



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

3 Months ended 31 March 2006

Sri Lanka Telecom Limited and its Subsidiaries

Quarterly Interim Financial Report as of 31 March 2006

Consolidated Income Statement as specified

(All amounts in LKR Millions)

	Group			Company		
	Jan.-Mar.		change	Jan.-Mar.		change
	2006	2005	%	2006	2005	%
Revenue	9,646	7,513	28	8,563	6,825	25
Operating costs	(4,171)	(3,436)	21	(3,492)	(3,026)	15
Operating profit before depreciation	5,475	4,077	34	5,071	3,799	33
Depreciation	(2,546)	(2,371)	7	(2,175)	(2,096)	4
Operating profit	2,929	1,706	72	2,896	1,703	70
International telecommunication operators' levy-(ITL)	(511)	(157)	225	(511)	(157)	225
Other income	48	24	100	47	24	96
Interest expenses and related charges	(598)	(472)	27	(410)	(315)	30
Interest income	200	118	69	261	116	125
Profit before tax	2,068	1,219	70	2,283	1,371	67
Taxation	(776)	(310)	150	(768)	(310)	148
Net profit/(loss) for the period	1,292	909	42	1,515	1,061	43
Earnings per share [(Rs) Annualized]	2.86	2.01		3.36	2.35	

The above figures are provisional & unaudited.

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

Consolidated Balance Sheet as at 31 March 2006

(All amounts in LKR Millions)

	Group		Company	
	Unaudited as at 31 Mar.2006	Audited as at 31 Dec. 2005	Unaudited as at 31 Mar.2006	Audited as at 31 Dec. 2005
Assets				
Non-Current Assets				
Property, plant & equipment	55,091	56,151	46,498	47,607
Goodwill on consolidation	122	141	-	-
Investments	-	-	3,497	3,497
Non-current receivables	1,320	1,385	4,018	3,498
	56,533	57,677	54,013	54,602
Current Assets				
Inventories	1,633	844	1,468	694
Receivables & prepayments	8,949	8,531	8,400	7,906
Cash & cash equivalents	16,120	14,468	13,608	12,735
	26,702	23,843	23,476	21,335
Total Assets	83,235	81,520	77,489	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	(216)	(208)	(216)	(208)
Insurance reserve	176	166	176	166
Retained earnings	16,890	15,598	19,889	18,374
	35,087	33,793	38,086	36,569
Deferred income	7,469	7,546	7,469	7,546
Non Current Liabilities				
Grant	80	89	80	89
Deferred tax liabilities	5,426	6,013	5,426	6,013
Borrowings	18,824	19,139	13,538	13,848
Retirement benefit obligation	812	751	778	721
Trade & other payables	318	297	318	297
	25,460	26,289	20,140	20,968
Current Liabilities				
Trade & other payables	7,635	7,414	6,038	6,263
Current tax liability	3,939	2,777	3,911	2,757
Borrowings	3,645	3,701	1,845	1,834
	15,219	13,892	11,794	10,854
Total Equity and Liabilities	83,235	81,520	77,489	75,937

The above figures are provisional and unaudited.

Signed on behalf of the Board.

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

Shuhei Anan
CEO / Director
May-2006

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. 2,291 million as at 31 March 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 148 Mn as at 31 March 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. 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 March 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 31 March 2006

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

(All amounts in LKR Millions)

Group

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Quarter ended 31 March 2005						
Balance at 1 January 2005	18,049	188	(677)	100	13,404	31,064
Cash flow hedges						
-Foreign currency translation difference			228			228
-Charged to income			16			16
Insurance reserve -charged to income				1		1
Profit for the 3 Months					909	909
Balance at 31 March 2005	18,049	188	(433)	101	14,313	32,218
Period ended 31 December 2005						
Balance at 1 April 2005	18,049	188	(433)	101	14,313	32,218
Cash flow hedges						
-Foreign currency translation difference			17			17
-Charged to income			208			208
Insurance reserve -charged to income				65		65
Dividend in respect of 2004					(902)	(902)
Unclaimed dividend written back					3	3
Profit for the 9 Months ended 31 Dec 2005					2,184	2,184
Balance at 31 December 2005	18,049	188	(208)	166	15,598	33,793
Quarter ended 31 March 2006						
Balance at 1 January 2006	18,049	188	(208)	166	15,598	33,793
Cash flow hedges						
-Foreign currency translation difference			(19)			(19)
-Charged to income			11			11
Insurance reserve -charged to income				10		10
Profit for the Quarter					1,292	1,292
Balance at 31 March 2006	18,049	188	(216)	176	16,890	35,087

