



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.*

Interim Financial Report

Year ended 31 December 2005

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2005

Consolidated Balance Sheet as at 31 December 2005

(All amounts in LKR Millions)

	Group		Company	
	Unaudited as at 31 Dec. 2005	Audited as at 31 Dec. 2004	Unaudited as at 31 Dec. 2005	Audited as at 31 Dec. 2004
Assets				
Non-Current Assets				
Property, plant & equipment	56,151	54,360	47,607	48,210
Goodwill on consolidation	141	219	-	-
Investments	-	710	3,497	2,707
Non-current receivables	1,385	1,439	3,498	969
	57,677	56,728	54,602	51,886
Current Assets				
Inventories	844	1,312	694	771
Receivables & prepayments	8,531	9,987	7,906	9,157
Cash & cash equivalents	14,468	10,845	12,735	10,736
	23,843	22,144	21,335	20,664
Total Assets	81,520	78,872	75,937	72,550
Equity and Liabilities				
Capital and Reserves				
Ordinary shares	18,049	18,049	18,049	18,049
Capital reserves	188	188	188	188
Hedging reserve	(208)	(677)	(208)	(677)
Insurance reserve	166	100	166	100
Retained earnings	15,598	13,404	18,374	14,922
	33,793	31,064	36,569	32,582
Deferred income	7,546	7,272	7,546	7,272
Non Current Liabilities				
Grant	89	10	89	10
Deferred tax liabilities	6,013	7,489	6,013	7,489
Borrowings	19,139	20,905	13,848	16,106
Retirement benefit obligation	751	520	721	497
Trade & other payables	297	234	297	234
	26,289	29,158	20,968	24,336
Current Liabilities				
Trade & other payables	7,414	6,616	6,263	5,656
Current tax liability	2,777	297	2,757	297
Borrowings	3,701	4,465	1,834	2,407
	13,892	11,378	10,854	8,360
Total Equity and Liabilities	81,520	78,872	75,937	72,550

The above figures are provisional and unaudited.

Signed on behalf of the Board.

Anil Obeyesekere-(P.C.)
Chairman
Feb-2006

Shuhei Anan
CEO / Director
Feb-2006

Sri Lanka Telecom Limited and its Subsidiaries

Quarterly Interim Financial Report as of 31 December 2005

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 %
	2005	2004		2005	2004		2005	2004		2005	2004	
Revenue	8,905	7,538	18	8,053	6,789	19	32,515	29,516	10	29,282	26,681	10
Operating costs	(4,841)	(4,501)	8	(3,809)	(3,501)	9	(15,512)	(14,485)	7	(12,898)	(11,601)	11
Operating profit before depreciation	4,064	3,037	34	4,244	3,288	29	17,003	15,031	13	16,384	15,080	9
Depreciation	(2,264)	(2,492)	(9)	(2,023)	(2,152)	(6)	(9,366)	(8,952)	5	(8,144)	(8,114)	0
Operating profit	1,800	545	230	2,221	1,136	96	7,637	6,079	26	8,240	6,966	18
International telecommunication operators' levy-(ITL)	(485)	(403)	20	(485)	(402)	21	(1,550)	(2,474)	(37)	(1,549)	(2,469)	(37)
Loss on Tsunami	-	(330)		-	(300)		-	(330)		-	(300)	
Non-operating income	95	72	32	42	50	(16)	162	216	(25)	158	194	(19)
Interest expenses and related charges	(532)	(615)	(13)	(383)	(451)	(15)	(2,085)	(2,252)	(7)	(1,437)	(1,812)	(21)
Interest income	225	67	236	223	59	278	648	202	221	633	190	233
Profit/(loss) before tax	1,103	(664)	(266)	1,618	92	1,659	4,812	1,441	234	6,045	2,769	118
Taxation	(499)	(19)	2526	(480)	(19)	2,426	(1,719)	(148)	1,061	(1,694)	(148)	1,045
Net profit/(loss) for the period	604	(683)	(188)	1,138	73	1,459	3,093	1,293	139	4,351	2,621	66
Earnings per share [(Rs) Annualized]	1.34	(1.51)		2.52	0.16		1.71	0.72		2.41	1.45	

The above figures are provisional & unaudited.

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 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. 2,020 million as at 31 December 2005 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 103 Mn for the period ended 31 December 2005, has not been recognized in the Financial Statements.

4 Loan given to subsidiary

The company has given a loan of Rs.2,500million 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. The matter was taken up on 07 November 2005 and the Supreme Court granted special leave to appeal against the Court of Appeal order. Pending the outcome of the appeal, no adjustment has been made in the Financial Statements upto 31 December 2005.

