



At the cutting edge

Robust technology

Unlimited potential

Gilt edged security



Sri Lanka Telecom

Annual Report 2003

Vision

To lead Sri Lanka to become the hub of telecommunications in South Asia

Mission

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

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Sri Lanka Telecom - Setting a New Benchmark in Telecommunications

Cutting Edge

Sri Lanka Telecom is at the cutting edge of telecommunications in this country. In six years it has taken a moribund state entity and transformed it into a dynamic and innovative communications provider, on par with the world's best.

Sri Lanka's move towards a fully liberalised telecommunications market will enable SLT to use the opportunity to grow and to provide state-of-the-art services making the country a telecommunications hub for the South Asian region.

Robust

SLT has close to 90% of the fixed line subscriber customer base. Its acquisition of Mobitel, Sri Lanka's third largest mobile operator makes it the only provider to offer both fixed and mobile services. Mobitel will soon offer a state-of-the-art GSM network with the capacity for third generation mobile telephony services.

The recent re-commissioning of the microwave link between India and Sri Lanka gives SLT access to a potential Indian customer base of 43 million. The Telecom City that would combine the best in information technology with the finest in communications technology will enable SLT to offer better connectivity and higher bandwidth to those companies who wish to exploit this.

High speed internet access through ADSL, Virtual Private Networks (VPNs) and an Internet Data Centre to host and manage data for business customers are some of the Company's recent products and services.

Broadbased

In 2002 it offered 12% of its shares to the public and as a result became the largest public quoted company on the Colombo Stock Exchange.

Its annual turnover now exceeds Rs. 24 billion and for the last two years it achieved operating profits of over Rs. 5 billion. Over the past six years Rs. 51.25 billion has been invested to upgrade its infrastructure and network and a further Rs. 7.0 billion has been earmarked for 2004.

The Rewards of Deregulation



Competition is key and deregulation can only help the consumer.

SLT is now reaping the rewards of its post privatisation infrastructure investment.

A re-engineered blue chip company.

The Economy Revives

SLT's performance in 2003 took place against the backdrop of a reviving economy. Reduced defence expenditure and strict financial discipline helped get the economy back on track. According to Central Bank statistics, the economy grew at an average rate of 5.6% in the first three quarters of 2003. The budget deficit fell to a provisional 7.8% of GDP, a significant drop from the 8.9% recorded in 2002. This is encouraging, particularly in the context of the Fiscal Responsibility Act of 2003, which targets a reduction in the budget deficit to below 5% by 2006.

Inflation was kept in check while the Central Bank was also able to effect several reductions in interest rates during the course of the year. Foreign inflows including direct foreign investment also increased leading to a sense of buoyancy in the business sector. The increased optimism translated into a bullish stock market and the Colombo Stock Exchange had a record year.

However, for this economic momentum to be maintained, it is vital that the country does not return to war. I therefore hope that all major stakeholders will pursue every effort at negotiating a political settlement and work strenuously to avoid a return to conflict.

Reaping the Investment Rewards

The year 2003 was significant for the telecommunications industry in Sri Lanka. It was during this year that 32 new licences were granted to external gateway operators, which denoted a new era of competition in this country. It also marked fifteen years since the first mobile operator entered the market and a little over twenty since deregulation commenced in this country. Sri Lanka's communications environment has thus changed radically from a state controlled and tightly regulated environment to a deregulated market in which competition is key.

Such deregulation can only help the consumer. Higher levels of competition mean better products, more investment in infrastructure, higher quality, lower pricing and increased levels of customer care. Deregulation and consequently competition ultimately means a better quality of service for the consumer.

SLT's infrastructure investment since privatisation is now paying off. Over the past seven years, we have invested Rs. 63 billion in infrastructure and network development. We have by far the largest number of fixed line customers and have over these seven years consistently enhanced the level of service to them. Our acquisition of Mobitel now makes us the only operator to offer integrated fixed and mobile services. With the switchover to GSM and other value added services, we are confident that we will soon be a leading player in the mobile market too. Sri Lanka Telecom is therefore well positioned to lead the telecom sector in all aspects.

With the privatisation in 1997 followed by its successful listing on the Colombo Stock Exchange in 2002, SLT has re-engineered itself into one of the most vibrant blue chip companies. The initial impetus for the transformation came from our agreement with NTT, which provided the technical expertise to expand our networks and to re-style our management culture. While the NTT management contract expired in 2002, SLT continues to have access to certain strategic and managerial inputs from NTT.

SLT's restructuring strategy has involved several elements. One of our first priorities was to identify people with the right attitude and expertise for each area of work.

We have given them the autonomy in those core areas and encouraged proactive and dynamic decision-making. This strategy was supported by the infusion of professionalism in those areas where such expertise was required.

SLT has also begun to aggressively diversify its sources of revenue. The liberalisation of the market demanded that SLT move from an excessive reliance on fixed line revenue, which was previously its core business, to other business areas. Investments have therefore been made in mobile telephony, wireless loop technology, micro links with an Indian telecom operator and the Telecom City project. The microwave link between Talaimannar and Rameshwaram opens access to a 43 million subscriber base and will significantly enhance traffic volumes between India and Sri Lanka.

SLT has also introduced a new billing system, which captures ratings data for invoicing directly from the newly installed high capacity digital switches, thereby eliminating system losses and improving revenues and the bottom line.

The plan for our next phase of growth is to build on the foundation we have laid. The key is to make SLT not only one of Sri Lanka's most profitable companies, but also to be responsive to customer demands while using technology for their maximum benefit. Therefore, the use of state-of-the-art technology to deliver a new range of high quality voice, data, media and entertainment products will be an important part of our business plan over the next few years. We are accordingly undertaking an overhaul of our marketing and sales strategies with the aim of projecting an enhanced SLT brand.