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

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

(All amounts in LKR Millions)

Company

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
Quarter ended 31 March 2005						
Balance at 1 January 2005	18,049	188	(677)	100	14,922	32,582
Cash flow hedges						
-Foreign currency translation difference			228			228
-Charged to income			16			16
Insurance reserve -charged to income				1		1
Profit for the 3 Months					1,061	1,061
Balance at 31 March 2005	18,049	188	(433)	101	15,983	33,888
Period ended 31 December 2005						
Balance at 1 April 2005	18,049	188	(433)	101	15,983	33,888
Cash flow hedges						
-Foreign currency translation difference			17			17
-Charged to income			208			208
Insurance reserve -charged to income				65		65
Dividend in respect of 2004					(902)	(902)
Unclaimed dividend written back					3	3
Profit for the 9 Months ended 31 Dec 2005					3,290	3,290
Balance at 31 December 2005	18,049	188	(208)	166	18,374	36,569
Quarter ended 31 March 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Cash flow hedges						
-Foreign currency translation difference			(19)			(19)
-Charged to income			11			11
Insurance reserve -charged to income				10		10
Profit for the Quarter					1,515	1,515
Balance at 31 March 2006	18,049	188	(216)	176	19,889	38,086

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

Consolidated Cash Flow Statement for the 3 months ended 31 March

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2006	2005	2006	2005
Operating activities				
Cash generated from operations	4,010	5,649	3,070	5,050
Interest received	200	121	177	119
Interest paid	(498)	(421)	(310)	(264)
Tax paid	(200)	(13)	(200)	(13)
Net cash generated from operating activities	3,512	5,336	2,737	4,892
Investing activities				
Acquisition of property, plant & equipment	(1,484)	(1,550)	(1,064)	(1,225)
Sale of property, plant & equipment	-	5	-	5
Loan given to Subsidiary	-	-	(500)	-
Net cash used in investing activities	(1,484)	(1,545)	(1,564)	(1,220)
Financing activities				
Proceeds from borrowings	5	150	-	-
Payment on borrowings	(466)	(460)	(367)	(410)
Redemption of debentures	-	(375)	-	(375)
Net cash (used)/from in financing activities	(461)	(685)	(367)	(785)
Increase/(Decrease) in cash & cash equivalents	1,567	3,106	806	2,887
Movement in cash & cash equivalents				
As at 1 st January	14,535	10,213	12,802	10,245
Increase / (Decrease)	1,567	3,106	806	2,887
As at 31 March	16,102	13,319	13,608	13,132

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

Investor Information

Ratios

	Group		Company	
	31 Mar. 2006	31 Dec. 2005	31 Mar. 2006	31 Dec. 2005
Net Assets per Share (Rs)	19.44	18.72	21.10	20.26
Debt / Equity ratio -Number of times	0.39	0.40	0.29	0.30
Quick Asset ratio - Number of times	1.65	1.66	1.87	1.90
	For the 3 months ended		For the 3 months ended	
	31 Mar. 2006	31 Mar. 2005	31 Mar. 2006	31 Mar. 2005
Interest Cover - Number of times	6.20	4.44	16.32	7.89

Market Value of Shares

**Market Value of the Ordinary
Shares of the Company (Rs)**

-Highest
-Lowest
-Last Traded price

3 Months to 31 Mar. 2006	3 Months to 31 Mar. 2005
19.75	18.50
14.75	15.50
18.00	16.25

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 March 2006

	3 Months to 31 Mar. 2006
-No of Transactions	4,958
- No of Shares Traded	70,104,683
-Value of Shares Traded (Rs)	1,228,144,368