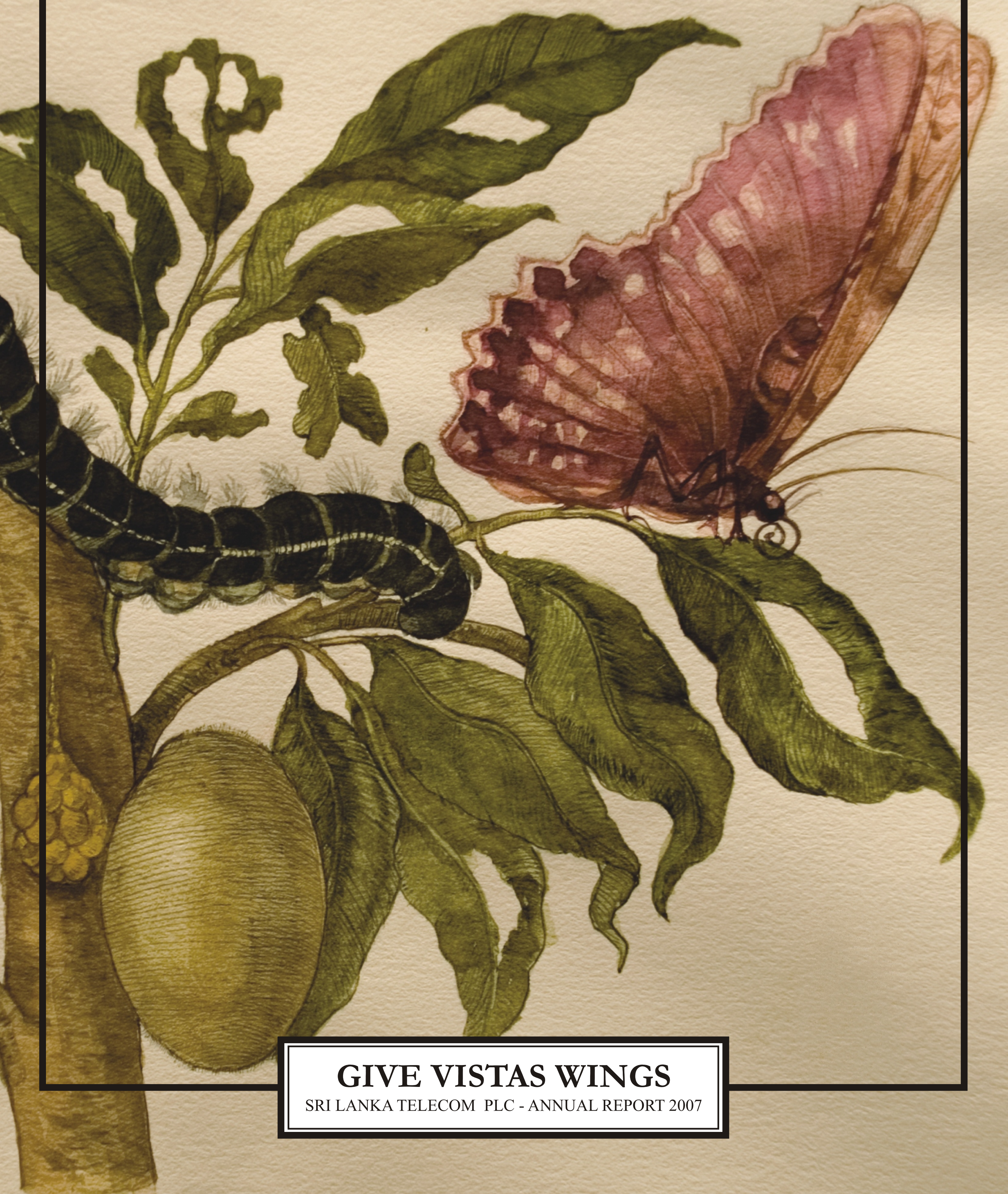
METAMORPHOSE INTO BEAUTY!
A DECADE OF CHANGE FOR A NEW DECADE OF CHANCES



GIVE VISTAS WINGS

SRI LANKA TELECOM PLC - ANNUAL REPORT 2007

Our Vision **To lead Sri Lanka to become the hub of telecommunications in South Asia.**

OurMission **To anticipate and fulfil the communications requirements of all sectors of the nation, in a service oriented work ethic which will provide total customer satisfaction through the most modern telecommunication facilities.**

This Annual Report is published within three months of the Balance Sheet date and the HTML version in addition to the PDF version is also published on-line on the same date as the date of issue of this Report (www.slt.lk).

The illustrations in this Report are based on the original work of Anna Maria Sibylla Merian (circa 1600). She was a naturalist and scientific illustrator whose detailed observations and documentation of the metamorphosis of the butterfly made a significant contribution to the early body of knowledge on the subject.

SRI LANKA TELECOM IN A NUTSHELL

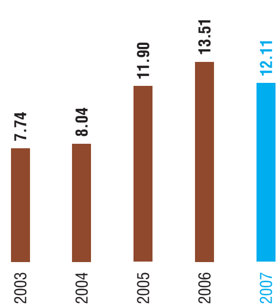
Sri Lanka Telecom (SLT) leads in the fixed wire line, Internet Service Provider (ISP), Data and External Gateway Operators segments enjoying clearly dominant market positions. However, SLT was a relatively late entrant to the Fixed Wireless and Mobile segments where it is still in a rapid growth phase and closing in on the market leaders. SLT also co-owns and operates several undersea cables giving it a unique edge in the regional and international business arenas. SLT's networks, technologies, people, brand and financial position gives it a strong platform from which it intends to make a leap. The ensuing years will see SLT go through a metamorphosis as it changes from a traditional telecom operator to that of a provider of global IP solutions.

KEY NUMBERS AND THEIR TRENDS

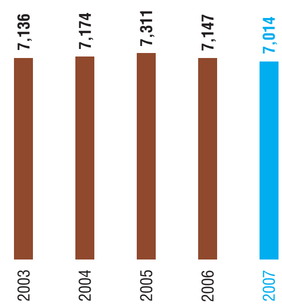
Group	**2007**	2006	CAGR* (%)
Revenue (Rs. billion)	**43.234**	40.691	12
EBIT (Rs. billion)	**9.345**	10.075	8
Profit before Tax (Rs. billion)	**8.399**	9.227	10
Profit after Tax (Rs. billion)	**5.640**	5.438	9
Earnings Per Share (Rs.)	**3.12**	3.01	9
Return on Captial Employed (%)	**11.47**	11.18	4
Return on Equity (%)	**13.5**	14.4	2

** Compounded Annual Growth Rate for the last decade.*

SLT - Return on Equity

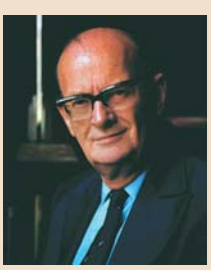


SLT - No. of Employees



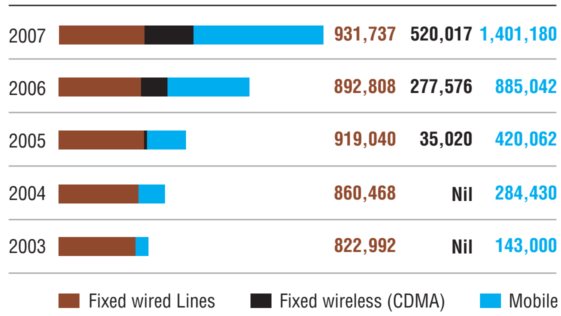
WORD FROM THE VISIONARY

'I have personally witnessed how telecommunications have advanced tremendously during the half century that I have lived in Ceylon/Sri Lanka. Sri Lanka Telecom has played a key role in that process.'



Sir Arthur C Clarke, 2007

Group Customer Base



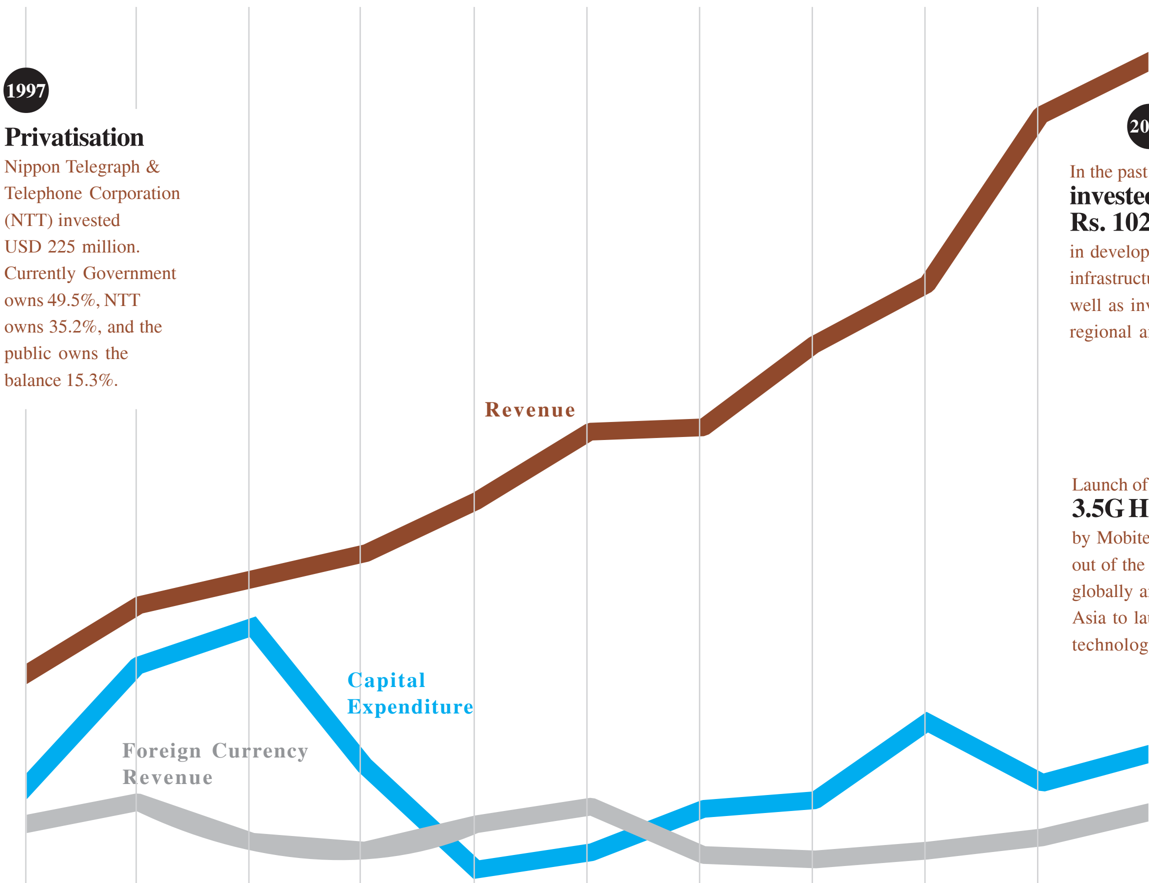
AAA (lka)
Credit rating by Fitch

BB-
International credit rating by S&P

QUICK READ

THE LAST DECADE
PAGE 04

1997-2007 has been a very successful and significant decade for SLT. Its investment over these years has been consistent and perhaps one of the largest in the country. Its foreign currency earnings have also been one of the largest to flow into the country. It has truly led the development of Sri Lanka's enviable telecom infrastructure through enhancing capacity, investing in the latest technology and providing the latest services.



Privatisation

Nippon Telegraph & Telephone Corporation (NTT) invested USD 225 million. Currently Government owns 49.5%, NTT owns 35.2%, and the public owns the balance 15.3%.

In the past ten years, SLT has **invested a total of Rs. 102.58 billion** in developing the telecom infrastructure of this country as well as investing in several regional and global initiatives

Launch of **3.5G HSPA technology** by Mobitel making it the seventh out of the 850 mobile operators globally and the first in South Asia to launch this important technology.

CHAIRMAN'S MESSAGE
PAGE 06

A model privatisation, a sterling performance over the last decade, a supreme financial position, an eventful yet satisfying year in 2007 per se; perfectly poised for the metamorphosis.

CEO'S MESSAGE
PAGE 12

The underlying strategy of SLT's metamorphosis in the next decade. A flavour of the new business areas, new organisation structure and processes, new technologies and new opportunities.

QUICK READ

MANAGEMENT REPORT
PAGE 18

PREAMBLE TO THE MANAGEMENT REPORT - *Page 18*
Given the watershed year we are reporting on, the structure and content of the Management Report have been kept consistent with the relevant reports in the past years for purposes of ease of clarity and comparison. SLT's market position and the strength of its key business drivers have been summarised drawing inferences of strategic significance for the metamorphosis of the next decade.

OPERATIONS REVIEW - SRI LANKA TELECOM - *Page 22*
Local Core Networks move closer to New Generation Network (NGN); Access Networks further strengthened and developed; Global Network further augmented by submarine optical fibre cabling systems - SEA-ME-WE-4, Dhiraagu-SLT and Bharat Lanka; Internet Backbone enhanced to offer 1 Gbps international IPBB capacity; further evolution towards IP-MPLS technology; Metro Ethernet, triple play ready network further developed; services such as CDMA, ADSL based products, SLTiDC Data Centre, Internet products also grow; IP-TV is the exciting new kid on the block; support for National e-learning via University and School projects assisted; global presence reinforced via SLT Hong Kong and other Points of Presence (PoPs) in the pipeline.

OPERATIONS REVIEW - MOBITEL - *Page 37*
Watershed year; first ever profit recorded since coming under SLT umbrella; steady growth in subscriber base; first Sri Lankan institution to roll out 3.5G services based on HSPA technology; SMART suite of products further enhanced; synergies from our SLT parentage leveraged to offer enhanced IP based products on our mobile telephony; distribution channels innovatively enhanced through tie-ups with Sri Lanka Post and retail giant Singer.

FINANCIAL REVIEW - SRI LANKA TELECOM - *Page 40*
Revenue increased by 3% in 2007 to Rs. 37.07 billion despite a significant revenue reversal following a court order during the year. Data-related revenues showed the strongest growth. Operating costs, including International Telecommunication Operators' Levy and the VRS rose by 11% to 20.0 billion year-on-year. Finance costs decreased by 7% to a modest Rs. 1.36 billion. Tax payable was also down by 27% to Rs. 2.74 billion. Profit before tax was down by 12% to Rs. 8.13 billion whilst profit after tax was down by 2% to Rs. 5.39 billion. Total assets remained more or less the same at Rs. 78.9 billion. Debt: equity ratio which has been coming down over the years hit an all time low of 23%. Working capital improved significantly whilst cash flow also continued to remain strong.

FINANCIAL REVIEW - MOBITEL - *Page 44*
Revenue increased by 32% to Rs. 7.0 billion in 2007. The increase in revenue is mainly attributable to a rapid growth of the pre-paid subscriber base. EBITDA grew by 25% to Rs. 2.5 billion. The company turned the corner during 2007 and posted a net profit after tax of Rs. 254 million.

RISK MANAGEMENT - *Page 46*
Telecommunications is a high growth industry and consequently lures competition. Patterns of telecom use are also changing. An asymmetrical regulatory regime favours new entrants. Convergence has its threats as well as its opportunities… and our diversification strategy addresses these. Our vast infrastructure which is 'mission critical' for the country is backed by an array of risk mitigation measures. Risks arising from our highly unionised team and other areas such as financial, exchange rate, interest rate, liquidity and credit are also discussed.

INVESTOR RELATIONS - *Page 49*
The SLT share which is listed on the Colombo Stock Exchange has shown an increasing value trend since the IPO in 2002 and continued to perform steadily during the year. The share goes through a fair quantum of trading activity. A steady and worthwhile dividend policy has been maintained over the years. A considerable portion of management time is spent in meetings and briefings with investors. The ownership structure and investment profile have remained somewhat consistent since the IPO with the Government of Sri Lanka and NTT Corp. holding 49.5% and 35.2% of the shares respectively. In total there are some 20,000 shareholders. In line with the Board policy, no member of the Board of Directors had any shareholding in the Company.

SUSTAINABILITY REPORT
PAGE 56

Our performance across social and environmental dimensions, in addition to the economic; employee welfare, training, motivation, interacting with a wider society - SLT supporting key events concerning telecom audiences, other professional audiences (such as CIM, CIMA), and the wider community (e.g. - educational events across universities, schools, libraries as well as other topical subjects such as national health issues).

THE LAST DECADE

1997

Privatisation

Nippon Telegraph & Telephone Corporation (NTT) invested USD 225 million. Currently Government owns 49.5%, NTT owns 35.2%, and the public owns the balance 15.3%.

1998

450,000th connection was provided. **143,075 connections were provided in the year** to clear the backlog, placing SLT 6th in the world in the speed with which telephone connections were given.

1999

Introduction of **ISDN technology** to Sri Lanka for the first time. This service enabled Internet access at speeds far exceeding those then available.

2000

Implementation of high-tech **fault reporting and clearing system** to ensure a hassle free customer service

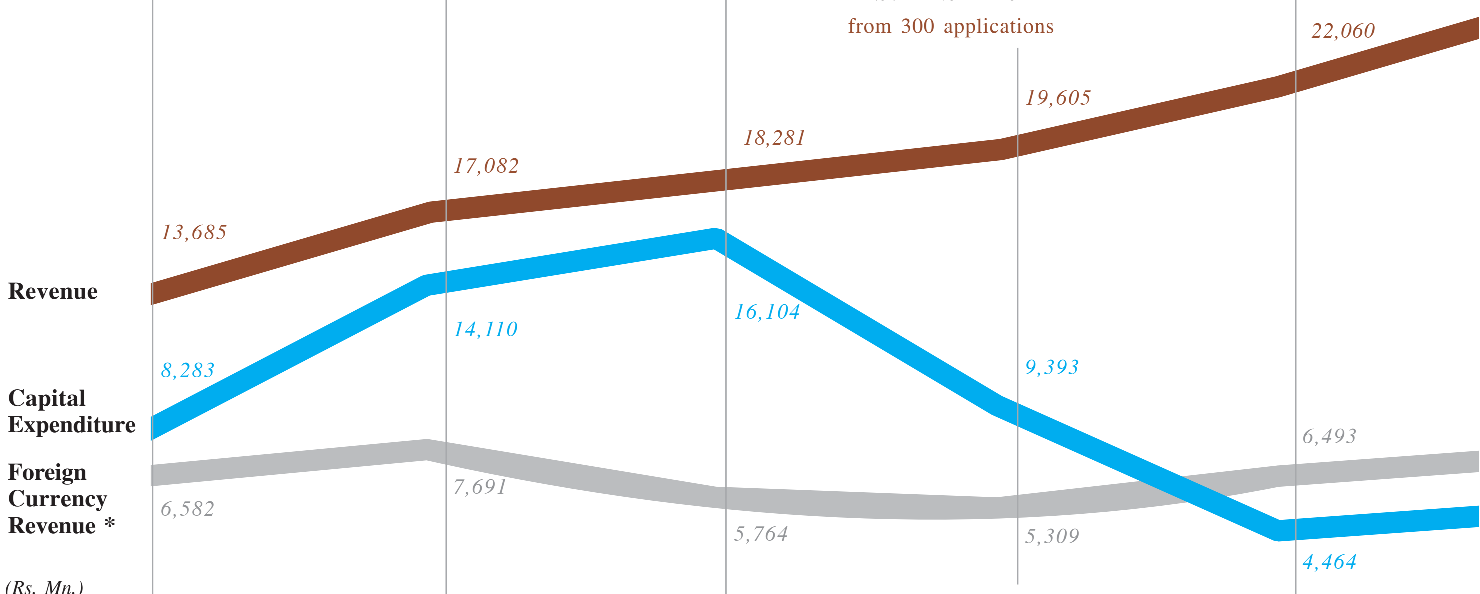
A Debenture issue which **exceeded its target of Rs. 1 billion raising Rs. 2 billion** from 300 applications

Commissioning of Sri Lanka's first ever **optical fibre transmission ring** to facilitate the provision of a broad array of value-added services to our customers.

2001

Establishment of a state-of-the-art **call centre** to augment customer care facilities of SLT.

SLT's online National Telephone Directory is **WAP-enabled**



** Converted at the average exchange rate of the respective years*

2002

Acquisition of Mobitel,

mobile communications arm of SLT.

The Government of Sri Lanka broadbased in its ownership through an

Initial Public Offering

of 12% stake in its equity. Government raised Rs 3.2 billion making SLT the largest listed company in Sri Lanka.

Introduced

ADSL

which offered a leap in internet access speeds. This service made SLT's ADSL customers among the first in South Asia to enjoy the benefits of broadband.

2003

Establishing a

microwave link between Sri Lanka & India

in partnership with Bharat Sanchar Nigam Limited.

Launched a

new and enhanced bill format

which was more uniform and structured and therefore more customer friendly and maximised customer privacy.

2004

Mobitel migrated to the state of the art technology of

EDGE enabled GPRS & GSM network

A massive undertaking with the

oversubscription of its 100 million US dollar international bond offering

was successfully completed.

2005

Introduction of

CDMA technology

It enabled SLT to speedily implement its vision of rural and universal empowerment.

2006

SLT established a subsidiary

SLT Hong Kong

to function as a key point of presence within the Company's growth strategy. Initially, the new office will provide seamless connectivity to traffic generated by SEA-ME-WE 4, Bharat Lanka and Dhiraagu SLT cable systems.

The commissioning of the

SEA-ME-WE-4 link, the Bharat - Lanka cable and Dhiraagu-SLT

(Maldives cable).

2007

In the past ten years, SLT has

invested a total of Rs. 102.58 billion

in developing the telecom infrastructure of this country as well as investing in several regional and global initiatives

2007

Launch of

3.5G HSPA technology

by Mobitel making it the seventh out of the 850 mobile operators globally and the first in South Asia to launch this important technology.

25,383
25,553
29,516
32,515
40,691
43,234

5,233
7,379
7,628
11,539
8,511
9,935

7,345
5,164
4,794
5,207
5,940
7,146

" SLT HAS INVESTED A TOTAL OF RS. 102.58 BILLION SINCE PRIVATISATION IN DEVELOPING THE TELECOM INFRASTRUCTURE OF THIS COUNTRY AS WELL AS INVESTING IN SEVERAL REGIONAL AND GLOBAL INITIATIVES SUCH AS THE UNDERSEA CABLES THAT WILL ENABLE A HEALTHY STREAM OF INCOME IN FOREIGN EXCHANGE INTO THE COUNTRY. "

CHAIRMAN'S MESSAGE

Dear Shareholders,

Sri Lanka Telecom, which has a long history spanning well over a century, marked another important milestone in 2007. We completed a decade since privatisation.

This year's Annual Report is structured in a special manner to mark this significant milestone of your company. We have also been mindful in presenting to you a clear and concise picture without diluting the important facts in a superfluity of information.

I will make a brief sum up in this message. Details of our achievements in the past decade are given in the form of milestones on pages 4 to 5. The CEO's Message on pages 12 to 15 gives an account of our strategic thinking for the next decade. Details of the current year's operations and financials coupled with the requisite detail of our strategic plans appear in the Operations and Financial Review on pages 22 to 44. Being one of the largest companies listed on the CSE, we have structured a new section titled Investor Relations, which appears on pages 49 to 53. We have also brought in another innovation by way of a 3-page quick read for those of you who want to get a snapshot of what this report contains in a few minutes.

Since privatisation of SLT in the year 1997, SLT has invested a total of Rs. 102.58 billion in developing the telecom infrastructure of this country as well as investing in several regional and global initiatives such as the undersea cables that will enable a healthy stream of income in foreign exchange into the country. SLT in its own right has brought in Rs. 67.44 billion in foreign currency earnings during this period whilst the modern telecom infrastructure would have played a part in helping the country attract foreign direct investment that it did in the last decade. These figures, though impressive, do not give the magnitude of the real impact of SLT's efforts on the country's economy. Government, business and citizen have all been empowered with a range of modern services at affordable prices… and this intangible is perhaps our greatest contribution to the country.

The compound growth of key financial indicators during the past decade is also very impressive. However, the confidence that external publics have in the future of our business is the most significant as is vindicated by the AAA domestic credit rating re-affirmed by Fitch for the 3rd consecutive year and the BB- International credit rating by S&P which is even higher than the rating they have given for the country.

The telecom industry is one that is undergoing rapid and momentous change globally. We have fortunately kept pace with this change but intend accelerating this pace in the ensuing two to three years. The overall direction we are pursuing is one of moving from a traditional telecom operator to that of a provider of global IP solutions. Various parts of our vast organisation will have to come together in a new organisation structure to enable this. Whilst continuing to provide the traditional services, we will also be providing a host of new services including ICT solutions and content. The new services would gradually account for higher and higher percentages of our revenues and profits as the next decade progresses.

2007 per se was both eventful and satisfying.

A protracted and arduous court case regarding revision of our tariff was finally settled in the Supreme Court in August 2007. We appealed seeking to set aside the judgment of the Court of Appeal, which had annulled the approval granted by the Telecommunication Regulatory Commission (TRC) for the telephone tariff implemented by SLT in September 2003. Although we had to refund a sum of Rs. 1.39 billion which directly impacted our bottom line for the year, we consider this a positive settlement creating a win-win scenario for customer and company. The time based billing as opposed to the unit based billing would lower costs to our customers whilst also reducing the processing time for billing in a big way. Reduction of business rentals is also viewed very positively and we would in fact prefer this to be brought down further. There were other pricing issues with the regulator during the year particularly with respect to CDMA and ADSL and all these were settled. After many years of lengthy representations, we also finally got partial Board of Investment approval giving us duty exemptions but not tax exemptions as given to some of our competitors. The TRC issued a guideline for the basis of the refund of International Telecommunication Levy (ITL). This too seems to be on the threshold of settlement and we have made our claim now and are awaiting approval.

Our achievements in 2007 fortunately surmount the challenges we had to grapple with. We got our IPTV licence and we will be launching this service sometime early in the second quarter of 2008. All our undersea cables are now functioning and bringing us worthwhile returns. The SLT - Dhiraagu cable in particular is doing very well. Our fully owned mobile subsidiary marked several important milestones during the year. Key among them was the launch of 3.5G HSPA technology making us the seventh out of the 850 mobile operators globally and the first in South Asia to launch this important technology. This has made us the forerunner in mobile broadband. We also maintained our growth momentum in carving out market share as we forge ahead toward leadership in the mobile market. As at 31st December, we had 1.4 million active subscribers.

Our revenue grew by 6% to Rs. 43.2 billion in line with our business plan. Earnings Before Interest, Depreciation, Tax & Amortisation (EBIDTA) was also in line with our plan and marginally declined by 2.4% to Rs. 19.6 billion. Our growth in profitability was however below expectation and recorded only a 4% growth to Rs. 5.6 billion. This was mainly due to the refund of Rs. 1.4 billion following the settlement of the Court case referred to above. We have always had a very strong free cash flow and this year too it amounted to Rs. 5.0 billion. We once again invested a sum of Rs. 9.9 billion on capital expenditure.

The Sri Lankan economy grew by some 6% during the year. This growth is expected to continue in 2008. Telephone density (the number of connections per one hundred people) which stood at 9.5 in 1997 had grown to 13.1 by 2007. Of this mobile penetration has seen the largest growth whilst the growth in fixed line penetration has slowed down. As far as voice telephony is concerned, this trend is expected to continue where the major growth would come from mobile. We are very well positioned to lead this growth. Broadband was nonexistent in 1997 and is in an early stage of adoption today. The ensuing years will be major growth years for broadband and once again we are extremely well positioned to lead this growth.

NTT Corporation of Japan which has a 35.2% shareholding in the Company has informed the Board of its decision to reduce its shareholding and had identified a buyer. The latter conducted a due diligence process in the year under review. However, a decision is still pending following a Court order preventing this sale.

My grateful thanks on behalf of the Board to the CEO, Management and Staff of SLT for the impressive performance not only in 2007 but also in the past decade. I urge all of you to continue the good work as we step into another decade where we intend breaking greater records and playing an even bigger part in the national economy. A very special word of thanks to all our customers.

Leisha De Silva Chandrasena
Chairman

A WIDE SPECTRUM OF COLOURFUL OPPORTU

NITIES: WINNING INTERNATIONAL MARKETS

"EXCITING NEW SERVICES, CONTENT AND APPLICATIONS WOULD TAKE CENTRE STAGE WHILE THE TRADITIONAL SERVICES WILL CONTINUE TO PLAY THEIR PART. THE PLAYING FIELD WOULD INCREASINGLY TAKE ON A GLOBAL PERSPECTIVE."

THE NEXT DECADE

2007 marked the completion of ten years since privatisation. We take pride in SLT's achievements during this decade, as illustrated in pages 4 to 5 in this Annual Report. However, we shall not bask in the glory of the past. Instead, we will carry forward the confidence gained through it. I would like to place before you, our strategic thinking for the next decade.

