

Sri Lanka Telecom PLC and its Subsidiaries

Registration No - PQ 7

Interim Financial Report

For the year ended 31 December 2007



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 31 December 2007

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
	2007	2006	%	2007	2006	%	2007	2006	%	2007	2006	%
Revenue (Note 1)	11,329	10,812	5	9,432	9,714	(3)	43,234	40,691	6	37,068	36,109	3
Operating costs	(5,648)	(5,156)	10	(4,658)	(4,555)	2	(20,748)	(17,915)	16	(17,231)	(15,351)	12
Operating profit before depreciation and Amortization	5,681	5,656	0	4,774	5,159	(7)	22,486	22,776	(1)	19,837	20,758	(4)
Depreciation	(2,611)	(2,477)	5	(2,211)	(2,270)	(3)	(10,220)	(9,964)	3	(8,884)	(8,808)	1
Amortisation of intangible assets	(62)	(63)	(2)	(26)	(34)	(24)	(196)	(210)	(7)	(94)	(89)	6
International Telecommunication operators' Levy-(ITL)	(752)	(646)	16	(710)	(646)	10	(2,851)	(2,282)	25	(2,727)	(2,280)	20
Operating profit	2,256	2,470	(9)	1,827	2,209	(17)	9,219	10,320	(11)	8,132	9,581	(15)
Voluntary Retirement Scheme-(VRS)	-	-	-	-	-	-	(43)	(425)	-	(43)	(425)	-
Other income	24	36	(33)	21	35	(40)	169	180	(6)	166	175	(5)
Interest expenses and related charges	(699)	(247)	183	(471)	(161)	193	(2,232)	(1,884)	18	(1,363)	(1,268)	7
Interest income	355	283	25	347	283	23	1,286	1,036	24	1,239	1,166	6
Profit before tax	1,936	2,542	(24)	1,724	2,366	(27)	8,399	9,227	(9)	8,131	9,229	(12)
Taxation	(631)	(974)	(35)	(628)	(964)	(35)	(2,759)	(3,789)	(27)	(2,743)	(3,732)	(27)
Net profit for the period	1,305	1,568	(17)	1,096	1,402	(22)	5,640	5,438	4	5,388	5,497	(2)
Earnings per share (Rs)												
-Basic	0.72	0.87		0.61	0.78		3.12	3.01		2.99	3.05	
-Annualized	2.89	3.47		2.43	3.11		3.12	3.01		2.99	3.05	

The above figures are provisional and unaudited

Note -1

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

An amount of Rs 1,394 million has been reduced from Revenue, which represents the excess charges made from January 2007 to October 2007, as a result of the Supreme Court decision with regard to the above case.

In terms of same settlement, the revised tariff from 1 November 2007 has been agreed at a discount of 9.03% of the previous tariff based on the per second billing.

Consolidated Balance Sheet as at

(All amounts in LKR Millions)

	Group		Company	
	Un-Audited as at 31 Dec. 2007	Audited as at 31 Dec. 2006	Un-Audited as at 31 Dec. 2007	Audited as at 31 Dec. 2006
Assets				
Non-Current Assets				
Property, plant and equipment	53,881	54,202	41,350	44,633
Intangible assets	1,614	1,588	376	260
Investments	-	-	7,782	7,032
Non-current receivables	1,268	960	1,268	960
	56,763	56,750	50,776	52,885
Current Assets				
Inventories	1,476	1,419	1,373	1,325
Receivables and repayments	9,938	10,558	10,064	10,554
Cash and cash equivalents	17,195	15,315	16,689	14,390
	28,609	27,292	28,126	26,269
Total Assets	85,372	84,042	78,902	79,154
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	(58)	(236)	(58)	(236)
Insurance reserve	204	183	204	183
Retained earnings	23,705	19,870	26,288	22,705
	41,900	37,866	44,483	40,701
Deferred income	6,429	7,110	6,429	7,110
Non Current Liabilities				
Grants	68	75	68	75
Deferred tax liabilities	2,777	4,513	2,777	4,513
Borrowings	16,660	16,868	12,366	13,065
Retirement benefit obligation	1,329	942	1,272	903
Trade and other payables	279	298	279	298
	21,113	22,696	16,762	18,854
Current Liabilities				
Trade and other payables	11,409	8,721	8,537	7,330
Current tax liability	1,896	3,732	1,858	3,705
Borrowings	2,625	3,917	833	1,454
	15,930	16,370	11,228	12,489
Total Equity and Liabilities	85,372	84,042	78,902	79,154

