Registration No - PQ 7

Interim Financial Report

For the 6 months ended 30 June 2007





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.



		Sr		Telecom P								
	Company Registration no PQ 7 Quarterly Interim Financial Report as of 30 June 2007											
Consolidated Income Statement as specified												
(All amounts in LKR Millions)												
		Group -	<u> </u>		ompany -	<u> </u>		Group	<u>. </u>		ompany	
	April		change	April-		change	Jan-J		change	Jan-J		change
	2007	2006	%	2007	2006	%	2007	2006	%	2007	2006	%
Revenue (Note 1)	9,710	9,966	(3)	8,348	8,829	(5)	20,675	19,563	6	17,982	17,393	3
Operating costs	(5,266)	(4,242)	24	(4,475)	(3,607)	24	(9,833)	(8,331)	18	(8,252)	(7,099)	16
Operating profit before												
depreciation	4,444	5,724	(22)	3,873	5,222	(26)	10,842	11,232	(3)	9,730	10,294	(5)
Depreciation	(2,532)	(2,434)	4	(2,229)	(2,162)	3	(5,112)	(5,004)	2	(4,510)	(4,337)	4
Operating profit	1,912	3,290	(42)	1,644	3,060	(46)	5,730	6,228	(8)	5,220	5,957	(12)
International Telecommunication												
operators' Levy-(ITL)	(702)	(562)	25	(670)	(560)	20	(1,385)	(1,073)	29	(1,337)	(1,071)	25
Voluntary Retirement Scheme -VRS	-	(425)		-	(425)		-	(425)		-	(425)	
Other income	41	54	(24)	41	51	(20)	96	101	(5)	95	98	(3)
Interest expenses and related charges	(606)	(603)	0	(377)	(397)	(5)	(1,117)	(1,202)	(7)	(678)	(807)	(16)
Interest income	282	273	3	274	283	(3)	569	474	20	541	544	(1)
Profit before tax	927	2,027	(54)	912	2,012	(55)	3,893	4,103	(5)	3,841	4,296	(11)
Taxation	(367)	(1,027)	(64)	(364)	(999)	(64)	(1,353)	(1,803)	(25)	(1,343)	(1,767)	(24)
Net profit for the period	560	1,000	(44)	548	1,013	(46)	2,540	2,300	10	2,498	2,529	(1)
Earnings per share (Rs)												
-Basic	0.31	0.55		0.30	0.56		1.41	1.27		1.38	1.40	
-Annualized	1.24	2.22		1.21	2.24		2.81	2.55		2.77	2.80	
Note 1												

Note 1

Appeal on the Judgment given on tariff revision implemented in 2003.

An estimated amount of Rs 875 million has been reduced from Revenue, until the Supreme Court arrives at a final decision with regard to the above case.

The above figures are provisional and unaudited.

Sri Lanka Telecom PLC and its Subsidiaries Company Registration no PQ 7 Quarterly Interim Financial Report as of 30 June 2007

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

	Gro	up	Company		
	Unaudited as at	Audited as at	Unaudited as at	Audited as at	
Assets	30 June 2007	31 Dec 2006	30 June 2007	31 Dec 2006	
Non-Current Assets					
Property,plant & equipment	53,126	54,425	42,787	44,856	
Intangible assets	1,312	1,365	17	37	
Investments in Subsidiries		-	7,032	7,032	
Non-current receivables	1,052	960	1,052	960	
	55,490	56,750	50,888	52,885	
Current Assets		· · · · ·	,		
Inventories	1,759	1,419	1,676	1,325	
Receivables & prepayments	11,353	10,558	11,403	10,554	
Cash & cash equivalents	16,930	15,315	16,268	14,390	
	30,042	27,292	29,347	26,269	
Total Assets	85,532	84,042	80,235	79,154	
Equity and Liabilities		0.1/0.12		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
Capital and Reserves					
Stated capital	18,049	18,049	18,049	18,049	
Hedging reserve	(108)	(236)	(108)	(236	
Insurance reserve	201	183	201	183	
Retained earnings	20,605	19,870	23,398	22,705	
	38,747	37,866	41,540	40,701	
Deferred income	6,771	7,110	6,771	7,110	
Non Current Liabilities					
Grants	72	75	72	75	
Deferred tax liabilities	3,499	4,513	3,499	4,513	
Borrowings	17,218	16,868	12,939	13,065	
Retirement benefit obligation	1,081	942	1,027	903	
Trade & other payables	302	298	302	298	
Current Liabilities	22,172	22,696	17,839	18,854	
Trade & other payables	9,926	8,721	8,706	7,330	
Current tax liability	4,433	3,732	4,400	3,705	
Borrowings	3,483	3,917	979	1,454	
	17,842	16,370	14,085	12,489	

The above figures are provisional and unaudited.

Signed on behalf of the Board.

P.Asoka Weerasinghe De Silva Chairman 17- Aug-2007

Shoji Takahashi CEO / Director 17 - Aug-2007

Quarterly Interim Financial Report as of 30 June 2007

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 2006.

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.4,027 million as at 30 June 2007 has not been recognised in the income statement, since TRC's determination of the refund is yet awaited.

3 Dividends on Cumulative redeemable preference shares

Mobitel has not declared dividends for 500,000,000 12% Cumulative redeemable preference shares of Rs.10/- each, issued to SLT.Therefore, the estimated amount of dividends of Rs 648 Million as at 30 June 2007 has not been recognized in the Financial Statements.

4 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, except following;

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 court directed the parties to have further discussions on the reduction of tariffs from the domestic telephone revenue & rental charges excluding new connection charges. It was further noted by the Court that the adjusted tariff would be effective from 1 January 2007. The finalized proposal is to be tendered to the Supreme Court by TRC on 27 August 2007.

