



Driven to Deliver

As Sri Lanka stands on the brink of social and economic change, we stand firm to deliver to our people, the fundamental technological support critical for catalytic change. Our drive towards future prosperity reaches every individual, institution and industry.

At Sri Lanka Telecom, we are driven to deliver.

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## Mission

“Your trusted and proven partner for innovative and exciting communication experiences delivered with passion, quality and commitment.”

## Vision

All Sri Lankans seamlessly connected with world class information, communication and entertainment services.

## Values

Customer caring, Trustworthy, Innovative, Responsive, Teamwork, Excellence, Results driven.





## Company information **Driven by inspiration**

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## Financial highlights 2009

### PROFIT AFTER TAX

Group Rs. 778 Mn  
Company Rs. 1,232 Mn

### PROFIT BEFORE TAX

Group Rs. 1,395 Mn  
Company Rs. 1,608 Mn

### REVENUE

Group Rs. 48.08 Bn  
Company Rs. 34.09 Bn

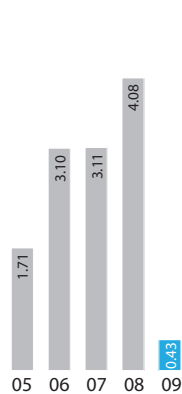
### EPS

Group Rs. 0.43  
Company Rs. 0.68

### EARNINGS PER SHARE

**Rs. 0.43**

(Rs.)



### DIVIDEND PER SHARE

**Rs. 0.25** (2009 proposed)

(Rs.)



### NET ASSETS

**Rs. 46,599 Mn**

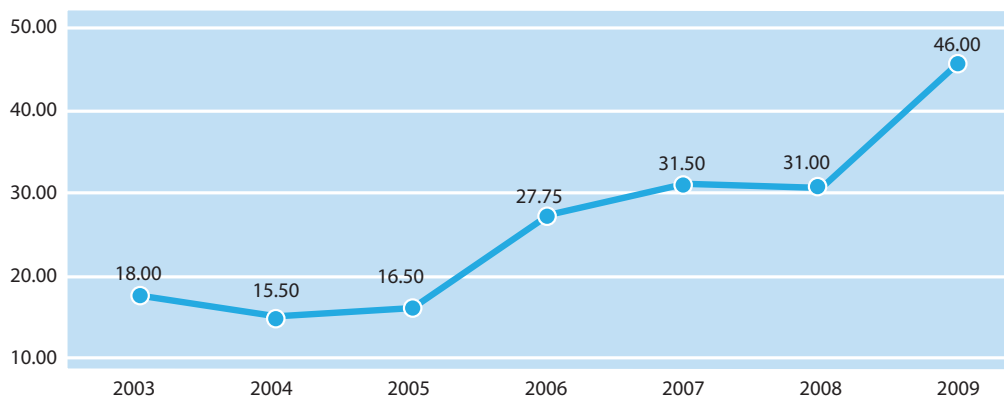
(Rs. Mn.)



### GROWTH IN SHARE VALUE

**Rs. 46.00**

(Rs.)



<b>Group</b>	<b>2009</b>	<b>2008</b>	<b>%</b>
	<b>Rs. Mn</b>	<b>Rs. Mn</b>	<b>Change</b>
<b>Results for the Year</b>			
Income	48,077	47,044	2.20
Net Profit Before Income Tax	1,395	9,560	(85.41)
Income Tax on Profits	617	2,193	(71.87)
Net Profit After Taxation	778	7,367	(89.43)
Gross Dividends (2009 proposed)	451	1,805	(75.00)
<b>At the Year End</b>			
Shareholders' Funds (Capital and Reserves)	46,599	47,525	(1.95)
Total Assets	90,308	93,199	(3.10)
<b>Information Per Ordinary Share</b>			
Earnings - Rs.	0.43	4.08	(89.46)
Dividends - Rs. (2009 proposed)	0.25	1.00	(75.00)
Dividend Yield - % (2009 proposed)	0.54	3.23	(83.28)
Net Asset Value (Rs.)	25.82	26.33	(1.94)
Market Value (Rs.)	46.00	31.00	48.38
<b>Ratios</b>			
Return on Average Shareholders' Funds (%)	1.67	16.48	
Price Earning - Times	106.98	7.60	
Dividend Cover - Times (2009 proposed)	1.73	4.08	

# An overview of the Group

## MOBITEL (PVT) LIMITED



Holding 100%  
Principal activity Mobile telephony

## SLT (SERVICES) LIMITED



Holding 100%  
Principal activity Total network solutions

## SLT HONG KONG LIMITED



Holding 100%  
Principal activity PoP for transit services

## SLT PUBLICATIONS (PVT) LIMITED



Holding 100%  
Principal activity Directory publications



### SLT VISIONCOM (PVT) LIMITED



Holding 100%  
Principal activity Pay television services

### SKY NETWORK (PVT) LIMITED



Holding 99.89%  
Principal activity WiMAX operations

### SLT MANPOWER SOLUTIONS (PVT) LIMITED



Holding 100%  
Principal activity Workforce solutions

Company name	MOBITEL (PVT) LIMITED
Holding	100%
Principal activity	Mobile telephony
Company name	SLT (SERVICES) LIMITED
Holding	100%
Principal activity	Total network solutions
Company name	SLT HONG KONG LIMITED
Holding	100%
Principal activity	PoP for transit Services
Company name	SLT PUBLICATIONS (PVT) LIMITED
Holding	100%
Principal activity	Directory publications
Company name	SLT VISIONCOM (PVT) LIMITED
Holding	100%
Principal activity	Pay television services
Company name	SLT MANPOWER SOLUTIONS (PVT) LIMITED
Holding	100%
Principal activity	Workforce solutions
Company name	SKY NETWORK (PVT) LIMITED
Holding	99.89%
Principal activity	WiMax operations

# 150 years of excellence!

## A quick look at Sri Lanka Telecom's history

The setting up of Sri Lanka Telecom in as a public corporation in 1991 was a defining moment in SLT's history, heralding a new era for the telecom sector in Sri Lanka. From that day to this, the company has grown and thrived, pushing the boundaries of telecommunications while setting the benchmarks for service providers across the island.

1858



- First international telegraph communication established between Ceylon and India.
- First Telegraphic Circuit established between Galle and Colombo.

1880



- Postal and Tellaegraph services amalgamated under the control of the Government of Ceylon.

1895



- First submarine cable laid between India and Ceylon.

1896



- Government of Ceylon took over Oriental Telephone Company with its manually operated exchange.

1911



- Central Telegraph Office opened.

1935



- International Telephone Service inaugurated.

1966



- Subscriber Trunk Dialling (STD) Service introduced.

1976



- First Earth Satellite Station (Standard A) commissioned in Padukka.

1981



- First Digital Master Exchange installed.

1985



- Linked up with SEA-ME-WE I analogue submarine cable.

1994



- Linked up with SEA-ME-WE II digital fibre optic submarine cable.

1995



- Fully digital third Satellite Earth Station (Standard A) commissioned in Padukka.

## 1996



- Internet and E-mail Service introduced.
- Sri Lanka Telecom Corporation converted into a Public Company.

## 1997



- Sri Lanka Telecom privatised with the collaboration of Nippon Telegraph & Telephone Corporation (NTT) of Japan.

## 2000



- First optical fibre ring transmission connecting 15 cities.
- Rs. 1.5 Bn debenture issue.

## 2002



- Sri Lanka Telecom acquired balance 60% of share of Mobitel (Pvt) Ltd - a mobile communications company.

## 2003



- Sri Lanka Telecom shares started trading on the Colombo Stock Exchange (CSE).

## 2004



- Sri Lanka Telecom launches its state of the art Internet Data Centre.
- Sri Lanka Telecom receives the prestigious Fitch SL AAA rating.

## 2005



- SLT Citylink, Sri Lanka Telecom's CDMA network launched in Anuradhapura.

## 2006



- SLT and BSNL launch Bharat Lanka Submarine Cable System.
- SLT Hong Kong launched.
- SLT inaugurates Dhiraagu - SLT submarine cable system between Maldives and Sri Lanka.
- SLT becomes the first Sri Lankan company to achieve the highest international information security standard.
- SLT rolls out Metro Ethernet Services.
- SLT officially inaugurates local operations of landmark SEA ME WE 4 submarine cable system.

## 2007



- SLT to broadcast TV (IPTV).
- SLTnet goes 1 Giga bps in international backbone.





## Management information **Driven to succeed**

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# Driven by aspiration

## Chairperson's review

An interview with **Leisha De Silva Chandrasena**, Chairperson, Sri Lanka Telecom

"It has been a year where many lessons were learned, designed to pave the way for an era of development and growth that Sri Lanka is poised to see with the end to the three decade long ethnic conflict. Sri Lanka Telecom is excited about the envisaged prospects, the implemented plans that will come to fruition and the role it has to play in the country's journey towards the future."

Dear Stakeholder,

While the world continued to grasp the realities of the global economic crisis and its pervasive negatives that were gradually dissipating paving the way for a new economic paradigm, Sri Lanka too was working around negativities, some global but most in a local context which included intense competition within the Sri Lankan telecommunication industry already hit with low spending power. However, it has been a year where many lessons were learned, designed to pave the way for an era of development and growth that Sri Lanka is poised to see with the end to the three decade long ethnic conflict. Sri Lanka Telecom is excited about the envisaged prospects, the implemented plans that will come to fruition and the role it has to play in the country's journey towards the future.

My message to you this year, will deal extensively with Sri Lanka Telecom's plans and the path it has chartered for itself vis a vis a detailed map comprising important Questions & Answers, which will give you a comprehensive view of the company and its future.

### QUESTION:

Briefly, what has 2009 been like from an economic and telecommunication perspective?

### A:

In Sri Lanka, although the real GDP expanded 5.9% in 2009 despite the country being encumbered with a full

scale war, it still remained below the Government's original target of 7 to 8% growth, due to economic growth continuing to remain constrained by the global economic crisis. A positive sign however was that inflation decreased to its lowest level in the latter part of 2009, reduced to single digits in more than five years due to stringent monetary policies enacted by the Central Bank of Sri Lanka.

Mirroring world trends, Sri Lanka continued its speedy path of product and service diversification in the telecommunication industry, moving from traditional fixed voice telephony to the world of Internet based products, delivered via superior network and technology platforms. However, it must be remembered that while broadband technology has phenomenal potential, it's not without risks. These include entering into a highly complex new marketplace and keeping up with technology advancements and developments.

The demand for our services has seen a growth over the last five years due to our strategically planned journey which has constructed the infrastructure and skills necessary to deliver, in the emerging 'com-media world'. Mobile telephony also saw expansion, with penetration being about 70% (according to our estimated data by end of 2009). While fixed line operations for voice communication services are highly competitive and decline in growth. Converging networks to facilitate more advanced services

especially in the broadband area such as IPTV services is now a global phenomenon which Sri Lanka Telecom is also following.

The country currently has quite an impressive portfolio of global players within the local telecommunications industry including the most recent from the UAE in addition to operators from India and Malaysia, who all stand neck to neck with Sri Lankan operators. However, I do believe the local industry is very competitive with global players attempting to capture niche markets and enter into all areas, even the smaller untapped segments.

### QUESTION:

What are the economic factors that affect the industry?

### A:

Demand for telecommunication services has significantly grown due to population growth, the increase in GDP, decreasing unemployment, and personal income growth which spurred Sri Lanka towards lower-middle income country status from lower income status. In the meantime, operator costs continued to rise largely due to energy prices spiralling upwards, reflected as a large expenditure factor in most companies' balance sheets. The intense competition faced within the industry also saw margins erode and product and service prices decreasing quite rapidly, with lower cost technology being introduced.

### QUESTION:

What about the Regulatory framework and the risks prevalent in the industry?

### A:

Sri Lanka has been rated as having the highest regulatory risk score in the Asia Pacific region in a recent survey conducted by Fitch Ratings, which indicates the regulatory environment's impact on the operator's ability to

“Group performance flourished primarily due to the diversification platform that the company worked on, in line with the strategic direction introduced since the company’s privatisation.”

generate free cash flow. Ratings, which are based on the regulatory environment, political and social policy risks, place Sri Lanka, Australia and South Korea in receiving the highest risk score basis, and Malaysia and Hong Kong are assessed as having the lowest regulatory risks in the Asia Pacific region. Sri Lanka’s market received a rated risk score of 6.5, (from 6 and above classification), which denotes that the regulatory environment has had a significant negative impact on free cash flow generation ability.

### QUESTION:

Can you explain the reason for the transformation to NGN and 4G?

### A:

The entire global industry is moving towards 4G and Next Generation Networks (NGN), which is a platform capable of providing the multiple services of voice, data, video and mobility on one network, offering customers unprecedented conveniences and flexibility, while the operator operates on a simple network and effects significant cost savings. I strongly believe that value added services and innovative services will dominate future revenue streams which will undoubtedly change the demand pattern for the skill set required by telcos like Sri Lanka Telecom.

### QUESTION:

Could you touch briefly on Sri Lanka Telecom’s performance during the year?



### A:

The SLT Group saw revenue growth of 2%, with mobile and data contributing positively towards this growth and highlighting the positive feature that SLT’s diverse portfolio of services has been an astute strategy to have embarked upon. SLT’s group profit before tax thus stood at Rs. 1.39 Bn, a decrease of 85% from 2008, while Profit after Tax stands at Rs. 0.78 Bn, a percentage decrease of 89% from last year’s figure of Rs. 7.37 Bn.

Group performance flourished primarily due to the diversification platform the company worked on, in line with the strategic direction introduced since the company’s privatisation. Entry into diverse business streams through subsidiaries enables SLT to reduce business risk in relation to future competition and synergises the Group’s resources sensibly. Detailed performance reviews of each of the subsidiaries are available from page 35 of this report.

All telecommunication operators were impacted negatively due to the state introduced plethora of taxes and tax rates. This took its toll as expansion of networks and businesses became a

challenge during the year, compelling telcos to limit their investments.

### QUESTION:

What about your revenue mix?

### A:

The company initiated new business models to ensure a much stronger revenue mix concentrating primarily on broadband, Internet and wholesale business to other operators. Some of these initiatives have already been implemented using distinctive business models and incorporated as new subsidiaries and acquisitions, to ensure fast growth of the business operations. In line with the company’s strategic direction of ‘Conquer from Networks to Markets’, new business models are vital in achieving these goals. SLT has a considerable number of subsidiaries under its Group umbrella which focus on domestic business as well as the wider scope of global business. With the networks being converted to IP based NGN networks, I envisage a move towards new models being urged sooner rather than later, given the fact that traditional models with legacy networks are pressurised to transform.

# Driven by aspiration

## Chairperson's review

### QUESTION:

How did Sri Lanka Telecom face the challenges prevalent in 2009?

### A:

With more than 70 licensed telecommunication providers in the country, the market has become extremely competitive. Despite this, Sri Lanka Telecom continued to forge ahead aggressively, with our diversification strategies and customer centric business operations bearing fruition and resulting in a good year even in turbulent economic conditions.

Products and services from non-traditional telecommunication segments posed serious substitution threats, with the Internet becoming a viable vehicle for cut-rate voice calls internationally and locally and thus encroaching into revenue streams. There has been a move towards rapid tariff reduction as both mobile and fixed line operators compete aggressively, even though some customers are moving out of the market due to technology substitutes like Google Talk, Skype and MSN Messenger. While fixed line business has been affected due to an increased customer move towards mobile substitution, our strategic decision to acquire Mobitel as the mobile arm of the company, was fortuitous as Mobitel began contributing positively to the Group both in customer perception and revenue, revolutionising the sector with innovation. Meanwhile, fixed line operators are being wooed with the broadband and IPTV services offered via the same copper based fixed line.

With entry barriers into the industry minimised and the country encouraging more investment, new operators gain access to our market quite easily using the giant infrastructure already established by the incumbent operator. This decreases the new entrant's capital investment and other license fees and is a palpable threat to the company as new entrants focus on high demand service areas like mobile and data services.

According to the TRCSL, Sri Lanka's tariffs are the lowest in Asia and with the intense competition, this has exacerbated into an unabated price war. Being the incumbent telecommunications operator in the country and our overhead costs being high, we have had to battle narrowing margins. However on the positive side, these challenges have given us impetus to pursue other innovations like broadband and entertainment services enabling multi-service connections, to maintain revenue.

### QUESTION:

SLT appointed a new CEO this year. How did this pan out?

### A:

Sri Lanka Telecom appointed Greg Young as its CEO in February 2009. It is our expectation that the breadth and depth of his experiences within the global telecommunication industry in varying roles, will see him, together with the Board, steer Sri Lanka Telecom towards our ultimate goals.

### QUESTION:

How will Sri Lanka Telecom capitalise on its leadership status to drive business?

### A:

NGN will be our main springboard in maintaining our leadership stance as it will not only transform our network from a complete traditional framework into a multiple service provider geared towards the future, but will also infuse cost effective measures including minimising overall overheads such as operation and maintenance, for economies of scale than the prevalent technology. We've also inculcated a key strategic decision to strengthen our mobile arm while rapidly expanding our broadband capabilities both in the wired and wireless categories. Aligned to the Government's vision of ICT empowerment for the whole country, SLT's focus is to use wireless technologies such as WiMAX, a wireless broadband technology, to reach the rural areas in the country. This move will significantly

bridge the ICT gap between urban cities and rural villages.

Our global connectivity submarine cable systems which SLT invested in a few years ago, will be utilised even more to cement our bottom line as it currently contributes to the high demand for data and VoIP services around the globe. We aim to generate a new revenue stream in this area by offering the available excess capacity to other global and local operators for their international operations. The Bharat Lanka optical fibre submarine cable between Sri Lanka and India inaugurated by SLT in 2006 connects us with largest telecommunications operator and other major players in India, with the available excess capacity offered to these players adding revenue to the company. Our global presence will be further reinforced and aligned with our ambitious plans of becoming a global IP solutions provider. We also aim to incorporate more Global PoP (Point of Presence) facets to facilitate our global operations which will include handling the international traffic volumes of local, regional and global operators.

The intense competition and ensuing price wars impacted positively for Sri Lanka Telecom as it encouraged a more dynamic and far reaching product development strategy, which saw the company introduce customer centric product offerings to the market, while customer touch points too were increased for ease of business. More information on the new products and service innovations, including VTalk (a new tariff plan that gives all post paid telephone users the freedom to choose a preferred calling plan) and our touch point expansions are detailed within the operational review in this report.

Having acknowledged that Broadband is the future in ICT, SLT is now poised to roll out numerous initiatives that will create the necessary impetus to meet future demand. SLT has expansive plans of penetrating rural areas soon with WiMAX technology. Given the intensifying



demand for high-speed data services outside Colombo, the Metro Ethernet Network completed Phase II of its expansion plan while Phase III will commence next year.

Wholesale business will continue to be one of the key revenue streams for the company in the short to medium term. The fibre connectivity currently available for other operator base stations as well as SLT will be upgraded to cater to higher capacities and provide Ethernet connectivity to other operators country wide.

The honours and accolades collated during the year remain a testament to our leadership status within the industry and corporate Sri Lanka. We continued to etch our leadership role being selected among the Top Ten Sri Lankan companies by both LMD and Business Today for the fourth consecutive year. We are also among the Top Ten Best Corporate Citizens of the country as dictated by the Ceylon Chamber of Commerce. Our Annual Report received its due honours and also showcased our strength, transparency and accountability by winning two prestigious awards from the ICASL and SAFA, while our business best practices won three awards at the National Business Excellence Awards.

Due to the challenges faced this year, we also instituted a number of cost control methods which would help us to

prudently maintain equilibrium in revenue and costs. Staff, service provisioning, maintenance, technical support and operator services were some areas where the fat was trimmed for more astute management of costs, while human resources and services were outsourced. Directory publications and ancillary services is now geared towards becoming an independent revenue stream. Credit controls were tightened with special emphasis on CDMA products being brought under stringent credit control procedures.

### QUESTION:

What are Sri Lanka Telecom's current ratings?

### A:

Fitch Ratings awarded Sri Lanka Telecom an AAA(lka) rating on the National Long Term Rating for the fifth consecutive year and a BB- on Long Term Local Currency. Being a public listed company, it is imperative that we are able to garner the confidence of business partners in demonstrating our financial credibility and viability. We are one of the most valuable Groups of companies in the country with an annual turnover of approximately Rs. 48 Bn. We were also conferred a B+ rating for both Long Term Corporate Rating and Long Term Debt Rating by Standard & Poor's, which is a notch above the country's rating.

### QUESTION:

How do you view the coming year?

### A:

While looking forward to a new era in a post-war peace oriented Sri Lanka, my Board of Directors, CEO and management have also been a strong trust in helping me to lead and maintain the leadership stance of the country's national telecommunication service provider despite a challenging year. I must also sincerely thank each of our team for their unstinted contribution and dedication in ensuring the better performance of the company.

Undoubtedly there will be challenges in the future given that ICT is constantly evolving, but we are now driven to deliver on a platform of superior technology coupled with customer service excellence and I have no doubt that SLT will continue in its dynamic premier position as an industry leader. The future certainly looks bright and holds much promise, and given the new areas opening up in the North as well as the East, I foresee much demand for futuristic telecommunication solutions around the country.

# Delivering on transformation

## Chief Executive Officer's review



“Achieving our new vision and mission will entail a broad approach and includes initiatives that will deliver positive benefits for our customers. Our strong values are designed to guide us in how we organise ourselves and focus strategically on customers to ensure that we continuously review our capabilities and bridge the gaps for the benefit of customer centricity. Into this equation, we will align the way we work to support change by upgrading and replacing our legacy network and introducing improved system automation.”

Transformation and change became the paradigm for Sri Lanka Telecom's journey into a highly competitive and aggressive marketplace this year. While 2009 posed a challenging business environment for all companies, it must also be noted that the year brought great hope and expectations for stability and economic growth in Sri Lanka with the cessation of the ethnic conflict. This has opened up new opportunities for us, especially in the North and East of the country which will soon see resurgence supported by our telecommunication solutions. Envisaging an industry that's poised to move beyond the conventional horizon of networks, we conceptualised a pragmatic vision,

mission and strategic goals with a series of apt values to position SLT for an era of change.

### The need for change

Change was the need of the hour as the company was operating with a vision, mission and strategic goals that were outdated for the rapid evolution we are witnessing in the telecommunication industry, with technology, competition and the development of the industry making revolutionary progress. This has compelled SLT to update our vision and mission, making it relevant in the context of SLT and the market we operate in. This

new vision, mission and strategic goals are imperative for our 2010 plans and beyond, designed to guide us in our long range strategic plan. Our new vision and mission will be the foundation to the journey while the new corporate values will also add the necessary impetus in guiding our annual business plan and long term strategic plan. To begin the process, consultants were brought in specifically to look at SLT as a company 'driven to deliver' for the future. Their reports and recommendations formed the core of the transformation programme.

Achieving our new vision and mission will entail a broad approach and includes initiatives that will deliver positive benefits for our customers. Our strong values are designed to guide us in how we organise ourselves and focus strategically on customers to ensure that we continuously review our capabilities and bridge the gaps for the benefit of customer centricity. Into this equation, we will align the way we work to support change by upgrading and replacing our legacy network and introducing improved system automation. SLT has for long had enviable strengths including country wide capability with our service and maintenance centers. The changes will give us the impetus to leverage on the strengths, capabilities and assets we possess and use these in a positive manner to satisfy customer expectations.

### The industry and SLT

Historically, while the company is the undisputed leader in Sri Lanka's telecommunication industry, it has functioned on the platform of being a technology and network driven company which suited us well in the last three plus years, as it was technology that drove the entire telecommunication industry. Now the era has moved to being customer centric and one in which, SLT should be driven by the customer. The quality of service we provide and the products we innovate and develop are the essential features that drive our business. We operate in a highly competitive market

“While maintaining our dominance in the fixed wireline segment where roughly one million households in Sri Lanka are covered, SLT is also rapidly developing its fixed wireless broadband and mobile segments. We are also the market leader in broadband services...”

that has a sense of imbalance when compared to the size of the country and resident population.

More than 70 telecommunication operators provide a plethora of services in voice, Internet, data and wholesale. In particular, the four fixed line operators, one wireline, four CDMA, five mobile operators and 22 data communication service providers contribute to a highly aggressive marketplace offering multiple options for the customer. The technology used is similar and hence, differentiation is necessary in our products, services and customer service. Therefore, at the core of our transformation programme is a comprehensive strategy devised to ensure that we structure ourselves to focus on the customer.

#### Market drivers

In the fixed wire-line segment, SLT continues as the dominant service provider for wireline services. Currently 17.5% (according to our estimated data by end of 2009) of the households in Sri Lanka possess wirelines, while a total of 63.5% (according to our estimated data by end of 2009) have fixed lines. There's much room here for densification of the network. We perceive customer preference as being for wirelines when compared to CDMA due to quality, clarity, safety and prestige. Customers are also moving towards high speed wireline broadband access due to the accelerating ICT usage permeating the country. The present coverage however remains insufficient to cater to the demand, caused due to lack of expansion

in recent years to serve the new and emerging residential areas. The entry of a new mobile operator during 2009 into the country's mobile space has effectively introduced unprecedented competition with an aggressive pricing culture, which cascaded to fixed services as well, as the year saw significant conversions from fixed to mobile.

The year saw stagnant growth in the CDMA sector, as fixed mobile convergence is driving churn from CDMA wireless local loop to mobiles. CDMA positioning in the marketplace is also being squeezed by PSTN/ADSL and Mobile voice/broadband. Less than 47% (according to our estimated data by end of 2009) of households possess CDMA phones and while there is still room for penetration, we don't see a trend of customer demand increasing in this sector.

While maintaining our dominance in the fixed wireline segment where roughly one million households in Sri Lanka are covered, SLT is also rapidly developing its fixed wireless broadband and mobile segments. We are also the market leader in broadband services, having captured more than 80% (according to our estimated data by end of 2009) of the market. ADSL is the premier solution for connectivity and has been a handy and timely tool for the improvement of ICT literacy in Sri Lanka which has also drawn customers towards high speed broadband. Broadband opens up multiple online entertainment options – this is another advantage which we have been capitalising on through effective marketing strategies to build the platform for delivery of pay TV (IPTV) solutions.

#### Product and service developments

Given the challenges and market drivers we have identified, the key aspects we focused on in 2009 were reviewing our existing products and introducing new pricing packages. New ADSL packages, PSTN (V-Talk) and SLT-4 Friends Package were amongst the new service offerings. The ADSL, V-Talk and PSTN packages enable customers to select pricing plans

that best suit their budgets and lifestyles. The four new ADSL packages introduced in February - Xcite, Office 11P, Xcel and Xcel 11p are revamped existing packages that were targeted to deliver a more comprehensive mix of options for customers. The SLT-4 Friends package for the Megaline and Citylink post paid customers provides heavily discounted rates between predetermined customers.

IDD facilities were introduced to all our CDMA customers in April this year following the commissioning of similar services for all fixed wireline customers in December 2009. IDD facilities saw further value addition with a new price plan for Passport Budget IDD users, where the new discounted price applies after three minutes of each call, while the existing tariff continues for the first three minutes.

In our bid to create an inclusive nation, SLT introduced the Company's first Braille bill. The bill has now become a value addition to our visually challenged customers and we have seen increasing interest for bills to be sent in this format.

Bill payment convenience has been enhanced through an extensive network of supermarkets, banks and lifestyle stores including 350 Singer outlets country wide coming under the umbrella of billing agents, giving customers an option of over 3,000 bill payment centers.

Given the ICT thrust we have been involved in since the State launched its Ten Year Development Plan and declared 2009 as the Year of English and ICT, SLT has been at the forefront of the telecommunication revolution which permeated the rural areas of Sri Lanka, enabling additional accessibility through a variety of projects. The Lanka Government Network already has 325 connected sites with a further 150 planned, while Schoolnet has 1,300 already under its umbrella with 1,200 planned for the future. 140 Nenasala Centers are now connected as are 50 under the LEARN project with 25 more planned.

# Delivering on transformation

## Chief Executive Officer's review

"One of the most exciting projects embarked upon this year was the Optical Fibre Connectivity project in the Northern part of the country which commenced mid year after the end of the ethnic conflict. Identifying the importance of providing high speed and high capacity connectivity to the Northern peninsula, we completed an immediate expansion of capacity to Jaffna to meet the short term voice and data requirements, whilst embarking on a project to provide fibre optic connection via the A9 route. Following its completion in early 2010, this will provide capacity to meet all future requirements with the same level of reliability and performance which now connect all parts of the country."

### Financial overview

SLT is one of the largest capitalised companies in the Colombo Stock Exchange with a strong history of sustained success despite the challenges that continue to emerge from time to time. While expansion has been limited in the North and East of the country in the recent past, with these areas opening up with the cessation of the conflict, we see significant potential emerging. SLT is already working hard to deliver improved and modernised telecommunication services to the 2.7 Mn resident population in these areas.

While you are given comprehensive details on the financial performance of the company in the Financial Review of this Annual Report, in a nutshell, the company saw a drop of 6% in revenue in 2009 to stand at Rs. 34 Bn, due to a number of factors. The increase in fixed to mobile substitution, customer migration and the global economic downturn impacting corporate customer activities are three primary cases in point. However, we have observed strong revenue growth in both domestic and international Data and broadband services which is in line with our broadband growth strategy.

One of our biggest challenges has been the continued increase in operating costs driven by a range of different factors. Personnel costs play a major role even though a Voluntary Retirement Scheme enacted this year will provide benefits in the medium term, while adding Rs. 480 Mn to our operational costs in the short term. Energy cost has also been detrimental to our efforts at decreasing our operational costs, as is repairing and rehabilitating parts of our aging network which takes its toll on our bottom line. This has urged us to embark on a programme of modernisation, replacing equipment and modernising cables wherever possible. The combination of pressure from reducing revenue and containing expenses growth saw a reduction of 73% in operating profits, from Rs. 6.40 Bn to Rs. 1.72 Bn this year. EBITDA saw a decrease of 35.9% from Rs. 15.20 Bn to Rs. 9.74 Bn, while Profit Before Tax and After Tax were both impacted. PBT hence stands at Rs. 1.61 Bn, a drop from Rs. 8.77 Bn posted last year, while PAT is posted at Rs. 1.23 Bn, down 81% from Rs. 6.60 Bn of last year.

The Group meanwhile saw slightly better revenue results this year, with an increase of 2% to Rs. 48.08 Bn, although operating costs here continued on an upward trend, posted at Rs. 30.78 Bn from

Rs. 24.24 Bn, a percentage increase of 27%. Profit Before Tax and Profit After Tax stood at Rs. 1.39 Bn and Rs. 0.78 Bn respectively at the end of this year, displaying a percentage decrease of 85% and 89%.

### Infrastructure development, network expansion, accessibility

Given the advantages of the Next Generation Network (NGN) architecture which is a telecommunication trend across the globe, SLT completed Phase II of its NGN migration project, a completion of 15% totaling 137,940 lines provided on NGN. 2010 will see the next phase launched with many additional customers migrating to NGN across widespread geographical areas to gain the benefits from this new lower cost access solution. The year saw us successfully commission the Havelock Town and Colombo Universal Media Gateways as well as migrating the legacy networks in Avissawella, Negombo and Galle to NGN technology.

Our CDMA fixed wireless network expansion (stage iv) is now nearing completion, with more than 140 base stations in total being deployed to increase capacity in existing areas and to expand coverage into new areas, particularly focusing on the North and East. This additional capacity and coverage delivers much needed capability to meet the strong demands for fixed phones in recently resettled areas. In the third quarter we successfully completed the migration of all CDMA customers to a new numbering plan, as required by the Regulatory Authority.

With the upgrade of our core MPLS Network from STM-1 to Gbps during the year we can now support expected coverage and capacity to meet the on-going demands of our IPTV and VoD "PeoTV" services.

Significant expansion this year of our island wide fibre optic SDH network has facilitated the delivery of connectivity to meet rapid Mobitel 3.5G expansion plans

in addition to other retail and wholesale customers.

One of the most exciting projects embarked upon this year was the Optical Fibre Connectivity project in the Northern part of the country which commenced mid year after the end of the ethnic conflict. Identifying the importance of providing high speed and high capacity connectivity to the Northern peninsula, we completed an immediate expansion of capacity to Jaffna to meet the short term voice and data requirements, whilst embarking on a project to provide fibre optic connection via the A9 route. Following its completion in early 2010, this will provide capacity to meet all future requirements with the same level of reliability and performance which now connects all parts of the country. The development of this infrastructure is aligned to the Government's "Uthura Wasanthaya" development programme.

### Global reach

Driven to deliver solutions not only within Sri Lanka but also to ensure connectivity globally, SLT strategically expanded its reach to the region and then onwards to the world through SEA-ME-WE3, SEA-ME-WE4, the Bharath Lanka submarine cable connection with India, the Dhiraagu submarine cable with the Maldives and the Satellite Station in Padukka. In 2009, SLT invested USD 3 Mn on the SEA-ME-WE3 upgrade Phase 4, increasing capacity by 150% and the diversity of our global network.

Meanwhile the establishment of SLT Hong Kong gives SLT the necessary gateway and presence into Asia from which the company's presence further extends to all parts of the globe.

SLT now provides global connectivity for telecom carriers and corporate customers with fast response times to meet their growing needs. In 2009, we began selling global capacity to other international operators, thereby improving the utilisation and return on these assets.

### Transforming our team

Ours is undoubtedly one of the largest workforces in Sri Lanka comprising everyone from the most erudite professionals and specialists to an unparalleled competent technical and support staff whose decades of experience have held us in good stead to create a solid foundation for the journey of the telecommunication industry in Sri Lanka. Over the years however, we have seen numerous gaps in the utilisation of our human resources. Given the shift from a network to market and customer driven culture, we have commenced the process that will create a milieu of recognition and skill development that will align our vision with the employee's personal career goals to deliver the premise of 'the right person for the right job'.

Employees were thus identified, trained and redeployed for better productivity and job satisfaction. While KPIs were introduced and cascaded, a mid year performance evaluation was also introduced for executives, focusing on mid year target achievements and encouraging them to meet the set goals. The annual performance evaluation will in turn match employee achievements to the set targets.

An online attendance monitoring system was launched around the country to improve efficiency, productivity and to monitor and control overtime and other allowances, in turn enabling improved expense management for 2010.

At the same time, we do realise that optimising our organisation is necessary for our long term successes. Accordingly, we launched a successful Voluntary Retirement Scheme with 309 team members availing themselves of the benefits of this scheme.

### Our plans ahead

SLT is currently experiencing increased demand for fixed PSTN services and is in the process of creating a cohesive telecommunication infrastructure

network that will bridge the North and South of the country seamlessly. The investment for the developments in 2009/10 in these areas alone is projected at over Rs. 3.5 Bn.

The introduction of the SKA Interconnection regime between operators is currently under discussion with the Telecommunication Regulatory Authority due to decide on it in early 2010. The final rate has to be decided by the TRC in agreement with all operators which, if implemented, will have an adverse effect on SLT. However, we await the pending decision.

### Appreciations

My first year in Sri Lanka has been both fulfilling and challenging. Fulfilling because I see the opportunities that are emerging, and having now prepared our long range plan and strategies I find that SLT has the potential and the right mindset to achieve the ambitious targets set by our new vision and mission. At the same time, I foresee numerous challenges ahead as the industry itself evolves at the speed of light worldwide. However I am confident that we have the right attitude and strategies in place to maintain our premier leadership position as the national telecommunication solutions provider in Sri Lanka.

My sincere appreciation to the Chairperson and Board of Directors for the confidence placed in me to lead this extraordinary organisation that not only has an important legacy in the history of this country but is one that has proved its mettle in maintaining its corporate leadership status. A warm thank you also to my management and team for their dedication to the future sustainability of SLT and for managing the company transformation with total commitment and passion.

**Greg Young**  
*Chief Executive Officer*

# Board of directors

Driving our vision and strategy into the future.



**Mrs Leisha De Silva Chandrasena**  
Director / Chairperson



**Mr Sumith Wijesinghe**  
Director



**Mr Sidath Fernando**  
Director



**Mr Sandip Das**  
Director



**Mr Chan Chee Beng**  
Director



**Mr Jeffrey Jay Blatt**  
Director



**Mr Yoga Perera**  
Director



**Mr U. R. Seneviratne**  
Director

## Mrs Leisha De Silva Chandrasena

Mrs Leisha De Silva Chandrasena joined the Board on 27 February 2006 and was appointed as Chairperson of the Board on 25 February 2008. She is also a Director / Chairperson of Mobitel (Pvt) Ltd., SLT Visioncom (Pvt) Ltd., SLT Publications (Pvt) Ltd., SLT Manpower Solutions (Pvt) Ltd., Sri Lanka Telecom Services Ltd., SLT Hong Kong Ltd., and Sky Network (Pvt) Ltd.

Mrs Chandrasena is an Attorney-at-Law and Notary Public by profession, and has been in active practice from 1978 to 1987. Thereafter, she served as Administrative / Legal Manager and Company Secretary in a public quoted company up to 1999. She is in active practice in the Civil Courts and acts as the Company Secretary for a number of Private Companies. She also serves as a partner in her family-owned Legal Firm.

She also serves on the Board of the University of Colombo and Lanka Logistics Ltd. and acts as honorary Advisor to the Ministry of Defence and the Company Secretary of Rakna Arakshaka Lanka Ltd.

Mrs Chandrasena holds diplomas in Human Resources Development, Human Rights, Personnel Management and Industrial Relations and in Business Management and Administration.

## Mr Sumith Wijesinghe

Mr Sumith Wijesinghe was appointed to the Board of Directors of the Company on 17th May 2006 and subsequently to the Boards of Mobitel (Pvt) Ltd, SLT Visioncom (Pvt) Ltd., SLT Manpower Solutions (Pvt) Ltd., and Sky Network (Pvt) Ltd.

Prior to his appointment to SLT, Mr Wijesinghe was a practicing lawyer who, from 1993 to 1999 served as a Director of a National NGO which was involved in community development in the dry zone and the Northern and Eastern provinces.

During the period 1999 to 2004, he held several appointments as Co-ordinating Secretary to the Minister of Fisheries & Aquatic Resources Development, the Minister of Ports, Shipping, Fisheries & Aquatic Resources Development

and to the Leader of the Opposition. From 2004 to 2005 he was the Co-ordinating Secretary to The Hon. Prime Minister and from 2005 onwards he was the Co-ordinating Secretary to HE the President.

Currently he also serves as a Director of the National Development Trust Fund (Guarantee) Ltd. and as a Trustee of the National Development Trust Fund.

Mr Wijesinghe holds a Degree in Law from the University of Colombo. He is also an Attorney-at-Law.

## Mr Sidath Fernando

Mr Sidath Sri Vidanage Fernando joined the Board on 04th March 2008. He also serves as a director of SLT Publications (Pvt) Ltd., Sky Network (Pvt) Ltd., and SLT Manpower Solutions (Pvt) Ltd.

Mr Fernando is a successful Sri Lankan entrepreneur with business interests in manufacturing, real estate, property management and information

communications technology sectors. He is the Executive Chairman of V.D.P. Fernando Co Ltd and Managing Partner of the Crystal Holding (Pvt) Ltd.

Mr Fernando has been successfully managing their private family business V. D. P. Fernando Co Ltd since 1992. During this time, the company has experienced substantial growth and diversification. He has been the catalyst for the company's development and expansion into global export markets for its coir fibre products. The V. D. P. Fernando Co. Ltd currently manages the complete life cycle of the coir fibre processing – from product R&D to Products / Market Development to global sales.

Mr Fernando also has extensive experience in the Real Estate and Property Development businesses. He has had success in developing and managing large scale commercial and retail outlets in Colombo.

Mr Fernando has more than 20 years of hands-on experience in business management, finance, manufacturing and marketing gained while managing his own Small and Medium Enterprises. He also has served as a committee member of the Chamber of Young Entrepreneurs in Sri Lanka and is a Rotarian at the Rotary Club of Colombo.

### Mr Sandip Das

Mr Sandip Das joined the Board of Sri Lanka Telecom PLC on 05th June 2008. He is also a member of the Board of Mobitel (Pvt) Ltd. He is a Director in Maxis Communications Berhad ("MCB"). He is also an Executive Director and Chief Executive Officer of Maxis Berhad ("Maxis"), Malaysia.

In addition, he serves as a Director on the Board of Directors of Aircel Limited, Aircel Cellular Limited ("ACL") and Dishnet Wireless Limited ("DWL") in India, and as a Commissioner on the Board of Commissioners of PT Natrindo Telepon Seluler ("NTS") in Indonesia. Internationally, he is a Board member of Bridge Mobile Pte Ltd, a strategic alliance of 11 regional telecommunications providers.

Prior to joining MCB in January 2007, he was Deputy Managing Director and a Director of the Board of Hutchison Essar Limited (now known as Vodafone Essar Limited, India), one of India's largest mobile operators. He joined Hutchison Essar, then known as Hutchison Max Telecom, and started the company's operations in India in 1994. He has 32 years of work experience in the consumer durable, automobile and the telecommunications industries. Prior to working at Hutchison Essar Limited, he spent 5 years with AI Futtaim Motors, the Toyota franchise of the AI Futtaim Group, in Dubai, UAE and 10 years with the Indian consumer durable giant Usha International, Shriram Group.

He holds a Masters of Business Administration from the Faculty of Management Studies, University of Delhi in India and Bachelor's

degree in Mechanical Engineering from Regional Engineering College (now known as National Institute of Technology), Rourkela in India.

### Mr. Chan Chee Beng

Mr Chan Chee Beng was appointed to the Board of Directors on the 05th June 2008 and subsequently to the Board of Mobitel (Pvt) Ltd. Mr Chan aged 54 is a Malaysian National.

He has about 30 years of experience in investment banking, financial management, and accounting including stints with Ernst & Young and Morgan Grenfell & Co. Ltd. prior to joining the Usaha Tegas Group in 1992 as Head of Corporate Finance. He is presently an Executive Director of Usaha Tegas Sdn. Bhd. ("Usaha Tegas") and serves on the director boards of several other companies in which Usaha Tegas has significant interest viz. Maxis Berhad (listed on Bursa Malaysia Securities Berhad ("Bursa Securities")), Maxis Communication Berhad, Binariang GSM Sdn. Bhd. and Bumi Armada Berhad, having an operational base in Malaysia, and Aircel Limited, operational in India.

He is also a director in a non-independent non-executive capacity and a member of the Audit Committee of MEASAT Global Berhad (Listed on Bursa Securities)

He holds a degree in Economics and Accounting from UK and is a Fellow of the Institute of Chartered Accountants in England and Wales.

### Mr Jeffrey Jay Blatt

Mr Jeffrey Jay Blatt was appointed to the Board on 05th June 2008. He currently serves as the CEO of X Ventures Co. Ltd., Bangkok, Thailand, and Special Counsel to Astro All Asia Network PLC, and Usaha Tegas Sdn. Bhd., in Malaysia.

Prior to his current position, he was the Senior Vice President of Business Affairs and General Counsel, at Astro All Asia Networks PLC, and the Group General Counsel of Usaha Tegas Sdn. Bhd. ("UT Group"). He was one of the three members of the Executive Committee, reporting to the Board of Directors, that provided strategic guidance and operational management to launch the Malaysian "Astro" digital satellite pay television service.

He has been responsible for leading complex international negotiations in a variety of settings in multinational and multiethnic corporate environments. Before moving to Malaysia, he was a partner in the nationally recognised law firms of Irell & Manella LLP, and Blakely, Sokoloff, Taylor and Zafman, both in Los Angeles, California, USA.

Mr Jeffrey Jay Blatt attended the Lewis and Clark law School, Oregon, USA where he graduated with a Juris Doctor cum laude. He holds a Bachelor of Science Degree in Engineering from the University of California, USA and a Master of Science Degree from Tiffin University, Ohio, USA. He is a member of the

California and United States Federal Bars, and is a registered United States Patent Attorney.

### Mr Yoga Perera

Mr Yoga Perera joined the Board of Directors on the 26th of November 2008. He hails from a family of business entrepreneurs in the manufacture of building materials and tiles. He was behind the initiation and launch of the tile plant STF, in the district of Chilaw. He ventured out in 1985 to the Motor industry under the flagship of Autoland which is a household name for trustworthy and reliable vehicles.

Mr Perera began a joint venture with Sidera Trading PLC in Dubai, dealing with tiles in 2006 and consequently exported vehicles from Japan to the South African market, opening an outlet in Nairobi, under the name Kenland which caters to a niche market in Kenya.

The vast knowledge he has acquired in motor vehicle trading is contributory to his success in the automobile industry. Mr Yoga Perera held office as President of the Sri Lanka Association of Racing Drivers and Riders (SLARDAR), and is a Board Member of the Mahabodhi Society of Sri Lanka and India. He was a committee member of SLAS, which is the controlling body for motor sports.

Mr Perera holds a Degree in Business Management. His business acumen and his sense of entrepreneurship have held him in good stead in all his ventures and business activities.

### Mr U. R. Seneviratne

Mr U. R. Seneviratne was appointed to the Board of SLT on 27th of March 2009. He is a Sri Lanka Administrative Officer with over 25 years experience in the public service and has held various positions since joining the Administrative Service in 1984. He currently holds the position of Deputy Secretary to the Treasury at the Ministry of Finance and Planning.

He also serves on the Boards of De La Rue Lanka Currency & Security Print (Pvt) Ltd. National Insurance Trust Fund, National Lotteries Board, Central Environment Authority, National Education Commission, Superior Courts Complex and Udarate Development Authority.

Mr Seneviratne holds a Bachelor of Science Degree and a Masters Degree in Mass Communication from the University of Kelaniya. He also holds a Postgraduate Diploma in Management from the Open University of Sri Lanka. In addition, he has received overseas and local training experience in the areas of Cooperative Development, Public Administration, Micro Finance and Rural Development.

# Senior management

The driving force behind our success.



## 1 Mrs Leisha De Silva Chandrasena

*Director / Chairperson*

Profile on page 20 of this report.

## 2 Greg Young

*Chief Executive Officer, Sri Lanka Telecom*

Joined in February 2009 as CEO with a remit to transform this business into a customer centric, market focused business, striving for customer service excellence. With over 25 years in the telecommunications industry, Greg Young has an impressive range of both commercial and technical experience developed through working for world class operators and suppliers, including Qualcomm, Tata Teleservices India, Telstra Corporation and Philips Australia. He holds a Bachelor of Electrical and Electronic Engineering (Distinction) from Swinburne University, Australia. A well known telecommunications and wireless industry leader, Greg Young has served on industry associations - including 4 years as the President and 10 years as a board member of the global CDMA Development Group (CDG).

## 3 Priyantha Perera

*Chief Administrative Officer*

Joined SLTD in 1982, armed with a BSc from the University of Moratuwa in Electronics and Telecommunications. He is a Chartered Engineer with a Post Graduate Diploma in Marketing from the CIM (UK) and a Fellow and a Past Council Member of The Institution of Engineers, Sri Lanka, a member of IET (UK) and CIM (UK), and also a Competent Toastmaster.