Concurrently with these developments, we are placing increasing emphasis on customer care. We are aware that our new products and services must be driven by customer needs, which means providing customers with as much options as possible on the products we offer. In the next few years, we also hope to make maximum the use of our fibre optic infrastructure to provide IP-based services such as ADSL, IP-VPN and Internet Data Centres. Through these new products we will attract high usage corporate customers and increase network utilisation.

We know that the future will see the integration of telecommunications, computer applications and media applications. Telecommunications will soon share bandwidth with information and entertainment. SLT is ready and well positioned to take on these new challenges and participate in the next phase of the dynamic and fast evolving telecommunications industry. The foundation we have laid will enable us to compete and forge ahead.

Acknowledgements

SLT's management and staff has been the cornerstone of the Company's success. On behalf of the Board, I would like to thank every member of the SLT team. Without their commitment and dynamism, we would not have enjoyed the success we have had. My thanks also go out to the members of the Board for their unstinted advice and support. It has been a pleasure to work with everyone of them. I also wish to express my appreciation to you, the Shareholders of the Company, for continuing to place confidence in our capability to drive Sri Lanka Telecom forward. I conclude by assuring you of our unwavering commitment to increase the value of your shareholding in the Company.

Thilanga Sumathipala
Chairman

State-of-the-art technology to deliver a new range of high quality voice, data, media and entertainment products while emphasising customer care, will be an important part of our business plan.

We are ready and well placed for the new telecom era.



Thilanga Sumathipala

Mr. Thilanga Sumathipala was appointed by the Government of Sri Lanka to the Board in January 2002 and he was subsequently appointed to the post of Chairman by the Board of Directors.

A printer by training, he has had wide experience in the printing and publishing industry. He also has extensive experience in international cricket administration.

Mr. Sumathipala is an entrepreneur and a businessman, who jointly leads a variety of companies who are engaged in diverse businesses ranging from hotels, garments, entertainment, leisure and communications to trading, sports and cinema.

He also serves in the capacity of a Director/Member of many institutes and organisations such as the International Cricket Council (ICC), Asian Cricket Council, Asian Cricket Committee, Development Committee, International Advertising Association (IAA), Newspaper Society of Sri Lanka, INCA-FIEJ Research Association (IFRA) India, Asian Mass Communication Research & Information Center (AMIC) and the Ingrin Institute of Printing & Graphics of Sri Lanka.

Mr. Sumathipala has had extensive experience in international cricket administration having been the President of the Asian Cricket Council in 1997/98 and the President of the Board of Control for Cricket in Sri Lanka in 1997/98 and 2000/2001. From 1998 to 2000 he served as a Director of the International Cricket Council. He also spearheaded the development of cricket in Sri Lanka and led the development of the Galle International Cricket Stadium and the Rangiri Dambulla International Cricket Stadium.

Mr. Sumathipala holds a Diploma in Photolithography and Graphic Reproduction from the London College of Printing, UK.



Mr. Shuhei Anan

Shuhei Anan has been serving the Board since 5.6.1999 as a nominee Director of NTT Communications Corporation. However, beginning March of that year he had attended Board Meetings in the capacity of an alternate to Mr. Masaaki Kasahara who was also a nominee of NTT. Effective from 21.7.2001 Mr. Anan was appointed the Chief Executive Officer of the Company in addition to being a Board Member.

Prior to this he had served Thai Telephone & Telecommunication Company as Assistant Vice President in charge of Operations and Maintenance for three years since 1993.

Between 1991-93, Mr. Anan has held the position of General Manager, Global Business Development at NTT International Affairs Headquarters and prior to that in various managerial capacities at NTT. His entire career has been with Nippon Telegraph and Telephone Corporation of Japan having joined the Corporation soon after graduation in 1976.

Mr. Anan received a Bachelors Degree in Construction Engineering from the University of Waseda in 1974 and a Masters Degree from the same university in 1976.



Mrs. M. A. R. C. Cooray

Mrs. Cooray has been a Member of the Board since 2 December 2003. Since 1974, she has been serving the Central Bank of Sri Lanka in various capacities from Assistant Director to Director in several Departments of the Bank. In 1999 she has been seconded by the Bank to the Ministry of Finance as Director-General, Department of Fiscal Policy which position she holds to date. Concurrently she has been serving as Assistant to the Governor of the Central Bank since 2001.

Mrs. Cooray serves on the Boards of DFCC Bank, Ceylon Electricity Board, Sri Lanka Institute of Information Technology and Thomas De La Rue. She also serves as a Member of the Tariff Advisory Committee of the Government of Sri Lanka.

She holds a Masters Degree in Economics from the University of Strathclyde, UK and a B.A. Honours Degree in Economics from the University of Peradeniya (1972).



Mr. K. C. Logeswaran

Mr. Logeswaran has been serving on the Board since December 2003. He has been an Advisor to the Ministry of Finance since April 2003. From December 1999 to February 2003 he has served as Ambassador Extraordinary and Plenipotentiary in the Republic of Korea.

Mr. Logeswaran of the Sri Lanka Administrative Service had served as Secretary to the Ministry of Posts, Telecommunications and the Media from September 1995 to August 1999. Concurrently he had held the position of the Chairman, Telecommunications Regulatory Commission of Sri Lanka.

Additional Secretary, Ministry of Industrial Development from August 1994 to August 1995. Secretary to the Project Ministry of Mineral Development from January 1991 to August 1994. State Secretary to the Ministry of Hindu Religious & Cultural Affairs from March 1990 to December 1990. Additional Secretary, Ministry of Rehabilitation & Reconstruction from August 1988 to March 1990. Government Agent and District Secretary from October 1981 to August 1988, and Registrar of the University of Jaffna from April 1980 to September 1981.