SLT will make yet another transformation in the next two to three years. This will encompass every nook and corner of the Company. "Old" people would do "New" work in new ways; "New" people with "New" ways would join the fold. The narrow walls that compartmentalised us will be broken down to open up bright new vistas. Exciting new services, content and applications would take centre stage while the traditional services will continue to play their part. The playing field would increasingly take on a global perspective.

This is not an imposing task, as a lot of work in this direction has already been underway over the past two to three years. Thus, the public and customers in particular will begin to see SLT as going through a period of metamorphosis in the ensuing years although internally, it will really amount to putting the icing on the cake of evolution that had already begun.

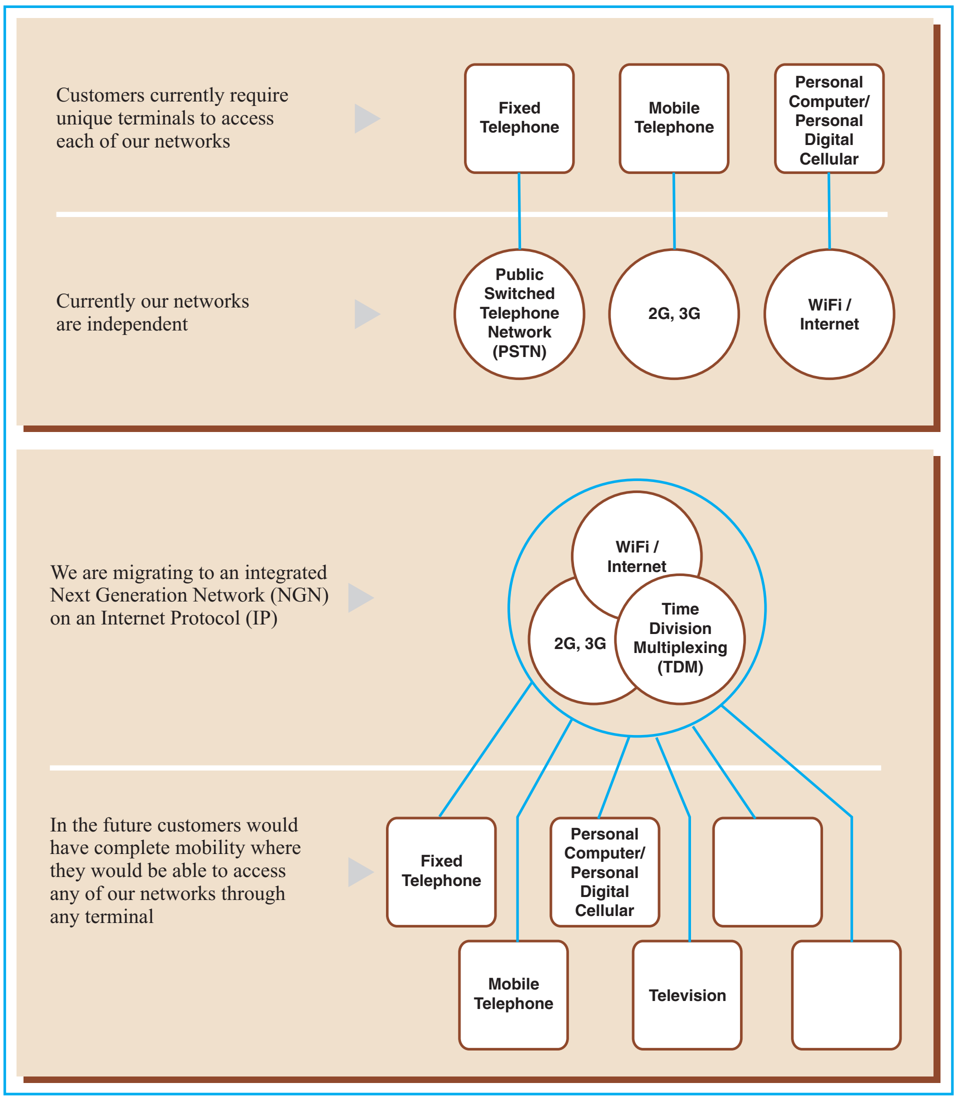
Global business expansion, business convergence, business diversification, ICT solutions provisioning and customer orientation would be the main sub themes under the overarching theme of transforming from a traditional telecom operator to a provider of global IP solutions. The fundamental objective would be continuous growth of revenue and profits.

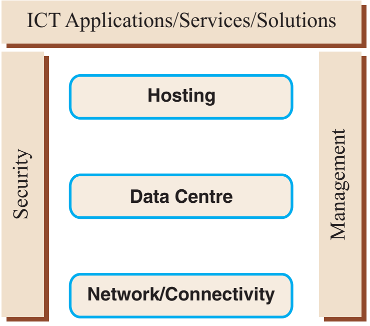
As we have done in the past decade, we see ourselves playing an important role in propelling the national economy. Not only would we be empowering and enabling businesses in Sri Lanka to penetrate global markets, we would be spearheading the emergence of a web society across the island. Foreign Exchange earnings to the country directly through us would swell but more importantly, our infrastructure would enable the country to attract foreign direct investment in new growth areas as well and develop new-age businesses that would bring in new streams of foreign exchange to the country.

Three key capabilities will form the tripod that will enable convergence and diversification. They are mobility, platform and content.

Mobility, as illustrated in the diagram on the following page is where a customer would be able to use any terminal to access any of our networks. Currently our fixed, internet and mobile networks operate somewhat in isolation. This is particularly true of our mobile network, which is a Company, we acquired five years ago. A very strong integrated Group management very different to what we have in place today, would be an urgent imperative to make this happen.

THE CONCEPT OF MOBILITY ILLUSTRATED

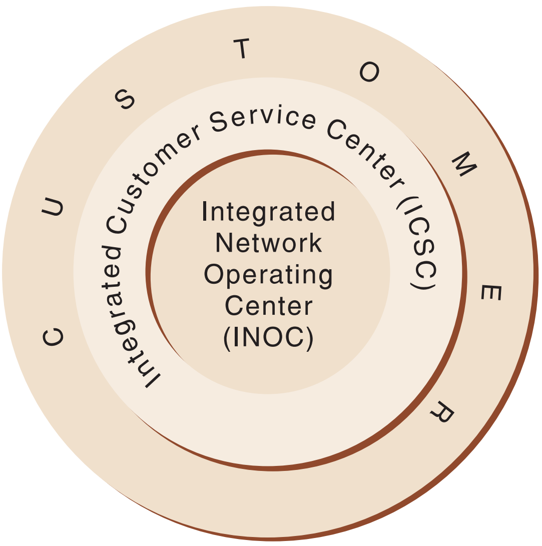




Convergence coupled with the requisite integrated group management would enable us to provide the six services shown in the diagram on the left. This would be the key to diversification. The ICT applications, services and solutions would not be limited to the domestic market. Our aspiration is to provide them globally.

Transformation from a traditional telecom operator to that of a provider of Global Internet Protocol (IP) solutions will require several initiatives. Key among them is the following three: Overhauling network architecture, overhauling IT system integration and overhauling business service portfolio expansion. These cannot be done in isolation and many members from various units of the SLT team would have to work in collaboration and co-operation with one another, to make this happen. To this end, we are also employing business process re-engineering and an organisational structure change.

The four key functions of a service provider are business development, sales, delivery and operations and maintenance. Our team is currently engaged in a plethora of functions but would, in the new scheme of things, fall in to one of these four areas. Along with the new organisational structure, decision-making authority would be delegated to the field, so that we can be more responsive to customers. This will also make our staff across the board more creative and proactive as well as it would make their work more satisfying. All staff would be target driven. These targets would be based on profits and service delivery standards.



Today SLT enjoys a BB- credit rating from S&P, which is better than S&P's credit rating given to the Government of Sri Lanka. This is unique in the world. However, the ratings that we really aspire to are those recognising top performance in terms of our customer service. A good or even great product can get us only so far. It is our after-sales service that will enable us to go all the way in terms of sales as well as commanding a premium. Back office functions would play a very important role in this respect.

We plan to establish two integrated service centres. Irrespective of the variety of service that the customer seeks, their contact point would be a single entity. Thus, we would not operate individualised customer service centres catering to single service requirements anymore. The Integrated Customer Service Centre (ICSC) would be able to tackle the gamut of simple technical problems and will be the initial customer interface. Technical problems of a more complex nature would be tackled by the Integrated Network Operating Centre (INOC) that would work proactively with the ICSC to solve them as soon as possible. We will need to train our back office operators and engineers to fit into these new roles and introduce a better IT system so that all staff in these areas could work effectively as a team. Speed of delivery would be the most important performance indicator here.

The other side of the coin are our pre-sales engineers. They would also play a significant role when it comes to selling integrated services especially to business customers. We intend to have many more pre-sales engineers on our cadre than at present.

The provision of rich content would require the requisite broadband service. Having been the incumbent telecom service provider, we inherited vast copper networks. These lend themselves very well to the provision of an ADSL service such as the one we offer now. However, optical fibre is the network of choice for high-speed broadband. We have now completed our fibre optic network and we have commenced a programme of replacing copper lines with optical fibre wherever rehabilitation is needed.

We received our IPTV license in the second quarter of 2007 and plans are already underway to launch this service very soon. IPTV would initially be provided on ADSL.

IT parks and software parks are another area that we are eager to diversify into. In the latter half of 2007, we worked with the Media Ministry looking at the possibility of developing a Media City. Projects such as these require world-class data centres, fibre optic networks, attractive pricing, software and ICT solutions and even content. Software parks in turn will help us to penetrate the BPO business in Sri Lanka. The software development outsourcing opportunities for Sri Lanka are also growing.

In summary, the next decade will be another exciting one for SLT as we transform yet again. A lot needs to be done and a lot is fortunately already underway.

In conclusion, I wish to offer my grateful thanks to the entire SLT team for their dedicated efforts. I also thank the members of the Board for their co-operation and guidance.

Shoji Takahashi
Chief Executive Officer/Director

BRIGHT NEW WORLD OF INDIVIDUAL

CHANGES: CUSTOMIZED SERVICES

PREAMBLE TO THE MANAGEMENT REPORT

Linking the future and present in the threshold of a watershed

The CEO's Message appreaing on pages 12 to 15 in this annual report spells out the strategic direction of SLT. Given the major changes that would ensue, the structure and content of this Management Report, would from next year, change radically to reflect the new organisation structure and the new focus areas. Thus, in order to facilitate the reader to track progress, we are presenting this section as an update to the 2006 Annual Report.

In these four pages however, we put the reports and discussions that follow into context helping you to understand their strategic significance.

SLT's current position in the telecom industry in Sri Lanka can be summarised as follows:

	No. of Service Providers	SLT's Market Position	Strategic Significance
Fixed Wireline	4	Dominant	Given the penetration of 131 lines per thousand population, which is expected to grow to 165 lines per thousand by 2008, SLT is well placed to harness this growth. CDMA will be particularly useful for providing fixed lines in a cost-effective manner in areas where the population density is low.
Fixed Wireless (CDMA)	4	Fastest Growing	
Mobile	5	Fastest Growing	It is expected that approximately 2 million new subscribers will be added by the mobile industry during the year 2008. Growth for our mobile business would come from both this market growth as well as taking a share from competition as has been the trend in the past 2-3 years. The launch of 3.5G technology and the overall repositioning of our mobile business should see the latter happening at an accelerated pace.
Internet Service Provider (ISP)	29	Dominant	SLT's strong business relationships with the world's tier 1 operators such as NTT, SingTel and AT&T among others would be another feather in SLT's cap for providing fast and superior internet services.
Data	14	Dominant	This dominant position could be leveraged to provide to the corporate sector the host of new IP based services as envisaged.
External Gateway Operator (EGO)	32*	Dominant	Despite the avalanche of licenses issued and tumbling international tariffs, SLT's ability to maintain leadership augurs well for its ability to forge ahead in a rapidly changing environment.

** Licenses*

However, our plans are such that the current position is not indicative of the future. Nevertheless, the current position and the evolution that has been taking place makes for a great platform to leap from.

In summary

	Magnitude	The year under review	Strategic Significance
• Network	1,500 km of Optical Fibre interconnecting every province in addition to a vast copper network extending islandwide.	Fibre Optic Network was completed and replacement of copper with fibre optic also commenced.	Having such an extensive Fibre Optic Network will enable us to launch the countrywide Next Generation Network (NGN) very fast. This will be the basis for providing multiple services though a single network. Our vast copper network extending up to the last mile enables us to expand our ADSL Broadband services very significantly.
	In collaboration with other major operators in the region, we own and operate several undersea cables. Viz. the 39,000 km SEA-ME-WE 3 cable connecting 34 countires including Sri Lnaka, the 20,000 Km SEA-ME-WE 4 cable connecting 14 countries including Sri Lanka; the 850 km Dhiraagu-SLT cable extending from Maldives to Sri Lanka and the 325 km Bharat Lanka cable extending from India to Sri Lanka;	All undersea cables became fully operational.	We are the only operator in the country and one of the very few operators in the region to have invested in undersea cables. This gives us a strategic advantage to become the communications hub of South Asia.

	Magnitude	The year under review	Strategic Significance
• Technologies	We have deployed the widest spectrum of innovative technologies. These include the various core technologies such as IP-MPLS needed to enable our optical fibre network to host a Next Generation Network (NGN).	SLT was granted an IPTV license in the second quarter. We became one of six operators of the 850 operators globally to launch 3.5G mobile technology.	The technologies needed for completing the Islandwide NGN are already in place enabling us to complete this very fast. Technologies such as Metro Ethernet would be a major advantage in providing innovative new communication solutions to corporate customers. Technologies such as 3.5G makes us the mobile broadband leader by far and also gives us an unmatched edge to launch an array of mobile broadband services plus the very significant edge to gain market share
• Services	We have the most complete range of services covering voice, mobile, broadband, internet and data. SLT is also unique in that it provides a range of services to every other operator in the country.	More niche products and innovative distribution channels were launched enabling us to endear our services to more customer segments.	SLT has the widest range of customer relationships spanning the entire island and every customer segment. This gives us a very strong base to launch the various new services and ICT solutions that are planned.
• Brand	SLT enjoys a near universal brand presence in Sri Lanka and has endeared itself to every socio-economic group, every league of business and every other type of organisation. These diverse groups have implicit trust in the SLT Brand as has been seen repeatedly with the acceptance of SLT's new product launches over competition.	This year too SLT invested in a variety of brand building efforts including strengthening the network of physical service points across the Island and intense strategic marketing communications programmes.	SLT's near universal reach in the country coupled with the very strong trust attached to the brand provides a strong platform for the vast number of new services that are planned.

	Magnitude	The year under review	Strategic Significance
• HR	The SLT team represents a powerhouse of the requisite qulaifications, skills and experience.	Organisation wide training continued to be employed in a quest to improve customer centricity and to keep pace with technological advances.	The ground is prepared for an organisational culture change of massive proportions.
• Finance	SLT enjoys the highest international credit rating given to any entity operating in Sri Lanka, which is higher than the rating given to the Sovereign.	SLT perfomed well despite a heavy burden on the P&L owing to the revenue reversal.	SLT's very strong financial position provides a bedrock for the ambitious plans ahead.

OPERATIONS REVIEW SRI LANKA TELECOM

The Road to Further Transformation

THE YEAR 2007 IS YET ANOTHER STAGE IN OUR 'METAMORPHIC' JOURNEY FROM A TRADITIONAL TELECOM OPERATOR, TO A GLOBAL IP SERVICE PROVIDER

The year 2007 has seen SLT position itself for the next phase of transformation; yet another stage in our "metamorphic" journey… from a traditional telecom operator, to a global IP service provider.

For some years now, our annual report has highlighted the rapid, exciting and frontier-consuming developments that have become the hallmarks of the global telecom world... hallmarks that speak of almost unimaginable change in communication systems that now encompass an integrated "commedia" world.

Our own enterprise fully reflects this metamorphosis, as we shall see in the ensuing pages of this review.

INFRASTRUCTURE

Networks

Core Network

SLT's core network consists primarily of optical fibre supported by microwave. It is a fully digitalised telecommunications transport network consisting of 500 digital switching nodes, with 80 master telecommunication exchanges divided into 29 area codes, each served by a secondary switching centre. The secondary switching centres are in turn, connected to four tertiary switching centres located in Colombo, Kandy, Galle and Anuradhapura and routed to the Company's National Switching Centre in Colombo. This topology, however, will soon see a significant change as a result of the implementation of the planned Next Generation Network (NGN).

Optical Fibre Network

Our full transition from microwave to high capacity islandwide optical fibre infrastructure will provide the foundation for the Next Generation Network (NGN). The NGN environment will enable us to host multiple services on a single network by utilising simpler technology.

This is the infrastructure of the future and consists of five Metro Rings (each 1.2 Gbps), one Central Ring (2.5 Gbps), an Auxiliary Central Ring (2.5 Gbps), a North-East Central Ring (2.5 Gbps), an East-Uva Central Ring (2.5 Gbps), a Southern Ring (2.5 Gbps) and a Northern Ring (upto Vavuniya) (622 Mbps).

We are also planning to upgrade the Auxiliary Central Ring further to 10 Gbps in 2008.

The five Metro Rings, the Central Ring and the Southern Ring are already in commission. They consist of a total of 1260 km of cabling.

In addition we have in place the Metro Super Highway which consists of two rings, each 10 Gpbs (STM-64). They are the Metro North Super Highway and the Metro South Super Highway.

Both rings connect 20 SLT sites as follows:
The Metro North Super Highway Ring consists of 11 nodes - Colombo, Wattala, Ja-Ela, Raddolugama, Katunayake, Kadawatha, Kelaniya, Welikada, Maradana, Kollupitiya/Liberty Plaza and Slave Island.

The Metro South Super Highway Ring consists of 9 nodes - Colombo, Havelock Town, Mount Lavinia, Ratmalana, Piliyandala, Maharagama, Homagama, Kotte and Maradana.

Next Generation Network (NGN)

The Company continued the transition of its existing networks into an NGN. Key features of the NGN are its IP based, service driven qualities, which constitutes a single, versatile network that can host multiple services.

NGN employs open and integrated network architecture. In operation, it can provide a variety of services such as voice, data and multi-media as an integrated service based upon IP technology. It will yield considerable saving on the quantity of network components, significantly reduce complexity and provide enhanced cost effectiveness.

Currently, the Company has effected migration to NGN in the Matara area, which began as a pilot project in 2006/07. Under this project, 16 Remote Switching Units (RSU) and the Master Switching Unit (MSU) were thus converted to NGN and capacity was created for 34,325 telephones and 2,832 ADSL connections.

Access Network

SLT's access network plays an integral role in the Company's growth strategy. It is a vital platform that should be well positioned and capable of delivering multiple services to the customer, which is a desired objective of the Company's growth strategy. Thus, SLT continued to make good progress in developing both wire line and wireless access networks, whilst evolving the core network into an NGN.

Copper

Expansion of the Company's copper wire line network continued during the year in review. This network constitutes the medium of delivery for wire line broadband technologies such as ADSL. Copper could be regarded as the 'incumbent' network, that supported our earliest telecom services and thus it reaches far and wide across every nook and corner of Sri Lanka. It remains an invaluable medium even today.

CDMA

SLT owns and operates the largest CDMA network, with the highest number of base stations in Sri Lanka to date. 271 base stations across the country enable us to cover 92% of the island, in geographic terms. The extraordinary growth enjoyed by SLT Citylink is powered by this expanding CDMA network, which currently operates on 800 MHz frequency. In terms of growth this year, the Company added 86 base stations to the network.

'Fibre to The Building' Connectivity

The Company continued to make good progress in providing optical fibre connectivity to major buildings in the Colombo Metropolitan Area. Fibre to the Building (FTTB) connectivity provides the foundation for wide area network technologies such as the Metro Ethernet. Its ring topology architecture yields significantly greater levels of redundancy and greater network availability. In the year under review, SLT laid 68 km of optical fibre to 95 buildings on 15 rings in the Colombo area.

Global Networks

SLT views its state-of-the-art global network as an integral and strategic necessity in its role as an effective regional telecommunications player. The seamless connectivity that the Company's global and domestic networks enjoy, facilitates the throughput of very large volumes of telecommunication traffic.

The combined strengths and qualities of these networks yield a plethora of customer centric pluses. These include extremely competitive tariff structures for IP-VPN and IP based solutions, better connectivity and access to a whole new world of multimedia content including movies and music. They also enhance Sri Lanka's

We are the only operator in the country and one of the very few operators in the region to have invested in undersea cables.

(01) Launch of Bharat Lanka cable
(02) Dhiraagu-SLT cable became fully operational in the year under review
(03) SEA-ME-WE - 4 cable connects 14 countries

international competitiveness through the offer and deployment of such services and products.

Whilst the possibilities and enhancements to services and products are legion, an eloquent example is to be found in what SLT has been able to offer its customers in regard to Internet access.

SEA-ME-WE-4 Submarine Cable System

The most current in the series of SEA-ME-WE cable systems, SEA-ME-WE 4 provides substantial multi-regional connectivity in a system spanning 20,000 km in extent. The system has been built and is managed by a consortium of 16 operators representing 14 countries (including Sri Lanka).

SEA-ME-WE-4 offers another avenue of redundancy which further secures existing connections such as its predecessor SEA-ME-WE-3 as well as other, on hand, line-of-sight microwave links. SEA-ME-WE-4 capacity has been significantly upgraded to support traffic capacities of 1.28 terabits per second improved capacity has led to extension of the broadband capabilities of our IP backbone network.

Similarly, levels of reliability and connectivity have also been improved.

Bharat Lanka Optical Fibre Submarine Cable System

The Bharat Lanka Cable System runs from Tuticorin in India to Mount Lavinia in Sri Lanka, incorporating 325 kms of submarine, fibre optic cabling. It is an optical fibre system operated by SLT and Bharat Sanchar Nigam Limited (BSNL) of India and came on line in September 2006.

This system links SLT's domestic as well as international connectivity, to power Sri Lanka towards becoming a regional telecommunications facilitator.

Sri Lankan as well as Indian customers can enjoy a gamut of top flight services such as IPLCs, Broadband Internet, direct and transit IDD traffic, IP backbone networks and multi media content.

Dhiraagu-SLT Optical Fibre Submarine Cable System

The Dhiraagu-SLT cable system is a collaboration between SLT and Dhiraagu of the Maldives connecting Sri Lanka and the Maldives via 850 kms of submarine, fibre optic cabling.

The system which came on line in 2006 provides super highway level bandwidth of 10Gbps capacity, between Sri Lanka and the Maldives.

The Dhiraagu-SLT system as an integral player within our global network, whilst offering enhanced international connectivity, also plays a vital role in the sphere of the economic development of Sri Lanka and the Maldives.

Global IP-MPLS

SLT is in the process of implementing its vision of becoming a Global IP provider. In line with this, SLT is continuing to upgrade existing networks to ensure that our aim is met and surpassed.

BSNL's connectivity is also enhanced since the increased bandwidth allows both SLT and BSNL to interconnect their IP-MPLS networks in order to facilitate global VPN services to clients.

Technology

SLT continued to deploy sophisticated technology in the copper, optical fibre and wireless media, during the year under review. In the process of deploying such core technologies in the process of transforming traditional networks to an NGN, appropriate access networks have also been introduced.

In terms of core technology, we placed great emphasis in deploying IP-MPLS, whilst ADSL, CDMA and Metro Ethernet constituted state-of-the-art access technologies.

Core Technologies

The thrust of our endeavours in this area continued to be the provision of multiple services on single connectivity.

Thus we sought to deploy core technologies that would provide the foundation for other technologies and applications/services that would make multiple access technologies possible.

A key spin off for the Company, as this process developed, was to diversify its revenue streams from traditional sources.

IP-MPLS Technology

IP-MPLS constitutes the foundation for multiple service delivery in an NGN environment, which is why the roll out and on-target deployment of this technology on our fibre network was of such importance to SLT.

Today, SLT's core network is evolving towards IP-MPLS. This move will assist the Company in meeting the challenges associated with IP bearer networks such as quality of service, reliability, security, expandability, manageability and bearing of multiple services.

This transition will see a traditional IP network, with non-quality Internet service being transformed into a carrier class IP bearer network with the best multi-service offering. This includes Internet Protocol TV (IPTV), Next Generation Network (NGN) and IP Multimedia sub-system, which will allow SLT to offer Fixed-Mobile Convergence (FMC).

Now, the Company can seek to augment the projects already in service, such as the Network Management System for IP-MPLS network, Wireless Data Network, managing the VoIP network, hosted PABX and IP phone services.

IP-MPLS technology is employed to offer Internet Protocol-Virtual Private Networks (IP-VPNs) for enterprise networking, which are in great demand when offering business centric networking applications, incorporating priority for business voice and time sensitive applications.

WiMAX

WiMAX remains firmly in our sights, as the Company regards it as the future wireless backhauling technology that will serve us well into the future.

SLT works tirelessly to embrace these technologies and we are actively seeking the appropriate licencing from the Telecom Regulatory Commission of Sri Lanka (TRC) to be able to commission this technology as soon as possible. WiMAX's suitability to support

voice, high speed internet connectivity, e-mail, fax, data and services such as audio and video streaming makes it a key component of our core technology.

Access Technologies

SLT customers can tap into some really exciting and innovative services delivered through our access technologies, this year.

CDMA

Being a wireless access technology, CDMA is a very real alternative to the copper based wire line and herein lies a world of opportunity and excitement for the customer. CDMA has let us reach the remotest areas of the country where our copper infrastructure has yet to go. And, it has delivered a state-of-the-art mix of services such as Voice, Internet, Short Messaging Service (SMS), Pre-Paid Service, G# Fax, PC Fax, Virtuyal Private Network (VPN), Colour Ring Back Tone (CRBT), Voice Mail Service (VMS), Multi Media Service (MMS), Push-to-Talk (PTT), Wireless Payphone, Location Based Services, Multi Part Conference Calling and IN Services and well over 30 other applications under the category of Supplementary Services.

SLT-Citylink, our fixed wireless brand continued to make great strides in the market recording a 104% growth over 2006. Innovative local promotions in the hinterland of Sri Lanka was key to its success.

The progress SLT has made in CDMA deployment belies the fact that we were the last entrant to the market.

ADSL

Deployment of the Company's broadband wireline technology, ADSL, continued apace in 2007.

We grew our customer base by 100% to reach 50,000 customers by year end 2007.

ADSL technology is capable of placing top of the line broadband services and exciting value added services at the command of the customer-services such as broadband Internet, VoIP Services, IP-TV, Video on Demand, e-Learning and Gaming, among others.

Metro Ethernet

Metro Ethernet is a triple play ready network providing fully integrated single port connectivity which conveys voice, data and video services. It is based on our state of the art IP-MPLS technology.

Our initial focus has been on key businesses and high end corporate customers where we use this technology to provide the specific end-to-end solutions they seek.

OUR COPPER BASED CONNECTIVITY IS AN IMPORTANT DELIVERY PLATFORM FOR BROADBAND SERVICES DELIVERED ON ADSL TECHNOLOGY

The payphone remains a symbol of telecommunications most readily at hand for the consumer.

The deployment of Metro Ethernet covered 15 access rings in Colombo linking 95 buildings, as at year end 2007.

SERVICES

With strong and emancipated core/ access technologies in place, and evolving as we progress, SLT is well positioned to offer the customer a range of quality services and solutions.

Customer Services

Voice

Wireline Connectivity

Our copper based connectivity is an important delivery platform for broadband services delivered on ADSL technology. Hence the Company continued to expand the network further this year. As at year end 2007, 0.9 million connections have been reached in the country.

SLT Citylink CDMA

SLT employed a three phase roll-out plan for CDMA and by year end 2006, we had achieved 269,338 connections. The Company has been able to grow this figure to 259,662 for the year 2007 which is a growth of 104%.

SLT Passport

The Company's premier pre-paid card offering continued to benefit from wider access provided through tie ups between SLT and some leading Consumer Durable companies such as Singer Sri Lanka and Abans, and supermarket chains such as Keells Super and Cargills.

SLT MAXtalk

MAXtalk is our pre-paid international calling card and was introduced in answer to the needs of the price conscious consumer. Mobitel offers its subscribers the use of this card thus offering them lower IDD rates via their mobile phones.

MAXtalk operates on a VoIP platform and offers international calls to over 68 countries around the world. Call rates are competitive, to both fixed line and mobile phones and its 'footprint' in terms of coverage encompasses countries in Europe, the USA, Japan, Australia and Singapore. A differentiated tariff band enables the customer to widen this footprint to cover countries in the Middle East, South East Asia and 148 other countries.

MAXtalk can be used on any phone in the country.

Payphone Booths

The payphone remains a symbol of telecommunications most readily at hand for the consumer. SLT had targeted to set up 750 coin and card payphones in prominent public areas in all the major cities in the island.

An SLT payphone will accept a range of denomination in terms of coins as well as the Company's Passport and MAXtalk cards. It will also provide charge free access to emergency/SLT Service numbers viz - 118 and 119 (Police), 1241 (Faults Reporting), 1242 (Billing Inquiries) and 1929 (Child Helpline).