## 4 Mohan Padmaperuma

*Chief Research & Development Officer and Chief Business Development Officer*

Joined SLTD as an Engineer in 1984. He holds a BSc. (1983) from the University of Moratuwa in Electronics and Telecommunications. He is a Chartered Engineer and is a member of The Institution of Engineers, Sri Lanka. He brings with him experience in the Emirates Telecommunication Company from 1989 – 1991.

## 5 D. W. R. Wijeweera

*Chief Information Officer*

Joined SLT in 1982 and served as Head of the Billing Division in 2001 and became CIO of SLT in 2005. He is a member of The Institution of Engineers, Sri Lanka (C.Eng.), IIESL, IET (UK) and CSSL. He has been engaged in major IT projects to provide the strategic IT road map for SLT. As Programme Manager he implemented the Integrated OSS and BSS system.

## 6 Shiron Gooneratne

*Chief Finance Officer*

Joined SLT in 2009. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and a Member of the Institute of Certified Management Accountants, Australia and holds an MBA from the University of Leicester, UK. He has held senior finance positions both locally and overseas including the position of Finance Director of a leading multinational company operating in Sri Lanka.





### 7 Ajantha Seneviratne

*Chief Marketing and Sales Officer*

Joined SLT in 1993. He holds a BSc. (1987) in Electronics and Telecommunications from the University of Moratuwa and has obtained the Post Graduate Diploma in Industrial Engineering from OUSL. He has also read for an MBA from the University of Sri Jayawardanepura. He is a Chartered Engineer and is a member of The Institution of Engineers, Sri Lanka. He brings with him over ten years of marketing experience.

### 8 Ian Bertus

*Chief Human Resource & Legal Officer*

Joined SLT in 2007. He holds a degree in Law from the University of Colombo and has read for a Masters degree in Labour Management from the same university. He is also an Attorney -at- Law of the Supreme Court of Sri Lanka, with over 25 years of experience in human resource management in leading private sector organisations.

### 9 M. B. P. Fernandez

*Chief Operations & Maintenance Officer*

Joined SLT in 1991. He has a BSc in Electronics and Telecommunications from the University of Moratuwa and an MBA from the University of Sri Jayawardanepura. He is a Chartered Engineer and a Fellow member of the Institute of Engineers Sri Lanka with 22 years of experience in operations, maintenance, project management, customer service and marketing. He also serves as Director of Sri Lanka Telecom (Services) Ltd. and an IPM Resource Person.

### 10 Tilak De Silva

*Chief Global & Network Officer*

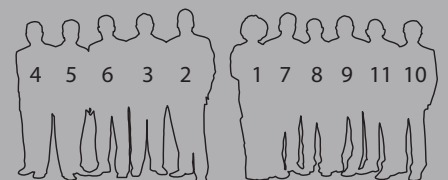
Joined SLT in 1984, after completing a BSc. in Electronics & Telecommunications Engineering from the University of Moratuwa. He holds an MSc in Data Communication from the Brunel University, UK and is a Chartered Engineer of Sri Lanka and the UK and a Chartered IT Professional, UK. He also holds fellowships at The Institution of

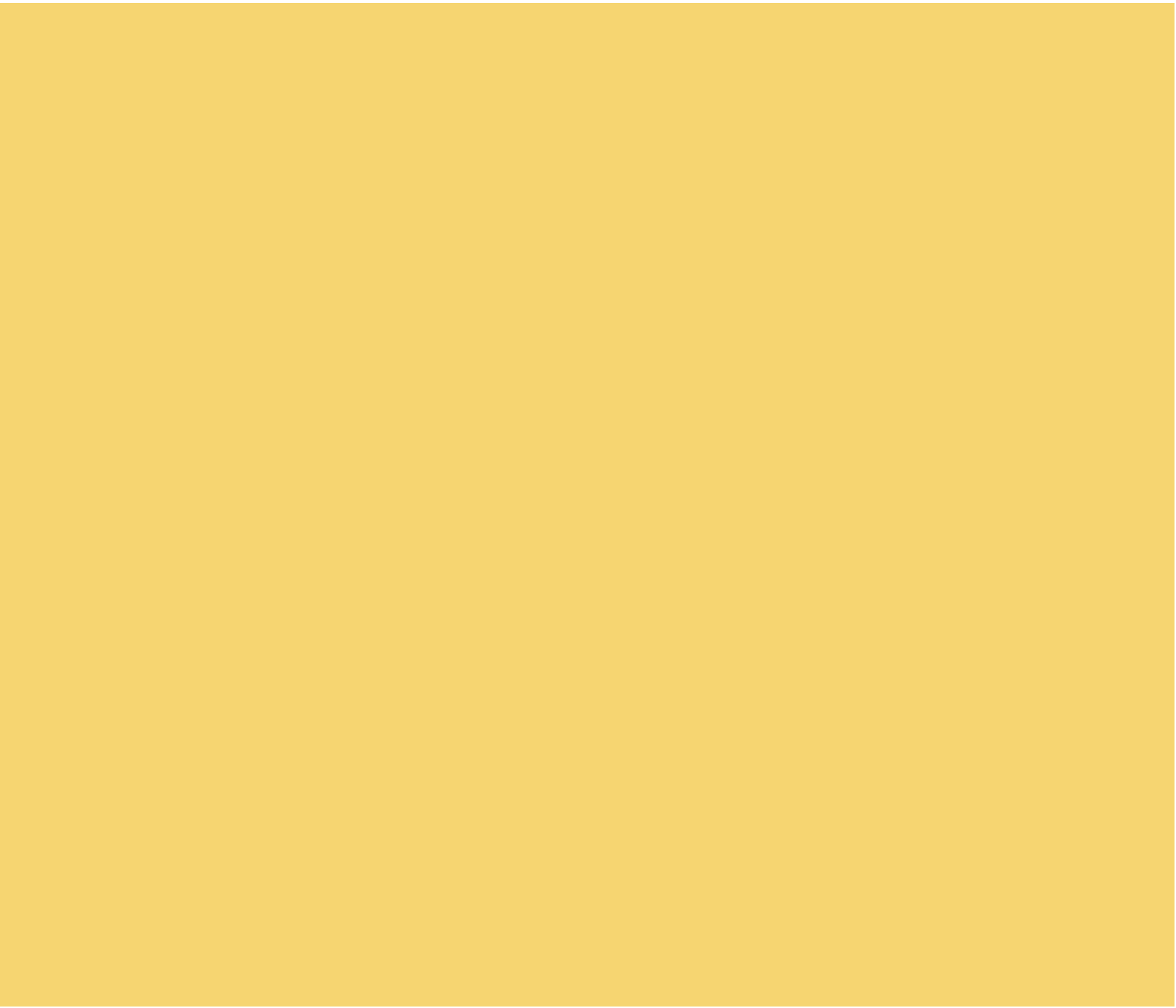
Engineers, Sri Lanka and IET (UK) and membership at BCS (UK) and IEEE (USA).

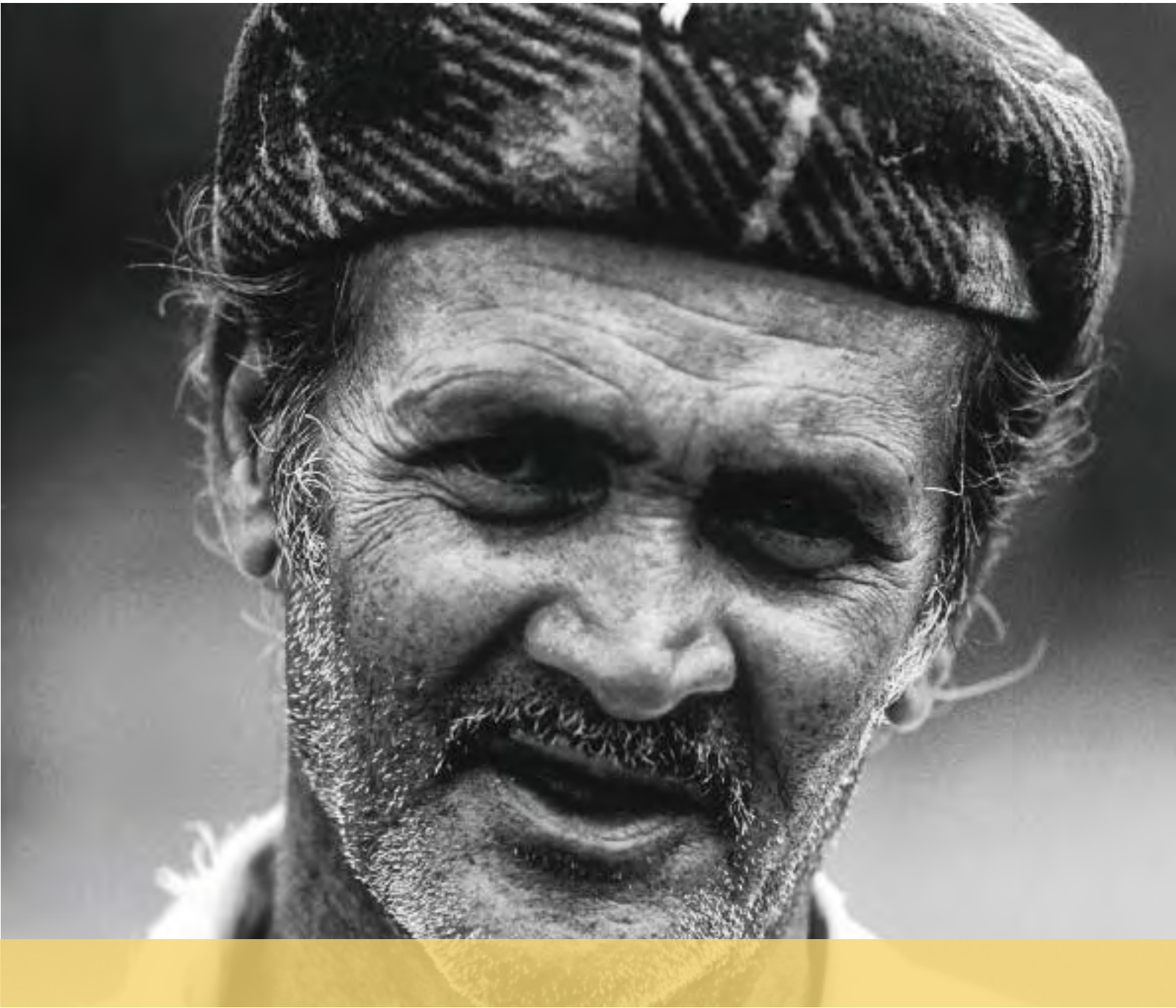
### 11 S. K. Lal Ranjith

*Chief Corporate Officer*

Joined SLT in 1984 as an Engineer. He holds a BSc (1983) in Electronics and Communication from the University of Moratuwa and has read for an MBA from the PIM of the University of Sri Jayawardanepura. He has also completed a Post Graduate Diploma in Marketing from the CIM (UK) and is a Chartered Marketer cum Chartered Engineer with membership of the The Institution of Engineers, Sri Lanka and CIM (UK). He is also a Toastmaster.







## Management discussion **Driven to excellence**

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# Management discussion and analysis

## Strategic operations



### Overview

The year 2009 saw Sri Lanka Telecom emerge into the fast paced telecommunication industry with a new vision and mission aligned to capitalise on its strengths, grasp opportunities and overcome challenges with astute and pragmatic strategies to take it forward on its journey as the national telecommunication solutions provider in Sri Lanka. Into the Group's vision of seamless connectivity equipped with world class information, communication and entertainment and a more detailed

mission that spells out the elements of the journey, Sri Lanka Telecom developed a corporate strategy comprising nine strategic goals, inbuilt into an overarching performance management framework that advocates people and brand values. At the helm of the corporate strategy is the emphasis on being customer and market centric, a definitive shift from the earlier network focused strategy to a market oriented one. The other eight trusses of the corporate strategy are namely growing and protecting traditional business, transformation and innovation, broadband growth, emphasis

on wholesale business, ICT, increasing global reach, convergence and group synergies and diversification.

### Background

It was in 1991 that Sri Lanka Telecom was transformed from a government department to a state owned corporation, although it was in 1996, on becoming a public limited company that the company took on a more proactive role in the telecommunications development of this country. There was added impetus to this drive with the equity divestiture to NTTCom, whose shares were sold to GTH in 2008. Sri Lanka Telecom became a Public Listed Company in 2002 and currently has as its major shareholders GTH with 44.9% shareholding and the Treasury with 49.5%.

Over the more recent years, Sri Lanka Telecom began adding resources to its synergies with seven subsidiaries now functioning under its umbrella. The strategy diktat was two fold: firstly to develop and share operational infrastructure such as towers and buildings and secondly to develop shared sales channels and space as aptly observed with the services provided by Mobitel and VisionCom. The diversification thus sees Sri Lanka Telecom leverage on its strengths in mobile telephony, wireless broadband, multimedia services through IPTV (Peo TV), network solutions, global business with its presence in Hong Kong, directory and printing business and human asset management. With the addition of these synergies, Sri Lanka Telecom has become an integrated service provider whose strengths lie in quadruple play. 2009 also saw Sri Lanka Telecom drive dynamically into NGN (Next Generation Network) architecture, providing an optimum solution for convergence.

### Macro Impacts

With the onset of peace and an end to the almost three decades long ethnic conflict, IMF predictions point to

Sri Lanka's GDP increasing significantly in the coming years and in the short term, this was reflected in the All Share Price Index of the Colombo Stock Exchange rising rapidly and being named among the best performing markets in the world. The North and East opening up also exposes a 2.7 Mn population who have hitherto not had telecommunication solutions offered to them. According to the Ten Year Development Strategy being implemented by the Government of Sri Lanka, telecommunications continues to be a key driver in the mega development projects currently underway. It is also observed that the declaration of 2009 as the Year of English and ICT has spurred a movement to increase IT literacy by 2010 and Sri Lanka Telecom has been at the forefront, in establishing 140 Nenasala Centres to spread ICT into rural and semi-urban areas.

**Opportunities and Threats**

The telecommunication panorama has evolved and transformed significantly in the last decade with numerous players in both fixed line and mobile telephony adding their services to a market that is now at the point of saturation. The entry of a fifth mobile operator with international backing has added to the price wars that have emerged within the industry. Aggressive marketing and heavy competition, the decrease of traditional revenues, the economic downturn and scaling down of operations, lower capital infusion and increases in customer bargaining power were threats that the industry battled with increasingly over this year. We see threats exacerbating in the coming year as well. However, the pragmatic stance undertaken by Sri Lanka Telecom identified the future of telecommunications as broadband and this prompted the speedy infusion of NGN into its operations. This is currently in the completion of Phase II and on the threshold of launching Phase III of the project. The State's emphasis on improving ICT and the accelerated development being enacted in the North and East also present considerable opportunities for the company.

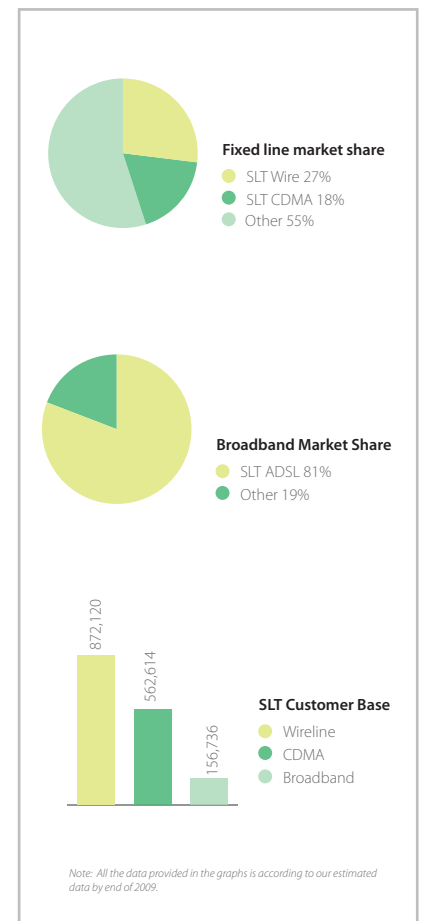
What we did observe conversely is a decline in the growth rate within the entirety of the telecommunication industry over 2009, although mobile telephony did increase to 70% (according to our estimated data) penetration. Sri Lanka Telecom has a significant 45% (according to our estimated data) market share from the total fixed line customer base which includes both wireline and CDMA services in Sri Lanka, while also dominating the broadband industry with a market leadership above 80% (according to our estimated data). With an expansion of WiMAX broadband services on the horizon in 2010 to serve the non-urban areas, we perceive the market share contributed by SLT ADSL increasing even further.

However, despite a negative trend showcased in the world, according to the Business Monitor International, their forecasts reveal that the fixed line growth in Sri Lanka is poised for upto 27.6% penetration and Broadband internet will reach 9.6% penetration by 2013. Sri Lanka Telecom has reshaped and honed its strategies, leveraging its strengths to capture this expected growth in the Internet and Broadband services markets, while improving fixed line penetration.

**Transforming – the need and approach**

Having observed the increasing competition prevalent within the telecommunication industry in Sri Lanka, it became very apparent that despite SLT holding a very dominant position in the past, that stance was being threatened and challenged due to fundamental changes within the marketplace. Besides the competition, we observed rising customer demands, declining revenue and increased and stringent regulation posing further challenges, while we also did recognise that broadband and not telephony is the future of telecommunications and there was a need for technology convergence. This prompted SLT to conceptualise a new business model that transformed from a network driven to a market driven customer centric one.

The strategic plan was produced post analysing a 360 degree end to end approach that comprehensively looked at our key business issues, the strengths, threats, weaknesses and opportunities worked over three phases. Phase I initiated an audit and architected a roadmap, analysing our business and environment to determine key focus areas. Issues surrounding these focus areas were then keyed into a strategic agenda for discussion and agreement. Phase II designed and planned the findings from the Audit and Roadmap, addressing the detailed set of deliverables individually, which after discussion, were then detailed to the Chief Officers for alignment with each other. Phase III which is currently being implemented is managed through the Transformation Programme Office although it is a process that involves the entire SLT team. Phase III which created a project portfolio, is also designed to build capabilities and manage benefits and has



## Management discussion and analysis

### Strategic operations

now laid the foundation for strengthening and integrating marketing involvement and strategy towards a more effective organisation with effective internal communication features. There is also a systematic tightening and monitoring of systems and processes being implemented. Further, under the new business model, the strategic areas of IT Systems Migration, Network Transformation, Operational Transformation, IP based Portfolio, Business Processes and Business Model become sub-programmes under the larger umbrella of the Strategic Roadmap.

#### Strategies for today and beyond

A very clear cut cohesive company strategy was thus constructed to drive Sri Lanka Telecom's journey into the future. The transformation of the telecommunication industry, the proactive all inclusive penetrative nature of the services and products and the discerning customer whose informed demands require comprehensive focus, in addition to the plethora of products and services that move beyond mere telephony are the trusses to a strategy that is built on a market driven focus. It's directed to move from conquering networks to markets. This market oriented strategy is aimed at creating a foundation where the company becomes more customer focused, building relationships, facilitating individuals and institutions, which in tandem stimulates the senses via the diverse products available. On a larger platform, Sri Lanka Telecom aims to conquer markets through network convergence (NGN and IMS architecture), enabling ICT solutions, business diversification as has been seen with its increasing subsidiary portfolio, entering the global arena through IP markets and expanding broadband reach.

The nine point company strategy inculcated into the new Business Plan for the year, designed for 2010 and beyond, is broad based and perspicacious, architected to ensure a stable and futuristic growth plan that gives the

company scope, breadth and depth to overcome challenges and grasp opportunities that constantly emerge within the industry. Network convergence involving migration to NGN and the IP Network (IMS architecture) is already speedily on its way to completion. The considerable investment expended towards NGN migration up until the completion of Phase II by end of this year has already seen a total of 15% of the identified area covered while 2010 will see the largest thrust, with another 40% earmarked for completion. The advantages to both customer and operator are multifold with operational costs decreasing, NGN requiring less space and power consumption, ability to evolve and reliability being some advantages to the operator. Customers gain high end innovative and integrated services, high speed Broadband services, increased capabilities and faster provisioning.

The group is also making a concerted effort towards business diversification that would spur development of triple and quadruple play solutions and spin off potential business units for speedy growth. Sri Lanka Telecom's ambitions to enter the global IP market will soon come to fruition as the strategic initiatives currently in play like strengthening and expanding business relationships with regional partners BSNL and Dhiraagu and selling international bandwidth to operators and service providers outside Sri Lanka have gathered momentum.

In a similar vein, expanding broadband reach has also seen increased impetus with the rolling out of Broadband solutions, expansion of the fibre ring connectivity to new cities (soon to the North and East), introducing service assurances and development of Broadband solutions for corporates for a seamless service using the just installed Metro-Ethernet and IP-VPN. While the company remains at the helm of providing total corporate solutions in telecommunications, the strategy to enable ICT solutions also involves the country's development initiatives

including Schoolnet, e-Lanka, Nenasala and LEARN in collaboration with the Government of Sri Lanka.

#### Fixed line strategy

The extensive penetrative capabilities of the fixed line technology, including wire, wireless and fibre, target residential, professional, micro and small business with an extensive value proposition portfolio, namely voice quality, reliability, triple play, prestige and an overarching community feel. Currently SLT Citylink customers use CDMA Technology while SLT Megaline is a bundled package that services four customer segments under the categories of Platinum, Gold, Silver and Bronze with different products and services catering to the individual needs of the customer. SLT Broadband on the other hand uses ADSL technology.

Sri Lanka Telecom is now concentrating on increasing the penetration in all customer segments by improving the sales mix and per line revenue and working on strategies that will reduce disconnections and churn.

To combat the decreasing trend of fixed wireline customers primarily due to fixed mobile substitution, intense market competition, more stringent credit control and scaling down of customers' businesses due to economic downturns, Sri Lanka Telecom has initiated a number of strategies to prevent a further downsizing. V-Talk was introduced in 2009 giving customers a flexible competitive pricing package that is a first for fixed line customers in Sri Lanka. Value additions such as ADSL is being promoted aggressively as are NGN based value added services. A concerted effort is also being implemented to monitor and control disconnections and create a flexible credit management culture that will increase growth.

#### CDMA strategy

With a product life cycle that is rapidly approaching maturity due to threats posed by substitute technologies including 3G, WiMAX and VoIP and strong

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competition with four operators vying for limited market share, Sri Lanka Telecom has effected a tactical investment for capacity and selected coverage expansion only, coupled with strong commercial management disciplines to be utilised to protect revenues and drive usage. While the target customer segments are residential, small and micro businesses based outside the Metro region 80% in fact the value proposition that SLT offers the customer is voice access and superior technology. Currently, SLT has over 330 base stations in operation to cater to the CDMA customer base, with 140 being added to support capacity, performance and tactical coverage, primarily in the North and East.

#### Broadband strategy

This is the primary area targeted for unhindered growth in the next few years as Sri Lanka Telecom already has a significant portion of the market share, seeing the customer base double this year. Having already introduced price reductions and new packages into the existing product and service portfolio, SLT has the advantage of utilising the existing wired network, capacity and international connectivity, as well as the national IP-MPLS backbone. The value propositions offered are unparalleled and include high speed internet coupled with wireline reliability, a broader package range and superior ADSL access. SLT's growth strategy for broadband includes growing the existing voice customers into broadband, integration of IPTV, using

WiMAX technology for accessibility into remote areas and the introduction of value added services. Having introduced NGN architecture, FTTN and distributed MSANs will improve the existing ADSL coverage.

#### The North and East opens up

As of June this year, with the cessation of the ethnic conflict, 2.7 Mn people were opened up to the prospects of world class telecommunication technology being introduced into their abodes. Sri Lanka Telecom which had limited traditional connectivity within the North and East prior to June this year, began to aggressively market its products and services. This saw the launch of ADSL into the North and East and CDMA connections taking an unprecedented upward curve due to security restrictions being relaxed. A strategic one year plan for the development of telecommunications in the Northern and Eastern provinces is currently underway. This includes the installation of base stations, the installation of the fibre optic core network between identified cities on the A9, A32 and A29 routes, provision of broadband facilities to at least 20,000 customers in 11 areas in the Northern province and the suburban areas of Ampara, Batticaloa and Kalmunai, expansion of the copper access network and exchanges and the provision of fibre access network with 75 kilometers of the Jaffna peninsula and between Thirkovil and Pothuvil and Kalmunai and Ninthavur. Plans to enhance telecommunication facilities to aid new

industries and envisaged investment promotions zones are also included.

#### Going global

The four pronged global strategy employed by SLT gathered momentum, despite the world facing one of the worst financial crises in recent times. We did perceive a slight decrease in total incoming traffic over the year even though VoIP traffic remained stable. The decrease was primarily due to pricing pressure and a significant volume of grey traffic. Combating the negativities in this area, SLT's global strategy details tactical plans for both International incoming On-net and Off-net segments. On-net is currently enjoying the prospects of new carriers signing on, a relaxation of prepaid deposits, increasing virtual PoPs to improve network presence, promotion of the company as the best terminator for Sri Lanka which is being marketed through carrier forums and opening Caller Line Identification for SLT On-net termination. Similarly, having analysed the global market in the context of Off-net, SLT is effectively implementing strategies that will enable it to provide services at innovative rates. In the Global Data area SLT has begun intensifying partnerships to promote capacity sales by offering competitive bandwidth pricing regionally. The company also embarked on a concerted effort to promote the SLT brand in the global market and further consolidated its presence by participating in international bandwidth tenders for BSNL.

Promoting flexibility of the global transit margin scheme and of traffic routing by IGWs, opening up of the Indian route, dedicated customer support and promoting SLT premium transit products through carrier forums such as ITW, ACC and PTC are the policies employed within the Global Transit Strategy.

## Management discussion and analysis

### Sales and marketing



Sri Lanka Telecom's telecommunications solutions, whether for corporate, residential or an entire globally permeating network, are driven to deliver. The products and services, coupled with customer service platforms that are continuously improving have continued to keep the company firmly established as the market leader in most solution areas. The synergies we leverage upon in voice, data, video and networking gives us the impetus to create innovations that far surpass the norms and practices prevalent in Sri Lanka today.

The year 2009 saw SLT achieve its set targets in terms of connectivity, spread, expansion and revenue, aligned to the Key Performance Indicators detailed at the beginning of the year.

In a nutshell, we grew our broadband customer portfolio by 68%, while 32,800 new wire line connections were added to the wire line network. In the wholesale area, SLT increased its market share significantly; commendably overachieving the set of target a growth percentage of 25%. Observing the potential in this area, we do believe that given our state of the art infrastructure and network facilities, SLT has the capabilities to provide more services to other telecommunication providers, adding revenue to our bottom line.

CDMA business however did have its own challenges as indications display the market being at saturation point and existing CDMA customers converting to wire line connections instead, even though we did achieve 95% of our set targets.

SLT's Intelligent Solutions represents an array of integrated corporate information communications technology solutions in networking, data, voice and video through an MPLS based IP backbone spread through a countrywide optical fibre ring network. This IP backbone's product offerings include VPN, ADSL, voice VPN and broadband centered hosting, while SLT's state of the art Internet Data Center is the ideal complement to mission critical applications. With a specialised highly trained team of technical specialists and global connectivity through International Private Leased Circuits over SEA-ME-WE3 and SEA-ME-WE4, SLT, which today has a customer portfolio that includes leading private and public sector organisations while adding considerable numbers of new customers to the growing list, continues as the preferred choice for the entirety of corporate solutions. However, it must be noted that the business environment in general saw a downturn this year due to the cascading global economic crisis feeding into Sri Lanka as well. This saw some companies

disconnecting and downgrading their networks, although this did not in any way deter our mission of being driven to deliver, as we performed better overall in 2009 compared to 2008.

Broadband services, an area that SLT dominates with a market share of more than 80% (according to our estimated data by end of 2009), did exceptionally well in the year as SLT also opened up customer conveniences and value additions such as ease of registration through the SLT Megaline Platinum Packages and the option of obtaining the service from the growing network of SLT Teleshops or Regional SLT Offices, offering a hassle free option to obtaining broadband services. Offering four customised packages to suit individual or corporate needs, the new marketing campaign featuring popular actress Pooja Umashankar added a new thrust into increasing our sales in this category, especially in the non-urban markets.

SLT Megaline used an extensive marketing campaign to launch a 'first in Sri Lanka'. Customers were given four novel, cost effective and convenient solutions to suit their lifestyles in Platinum, Gold, Silver and Bronze packages. The communications campaign used five popular film stars and supermodels in a background of rhythm, music and dance to create a hype that translated to an increase in market share.

SLT's novel pre-paid card product, SLT Passport offering the lowest ever IDD rates and per second charges, continued its popularity curve with the Middle East being the highest revenue earner for the product. On an initiative begun last year where SLT significantly reduced its IDD rates to combat strong competition, call rates as low as Rs. 4 per minute for select destinations attributed to SLT Passport's growing popularity. In addition, Sri Lanka Telecom's Tariff Plan that was introduced in 2007 continued to be attractive to a growing market segment, as the per second billing and differentiated rates for peak and economy times coupled with a



“We stand on the threshold of 2010 with our horizons spreading towards the yet untapped potential of the North and East of the country. We see opportunities in both wireless and wireline, not only in the North and East but around the country with connectivity being the key to progress. SLT has already earmarked ambitious but achievable targets for the year ahead and given the positive factors seen in development vision around the country, believe strongly that we can achieve those numbers.”

discount gave SLT an edge over the competition.

SLT Citylink, which is SLT’s premier CDMA product, saw sales of over 100,000 during the year 2009, CDMA did reach saturation point this year. We added the attraction of an Internet capable CDMA phone coupled with attractive packages and affordable rentals and free services including Internet activation, data cable, email account, web space of 1 MB and CLI, SMS and SLT Plus services which helped us to create excitement and further awareness in the market and retain our CDMA market share.

Our customer convenience portfolio and expansive customer services were given a further boost when 04 Teleshops were

added to the existing network and also Queue Management System (QMS) was introduced for 12 teleshops. In addition, a comprehensive management system was launched to instigate and instill better customer service manners and niceties among the agents, who were also trained in dealing with extensive challenges that may arise while on the job.

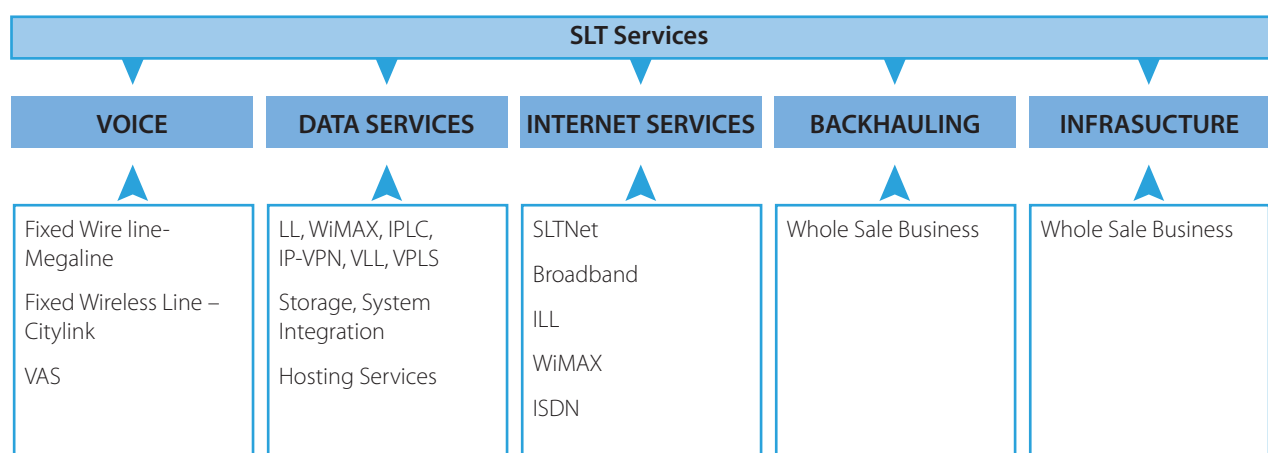
One of the challenges faced by the regional offices this year was in retaining customers. To combat the lackluster performance we perceived at the beginning of the year, SLT launched a concerted customer service drive, reconnecting those disconnected customers and introducing the Prestige Card to recognise long term customers, which assisted us in achieving the targets

set for the year. Pursuing the concept of hassle free delivery of all products, services and conveniences to our customers, SLT added to its payment locations as well this year, collating a total of over 3,000 payment locations under its umbrella including leading supermarkets, the country’s leading banks and lifestyle stores.

Probably our most significant product innovation this year was the launch of V-talk, a series of attractive packages for home and business, customised to suit individual needs. On the four ‘V’ platforms of Value (low rates and lower rentals), Active (more calls at the lowest rates), Novel (Flat rate and unlimited calls) and Forever (the longest calls at the lowest cost), Vtalk surpassed its set targets remarkably.

We stand on the threshold of 2010 with our horizons spreading towards the yet untapped potential of the North and East of the country. We see opportunities in both wireless and wireline, not only in the North and East but around the country with connectivity being the key to progress. SLT has already earmarked ambitious but achievable targets for the year ahead, and given the positive factors seen in development vision around the country, believe strongly that we can achieve those numbers.

### Macro Product Portfolio of SLT



## Management discussion and analysis

### Operations and customer services



“Our quest to deliver best in class services on a platform of customer service excellence drives us towards adding a portfolio of innovative and expansive conveniences that will drive our customers towards brand loyalty and product commitment.”

Customer convenience is retained as one of the cogs in the wheels of our customer centric vision rolled out this year. Our quest to deliver best in class services on a platform of customer service excellence drives us towards adding a portfolio of innovative and expansive conveniences that will drive our customers towards brand loyalty and product commitment. Our fully developed structure from A to Z, supports the sales and marketing strategy with comprehensive technical assistance, installation, maintenance, back up and accessibility.

Call centers were an innovative feature pioneered by Sri Lanka Telecom and developed to the current state of the art facility it is today. However, we do recognise that the backbone of a call center is service, delivery, responsiveness and friendliness permeated by our team. While the team did display efficiency, one of the areas that required further improvement was in customer service tenets. A comprehensive training programme that not only upscaled their knowledge on the technology available, but also worked on telephone skills and

responsiveness saw significant improvement in the levels of service. At the same time, Call Center technology was upgraded, with the fully automated service detailed to give information on the number of agents, occupancy, capacity, response time and average call length. Training is thus effected at the workstation by the supervisor.

Sri Lanka Telecom opened 4 more Teleshops this year, while we have more than 5400 sales distribution Channels in place for our products and services. The On-Line Teleshop serviced through our website increased in its popularity as we saw customers using it with increasing frequency to obtain information.

The network of Outside Plant Maintenance Centers (OPMCs) which handles the technical installation and maintenance saw a structural change in its operational outlook this year. Aligned with the company's vision, mission and new business model, the customer base was divided depending on revenue. This strategy was infused to inculcate faster responses to the segmented customer

groups. Based on a service assurance platform that's measured in two parameters, namely fault rate and fault clearance rate, the Fault Rate is defined as the ratio of the total number of incidents reported in a given time period (which are not major failures) to the average DEL for the same period. Identification of major faults is done through network fault information in the OSS. The Fault Clearance Rate (FCR) is defined as the ratio of the number of faults cleared within a set period of time (24 hours); to the sum of the number of held over faults and number of reported faults). Incidents which are found to be Right-When-Tested (RWT) are neglected.

For data services, service assurance is measured by the adherence to Service Level Agreements which are signed between customers and Sri Lanka Telecom. Restoration times therefore are dependent on the category and area but are nevertheless under the maximum restoration time of 24 hours. The Command Center which is the centralised functional core for monitoring and co-ordinating SLT network operations and maintenance activities is manned by an OIC who not only co-ordinates all sections of SLT but also monitors lapses or delays in provisioning and maintenance.

The field staff too were trained on the premise of becoming SLT brand ambassadors and akin to the training dispersed to the Call Center team, were provided with the niceties of interpersonal skills, behavioural discipline and business ethics, empowering them with the right tools to deal with customers, while on the front line.

ADSL services meanwhile were speeded up as well, with a target set for service provided within three days. The increased timelines however also require us to work in tandem with our suppliers, who have been appraised of the revised periods and have creditably kept to the challenging timelines. Broadband Service Assurance is measured by defining Monthly Fault Rates and Monthly Fault Clearance Rates, similar to those defined above.

## Infrastructure, networks & technology



“The existing circuit switch network will soon have SLT migrating to the Next Generation Network (NGN), a single network that hosts multiple services.”

The innovations, products and services that have become the hallmark of Sri Lanka Telecom are built upon a foundation of state of the art infrastructure, networks and technology, which are key leveraging features in the company which is being constantly driven to deliver. It is this singleminded focus that gives Sri Lanka Telecom the imperative to maintain its premier status as the country's largest telecommunications solutions provider, while also having expanded its wings by establishing related subsidiaries that complement the infrastructure and technology it has on offer.

The extensity, availability and reliability is the base upon which SLT is driven to deliver high quality services. It is vital therefore that capacity is increased to cater to the upward demand we have observed and the potential identified. Accordingly copper, fibre, MPLS, SDH, switching and data networks were expanded.

In tandem, we have infused numerous methodologies and processes to minimise costs by improving efficiencies prevalent in the current systems and

introducing ‘the right technology at the right time.’

The aggressive expansions and refurbishments we planned at the beginning of 2009 took on added dynamics with the purchase and provisioning of new infrastructure, technology and support services. These plans were implemented due to the existing circuit switching network being almost obsolete and the extensive efforts required in maintaining these systems. Migrating from these to systems based on new technology will in the medium to longer term dissuade customer dissatisfaction and customer churn. The existing circuit switch network will soon have SLT migrating to the Next Generation Network (NGN), a single network that hosts multiple services. By 2009, SLT had completed two phases of the NGN project and total replacement is earmarked by 2012.

The MPLS transport network is essential in the implementation of NGN and resultant to this, the existing MPLS was expanded to cater to the expansive NGN requirements as well as other requisites detailed below.

The physical connectivity of the MPLS network is provided by a fibre optic network and the availability of a country wide fibre optic network is an essential ingredient to the plans we have in the pipeline. The core and access fibre networks will also be expanded accordingly. In addition, Fibre-To-The-Node (FTTN) and Fibre-To-The-Cabinet (FTTC) technology along with Passive Optical Networks (PON) will be considered for customer broadband reach.

The ADSL network was expanded as per sales and marketing targets, while the bandwidth required from the transport network to carry ADSL/IPTV traffic has been infused into the MPLS network expansion.

This year also saw SLT expand its CDMA network, adding another supplier and expanding to the south of the country, while also re-aligning its plans based on the set marketing targets.

Wholesale business remains one of the key revenue streams for SLT and the company continues to be cognizant to other operator requirements in this vital business segment. Wholesale business also requires connectivity facilitation from our base stations to the SDH and MPLS networks. To meet these expanding needs, the SDH network was upgraded to provide E1, STM-1 and Ethernet connectivity to other operators.

In addition, the ISP network was also expanded to provide a high performance reliable Internet connectivity. We are currently in the process of adjusting the Internet tariffs, to cater to lower income customers.



## Review of the Group

Mobitel (Pvt) Ltd Sri Lanka Telecom (Services) Ltd SLT Hong Kong Ltd SLT Publications (Pvt) Ltd SLT VisionCom (Pvt) Ltd SLT Manpower Solutions (Pvt) Ltd Sky Network (Pvt) Ltd

Company name	<b>MOBITEL (PVT) LIMITED</b>
Holding	100%
Principal activity	Mobile telephony



Branded Sri Lanka's National Mobile Service Provider, Mobitel was founded in 1993 and acquired by Sri Lanka Telecom in 2002. Today Mobitel is technologically at the cutting edge and a leader in Sri Lanka's telecommunications industry. Mobitel was the first operator in South Asia to launch a 3.5G HSPA network and has successfully demonstrated HSPA+ powered by MIMO technology, which is capable of delivering downlink speeds of up to 28 Mbps.

*Mobitel is fortunate to have a talented, experienced, committed, and passionate team of people who have been with the company through its worst and best times. This time tested and proven knowledge resource within the company must be credited for our present strong and vibrant position as a company and it is an important source of inspiration and confidence in our advance towards realising our noble vision.*

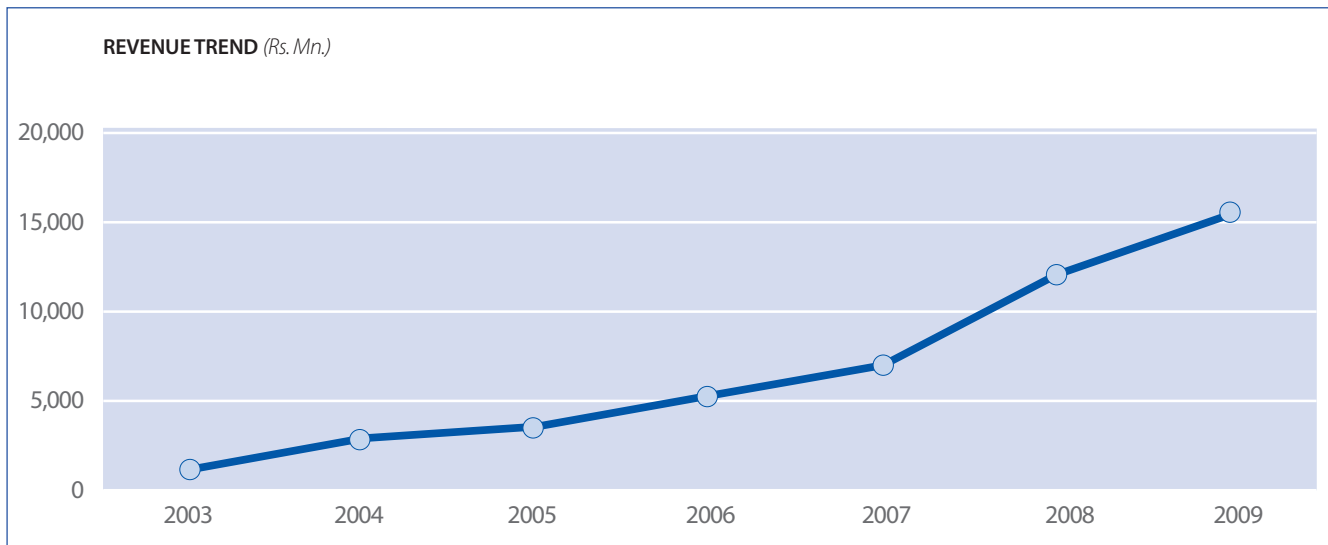
*We truly appreciate our gains from the wisdom and guidance of our Chairperson and the Board of Directors who have shown great fortitude and pragmatism and we have also greatly benefited from the strength and reputation of our parent company, Sri Lanka Telecom. Above all we are grateful to our valued customers who have, through their trust and loyalty in us, led us to our current position of strength. We are committed to honour their faith in us and pledge to delight them with our services in the future as well.*



**Suren J. Amarasekera**  
Chief Executive Officer, Mobitel (Pvt) Limited

## Review of the Group continued: Mobitel (Pvt) Limited

Mobitel (Pvt) Ltd   Sri Lanka Telecom (Services) Ltd   SLT Hong Kong Ltd   SLT Publications (Pvt) Ltd   SLTVisionCom (Pvt) Ltd   SLT Manpower Solutions (Pvt) Ltd   Sky Network (Pvt) Ltd

**Showcasing a nation**

Under a hazy global economic cloud Sri Lanka's economy grew in 2009, but at a modest rate. The economy having achieved sustained growth over three decades averaging nearly 5% per annum, in conjunction with a modest population growth in comparison to other South Asian countries crossed the USD 2000 mark in per capita income. Notwithstanding conditions of uncertainty, investment in infrastructure development continued at the macro level, and Mobitel too with good foresight since 2004, systematically

invested in its present and future competitiveness.

According to available data 83% of the 4.5 Mn households in the country at present have electricity and the teledensity in mid 2009 was 78.6% mainly contributed by Mobile telephony penetration of 62.6% which continues to grow. These are promising signs for a country poised to gain from developments in ICT in a fast integrating world. An interesting observation is that in 1858, Sri Lanka was among the earliest in the region to install its first telegraph circuit. By the year 2007, Mobitel re-

carved Sri Lanka's place in the telecommunication world map by becoming the first in South Asia to implement a 3.5G HSPA network, and among the first ten in the world to do so.

The end of the armed conflict, which posed the main obstacle to Sri Lanka's long-term growth ushers new hope and prospects for economic revival. In the ensuing development phase, all businesses including the telecom sector, and in particular the mobile telephony industry is likely to grow. In that backdrop Mobitel is in a position of advantage to gain from its long-term investments.



In the year 2008, 62.2% of the total foreign direct investments that flowed to Sri Lanka were directed towards the telecom sector. This sector in recent years has contributed in great measure towards Sri Lanka's economic growth. It is worth noting that the telecom industry had attracted these investments at a time the armed conflict had escalated to new levels, and the positive outcome of those investments is Sri Lanka's current strength in the ICT space. This is aptly supported by the ownership and use of mobile telephony by a cross-section of society, whether defined by socio-economic grouping or demography. Amongst the many achievements in the mobile telephony sphere are: first in South Asia to adopt 3.5G technology; among the lowest in pricing in South Asia; in excess of 60% market penetration and near

island-wide coverage. The end of the armed conflict will encourage mobile operators to race towards expanding network coverage to the North and East regions, and Mobitel, having already commenced expansion and upgrading of its network, is set to embark on a process of building and consolidating market strength.

