

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Telecom PLC (“the Company”) and the consolidated financial statements of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2024, and of their financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the Financial Statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risk of material misstatement of the Financial Statements. The result of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying Financial Statements.

Key Audit Matter	How my audit addressed the Key Audit Matter
<p>(a) Revenue recognition of fixed telephony and mobile communication services</p> <p>The Group recognized revenue of Rs.111,148 Million from the provision of fixed telephony & mobile communication services for the year ended 31 December 2024 in accordance with accounting policy set out in Note 3(1) and disclosed in note 6 (a) to the financial statements.</p> <p>Recognition of revenue from the provision of fixed telephony & mobile communication services was a key focus of my audit due to:</p> <ul style="list-style-type: none"> • Complexity in revenue recognition as a result of : <ul style="list-style-type: none"> (i) Frequent changes in rate structures and arrangements with multiple product features (ii) Large volume of transactions which arise from sales of different combinations of hardware and services. (iii) Multiple IT systems which are used to capture, process and record the revenue. • Significant judgment exercised by management when determining: <ul style="list-style-type: none"> (i) Whether to recognize revenue at a point in time or over a period for revenue arrangements. (ii) Duration of customer contracts. (iii) Transaction price and allocating it to bundled products and services. 	<p>My audit procedures included the following key procedures;</p> <ul style="list-style-type: none"> • Tested the relevant key IT- dependent manual controls and manual controls over the capture and measurement of revenue transactions. • Tested the IT General controls and relevant key IT Application Controls of IT systems which have a significant impact over revenue recognition. My procedure also included testing the adequacy of controls implemented for security monitoring aspects over selected IT systems related to revenue recognition with the assistance of my internal specialized resources. • Performed re-computations and testing end to end reconciliations in relation to capture and measurement of revenue transactions, as relevant. • Assessed the reasonableness of significant judgments made by management when determining the timing of revenue recognition, duration of customer contracts and when allocating transaction price to performance obligation, based on the respective terms and conditions of customer contracts. • Assessed the adequacy of related disclosures reflected in Note 3 (1) and Note 6 (a) of the Financial Statements.
<p>(b) Carrying Value of Network Assets</p> <p>As at 31 December 2024, the Group’s network assets including capital work in progress amounted to Rs.140,841 million and represented 59 per cent of the total assets of the Group.</p>	<p>The audit procedures included the following key procedures;</p> <ul style="list-style-type: none"> • Obtained an understanding of the Group’s process in estimating the useful lives of network assets.

Carrying value of network assets including capital work in progress was a key focus of audit due to:

- Materiality of the reported depreciation on network assets which amounted to Rs.20,459 million for the year ended 31 December 2024.
- Judgments used by management associated with estimating the useful lives of the networks assets by the Group. It involves the Group's collective assessment of the industry practice, internal technical evaluation and experience with the similar assets in concluding the useful economic life of the network assets.
- The degree of management assumptions, judgments and estimates associated with the estimated future cash flows used for the value in use calculations of selected network assets.
- The degree of judgments involved, and assumptions used by management when assessing impairment of amount of capital work-in- progress relevant to network assets.
- The timing of recognition of commissioned assets from capital work in progress to network assets considering the significant judgments involved and appropriateness of the date from which network assets commenced being depreciated.
- Assessed the reasonableness of judgments used by management to estimate the useful lives of network assets to internal technical evaluations and publicly available information.
- Gained an understanding of how the management has forecasted its discounted cash flows of selected network assets and tested the completeness and accuracy of the underlying data used by the management.
- Evaluated management's impairment assessment of network assets including the judgments made by the management on:
 - (i) The nature and impact of changes on the business strategy and business environment including which specific assets are impacted; and
 - (ii) The extent of the impact of these changes on the carrying value of identified network assets.
- Assessed the reasonableness of management judgments applied and assumptions used in relation to capital work-in-progress of network assets including possible indicators of impairment which were identified by the management for any project related to network assets which have not been commissioned for a prolonged period, based on the knowledge of the business and industry.
- Evaluated the current status of completion of those projects in relation to budgeted project duration and assessed whether amounts related to network assets commissioned for use have been appropriately transferred out of capital work-in-progress and recognized under the relevant class of

property, plant & equipment, on a timely basis, through discussion with the respective project managers and inspection of relevant documentation.

- Determined the appropriateness of capitalization of cost for network assets during the year.
- Assessed the adequacy of related disclosures reflected in Note 3 (d) and Note 14 of the Financial Statements.

(c) Interest Bearing Loans and Borrowings

As at the reporting date, the Group reported total interest- bearing loans and borrowings of Rs. 71,725 million of which Rs. 14,365 million was reported as current liabilities and the balance Rs.57,360 million as non-current liabilities, as disclosed in Notes 3(c) (ii), 4.2, 8 and 24 to the Group Financial Statements. Interest- bearing loans and borrowings was a key audit matter due to:

- The materiality of the interest- bearing loans and borrowings balance which represented 49 per cent of the Group's total liabilities as at the reporting date.

The audit procedures included the following key procedures:

- Obtained an understanding of the terms and conditions attached to existing interest bearing loans and borrowings by perusing the loan agreements, facility letters and other contractual documents.
- Obtained confirmations for the outstanding amounts as at the reporting date.
- Obtained management's assessment of future cash flows and its plans to meet debt service obligations as per existing contractual arrangements and evaluated the reasonableness of significant judgements and assumptions made by management.

The adequacy of related disclosures reflected in Notes 3 (c) (ii), 4.2, 8 and 24 to the consolidated Financial Statements were also assessed.