OUR CUSTOMER BASE CONTINUES TO GROW RAPIDLY. SLT IS THE UNCHALLENGED, DOMINANT PLAYER WITH A SHARE OF 60% OF THE INTERNET MARKET

SLT i-Gateway at Bandaranaike International Airport (BIA)

We continue to provide passengers passing through the BIA's Transit Lounge with Internet and voice communication facilities on 24/7 basis, via our dedicated communication centre, SLT i-Gateway.

Internet

SLTNet is the largest Internet service provider in Sri Lanka. We cater to the needs of the wider community of Sri Lankans, be it residential or corporate in nature.

Our customer base continues to grow rapidly. SLT is the unchallenged, dominant player with a share of 60% of the Internet market.

SLT Internet customers enjoy International Roaming on dial-up as well as Wi Fi networks. In Roamers too could use SLTNet dial-up and Wi Fi services.

The SLT brand which enjoys a near universal recognition and unmatched trust of every socio-economic group and every type of organisation in the country, is kept consistently contemporary, alive and closer to people. This is our dedicated communication centre at the BIA Transit Lounge.

Many other facilities and services distinguish the SLTNet service. Features such as SLTNet On-line Call Waiting (OCW) which allows the customer to surf the web and/or download e-mail whilst receiving calls.

SLTNet's Adult Filter service is a boon to parents who have concerns about their children enjoying unlimited access to the Internet.

SLT also uses the Internet to make available a wide range of value added features to its phone customers, who can now access programme content on subjects such as current affairs, entertainment and leisure by sampling dialling short codes 1295 and 1298.

SLTNet offers a host of facilities and spin offs such as global Internet connectivity to Asia, Europe and the USA, which allows us to connect to the world's Tier 1 operators such as NTT, CSW, PCCW and Intelsat among others. Of course, SLTNet customers enjoy other benefits such as enhanced quality, performance, reliability and greater speeds for dial up and ADSL.

SLT also offers an Internet Pre-Paid Card, which is a great plus for the traveller who can enjoy access to the Internet at a flat, per-minute rate, without the inconvenience of passing through the whole process of application, activation and monthly billing. This Internet Pre-Paid Card has also enabled the infrequent Internet user, students and people on tight budgets, to make cost effective use of the Internet.

Broadband

Today, SLT's islandwide broadband network enables high speed Internet access from the suburbs and rural areas to the urban areas of the island.

ADSL 2+ is the access technology carrying this broadband service. ADSL supports a downstream bandwidth of up to 23 Mbits/s and an upstream bandwidth of 1 Mbits/s.

Broadband access of this nature has enabled SLTNet to offer a set of volume based Internet packages beginning with the Entrée, which offers downloading capabilities up to 512 Kbps, uploading capabilities of 128 Kbps and a volume of 1 GB free, every month.

The Entrée package is completely affordable with a one time joining fee of Rs. 500/- and thereafter a nominal rental of Rs. 1000/- per month. An additional 250MB costs only another Rs. 250/-.

Pre-Paid Internet for Mobitel Customers

SLT extended its Internet services to the customers of Mobitel, in yet another example of business convergence between the two institutions.

The SLTNet E-mail-to-SMS service allows Mobitel customers the facility of viewing their important e-mail messages via their mobile phones. This service is presently being provided to Mobitel, Dialog as well as Tigo customers.

Mobitel customers can now enjoy a pre-paid Internet account on-line via Mobitel SMS, a unique e-mail address (mobilenumber@sltmobitel.lk), a charge rate of half SLT's local call charge through a unique dial up number, available around the clock (1250), plus value added services such as web mail, web accelerator, web filter, on-line call waiting facilities and SLTNet Messenger.

Mobitel customers will also have the benefit of the SLTNet Pre-Paid Card being Wi-Fi enabled to permit them to use Internet facilities at Wi-Fi hotspots.

IP-TV

This year, SLT received a media broadcasting licence, which now allows us to offer IP-TV facilities, which we hope to bring on line by end 2008. It will utilise our existing copper line network and apart from a special decoder, the customer will only require a TV set and a telephone line to access top grade TV programming.

SLT's aim is to make IP-TV accessible to all Sri Lankans across the country, thereby providing very real national benefits in the fields of education and infotainment across a much greater cross section of the population.

Business Services

Voice

SLT Wi-Fi Hotspots

The Company continues to provide selected local hotels with Wi-Fi (Wireless Fidelity) Mobile Internet Zones, or Wi-Fi Hotspots as they are popularly known. The SLTNet Internet Zone enables the hotels customers as well as their employees to be continuously on-line and enjoying access speeds of up to 2 Mbps.

Internet

The Company offers Internet leased lines at 64 Kbps, 512 Kbps and 2 Mbps, whilst our corporate customers can enjoy value additions such as mail server services and web and Domain Name Server (DNS) hosting.

Services to ISPs

The establishment of Regional PoPs covering all areas of demand in the island has helped SLT expand its Internet Network.

Also, the expansion of our International Internet Backbone connectivity to be able to offer in excess of 2.0 Gbps international bandwidth has been another major plus point in service to ISPs.

SLT ensures superior performance and premium quality through its restoration arrangements and geographical redundancies.

Many of the major ISP operators in Sri Lanka obtain Domestic Internet Exchange Service (SLTIX) from SLT.

IP-Transit Service

IP-Transit is a form by which wholesale Internet bandwidth is sold to Internet Service Providers (ISPs) and content providers. Pricing is typically offered on a megabit per second, per month basis (Mbit/s/Month) and requires the

WE LIVED UP TO OUR REPUTATION AS AN UNRIVALLED PROVIDER OF TRULY INTEGRATED SOLUTIONS ACROSS A STAGGERING GAMUT OF SRI LANKAN BUSINESS ENTERPRISE

purchaser to commit to a minimum volume of bandwidth. Pricing for the bandwidth can be reduced significantly by purchasing larger volumes or extending the contract term.

The service is targeted at local as well as foreign ISPs in the South East Asian region. Major corporates and ISPs who have IP networks not belonging to SLT can obtain direct international IP connectivity from SLT's IP-Transit service.

Peering

Peering is a voluntary interconnection of administratively separate Internet networks for the purpose of exchanging traffic between the customers of each network.

Under its Direct Peering process, SLTNet interconnects with other ISP networks enabling a mutual exchange of traffic. Its Public Peering service allows any ISP to connect via a single port to multiple ISPs.

Internet Data Centre (IDC)

SLT pioneered the introduction of Data Centre Services with SLTiDC in 2004. Today, over three years further down the road, SLTiDC has become Sri Lanka's most sophisticated data centre offering world class data centre solutions to the corporate customer.

Ours is a classic facility, 80 square metres in extent, offering data housing, hosting and management.

In terms of data housing, we offer rack space and bandwidth, advanced physical security and uninterrupted power, network port and availability.

Our dedicated hosting services provide servers on rent, dedicated to customers, with their selected operating systems and web or application server. We also offer speedy and easier corporate business start-up.

The Centre offers a Shared Hosting Facility for the provision of shared resources such as mail & web servers where customers use their own domain name.

Managed services include Advanced Management and Security Tools for managed services, a selectable menu programme such as back-up, firewall security, monitoring and reporting and total customer support.

The Centre is housed in a state-of-the-art facility, within SLT's Head Office and features highly sophisticated structural, management and security systems.

Business Solutions

Once again this year, we lived up to our reputation as an unrivalled provider of truly integrated solutions across a staggering gamut of Sri Lankan business enterprise.

The intelligent solutions the Company was able to offer were a customised blend of a variety of services in the form of MPLS based IP-VPN connectivity, data centre services, high quality premium Internet bandwidth, international leased lines with an array of value additions such as mobility, managed services and disaster recovery.

Corporate Networks

A wide range of business enterprises approach SLT for packaged services including voice, data, video, Internet, centralised communications options - in fact they looked to us to supply their total communications needs.

To ensure convenience to our customers, we have put in place account managers to look after our corporate clients.

This year, service level agreements were entered into with Singer Sri Lanka, LOLC, Asian Alliance Insurance, Millers, Janashakthi Insurance, Ericsson, Lanka Ashok Leyland, Hameedias, Browns Group, Asha Phillips Securities, the Upali Group and the Mount Lavinia Hotel.

A more detailed account of IP-VPN solutions can be found below in the ICT section of this report

Information and Communication Technology (ICT)

SLT is honoured to have been chosen as network provider for many mega ICT projects being run on a national scale. These mega networks open the door to tremendous opportunity for the Company to provide integrated solutions which are a composite of network/connectivity, hosting, applications, security and management, generating new streams of revenue.

SLT-Powering Lanka Government Network (LGN)

SLT, as Sri Lanka's only integrated communication services provider was chosen to supply the Lanka Government Network (LGN) with its total telecommunications service needs as well as its total communications infrastructure requirements.

LGN is a Government initiative to familiarise public sector employees with the benefits of Information and Communication Technology (ICT) and to encourage them to apply ICT towards achieving better efficiency, enhancing the flow of information and improving standards of service they provide the public.

A key expected outcome is for LGN to interconnect public administration systems and processes in moving towards an environment of e-governance.

LGN is a strategic project under the Re-engineering Government programme being run by the Information and Communication Technology Agency (ICTA).

The IP-VPN solution provided by SLT connects Government offices to a unified network providing a host of products such as voice, video, broadband Internet, networking and hosting services. The clear goal is to take Government processes and procedures into the realm of modern technology.

In practice, Government offices can enjoy on-line access to a centralised IT system at any given time, enabling them to communicate with the Network Operating Centre, located at the LGN. Government offices can now begin to offer more on-line services to the general public such as on-line applications, on-line submission of forms, e-Pension services, on-line examination information, Tax information, and much more. These areas will in the future be integrated into the e-governance environment to ensure the people are served in a simpler manner.

SchoolNet

SchoolNet, a venture by the Ministry of Education is an on-line educational system that seeks to promote efficiency and academic achievement in public schools across the country. It is beginning to revolutionise the way students learn, teachers teach, school administrators operate and parents get involved in the whole education process.

SLT is playing a major part to help in the transformation of education in Sri Lanka.

(01) SchoolNET will revolutionise the way students learn, teachers teach, school administrators operate and parents get involved in the whole education process. To date 1,000 schools are on-line and the number is growing rapidly.

(02) Nenasala is a concept that will foster distance learning, e-Learning and the use of the powers of the internet in rural Sri Lanka taking ICT to the masses. To date 200 centres are operational islandwide. The target is to grow them to 1,000.

(03) LEARN facilitates e-Learning, enhanced video conferencing and streaming, routing of inter-university voice and broadband internet access for academics in their respective universities in Sri Lanka

SLT's solution is IP-VPN based and lets a unified network provide multiple products such as voice, video, broadband Internet, network services and hosting services.

Under this project, schools islandwide will be connected to SchoolNet VPN, using different access speeds based on current requirements. The target is to link up 5000 schools by the year 2010. To date we have brought 1,000 schools on-line.

The project allows the SchoolNet community prompt on-line access to educational software and enhances the effectiveness of teaching and learning. The impressive development in audio, video and computer assisted programmes along with computer mediated communications offer many possibilities for teachers to convert activities around interactive learning, watching videos, making on-line assessments and communicating in real time.

Nenasala-Knowledge Centres

SLT has partnered the Information and Communications Technology Agency (ICTA) to provide communications solutions for 200 Nenasala Centres islandwide.

The Nenasala concept (Nenasala means - global knowledge centre) envisages setting up 1000 centres across the country by end 2008.

Nenasalas follow a community model, where centres are established at a central location of a village such as a religious institution, public library or a community organisation. These centres then proceed to provide a range of services such as high speed Internet, e-mail, telephone, computer training programmes and other ICT related facilities.

The Nenasala concept seeks to foster distance learning, e-learning and the use of the powers of the Internet in rural areas of the country - taking ICT to the masses.

SLT's solution is supported by its IP-VPN platform.

LEARN

LEARN (Lanka Education and Research Network) is an initiative under the auspices of the Ministry of Education. SLT is the solutions provider for this programme.

Under this project, 13 universities around the country are linked with the University Grants Commission using SLT provided 10 Mbps IP-VPN links. SLT hopes to increase bandwidth in the near future.

Currently, SLT provides STM 1 connections of 155 Mbps to meet Internet access needs.

03

LEARN facilitates e-learning, enhanced video conferencing and streaming, routing of inter-university voice and broadband Internet access for academics and students in their respective universities. It also supports the Higher Education Management Information System (HEMIS).

The Company's involvement with this programme is in line with our commitment to meeting the requirements of students and academic bodies, with the ultimate goal of nation building and development in mind.

NODES

SLT provides connectivity solutions for the National Online Distance Education Service (NODES), an initiative under the Distance Education Modernisation Project (DEMP) of the Ministry of Education.

Our offer includes a WAN operating on fibre optic based Virtual Private LAN Service (VPLS) on our Metro Ethernet. The system connects the Multi Media Centres of NODES all across the country, facilitating distance learning.

NODES seeks to strengthen the distance learning infrastructure of Sri Lanka to a point where it could support instructional courses leading to Degrees, Masters Level Degrees, Diplomas and Higher Diplomas.

Global Solutions

SLT Hong Kong Limited our fully owned subsidiary commenced operations in May 2007.

A vital Point of Presence (PoP) entity, SLT Hong Kong is fully geared to play its part towards making SLT a truly global IP solutions provider. The new office will provide IP-Transit, Internet Protocol - Virtual Private Network (IP-VPN), Internet Protocol Subscriber Line (IPSL) and international voice traffic transit services, VOIP and TDM to global telecom operators and corporates in Hong Kong.

With a blueprint for expansion of our global business firmly in hand, SLT is targeting the expansion of its current network to USA, China and East Asia. Since Hong Kong is the major gateway to connect mainland China with the rest of the world, SLT Hong Kong becomes a prime point of take off for business expansion into China.

For the long term, the Company is gearing to establish new PoPs in USA, Singapore and the UK, all of which are targeted for commencement during 2008.

It is pertinent to note that the major international submarine cable systems SLT is partner to, will prove pivotal in our bid to become a global IP Company.

CUSTOMER SUPPORT INFRASTRUCTURE AND SERVICES

Delivering Quality Service and Maintenance

Regional Offices

Improving Customer Care and Technical Support is a continuing initiative at SLT.

THE MAJOR INTERNATIONAL SUBMARINE CABLE SYSTEMS SLT IS PARTNER TO, WILL PROVE PIVOTAL IN OUR BID TO BECOME A GLOBAL IP COMPANY

The Company has a dynamic and proactive structure of offices and facilities that deliver our products and services in a timely and efficient manner to customers across the country.

Our cluster of offices in this context comprises Regional Telecom Offices (RTOs), (which after upgrade became Customer Service Centres, one stop shops for all customer needs), Outside Plant Management Centres (OPMCs), which handle the installation and maintenance of SLT's technical assets and our Teleshops - 27 of them spread across Sri Lanka.

For administrative reasons SLT is divided into four regions - Metro, Region 1, Region 2 and Region 3. The Metro region consists of Colombo and its suburbs, Region 1 consists of the Central, Western, Northern, North-Western and North-Central provinces, Region 2 consists of the Uva, Southern, Sabaragamuwa, Western and Southern provinces, while Region 3 consists of the Northern and Eastern provinces.

Our OPMC's harness a variety of human and material resources with optimal effect in serving our customers in respect of their technical and maintenance issues.

During the year under review, two Teleshops were opened; one in Nittambuwa and the other in Homagama.

OPMCs

SLT's network of Outside Plant Maintenance Centres (OPMCs) handle the installation and maintenance of the Company's technical assets in the respective regions. The OPMCs harness a variety of human and material resources with optimal effect in serving our customers in respect of their technical and maintenance issues.

To date SLT successfully operates 14 OPMCs around the country.

Call Centres

This service supersedes the former Operator Assist service. The Call Centres are located in Colombo, Kandy, Galle and Anuradhapura.

The centres offer state-of-the-art customer focused problem solving, over a wide area of query.

During the year under review, SLT took steps to streamline and develop infrastructure, personnel and processes. We introduced an e-Learning System and a Quality Assurance System, which have helped raise capabilities and standards significantly. The Company has also initiated a Process Review which is currently ongoing, which is expected to further raise the bar of our customer services.

(01) Our call centres distributed in key points across the country offers state-of-the-art customer focused problem-solving over a wide area of query.

(02) SLT Annual Report 2006 won the Gold Award in the Telecommunications Category at the Institute of Chartered Accountants of Sri Lanka Annual Report Awards.

Expanding Distribution Channels

SLT sought to expand its sales distribution channels by venturing into an agreement with PC House a leading IT solutions provider, to market the Company's broadband products via 41 PC House branches across the country, including key areas in the North and East. Together with our own network of Teleshops and Regional Offices, this move gives our sales distribution activities a huge fillip.

ISO Badges of High Standard

SLT was honoured to receive the highest international information security standard, BS7799/ISO 27001 certification for its islandwide broadband network operations including IP-VPN services, ADSL services, Business DSL services, ISDN services and our Internet Data Centre (SLT iDC).

SLT is the first Company incorporated in Sri Lanka to achieve this security standard and being listed in the prestigious Information Security Management System (ISMS) Registry.

SLT's Internet Protocol (IP) and Broadband (BB) divisions were also awarded ISOIEC 27001:2005 for Standardisation, by the international organisation.

As an affirmation of our Company's trustworthiness, these accolades stand tall.

ICASL Award for Annual Report 2006

Sri Lanka Telecom's 2006 Annual Report won the gold award in the telecommunications category at the Institute of Chartered Accountants of Sri Lanka's Annual Report awards held in December 2007.

Procurement

The Company adopted the Location Based Storage System (LBSS), which was applied across its main warehouses at Peliyagoda, Kotugoda and Maradana plus 10 sub-warehouses.

SLT found that inventory was not being optimised with large quantities of items stored and ultimately discarded unused.

01

02

(01) We adopted the Location Based Storage System (LBSS), which was applied across our main warehouses. This has increased the efficiency of our inventory management.

(02) Our directories appear in print, web, voice and CD formats whilst this year, we made them available on WAP and GPRS in recognition of the growing number of 3G users.

LBSS optimises use of space, in a properly planned storage system that has yielded returns in terms of better utilisation of storage space and more productive human resources through a saving of as much as 50% on manpower.

THE DIRECTORY BUSINESS

The Company's Rainbow Pages Directory has become the country's 'go to' reference publication, so much so that it claims positioning as Sri Lanka's 'National Business Directory'.

Easy to follow and locate colour coded indexing, trilingual content, innovative listings such as the specialised hotel segment and a doctor directory have made the SLT Directory business a valuable component of our business mix.

The Company also produces four Provincial Directories covering the Central-Uva, Southern-Sabaragamuwa, North Central-North Western and Northern and Eastern Provinces.

In terms of distribution, the SLT Directories can be found in most public venues such as Hotels, Post Offices, the Airport etc.

Our directories appear in print, web, voice and CD formats, whilst this year, we made them available on WAP and GPRS, in recognition of the growing number of 3G users.

A unique feature of the voice version of the directory is that it is shared by SLT, Mobitel and Dialog Telekom. For easy convenience for all users the voice service is offered in English, Sinhala and Tamil.

OPERATIONS REVIEW
MOBITEL

Our fully owned mobile subsidiary is rapidly forging ahead towards market leadership

"Sri Lanka is a great example of how HSPA can make broadband services much more widely available in countries where fixed lines are scarce. Now Sri Lankans will be able to use HSPA to both download and upload at high speeds, putting their country at the cutting edge of the global mobile broadband market"

*- **Alex Sinclair,** Chief Technology Officer - GSMA*

The GSM Association (GSMA), which represents more than 700 GSM and 3G mobile phone operators across 218 countries and territories of the world serving over 2.5 billion customers, sees HSPA as the technology of choice for operators wanting to offer mobile broadband services to both urban and rural communities.

Mobitel, which started operations in 1994, became a wholly owned subsidiary of SLT in October 2002. 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. Having successfully phased out its AMPS/DAMPS network, in December 2006, the Company launched its 'super 3.5G' network in December 2007. Investments committed to date in its 3.5G/2.5G networks and service offering total over USD 200 million and are set to increase its present 1000+ base stations to more than 1400 base stations by the end of the first quarter 2008.

The Company continued with its strategy which is positioned around value innovation and customer centricity firmly believing that, it can serve well, by making the best out of the technology being used, distribution systems, product portfolio, services and value added services, with heightened acumen concerning customer needs and interests.

Perhaps, it is opportune to mention here that this strategic direction led the Company to pursue an aggressive network rollout with the dual objectives of introducing the best 'super-3.5G' service ever experienced, not only in Sri Lanka but also in the whole of South Asia and enhancing GSM coverage and capacity. It led the Company to seek an enhanced market position characterised by improved market share as well as strong revenue and product growth. In addition, it enabled the Company to build a strong brand image, dynamic and happening, with improved visibility at strategic locations, leveraging on the success of its illustrious parent, SLT.

Whilst positioning the customer at the centre always, through the delivery of optimum quality of service, higher levels of customer care, convenience and interaction, the Company expanded its distribution channels and introduced a divisional infrastructure to optimise channel management.

M3, MOBITEL'S NEXT FRONTIER IN MOBILE COMMUNICATION

The society is fast entering an ICT dependent environment, which compels people to embrace the internet whilst being stationary or on the move. Thus, stimulated by the above needs, high-speed data transfer facilities have become part and parcel of mobile telephony rendering voice communication, by itself, incomplete. In such an environment, data has become more important than voice. Based on market study and insights gained from trials carried out over a period longer than a year, commencing in August 2006, it was found that 3G UMTS standard - with a maximum data speed of 384 kbps is insufficient for experiencing video rich applications over the internet. In addition, the study also revealed that consumers desired to have high speed internet access from two or more locations; for example home, workplace and a third place such as a study area or holiday retreat etc., highlighting the fact that they demand both mobility and connectivity.

M3, the sub-brand for Mobitel's third generation services has brought to bear something, which is significant in realising fast evolving consumer's mobile communication needs. Accordingly, M3 was designed to deliver three distinct value propositions sought by the consumers; namely, the fastest data speeds, the fastest growing 'super-3.5G' network reaching all corners of the country and finally the fastest access to experiencing broadband services by ensuring that all existing Mobitel post-paid and pre-paid users being automatically M3 enabled. The launching of M3 is not merely a branding exercise - an attempt to sugar-coat an existing suite of services. It's a culmination of a great deal of work behind the screen - introducing a 'Super 3.5G' HSPA network, reorganising Mobitel around customer centricity, which paved the way for Mobitel in blazing a trail in the South Asian Telecommunications market.

Equipped with a king size packet core powered by full duplex High-Speed Packet Access (HSPA) technology, the very latest 'super-3.5G' network bursts data at a staggering rate of up to 14.4 Mbps on downlink and up to 1.98 Mbps on uplink with the aid of High-Speed Downlink Packet Access (HSDPA) and High-Speed Uplink Packet Access (HSUPA) technologies respectively. Moreover, these technologies are capable of delivering much higher speeds of 20 Mbps and 12 Mbps on downlink and uplink respectively on subsequent evolutions. Collectively, these specifications exceed 3G services available in the Sri Lankan market. No other operator in Sri Lanka or for that matter in South Asia currently offers HSUPA. The difference is that the M3 service will enable lightening speed internet access as well as allow both the downloading and uploading of large files, such as email attachments in a considerably shorter time than on 2.5G or 3G platforms, helping mobile data users focus their time more on the content and less on the waiting. Thus positioning Mobitel's M3 services as the richest 'Super-3.5G' experience in the country. M3 service is hassle-free and cost effective with several options to choose from be it 3G handsets with USB cables, HSPA or HSDPA modems bundled with a variety of price plans starting from a mere Rs. 400 per month.

As the National Mobile Service Provider, Mobitel stepped up to take on the challenge to aggressively promote internet, the all important economic enabler by having 60% of population covered at the time of launch and eventually reaching the deepest corners of Sri Lanka. Apart from Mobile Broadband, Mobitel's M3 also offers a rich suite of 3G products like video calling, video messaging, mobile TV, Push Mail etc., driving customers to a chic lifestyle while delivering an unmatched mobile experience. M3's suite of products are designed to embrace the stylish mobile cultures with the flavours of 'social networking' such as facebook, youtube and the likes.

FULFILLING CONSUMERS' NEEDS WANTS AND DREAMS

M3's video services such as Video Mail, Video SMS, Video Blogging and Mobile TV are made easily accessible via M3 video portal by merely making a video call to 555 yet another first in the region. Mobile TV service which is among the M3's prime offerings ensures true mobility to the TV viewers while 'M3-Journalist', another first in the region by Mobitel, the latest addition to M3 suite adds the 'broadcast-yourself' aspect which is in the boom in the most developed countries. Thus M3 Journalist has truly upgraded the connectivity of the broadcaster and the viewer from one-way-communication to two-way-communication using advanced video telephony to bring out true interactive infotainment to the citizens of Sri Lanka.

Mobitel being the National Mobile Service Provider paid tribute to the motherland by introducing M-guide, another innovation for its inbound roamers and local Pre and Post Paid users, whereby they can obtain information on historical sites and places of cultural interest in Sri Lanka through their mobile phones at the ease of dialling a voice call to 888 and subsequently pressing the respective site code which is advertised on special sign boards on site.

In 2006, the Company re-launched its pre-paid services as SMART in an attempt to bring mobile calls within everyone's grasp. SMART continued to enjoy its popularity and showed tremendous growth well into the year under review reaching a subscriber base of 1.2 million at the end of 2007. Also several new features were introduced during the year. SMART Bonus-, which may be, cited as a first ever loyalty programme in the country introduced with the intention of enhancing the benefits offered to the customer. SMART Share is yet another novel concept whereby customers share their account balances with family and friends who too, are SMART pre-paid customers.

Mobitel's post-paid product offering, Double M incorporates a three-part tariff structure, which allows the Company to give the customer double the value for the amount spent. Several benefits and

Left to Right: Shoji Takahashi, Director - SLT & Mobitel; Wijesiri Ambawatta, Director - Mobitel; S.N. Kumar, Director - SLT & Mobitel; Asoka Weerasinghe de Silva, Chairman - Sri Lanka Telecom & Mobitel; B.L.N. Chandrasena, Directress - SLT & Mobitel; Mr. Suren J Amarasekera, CEO - Mobitel; Victor Wang, President - Huawei Technologies Asia Pacific features were added to Double M with the option of adding supplementary lines to the main connection and free bundle of data.

DISTRIBUTION

The Company was able to enter into a series of successful agreements with Sri Lanka Post; Singer Sri Lanka increased its own presence in SLT branches and regional offices in 2006. During the year, the Company was able to enhance its reach by increasing the number of branches and by the end of 2007 Mobitel has consolidated a formidable distribution system.

Mobitel undertook a major revamping of the corporate website, providing a range of services hitherto unavailable thus, enabling the customers realise the full potential of M3. The website serves as a catalogue of information on available services and devices and facilitates online shopping, thus effectively making it yet another distribution channel.

It was important to have a futuristic, yet homely atmosphere for people to try out and experience M3 services on their own. Thus Big-M flagship centre was reopened with a facelift and Experience Centre was opened at Excel World, realising the concept of bringing about that unique M3 experience whilst serving as the one-stop-shop for all the needs of our M3 customers, as well as for our existing GSM customer base. The extension of the experience centres to branch level is underway.

AWARDS

Mobitel's philosophy of customer centricity and value innovation was well rewarded yet again in November 2007, winning the award 'Mobile Operator with Best Consumer Pull - Sri Lanka,' presented at CEO Conclave 2007, The Sixth Voice and Data SAARC Innovation Awards, held in Nepal. This was the second consecutive year that Mobitel won this prestigious regional award based on consumer voice. Mobitel was awarded the 'Peoples' choice Award - Best Stall' at the award ceremony of the Techno 2007 Exhibition which is the country's premier engineering and technology exhibition, held in October 2007 organised by the Institution of Engineers Sri Lanka (IESL). The award yet again proves that Mobitel has become the network with best consumer pull.

ROAD AHEAD

The ever decreasing prices of 3G terminal devices combined with the multitude of infotainment capabilities based on third generation is fast emerging as the future standard among the mobile operators the world over. Therefore Mobitel strongly believed that securing the leading position in third generation mobile telephony would pave the way for leadership in a future generic mobile market. In the absence of number portability, which allows the user to take the existing number across networks, requires a significant deferential in its service offering to entice long-standing mobile users to join Mobitel's network. To establish Mobitel's differentiation in the market, it recreated itself with M3 and is on course to making a formidable impact at the top of the pyramid while reinforcing its position at the rest of the pyramid.

Mobitel with its M3 offering is aptly positioned to compliment its parent Company in comprehensively addressing the two distinct segments of the broadband market, be it the fixed or mobile broadband and thereby playing an integral role in internet enabling the nation as a whole.