He holds a Bachelor of Arts Degree from the University of Ceylon.



Mr. Kiyoshi Maeda

Mr. Maeda has been a Director of SLT since April 2002. He currently serves as Director in charge of Group Strategy, Corporate Planning Department of NTT Communications Corporation. Since joining NTT Communications Corporation in March 1999 he has served as Director of their Global Business Development Group at Arcstar Global Network Business Division till October 2002. Prior to joining NTT he has served at The Long Term Credit Bank of Japan Limited in a variety of Managerial positions ending as Joint General Manager of their International Finance Division.

Mr. Maeda holds a Bachelors Degree in Economics from the University of Waseda (1979) and a Masters Degree in Management from the J.L. Kellogg Graduate School of Management of North-Western University in 1986.



Mr. N. Pathmanathan

Mr. Pathmanathan was appointed to the Board in March 2002. He currently serves as Deputy Secretary to the Treasury which position he has held from 24 December 2001 to date.

He is a Director of Galadari Hotels Limited, Ceylon Petroleum Corporation, Sri Lanka Export Development Board, Civil Aviation Authority, National Aquatic Resources Research & Development Agency and De La Rue & Company, and serves on the Board of the Eastern University of Sri Lanka.

Having joined the Sri Lanka Administrative Service in 1967 he has held a variety of public offices from Addl. Government Agent to Secretary of various Ministries, viz. Ministry of Forestry & Environment, Science & Technology and Rehabilitation of North-East Provinces. He has also held the position of Director - General, Department of Public Finance from 1998 to 2000. Additional Director-General, Department of National Planning from 1993 to 1998.

Mr. Pathmanathan holds a Bachelors Degree in Arts from the University of Ceylon, Peradeniya and a Master of Business Administration Degree from the Post Graduate Institute of Management, University of Sri Jayawardenapura, and a Bachelor of Laws Degree from the Open University of Sri Lanka.



Mr. Mitsuhiro Takase

Mr. Takase was appointed to the Board in July 2003. He has had a career spanning 32 years with NTT and its affiliates overseas. He currently holds the position of Senior Vice President, Corporate Planning Department, NTTCom.

He has served as the Senior Vice President of the General Affairs Department and Legal/Internal Audit Department of NTTC from June 2001 to June 2002 and as Vice President of the same Department from July 1999 to June 2001. From January 1999 to June 1999, Vice President of General Affairs Department and Legal/Internal Audit Department, Transitional Headquarters of Long Distance & International Business NTT. 1996 to 1999, Vice President Strategic Planning & International Cooperation Dept. Global Business Headquarters, NTT. 1985 to 1996 General Manager of Telecommunications Consulting Department, NTT International Corporation and its Vice President from 1995 to 1996. He has been responsible for Marketing and Management consultation for engineering projects mainly in the Asian region.

Mr. Takase holds a Bachelors Degree from the University of Tokyo (1971) and has completed an Executive Education Programme at the Harvard Business School (1995).



Mr. Haruhiko Yamada

Mr. Yamada was appointed to the Board in September 2003.

He holds the position of Vice President, Group Strategy in the Corporate Planning Department of NTT Com. Having joined NTT in 1976 he has held several positions of significance in that organisation. In 2001 Vice President, Global Strategy, Corporate Planning Department, NTTCom. 1999 - Director, Finance & Treasury Division, Accounts & Finance Department NTTCom. 1996 - Director, Finance & Legal Division, Global Business Headquarters, NTT and Senior Management positions in Corporate Strategy, Accounts & Finance in NTT and Corporate Planning in NTT International. He has also served in the Asian Development Bank on secondment.

Mr. Yamada holds a Bachelor of Laws Degree from the University of Tokyo (1976) and has received an MBA from the University of Chicago (1982).

Solid and Dependable



Telecommunications' Technological Magic

This is indeed an exciting time to be in telecommunications. Technology is roller coasting at an incredible speed turning out products almost every week. These new products are making communications cheaper and therefore accessible to a larger group of people. It is making communications more sophisticated and therefore allowing people to do more things than they did previously. It is making communications more user friendly and attracting new customers everyday.

It is not just technology that is making communications exciting. Deregulation and the challenges of competition are making it an exciting time to be in the Industry. Monopolies are bad for entrepreneurship. They deaden creativity and stifle the imagination. Growth comes from the thrust of competition which stimulates human imagination to new heights.

Against the backdrop of rapidly developing technologies and deregulation SLT envisages four major roles for the organisation over the short to medium term:

- Expanding SLT's network to retain our position as the dominant player.
- To introduce new products to the market making optimum use of the new technologies that are being developed everyday.
- To ensure high quality global connectivity both for voice and data and to see that SLT remains the most preferred provider for Sri Lankan customers and for those Sri Lankans based overseas.
- To thrive amidst the competition of deregulation to ensure that our levels of customer care are constantly being improved.

Changing Roles in a Changing Market

In 2003 we paid particular attention to customer care and as part of our strategy regular meetings were held in the regions to develop capacities in those locations.

A number of strategic changes were implemented by SLT. Three new Outside Plant Maintenance Centres (OPMCs) were established bringing the total in operation now to four; our Call Centre was streamlined, and a Central Store was set up. In addition a state-of-the-art billing system came into operation. All these changes were geared to providing greater customer satisfaction and to creating the requisite working conditions for our staff.

