



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

6 Months ended 30 June 2006

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

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 %
	2006	2005		2006	2005		2006	2005		2006	2005	
Revenue	9,966	7,624	31	8,829	6,850	29	19,563	15,168	29	17,393	13,676	27
Operating costs	(4,242)	(3,579)	19	(3,607)	(3,080)	17	(8,331)	(7,043)	18	(7,099)	(6,106)	16
Operating profit before depreciation	5,724	4,045	42	5,222	3,770	39	11,232	8,125	38	10,294	7,570	36
Depreciation	(2,434)	(2,406)	1	(2,162)	(2,077)	4	(5,004)	(4,780)	5	(4,337)	(4,174)	4
Operating profit	3,290	1,639	101	3,060	1,693	81	6,228	3,345	86	5,957	3,396	75
International Telecommunication operators' Levy-(ITL)	(562)	(441)	27	(560)	(440)	27	(1,073)	(599)	79	(1,071)	(597)	79
Voluntary Retirement Scheme-(VRS) -Note 1	(425)	-		(425)	-		(425)	-		(425)	-	
Other income	54	23	135	51	23	122	101	47	115	98	47	109
Interest expenses and related charges	(603)	(591)	2	(397)	(421)	(6)	(1,202)	(1,062)	13	(807)	(736)	10
Interest income	273	139	96	283	131	116	474	256	85	544	246	121
Profit before tax	2,027	769	164	2,012	986	104	4,103	1,987	106	4,296	2,356	82
Taxation	(1,027)	(298)	245	(999)	(297)	236	(1,803)	(608)	197	(1,767)	(607)	191
Net profit for the period	1,000	471	112	1,013	689	47	2,300	1,379	67	2,529	1,749	45
Earnings per share (Rs)												
-Basic	0.55	0.26		0.56	0.38		1.27	0.76		1.40	0.97	
-Annualized	2.22	1.04		2.24	1.53		2.55	1.53		2.80	1.94	

Note -1 Voluntary Retirement Scheme (VRS)

A Voluntary Retirement Scheme (VRS) has been announced on 06 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 June 2006

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

	Group		Company	
	Unaudited as at 30 June 2006	Audited as at 31 Dec. 2005	Unaudited as at 30 June 2006	Audited as at 31 Dec. 2005
Assets				
Non-Current Assets				
Property, plant & equipment	54,833	56,151	45,940	47,607
Goodwill on consolidation	103	141	-	-
Investments	-	-	3,497	3,497
Non-current receivables	1,133	1,385	4,056	3,498
	56,069	57,677	53,493	54,602
Current Assets				
Inventories	1,462	844	1,381	694
Receivables & prepayments	9,898	8,531	9,282	7,906
Cash & cash equivalents	15,578	14,468	13,990	12,735
	26,938	23,843	24,653	21,335
Total Assets	83,007	81,520	78,146	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	(144)	(208)	(144)	(208)
Insurance reserve	178	166	178	166
Retained earnings	16,545	15,598	19,549	18,374
	34,816	33,793	37,820	36,569
Deferred income	7,395	7,546	7,395	7,546
Non Current Liabilities				
Grant	78	89	78	89
Deferred tax liabilities	5,188	6,013	5,188	6,013
Borrowings	17,686	19,139	13,164	13,848
Retirement benefit obligation	794	751	759	721
Trade & other payables	303	297	303	297
	24,049	26,289	19,492	20,968
Current Liabilities				
Trade & other payables	8,008	7,414	6,656	6,263
Current tax liability	5,008	2,777	4,959	2,757
Borrowings	3,731	3,701	1,824	1,834
	16,747	13,892	13,439	10,854
Total Equity and Liabilities	83,007	81,520	78,146	75,937

The above figures are provisional and unaudited.

Signed on behalf of the Board.