### An Industry in transition

The economic realities and new market developments during the year turned out to be a stress test for all mobile phone operators in Sri Lanka. Ruptures emerged and the industry had to search for quick but durable fixes to remain viable. The entry of the fifth mobile phone operator, early in the year set the new reference price and forced a downward revision of pricing by all mobile operators. This caused a sharp reduction of the reference price by approximately 50%. Further to cutting prices, competition in the industry intensified and this resulted in a sharp rise in advertising and promotional activity. The combined effect of a significant drop in prices and high promotional costs compelled most industry players to consider serious adjustments to their business models and structures, a process that led to job losses in the industry. Leading operators recorded some growth in business volume in a growing market, but

### Driving closer to our goal...

*“Mobitel succeeded in growing its customer base by 26% and revenue by 28% during the year. And this achievement is special when viewed in the context of a reduction of the reference price by 50% and incoming calls becoming totally free.”*

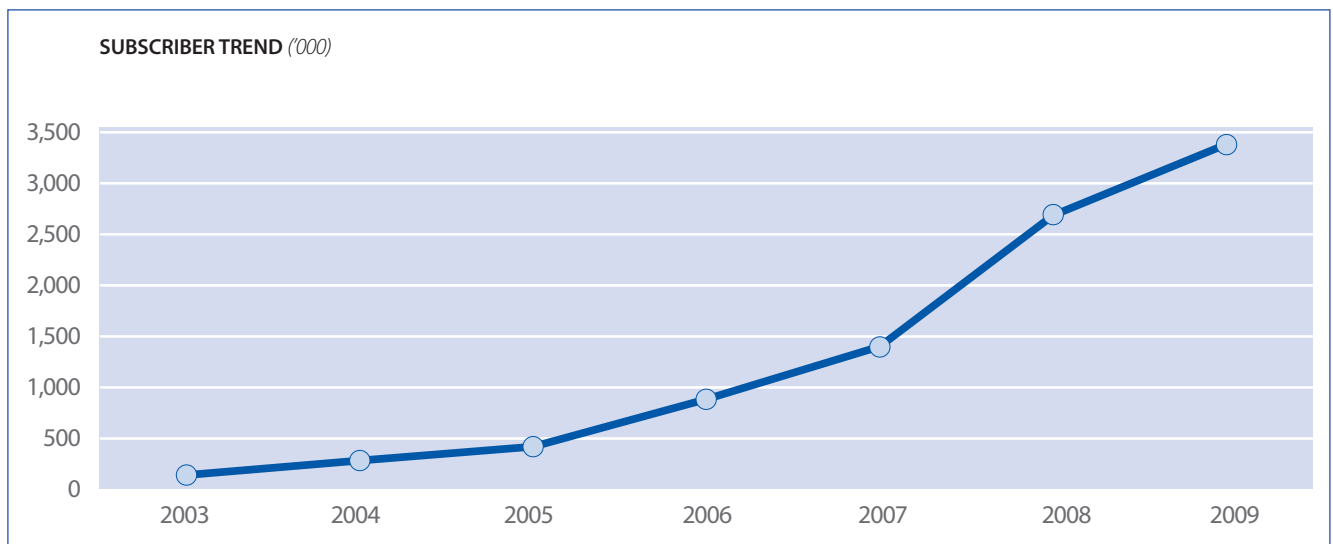
declining margins eroded revenue bases leading to operating losses.

Accordingly the year under review was probably the most challenging for the mobile telephony industry in its recent history. Economic and industry turbulence heightened and industry leaders were forced to absorb the shocks in telling proportions while weaker operators were rendered vulnerable. The mobile telephony industry deserves commendation for surviving trying economic, industry and regulatory challenges and for riding the tide. So

strong and resilient is the mobile telephony industry in Sri Lanka that, Mobitel cannot hesitate nor slowdown in its desired pursuit, but must and has forged ahead in the face of mounting challenges. However, the cumulative effect was an entire mobile telephony industry reporting operating losses, and Mobitel was not spared. During the year Mobitel reported a net loss of Rs. 395 Mn.

Given the decline in profitability from previous year Mobitel considers it important to explain the causes of the loss and the rationale of its decisions up front.

Since 2006 Mobitel has embarked on an aggressive plan to establish for itself a position of strength and dominance in the local mobile telephony market. Having opted for a GSM platform in 2004 although a decade late, the company phased its migration to the new platform and is today a fully-fledged GSM operator. Guided by the foresight of the opportunity to use the GSM platform to aspire for a position of potential leadership in the 3G domain, Mobitel pioneered the 3.5G HSPA Technology and is on course to bringing the benefits of 3G Technology within reach of as many Sri Lankans. The demand for Mobitel services has been encouraging and is underpinned by the growing customer and revenue base over and above the industry norm and that of other



## Review of the Group continued: Mobitel (Pvt) Limited

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Mobitel's Integrated Network Operating Centre

operators. The rapid growth is encouraging but at the same time challenging as supply must be matched with demand. Towards satisfying market demand, the company decided to invest in an upgrade and expansion of its network and base stations in 2008. Due to reasons beyond the control of the company a delay of nearly six months in commissioning the planned upgrade and expansion deprived the company of substantial revenue potential during the initial half of the year under review.

The decision to invest towards future proofing the company and building market leadership does not come

without a cost. Current monthly operational costs of 3G is several folds higher than revenue derived similar to the case in many technology introductions.

But from a positive perspective the 3G revenue base is growing and offers Mobitel a competitive edge. The incremental revenue generated by the company through voice services because of this competitive edge must not be discounted.

As already mentioned, global, macro and industry developments during the year also significantly affected profits of the company. The global financial crisis

caused a decline in roaming revenue. Domestic economic pressures and news of financial scams resulted in spending cuts by companies and individuals. The rise of inflation in 2008 had a spill over effect in 2009 that impacted the cost to escalate to a level more than anticipated. Despite the intensity of such pressures, Mobitel succeeded in growing its customer base by 26% and revenue by 28% during the year. And this achievement is special when viewed in the context of a reduction of the reference price by 50% and incoming calls becoming totally free.

### Mobitel – driven to lead

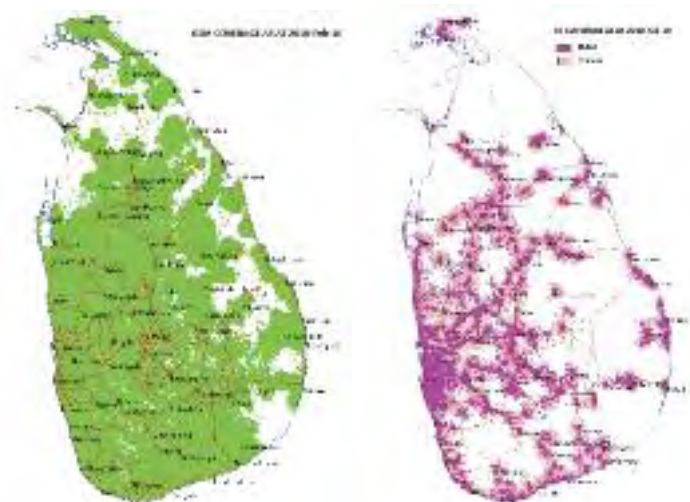
In a year that tested the endurance, agility and guile of mobile operators, Mobitel continued to build and consolidate its position. In concert with industry behaviour Mobitel too revised prices in February 2009 but continued to carefully invest in growing its market share. Although margins came under pressure, as opposed to most other operators the company's revenue base expanded by over 28% resulting from a substantial growth in the subscriber base by 26%.

The encouraging growth in the company's subscriber base flows from well planned and implemented superior technology and network expansion in recent years coupled with an aggressive, yet well planned and executed product and service offer.

### Mobitel GSM and 3G coverage

Mobitel has constantly expanded service coverage across all the nation's major cities, providing continuous connectivity to customers around the country.

In January 2004, the company launched its fully-fledged 2.5G GSM network that is EDGE/GPRS enabled and designed to operate on dual band. In December 2007, the company launched its 3.5G HSPA network - the first Super 3.5G network in South Asia. Investments committed to date in the 3.5G/2.5G networks and service offerings amounts to over USD 300 Mn. Number of base stations commissioned by the end of 2009 totals over 2000.







Mr Jason Senn, Google's Head of Business Development in Asia Pacific addressing the gathering at the launch of M3 Apps



Mobitel's success stems from its keen and clear understanding of market needs and the ability to time the demand for new products and services. Customer satisfaction is central to everything the company does and this is well engraved into the company's operating philosophy.

### The Mobitel brand

The Mobitel brand has been growing in strength and currently enjoys formidable status. The brand strength is derived from a well-differentiated product and service proposition that reflects key value attributes. All Mobitel products and services are planned around these value attributes that express integrity, innovation, dynamism, accountability, passion and professionalism.

Driven by an approach of converting customers to fans, Mobitel seized the opportunity to become the Official Sponsor of Sri Lanka Cricket. The investment although large, allows Mobitel to officially associate itself with Sri Lanka Cricket for a period of four years leading up to the ICC World Cup Tournament in 2011. It is encouraging to note that Mobitel's Brand Equity Index as measured by Nielsen has grown appreciably over the latter half of the year. The growth in Brand Equity was achieved by only Mobitel in the mobile telephony sector during the year, hence must be considered as a remarkable achievement.

The awareness and acceptance of the Mobitel brand is high and is clearly evident by the many awards and accolades the company won in 2009. Mobitel won Gold and Silver awards at the prestigious SLIM Brand Excellence Awards, which recognises and celebrates the best local and international brands in the country. The Mobitel and UPAHARA brands claimed Gold in Innovative Brand and Best New Entrant categories respectively. Mobitel won a Silver award in the Service Brand Category and SMART claimed a Silver award as the turnaround brand. The awards and the categories for which they were presented are testimony to the success, power and value of the Mobitel brand, which by independent surveys and ranking systems such as the Nielsen survey, rates Mobitel as a premium brand and at the top end of telecom brands in Sri Lanka.

The high brand equity of Mobitel is a product of the great effort and dedication to achieving product and service excellence and the high level of commitment and investment in customer service.

### Dedicated customer service

– a core process by choice  
A clear and sound understanding by the company of its customer and market psyche is an undisputed success factor favouring Mobitel. A deep understanding of the market allows the company to

anticipate, perceive and define customer expectations that has led to a growing bond between the company and its customers.

Giving true meaning to the tagline "We Care. Always.," the customer is central to all things at Mobitel, and value innovation is key to how the company seeks to constantly delight customers. A well-grounded effort to predict diverse customer needs and offer great value to suit individual purpose and profile is a strength the company possesses and is determined to preserve. Towards this end, in 2009, Mobitel enhanced its internalised and captive Customer Call Centre complete with latest facilities and manned by dedicated and professionally trained staff to serve the company's growing subscriber base representative of multi lingual, demographic and socio economic diversities.

The captive Customer Call Centre, in addition to efficiently responding to customer queries, also serves as a valuable information base that helps to continually develop and rollout new products and services, and raise the high quality standards.

### Mobitel - a reputation based on quality

Quality is critical in separating the best from the good, and consistency in quality is a challenge for any company, probably

## Review of the Group continued: Mobitel (Pvt) Limited

Mobitel (Pvt) Ltd

Sri Lanka Telecom (Services) Ltd

SLT Hong Kong Ltd

SLT Publications (Pvt) Ltd

SLT VisionCom (Pvt) Ltd

SLT Manpower Solutions (Pvt) Ltd

Sky Network (Pvt) Ltd



more plainly obvious and sensitive to those from the service industry.

At Mobitel, consistency in quality is emphasised and deeply embedded in the corporate culture and all processes in the belief that it is the surest way to ensuring that customers receive a differentiated higher standard of service. This uncompromising trait has translated into a growing customer base and a high customer retention level at Mobitel.

Quality pervades all aspects of business at Mobitel and is ensured throughout the entire value chain. This has contributed to not only growing market share but also ensuring repeat and greater usage of the Mobitel network to the point that the company has to constantly upgrade and expand the network to match the growing capacity demand.

During the year Mobitel's unreserved dedication to quality in service delivery was recognised and rewarded at the National Quality Awards. Mobitel is pleased to have been bestowed recognition for its dedication to quality, but more importantly is encouraged to remain persistent and steadfast in its resolve to becoming the preferred mobile service provider in the country based on a reputation for best in value, best in quality and best in customer experience.

## Driven to lead...

*"Powered by the latest 3.5G HSPA technology Mobitel has fast gained ground in the mobile telecom market in Sri Lanka and is on course to cover the entire length and breadth of the country bridging the digital divide and bringing mobile ICT within reach of as many Sri Lankans."*

### Rich in human capital

Service quality generally has a direct correlation with the quality of the people delivering that service, and this is true at Mobitel. Mobitel is endowed with a rich pool of talent that is passionately committed to providing high service quality and value. The company's present strong and vibrant position would not have been possible if not for the

outstanding character and energy of its people.

Although economic, market and regulatory challenges during the year choked the industry, Mobitel continued to progress, charged by a force of energy and a position of strength it had built over recent years. During the year, lead industry players were busy shedding excess weight, but Mobitel did not have to resort to resizing or restructuring, nor did it lose key people. This allowed the company to maintain its focus on building market strength and future competitiveness.

### Continuous quest for excellence

Excellence is a trait and state consciously advocated, nurtured and instilled in every aspect and in every individual at Mobitel. The practices, values and conduct of the company in its interactions within and outside the company are based on the principle of excellence, and the company's record during the last few years gives credence to Mobitel's unrelenting dedication to that principle. The persistent search for higher excellence has repeatedly won the company special recognition and awards for excellence at the National Business Excellence Awards, organised and presented by the National Chamber of Commerce of Sri Lanka. This year too Mobitel won special recognition at the National Business Excellence Awards for



its demonstrated excellence in business and positive contribution to the economic growth of the country. The company won high honours by claiming the Overall Silver Award for its mission to: "Care, Share and Deliver" and also claimed awards presented under several other categories. Mobitel won a gold award in the categories of "Best Capacity Builder" and another gold award was claimed under the "Infrastructure and Utilities Sector. Silver awards were won for "Excellence in Business & Financial Performance" and in the "Extra Large Category".

### Investing for the future

By deciding to migrate to a GSM platform and in doing so to invest in a state of the art network presented the company a clear edge in the 3G domain. Powered by the latest 3.5G HSPA technology Mobitel has fast gained ground in the mobile telecom market in Sri Lanka and is on course to cover the entire length and breadth of the country bridging the digital divide and bringing mobile ICT within reach of as many Sri Lankans.

The present negligible percentage of broadband penetration in Sri Lanka offers a relatively green-field market for broadband. The end of the civil conflict presents new opportunities in the North and in the East and with the country entering a new phase of growth, demand for mobile communication, broadband

and 3G services is a potent prospect available to the company.

Upgrading and scaling the present network in line with new technology and market developments is a very real advantage the company possesses. Mobitel has successfully demonstrated HSPA + powered by MIMO technology which is capable of delivering downlink speeds of up to 28 Mbps. And this together with the latest network expansion assures enhanced value to a growing market, and to Mobitel the prospect of assuming a position of dominance.

While the mobile telephony industry was preoccupied with restructuring and deferring investments in the face of daunting internal and external challenges, Mobitel, having successfully overcome its crisis a couple of years ago continued to execute its buoyant market thrust during the year. The growing market demand required a significant expansion in capacity, and as the competition opted for a conservative outlook towards new capital investments, Mobitel aggressively invested in building and future proofing its network.

The new expansion, although planned to be completed and commissioned within the first quarter of the year was delayed by nearly six months, due to extraneous reasons that were beyond the control of the company. This caused a gap between

actual and projected revenue for the first half of the year. Although falling short of its potential, the company recorded a 28% increase in revenue in comparison to the previous year. This is an onerous achievement in view of the intensified competition with the emergence of a new operator during the year and a significant reduction in prices. The improved revenue was possible because of a 26% growth in subscriber base, which, if not constrained by the delayed network upgrade and expansion would have been much greater.

Since implementing and commissioning the network upgrade during the third quarter of the year, the company has enjoyed a sharp rise in revenue, surpassing revenue projections for the second half of the year. The better than expected revenue performance during the second half of the year compensated to some extent the revenue gap in the first half, but the depressed margins due to price reductions returned only a modest profit before interest and tax.

Low capitalisation and high gearing required capital investments to be financed through borrowings, and the consequent high interest costs exerted great pressure on the short term profits of the company. The delay by nearly six months in securing and installing the upgraded and expanded network not only deprived the company of its true revenue potential but also subjected the

## Review of the Group continued: Mobitel (Pvt) Limited

Mobitel (Pvt) Ltd

Sri Lanka Telecom (Services) Ltd

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SLT Manpower Solutions (Pvt) Ltd

Sky Network (Pvt) Ltd



Sri Lanka National Quality Award  
Service (Large Scale)

Best Mobile Operator  
MOFILM Awards - Barcelona 2009  
(The 1st ever Mobile Film Award for Sri Lanka)

TV Commercial of the Year  
Sumathi Tele Awards 2009

company to a higher interest cost that adversely affected profitability resulting in a loss for the year.

Despite the slight setback by way of a loss during the year, the new investments give the company an advantage over the competition to make new inroads into existing markets, and a unique window of opportunity to exploit early mover advantages in new and uncontested markets ripe for growth.

### Leading Sri Lanka to the future

As the National Mobile Service Provider Mobitel is committed to a vision of leading Sri Lanka towards an info com and knowledge rich society. The necessary foundation in the form of a well conceived and carefully planned

physical infrastructure and an enabling environment is already in place, and results thus far validate and prove that the company is on the right path to realising that vision.

The superior technology and value added products of the company ensure a higher level of inclusivity of an entire nation consisting of diverse communication needs, and the possibility of an effective and equitable dissemination of benefits from latest developments in ICT to all. The various products and sub brands by Mobitel are designed with this in mind and the growing acceptance of these products points towards a well-informed, knowledge rich society better equipped to establish its rightful place in an advanced and developed future world.

In step with this larger national cause Mobitel has made measured but decisive moves. Mobitel teamed up with Google, a global name synonymous with the World Wide Web to launch its M3 Apps.

Bringing pride to Sri Lanka, Mobitel won international acclaim during the year by claiming an international award at the GSMA Mobile World Congress in Barcelona, Spain. From among a host of international submissions, Mobitel was crowned winner of the Best Mobile Operator Award for its dedication to promoting the short film genre and actively leading local creative and film producing talent to the international stage.

### A Sri Lankan company first

In spirit and by deed Mobitel is constantly committed to upholding and promoting its Sri Lankan identity and more often than not is actively engaged in supporting national endeavours.

In response to a call by the authorities to register all mobile phone users, Mobitel launched a promotional campaign that enticed existing and new subscribers to register or re-register as the case may be. This exercise was a great success with over one million subscribers registering their prepaid SIMs. A promotion was carried out where 26 Winners accompanied by a companion each enjoyed an all expenses paid trip to Singapore covering three nights' hotel



Mr. Ralph Cochrane, Chief Operating Officer of MOFILM (Left) and Mr. Andy Baker, Chief Executive Officer of MOFILM (Middle) conducting the workshop on Film for Mobile while Mr. Suren J. Amarasekera, CEO of Sri Lanka Telecom Mobitel (Right) looks on.



*The victorious Sri Lanka cricket team with the Mobitel Cup – Pakistan tour of Sri Lanka 2009*

accommodation inclusive of exciting tours to various tourist attractions and sights across the city-state.

As a token tribute to the gallant war heroes Mobitel launched the Ranaviru Upahara service where a Ranaviru Upahara Priority Service Counter became operational and dedicated to offering priority services to Sri Lanka's war heroes at all Mobitel Service Outlets.

### Creating value through public and private partnerships

Echoing the words by Alexander Graham Bell "Great discoveries and improvements invariably involve the cooperation of many minds", Mobitel has chosen an approach of teaming up with like-minded partners to serve existing markets as well as to enter new markets, and in supporting national causes.

Relations with strategic partners, to mention only a few: Sri Lanka Post, Sri Lanka Emigration and Immigration Department, State Trading Corporation, Health Ministry, Airport and Aviation and Universities, have given access to many new service platforms and new market segments, and in so doing produced mutual gains.

The company also entered into a partnership with Sri Lanka Railway to offer rail commuters the convenience of reserving and paying for their seats via mobile phone. This is yet another ground

breaking development initiated by the company, which at the moment is limited to intercity travellers, but expected to be extended to regular travellers later.

As already mentioned, a strategic partnership with Google was established with a view to empowering all Sri Lankans and broad-basing access to a new world of promise to all.

### The way forward – A dream with a deadline

Awakened by a rude shock in the face of fatality only a few years ago, Mobitel has since, constantly searched for new growth opportunities, sharpened its focus and developed an internal culture based on innovation and customer centricity. The company, under the expert and caring guidance of its parent company, Sri Lanka Telecom, overcame a pernicious phase and lunged into a new phase of growth with renewed purpose, courage and vigour. In its drive to lead, the company has chosen strategy over haste, and fully appreciating the power of dreams, mustered the courage to dream with a deadline.

Guided by the wisdom of Alexander Graham Bell who said, "When one door closes another door opens; but we often look so long and so regretfully upon the closed door, that we do not see the ones which open for us", Mobitel, chose not to base its vision upon events of the past but instead dared to aspire for a position

of future industry and market leadership that would also serve the wider interests of the country.

Driven by the vision to "Lead Sri Lanka towards an info com and knowledge rich society", and the company only knowing too well that any dream sans a solid foundation and structure has only a tiny chance of realisation, laid a solid foundation based on a culture espousing to Care, Share and Deliver.

Arising from this foundation is a structure consisting of three pillars that lead to the overarching dream or vision of the company. These pillars of Mobitel's house of dreams are constructed around Best Customer Experience, Best in Operations and Most Caring Brand.

The foundation is laid, the structure is in place and the company is on its way to realising a dream that supersedes selfish corporate aspirations. Realising such a noble dream requires a sanguine view of the future and an innate ability to counter adversities and thrive in circumstances where others feel ruffled. Mobitel is cognisant of the challenges that may befall, but its ability to dream with a deadline towers above all temporary obstacles and setbacks. Mobitel is confident of its ability to enjoy the fruits of its courage, patience and labour, and is more excited by the prospect of those fruits permeating an entire nation that is finally at the threshold of hope to dream.

## Review of the Group continued: Sri Lanka Telecom (Services) Limited

Mobitel (Pvt) Ltd

Sri Lanka Telecom (Services) Ltd

SLT Hong Kong Ltd

SLT Publications (Pvt) Ltd

SLT VisionCom (Pvt) Ltd

SLT Manpower Solutions (Pvt) Ltd

Sky Network (Pvt) Ltd

Company name	<b>SRI LANKA TELECOM (SERVICES) LIMITED</b>
Holding	100%
Principal activity	Project implementation and consultancy for SLT development projects



The very first subsidiary incorporated under the Sri Lanka Telecom umbrella in 1993, Sri Lanka Telecom (Services) Limited provides project management and consultancy services to Sri Lanka Telecom for its development projects. Primarily, the company is involved in implementing the 150k project, which infuses state of the art technology into telephone exchanges and microwave and optical fiber cable transmissions through the country.

*“SLTS believes in change, innovation and continuous improvement. Our dedicated team is ready to respond positively, whenever a need arises in this highly competitive environment we function in. We are committed to building a company that can utilise its extensive legacy in engineering and project management to serve the need for data networking responsively, with flexibility and in a customer focused manner.”*



**Prasanna Perera**

Chief Executive Officer, Sri Lanka  
Telecom (Services) Limited

“The Company showcased a total revenue of Rs. 150 Mn, which is a growth of 48% from the figures of 2008.”

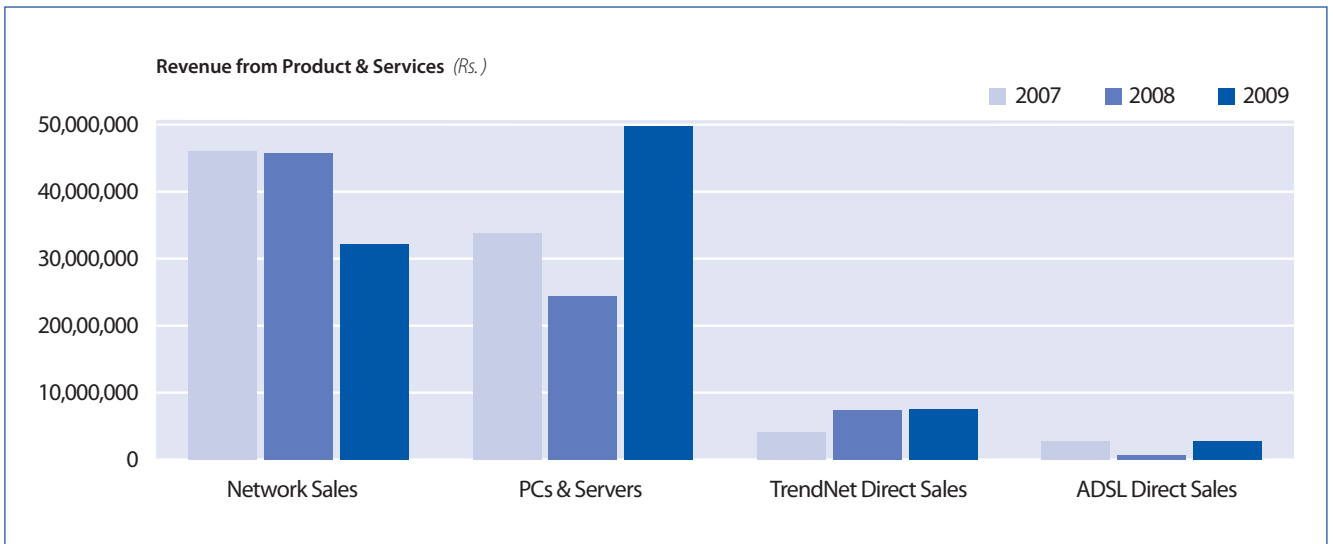
The year has not been without challenges in a macro sense but Sri Lanka Telecom Services continued its planned approach to implement the projects and solutions that were already earmarked for the year. Equipped substantially with an expert knowledge and skill base, the company offers total system integrated solutions to the expanding world of ICT which

includes IT security solutions, structured cabling and managed services and servers. SLTS sold the largest number of servers, which contributed more than 49.7 Mn that is close to one third of the total revenue of the Company in 2009.

Since last year, SLTS deployed specialised technical teams to a number of regions for CDMA maintenance.

The Company showcased a total revenue of Rs. 150 Mn, which is a growth of 48% from the figures of 2008.

SLTS plans on adding to its service portfolio in 2010 with IP/PABX solutions for voice and data and BIZ-Mail, a mail server solution. SLTS will also execute Outside Plant (OSP) in some areas on behalf of Sri Lanka Telecom.



## Review of the Group continued: SLT Hong Kong Ltd.

Mobitel (Pvt) Ltd   Sri Lanka Telecom (Services) Ltd   **SLT Hong Kong Ltd**   SLT Publications (Pvt) Ltd   SLT VisionCom (Pvt) Ltd   SLT Manpower Solutions (Pvt) Ltd   Sky Network (Pvt) Ltd

Company name	<b>SLT HONG KONG LTD</b>
Holding	100%
Principal activity	Being the major gateway for SLT's global expansion



Formed in 2006 under license from the Office of the Telecommunications Authority of Hong Kong to be the strategic gateway for Sri Lanka Telecom's permeation into the global telecommunication arena, SLT Hong Kong Limited is now the premier point for SLT to expand its business to the global market via the burgeoning markets of mainland China.

*"SLT Hong Kong has potential in submarine cable capacity sales and Voice Aggregation and the year ahead will see us invest in a more strategic location thereby increasing the revenue. We also perceive significant potential in Data Center business which we aim to improve upon using the advantages we already have within the new SLT Data Center and the connectivity we possess via the submarine cables."*



**Tilak R. De Silva**  
Chief Executive Officer, SLT Hong Kong Limited



“While 2009 did see us complete the year on a break even footing turning around the company from loss to profit, a commendable feat considering that the global economic crisis prompted shut downs and cost cuts by many companies, we see 2010 as an year brimming with opportunity and potential.”

Placed as the point of presence in Hong Kong as the gateway to Asia, Europe and the USA, SLT Hong Kong Limited plays the vital role of extending the Group's global reach not easily accessible by SLT otherwise. Interconnecting a large number of carriers in the region and promoting the SLT brand as a global carrier, SLT Hong Kong Limited is now firmly established as the strategic gateway.

Offering a wide and varied portfolio of services to the international market including International Private Leased Circuits (IPLC), Virtual Private Networks based on MPLS technology (IP-VPN), IP Transit Services, International Voice Transit Services and wholesale capacity, SLT Hong Kong Limited aggregates voice traffic from Asia Pacific destined to South Asia as an added positive in its extensive features.

While 2009 did see us complete the year on a break even footing turning around the company from loss to profit, a commendable feat considering that the global economic crisis prompted shut downs and cost cuts by many companies, we see 2010 as an year brimming with opportunity and potential. The company diversified its revenue streams by expanding voice business and hence, kept its top line unaffected.

## Review of the Group continued: SLT Publications (Pvt) Limited

Mobitel (Pvt) Ltd

Sri Lanka Telecom (Services) Ltd

SLT Hong Kong Ltd

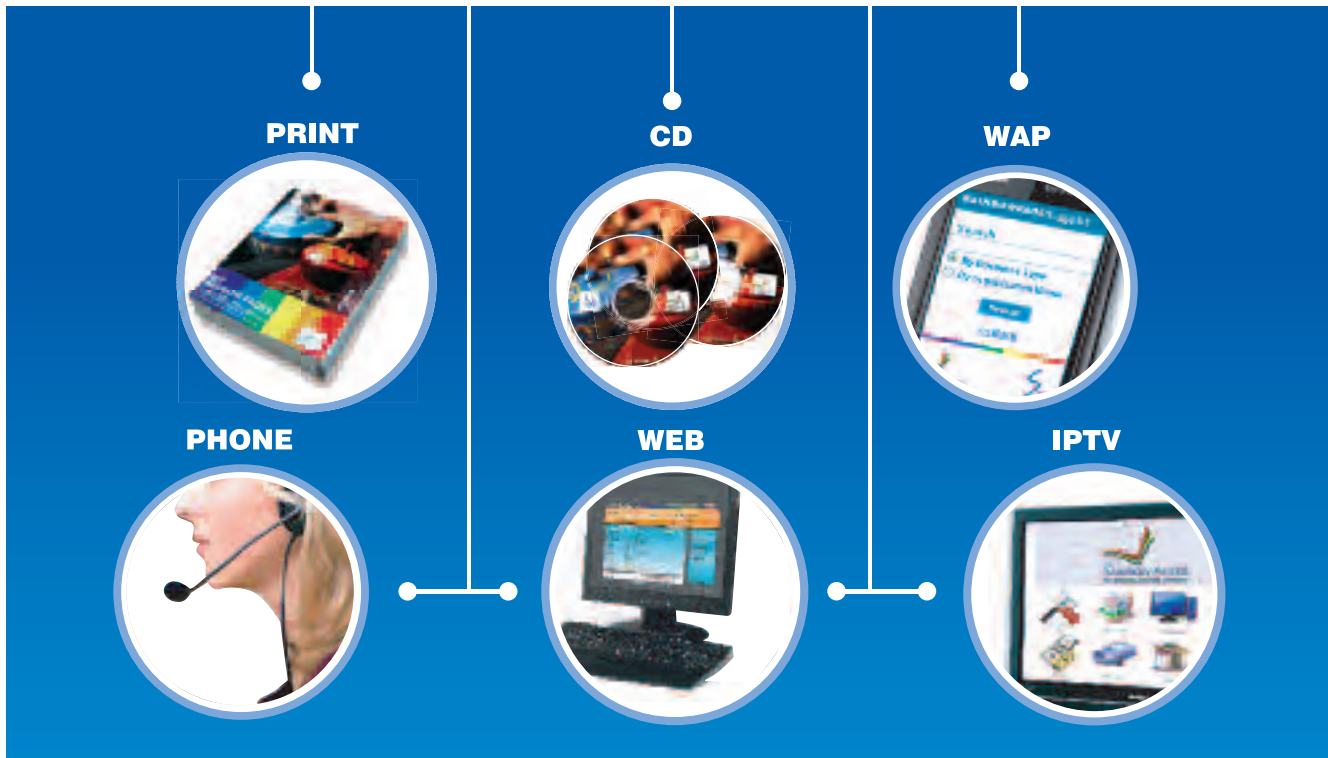
SLT Publications (Pvt) Ltd

SLT VisionCom (Pvt) Ltd

SLT Manpower Solutions (Pvt) Ltd

Sky Network (Pvt) Ltd

Company name	<b>SLT PUBLICATIONS (PVT) LIMITED</b>
Holding	100%
Principal activity	Directories and Printing



Sri Lanka Telecom has been publishing directories since 1939 and after a brief outsourcing period between 1982 - 2001, began publishing its own since 2002, delivering a product on par with international quality requisites. The year 2008 saw the incorporation of a new subsidiary under the Sri Lanka Telecom Group, SLT Publications (Pvt) Limited, now widely regarded as the premier telephone directory in the country, used by the entirety of the industry. Armed with a new strategic direction, the SLT Rainbow Pages, accessible worldwide, is today the country's most comprehensive directory.

*"Having firmly positioned ourselves as the core information provider to every telecommunication services provider in the country, our information has today moved towards using technology channels that are multi-faceted and widely accessible. We are now in the process of transforming towards a diversified, commercialised, customer centric business entity generating profits for the group. In addition, SLT Publications will also begin developing an IT driven national information base catering to the information needs of a broader segment of telephone users in particular and the public in general."*



**Malraj Balapitiya**

Chief Executive Officer, SLT Publications (Pvt) Limited

The year began with renewed focus to make SLT Publications more than just a telephone directory publisher but rather an information provider to the nation. We are already regarded as the National Telephone Directory, providing information to a wide and varied customer base including competitors on the telecommunication services providers' landscape, who regard us as partners in providing vital information access to the citizenry.

The year ending 2009 has been excellent with a record profit of Rs. 109 Mn after taxation. This is noteworthy as it signifies a turning point in our history of becoming a profit generating venture that contributes to the revenue of the SLT Group whilst relieving the parent company from a cost incurred venture. This marks yet another step in our journey towards excellence.

We expanded our distribution network this year to be more comprehensive, making the SLT Directory and Rainbow Pages available in hard copy format to corporate clients around the country irrespective of service providers. Additionally, the directory is available in all public places including transportation

hubs like the airport, bus stations and railways, hotel lobbies and rooms, post offices and foreign missions. Over the year, we expanded our presence electronically making all directory information available via a host of sourcing channels including the web, on CD, WAP, 24 hours access via telephone (a service even used by leading mobile operators such as Mobitel, Dialog and Etisalat) and PEO TV due to our policy of accommodating information of all businesses, irrespective of the telephone service providers used. These multiple channels of accessibility made our directory information available to people around the globe. The year however saw a rapid increase in demand for the directory in CD format.

The agreement between Sri Lanka Telecom and SLT Publications is now on a new footing. While distribution of the directory will remain on a payment based obligation met by Sri Lanka Telecom who will also provide the call center facility, infrastructure and operation, the directory database, access and applications will be managed by SLT Publications. The relationship between parent and subsidiary is moving towards

an era of independence, while retaining the tenets of the Group. SLT Publications is now focusing on the three key business areas of publishing directories in compliance with regulatory requirements, generating profits by transforming a cost incurring division of SLT into a profitable business venture and becoming the IT driven national information hub.

Through our mission of assisting customers to make informed purchase decisions and transactions from anywhere, anyplace and on any device, We believe we are now on the threshold of achieving our broad vision of becoming the number one customer driven, total information and advertising solutions provider in Sri Lanka.

## Review of the Group continued: SLT VisionCom (Pvt) Ltd.

Mobitel (Pvt) Ltd   Sri Lanka Telecom (Services) Ltd   SLT Hong Kong Ltd   SLT Publications (Pvt) Ltd   **SLT VisionCom (Pvt) Ltd**   SLT Manpower Solutions (Pvt) Ltd   Sky Network (Pvt) Ltd

Company name	<b>SLT VISIONCOM (PVT) LIMITED</b>
Holding	100%
Principal activity	Pay Television Services



SLT VisionCom (Pvt) Limited, a fully owned subsidiary of Sri Lanka Telecom launched its services in 2008 under the brand name PEO TV, thus becoming the first and only IPTV service in the country. IP technology also makes Sri Lanka Telecom the only triple play activity provider in Sri Lanka. Working on innovation as the key to making home television the de facto computer in a home, the interactive television features offered by IPTV include attractive add-on services like Pause & Rewind, Time Shift TV, Video On Demand library, and uninterrupted services even during bad weather for the first time in the three decade long history of television in Sri Lanka.

*"We are committed to shape the future in markets where we allow people to communicate, find information and be entertained in ways they have never experienced before. As a company we embrace the spirit of innovation and progress, by giving our customers greater choice, greater control and greater convenience. Having launched commercial operations just three months after piloting PEO TV in Sri Lanka, our one year in operation has been impressively fruitful. Not only did we feature many interactive, innovative services through the TV, but we also acquired a customer base of over 15,000 despite being faced with a challenging year where priorities were different and a number of free to air channels were the natural preferred option among the citizenry. Functioning under the umbrella of Sri Lanka Telecom and utilising the established network advantages assisted us greatly in achieving our forecasted targets."*



**Thusha Weerasooriya**  
Chief Executive Officer, SLT VisionCom (Pvt) Ltd.

With the permeating economic crisis not leaving Sri Lanka untouched either, pay television naturally dropped to the bottom of the ladder of options, in our country which offers more than 18 free to air television channels. However, having seen the paradigms earlier in the year, the company set itself an aggressive marketing strategy to witness a steady growth in customer numbers at the end of the first year in commercial operations. Utilising Sri Lanka Telecom's extensive broadband coverage, SLT VisionCom now has Colombo, Kalutara, Kandy, Kurunegala, Negombo and the South upto Matara covered. Driven to deliver a quality service with a penetrative presence as a priority, Hambantota, Ratnapura, Avissawella and the rest of the North Central and Central part of the country towards Anuradhapura will have PEO TV in 2010.

From an infrastructure and technology perspective, working from our exchange at Welikada where channels are downloaded via satellite and transformed into IP format using MPEG4, the extensive numbers of PEO TV channels are transmitted via the Set-Top-Box at the customer premises to the end television.

Working from a customer friendly location in Colombo 4 which is equipped with an experiential center to give customers the look and feel of the services offered, the company's focus on being driven to deliver saw it add to its team of 40 in 2008 which stood at 100 by the end of year 2009. Direct sales, customer installation, engineering, operations and administration were all increased to ensure a seamless service imparted to the customer. In addition to the SLT Call Center which deals with inquiries and fault reporting, customers also have the option of contacting direct hotlines, which have added to the efficiency of the services.

As another facet of creating the apt market positioning through a focused brand building exercise, a strategic move was implemented in tagging the mother brand "Sri Lanka Telecom" to the "PEO TV"

brand logo, in order to leverage on the strength of SLT and enhance customer perception. This increased brand awareness led the way to key corporate clients including four and five star hotels and apartment complexes adding themselves to our customer portfolio and corporate giants Singer and Abans joining the company as sales channel partners. The feather in our cap was being conferred three Chillies Awards in 2009.

It is noteworthy to mention that within our product strategy we have been able to offer more than 50 local and international premier television channels, witnessing a growth from 20 when we launched in 2008. 'LakRoo' which is Sri Lanka's first heritage channel was launched in April 2009 in collaboration with the Government Film Unit working on the theme of preserving the heritage of Sri Lanka. In addition, PEO TV offers a host of other local channels produced exclusively focusing on Sri Lankans, namely Life TV, Knowledge TV and Dream TV with the intention of enhancing the available local selection. Multiple package options gave customers freedom of choice to select a suitable package based on their need and affordability. The three armed forces, Police and Civil Defence Force were rewarded with a special package, 'Ranaviru Pranama' in recognition of their contribution towards bringing peace to Sri Lanka. All Sri Lanka Telecom broadband users

were offered a PEO TV connection devoid of the initial start up fee.

Development of educational content is one of the key priorities set for year 2010. PEO TV intend to add the curriculum required for national examinations, initially aimed at GCE O/Level and above with subjects such as Chemistry, Physics, Mathematics and all other streams. Future initiatives will see a dedicated educational channel that will be a supplement to the school curriculum, especially for the Grade Five Scholarship and GCE O/Level examinations.

Using the interactivity of IPTV technology, PEO TV presented subscribers with a host of interactive value additions including shopping guides, astrology, national directory services and overseas career information while 2010 will see the add-ons of Gmail, Flickr, banking, weather and web information services making the television the Internet channel at home.



## Review of the Group continued: SLT Manpower Solutions (Pvt) Limited

[Mobitel \(Pvt\) Ltd](#)
[Sri Lanka Telecom \(Services\) Ltd](#)
[SLT Hong Kong Ltd](#)
[SLT Publications \(Pvt\) Ltd](#)
[SLT VisionCom \(Pvt\) Ltd](#)
[SLT Manpower Solutions \(Pvt\) Ltd](#)
[Sky Network \(Pvt\) Ltd](#)

Company name	<b>SLT MANPOWER SOLUTIONS (PVT) LIMITED</b>
Holding	100%
Principal activity	Providing manpower solutions to the Group



Structured on the mission of becoming the leading human asset management partner in Sri Lanka, Sri Lanka Telecom Manpower Solutions recruits, trains, assesses, selects, outsources and provides consultation on all human resource management requirements for the entire Group. Activities extend to headhunting specialised talents and skills, payroll management, assurance of regulation compliance, grievance management and legal matters. The innovative workforce solutions provided by the company aid the Group in increasing productivity through improved strategies, which facilitate better quality and cost reductions, thus increasing efficiency.

*"We are in the employment services industry, creating and delivering innovative services that enable our clients to achieve competitive advantage in the changing world of work. Founded in June 2008, the company offers employers a range of services for the entire employment and business cycle."*

*Leveraging the strengths we gather from our parent company Sri Lanka Telecom, including their premier position as the country's reputed and largest national telecommunication services provider and their technologically advanced resources, we have been able to attract, select and retain 'the right person for the right job' in our capacity as a HR Solutions Provider to the entire Group.*



*Manpower Solutions' efficient and customer focused approach enables the company to meet the needs of its clients. The focus of Manpower Solutions is on increasing productivity through improved quality, efficiency and cost-reduction across their total workforce, enabling SLT and its subsidiaries to concentrate on their core business activities."*

**Ranjith Ganganath Rubasinghe**

Chief Executive Officer, SLT Manpower Solutions (Pvt) Limited

With the current trend in the corporate sphere being that of outsourcing non-core business areas to specialised organisations, Sri Lanka Telecom identified a niche need that would not only be advantageous to the entire Group but also to Sri Lanka in general in the area of HR Management and Solutions. In order to fulfill this vision, SLT Manpower Solutions has begun operations very successfully in making informed placements to nearly all the subsidiaries within the Group as well as to the parent company. While there is a proven significant cost benefit to the Group, there are also the advantages of improved productivity and increased efficiency.

The company's performance in profitability, revenue and apt placements has been commendable over the year. By the end of 2009, our revenue stood at Rs. 523.5 Mn and 15.4 Mn Profit Before Tax for the year. Given that one of our core objectives was to ensure that this company is a financially viable one, we have ended the year successfully and we are beginning 2010 on a good footing. While the company absorbed all HR services for the Group, specifically the recruitment, management and welfare, we were also conscious of the need to be prudent in cost management and therefore developed strategies that would gear us in this direction.

With institutional recruitment being our speciality, the company used its network to source talent and skills from business schools, professional bodies, technical colleges, universities and schools. We also utilise both conventional and non conventional methods such as interviews, head hunting, job specific tests, presentations and competency profiling, assessments and psychometric profiling. As value additions, we added comprehensive specialised training and development programmes as well as e-learning systems. Over the year, we executed all statutory and preliminary legal requirements which are compulsory pre-requisites in HR solutions. These included the mandatory EPF and ETF administration, issuance of ID cards, placement and HR administration policy. In addition, outsourcing agreements with SLT subsidiaries, IPTV and broadband Sales and CDMA Maintenance were drawn up, while deployment was effected at Sri Lanka Telecom, Sri Lanka Telecom Mobitel, Sky Network, SLT Publications, SLT Hong Kong, and SLT VisionCom to a total of 2,238 personnel by end 2009. The company also managed employee welfare positively by instituting an increase in salaries, overtime, leave entitlements to 21 days annually, and implementing schemes for medical and hospitalisation insurance, Mobitel Upahara, Rental free SLT connection, IPTV

package, welfare fund for emergencies and personal loans.

The year 2009 also saw the company implement a 360 degree performance evaluation for 1,400 employees who had completed one year of service, in order to identify competency, gaps, training needs and other career development needs.

Integrating technology into our systems and processes remains a priority and over the year, we introduced a web based management software that would eventually take the company towards a paperless office. This is also the first time in Sri Lanka that a human capital sourcing company has implemented integrated software into the function of human resources. The software enables scheduling and the conduct of online interviews, payroll management, leave and transfers while incorporating mobile communication technology which uses SMS feature to send paysheets, leave details and notifications to the entire employee base or selected employee groups. Plans are underway to automate other related services including insurance and employee performance evaluations.

Thus we always tend to seek the possibilities of continuous development in order to attain individual as well as organisational objectives in an efficient and effective manner.

## Review of the Group continued: Sky Network (Pvt) Limited

Mobitel (Pvt) Ltd

Sri Lanka Telecom (Services) Ltd

SLT Hong Kong Ltd

SLT Publications (Pvt) Ltd

SLT VisionCom (Pvt) Ltd

SLT Manpower Solutions (Pvt) Ltd

Sky Network (Pvt) Ltd

Company name	<b>SKY NETWORK (PVT) LIMITED</b>
Holding	99.89%
Principal activity	Provisioning of Broadband Wireless Access (BWA) services



With its core business being in Broadband Wireless Access, Sky Network (Pvt) Limited's principal holding company is Sri Lanka Telecom with a 99.89% shareholding. The company possesses an ISP license to offer services in Sri Lanka and 30 MHz in the 2.5 GHz band, which is suitable for WiMAX 802.16e version, which the company is pioneering in Sri Lanka.

*"Pioneering the WiMAX 16e version in Sri Lanka, Sky Network is now firmly positioned on the path to create the 'true broadband experience for customers. The enhanced capabilities of 16e WiMAX undoubtedly give us a competitive edge, being comparatively better in price and performance when positioned against other broadband services currently available in Sri Lanka."*



**Mahinda B. Herath**  
Chief Executive Officer, Sky Network (Pvt) Limited



“The primary goal of this company is to fashion its business model to complement Sri Lanka Telecom’s ADSL services, harnessing existing resources within the Group. Driven to deliver on its projected forecasts despite some challenges faced during the year, SNPL has been astute in its use of shared resources with the Group.”

A subsidiary with a lifespan of just one year, having begun its first foray into its core business activity in January 2009 when Sky Network (Pvt) Limited (SNPL) began negotiations with the Telecommunications Regulatory Authority (TRC) to secure approval for the deployment of WiMAX 16e and the allocation of more favourable frequencies, the company is geared towards a vision of giving freedom of access, high speed broadband connectivity and digital content anywhere, anytime. The primary goal of the company is to fashion its business model to complement Sri Lanka Telecom’s ADSL services, harnessing existing resources within the Group. Driven to deliver on its projected forecasts despite some challenges faced during the year, SNPL has been astute in

its use of shared resources with the Group. Thus, using infrastructure and marketing channels available under the SLT Group to develop and deploy services has ensured a reduction in capital expenditure.

In February 2009, SNPL shortlisted four suppliers to provide a WiMAX turnkey solution which saw the WiMAX solution provider selected for Phase I of this BOI approved project in September 2009. The company also received formal approval from the TRC for 16e deployment and 30MHz from the 2.5GHz band and aims to utilise the resources available within the Group to reduce capital expenditure. The Business Plan is designed in three phases to cover the entire country. Phase I of the project commenced in 2009, covering Colombo, Kalutara and

Gampaha districts and will be ready for commercial services from April 2010.

