

Sri Lanka Telecom PLC and its Subsidiaries

Registration No - PQ 7

Interim Financial Report

For the 9 months ended 30 September 2008



OUR VISION

To lead Sri Lanka to become the hub of telecommunications in South Asia.

OUR MISSION

To anticipate and fulfil the communication requirements of all sectors of the nation,

in a service oriented work ethic which will provide total customer satisfaction

through the most modern telecommunication facilities.



Sri Lanka Telecom PLC and its Subsidiaries

Company Registration No. PQ 7

Quarterly Interim Financial Report as of 30 September 2008

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company			Group			Company		
	July-Sep.		change	July-Sep.		change	Jan-Sep.		change	Jan-Sep.		change
	2008	2007		%	2008		2007	%		2008	2007	
Revenue	11,691	11,230	4	8,863	9,654	(8)	35,049	31,905	10	27,484	27,636	(1)
Operating costs	(6,383)	(5,274)	21	(4,649)	(4,321)	8	(17,842)	(15,078)	18	(13,377)	(12,573)	6
Operating profit before depreciator and Amortization	5,308	5,956	(11)	4,214	5,333	(21)	17,207	16,827	2	14,107	15,063	(6)
Depreciation	(2,533)	(2,522)	0	(2,046)	(2,191)	(7)	(7,546)	(7,611)	(1)	(6,182)	(6,673)	(7)
Amortisation of intangible assets	(82)	(51)	61	(37)	(19)	95	(230)	(162)	42	(95)	(67)	42
International Telecommunication operators' Levy-(ITL)	(732)	(714)	3	(665)	(680)	(2)	(2,222)	(2,099)	6	(2,048)	(2,017)	2
Operating profit	1,961	2,669	(27)	1,466	2,443	(40)	7,209	6,955	4	5,782	6,306	(8)
Voluntary Retirement Scheme		(43)		-	(43)		(370)	(43)		(370)	(43)	
Other income	38	49	(22)	37	50	(26)	178	145	23	175	145	21
Interest expenses and related charges	(561)	(466)	20	(301)	(234)	29	(1,619)	(1,524)	6	(940)	(892)	5
Interest income	304	361	(16)	295	350	(16)	875	930	(6)	821	891	(8)
Profit before tax	1,742	2,570	(32)	1,497	2,566	(42)	6,273	6,463	(3)	5,468	6,407	(15)
Taxation	(507)	(775)	(35)	(504)	(772)	(35)	(1,874)	(2,128)	(12)	(1,859)	(2,115)	(12)
Net profit for the period	1,235	1,795	(31)	993	1,794	(45)	4,399	4,335	1	3,609	4,292	(16)
Earnings per share (Rs)												
-Basic	0.68	0.99		0.55	0.99		2.44	2.40		2.00	2.38	
-Annualized	2.74	3.98		2.20	3.98		3.25	3.20		2.67	3.17	

The above figures are provisional & unaudited.

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 30 September 2008

Consolidated Balance Sheet

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 30 Sep. 2008	Audited as at 31 Dec. 2007	Un-Audited as at 30 Sep. 2008	Audited as at 31 Dec. 2007
Assets				
Non-Current Assets				
Property, plant and equipment	54,696	53,881	39,025	41,350
Intangible assets	1,805	1,614	571	376
Investments in subsidiaries	-	-	9,461	7,782
Non-current receivables	1,560	1,268	1,560	1,268
	58,061	56,763	50,617	50,776
Current Assets				
Inventories	2,368	1,476	2,244	1,373
Receivables and prepayments	12,503	9,938	12,433	10,064
Cash and cash equivalents	17,197	17,195	16,613	16,689
	32,068	28,609	31,290	28,126
Total Assets	90,129	85,372	81,907	78,902
Equity and Liabilities				
Capital and Reserves				
Stated Capital (Represented by 1,804,860,000 shares)	18,049	18,049	18,049	18,049
Hedging reserve	(26)	(58)	(26)	(58)
Insurance reserve	233	204	233	204
Retained earnings	26,299	23,705	28,092	26,288
Shareholders' Funds	44,555	41,900	46,348	44,483
Minority Interest	(2)	-	-	-
Total Shareholders' Funds & -Minority interest	44,553	41,900	46,348	44,483
Deferred income	5,998	6,429	5,998	6,429
Non Current Liabilities				
Grants	63	68	63	68
Deferred tax liabilities	1,290	2,777	1,290	2,777
Borrowings	15,453	16,660	11,494	12,366
Retirement benefit obligation	1,577	1,329	1,492	1,272
Trade and other payables	286	279	286	279
	18,669	21,113	14,625	16,762
Current Liabilities				
Trade and other payables	14,945	11,409	10,982	8,537
Current tax liabilities	2,290	1,896	2,271	1,858
Borrowings	3,674	2,625	1,683	833
	20,909	15,930	14,936	11,228
Total Equity and Liabilities	90,129	85,372	81,907	78,902

Signed on behalf of the Board.