The above figures are provisional and unaudited
Signed on behalf of the Board.

P.Asoka Weerasinghe De Silva
Chairman
22 -Feb-2008

Shoji Takahashi
CEO / Director
22 -Feb-2008

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 December 2007

Statement of Changes in Equity - 1st Jan 2006 to 31 Dec 2007

(All amounts in LKR Millions)

Group

	Stated Capital	Capital Reserve	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Year ended 31 December 2006						
Balance at 1 January 2006	18,049	188	(208)	166	15,598	33,793
Cash flow hedges						
-Foreign currency translation difference			(96)			(96)
-Charged to income			68			68
Insurance reserve -charged to income				17		17
Capital reserve						
-trasferred to retained earnings		(188)			188	-
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

Year ended 31 December 2007

Balance at 1 January 2007	18,049	-	(236)	183	19,870	37,866
Cash flow hedges						
-Foreign currency translation difference			(17)			(17)
-Charged to income			195			195
Insurance reserve -charged to income				21		21
Dividend in respect of 2006					(1,805)	(1,805)
Profit for the year 2007					5,640	5,640
Balance at 31 December 2007	18,049	-	(58)	204	23,705	41,900

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Company Registration No. PQ 7

Quarterly Interim Financial Report as of 31 December 2007

Statement of Changes in Equity - 1st Jan 2006 to 31 Dec 2007

(All amounts in LKR Millions)

Company

	Stated Capital	Capital Reserve	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Year ended 31 December 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Cash flow hedges						
-Foreign currency translation difference			(96)			(96)
-Charged to income			68			68
Insurance reserve -charged to income				17		17
Capital reserve						
-trasferred to retained earnings		(188)			188	-
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
Year ended 31 December 2007						
Balance at 1 January 2007	18,049	-	(236)	183	22,705	40,701
Cash flow hedges						
-Foreign currency translation difference			(17)			(17)
-Charged to income			195			195
Insurance reserve -charged to income				21		21
Dividend in respect of 2006					(1,805)	(1,805)
Profit for the year 2007					5,388	5,388
Balance at 31 December 2007	18,049	-	(58)	204	26,288	44,483

Sri Lanka Telecom PLC and its Subsidiaries
Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 December 2007

Consolidated Cash Flow Statement for the year ended 31 December

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2007	2006	2007	2006
Operating activities				
Cash generated from operations	22,003	19,337	17,854	16,248
Interest received	1,684	574	1,637	704
Interest paid	(2,265)	(2,142)	(1,396)	(1,470)
Tax paid	(6,332)	(4,334)	(6,326)	(4,284)
Net cash generated from operating activities	15,090	13,435	11,769	11,198
Investing activities				
Acquisition of property, plant and equipment	(9,866)	(8,033)	(5,568)	(5,897)
Acquisition of intangible assets	(222)	(1,168)	(210)	(202)
Proceeds from disposal of of property, plant and equipment	15	4	15	4
Loan given to subsidiary	-	-	-	(500)
Investments in subsidiary	-	-	(750)	(535)
Net cash used in investing activities	(10,073)	(9,197)	(6,513)	(7,130)
Financing activities				
Proceeds from borrowings	2,653	-	-	-
Finance lease principal payment	(4)	-	(4)	-
Payment on borrowings	(3,399)	(3,739)	(1,271)	(1,821)
Dividends paid	(1,805)	(1,354)	(1,805)	(1,354)
Net cash used in financing activities	(2,555)	(5,093)	(3,080)	(3,175)
Increase/(Decrease) in cash and cash equivalents	2,462	(855)	2,176	893
Cash and cash equivalents at beginning of the year	14,335	14,428	14,390	12,735
Effect on exchange fluctuation on cash and cash equivalents	123	762	123	762
	14,458	15,190	14,513	13,497
Increase / (Decrease)	2,462	(855)	2,176	893
Cash and cash equivalents at end of the year	16,920	14,335	16,689	14,390