1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group are required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Company and the Group;
- Whether the Company and the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Company and the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

2. Financial Review

2.1 Financial Results

2.1.1 Company

- (a). The financial results for the year under review indicated a profit of Rs.2,113 million, compared to a loss of Rs.1,132 million reported in the preceding financial year. This represents an improvement of Rs.3,245 million, or 287 per cent, in the financial result of the Company. The improvement was primarily driven an increase of revenue by Rs.1,598 million or 2.3 per cent supported by sustained demand for fixed broadband and enterprise solutions.

2.1.2 Group

The financial result for the year under review of the Group showed a profit of Rs.3,120 million, compared to a loss of Rs.3,921 million in the preceding financial year. This represents an improvement of Rs.7,041 million, or 1,796 per cent, in the Group's financial performance during the year under review. The improvement in profitability was primarily attributable to an increased revenue by Rs.4,730 million or 4.4 per cent, driven by enhanced performance across both fixed and mobile operations. Mobitel, the mobile subsidiary of the Company reversed its previous losses and emerged as a contributor to the Group's profitability in 2024.

2.2 Trend Analysis

The Trend analysis of the revenue, direct costs, sales and marketing costs, administrative costs and interest income for the year under review and the preceding year of the Company and the Group are as follows.

	2024	Group		2024	Company	
	Rs.	2023	Variance	Rs.	2023	Variance
	Million	Rs.	%	Million	Rs.	%
		Million			Million	
Revenue	111,148	106,418	4.44	71,309	69,711	2.29
Direct costs	65,009	67,840	4.17	39,941	41,256	3.19
Sales and marketing costs	10,940	11,100	1.44	6,370	5,589	(13.97)
Administrative costs	24,010	23,376	(2.71)	17,709	17,785	0.43
Interest Income	1,087	1,685	(35.49)	812	1,280	(36.56)

- (i) The Company's sales and marketing expenses amounted to Rs.6,370 million during the year under review, compared to Rs.5,589 million in the preceding year. This represents an increase of Rs.781 million, or approximately 13.97 percent, during the year under review.
- (ii) The Company's interest income amounted to Rs.812 million during the year under review, compared to Rs.1,280 million in the preceding year. This reflects a decrease of Rs.468 million, or approximately 36.56 percent, compared to the previous year.

2.3 Ratio Analysis

Key ratios of the Company and the Group for the year under review and the preceding year are as follows.

	Group		Company	
	2024	2023	2024	2023
Current Ratio (No of times)	0.82	0.62	0.82	0.56
Quick Asset Ratio (No of times)	0.76	0.57	0.76	0.50
Gross Profit Ratio (%)	41.51	36.25	43.99	40.82
Net Profit Ratio (%)	2.8	(3.68)	2.9	(1.62)
Return On Equity (%)	3.41	(4.45)	3.1	(1.7)
Earnings Per Share (Rs.)	1.73	(2.17)	1.17	(0.63)
Return on Assets (%)	1.28	(1.59)	1.14	(0.60)

- (a). The Group's liquidity position showed an improvement during the year 2024. This is evidenced by an increase in the current ratio from 0.62 in 2023 to 0.82, and the quick asset ratio from 0.57 to 0.76. The improvement of these ratios indicated the Group's ability to meet its short-term obligations compared to the previous year.
- (b). There was an improvement in Group's Gross profit during the year 2024. The gross profit ratio was increased from 36.25 per cent in the year 2023 to 41.51 per cent during the year under review, reflecting effective cost management and improved operating efficiency. Furthermore, the net profit ratio also turned positive, improving from a loss of 3.68 per cent in the year 2023 to a profit of 2.8 per cent in the year 2024, indicating an improvement in recovery from the prior year's loss.
- (c). The Group's Return on Assets (ROA) improved from negative 1.59 percent in 2023 to 1.28 percent in 2024. This indicated that the Group had become more efficient in utilizing its total assets to generate earnings in 2024.

3. Operational Review

3.1 Incorporation of the Company

The Company was established 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, by order of 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 the Company as per sub-section 2 of Section 23 of the Sri Lanka Telecommunication Act) to which the Department of Telecommunications was entitled or subject to immediately before the transfer date of 1 September 1991 were vested with the Company.

The Company was converted to a public limited company on 25 September 1996, 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 and the shares were listed on the Colombo Stock Exchange in January 2003. The Company was re-registered under the Companies Act No. 07 of 2007 as Sri Lanka Telecom PLC on 4 June 2007.

3.2 Principal Activities of the Group

The Group offers a comprehensive portfolio of telecommunication services across Sri Lanka, with its core operations in domestic and international fixed and mobile Information and Communication Technology (ICT) operations. Additionally the Group provides inter-alia, fixed and wireless broadband services, Internet Protocol Television (IPTV), data center and cloud services, digital products, International Direct Dialing (IDD) services, mobile money, maritime transmission and value-added services.

The Company's interest in subsidiaries and their business activities during the financial year 2024 are as follows:

Name of the Subsidiary	Business activity
<ul style="list-style-type: none"> • Mobitel (Private) Limited 	Mobile telecommunication services
<ul style="list-style-type: none"> • eChannelling PLC 	Digital lifestyle solutions for healthcare and other industries.
<ul style="list-style-type: none"> • Sri Lanka Telecom (Services) Ltd 	Total network solutions, IPTV support services, directory information and digital services (SLT VisionCom (Pvt) Ltd., and SLT Digital Services (Pvt) Ltd., fully owned subsidiaries of SLT were amalgamated into Sri Lanka Telecom (Services) Ltd.)
<ul style="list-style-type: none"> • Xyntac Singapore Pte. Ltd 	Wired telecommunication network operations in Singapore