



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

9 Months ended 30 September 2006

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 September 2006

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 %
	2006	2005		2006	2005		2006	2005		2006	2005	
Revenue	10,316	8,421	23	9,002	7,583	19	29,879	23,589	27	26,395	21,260	24
Operating costs	(4,481)	(3,650)	23	(3,697)	(2,983)	24	(12,812)	(10,692)	20	(10,796)	(9,089)	19
Operating profit before depreciation	5,835	4,771	22	5,305	4,600	15	17,067	12,897	32	15,599	12,171	28
Depreciation	(2,501)	(2,302)	9	(2,219)	(1,947)	14	(7,505)	(7,081)	6	(6,556)	(6,121)	7
Operating profit	3,334	2,469	35	3,086	2,653	16	9,562	5,816	64	9,043	6,050	49
International Telecommunication operators' Levy-(ITL)	(563)	(467)	21	(563)	(467)	21	(1,636)	(1,066)	53	(1,634)	(1,064)	54
Voluntary Retirement Scheme-(VRS) -Note 1	-	-		-	-		(425)	-		(425)	-	
Other income	43	41	5	42	38	11	144	88	64	140	85	65
Interest expenses and related charges	(511)	(490)	4	(337)	(318)	6	(1,713)	(1,553)	10	(1,144)	(1,054)	9
Interest income	279	167	67	339	164	107	753	423	78	883	410	115
Profit before tax	2,582	1,720	50	2,567	2,070	24	6,685	3,708	80	6,863	4,427	55
Taxation	(1,012)	(611)	66	(1,001)	(607)	65	(2,815)	(1,219)	131	(2,768)	(1,214)	128
Net profit for the period	1,570	1,109	42	1,566	1,463	7	3,870	2,489	55	4,095	3,213	27
Earnings per share (Rs)												
-Basic	0.87	0.61		0.87	0.81		2.14	1.38		2.27	1.78	
-Annualized	3.48	2.46		3.47	3.24		2.86	1.84		3.03	2.37	

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.

The above figures are provisional & unaudited.

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 September 2006

Consolidated Balance Sheet as at
(All amounts in LKR Millions)

	Group		Company	
	Unaudited as at 30 Sep 2006	Audited as at 31 Dec. 2005	Unaudited as at 30 Sep 2006	Audited as at 31 Dec. 2005
Assets				
Non-Current Assets				
Property, plant & equipment	54,779	56,151	45,473	47,607
Goodwill on consolidation	84	141	-	-
Investments	-	-	3,497	3,497
Non-current receivables	1,616	1,385	4,042	3,498
	56,479	57,677	53,012	54,602
Current Assets				
Inventories	1,637	844	1,576	694
Receivables & prepayments	10,108	8,531	9,606	7,906
Cash & cash equivalents	14,768	14,468	13,401	12,735
	26,513	23,843	24,583	21,335
Total Assets	82,992	81,520	77,595	75,937
Equity and Liabilities				
Capital and Reserves				
Ordinary shares	18,049	18,049	18,049	18,049
Capital reserves	188	188	188	188
Hedging reserve	(119)	(208)	(119)	(208)
Insurance reserve	180	166	180	166
Retained earnings	18,114	15,598	21,115	18,374
	36,412	33,793	39,413	36,569
Deferred income	7,273	7,546	7,273	7,546
Non Current Liabilities				
Grant	77	89	77	89
Deferred tax liabilities	4,878	6,013	4,878	6,013
Borrowings	17,285	19,139	12,778	13,848
Retirement benefit obligation	851	751	812	721
Trade & other payables	308	297	308	297
	23,399	26,289	18,853	20,968
Current Liabilities				
Trade & other payables	8,508	7,414	7,055	6,263
Current tax liability	3,222	2,777	3,186	2,757
Borrowings	4,178	3,701	1,815	1,834
	15,908	13,892	12,056	10,854
Total Equity and Liabilities	82,992	81,520	77,595	75,937

The above figures are provisional and unaudited.

Signed on behalf of the Board.