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 31 December 2005

Statement of Changes in Equity - 1st Jan 2004 to 31 December 2005

(All amounts in LKR Millions)

Group

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Year ended 31 December 2004						
Balance at 1 January 2004	18,049	188	(745)	95	13,013	30,600
Cash flow hedges						
-Foreign currency translation difference			(408)			(408)
-Charged to income			476			476
Insurance reserve -charged to income				5		5
Dividend in respect of 2003					(902)	(902)
Profit for the year 2004					1,293	1,293
Balance at 31 December 2004	18,049	188	(677)	100	13,404	31,064
Year ended 31 December 2005						
Balance at 1 January 2005	18,049	188	(677)	100	13,404	31,064
Unclaimed dividends written back					3	3
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)
Profit for the year 2005					3,093	3,093
Balance at 31 December 2005	18,049	188	(208)	166	15,598	33,793

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2005

Statement of Changes in Equity - 1st Jan 2004 to 31 December 2005

(All amounts in LKR Millions)

Company

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Year ended 31 December 2004						
Balance at 1 January 2004	18,049	188	(745)	95	13,203	30,790
Cash flow hedges						
-Foreign currency translation difference			(408)			(408)
-Charged to income			476			476
Insurance reserve -charged to income				5		5
Dividend in respect of 2003					(902)	(902)
Profit for the year 2004					2,621	2,621
Balance at 31 December 2004	18,049	188	(677)	100	14,922	32,582
Year ended 31 December 2005						
Balance at 1 January 2005	18,049	188	-677	100	14,922	32,582
Unclaimed dividends written back					3	
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)
Profit for the year 2005					4,351	4,351
Balance at 31 December 2005	18,049	188	(208)	166	18,374	36,569

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2005

Consolidated Cash Flow Statement for the year ended 31 December 2005

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2005	2004	2005	2004
Operating activities				
Cash generated from operations	19,668	13,045	18,049	13,473
Interest received	541	224	526	212
Interest paid	(2,294)	(2,829)	(1,581)	(2,389)
Tax paid	(715)	(38)	(710)	(38)
Net cash generated from operating activities	17,200	10,402	16,284	11,258
Investing activities				
Acquisition of property, plant & equipment	(11,460)	(7,623)	(7,843)	(5,071)
Sale of property, plant & equipment	12	12	12	12
Loan given to Subsidiary	-	-	(2,500)	-
Investments in subsidiary	-	-	(1,500)	-
Sale of investments	762	-	762	-
Net cash used in investing activities	(10,686)	(7,611)	(11,069)	(5,059)
Financing activities				
Proceeds from borrowings	2,041	20,970	-	13,949
Payment on borrowings	(3,338)	(16,379)	(1,723)	(12,483)
Dividends paid	(899)	(902)	(899)	(902)
Redemption of debentures	(375)	(375)	(375)	(375)
Net cash (used)/from in financing activities	(2,571)	3,314	(2,997)	189
Increase/(Decrease) in cash & cash equivalents	3,943	6,105	2,218	6,388
Movement in cash & cash equivalents				
As at 1 st January	10,485	4,599	10,517	4,348
Increase / (Decrease)	3,943	6,105	2,218	6,388
As at 31 December	14,428	10,704	12,735	10,736

Sri Lanka Telecom Limited and its Subsidiaries
Quarterly Interim Financial Report as of 31 December 2005

Investor Information

Ratios

	Group		Company	
	31 Dec. 2005	31 Dec. 2004	31 Dec. 2005	31 Dec. 2004
Net Assets per Share (Rs)	18.72	17.21	20.26	18.05
Debt / Equity ratio -Number of times	0.40	0.45	0.30	0.35
Quick Asset ratio - Number of times	1.66	1.79	1.90	2.24
	Year ended 31Dec.		Year ended 31Dec.	
	2005	2004	2005	2004
Interest Cover - Number of times	4.35	1.70	8.52	2.70

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)

-Highest
 -Lowest
 -Last Traded price

3 Months to 31 Dec. 2005	3 Months to 31Dec 04
27.00	19.00
15.75	15.50
16.50	15.50

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 31 December 2005

	3 Months to 31 Dec. 2005	12 Months to 31 Dec. 2005
-No of Transactions	9,620	34,206
- No of Shares Traded	65,344,000	253,681,617
-Value of Shares Traded (Rs)	1,493,364,375	5,406,590,745