



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.*

Interim Financial Report

Year ended 31 December 2006

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2006

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company			Group			Company		
	Oct-Dec		change	Oct-Dec		change	Jan-Dec		change	Jan-Dec		change
	2006	2005		2006	2005		2006	2005		2006	2005	
Revenue	10,812	8,905	21	9,714	8,053	21	40,691	32,515	25	36,109	29,282	23
Operating costs	(5,167)	(4,841)	7	(4,555)	(3,809)	20	(17,979)	(15,512)	16	(15,351)	(12,898)	19
Operating profit before depreciation	5,645	4,064	39	5,159	4,244	22	22,712	17,003	34	20,758	16,384	27
Depreciation	(2,500)	(2,264)	10	(2,293)	(2,023)	13	(10,005)	(9,366)	7	(8,849)	(8,144)	9
Operating profit	3,145	1,800	75	2,866	2,221	29	12,707	7,637	66	11,909	8,240	45
International Telecommunication operators' Levy-(ITL)	(646)	(485)	33	(646)	(485)	33	(2,282)	(1,550)	47	(2,280)	(1,549)	47
Voluntary Retirement Scheme-(VRS) -Note 1	-	-		-	-		(425)	-		(425)	-	
Other income	36	95	(62)	35	42	(17)	180	162	11	175	158	11
Interest expenses and related charges	(276)	(532)	(48)	(172)	(383)	(55)	(1,989)	(2,085)	(5)	(1,316)	(1,437)	(8)
Interest income	283	225	26	283	223	27	1,036	648	60	1,166	633	84
Profit before tax	2,542	1,103	130	2,366	1,618	46	9,227	4,812	92	9,229	6,045	53
Taxation	(974)	(499)	95	(964)	(480)	101	(3,789)	(1,719)	120	(3,732)	(1,694)	120
Net profit for the period	1,568	604	160	1,402	1,138	23	5,438	3,093	76	5,497	4,351	26
Earnings per share (Rs)												
-Basic	0.87	0.33		0.78	0.63		3.01	1.71		3.05	2.41	
-Annualized	3.47	1.34		3.11	2.52		3.01	1.71		3.05	2.41	

Note-1 Voluntary Retirement Scheme (VRS)

A Voluntary Retirement Scheme (VRS) has been announced on 6 April 2006, by the company. Accordingly, based on the number of applications and the defined plan identified for each grade of staff the cost of VRS is estimated at Rs 425 Mn.

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2006

Consolidated Balance Sheet as at

(All amounts in LKR Millions)

	Group		Company	
	Audited as at 31 Dec. 2006	Audited as at 31 Dec. 2005	Audited as at 31 Dec. 2006	Audited as at 31 Dec. 2005
Assets				
Non-Current Assets				
Property, plant & equipment	54,425	56,151	44,856	47,607
Intangible assets	1,365	612	37	84
Investments	-	-	7,032	3,497
Non-current receivables	960	962	960	3,462
	56,750	57,725	52,885	54,650
Current Assets				
Inventories	1,419	844	1,325	694
Receivables & prepayments	10,558	8,483	10,554	7,858
Cash & cash equivalents	15,315	14,468	14,390	12,735
	27,292	23,795	26,269	21,287
Total Assets	84,042	81,520	79,154	75,937
Equity and Liabilities				
Capital and Reserves				
Ordinary share capital	18,049	18,049	18,049	18,049
Capital reserve	-	188	-	188
Hedging reserve	(236)	(208)	(236)	(208)
Insurance reserve	183	166	183	166
Retained earnings	19,870	15,598	22,705	18,374
	37,866	33,793	40,701	36,569
Deferred income	7,110	7,546	7,110	7,546
Non Current Liabilities				
Grants	75	89	75	89
Deferred tax liabilities	4,513	6,013	4,513	6,013
Borrowings	16,868	19,139	13,065	13,848
Retirement benefit obligation	942	751	903	721
Trade & other payables	298	297	298	297
	22,696	26,289	18,854	20,968
Current Liabilities				
Trade & other payables	8,721	7,414	7,330	6,263
Current tax liability	3,732	2,777	3,705	2,757
Borrowings	3,917	3,701	1,454	1,834
	16,370	13,892	12,489	10,854
Total Equity and Liabilities	84,042	81,520	79,154	75,937

Signed on behalf of the Board.