Strengthening the Network

SLT's transmission network is equipped with high capacity state-of-the-art optical fibre technology including the 700 km Inter Province Optical Fibre Transmission Central Ring and the Colombo Ring. A Southern Ring will be implemented soon and subsequently the Northern Ring. The introduction of this high technology optical fibre rings significantly strengthens the SLT backbone transmission network, with a high degree of reliability which would eventually put SLT ahead of its competitors. SLT will be able to provide fibre to business more freely in the future.

Significant improvements were also made to our network especially in the North; connecting it with rest of the country.

Venturing into new Avenues

The acquisition of Mobitel and enhancing it with the new GSM technology will enable us to deal with the challenges of competition more effectively.

New technologies enabled the introduction of new services such as iDC, ADSL, VoIP and IP-VPN. We will continue in our efforts at providing the best levels of customer service and guaranteeing that the varied interests of our diverse shareholders are equally met.

Charging Forward

Against these developments SLT had another remarkable year. SLT's Group revenue grew by 1.0% to reach Rs. 25.5 billion. Operating profits decreased by 11%. Pre tax profits were Rs. 3.2 billion and post tax profits were Rs. 2.2 billion.

These results in the midst of liberalisation taking a step change and a VRS costing in the region of Rs. 710 million are noteworthy. They demonstrate the solidness of our foundation and the nimbleness of our decision making processes. They also augur eloquently for our ability to compete effectively in the future.

The revenue generated from domestic telephony, as a proportion of SLT's overall revenue, continued to grow and accounted for 63% in 2003. This is an inevitable consequence of our tariff re balancing policy and this trend is likely to continue for a few years. Approximately 71% of domestic telephony revenue comes from call charges.

SLT is now the No. 1 capitalised company listed on the Colombo Stock Exchange. Shareholders number in excess of 25,000 making us the Company with the highest number of shareholders as well.

As we have grown over the years we have created shareholder value by developing our core businesses in domestic and international voice telephony whilst diversifying effectively into non voice sector markets as well. We have also established a lean and customer centric organisation.

Our dedicated staff bound by a good team spirit and armed with new management and productivity techniques such as 5S will play a central role in SLT's vigorous push forward.

Still the Robust and most Dependable Provider

SLT continues to lead the telecommunications industry in this country. For decades it was the only provider. It still continues to dominate even after the entry of a string of other operators beginning almost two decades ago. It is the only provider with such an extensive network in the country; and now with the acquisition of Mobitel, it is Sri Lanka's only integrated telecom service provider. By diversifying into new areas of telecom services we have made our sources of revenue and consequently the Company even more secure and solid.

Leveraging our Strategic Location

Sri Lanka is located at a very strategic position, between South Asia and the Middle East. Sri Lanka's position at the doorstep of India is in many circumstances similar to Hong Kong's position vis-à-vis China. The potential of this geo strategic location is tremendous and SLT proposes to make best use of this. A strong network between India and Sri Lanka will facilitate the flow of information and traffic between the countries and between India and other parts of the world, with Sri Lanka being a transit point.

In a bid to enhance our global connectivity we re-commissioned the microwave link between India and Sri Lanka in partnership with Bharat Sanchar Nigam Limited (BSNL). The SEA-ME-WE 3 and SEA-ME-WE 4 Submarine Cable project is on course and is expected to be commissioned in 2005. This would play a pivotal role in the development of the Sri Lankan economy.

Creating a new Image

Never has so much happened in so little time in the telecommunications sector in this country. The industry has evolved rapidly and is able to offer a range of state-of-the-art solutions to domestic customers in tune with global technological changes. Deregulation has accompanied all these changes and the industry in Sri Lanka has truly come of age ready to meet the demands of the new economy. SLT has become a key player, if not the most important player, in these developments.

As the largest listed company on the Colombo Stock Exchange shareholders and customers expect SLT to grow amidst competition and to outpace competitors. SLT is in the process of creating a new brand image as the most dependable communications provider with a promising potential. The image also highlights our capacity to make best use of new technologies and the gilt edged security of the SLT network. SLT's potential and promise is enormous and the next phase of our operation will be geared to attain this potential.

Appreciation

We are equally responsible to our shareholders and employees; as we are to our customers, and the larger community. Our corporate activities have tried to make winners of all our stakeholders. We know that our profit making strategies cannot compromise on our social responsibilities.

I want to acknowledge the pivotal role played by all our staff spread throughout the country. It is they who are the soul of our institution and I would like to pay a warm tribute to them. My special gratitude goes to the over 1,000 employees who retired through the VRS for the role they played in making SLT the Company it is today and to wish them the very best in their new life.

My thanks to the members of the Board for their advice and inspiration. It is a pleasure to work with everyone of you.

Shuhei Anan

Chief Executive Officer

Business Review

Fixed Telephony

Mobile Telephony

Data & IP

Internet

International



SLT owns the Sri Lanka's first ever Optical Fibre Inter Province Transmission Ring in Colombo and Central regions. Optical fibre rings significantly strengthen the SLT backbone transmission network and provide a high degree of reliability.

Fixed Telephony

SLT continues to lead the field in the telecommunications industry in this country. Approximately 88% of the 900,000 odd fixed line subscribers in this country were using SLT at the end of 2003.

The Widest Reach by Far

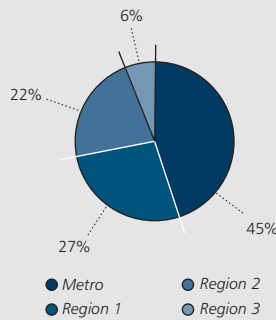
SLT's fixed line network has the most extensive reach by far. For many years it was the only and then subsequently the main fixed line operator. SLT still continues to dominate fixed line telephony especially in the more profitable urban areas. Overall SLT has as much as 88% of the market. At the end of 2003 its fixed line customer base stood at 822,922.