In marching forward, Mobitel expects a series of industrial challenges in the year ahead. New entrants and increased rivalry among the operators are likely to pose a threat to the Company, whilst increasing energy costs, interest costs and increased frequency charges may cause pressure on profit margin. Mobitel has enhanced its competitive position over the years in terms of its distribution, product suite and brand to face up to these challenges. Further, Mobitel has exercised defences in the absence of number portability and calling operator pay regime. Mobitel has already embarked on process innovation in all areas of operations to somewhat mitigate the challenges posed by macroeconomic factors.

Mobitel, being the national mobile service provider will strive to promote new paradigms such as e-governance and m-learning at national scale in order to uplift the country's economy through enabling new opportunities for the public using its infocom infrastructure.

In conclusion, it is noteworthy to mention here that the Company strives to live by the phrase coined by Sir Arthur C Clarke in 1960's 'Don't Commute-Communicate'. At a time the fuel prices are skyrocketing, Mobitel believes that the promotion of this concept is of national interest and considers the enhancing of communications facility as business opportunity. Further, the avoidance of unnecessary travel will help reduce pollution thereby supporting the green globe cause appreciably.

FINANCIAL REVIEW SRI LANKA TELECOM

Revenue increased by 3% in 2007 to Rs. 37.07 billion despite a significant revenue reversal following a court order during the year

FINANCIAL PERFORMANCE

Revenue

The Company's revenue increased by 3.0% in 2007, rising to Rs. 37.07 billion as compared to the previous year. This was despite a significant revenue reversal resulting from a court decision: on 27 August 2007, the Supreme Court delivered judgment on a legal action initiated by an organisation known as 'The Consumer Association of Sri Lanka', according to which SLT customers are entitled to an 8.72% overall rebate on local call charges and rentals for the period 1 January 2007 - 31 October 2007. This rebate appeared as a credit in customers' bills for the month of November, 2007. On 1 November 2007, a new time-based (per second) tariff structure was introduced along with a reduction in rentals and call charges. The overall revenue reduction following from this is approximately 9.03%. For the period 1 January 2007 to 31 October 2007, the revenue reversal is approximately Rs.1.4 billion.

Domestic Revenue

Domestic revenue decreased by 10% to Rs. 17.04 billion in 2007 as against Rs.18.85 billion in the previous year mainly because of the above mentioned Supreme Court judgement. Domestic Revenue consists mainly of rentals and domestic call charges and accounted for 45% of total revenue in 2007 as against 53% in 2006.

Additional revenue generated by new CDMA connections has been absorbed by the revenue reversal following from the Supreme Court judgment referred to above, hence the increase in domestic revenue was marginal. However, the Company expects future growth in usage due to the effect of price elasticity.

As at 31 December 2007, SLT had a fixed-line subscriber base of 1.4 million.

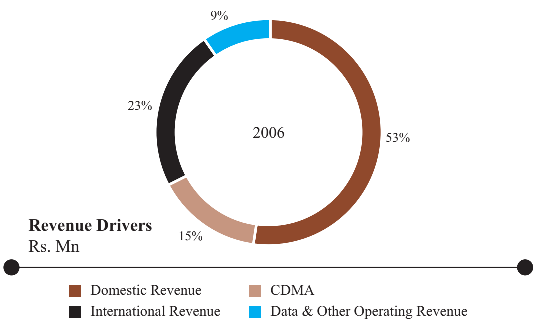
CDMA

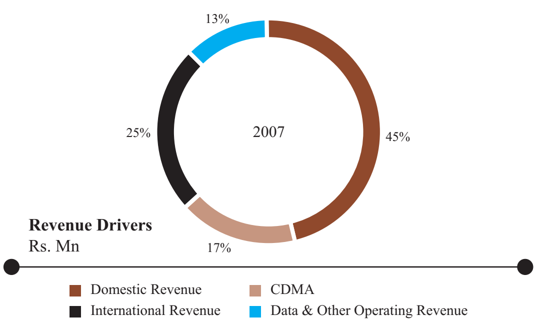
CDMA revenue during the year under review was Rs. 6.19 billion, or 17% of total revenue. 227,608 new connections were sold during the course of the year. In May 2008, the connection charge was reduced by 35% and further reduced by 38% in November 2007.

International Revenue

Total international revenues, comprising IDD revenue, receipts from international network operators and international settlements, grew by 10%, to Rs. 9.16 billion. IDD revenue accounted for Rs.1.76. billion of this, a 13% decrease in comparison to last year's results, while international in-payments increased by Rs. 1.21 billion, a rise of 20% compared with last year.

Revenue from international gateway operations has continued to increase. Growth in international incoming-traffic volumes, mainly through VoIP





operations, has contributed significantly to this increase. The competitive nature of the local market has effected a slight drop in IDD call revenues.

Data & Other Operating Revenue

Data-related revenues have shown healthy growth. Data and Internet-Protocol (IP) services and other sector revenue streams increased by 36%, to Rs. 4.67 billion. This sector is expected to become a significant source of future revenue as IP services open up new opportunities in communications and media, possibly serving as a platform for future convergence. This revenue segment also includes broadband and narrow-band products. By the end of 2007, SLT had approximately 53,500 ADSL connections and approximately 88,000 internet customers. Additionally, the Company provides domestic and international leased services and IP/VPN facilities to corporate customers.

Operating Costs & Depreciation

Operating costs, including International Telecommunication Operators' Levy (ITL) and the Company's Voluntary Retirement Scheme (VRS), rose by 11% to Rs. 20.0 billion year-on-year. An increase in staff costs of 20%, to Rs. 5.48 billion, was the other notable factor.

Despite the high rate of inflation, repair and maintenance costs increased by a modest 4%, to Rs. 1.54 billion.

Depreciation charges amounted to Rs. 8.88 billion for the year under review, as against Rs. 8.81 billion for the previous year.

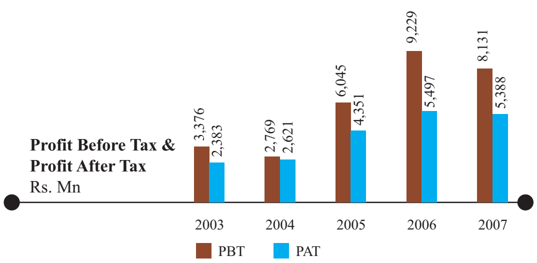
Third Voluntary Retirement Scheme (VRS)

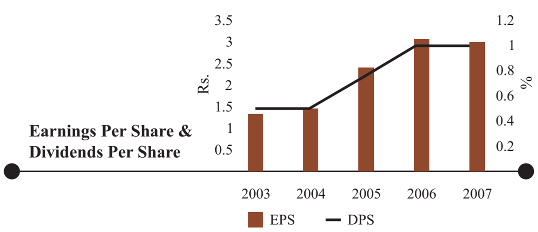
During the third quarter of 2007, SLT introduced its third VRS, incurring a cost of Rs. 43 million. The object of this scheme was to benefit employees who had served the Company well but were troubled by poor health that resulted in stress and other difficulties at work. SLT was the first institution to offer a scheme of this nature, from which 52 employees were benefited.

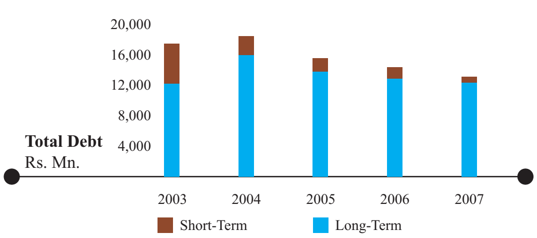
SLT currently has an employee strength of around 7,000.

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 US$ 0.038 per international incoming-traffic minute. The law is retroactive with effect from 3 March 2003.







Finance Costs

These consist mainly of interest expenses and include the effects of exchange-rate fluctuations generated by the re-statement of monetary assets and liabilities and the writing-off of realised exchange fluctuations from the hedging reserve. Finance costs decreased by 7% during the year under review, to Rs. 1.36 billion.

Taxation

The quantum of tax payable for the year was Rs. 2.74 billion, down 27% from Rs. 3.73 billion the previous year.

Profitability

Profit before tax, at Rs. 8.13 billion, was 12% below the previous year's achievement of Rs. 9.23 billion. Profits after tax (PAT) decreased by 2%, from Rs. 5,497 million in 2006 to Rs. 5,388 million in 2007. The Company enjoyed a PAT margin of 15%.

Measuring Performance

Earnings per share recorded a decrease of 2%, falling to Rs. 2.99 from Rs.3.05 in the previous year. Return on equity also decreased to 12.1% from 13.5% in 2006.

FINANCIAL POSITION

Balance Sheet

Total assets as at 31 December 2007 were Rs. 78.9 billion, as against Rs. 79.1 billion on 31 December 2006. Total equity increased by Rs. 3.78 billion to Rs. 44.48 billion.

Current liabilities decreased by Rs. 1.26 billion, while non-current liabilities declined by Rs. 2.09 billion.

Non-Current Assets

Total non-current assets of the Company declined to Rs. 50.78 billion, as against Rs. 52.88 billion from the previous year. This was mainly due to a decrease of Rs. 3.28 billion in property, plant and equipment.

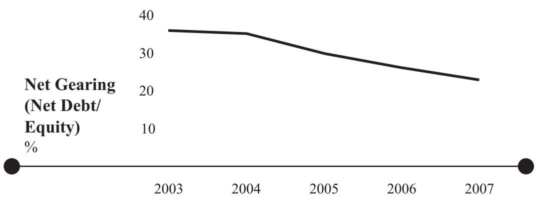
Working Capital

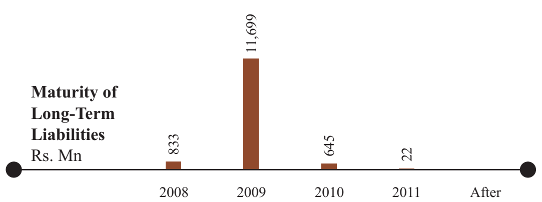
Working capital improved significantly. The figure as at 31 December 2007 was Rs. 16.9 billion, an increase of 23% over 2006. The main contributory factors were a 5% decrease in receivables and pre-payments to Rs. 10.06 billion and an increase in cash and cash equivalents by 16% to Rs. 16.69 billion. The growth in cash and cash equivalents indicates a very strong fund position and includes a sinking fund of US$ 64.43 million, equivalent to Rs. 7.04 billion, created in 2005 to redeem US$ 100 million in issued notes by 2009.

Activity and Liquidity Ratios

Asset turnover also improved, from 0.46 in 2006 to 0.47 in 2007. This was the result of better asset utilisation.

The current ratio increased from 2.1 to 2.5 in the year under review. The quick asset ratio also rose marginally, from 2 to 2.4% year on year.





Interest Cover

Interest cover showed a marginal decrease to 6.97. Contributory factors were 9.5% decrease in earnings before interest and tax (EBIT), and an increase in interest expenses of 7.49%.

Capital Structure

The total assets of SLT, amounting to Rs. 78.9 billion, were funded by shareholders' funds (65%), long-term liabilities (21%) and short-term liabilities (14 %).

Debt

The total debt of the Company was Rs. 13.2 billion as at balance sheet date, 9% lower than in 2006, demonstrating that SLT has continued successfully to maintain its strategy of reducing debt. The Company's overall debt comprises Rs. 12.37 billion long-term debt (94% of the total) and Rs. 0.83 billion (6%) short-term debt. 85% of the total debt consists of foreign-currency borrowings, while the balance 15% are local-currency borrowings.

Notes for US$ 100 million issued by the Company and redeemable in 2009 constitute 98% of the foreign-currency debt.

The debt: equity ratio remained at 23% in 2007.

CASH FLOW

Operating Activities

Cash and cash equivalents increased by Rs. 2.2 billion during the year. Net cash flow from operating activities was Rs. 11.7 billion in 2007, reflecting an increase of Rs. 571 million over 2006. This was primarily due to increase in cash generated from operations.

Interest paid during the financial year was Rs. 1.39 billion, as against Rs. 1.47 billion in 2006.

Investment Activities

Net cash outflow from investment activities was Rs. 6.51 billion for the year in review, compared with Rs. 7.13 billion in 2006.

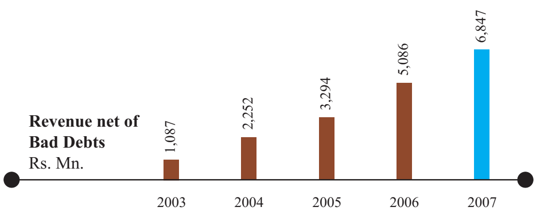
Financing Activities

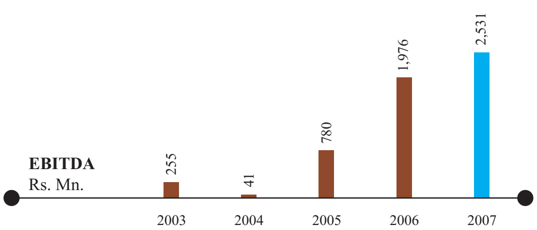
Net cash outflow from financing activities was Rs. 3.08 billion in the financial year 2007, compared with Rs. 3.17 billion in 2006. Net cash flow from financing activities include the repayment of Rs. 1.27 billion for maturing debt and a dividend payment of Rs 1.80 billion.

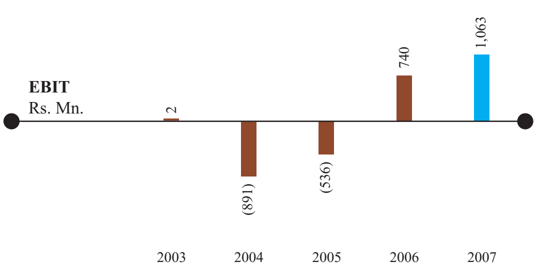
STATEMENT OF CHANGES IN EQUITY

Shareholders' funds as at 31 December 2007 stood at Rs. 44.5 billion, as against Rs. 40.7 billion at 31 December 2006. This constitutes an increase of 9.3%. Changes in equity were primarily impacted by profit after taxation, which was Rs. 5.4 billion.

FINANCIAL REVIEW
MOBITEL







In revenue terms, Mobitel performed well during the year under review, posting an increase of 32%, up from Rs. 5.3 billion in 2006 to Rs. 7.0 billion in 2007. This is despite the slow growth during the first half as a result of the capacity constraint present in the prepaid system. By the latter half of 2007 Company was able to make up for the deficit and registered a strong growth placing it on track to achieve a substantial growth in coming years.

This increase in revenue is mainly attributable to the rapid growth of pre-paid subscriber base. In 2007, the Mobitel subscriber base grew by 58% to reach 1.4 million subscribers.

Operating profit before depreciation (EBITDA) grew by 25% to Rs. 2.5 billion in 2007 compared to Rs. 2.0 billion in 2006, while earnings before interest and tax (EBIT) increased by 44%. The Company posted an operating profit of Rs. 1.06 billion, compared to Rs. 0.74 billion in 2006.

During the year under review, Mobitel focused strongly on an aggressive 3G rollout in order to establish leadership position with next generation of technology. Despite the step increase in expenditure on this and also on expansion of GSM services, and notwithstanding the adverse impact of increased inflation and interest rates, the Company was able to report a positive net profit for 2007.

During the year Mobitel recorded a net profit of Rs. 0.25 billion, compared to a net loss of Rs. 0.064 billion in 2006. Overall, the increasing profitability of the Company is attributable to the innovative strategies on pricing, products and distribution etc., to achieve growth profitably.

The growth in revenue especially driven by the prepaid during second half contributed to strong growth of Company cash flows. The cash flow from operations was healthy at Rs. 4183 million, a growth of 67% over previous year.

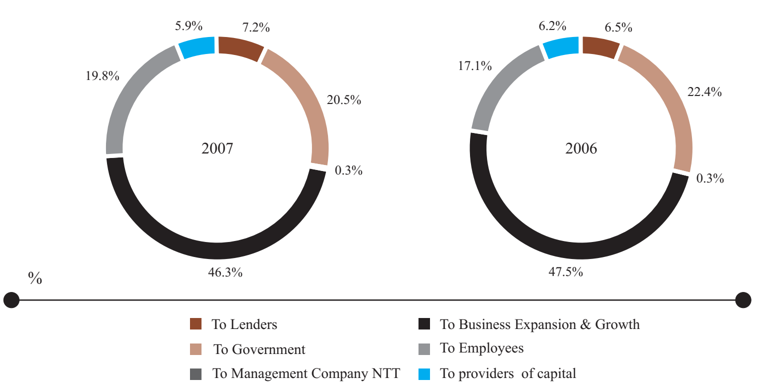
The year end gearing position improved to 54%, from 60% at the beginning of the year due to build of reserves and equity injection of Rs. 1 billion in terms of preference shares towards the end of the year. However, the Company gearing is still above industry average.

STATEMENT OF VALUE ADDED

	2007 Rs. Mn	2006 Rs. Mn
Revenue	43,234	40,691
Other Income	1,455	1,216
	44,689	41,907
Goods and Services purchased from other sources	(13,906)	(12,863)
Value creation	30,783	29,044

	2007	%	2006	%
Distribution of Value Added				
To Employees - Salaries, wages & other benefits	6,090	19.78	4,956	17.06
To Providers of Capital - Dividend to shareholders	1,805	5.86	1,805	6.21
To Management Company NTT - Management fees, remuneration and expenditure	82	0.27	74	0.25
To Government - Taxes & regulatory fees	6,323	20.54	6,518	22.44
To Lenders - Interest & related charges	2,232	7.25	1,884	6.49
To Business Expansion & Growth - Depreciation	10,416	33.84	10,174	35.03
- Retained income	3,835	12.46	3,633	12.51
	30,783	100.00	29,044	100.00

	2007	2006
To Business Expansion & Growth	46.30	47.54
To Employees	19.78	17.06
To Providers of capital	5.86	6.21
To Lenders	7.25	6.49
To Government	20.54	22.44
To Management Company NTT	0.27	0.25
	100.00	100.00



RISK MANAGEMENT

Unforeseen consequences can arise from any form of business or operational activity. This is the first principle of risk management and it implies that risk management must cover all operational areas, looking not only to what a recent American Secretary of Defence called the 'known unknowns', but also dealing with ways to manage the unexpected. Nor is this all, for risk management also has a business function related to planning and strategy: every deal, every venture, every new technology introduced, every product or service launched carries its own risk. Good risk management can help identify and evaluate business opportunities by qualifying or even quantifying the potential risk and pointing out possible ways to mitigate it.

SLT has a well-structured risk management system in place, covering the entire company and all its dealings. The Board of Directors receives regular information from the Company's senior management with regard to the implementation and operation of the system and changes to be effected therein. This chapter reviews structure and operation of our risk management process over the course of 2007 with reference to the particular categories of risk we faced in that year, and in many cases continue to face in the present year.

RISKS IN THE OPERATING ENVIRONMENT

Effects of economic growth

Sri Lanka's GDP grew by some 6% in 2007. Telecommunications was again one of the key drivers of the sector, testifying to the still-enormous potential of the field and thus for SLT. However, such growth lures other operators who may pose a potential threat to us. In a growing economy and competitive environment, such risks are hard to mitigate.

Changing Patterns of Telecom use

Central Bank forecasts for the ICT sector suggest growth at around 35%, driven by services (such as BPO, telemarketing, call centres, data processing and the internet, as well as new technologies like 3G). This shift away from traditional to newer service types and technologies carries risks that SLT is managing by broadening its own product and service portfolio to embody state-of-the-art ICT solutions and disseminating these to a growing client base. Our strategies of diversification, international expansion and convergence also help mitigate this risk.

Time-Consuming Regulatory processes

SLT's licence to operate depends on approval of proposed tariffs by the Telecommunications Regulatory Commission (TRC). Since 2006, we have been engaged in a dialogue with the TRC in order to address the broader policy issues related to the tariffs approval regime.

Licensing Issues

The asymmetrical regulatory regime currently in place favours new entrants. In the long term, this must be addressed by persuading the TRC to level the playing field with a unified licensing regime and more accurate assessments of competing service providers.

Delays in reclaiming TDC

The mandatory International Telecommunication Operators' Levy (ITL) imposed by the State includes a component called the Telecommunication Development Charge (TDC), two-thirds of which may be reclaimed in lieu of unserved and underserved areas, but all such claims are subject to the approval of the TRC. As a mitigatory measure SLT has followed the practice of retaining two-thirds of the TDC whilst submitting to the TRC supporting documentation in proof of network roll-out in unserved and underserved areas.

Product Substitution

Convergence also brings the threat of new technologies developed in parallel processes outside the industry that may overtake and supersede those that telecom operators are familiar with. Other convergence threats come from VoIP (Voice over Internet Protocol), wireless networks and mobile internet. All these are potential risks that SLT must manage. In VoIP, we have overcome the threat and become the current market leader in IP-based solutions, including VoIP, on our extensive IP network. Analogously, we have exploited mobile-like technology to offer customers wireless fixed-line access by means of CDMA technology.

Convergence also brings opportunities. As traditional broadcast television gives way to IP and Mobile TV, a potentially lucrative business area opens up for SLT - as well as for our competitors. Our diversification strategy fully addresses this opportunity while managing the associated risk.

Overall, the Company remains competitive within these developments and risk is mitigated.

INFRASTRUCTURE - RELATED RISK

SLT's Operating Support System and Billing Support System are critical infrastructures to which disruption or outage could seriously affect our operations and inflict lasting damage on customer relationships. This very critical risk field is managed with extreme care. Day-to-day operating risks are mitigated by daily and weekly backups; protecting our systems with intruder-detection programmes, firewalls and anti-virus software; and daily random checks.

Disaster-Recovery

A comprehensive disaster-recovery programme was rolled out in 2007 to manage against this key aspect of infrastructure risk. The purpose of the programme is to ensure data protection and availability at all times, guarding against disaster situations such as fire and terrorist activity as well as data corruption due to operational mistakes or sabotage and 'hard' errors such as prolonged server failure, storage system failure and the like.

The programme also offers a variety of non-disaster-related operating benefits.

Risks arising from terrorist threats can also be mitigated and services maintained through redundancy and alternate routeing. The modular nature of our network makes this possible.

Procurement Issues

SLT is a telecommunications/IT product provider as well as a service provider. We depend on a variety of suppliers and a complex inventory of products and services to run this side of our business successfully. Potential threats in this area include supplier delays or defaults, inadequacies in inventory and product obsolescence.

Uncertainties on the demand side could result in either shortages or overstocking. This risk is managed through the use of On-line Material Requirement Planning and Forecasting Software as well as through inventory buffering.

Quality Issues

fundamental risks can arise from materials and equipment that do not conform to the highest quality standards. At SLT, materials quality is managed through an extensive process of checks and balances spanning the whole procurement exercise.

LEGAL RISKS

SLT is party to several court and out-of-court proceedings with Government agencies and other parties. The following is a summary of these proceedings, which could have a material negative impact on the Company.

- Proceedings were initiated under ICC Arbitration application No.13839/M by Informatics (Private) Limited, claiming US$ 1,143,630 being the licence upgrade cost and an annual maintenance fee of 15% of the licence fee for the TBR system provided to SLT by Informatics.

- Global Electroteks Limited has initiated legal action under High Court Case No.20/2005 claiming damages of US$ 12 million from SLT for unlawful disconnection of interconnection services.

- SLT has filed a revision application in the High Court, Anuradhapura, to set aside an order given by Magistrate to hand over the vacant possession of the property at Niwanthaka Chethiya Road, Anuradhapura.

- Under Court of Appeal CA No. 883/2003, SLT is seeking a Writ of Certiorari to quash the award given by the Arbitrator at the Labour Arbitration, increasing the overtime rate from 1.5% to 1.75% and granting of lieu leave with regard to an application made by the Telecommunications Employees Union with effect from 1st February 1998.

- Directories Lanka (Private) Limited (DLPL) filed case No. 2/2006 (3) in Commercial High Court against SLT claiming Rs. 250 million, damages for unfair competition with regard to artwork on the cover page of the SLT Directory Publication.

RISKS ARISING FROM EMPLOYEE ACTIONS

SLT has a highly unionised workforce, with 32 Trade Unions represented.

Risks arising from employee actions remain an ongoing problem for the Company. Our HR Division had in place a system to address key issues, while a cross-functional team of management and union representatives seeks to improve relationships and address problems.

With trade unions, SLT is seeking a convergence of vision between business objectives and the needs and aspirations of employees. We are building partnerships and promoting dialogue to these ends.

Another vital component here is education: instructing and explaining Company policy and plans to union representatives and employees so as to improve understanding and cooperation.

With employees, the Company is identifying the main causes of grievances to be addressed at Grievance Committee forums. Education on key initiatives will also be provided more efficiently.

OTHER AREAS OF RISK

The challenges of recruitment and maintenance grow with every passing year. As our industry and competitors grow, our best people cannot help but be aware of the widening range of career options becoming available to them. We have responded by conducting a Salary and Benefit Survey with a view to adjusting remuneration to match current market levels, which should help make SLT a more attractive employer overall.

SLT seeks to minimise these costs by putting each employee on the track of continuous learning, optimising each one's value and worth and helping him or her build a lasting career with the Company.

Financial Risks

Given the aggressive strategies being developed by the Company, a significant investment is warranted in the near future. All investments are fraught with a degree of risk, and the Company will carefully examine and assess the attendant risks before embarking on any such initiative.

Exchange Rate Risk

The maintenance of foreign-currency accounts for related inflows by the Company is an automatic hedge against foreign currency exposures. SLT's currency hedging policy requires that cash flows from international revenues be first utilised to service the Company's foreign currency debts. A sinking fund in US Dollars (USD) has also been created for the bullet redemption of the $100 million notes.

Interest Rate Risk

Debt is maintained in a mix of fixed- and variable-rate instruments to mitigate risks arising from interest rate volatility.

Liquidity Risk

By employing regular financial planning and monitoring systems, the Company ensures that sufficient cash flows are available to meet all financial commitments.

Credit Risk

Comprehensive systems are in place to monitor SLT's debtors and recoveries. Credit risk originating with customers is also mitigated to a large degree by the practice of taking initial deposits, as well as through pre-paid sales.

INVESTOR RELATIONS

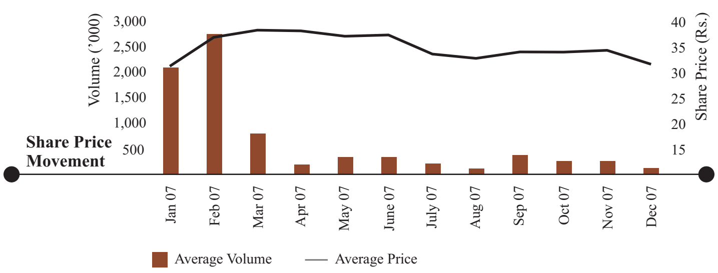
Maintaining a steady and worthwhile dividend policy over the years

A STEADY YEAR ON THE MARKET

Regarded by investors as a blue-chip security, Sri Lanka Telecom PLC shares have shown a generally increasing value trend since the Company's initial public offering on 28 November 2002.

Share Price Trend since IPO

	2007	2006	2005	2004	2003
Highest Value (Rs.)	**43.25**	29.75	27.00	23.00	30.00
Lowest Value (Rs.)	**28.00**	14.75	15.50	15.00	10.50
Last Traded Price (Rs.)	**31.50**	27.75	16.50	15.50	18.00
Market Capitalisation (Rs. Billion) (year end)	**56.85**	50.08	29.78	27.97	32.49



Following profitability gains in 2006, the share price rose still further in the first quarter of the year under review. Trading likewise increased, with a peak reached on 28 February amid news reports that NTT Corp. was considering a divestment of a portion of its holdings. The controversy that followed these reports resulted in an intervention by the Supreme Court in May that effectively ended the speculation and restabilised the share price.

In the end, the effect of these apparently newsworthy rumours on trading was relatively mild. As shown by the accompanying chart, price movements in SLT shares tracked movements in the All Share Price Index quite closely through the year.

Not unexpectedly, this correlation maintained itself even as the ASPI declined in the year's final quarter in reaction to increased terrorist activity, security worries and investors' concerns regarding interest rate increases as well as a possible revision in the business tax structure.

Overall, trading volumes in 2007 varied little from the picture in 2006:

Trading Activity, Year on Year

	2007	2006
Transactions	**28,350**	24,392
Shares Traded	**157,119,304**	294,236,116
Value (Rs.)	**5,604,532,534**	6,858,224,712

A STEADY STREAM OF DIVIDENDS FOR SHAREHOLDERS

The Company's steadily appreciating market value is strongly based on actual earnings per share, making SLT shares offer a solid, productive stock for the long-term investor, one that to date has earned nearly Rs. 6 billion for its holders. Dividend policy has remained consistent over the years, delivering returns of around 34%.

