

Sri Lanka Telecom PLC and its Subsidiaries

Registration No - PQ 7

Interim Financial Report

For the 9 months ended 30 September 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.*



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

Consolidated Income Statement as specified
(All amounts in LKR Millions)

	Group			Company			Group			Company		
	July-Sep		change	July-Sep		change	Jan-Sep		change	Jan-Sep		change
	2007	2006		%	2007		2006	%		2007	2006	
Revenue (Note 1)	11,230	10,316	9	9,654	9,002	7	31,905	29,879	7	27,636	26,395	5
Operating costs	(5,288)	(4,481)	18	(4,321)	(3,697)	17	(15,121)	(12,812)	18	(12,573)	(10,796)	16
Operating profit before depreciation	5,942	5,835	2	5,333	5,305	1	16,784	17,067	(2)	15,063	15,599	(3)
Depreciation	(2,541)	(2,501)	2	(2,205)	(2,219)	(1)	(7,653)	(7,505)	2	(6,715)	(6,556)	2
Operating profit	3,401	3,334	2	3,128	3,086	1	9,131	9,562	(5)	8,348	9,043	(8)
International Telecommunication operators' Levy-(ITL)	(714)	(563)	27	(680)	(563)	21	(2,099)	(1,636)	28	(2,017)	(1,634)	23
Voluntary Retirement Scheme -VRS	(43)			(43)			(43)	(425)		(43)	(425)	
Other income	49	43	14	50	42	19	145	144	1	145	140	4
Interest expenses and related charges	(484)	(511)	(5)	(239)	(337)	(29)	(1,601)	(1,713)	(7)	(917)	(1,144)	(20)
Interest income	361	279	29	350	339	3	930	753	24	891	883	1
Profit before tax	2,570	2,582	(0)	2,566	2,567	(0)	6,463	6,685	(3)	6,407	6,863	(7)
Taxation	(775)	(1,012)	(23)	(772)	(1,001)	(23)	(2,128)	(2,815)	(24)	(2,115)	(2,768)	(24)
Net profit for the period	1,795	1,570	14	1,794	1,566	15	4,335	3,870	12	4,292	4,095	5
Earnings per share (Rs)												
-Basic	0.99	0.87		0.99	0.87		2.40	2.14		2.38	2.27	
-Annualized	3.98	3.48		3.98	3.47		3.20	2.86		3.17	3.03	

Note 1

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

An estimated amount of Rs 1,314 million has been reduced from Revenue, as a result of the Supreme Court decision with regard to the above case.

The above figures are provisional and unaudited.

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

	Group		Company	
	Unaudited as at 30 Sep.2007	Audited as at 31 Dec 2006	Unaudited as at 30 Sep.2007	Audited as at 31 Dec 2006
Assets				
Non-Current Assets				
Property, plant & equipment	52,987	54,425	41,889	44,856
Intangible assets	1,275	1,365	12	37
Investments in Subsidiaries	-	-	7,032	7,032
Non-current receivables	1,164	960	1,164	960
	55,426	56,750	50,097	52,885
Current Assets				
Inventories	1,427	1,419	1,361	1,325
Receivables & prepayments	10,071	10,558	10,153	10,554
Cash & cash equivalents	18,196	15,315	17,444	14,390
	29,694	27,292	28,958	26,269
Total Assets	85,120	84,042	79,055	79,154
Equity and Liabilities				
Capital and Reserves				
Stated capital	18,049	18,049	18,049	18,049
Hedging reserve	(110)	(236)	(110)	(236)
Insurance reserve	203	183	203	183
Exchange equilisation reserve	1	-	-	-
Retained earnings	22,400	19,870	25,192	22,705
	40,543	37,866	43,334	40,701
Deferred income	6,598	7,110	6,598	7,110
Non Current Liabilities				
Grants	70	75	70	75
Deferred tax liabilities	3,108	4,513	3,108	4,513
Borrowings	18,110	16,868	13,199	13,065
Retirement benefit obligation	1,138	942	1,080	903
Trade & other payables	269	298	269	298
	22,695	22,696	17,726	18,854
Current Liabilities				
Trade & other payables	9,994	8,721	8,455	7,330
Current tax liability	2,360	3,732	2,325	3,705
Borrowings	2,930	3,917	617	1,454
	15,284	16,370	11,397	12,489
Total Equity and Liabilities	85,120	84,042	79,055	79,154

The above figures are provisional and unaudited.

Signed on behalf of the Board.

P.Asoka Weerasinghe De Silva
Chairman
29 - Oct-2007

Shoji Takahashi
CEO / Director
29- Oct-2007

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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 refund as at 30 September 2007 has not been recognised in the income statement, since TRC's acceptance 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 798 Million as at 30 September 2007 has not been recognized in the Financial Statements.

4 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.

As directed by the Supreme Court the parties agreed to a settlement on the 27 August 2007 with an overall reduction of 8.72% of the charges which will be effective from 1 January 2007 to 31 October 2007. Accordingly, credit is to be given to consumers with the bill for November 2007, based on the presently agreed tariffs.

The agreed new time based tariff structure will be effective from 1 November 2007.