However, regulatory risks have been many this year although, in most cases, SNPL managed to overcome the constraints through negotiations with TRC. These included being successful in securing approval for the WiMAX 16e version, although only fixed WiMAX 16d versions were allowed in Sri Lanka. Frequencies in the 2.5 GHz band are considered the most attractive and viable band for WiMAX 16e operations. The two frequency pairs the company possessed in the 3.5GHz band were considered inadequate for a viable countrywide operation.

While the next year may see TRC imposing an additional license fee on SNPL for the use of the IMT-2000 band, SNPL may also face regulatory pressures to share frequencies in the 2.5 GHz band with others as SNPL is currently the only WiMAX operator holding frequencies in this band.

## Sri Lanka - country and economic report

“Sri Lanka's capital markets performed outstandingly well by the close of the year, with its 231-company listed stock exchange considered one of the world's top performers, as investor confidence rose on expected acceleration of the economy. The index gained 96% since the conflict ended in May, with turnover at a record Rs. 142.5 Bn at the close of the year over the Rs. 114.6 Bn the year before.”

“The year was a dramatic one for Sri Lanka on many fronts. It faced a critical phase in its internal separatist conflict; the economy struggled with double-digit inflation, pressure on the exchange rate, falling reserves and balance of payment deficits at the start of the year, all in the midst of a global economic recession that has been called the worst since the Great Depression.”

However, Sri Lanka showed remarkable resilience in the face of difficulty. In May this year the island formally declared its three-decade conflict between the government and Tamil Tiger rebels as over, and ushered in hopes for lasting peace, social and economic development. The economy began to rally in the second half of the year, inflation declined on tight monetary controls by the Central Bank and foreign reserves that had fallen to a low of about USD 1 Bn in March were at a record high of USD 5.2 Bn by the end of the year.

### Economic performance in 2009

Sri Lanka's 41 Bn dollar economy grew by 3.5% in 2009, from the 6.3% last year according to Central Bank estimates. This is still significant given the numerous challenges the country faced. In fact, the third quarter of the year expanded by 4.2%, the fastest pace in 2009, immediately following the government's defeat of the LTTE.

The main economic sectors of the country are agricultural exports such as tea, rubber and coconut, rice production, apparel and textiles and tourism. In addition to these economic sectors, inward remittances through overseas employment, largely from the Middle East contributes highly in foreign exchange.

Performance in the agriculture sector was mixed in 2009: paddy production was low due to unfavourable weather in the Yala

season, whereas high prices for commodities led to increased production of tea, as well as rubber and coconut. There was also growth in the fishing sector with the easing of fishing restrictions in the North and East.

Sri Lanka's external sector took a hit with the deepening of the financial crisis, the sharp outflow of foreign investments until the end of the first quarter of 2009 and significant depreciation of some reserve currencies. Exports declined by 15.6% during the first ten months due to the lower export demand in trading countries, which prompted the government to step in with an economic stimulus package of Rs. 16 Bn to protect several industries.

Foreign direct investments declined in the first 9 months of the year to USD 350 Mn from USD 425 Mn in the first six months of the previous year, largely due to the impact of the global financial crisis and loss of investor confidence. This is expected to recover strongly in 2010.

Sri Lanka sought International Monetary Fund support to shore up the country's reserves and in July, the IMF approved a 2.6 Bn dollar Stand-By-Arrangement Facility. By the end of November, the country's gross official reserves surpassed USD 5.2 Bn or 6.3 months of imports, over 1.7 Bn dollars in 2008.

Sri Lanka ended 2009 with seasonally adjusted annual average inflation of 3.4%, the lowest since 1985, declining from double digit levels of 28.2% in June 2008.

Sri Lanka's capital markets performed outstandingly well by the close of the year, with its 231-company listed stock exchange considered one of the world's top performers, as investor confidence rose on expected acceleration of the economy. The index gained 96% since the conflict ended in May, with turnover at a

record Rs. 142.5 Bn at the close of the year over the Rs. 114.6 Bn the year before.

In the light of the positive direction the country was taking, rating agency Fitch revised the country's sovereign rating to stable from negative, in October.

### Future outlook

Prospects for the year ahead look brighter as Sri Lanka fast-tracks investment in large infrastructure projects across the island, and tourism picks up amidst a low-inflation economy. The economy is projected to grow by 6-7% percent in 2010.

The government is taking measures to boost investment and ease currency controls this year.

Inflation is expected to average 5-6% in 2010 and interest rates are also expected to fall amidst higher capital inflows. The Central Bank has also announced that it will also relax foreign exchange controls in 2010, allowing overseas investors to buy local private corporate debentures, allowing Sri Lankan companies to list abroad and citizens to buy shares and securities in foreign companies. Sri Lanka hopes to close 2009 on a current account surplus, based on higher remittances.

Although export earnings showed a declining trend in 2009, this reversed in October as demand for primary commodities like tea and rubber picked up. Exports are expected to recover strongly in 2010, with the anticipated revival in global demand.

Numerous investment opportunities have also opened up across the real estate, healthcare, plantations and infrastructure areas. Some of these include the Upper Kotmale hydropower project, the Puttalam coal power plant, the Colombo South Harbour and large expressways, among others.

The biggest growth opportunities for the country will be in the newly liberated North and East, as investors flock to the region and the government as well as aid donors prioritise spending on reconstruction activity in that area. Sri Lanka also faces a general election in April, which could be decisive in taking this country forward and ushering in a new era of peace and prosperity.

## The rise of Sri Lanka's telecom industry

### Industry overview and performance

#### Industry overview and performance

Sri Lanka's telecom industry is recognised as one of the fastest growing segments of the economy, with average growth rates of 30-35% each year with respect to customers. The sector has rapidly developed its technology and liberalised significantly in the last two decades. From the privatisation of Sri Lanka Telecom, the opening up of international telephony and introduction of a regulator, the industry has achieved numerous milestones.

Sri Lanka was among the first in the South Asian region to introduce cellular phones with the introduction of an analogue network in 1989. It made history again in 2006, when it became one of the few South Asian countries to commercially offer 'Third Generation' or 3G services. Several global giants invested in Sri Lanka after the timely liberalisation in 1996, such as, NTT-Japan, Telecom Malaysia, Telstra – Australia, Hutchison Whampoa– Hong Kong and Telia, the national telecom operator of Sweden, building the country's telecom infrastructure. Another significant development was the issuing of licenses to other private telecom operators in 2003 to handle international call traffic which resulted in significant lowering of international tariffs.

Currently five mobile and four fixed-line operators service the island of 20 million people. Driven by competition and falling call charges, mobile networks are at the forefront of the telecom boom, with mobile users outstripping fixed-line users at over 12 million connections by the end of the second quarter of 2009. Fixed line users take the total number of telephone subscribers in Sri Lanka to 16 million, according to the Telecom Regulatory Commission. Sri Lanka's total telephone customers grew by approximately 30% by the end of second quarter 2009 with respect to the previous corresponding period, TRC data shows the mobile subscribers showed a significant growth of 36%. As many as 78.6 out of every 100 Sri Lankans also have access to a fixed line or mobile phone (tele-density).

Operators in the Sri Lankan market offer a diverse range of services from basic telephony – fixed line and mobile, to wireless services, internet and email as well as entertainment platforms, with the



“Sri Lanka's telecom industry is recognised as one of the fastest growing segments of the economy, with average growth rates of 30-35% each year with respect to customers. The sector has rapidly developed its technology and liberalised significantly in the last two decades.”

industry also providing a host of bundled services. High speed internet connectivity in Sri Lanka is offered by the largest fixed line operator Sri Lanka Telecom (SLT), its subsidiary Mobitel, and Dialog Telekom, the island's largest celco owned by Axiata of Malaysia. The introduction of Code Division Multiple Access (CDMA) technology has also helped take telecom services to more rural areas of the country.

Improvements in affordability have led to 500 million new subscribers accessing telephone services in South Asia and double digit growth in subscription to mobile telephones in each country in the region since 2004, according to World Bank estimates.

#### The future

The country's liberalised telecom industry is poised to thrive, with the exponential growth in technology and its adoption in Sri Lanka. Until now, Sri Lanka's telecom sector has also had to contend with the restrictions of operating in a climate of conflict, given the three decade separatist ethnic conflict between the government and Tamil tiger rebels. With the ethnic conflict ending in May this year, Sri Lanka has begun a new era of peace with optimism for social and economic well-being.

In this regard, the telecom industry is expected to post vigorous growth, with ample opportunity for new investments in communication infrastructure facilities, especially in the newly liberalised North and East. The industry regulator – the Telecom Regulatory Commission - is looking at ways to effectively deploy telecom services in these areas, with suggestions for operators to share infrastructure, which, for example, could reduce the cost of installing and running network towers. A fibre optic cable owned by Sri Lanka Telecom that runs from the Northern area of Mannar to Vavuniya, which was damaged during the ethnic conflict, is to be repaired, while the government has also allowed a fibre optic line to be laid along the strategic A9 highway that links the Northern area of Vavuniya and Jaffna.

As the industry grows and competition intensifies, there will be an increased demand to satisfy the more sophisticated customer who demands richer technologies with more choice and flexibility.

Broadband services, delivered via ADSL access technology promises to be an important area of expansion for the telecom industry and also a key driver of economic growth. The World Bank estimates that for every ten percent increase in penetration of broadband services, there is a 1.3 percent increase in economic growth, and the same can hold true for Sri Lanka. Fixed broadband subscribers made up 18.0 percent of total internet subscribers (in 2007). Internet subscribers are estimated at 1 for every 100 people (in 2007), up from 0.2 in 2000.

## The rise of Sri Lanka's telecom industry

“Sri Lanka has begun an initiative to roll out a fibre optic backbone for broadband services, which will help improve access outside of Colombo and reduce costs significantly. Operators such as Mobitel have also successfully tested and launched a high speed broad band technology that will double peak download rates offered on its mobile network.”

Sri Lanka has begun an initiative to roll out a fibre optic backbone for broadband services, which will help improve access outside of Colombo and reduce costs significantly. Operators such as Mobitel have also successfully tested and launched a high speed broad band technology that will double peak download rates offered on its mobile network.

Sri Lanka also hopes to launch a geo-stationary satellite in the next three years, at an estimated cost of 150 million US dollars. It has already signed up with Surrey Satellite Technologies Limited (SSTL) of UK to start capacity building.

### 1. Cumulative Number of Licenses granted under Section 17 of the Sri Lanka Telecommunications Act No 25 of 1991 as amended.

Category of Service	2009 June
Licensed under Section 17 of the Act.	
Fixed Access Telephone service	4
Cellular Mobile phones	5
Data Communications (Facility based)	6
Data Communications (Non-facility based) & ISPs	16
Trunk Mobile Radio	2
Leased Circuit Providers	1
Licensed Payphone Service Providers	1
External Gateway Operators	33
Direct-to-Home Satellite Broadcasting Service	01
Cable TV Distribution Network	01
Sub Total	70

SLTL, Suntel, Lanka Bell, Dialog Broadband are entitled to provide Pay phone and Data services according to their licences.

\*\*4 paging licences had lapsed. 4 non facility based and 1 facility based licences were revoked.

Source: TRC

### 2. Statistical Overview of the Telecommunication Sector as at end of 2nd Quarter 2009

Number of System Licenses	70
Total number of Fixed phones	3,391,484
Teledensity (Fixed Phones per 100 inhabitants)	16.6
Teledensity (Fixed) in Colombo District – 2008 Dec	36.4
Total Switching Capacity of Fixed Operators – 2008 Dec	3,659,451
Waiting list (Fixed) – December 2006	77,724
Number of Cellular Mobile Subscribers	12,658,483
Mobile Subscription per 100 people	62.0
Total Telephone Subscribers (Fixed & Cellular)	16,049,967
Total Teledensity (Fixed & Cellular)	78.6
Internet & Email Subscribers	240,000*
Number of Public Pay Phone Booths	8,500*
Number of Paging Subscribers	N/A

Source: TRC

# Financial review Mobitel

The year under review was probably the most challenging for the mobile telephony industry in its recent history. However Mobitel was able to withstand the challenges and move forward successfully displaying its strength and resilience and record a better financial performance in comparison to other industry players. The company revenue increased by 28% in comparison to the same period in the previous year crossing the milestone of Rs.15 Bn. This revenue growth is a remarkable achievement considering the fact that it was attained in a situation where many other industry players were experiencing a decline in revenues. The revenue growth was aptly supported by the increase in Mobitel subscriber base to 3.4 Mn to record a growth of 26% compared to the previous year. In a market that is fast reaching maturity Mobitel was able to capture a significant share of mobile subscribers.

The revenue growth was achieved despite substantial reduction in tariffs in order to be in line with competition. The company was unable to reap the full benefit of these price reductions as the network expansion which was planned to be completed by the end of the first quarter of 2009 was delayed by six months due to extraneous factors resulting in lost revenue opportunity. Also the fact that roaming revenues were low due to the effects of global recession and the North East conflict that prevailed in the first half of the year didn't help increase revenues.

However, direct costs increased in a higher proportion than revenue as a result of deteriorating margins, increase in industry specific costs, increase in customer acquisition costs etc. Apart

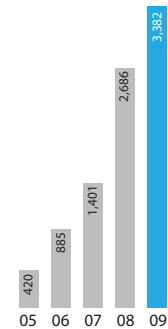
from the increase in direct costs mentioned above, a combination of factors contributed to the decline in EBITDA by 3%. Especially growth in traffic which resulted from increased volumes and increased number of subscribers required further investment commitments for capacity building. The rapid growth is encouraging but at the same time challenging as supply must be matched with demand. The company not being able to realise full revenue potential due to the reasons mentioned above was also a significant contributor to reduction in profitability.

In guiding the direction of the business, strong initiatives were taken for future proofing the company. This necessitated heavy investments and operating expenses for 3G, branding etc impacting the short term financial performance in the year 2009. The company becoming liable for corporate taxes based on revenue, from 1st July 2009 also contributed adversely to profits. Even though the Company reported a loss of Rs. 395 Mn for the financial year, the financial results of the company since late 2009 are fast reversing the situation and paying off the investment decisions and market initiatives.

## SUBSCRIBERS

**3,382**

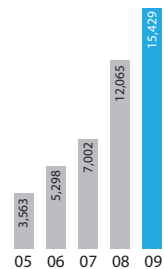
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## REVENUE

**Rs. 15,429 Mn**

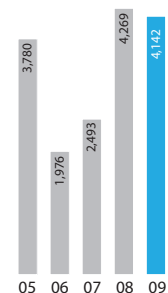
(Rs. Mn)



## EBITDA

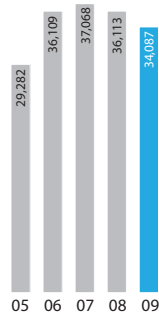
**Rs. 4,142 Mn**

(Rs. Mn)

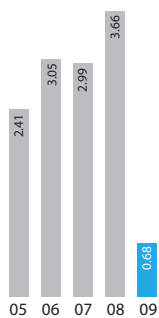


# Financial review SLT

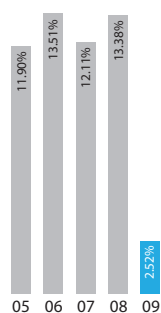
## REVENUE Rs. 34,087 Mn (Rs. Mn.)



## EARNINGS PER SHARE Rs. 0.68



## ROE 2.52%



### Revenue

Compared to last year, Sri Lanka Telecom recorded a decline of 6% in revenue, posting Rs. 34.09 Bn from the Rs 36.11 Bn of 2008. The number of factors contributing to this decline was primarily due to the global economic downturn decreasing corporate customer activity and the fixed to mobile ratio increasing. The tough economic conditions faced in the country, prior to the cessation of the ethnic conflict in May 2009 also impacted general usage, which impacted traffic volume.

### Domestic revenue

Comprising primarily of the revenue generated from wired fixed line rentals and call charges, domestic revenue accounted for 37% of the total revenue, compared to 43% in 2008. Domestic revenue decreased by 18% to Rs. 12.78 Bn as against Rs. 15.52 Bn previously. The main reason for this could be attributed to shift of consumer tendency to opt for mobiles over fixed lines for their calling needs which is an observed trend in the global telecommunication industry.

### CDMA

Revenue from CDMA services also saw a decrease this year and amounted to Rs. 5.06 Bn in 2009, a 1% decline from the 2008 figure of Rs. 5.13 Bn. CDMA revenue accounts for 15% of the total revenue with a reduction attributable to lower

usage volumes, intense competition and the churn we experienced during the year.

Sri Lanka Telecom established over 99,939 new CDMA connections this year, resulting in the entire customer base being a total of 562,614. In order to attract more customers, a number of initiatives were implemented into our marketing and operational strategies during the year.

### International revenue

With the global economic crisis taking its toll on all industry sectors, Sri Lanka Telecom did manage to consolidate its strengths and post commendable results, especially in VoIP where traffic remained stable, despite perceiving a slight decrease in total incoming traffic. Total international revenue declined by 5% to Rs. 8.36 Bn, made up of international call revenue (IDD), receipts from other network operators and international settlements. International call revenue accounted for Rs. 1.51 Bn while international settlements accounted for Rs. 6.84 Bn. We had to continue reducing IDD charges, which saw a further decline of 2% in revenue, aligned with competition and in order to stimulate usage.

The company has taken further initiatives in place to boost to international revenue in the coming year.

### Broadband, Data and other Services

Data, Internet Protocol (IP) services and other sector revenues saw an increase of Rs. 1.23 Bn, a significant growth of 18% compared to last year's Rs. 6.66 Bn. Sri Lanka Telecom continues to maintain its position at the helm as market leader, holding a market share of around 80% (according to our estimated data) of Internet related services. Recognising that broadband is the future and with the advantages of some of the initiatives implemented during the year, the broadband customer base saw a growth to 156,736 customers, which accounts now for a market share of over 80% according to our estimated data.

### Operating costs & depreciation

Sri Lanka Telecom's operating costs have challenged the Company performance by increasing by Rs. 3.66 Bn, from last year's Rs. 17.78 Bn, which is an upward incline of 21%.

Provision for doubtful debts increased by 6% to Rs. 1.67 Bn compared to Rs. 1.58 Bn last year. This was on account of increase in bad debts in CDMA segment.

Additionally payments to international network operators showed an increase from Rs. 1.31 Bn in 2008 to Rs. 2.43 Bn in 2009.

However, repair and maintenance and fuel costs showcased a decrease,

amounting to Rs. 1.72 Bn and Rs. 304.5 Mn respectively in 2009, both decreases of 13% and 16%.

Provision for change in carrying value of inventories for the year was Rs. 0.83 Bn.

Depreciation charges amounted to Rs. 8.3 Bn, compared to Rs. 9.06 Bn in the previous year.

### Fifth Voluntary Retirement Scheme

During the third quarter of 2009, the Company announced its fifth VRS, incurring a cost of Rs. 480 Mn compared to Rs. 390 Mn incurred in 2008. The objective of this VRS was to benefit the Company as well as employees, the Company moving towards a lean structure and employees being supported with early retirement. 309 employees availed themselves to the VRS in 2009 versus 273 employees in 2008.

### Finance costs

Finance costs decreased by 25% during the year under review and now stands at Rs. 0.91 Bn. Reduction was mainly due to repayment of rupee loans and redemption of USD 100 Mn notes.

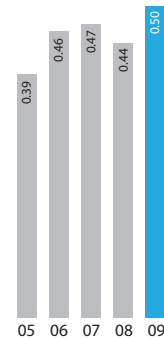
### Taxation

The taxation posted by Sri Lanka Telecom for the year ended 2009 was Rs. 0.38 Bn, a decrease of 83%, compared to the figure of Rs. 2.17 Bn.

### ASSET TURNOVER

**0.50**

(No. of Times)



### INTEREST COVER

**2.78**

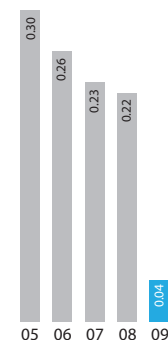
(No. of Times Interest)



### GEARING RATIO

**0.04**

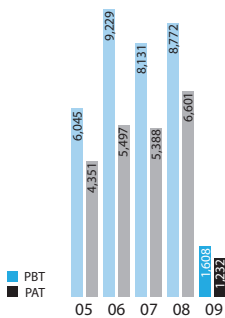
(Debt to Rs.1/- of Debt & Equity)



## Financial review SLT

### PROFIT BEFORE TAX (PBT) PROFIT AFTER TAX (PAT)

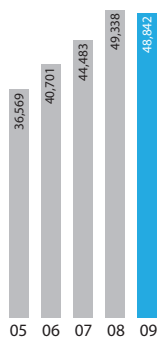
**PBT 1,608 &  
PAT 1,232**  
(Rs. Mn)



### CAPITAL & RESERVES

**Rs. 48,842 Mn**

(Rs. Mn)



### Profitability

Decline in the revenue and increase in operating cost that impacted our operations this year, operating profits were posted at Rs. 1.72 Bn, a decline of 73% compared to last year's Rs. 6.40 Bn.

Profit Before Tax and Profit After Tax stood at Rs. 1.61 Bn and Rs. 1.23 Bn respectively at the end of this year, displaying a percentage decrease of 82% and 81%. Given the challenging macro environment the industry functioned in, the figures remain commendable.

### Measuring performance

Reflecting the permeating figures, Earnings Per Share (EPS) accordingly declined due to a reduction in profitability, to be showcased at Rs. 0.68 per share this year, compared to Rs. 3.66 last year, a decline of 81%.

### Financial position

#### Balance Sheet

With the USD 100 Mn bond becoming payable this year, we reflected a strong Balance Sheet as expected. Our gearing ratio decreased substantially.

#### Non Current Assets

Total non-current assets of the Company decreased marginally to Rs. 50.83 Bn, as against Rs. 50.90 Bn from the previous year.

### Property, Plant & Equipment

The property, plant & equipment was decreased by Rs. 2.23 Bn from Rs. 38.49 Bn in 2008 to Rs. 36.26 Bn in 2009. There was no change to the status of properties during the financial year except for additions during the year.

### Investments in Subsidiaries

The increase in investments in subsidiaries was Rs. 1.15 Bn was mainly related to Rs. 0.9 Bn investments in Mobitel and Rs. 0.03 Bn and Rs. 0.22 Bn investments made in SLT Publication (Private) Limited and Sky Network (Private) Limited respectively.

### Working Capital

Working Capital made a significant deceleration due to the reclassification of the Bond in 2008. Until 2007, this was treated as a long term liability but from 2008, was transferred to a current liability. No other major deviations were seen in 2009.

### Activity and Liquidity Ratios

The envisaged changes did take place during the year. Asset turnover increased from 0.44 in 2008 to 0.50 in 2009.

### Interest Cover

Interest cover was also impacted due to the reduction in profitability and the repayment of USD 100 Mn bond. It has come down from 8.30 in 2008 to 2.78 in 2009.



**Capital Structure**

There was no significant change in the capital structure of Sri Lanka Telecom. Shareholders' funds decreased by Rs. 0.49 Bn compared to 2008, while there was no significant change in long term liabilities although short term liabilities did see a considerable change due to the bond settlement effected in 2009.

**Debt**

The total debt of the company stood at Rs. 2.19 Bn as at the Balance Sheet date, which is a substantial decrease due to the bond settlement this year. Total debt of the Company has come down by 84% compared to last year.

**Cash Flow**

**Operating Activities**

The company's cash flow was quite severely affected due to the general environment surrounding operational activities. However, this spurred us to instigate other positive initiatives such as stricter monitoring and controls on debtors and in improvement in collections.

**Investing Activities**

The net cash outflow from investing activities this year, which collated fixed assets and in our subsidiaries decreased by about Rs. 1.46 Bn, from Rs. 8.99 Bn in 2008.

**Financing Activities**

Net cash outflow from financing activities also saw a significant change due to the bond redemption in 2009, standing at Rs. 13.34 Bn this year, compared to Rs. 1.71 Bn last year.

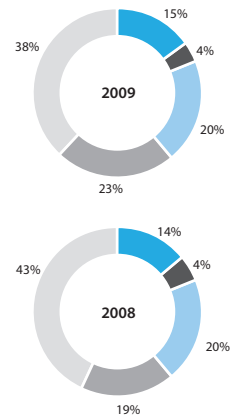
**Statement of Changes in Equity**

Shareholders' funds as at December 31, 2009 stood at Rs. 48.84 Bn, as against Rs. 49.34 Bn as at December 31, 2008. This constitutes a marginal decrease of 1%.

**REVENUE DRIVERS**

**Rs. 34,087 Mn - 2009**  
**Rs. 36,113 Mn - 2008**

(Rs. Mn)



	2009	2008
Domestic	12,777	15,516
CDMA	5,064	5,133
IDD	1,517	1,681
Int'l Inpayt.	6,842	7,124
Data, IP & Other	7,887	6,659
<b>Total</b>	<b>34,087</b>	<b>36,113</b>





## Sustainability report **Driven by deed**

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# Driven by deed

## A look at Sri Lanka Telecom's CSR vision

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"Sustainability is a condition of existence which enables the present generation of humans and other species to enjoy social wellbeing, a vibrant economy, and a healthy environment, and to experience fulfillment, beauty and joy, without compromising the ability of future generations of humans and other species to enjoy the same."

Guy Dauncey, Environmentalist, Author, Visionary, Futurist, Founder and President of the BC Sustainable Energy Association

## The Sri Lanka Telecom Sustainability Mission

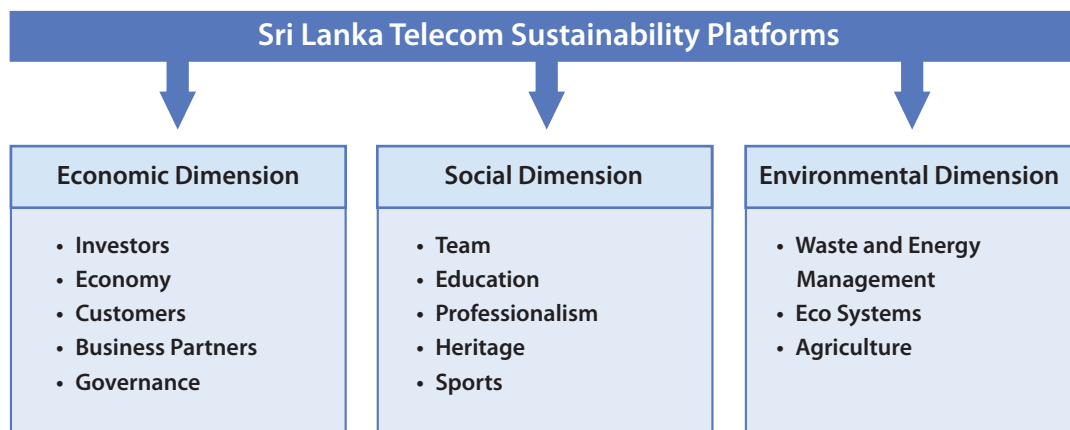
For over one and half centuries, Sri Lanka Telecom has meticulously built strong relationships with all our stakeholders, fulfilling our responsibilities to our customers, valued business partners, investors, government authorities and regulatory bodies, our team and the wider community and environment. Being conscious of our role as an organisation deemed with the responsibility of being a role model and mentor for others, our actions have been built on the springboard of transparency and accountability, while we have always been answerable for the impact of our actions, even if adverse and in that event, all steps taken to minimise the adverse impact. We have continued to promote public interest and development of all stakeholder groups.

Beyond our core business, we have made significant contributions to life beyond the telecom world, reaching several segments of society with sustainable solutions, promoting a society where harmony, ethics and values are paramount and creating avenues for the appreciation of the natural and man made resources of the country.

### Sustainability reporting

While Sri Lanka Telecom has over the years been constructing strong foundations in sustainability for all stakeholder groups, documentation and quantification of such actions in a uniform manner is just being embarked upon. This is our attempt at presenting a sustainability report that recounts on the triple bottom line concept of economic, social and environmental dimensions, and will include a majority of the features required in such a report.

This report deals with Sri Lanka Telecom's sustainability activities for the period from January 1st to December 31st 2009.



## Sustainability report

### Chairperson's Message – On Sustainability

“Today, we are well positioned to deliver enhanced value to our valuable customers, shareholders, employees, investors, suppliers, the government of Sri Lanka, regulatory bodies, government authorities, the media and the general public with the highest level of passion and commitment to business excellence. We are strongly committed to developing and strengthening these relationships every year, taking them to a higher level.”

We have always worked on the platform of conscious responsibility and believe wholeheartedly that business sustainability is driven to deliver via long term two-way relationships between stakeholders and ourselves. Our stance as the national telecommunication solutions provider for the country, being one of the biggest employers and an industry leader adds more responsibility, transparency and accountability to our role and emphasises the concept of sincerity, ethics and integrity in the way we do business.

Today, we are well positioned to deliver enhanced value to our valuable customers, shareholders, employees, investors, suppliers, the government of Sri Lanka, regulatory bodies, government authorities, the media and the general public with the highest level of passion and commitment to business excellence. We are strongly committed to developing and strengthening these relationships every year, taking them to a higher level.

Sri Lanka Telecom has transformed tremendously over the years. With this transformation, we have also revised and renewed the manner in which we practice sustainable development in the economic, environmental and social spheres. To us at Sri Lanka Telecom, sustainability encompasses behaving in a manner that is transparent and accountable to all our stakeholders whilst ensuring that ethical, professional and fair practices are always followed; serving

remote areas (including the Northern and Eastern provinces, which has been expedited even more with the end of the conflict); making colossal investments in building and maintaining the telecommunications infrastructure, as well as taking steps towards the transformation into the Next Generation Network (NGN) whilst always providing our customers with state of the art technology on par with global trends; the manner in which business is conducted – selling, procuring, creating value for stakeholders, engaging in stakeholder dialogues; motivating and empowering employees; conserving the environment and supporting initiatives which improve the quality of life of the community within which the Company operates.

There is a lot more potential in this area and we need to get everyone at Sri Lanka Telecom thinking about it. Our sustainable business programme will help us do this by embedding environmental and social considerations into our product development processes. As always, we need to start by understanding what our customers need and then developing the products and services to deliver technological advancements that will help them do their home or business activities in a simpler, faster and more cost effective way.

Throughout the whole of 2009, we have worked to manage our business processes in the optimum manner that

will produce an overall positive impact on society. We have worked hard to minimise adverse impacts, and actively promoted the public interest and development of all our stakeholder groups, whilst contributing positively to the economic, social and environmental dimensions. Sri Lanka Telecom is renowned throughout the island, amongst all communities as being a socially responsible corporate citizen that is close to the people. This was cemented during the year when our company was adjudged as being amongst the Top Ten Corporate Citizens in Sri Lanka, at the Best Corporate Citizens Awards conducted by the Ceylon Chamber of Commerce.

This sustainability report will state in detail the various measures that we have taken towards sustainable business practice. This will also describe the new values and direction we will take towards sustainable development in 2010, in line with the transformation programme that is in progress. We hope that this report will set the foundation for a transparent and sincere effort to give our stakeholders a comprehensive idea about our commitment to sustainability.

**Leisha de Silva Chandrasena**  
*Chairperson*

## Economic dimension

Sri Lanka Telecom's contribution to the macro panorama of national development is significant. Having been in business for over 150 years and the forefront of introducing state of the art telecommunication technology to the country, it can be safely stated that Sri Lanka Telecom has been and continues to be the backbone for the telecommunication revolution seen in Sri Lanka. From a country where telecommunication penetration and usage was almost insignificant, Sri Lanka Telecom has infused technology innovations not only into urban cities but has used the platforms of wireless and its



- SLT was given recognition as one of the top ten Best Corporate Citizens by the National Chamber of Commerce.

extensive fibre optic connectivity to make telecommunication connectivity an imperative for every citizen. Competing telecommunication service providers use the strong telecommunication infrastructure backbone that Sri Lanka Telecom possesses which eases logistics and accessibility for provision of services for these providers.

While our contribution to the infrastructure and development of the country's telecommunication industry has been unparalleled, our contribution towards the Government Treasury, which in turn utilises those funds towards large scale development projects, must be noted. We remain the second largest taxation contributor to the Government of Sri Lanka and appreciate that these funds are a significant facet in the sustainable development of the nation.

In addition, our partnership with the Government of Sri Lanka in its Ten Year Development Plan of which one feature was the enabling of ICT countrywide saw the genesis of projects like Schoolnet, eLanka, LEARN and establishment of Nenasala Centres across the island making ICT accessible to cross sections of society. This spurs a pool of knowledge among the younger generation, gearing them for a future essentially driven by technology.



- SLT partnered with GOSL (through ICTA) to make ICT accessible to all sections of society through Nenasala Centres.

### Investor relations

As we all recognise, 2009 was a year of consolidation for most organisations, given the backlash of the economic melt down that rippled across the globe. For Sri Lanka Telecom which had a significant year on the market in 2008, this year was relatively quieter in terms of market presence and penetration. The shareholding transition from NTT to Global Telecommunication Holdings NV which took place last year was well strengthened this year. GTH is a wholly owned subsidiary of Usaha Tegas Sdn. Bhd., which also owns Maxis Communications Bhd., a leading telecommunications provider and operator in Malaysia, with interests in India and Indonesia.

The confidence in our shareholding was aptly displayed by our share price continuing on a gradual upward curve,

beginning the year at Rs. 34.50 and ending at Rs. 44, buoyed further by a very dynamic market. Immediately after the announcement of the end to the ethnic conflict, the optimistic sentiments that drove our market somewhat superficially saw our share peak at a commendable Rs. 46.70 in July, settling gradually however to a more realistic Rs. 44 according to market diktats for blue chips by the end of the year. It must also be noted that Sri Lanka Telecom shares remained above both the ASPI and telecom sector shares.



- SLT partnered with GOSL (through Ministry of Education) in enhancing the teaching and learning experience by connecting schools island wide via SchoolNet project which provides students and teachers access to ICT services.

### Reiterated ratings

Being one of the country's most valuable groups of companies with an annual turnover of approximately Rs. 50 Bn, it is noteworthy that Sri Lanka Telecom further reiterated its stance as a stable and secure investment option with the ratings conferred by both Fitch Ratings and Standard & Poor's, the latter a notch above the country rating, signaling our financial credibility and viability. Fitch Ratings awarded an AAA rating on the National Long Term Rating for the fourth consecutive year and a BB- on Long Term Local Currency. Standard & Poor's awarded a B+ rating for both Long Term Corporate Rating and Long Term Debt Rating.

# Sustainability report

## Ownership Profile

### Shareholder Analysis

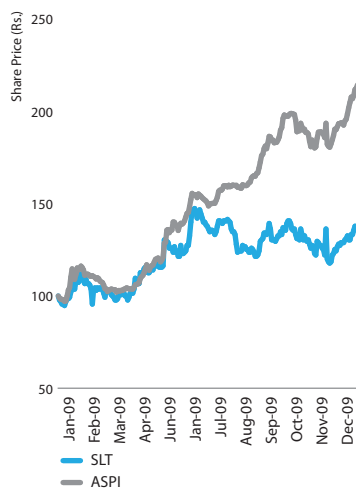
List of Twenty Major Shareholders based on their Shareholdings as at 31 December 2009.

Name of Shareholder	No. of Shares	%
Secretary to the Treasury	893,405,709	49.5
Global Telecommunications Holdings, NV	811,757,869	44.98
Employees' Provident Fund Board	18,354,289	1.02
Sri Lanka Insurance Corporation Limited - Life Fund	17,713,735	0.98
National Savings Bank	13,158,700	0.73
Bank of Ceylon A/C Ceybank Unit Trust	4,574,600	0.25
Employees' Trust Fund Board	3,302,188	0.18
Sri Lanka Insurance Corporation Limited - General Fund	3,164,200	0.18
Alchemy Heavy Metals (Pvt) Limited	1,350,700	0.07
Eagle Insurance Company Limited. A/C No. 03	1,019,900	0.06
Bank of Ceylon - No. 02 A/C	750,000	0.04
Eagle Insurance Company Limited. A/C No. 07	686,800	0.04
Deutsche Bank AG - Ceylon Index Fund	577,400	0.03
Bank of Ceylon A/C Ceybank Century Growth Fund	516,700	0.03
Ellawala Exports (Pvt) Limited	500,000	0.03
The Incorporated Trustees of the Church of England in Ceylon	414,100	0.02
Heraymila Investments Limited	400,000	0.02
HSBC - Asia New Frontiers Fund	367,500	0.02
Mr. Vandrevala	358,000	0.02
The Ceylon Chamber of Commerce Account No. 02	290,400	0.02
<b>Total</b>	<b>1,772,662,790</b>	<b>98.22</b>

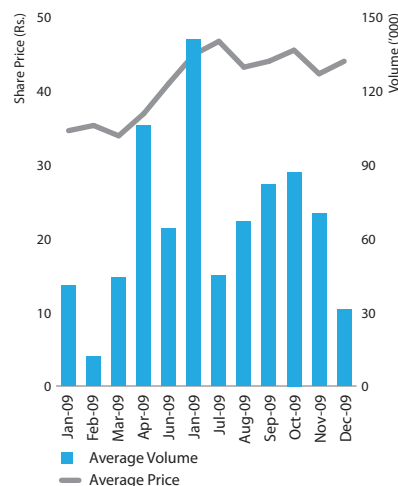
### Analysis of Shareholders as at 31 December 2009

Shareholdings	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	No. of Shareholdings	No. of Shareholders	No. of Shares	No. of Shareholdings
1 - 1,000	10,549	3,826,380	0.21	19	9,000	-	10,568	3,835,380	0.21
1001 - 10,000	3,429	14,731,872	0.82	39	183,100	0.01	3,468	14,914,972	0.83
10,001 - 100,000	500	9,947,158	0.55	18	481,100	0.03	518	10,428,458	0.58
100,001 - 1,000,000	23	6,219,100	0.34	6	1,660,400	0.09	29	7,879,500	0.43
Over 1,000,000	9	956,044,021	52.97	1	811,757,869	44.98	10	1,767,801,690	97.95
	14,510	990,768,531	54.89	83	814,091,469	45.11	14,593	1,804,860,000	100

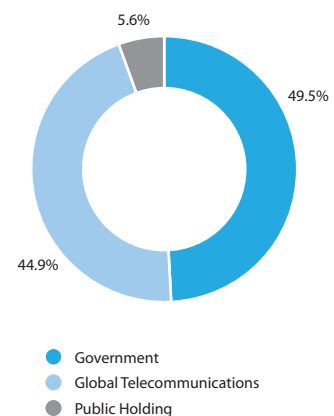
SLT SHARE PRICE AND CSE ALL SHARE PRICE MOVEMENTS



SLT SHARE PRICE & TRANSACTION VOLUME



SHAREHOLDER STRUCTURE AS AT DECEMBER 2009





Categories of Shareholders							
Analysis of Shareholders	No. of Shareholders	31 December 2009			31 December 2008		
		Total Shareholding	%	No. of Shareholders	Total Shareholding	%	
Individuals	14,413	28,666,992	1.58	15,033	30,887,958	1.71	
Institutions	180	1,776,193,008	98.42	199	1,773,972,042	98.29	
<b>Total</b>	<b>14,593</b>	<b>1,804,860,000</b>	<b>100.00</b>	<b>15,232</b>	<b>1,804,860,000</b>	<b>100.00</b>	

Shareholders Structure 2009	
Issued Share Capital	1,804,860,000
Less: Holding over 10% Secretary to the Treasury	893,405,709
Global Telecommunications Holdings N.V.	811,757,869 (1,705,163,578)
	99,696,422

Trading Activity, Year-on-Year		
	2009	2008
No. of transactions	8,180	16,473
No. of Shares traded	14,655,550	901,856,789
Value of Shares traded (Rs.)	625,084,199	43,850,830,079

Share Price Trend							
	2009	2008	2007	2006	2005	2004	2003
Highest Value (Rs.)	48.00	49.75	43.25	29.75	27	23	30
Lowest Value (Rs.)	39.50	29.75	28	14.75	15.5	15	10.5
Last Traded Price (Rs.)	46.00	31	31.5	27.75	16.5	15.5	18
Market Capitalisation (Rs. Billion) (year end)	83.02	55.95	56.85	50.08	29.78	27.97	32.49

Returns to shareholders		
31 Dec. 03	First & Final Dividend	902,430,000
31 Dec. 04	First & Final Dividend	902,430,000
31 Dec. 05	First & Final Dividend	1,353,645,000
31 Dec. 06	First & Final Dividend	1,804,860,000
31 Dec. 07	First & Final Dividend	1,804,860,000
31 Dec. 08	First & Final Dividend	1,804,860,000
31-Dec-09	First & Final Dividend	451,215,000

### Honours, accolades and recognition

Befitting the title of an industry leader, Sri Lanka Telecom continued to etch its premier position among the corporate leaders of Sri Lanka, reinforcing the confidence it has garnered from its peers and external organisations, in recognition of the company's strengths, best practices, performance, values and innovations.

*"Business Today has recognised Sri Lanka Telecom as the No. 1 amongst the BT Top Ten awarded each year. This award was announced based on the financial performance of the Company for the financial year 2008."*



One of the Best Top Ten Corporate Citizens at the Corporate Citizens Award



Annual Report Awards: ICASL Awards 2009, Telecommunications Sector: Gold Award



Annual Report Awards: SAFA (South Asian Federation of Accountants) Best Presented Accounts, Communication and Information Technology Category: Winner



National Business Excellence Awards: The Award for the Best Tech-Savvy Company: Winner



National Business Excellence Awards: The Infrastructure and Utilities sector Award: Runner-up



LMD 50: Among the top 10 - 2nd Position



Frost and Sullivan's Award-Market Share Leadership Award: Enterprise Data Services



Frost and Sullivan's Award-Market Share Leadership Award: Data Centre and Managed Services

## AAA (Ika)

AAA(Ika) National Long term rating for the sixth consecutive year

## BB-

BB- The Local Currency IDR (Issuer Default Rating)

## B+

B+ for both Long Term Corporate Rating and Long Term Debt Rating by Standard & Poor's - This is one notch above the country's sovereign rating

## Sustainability report

### Our valued business partners

Vendors, suppliers, customers and retailers are all integral facets to our success story. The long term relationships we have forged have been further strengthened by our philosophy of envisioning inspired solutions, conforming to best practices and continuing our forward thrust on sustainable development practices. As the industry continued to evolve and transform, the challenges we faced compelled us to deliver innovative products at the right price and the right time. This is what drove us from a network driven to a market driven culture. This then requires our suppliers and procurers to remain aligned to our vision.



- New dealers were incorporated into SLT's distribution network at the Dealer Convention.

Given our strong belief in adhering to ILO espoused labour practices, prevalent standards and certifications for improvement, operational and ethical, transparent and accountable principles where governance and risk management are paramount for sustainability, we have a culture that drives our valued business partners into a similar environment. We do want them to partner us in infusing these best practices and permeate them to their organisations. In most instances, we have been successful as we have seen a significant transformation in our suppliers being conscious of ethics, timelines, benchmarks and always striving to deliver on time every time.

### Rewarding dealers

Sri Lanka Telecom felicitated the commitment and hard work displayed by the dealers who exceeded their goals for 2008. Accolades were bestowed on the winners who were given recognition for their hard work and motivation in keeping Sri Lanka Telecom ahead of competition.

### Procurement procedures

All procurement has a standardised uniform format built on levels of transparency. Tenders from interested suppliers are initially called for and Sri Lanka Telecom uses its secure complete online tendering and procurement system to add meritocracy to the process. The online system allows easy registration, is cost effective, allows



- SLT's fully fledged Regional Telecom Offices are geared to provide enhanced customer care services.

immediate notification of status of surveys via numerous methods including SMS and email, allows systematic amendment notification of the system and is completely paperless, efficient and speedy.

### Supplier complaints

A suggestion and complaint box is available for all suppliers for their input. Sri Lanka Telecom also conducts a comprehensive survey at the beginning of each year to obtain feed back from suppliers.

### Our customers

Sri Lanka Telecom is undoubtedly at top of the mind recall among the people of Sri Lanka and has over the years gained

the confidence and loyalty of customers through the delivery of products and services, driven to deliver on our promise of quality, innovation, technology advancement and customer service excellence. The islandwide state of the art infrastructure supported by a highly specialised team whose experience spans decades, has given us an undisputed positioning at the top of the ladder, as Sri Lanka's premier telecommunications solutions provider.

Sri Lanka Telecom has implemented the precepts of ISO Quality Management Systems in its general outlook, while ISO Certification has been obtained for our broadband and iDC. We have also continued with our cohesive quality management initiatives through Quality Circles, Continuous Improvement Teams,



- SLT launched "Prestige Card", SLT's first loyalty programme, to honour the most valued and "prestige" customers with privileged services.

Kaizen and 5S. All efforts at inculcating best practices into our customer service initiatives are amply exemplified.

### Customer satisfaction & complaints

Regional Telecom Offices and Teleshops conduct customer surveys each month to gauge customer satisfaction levels, problem areas and gaps that need to be bridged. The findings on these surveys are regularly analysed, with gaps and improvements addressed with workable solutions being implemented. The Quality Assurance Division also conducts customer surveys, with one of its primary functions being to ensure that recommended solutions and corrective actions are speedily and effectively implemented. We have seen a continuous improvement in customer

service levels with the corrective actions taken based on customer feedback.

In addition, the Call Center also monitors information such as the number of faults reported that are remaining unrectified, how many have been acknowledged and where no action has been taken. This information is then disseminated and corrective action effected.

### Key customer service features

While our customer initiatives are numerous, wide and varied, given below are some initiatives implemented during the year to enhance our delivery promise.

#### Launch of the Prestige Card

Sri Lanka Telecom introduced its first customer loyalty programme in November 2009 with a range of privileges



- His Excellency the President Mahinda Rajapakse launched SLT's Directory Information services (available in all three languages) via mobile phones.

and benefits extended to cardholders. This was presented to customers who were identified for their loyalty to the company. The benefits of the card include priority services at service points as well as VIP treatment in fault clearing, complaint handling and service provisioning, convenient priority car parking facilities at Sri Lanka Telecom, a web self care facility for checking account details online, invitation to customer forums and special events where these customers will be "opinion leaders" and their ideas taken into consideration for future product/service development plans.

#### Conveniences in bill payments

To enhance the conveniences afforded to customers in paying their bills, in August 2009, Sri Lanka Telecom extended its bill

payment facilities to over 3000 locations islandwide. These include large supermarket chains such as Cargills, Keells Super and other outlets such as Abans, A-Z Electronics, Singer, as well as banks including Commercial Bank, NTB, NSB, Seylan Bank, Sampath Bank, Standard Chartered Bank, HNB, HSBC, NDB, People's Bank and Citi Bank.

#### Directory information through Mobiles and e-brochures

Through its fully owned subsidiary, SLT Publications Pvt Ltd., Sri Lanka Telecom made directory information available within the Rainbow Pages to all mobile phone users. The information is available in all three languages and can be accessed either locally or overseas. The Rainbow Pages also broke new ground by becoming the first directory



- SLT's latest addition to the OPMC network was made at Anuradhapura with a view to providing enhanced customer services in the area.

in the country to launch the very first e-brochure now available at the Hilton Colombo.