P.Asoka Weerasinghe de Silva
Chairman
28 July-2006

Shuhei Anan
CEO / Director
28 July-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. 2,593 million as at 30 June 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 193 Mn as at 30 June 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 out come of the appeal, no adjustment has been made in the Financial Statements upto 30 June 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 June 2006

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

(All amounts in LKR Millions)

Group

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
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
Period ended 31 December 2005						
Balance at 1 July 2005	18,049	188	(321)	159	13,881	31,956
Cash flow hedges						
-Foreign currency translation difference			5			5
-Charged to income			108			108
Insurance reserve -charged to income				7		7
Unclaimed dividend written back					3	3
Profit for the period					1,714	1,714
Balance at 31 December 2005	18,049	188	(208)	166	15,598	33,793
Period ended 30 June 2006						
Balance at 1 January 2006	18,049	188	(208)	166	15,598	33,793
Cash flow hedges						
-Foreign currency translation difference			(56)			(56)
-Charged to income			120			120
Insurance reserve -charged to income				12		12
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the period					2,300	2,300
Balance at 30 June 2006	18,049	188	(144)	178	16,545	34,816

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

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

(All amounts in LKR Millions)

Company

	Share Capital	Capital Reserves	Hedging Reserve	Insurance Reserve	Retained Earnings	Total
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
Period ended 31 December 2005						
Balance at 1 July 2005	18,049	188	(321)	159	15,769	33,844
Cash flow hedges						
-Foreign currency translation difference			5			5
-Charged to income			108			108
Insurance reserve -charged to income				7		7
Unclaimed dividend written back					3	3
Profit for the period					2,602	2,602
Balance at 31 December 2005	18,049	188	(208)	166	18,374	36,569
Period ended 30 June 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Cash flow hedges						
-Foreign currency translation difference			(56)			(56)
-Charged to income			120			120
Insurance reserve -charged to income				12		12
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the period					2,529	2,529
Balance at 30 June 2006	18,049	188	(144)	178	19,549	37,820

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

Consolidated Cash Flow Statement for the 6 Months ended 30 June

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2006	2005	2006	2005
Operating activities				
Cash generated from operations	8,871	9,491	7,284	7,440
Interest received	268	263	338	253
Tax paid	(397)	(26)	(390)	(25)
Interest paid	(1,256)	(1,187)	(862)	(861)
Net cash generated from operating activities	7,486	8,541	6,370	6,807
Investing activities				
Acquisition of property, plant & equipment	(3,686)	(4,911)	(2,670)	(2,961)
Sale of property, plant & equipment	-	5	-	5
Investments in subsidiary	-	-	-	(1,500)
Loan given to subsidiary	-	-	(500)	-
Sale of investments	-	740	-	740
Net cash used in investing activities	(3,686)	(4,166)	(3,170)	(3,716)
Financing activities				
Proceeds from borrowings	-	514	-	-
Payment on borrowings	(1,962)	(1,692)	(826)	(888)
Dividends paid	(1,354)	(902)	(1,354)	(902)
Redemption of debentures	-	(375)	-	(375)
Net cash (used)/from in financing activities	(3,316)	(2,455)	(2,180)	(2,165)
Increase/(Decrease) in cash & cash equivalents	484	1,920	1,020	926
Movement in cash & cash equivalents				
As at 1 st January	14,663	10,298	12,970	10,330
Increase / (Decrease)	484	1,920	1,020	926
As at 30 th June	15,147	12,218	13,990	11,256

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

Investor Information

Ratios

	Group		Company	
	30 June 2006	31 Dec. 2005	30 June 2006	31 Dec. 2005
Net Assets per Share (Rs)	19.29	18.72	20.95	20.26
Debt / Equity ratio -Number of times	0.38	0.40	0.28	0.30
Quick Asset Ratio - Number of times	1.52	1.66	1.73	1.90
		-		
	6 Months to 30 June		6 Months to 30 June	
	2006	2005	2006	2005
Interest Cover - Number of times	6.64	3.47	17.33	5.81

Market Value of Shares

Market Value of the Ordinary

Shares of the Company (Rs)

	3 Months to 30 June 2006	3 Months to 30 June 2005
-Highest	19.50	23.00
-Lowest	16.25	16.00
-Last Traded price	18.00	22.00

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 30 June 2006

	3 Months to 30 June 2006	6 Months to 30 June 2006
-No of Transactions	3,824	8,782
- No of Shares Traded	27,658,047	97,762,730
-Value of Shares Traded (Rs)	499,149,243	1,727,293,611