Total Shareholder Return between IPO and 31 December 2007

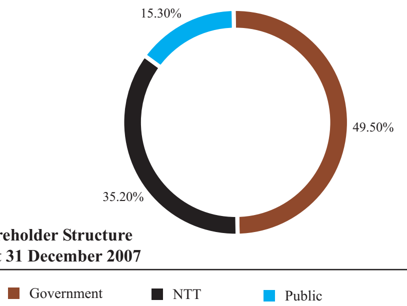
		Rs.
31 Dec. 02	Interim Dividend	541,458,000
31 Dec. 02	Final Dividend	541,458,000
31 Dec. 03	First & Final Dividend	902,430,000
31 Dec. 04	First & Final Dividend	902,430,000
31 Dec. 05	First & Final Dividend	1,353,645,000
31 Dec. 06	First & Final Dividend	1,804,860,000
31 Dec. 07	Proposed First & Final Dividend	1,804,860,000
Total Return		7,851,141,000

A STEADY RELATIONSHIP WITH THE MARKET

The year saw a number of interactions between SLT managers on the one hand and investors, potential investors and members of the professional community such as brokers, analysts and financial journalists on the other. Coverage of SLT-related events was frequent in the media. Additionally, there was considerable interest from Web-based media in the Company and its activities.

A considerable portion of management time was spent in meetings and briefings with investors. The Company was a participant at two well-attended investor forums in Sri Lanka during the course of the year and also participated in the second Merrill Lynch Asian Emerging Market 'New Frontiers" conference, which was held in Singapore on 12-14 February. Meetings with the clients of a key international investment bank were also held in Hong Kong and Singapore during September.

In addition to such personal contacts, the Company also issues a quarterly newsletter entitled *Investor* to all its shareholders.



Shareholder Structure
as at 31 December 2007

A SOUND, STEADY INVESTMENT PROFILE

The ownership structure and investment profile of SLT have remained somewhat consistent since the IPO, despite the always-steady business in publicly-traded company shares. This is in large part due to the division of holdings, in which the Government and NTT Corp. are major shareholders:

Public Holding - 15.30%

	2007	2006
Issued Share Capital	**1,804,860,000**	1,804,860,000
Less: Holdings over 10%		
Secretary to the Treasury	**(893,405,709)**	(893,405,709)
NTT Communications Corp.	**(635,076,318)**	(635,076,318)
Holdings less than 10%	**276,377,973**	276,377,973

Speculative movements are further discouraged by the fact that a further percentage of holdings is held by institutional investors, with only a relatively small aggregate of shares held by individuals:

TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER 2007

Name of Shareholder	No. of Shares	%
Secretary to the Treasury (Government of Sri Lanka) **	893,405,709	49.50
NTT Communications Corporation*	635,076,318	35.19
Galleon Technology Offshore Limited	35,328,300	1.96
Employees' Provident Fund	17,885,989	0.99
Sri Lanka Insurance Corporation Limited - Life Fund	17,287,235	0.96
National Savings Bank	13,348,600	0.74
Galleon International Master Fund, SPC Limited	8,210,800	0.45
Bank of New York - Bear Stearns Securities Corporation	5,978,500	0.33
Seylan Bank Limited/Shanker Varadananda Somasundaram	4,676,485	0.26
Pershing LLC S/A Averbach Grauson & Co.	4,620,700	0.26
DFCC Bank A/C 1	4,335,900	0.24
Alchemy Heavy Metals (Pvt) Limited	4,314,200	0.24
Galleon Diversified Fund Limited	4,209,200	0.23
Sri Lanka Insurance Corporation Limited - General Fund	3,885,300	0.22
Bank of Ceylon A/C Ceybank Unit Trust	3,357,800	0.19
Indra Traders (Pvt) Limited	3,340,900	0.19
Ceylon Guardian Investment Trust PLC A/C 1	3,110,100	0.17
Mas Holdings (Pvt) Limited	2,876,500	0.16
Sampath Bank Limited A/C No. 1	2,575,000	0.14
Mr. Shanker Varadananda Somasundaram	2,557,315	0.14
	1,670,380,851	**92.56**

* *Major shareholder*

** *Government-owned shares are held in the name of the Secretary to the Treasury*

In fact, the number of individual investors and the quantum of their holdings declined somewhat over the course of the year. As of 31 December 2007, a total of 20,223 individuals held a total of 78,979,129 SLT shares, amounting for 4.38% of all issued shares. This compares with a figure of 21,164 investors holding a total of 91,034,278 shares (or 5.04% of all issued shares) on 31 December 2006.

The following graphic illustrates the distribution of shareholdings.

ANALYSIS OF THE DISTRIBUTION OF SHAREHOLDERS AS AT 31 DECEMBER 2007

Shareholdings	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	% of Share-holdings	No. of Share-holders	No. of Shares	% of Share-holdings	No. of Share-holders	No. of Shares	% of Share-holdings
1 - 1,000	12,706	5,312,604	0.29	19	11,500	0.00	12,725	5,324,104	0.29
1001 - 5,000	4,007	10,764,513	0.60	29	97,900	0.01	4,036	10,862,413	0.61
5,001 - 10,000	2,324	18,453,156	1.02	18	149,157	0.01	2,342	18,602,313	1.03
10,001 - 50,000	1,234	22,087,884	1.22	20	514,800	0.03	1,254	22,602,684	1.25
50,001 - 100,000	92	6,886,437	0.38	6	498,300	0.03	98	7384,737	0.41
100,001 - 500,000	98	23,926,918	1.33	15	2,885,100	0.16	113	26,812,018	1.49
500,001 - 1,000,000	14	10,452,300	0.58	1	714,500	0.04	15	11,166,800	0.62
Over 1,000,000	35	100,736,8013	55.81	7	694,736,918	38.49	42	170,210,4931	94.30
	20,510	110,5251,825	61.23	115	699,608,175	38.77	20,625	180,4860,000	100.00

CATEGORIES OF SHAREHOLDERS

Analysis of Shareholders	31 December 2007			31 December 2006		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	20,223	78,979,129	4.38	21,164	91,034,278	5.04
Institutions	402	1,725,880,871	95.62	400	1,713,825,722	94.96
	20,625	1,804,860,000	100.00	21,564	1,804,860,000	100.00

Rating Status

As a Sri Lankan company ranked by investors as a blue-chip, SLT consistently enjoys top credit ratings. This was again the case in 2007, when Standard & Poor's raised its long-term foreign currency rating on the Company 'BB-' from 'B+.' - one notch above the sovereign rating. The Fitch rating currently enjoyed by the Company is BB-, while its domestic rating status remains at AAA(lka) for the third consecutive year.

A STEADY PRESENCE AT THE TOP

Sri Lanka Telecom continues to maintain a steady presence at the top table of Sri Lankan corporates, a status reflected in the number of awards and accolades the Company received in 2007.

- For the fourth year in succession, SLT retained its place at the head of the *Lanka Monthly Digest* LMD 50 list, which ranks the Top Fifty companies in Sri Lanka in terms of turnover.

- The Company also attained runner-up position in *Business Today's* Top Ten list, in which ranking is by 'performance for the fiscal year and other relevant criteria'. It was SLT's third consecutive appearance on the list.

INVESTOR RATIOS

	Group	
	2007	2006
Earnings per Share (Rs.)	3.12	3.01
Dividend per Share (Rs.)	1.00	1.00
Net Assets per Share (Rs.)	23.21	20.98
Debt Equity Ratio (Debt/Equity) - No. of times	0.32	0.35
Quick Asset Ratio - No. of times	1.70	1.58
Interest Cover - Number of Times	4.76	5.90

DIRECTORS' HOLDINGS

As at 31 December 2007, no member of the Board of Directors of Sri Lanka Telecom had any shareholding in the Company.

DIRECTORS' SHAREHOLDING AS AT 31 DECEMBER 2007

Mr. Asoka W. de Silva	NIL
Mr. Shoji Takahashi	NIL
Mr. Suhei Anan	NIL
Mrs. Leisha Chandrasena	NIL
Mr. S.N. Kumar	NIL
Mr. Sumith Wijesinghe	NIL
Mr. P.A. Abeysekara	NIL

LIFT TO NEW HORIZONS: NEW TEC

HNOLOGIES, NEW CHALLENGES

IT IS OUR OBLIGATION TO BE ACCOUNTABLE TO ALL OUR STAKEHOLDERS, IN ALL OUR OPERATIONS AND ACTIVITIES, FOR THE MANNER IN WHICH WE DELIVER SUSTAINABLE DEVELOPMENT NOT JUST IN THE ECONOMIC DIMENSION BUT ALSO IN THE SOCIAL AND ENVIRONMENTAL DIMENSIONS TOO

The ethos and personality of SLT speaks of a Company that is mindful of doing business in harmony with the natural world, the social world and the economic world. It is our culture and our tradition.

We feel it is our obligation to be accountable to all our stakeholders, in all our operations and activities, for the manner in which we deliver sustainable development not just in the economic dimension but also in the social and environmental dimensions too.

This segment of our report will detail our achievements and objectives towards key sectors of this subject.

OUR EMPLOYEES

Moving forward as one entity

SLT views the area of HR as a two-laned highway, proceeding in one direction, but with two driving forces at play.

The Company seeks to employ one 'drive factor' - it is our endeavour to endow people with the skills and aptitudes we feel are necessary in building our enterprise according to our strategic direction and goals. We then seek to provide a work environment that will build the sense of ownership and belonging in our people, which will underpin all enterprise and move us as one entity towards 'goal scoring'. Add to this a comprehensive programme that is geared to developing people to be 'the best they can be', involving training, skills development, opportunities to innovate and be 'a part of the solution' among many other aspects.

The 'second lane' drive force is generated by our people who, with empowerment, motivation and loyalty, drive our business processes as a collective effort (Company and people) to achieve goals, whilst maintaining their own productivity and satisfaction levels at the optimum.

This approach we feel is what builds true sustainability in the sphere of HR.

THE FOCUS OF TRAINING IS INCREASINGLY ON ENHANCING CUSTOMER SATISFACTION

STAFF STRENGTH

Employee Functional Levels	2007	2006	2005	2004	2003
Executives	**578**	572	527	506	477
Technical Employees	**3195**	3254	3393	3373	3327
Non-Technical Employees	**2658**	2671	2768	2822	2890
Contract Employees	**583**	650	623	473	442
Total	**7014**	**7147**	**7311**	**7174**	**7136**
Income per Employee (Rs. '000)	**5,285**	5,053	4,005	3,719	3,430
Profit per Employee (Rs. '000)	**768**	766	595	365	334
Assets per Employee (Rs.'000)	**11,249**	11,075	10,387	10,111	9,645

Investment on Education and Training

SLT's training regime followed the strategic phases of business development over the years. Thus training opportunities are focussed to cater to the needs of the individual in support of the Company's applicable growth phase.

For example over the period 1997 to 1998, SLT was concentrating on increasing connections and bringing down turn around time from application to provision of connections. Thus, all OSP staff underwent extensive training in network expansion techniques, project management and network deployment.

Training was also geared to improving the IT literacy of staff.

The emphasis on technical training during this period, was also beginning to be augmented with the imparting of management skills and soft skills development.

During the period 1999 to 2001, SLT concentrated on building an effective Corporate Management structure. Along with a continuing regime of technical training, the Company provided management programmes for senior and middle level managers, often at external resource centres, to provide our staff with vital exposure to new management concepts and best practices.

Also, programmes were provided to enhance motivation and workplace co-operation amongst employees.

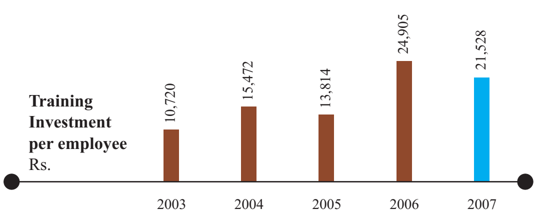
1,026 training programmes covering 174,688 training hours with a participation of 13,396 were conducted in 2007.

TRAINING STATISTICS

	2006				2007			
	Local	Foreign	Internal	Total	Local	Foreign	Internal	Total
No. of Programmes	117	178	870	1165	127	126	773	1026
No. of training hours	11,094	22,992	193,860	227,946	9,634	8,286	156,768	174,688
No. of Participants	636	540	17,298	18,474	785	279	12,332	13,396

INVESTMENT ON TRAINING

	2007	2006	2005	2004	2003
Total Expenditure in millions	151.1	178.1	101.6	111.4	76.5
Personnel Cost in millions	5,479	4,565	3,857	3,395	3,364
Total Expenditure as a % of Personnel cost	2.76%	3.90%	2.63%	3.28%	2.27%
Turnover in millions	37,068	36,109	29,282	26,753	24,477
Training Investment per employee in Rs.	21,542	24,920	13,897	15,528	10,720



A scheme to provide financial assistance to enable our employees to follow educational courses such as Master's Degrees, PG Diplomas and other Diploma programmes was also commenced.

From 2002 to 2003, the Company's training began to focus on enhancing levels of Customer Satisfaction, to parallel our drive to meet the growing competition in the market-place. Subjects such as Marketing, HR Management, Finance, Attitude Development, Financial Awareness for non-financial staff and Technical Awareness for non-technical staff, began to figure in our training curriculum.

A good example of how we approached this phase was the seminar we conducted for OPMC staff. Here, we focussed on the constantly evolving face of technology and the importance of preparing to face market competition. Topics covered included the New Technology, Marketing, Market Competition, Customer Service and Preparing to face Market Competition.

The Company also fully espoused the 5S and Kaizen concepts.

The Company's focus during the years 2004 and 2005 was to become the market leader and here too, our training began to reflect this approach. SLT Training went external and we

OUR BASIC PREMISE WAS TO BUILD A HEALTHY, CONTENTED, LOYAL AND PRODUCTIVE SLT FAMILY, WHO WOULD TAKE PRIDE IN THEIR COMPANY, CLAIM OWNERSHIP AND RESPONSIBILITY FOR SUCCESS AS WELL AS SHORTCOMINGS AND 'BE A PART OF THE SOLUTION' WHEREVER POSSIBLE

EXPENDITURE ON EMPLOYEE WELFARE

	2007	2006	2005	2004	2003
Total Expenditure (Rs. million)	**264.9**	264.6	214.71	191.87	194.23
Expenditure Per Employee (Rs.)	**37,767**	37,026	29,368	26,745	27,218

began to position our training entity as a top of the line telecommunications instructional body for external students, by offering such courses as BTEC Higher National Diploma with Edexcel of UK and Certificate, Diploma and Advanced Diploma courses with City and Guilds, UK.

This diverse training curriculum, where the technical exists in harmony with soft skill development, continues to be offered into the year 2007 as well.

CONCERNING THE WELFARE OF STAFF

Welfare services and benefits to our people have improved remarkably over the past decade.

Our basic premise was to build a healthy, contented, loyal and productive SLT family, who would take pride in their Company, claim ownership and responsibility for success as well as shortcomings and 'be a part of the solution' wherever possible.

There are many facets to our endeavours in this regard - here are some of them.

Making a Difference with IT

SLT began to make interaction between staff and the Company less cumbersome, with the computerisation of several HR processes such as those relating to leave taking and application for loans and medical facilities. This process of mechanisation has significantly quickened the time taken to process and fulfil such requests.

Taking Contentiousness out of Grievance

The Company also introduced emancipated grievance handling procedures which serve the purpose, not only of 'keeping the peace' and fostering harmony and understanding between employee and employer, but also imparts valuable programmes educating and counselling employees on a wide range of topical issues.

The joint efforts of Company and staff have helped us to halve our chronic absentee rates over the past 4 years.

Understanding Each Other

The success of our enterprise depends on how well we get on, as the SLT family. Great effort has gone into strengthening the relationship between the Company and our Unions, through a process of dialogue.

Employee awareness programmes focussing on workplace co-operation have been augmented by the formation of workplace co-operation sub-committees, with the ultimate aim of transforming these bodies into self managed teams.

In all, our endeavours we stress the value of discussion - an issue discussed, is often an issue resolved. In this regard we are proud of our workforce and their representative Unions who respond in good spirit.

The Value of Wellness

A healthy workforce is a true win-win situation for all. Not only does the employee benefit from leading a productive and healthy life at work and at home, but the Company gains through decreased man hours lost, plus most importantly, through the application of healthy bodies and minds to our processes of business.

To that end, SLT balances an extensive health education programme with its annual medical programme 'Suwatha'. The latter was begun in 2006 and is geared to help our people check their health at regular intervals. It has been invaluable in diagnosing chronic ailments in timely manner, which of course helps afford a better chance of effective treatment and recovery. Employee participation in this scheme is extremely high.

SERVICE ANALYSIS (AS AT 31.12.2007)

Service (years)	Corporate Mgt.	Executive Mgt.	Senior Mgt.	Middle Mgt.	Non-Mgt.	Total
Above 20	7	22	30	102	2,738	2,899
16 - 20	1	13	16	3	554	586
11 - 15	–	1	77	58	1,829	1,965
06 - 10	–	–	79	68	488	635
Below 5	–	–	5	98	826	929
Total	**8**	**36**	**207**	**329**	**6,435**	**7,014**

GENDER DIVERSITY (AS AT 31.12.2007)

Employee Levels	Male	Female	Total
Executives	431	147	578
Technical Employees	3,013	187	3,195
Non-Technical Employees	1,139	1,514	2,658
Contract Employees	443	140	583
Total	**5,026**	**1,988**	**7,014**

DIRECT EXCHANGE LINES PER EMPLOYEE

	2007	2006	2005	2004	2003
Direct Exchange Lines per Employee	**198**	173	130	120	115

A Special VRS Scheme

The Company introduced a special VRS Scheme to assist those employees who had not been eligible for voluntary retirement under the Company's original VRS.

The employees we sought to assist were those who desired early retirement on grounds of poor health.

The special VRS proved to be a boon for those of our employees who would otherwise have had no recourse to an early retirement.

The Importance of a Life beyond Work

A close knit family is built on interaction at various levels. SLT recognises the need to enjoy 'social up time' and to this end the Company encourages and supports a full calendar of extra-curricular events that encompass a gamut of activity such as sport, cultural events, outings and get-togethers.

Team spirit and cohesiveness are to the fore here.

Awards that Vindicate

Each year, we at SLT are emboldened and encouraged by the recognition we receive from various quarters for various aspects of our operations and strategic thinking. Whilst it is gratifying to be so recognised, the Company never takes such instances for granted - it is a mercurial world out there, and we fully appreciate what a few wrong turns or downturns could mean in our business.

Here are some of our highpoints:

SLT Wins POP Award

SLT was awarded the SLIM Nielsen Power of the People (POP) Award for the Telecom Service Brand of the Year 2007 during the period under review.

Jointly organised by the Sri Lanka Institute of Marketing (SLIM) and The Nielsen Company, these awards are based upon research conducted across the Nation. This year, over 5,050 individuals from both urban and rural areas, in age groups form 15-65 years were surveyed.

This award reinforces our Company's commitment to build a first class communications infrastructure thereby providing all Sri Lankans with the most advanced of telecom solutions.

SLT Wins 3 National Quality and Productivity Awards

At the National Quality and Productivity Awards 2007 organised by the Sri Lanka Association for the Advancement of Quality and Productivity (SLAAQP), SLT won three awards for its performance in these vital areas of operation.

The Company was overall winner for the Best Quality Circle - Service Sector, Best KAIZEN Suggestion and Best Continuous Improvement Team - Service Sector.

When contemplating productivity, SLT has always believed that achieving true productivity must be a two way process, where both Company and employee give of themselves for the good of the whole. If there is no win-win aspect, the search for productivity will fail.

INTERACTING WITH A WIDER SOCIETY

MOVING BEYOND CORE BUSINESS HAS MADE SLT APPRECIATE THE CONTRIBUTIONS WE COULD MAKE TO LIFE BEYOND THE TELECOM WORLD. WE REACH SEVERAL AUDIENCES, WITH MEANINGFUL SUPPORT AND INVOLVEMENT IN MANY IMPORTANT AREAS OF LIFE

Involved as we are in the mercurial world of telecommunications, we have kept in close touch with the wider community, attuned to their needs, playing a role where we can, when we can, according to our strengths and aptitudes.

Moving beyond core business has made SLT appreciate more, the contributions we could make to life beyond the telecom world.

We reach several audiences, with meaningful support and involvement in many important areas of life.

WORKING WITH A TELECOM RELATED AUDIENCE

During the year under review, SLT lent support to a number of very important events within the sphere of telecommunications.

SANOG IX - January 2007

SLT hosted the 9th Networking Conference of the South Asian Network Operators Group in January 2007, in Colombo.

This event consisted of workshops, tutorials and a conference which provided the ideal forum for vendors and engineers involved in networking, to discuss new technologies and products whilst sharing experiences for the benefit of the telecom community.

A truly eminent international panel of instructors were on hand to lead proceedings.

The event also saw the participation of many of Sri Lanka's leading companies, drawn from almost every industrial discipline.

SANOG IX, providing data operators in the South Asian region as it did, with an opportunity to discuss operational issues and technologies, was an important success in the modern context. The sharing of such knowledge on IP technologies and services has become more important than ever before.

SANOG is South Asia's largest networking event.

International Conference on Industrial and Information Systems (ICIIS 2007)

SLT was the Principal Sponsor of ICIIS 2007. This is the second occasion on which the Company has done so, the first being the ICIIS held in 2006.

The objective of this Conference is to provide a common forum for academics and industrial experts to meet in discussion that leads to solutions and/or the opening of interesting avenues of collaboration for research. Typically they are drawn from areas such as Communication Information Engineering, Electronics, Instrumentation and Computer Systems, Robotics and Motion Control and Power Systems and High Voltage Engineering.

Topicality, international scope and beneficial spin offs for Sri Lanka were some of the motivators that attracted our sponsorship.

South Asian Broadband Congress

The first ever South Asian Broadband (SABB) Congress and Expo was held in 2007 in Colombo. SLT was partner sponsor of the event.

SLT hosted the 9th networking conference of the South Asian Network Operators Group in January 2007.

SLT was a partner sponsor of the first ever South Asian Broadband Congress and Expo held in Colombo in 2007.

The main aims of this meet was to provide a forum where telecom operators and Internet service providers could meet and share their experiences whilst also promoting the benefits of Broadband technology to end users.

Many leading companies seized the opportunity to feature some of their leading edge products/services at the exhibition. SLT showcased its own Broadband services at a dedicated stall.

WORKING WITH PROFESSIONAL AUDIENCES

During 2007, SLT also had opportunities to lend its support to selected projects from other professional spheres. By so doing, the Company played a role in facilitating enhancement of standards in key areas of life, beyond the scope of telecommunications.

CIMA Business Leaders' Summit

SLT was the strategic partner for the CIMA Business Leaders' Summit which took place at the BMICH in June 2007.

Based on the theme 'Good to Great' and inspired by Jim Collins' book of the same name, it sought to explore whether there were universally applicable characteristics that distinguished great companies from good ones and mediocre ones. If there were such characteristics, the forum sought to verify whether such characteristics could be applied to individuals, business sectors or even nations.

SLT HAS SUPPORTED AND CONTRIBUTED TO EDUCATION AND SPORTS. OVER THE YEARS WE HAVE BUILT AND MAINTAINED FRUITFUL RELATIONSHIPS WITH MANY EDUCATION INSTITUTES AND SPORTS RELATED ORGANISTATIONS

SLT - Principal Sponsor of 7th Annual Conference of CIM

SLT has continued to support the Chartered Institute of Marketing (CIM) Sri Lanka over a number of years, through its role as Principal Sponsor of CIM's annual conference.

The very topical themes selected by CIM each year, with the conference in 2007 revolving around 'The Evolution of the Retail Industry in Sri Lanka', plus the fact that this conference is one of the premier events in Sri Lanka's professional calendar, are factors SLT can identify with and support.

The international flavour that is lent to proceedings by the presence of luminaries from overseas, is also worthy of support, as it benefits the advancement of our own national and business standards quite significantly.

SLT in association with the Asia Foundation distributed 100,000 books around the country. An annual programme since 2003.

SLT - Platinum Sponsor of the Chillies 2007

The Chillies is Sri Lanka's premier Advertising Awards and Marcom event, recognising and rewarding outstanding work put forth by the advertising/ Marcom industry each year.

SLT identifies with the role played by the organisers, who are themselves a mix of ad agency personnel and clients, in raising the bar of creative excellence whilst reaching for greater diversity, dynamism and world class execution.

SLT AND THE WIDER COMMUNITY

The Company has, for some years now, consciously played a supportive role in the sphere of education. There are many reasons for this. We are firmly of the view that whatever we can do in improving the upcoming generation in terms of learning and self improvement, we will do. We have a national take on this issue, recognising the fact that these young people will one day be at the helm of affairs in the country and will require education and skills of the highest order, to contribute to the Nation.

Education

Spreading the Wealth of Knowledge

SLT has been involved with the Asia Foundation's 'Books for Asia' programme since 2003.

In the year under review, SLT in association with the Asia Foundation distributed over 100,000 books around the country. Beneficiaries were schools, universities, libraries of professional bodies among others. The books were on a wide variety of subjects.

ICoRN Lab - University of Peradeniya - donated by SLT, enables graduates to meet the growing demand of rapid development of technology and industry.

Among several significant benefits from this activity is the fact that it will undoubtedly enhance the proficiency and skill levels of school children, university students, professionals and others. It also allows our Company to play a catalytic role in addressing the needs of primary, secondary tertiary and professional education in this country.

We themed this activity 'Spreading the Wealth of Knowledge'.

This joint effort of SLT and the Asia Foundation gathers books free of charge from American publishers and brings them into Sri Lanka, to be distributed across the island. The Company's sponsorship has been invaluable in assisting the Asia Foundation carry out this programme.

Benefiting institutions include, universities, affiliated universities, teacher training colleges, primary and secondary schools, professional institutions and public libraries.

As at the end of 2007 100,000 books worth approximately Rs. 275 million were distributed across the country.

SLT is, by far, the largest donor to this project.

SLT Invests in ICoRN Lab - University of Peradeniya

In a futuristic step, SLT set up the innovative Information and Communication Research Network (ICoRN) Laboratory at the University of Peradeniya in February 2007.

A key objective of this initiative was to build a strong relationship between the university network and the industry thus creating synergies for the benefit of many.

The broad vision for this project is to provide a platform for researchers from a wide variety of disciplines to come together to engage in research and development activities.

This step is also in consonance with our own views of the importance of creating a network, which will help to enhance ICT research and development in Sri Lanka, thereby opening up a number of avenues for global socio-economic development.

The key here is to address the growing need for innovation and development in ICT to match rising world expectations. Rapid development of technology and industry can exert pressure on our graduates to meet the growing demands of the corporate sector - demands which they could find difficult to meet, due to lack of exposure. The new Lab provides answers to these and like questions.

Young Computer Scientists Competition - 2007

SLT was the main sponsor of the 6th Young Computer Scientist Competition held during the year in review.

The event was conducted by the Sri Lanka Association for the Software Industry (SLASI), with the support of the Ministry of Education and the Information and Communication Technology Agency (ICTA).

The event showcases the computing talents of school children, encouraging them to develop these talents further. It also recognises innovation and inventiveness in the use of this medium.

Career Fairs - the Universities of Peradeniya and Moratuwa

SLT was the event sponsor for two career fairs, one organised by the Engineering Faculty of the University of Moratuwa and the other by the University of Peradeniya.

One of the key aims of these events was to enhance industry-university interaction, towards lucrative employment opportunities for students.

SLT too could identify talented students for recruitment to the Company.

'Communication Beyond Voice' - an Event for Media Professionals

The Company hosted a three-day intensive and interactive workshop for media professionals on the theme 'Communication Beyond Voice', at Habarana during the year under review.

This event introduced media professionals to the convergence in technology and the role it plays in keeping us abreast of the rapid, cutting edge change that is taking place in the global telecom field.

"Communications Beyond Voice" a 3-day event hosted by SLT for media professionals.

Participants were afforded a practical experience of the latest technology deployed in the field of telecommunications.

Such experience provided invaluable awareness and opportunities for further development of the ICT knowledge of media professionals.

SLT - Theme Attraction Sponsor - EDEX 2008

The BMICH, Colombo played host to EDEX 2008 an exhibition that took place in January 2008.

SLT's theme attraction, "experience the digital lifestyle" at EDEX 2008. It was SLT's endeavour to link Sri Lankan youth with choices, options and opportunities in post secondary education, skills development, vocational and technical training leading to gainful employment.

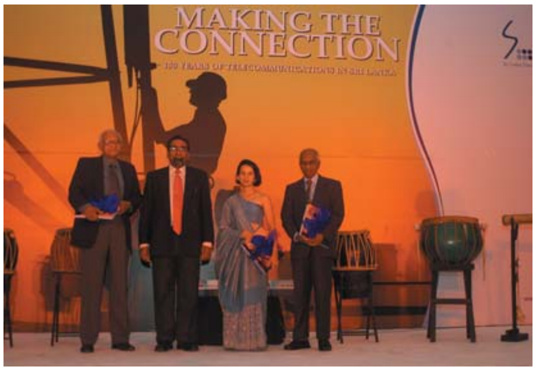
EDEX 2008 brought together the student and the industry at a forum where 130 local educational institutions and over 350 foreign universities were represented.