Accordingly, an estimated amount of Rs 1,314 Million has been recognised as a reduction in revenue

5 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 PLC and its Subsidiaries

Quarterly Interim Financial Report as of 30 September 2007

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

(All amounts in LKR Millions)

Group

	Stated	Capital	Hedging	Insurance	Exchange	Retained	Total
	Capital	Reserve	Reserve	Reserve	Reserve	Earnings	
					Equalisation		
9 Months ended 30 September 2006							
Balance at 1 January 2006	18,049	188	(208)	166		15,598	33,793
Cash flow hedges							
-Foreign currency translation difference			(43)				(43)
-Charged to income			132				132
Insurance reserve -charged to income				14			14
Dividend in respect of 2005						(1,354)	(1,354)
Profit for the period						3,870	3,870
Balance at 30 September 2006	18,049	188	(119)	180		18,114	36,412
3 Months ended 31 Dec 2006							
Balance at 1 October 2006	18,049	188	(119)	180		18,114	36,412
Capital reserve transferred to retained earnings		(188)				188	-
Cash flow hedges							
-Foreign currency translation difference			(53)				(53)
-Charged to income			(64)				(64)
Insurance reserve -charged to income				3			3
Profit for the period						1,568	1,568
Balance at 31 December 2006	18,049	-	(236)	183		19,870	37,866
9 Months ended 30 September 2007							
Balance at 1 January 2007	18,049	-	(236)	183		19,870	37,866
Cash flow hedges							
-Foreign currency translation difference			(30)				(30)
-Charged to income			156				156
Insurance reserve -charged to income				20			20
Exchange Equalisation from foreign subsidiary					1		1
Dividend in respect of 2006						(1,805)	(1,805)
Profit for the period						4,335	4,335
Balance at 30 September 2007	18,049	-	(110)	203	1	22,400	40,543

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

(All amounts in LKR Millions)

Company

	Stated	Capital	Hedging	Insurance	Retained	Total
	Capital	Reserve	Reserve	Reserve	Earnings	
9 Months ended 30 September 2006						
Balance at 1 January 2006	18,049	188	(208)	166	18,374	36,569
Cash flow hedges						
-Foreign currency translation difference			(43)			(43)
-Charged to income			132			132
Insurance reserve -charged to income				14		14
Dividend in respect of 2005					(1,354)	(1,354)
Profit for the period					4,095	4,095
Balance at 30 September 2006	18,049	188	(119)	180	21,115	39,413
3 Months ended 31 Dec 2006						
Balance at 1 October 2006	18,049	188	(119)	180	21,115	39,413
Capital reserve transferred to retained earnings		(188)			188	-
Cash flow hedges						
-Foreign currency translation difference			(53)			(53)
-Charged to income			(64)			(64)
Insurance reserve -charged to income				3		3
Profit for the period					1,402	1,402
Balance at 31 December 2006	18,049	-	(236)	183	22,705	40,701
9 Months ended 30 September 2007						
Balance at 1 January 2007	18,049	-	(236)	183	22,705	40,701
Cash flow hedges						
-Foreign currency translation difference			(30)			(30)
-Charged to income			156			156
Insurance reserve -charged to income				20		20
Dividend in respect of 2006					(1,805)	(1,805)
Profit for the period					4,292	4,292
Balance at 30 September 2007	18,049	-	(110)	203	25,192	43,334

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Consolidated Cash Flow Statement for the 9 months ended 30 September

(All amounts in LKR Millions)

	GROUP		COMPANY	
	2007	2006	2007	2006
Operating activities				
Cash generated from operations	15,767	13,820	13,745	11,966
Interest received	1,241	359	1,202	489
Interest paid	(1,650)	(1,647)	(966)	(1,078)
Tax paid	(4,977)	(3,505)	(4,972)	(3,475)
Net cash generated from operating activities	10,381	9,027	9,009	7,902
Investing activities				
Acquisition of property, plant & equipment	(6,215)	(6,109)	(3,748)	(4,422)
Disposal of property, plant & equipment	4	-	4	-
Loan given to subsidiary	-	-	-	(500)
Net cash used in investing activities	(6,211)	(6,109)	(3,744)	(4,922)
Financing activities				
Proceeds from borrowings	2,520	-	-	-
Payment on borrowings	(2,515)	(2,330)	(1,110)	(1,187)
Dividend payment	(1,805)	(1,354)	(1,805)	(1,354)
Net cash used in financing activities	(1,800)	(3,684)	(2,915)	(2,541)
Increase / (Decrease) in cash & cash equivalents	2,370	(766)	2,350	439
As at 1 January	15,039	14,655	15,094	12,962
Increase/(Decrease)	2,370	(766)	2,350	439
As at 30 September	17,409	13,889	17,444	13,401

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Investor Information

Ratios

	Group		Company	
	30 Sep. 2007	31 Dec 2006	30 Sep. 2007	31 Dec 2006
Net Assets per Share (Rs)	22.46	20.98	24.01	22.55
Debt / Equity ratio -Number of times	0.34	0.35	0.24	0.26
Quick Asset Ratio - Number of times	1.85	1.58	2.42	2.00

	Group		Company	
	For the 9 months ended		For the 9 months ended	
	2007	2006	2007	2006
Interest Cover - Number of times	5.04	4.90	7.99	7.00

Market Value of Shares

Market Value of the Ordinary Shares of the Company (Rs)	3 Months to 30 Sep. 2007	3 Months to 30 Sep.2006
	-Highest	36.75
-Lowest	30.25	17.75
-Last Traded price	33.25	21.00

Dividend Payment

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

Share trading from 1 July 2007 to 30 September 2007

	3 Months to 30 Sep. 2007
-No of Transactions	3,671
- No of Shares Traded	14,181,367
-Value of Shares Traded (Rs)	486,214,574