P.Asoka Weerasinghe De Silva
Chairman
9-Feb-2007

Shoji Takahashi
CEO / Director
9-Feb-2007

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2006

Statement of Changes in Equity - 1st Jan 2005 to 31 December 2006

(All amounts in LKR Millions)

Group

	Share Capital	Capital Reserve	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Year ended 31 December 2005						
Balance at 1 January 2005	18,049	188	(677)	100	13,404	31,064
Cash flow hedges						
-Foreign currency translation difference			245			245
-Charged to income			224			224
Insurance reserve -charged to income				66		66
Dividend in respect of 2004					(902)	(902)
Unclaimed dividend written back					3	3
Profit for the year 2005					3,093	3,093
Balance at 31 December 2005	18,049	188	(208)	166	15,598	33,793
Year ended 31 December 2006						
Balance at 1 January 2006	18,049	188	(208)	166	15,598	33,793
Capital reserve transferred to retained earnings		(188)			188	-
Cash flow hedges						
-Foreign currency translation difference			(96)			(96)
-Charged to income			68			68
Insurance reserve -charged to income				17		17
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the year 2006					5,438	5,438
Balance at 31 December 2006	18,049	-	(236)	183	19,870	37,866

Sri Lanka Telecom Limited and its Subsidiaries

Quarterly Interim Financial Report as of 31 December 2006

Statement of Changes in Equity - 1st Jan 2005 to 31 December 2006

(All amounts in LKR Millions)

Company

	Share Capital	Capital Reserve	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Year ended 31 December 2005						
Balance at 1 January 2005	18,049	188	(677)	100	14,922	32,582
Cash flow hedges						
-Foreign currency translation difference			245			245
-Charged to income			224			224
Insurance reserve -charged to income				66		66
Dividend in respect of 2004					(902)	(902)
Unclaimed dividend written back					3	3
Profit for the year 2005					4,351	4,351
Balance at 31 December 2005	18,049	188	(208)	166	18,374	36,569
Year ended 31 December 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Capital reserve transferred to retained earnings		(188)			188	-
Cash flow hedges						
-Foreign currency translation difference			(96)			(96)
-Charged to income			68			68
Insurance reserve -charged to income				17		17
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the year 2006					5,497	5,497
Balance at 31 December 2006	18,049	-	(236)	183	22,705	40,701

Notes to the Financial Statements.

1 Accounting Policies

These Financial Statements are in compliance with Sri Lanka Accounting Standards 35- Interim Financial Reporting. The Company and Group have adopted consistent accounting policies as disclosed in the Annual Report for the financial year ended 31 December 2005 except the following;

Goodwill on consolidation

The amount shown as goodwill at the end of each quarter is assessed for impairment and when necessary provisions made to reflect the impairment.

Intangible Assets

The Company and Group previously disclosed license fees , software and deferred expenses under ' Non current receivables'. Management believes that their inclusion under 'Intangible assets' reflects the fair presentation of the assets.

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 year. 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 estimated refund of Rs. 3,282 million as at 31 December 2006 has not been recognised in the income statement, since TRC's determination of the refund is yet awaited.

3 Investments in Subsidiary

Mobitel (Pvt) Ltd (Mobitel) issued 150,000,000 12% Cumulative redeemable preference shares of Rs.10/- each to Sri Lanka Telecom (SLT) in June 2005. Further 300,000,000 12% Cumulative redeemable preference shares of Rs.10/- each was issued by Mobitel, following the conversion of the loan granted to Mobitel amounting to Rs 3,000,000,000 by SLT on 31 October 2006

A fresh capital infusion of Rs. 500,000,000 was also made by SLT for which Mobitel issued 50,000,000 12% Cumulative redeemable Preference Shares of Rs.10/- each in November 2006.