#### Customised Calling Plans through VTalk

Providing customers with optional calling plans to suit their lifestyle and budget, V Talk is the first of its kind in Sri Lanka that offers a variety of tariff plans to give customers freedom of choice.

#### Fifteenth OPMC opens in Anuradhapura

Covering 15 areas in the region of Anuradhapura and 42,500 customers, Sri Lanka Telecom continued to expand its service capabilities with the launch of the 15th OPMC to provide uninterrupted and enhanced services to its valued customers.

#### For the differently abled customer

Sri Lanka Telecom launched our first Braille bills in March 2009. Fifty identified customers were presented with Braille bill at the launch, while others requiring these services will be availed of it on request. This initiative is aimed at creating an enabled society for the differently abled community, whose bid at living independent lives must be encouraged.

### Governance

Being the National Telecommunication Solutions Provider, it is imperative that we walk the talk in setting an example for others in the corporate arena. We want to be recognised as a company that is governed firmly on the tenets of transparency, accountability, sincerity of action and values as being the



- SLT launched Braille Bills to make bill information easily accessible for visually impaired persons.

fundamental principles of our operations. We strictly conform to stringent governance and accounting policies and guidelines wherein our financial, governance and risk management policies are in conformance to the standards and guidelines laid down by the Institute of Chartered Accountants of Sri Lanka, the Telecommunication Regulatory Authority of Sri Lanka, the Government of Sri Lanka and other relevant statutory authorities that govern such issues. (A more detailed version of our corporate governance and risk management practices is contained in the Corporate Governance Section of this report).

## Sustainability report

### Social dimension

Stakeholders encompassing our social dimension are diverse and varied. Beginning with our team and permeating our good practices to the community, Sri Lanka Telecom strives hard to ensure that a sustainable platform is imbued to every segment, whether in meeting career aspirations or in creating a firm foundation for an entrepreneurial culture.

#### Our dynamic team

Being in a competitive industry that's constantly evolving and ensuring that service standards are on a constantly improving curve is not easy. Until about three decades ago Sri Lanka Telecom also enjoyed a monopoly and had to speedily transform into a private sector oriented



- SLT paid tribute to its multi skilled team of employees who continue to be an immense strength for the company.

organisation where innovation, technology, team work and customer services are the sustainable features of a 'continuing business'. We have now embarked on a paradigm shift from networks to markets, driven to deliver on ever increasing standards and quality platforms which now steer our focus towards strengthening the efficiencies and efficacy within our team. Our past challenges have been faced with great gung ho and we are now moulding a vibrant, motivated dynamic team, trained, skilled and equipped to take on the next round of challenges that emerge.

In tandem, Sri Lanka Telecom began working on a performance driven culture that drives harmony and togetherness, where team members are encouraged to

aspire new horizons and work their way towards it together.

We pride ourselves on being an equal opportunity employer, adhering to all relevant ILO and other relevant statutory regulations pertaining to employment procedures. All recruits, male or female are treated with equality, where meritocracy overrides all other factors in promotions, benefits and career progression

Sri Lanka Telecom's staff strength is made up of a healthy mix of professionals, technical experts, management, field operatives and dynamic support staff. The Voluntary Retirement Scheme which was introduced this year was successful, while



- SLT offered a Voluntary Retirement Scheme for the benefit of those employees who preferred early retirement.

recruitment procedures concentrated on internal head hunting rather than external recruitment. Our recruitment policy stems on the paradigm of 'the right person for the right job' from within the amazing pool of extraordinary people we already have.

#### Grievance handling

While Sri Lanka Telecom has a comprehensive published Code of Conduct for all personnel within the organisation, we also introduced an emancipated grievance handling procedure, which serves as a means of fostering harmony and understanding among the team and also between employee and employer. Into this procedure, we have added counseling, awareness creation and education on a wide range of topical issues, which have

over the last four years, seen the positive feature of a decrease in absenteeism, which was a significant challenge for us to overcome.

#### Zero industrial disputes

With a noteworthy collation of 32 trade unions representing our sizeable staff, we are extremely proud that Sri Lanka Telecom has not had any industrial disputes during the years 2008 and 2009. The unions, some of which are politically affiliated, have been excellent partners in our bid for change. A transforming mindset, introducing new systems and processes and creating a performance driven culture were significant challenges which the unions cohesively helped us



- SLT organised an island wide Shramadhana to commemorate SLT Day.

through for a smooth transition. Our efforts at recognising the universal acceptance of industrial democracy and in turn having awareness programmes for the trade unions on related topics such as business realities and workplace co-operation helped us in fostering the good relations we enjoy today. We have continued to maintain the cordial relations we have now inculcated and with the proper communication channels in place, we remain assured that we will always have the support and commitment to take the organisation towards its vision.

#### Performance evaluation

Appreciating the challenges that will arise in transformation and change of mindset among thousands of employees whose careers are multiple-decades long within

the organisation, we have successfully instituted numerous processes and initiatives that imbued a performance driven culture. This was followed by a fully fledged performance evaluation and grading system which enabled all employees to work towards their individual career advancements aligned to their personal ambitions and goals. Training and development is thus aligned to these aspirations with knowledge gaps bridged along the journey.

### **Performance management**

Greater efforts were made to give prominence to work performance, with the aim of empowering employees to achieve organisational objectives. A performance management section was created in January 2009 and the performance management policy was



- SLT continues to equip its employees through extensive training programmes to face ongoing business challenges.

reviewed. The thrust of the new performance management strategy was to give priority to performance and make it the basis for all promotions/upgrades.

### **Access to information and learning**

While training and development is extensive, especially in the technical and technology areas where skills need to be upgraded continuously to keep up with the technology evolution, this year there was a concerted effort towards training in customer service skills. Given that we are driven to deliver with a market driven vision, it is imperative that our team places the importance of customer service excellence at the zenith of their skills. There was special emphasis on training our frontline operatives, both the agents at the Call Centers and the Field Operatives who are the 'face' of Sri Lanka

Telecom. They are now fully equipped to handle challenges, difficult situations, long calls, discussions and conversations with professionalism.

Studying and developing knowledge is highly encouraged at Sri Lanka Telecom. This is further illustrated with the three extensive libraries that have a collection of over 25,000 books at Head office, Havelock Town and the Welisara Training School. Their services are not only available for our team but to family members as well. This year we added to the facilities which included searching and reserving books online.

### **SLT Day – Island wide Shramadhana**

Since dengue had reached epidemic proportions in Sri Lanka and fatalities from dengue were increasing day by



- SLT's fully fledged libraries cater to wide audiences including family members of employees in an effort to provide access to information in diverse fields.

day, as a responsible corporate entity, Sri Lanka Telecom stepped in to take proactive steps to help prevent its spread by conducting an islandwide community service programme in August 2009. A total of 29 sites that included schools, hospitals and homes were visited by the Sri Lanka Telecom employees from the Head Office, the Regional Telecom Offices (RTOs), the Outside Plant Maintenance Centres (OPMCs) as well as the Call Centres. Some of the places that were visited included The Blind School - Ratmalana, Dunhinda Falls, Cancer Hospital – Maharagama, Army Hospital – Anuradhapura, General Hospitals at Colombo, Anuradhapura, Kandy, Ratnapura, Kurunegala, Polonnaruwa, Trincomalee, Hambantota and Base Hospitals at Batticaloa and Mannar

amongst others. Nearly 100 employees participated at each selected location, where they engaged in various activities to clean the premises and equipment as well as the vicinity surrounding the hospitals / schools. This "Shramadhana" organised to celebrate the Company's 12th anniversary of privatisation in a meaningful way, by doing something special for the benefit of the community.

### **Open culture**

We pride ourselves on having inculcated an open dialogue culture where an open door policy allows for two way dialogue. From an emancipated process of performance evaluation, performance based remuneration and rewards, to training, career progression, a constantly evolving and improving work environment, dissemination of



- Each year SLT motivates employees through the Annual Business Plan awareness programmes that communicate the direction and goals of the company for the year.

information and an inclusive approach to the Company's planning, a comprehensive medical scheme and calendar of extra-curricular activities, the employee-employer channels are well served.

All team members are kept informed of management decisions and other important announcements through regular meetings and discussions (including the Annual Business Plan awareness programme meetings) held every year. Most decisions are based on performance targets, evolving market place, competition and other relevant factors. We also use other communication channels like the Intranet, our monthly internal magazine Amathuma as well as Digital Life and Art Watch which disseminate information regarding the

## Sustainability report

latest technologies available in the market, industrial information as well as socio cultural information.

Details on new product launches, Sri Lanka Telecom innovations, services and branding are emailed to all employees via circulars to ensure that everyone remains on a common platform. We also circulate Media Watch, which is a synopsis of all articles published in the media about all telecommunication operators and the industry in general, ensuring that team members keep abreast of competition and the new trends in the industry.

### **Tool Day spurs employee efficiency**

In a bid to encourage team members in the technical division to use 'the right tools at the right time for the right job' thus minimising defects and mistakes,



- Six of the top Breakthrough Ideas received recognition and appreciation at the Breakthrough Thinker Awards Ceremony.

Sri Lanka Telecom declared a Tool Day for all OPMCs. The sets of tools which are easily transportable and can be renewed every year, is earmarked to improve the quality of the service provided and automatically increases the accuracy and appropriateness of the service offered.

### **Unveiling the Sri Lanka Telecom theme song**

The Sri Lanka Telecom theme song, an extraordinary example of the talents within the organisation given that it was composed and produced entirely by team members, was unveiled at the beginning of the year. The timing was aligned to the introduction of the new vision, mission and values which followed. The lyrics were conceptualised following the canvassing of ideas, lyrics, tunes and visuals from the team, with the objective of being a morale booster and to garner a sense of ownership.

### **Breakthrough Thinker Awards**

The Breakthrough Thinking concept was introduced to Sri Lanka Telecom in 2006 and has been continued each year. Implementing a holistic approach to



- SLT organised Metro Api Quiz to improve overall knowledge of employees working in Customer Service Centres.

problem solving and helping users deal with the rapidly changing professional, technical and social environments, the awards encourage, motivate and empower team members to involve themselves in decision making. Suggestions and ideas towards organisational improvement are encouraged. With a theme envisioned each year, the Breakthrough Thinker was selected this year on the theme, "Cost Optimising" with the suggestion incorporated into the organisation's operations.

### **Sri Lanka Telecom Star Awards**

Rewarding our Call Center Officers who have demonstrated outstanding performance during the year, the Sri Lanka Telecom Star Awards are a much looked forward to event among those working at the Call Centers. This serves as a motivator and encourages better performance levels and productivity while giving the team a reason to continue raising the bar in their service tenets.

### **Long Service Awards**

Nearly 40% of our staff has completed over 20 years of service and for the first time, an event was organised to recognise the commitment and loyalty of these team members. 446 staff with over thirty years of service was felicitated at a formal function where they were



- SLT paid tribute to employees who had over 20 years of service at SLT.

presented with trophies in appreciation of their long service.

### **Metro Api Quiz Competition**

In order to encourage teams functioning at the Customer Service Centers to improve their overall knowledge, the Metro Api Quiz Competition collated 400 token questions and presented 80 of those to the participants. The questions covered the areas of giving new connections, disconnecting, bill collection and other products. Fifty teams participated with the Kalutara Regional Office emerging as the winners.

## The quest for quality

Being driven to deliver, our single minded focus is on continuously raising the bar. In raising the bar, continuous improvement would be an imperative that is fundamental to creating this culture. Consistent quality sparked by individual entrepreneurship and a need to always do better therefore is a culture we have striven to permeate at SLT. This is further ingrained into the mindset of our team with the new vision, mission, values and objectives cascading through. Sri Lanka Telecom began a concerted drive towards improving quality standards, processes and systems in 2002 and has been able to successfully implement the fundamentals and complementing features of ISO into our systems and processes. In addition, we have fully espoused the Kaizen and 5S concepts



- The recently held Sales Night offered well deserved recognition to the best performing employees in the Sales & Marketing teams.

into our day to day activities and have implemented a number of initiatives to encourage the continuance of these concepts.

### ISO 9001:2008

Permeating the internationally recognised ISO quality tenets across the organisation is currently in progress. We have already implemented ISO Quality Management System in the following areas:

- Call Center and Customer Experience Division
- Regional Telecom Offices, Teleshops and Account Offices of Metro & Region 1.
- Administration Group
- Narahenpita OPMC

### 5S Programme

All SLT offices implemented the 5S system, based on an organisation-wide campaign to improve productivity, safety, quality, employee morale and to reduce waste which required all offices to be aligned to the 5S principles. Some of the offices and departments that have excelled at implementing and maintaining 5S went one step ahead and applied for the prestigious Taiki Akimoto Award and are awaiting inspection. These are the best 11 offices, nine Regional Telecom Offices and two OPMCs (Outside Plant Maintenance Centers).

### Annual Quality Convention

This is one of our most looked forward to events in the Quality Assurance calendar. At the Annual Quality Convention, SLT recognises team members committed



- SLT continued to educate employees on quality practices to better equip them to provide more customer centric services.

towards quality and productivity improvement and are considered as role models for others. The convention saw enthusiastic participation that showcased a resolute culture among our team members who are determined to deliver.

Competitions were organised in 5S, Quality Circle activities and Kaizen suggestions. A poster and slogan competition was also conducted as a measure of increasing awareness and knowledge in quality related areas. One of the most significant features in our quest for quality is that team members participate in these activities voluntarily and showcase an almost indomitable resolve to succeed.

### Quality Competitions

We also encouraged more teams to participate in the Quality competitions held over the year and saw an encouraging 29 Regional Telecom Offices, 8 Outside Plant Maintenance Centres (OPMC) and 18 Teleshops participate this year, in addition to 22 Quality Circles and Continuous Improvement Teams.

### Sales Night

SLT Sales Night is an annual event held to motivate and encourage the Sales and Marketing Team of SLT. Employees who have excelled in performance and in meeting their targets were given recognition and rewarded for their hard work – individuals were given awards for their performance while the region wise best performance was also rewarded. It further motivates others towards better



- Well trained security personnel were absorbed into permanent cadre to provide job security and motivate all employees.

performance and the achievement of targets. After the awards are distributed, the night also involves a time of entertainment that bring together games, and stage performances followed by dinner. This has also enabled sales and marketing staff from various offices over the island to interact with each other.

### Occupational health & safety

Given the nature of our business, we place much emphasis on the tenets of Occupational Health and Safety at the workplace. It is vital that employees feel safe and secure at the workplace and that we take on the responsibility of ensuring that it is so. Regular health and safety education programmes are conducted to institute a safety conscious team. In

## Sustainability report

In addition, we also avail our team of professional counseling and guidance services, either as group or individual counseling.

This year we saw the appointment of a General Manager Health & Safety and a separate section was established to implement health and safety matters. This ensures a safe and clean working environment that would protect not only employees but all those who interact with us.

An evaluation that compares the total staff strength as against the actual risk of work place accidents showed a minimal risk level. This healthy trend will be further maintained by continuing to provide better health and safety methods and educating employees about health and safety methods. The continuous efforts of

unity, a place where they are happy to work in and enjoy their time. This has spurred us to increase the benefits and welfare facilities that our team enjoys.

For the convenience of our team, Commercial Bank opened a new ATM at the Sri Lanka Telecom Head Office, avoiding the hassle of employees having to travel out of location to get necessary funds.

A comprehensive medical scheme which provides medical facilities for OPD, in-patient, critical illness and accident as well as annual medical checkups and surgery is availed to our team. Physiological and psychological well being is also given priority through the company's resident counseling services.

## Our input into the wider community

### Creating an educated citizenry

#### **Books for the future**

In partnership with the Asia Foundation, one of our primary sustainability projects now has completed its sixth consecutive year successfully distributing over 130,000 books to students and adults pursuing a professional education in rural geographical areas, making literacy accessible to all. Educational material on diverse subjects including Science, Geography, Arts, Engineering, English Language, etc is distributed. During the six consecutive years of commitment SLT together with Asia Foundation has distributed more than a million books around the island.



- SLT provided scholarships to children who had been affected by the ethnic conflict.



- The graduation of the second batch of BTEC Higher National Diploma students from SLT Training Centre.



- SLT continues to be committed in "Spreading the Wealth of Knowledge" in partnership with Asia Foundation.

Sri Lanka Telecom to improve the quality of work life of people and the deployment of improved technology will also mitigate the risk of accidents at the workplace.

### Workplace accidents

With very detailed procedures in place to act quickly and efficiently in the case of a workplace accident, it is also important to note that once the medical board has seen the police report, team members are entitled to compensation depending on the nature of the accident.

### Benefits and welfare

While encouraging our team members to have a healthy work life balance, in turn Sri Lanka Telecom also ensures that the workplace is one of camaraderie and

Low interest loan facilities for a variety of needs and uses including personal requirements, housing loans (with the company taking on 2/3rds of the loan responsibility), educational and vehicle loans are some of the benefits afforded to our employees. We also felicitate outstanding sportsmen and women within our team while also investing in travel and accommodation for their tournaments abroad. Official company bungalows located within historic holiday sites are rented to employees at nominal cost, making vacations more affordable.

The Sports Club together with the company, jointly organises annual trips, religious and cultural activities as well as sports meets regularly as a measure of inculcating team spirit among employees.

One of the highlights of year 2009 was the distribution of 100 Braille books to the University of Kelaniya in our bid to empower the differently abled students at this university and the donation of books to libraries at the Menik Farm which housed IDPs.

#### Books donated

Year	Number of books distributed during the year
2004	595,888
2005	100,857
2006	105,383
2007	107,280
2008	120,514
2009	130,906
<b>Total</b>	<b>1,160,828</b>



### ***Apey Daruwo Scholarship Programme***

Fifty children between the ages of 5 and 16 years who have been directly or indirectly affected by the ethnic conflict, were awarded scholarships during this year in a bid to give them a sustainable secure platform to continue their education. Twenty-five (25) were orphaned by the ethnic conflict and are now settled temporarily at the Kovilkulum Children's Home, while another 24 were children whose fathers were war heroes disabled by the ethnic conflict. One child, orphaned due to a bomb explosion is from Matara.

A gift pack comprising a school bag, shoes, books and other essential school material was handed over to each child plus a fixed deposit account was opened at Bank of Ceylon, where Rs. 25,000/- was



- SLT continues to sponsor EDEX to bridge the information gap among the youth across the nation.

deposited on behalf of each child, accessible upon reaching 18 years of age. The Sri Lanka Telecom team contributed for a whole year at Rs. 100 per person per month towards the scholarships.

### ***SchoolNet and NODES***

Sri Lanka Telecom was the infrastructure and service provider for SchoolNet and National Online Distance Education Services (NODES), a project under the Ministry of Education. SchoolNet is an online educational system designed to connect schools islandwide to one network, providing voice, video, broadband Internet, network services and hosting services. Sri Lanka Telecom's input into NODES involved connecting the NODES Access centers located in universities across the country. These

initiatives are aligned to our aspirations of creating a stronger resource pool for students and teachers throughout the country.

### ***Empowered with an international qualification***

The second batch of students who completed the BTEC Higher National Diploma from the Sri Lanka Telecom Training Center passed out in July this year. The 33 students are now equipped with an internationally recognised diploma and are eligible to continue their final year studies in recognised universities in the UK to obtain a B.Eng. Degree. Sri Lanka Telecom's Training Center is the only telecommunications carrier in Sri Lanka to offer this diploma in partnership with Edexcel International UK.



- SLT continues to empower ICT in Sri Lanka by sponsoring the National ICT conference that brings together IT professionals to discuss issues and developments in the IT industry.

### ***One Laptop for every child***

Initiated by the Ministry of Education, Sri Lanka Telecom assisted the Ministry in this endeavour by providing CDMA facilities free of charge to the primary schools involved in the project from each province.

### ***EDEX 2009***

Sri Lanka Telecom annually sponsors EDEX, the most prestigious and largest national higher education and career exhibition in the island. This year, Sri Lanka Telecom and Mobitel were joint Platinum sponsors. EDEX aims to bridge the gap between the expectations of business organisations and the availability of competent youth. By properly educating the youth of this country, we

strongly believe they can be a vital influence in shaping the country's future.

Each year, EDEX attracts over 75,000 visitors, ranging from school leavers to university graduates and by sponsoring this event, we feel that we have established a gateway to a large number of youth across the country to bridge the information gap. This year, we featured some of the latest emerging technological innovations initiated by Sri Lanka Telecom including our breakthrough communication services provided through Wizz, with its plethora of features. Other services demonstrated include CDMA, mobile PBX as well as games and 3D displays. Furthermore, visitors to the exhibition were given the opportunity to experience the technology and services for themselves.



- SLT continues its passion towards empowering professionalism in the country by sponsoring the CIMA Business Leaders' Summit.

### ***e-Asia Conference***

Sri Lanka Telecom, a champion of the ICT revolution in Sri Lanka played the role of Pinnacle Partner of the 4th annual e-Asia Conference hosted by Sri Lanka in November 2009. e-Asia being Asia's premier ICT event, Sri Lanka Telecom channeled its commitment towards it in line with the declaration made by His Excellency the President that the year 2009 is the Year of English and ICT.

### ***National Information Technology Conference 2009***

Sri Lanka Telecom and Sri Lanka Telecom Mobitel partnered the Computer Society of Sri Lanka (CSSL) for the 27th NIT Conference as Platinum Sponsors on the theme, "Three I-s for an e-enabled Sri Lanka: Integration, Innovation &

## Sustainability report

Impact."The CSSL has undertaken numerous initiatives towards the development of the ICT Industry in Sri Lanka, disseminating knowledge, education and training in order to maintain the highest standards of professionalism amongst the ICT fraternity.

### **Next Generation Network Standardisation Forum**

One of the largest international technology forums held in Sri Lanka, the event was hosted by the TRC and brought together industry leaders involved in the approval, monitoring, manufacturing, planning and deployment of the next generation communications equipment and services. Adding more credence to the support extended by Sri Lanka Telecom



- SLT extended support for the National HR Conference in its continuing efforts to empower professionalism in the country.

is the fact that the company is in the process of migrating into NGN having completed two phases already and poised to launch the third in 2010.

### **Empowering professionalism**

#### **CIM Annual Conference 2009**

CIM, which is the country's premier professional marketing body was partnered by Sri Lanka Telecom for its 9th annual conference, to foster excellence in marketing. This strategic partnership holds Sri Lanka Telecom in good stead as it gives us further drive to make our transition from a network to a market oriented organisation, while also instilling the values of technology and innovation coupled with professionalism into the CIM fraternity. The theme of this year's conference was "Unconventional

marketing strategies to survive in turbulent times".

#### **CIMA Business Leaders' Summit 2009**

Sri Lanka Telecom has maintained a long standing partnership with CIMA, the world's largest and leading professional body of management accountants that has made a tremendous contribution to the development of society and the corporate world through high caliber professionals. We further reiterated the tenets of professionalism by continuing this partnership with CIMA this year as well. This year's conference was on the theme, "The Challenge – Now and Ahead" and brought together top corporates, business leaders, professionals as well as eminent speakers from Sri Lanka and abroad.



- SLT continues to empower Sri Lankan sports by sponsoring National Badminton Tournaments.

#### **Ceylon National Chamber of Industries Awards 2009**

As the Principal Sponsor for the awards initiated by the premier industrial chamber in the country, we demonstrated our commitment to gearing the industrial community towards excellence, encouraging local industry, manufacturing and services and urging them to contribute towards the larger picture of development.

#### **National HR Conference 2009**

This was conducted by the Institute of Personnel Management (IPM) Sri Lanka under the theme "Gaining Strength in Economic Uncertainty". Sri Lanka Telecom was the Strategic Partner of this conference, demonstrating the importance of the role of HR

professionals in the journey of an organisation. Given that human resources remain a fundamental asset of any organisation and a vital stakeholder in the sustainability of the organisation, Sri Lanka Telecom's contribution as a sponsor stimulates the platform for HR professionals to share knowledge and experience.

#### **CounterPoint 2009**

Partnering the Postgraduate Institute of Management Alumni as the total communication service provider, Sri Lanka Telecom created a springboard for PIMA members and professionals including CEOs, Managing Directors and senior management to elevate management and professionalism standards in the country. The series of presentations were centered on the



- SLT continues to be passionate in encouraging and uplifting local athletes to make their mark in the international arena.

theme, "Winning Military Strategies: Lessons for Managers".

### **Sports as the uniting factor**

Sri Lanka Telecom has always recognised the positive merits of sports as being a uniting factor in all forums since it not only inculcates winning individuals, but also sparks team spirit and camaraderie among people. The following are events and initiatives that Sri Lanka Telecom has been involved in, some of them on an on-going basis.

#### **National Olympic Committee**

Sri Lanka Telecom sponsored the National Olympic Committee's calendar of events for 2009 including the National Olympic Day Run held in the Ratnapura town. It was attended by approximately 1000

school children from 15 different schools as well as other participants. The aim of the Olympic Day Run is to raise awareness amongst all communities regarding the importance of the Olympic games and to encourage the inculcation of the Olympic values, which are to encourage knowledge of one's abilities and limits, a competitive spirit, excellence, fair play as well as the access for every individual to sports, irrespective of their abilities, race or other differences.

#### **Athletic Association of Sri Lanka**

Sri Lanka Telecom has continuously partnered the Athletic Association of Sri Lanka for a number of events on its annual calendar. We have been a passionate and enthusiastic supporter of the activities of the Association as we strongly believe that it provides an



- Namal Rajapakse handing over the prize at the Carlton tournament, an international sports event, sponsored by SLT.

invaluable service to our nation by fostering local sporting talent. In 2009, we were the telecommunications partner for:

- Kids' Athletic Development Programme aimed at developing athletic ability in children below the age of 15 years. Sri Lanka Telecom strongly believes and understands the importance of training children at a young age and giving them the inspiration and opportunities to achieve their dreams.
- The 87th National Athletic championships which gathered athletes of all ages from across the island.
- The 52nd Junior National Championships for the young athletes of Sri Lanka.

- Women's Athletic Championships 2009 displaying our appreciation and paying tribute to the women of Sri Lanka.

#### **Nationalised Services Badminton Association (NSBA)**

As Principal Sponsor, Sri Lanka Telecom partnered the NSBA for four tournaments, in addition to the 23rd annual Nationalised Services All Island Open Badminton Championships. The NSBA has become one of the most active and renowned badminton associations that is one of the driving forces behind the game of badminton in Sri Lanka.

#### **Carlton Cup**

The Carlton Sports Club aims to empower and develop sporting talent especially amongst the youth in Sri Lanka whilst



- SLT extends support for the Melody of Peace concert organised by the Army to raise funds for war heroes.

forging the values of unity, harmony and equal opportunity for all people everywhere. In various capacities Sri Lanka Telecom sponsored the Carlton Cup Basketball Tournament 2009 and the Carlton Sevens Sri Lanka, the first ever Rugby Sevens tournament hosted in Sri Lanka.

#### **Inter-Provincial 20/Twenty Cricket Tournament**

Partnering Sri Lanka Cricket, Sri Lanka Telecom contributed towards the national passion of cricket by being the Main Sponsor for the Interprovincial cricket tournament for the season 2008/2009, an identification ground for young talented cricketers with potential.

## **Appreciating our heritage**

Sri Lanka's rich heritage encompasses a smorgasbord of cultures, traditions, religions and ethnicities in addition to an infinite canvas of natural resources, which need to be promoted and cascaded to not only the young and old generations but also to visitors. Sri Lanka Telecom undertakes this as a national responsibility and has over the years, been a flagbearer in creating awareness and promoting the diverse heritage Sri Lanka has to offer.

#### **Creating awareness throughout the year**

The Sri Lanka Telecom calendar and gift items each year highlight either a cultural tradition, craft or the bio-diversity which makes Sri Lanka truly the paradise isle.



- SLT reaffirmed its commitment to empower the public service sector at a ceremony held recently.

The award winning calendar is a much looked forward to complimentary gift item for locals and visitors alike not only for its graphical excellence but also for the invaluable information contained within. This year, the calendar features the bio-diversity of endemic butterflies in Sri Lanka. A detailed account is published later on in this report under the Environmental Dimension Section.

#### **Festivals and Pageants**

Sri Lanka Telecom continuously sponsors religious festivals and pageants held under the aegis of religious centers to ensure the continuity of such events as part of our national heritage and to instill the awareness among the public about the religious and cultural significance of these events.

## Sustainability report

### **Ayurveda 2009 Exhibition and Symposium on Indigenous Health Care in Sri Lanka**

Recognising the important place that Sri Lanka possesses in this ancient form of medicine, which harks back to over 2,500 years in practice, Sri Lanka Telecom sponsored this invaluable forum which brought together an exhibition that displayed products and services that have been developed within the industry. We also believe that in the long term, Ayurveda, which is a totally indigenous industry and the herbal product industry will infuse foreign exchange earnings into the economy and so should be developed to their full potential.

### **Melody of Peace 2009**

Instilling the importance of peace and living together as one, Sri Lanka Telecom joined hands with the Sri Lanka



- SLT continued to support the government's initiatives in bringing together all industries to demonstrate their developments at the Deyata Kirula National Development Exhibition.

Armoured Corps for the Melody of Peace 2009 Musical Extravaganza. The funds collated were utilised to improve the welfare of the families of soldiers who have sacrificed their lives to protect the sovereignty of Sri Lanka.

### **Urumayaka Waruna Photo Exhibition**

With the photographic talents of Anura Kuruwitage Silva, visitors were transported into a vista of brilliant visuals covering the historical, cultural, educational and religious places of Sri Lanka as well as nature and environment with greater emphasis placed on places of interest in the Northern and Western parts of the country.

## Developing national enterprise

### **Deyata Kirula National Development Exhibition 2009**

Sri Lanka Telecom was the Total Communication Provider for the Deyata Kirula Exhibition organised by the Government of Sri Lanka for the third consecutive year. The two stalls provided information on our extensive service and product portfolio while showcasing the newer innovations.

### **The Public Service Forum**

Sri Lanka Telecom held a forum to further strengthen our commitment towards supporting the public service sector in Sri Lanka. Here, we conveyed our support towards rebuilding the national administrative and service infrastructure



- SLT enhances the capabilities of Sri Lanka Police in maintaining the Law and Order of the country through the provision of a total voice communication solution.

in the North and East as well as our commitment towards facilitating the creation of new business opportunities by addressing the necessary requirements in line with the current government's drive to manage costs in all public sector institutions. We were encouraged by the participation of the top rung of management of all state institutions.

### **Gamata Thakshanaya – IT for the village**

Sri Lanka Telecom partnered the Ministry of Science & Technology to provide total communication solutions for all institutions spearheaded by the Ministry under the Gamata Thakshanaya project. These include 300 "Vidatha Resource Centres" located around the country and aims to provide rural Sri Lanka with

access to technology such as e mail, internet, fax and distance learning. These centers also provide facilities such as bank loans, market information, techniques and information on enterprise development as an encouraging facet in developing rural entrepreneurship and enterprise.

### **Communication for Samurdhi**

Sri Lanka Telecom is now facilitating the improvement and social conditions of youth, women and other disadvantaged segments of society by providing communication facilities to all Samurdhi offices in a total of 350 locations around the country.

### **Assisting law and order**

Sri Lanka Telecom signed an MOU with the Sri Lanka Police for the provision of a



- SLT provided assistance to war heroes who were rendered disabled by the ethnic conflict.

total voice communication solution, that provides an inter branch calling facility at a minimal cost amongst police stations throughout the island. This will help to further streamline and upgrade the communication network with the best available technology. This has enabled the Police to provide a better service and concentrate on core duties.

## Enabling the differently abled

Sri Lanka Telecom believes in an inclusive society and has striven through various measures to do as much as it can to ensure that the differently abled in our community can function in their day to day lives with little challenges. The introduction of Braille bills for the visually impaired and making our teleshops and tele bureaus disabled friendly are some of the initiatives we have implemented.

We also donated Braille books to visually impaired children to ensure that education can be continued with minimum hassle and that the quality of education imparted to these special children is similar to those who can see. Books were donated to the Ratmalana School for the Visually Impaired and the University of Kelaniya.

Given the large numbers of soldiers who are injured and disabled due to the battle that saw an end to the ethnic conflict mid-year, Sri Lanka Telecom made a concerted effort to create an enabling environment for these war heroes who heroically brought together the country under one united flag.

- Through Api Wenuwen Api, our Sri Lanka Telecom Team rallied together and contributed funds to construct a house for the family of a soldier who lost his life in battle.
- Sri Lanka Telecom offered twenty employment opportunities for differently abled soldiers.
- As a tribute to war heroes, Sri Lanka Telecom extended priority status to all personnel of the armed forces.

## Sustainability report

### Environmental dimension

We do recognise that more and more companies are conforming to the GRI guidelines, an imperative that displays commitment towards triple bottom line reporting, as stakeholders and most importantly shareholders are demanding accountability of actions on environmental impact. While we have been conferred the honour of an industry leader by our peers as exemplified in our continuous placement within the top ten corporate leaders in Sri Lanka, it is imperative that our leadership extends to our responsibility towards the environment as well. This is further reiterated with our commitment to initiate triple bottom line reporting into our reporting endeavours to create an ethos where the impacts to the

- Cascade environmental best practices to all employees through training, education and development
- Promote environmental care and appreciation of the environment through as many forums as possible
- Remain responsive to emerging issues

#### Sri Lanka Telecom Environmental Policy

To recognise the impact that our business has on the environment and thus to work in a manner that seeks to protect the environment and minimise or eliminate any adverse impacts caused to the environment by our day to day operations.

In addition, team members have been urged to minimise paper waste. Printing on both sides of paper, limiting email prints and using the Intranet for circulars for staff was introduced in April this year as Sri Lanka Telecom is also targeting a move towards a paperless office as soon as possible.

#### Energy saving awareness

Ours is an energy intensive business and operations require copious amounts of electricity. However, we are now instituting a number of energy management initiatives among our team to minimise energy usage. Company wide awareness programmes on energy



- In support of the GOSL's initiatives to grow the local agriculture industry, SLT introduced the "Api Wawamu Rata Nagamu" programme in all SLT premises which contained a considerable amount of bare land appropriate for cultivation.



- SLT continues to conduct Sinharaja awareness programmes for the 4th consecutive year under the theme of "Preserving Heritage for Tomorrow".



- SLT continues to produce its thematic calendars to raise awareness on endemic species of Sri Lanka with a view to educating the public on the importance of "Preserving Heritage for Tomorrow".

environment, the standards maintained and the efforts we imbue towards its preservation remain as overriding factors in whatever we do. However, we have begun this and are progressing in our commitment to be driven to deliver on our promises.

#### Environmental objectives:

- To be compliant with legislation and deal with environmental issues in an accountable manner.
- Design and develop products that have minimum environmental impact
- Optimise usage of energy and inculcate recycling, wherever possible

#### Environmental certifications

Clearance certificates from the Central Environmental Authority to build transmission towers and Clearance certificates from Urban Development Authority and local authorities for new civil construction, based on their guidelines.

#### Waste management

Sri Lanka Telecom has a well established and cohesive solid waste disposal system which generally conforms to environment friendly guidelines. Recycling initiatives have also been implemented for paper and other organic waste collected within our premises.

saving and management are cascaded throughout all levels.

Having identified the importance of energy conservation, an Energy Management Committee led by the Chief Administrative Officer was formed. The committee comprises a cross functional team responsible to further analyse energy use and identify specific initiatives that could reduce energy consumption. This effort is an employee driven one, where all team members are encouraged to contribute ideas and if plausible, the committee makes the necessary recommendations for implementation.

All team members are also entailed with the additional responsibility of individually making efforts to conserve energy in their specific departments, in order to build a culture of energy management. Stipulated guidelines are already in place with simple procedures for the conservation of electricity, minimising paper usage, utilising low energy electrical fittings and transportation cost minimisation being the result of critical study and recommended initiatives in place to create a more cost effective energy efficient workplace.

### **Preserving and appreciating our diverse eco-system**

#### ***Sinharaja workshops***

Sri Lanka Telecom continues its partnership with the Field Ornithology Group of Sri Lanka (FOGSL) aimed at raising awareness among the youth and younger students of Sri Lanka on the importance of nature conservation. The Sinharaja Forest, is a UNESCO World Heritage Site and one of the few surviving rainforests in the world. We conduct a two day workshop every month wherein twenty students and five teachers take a tour into the forest reserve, attending a series of lectures and presentations conducted by Prof. Sarath Kotagama, who is also the Head of Zoology, University of Colombo. This workshop is complemented with

field trips as well. As a synopsis of the workshop, the students are encouraged to conduct their own research, resulting in assignments modulated by FOGSL and presented in handwritten books.

Having launched this programme in 2006, by the end of 2009, 32 programmes were conducted with the participation of 642 students and 144 teachers from 32 schools around the country.

#### ***Heritage calendars and complimentary items***

As mentioned in the Social Dimension section of this report under the heading 'Appreciating our Heritage', Sri Lanka Telecom has for the last 6 years, produced calendars and complimentary items on the central theme of creating awareness about our heritage, working on the features of arts, culture and bio-diversity. The primary objective is to raise awareness among the general public on the importance of preserving the rich heritage for future generations. Past themes have been produced on endemic bird life, orchids, fresh water fish and kolam masks of Sri Lanka. The 2009 calendar focused on endemic butterflies of Sri Lanka.

With butterfly species declining the world over due to increased and careless use of pesticides and insecticides, it was deemed that while Sri Lanka's butterfly population is yet not endangered, it

would be timely to create awareness of the danger they were in and appreciate the beauty of these amazing insects. Sri Lanka is blessed with 244 species of butterflies, of which, 23 are endemic. Research and analysis for these calendars were provided by expert resource person Dr. Michael van der Poorten, a butterfly expert, who is involved in writing the most comprehensive book on butterflies. The photographs for the calendar were taken by Dr. Michael van der Poorten.

### **Api wawamu rata nagamu – Let us grow and develop the nation**

Sri Lanka Telecom continued as an active participant in this national project which aims to make the country agriculturally self sufficient. It also builds a platform of sustainability via small income earnings for various communities. Sri Lanka Telecom began cultivating vegetables at the Sri Lanka Telecom Welikada branch, over an area of approximately 30 perches with a total of 25 kinds of vegetables and fruit, maintained by team members from the branch. According to the testaments from the 100 team members who volunteered to implement the programme, they have gained sufficient experience through this programme to replicate it in their home gardens as well, which may eventually permeate to an additional income avenue.

# Corporate governance

Sri Lanka Telecom's transformation over the years into a respected industry leader built on the structure of transparency, accountability and openness has been the base for creating a company whose corporate governance dynamics is a decisive feature for the increased investor confidence showcased over time. While corporate governance in a ubiquitous sense is concerned with holding the balance between economic and social goals, the cohesive corporate governance framework at SLT encourages the efficient use of resources and equally requires accountability for the stewardship of those resources. To us, it's both a structure and the relationships that determine corporate direction and performance.

The principles of corporate governance at SLT are not new however, but have over time been honed to establish one of the most exemplary public quoted companies on the Colombo Stock Exchange. Given that the telecommunication industry remains highly regulated, SLT is not only compliant with the statutory regulations that cover financial reporting and disclosure, but also with the diktats established by the Telecommunication Regulatory Commission (TRC). This gives the company added responsibility and a more stringent framework and structure in addition to the external reporting responsibilities that are inherent in our business. It can be truly said that while the 20th century was the age of management, in the 21st century, companies like SLT must be more focused on governance.

The tenets of accountability, probity, openness, selflessness in taking decisions wholly based on stakeholder interest, integrity, objectivity, honesty and leadership are deep rooted in our governance culture. They are ingrained in day to day operations as well as in the higher echelons of decision making, with the Chairman and Board of Directors

being a vigorous and visible example that ensures organisational success.

## Board of directors and board committees

### Board composition

The Board carries the responsibilities of directing the Company and office supervision, which includes instituting accurate assessments of the Company's position, making strategic decisions, attending meetings of the Board and of the Sub Committees, ensuring good governance and overseeing the Risk Management of the Company.

The Board comprises eight (8) members all of whom are Non Executive Directors, equipped with a balance of skills and experience appropriate for the Company's business. Based on the declaration submitted by the Directors in terms of the Listing Rules of the Colombo Stock Exchange, the Board has determined that seven (7) Directors are "Independent" as per the criteria set out in the Listing Rules, whilst Mr. Chan Chee Beng serves as a non independent Director.

The names of Directors who served during the year under review are disclosed on page 95 of this Annual Report.

A CEO was appointed in February this year who is responsible for running the Company's business with the assistance of the management. This ensures a prudent balance of power, which separates the roles of Chairman and the CEO, as is detailed in the Articles of Association.

### Independence and effectiveness of the board

#### Directors' independence

A Director is considered independent only if the Board is satisfied that he/she does not have any direct or indirect material relationship with the Company.

This is matched against the requirements detailed in the CSE Listing Rules on Corporate Governance as well as the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

### Core duties of the board

Along with the new Vision, Mission and Values, the company rolled out its Annual Business Plan aligned to the trusses maintained therein. This ABP is prepared by the management and submitted for approval by the Board. The ABP incorporates a pragmatic direction for the Company, considering the latest developments that take place in the business environment, technology and other key areas, while existing systems and processes are reviewed, streamlined further and upgraded wherever necessary. The Board then reviews the plan together with capital and operational expenditure budgets making adjustments initially, and subsequently on both quarterly and mid-year reviews. All proposals are implemented as per corporate governance rules and SEC guidelines.

All members of the Board possess substantive experience and knowledge in a variety of commercial, financial and legal services, honed with an exposure to international best practices which hold them all in good stead to lead the organisation with total commitment to the tenets of corporate governance.

### Board meetings and attendance of directors

The Board meets at regular monthly intervals and convened 11 times during 2009. Special meetings are convened to deal with specific matters that require urgent attention between these regularly scheduled meetings.

Board meetings are conducted on a formal agenda, as guided by the Articles of Association.



Below are the details of Directors' attendance at Board meetings:

No. of Meetings held in the year 2009 – 11

Name of Director	No of Meeting Attended
1. Mrs. Leisha De Silva Chandrasena	11
2. Mr. Sumith Wijesinghe	11
3. Mr. Sidath Fernando	11
4. Mr. Sandip Das	11
5. Mr. Chan Chee Beng	08
6. Mr. Jeffrey Jay Blatt	07
7. Mr. Yoga Perera	10
8. Mr. U. R. Seneviratne	08

#### Retirement of directors

At each Annual General Meeting, one third of the Directors for the time being, or if the number is not a multiple of three, the number nearest to (but not greater than) one third, shall retire from office (provided that a Director appointed to the office of Chairman shall not be subject to retire) and seek re-election by the shareholders.

The Company's Articles of Association also require Directors appointed to fill casual vacancies or as additional Directors to retire at the Annual General Meeting held immediately succeeding their appointment and to seek appointment by the shareholders at the meeting.

#### The accountability of the board

The Board is responsible for directing the strategic objectives of the Company as detailed in the Annual Business Plan and overseeing the management of business, while being mindful of the macro policy and strategy pertaining to country and industry. They are charged with the task of promoting the sustainability and success of the Company and making decisions that to the best of their knowledge are in the best interest of the Company. The Annual Report and interim financial statements which are the primary tools of communication with shareholders, present the Company's financial position and operating results in comprehensive detail, often far

exceeding compliance diktats vis a vis statutory and regulatory obligations. These reports and statements are published and circulated to all shareholders within the duly stipulated time frames. The statutory accounts comply with the requirements of the Sri Lanka Accounting Standards, CSE and the Companies' Act.

#### The role of the company secretary

The Company Secretary attends Board meetings, maintains minutes of all such meetings and the resultant Board decisions, while liaising with Directors on all matters relating to the Board. The Company Secretary is expected to adhere to proper Board processes and is tasked with the timely preparation and dissemination of requisite material including Agendas for Board meetings in consultation with the Chairperson and Board Committees.

The Board, through the Company Secretary ensures that all regulatory requirements including those pertaining to capital markets are complied with and necessary disclosures made in a timely, comprehensible, full and fair manner. In consultation with the Chairperson, the Company Secretary advises the Board on corporate governance developments relating to the Company.

#### Board committees and their composition

There are two sub-committees that come under the aegis of the Board – the Audit Committee and a Remuneration Committee. The Board also delegates authority to other ad hoc committees as and when required. The details of the composition and the duties of the Committee are given in the Audit Committee Report on page 98.

#### Remuneration committee

This Committee comprises two independent Non-Executive Directors and is tasked with overseeing the remuneration policy of Non-Executive

Directors and incentive schemes pertaining to senior management and the CEO. The Company's Remuneration Policy is fair and equitable salary and benefit packages across the Company which is performance related.

The Chairman is Sidath Fernando, an independent Non-Executive Director, with the other independent Non-Executive Director being Sandip Das.

#### Internal control and risk management

The Board has the overall responsibility for establishing and maintaining the Company's internal control systems as well as the assessment and management of areas of risk. A number of processes have been established to ensure a sound system of internal control and risk management.

While the Board seeks to increase risk awareness across the company's business operations and spearheads policies, procedures and parameters of delegated authority, Management controls the Company's financial system by preparing operational and capital budgets for Board approval. This is done by assessing the capacity for actual performance against the budget and taking steps to mitigate risks if any.

Together with the Internal Audit team and senior management, the Audit Committee reviews and monitors the internal controls and approval procedures for efficacy. These reviews could highlight poor business practices, weak internal processes and reported improprieties of financial management. Instances may arise when management may have to seek views, through the Audit Committee, of the external auditors and measures speedily implemented for the required checks and balances.

SLT also formed a Revenue Assurance Division to identify gaps in revenue and recognise and enforce accountability.

## Corporate governance

While senior management is responsible for managing the risk pertaining to their operations, the system of disclosure control and procedures are streamlined, ensuring complete disclosure through a comprehensive network that records, processes, summarises and reports all risk pertinent information in a timely manner for efficient decision making.

### **Investor relations**

Shareholders are allowed, devoid of duress or threat, to exercise their freedom and use their voting rights at the AGM and EGM. Meetings are conducted as per

the Articles of Association and the Company holds its General Meetings annually in addition to others that may be deemed necessary during the year.

Given the confidence seen in the investment climate for SLT, the fact that the Company actively promotes investment relations and open communication with the investment community when interim and year-end financial results are announced fosters a democratic and open forum of discussion. We encourage the constructive use of the AGM by our investors and have always replied to

queries raised at our various forums making available all necessary experts, from senior management, to external auditors and legal specialists.

All General Meetings are convened in accordance with the provisions of the Companies Act read together with the Articles of Association of the Company.

Further information is available in the Investor Relations Report on page 69 of this Annual Report.

# Risk management

Risk management in simple rhetoric is the identification, assessment and prioritisation of risks. It is the effect of uncertainty on objectives, both positive and negative. With the economical application and co-ordination of resources, these risks can be minimised, monitored and controlled from the probability and impact of these risks, while at the same time, maximising the realisation of the opportunities that may arise therein.