It was the Company's endeavour to link Sri Lankan youth with choices, options and opportunities in post-secondary education, skills development, vocational and technical training leading to gainful employment, through EDEX which was the single largest platform fulfilling this need.

The joint SLT-Mobitel stall at this exhibition offered visitors such features as the use of uploading photos/videos/ music files, photo/music/video sharing, creative writing and blogging, video blogging, net radio, social utility networks such as Facebook and chatting mechanisms such as SLTnet Messenger, Google Chat, iChat and MSN Messenger. It also featured Mobitel 3.5G and the use of mobile telephony on a GSM network, broadband services, as well as wireless fidelity (WIFI). Working with blogs; visitors could write, compose poems, upload videos onto social networks like YouTube, create digital art, make their own music or relax while listening to radio channels from around the world. They could also visit the Mobitel corner for a one of a kind experience - the first 3.5G HSPA technology in South Asia.

SLT - Festival Partner of Galle International Literary Festival - 2008.

Held for only the second occasion in January 2008, the Galle International Literary Festival has been dubbed the No. 1 literary festival of its kind in the world, by the prestigious publication, Harpers Bazaar.



SLT launched a book titled "Making the Connection" to commemorate 150 years of telecommunications in Sri Lanka.


SLT was principal sponsor of the 8th International Congress on AIDS in Asia and the Pacific held in Sri Lanka in August 2007.

Drawing together an eclectic mix of local and international writers, the Festival in 2008 was launched by world famous authors Gore Vidal and Vikram Seth.

Prominent Sri Lankan literary personalities were also in attendance; people like Jean Arasanayagam, Punyakante Wijenaike, Carl Muller, Shyam Selvadurai, Yasmine Gooneratne and Neil Fernandopulle.

The primary role of language as a medium of communication, plus our desire to foster the literary arts and showcase the talent within our country, are some of the factors that led SLT to come in as a Festival Partner.

'Making the Connection - SLT and 150 Years of Telecommunication in Sri Lanka'

The Company was honoured to publish this special book in commemoration of 150 years of telecommunication in Sri Lanka.

Replete with stunning photo and written material from bygone eras to the present, with a foreword from the eminent Sir Arthur C. Clarke, the book takes an intriguing journey down memory lane. All the significant milestone of telecom history are featured and the book is considered one of a kind reference material.

Arrangements are being made to distribute the book via prominent book stores, island wide very soon.

'Waves of Change - Waves of Hope'

SLT was one of the Principal Sri Lankan Corporate Sponsors of the 8th International Congress on AIDS in Asia and the Pacific (ICAAP) held in Sri Lanka in August 2007.

Themed as 'Waves of Change - Waves of Hope', the Congress sought to enhance local, regional and global response to HIV/AIDS through a meaningful exchange of instances of expertise, experiences, progress, lessons learnt, challenges faced and successes achieved in HIV/AIDS programmes.

Donation to Cancer Hospital, Maharagama

Although many of the instances of SLT's involvement and support in this segment of our report may seem to reflect only a corporate response, this is not always so.

An apt illustration of how all our people get involved is to be found in the initiatives of our Sales Division, which raised a donation for the Cancer Hospital, Maharagama, through personal contribution.

This is an annual feature. This year, our staff donated dry rations and clothing for 100 patients as well.

Sports

SLT and the NOA

SLT partnered the National Olympic Academy (NOA) to impart better training to sports leaders and to facilitate a more streamlined operating approach by the sports movement as a whole.

This sponsorship illustrates SLT's commitment to develop and strengthen relationships through sport, through participation of sports persons from across the land.

SLT sponsors the Junior National Badminton Championships for the second consecutive year.

Such training ensures that our sportsmen and women can expect to have a trained and competent supportive administrative structure backing them at all times.

General Assembly National Olympic Committee

The Company sponsored the 36th Junior National Badminton Championships for the second consecutive year in May 2007.

Yet again, this is a project that fits with our aims to build a healthy and talented younger generation, where sports can inculcate the values of teamwork, fair competition, healthy rivalry and so many more formative qualities that stay with them into their adult years.

SLT has a strong tradition of fostering sports in Sri Lanka, sponsoring the South Asian Games in Colombo last year and the Sri Lankan contingent to the 15th Asian Games in Doha, also last year.

OUR ENVIRONMENT

Making conservation a habit

Nature and the environment have been close to SLT's heart for many years. There have been many projects over the ensuing years where the Company has espoused the cause of nature… for good reason. The equation is simple… nature destroyed means life (as we know it) destroyed.

Some years ago, at the Infotech Exhibition in Colombo, we organised a live webcast from the wilds right to the exhibition site. The drama this evoked helped raise valuable awareness on a subject so vitally in need of attention.

Our print material, chiefly the SLT calendar has featured the flora and fauna of Sri Lanka - not just from a pictorial perspective but an educational one as well - informing on species close to extinction, dwindling habitats etc.

In this vein the Company continues to be involved with the Field Ornithological Group of Sri Lanka (FOGSL) of the University of Colombo, in their efforts to conserve the Sinharaja Forest Reserve.

Professor Sarath Kotagama, renowned ornithologist leads the FOGSL team.

This project sees a group of 20 students and 5 teachers from participating schools, visiting the Sinharaja Reserve over two days. There, they attend a series of lectures on the history of the Reserve and valuable 'dos' and 'donts' as regards protecting this resource. Prof. Kotagama conducts a theoretical session, whilst the students are also taken on field trips.

They are then encouraged to do their own research resulting in assignments modulated by FOGSL and presented in the form of handwritten books.

Certificates are awarded at the end of each programme.

SLT's aim is to make conservation a habit.

SLT continues to be involved with the field ornithological group of Sri Lanka of the University of Colombo in their efforts to conserve the Sinharaja Forest Reserve.

SLT endeavours to employ a regime that ensures adherence to transparency, accountability and efficiency as required outcomes in the pursuit of the exercise of the powers of its Board and Management in steering the Company. This endeavour encompasses all due processes. Our aim is to achieve exemplary corporate governance while delivering shareholder value, in line with the approach mandated in 2007 by the Colombo Stock Exchange.

INDEPENDENCE AND EFFECTIVENESS OF THE BOARD OF DIRECTORS

In terms of the Articles of Association of the Company, the Board of Directors consists of ten seats. The holders of every 10% of equity are entitled to one seat on the Board. Accordingly, the Government of Sri Lanka (GOSL) is entitled to five seats in relation to its 49.5% equity holding and NTTCom to four seats in relation to its holding of 35.2%, while one seat is reserved for minority shareholders (who together hold 15% of the equity). In this way, the shareholders are responsible for the appointment of Directors to fill even casual vacancies. Additionally, these Directors are subject to retirement by rotation at the Annual General Meeting.

Whereas the Chairman of the Board is always a Director nominated by the GOSL, the CEO is a Director nominated by NTTCom. All Directors function in the capacity of Non-Executive Directors with the exception of the CEO. Executive responsibility for running the Company's business lies with the CEO, supported by the management staff. The scope and authority of the CEO's position are laid down in the Articles of Association of the Company.

An essential balance of power is expected to be achieved by the separation of the roles of the Chairman and the CEO.

The Board provides strategic direction to the Company through the medium of the annual business plan. Well ahead of the conclusion of the financial year, the management prepares a business plan for the following year and submits it for the Board's consideration. The Board reviews the plan and the proposed capital and operational expenditure, making adjustments as it deems necessary, and when satisfied grants approval for management to proceed. The plan is reviewed quarterly or by mid-year to make adjustments if conditions of business so warrant.

Having regard to developments in market practice as well as the corporate governance rules and guidelines issued from time to time by the Colombo Stock Exchange, the Board implements proposals for best practice to ensure that market expectations are delivered.

The Board is committed to best practice in the area of corporate governance, acknowledging it as a source of competitive advantage.

BOARD MEETINGS AND PROCESSES

Regular Board meetings are scheduled monthly.

In practice, the Board meets for both scheduled and special meetings. The latter are convened to deal with specific matters that require attention between scheduled meetings. On occasions when NTTCom Directors are unable to attend in person, they do so via audio link.

In 2007, 17 Board meetings were held. Certain matters that come before the Board are identified as Restricted Matters under the Shareholders' Agreement entered into by the two principal shareholders for the management of the Company. The resolution of a Restricted Matter requires the agreement of at least one GOSL nominee director and one NTTCom nominee Director in addition to the usual requirement of a simple majority. This provision is a precaution against dominance by a single major shareholder.

DETAILS OF BOARD MEETING HELD AND ATTENDANCE OF DIRECTORS DURING THE FINANCIAL YEAR 2007

No. of Meetings held in the year - 17

Name of Director	No. of Meetings Attended
Mr. P. Asoka Weerasinghe De Silva	17
Mr. Shoji Takahashi	17
Mr. Suhei Anan	7
Mr. S.B. Divaratne *(Resigned w.e.f. 04.05.07)*	3
Mrs. Leisha Chandrasena	17
Mr. S.N. Kumar	16
Mr. Sumith Wijesinghe	17
Mr. P.A. Abeysekara *(Appointed w.e.f. 31.08.07)*	8

BOARD COMMITTEES AND COMPOSITION

The Board has two sub-committees: an Audit Committee and a Remuneration Committee. Apart from these, the Board delegates its authority to other *ad hoc* sub-committees as and when necessary.

Audit Committee

The Audit Committee reviews the internal financial controls and the effectiveness of the Company's internal audit function. In the past the Committee has been responsible for developing and implementing processes for certain operations with the assistance of the external auditors. If external auditors are required to provide non-audit services, their suitability is also assessed by the Audit Committee.

The Audit Committee comprises three Directors: two GOSL nominee Directors and one NTTCom nominee. The CFO and the Chief Internal Auditor are regularly invited to attend meetings.

Among other things, the Audit Committee has been working to regularise processes where lapses have been reported by the external auditors.

STRUCTURE AND COMPOSITION OF AUDIT COMMITTEE DURING 2007

No. of Meetings held in the year - 7

Name of Director	Audit Committee
Mrs. Leisha Chandrasena*	7
Mr. S.N. Kumar	7

* *Chairman of the Audit Committee*

Remuneration Committee

The Remuneration Committee makes recommendations to the Board regarding the remuneration of top management grades and the attendance fees of Non-Executive Directors attending Board meetings. This Committee also recommends the Chairman's emoluments. The Committee is composed of the Chairman and the CEO of the Company.

ROLE OF THE COMPANY SECRETARY

The Company Secretary maintains minutes of all Board meetings. In consultation with the CEO and through the Chairman, he or she advises the Board on all matters pertaining to corporate governance. The Board, through the Company Secretary, ensures that all capital markets regulatory requirements are complied with and disclosures made in a timely, understandable, full and fair manner.

RISK MANAGEMENT

A number of processes have been put in place to ensure a sound system of internal control and risk management.

Management exercises control over the Company's financial system through the process of preparing operational and capital budgets, securing Board approval and the comparison of actual performance with the budget. The Company also has in place a system of safeguards that apply scaled, designation-related limits on the authorisation and approval of all financial transactions.

Supplementary to its usual responsibilities, the Committee also reviews instances of poor business practice, weak internal processes and reported improprieties of financial management. The Committee seeks the views of the Company's external auditors on such matters. Where weaknesses are identified, measures are taken to put in place the required checks and balances. A Revenue Assurance Committee headed by an off-line senior manager has been appointed to implement measures to cover identified gaps in revenue recognition and to enforce accountability. Every Chief Officer is responsible for managing the risks pertaining to their area of operations.

HUMAN RESOURCES

Acknowledging that human resources are among the most valuable assets of the Company, the Board ensures that remuneration policy is fair and equitable for all employees. Salary and benefits packages across all grades are comparable with those of the best corporate entities in the country.

The Board considers the health and safety of employees a matter of paramount importance. In order to reduce absence due to ill-health, the Board has authorised a comprehensive medical check-up scheme for all employees with all expenses paid.

INVESTOR-RELATIONS

Continuous dialogue with key shareholders, including institutional shareholders, is ensured by quarterly investor-relations meetings. At these meetings, investors are briefed by the CEO on the Company's progress and its future plans. The management team is also encouraged to express its views and concerns at these meetings. Refer investor relations for a more comprehensive report on page 49.

THE WAY WE DO BUSINESS

The Company has a share-dealing code in place to ensure that senior Executives, Directors, relevant employees and `connected persons' do not abuse price-sensitive information, especially in periods leading up to the announcement of results by the Company.

The Board and the Management consistently advocate disciplined, liberal employment policies and work together on the application of responsible business practices.

BOARD OF DIRECTORS

Mrs. Leisha De Silva Chandrasena

Mrs. Chandrasena joined the Board on 27 February 2006. She is an Attorney-at-Law & Notary Public by profession who has been in active practice from 1978 to 1987 and has served as a Legal Manager/ Company Secretary in private sector enterprises. Currently, she is in active practise in the Civil Courts and serves as a Partner of a family owned Legal Firm.

Mrs. Chandrasena is also on the Board of Mobitel and SLT Hong Kong Limited.

She was appointed as Chairman of the Board on 25 February 2008.

Mr. Shoji Takahashi

Mr. Shoji Takahashi was appointed as CEO of the Company on 4 December 2006. He had been a Member of the Board, since August 2005. Mr. Takahashi also holds the position of Director in Mobitel (Pvt) Limited, SLT (Services) Limited, SLT Publications (Pvt) Limited and SLT Hong Kong Limited.

Prior to his appointment as CEO of SLT, Mr. Takahashi had served NTTCom Asia Limited, HK Net Co. Limited and NTTCom Asia Network Systems (Guang Zhou) Limited as their President and CEO.

Before moving to SLT Mr. Takahashi has been serving NTTCom's overseas business interests for more than 15 years as Director, Arcstar Division -NTTCom, Director, Overseas Carrier Business - NTT and Senior Manager, Overseas Department of NTT. In 1988, he was assigned to US West, a US Telecommunications firm to engage in operational research.

He holds a Bachelor's Degree in Mechanical Engineering from the Nihon University, Japan and has completed an international business course at Masters level at the Management Academy of the Japan Productivity Centre.

Mr. Shuhei Anan

Mr. Anan was appointed to the Board of Directors of SLT in March 1999 in the capacity of Alternate Director. He became a Principal Director on 5 June 1999. On 21 July 2001 he was appointed Director/CEO of SLT which position he held up to 4 December 2006 when he relinquished the post of CEO. Mr. Anan continues to serve as a Non-Executive Director of the Company. He is the longest serving Director of the Board. Currently, he serves on the Board of Mobitel (Pvt) Limited. Mr. Anan presently serves as Vice President/NTTCom.

Mr. Anan holds a Master's Degree in Science from the University of Waseda, Japan. Prior to becoming CEO of SLT, he has held a number of senior management positions at NTTCom and was the Assistant Vice-President in charge of Operations & Maintenance at the Thai Telephone & Telecommunications Company. Whilst at NTT he has been in charge of Mergers and Acquisitions involving Telecom companies such as Philippine Long Distance Telephone Company (PLTD), Starhub in Singapore, Sri Lanka Telecom and Thai Telephone & Telecommunication Public Limited.

Mr. S.N. Kumar

Mr. Kumar was appointed to the Board of Directors of the Company on 27 February 2006. He is also a Member of the Board of Directors of Mobitel.

Mr. Kumar is a businessman involved in the textile and garment sector. He began his career in the garment industry in 1982 holding managerial office in the financial sphere of the industry and thereafter began his own business enterprise in 1983. He currently serves as Advisor to the Minister of Foreign Employment Promotion and is also the Chairman of a reputed Company.

Mr. Sumith Wijesinghe

Mr. Sumith Wijesinghe was appointed to the Board of Directors of the Company as a Non-Executive Director on 17 April 2006. He is also a Director of Mobitel (Pvt) Limited.

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

Prior to his appointment to SLT, Mr. Wijesinghe was a practising 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 His Excellency the President. He has a Degree in Law from the University of Colombo. He is also an Attorney-at-Law.

Mr. P. A. Abeysekara

Mr. P.A. Abeysekara was appointed to the Board on 31 August 2007. Mr. Abeysekara possesses a Bachelor of Arts Degree from the University of Ceylon. In addition, he has received training overseas as well as locally, in the areas of Rural Development (in India), Public Administration, Project Management, Rural Credit Management (in Sri Lanka) and Group Training on Co-operation (in Japan).

He currently holds the position of Director General, Department of Management Services in the Ministry of Finance. Having joined the Public Service in 1976 he has held various positions of responsibility in Government Ministries and also in other government agencies such as the Commission to Investigate Bribery & Corruption and the Sri Lanka Institute of Development Administration.

FINANCIAL REPORTS

ANNUAL REPORT OF THE BOARD OF DIRECTORS

1. The Directors present herewith the audited consolidated financial statements of Sri Lanka Telecom PLC ('SLTPLC' or 'the Company') and its subsidiaries ('the Group') for the year ended 31 December 2007.

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 Telecommunications 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 or Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987, vide Extraordinary Gazette No. 942/7 dated 25 September 1996.

   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.

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 to the Group financial statements on page 89.

4. **FINANCIAL STATEMENTS**

   The financial statements, which includes the income statement, balance sheet, statement of changes in equity, cash flow statement and the notes to the financial statements of the Group and the Company for the year ended 31 December 2007 are set out on page 84 to 120.

5. **AUDITORS' REPORT**

   The Auditors' Report is set out on page 83.

6. **CHANGES IN ACCOUNTING POLICIES**

   The accounting policies adopted by the Company and its subsidiaries have been consistently applied from previous years.

7. REVIEW OF BUSINESS

The state of affairs of the Group at 31 December 2007 is set out in the balance sheet on page 85. An assessment of the financial performance of the Group and other developments during the financial year is given in the CEO's Review.

8. PROPERTY, PLANT & EQUIPMENT

The movements in property, plant & equipment during the year are set out in Note 14 to the Group financial statements.

9. MARKET VALUE OF PROPERTIES

The Directors are of the opinion that the carrying amount of properties stated in Note 14 to the Group financial statements reflects their fair value.

10. GROUP ACTIVITIES

The Group provides a broad portfolio of telecommunication services across Sri Lanka, the main activity being domestic and international telephone services. In addition, the range of services provided by the Group include, inter alia, Internet services, data services, domestic and international leased circuits, frame relay, ISDN, satellite uplink and maritime transmission.

11. SUBSIDIARIES

The Group comprised of the Company and the wholly-owned subsidiaries noted below:

Mobitel (Private) Limited - Mobile Telecommunication Services
Sri Lanka Telecom (Services) Limited - Total network solutions
SLT (Hong Kong) Limited - IP transit services
SLT Publications (Private) Limited - Directory publication services

12. DIVIDEND

The Directors have recommended the payment of a first and final dividend on ordinary shares for the financial year ended 31 December 2007 of Rs. 1 per share (Rs. 1,804,860,000). In accordance with the Sri Lanka Accounting Standard No. 12 (Revised) - Events after Balance Sheet Date, this proposed first and final dividend has not been recognised as a liability as at 31 December 2007.

Taking into account the above distribution, the Board is satisfied that 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.

13. RESERVES

Total reserves and their composition are set out in the statements of changes in equity on pages 86 and 87 of the Group financial statements.

14. SUBSTANTIAL SHAREHOLDINGS

As per the share register, following shareholders held more than 5% of the 1,804,860,000 ordinary shares in issue as at 31 December 2007:

	Holding %	No. of Shares
Government of Sri Lanka	49.50	893,405,700
NTT Communications Corporation	35.20	635,076,318

The balance 15.30% shares are held by the public and employees of the Company.

15. INVESTOR RELATIONS

In addition to the Annual General Meetings at which the Directors have a dialogue with the shareholders, timely financial reports are presented to investors on quarterly and annual basis. The Investor Relations Officers together with the Chief Executive Officer (CEO) meet institutional shareholders, rating agencies and fund managers on a regular basis. Additionally, the shareholders and the rating agencies are kept up-to-date on the business endeavours and other activities undertaken by the Group to enhance stakeholder value, through its quarterly newsletter 'Investor'.

16. DIRECTORS

During the year nine Directors held office. At 31 December 2007, the Board of the Company comprised the following Directors:

Mr. P. Asoka Weerasinghe De Silva - *Chairman*
Mr. Shoji Takahashi - *CEO*
Mr. Shuhei Anan
Mrs. Leisha Chandrasena
Mr. S.N. Kumar
Mr. Sumith Wijesinghe
Mr. P.A. Abeysekera - *Appointed on 31 August 2007*

The following Directors resigned from the Board:

Mr. S.B. Divaratne - *Resigned on 4 May 2007*
Mr. Jun Sawada - *Resigned on 16 January 2007*

The Board wishes to place on record their sincere appreciation of the services rendered by Mr. S.B. Divaratne and Mr. Jun Sawada during their tenure on the Board.

Re-election of Directors

The Article 91 of the Articles of Association require that one-third of the Directors or a number nearest thereto retire at each Annual General Meeting an offer themselves for re-election.

Accordingly, Mrs. Leisha Chandrasena and Mr. S.N. Kumar retired from the Board on 31 December 2007. Being eligible they offer themselves for re-election.

During the year Mr. P.A. Abeysekera who 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 end of the financial year. Being eligible, he offer himself for election.

17. DIRECTORS' INTERESTS 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 33 to the group financial statements. Where necessary, the Directors have disclosed the nature of their interests in contracts and proposed contracts.

18. REMUNERATION AND OTHER BENEFITS OF DIRECTORS

The remuneration and other benefits of Directors are given in Note 5 to the Group financial statements on page 101.

19. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2007 none of the Directors held shares of the Company.

20. AMOUNTS PAYABLE TO THE FIRM HOLDING OFFICE AS AN AUDITOR

The remuneration payable by the Company to independent auditors is given in Note 5 to the financial statements on page 101.

21. AUDITOR'S RELATIONSHIP OR ANY INTEREST WITH THE COMPANY

The Directors are satisfied that, based on written representations made by the Independent Auditors to the Board, the auditors did not have any relationship or any interest with the Company and its subsidiaries that would impair their independance.

22. 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 the 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 Audit Committee comprised of Mrs. Leisha Chandrasena and Mr. S.N. Kumar.

23. 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.

24. ENVIRONMENTAL PROTECTION

After making adequate enquiries from management, the Directors are satisfied that the Company operates 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.

25. DONATIONS

During the year the Directors had approved donations amounting to Rs. 575,000/- and none of them were to any approved charity.

26. 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.

27. FUTURE DEVELOPMENTS

In keeping with current global dynamics in the industry the Group intends to transform itself from a traditional telecommunications service provider to a global communication solutions provider. In reaching towards this goal, the value added services that the Group intends to offer its customers include, inter alia, IP TV, Wi-Max, Web Calling, IVR Services and Hosted PABX Services.

28. POST BALANCE SHEET EVENTS

No events had occurred since the balance sheet date and the approval of these financial statements, which would require adjustments to, or disclosure in these Group financial statements.

29. APPOINTMENT OF AUDITORS

A resolution to reappoint the Auditors, Messrs. PricewaterhouseCoopers, Chartered Accountants, who have expressed their willingness to continue, will be proposed at the Annual General Meeting.

By Order of the Board

Asoka Weerasinghe de Silva	**Shoji Takahashi**	**P.G. Dias**
Director	*Director*	*Secretary*

Colombo
11 February 2008

STATEMENT OF THE DIRECTORS' 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 Auditors, in relation to the financial statements, prepared in accordance with the provision of the Companies Act No. 07 of 2007 ['the Act'], is set out in the Independent Auditors' Report on page 83.

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;
- judgements and estimates have been made which are reasonable and prudent.

The Directors are also required to ensure that the Company has 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.

Our 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 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 32 to the financial statements covering contingent liabilities.

By Order of the Board

Secretary
Colombo
11 February 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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COLOMBO 2
SRI LANKA
Telephone: 94-11-4719838 (Hunting)
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TO THE MEMBERS OF SRI LANKA TELECOM PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Sri Lanka Telecom PLC and its subsidiaries, which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 84 to 120.

Management's Responsibility for the Financial Statements

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.

Scope of Audit and Basis of Opinion

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.

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.

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.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2007 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2007 and of its results for the year and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a fair view of the state of affairs as at 31 December 2007 and consolidated results for the year 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.

Report on Other Legal & Regulatory Requirements

These financial statements also comply with the requirements of Sections 153 (2) to 153 (7) as appropriate of the Companies Act No. 07 of 2007.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

Colombo
11 February 2008

Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, S. Manoharan ACA, S. Gajendran FCA, N.R. Gunasekara FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA

CONSOLIDATED INCOME STATEMENT

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2007

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Revenue	4	**43,234**	40,691	**37,068**	36,109
Operating costs	5	**(20,748)**	(17,915)	**(17,231)**	(15,351)
Operating profit before depreciation amortisation and ITL		**22,486**	22,776	**19,837**	20,758
Depreciation	14	**(10,220)**	(9,964)	**(8,884)**	(8,808)
Amortisation of intangible assets	15	**(196)**	(210)	**(94)**	(89)
International Telecommunication Operators' Levy (ITL)	7	**(2,851)**	(2,282)	**(2,727)**	(2,280)
Operating profit		**9,219**	10,320	**8,132**	9,581
Voluntary Retirement Scheme (VRS) cost	8	**(43)**	(425)	**(43)**	(425)
Other income		**169**	180	**166**	175
Interest expense and finance costs	9	**(2,232)**	(1,884)	**(1,363)**	(1,268)
Interest income	10	**1,286**	1,036	**1,239**	1,166
Profit before tax		**8,399**	9,227	**8,131**	9,229
Tax	11	**(2,759)**	(3,789)	**(2,743)**	(3,732)
Net profit		**5,640**	5,438	**5,388**	5,497
Attributable to:					
Equity holders of the Company		**5,640**	5,438		
Earnings per share of profit attributable to equity holders of the Company					
Basic (Rs.)	12	**3.12**	3.01	**2.99**	3.05

All of the Group's activities are continuing activities.

The Notes on pages 89 to 120 form an integral part of these financial statements.

Report of the Auditors on page 83.

CONSOLIDATED BALANCE SHEET

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2007

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
ASSETS					
Non-current assets					
Property, plant & equipment	14	**53,881**	54,202	**41,350**	44,633
Intangible assets	15	**1,614**	1,588	**376**	260
Investments in subsidiaries	16	**–**	–	**7,782**	7,032
Non-current receivables	17	**1,268**	960	**1,268**	960
		56,763	56,750	**50,776**	52,885
CURRENT ASSETS					
Inventories	18	**1,476**	1,419	**1,373**	1,325
Receivables and prepayments	19	**9,938**	10,558	**10,064**	10,554
Cash & cash equivalents	20	**17,195**	15,315	**16,689**	14,390
		28,609	27,292	**28,126**	26,269
Total assets		**85,372**	84,042	**78,902**	79,154
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	28	**18,049**	18,049	**18,049**	18,049
Hedging reserve	29	**(58)**	(236)	**(58)**	(236)
Insurance reserve	26	**204**	183	**204**	183
Retained earnings		**23,705**	19,870	**26,288**	22,705
		41,900	37,866	**44,483**	40,701
Deferred income	23	**6,429**	7,110	**6,429**	7,110
Non-current liabilities					
Grants		**68**	75	**68**	75
Deferred income tax liabilities	22	**2,777**	4,513	**2,777**	4,513
Borrowings	21	**16,660**	16,868	**12,366**	13,065
Retirement benefit obligations	25	**1,329**	942	**1,272**	903
Trade and other payables	24	**279**	298	**279**	298
		21,113	22,696	**16,762**	18,854
Current liabilities					
Trade and other payables	24	**11,409**	8,721	**8,537**	7,330
Current tax liabilities		**1,896**	3,732	**1,858**	3,705
Borrowings	21	**2,625**	3,917	**833**	1,454
		15,930	16,370	**11,228**	12,489
Total liabilities		**37,043**	39,066	**27,990**	31,343
Total equity and liabilities		**85,372**	84,042	**78,902**	79,154

These financial statements were approved by the Board of Directors on 8 February 2008 and were signed on its behalf by:

(Sgd.)	*(Sgd.)*	*(Sgd.)*
P. Asoka Weerasinghe de Silva	**Shoji Takahashi**	**P.M.A. Sirimane**
Director	*Director*	*Chief Financial Officer*

The Notes on pages 89 to 120 form an integral part of these financial statements.