Our customers come from all walks of life: from the big urban based corporate to the small entrepreneur and rural farmer. Few providers globally can boast of such a wide and diverse customer profile. We will continue to nourish every segment of this customer base and ensure that they all have access to the new developments in communications technology. Our objective has been to ensure that all Sri Lankans whatever class or segment they hail from have access to a functioning and effective telephone connection. In this regard we have spent special attention in developing those areas where access to telephonic services has been limited.

For operational reasons SLT is divided into four regions:

- » **Metro** which consists of Colombo and its suburbs;
- » **Region 1** which consists of the Central, Western/North, North Western and North Central provinces;
- » **Region 2** which consists of the Uva, Southern, Sabaragamuwa and Western/South provinces; and
- » **Region 3** which consists of the Northern and Eastern provinces.

Customer Base



Providing 'Hope' and Access to New Areas

One of SLT strategies over the past few years has been to develop the switching and transmission capacities in difficult areas. With this in view SLT has embarked on a major infrastructure development programme in those areas where communications networks have been underdeveloped or have been damaged.

SLT launched Project 'Hope' to improve telecommunication facilities in the Jaffna peninsula. The Project, Hope, was designed to install state-of-the-art facilities in that region. For SLT the development of the facilities in Jaffna has been 'top priority'. A similar programme was launched in Mannar. Project 'Bridge' will complement develop telecommunication infrastructure in the Mannar region.

OPMCs: A third Generation Maintenance Platform

SLT has been progressively upgrading its maintenance capabilities since privatisation. An important part of our maintenance strategy has been the employment of Outside Plant Maintenance Centres (OPMCs).



New Connections for 2003

Region	Provinces	Connections
Metro	Colombo and its suburbs	26,853
Region 1	Central, Western/North, North Western and North Central provinces	16,738
Region 2	Uva, Southern, Sabaragamuwa and Western/South provinces	7,176
Region 3	Northern and Eastern provinces	5,767



*At the end of
2003 SLT's
fixed line
customer base
stood at
822,922*

Over the past two years 4 centralised OPMCs have been established in different parts of the country. OPMCs offer a centralised location and enable a quicker response whether it be a new service or the repair of an existing service. Because of the centralised functions - of human resources, materials, transport facilities - and the use of advanced computer technology OPMCs have resulted in considerable savings and trimmed the cost of our maintenance fleet. OPMCs are powered by a computerized network workflow management system to enable an optimum utilisation of resources. Extended working hours - from 7 a.m. to 7 p.m. - has resulted in a better service and greater value to our customers.

A modern maintenance system requires technical capacity and the availability to respond speedily and effectively. Both are indispensable for the modern consumer. By combining skilled technical resources with state-of-the-art technology in a central location our OPMC seeks to do just that.

The OPMCs have begun to create a new work culture and as a result fault clearance rates have continued to improve. In this area we have a comprehensive maintenance management plan developed in connection with NTT Communications Corporation of Japan. This has been boosted by an increased emphasis on maintenance training of SLT's technical staff.

For the second consecutive year, in 2003, SLT won the Taiki Akimoto 5S Overall Winner Award.



Coping with the Floods

Severe flooding in the month of May caused extensive damage in parts of the Western, Sabaragamuwa and Southern provinces. The SLT network also suffered considerable damage. 52 exchanges were damaged leaving over 15,000 customers without connections. Because of the emergency measures that we had in place SLT was able to respond swiftly and have the systems working in a matter of days. We were supported by the Armed Forces and the Police, and by the excellent response we received from our staff. Most exchanges were functioning within two days with the aid of our standby generators and facilitated relief work greatly.

Picking up Prizes for Innovation

For the second consecutive year, in 2003, SLT won the Taiki Akimoto 5S Overall Winner Award. The Matale Regional Office brought SLT this coveted award. In addition, we bagged 3 merit awards (for Polonnaruwa and Badulla Regional Offices and the Panadura OPMC) and 5 Certificates of Excellence (for the Gampaha, Ampara and Bandarawela Regional Offices and SLT Training Centre, Welisara). The Kandy Regional Office brought the Runner-up award Nagai Yamamoto Kaizen Award 2003.

Growing with Our Network

Over the past six years SLT has considerably strengthened its domestic and international network.

We will continue to strengthen our network by upgrading exchanges, outside plant capacity and switches.

SLT spent Rs. 51.25 billion over these past six years on network expansion. A sum of Rs. 7 billion has been earmarked for network expansion in 2004.

SLT's fully digital transport network consisted of optical fibre and microwave links covers most of the country. Optical fibre rings significantly strengthen the SLT backbone transmission network and provide a high degree of reliability. SLT plans to optimise its existing fibre optic infrastructure to provide high speed and low cost data, media and voice transmission services. At the end of 2003 SLT's network consisted of 500 digital exchanges.

In the remote area and difficult terrains SLT is planning to deploy cost effective technologies such as wireless local loop networks in a bid to meet the increasing demand in those areas.

As of Dec. 2003

Switch Capacity	1,000,813
Out Side Plant (OSP)	1,288,349
International Circuits	6,714

SLT plans to optimise its existing fibre optic infrastructure to provide high speed and low cost data, media and voice transmission services.

SLT's New Tariff Structure: Catalysing Growth and staying Competitive

The 5th and final tariff rebalancing exercise specified in the agreement between NTT and the Government of Sri Lanka signed in August 1997 was implemented in November 2003. This rebalancing exercise enabled SLT to make a case for a rational and operationally feasible tariff structure.