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 2006 except the following;

The software owned by the Company which were previously disclosed as "other fixed assets" under property plant and equipment, are now included in "intangible assets". Further, the amortisation of deferred insurance premium which was previously disclosed under finance costs and amortisation of software which was previously disclosed under depreciation are included in "amortisation of intangible assets" in the income statement.

Management believes that the above re-classification give a fairer presentation.

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 refund as at 31 December 2007 has not been recognized in the income statement, since TRC's determination of the refund is yet awaited.

3. Investments in Subsidiary

A fresh capital infusion of Rs. 750,000,000 was made by SLT for which Mobitel issued 75,000,000 12% Cumulative redeemable Preference Shares of Rs.10/- each in the year 2007.

4. Dividends on Cumulative redeemable preference shares

Mobitel has not declared dividends for 575,000,000 12% Cumulative redeemable preference shares of Rs.10/- each, issued to SLT. Therefore, the estimated amount of dividends of Rs 956 Mn as at 31 December 2007 has not been recognized in the Financial Statements

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

In 2003, an organization identifying itself as "The Consumer Associations of Sri Lanka" initiated legal action in the Court of Appeal seeking a Writ of Certiorari to quash the approval granted by the Minister of Telecommunication and the Telecommunication Regulatory Commission of Sri Lanka for the tariff revisions implemented by the Company in September 2003.

The judgment delivered in July 2005 by the Court of Appeal granted the writ of Certiorari quashing the approval granted for the tariff revision. The Company filed its application seeking special leave to appeal to the Supreme Court which was granted in November 2005.

As ordered by the Supreme Court on 27 August 2007 in respect of the judgment in the above case, parties agreed on a settlement with a discount of 8.72% in the local call tariffs and rental charges effective from 1 January 2007. Accordingly, a credit amounting to Rs 1,394 million, which represents the excess charges made from 1 January 2007 to 31 October 2007, was refunded to customers with the November 2007 bills. This adjustment has been recognised as a reduction in revenue.

In terms of the same settlement, the revised tariffs from 1 November 2007 has been agreed at a discount of 9.03% of the previous tariffs. The revised tariffs have been incorporated in to the time based billing (per second billing) structure adopted since 1 November 2007.

6. Event 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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Company Registration No. PQ 7
Quarterly Interim Financial Report as of 31 December 2007

Investor Information

Ratios

	Group		Company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Net Assets per Share (Rs)	23.21	20.98	24.65	22.55
Debt / Equity ratio -Number of times	0.32	0.35	0.23	0.26
Quick Asset Ratio - Number of times	1.70	1.58	2.38	2.00
	Year ended 31 Dec		Year ended 31 Dec	
	2007	2006	2007	2006
Interest Cover - Number of times	4.76	5.90	6.97	8.28

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 31 Dec 2007	3 Months to 31 Dec 2006
-Highest	35.50	29.75
-Lowest	31.00	21.00
-Last Traded price	31.50	27.75

Dividend Payment

Final Dividend for the year 2006 -Rs 1.00 per share paid on 10 April 2007.

Share trading from 1 October 2007 to 31 December 2007

	3 Months to 31 Dec 2007
-No of Transactions	2,417
- No of Shares Traded	13,992,919
-Value of Shares Traded (Rs)	472,839,923