Report of the Auditors on page 83.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2007

	Notes	Stated capital	Hedging reserve	Insurance reserve	Capital reserve	Retained earnings	Total
GROUP							
Year ended 31 December 2006							
Balance at 1 January 2006		18,049	(208)	166	188	15,598	33,793
Hedging reserve	29						
- foreign currency							
translation difference		–	(96)	–	–	–	(96)
- charged to income statement		–	68	–	–	–	68
Insurance reserve							
- charged to income statement	26	–	–	17	–	–	17
Capital reserve							
- transferred to retained earnings		–	–	–	(188)	188	–
Dividend for 2005	13	–	–	–	–	(1,354)	(1,354)
Net profit for the year 2006		–	–	–	–	5,438	5,438
Balance at 31 December 2006		**18,049**	**(236)**	**183**	**–**	**19,870**	**37,866**
Year ended 31 December 2007							
Balance at 1 January 2007		**18,049**	**(236)**	**183**	**–**	**19,870**	**37,866**
Hedging reserve	29						
- foreign currency							
translation difference		–	(17)	–	–	–	(17)
- charged to income statement		–	195	–	–	–	195
Insurance reserve							
- charged to income statement	26	–	–	21	–	–	21
Dividend for 2006	13	–	–	–	–	(1,805)	(1,805)
Net profit for the year 2007		–	–	–	–	5,640	5,640
Balance at 31 December 2007		**18,049**	**(58)**	**204**	**–**	**23,705**	**41,900**

The Notes on pages 89 to 120 form an integral part of these financial statements.

Report of the Auditors on page 83.

STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2007

	Notes	Stated capital	Hedging reserve	Insurance reserve	Capital reserve	Retained earnings	Total
COMPANY							
Year ended 31 December 2006							
Balance at 1 January 2006		18,049	(208)	166	188	18,374	36,569
Hedging reserve	29						
- foreign currency							
translation difference		–	(96)	–	–	–	(96)
- charged to income statement		–	68	–	–	–	68
Insurance reserve							
- charged to income statement	26	–	–	17	–	–	17
Capital reserve							
- transferred to retained earnings		–	–	–	(188)	188	–
Dividend for 2005	13	–	–	–	–	(1,354)	(1,354)
Net profit for the year 2006		–	–	–	–	5,497	5,497
Balance at 31 December 2006		**18,049**	**(236)**	**183**	**–**	**22,705**	**40,701**
Year ended 31 December 2007							
Balance at 1 January 2007		**18,049**	**(236)**	**183**	**–**	**22,705**	**40,701**
Hedging reserve	29						
- foreign currency							
translation difference		–	(17)	–	–	–	(17)
- charged to income statement		–	195	–	–	–	195
Insurance reserve							
- charged to income statement	26	–	–	21	–	–	21
Dividend for 2006	13	–	–	–	–	(1,805)	(1,805)
Net profit for the year 2007		–	–	–	–	5,388	5,388
Balance at 31 December 2007		**18,049**	**(58)**	**204**	**–**	**26,288**	**44,483**

The Notes on pages 89 to 120 form an integral part of these financial statements.

Report of the Auditors on page 83.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Sri Lanka Rupees millions)
For the year ended 31 December 2007

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
Operating activities					
Cash generated from operations	30	**22,003**	19,337	**17,854**	16,248
Interest received		**1,684**	574	**1,637**	704
Interest paid		**(2,265)**	(2,142)	**(1,396)**	(1,470)
Tax paid		**(6,332)**	(4,334)	**(6,326)**	(4,284)
Net cash generated from operating activities		**15,090**	13,435	**11,769**	11,198
Investing activities					
Acquisition of property, plant & equipment		**(9,866)**	(8,033)	**(5,568)**	(5,897)
Acquisition of intangible assets	15	**(222)**	(1,168)	**(210)**	(202)
Proceeds from disposal of property, plant & equipment		**15**	4	**15**	4
Loan given to subsidiary - 2006		**–**	–	**–**	(500)
Investments in subsidiaries	16	**–**	–	**(750)**	(535)
Net cash used in investing activities		**(10,073)**	(9,197)	**(6,513)**	(7,130)
Financing activities					
Proceeds from borrowings		**2,653**	–	**–**	–
Finance lease principal payments		**(4)**	–	**(4)**	–
Re-payment of borrowings		**(3,399)**	(3,739)	**(1,271)**	(1,821)
Dividends paid	13	**(1,805)**	(1,354)	**(1,805)**	(1,354)
Net cash used in financing activities		**(2,555)**	(5,093)	**(3,080)**	(3,175)
Increase/(decrease) in cash and cash equivalents		**2,462**	(855)	**2,176**	893
Movement in cash and cash equivalents					
Cash & cash equivalents at beginning of year (Note 20)		**14,335**	14,428	**14,390**	12,735
Effect of exchange fluctuation on cash & cash equivalents		**123**	762	**123**	762
		14,458	15,190	**14,513**	13,497
Increase/(decrease)		**2,462**	(855)	**2,176**	893
At end of year	20	**16,920**	14,335	**16,689**	14,390

The Notes on pages 89 to 120 form an integral part of these financial statements.

Report of the Auditors on page 83.

1. GENERAL INFORMATION

Sri Lanka Telecom PLC was incorporated under the Companies Act No. 17 of 1982 on 25 September 1996 and re-registerd on 4 June 2007 under the Companies Act No. 7 of 2007, that came into effect from 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 telephone services. In addition, the range of services provided by the Group include, interalia, internet services, data services, domestic and international leased circuits, frame relay, ISDN, satellite uplink and maritime transmission.

The consolidated financial statements have been approved for issue by the Board of Directors on 8 February 2008.

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, unless stated otherwise.

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 for IAS 32 (Financial Instruments: Presentation), IAS 39 (Financial Instrumets: Recognition and Measurement) and IFRS 7 (Financial Instruments: Disclosures) that have not been adopted in Sri Lanka.

The preparation of financial statements in conformity with SLASs & IFRSs requires the use of certain critical accounting estimates. It requires management to exercise their judgement in the process of applying the Company's accounting policies.

2.2 Consolidation

Subsidiaries are all entities (including special purpose entities) over which a Company has the power to govern the financial and operating policies that is generally accompanied 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 Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred. 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 Company. 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. 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.

The inter-Company transactions, balances and unrealised gains on transactions between Group Companies are eliminated. The unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred.

2.3 Segment Reporting

A business segment is a group of assets and operations 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 which 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 3)

2.4 Foreign currency translations

(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 presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of such transactions. The foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the income statements.

(c) Group Companies

The results and financial position of all the 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; and

(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.

On consolidation, exchange differences arising from the 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 & equipment

All property, plant & equipment are stated at historical cost less accumulated depreciation except as noted in Note 14 where property, plant & equipment of Department of Telecommunications were transferred to Sri Lanka Telecom at a valuation performed by the Government of Sri Lanka.

(a) Measurement

This 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 the telecommunication network comprises all expenditure up to and including the cabling cost within customers' premises and undersea cables.

The subsequent costs are included in the assets 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.

An assets 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 & equipment are capitalised as part of the cost of the asset, 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 revalued amounts to there 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

(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.

(b) Licences

The licence are recognised at historical cost. The licences that have a finite useful life is 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

The acquired computer software licences are recognised at cost incurred to acquire and bring to use the specific software application. These costs are amortised over their estimated useful lives (5 years).

The costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. The costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Such software costs include the software development, employee salaries and an appropriate portion of relevant overheads.

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

The grants relating to property, plant & 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

The assets that have an indefinite useful life, for example goodwill, are not subject to amortisation. They are tested annually for impairment. The 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 assets 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 ther 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 (WAC). 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 the 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, the amount of the loss is recognised as an operating cost 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

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts. 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 & 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 & equipment.

2.15 Trade Payables

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 the lower of the 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 usful life of the asset or the lease term.

(b) Operating Lease

The 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.

2.18 Current and Deferred Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substancially 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 provisons 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than in 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 subsequently 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.

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 SLT (Hong Kong) Limited are members of Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which respective subsidiaries contribute 15% 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 the 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 are charges 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 25 to the Group financial statements.

2.20 Provisions

A provisions is recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not, 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 provision are measured at the present value of the expenditures expected to be required to settle the obligation.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for 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 amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its revenue estimates on historical results, taking into consideration the types of the transactions and past trends. The revenue is recognised as follows:

(i) Domestic and international call revenue and rental income

The customers are charged for the usage and a monthly fixed rental for the telephony services. The billing cycle is based on the calendar month. 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 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 the usage.

(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. The cost of CDMA handsets are recovered through the CDMA connection fees. The CDMA handset remains the property of the Company. However, the cost of the handset is included in operating costs in the period which the connection is activated.

(vi) Prepaid card revenue

The revenue from sale of prepaid cards is recognised in the period in which the card is sold. Due to the short validity period after activation, no adjustment is made to revenue for unused airtime at the balance sheet date.

(vii) Interest income

Interest income is derived from short-term investment of excess funds and is recognised on an accrual basis.

(viii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

2.22 Expenditure

The expenses are recognised on accrual basis. All expenditure incurred in the ordinary cause of business and in maintaining property, plant & 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 Foreign currency risk

The Company hedges foreign currency risk of loans denominated in foreign currency against foreign currency revenue streams such as interest income from foreign currency fixed deposits and receipt from international network operations.

The Company hedges between 50% to 75% of anticipated net foreign earnings for 5 years. Management estimate approximately 75% (2006 - 75%) of projected foreign earnings quality as 'highly probable'.

2.24 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 assess 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 Boards. The utilisation of credit limits are regularly monitored.

2.25 Liquidity risk

Effective liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an 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.

2.26 Interest rate risk

The Group's income and opeating cash flows are substantially independent of changes in market interst 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.

2.27 Dividend distribution

The dividend is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Comparatives

The software owned by the Company which were previously disclosed as ‘other fixed assets’ under property plant and equipment, are now included in ‘intangible assets’. Further, the amortisation of deferred insurance premium which was previously disclosed under finance costs and amortisation of software which was previously disclosed under depreciation are included in ‘amortisation of intangible assets’ in the income statement.

Management believes that the above re-classifications give a fairer presentation.

(All amounts in Sri Lanka Rupees millions)

3. SEGMENT ANALYSIS

(a) Primary reporting format - business segments

The Group provides telecommunication services, mainly in Sri Lanka. The Group is organised into five main business segments as follows:

Public Switched Telephone Network - PSTN
Code Divisional Multiple Access - CDMA
Other network operators
Mobile telephony operations
Other value added services

The connection charges, rental and call charges derived from fixed wired lines are included in PSTN revenue. Similar revenue streams generated from fixed wireless connections are shown under CDMA revenue. Income derived from local and international operators for use of telecommunication network of the Company is shown as revenue from other network operators. Mobile revenue consist of revenue generated from mobile telephony operations. Other value added services comprise data services, IP & Broad band and other telephony services.

The revenue from each business segment is as follows:

	Group	
	2007	2006
PSTN revenue	**18,241**	20,529
CDMA revenue	**6,188**	5,520
Revenue from other network operators	**8,253**	6,635
Revenue from Mobile telephony operations	**5,397**	4,165
Revenue from other value added services	**6,100**	4,650
	44,179	41,499
Inter-segmental revenue	**(945)**	(808)
Total revenue	**43,234**	40,691

(b) Secondary reporting format - geographical segments

The Group's five main business segments operates in one main geographical area, hence do not qualify for secondary reporting.

4. REVENUE

The significant categories under which revenue is recognised are as follows:

	Group		Company	
	2007	2006	**2007**	2006
Release of deferred connection charges (Note 23)	**927**	924	**927**	924
Rental income	**6,753**	7,600	**6,085**	6,827
Domestic call revenue	**13,846**	13,902	**9,469**	10,745
Receipts from other network operators - domestic	**419**	244	**563**	356
International call revenue	**2,068**	2,237	**1,760**	2,033
Receipts from other network operators - international	**287**	109	**259**	339
International settlements (in payments)	**7,146**	5,940	**7,146**	5,940
CDMA revenue	**6,188**	5,520	**6,188**	5,520
Telex, data transmission and other telephony services	**5,600**	4,215	**4,671**	3,425
	43,234	40,691	**37,068**	36,109

In 2003, an organisation identifying itself as 'The Consumer Associations of Lanka' initiated legal action in the Court of Appeal seeking a writ of certiorari: to quash the approval granted by the Minister of Telecommunication and the Telecommunication Regulatory Commission of Sri Lanka for the tariff revisions implemented by the Company in September 2003.

The judgment delivered in July 2005 by the Court of Appeal granted the writ of certiorari quashing the approval granted for the tariff revision. The Company filed its application seeking special leave to appeal to the Supreme Court which was granted in November 2005.

As ordered by the Supreme Court on 27 August 2007 in respect of the judgment in the Case No 89/2005, the parties agreed on a settlement with a discount of 8.72% in the local call tariffs and rental charges effective from 1 January 2007. Accordingly, a credit amounting to Rs 1,394 million, which represents the excess charges made from 1 January 2007 to 31 October 2007, was refunded to customers with the November 2007 bills. This adjustment has been recognised as a reduction in revenue.

In terms of the same settlement, the revised tariffs from 1 November 2007 has been agreed at a discount of 9.03% of the previous tariffs. The revised tariffs have been incorporated into the time based billing (per second billing) structure adopted since 1 November 2007.

5. OPERATING COSTS

The following items have been included in arriving at operating profit:

	Group		Company	
	2007	2006	**2007**	2006
Staff costs (Note 6)	**6,090**	4,956	**5,479**	4,565
Directors' emoluments	**58**	31	**28**	29
Payments to international network operators	**1,454**	1,437	**1,454**	1,437
Payments to other network operators - international	**542**	451	**799**	681
Payments to other network operators - domestic	**511**	306	**393**	287
Auditors' remuneration				
Audit fees	**4**	4	**4**	3
Non-audit fees	**1**	–	**1**	–
Repairs and maintenance expenditure	**1,930**	1,754	**1,539**	1,478
Provision for doubtful debts	**1,191**	844	**1,036**	632
Provision for inventories	**(82)**	242	**(82)**	242
Net foreign exchange (gains)/losses	**(32)**	3	**(2)**	(43)
Other operating expenditure	**7,268**	5,587	**4,610**	3,686
CDMA expenditure	**1,813**	2,276	**1,972**	2,354
Write off of inventories	**–**	24	**–**	–
	20,748	17,915	**17,231**	15,351

6. STAFF COSTS

	Group		Company	
	2007	2006	**2007**	2006
Salaries, wages, allowances and other benefits	**5,155**	4,263	**4,621**	3,921
Retirement costs - defined contribution plans	**509**	407	**453**	370
- defined benefit obligations (Note 25)	**426**	286	**405**	274
	6,090	4,956	**5,479**	4,565
Average number of persons employed by the Group/Company during the year	**7,987**	7,980	**7,093**	7,241

7. INTERNATIONAL TELECOMMUNICATION OPERATORS' LEVY (ITL)

	Group		Company	
	2007	2006	**2007**	2006
Charge for the year	**2,851**	2,282	**2,727**	2,280

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 US$ 0.038 per international incoming traffic minute with effective from 3 March 2003. The total amount of the levy payable by the Company for the period from 1 January 2007 to 31 December 2007 was estimated at Rs. 2,727 million (2006 - Rs. 2,280 million) and has been recognised as an expense in the current financial year. The corresponding liability 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 Tables B and C to these regulations. These regulations also allow the domestic PSTN operators to claim two thirds of the TDC within three years against the cost of development of its telecommunications network in unserved and underserved areas of Sri Lanka as determined by the Telecommunications Regulatory Commission (TRC).

The documentation supporting the amount claimed from TDC against the cost of telecommunications network roll out in unserved and underserved areas by the Company has been submitted to the TRC. The estimated refund as at 31 December 2007 has not been recognised in the income statement pending approval by the TRC.

8. VOLUNTARY RETIREMENT SCHEME (VRS)

A VRS was announced on 30 April 2007. Accordingly, based on the number of applications received from employees, a VRS cost of Rs. 43 million was recognised in the income statement (2006 - Rs. 425 million).

9. INTEREST EXPENSE AND FINANCE COSTS

	Group		Company	
	2007	2006	**2007**	2006
Interest expense and finance costs				
Rupee loans	**1,232**	1,066	**313**	356
Foreign currency loans	**75**	135	**35**	89
US$ 100 million notes	**837**	864	**837**	864
Other charges [Note (a)]	**(17)**	(109)	**(17)**	(109)
Total interest and finance costs	**2,127**	1,956	**1,168**	1,200
Interest capitalised	**(90)**	(140)	**–**	–
Net total interest and finance costs	**2,037**	1,816	**1,168**	1,200
Foreign exchange losses recognised from hedging reserve (Note 29)	**195**	68	**195**	68
Interest expenses and finance costs charged to income statement	**2,232**	1,884	**1,363**	1,268

(a) Other charges mainly include unrealised exchange gain of Rs. 117 million arising from revaluation of the fixed deposits in US$ and unrealised exchange loss of Rs. 100 million arising from revaluation of the US$ 100 million Bond.

10. INTEREST INCOME

	Group		Company	
	2007	2006	**2007**	2006
Interest income from - bank deposits	**953**	834	**906**	669
- financial assets	**256**	144	**256**	144
- related companies	**–**	–	**–**	295
- staff loans	**77**	58	**77**	58
	1,286	1,036	**1,239**	1,166

11. TAXATION

The charge for taxation is made up as follows:

	Group		Company	
	2007	2006	2007	2006
Income tax charge	**4,495**	5,289	**4,479**	5,232
Release of deferred tax liability (Note 22)	**(1,736)**	(1,500)	**(1,736)**	(1,500)
	2,759	3,789	**2,743**	3,732

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	
	2007	2006	2007	2006
Profit before tax	**8,399**	9,227	**8,131**	9,229
Tax calculated at a tax rate of 33 1/3% (2006 - 33 1/3%)	**2,799**	3,076	**2,710**	3,076
Tax effect of income not subject to tax	**(2,617)**	(1,909)	**(283)**	(142)
Expenses not deductible for tax purposes	**2,445**	1,955	**184**	131
Effect of changes in tax rates	**132**	667	**132**	667
Tax charge	**2,759**	3,789	**2,743**	3,732

12. 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	
	2007	2006	2007	2006
Net profit attributable to equity holders (Rs. million)	**5,640**	5,438	**5,388**	5,497
Weighted average number of ordinary shares in issue (million)	**1,805**	1,805	**1,805**	1,805
Basic earnings per share (Rs.)	**3.12**	3.01	**2.99**	3.05

13. DIVIDENDS

In respect of 2006, a first and final dividend of Rs. 1/- per share amounting to Rs. 1,804,860,000/- was paid during the current year and in respect of 2005, a first and final dividend of Rs. 0.75 per share amounting to a total of Rs. 1,353,645,000/- was paid during 2006.

The Board has recommended a first and final dividend of Rs. 1/- per share amounting to Rs. 1,804,860,000/- for the year ended 31 December 2007. This is to be approved by the shareholders at the Annual General Meeting to be held on 28 March 2008. 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 31 December 2007.

14. PROPERTY, PLANT & 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 31 December 2005								
Cost	333	1,649	66,008	17,996	24,828	8,674	3,288	122,776
Accumulated depreciation	–	(300)	(41,256)	(9,621)	(10,874)	(4,644)	–	(66,695)
Net book amount	**333**	**1,349**	**24,752**	**8,375**	**13,954**	**4,030**	**3,288**	**56,081**
Year ended 31 December 2006								
Opening net book amount	333	1,349	24,752	8,375	13,954	4,030	3,288	56,081
Additions at cost	–	–	128	13	415	1,098	6,857	8,511
Transfers from work-in-progress	4	312	2,569	534	2,551	197	(6,167)	–
Disposals at cost	–	–	–	–	(458)	(5)	–	(463)
Adjustments	–	(18)	31	(11)	(49)	35	–	(12)
Accumulated depreciation on disposal	–	–	–	–	44	5	–	49
Depreciation charge	–	(45)	(5,182)	(1,258)	(2,113)	(1,366)	–	(9,964)
Closing net book amount	**337**	**1,598**	**22,298**	**7,653**	**14,344**	**3,994**	**3,978**	**54,202**
At 31 December 2006								
Cost	337	1,943	68,736	18,532	27,287	9,988	3,978	130,801
Accumulated depreciation	–	(345)	(46,438)	(10,879)	(12,943)	(5,994)	–	(76,599)
Net book amount	**337**	**1,598**	**22,298**	**7,653**	**14,344**	**3,994**	**3,978**	**54,202**
Year ended 31 December 2007								
Opening net book amount	337	1,598	22,298	7,653	14,344	3,994	3,978	54,202
Additions at cost	–	–	176	16	986	1,896	6,861	9,935
Transfers from work-in-progress	10	290	1,170	214	3,799	191	(5,674)	–
Disposals at cost	–	–	–	–	(30)	(40)	–	(70)
Adjustments	–	(35)	2	–	(40)	70	–	(3)
Accumulated depreciation on disposal	–	–	–	–	8	29	–	37
Depreciation charge	–	(52)	(4,970)	(1,254)	(2,351)	(1,593)	–	(10,220)
Closing net book amount	**347**	**1,801**	**18,676**	**6,629**	**16,716**	**4,547**	**5,165**	**53,881**
At 31 December 2007								
Cost	347	2,197	70,084	18,762	32,002	12,105	5,165	140,662
Accumulated depreciation	–	(396)	(51,408)	(12,133)	(15,286)	(7,558)	–	(86,781)
Net book amount	**347**	**1,801**	**18,676**	**6,629**	**16,716**	**4,547**	**5,165**	**53,881**

Company

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 31 December 2005								
Cost	333	1,649	65,858	17,996	13,754	8,126	2,898	110,614
Accumulated depreciation	–	(300)	(41,124)	(9,621)	(7,747)	(4,285)	–	(63,077)
Net book amount	**333**	**1,349**	**24,734**	**8,375**	**6,007**	**3,841**	**2,898**	**47,537**
Year ended 31 December 2006								
Opening net book amount	333	1,349	24,734	8,375	6,007	3,841	2,898	47,537
Additions at cost	–	–	128	13	117	1,022	4,636	5,916
Transfers from work-in-progress	4	312	2,569	534	720	197	(4,336)	–
Disposals at cost	–	–	–	–	–	(5)	–	(5)
Adjustments	–	(18)	31	(11)	(49)	35	–	(12)
Accumulated depreciation on disposal	–	–	–	–	–	5	–	5
Depreciation charge	–	(45)	(5,132)	(1,257)	(1,065)	(1,309)	–	(8,808)
Closing net book amount	**337**	**1,598**	**22,330**	**7,654**	**5,730**	**3.786**	**3,198**	**44,633**
At 31 December 2006								
Cost	337	1,943	68,586	18,532	14,542	9,368	3,198	116,506
Accumulated depreciation	–	(345)	(46,256)	(10,878)	(8,812)	(5,582)	–	(71,873)
Net book amount	**337**	**1,598**	**22,330**	**7,654**	**5,730**	**3,786**	**3,198**	**44,633**
Year ended 31 December 2007								
Opening net book amount	337	1,598	22,330	7,654	5,730	3,786	3,198	44,633
Additions at cost	–	–	176	16	90	1,705	3,615	5,602
Transfers from work-in-progress	10	290	1,170	214	353	191	(2,228)	–
Disposals at cost	–	–	–	–	–	(17)	–	(17)
Adjustments	–	(35)	2	–	(40)	72	–	(1)
Accumulated depreciation on disposal	–	–	–	–	–	17	–	17
Depreciation charge	–	(52)	(4,970)	(1,254)	(1,119)	(1,489)	–	(8,884)
Closing net book amount	**347**	**1,801**	**18,708**	**6,630**	**5,014**	**4,265**	4,585	41,350
At 31 December 2007								
Cost	347	2,197	69,934	18,762	14,944	11,321	4,585	122,090
Accumulated depreciation	–	(396)	(51,226)	(12,132)	(9,930)	(7,056)	–	(80,740)
Net book amount	**347**	**1,801**	**18,708**	**6,630**	**5,014**	**4,265**	**4,585**	**41,350**

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 & 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.

(a) The cost of fully depreciated assets still in use as at 31 December 2007 was Rs. 22,545 million (2006 - Rs. 20,030 million).

(b) No assets have been mortgaged or pledged as security for borrowings.

(c) 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 has not been formally issued.

(d) The property, plant & 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 & equipment. At the balance sheet date, the insurance reserve amounted to Rs. 204 million (2006 - Rs. 183 million) (Note 26). The sinking fund investment is included under cash and cash equivalents [Note 20 (a)].

(e) Additions include assets costing Rs. 33 million (2006 - Rs. 10 million) obtained under finance leases (where the Group/Company is the lessee).

(f) The property, plant & equipment includes motor vehicles acquired under finance leases, the net book value of which is made up as follows:

	Group		Company	
	2007	2006	**2007**	2006
Cost	**43**	10	**43**	10
Accumulated depreciation	**(8)**	(3)	**(8)**	(3)
Net book amount	**35**	7	**35**	7

15. INTANGIBLE ASSETS

Group	Goodwill	Licences	Software	Others	Total
At 1 January 2006					
Cost	388	102	70	764	1,324
Accumulated amortisation and impairment	(247)	(20)	–	(375)	(642)
Net book amount	**141**	**82**	**70**	**389**	**682**
Year ended 31 December 2006					
Opening net book amount	141	82	70	389	682
Adjustments	–	–	(52)	–	(52)
Additions at cost	–	500	668	–	1,168
Amortisation charge	–	(57)	(41)	(112)	(210)
Closing net book amount	**141**	**525**	**645**	**277**	**1,588**
At 31 December 2006					
Cost	388	602	738	764	2,492
Accumulated amortisation and impairment	(247)	(77)	(93)	(487)	(904)
Net book amount	**141**	**525**	**645**	**277**	**1,588**
Year ended 31 December 2007					
Opening net book amount	141	525	645	277	1,588
Additions at cost	–	–	222	–	222
Amortisation charge	–	(14)	(112)	(70)	(196)
Closing net book amount	**141**	**511**	**755**	**207**	**1,614**
At 31 December 2007					
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**

Company	Goodwill	Licences	Software	Others	Total
At 1 January 2006					
Cost	–	–	70	330	400
Accumulated amortisation and impairment	–	–	–	(246)	(246)
Net book amount	**–**	**–**	**70**	**84**	**154**
Year ended 31 December 2006					
Opening net book amount	–	–	70	84	154
Additions at cost	–	–	202	–	202
Adjustments	–	–	(7)	–	(7)
Amortisation charge	–	–	(42)	(47)	(89)
Closing net book amount	**–**	**–**	**223**	**37**	**260**
At 31 December 2006					
Cost	–	–	272	330	602
Accumulated amortisation and impairment	–	–	(49)	(293)	(342)
Net book amount	**–**	**–**	**223**	**37**	**260**
Year ended 31 December 2007					
Opening net book amount	–	–	223	37	260
Additions at cost	–	–	210	–	210
Amortisation charge	–	–	(64)	(30)	(94)
Closing net book amount	**–**	**–**	**369**	**7**	**376**
At 31 December 2007					
Cost	–	–	482	330	812
Accumulated amortisation and impairment	–	–	(113)	(323)	(436)
Net book amount	**–**	**–**	**369**	**7**	**376**

Goodwill

As stated in Accounting Policy 2.6 (a), the Company has measured goodwill acquired in business combinations at cost less accumulated impairment losses. Such accounting policy has been prospectively applied with effect from 1 January 2006 in conformity with Revised SLAS 25 - Business Combinations.

Others

As explained in Accounting Policy 2.6 (d), 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 is incurred and will be written off to the income statement over a period of 10 years.

16. INVESTMENTS IN SUBSIDIARIES

	Company 2007	Company 2006
Investment in subsidiary [Sri Lanka Telecom (Services) Limited] [Note (a)]	**25**	25
Investment in subsidiary [Mobitel (Private) Limited]		
At 1 January	**6,972**	3,472
Additions [Note (b)]	**750**	3,500
At 31 December [Note (d)]	**7,722**	6,972
Investment in subsidiary [SLT (Hong Kong) Limited] [Note (c)]		
At 1 January	**35**	–
Additions	–	35
At 31 December	**35**	35
Aggregate cost of investments at 31 December	**7,782**	7,032

(a) This investment in subsidiary company consists of 2,500,000 shares representing a 100% holding of the issued share capital of Sri Lanka Telecom (Services) Limited.

(b) Additions comprise the capital infusion of Rs. 750 million in 12% cumulative and redeemable preference shares of Mobitel (Private) Limited.

(c) This investment in subsidiary company consists of 2,500,000 shares representing a 100% holding of the issued ordinary share capital of SLT (Hong Kong) Limited.

(d) The Company owns 119,238,240 shares representing 100% of the issued ordinary share capital of Mobitel (Private) Limited. In addition, at 31 December 2007, the Company held 575,000,000 12% cumulative and redeemable preference shares of Mobitel (Private) Limited with a value of Rs. 10/- per share. The preference dividend rank above ordinary dividends.

At 31 December 2007, preference dividends amounting to Rs. 956 million were in arrears (31 December 2006 - Rs. 349 million). No accrual has been made in the Company's financial statements.