As a result of this revision, SLT was able to introduce a more competitive pricing structure. The pricing structure now in place is based on a sliding scale: the more units you use the less you pay per unit. One of the benefits has been to place domestic telephony on par with any other commodity. Enterprises that have large volumes of business have a particular advantage under the new tariff structure.

The New Tariff Structure

Category	Rs.
Up to 200 call units	free of Charge
From 201 to 1,000 call units	3.00
1,001 to 3,000 call units	2.75
More than 3,000 call units	2.50

In addition to the changes in the tariff structure the off peak times were also changed and the discounted band time increased by an hour bringing it to 9.00 p.m. from 10.00 p.m. This is expected to give a boost to the usage of Internet.

Growing Our Value Added Services

Over the past few years SLT has focused on developing new value added services. Our objective is to offer our existing customers new value added services and maximum utilisation of resources. Through this we plan to increase the subscriber base and to generate more revenue.

Among the value added services we have recently developed are the SLTPlus, SLT CLI and SLT VMS other packaged service offerings.

A State-of-the-Art Billing System installed

In 2002 SLT decided that the Billing and Revenue System installed in 1997 was unable to cope with the growth of the Company and needed to be replaced. In October that year SLT invested US\$ 20 million to buy a new system which encompasses an integrated Operation Support System, a Billing Support System and a Mediation Support System. Its flexible architecture and user friendly characteristics provide for a converged support system.

The first phase of our new billing system went online in April 2003 for our Internet and data customers. In November the new billing system was introduced for our metro and other customers.

Converting to a 10 Digit Number

The Telecommunication Regulatory Commission of Sri Lanka (TRCSL) has taken a decision to initiate ten-digit number conversion. This conversion will provide all fixed telephones and wirelines with a geographic identity that would be determined by the area code.

The new plan will facilitate the introduction of emergency services and a uniform short code for operators. It will also standardise the length of all subscriber numbers of every fixed line telephone.

One of the advantages of this format is that it enables the system to expand. It will accommodate 10 million customers in each area and will eliminate the limitations of the existing system.

In conformity with the TRCSL directive SLT progressively introduced the ten digit number in all areas under its purview. At the moment all SLT fixed line numbers have been converted to 10 digit numbers.

Moving Towards a 'Duration' Based Charging System

Another major change that will occur in the near future is the shift from a unit based charging system to a duration charging based system. The

unit based system currently in operation is complicated and not user friendly. The duration based system will ensure that consumers are charged only for the time for which they use the facility. The pricing structure will be calculated on a per second basis. This will enable us to offer conveniently comparable and further competitive pricing structure.



The logo reflects the Mobitel brand and its new aspirations. White for purity and integrity, blue for strength and commitment and green for prosperity and energy. The stand alone big 'M' reflects the power of the mobile operator.

Mobile Telephony

Mobitel currently has over 200,000 active subscribers a 19% slice of the mobile market. Subsequent to the launch of the GSM network in January 2004 Mobitel rapidly acquired new customers and effectively doubled its active customer base.

Mobitel customers now enjoy unparalleled customer care clarity and coverage through Mobitel's state-of-the-art GSM mobile system.



Launch of the GSM Network in January 2004.

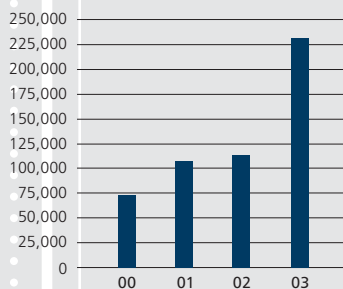
New Avenues of Growth

Mobitel entered the cellular communication market in Sri Lanka as the third mobile operator in April 1993 as a joint venture between Telstra of Australia and Sri Lanka Telecom. The joint venture was operative till October 2002 when Sri Lanka Telecom acquired Telstra's stake in the Company. The purchase transformed the SLT Group to become the only integrated telecommunications service provider in Sri Lanka to offer both fixed and mobile communications options to its customers as well as data and IP, Internet services.

Customer Growth

Mobitel currently has over 200,000 active subscribers a 19% slice of the mobile market. Subsequent to the launch of the GSM network in January 2004 Mobitel rapidly acquired new customers and effectively doubled its active customer base. The growth in the customer base was significantly ahead of the budgeted growth rate.

Mobitel Customer Base



Network and Technological Innovation

These customers now enjoy unparalleled customer care clarity and coverage through Mobitel's state-of-the-art GSM mobile system supplied by Ericsson AB of Sweden which is the market leader in providing network equipment to operators worldwide.

Mobitel was the first network in the world to launch a fully EDGE enabled mobile system. Through EDGE the next generation of GPRS Mobitel's customers enjoy data download speeds approaching 3G and the Company was the first operator in South Asia to provide this service. The new EDGE enabled GPRS network will support all features such as WAP, GPRS and MMS. It will also provide state-of-the-art services such as downloading of video and music clips, video streaming, full multimedia messaging, high speed Internet access, 'email on the move' features, multimedia chat, rich calls, interactive games and interactive web services.

Mobitel also created another first when they introduced menu-based access for SMS based information services. Currently all other GSM operators in Sri Lanka require their customers to remember cumbersome short codes in order to access information services. However Mobitel customers SIM cards which are menu driven require the customer

to click on the required information category and the SMS with the required information is sent automatically.

Also for the first time in Sri Lanka, Mobitel subscribers now have the unique facility to update new services over the air. This facility was launched at the recently concluded one-day international series between Sri Lanka and Australia when subscribers were requested to name the "Man of the series". This quiz received unprecedented participation and the winners walked away with VIP tickets for the one-day matches and other prizes. There are other unique advantages of over the air updates. Mobitel could provide new services to their subscribers and the subscribers could customise their menus without the need to visit a Mobitel Office or change their SIM Card.