4 Dividends on Cumulative redeemable preference shares

Mobitel has not declared dividends for 500,000,000 12% Cumulative redeemable preference shares of Rs.10/- each, issued to SLT. Therefore, the estimated amount of dividends of Rs 349 Mn as at 31 December 2006 has not been recognized in the Financial Statements

5 Appeal on the Judgment given on tariff revision implemented in 2003.

An organisation, styling itself "The Consumer Association of Lanka", initiated legal action in the Court of Appeal seeking a writ of Certiorari to quash the approval granted by the Minister of Telecommunications (the Minister) and the Telecommunication Regulatory Commission of Sri Lanka (TRC) for the tariff revision implemented by Sri Lanka Telecom (SLT) in September 2003, in which the TRC, the Minister, the Secretary to the Treasury and SLT were cited as the respondents to the case.

The judgment delivered in July 2005 by the Court of Appeal granted the writ of Certiorari quashing the approval granted for the tariff revision by the Minister and the TRC. SLT filed its application seeking special leave to appeal to the Supreme Court, which was granted on 07 November 2005 and presently the case is pending in the Supreme Court. Pending the outcome of the appeal, no adjustment has been made in the Financial Statements upto 31 December 2006.

6 Formation of Subsidiaries

SLT has incorporated two subsidiaries namely SLT Hong Kong Ltd and SLT Publications (Pvt) Ltd on 16th November, 2006 and 20th December, 2006 respectively. None of the subsidiaries had commenced operations at the end of the year.

7 Events after the Balance Sheet date.

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

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2006

Consolidated Cash Flow Statement for the year ended 31 December
(All amounts in LKR Millions)

	GROUP		COMPANY	
	2006	2005	2006	2005
Operating activities				
Cash generated from operations	19,322	19,668	16,229	18,049
Interest received	574	541	704	526
Interest paid	(2,142)	(2,294)	(1,470)	(1,581)
Tax paid	(4,320)	(715)	(4,266)	(710)
Net cash generated from operating activities	13,434	17,200	11,197	16,284
Investing activities				
Acquisition of property, plant & equipment	(8,693)	(11,460)	(6,098)	(7,843)
Acquisition of intangible assets	(507)	-	-	-
Disposal of investments	-	762	-	762
Disposal of property, plant & equipment	4	12	4	12
Loan given to subsidiary	-	-	(500)	(2,500)
Investments in subsidiary	-	-	(535)	(1,500)
Net cash used in investing activities	(9,196)	(10,686)	(7,129)	(11,069)
Financing activities				
Proceeds from borrowings	-	2,041	-	-
Payment on borrowings	(3,739)	(3,338)	(1,821)	(1,723)
Dividends paid	(1,354)	(899)	(1,354)	(899)
Redemption of debentures	-	(375)	-	(375)
Net cash used in financing activities	(5,093)	(2,571)	(3,175)	(2,997)
Increase/(Decrease) in cash & cash equivalents	(855)	3,943	893	2,218
As at 1 January	15,190	10,485	13,497	10,517
Increase / (Decrease)	(855)	3,943	893	2,218
As at 31 December	14,335	14,428	14,390	12,735

Sri Lanka Telecom Limited and its Subsidiaries

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Investor Information

Ratios

	Group		Company	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Net Assets per Share (Rs)	20.98	18.72	22.55	20.26
Debt / Equity ratio -Number of times	0.35	0.40	0.26	0.30
Quick Asset Ratio - Number of times	1.58	1.65	2.00	1.90
	Year ended 31 Dec		Year ended 31 Dec	
	2006	2005	2006	2005
Interest Cover - Number of times	10.68	4.35	62.53	8.52

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 31Dec 2006	3 Months to 31 Dec 2005
-Highest	29.75	27.00
-Lowest	21.00	15.75
-Last Traded price	27.75	16.50

Dividend Payment

Final Dividend for the year 2005 -Rs 0.75 per share paid on 5 May 2006

Share trading from 1 Jan 2006 to 31 Dec 2006

	3 Months to 31Dec 2006	12 Months to 31Dec 2006
-No of Transactions	12,398	24,392
- No of Shares Traded	176,758,325	294,236,116
-Value of Shares Traded (Rs)	4,748,162,192	6,858,224,712