |
| Mawaramandiya Road, Makola North | 0.0192 | 2 |
| Pitipana North, Homagama | 0.0253 | 2 |
| Panagoda, Homagama | 0.0253 | 3 |
| Mattegoda, Nugegoda | 0.1265 | 36 |
| 320/2, Old Kottawa Road, Embuldeniya, Nugegoda | 0.0234 | 7 |
| Gangodawila, Nugegoda | 0.0186 | 7 |
| Sudharshi Mawatha, Kalubowila | 0.0241 | 10 |
| No.67, Mahinda Place, Kirulapane | 0.0244 | 24 |
| Delgahalanda, Ihala Bope, Padukka | 0.0266 | 1 |
| Rukmalgama, Maheragama | 0.0817 | 8 |
| Srimathi Rd, Keselwatta, Panadura | 0.0632 | 15 |
| St Anthony Road, Moratumulla, Moratuwa | 0.0276 | 4 |
| 3A, Rawatawatte Road, Moratuwa | 0.0202 | 4 |
| Millagahakanatta, Molpe, Rathmalana | 0.0257 | 3 |
| Kahatagalhala Estate, Makandana, Ratmalana | 0.0177 | 2 |
| Gorakaghawatta, Wethara | 0.0253 | 2 |
| Batakeiththara, Piliyandala | 0.0253 | 4 |
| Bokundara, Piliyandala | 0.0316 | 4 |
| Godaparagahalanda, Honnathara, Piliyandala | 0.0519 | 5 |
| Kandawala Estate, Borupana, Ratmalana | 0.0190 | 4 |
| Madangahawatta, Laxapathiya, Moratuwa | 0.0253 | 4 |
| Keerakotuwa, Nawange Road, Peliyagoda | 1.6432 | 325 |
| Awissawella, Ratnapura Rd, Welikanna. | 0.1623 | 3 |
| Kotawera Pallegama, Welimada. | 0.0526 | 2 |

PORTFOLIO OF LANDS

| LOCATION | EXTENT (HECTARE) | VALUE OF LAND (Rs. million) |
|-------------------------------------|---------------------|-----------------------------------|
| Puttalam Rd, Chilaw. | 0.2708 | 54 |
| Kiribathkumbura, Pilimathalawa | 0.5805 | 11 |
| No.47/1A, Church Road, Mattakkuliya | 0.0303 | 15 |
| Nawalapitiya Rd, Ginigathena. | 0.1420 | 3 |
| Alpitiya Rd, Alpitiya. | 0.1789 | 2 |
| Dambulla Rd, Ibbagamuwa. | 0.1011 | 2 |
| Telecom Rd, Dodangoda. | 0.1510 | 9 |
| Namadagala Village, Medamahanuwara | 0.1247 | 1 |
| Pallekele-Kundasale | 0.0899 | 9 |
| Pugoda Rd, Giridara, Dompe | 0.0050 | 1 |
| Mandawala Rd, Owitigama Pugoda. | 0.0253 | 2 |
| Ukuwela, Matale. | 0.0506 | 1 |
| Magammana, Homagam. | 0.0151 | 1 |
| Telecom Rd, Mahaaruggoda. | 0.0759 | 4 |
| Kudugalla Rd, Wattegama. | 0.1511 | 7 |
| No.27,Station Rd, Batticaloa | 0.0585 | 9 |
| Total | | 11,968 |

