



Sri Lanka Telecom

Interim Financial Report

6 months ended 30th June 2005

OUR VISION

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

OUR MISSION

To anticipate and fulfil the communications 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 Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 June 2005

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company			Group			Company		
	Apr- June		change %	Apr- June		change %	Jan-June		change %	Jan-June		change %
	2005	2004		2005	2004		2005	2004		2005	2004	
Revenue	7,624	7,438	3	6,850	6,723	2	15,168	14,555	4	13,676	13,425	2
Operating costs	(3,579)	(3,138)	14	(3,080)	(2,554)	21	(7,043)	(6,388)	10	(6,106)	(5,291)	15
Operating profit before depreciation	4,045	4,300	(6)	3,770	4,169	(10)	8,125	8,167	(1)	7,570	8,134	(7)
Depreciation	(2,406)	(2,166)	11	(2,077)	(1,977)	5	(4,780)	(4,353)	10	(4,174)	(3,980)	5
Operating profit	1,639	2,134	(23)	1,693	2,192	(23)	3,345	3,814	(12)	3,396	4,154	(18)
International telecommunication operators' levy-(ITL)	(441)			(440)			(599)			(597)		
Non-operating income	23	39	(41)	23	39	(41)	47	59	(20)	47	59	(20)
Interest expenses and related charges	(591)	(642)	(8)	(421)	(549)	(23)	(1,062)	(1,317)	(19)	(736)	(1,164)	(37)
Interest income	139	38	266	131	37	254	256	78	228	246	76	224
Profit before tax	769	1,569	(51)	986	1,719	(43)	1,987	2,634	(25)	2,356	3,125	(25)
Taxation	(298)	(512)	(42)	(297)	(512)	(42)	(608)	(930)	(35)	(607)	(930)	(35)
Net profit for the period	471	1,057	(55)	689	1,207	(43)	1,379	1,704	(19)	1,749	2,195	(20)
Earnings per share [(Rs) Annualized]							1.53	1.89		1.94	2.43	

The above figures are provisional & unaudited.

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 June 2005

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

	Group		Company	
	Unaudited as at 30 June 2005	Audited as at 31 Dec. 2004	Unaudited as at 30 June 2005	Audited as at 31 Dec. 2004
Assets				
<i>Non-Current Assets</i>				
Property, plant & equipment	54,481	54,350	46,987	48,200
Goodwill on consolidation	181	219	-	-
Investments	-	710	3,497	2,707
Non-current receivables	1,449	1,439	1,017	969
	56,111	56,718	51,501	51,876
<i>Current Assets</i>				
Inventories	1,099	1,312	680	771
Receivables & prepayments	8,117	9,898	7,606	9,157
Cash & cash equivalents	12,232	10,845	11,256	10,736
	21,448	22,055	19,542	20,664
Total Assets	77,559	78,773	71,043	72,540
<i>Equity and Liabilities</i>				
<i>Capital and Reserves</i>				
Ordinary shares	18,049	18,049	18,049	18,049
Capital reserves	188	188	188	188
Hedging reserve	(321)	(677)	(321)	(677)
Insurance reserve	159	100	159	100
Retained earnings	13,881	13,404	15,769	14,922
	31,956	31,064	33,844	32,582
Deferred income	7,277	7,272	7,277	7,272
<i>Non Current Liabilities</i>				
Deferred tax liabilities	6,530	7,489	6,530	7,489
Borrowings	19,370	20,905	14,899	16,106
Retirement benefit obligation	575	510	548	487
	26,475	28,904	21,977	24,082
<i>Current Liabilities</i>				
Trade & other payables	6,556	6,761	4,572	5,890
Current tax liability	1,838	297	1,838	297
Borrowings	3,447	4,465	1,525	2,407
Retirement benefit obligation	10	10	10	10
	11,851	11,533	7,945	8,604
Total Equity and Liabilities	77,559	78,773	71,043	72,540

The above figures are provisional and unaudited.

Signed on behalf of the Board.

Anil Obeyesekere-(P.C.)
Chairman
08th Aug-2005

Shuhej Anan
CEO / Director
08th Aug-2005

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 2004.

2 International Telecommunication Operator's 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. 1,546 million as at 30 June 2005 has not been recognised in the income statement, since TRC's determination of the refund is yet awaited.

3 Events after the Balance Sheet date.

3.a 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 management has taken measures to proceed with special leave for appeal to the Supreme Court against the order of the Court of Appeal and the documents are presently being prepared to lodge an appeal on behalf of SLT. Pending the outcome of the appeal no adjustment has been made in the financial statements to 30 June 2005.