Being a leader in corporate Sri Lanka and the telecommunication industry, Sri Lanka Telecom has evolved into an organisation that is very aware of the risks, both envisaged and potential from a macro perspective. Risks can vary from credit, to engineering, to industrial processes to health, safety and most widely from the telecommunication infrastructure and regulation. While adhering to the numerous risk standards recommended and practiced by Sri Lankan companies, we also remain acutely aware that our business is one in which there may be unique risks wherein national development could be affected, exemplified by a breakdown of telecommunication facilities or delay in procurement.

However, our risk management strategies are based stridently on the principles of creating value, being an integral facet of the organisational process and decision making, explicitly addressing uncertainty and being systematic and structured. Risk management at Sri Lanka Telecom is based on the best available information and is customised to take into account human factors, macro indicators and trends and organisational limits. We aim for risk management to be transparent and inclusive, while being responsive to change and capable of continuous improvement and enhancement.

While envisaged risks are anticipated and precautionary measures adopted, there are often unexpected risks that arise from a multitude of change factors that can affect the original strategies, policies and planning imperatives in place. True risk management is therefore about managing perceived and unexpected risk factors in order to ensure the least disruption to the enterprise and

the least harm to the organisation. Sri Lanka Telecom's well structured risk management system encompasses the entirety of the company and its dealings and given below are the risk management initiatives we have implemented.

## Financial risk

The aggressive investment drive which is a necessary dynamic in our being driven to deliver, opens the company to investment risk, where desired returns may not be achieved from the projects into which resources are infused. However, we do have an inbuilt prudence factor that ensures a comprehensive evaluation of risk probabilities and each project being rigorously monitored to ensure that desired results are attained.

## Exchange rates and interest rate risks

The company's foreign currency inflows are maintained in foreign currency accounts, which act as a hedge against foreign currency exposure. This method requires cash flows from international revenue to service our foreign currency debts. A separate US dollar sinking fund was maintained for the USD100 Mn notes which were redeemed this year. The Company maintains a mix of fixed and floating rate interest debts, to mitigate the risks arising from interest rate volatility. Refinancing, early settlement of loans and alternative financing methods are some of the measures considered when mitigating risks associated with interest rates.

## Liquidity risk

Regular financial planning and monitoring systems are in place to ensure that sufficient cash flows are available to meet all financial commitments. The Company maintains sufficient cash reserves and marketable securities, as well as committed credit facilities in order to support its activities without interruption.

## Credit risk

Comprehensive systems monitor our debt and recoveries. Credit risk originating with customers is also mitigated to a large

degree, by instigating initial deposits and prepaid sales.

## Internal controls

Sri Lanka Telecom maintains a sound system of internal controls designed to manage risks, which permeates the safeguarding of shareholders' investment and the company's assets. The system takes on board those risks that may impede the achievement of the Company's business objectives and infuses preventive or corrective action wherever possible.

## Operating environment

With the telecommunication sector being a key driver in economic growth, this stance came into even more focus with the cessation of the ethnic conflict and the North and East of the country opening up for development. However, prior to the end of the ethnic conflict in May 2009, the first half of the year did see an escalation of the conflict which also posed risks in our operating environment. This saw us consolidate our business in the conflict areas although expansion plans did continue, albeit on a lesser intensive scale in other parts of the country. From June onwards, the country began to show rapid signs of development and being the national telecommunication solutions provider and driven to deliver, Sri Lanka Telecom, took the lead in creating a conducive environment for this development, providing the necessary solutions.

It was this year that also saw the entry of a fifth player into the mobile telecommunication space, an Indian giant whose sheer breadth and width in the market posed high competition. Mitigating risks in this event can be challenging although, having anticipated the entry, Sri Lanka Telecom emancipated its strategic focus and business planning to continue with its targeted objectives.

## The industry continues to transform

As seen globally, Sri Lanka too is moving along the similar path of product diversification. This diversification points towards moving away from conventional

## Risk management

fixed location voice telephony to a world of Internet enabled products, delivered to the customer via superior network and technology platforms. By December 2009, the telecommunication industry in Sri Lanka had achieved a total market penetration of 85% of which 16% was in the fixed line category and 70% in mobile telephony segment (according to our estimated data).

However, we do recognise that broadband deliverables are the future and with it come inherent risks including the danger of not keeping up with global developments and unplanned entry into a highly complex marketplace. While the demand for our service offerings has been growing YOY by 100% over the last five years, it is pertinent to note that ours is a strategically planned journey, further emphasised by our new vision, mission, values and business plan, where the necessary skills and infrastructure will continue to be developed to meet the needs of the emerging com-media world. This has spurred us to broaden our product and service portfolio to encompass the rudiments of these requirements through strategic diversification, international expansion and convergence.

### Product substitution

While convergence makes up a facet of this journey ahead as the platform of tomorrow, the risks faced due to technology developed in parallel processes outside the industry could supersede those that telecommunication operators are familiar with. In addition, threats from VoIP (Voice over Internet Protocol), wireless networks and mobile Internet could also pose threats although, Sri Lanka Telecom, being the market leader in IP based solutions is well placed to deliver on our extensive IP network. The process of convergence has taken another step ahead with our IPTV delivery, while Mobile TV is currently on the horizon through our subsidiary Mobitel. A licence has already been obtained for the latter and given the diversification strategy, we feel we have fully addressed the risks associated with product substitution and convergence.

### Infrastructure risk

The risk management protocols which are already implemented cover one of the biggest risk areas of disaster recovery. A plethora of disasters, man-made or natural including fire, terrorism, flood, data corruption and hard errors such as prolonged server failure could pose significant risks to the operations of the organisation. Pre-emptive measures are already in place to mitigate anticipated eventualities.

Major IT applications are replicated at the disaster recovery site and in establishing this, a DR mockup has been successfully completed. SLT Intranet meanwhile has been completely replicated at the disaster recovery site.

Any outage or disruptions of the IT systems are also risks that have been identified and solutions implemented. Virus attacks are safeguarded through the latest virus guards, while timely vendor support is established for software malfunctioning. Overloading of the network and systems has been prevented with the expansion of bandwidth while standby equipment is available in the case of natural disasters. New system data migration and cutovers/integrations are handled through system down time and a fall back scenario. Network and other related equipment failures have a 99.9% availability of the network. Sri Lanka Telecom also operates a reliable network with self healing capabilities (Ring Network Protection) where all vital units are fully protected through protection mechanisms. The Network Management System in Colombo controls and monitors the network, its management, operation, maintenance and provisioning of necessary network elements. Power systems are fully supported through rectifiers, battery back up and generator power supplies.

To counter man made disasters including operational errors and acts of sabotage, Sri Lanka Telecom already has stringent security systems throughout its facilities around the country and has effected remote alarm systems for added protective measure. Further, the comprehensive authorisation levels assist the addressing of

both genuine errors and attempts of malpractice.

Due to the sophisticated, highly sensitive and expensive investment in the technology we employ, Sri Lanka Telecom can be particularly susceptible to risks from natural phenomena, from floods to lightning. Some of the mitigators specified by Sri Lanka Telecom in limiting the risks posed to its infrastructure include height specified installation regimes, customised lightning protection equipment, dual homing, back up systems and VSAT (Very Small Aperture Terminal) Systems.

### Regulations

Since 2006, a dialogue has been instituted between the Telecommunication Regulatory Authority and the industry on the approval of relevant tariff structures. This determination of cost-based termination charges for all domestic operators is intended as a replacement of the currently prevailing 'Sender Keeps All' (SKA) regime. We still await a decision on this, which we feel will come sooner rather than later in 2010 and if implemented, will be somewhat adverse to our operations. This is a risk we have taken seriously and are in the process of addressing.

The Telecommunications Regulatory Commission (TRC) has issued a new order under Section 69 of Sri Lanka Telecommunications Act No. 25 of 1991 for re-registration of SIM and CDMA phones. Sri Lanka Telecom commenced a programme to capture customer details including a photograph at the point of sale for Citylink services, while a similar service is in operation for the MMS system developed by Mobitel.

In addition, the Telecommunications Regulatory Commission (TRC) requested applications for prequalification (RFPQ) for a National Backbone License and Service Agreement, designed to build and operate a National Backbone Network in Sri Lanka. The main goal of the NBN License is to provide broadband connectivity in all electorates of all 25 districts within the country, using WiMAX or other comparable technology presently available. Sri Lanka Telecom has already submitted RFPQ for this project.

### Tariff approval process of TRC

Timely launching of products/services is largely dependent on timely approval of relevant tariff structures by the TRC. Through a process of close dialogue with TRC, SLT has been able to obtain the tariff approvals without hindering the expectations although this area of risk remains a concern.

### Delays in reclaiming TDC

The two-thirds of the TDC to be reclaimed in lieu of the network development work carried out in unserved and underserved areas defined by TRC, are to be approved by TRC.

The difference in categorisation of unserved and underserved areas in Guideline 1 (effective for the period from March, 2003 to 31st March, 2006) and Guideline 2 (effective for the period from April 2006 to 31st March, 2009) has a greater impact on the claim due to the shrinkage as defined in Guideline 2.

However, SLT had been able to submit the claims for the period from January, 2006 to 31st March, 2007 for a claim of Rs. 525 Mn where process of dialogue was carried out for TRC to disburse the submitted claims.

### Legal proceedings for the CDMA tariff & for the 5th tariff revision

The court case with regard to the CDMA tariffs would have had a greater impact on SLT revenue. Re-opening the court case with regard to the 5th Tariff Revision, challenging the process of finalisation of tariffs and the post evaluations would have had a greater damage to the cash flow as well as to the image of SLT. However, SLT managed to overcome both situations.

### Litigation

In the event the organisation is involved in litigation, it must be noted that it is impossible to ascertain the outcome of any particular case or the amount of any possible verdict. Nevertheless, we do believe that our defence will obviously have the judicious features of both the law and the facts. However, it is not impossible that the results of operations or cash flows could be materially affected by the final outcome of any particular litigation.

SLT is party to several court and out-of-court proceedings with other parties. The following is a summary of these proceedings during 2009, which could have a material negative impact on the Company.

- The Department of Inland Revenue issued assessments for the years of assessment 1993/94 and 1994/95 charging tax, on deemed dividend, based on book profits of the Company. The Company appealed against those assessments, on the ground that deemed dividend tax should be calculated on tax adjusted profits. The total liability for years of assessment 93/94 and 94/95 as per the said assessments, amounts to Rs. 643 Mn.

Accordingly, this appeal was referred to the Board Review for hearing and the Board Review confirmed these assessments. However, the Company has appealed against the Board determination to the Court of Appeal.

- Global Electroteks Limited has initiated legal action under High Court Case No. 20/2005 claiming damages of USD 12 Mn from SLT PLC for alleged unlawful disconnection of interconnection services.
- Directories Lanka (Private) Limited (DLPL) filed case No. 2/2006 (3) in Commercial High Court against SLT PLC claiming Rs. 250 Mn, damages for alleged unfair competition with regard to Artwork on the cover page of SLT Directory Publication.
- Telecommunication Engineering Diplomates Association has initiated proceedings in the Supreme Court by way of a Fundamental Rights Application, to revise overtime rates for Technical and Operational Grade employees who are employed after 01st December 1998. The case is pending.

### Procurement risks

Sri Lanka Telecom's diverse supplier portfolio establishes a complex inventory of products and with it, comes potential threats such as supplier delays, default, product obsolescence and inappropriate inventory

situations. Internal and external procurement risks can thus ensue.

Towards the latter part of 2009, we introduced a new procurement manual detailing policies and guidelines, where new strategies were introduced to monitor and mitigate most of the inherent risks. Internal procurement risks include material requirement planning, tender evaluation, proof of concept, factory acceptance, quality control, provisional acceptance and final acceptance. Meanwhile external procurement risks include those pertaining to submission of required documents by the selected supplier, contract negotiations, opening Letters of Credit, customs clearances and warranty management.

Precautionary measures were introduced in the area of quality, where risks that need to be addressed include unavailability of in-house/in-country facilities for testing specified parameters, timely updating of staff knowledge and inconsistencies and lapses in factory acceptance tests.

### HR related risks

The thirty plus unions prevalent within the workplace, make Sri Lanka Telecom a hotbed for HR related risks although, it is noteworthy to mention that our unions have been extremely progressive and partnered the organisation in its transformation process. They've led the mindset change and created an environment where dialogue and discussion is the key to ensuring a smooth functioning of the workplace with no HR related risks ensuing.

With industrial democracy as the key, we also prompted awareness programmes and an open door policy with management being accessible to the union membership for discussion of any problem or issue that arises. The issues discussed over the year have been varied and have included the feasibility of the Collective Agreement Approach, introduction of the Change Agent system, better grievance identification and aligning the entire team to the company's new vision while encompassing the values and objectives we aspire to.





## Financial information **Driven to perform**

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# Annual report of the board of directors

for the year ended 31 December 2009

1. The Directors present herewith the audited consolidated financial statements of Sri Lanka Telecom PLC ("SLT PLC" or "the Company") and its subsidiaries [collectively "the Group"] for the year ended 31 December 2009.

## 2. Formation

Sri Lanka Telecom (SLT) was formed by an Incorporation Order made under Section 2 of the State Industrial Corporations Act No. 49 of 1957 and published in the Extraordinary Gazette No. 596/11 of 6 February 1990. Subsequently, in terms of an order made by the Minister of Posts and Telecommunications ["the Minister"] on 24 July 1991 under Section 23 of the Sri Lanka Telecommunications Act No. 25 of 1991 and published in the Gazette No. 675 of 9 August 1991, all properties, rights and liabilities (other than those excluded by the agreement entered into between the Minister and SLT as per sub-section 2 of Section 23 of the Sri Lanka Telecommunication Act) to which the Department of Telecommunications (DOT) was entitled or subject to immediately before the transfer date of 1 September 1991 were vested with SLT.

On 25 September 1996, SLT was converted to a public limited company under the Conversion of Public Corporations of Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987, vide Extraordinary Gazette No. 942/7 dated 25 September 1996.

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On 5 August 1997, the Government of Sri Lanka as the sole shareholder of SLT divested 35% [631,701,000 ordinary shares] of the issued ordinary share capital to Nippon Telegraph and Telephone Corporation (NTT) and entered into an agreement to transfer the management of SLT to NTT. On 2 July 1998, the Government of Sri Lanka divested a further 3.5% of the issued ordinary share capital by transfer of 63,170,010 ordinary shares to the employees of SLT. On 22 March 2000, NTT transferred the entire 35% of their holding in SLT to NTT Communications Corporation (NTT Com).

The Government of Sri Lanka divested further 12% of its holding to the public through a listing on the Colombo Stock Exchange in November 2002, reducing its holding to 49.5%.

On 4 June 2007, SLT was re-registered under the Companies Act No. 07 of 2007 as Sri Lanka Telecom PLC (SLT PLC).

On 1 April 2008, NTT Com of Japan who held 635,076,318 ordinary shares, which constituted 35.2% of the total issued stated capital of SLT PLC, sold their entire holding to Global

Telecommunications Holdings N.V. of Netherlands (GTH) at a price of Rs. 50.50 per share. Following the share trade by NTT Com, GTH, in terms of the Takeovers and Mergers Code, announced a mandatory offer to the remaining shareholders which was closed on 2 June 2008. At the close of the mandatory offer, GTH had acquired additional 9.78% of the stated capital of SLT PLC, making the total shareholding to 44.98% of the total issued stated capital of SLT PLC. Since the expiration of the management agreement with NTT, no management agreement had been entered into by SLT PLC.

## 3. Nature of the business of the company and its subsidiaries

The nature of the business of the Company and its subsidiaries is given in Note 1 - General Information to the consolidated financial statements on page 105.

## 4. Financial statements

The financial statements which include the income statements, balance sheets, statements of changes in equity and the notes to the financial statements of the Group and the Company for the year ended 31 December 2009 are set out on pages 100 to 144. All amounts are stated in Sri Lanka Rupees million, unless otherwise stated.

## 5. Independent auditors' report

The independent auditors' report is set out on page 99.

## 6. Changes in accounting policies

The accounting policies adopted by the Company and its subsidiaries have been consistently applied from previous years except that the Company has changed its accounting policy on CDMA handsets. The previous policy was to identify cost of CDMA handsets as CDMA expenditure in the income statement. This policy was changed from 1 January 2009. Accordingly, at the time of connection given, cost is recognised under property, plant and equipment. Simultaneously, cost of handset is written down to Rs. 1 by transferring the carrying value to income statement.

## 7. Review of business

The state of affairs of the Group at 31 December 2009 is set out in the consolidated balance sheet on page 101. An assessment of the financial performance of the Group and other developments during the financial year are included in the management report in the published annual report.

## 8. Property, plant and equipment

The movements in property, plant and equipment during the year are set out in Note 15 to the consolidated financial statements.



## 9. Subsidiaries

The Company's interest in subsidiaries and the business activities of respective subsidiaries are as follows:

Name of the subsidiary	Business activity	Shareholding (%)
Mobitel (Private) Limited	Mobile telephone services	100
Sri Lanka Telecom (Services) Limited	Total network solutions	100
SLT (Hong Kong) Limited	IP transit services	100
SLT Publications (Private) Limited	Directory publication services	100
SLT Manpower Solutions (Private) Limited	Manpower solutions	100
SLT VisionCom (Private) Limited	IPTV services	100
Sky Network (Private) Limited	Wi-Max services	99.89

## 10. Dividend

The Directors have recommended the payment of a first and final dividend for the financial year ended 31 December 2009 of Twenty Five Cents (25 cents) per share on ordinary shares amounting to Rs. 451,215,000. In accordance with the Sri Lanka Accounting Standard No. 12 (Revised) - Events After The Balance Sheet Date, this proposed first and final dividend has not been recognised as a liability as at 31 December 2009.

Taking into account the above distribution, the Board is satisfied that the Company meets the solvency test requirement under section 56 (2) of the Companies Act No. 7 of 2007. The statutory auditors have issued a Certificate of Solvency confirming this matter.

## 11. Reserves

Total reserves and their composition are set out in the statements of changes in equity on pages 102 and 103 of the consolidated financial statements.

## 12. Substantial shareholdings

As per the share register, the following shareholders held more than 5% of the 1,804,860,000 ordinary shares in issue as at 31 December 2009.

	Holding percentage	No. of shares
Secretary to the Treasury (Government of Sri Lanka)	49.50%	893,405,709
Global Telecommunications Holdings N.V. of Netherlands	44.98%	811,757,869

The balance 5.52% shares are held by the public.

## 13. Directors

During the year, nine Directors held office. At 31 December 2009, the Board of the Company comprised the following Directors;

Mrs. Leisha De Silva Chandrasena - Chairperson

Mr. Sumith Wijesinghe

Mr. Sidath Fernando

Mr. Sandip Das

Mr. Chan Chee Beng

Mr. Jeffrey Jay Blatt

Mr. Yoga Perera

Mr. U R Seneviratne - Appointed on 27 March 2009

Mr. Geoffrey William Shelley - resigned from the board on 20 January 2009.

The Board wishes to place on record their sincere appreciation of the services rendered by Mr Geoffrey William Shelley during his tenure on the Board.

### Re-election of directors

The Article 91 & 92 of the Articles of Association require that one-third of the Directors or a number nearest thereto retire at each Annual General Meeting and offer themselves for re-election.

Accordingly, Mr Sumith Wijesinghe and Mr Sidath Fernando retire in terms of Article 91 & 92 and being eligible offer themselves for re-election.

During the year, Mr U R Seneviratne was appointed to fill a casual vacancy on the Board. In terms of Article 97 of the Articles of Association, he is required to retire at the next Annual General Meeting. Being eligible, he offers himself for re-election.

## 14. Directors' interest in contracts and proposed contracts with the Company

The Directors' interests in contracts and proposed contracts with the Company, both direct and indirect, are set out in Note 36 to the consolidated financial statements. Where necessary, the Directors have disclosed the nature of their interests in contracts and proposed contracts.

## 15. Remuneration and other benefits of directors

The remuneration and other benefits of the Directors are given in Note 6 to the consolidated financial statements on page 117.

## 16. Directors' interests in shares of the Company

As at 31 December 2009, none of the Directors held shares of the Company or its subsidiaries.

## Annual report of the board of directors continued for the year ended 31 December 2009

**17. Amounts payable to the firm holding office as an auditor**  
The remuneration payable by the Company to the Independent Auditors is given in Note 6 to the consolidated financial statements on page 117.

**18. Auditors' relationship or any interest with the company**  
The Directors are satisfied that, based on written representations made by the Independent Auditors to the Board, they did not have any relationship or any interest with the Company and its subsidiaries that would impair their independence.

**19. Corporate governance**  
The business and affairs of the Group are managed and directed with the objective of balancing the attainment of corporate objectives with the alignment of corporate behaviour within the legal and good governance framework of the industry and Sri Lanka, the accountability to shareholders and responsibility to other stakeholders.

To achieve corporate governance objectives, the Board has set up Board Sub Committees to exercise oversight in specific areas. During the year the composition of the Audit Committee was as follows:  
Mr Sidath Fernando- Chairman (Resigned on 28 August 2009)  
Mr U R Seneviratne - Chairman (Appointed on 28 August 2009)  
Mr Sandip Das  
Mr Sumith Wijesinghe  
Mr Chang Chee Beng

The remuneration committee comprised Mr Sandip Das and Mr Sidath Fernando.

**20. Articles of association of the company**  
The Board has approved the placing of a Special Resolution at the Annual General Meeting for amendments to the Articles of Association in line with the provisions of the new Companies Act No. 07 of 2007. The detailed amendments to the Articles of Association are set out in Annex "A" to the Notice of Meeting.

**21. Statutory payments**  
All statutory payments due to the Government of Sri Lanka and on behalf of employees have been made or accrued for at the balance sheet date.

**22. Environmental protection**  
After making adequate enquiries from management, the Directors are satisfied that the Company and its subsidiaries operate in a manner that minimises the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Group operates.

**23. Donations**  
During the year the Directors had approved donations amounting to Rs. 1,600,575 for charitable purposes (2008 - Rs 1,520,856).

**24. Going concern**  
The financial statements are prepared on going concern principles. After making adequate enquiries from management, the Directors are satisfied that the Group has adequate resources to continue its operations in the foreseeable future.

**25. Post balance sheet events**  
No events had occurred since the balance sheet date and the approval of these consolidated financial statements, which would require adjustments to, or disclosure in, these consolidated financial statements.

**26. Appointment of auditors**  
The financial statements for the year ended 31st December 2009 have been audited by Messrs PricewaterhouseCoopers, Chartered Accountants. Keeping in line with the Audit Committee recommendations to change present Auditors, PWC, a resolution will be placed before the shareholders to appoint new auditors, Messrs KPMG Ford Rhodes Thornton & Co. Chartered Accountants (who have expressed their willingness to act as Auditors of the Company) in place of retiring auditors PWC. This was done in accordance with the provisions of the Companies Act No. 07 of 2007.

By order of the board

(Sgd)  
**Leisha De Silva Chandrasena**  
Chairperson / Director

(Sgd)  
**U R Seneviratne**  
Director

(Sgd)  
**PW Corporate Secretarial (Pvt) Ltd.**  
Secretaries

16th March 2010  
Colombo

# Statement of directors in relation to their responsibility for the preparation of financial statements

The responsibility of the Directors in relation to the financial statements of the Company and the Group, is set out in the following statement. The responsibility of the Independent Auditors, in relation to the financial statements, prepared in accordance with the provisions of the Companies Act No. 07 of 2007 ["the Act"], is set out in the Independent Auditors' Report on page 7.

The financial statements comprise of:

- Income Statements, which present a true and fair view of the profit and loss of the Company and the Group for the financial year; and
- Balance Sheets, which present a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year, and which comply with the requirements of the Act.

The Directors are required to ensure that, in preparing these financial statements:

- appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- all applicable Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, as relevant, have been followed;
- judgments and estimates have been made which are reasonable and prudent.

The Directors are also required to ensure that the Company and of the Group have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and of the Group, and to ensure that the financial statements presented comply with the requirements of the Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provide by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Directors are required to prepare the financial statements and to provide the independent auditors with every opportunity to take whatever steps and undertake whatever inspections that they may consider to be appropriate to enable them to give the independent auditors' opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement

## Compliance report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the balance sheet date have been paid, or where relevant provided for, except as specified in Note 33 to the financial statements covering contingent liabilities.

By order of the board

*PW Corporate Secretarial (Pvt) Ltd.*  
Secretaries

Colombo

## Audit committee report

This year, SLT drew up a comprehensive framework for the Audit Committee and an internal Audit Charter, to further facilitate the Audit Committee in the process of corporate governance and the objectives of achieving the business goals of the Company.

The Audit Committee is responsible for monitoring the integrity of financial statements of the Company, by reviewing financial information and overseeing the compliances with financial reporting requirements, and information requirements of companies. It also reviews the Company's financial reporting system, internal audit policy, and internal control and risk management procedures. The Committee is also tasked with leading the regulation of processes where necessary, pursuant to recommendations from external auditors.

### Principal activities of the audit committee during the year

#### i. The Terms of Reference of the Audit Committee

The Terms of Reference for the Audit Committee and the Internal Audit Charter for SLT was conceptualised bringing together the services of Chartered Accountants M/s. KPMG Ford Rhodes, Thornton & Co. who reviewed the existing framework and suggested the improvements, aligned to prevalent corporate governance best practices and Code of Best Practice.

#### ii. During the year, it regularised existing processes where lapses were reported by Internal and External Audits and were responsible for the development and implementation of processes of identified operations. The well defined framework now in place adds impetus to the Audit Committee activities with a view to safeguarding the interests of all stakeholders.

### Composition

In terms of the new TOR, the Audit Committee consist of four directors (three Non-Executive Directors and one Non-Independent Non-Executive Director), two from GOSL and two from GTH. The Chief Executive Officer, Chief Financial Officer and Chief Internal Auditor attend Audit Committee meetings by invitation. The following are the members of the Audit Committee:

Mr. U.R. Seneviratne – (Chairman (Appointed on 28.08.09)

Mr. Sidath Fernando – (Chairman (Resigned on 28.08.09)

Mr. Sandip Das

Mr. Sumith Wijesinghe

Mr. Chan Chee Beng

Mr. Chan Chee Beng is a member of the Institute of Chartered Accountants of England and Wales UK.

The Committee wishes to place on record of their sincere appreciation of the services provided by Mr. Sidath Fernando during his tenure on the Committee.

### Meetings

The Audit Committee met on 3 occasions. In addition, the former Chairman, Sidath Fernando conducted ad-hoc meetings with the Internal and External Auditors and expedited the review of the existing TOR, Internal Audit Charter and other existing processes where lapses were observed.

The Audit Committee formally meets on a quarterly basis. However, the Committee empowers the Chairman of the Audit Committee to convene regular ad-hoc meetings with the CEO, CFO and CIA as deemed necessary.

### Group internal audit

The Audit Committee has recommended to review the financial statements and periodic Audit Reports of all the Subsidiary Companies. It has also proposed to invite CEOs and CFOs of all the subsidiaries including Mobitel to the Audit Committee meetings. In view of the above, the Committee has recommended to strengthen the Company's Internal Audit functions in order to cope with the business needs of the Audit Committee and to carry out the internal audit functions of the subsidiaries.

### Appointment of the external auditors

The Audit Committee has made a recommendation to the Board of Directors to appoint Messrs KPMG Ford Rhodes, Chartered Accountants as Auditors of the Company for the financial year ending December 31, 2010 in place of the retiring auditors Messrs PricewaterhouseCoopers, Chartered Accountants. The present Auditors, Messrs PricewaterhouseCoopers, Chartered Accountants have held office since privatisation in 1996. The Committee recommendation was made in light of this fact, to comply with good corporate governance practices on mandatory rotation of External Auditors..

### External audit

The Committee is of the view that any services provided outside the scope of the statutory audit provided by PWC has not impaired the independence of the Auditor.

### Udaya Ranjith Seneviratne

*Chairman*

*Audit Committee*

01st March 2010

# Independent auditors' report

**PRICEWATERHOUSECOOPERS**

Price Waterhouse Coopers  
 P.O. Box 915  
 100, Broadwood Place  
 00110, Colombo 1  
 SRI LANKA  
 Telephone: +94 11 7718819  
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## To the members of Sri Lanka Telecom PLC

### Report on the financial statements

1. We have audited the accompanying consolidated financial statements of Sri Lanka Telecom PLC and its subsidiaries, which comprise the balance sheets as at 31 December 2009, the income statements, the statements of changes in equity and the cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 100 to 144.

5. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Opinion

6. In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2009 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2009 and of its results and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

7. In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 December 2009 and of the consolidated results and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concern the members of the Company.

### Scope of Audit and Basis of Opinion

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

### Report on Other Legal and Regulatory Requirements

8. These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

4. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

*Price Waterhouse Coopers*

Chartered Accountants

Colombo

17th March 2010

## Consolidated income statement

*(All amounts in Sri Lanka Rupees Million)*

For the year ended 31 December 2009	Notes	Group		Company	
		2009	2008	2009	2008
<b>Revenue</b>	5	48,077	47,044	34,087	36,113
Operating costs	6	(30,786)	(24,243)	(21,445)	(17,783)
Operating profit before depreciation, amortisation and levies		17,291	22,801	12,642	18,330
Depreciation	15	(11,332)	(11,283)	(8,302)	(9,062)
Amortisation and impairment of intangible assets	16	(458)	(332)	(196)	(136)
International Telecommunication Operators' Levy [ITL]	8	(2,954)	(2,987)	(2,425)	(2,736)
<b>Operating profit</b>		2,547	8,199	1,719	6,396
Refunds on Telecommunication Development Charge [TDC]	8	-	2,183	-	2,183
Voluntary retirement scheme [VRS] costs	9	(480)	(390)	(480)	(390)
Other income		188	419	147	228
Dividend received	35 (a)	-	-	-	349
Interest expense and finance costs	10	(2,024)	(2,130)	(905)	(1,202)
Interest income	11	1,164	1,279	1,127	1,208
<b>Profit before tax</b>		1,395	9,560	1,608	8,772
Tax	12	(617)	(2,193)	(376)	(2,171)
<b>Net profit</b>		778	7,367	1,232	6,601
<b>Attributable to:</b>					
Equityholders of the Company		785	7,370	1,232	6,601
Minority interest		(7)	(3)	-	-
		778	7,367	1,232	6,601
Earnings per share for profit attributable to equityholders of the Company					
Basic (Rs.)	13	0.43	4.08	0.68	3.66

The notes on pages 105 to 144 form an integral part of these financial statements.

## Consolidated balance sheet

(All amounts in Sri Lanka Rupees Million)

As at 31 December 2009	Notes	Group		Company	
		2009	2008	2009	2008
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	15	65,896	57,073	36,261	38,490
Intangible assets	16	2,194	2,165	684	632
Investments in subsidiaries	17	-	-	11,317	10,172
Advance against investments	17	-	-	-	30
Deferred income tax assets	23	674	-	669	-
Non-current receivables	18	1,894	1,572	1,894	1,572
		70,658	60,810	50,825	50,896
<b>Current assets</b>					
Inventories	19	1,982	2,583	1,742	2,330
Trade and other receivables	20	11,347	11,060	10,399	10,779
Current tax receivables		227	-	227	-
Cash and cash equivalents	21	6,094	18,746	5,445	17,971
		19,650	32,389	17,813	31,080
<b>Total assets</b>		<b>90,308</b>	<b>93,199</b>	<b>68,638</b>	<b>81,976</b>
<b>Equity</b>					
<b>Capital and reserves</b>					
Stated capital	29	18,049	18,049	18,049	18,049
Hedging reserve	30	-	(32)	-	(32)
Insurance reserve	27	281	236	281	236
Exchange equalisation reserve		(6)	1	-	-
Retained earnings		28,275	29,271	30,512	31,085
		46,599	47,525	48,842	49,338
Minority interest in equity		0	31	-	-
<b>Total equity</b>		<b>46,599</b>	<b>47,556</b>	<b>48,842</b>	<b>49,338</b>
Deferred income	24	4,356	4,932	4,356	4,932
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Grants	28	110	61	54	61
Borrowings	22	8,034	5,228	1,059	680
Deferred income tax liabilities	23	-	1,097	-	1,097
Retirement benefit obligations	26	1,458	1,217	1,373	1,144
Trade and other payables	25	2,548	289	290	289
		12,150	7,892	2,776	3,271
<b>Current liabilities</b>					
Trade and other payables	25	20,175	13,163	10,636	8,772
Current tax liabilities		137	1,633	-	1,619
Borrowings	22	5,317	16,488	1,136	13,154
Deferred income	24	1,574	1,535	892	890
		27,203	32,819	12,664	24,435
<b>Total liabilities</b>		<b>39,353</b>	<b>40,711</b>	<b>15,440</b>	<b>27,706</b>
<b>Total equity and liabilities</b>		<b>90,308</b>	<b>93,199</b>	<b>68,638</b>	<b>81,976</b>

The Board of Directors is responsible for the preparation and presentation of these consolidated financial statements. These consolidated financial statements were approved by the Board of Directors on 16th March 2010.

(Sgd)

Leisha De Silva Chandrasena  
Chairperson / Director

(Sgd)

U R Seneviratne  
Director

I certify that these consolidated financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

(Sgd)

Shiron Gooneratne  
Chief Financial Officer

The notes on pages 105 to 144 form an integral part of these financial statements.

## Consolidated statement of changes in equity

<i>(All amounts in Sri Lanka Rupees Million)</i>								
For the year ended 31 December 2009								
Group	Notes	Stated capital	Hedging reserve	Insurance reserve	Exchange equalisation reserve	Retained earnings	Minority interest	Total
<b>Balance at 1 January 2008</b>								
As previously reported		18,049	(58)	204	-	23,705	-	41,900
- Effect of adopting SLAS 10 (Revised 2005)	15 (i)	-	-	-	-	1	-	1
As restated		18,049	(58)	204	-	23,706	-	41,901
Hedging reserve								
- foreign currency translation differences	30	-	(4)	-	-	-	-	(4)
- charged to income statement	30	-	30	-	-	-	-	30
Insurance reserve								
- charged to income statement	27	-	-	32	-	-	-	32
Effect of movement in foreign exchange rates		-	-	-	1	-	-	1
Minority interest arising on business combination		-	-	-	-	-	34	34
Dividend for 2007	14	-	-	-	-	(1,805)	-	(1,805)
Net profit / (loss) for the year 2008		-	-	-	-	7,370	(3)	7,367
<b>Balance at 31 December 2008</b>		<b>18,049</b>	<b>(32)</b>	<b>236</b>	<b>1</b>	<b>29,271</b>	<b>31</b>	<b>47,556</b>
<b>Balance at 1 January 2009</b>								
As previously reported		18,049	(32)	236	1	29,270	31	47,555
- Effect of adopting SLAS 10 (Revised 2005)	15 (i)	-	-	-	-	1	-	1
As restated		18,049	(32)	236	1	29,271	31	47,556
Hedging reserve								
- charged to income statement	30	-	32	-	-	-	-	32
Insurance reserve								
- charged to income statement	27	-	-	45	-	-	-	45
Effect of movement in foreign exchange rates		-	-	-	(7)	-	-	(7)
Dilution of minority interest on acquisition of shares	34	-	-	-	-	24	(24)	-
Dividend for 2008	14	-	-	-	-	(1,805)	-	(1,805)
Net profit for the year 2009		-	-	-	-	785	(7)	778
<b>Balance at 31 December 2009</b>		<b>18,049</b>	<b>-</b>	<b>281</b>	<b>(6)</b>	<b>28,275</b>	<b>0</b>	<b>46,599</b>

The notes on pages 105 to 144 form an integral part of these financial statements.



## Statement of changes in equity

<i>(All amounts in Sri Lanka Rupees Million)</i>						
For the year ended 31 December 2009						
Company	Notes	Stated capital	Hedging reserve	Insurance reserve	Retained earnings	Total
<b>Balance at 1 January 2008</b>						
As previously reported		18,049	(58)	204	26,288	44,483
- Effect of adopting SLAS 10 (Revised 2005)	15 (i)	-	-	-	1	1
As restated		18,049	(58)	204	26,289	44,484
Hedging reserve						
- foreign currency translation differences	30	-	(4)	-	-	(4)
- charged to income statement	30	-	30	-	-	30
Insurance reserve						
- charged to income statement	27	-	-	32	-	32
Dividend for 2007	14	-	-	-	(1,805)	(1,805)
Net profit for the year 2008		-	-	-	6,601	6,601
<b>Balance at 31 December 2008</b>		<b>18,049</b>	<b>(32)</b>	<b>236</b>	<b>31,085</b>	<b>49,338</b>
<b>Balance at 1 January 2009</b>						
As previously reported		18,049	(32)	236	31,084	49,337
- Effect of adopting SLAS 10 (Revised 2005)	15 (i)	-	-	-	1	1
As restated		18,049	(32)	236	31,085	49,338
Hedging reserve						
- charged to income statement	30	-	32	-	-	32
Insurance reserve						
- charged to income statement	27	-	-	45	-	45
Dividend for 2008	14	-	-	-	(1,805)	(1,805)
Net profit for the year 2009		-	-	-	1,232	1,232
<b>Balance at 31 December 2009</b>		<b>18,049</b>	<b>-</b>	<b>281</b>	<b>30,512</b>	<b>48,842</b>

The notes on pages 105 to 144 form an integral part of these financial statements.

## Consolidated cash flow statement

<i>(All amounts in Sri Lanka Rupees Million)</i>					
For the year ended 31 December 2009		Group		Company	
	Notes	2009	2008	2009	2008
<b>Cash flows from operating activities</b>					
Cash generated from operations	31	23,240	21,314	12,228	15,623
Interest received		1,259	1,164	1,223	1,092
Interest paid		(2,321)	(2,131)	(1,202)	(1,204)
Tax paid		(4,111)	(4,133)	(3,988)	(4,090)
<b>Net cash generated from operating activities</b>		<b>18,067</b>	<b>16,214</b>	<b>8,261</b>	<b>11,421</b>
<b>Cash flows from investing activities</b>					
Acquisition of subsidiary, net of cash acquired		-	(108)	-	-
Acquisition of property, plant and equipment		(20,244)	(14,532)	(6,182)	(6,243)
Acquisition of intangible assets	16	(487)	(733)	(248)	(393)
Proceeds from disposal of property, plant and equipment		21	85	21	75
Investments in subsidiaries		-	-	(1,115)	(2,420)
<b>Net cash used in investing activities</b>		<b>(20,710)</b>	<b>(15,288)</b>	<b>(7,524)</b>	<b>(8,981)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		5,626	3,607	1,500	900
Finance lease principal re-payments		(13)	(7)	(11)	(7)
Re-payment of borrowings		(15,216)	(2,321)	(13,027)	(796)
Dividends paid to the Company's shareholders	14	(1,805)	(1,805)	(1,805)	(1,805)
<b>Net cash used in financing activities</b>		<b>(11,408)</b>	<b>(526)</b>	<b>(13,343)</b>	<b>(1,708)</b>
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>(14,051)</b>	<b>400</b>	<b>(12,606)</b>	<b>732</b>
<b>Movement in cash and cash equivalents</b>					
Cash and cash equivalents at beginning of year (Note 21)		17,870	16,920	17,971	16,689
Effect of exchange fluctuation on cash and cash equivalents		80	550	80	550
		17,950	17,470	18,051	17,239
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>(14,051)</b>	<b>400</b>	<b>(12,606)</b>	<b>732</b>
<b>At end of year</b>	21	<b>3,899</b>	<b>17,870</b>	<b>5,445</b>	<b>17,971</b>

The notes on pages 105 to 144 form an integral part of these financial statements.

# Notes to the consolidated financial statements

## 1. General information

Sri Lanka Telecom PLC was incorporated under the Companies Act No 17 of 1982 on 25 September 1996 and re-registered on 4 June 2007 under the Companies Act No 7 of 2007, which was enacted on 3 May 2007. The registered office of the Company is situated at Lotus Road, Colombo 1. The Company is a quoted public Company which has its listing on the Colombo Stock Exchange.

The Group provides a broad portfolio of telecommunication services across Sri Lanka, the main activity being domestic and international fixed and mobile telephone services. In addition, the range of services provided by the Group include, inter-alia, internet services, data services, domestic and international leased circuits, broadband, satellite uplink, maritime transmission, IPTV service, directory publishing, Wi-max service and provision of manpower.

The consolidated financial statements have been approved for issue by the Board of Directors on 16th March 2010.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except the company has change its accounting policy on CDMA handsets. The previous policy was to identify cost of CDMA handsets as CDMA expenditure in the income statement. This policy was changed from 1 January 2009. Accordingly, at the time of connection is given, cost is recognised under property, plant and equipment. Simultaneously, cost of handset is written down to Rs. 1 by transferring the carrying value to income statement. As required by SLAS 10 (Revised) Accounting Policies, Changes in Accounting Estimates and Errors, this change in policy has been retrospectively applied.

### 2.1 Basis of preparation

The consolidated financial statements are prepared in accordance and comply with Sri Lanka Accounting Standards. The consolidated financial statements are prepared under the historical cost convention. Where any item is not covered by Sri Lanka Accounting Standards (SLASs), International Financial Reporting Standards (IFRSs) are followed except IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and

Measurement and IFRS 7 Financial Instruments: Disclosures. The preparation of financial statements in conformity with SLASs and IFRSs requires the use of certain critical accounting estimates. It requires management to exercise their judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

### 2.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying by a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable tangible and intangible assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (See Note 2.6).

The inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. The unrealised losses are also eliminated.

#### (b) Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to

## Notes to the consolidated financial statements

the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. All business segments which account for more than 10% of the total group revenue are separately reported (See Note 4).

### 2.4 Foreign currency translation

#### *(a) Functional and presentation currency*

The items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sri Lanka Rupees, which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'interest income and finance costs'. All other foreign exchange gains and losses are presented in the income statement within 'operating costs'.

#### *(c) Group companies*

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate of the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

The goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate of the date of that balance sheet.

### 2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation except as noted in Note 15 where property, plant and equipment of the Department of Telecommunications were transferred to Sri Lanka Telecom at a valuation performed by the Government of Sri Lanka.

#### *(a) Measurement*

The historical cost includes all costs directly attributable to bringing an asset to working condition for its intended use and significant renovations. The cost in the case of telecommunication network comprises all expenditure up to and including the cabling cost and telecommunication equipment within customers' premises and undersea cables.

The subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amounts of the assets replaced are derecognised. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Cost of long term capital projects are carried forward in capital work-in-progress until they are available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period that is taken to complete and prepare the asset for its intended use.

#### **(b) Depreciation**

"The freehold land is not depreciated. The depreciation on other assets is calculated using the straight-line method to allocate their cost or re-valued amounts to residual values over the estimated useful lives as follows:

Asset category	Useful life
Freehold buildings	40 years
Ducts, cables and other outside plant	10 to 12.5 years
Undersea cables	10 years
Telephone exchanges and transmission equipment	10 to 12.5 years
Motor vehicles	5 years
Other fixed assets	4 to 10 years

The cost of CDMA handsets related to new subscribers are recognised under property, plant and equipment in the month of connection. Simultaneously the cost of the handset is written down to Rs. 1 by transferring the carrying value to income statement.

#### **(c) Disposal**

The gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

## **2.6 Intangible assets**

### **(a) Goodwill**

The goodwill represents the excess of the cost of an acquisition over the fair value of the Group's shares of the net identifiable assets of the acquired subsidiary at the date of acquisition. The goodwill on acquisitions of subsidiaries is included in intangible assets. The separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination.

### **(b) Licences**

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences have a finite useful life and are carried at cost less accumulated amortisation. The amortisation is calculated using the straight-line method to allocate the cost over the period of the licence.

### **(c) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;

## Notes to the consolidated financial statements

- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The computer software costs recognised as intangible assets are amortised over their estimated useful lives (not exceeding 5 years).

**(d) Deferred insurance premium**

The insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the basis that the benefit of this expenditure is not exhausted in the period in which it was incurred. This insurance premium is amortised over the loan repayment period of 10 years.

**2.7 Grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

The grants relating to property, plant and equipment are included in non current liabilities and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

**2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation. They are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.9 Investments**

The long term investments are initially recognised at cost and provision is only made where, in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

**2.10 Inventories**

All inventories are held for the provision of service by the Group. The inventories are stated at the lower of cost and net realisable value. For this purpose, the cost of inventories is determined using the Weighted Average Cost. The cost of inventories include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for slow-moving and obsolete inventories, which are not expected to be used internally.

**2.11 Trade receivables**

The trade receivables are recognised initially at cost and subsequently carried at cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the

Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account. Once decided as irrecoverable after due recovery procedures, amount of the loss is recognised as an 'operating costs' in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

#### 2.12 Cash and cash equivalents

The cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts. The bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### 2.13 Stated capital

The ordinary shares are classified as equity.

#### 2.14 Insurance reserve

The Company transfers annually from the income statement an amount equal to 0.1% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment. The insurance reserve is maintained to recover any losses arising from damage to property, plant and equipment, except for motor vehicles, that are not insured with a third party insurer.

#### 2.15 Trade payables

Trade payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. The trade payables are recognised at fair value.

#### 2.16 Borrowings

The borrowings are recognised initially at fair value, net of transaction costs incurred. The borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the

redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### 2.17 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

##### *(a) Finance lease*

The Group leases certain motor vehicles included in property, plant and equipment. The leases where the Group has substantially all the risks and rewards are classified as finance leases. The finance leases are capitalised, at the lessees commencement, at lower of fair value of the leased assets and present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance lease is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

##### *(b) Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

##### *(c) Accounting by lessor*

When assets leased out under an operating lease, the asset is included in the balance sheet based on the nature of the assets. Lease income is recognised over the term of the lease on a straight line basis.

## Notes to the consolidated financial statements

**2.18 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities will be offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income

taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.19 Employee benefits**

The Group has both defined benefit and defined contribution plans.

**(a) Defined contribution plan**

All employees of the Company are members of the Sri Lanka Telecom Provident Fund and the Employees' Trust Fund (ETF) to which the Company contributes 15% and 3% respectively of such employees' basic salary and allowances. All employees of subsidiaries of the Group except for Sri Lanka Telecom (Hong Kong) Limited are members of Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which respective subsidiaries contribute 12% and 3%, respectively, of such employees' basic salary and allowances.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

**(b) Defined benefit plan**

Typically, a defined benefit plan defines an amount of benefit that an employee will receive on retirement, which is usually a dependent on one or more factors such as period of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of defined benefit obligation at the balance sheet date together with adjustments for unrecognised gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using estimated long term interest rates.

The actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement in the period in which they arise.



The assumptions, based on which the results of the actuarial valuation were determined, are included in Note 26 to the consolidated financial statements.

## 2.20 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

The provisions are measured at the present value of expenditures expected to be required to settle the obligation.