ABBREVIATIONS

| | | |
|----------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------|
| 4G | Information and Communication Technology Agency of Sri Lanka | NOC |
| Fourth Generation | Network Operating Centre | |
| ADSL | International Direct Dialling | OSS |
| Asymmetric Digital Subscriber Line | Operational Support System | |
| ASPI | International Financial Reporting Standards | PEOTV |
| All Share Price Index | Personalised Entertainment Option Television | |
| BPO | International Gateway | PoP |
| Business Process Outsourcing | Point of Presence | |
| CDMA | IP Multimedia Subsystem | PSTN |
| Code Division Multiple Access | Public Switched Telephone Network | |
| CLI | Internet Protocol | PTC |
| Caller Line Identification | Internet Protocol Virtual Private Network | Pacific Telecommunications Council |
| DC HSPA+ | Internet Protocol Television | RAS |
| Dual-Carrier High Speed Packet Access | Internet Service Provider | Revenue Assurance System |
| DEL | International Telecommunication Union | SAFA |
| Direct Exchange Line | Knowledge Process Outsourcing | South Asian Federation of Accountants |
| E1 | Key Performance Indicator | SBN |
| E – Carrier System level 1 | Lanka Education And Research Network | SLT Backbone Network |
| EBITDA | Light Emitting Diode | SDH |
| Earnings Before Interest, Taxes, Depreciation and Amortisation | Lanka Government Network | Synchronous Digital Hierarchy |
| EFTNS | Long Term Evolution | SDM |
| External Fixed Telecommunications NetworkServices | Megabits per second | Space Division Multiplex |
| EPF | Metro Ethernet Forum | SEA ME WE |
| Employee Provident Fund | Metro Ethernet Network | South East Asia-Middle East-West Europe |
| ETA | Moving Picture Experts Group | SLBN |
| Electronic Travel Authorisation | Multiprotocol Label Switching | Sri Lanka Telecom Broadband Network |
| ETF | Multiple-Input and Multiple-Output | SLIM |
| Employee Trust Fund | Multi-Service Access Nodes | Sri Lanka Institute of Marketing |
| FCR | Moving Picture Experts Group | SME |
| Fault Clearance Rate | National Backbone Network | Small and Medium Enterprise |
| FTTN | Near Field Communication | SMS |
| Fibre-To-The-Node | Next Generation Network | Short Message Service |
| Gbps | Next Generation Network | STM-1 |
| Gigabits per second | | Synchronous Transport Module level-1 |
| GDP | | SVOD |
| Gross Domestic Product | | Subscription Video on Demand |
| GITR | | TRCSL |
| Global information Technology Report | | Telecommunication Regulatory Commission of Sri Lanka |
| GPS | | UMTS |
| Global Positioning System | | Universal Mobile Telecommunications System |
| GRI | | VoD |
| Global Reporting Initiative | | Video on Demand |
| GSR | | VoIP |
| Global Symposium for Regulators | | Voice over Internet Protocol |
| GTH | | VPN |
| Global Telecommunications Holdings | | Virtual Private Network |
| HDTV | | WAP |
| High Definition Television | | Wireless Access Protocol |
| HSPA | | WiMAX |
| High Speed Packet Access | | Worldwide Interoperability for Microwave Access |
| ICT | | |
| Information and Communication Technologies | | |

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the SIXTEENTH ANNUAL GENERAL MEETING of Sri Lanka Telecom PLC will be held in 24th April 2013 at 10.00 am at the Kings'Court, Cinnamon Lakeside Hotel Colombo, No.115, Sir Chittampalam A Gardiner Mawatha, Colombo 2 for the purpose of conducting the following Ordinary Business:

Agenda

- 1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and Statement of Accounts for the year ended 31 December 2012 with the Report of the Auditors thereon.
- 2 To declare a first and final dividend of eighty five Cents (0.85 Cents) per share as recommended by the Directors.
- 3 To elect as a Director, Ms. Pushpa Wellappili, who retires in terms of Article 97 of the Articles of Association.
- 4 To re-elect as a Director, Mr. Shameendra Rajapaksa, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association.
- 5 To re-elect as a Director, Mr. Kalinga Indatissa, who retires by rotation in terms of Article 91 and 92 of the Articles of Association
- 6 To re-appoint Messrs, KPMG, Chartered Accountants as Auditors for the ensuing year and to authorize the Directors to determine their remuneration:
- 7 To authorise the Directors to determine and make donations to charities.
- 8 To transact any other business of which due notice has been given.

BY ORDER OF THE BOARD
SRI LANKA TELECOM PLC

Advoyed

P W Corporate Secretarial (Private) Limited
SECRETARIES

18th March 2013
Colombo

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her.
2. A proxy need not be a member of the Company.
3. A Form of Proxy accompanies this Notice.

FORM OF PROXY

I/We (holder of NIC No)

of

being a member/members of Sri Lanka Telecom PLC hereby appoint

..... (holder of NIC No)

of..... whom failing*

| | |
|-----------------------------|---------------|
| Mr. Nimal Welgama | whom failing* |
| Mr. Sandip Das | whom failing* |
| Mr. Chan Chee Beng | whom failing* |
| Mr. Jeffrey Jay Blatt | whom failing* |
| Mr. Jayantha Dharmadasa | whom failing* |
| Mr. Shameendra Rajapaksa | whom failing* |
| Mr. Kalinga Indatissa | whom failing* |
| Mr. Lawrence Michael Paratz | whom failing* |
| Ms. Pushpa Wellappili | |

as my/our* proxy to represent me/us* to speak and vote for me/us* and on my/our* behalf as indicated below at the 16th Annual General Meeting of the Company, to be held on 24th April 2013 and at any adjournment thereof and that every poll which may be taken in consequence thereof.

- | | For | Against |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31 December 2012 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a first and final dividend of eighty five Cents (0.85 Cents) per share as recommended by the Directors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To elect as a Director, Ms. Pushpa Wellappili, who retires in terms of Article 97 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To elect as a Director, Mr. Shameendra Rajapaksa, who retires by rotation in terms of Article 91 and 92 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To elect as a Director, Mr. Kalinga Indatissa, who retires by rotation in terms of Article 91 and 92 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-appoint Messrs, KPMG, Chartered Accountants as Auditors for the ensuing year and to authorize the Directors to determine their remuneration | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To authorise the Directors to determine and make donations to charities. | <input type="checkbox"/> | <input type="checkbox"/> |

In witness my/our hand/seal given on this.....day of Two Thousand and Thirteen.