17. NON-CURRENT RECEIVABLES

	Group 2007	Group 2006	Company 2007	Company 2006
Employee loans [Note (a)]	**1,268**	960	**1,268**	960

(a) Employee loans are repayable in equal monthly instalments over the loan period not exceeding six years. The amount shown as a non-current receivable represent staff loan instalments falling due after 1 January 2009.

(b) The weighted average interest rates on staff loans are ranging from 3% to 7% (2006 - 3% to 7%).

18. INVENTORIES

Inventories consist of engineering stores, consumables, office equipment and hardware, and is stated net of provisions for slow-moving and obsolete items.

19. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2007	2006	**2007**	2006
Domestic trade receivables	**6,870**	7,393	**6,011**	6,723
CDMA instalment debtors	**340**	709	**340**	709
Foreign trade receivables	**1,386**	1,251	**1,386**	1,251
Amount due from related parties [Note 33 (e)]	**–**	–	**1,650**	1,165
Advances and prepayments [Note (a)]	**212**	164	**144**	120
Employee loans	**324**	333	**324**	333
Other receivables [Note (b)]	**806**	708	**209**	253
Amounts due within one year	**9,938**	10,558	**10,064**	10,554

(a) Advances and prepayments of the Company mainly consist of advances on purchases Rs. 89 million (2006 - Rs. 28 million) and payments for software maintenance Rs. 37 million (2006 - Rs. 75 million).

(b) Other receivables of the Company mainly consist of interest receivable of Rs. 165 million (2006 - Rs. 212 million) refundable deposits of Rs. 42 million (2006 - Rs. 30 million) and dishonored cheques of Rs. 2 million (2006 - Rs. 10 million). In addition, other receivables of the Group include VAT receivable of Rs. 428 million (2006 - Rs. 367 million) of Mobitel (Private) Limited.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
Cash at bank and in hand	**393**	279	**79**	159
Restricted at bank [Note (a)]	**7,244**	4,608	**7,244**	4,608
Short-term deposits [Note (b)]	**9,558**	10,428	**9,366**	9,623
	17,195	15,315	**16,689**	14,390

(a) The restricted cash balance represents a deposit of Sri Lankan Rupees 204 million (2006 - Rs. 183 million) at People's Bank of Sri Lanka representing the sinking fund investment for the insurance reserve and a sinking fund amounting to Rs. 7,039 million (2006 - Rs. 4,426 million) maintained to redeem the US$ 100 million Bond in 2009. The restrictions on these balances are self-imposed.

(b) The interest on short-term bank deposits are on commercial terms. The weighted average effective interest rate on short-term LKR and US$ bank deposits was 15.9% (2006 - 10.43%) and 5.89% (2006 - 5.39%) respectively.

(c) For the purpose of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	Group 2007	Group 2006	Company 2007	Company 2006
Cash and cash equivalents	**17,195**	15,315	16,689	14,390
Bank overdrafts (Note 21)	**(275)**	(980)	–	–
	16,920	14,335	16,689	14,390

21. BORROWINGS

	Group 2007	Group 2006	Company 2007	Company 2006
Current (due within one year)				
Bank overdrafts (Note 20)	**275**	980	**–**	–
Government borrowings	**696**	678	**696**	678
Bank borrowings and others	**1,646**	2,257	**129**	774
Lease liabilities	**8**	2	**8**	2
	2,625	3,917	**833**	1,454
Non-current (due after one year)				
Government borrowings	**1,299**	1,994	**1,299**	1,994
Bank borrowings and others	**4,405**	4,041	**111**	238
US$ 100 million Notes	**10,925**	10,825	**10,925**	10,825
Lease liabilities	**31**	8	**31**	8
	16,660	16,868	**12,366**	13,065
Total borrowings	**19,285**	20,785	**13,199**	14,519

(a) The interest rate exposure of the borrowings of the Group and Company were as follows:

	Group 2007	Group 2006	Company 2007	Company 2006
Total borrowings				
- at fixed rates	**11,481**	11,851	**11,206**	11,851
- at floating rates	**7,804**	8,934	**1,993**	2,668
	19,285	20,785	**13,199**	14,519

The current exposure of the borrowings of the Group and Company at the balance sheet date was as follows:

	Group 2007	Group 2006	Company 2007	Company 2006
Foreign currency	**11,687**	12,565	**11,165**	11,837
Local currency	**7,598**	8,220	**2,034**	2,682
	19,285	20,785	**13,199**	14,519

	Group/Company 2007	Group/Company 2006
Average effective interest rates:		
- Bank overdrafts	**16.29%**	13.41%
- Foreign bank borrowings	**5.31%**	5.21%
- Government borrowings	**12.21%**	11.10%
- US$ 100 million Notes	**6.875%**	6.875%

Maturity of non current borrowings:

	Group 2007	Group 2006	Company 2007	Company 2006
Between 1 and 2 years	**13,523**	13,839	**12,344**	12,415
Between 3 and 5 years	**3,137**	3,029	**22**	650
	16,660	16,868	**12,366**	13,065

Finance lease liabilities - minimum lease payments

	Group 2007	Group 2006	Company 2007	Company 2006
Not later than 1 year	**13**	3	**13**	3
Later than 1 year and not later than 5 years	**44**	11	**44**	11
	57	14	**57**	14
Less: future finance charges on finance leases	**(18)**	(4)	**(18)**	(4)
Present value of finance lease liabilities	**39**	10	**39**	10

Representing lease liabilities

	Group 2007	Group 2006	Company 2007	Company 2006
Current	**8**	2	**8**	2
Non-current	**31**	8	**31**	8
	39	10	**39**	10

(b) The Government of Sri Lanks 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 Government of Sri Lanka as at 31 December 2007 was Rs. 1,995 million (2006 - Rs. 2,672 million). The exchange fluctuations of these loans are borne by the Government of Sri Lanka.

(c) The Government of Sri Lanka has guaranteed third party loans of the Company amounting to Rs. 240 million (2006 - Rs. 1,012 million). Total value of borrowings that have neither been guaranteed nor secured by the Government of Sri Lanka is Rs. 10,925 million (2006 - Rs. 10,825 million).

(d) 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.

(e) The Directors believe that the Company will have sufficient fund available to meet its present loan commitments.

22. DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences arising from difference between accounting base and tax base. Deferred income tax is provided under the liability method using a principal tax rate of 35% which will be effective from year of assessment 2008/09 (year of assessment 2007/08 - 33 1/3%).

The movement in the deferred income tax account is as follows:

	Group		Company	
	2007	2006	**2007**	2006
At beginning of the year	**4,513**	6,013	**4,513**	6,013
Income statement release (Note 11)	**(1,736)**	(1,500)	**(1,736)**	(1,500)
At end of year	**2,777**	4,513	**2,777**	4,513

The temporary differences mainly arise from property, plant & equipment and, provision for gratuity.

23. DEFERRED INCOME

Deferred income 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 movement in the deferred income is as follows:

	Group/Company	
	2007	2006
At beginning of year	**7,110**	7,546
Connection fees for the year	**246**	488
Amount credited to income statement during the year (Note 4)	**(927)**	(924)
At end of year	**6,429**	7,110

24. TRADE AND OTHER PAYABLES

	Group 2007	Group 2006	Company 2007	Company 2006
Amounts due within one year				
Domestic trade payables	**1,321**	921	**85**	103
Foreign trade payables	**157**	292	**157**	292
Amount due to related parties [Note 33 (e)]	**–**	–	**357**	158
Capital expenditure payables [Note (a)]	**2,327**	1,656	**1,083**	1,319
Deferred revenue	**235**	181	**–**	–
Social security and other taxes [Note (b)]	**361**	407	**361**	407
Interest payable	**138**	148	**138**	148
Other payables [Note (c)]	**6,870**	5,116	**6,356**	4,903
	11,409	8,721	**8,537**	7,330
Amounts due after one year				
International Direct Dialling deposits	**235**	233	**235**	233
Prepayments on VOIP services	**44**	65	**44**	65
	279	298	**279**	298

(a) Capital expenditure payables of the Company mainly consist of contractors' payables Rs. 297 million (2006 - Rs. 626 million) and advances on network restoration after road works of Rs. 577 million (2006 - Rs. 513 million).

(b) Social security and other taxes of the Company mainly consist of Value Added Tax Rs. 223 million (2006 - Rs. 267 million).

(c) Other payables of the Company mainly consist of Rs. 244 million (2006 - Rs. 244 million) dividend payable to Government of Sri Lanka, Rs. 105 million (2006 - 109 million) provision for Goods Received Notes (GRNs), Rs. 5,009 million (2006 - Rs. 3,475 million) International Telecommunication Operators' Levy and Rs. 152 million Cess (2006 - Rs. 165 million) payable to Director-General of Telecommunications.

25. RETIREMENT BENEFIT OBLIGATIONS

Movement in the liability recognised in the balance sheet is as follows:

	Group 2007	Group 2006	Company 2007	Company 2006
At beginning of the year	**942**	751	**903**	721
Current service cost (Note 6)	**426**	286	**405**	274
Amount due within a year transferred to other payables	**–**	(30)	**–**	(30)
Provision made for gratuity payable to VRS employees	**30**	–	**30**	–
Contributions paid				
- VRS employees	**(38)**	(42)	**(38)**	(42)
- Other employees	**(31)**	(23)	**(28)**	(20)
At end of year	**1,329**	942	**1,272**	903

(a) As stated in Accounting Policy 2.19 (b) as at 31 December 2007, an actuarial valuation was carried out by an independent actuary.

The principal actuarial assumptions used were as follows:

	Company 2007	2006
Discount rate (long-term)	**10%**	10%
Future salary increases	**9%**	9%
Inflation rate (long-term)	**10%**	10%

In addition to the above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2007, 1967/70 Mortality Table issued by the Institute of Actuaries - London (2006 - 1967/70 Mortality Table) was taken as the base for the valuation.

26. INSURANCE RESERVE

	Group/Company 2007	2006
At beginning of the year	**183**	166
Income statement charge (deposit) and interest income on sinking fund deposit	**21**	17
At end of year	**204**	183

27. GROUP REPORTING DATES

The annual financial statements of the wholly owned subsidiaries, Sri Lanka Telecom (Services) Limited, SLT (Hong Kong) Limited, SLT Publications (Private) Limited and Mobitel (Private) Limited are prepared at 31 December each year.

28. STATED CAPITAL

	Company 2007	2006
Issued and fully paid		
1,804,860,000 ordinary shares issued at Rs. 10 per share	**18,049**	18,049

The issued and fully paid share capital is made up as follows:

	2007		2006	
	Holding %	**No. of Shares**	Holding %	No. of Shares
Government of Sri Lanka (GOSL)	**49.50**	**893,405,700**	49.50	893,405,700
NTT Communications Corporation (NTT Com)	**35.20**	**635,076,318**	35.20	635,076,318
Employees and the public	**15.30**	**276,377,982**	15.30	276,377,982
		1,804,860,000		1,804,860,000

29. HEDGING RESERVE

	Group/Company 2007	2006
At beginning of the year	**(236)**	(208)
- Foreign currency translation difference	**(17)**	(96)
- Income statement charge (Note 9)	**195**	68
At end of year	**(58)**	(236)

In terms of the risk management objectives, the Company hedged certain foreign currency borrowings against its foreign currency revenue streams. The future transactions are forecast for a period of five years. The gains/(losses) from revaluation of these foreign currency loans are deferred to be matched against the gains/(losses) from the future revenue streams.

30. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations

	Group		Company	
	2007	2006	2007	2006
Profit before tax	**8,399**	9,227	**8,131**	9,229
Adjustments for				
Depreciation (Note 14)	**10,220**	9,964	**8,884**	8,808
Amortisation of grants	**(7)**	(14)	**(7)**	(14)
Amortisation of intangible assets (Note 15)	**196**	210	**94**	89
Interest expense and finance costs (Note 9)	**2,232**	1,884	**1,363**	1,268
Interest income (Note 10)	**(1,286)**	(1,036)	**(1,239)**	(1,166)
Connection fees less amortisation (Note 23)	**(681)**	(436)	**(681)**	(436)
Profit on sale of property, plant & equipment	**(15)**	(4)	**(15)**	(4)
Provision for insurance reserve net of interest income (Note 26)	**21**	17	**21**	17
Retirement benefit obligations	**387**	221	**369**	212
Write off of inventories	**–**	24	**–**	–
	19,466	20,057	**16,920**	18,003
Changes in working capital				
- receivables and prepayments	**(86)**	(1,625)	**(216)**	(2,245)
- inventories	**(57)**	(551)	**(48)**	(631)
- payables	**2,680**	1,456	**1,198**	1,121
Cash generated from operations	**22,003**	19,337	**17,854**	16,248

31. COMMITMENTS

Capital commitments

The Group/Company has purchased commitments in the ordinary course of business as at 31 December 2007 as follows:

	Group		Company	
	2007	2006	2007	2006
Property, plant & equipment				
- approved but not contracted	**9,888**	7,295	**9,888**	7,295
- approved and contracted	**6,707**	4,217	**3,077**	2,484
	16,595	11,512	**12,965**	9,779

Operating lease commitments

The future minimum lease payments under operating leases are as follows:

	Group		Company	
	2007	2006	**2007**	2006
Later than one year and not later than five years	**173**	244	**173**	244

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.

32. CONTINGENCIES

(a) An arbitration proceeding was initiated under ICC Arbitration application No.13839/M by Informatics (Pvt) Limited, claiming US$ 1,143,630 being the licence upgrade cost and an annual maintenance fee of 15% of the licence fee for the TBR system provided to SLTPLC by Informatics.

(b) Global Electroteks Limited has initiated legal action under High Court Case No. 20/2005 claiming damages of US$ 12 million from SLTPLC for unlawful disconnection of interconnection services.

(c) SLTPLC has filed a revision application in High Court, Anuradhapura to set aside an order given by Magistrate to hand over the vacant possession of the property at Niwanthaka Chethiya Road, Anuradhapura.

(d) Under Court of Appeal CA No. 883/2003 SLTPLC is seeking a writ of certiorari to quash the award given by the Arbitrator at the Labour Arbitration, increasing the overtime rate from 1.5% to 1.75% and granting of lieu leave with regard to an application made by the Telecommunications Employees' Union with effect from 1 February 1998.

(e) Directories Lanka (Private) Limited (DLPL) filed case No. 2/2006 (3) in Commercial High Court against SLTPLC claiming Rs. 250 million, damages for unfair competition with regard to Artwork on the cover page of SLT Directory Publication.

(f) With regard to cases detailed under (a), (b), (c), (d) and (e) above, pending the outcome of the appeal, no adjustment has been made in the financial statements up to 31 December 2007.

(g) In addition to the above referred cases, there are more litigation 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 a material liability to the Company.

33. DIRECTORS' INTERESTS IN CONTRACTS

(a) A Director is considered to have a direct interest in a contract with the Company, if the Director himself/ herself is involved in a contract with the Company. A Director has an indirect interest in a contract with the Company, if the Director, through his/her common Directorships or his/her dependent family members is involved in a contract with the Company.

The Directors of Sri Lanka Telecom PLC held directorship in the following entities during the year:

Director	Company	Position
Mr. Shoji Takahashi	Mobitel (Private) Limited	Director
	SLT Publications (Private) Limited	Director
	Sri Lanka Telecom (Services) Limited	Director
	SLT (Hong Kong) Limited	Director
Mr. Shuhei Anan	Mobitel (Private) Limited	Director
Mr. P. Asoka Weerasinghe de Silva	Mobitel (Private) Limited	Chairman/Director
	SLT (Hong Kong) Limited	Chairman/Director
	SLT Publications (Private) Limited	Director
	Sri Lanka Telecom (Services) Limited	Director
Mrs. Leisha Chandrasena	Mobitel (Private) Limited	Director
	SLT (Hong Kong) Limited	Director
Mr. Sumith Wijesinghe	Mobitel (Private) Limited	Director
	National Development Trust (Guarantee) Limited	Director
	National Development Trust Fund	Trustee
Mr. Jun Sawada	NTT America, Inc.	Director
	Verio, Inc.	Director
	NTT Europe Limited	Director
	NTT Singapore Pte. Limited	Director
	NTT Communications China Co. Limited	Director
	NTT Worldwide Telecommunications Corporation	Director
	Milletechno, Inc	Director
Mr. S.N. Kumar	Mobitel (Private) Limited	Director

The Company had following transactions with related entities during the year under review:

	Company 2007	Company 2006
(b) Mobitel (Private) Limited		
Sale of goods and services:		
Provision of E1 links	**332**	350
Interconnection charges	**234**	198
VOIP Platform	**9**	–
	575	548
Purchase of goods and services:		
Call charges relating to cellular phones purchased by the Company employees	**44**	32
Interconnection charges	**167**	144
Antenna tower space	**159**	78
	370	254

Number of new GSM connections granted (special packages with no monthly rental) in 2007 is 1,754 (2006 - 1,209).

The Company has provided the following guarantees on behalf of Mobitel (Private) Limited:

(i) Loans amounting to Rs. 10,225 million (2006 - Rs. 6,496 million) and US$ 4.8 million (2006 - US$ 6.7 million) for GSM roll out stage 1 and 3 and operational expenses.

(ii) A commitment guarantees amounting to Rs. 250 million (2006 - Rs. 250 million) issued by banks in favour of TRC for the purpose of 3G rollout.

(c) NTT Communications Corporation

As per the shareholders' agreement with NTT Com, the following charges have been borne by the Company:

	Company 2007	Company 2006
Purchase of goods and services:		
Fees for secondment of personnel from NTT Com	**43**	48
Expenditure for personnel from NTT Com	**11**	6
	54	54
(d) SLT (Hong Kong) Limited		
Sale of goods and services:		
Leased circuits	**4**	–
Purchase of goods and services:		
Leased circuits	**5**	–

		Company 2007	Company 2006
(e)	**Outstanding balances arising from sale/purchase of services above**		
	Receivable from subsidiaries:		
	Mobitel (Private) Limited	**1,646**	1,165
	SLT (Hong Kong) Limited	**4**	–
		1,650	1,165
	Payable to subsidiaries:		
	Mobitel (Private) Limited	**350**	152
	Sri Lanka Telecom (Services) Limited	**2**	6
	SLT (Hong Kong) Limited	**5**	–
		357	158

		Group 2007	Group 2006	Company 2007	Company 2006
(f)	**Key management compensation:**				
	Salaries and other benefits	**70**	47	**52**	31

34. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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.

Sri Lanka Telecom (Services) Limited, is a related party of the Company. All transactions during the year and balances as at the balance sheet date between the two companies have been eliminated in preparing consolidated financial statements.

Mobitel (Private) Limited, is a related party of the Company. All transactions during the year and balances as at the balance sheet date between the two companies have been eliminated in preparing consolidated financial statements.

SLT Hong Kong Limited, is a related party of the Company. All transaction during the year and balances as at the Balance Sheet date between the two Companies have been eleminated in preparing consolidated financial statements.

SLT Publications (Private) Limited, is a related party of the Company. No transactions have occurred during the year between the two companies.

Related party transactions disclosed above should be read in conjunction with Note 33 to the financial statements.

35. POST-BALANCE SHEET E VENTS

No events have arisen since the balance sheet date which would require adjustments to, or disclosure in the financial statements.

TEN YEAR PROGRESS

	2007 Rs. Mn	2006 Rs. Mn	2005 Rs. Mn	2004 Rs. Mn	2003 Rs. Mn	2002 Rs. Mn	2001 Rs. Mn	2000 Rs. Mn	1999 Rs. Mn	1998 Rs. Mn
Financial Position - (Group)										
Property, Plant & Equipment	**53,881**	54,202	56,151	54,360	55,763	56,722	59,093	61,498	58,136	47,044
Total Assets	**85,372**	84,042	81,520	78,872	72,373	74,765	80,173	82,497	70,797	59,768
Current Assets	**28,609**	27,292	23,843	22,144	14,626	15,963	13,772	12,213	10,906	11,138
Current Liabilities	**15,930**	16,370	13,892	11,378	12,440	12,048	12,144	12,134	10,920	9,743
Borrowings	**19,285**	20,785	22,840	25,370	21,081	25,926	31,534	34,633	31,116	22,270
Equity	**41,900**	37,866	33,793	31,064	30,600	29,024	36,957	35,742	22,329	21,767
Performance										
Revenue	**43,234**	40,691	32,515	29,516	25,553	25,383	22,060	19,605	18,281	17,082
Operating Profit	**9,176**	9,895	6,087	3,275	5,678	7,953	6,314	4,984	5,061	5,011
Finance Cost	**2,232**	1,884	2,085	2,252	2,863	3,377	3,585	4,516	3,313	1,899
Earnings before Tax	**8,399**	9,227	4,812	1,441	3,242	5,207	3,618	914	2,325	3,461
Taxation	**2,759**	3,789	1,719	148	993	2,522	1,515	693	1,056	1,260
Earnings after Tax	**5,640**	5,438	3,093	1,293	2,249	2,685	2,103	221	1,269	2,201
Cash Flow										
Net Operating Cash Flows	**15,090**	13,434	17,200	10,402	11,429	13,458	9,568	9,566	8,461	8,317
Net Cash used in Investing Activities	**10,073**	9,197	10,686	7,611	7,278	3,722	4,425	8,894	15,285	13,371
Net Cash used in/(from) Financing Activities	**2,555**	5,093	2,571	(3,314)	5,525	7,552	4,978	(2,066)	(7,099)	(4,255)
Key Financial Indicators										
Earnings per Share (Rs.)	**3.1**	3.0	1.7	0.7	1.3	1.5	1.2	0.1	0.7	1.2
Return on Assets (%)	**10.7**	11.8	7.5	4.2	7.8	10.6	7.9	6	7.1	8.4
Return on Equity (%)	**13.5**	14.4	9.2	4.2	7.3	9.3	5.7	0.6	5.7	10.1
Operating Margin (%)	**21.2**	24.3	18.7	11.1	22.2	31.3	28.6	25.4	27.7	29.3
Asset Turnover (No. of times)	**0.5**	0.48	0.4	0.37	0.35	0.34	0.28	0.24	0.26	0.29
Current Ratio (No. of times C.L.)	**1.8**	1.67	1.72	1.95	1.17	1.32	1.13	1.01	1.0	1.14
Quick Asset Ratio (No. of times C.L.)	**1.7**	1.58	1.66	1.83	1.11	1.27	1.05	0.9	0.86	1.01
Gearing Ratio (Debt to Rs. 1/- of Equity)	**0.3**	0.35	0.4	0.45	0.41	0.47	0.46	0.49	0.58	0.51
Interest Cover (No. of times)	**4.8**	5.90	4.35	1.7	2.27	2.85	2.27	1.21	1.71	2.91

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of Sri Lanka Telecom PLC will be held in Cinema Hall, BMICH, Bauddhaloka Mawatha, Colombo 7 on Friday, 28 March 2008 at 3.00 p.m. for the following purposes:

AGENDA

1) To receive and consider the Annual Report of the Board of Directors and Statement of Accounts for the year ended 31 December 2007 with the Report of the Auditors thereon.

2) To declare a first and final dividend of Rs. 1.00 per share on the issued share capital of the Company as recommended by the Directors.

3) i. To elect as Director, Mr. S.N. Kumar who retires in terms of Article 97 of the Articles of Association.

   ii. To elect as Director, Mr. W.W.D. Sumith Wijesinghe, who retires in terms of Article 97 of the Articles of Association.

   iii. To elect as Director, Mr. P.A. Abeysekera, who retires in terms of Article 97 of the Articles of Association.

4) To reappoint M/s. PricewaterhouseCoopers, Chartered Accountants, as Auditors of the Company and authorise the Board of Directors to determine their remuneration.

5) To authorise the Directors to determine and make donations to charities.

6) To transact such other businesses as may properly be brought before the meeting.

By Order of the Board

Mrs. P.G. Dias
Company Secretary

11 February 2008
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.*

FORM OF PROXY

I/We ………………..………………...…. of

.... being a

member/members of SRI LANKA TELECOM PLC hereby appoint:

.... of

.... whom failing

Mrs. Leisha Chandrasena whom failing
Mr. Shoji Takahashi whom failing
Mr. Shuhei Anan whom failing
Mr. S.N. Kumar whom failing
Mr. W.W.D. Sumith Wijesinghe whom failing
Mr. P.A. Abeysekera

as my/our proxy to speak and vote for me/us on my/our behalf as indicated below at the 11th Annual General Meeting of the Company, to be held on Friday, 28 March 2008 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and Statement of Accounts for the year ended 31 December 2007 with the Report of the Auditors thereon.		
2. To declare a first and final dividend of Rs. 1.00 per share on the issued share capital of the Company as recommended by the Directors.		
3. (i) To elect as Director, Mr. S.N. Kumar who retires in terms of Article 97 of the Articles of Association.		
(ii) To elect as Director, Mr. W.W.D. Sumith Wijesinghe, who retires in terms of Article 97 of the Articles of Association.		
(iii) To elect as Director, Mr. P.A. Abeysekera, who retires in terms of Article 97 of the Articles of Association.		
4. To reappoint M/s. PricewaterhouseCoopers, Chartered Accountants, as Auditors of the Company and authorise the Board of Directors to determine their remuneration.		
5. To authorise the Directors to determine and make donations to charities.		

In witness my/our hand/seal given on this ……………........………..... day of March, Two Thousand and Eight.

……………....……………………….

Signature

Please read the instructions on the reverse of the Form of Proxy.

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address by signing on the spaces provided and please fill in the date of signature.

2. The persons mentioned above are Directors of the Company and they are willing to represent any shareholder as proxy, and vote as directed by the shareholder. They will not, however, be willing to speak or move or second and amendment to the shareholder to the resolutions or make any statement in regard thereto on behalf of any shareholder.

3. 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.

4. If another proxy is perfected, delete the names printed; add the name of the proxy perfected, and initial the alteration.

5. In the case of a corporate member the proxy must be completed under its common seal, which should be affixed and attested in the manner prescribed by its 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.

6. The completed Form of Proxy should be deposited with the Company Secretary, Sri Lanka Telecom PLC, Telecom Headquarters, Lotus Road, Colombo 1 not less than 48 hours before the time fixed for the holding of the meeting.

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.

On 04.06.2007 SLT was re-registered under Companies Act No. 7 of 2007

COMPANY REGISTRATION NUMBER

PQ 7

STOCK EXCHANGE LISTING

The Ordinary Shares of the Company are listed in the Colombo Stock Exchange and the USD 100,000,000 Bonds due in 2009 are listed on the Singapore Stock Exchange.

REGISTERED ADDRESS

Telecom Headquarters
Lotus Road
Colombo 1

BOARD DIRECTORS

Asoka W. de Silva - Chairman
Shoji Takahashi - Chief Executive Officer
Shuhei Anan
Leisha Chandrasena (Mrs.)
S.N. Kumar
Sumith Wijesinghe
P.A. Abeysekera

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place
Colombo 2

COMPANY SECRETARY

Mrs. P.G. Dias, ACIS - UK

CREDIT RATING

The Company has received AAA (lka) Domestic Rating and BB- foreign currency rating from Fitch Rating Lanka.

Standard & Poor's have rated BB- for foreign currency and BB- for local currency corporate credit ratings.

BANKERS

Bank of Ceylon
Commercial Bank of Ceylon PLC
Hatton National Bank Limited
Standard Chartered Bank
Citibank N.A.
Nations Trust Bank
People's Bank
HSBC Bank
Sampath Bank
Seylan Bank
NDB Bank
Deutsche Bank

REGIONAL TELECOM OFFICES

Ampara	*Hatton*	*Matara*
Anuradhapura	*Havelock Town*	*Negombo*
Avissawella	*Jaffna*	*Nugegoda*
Badulla	*Kalmunai*	*Nuwara Eliya*
Bandarawela	*Kalutara*	*Panadura*
Batticaloa	*Kandy*	*Polonnaruwa*
Chilaw	*Kegalle*	*Ratmalana*
Colombo Central	*Kotte*	*Ratnapura*
Galle	*Kurunegala*	*Trincomalee*
Gampaha	*Mannar*	*Vavuniya*
Gampola	*Maradana*	
Hambantota	*Matale*	

TELESHOPS

Badulla	*Kiribathgoda*	*Matara*
Bandarawela	*Kegalle*	*Negombo*
Beruwala	*Kotte*	*Nuwara Eliya*
Galle	*Kurunegala*	*Ratmalana*
Maradana	*Liberty Plaza*	*Slave Island*
Gampaha	*Maharagama*	*Wattala*
Ja-Ela	*Matale*	*World Trade Centre*
Kalutara		

SUBSIDIARY COMPANIES

Name of Company	Holding	Principal Activity
Mobitel (Pvt) Limited	*100%*	*Mobile telephony*
SLT (Services) Limited	*100%*	*Providing total network solutions to corporate and small business customers*
SLT Hong Kong Limited (off-shore subsidiary)	*100%*	*Point of Presence - Providing IP transit services*
SLT Publications (Pvt) Limited	*100%*	*Directory publication services*

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