Accordingly, an estimated amount of Rs. 875 million has been recognised as a reduction in revenue.

Quarterly Interim Financial Report as of 30 June 2007

Statement of Changes in Equity - 1st Jan 2006 to 30 June 2007

(All amounts in LKR Millions)

Group						
	Stated	Capital	Hedging	Insurance	Retained	Total
	Capital	Reserve	Reserve	Reserve	Earnings	
6 Months ended 30 June 2006						
Balance at 1 January 2006	18,049	188	(208)	166	15,598	33,793
Cash flow hedges						
-Foreign currency translation differen	nce		(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	16,544	34,815
6 Months ended 31 Dec 2006						
Balance at 1 July 2006	18,049	188	(144)	178	16,544	34,815
Capital reserve transferred to retained		(100)			100	
earnings		(188)			188	-
Cash flow hedges			(40)			(40)
-Foreign currency translation differen	nce		(40)			(40)
-Charged to income			(52)	-		(52)
Insurance reserve -charged to income				5	2 1 2 0	5
Profit for the period	10.040		(226)	100	3,138	3,138
Balance at 31 December 2006	18,049	-	(236)	183	19,870	37,866
6 Months ended 30 June 2007						
Balance at 1 January 2007	18,049	-	(236)	183	19,870	37,866
Cash flow hedges						
-Foreign currency translation differer	nce		(10)			(10)
-Charged to income			138			138
Insurance reserve -charged to income				18		18
Dividend in respect of 2006					(1,805)	(1,805)
Profit for the period					2,540	2,540
Balance at 30 June 2007	18,049	-	(108)	201	20,605	38,747

Quarterly Interim Financial Report as of 30 June 2007

Statement of Changes in Equity - 1st Jan 2006 to 30 June 2007

(All amounts in LKR Millions)

Company

company						
	Stated	Capital	Hedging	Insurance	Retained	Total
	Capital	Reserve	Reserve	Reserve	Earnings	
6 Months ended 30 June 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Cash flow hedges						
-Foreign currency translation differer	nce		(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
6 Months ended 31 Dec 2006						
Balance at 1 July 2006	18,049	188	(144)	178	19,549	37,820
Capital reserve trasferred to retained earnings		(188)			188	-
Cash flow hedges						
-Foreign currency translation differer	nce		(40)			(40)
-Charged to income			(52)			(52)
Insurance reserve -charged to income				5		5
Profit for the period					2,968	2,968
Balance at 31 December 2006	18,049	-	(236)	183	22,705	40,701
6 Months ended 30 June 2007						
Balance at 1 January 2007	18,049	-	(236)	183	22,705	40,701
Cash flow hedges						
-Foreign currency translation differen	nce		(10)			(10)
-Charged to income			138			138
Insurance reserve -charged to income				18		18
Dividend in respect of 2006					(1,805)	(1,805)
Profit for the period					2,498	2,498
Balance at 30 June 2007	18,049	-	(108)	201	23,398	41,540

Sri Lanka Telecom PLC and its Subsidiaries Quarterly Interim Financial Report as of 30 June 2007

Consolidated Cash Flow Statement for the 6 months ended 30 June

(All amounts in LKR Millions)

(All amounts in LKR Millions)	GROUP		COMPANY		
	2007	2006	2007	2006	
Operating activities					
Cash generated from operations	9,230	8,871	8,198	7,284	
Interest received	797	268	769	338	
Interest paid	(1,205)	(1,256)	(767)	(862)	
Tax paid	(1,692)	(397)	(1,687)	(390)	
Net cash generated from operating activities	7,130	7,486	6,513	6,370	
Investing activities					
Acquisition of property, plant & equipment	(3,813)	(3,686)	(2,441)	(2,670)	
Disposal of property, plant & equipment	4	-	4	-	
Loan given to subsidiary	-	-	-	(500)	
Net cash used in investing activities	(3,809)	(3,686)	(2,437)	(3,170)	
Financing activities					
Proceeds from borrowings	1,183	-	-	-	
Payment on borrowings	(1,522)	(1,962)	(778)	(826)	
Dividend payment	(1,805)	(1,354)	(1,805)	(1,354)	
Net cash used in financing activities	(2,144)	(3,316)	(2,583)	(2,180)	
Increase in cash & cash equivalents	1,177	484	1,493	1,020	
As at 1 January	14,720	14,663	14,775	12,970	
Increase	1,177	484	1,493	1,020	
As at 30 June	15,897	15,147	16,268	13,990	

Quarterly Interim Financial Report as of 30 June 2007

Investor Information

<u>Ratios</u>

	Grou	р	Company		
	30 June 31 Dec 2007 2006		30 June 2007	31 Dec 2006	
Net Assets per Share (Rs)	21.47	20.98	23.02	22.55	
Debt / Equity ratio -Number of times	0.35	0.35	0.25	0.26	
Quick Asset Ratio - Number of times	1.59	1.58	1.96	2.00	

	Grou	h	Comp	any	
	For the 6 mo	nths ended	For the 6 months ended		
	2007	2006	2007	2006	
Interest Cover - Number of times	4.49	4.77	6.67	6.85	

Market Value of Shares

Market Value of the Ordinary	3 Months to	3 Months to
Shares of the Company (Rs)	30 June 2007	30 June 2006
-Highest	39.25	19.50
-Lowest	34.50	16.25
-Last Traded price	36.50	18.00

Dividend Payment

Final Dividend for the year 2006 -Rs 1.00 per share paid on 10 April 2007.

Share trading from 1 April 2007 to 30 June 2007

	3 Months to
	30 June 2007
-No of Transactions	5,041
- No of Shares Traded	19,412,140
-Value of Shares Traded (Rs)	732,862,682