Leisha De Silva Chandrasena
Chairperson
26-Nov-2008

P.A.Abeysekera
Director
26-Nov-2008

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Statement of Changes in Equity - 1st Jan 2007 to 30 th Sep 2008-Group

(All amounts in LKR Millions)

	Stated Capital	Hedging Reserve	Insurance Reserve	Exchange Equalisation Reserve	Retained Earnings	Minority Interest	Total Equity
Period ended 30 Sep 2007							
Balance at 1 January 2007	18,049	(236)	183		19,870		37,866
Cash flow hedges							
-Foreign currency translation difference		(30)					(30)
-Charged to income		156					156
Insurance reserve -charged to income			20				20
Exchange Equalisation from foreign subsidiary				1			1
Dividend in respect of 2006					(1,805)		(1,805)
Profit for the period					4,335		4,335
Balance at 30 September 2007	18,049	(110)	203	1	22,400	-	40,543
period ended 31 December 2007							
Balance at 1 Oct 2007	18,049	(110)	203	1	22,400		40,543
Cash flow hedges							
-Foreign currency translation difference		13					13
-Charged to income		39					39
Insurance Reserve- charged to income			1				1
Exchange Equalisation from foreign subsidiary				(1)			(1)
Profit for the period					1,305		1,305
Balance at 31 December 2007	18,049	(58)	204	-	23,705	-	41,900
Period ended 30 Sep 2008							
Balance at 1 January 2008	18,049	(58)	204		23,705		41,900
Cash flow hedges							
-Foreign currency translation difference		3					3
-Charged to income		29					29
Insurance Reserve- charged to income			29				29
Dividend in respect of 2007					(1,805)		(1,805)
Share of Minority Interest						(2)	(2)
Profit for the period					4,399		4,399
Balance at 30 September 2008	18,049	(26)	233	-	26,299	(2)	44,553

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Statement of Changes in Equity - 1st Jan 2007 to 30 th Sep 2008 -Company

(All amounts in LKR Millions)

	Stated Capital	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Period ended 30 Sep 2007					
Balance at 1 January 2007	18,049	(236)	183	22,705	40,701
Cash flow hedges					
-Foreign currency translation difference		(30)			(30)
-Charged to income		156			156
Insurance reserve -charged to income			20		20
Dividend in respect of 2006				(1,805)	(1,805)
Profit for the period				4,292	4,292
Balance at 30 September 2007	18,049	(110)	203	25,192	43,334
Balance at 1 Oct 2007	18,049	(110)	203	25,192	43,334
Cash flow hedges					
-Foreign currency translation difference		13			13
-Charged to income		39			39
Insurance Reserve- charged to income			1		1
Profit for the period				1,096	1,096
Balance at 31 December 2007	18,049	(58)	204	26,288	44,483
Period ended 30 Sep 2008					
Balance at 1 January 2008	18,049	(58)	204	26,288	44,483
Cash flow hedges					
-Foreign currency translation difference		3			3
-Charged to income		29			29
Insurance Reserve- charged to income			29		29
Dividend in respect of 2007				(1,805)	(1,805)
Profit for the period				3,609	3,609
Balance at 30 September 2008	18,049	(26)	233	28,092	46,348

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Consolidated Cash Flow Statement for the 9 months ended 30 Sep

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2008	2007	2008	2007
Operating activities				
Cash generated from operations	14,618	15,767	10,822	13,745
Interest received	533	1,241	479	1,202
Interest paid	(1,444)	(1,650)	(765)	(966)
Tax paid	(2,966)	(4,977)	(2,933)	(4,972)
Net cash generated from operating activities	10,741	10,381	7,603	9,009
Investing activities				
Acquisition of property, plant and equipment	(8,354)	(6,215)	(3,868)	(3,748)
Acquisition of intangible assets	(415)	-	(290)	-
Proceeds from disposal of property, plant and equipment	13	4	9	4
Investments in subsidiaries	-	-	(1,679)	-
Net cash used in investing activities	(8,756)	(6,211)	(5,828)	(3,744)
Financing activities				
Finance lease payment	(4)	-	(4)	-
Proceeds from borrowings	1,398	2,520	900	-
Payment on borrowings	(1,507)	(2,515)	(774)	(1,110)
Dividend payment	(1,805)	(1,805)	(1,805)	(1,805)
Net cash used in financing activities	(1,918)	(1,800)	(1,683)	(2,915)
Increase/(Decrease) in cash and cash equivalents	67	2,370	92	2,350
Movement in Cash and cash equivalents				
Cash and cash equivalents at 1 January	16,920	14,335	16,689	14,390
Effect on exchange fluctuation on cash and cash equivalents	(168)	704	(168)	704
	16,752	15,039	16,521	15,094
Increase / (Decrease)	67	2,370	92	2,350
Cash and cash equivalents at 30 Sep	16,819	17,409	16,613	17,444