## 2.21 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the services rendered in the ordinary course of business. Revenue is shown net of value added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its revenue estimates on historical results, taking into consideration the types of transactions and past trends. The revenue is recognised as follows:

- (i) Domestic and international call revenue and rental income

Call revenue is recognised on usage and the fixed rental on a monthly basis for the telephony services. The customers are charged government taxes at the applicable rates. The revenue is recognised net of such taxes.

- (ii) Revenue from other network operators and international settlements

The revenue received from other network operators, local and international, for the use of the Group's telecommunication network for completing call connections are recognised, net of taxes, based on usage taking the traffic minutes/per second rates stipulated in the relevant agreements and regulations.

- (iii) Revenue from other telephony services

The revenue from other telephony services are recognised on an accrual basis based on fixed rental contracts entered between the Group and subscribers.

- (iv) Connection fees

The connection fees relating to Public Switched Telephone Network (PSTN) are deferred over a period of 15 years.

The connection fees relating to Code Divisional Multiple Access (CDMA) connections are recognised as revenue in the period in which the connection is activated.

- (v) Equipment sales

Revenue from sale of equipment is recognised, net of taxes, on completion of the transaction.

- (vi) Prepaid card revenue

Pre-paid CDMA card revenue is recognised on usage.

- (vii) Sale of services

Revenue from fixed - price contracts for providing manpower is generally recognised in the period the services are provided. Revenue from directory printing is recognised when the directories are distributed.

- (viii) Interest income

Interest income is derived from short-term investment of excess funds and is recognised on an accrual basis.

- (ix) Lease income

Lease income is recognised over the term of lease on a trade line basis.

- (x) Dividend income

Dividend income is recognised when the right to receive the payment is established.

## Notes to the consolidated financial statements

**2.22 Expenditure**

The expenses are recognised on an accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant and equipment in a state of efficiency is charged against income in arriving at the profit for the year.

For the purpose of presentation of the income statement information, nature of expense method is used to classify expenses.

**2.23 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

**2.24 Foreign currency risk**

The Company hedges foreign currency risk of loans denominated in foreign currency against foreign currency revenue streams such as receipt from international network operations and interest income from foreign currency fixed deposits. Sinking funds are maintained in foreign currency to meet future payment obligations.

The Company hedges between 50% to 75% of anticipated net foreign earnings for 5 years. Management estimate approximately 75% (2008 - 75%) of projected foreign earnings quality as 'highly probable'.

**2.25 Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers and other network operators, including outstanding receivables. For bank and financial institutions, only rated financial institutions are accepted. The credit control assesses the credit quality of customers, taking into account their financial position, past experience and other factors. The individual risk limits are set based on internal ratings in accordance with limits set by the Board. The utilisation of credit limits are regularly monitored.

**2.26 Liquidity risk**

Effective liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from adequate amount of committed credit facilities. Due to dynamic nature of the underlying business, the Group maintains flexibility in

funding by maintaining sufficient cash reserves and committed credit lines.

**2.27 Interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. The borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rates exposes the Group to fair value interest rate risk. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

**2.28 Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) divided by total capital. Net debt is calculated as total borrowings. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus total borrowings.

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain the gearing ratio below 35%. The gearing ratios at 31 December 2009 and 2008 were as follows:

	Group		Company	
	2009	2008	2009	2008
Total borrowings (Note 22)	13,351	21,716	2,195	13,834
Total equity	46,599	47,556	48,842	49,338
Total capital	59,950	69,272	51,037	63,172
Gearing ratio	22%	31%	4%	22%

## 2.29 Comparatives

The Company previously presented cost on PABX installation, cost on ADSL CPE equipment, point to point maintenance cost and cost on SMS as net of Revenue. With effect from year 2009, these expenses have been reclassified under other operating expenditure.

The Management believes that the above reclassification gives a fairer presentation.

## 3. Critical accounting estimates and judgments

Estimates and judgments of management are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### (i) Provision for bad and doubtful debts

A provision for bad and doubtful trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments and industry trends are considered indicators that the trade receivable is impaired. Management will revise the basis to increase the provision for bad and doubtful debts where the actual recoveries are less than previously estimated, or it will write-off the trade receivables that have been determined unrecoverable.

#### (ii) Useful lives of plant and equipment

Management determines the estimated useful lives and related depreciation charges for its plant and equipment which comprise mainly the switching and other network equipment. This estimate is based on projected product lifecycles of the assets of its main business segments. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful

lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (iii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

No impairment charge requiring adjustment to the consolidated financial statements arose in the cash generating units during the course of the year 2009.

#### (iv) Defined benefit obligations

The present value of the defined benefit plan obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit plan obligations. In determining the appropriate discount rate, the Group considers the interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for defined benefit plan obligations are based in part on current market conditions. Additional information is disclosed in Note 26 to these consolidated financial statements.

#### (v) Impairment of property, plant and equipment

The Group reviews for impairment of property, plant and equipment in accordance with the Accounting Policy in note 2.5. The recoverable amount of these assets have been determined based on higher of the assets' fair value less cost to sell and value in use. These calculations require the use of estimates and judgments.

## Notes to the consolidated financial statements

Management believes that any reasonably possible change in the estimated future cash flows of the operation which the recoverable amounts of the cash-generating units is based would not cause the cash-generating units' carrying amount to exceed its recoverable amount.

#### 4. Segment information

##### (a) Primary reporting format - business segment

Management has determined the primary segments based on the nature of products and services and risks and rewards associated.

The Group provides telecommunication services, mainly in Sri Lanka. The Group is organised into four main business segments as follows:

Fixed telephony operations (including CDMA) - Fixed

Other Gateway Operators - OGO

Mobile telephony operations - Mobile

Other value added services

The connection charges, rental and call charges derived from fixed wired lines and fixed wireless lines (CDMA) are included in Fixed Telephony revenue.

Income derived from local and international operators for use of telecommunication network of the Group is shown as revenue from other gateway operators.

Mobile revenue consist of revenue generated from mobile telephony operations of the subsidiary, Mobitel (Private) Limited.

Other value added services comprise data services, IP & Broad band and other telephony services which do not constitute reporting segments in isolation.

The segment results for the year ended 31 December 2009 are as follows:

	Fixed	OGO	Mobile	Other	Unallocated	Total
Revenue						
- Total segment revenue	19,338	8,223	11,365	12,704	-	51,630
- Inter-segment revenue	-	(167)	(29)	(3,357)	-	(3,553)
Revenue from external customers	19,338	8,056	11,336	9,347	-	48,077
Segment results / operating profits	224	435	611	1,277	-	2,547
Voluntary Retirement Scheme (VRS) costs						(480)
Other income						188
Interest expenses and finance costs						(2,024)
Interest income						1,164
Profit before tax						1,395
Taxation						(617)
Net profit						778
Other segment information included in the income statement is as follows.						
Depreciation	5,896	775	2,715	1,946	-	11,332
Amortisation of intangible assets	116	63	188	91	-	458

#### 4. Segment information (Contd.)

The segment assets and liabilities as at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Fixed	OGO	Mobile	Other	Unallocated	Total
Assets	34,093	10,286	28,923	16,061	945	90,308
Liabilities	(7,393)	(7,620)	(20,921)	(5,259)	(2,516)	(43,709)
Capital expenditure	3,604	729	12,774	3,624	-	20,731

Segment assets and liabilities are reconciled to entities' assets and liabilities as follows:

	Assets	Liabilities
Segment assets and liabilities :	89,363	(41,193)
Unallocated:		
- Interest receivable	44	-
- Non current borrowings	-	(708)
- Current borrowings	-	(1,136)
- Deferred income tax assets	674	-
- Income tax receivables	227	-
- Income tax liabilities	-	(137)
- Interest payable	-	(535)
Group assets / (liabilities)	90,308	(43,709)

The segment results for the year ended 31 December 2008 are as follows:

	Fixed	OGO	Mobile	Other	Unallocated	Total
Revenue						
- Total segment revenue	21,854	8,184	9,060	9,445	-	48,543
- Inter-segment revenue	-	(400)	(165)	(934)	-	(1,499)
Revenue from external customers	21,854	7,784	8,895	8,511	-	47,044
Segment results / operating profits	2,509	1,082	1,368	3,240	-	8,199
Voluntary Retirement Scheme (VRS) costs						(390)
TDC Refund						2,183
Other income						419
Interest expenses and finance costs						(2,130)
Interest income						1,279
Profit before tax						9,560
Taxation						(2,193)
Net profit						7,367
Other segment information included in the income statement is as follows.						
Depreciation	7,343	1,119	1,665	1,156	-	11,283
Amortisation of intangible assets	85	27	196	24	-	332

## Notes to the consolidated financial statements

**4. Segment information (Contd.)**

The segment assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Fixed	OGO	Mobile	Other	Unallocated	Total
Assets	44,586	16,307	21,926	10,250	130	93,199
Liabilities	(8,055)	(6,912)	(4,278)	(1,819)	(24,579)	(45,643)
Capital expenditure	3,280	505	8,629	1,999	-	14,413

Segment assets and liabilities are reconciled to entities' assets and liabilities as follows:

	Assets	Liabilities
Segment assets and liabilities :	93,069	(21,064)
Unallocated:		
- Interest receivable	130	-
- Non current borrowings	-	(5,228)
- Current borrowings	-	(16,488)
- Deferred income tax liabilities	-	(1,097)
- Income tax liabilities	-	(1,633)
- Interest payable	-	(133)
Group assets / (liabilities)	93,199	(45,643)

**(b) Secondary reporting format - geographical segments**

The Group's revenue, assets and liabilities can be identified geographically based on the location as follows:

	2009			2008		
	Domestic	International	Total	Domestic	International	Total
Revenue	38,813	9,264	48,077	39,736	7,308	47,044
Assets	88,438	1,870	90,308	91,710	1,489	93,199
Liabilities	(43,318)	(391)	(43,709)	(45,440)	(203)	(45,643)

**5. Revenue**

The significant categories under which revenue is recognised are as follows:

	Group		Company	
	2009	2008	2009	2008
Release of deferred connection charges (Note 24)	906	921	906	921
Rental income	7,244	6,098	4,745	4,717
Domestic call revenue	15,258	16,511	7,115	9,542
Receipts from other network operators – domestic	11	92	11	336
International call revenue	2,202	2,086	1,508	1,541
Receipts from other network operators – international	1,308	567	9	140
International settlements (in-payments)	6,684	7,124	6,842	7,124
CDMA Revenue	5,064	5,133	5,064	5,133
Broadband, data and other services	9,400	8,512	7,887	6,659
	48,077	47,044	34,087	36,113

## 6. Operating costs

The following items have been included in arriving at operating profit before depreciation, amortisation and ITL:

	Group		Company	
	2009	2008	2009	2008
Staff costs (Note 7)	8,881	6,823	6,990	5,867
Directors' emoluments	31	19	22	17
Payments to international network operators	1,967	1,311	2,429	1,311
Payments to other network operators				
- international	1,198	743	772	899
- domestic	-	459	-	369
Independent auditors' remuneration				
- audit fees	6	6	4	4
- non-audit fees	1	1	1	1
Repairs and maintenance expenditure	2,469	2,402	1,719	1,974
Provision for doubtful debts	1,971	1,783	1,671	1,580
Provision / (reversal) for change in carrying value of inventories	834	(75)	834	(75)
Net foreign exchange (gains) / losses	(24)	6	(9)	(9)
Impairment of property, plant & equipment (Note 15)	151	-	151	-
Other operating expenditure	13,157	10,676	6,443	5,533
CDMA expenditure	144	89	418	312
	30,786	24,243	21,445	17,783

## 7. Staff costs

	Group		Company	
	2009	2008	2009	2008
Salaries, wages, allowances and other benefits	7,736	6,213	6,006	5,356
Retirement costs				
- defined contribution plans	743	609	596	527
- defined benefit obligations (Note 26)	402	1	388	(16)
	8,881	6,823	6,990	5,867
Average number of persons employed by the Group / Company during the year:	9,774	9,925	6,631	7,021

## 8. International Telecommunication Operators' Levy (ITL)

In terms of the Finance Act No. 11 of 2004, International Telecommunications Operators are required to make a contribution to the Government of Sri Lanka at the rate of USD 0.038 per international incoming traffic minute with effective from 3 March 2003. The total amount of the levy payable by the Group and Company for the period from 1 January 2009 to 31 December 2009 was estimated at Rs. 2,954 Mn (2008 - Rs. 2,987 Mn) and Rs. 2,425 Mn (2008 - Rs. 2,736 Mn) respectively and has been recognised as expenses in the current financial year. The corresponding liability, net of payments, has been recognised in the balance sheet.

The Gazette notification No. 1386/24 of 31 March 2005 states that the levy will be credited as Incoming Local Access Charge (ILAC) and Telecommunications Development Charge (TDC) as per the rates specified in the Table B and C to these regulations. These regulations also allow the domestic PSTN operators to claim two thirds of TDC within three years against the cost of development of its telecommunications network in un-served and underserved areas of Sri Lanka as determined by the Telecommunications Regulatory Commission (TRC). As per the "Guidelines for disbursement of two third of the TDC Fund for The Fixed Wire Line Operator" issued by the TRC, the Company is entitled to claim Rs. 25,000 (cost per line) for every connection provided in un-served

## Notes to the consolidated financial statements

and underserved areas specified by TRC. As per the "Guidelines for disbursement of two third of the TDC Fund for The Fixed CDMA Operator" guideline I and also guideline II which is effective from April 2006, the Group can claim cost of development of its telecommunication network in un-served and underserved areas.

The Company has made claim submissions for the period from 1st January 2006 to 31st March 2006 in fixed wire line connections as well as for CDMA network rollout as per guideline 1 that are yet to be approved by the TRC. SLT has also made submission for the period 1st April 2006 to 31st March 2007 for both fixed wired connections and CDMA network rollout as per guideline II.

Rs. 69 Mn has been received to Mobitel (Private) Limited as refund of TDC (ITL) related to its network rollout in un-served and underserved areas of which Rs. 13 Mn was recognised as revenue for the year 2009 and balance of Rs. 56 Mn has been amortised for a period of 5 years (Note 28).

### 9. Voluntary Retirement Scheme (VRS) Costs

A VRS was announced on 23 July 2009. Accordingly, based on the number of applications received from employees, a VRS cost of Rs. 480 Mn (2008 - Rs. 390 Mn) was incurred and recognised in the income statement of the Company.

### 10. Interest expense and finance costs

	Group		Company	
	2009	2008	2009	2008
Interest expense and finance costs				
- rupee loans	1,311	1,231	270	324
- foreign currency loans	78	31	3	10
- USD 100 million Notes	804	823	804	823
- other (income) / charges [See Note (a) below]	(201)	15	(204)	15
Total interest and finance costs	1,992	2,100	873	1,172
Foreign exchange losses recognised from hedging reserve (Note 30)	32	30	32	30
Interest expenses and finance costs charged to income statement	2,024	2,130	905	1,202

(a) Other (income) / charges mainly include unrealised exchange gain of Rs. 80 Mn (2008 - Rs. 549 Mn) arising from revaluation of the fixed deposits in USD and realised exchange gain of Rs. 155 Mn (2008 - Rs. Nil) arising from redemption of USD 100 Mn notes.

### 11. Interest income

	Group		Company	
	2009	2008	2009	2008
Interest income from:				
- bank deposits	874	919	861	848
- financial assets	168	262	144	262
- staff loans	122	98	122	98
	1,164	1,279	1,127	1,208



## 12. Taxation

The charge for taxation is made up as follows:

	Group		Company	
	2009	2008	2009	2008
Income tax charge	2,388	3,873	2,142	3,851
Release of deferred tax liability relevant to previous years	(482)	-	(482)	-
Release of deferred tax liabilities (Note 23)	(1,289)	(1,680)	(1,284)	(1,680)
	617	2,193	376	2,171

The tax charge differs from the theoretical amount that would arise using the basic tax rate on the accounting profit of the Company and Group as follows:

	Group		Company	
	2009	2008	2009	2008
Profit before tax	1,395	9,560	1,608	8,772
Tax calculated at a tax rate of 35% [excluding Mobitel (Private) Limited]	565	3,346	563	3,070
Tax calculated at a tax rate of 2% on Mobitel (Private) Limited	176	-	-	-
Tax effect of income not subject to tax	(382)	(5,389)	(368)	(1,159)
(Over) / under provision of income tax relevant to previous years	(22)	-	(22)	-
Expenses not deductible for tax purposes	280	4,236	203	260
Tax charge	617	2,193	376	2,171

Current income tax charge of the Group / Company is made up as follows:

	Group/Company	
	2009	2008
Sri Lanka Telecom PLC	2,142	3,851
Mobitel (Private) Limited	176	19
SLT Manpower Solutions (Private) Limited	6	3
SLT Publications (Private) Limited	64	-
	2,388	3,873

- (a) Pursuant to agreements dated 15 January 1993 and 26 February 2001 entered in to with Board of Investment under Section 17 of the Board of Investment Law, 15 years tax exemption period granted to Mobitel (Private) Limited expired on 30 June 2009 and as per the agreement, Mobitel (Private) Limited opted for the turnover based tax option which is charged at 2% on the turnover for a further period of 15 years commencing from 1 July 2009.
- (b) In terms of the provisions of Inland Revenue Act No. 10 of 2006, as amended, the following companies are liable to income tax. However, in view of the adjusted tax losses brought forward and incurred during the year, such companies were not liable to income tax for the year ended 31 December 2009 except for SLT Publications (Private) Limited. The adjusted tax losses available for carry forward as at 31 December 2009 are as follows:

	Adjusted tax losses available for carry forward as at 31 December	
	2009	2008
Sky Network (Private) Limited	64	16
SLT VisionCom (Private) Limited	110	42
SLT Publications (Private) Limited	-	15
Sri Lanka Telecom (Services) Limited	-	3
SLT (Hong Kong) Limited	3	21
	177	97

## Notes to the consolidated financial statements

**13. Earnings per share**

The basic earnings per share is calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2009	2008	2009	2008
Net profit attributable to equity holders (Rs. Mn)	785	7,370	1,232	6,601
Weighted average number of ordinary shares in issue (Mn)	1,805	1,805	1,805	1,805
Basic earnings per share (Rs.)	0.43	4.08	0.68	3.66

**14. Dividends**

In respect of 2008, a first and final dividend of Rs. 1 (2007 - Rs. 1) per share amounting to a Rs. 1,804,860,000 (2007 - Rs. 1,804,860,000) was paid during the current year.

The Board has recommended a first and final dividend of Rs. 0.25 per share amounting to Rs. 451,215,000 for the year ended 31st December 2009. This is to be approved by the shareholders at the Annual General Meeting to be held on 27th April, 2010. As stipulated by Sri Lanka Accounting Standard No. 12 (Revised) - Events After The Balance Sheet Date, the proposed dividend is not recognised as a liability as at 31st December 2009.

## 15. Property, plant and equipment

Group	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 1 January 2008								
Cost								
At 1 January 2008 as previously reported	347	2,197	70,084	18,762	32,002	12,105	5,165	140,662
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005) [See Note 15(j) below]	-	-	-	-	-	4,420	-	4,420
As restated	347	2,197	70,084	18,762	32,002	16,525	5,165	145,082
Accumulated depreciation								
At 1 January 2008 as previously reported	-	(396)	(51,408)	(12,133)	(15,286)	(7,558)	-	(86,781)
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005) [See Note 15(j) below]	-	-	-	-	-	(4,419)	-	(4,419)
As restated	-	(396)	(51,408)	(12,133)	(15,286)	(11,977)	-	(91,200)
<b>Net book amount</b>	<b>347</b>	<b>1,801</b>	<b>18,676</b>	<b>6,629</b>	<b>16,716</b>	<b>4,548</b>	<b>5,165</b>	<b>53,882</b>
Year ended 31 December 2008								
Opening net book amount	347	1,801	18,676	6,629	16,716	4,548	5,165	53,882
Additions at cost	-	-	162	70	2,854	2,334	9,117	14,537
Transfers from capital work-in-progress	-	179	836	-	4,656	1,339	(7,010)	-
Disposals at cost	-	-	(79)	-	(5)	(119)	-	(203)
Write-offs at cost	-	-	(1,089)	-	-	-	-	(1,089)
Adjustments	-	(43)	(62)	(79)	128	30	14	(12)
Accumulated depreciation on disposal	-	-	58	-	3	91	-	152
Accumulated depreciation on write-offs	-	-	1,089	-	-	-	-	1,089
Depreciation charge	-	(56)	(4,130)	(1,246)	(3,219)	(2,632)	-	(11,283)
<b>Closing net book amount</b>	<b>347</b>	<b>1,881</b>	<b>15,461</b>	<b>5,374</b>	<b>21,133</b>	<b>5,591</b>	<b>7,286</b>	<b>57,073</b>

## Notes to the consolidated financial statements

## 15. Property, plant and equipment (Contd.)

Group	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 1 January 2009								
Cost								
At 1 January 2009 as previously reported	347	2,332	69,847	18,733	39,659	14,839	7,286	153,043
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005)								
[See Note 15(j) below]	-	-	-	-	-	5,272	-	5,272
As restated	347	2,332	69,847	18,733	39,659	20,111	7,286	158,315
Accumulated depreciation								
At 1 January 2009 as previously reported	-	(451)	(54,386)	(13,359)	(18,526)	(9,249)	-	(95,971)
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005)								
[See Note 15(j) below]	-	-	-	-	-	(5,271)	-	(5,271)
As restated	-	(451)	(54,386)	(13,359)	(18,526)	(14,520)	-	(101,242)
<b>Net book amount</b>	<b>347</b>	<b>1,881</b>	<b>15,461</b>	<b>5,374</b>	<b>21,133</b>	<b>5,591</b>	<b>7,286</b>	<b>57,073</b>
Year ended 31 December 2009								
Opening net book amount	347	1,881	15,461	5,374	21,133	5,591	7,286	57,073
Additions at cost	-	-	125	38	8,505	1,664	10,260	20,592
Transfers from capital work-in-progress	-	256	1,284	291	7,031	1,190	(10,052)	-
Disposals at cost	-	-	-	-	-	(53)	-	(53)
Impairment charge [See Note 15(f) below]	-	-	-	(151)	-	-	-	(151)
Write-offs at cost	-	-	-	-	-	(11)	-	(11)
Adjustments	-	(56)	(91)	(8)	65	(241)	47	(284)
Accumulated depreciation on disposal	-	-	-	-	-	52	-	52
Accumulated depreciation on write-offs	-	-	-	-	-	10	-	10
Depreciation charge	-	(60)	(3,700)	(1,202)	(3,909)	(2,461)	-	(11,332)
<b>Closing net book amount</b>	<b>347</b>	<b>2,021</b>	<b>13,079</b>	<b>4,342</b>	<b>32,825</b>	<b>5,741</b>	<b>7,541</b>	<b>65,896</b>
At 31 December 2009								
Cost	347	2,532	71,165	17,492	55,260	22,660	7,541	176,997
Accumulated depreciation	-	(511)	(58,086)	(13,150)	(22,435)	(16,919)	-	(111,101)
<b>Net book amount</b>	<b>347</b>	<b>2,021</b>	<b>13,079</b>	<b>4,342</b>	<b>32,825</b>	<b>5,741</b>	<b>7,541</b>	<b>65,896</b>

## 15. Property, plant and equipment (Contd.)

Company	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 1 January 2008								
Cost								
At 1 January 2008 as previously reported	347	2,197	69,934	18,762	14,944	11,321	4,585	122,090
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005)								
[See Note 15(j) below]	-	-	-	-	-	4,420	-	4,420
As restated	347	2,197	69,934	18,762	14,944	15,741	4,585	126,510
Accumulated depreciation								
At 1 January 2008 as previously reported	-	(396)	(51,226)	(12,132)	(9,930)	(7,056)	-	(80,740)
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005)								
[See Note 15(j) below]	-	-	-	-	-	(4,419)	-	(4,419)
As restated	-	(396)	(51,226)	(12,132)	(9,930)	(11,475)	-	(85,159)
Net book amount	347	1,801	18,708	6,630	5,014	4,266	4,585	41,351
Year ended 31 December 2008								
Opening net book amount	347	1,801	18,708	6,630	5,014	4,266	4,585	41,351
Additions at cost	-	-	162	70	4	2,048	3,965	6,249
Transfers from capital work-in-progress	-	179	836	-	377	1,339	(2,731)	-
Disposals at cost	-	-	(79)	-	-	(39)	-	(118)
Write-offs at cost	-	-	(1,089)	-	-	-	-	(1,089)
Adjustments	-	(43)	(62)	(79)	128	30	14	(12)
Accumulated depreciation on disposal	-	-	58	-	-	24	-	82
Accumulated depreciation on write-offs	-	-	1,089	-	-	-	-	1,089
Depreciation charge	-	(56)	(4,130)	(1,246)	(1,111)	(2,519)	-	(9,062)
Closing net book amount	347	1,881	15,493	5,375	4,412	5,149	5,833	38,490

## Notes to the consolidated financial statements

## 15. Property, plant and equipment (Contd.)

Company	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 1 January 2009								
Cost								
At 1 January 2009 as previously reported	347	2,332	69,697	18,733	15,477	13,849	5,833	126,268
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005)								
[See Note 15(j) below]	-	-	-	-	-	5,272	-	5,272
As restated	347	2,332	69,697	18,733	15,477	19,121	5,833	131,540
Accumulated depreciation								
At 1 January 2009 as previously reported	-	(451)	(54,204)	(13,358)	(11,065)	(8,701)	-	(87,779)
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005)								
[See Note 15(j) below]	-	-	-	-	-	(5,271)	-	(5,271)
As restated	-	(451)	(54,204)	(13,358)	(11,065)	(13,972)	-	(93,050)
Net book amount	347	1,881	15,493	5,375	4,412	5,149	5,833	38,490
Year ended 31 December 2009								
Opening net book amount	347	1,881	15,493	5,375	4,412	5,149	5,833	38,490
Additions at cost	-	-	125	38	69	1,282	4,996	6,510
Transfers from capital work-in-progress	-	256	1,284	291	651	1,190	(3,672)	-
Disposals at cost	-	-	-	-	-	(48)	-	(48)
Impairment charge [See Note 15(f) below]	-	-	-	(151)	-	-	-	(151)
Write-offs at cost	-	-	-	-	-	(11)	-	(11)
Adjustments	-	(56)	(91)	(8)	65	(241)	47	(284)
Accumulated depreciation on disposal	-	-	-	-	-	47	-	47
Accumulated depreciation on write-offs	-	-	-	-	-	10	-	10
Depreciation charge	-	(60)	(3,700)	(1,202)	(1,055)	(2,285)	-	(8,302)
Closing net book amount	347	2,021	13,111	4,343	4,142	5,093	7,204	36,261
At 31 December 2009								
Cost	347	2,532	71,015	17,492	16,262	21,293	7,204	136,145
Accumulated depreciation	-	(511)	(57,904)	(13,149)	(12,120)	(16,200)	-	(99,884)
Net book amount	347	2,021	13,111	4,343	4,142	5,093	7,204	36,261

## 15. Property, plant and equipment (Contd.)

- (a) On 1 September 1991, the Department of Telecommunications (DoT) transferred its entire telecommunications business and related assets and liabilities to SLT. A valuation of the assets and liabilities transferred to SLT was performed by the Government of Sri Lanka. The net amount of those assets and liabilities represents SLT's Contributed Capital on incorporation, and the value of property, plant and equipment as determined by the Government of Sri Lanka valuers was used as the opening cost of fixed assets on 1 September 1991 in the first statutory accounts of SLT. Further, SLT was converted into a public limited company, Sri Lanka Telecom Limited (SLTL), on 25 September 1996 and on that date, all of the business and the related assets and liabilities of SLT were transferred to SLTL as part of the privatisation process.
- (b) The cost of fully depreciated assets still in use as at 31 December 2009 was Rs. 45,178 Mn (2008 - Rs. 32,725 Mn).
- (c) No assets have been mortgaged or pledged as security for borrowings of the Company. However, Mobitel (Private) Limited, a subsidiary of the Company, has pledged its assets at a value of Rs. 17.7 Bn as at 31 December 2009 for its bank borrowings [Note 22 (i)].
- (d) The Directors believe that the Company has freehold title to the land and buildings transferred on incorporation (conversion of SLT into a public limited company on 25 September 1996), although the vesting orders specifying all the demarcations and extents of such land and buildings have not been formally issued.
- (e) The property, plant and equipment is not insured except for third party motor vehicle insurance. An insurance reserve has been created together with a sinking fund investment to meet any potential losses with regard to uninsured property, plant and equipment. At the balance sheet date, the insurance reserve amounted to Rs. 281 Mn (2008 - Rs. 236 Mn) (Note 27). The sinking fund investment is included under cash and cash equivalents [Note 21(a)].
- (f) Impairment of assets mainly consist of the net book value of switches that were impaired as a result of implementation of Next Generation Network (NGN) phase 1 and 2 (2008 - Rs. Nil).
- (g) Additions include assets costing Rs. 43 Mn (2008 - Rs. 13 Mn) obtained under finance leases (where the Company is the lessee) and the additions of the Group includes assets costing Rs. 62 Mn obtained under finance leases (2008 - Rs. 13 Mn) Where the Group is the lessee.
- (h) The property, plant and equipment includes motor vehicles acquired under finance leases, the net book value of which is made up as follows:

	Group		Company	
	2009	2008	2009	2008
Cost	118	56	99	56
Accumulated depreciation	(34)	(16)	(32)	(16)
Net book amount	84	40	67	40

- (i) The cables include a capacity of 3% leased out by the Company to third parties under operating lease. The total cost and accumulated depreciation of all cables included under property, plant and equipment are as follows:

	Group/Company	
	2009	2008
Cost	2,935	2,926
Accumulated depreciation at 1 January	(899)	(606)
Depreciation charge for the year	(293)	(293)
Net book amount	1,743	2,027

## Notes to the consolidated financial statements

- (j) As required by Sri Lanka Accounting Standard 10 (Revised 2005) Accounting Policies, Changes in Accounting Estimate and Errors, the Company retrospectively recognised the cost of the CDMA handsets under property, plant and equipment at Rs. 1. Accordingly, opening retained earnings increased by Rs.1 Mn and property, plant and equipment increased by Rs.1 Mn as of 1 January 2008.

**16. Intangible assets**

Group	Goodwill	Licences	Software	Others	Total
At 1 January 2008					
Cost	388	602	960	764	2,714
Accumulated amortisation and impairment	(247)	(91)	(205)	(557)	(1,100)
Net book amount	141	511	755	207	1,614
Year ended 31 December 2008					
Opening net book amount	141	511	755	207	1,614
Additions at cost	6	144	438	295	883
Amortisation charge	-	(60)	(190)	(82)	(332)
Closing net book amount	147	595	1,003	420	2,165
At 31 December 2008					
Cost	394	746	1,398	1,059	3,597
Accumulated amortisation and impairment	(247)	(151)	(395)	(639)	(1,432)
Net book amount	147	595	1,003	420	2,165
Year ended 31 December 2009					
Opening net book amount	147	595	1,003	420	2,165
Additions at cost	-	2	360	125	487
Amortisation charge and impairment	(6)	(60)	(266)	(126)	(458)
Closing net book amount	141	537	1,097	419	2,194
At 31 December 2009					
Cost	394	748	1,758	1,184	4,084
Accumulated amortisation and impairment	(253)	(211)	(661)	(765)	(1,890)
Net book amount	141	537	1,097	419	2,194



**16. Intangible assets (Contd.)**

Company	Goodwill	Licences	Software	Others	Total
At 1 January 2008					
Cost	-	-	482	330	812
Accumulated amortisation and impairment	-	-	(113)	(323)	(436)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>369</b>	<b>7</b>	<b>376</b>
Year ended 31 December 2008					
Opening net book amount	-	-	369	7	376
Additions at cost	-	-	393	-	393
Transferred to related company	-	-	(1)	-	(1)
Amortisation charge	-	-	(131)	(5)	(136)
<b>Closing net book amount</b>	<b>-</b>	<b>-</b>	<b>630</b>	<b>2</b>	<b>632</b>
At 31 December 2008					
Cost	-	-	874	330	1,204
Accumulated amortisation and impairment	-	-	(244)	(328)	(572)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>630</b>	<b>2</b>	<b>632</b>
Year ended 31 December 2009					
Opening net book amount	-	-	630	2	632
Additions at cost	-	-	248	-	248
Amortisation charge	-	-	(194)	(2)	(196)
<b>Closing net book amount</b>	<b>-</b>	<b>-</b>	<b>684</b>	<b>-</b>	<b>684</b>
At 31 December 2009					
Cost	-	-	1,122	330	1,452
Accumulated amortisation and impairment	-	-	(438)	(330)	(768)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>684</b>	<b>-</b>	<b>684</b>

**Goodwill of the Group**

The goodwill in Group consists of goodwill arising on acquisition of Mobitel (Private) Limited.

**Impairment tests for goodwill**

Goodwill is allocated to the Group's Cash-Generating Units (CGUs). A summary of the goodwill allocation is presented below:

	2009	2008
Mobitel (Private) Limited	141	141
Sky Network (Private) Limited	-	6
<b>Total</b>	<b>141</b>	<b>147</b>

## Notes to the consolidated financial statements

**16. Intangible assets (Contd.)**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre - tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	<b>Mobitel (Private) Limited</b>
Gross margin	72%
Growth rate	18%
Discount rate	17%

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. No impairment charge has been recognised for the year ended 31 December 2009 for the above CGU (2008 - Rs Nil).

**17. Investments in subsidiaries**

<b>Unlisted shares</b>	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
Opening net book amount	10,172	7,782
Additions	1,145	2,390
Closing net book amount	11,317	10,172
Advance against investments		
SLT Publications (Private) Limited [See Note (d) below]	-	30

Details of the subsidiary companies in which the Company had control as at 31 December are set out below:

<b>Name of company</b>	<b>2009</b>		<b>2008</b>	
	<b>Investment Rs Million</b>	<b>Company holding</b>	<b>Investment Rs Million</b>	<b>Company holding</b>
Sri Lanka Telecom (Services) Limited [See Note (a) below]	25	100%	25	100%
Mobitel (Private) Limited [See Note (b) below]	10,722	100%	9,822	100%
SLT (Hong Kong) Limited [See Note (c) below]	36	100%	36	100%
SLT Publications (Private) Limited [See Note (d) below]	50	100%	20	100%
SLT Manpower Solutions (Private) Limited [See Note (e) below]	1	100%	1	100%
SLT VisionCom (Private) Limited [See Note (f) below]	100	100%	100	100%
Sky Network (Private) Limited [See Note (g) below]	383	99.89%	168	75%
	11,317		10,172	

## 17. Investments in subsidiaries (Contd.)

- (a) This investment in subsidiary company consists of 2,500,000 shares representing the entire stated capital of Sri Lanka Telecom (Services) Limited.
- (b) The Company owns 119,238,240 shares representing 100% of the entire stated capital of Mobitel (Private) Limited. At 31 December 2008, the Company held 675,000,000 12% cumulative and redeemable preference shares with a value of Rs. 10 per share and 110,000,000 14% cumulative and redeemable preference shares with a value of Rs. 10 per share of Mobitel (Private) Limited. Additions during 2009 comprise the capital infusion of Rs. 900 Mn in 14% cumulative and redeemable preference shares of Mobitel (Private) Limited. The preference dividend rank above ordinary dividends.

At 31 December 2009, preference dividends amounting to Rs. 2,440 Mn were in arrears (2008 - Rs. 1,318 Mn). No accrual has been made in the Company's financial statements.

- (c) This investment in subsidiary company consists of 2,500,000 shares representing the entire stated capital of SLT (Hong Kong) Limited incorporated in Hong Kong.
- (d) This investment in subsidiary company consists of 5,000,000 shares representing the entire stated capital of SLT Publications (Private) Limited.
- During the year, 3,000,000 ordinary shares have been issued by SLT Publications (Private) Limited against the advance against investments of Rs. 30 Mn.
- (e) This investment in subsidiary company consists of 50,000 shares representing the entire stated capital of SLT Manpower Solutions (Private) Limited.
- (f) This investment in subsidiary company consists of 10,000,000 shares representing the entire stated capital of SLT VisionCom (Private) Limited.
- (g) This investment in subsidiary company consists of 21,571,251 shares representing a 99.89% holding of the issued stated capital and 6 Mn 12% cumulative and redeemable preference shares of Sky Network (Private) Limited.

At 31 December 2009, preference dividends amounting to Rs. 9 Mn (2008 - Rs. 2 Mn) has not been recognised in the financial statements.

Additions during the year, comprise the capital infusion of Rs. 215 Mn in ordinary shares with a value of Rs. 10 per share of Sky Network (Private) Limited.

All the subsidiaries except for Mobitel (Private) Limited and SLT (Hong Kong) Limited are audited by PricewaterhouseCoopers.

## 18. Non-current receivables

	Group		Company	
	2009	2008	2009	2008
Employee loans [See Note (a) below]	1,894	1,572	1,894	1,572

- (a) Employee loans are repayable in equal monthly installments over the loan period not exceeding six years. The amount shown as a non-current receivables represent staff loan installments falling due after 1 January 2011.
- (b) The weighted average interest rates on staff loans are between 3% and 7% (2008 - 3% and 7%).

## Notes to the consolidated financial statements

**19. Inventories**

Inventories consist of trading and capital inventory and include telecommunication hardware, CDMA handsets, consumables and office stationary. Inventory is stated net of provisions for slow-moving and obsolete items.

**20. Trade and other receivables**

	Group		Company	
	2009	2008	2009	2008
Domestic trade receivables	14,398	13,562	11,861	11,507
Foreign trade receivables	1,851	2,958	1,851	2,958
	16,249	16,520	13,712	14,465
Less: Provision for bad and doubtful receivables	(7,694)	(7,552)	(6,782)	(6,957)
Less: Interest / revenue in suspense	(19)	(19)	-	-
Trade receivables - net	8,536	8,949	6,930	7,508
Amount due from subsidiaries [Note 35 (i)]	-	-	2,506	2,299
Amount due from related companies [Note 35 (i)]	206	139	206	139
Advances and prepayments [See Note (a) below]	853	592	94	98
Employee loans	400	376	400	376
Other receivables [See Note (b) below]	1,352	1,004	263	359
Amounts due within one year	11,347	11,060	10,399	10,779

(a) Advances and prepayments of the Company mainly consist of advances on purchases of Rs. 3 Mn (2008 - Rs. 56 Mn) and payments for software maintenance of Rs. 71 Mn (2008 - Rs. 30 Mn). Advances and prepayments of the Group mainly consist of advances on purchases of Rs. 68 Mn (2008 - Rs. 549 Mn) and payments for software maintenance of Rs. 71 Mn (2008 - Rs. 30 Mn).

(b) Other receivables of the Company consist of interest receivable of Rs. 186 Mn (2008 - Rs. 280 Mn), refundable deposits of Rs. 74 Mn (2008 - Rs. 77 Mn) and dishonoured cheques of Rs. 3 Mn (2008 - Rs. 2 Mn). Other receivables of the Group mainly consist of interest receivable of Rs. 276 Mn (2008 - Rs. 281 Mn), refundable deposits of Rs. 155 Mn (2008 - Rs. 138 Mn), dishonoured cheques of Rs. 3 Mn (2008 - Rs. 2 Mn) and VAT receivable of Rs. 486 Mn (2008 - Rs. 362 Mn).

**21. Cash and cash equivalents**

	Group		Company	
	2009	2008	2009	2008
Cash at bank and in hand	581	378	194	5
Cash in transit	-	15	-	-
Restricted at bank [See Note (a) below]	281	10,199	281	10,199
Short term deposits [See Note (b) below]	5,232	8,154	4,970	7,767
	6,094	18,746	5,445	17,971

(a) The restricted cash balance represents a deposit of Rs. 281 Mn (2008 - Rs. 236 Mn) at People's Bank of Sri Lanka representing the sinking fund investment for the insurance reserve.

(b) The interest on short-term bank deposits are on commercial terms. The weighted average effective interest rates on short-term LKR and USD bank deposits were 10.93% (2008 - 16.51%) and 5.32% (2008 - 5.18%) respectively.

(c) For the purpose of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2009	2008	2009	2008
Cash and cash equivalents	6,094	18,746	5,445	17,971
Bank overdrafts (Note 22)	(2,195)	(876)	-	-
	3,899	17,870	5,445	17,971

## 22. Borrowings

	Group		Company	
	2009	2008	2009	2008
<b>Current (due within one year)</b>				
Bank overdrafts (Note 21)	2,195	876	-	-
Government borrowings	619	654	619	654
USD 100 million Notes	-	11,475	-	11,475
Bank borrowings and others [See Note 22(m) below]	2,483	3,473	500	1,015
Lease liabilities	20	10	17	10
	5,317	16,488	1,136	13,154
<b>Non-current (due after one year)</b>				
Government borrowings	-	644	-	644
Bank borrowings and others [See Note 22(m) below]	7,959	4,548	1,000	-
Lease liabilities	75	36	59	36
	8,034	5,228	1,059	680
<b>Total borrowings</b>	<b>13,351</b>	<b>21,716</b>	<b>2,195</b>	<b>13,834</b>

(a) The interest rate exposure of the borrowings of the Group and Company was as follows:

	Group		Company	
	2009	2008	2009	2008
Total borrowings				
- at fixed rates	2,283	13,417	76	12,457
- at floating rates	11,068	8,299	2,119	1,377
	13,351	21,716	2,195	13,834

(b) The currency exposure of the borrowings of the Group and the Company at the balance sheet date was as follows:

	Group		Company	
	2009	2008	2009	2008
Foreign currency	3,846	11,591	-	11,591
Local currency	9,505	10,125	2,195	2,243
	13,351	21,716	2,195	13,834

## Notes to the consolidated financial statements

**22. Borrowings (Contd.)**

(c) Effective interest rates of the Company and the Group are as follows:

	Group		Company	
	2009	2008	2009	2008
Average effective interest rates:				
- bank overdrafts	15.6%	20.7%	-	-
- foreign bank borrowings	2.4% - 6%	2.9% - 6.4%	6.0%	6.4%
- government borrowings	15.6%	15.0%	15.6%	15.0%
- USD 100 million Notes (Redeemed during the year)	6.9%	6.9%	6.9%	6.9%
- bank borrowings	16.1% - 18.9%	16% - 19.8%	16.1%	16.0%
- lease liabilities	21% - 25%	21% - 25%	21% - 25%	21% - 25%

(d) Maturity analysis of the Company and the Group is as follows:

	Group		Company	
	2009	2008	2009	2008
Maturity of non current borrowings : (excluding finance lease liabilities)				
- between 1 and 2 years	2,856	2,609	1,000	602
- between 3 and 5 years	4,820	1,846	-	42
- over 5 years	283	737	-	-
	7,959	5,192	1,000	644

(e) Analysis of the finance lease liabilities of the Company and the Group is as follows:

	Group		Company	
	2009	2008	2009	2008
Finance lease liabilities - minimum lease payments				
- not later than 1 year	39	18	32	18
- later than 1 year and not later than 5 years	98	46	76	46
	137	64	108	64
Less : future finance charges on finance leases	(42)	(18)	(32)	(18)
<b>Present value of finance lease liabilities</b>	<b>95</b>	<b>46</b>	<b>76</b>	<b>46</b>
Representing lease liabilities:				
- current	20	10	17	10
- non-current	75	36	59	36
	95	46	76	46

(f) The Government of Sri Lanka had borrowed amounts in foreign currencies to fund the development of the Company's telecommunication network. These amounts had been re-lent to the Company with shorter repayment periods than the underlying loan. The total borrowings of the Government of Sri Lanka as at 31 December 2009 was Rs. 619 Mn (2008 - Rs. 1,298 Mn). The exchange fluctuations on these loans are borne by the Government of Sri Lanka.

## 22. Borrowings (Contd.)

- (g) Third party loan which was guaranteed by Government of Sri Lanka amounted to Rs. 116 Mn was settled during the year. USD 100 Mn bond was redeemed in November 2009 utilising the funds available in the sinking fund created for that purpose.
- (h) The loan covenants include submission of audited financial statements to the lenders within specified periods from the financial year end, and to maintain adequate accounting records in accordance with generally accepted accounting principles.
- (i) The Directors believe that the company and the Group will have sufficient funds available to meet its present loan commitments.
- (j) Lease liabilities of the Company and the Group are effectively secured by the lessor against the rights to the title of the asset.
- (k) Bank borrowings and bank overdrafts of Mobitel (Private) Limited, a subsidiary of the Company, are secured, inter alia, by corporate guarantees given by the Company.
- (l) Bank borrowings of Mobitel (Private) Limited are secured by a pledge over property, plant and equipment at a value of Rs. 17.7 Bn [See Note 15 (c)]
- (m) Addition to the bank borrowings and notes of the Company and Group during the year consist of Rs. 1,500 Mn and Rs. 5,626 Mn borrowed for the purpose of Capital Expansion Projects respectively.

## 23. Deferred income tax (assets) / liabilities

Deferred income tax liabilities are calculated on all temporary and deductible differences arising from differences between accounting base and tax base of assets and liabilities. Deferred income tax is provided under the liability method using a principal tax rate of 35% (year of assessment 2008/09 - 35%).

The movement in the deferred income tax account is as follows:

	Group		Company	
	2009	2008	2009	2008
At beginning of year	1,097	2,777	1,097	2,777
Income statement release (Note 12)	(1,289)	(1,680)	(1,284)	(1,680)
Release of deferred tax liability relevant to previous years	(482)	-	(482)	-
At end of year	(674)	1,097	(669)	1,097

The temporary and deductible differences mainly arise from property, plant and equipment, deferred income, provision for defined benefit obligations and other provisions.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The offset amounts are as follows:

## Notes to the consolidated financial statements

**23. Deferred income tax (assets) / liabilities (Contd.)**

	Group		Company	
	2009	2008	2009	2008
Deferred income tax assets:				
- Deferred tax asset to be recovered after more than 12 months	4,841	4,600	4,837	4,600
- Deferred tax asset to be recovered within 12 months	122	311	120	311
	4,963	4,911	4,957	4,911
Deferred income tax liabilities:				
- Deferred tax liability to be recovered after more than 12 months	3,706	4,608	3,705	4,608
- Deferred tax liability to be recovered within 12 months	583	1,400	583	1,400
	4,289	6,008	4,288	6,008
Deferred tax liabilities (net)	(674)	1,097	(669)	1,097

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the off-setting of balances within the same tax jurisdiction, is as follows:

	Group
	Accelerated tax depreciation
Deferred income tax liabilities	
At 1 January 2008	7,694
Credited to the income statement	(1,686)
At 31 December 2008	6,008
Credited to the income statement	(1,719)
At 31 December 2009	4,289

	Group			
	Defined benefit obligations	Provisions	Deferred income	Total
Deferred income tax assets				
At 1 January 2008	(445)	(2,222)	(2,250)	(4,917)
Charged / (credited) to the income statement	45	(251)	212	6
At 31 December 2008	(400)	(2,473)	(2,038)	(4,911)
(Credited) / charged to the income statement	(81)	(175)	204	(52)
At 31 December 2009	(481)	(2,648)	(1,834)	(4,963)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of Rs. 66 Mn (2008 - Rs. 34 Mn) in respect of tax losses of subsidiaries amounting to Rs. 177 Mn (2008 - Rs. 97 Mn) that can be carried forward against future taxable income.