3.b No other 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 June 2005

Statement of Changes in Equity - 1st Jan 2004 to 30 June 2005

(All amounts in LKR Millions)

Group

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Period ended 30 June 2004						
Balance at 1 January 2004	18,049	188	(745)	95	13,013	30,600
Cash flow hedges						
-Foreign currency translation difference			(231)			(231)
-Charged to income			326			326
Insurance reserve -charged to income				1		1
Dividend in respect of 2003					(902)	(902)
Profit for the period					1,704	1,704
Balance at 30 June 2004	18,049	188	(650)	96	13,815	31,498
Period ended 31 December 2004						
Balance at 1 July 2004	18,049	188	(650)	96	13,815	31,498
Cash flow hedges						
-Foreign currency translation difference			(177)			(177)
-Charged to income			150			150
Insurance reserve -charged to income				4		4
Profit for the period					(411)	(411)
Balance at 31 December 2004	18,049	188	(677)	100	13,404	31,064
Period ended 30 June 2005						
Balance at 1 January 2005	18,049	188	(677)	100	13,404	31,064
Cash flow hedges						
-Foreign currency translation difference			240			240
-Charged to income			116			116
Insurance reserve -charged to income				59		59
Dividend in respect of 2004					(902)	(902)
Profit for the period					1,379	1,379
Balance at 30 June 2005	18,049	188	(321)	159	13,881	31,956

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 30 June 2005

Statement of Changes in Equity - 1st Jan 2004 to 30 June 2005

(All amounts in LKR Millions)

Company

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Period ended 30 June 2004						
Balance at 1 January 2004	18,049	188	(745)	95	13,203	30,790
Cash flow hedges						
-Foreign currency translation difference			(231)			(231)
-Charged to income			326			326
Insurance reserve -charged to income				1		1
Dividend in respect of 2003					(902)	(902)
Profit for the period					2,195	2,195
Balance at 30 June 2004	18,049	188	(650)	96	14,496	32,179
Period ended 31 December 2004						
Balance at 1 July 2004	18,049	188	(650)	96	14,496	32,179
Cash flow hedges						
-Foreign currency translation difference			(177)			(177)
-Charged to income			150			150
Insurance reserve -charged to income				4		4
Profit for the period					426	426
Balance at 31 December 2004	18,049	188	(677)	100	14,922	32,582
Period ended 30 June 2005						
Balance at 1 January 2005	18,049	188	(677)	100	14,922	32,582
Cash flow hedges						
-Foreign currency translation difference			240			240
-Charged to income			116			116
Insurance reserve -charged to income				59		59
Dividend in respect of 2004					(902)	(902)
Profit for the period					1,749	1,749
Balance at 30 June 2005	18,049	188	(321)	159	15,769	33,844

Sri Lanka Telecom Limited and its Subsidiaries
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Consolidated Cash Flow Statement for the 6 Months ended 30 June

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2005	2004	2005	2004
Operating activities				
Cash generated from operations	9,491	3,135	7,440	3,581
Interest received	263	100	253	98
Tax paid	(26)	-	(25)	-
Interest paid	(1,187)	(1,389)	(861)	(1,236)
Net cash generated from operating activities	8,541	1,846	6,807	2,443
Investing activities				
Acquisition of property, plant & equipment	(4,911)	(3,017)	(2,961)	(1,924)
Sale of property, plant & equipment	5	-	5	-
Investments in subsidiary	-	-	(1,500)	-
Sale of investments	740	-	740	-
Net cash used in investing activities	(4,166)	(3,017)	(3,716)	(1,924)
Financing activities				
Proceeds from borrowings	514	8,156	-	3,481
Payment on borrowings	(1,692)	(6,039)	(888)	(2,777)
Dividends paid	(902)	(902)	(902)	(902)
Redemption of debentures	(375)	(375)	(375)	(375)
Net cash (used)/from in financing activities	(2,455)	840	(2,165)	(573)
Increase/(Decrease) in cash & cash equivalents	1,920	(331)	926	(54)
Movement in cash & cash equivalents				
As at 1 st January	10,298	4,599	10,330	4,348
Increase / (Decrease)	1,920	(331)	926	(54)
As at 30 th June	12,218	4,268	11,256	4,294

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Investor Information

Ratios

	Group		Company	
	30 June 2005	31 Dec. 2004	30 June 2005	31 Dec. 2004
Net Assets per Share (Rs)	17.71	17.21	18.75	18.05
Debt / Equity ratio -Number of times	0.42	0.45	0.33	0.35
Quick Asset Ratio - Number of times	1.72	1.79	2.37	2.24
	6 Months to 30 June		6 Months to 30 June	
	2005	2004	2005	2004
Interest Cover - Number of times	3.47	3.13	5.81	3.87

Debentures

The final tranche of the 1,500,000 unsecured redeemable 5 year Debentures (2000/2005) of Rs 1000/-each issued in 2000, was paid off and settled in full on 21 March 2005, and debt securities de-listed on 22 March 2005.

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 June 2005	6 Months to 30 June 2005
-Highest	23.00	23.00
-Lowest	16.00	15.50
-Last Traded price	22.00	22.00

Dividend Payment

Final Dividend for the year 2004 -Rs 0.50 per share paid on 26 May 2005

Share trading from 1 Jan.2005 to 30 June 2005

	3 Months to 30 June 2005	6 Months to 30 June 2005
-No of Transactions	7,466	11,656
- No of Shares Traded	47,571,236	86,944,672
-Value of Shares Traded (Rs)	930,909,313	1,580,795,165