Notes to the Financial Statement

1. Accounting Policies

These Financial Statements are in compliance with Sri Lanka Accounting Standards 35- Interim Financial Reporting. The Company and Group have adopted consistent accounting policies as disclosed in the Annual Report for the financial year ended 31 December 2007.

2. International Telecommunication Operators' Levy

As in the previous year, the Company continues to recognize the expense arising on International Telecommunication Operator's Levy (ITL) as an expense in arriving at the results for the period. The Gazette notification of 31 March 2005 provides that each domestic PSTN operator may claim two thirds of the Telecommunications Development Charge (TDC) funds, for the development of their telecommunications network in unserved and underserved areas of Sri Lanka as may be determined by the Telecommunications Regulatory Commission (TRC) within a period of three years.

The documentation supporting the Network roll out in unserved and underserved areas has been submitted to the TRC. The refund as at 30 September 2008, has not been recognized in the income statement, since TRC's determination of the refund is yet awaited.

3. Investments in Subsidiaries

A fresh capital infusion of Rs. 1,000,000,000 and Rs. 500,000,000 was made by SLT for which Mobitel issued 100,000,000 12% and 50,000,000 14% Cumulative redeemable Preference Shares respectively of Rs.10/- each during the period.

In addition to above, the Company made following investments in subsidiaries during the period.

Company	Investment - Rs	Share holding
Sky Network (Pvt) Limited	107,900,000	75%
SLT Publications (Pvt) Limited	10,000,000	100%
SLT VisionCom (Pvt) Limited	60,000,000	100%
SLT Manpower Solutions (Pvt) Limited	500,000	100%

4. Dividends on Cumulative redeemable preference shares

Mobitel has not declared dividends for 675,000,000 12% and 50,000,000 14% Cumulative redeemable preference shares of Rs.10/- each, issued to SLT. Therefore, the estimated amount of dividends of Rs 1,542 Mn as at 30 September 2008, has not been recognized in the Financial Statements.

5. Deemed Dividend Tax on Public Corporations – years of assessment 93/94 and 94/95

The Department of Inland Revenue issued assessments for the years of assessment 1993/94 and 1994/95 charging tax, on deemed dividend, based on book profits of the company. The company appealed against those assessments, on the ground that deemed dividend tax should be calculated on tax adjusted profits. The total liability for years of assessment 93/94 and 94/95 as per the said assessments, amounts to Rs.642,986,293/-.

Accordingly, this appeal was referred to the Board of Review for hearing and the Board of Review confirmed these assessments. However, the company has appealed against the Board determination to the Court of Appeal.

6. Events after the Balance Sheet date

No material events have arisen since Balance Sheet date which would require adjustments to, or disclosure in the Financial Statements.

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Investor Information

Ratios

	Group		Company	
	30 Sep 2008	31 Dec. 2007	30 Sep 2008	31 Dec. 2007
Net Assets per Share (Rs)	24.69	23.22	25.68	24.65
Debt / Equity ratio -Number of times	0.30	0.32	0.22	0.23
Quick Asset Ratio - Number of times	1.42	1.70	1.94	2.38
	For the 9 Months ended		For the 9 Months ended	
	30 Sep 2008	30 Sep 2007	30 Sep 2008	30 Sep 2007
Interest Cover - Number of times	4.87	5.24	6.82	8.18

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 Sep 2008	3 Months to 30 Sep 2007
-Highest	47.50	36.75
-Lowest	40.50	30.25
-Last Traded price	41.50	33.25

Dividend Payment

Final Dividend for the year 2007 -Rs 1.00 per share paid on 4 April 2008.

Share trading from 1 July 2008 to 30 Sep 2008

	3 Months to 30 Sep 2008
-No of Transactions	1,352
- No of Shares Traded	3,344,387
-Value of Shares Traded (Rs)	150,674,068