Mobitel also launched its GSM service by providing its subscribers roaming in over 160 countries by using an advance roaming platform provided by Xius and using the roaming links of BPL one of the largest GSM operators in India. The license to commence an EGO operation was obtained from the Telecommunications Regulatory Commission of Sri Lanka which will give the network the ability to provide International Direct Dialling services on its own account if necessary in the future.

Value Added Services

Mobile communication in Sri Lanka has come a long way and Mobitel believes the need has arisen to promote the mobile phone not only for basic voice but also as an information, productivity and entertainment tool. In this regard Mobitel has introduced for the first time in Sri Lanka a host of services, which are all user friendly and menu driven. Currently our subscribers have access to over 70 infotainment services in nine categories via SMS.

The Categories

Service	Details
Mobi Services	Customer usage related information such as account balance, last payments and SMS based Complaint Management
Info Services	News, Health, Lottery Information
Financial	Stock Quotes, Currency Conversion, NASDAQ Indices
Messaging	Personal and Business Alerts, Bulk Messaging
Infotainment	TV Guides, Top Songs & Movies, Hollywood & Bollywood Gossip
Download	Logo's & Ring Tones Picture Messages
Fun	Jokes, Horoscope, Dating & Chat
Games	Hangman, Do You Know, Scrabble, Speed, Mastermind
Sports	Cricket Scores

Awards

The use of technology to drive new services and product offerings has resulted in the Company being recognised internationally as a technology leader. Recently at the GSM Congress in Cannes the GSM Association of Russia gave an award

to Mobitel for its Roaming solution using the Xius platform. Mobitel was recognised with two other awards by Schlumberger the worlds leading manufacturer of SIM cards for implementing and Over The Air Platform which updates the customers SIM card automatically and by Convergys for one of the fastest implementations of the Geneva Rating and Mediation System. The international recognition of Mobitels achievements has not been limited to the sphere of technology. Mobitels financing arranged by Standard Chartered Bank for the GSM roll out won an award from Asia Money as one of the most innovative trade financing arrangements for the year 2003.

The Mobile Market

The Market of the Future

According to Central Bank statistics there are close 1.3 million mobile customers in the country. This is larger than the fixed line base, which amounts to 900,000 subscribers. The cellular market has seen a compound average growth of 62% over the last decade. SLT is aware that the mobile market exhibits huge potential, the surface of which has barely been scratched. Mobitels phenomenal growth subsequent to the GSM launch ratifies the decision taken by SLT to enter the cellular market and is expected to be the main source of the companies growth of profits in the future.

Mobitel's Market Share in Cellular Market



Creating an even better Service

Over the next few years Mobitel anticipates investing US\$ 200 million or Rs. 20 billion in technology and network upgrades. Already close to US\$ 88 million has been invested in upgrading Mobitel in a little over a year. Subsequent to the takeover by SLT keeping in line with principles of good corporate governance a comprehensive review was carried out of the procurement policies of the Company. The GSM supply contract was evaluated with external consultants actively participating in the evaluation process to ensure that the companies' objectives were met. Detecon a subsidiary of Deutsche Telekom audited the technical evaluation and recommendation while the financial evaluation was based on World Bank recommended evaluation methodology and audited by the global accounting practice. The evaluation of the financing of the GSM network was structured in consultation with DFCC Bank to ensure the lowest cost of funds. Because of the large capital outlay for the GSM project and the

need to fund the expansion through debt, procurement practices were strengthened with added emphasis on cost control. This resulted in significantly reducing the anticipated loss arising from the launch of GSM service.

By the last quarter of 2004 we expected to consolidate on Mobitel's achievements and provide seamless uninterrupted coverage islandwide, which would link the current coverage in major towns and highways with more rural areas and the North and East of Sri Lanka. Mobitel will continue to roll out new services and innovations in keeping with the technology leadership position established by the Company while ensuring the financial stability and prospects of the Company are optimised.



SLT-IDC is a novel approach pioneered by SLT, which provide solutions to corporate customers to store and maintain their business systems, applications and data while guaranteeing the highest levels of confidentiality.

Data & IP

Telecom City, launched in early 2004, is pioneering initiative that seeks to make the best use of communications and information technology. The primary function of Telecom City will be to provide a hub for state-of-the-art call centres.

SLTData: Mining an Untapped Market

The demand for data services is likely to grow phenomenally in the next few years. Internet accessibility is growing and its potential to facilitate the exchange of information and commerce has barely been tapped. SLT is spreading its wings into the non-voice sector with great anticipation. The market is largely untapped and the revenue potential is huge.

SLT is exploring a variety of new technologies through its fibre optic infrastructure to provide IP-based services such as ADSL, IP-VPN and Internet Data Centres. These new services are aimed at the high usage residential and corporate customers and will increase our network utilisation.

SLT provides domestic leased circuits under the name of SLTData. It offers data circuits of capacities ranging from 64 kbps up to 2 Mbps and also multiples of 2 Mbps. Our services include domestic and International Private Leased Circuits (IPLCs), Frame Relay (FR) circuits, Internet Leased Lines (ILLs), Direct Inward Dialling (DID) and Direct Outward Dialling (DOD) connections. Customers include mobile operators, data service operators, Internet Service Providers (ISPs), software developers, banks and other large institutions. At the end of 2003 we had approximately 3,500 data service customers.

IP-VPN: Integrating Voice, Video and Data

Virtual Private Networks (VPNs) have emerged as a modern solution for meeting the challenge of integrating data, voice and video traffic in an easily manageable, scalable, and flexible network. VPNs provide economical, efficient and secure solutions for modern businesses.