.....
Signature

*Please delete what is inapplicable.

Note : Instruction as to completion appear overleaf.

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. Please indicate with an "X" in the space provided, how your proxy is to vote on each resolution. If no indication is given the proxy in his/her discretion will vote as he/she thinks fit.
3. In the case of a corporate member the proxy must be executed in accordance with the Articles of Association. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy, if it has not already been registered with the Company.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company, Sri Lanka Telecom PLC, Lotus Road, Colombo 01 not later than 48 hours before the time fixed for the holding of the meeting.

CORPORATE INFORMATION

Name of the Company

Sri Lanka Telecom PLC

Legal Form

A public Limited Liability Company incorporated in Sri Lanka in September 1996 under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Limited Companies Act No.23 of 1987 and quoted on the Colombo Stock Exchange in January 2003.

Company Re registration Number

PQ 7

Stock Exchange Listing

1,804,860,000 Ordinary Shares of the Company are listed in the Colombo Stock Exchange.

Registered Address

Telecom Headquarters, Lotus Road
Colombo 01

Board of Directors

Mr. Nimal Welgama - Chairman
Mr. Sandip Das
Mr. Chan Chee Beng
Mr. Jeffrey Jay Blatt
Mr. Shameendra Rajapaksa
Mr. Jayantha Dharmadasa
Mr. Kalinga Indatissa
Mr. Lawrence Paratz
Ms. Pushpa Wellappili

Auditors

KPMG (Chartered Accountants),
No. 32, Sir Mohamed Macan Makar Mw, Colombo 03.

Company Secretary

PW Corporate Secretarial (Pvt) Ltd

Credit Rating

Fitch Ratings

Foreign Currency Rating

Long-Term Foreign-Currency IDR: BB-

Long-Term Local-Currency IDR: BB-

National

Long-Term Rating: AAA(lka)

Outlooks

Long-Term Foreign: Currency IDR: Stable

Long-Term Local-Currency IDR: Stable

National Long-Term Rating: Stable

Standard & Poor's

Long term foreign currency – "B+" outlook stable

Long term local currency – "B+" outlook stable

Bankers

Bank of Ceylon
People's Bank
Commercial Bank of Ceylon PLC
HSBC Bank
Hatton National Bank PLC
Sampath Bank
Standard Chartered Bank
Seylan Bank
Citibank N.A.
Nation Trust Bank
NDB Bank
Deutsch Bank

Name of Company

| | Holding | Principal Activity |
|------------------------------------------|---------|------------------------------------------------------------------------------|
| Mobitel (Private) Limited | 100% | Mobile telephony |
| Sri Lanka Telecom (Services) Ltd | 100% | Providing total network solutions to Corporate and small business Customers. |
| SLT Hong Kong Ltd | 100% | Point of Presence - (off shore subsidiary) Providing IP transit services |
| SLT Publications (Private) Limited | 100% | Directory publication services |
| SLT Visioncom (Private) Limited | 100% | IPTV support services |
| SLT Manpower Solutions (Private) Limited | 100% | Providing workforce solutions |
| SKY Network (Private) Limited | 99.89% | Wimax operations |

Regional Telecom Offices

| | | |
|---------------|-----------------|-------------|
| Ampara | Kalutara | Gampaha |
| Hatton | Polonnaruwa | Mannar |
| Matara | Baticaloa | Trincomalee |
| Anuradhapura | Kandy | Gampola |
| Havelock Town | Panadura | Maradana |
| Negombo | Chilaw | Vavuniya |
| Avissawella | Kegalle | Hambantota |
| Jaffna | Ratmalana | Matale |
| Nugegoda | Colombo Central | Wattala |
| Badulla | Kotte | |
| Kalmunai | Ratnapura | |
| Nuwara Eliya | Galle | |
| Bandarawela | Kurunegala | |

Teleshops

| | | |
|--------------|---------------|----------------|
| Ambalangoda | Mount Lavinia | Lotus Road |
| Kandy | Embilipitiya | Slave Island |
| Matara | Kotte | Jaffna |
| Bandaragama | Negombo | Maharagama |
| Katunayake | Gampaha | Thangalle |
| Mathugama | Kuliyapitiya | Kaduwela |
| Bandarawela | Nittambuwa | Maradana |
| Kegalle | Homagama | Wattala |
| Mattakkuliya | Kurunegala | Kandy City |
| Beruwala | Piliyandala | Matale |
| Kiribathgoda | Horana | Wennappuwa |
| Monaragala | Liberty Plaza | Colombo - Fort |
| Biyagama | Puttalam | |
| Kilinochchi | Ja-ela | |



Sri Lanka Telecom
One Country. One Voice.

www.slt.lk