No deferred tax is recognised in Mobitel (Private) Limited, a subsidiary of the Company, as it pays income tax on turnover [Note 12 (a)].



## 24. Deferred income

Deferred income of the Company represents the connection charges relating to PSTN network, net of amounts amortised to the income statement. The connection charges are amortised over a period of 15 years as stated in Accounting Policy 2.21(iv). The deferred income of the Company also includes of the revenue arising on sale of SEA-ME-WE 4 cable capacity which is recognised over the lease period of 15 years. In addition, the deferred income of the Group represents deferred pre-paid card revenue of Mobitel (Private) Limited.

The movement in the deferred income account is as follows:

	Group		Company	
	2009	2008	2009	2008
At beginning of year	6,467	6,664	5,822	6,429
Connection fees for the year	298	724	253	314
Income from Indefeasible Right of Use (IRU) of SEA-ME-WE 4	74	-	74	-
Backhauling charges	-	-	8	-
Release of deferred connection charges (Note 5)	(906)	(921)	(906)	(921)
Release of deferred IRU Sales	(3)	-	(3)	-
Total amount credited to income statement	(909)	(921)	(909)	(921)
At end of year	5,930	6,467	5,248	5,822
Representing deferred income:				
- current	1,574	1,535	892	890
- non-current	4,356	4,932	4,356	4,932
	5,930	6,467	5,248	5,822

## 25. Trade and other payables

	Group		Company	
	2009	2008	2009	2008
<b>Amounts due within one year</b>				
Domestic trade payables	1,868	1,647	369	312
Foreign trade payables	193	203	193	203
Amount due to subsidiaries [Note 35 (i)]	-	-	1,462	829
Amount due to related companies [Note 35 (i)]	37	-	37	-
Capital expenditure payables [See Note (a) below]	9,758	4,220	1,526	1,273
Social security and other taxes [See Note (b) below]	645	268	645	268
Interest payable	27	133	27	133
Other payables [See Note (c) below]	7,647	6,692	6,377	5,754
	20,175	13,163	10,636	8,772
<b>Amounts due after one year</b>				
International Direct Dialing deposits	234	235	234	235
Prepayments on VOIP services	13	11	13	11
PSTN guarantee deposits	43	43	43	43
Capital expenditure payables [See Note (a) below]	2,258	-	-	-
	2,548	289	290	289

- (a) Capital expenditure payables of the Company mainly consist of contractors' payable of Rs. 897 Mn (2008 - Rs. 534 Mn) and advances on network restoration after road works of Rs. 464 Mn (2008 - Rs. 519 Mn). Capital expenditure payables of the Group mainly consist of contractors' payable of Rs. 9,129 Mn (2008 - Rs. 3,480 Mn) and advances on network restoration after road works of Rs. 464 Mn (2008 - Rs. 519 Mn).

## Notes to the consolidated financial statements

**25. Trade and other payables (Contd.)**

- (b) Social security and other taxes of the Group and the Company mainly consist of Value Added Tax of Rs. 212 Mn (2008 - Rs. 24 Mn), Fixed Line Subscriber Levy payable of Rs. 124 Mn (2008 - Nil), EPF payable of Rs. 90 Mn (2008 - Rs. 80 Mn) PAYE payable of Rs. 69 Mn (2008 - Rs. 90 Mn) and Cellular Mobile Subscriber Levy payable of Rs. 50 Mn (2008 - Rs. 34 Mn).
- (c) Other payables of the Company mainly consist of dividend payable to the Government of Sri Lanka of Rs. 242 Mn (2008 - Rs. 244 Mn), provision for Goods Received Notes (GRNs) of Rs. 833 Mn (2008 - Rs. 480 Mn), International Telecommunication Operators' Levy payable of Rs. 4,091 Mn (2008 - Rs. 3,583 Mn), Cess payable to Director General of Telecommunication of Rs. 138 Mn (2008 - Rs. 217 Mn) and accrued expenses and other payables of Rs. 823 Mn (2008 - Rs. 868 Mn). Other payables of the Group mainly consist of dividend payable to the Government of Sri Lanka of Rs. 242 Mn (2008 - Rs. 244 Mn), provision for Goods Received Notes (GRNs) of Rs. 833 Mn (2008 - Rs. 480 Mn), International Telecommunication Operators' Levy payable of Rs. 4,091 Mn (2008 - Rs. 3,583 Mn), Cess payable to Director General of Telecommunication of Rs. 138 Mn (2008 - Rs. 217 Mn) and accrued expenses and other payables of Rs. 1,234 Mn (2008 - Rs. 1,565 Mn).

**26. Retirement benefit obligations**

Movement in the liability recognised in the balance sheet is as follows.

	Group		Company	
	2009	2008	2009	2008
At beginning of year	1,217	1,329	1,144	1,272
Current service cost	104	90	97	81
Interest cost	144	133	137	127
Actuarial losses / (gains)	154	(222)	154	(224)
Benefits paid	(161)	(113)	(159)	(112)
<b>At end of year</b>	<b>1,458</b>	<b>1,217</b>	<b>1,373</b>	<b>1,144</b>
The amounts recognised in the income statement are as follows:				
Current service cost	104	90	97	81
Interest cost	144	133	137	127
Actuarial losses / (gains)	154	(222)	154	(224)
	402	1	388	(16)

- (a) As stated in Accounting Policy 2.19(b) as at 31 December 2009, an actuarial valuation was carried out by an independent actuary.

The principal actuarial assumptions used were as follows:

	Group		Company	
	2009	2008	2009	2008
Discount rate [long - term]	11% - 12%	12%	11%	12%
Future salary increases	8% - 10%	9% - 15%	8%	9%

In addition to above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2009, 1967/70 Mortality Table issued by the Institute of Actuaries London (2008 - 1967/70 Mortality Table) was taken as the base for the valuation.

The provision for defined obligations of Sri Lanka Telecom PLC and Mobitel (Private) Limited are actuarially valued by Messrs Actuarial and Management Consultants (Private) Limited and Piyal S Goonetilake and Associates respectively.

The provision for defined benefit obligations is not funded.

## 27. Insurance reserve

	Group/Company	
	2009	2008
At beginning of year	236	204
Income statement charge and interest income on sinking fund deposit	45	32
At end of year	281	236

As stated in Accounting Policy 2.14, the Company transfers annually from the income statement an amount equal to 0.1% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment.

Management regularly monitors the charges made against the insurance reserve and the adequacy of the provision made.

## 28. Grants

Group	Alcatel CIT France		TDC Refund CDMA		Total	
	2009	2008	2009	2008	2009	2008
Balance at 1 January	61	68	-	-	61	68
Grant received	-	-	69	-	69	-
Credited to income statement	(7)	(7)	(13)	-	(20)	(7)
Balance at 31 December	54	61	56	-	110	61

Company	Alcatel CIT France	
	2009	2008
Balance at 1 January	61	68
Grant credited to income statement	(7)	(7)
Balance at 31 December	54	61

(a) Alcatel CIT France grant consist of Exchange equipment received in 2005.

(b) Grant received comprises refund of TDC amounting to Rs. 69 Mn by the Telecommunication Regulatory Commission in connection with the cost of network roll out by Mobitel (Private) Limited.

## 29. Stated capital

	Company	
	2009	2008
Issued and fully paid		
1,804,860,000 ordinary shares issued at Rs. 10 per share	18,049	18,049

## Notes to the consolidated financial statements

The issued and fully paid share capital is made up as follows:

**29. Stated capital (Contd.)**

	2009		2008	
	Holding percentage	Number of shares	Holding percentage	Number of shares
Government of Sri Lanka	49.50%	893,405,709	49.50%	893,405,709
Global Telecommunications Holdings N.V.	44.98%	811,757,869	44.98%	811,757,869
Public shareholders	5.52%	99,696,422	5.52%	99,696,422
	100%	1,804,860,000	100%	1,804,860,000

**30. Hedging reserve**

	Group / Company	
	2009	2008
At beginning of year	(32)	(58)
Foreign currency translation differences	-	(4)
Income statement charge (Note 10)	32	30
At end of year	-	(32)

**31. Cash generated from operations**

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2009	2008	2009	2008
Profit before tax	1,395	9,560	1,608	8,772
Adjustments for:				
Depreciation (Note 15)	11,332	11,283	8,302	9,062
Amortisation of grants (Note 28)	(7)	(7)	(7)	(7)
Amortisation of intangible assets (Note 16)	458	332	196	136
Interest expense and finance costs (Note 10)	2,024	2,130	905	1,202
Interest income (Note 11)	(1,164)	(1,279)	(1,127)	(1,208)
Connection fees less amortisation (Note 24)	(481)	(197)	(574)	(607)
Profit on sale of property, plant and equipment	(21)	(15)	(21)	(21)
Provision for insurance reserve net of interest income (Note 27)	45	32	45	32
Impairment on NGN phase 1 & 2 (Note 15)	151	-	151	-
Exchange equalisation reserve	(7)	-	-	-
Retirement benefit obligations net of benefits paid (Note 26)	241	(112)	229	(128)
	13,966	21,727	9,707	17,233
Changes in working capital:				
- receivables and prepayments	(704)	(1,310)	(36)	(903)
- inventories	601	(1,107)	588	(957)
- payables	9,377	2,004	1,969	250
Cash generated from operations	23,240	21,314	12,228	15,623

### 32. Commitments

#### Capital commitments

The Group and the Company have purchase commitments in the ordinary course of business as at 31 December 2009 as follows:

	Group		Company	
	2009	2008	2009	2008
Property, plant and equipment				
- approved but not contracted	4,057	8,266	4,057	8,266
- approved and contracted	12,624	11,219	2,677	5,610
	16,681	19,485	6,734	13,876

#### Operating Lease commitments

The future minimum lease payments under operating leases are as follows:

	Group		Company	
	2009	2008	2009	2008
Later than one year and not later than five years	211	207	211	207

#### Other financial commitments

Except for any regular maintenance contracts entered into with third parties in the normal course of business, there are no other material financial commitments that requires separate disclosure.

### 33. Contingencies

- (a) The Department of Inland Revenue issued assessments for the years of assessment 1993/94 and 1994/95 charging tax, on deemed dividend, based on book profits of the Company. The Company appealed against those assessments, on the ground that deemed dividend tax should be calculated on tax adjusted profits. The total liability for years of assessment 93/94 and 94/95 as per the said assessments, amounts to Rs. 643 Mn.

Accordingly, this appeal was referred to the Board of Review for hearing and the Board of Review confirmed these assessments. However, the Company has appealed against the Board determination to the Court of Appeal.

- (b) Global Electroteks Limited has initiated legal action under High Court Case No. 20/2005 claiming damages of USD 12 Mn from SLT PLC for unlawful disconnection of interconnection services.
- (c) Directories Lanka (Private) Limited (DLPL) filed case No. 2/2006 (3) in Commercial High Court against SLT PLC claiming Rs. 250 Mn, damages for unfair competition with regard to Artwork on the cover page of SLT Directory Publication.
- (d) Telecommunication Engineering Diplomats Association have initiated proceedings in the Supreme Court by way of a Fundamental Rights Application, to revise overtime rates for Technical and Operational Grade employees who are employed after 01st December 1998. The case is pending hearing.

With regard to cases detailed above, pending the outcome of the appeals and hearings, no provisions have been recognised in the financial statements up to 31 December 2009.

In addition to the above referred cases, there are more issues in relation to claims by employees and third parties for damages. In the opinion of the Directors none of these actions are likely to result in a material liability to the Company and its subsidiaries.

## Notes to the consolidated financial statements

**34. Business combinations**

On 16 May 2008, the Company acquired 75% of stated capital of Sky Network (Private) Limited, a licensed Wi-max operator in Sri Lanka. The acquired business made a loss attributable to the group of Rs. 10,344,592 for the period from 16 May 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group profit before allocations would have been Rs. 7,360 Mn. These amounts have been calculated using the Group's accounting policies.

During the year, the Company acquired further 23.81% and 1.08% of stated capital of Sky Network (Private) Limited on 30 September 2009 and 18 December 2009 respectively by issue of new shares, thus diluting the minority share holders to 0.11%.

**35. Related party transactions**

The Company had following transactions with related entities during the year under review:

**(a) Mobitel (Private) Limited**

	Company	
	2009	2008
<i>Sale of goods and services:</i>		
Provision of E1 links	913	496
Interconnection charges	1	168
TDM, VOIP Platform and Transit	105	8
	1,019	672
<i>Purchase of goods and services:</i>		
Call charges on official mobile phone	29	51
Interconnection charges	61	253
Antenna tower space	274	223
	364	527
Preference dividend received	-	349

Number of new GSM connections granted (special packages with no monthly rental) in 2009 is 275 (2008 - 582).

The Company has provided guarantees on behalf of Mobitel (Private) Limited for following loans and obligations.

- (i) Loans amounting to Rs. 6,971 Mn (2008 - Rs. 8,710 Mn) and USD 87.5 Mn (2008 - USD 48.1 Mn) for GSM rollout stage 1, 3, 4 and 5.
- (ii) A commitment guarantee amounting to Rs. 250 Mn (2008 - 250 Mn) issued by banks in favour of TRC for the purpose of 3G rollout.

**(b) NTT Communications Corporation**

As per the shareholders' agreement with NTT Com, the following charges have been borne by the Company. The shareholder agreement expired on 1 April 2008 (The date of sale of shares held by NTT) and was not renewed.

	Company	
	2009	2008
<i>Purchase of goods and services:</i>		
- Fees for secondment of personnel from NTT Com	-	11
- Expenditure for personnel from NTT Com	-	4
	-	15

**35. Related party transactions (Contd.)****(c) SLT (Hong Kong) Limited**

	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
<i>Sale of goods and services:</i>		
- Calls terminated to SLT subscribers	15	-
- Calls terminated to subscribers of other domestic operators	183	-
- Leased circuits	52	40
	250	40
<i>Purchase of goods and services:</i>		
- Time Division Multiplexing Transit (TDM Transit)	597	-
- Leased circuits	81	62
	678	62

**(d) Sri Lanka Telecom (Services) Limited**

	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
<i>Purchase of goods and services:</i>		
Supply of services	2	1

**(e) SLT Manpower Solutions (Private) Limited**

	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
<i>Purchase of goods and services:</i>		
Supply of services	452	-

**(f) SLT VisionCom (Private) Limited**

	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
<i>Purchase of goods and services:</i>		
Supply of services	49	-

**(g) Fees for secondment of personnel and services provided to / by SLT PLC**

	<b>Company</b>	
	<b>2009</b>	<b>2008</b>
SLT Publications (Private) Limited	31	8
SLT Manpower Solutions (Private) Limited	4	4
SLT VisionCom (Private) Limited	24	13
Sky Network (Private) Limited	13	6
	72	31

## Notes to the consolidated financial statements

**35. Related party transactions (Contd.)****(h) Maxis Communications Berhad and its subsidiaries**

	Company	
	2009	2008
<i>Sale of goods and services:</i>		
Sale of SEA-ME-WE 3 Cable capacity	3	61
International incoming traffic	379	144
	382	205
<i>Purchase of goods and services:</i>		
International outgoing traffic	154	14

**(i) Outstanding balances arising from sale / purchase of services**

	Company	
	2009	2008
<i>Receivable from subsidiaries:</i>		
Mobitel (Private) Limited	2,305	2,255
SLT (Hong Kong) Limited	10	2
SLT Publications (Private) Limited	40	19
SLT Manpower Solutions (Private) Limited	8	4
SLT VisionCom (Private) Limited	121	13
Sky Network (Private) Limited	22	6
	2,506	2,299

	Company	
	2009	2008
<i>Payable to subsidiaries:</i>		
Mobitel (Private) Limited	1,099	777
Sri Lanka Telecom (Services) Limited	-	-
SLT (Hong Kong) Limited	306	2
SLT Manpower Solutions (Private) Limited	57	50
	1,462	829

SLT VisionCom (Private) Limited provides IPTV services using the Company telecommunication infrastructure. The invoicing for such services are done using the billing system of the Company.

	Group/Company	
	2009	2008
<i>Receivable from related companies:</i>		
Maxis Communications Berhad and its subsidiaries	206	139

	Group/Company	
	2009	2008
<i>Payable to related company:</i>		
Maxis Communications Berhad and its subsidiaries	37	-



### 35. Related party transactions (Contd.)

#### (j) Key management Compensation

	Group		Company	
	2009	2008	2009	2008
Salaries and other benefits	179	91	111	54

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. A related party transaction takes place with a transfer of resources or obligations between related parties, regardless of whether a price is charged.

All transactions during the year and balances as at the balance sheet date between the following companies have been eliminated in preparing the consolidated financial statements.

Mobitel (Private) Limited  
 Sri Lanka Telecom (Services) Limited  
 SLT (Hong Kong) Limited  
 SLT Publications (Private) Limited  
 SLT Manpower Solutions (Private) Limited  
 SLT VisionCom (Private) Limited  
 Sky Network (Private) Limited

Related party transactions disclosed above should be read in conjunction with Notes 17 and 36 to the financial statements.

### 36. Directors' interests in contracts

(a) A Director is considered to have a direct interest in a contract with the Company, if the Director is involved in a contract with the Company. A Director has an indirect interest in a contract with the Company, if the Director, through common directorships or dependent family members are involved in a contract with the Company.

The Directors of Sri Lanka Telecom PLC held directorship in the following related entities during the year:

Director	Company	Position
Mrs Leisha De Silva Chandrasena	Mobitel (Private) Limited	Chairperson / Director
	SLT Publications (Private) Limited	Chairperson / Director
	SLT Manpower Solutions (Private) Limited	Chairperson / Director
	SLT VisionCom (Private) Limited	Chairperson / Director
	Sky Network (Private) Limited	Chairperson / Director
	Sri Lanka Telecom (Services) Limited	Chairperson / Director
	SLT Hong Kong Limited	Chairperson / Director
	Rakna Arakshaka Lanka Limited	Company Secretary
Mr Sumith Wijesinghe	Mobitel (Private) Limited	Director
	SLT Manpower Solutions (Private) Limited	Director
	SLT VisionCom (Private) Limited	Director
	Sky Network (Private) Limited	Director
	SLT Hong Kong Limited	Director

## Notes to the consolidated financial statements

**36. Directors' interests in contracts (Contd.)**

Director	Company	Position
Mr Sidath Fernando	SLT VisionCom (Private) Limited	Director
	SLT Manpower Solutions (Private) Limited	Director
	Sky Network (Private) Limited	Director
	SLT Publications (Private) Limited	Director
Mr Sandip Das	Mobitel (Private) Limited	Director
	Maxis Communications Berhad	CEO / Director
	Aircel Group	Director
	Bridge Mobile Alliance	Director
Mr Chang Chee Beng	Mobitel (Private) Limited	Director
	Maxis Communications Berhad	Director
	Aircel Limited	Director
	Binariang GSM Sdn. Bhd.	Director
	Measat Global Berhad Group	Director
	Bumi Armada Berhad Group	Director
Mr Jeffrey Jay Blatt	Usaha Tegas Sdn. Bhd.	Director
	SLT VisionCom (Private) Limited	Director
Mr Yoga Perera	SLT Hong Kong Limited	Director
	SLT Manpower Solutions (Private) Limited	Director

Related party transactions are disclosed in Note 35 - Related Party Transactions.

**37. Group reporting dates**

The annual financial statements of the subsidiaries, Sri Lanka Telecom (Services) Limited, SLT (Hong Kong) Limited, SLT Publications (Private) Limited, Mobitel (Private) Limited, SLT Manpower Solutions (Private) Limited, SLT VisionCom (Private) Limited and Sky Network (Private) Limited are prepared at 31 December each year.

**38. Post balance sheet events**

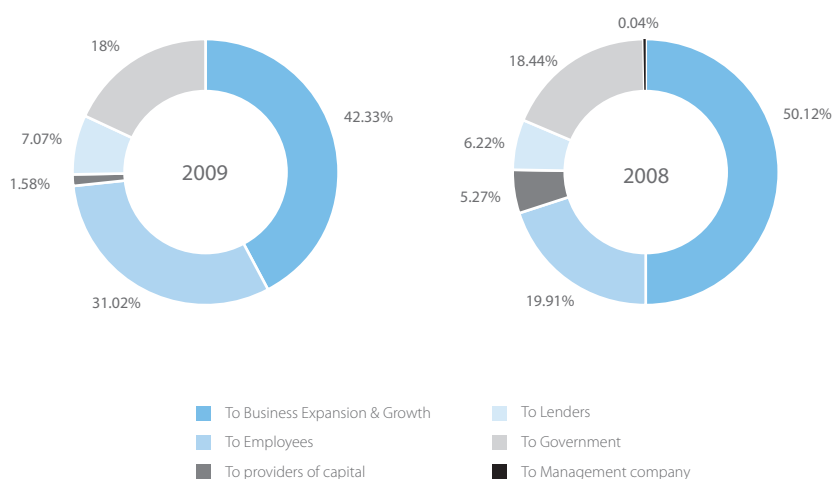
No events have arisen since the balance sheet date which would require adjustments to, or disclosure in, these consolidated financial statements.

## Ten year progress

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
<b>Financial Position - (Group)</b>										
Property, Plant & Equipment	65,896	57,073	53,881	54,202	56,151	54,360	55,763	56,722	59,093	61,498
Total Assets	90,308	93,199	85,372	84,042	81,520	78,872	72,373	74,765	80,173	82,497
Current Assets	19,650	32,389	28,609	27,292	23,843	22,144	14,626	15,963	13,772	12,213
Current Liabilities	27,203	32,819	16,830	16,370	13,892	11,378	12,440	12,048	12,144	12,134
Borrowings	13,351	21,716	19,285	20,785	22,840	25,370	21,081	25,926	31,534	34,633
Equity	46,599	47,556	41,900	37,866	33,793	31,064	30,600	29,024	36,957	35,742
<b>Performance</b>										
Revenue	48,077	47,044	43,234	40,691	32,515	29,516	25,553	25,383	22,060	19,605
Operating Profit	2,067	7,809	9,176	9,895	6,087	3,275	5,678	7,953	6,314	4,984
Finance Cost	2,024	2,130	2,232	1,884	2,085	2,252	2,863	3,377	3,585	4,516
Earnings before Tax	1,395	9,560	8,399	9,227	4,812	1,441	3,242	5,207	3,618	914
Taxation	617	2,193	2,759	3,789	1,719	148	993	2,522	1,515	693
Earnings after Tax	778	7,367	5,640	5,438	3,093	1,293	2,249	2,685	2,103	221
<b>Cash Flow</b>										
Net Operating Cash Flows	18,067	16,214	15,090	13,434	17,200	10,402	11,429	13,458	9,568	9,566
Net Cash used in										
Investing Activities	20,710	15,288	10,073	9,197	10,686	7,611	7,278	3,722	4,425	8,894
Net Cash used in/(from)										
Financing Activities	11,408	526	2,555	5,093	2,571	(3,314)	5,525	7,552	4,978	(2,066)
<b>Key Financial Indicators</b>										
Earnings per Share (Rs.)	0.43	4.1	3.1	3.1	1.7	0.7	1.3	1.5	1.2	0.1
Return on Assets (%)	2.29%	8.4	10.7	11.8	7.5	4.2	7.8	10.6	7.9	6.1
Return on Equity (%)	1.67%	15.5	13.5	14.4	9.2	4.2	7.3	9.3	5.7	0.6
Operating Margin (%)	4.30%	16.6	21.2	24.3	18.7	11.1	22.2	31.3	28.6	25.4
Asset Turnover (No. of times)	0.53	0.50	0.51	0.48	0.4	0.37	0.35	0.34	0.28	0.24
Current Ratio (No. of times C.L.)	0.72	0.99	1.7	1.67	1.72	1.95	1.17	1.32	1.13	1.01
Quick Asset Ratio (No. of times C.L.)	0.65	0.91	1.61	1.58	1.66	1.83	1.11	1.27	1.05	0.9
Gearing Ratio (Debt to Rs. 1/- of										
Capital Employed)	0.22	0.31	0.32	0.35	0.4	0.45	0.41	0.47	0.46	0.49
Interest Cover (No. of times Interest)	1.69	5.49	4.76	5.9	4.35	1.7	2.27	2.85	2.27	1.21

## Value added statement

	2009		2008	
<b>Value Added</b>				
Revenue	48,077		47,044	
Other Income	1,352		3,881	
	49,429		50,925	
Goods & Services purchased from other sources	(20,803)		(16,656)	
Value creation	28,626		34,269	
<b>Distribution of Value Added</b>				
To Employees				
- Salaries, wages, & other benefits	8,881	31.02%	6,823	19.91%
To providers of capital				
- Dividend to share holders (2009 proposed)	451	1.58%	1,805	5.27%
To Management Company NTT				
- Management fees, Remuneration & Exp.	-	-	15	0.04%
To Government				
- Taxes & Regulatory fees	5,153	18.00%	6,319	18.44%
To Lenders				
- Interest & Related charges	2,024	7.07%	2,130	6.22%
To Business Expansion & Growth				
- Depreciation	11,790	41.19%	11,615	33.89%
- Retained Income	327	1.14%	5,562	16.23%
	28,626	100.00%	34,269	100.00%



# Abbreviations

<b>4G</b> Fourth Generation	<b>GDP</b> Gross Domestic Product	<b>LEARN</b> Lanka Education And Research Network	<b>SDH</b> Synchronous Digital Hierarchy
<b>ACC</b> Association of Cable Communicators	<b>GTH</b> Global Telecommunications Holdings	<b>MPEG</b> Moving Picture Experts Group	<b>SDM</b> Space Division Multiplex
<b>ADSL</b> Asymmetric Digital Subscriber Line	<b>ICASL</b> Institute of Chartered Accountants of Sri Lanka	<b>MPLS</b> Multiprotocol Label Switching	<b>SEA ME WE</b> South East Asia-Middle East- West Europe
<b>ASPI</b> All Share Price Index	<b>ICT</b> Information and Communication Technologies	<b>MSAN</b> Multi-Service Access Node	<b>SKA</b> Sender Keeps All
<b>BSNL</b> Bharat Sanchar Nigam Limited	<b>ICTA</b> Information and Communication Technology Agency of Sri Lanka	<b>NGN</b> Next Generation Network	<b>SLIM</b> Sri Lanka Institute of Marketing
<b>CDMA</b> Code Division Multiple Access	<b>IDD</b> International Direct Dialling	<b>NTT</b> Nippon Telegraph and Telephone Communications	<b>SMS</b> Short Message Service
<b>CLI</b> Caller Line Identification	<b>IGW</b> International Gateway	<b>OIC</b> Officer in Charge	<b>STM-1</b> Synchronous Transport Module level-1
<b>DEL</b> Direct Exchange Line	<b>IMS</b> IP Multimedia Subsystem	<b>OSS</b> Operational Support System	<b>TRCSL</b> Telecommunication Regulatory Commission of Sri Lanka
<b>E1</b> E – Carrier System level 1	<b>IMT-2000</b> International Mobile Telecommunications-2000	<b>Peo TV</b> Personalised Entertainment Option Television	<b>VoD</b> Video on Demand
<b>EBITDA</b> Earnings Before Interest, Taxes, Depreciation and Amortisation	<b>IP</b> Internet Protocol	<b>PoP</b> Point of Presence	<b>VoIP</b> Voice over Internet Protocol
<b>EPF</b> Employee Provident Fund	<b>IP-VPN</b> Internet Protocol Virtual Private Network	<b>PSTN</b> Public Switched Telephone Network	<b>VPN</b> Virtual Private Network
<b>ETF</b> Employee Trust Fund	<b>IPTV</b> Internet Protocol Television	<b>PTC</b> Pacific Telecommunications Council	<b>WAP</b> Wireless Access Protocol
<b>FCR</b> Fault Clearance Rate	<b>ITW</b> International Telecoms Week	<b>RWT</b> Right When Tested	<b>WiMAX</b> Worldwide Interoperability for Microwave Access
<b>FTTN</b> Fiber-To-The-Node	<b>KPI</b> Key Performance Indicator	<b>SAFA</b> South Asian Federation of Accountants	

# Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the THIRTEENTH ANNUAL GENERAL MEETING of Sri Lanka Telecom PLC will be held in 27th April 2010 at 10.00 am at the BCIS Auditorium of Bandaranaike Memorial International Conference Hall, Baudhaloka Mawatha, Colombo 07 for the purpose of conducting the following Routine and Special business:

## AGENDA

### 1. Routine Business

- 1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and Statement of Accounts for the year ended 31 December 2009 with the Report of the Auditors thereon.
- 1.2 To declare a first and final dividend of Twenty Five Cents (25 Cents) per share as recommended by the Directors.
- 1.3 To elect as a Director, Mr. Sumith Wijesinghe, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association.
- 1.4 To elect as a Director, Mr. Sidath Fernando, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association.
- 1.5 To elect as a Director, Mr. U R Seneviratne, who retires in terms of Article 97 of the Articles of Association.
- 1.6 To appoint Auditors in place of those retiring:  
To consider and if thought fit to pass the following resolution as an ORDINARY RESOLUTION for the appointment of Messrs KPMG Ford Rhodes Thornton & Company, Chartered Accountants, as the Auditors of the Company in place of the retiring Auditors PricewaterhouseCoopers, Chartered Accountants from the conclusion of this Annual General Meeting and remuneration. Written Notice of the proposed Resolution has been given to the retiring Auditors as stipulated by section 160 of the Companies Act, No. 7 of 2007.  
"That Messrs KPMG Ford Rhodes Thornton & Company, Chartered Accountants be appointed the Auditors of the Company, in place of the retiring auditors, Messrs PricewaterhouseCoopers, Chartered Accountants, to hold office from the conclusion of this Annual General Meeting and that their remuneration be fixed by the Directors."
- 1.7 To authorise the Directors to determine and make donations to charities.
- 1.8 To transact any other business of which due notice has been given.

### 2. Special Business

To consider and if thought fit to pass the Resolution set out in Annexure "A" to this Notice of Meeting as a SPECIAL RESOLUTION.

By Order of the Board  
SRI LANKA TELECOM PLC

*PWC Corporate Secretarial (Pvt) Ltd.*  
Secretaries

26th March, 2010  
Colombo

### Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her.
2. A proxy need not be a member of the Company.
3. A Form of Proxy accompanies this Notice.

## Annexure A

IT IS HEREBY RESOLVED as a SPECIAL RESOLUTION that the Articles of Association of the Company ("Articles") be amended as follows,

1. The name of the Company be amended to read as Sri Lanka Telecom PLC and that all references to Sri Lanka Telecom Limited in the Articles be henceforth amended to read as Sri Lanka Telecom PLC.
2. To provide for amendments to the following definitions in Article 2
 

Board :	The board of directors of the Company from time to time;
Companies Act :	The Companies Act No. 7 of 2007 and any amendment thereto;
Statutes :	The Companies Act No. 7 of 2007 and every other Act for the time being in force concerning companies and affecting the Company;
3. To provide for an amendment to the definition of "Special Resolution Extraordinary Resolution" by deleting the words 'Extraordinary Resolution'...
4. The objects as set out in the Memorandum of Association, which are deemed to form part of the Articles pursuant to section 486 (2) of the Companies Act No. 7 of 2007 be set forth in the Articles as Article 2A under the heading "THE OBJECTS OF THE COMPANY".
5. The capital clause in the previous Memorandum of Association and the corresponding Article 3 in the Articles of Association to be deleted in their entirety.
6. The following Article be inserted as Article 7(A),
  - 7.(A) (1) The Company may agree to purchase or otherwise acquire its own shares with the approval of the Board.
  - (2) Before the Company offers or agrees to purchase its own shares, the Board of the Company should resolve that –
    - i. the acquisition is in the interests of the Company.
    - ii. the terms of the offer or agreement and the consideration to be paid for the shares is in the opinion of the Company's auditors a fair value; and
    - iii. it is not aware of any information that has not been disclosed to shareholders which is material to an assessment of the value of the shares, and as a result of which the terms of an offer or consideration offered for the shares are unfair to shareholders accepting the offer.
  - (3) Before the Company –
    - i. makes an offer to acquire shares other than in a manner which will if it is accepted in full, leave unaffected the relative voting and distribution rights of all shareholders; or
    - ii. agrees to acquire shares other than in a manner which leaves unaffected the relative voting and distribution rights of all shareholders.

The Board shall resolve that the making of the offer or entry into the agreement, as the case may be, is fair to those shareholders to whom the offer is not made or with whom no agreement is entered into.

- (4) The shares which may be so purchased shall be cancelled immediately upon purchase.
7. The following Article be inserted as Article 7(B),
  7. (B) The Company may issue shares which are redeemable,
    - i. at the option of the Company;
    - ii. at the option of the holder of the share; or
    - iii. on a date specified in the articles.

Redemption may be for a consideration that is specified by the Board at the time of issue of the redeemable shares or a consideration which is calculated on a formula that is also specified by the Board or to be fixed by an independent financial advisor having such qualifications as the Board may think fit.
8. Articles 9 (A) and (B) to be deleted in its entirety and substituted with the following,
  - 9 (A) Consolidate or subdivide all or any of its shares in issue in such proportions as it may seem fit, in a manner which would leave the relative voting and distribution rights of all shareholders substantially unaffected.

That Article 9 (C) and (D) be renumbered as 9 (B) and (C) respectively.
9. Article 11 to be amended by the deletion of the words "in the capital of the Company for the time being", and by the addition of the word "issue" immediately after the word "may" in line 2.
10. Article 48 to be deleted in its entirety and substituted with the following,
  48. The Board of the Company shall call an annual general meeting of the shareholders to be held once in each calendar year –
    - i. not later than six months after the balance sheet date of the Company;
    - and
    - ii. not later than fifteen months after the previous annual general meeting.
11. Article 50 to be amended by the substitution of the words "twenty one days" with the words "fifteen working days" and the words "fourteen days" with the words, "ten working days."
12. Article 116 to be substituted with the following,
  - 116 (1) Subject to Article 116(4) which relates to major transactions,
    - i. the business and affairs of the Company shall be managed by or under the direction or supervision of the Board of the Company,
    - ii. the Board shall have all the powers necessary for managing and for directing and supervising the management of, the business and affairs of the Company.
  - (2) (i) The Company shall not enter into any major transaction, unless such transaction is –
    - (a) approved by special resolution;
    - (b) contingent on approval by special resolution;
    - (c) consented to in writing by all shareholders of the

## Annexure A

- Company; or
- (d) a transaction which the Company is expressly authorised to enter into by a provision in its articles, which was included in it at the time the Company was incorporated.
- (ii) In this section the reference to –  
“assets” includes property of any kind, whether corporeal or incorporeal, “major transaction” means –
- (a) the acquisition of or an agreement to acquire whether contingent or not, assets of a value which is greater than half the value of the assets of the company before the acquisition;
- (b) the disposition of or an agreement to dispose of, whether contingent or not, the whole or more than half by value of the assets of the Company;
- (c) a transaction which has or is likely to have the effect of the Company acquiring rights or interests or incurring obligations or liabilities of a value which is greater than half the value of the assets of the Company before the acquisition; or
- (d) a transaction or series of related transactions which have the purpose or effect of substantially altering the nature of the business carried on by the Company.
- (iii) Nothing in this section shall apply to –
- (a) a transaction under which the Company gives or agrees to give a floating charge over all or any part of the property of the Company;
- (b) a transaction entered into by a receiver appointed pursuant to an instrument creating a floating charge over all or any part of the part of the property of the Company;
- (c) a transaction entered into by an administrator or liquidator of the Company.
- (3) (i) The Board may delegate to a committee of Directors, a Director or employee of the Company or any other person, any one or more of its powers other than its powers under any of the sections in the Companies Act specified in the Sixth Schedule.
- (ii) The Board, when it delegates a power under subsection (i), shall be responsible for the exercise of the power by the delegate as if the power had been exercised by the Board, where –
- (a) the Board has reason to believe before the exercise of the power, that the delegate would not exercise the power in conformity with the duties imposed on Directors of the Company by the Companies Act and the Articles; or
- (b) the Board has failed to monitor by means of reasonable methods properly used, the exercise of the power by the delegate.
- (4) (i) Each Director shall act in good faith and in what he believes to be in the interests of the Company.
- (ii) Each Director shall not act or agree to the Company acting, in a manner that contravenes any provisions of the Companies Act or the Articles.
- (iii) Each Director –
- (a) shall not act in a manner which is reckless or grossly negligent; and
- (b) shall exercise the degree of skill and care that may reasonably be expected of a person of his knowledge and experience.
13. The following Article to be added as Article 116(5),
- 116 (5) A Director of the Company who has information in his capacity as a Director or employee of the Company which would not otherwise be available to him, shall not disclose that information to any person or make use of or act on the information except –
- i. for the purpose of the Company;
- ii. as required by law;
- iii. if authorised to do so by the Board, and particulars of the authorisation are entered in the interests register.
14. Article 139 to be substituted with the following,
- 139 The Company shall keep accounting records which correctly record and explain the Company's transactions, and will –
- i. at any time enable the financial position of the Company to be determined with reasonable accuracy;
- ii. enable the Directors to prepare financial statements in accordance with the Companies Act; and
- iii. enable the financial statements of the Company to be readily and properly audited.
- The accounting records must comply with Subsection (2) of Section 148 of the Companies Act.
15. Article 146 to be substituted with the following
146. Auditors shall be appointed and their duties regulated in accordance with the provisions of sections 154 to 164 of the Companies Act
16. Article 158 to be substituted with the following,
- 158 (1) The Company may indemnify a Director or employee of the Company or related Company, for any costs incurred by him in any proceeding –
- i. that relates to liability for any act or omission in his capacity as a director or employee; and
- ii. in which judgment is given in his favour or in which he is acquitted or which is discontinued or in which he is granted relief under Section 526 of the Companies Act.
- (2) The Company may indemnify a Director, or employee of the Company or a related Company in respect of –
- i liability to any person other than the Company or a related Company, for any act or omission in his capacity as a Director or employee; or



- ii. cost incurred by that Director or employee in defending or settling any claim or proceeding relating to any such liability,
- iii. not being criminal liability or in a case of a Director, liability in respect of a breach of the duty specified in section 187 of the Companies Act.

(3) The Company may with the prior approval of the Board, effect insurance for a Director or employee of the Company or a related Company in respect of –

- i. liability not being criminal liability, for any act or omission in his capacity as a Director or employee;
- ii. costs incurred by that Director or employee in defending or settling any claim or proceeding relating to any such liability; or
- iii. costs incurred by that Director or employee in defending any criminal proceedings in which he is acquitted.

(4) In this section –

“Director” includes a former Director;

“employee” includes a former employee.

17. The following Articles to be added as Articles 159 and 160.

Miscellaneous

- 159 (1) The Company must keep at its registered office or at some other place, notice of which has been given to the Registrar in accordance with subsection (4) of Section 116 of the Companies Act, the following documents –
- (i) the certificate of incorporation and the Articles of the Company;
  - (ii) minutes of all meetings and resolutions of Shareholders passed within the last ten years;
  - (iii) an interest register;
  - (iv) minutes of all meetings and resolutions of Directors passed and Director’s committees held within the last ten years;
  - (v) certificates required to be given by the directors under the Companies Act within the last ten years;
  - (vi) the register of Directors and Secretaries required to be kept under Section 223 of the Companies Act;
  - (vii) copies of all written communications to all Shareholders or all holders of the same class of shares during the last ten years, including annual reports of the Company prepared under Section 166 of the Companies Act;
  - (viii) copies of all financial statements and group financial statements required to be completed under the Companies Act for the last ten completed accounting periods of the Company;
  - (ix) the copies of instruments creating or evidencing charged and the register of charges required to be kept under Sections 109 and 110 of the Companies Act;
  - (x) the share register required to be kept under Section 123 of the Companies Act; and

- (xi) the accounting records required to be kept under Section 148 of the Companies Act for the current accounting period and for the last ten completed accounting periods of the Company.

(2) The reference in paragraph (1) of his Article to “ten years” and to “ten completed accounting periods” shall include such lesser periods as the Registrar may decide, where he considers it necessary and appropriate.

160 (1) The Directors of the Company are entitled to have access to the Company’s records in accordance with Section 118 of the Act.

(2) In addition to the records being made available for public inspection under Section 120 of the Companies Act, a Shareholder of the Company is entitled to inspect the following documents with written notice of the Company –

- (a) minutes of all meetings and resolution of Shareholders;
- (b) copies of all written communications to all Shareholders or to all holders of a class of shares during the preceding ten years, including annual reports, financial statements, and group financial statements;
- (c) certificates issued by directors under the Companies Act; and
- (d) the interests register of the Company.

(3) However,

- (a) the aforesaid documents shall be available for inspection at the place at which the Company’s records are kept between the hours of 9.00 a.m. and 4.00 p.m. on each working day during the inspection period; and
- (b) a document of which the certified copy has been provided to the person or Shareholder concerned without charge need not be made available for inspection.

The “inspection period” referred to above means the period commencing on the third working day after the day on which the notice of intention to inspect is served on the Company by the Shareholder concerned and ending on the eighth working day after the day of service.

(4) A Shareholder is also entitled to require copies of or extracts from any document which he may inspect, within five working days of making a request in writing for the copy of extract, on payment of any reasonable copying and administration fee determined by the Company. The fee may be determined by any Director or by the Secretary, subject to any directions from the Board.



# Form of proxy

I/We ..... (holder of NIC No. ....)  
of .....  
being a member/members of Sri Lanka Telecom PLC hereby appoint:

..... (holder of NIC No. ....)  
of ..... whom failing\*

- Mrs. Leisha De Silva Chandrasena
- Mr. W W D Sumith Wijesinghe
- Mr. S S V Fernando
- Mr. Sandip Das
- Mr. Chan Chee Beng
- Mr. Jeffrey Jay Blatt
- Mr. Yoga Perera
- Mr. U R Seneviratne

- whom failing\*
- whom failing\*
- whom failing\*
- whom failing\*
- whom failing\*
- whom failing\*
- whom failing\*

as my/our\* proxy to represent me/us\* to speak and vote for me/us\* and on my/our\* behalf as indicated below at the 13th Annual General Meeting of the Company, to be held on 27th April, 2010 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
<b>1. Routine Business</b>		
1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31 December 2009 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
1.2 To declare a first and final dividend of Twenty Five Cents (25 Cents) per share as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
1.3 To elect as a Director, Mr. Sumith Wijesinghe, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
1.4 To elect as a Director, Mr. Sidath Fernando, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
1.5 To elect as a Director, Mr. U R Seneviratne, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
1.6 To pass the Ordinary Resolution set out under item 1.6 of the Notice of Meeting for the appointment of Messrs KPMG Ford Rhodes Thornton & Company, Chartered Accountants be appointed the Auditors of the Company, in place of the retiring auditors, Messrs PricewaterhouseCoopers, Chartered Accountants, to hold office from the conclusion of this Annual General Meeting and that their remuneration be fixed by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
1.7 To authorise the Directors to determine and make donations to charities.	<input type="checkbox"/>	<input type="checkbox"/>
<b>2. Special Business</b>		
To pass the Special Resolution set out in Annex "A" to the Notice of Meeting to amend the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this.....day of ..... Two Thousand and Ten.

.....

Signature

\* Please delete what is inapplicable.  
Note : Instruction as to completion appear overleaf.

#### INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. Please indicate with an "X" in the space provided, how your proxy is to vote on each resolution. If no indication is given the proxy in his/her discretion will vote as he/she thinks fit.
3. In the case of a corporate member the proxy must be executed in accordance with the Articles of Association. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy, if it has not already been registered with the Company.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company, Lotus Road, Colombo 01 not later than 48 hours before the time fixed for the holding of the meeting.

# Corporate information

## Name of the Company

Sri Lanka Telecom PLC

## Legal Form

A Public Limited Liability Company incorporated in Sri Lanka in September 1996 under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Limited Companies Act No.23 of 1987 and quoted on the Colombo Stock Exchange in January 2003.

## Company Registration Number

PQ 7

## Stock Exchange Listing

The Ordinary Shares of the Company are listed in the Colombo Stock Exchange.

## Registered Address

Telecom Headquarters  
Lotus Road,  
Colombo 01.

## Board of Directors

Mrs. Leisha de Silva Chandrasena – Chairperson  
Sumith Wijesinghe  
Sidath Fernando  
Sandip Das  
Chan Chee Beng  
Jeffrey Jay Blatt  
Yoga Perera  
Udaya Seneviratne

## Auditors

PricewaterhouseCoopers  
Chartered Accountants,  
100, Braybrooke Place,  
Colombo 02.

## Company Secretary

P W Corporate Secretarial (Pvt) Ltd

## Credit Rating

The Company has received AAA (Ika) Domestic Rating and BB- foreign currency rating from Fitch Rating Lanka.

Standard & Poor's have rated B+ for foreign currency and BB- for local currency corporate credit ratings.

## Bankers

Bank of Ceylon  
People's Bank  
Commercial Bank of Ceylon PLC  
HSBC Bank  
Hatton National Bank PLC  
Sampath Bank  
Standard Chartered Bank  
Seylan Bank  
Citibank N.A.  
NDB Bank  
Nations Trust Bank  
Deutsche Bank

## Regional Telecom Offices

Ampara	Hatton	Matara
Anuradhapura	Havelock Town	Negombo
Avissawella	Jaffna	Nugegoda
Badulla	Kalmunai	Nuwara Eliya
Bandarawela	Kalutara	Polonnaruwa
Bataloa	Kandy	Panadura
Chilaw	Kegalle	Ratmalana
Colombo Central	Kotte	Ratnapura
Galle	Kurunegala	Tricomalee
Gampaha	Mannar	Trincomalee
Gampola	Maradana	Vavuniya
Hambantota	Matale	

## Teleshops

Badulla	Liberty Plaza	Negombo
Bandarawela	Kegalle	Nuwaraeliya
Beruwala	Kotte	Slave Island
Galle	Kurunegala	Ratmalana
Gampaha	Maharagama	Wattala
Ja-Ela	Matara	World Trade Centre
Kalutara	Matale	
Kiribathgoda	Maradana	

## Subsidiary Companies

Name of Company	Holding	Principal Activity
Mobitel (Pvt) Limited	100%	Mobile Telephony
Sri Lanka Telecom (Services) Limited	100%	Total network solutions to corporate and small business customers
SLT Hong Kong Limited	100%	Point of Presence - (off shore subsidiary) Providing IP transit services
SLT Publications (Pvt) Limited	100%	Directory publication services
SLT Visioncom (Pvt) Limited	100%	Pay television services
SLT Manpower Solutions (Pvt) Limited	100%	Workforce solutions
SKY Network (Pvt) Limited	99.89%	Wimax operations