P.Asoka Weerasinghe De Silva
Chairman
Oct-2006

Shuheii Anan
CEO / Director
Oct-2006

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 September 2006

Statement of Changes in Equity - 1st Jan 2005 to 30 September 2006

(All amounts in LKR Millions)

Group

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Period ended 30 Sep. 2005						
Balance at 1 January 2005	18,049	188	(677)	100	13,404	31,064
Cash flow hedges						
-Foreign currency translation difference			238			238
-Charged to income			126			126
Insurance reserve -charged to income				61		61
Dividend in respect of 2004					(902)	(902)
Profit for the period					2,489	2,489
Balance at 30 Sep. 2005	18,049	188	(313)	161	14,991	33,076
Period ended 31 December 2005						
Balance at 1 Oct 2005	18,049	188	(313)	161	14,991	33,076
Cash flow hedges						
-Foreign currency translation difference			7			7
-Charged to income			98			98
Insurance reserve -charged to income				5		5
Unclaimed dividend written back					3	3
Profit for the period					604	604
Balance at 31 Dec. 2005	18,049	188	(208)	166	15,598	33,793
Period ended 30 Sep 2006						
Balance at 1 January 2006	18,049	188	(208)	166	15,598	33,793
Cash flow hedges						
-Foreign currency translation difference			(43)			(43)
-Charged to income			132			132
Insurance reserve -charged to income				14		14
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the period					3,870	3,870
Balance at 30 Sep. 2006	18,049	188	(119)	180	18,114	36,412

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 September 2006

Statement of Changes in Equity - 1st Jan 2005 to 30 September 2006

(All amounts in LKR Millions)

Company

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Period ended 30 Sep. 2005						
Balance at 1 January 2005	18,049	188	(677)	100	14,922	32,582
Cash flow hedges						
-Foreign currency translation difference			238			238
-Charged to income			126			126
Insurance reserve -charged to income				61		61
Dividend in respect of 2004					(902)	(902)
Profit for the period					3,213	3,213
Balance at 30 Sep. 2005	18,049	188	(313)	161	17,233	35,318
Period ended 31 December 2005						
Balance at 1 Oct 2005	18,049	188	(313)	161	17,233	35,318
Cash flow hedges						
-Foreign currency translation difference			7			7
-Charged to income			98			98
Insurance reserve -charged to income				5		5
Unclaimed dividend written back					3	3
Profit for the period					1,138	1,138
Balance at 31 Dec. 2005	18,049	188	(208)	166	18,374	36,569
Period ended 30 Sep 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Cash flow hedges						
-Foreign currency translation difference			(43)			(43)
-Charged to income			132			132
Insurance reserve -charged to income				14		14
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the period					4,095	4,095
Balance at 30 Sep. 2006	18,049	188	(119)	180	21,115	39,413

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.

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. 2,927 million as at 30 September 2006 has not been recognised in the income statement, since TRC's determination of the refund is yet awaited.

3 Dividends on redeemable preference shares

Mobitel Pvt Ltd (Mobitel) has issued 150,000,000 12% redeemable preference shares of Rs 10 /- each to Sri Lanka Telecom in June 2005.

Mobitel has not declared dividends for the period under review. Therefore, the estimated amount of dividends of Rs 238 Mn as at 30 September 2006, has not been recognized in the Financial Statements.

4 Loan given to subsidiary

The company has given a loan of Rs.3,000million to Mobitel Pvt Ltd., a fully owned subsidiary at an interest rate of 12% fully payable by 2010.

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 case is pending in the Supreme Court. Pending the outcome of the appeal, no adjustment has been made in the Financial Statements upto 30 September 2006.

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.

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 September 2006

Consolidated Cash Flow Statement for the 9 Months ended 30 September
(All amounts in LKR Millions)

	GROUP		COMPANY	
	2006	2005	2006	2005
Operating activities				
Cash generated from operations	13,820	13,552	11,966	12,285
Interest received	359	426	489	399
Interest paid	(1,647)	(1,421)	(1,078)	(1,053)
Tax paid	(3,505)	(514)	(3,475)	(510)
Net cash generated from operating activities	9,027	12,043	7,902	11,121
Investing activities				
Acquisition of property, plant & equipment	(6,109)	(6,372)	(4,422)	(3,431)
Sale of property, plant & equipment	-	11	-	11
Investments in subsidiary	-	-	-	(1,500)
Loan given to subsidiary	-	-	(500)	(500)
Sale of investments	-	740	-	740
Net cash used in investing activities	(6,109)	(5,621)	(4,922)	(4,680)
Financing activities				
Proceeds from borrowings	-	2,041	-	-
Payment on borrowings	(2,330)	(2,181)	(1,187)	(1,292)
Dividends paid	(1,354)	(902)	(1,354)	(902)
Redemption of debentures	-	(375)	-	(375)
Net cash (used)/from in financing activities	(3,684)	(1,417)	(2,541)	(2,569)
Increase/(Decrease) in cash & cash equivalents	(766)	5,005	439	3,872
As at 1 st January	14,655	10,379	12,962	10,411
Increase / (Decrease)	(766)	5,005	439	3,872
As at 30 th September	13,889	15,384	13,401	14,283