It is to meet this challenge that SLT launched its IP-VPN service in 2003. SLT has built a Managed Private Leased Circuit (MPLC) based IP-VPN network covering almost all commercial locations in the Western Province (including Katunayake and Kandy). SLT now offers IP-VPN services to virtually any location within Sri Lanka by providing access through leased lines, frame relay or Digital Subscriber Lines (DSL).

IP-VPN was launched commercially in September 2003. SLT plans to expand the IP backbone geographically within Sri Lanka and to extend its IP-VPN services globally while improving the value added services it provides.

The Managed Private Leased Circuit (MPLC) protocol has emerged as the preferred protocol. It combines the security and performance of Frame Relay Services with the flexibility and cost-effectiveness of IP.

SLT-iDC: Hosting and Managing Data Securely

In December 2003 SLT soft launched its state-of-the-art Internet Data Centre (iDC). SLT-iDC is a novel approach pioneered by SLT, which provides a comprehensive facility to house, host and manage data for business customers. The centre is on par with similar centres in other parts of the world and is housed at the SLT Headquarters in Colombo.

Many business enterprises are outsourcing their in-house data management facilities to dedicated Data Centres. Maintaining a Data Centre within an enterprise can be a costly exercise and it makes financial sense to outsource such a function to a dedicated centre so long as security can be guaranteed. It is this market that SLT-iDC hopes to tap.

SLT-iDC will provide solutions to corporate customers to store and maintain their business systems, applications and data while guaranteeing the highest levels of confidentiality. iDC commence commercial operations in January 2004.



SLT provides simple dial-up, dedicated to broadband Internet services through its Internet Service Provider (ISP) SLTNet.

Internet

The Wi-Fi Internet Zone at the Bandaranaike International Airport enables both the business and the leisure traveller to keep in touch with office and home, and to surf the net for information and entertainment while waiting to board their aircraft.

*Our Internet customer base
has been growing since it was
launched in 1996.*



*SLT launched a Wi-Fi Internet Zone at the
Bandaranaike International Airport*

Growing like no other

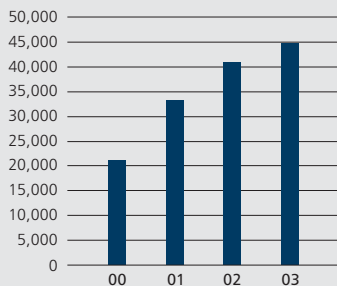
Internet is an extremely valuable tool for both individuals and businesses to access and share the global resource of information in a cost effective manner. SLTNet, the largest Internet service provider in Sri Lanka caters for the entire community in the island, residential or corporate, irrespective of the needs by offering the best packages to suit each individual's need.

SLT provides simple dial-up, dedicated to broadband Internet services through its Internet Service Provider (ISP) SLTNet. SLT has points-of-presence (POPs) across the country and this allows our subscribers to access the Internet for the cost of a local call through a single number (150). SLT's unmatched backbone bandwidth of 90 Mbps is of superior quality.

SLT currently offers Internet leased lines at 64 kbps, 512 kbps and 2 Mbps, mail server services, web and Domain Name Server (DNS) hosting are other value added products for business customers. SLT also provides Internet services to most of the other Internet Service Providers (ISP).

Our Internet customer base has been growing since it was launched in 1996. In 2000 our service was re-launched as SLTNet in pursuing a strategy based on competitive pricing, quality of service and access speed. As part of the re-launch, rates were lowered and a help desk was established. At the end of 2003 SLT had 44,731 Internet dial-up customers which represent over 50% of the market.

SLT Internet Dial-up Customer Base



SLT launched a Internet prepaid card to tap the unsubscribed dial-up market. The Internet Prepaid Card is a prepaid calling card that lets the user to surf the Internet 24 hours a day with comfort of flat rates per minute while avoiding the many hassles in application, activation and monthly billings. It is ideal for travellers and those who want to have a feel of service/quality before taking-up a permanent account. Prepaid card has had an extremely good response and at the end of 2003 over 100,000 cards were sold.

High Speed ADSL launched

An Asymmetric Digital Subscriber Line (ADSL) service was launched in July 2003. In just five and a half months our customer base has reached 2,800.

ADSL has boomed because of the huge benefits it offers to customers. ADSL offers speeds of 512 kbps and 2 Mbps, a giant leap from the ISDN speeds of 128 kbps. The ‘always on’ connection allows business and home users to be constantly in contact with customers, suppliers, friends and family. Access to the Internet, phone and fax are provided on the same line and therefore increases the productivity. In addition un-metered Internet access makes budgeting easier. Customers do not pay additional telephone charges but only a monthly rental.

Adding more Value Added Services

Internet customers are now provided with an E fax service enabling them to direct their mails to fax. Internet Roaming was introduced in 2000 and this created an interest particularly among those customers who travel frequently. It enables them to use their Internet account while travelling. The Roaming Service is now available in 150 countries through 15,000 ISP POPs. Web Hosting, Domain Name Server (DNS)

Hosting and Top Level Domain Name Registrations are some of the other services our customers have access to.

SLT has been progressively increasing its value added Internet services. SLT has also been winning over major broadcasters for web-casting services (video streaming) as a result of the superior quality it has been able to offer over other competitors. This includes on-line and on-demand video with rate adaptation based on an access mechanism.

Wi-Fi Zone launched at BIA

In October 2003 SLT launched a Wi-Fi Internet Zone at the Bandaranaike International Airport (BIA). The Wi-Fi (Wireless Fidelity) Internet Zone, popularly known as the Wi-Fi Hotspot, is a wireless high speed broadband network that caters to travellers using BIA.

It enables those with a laptop (with a Wi-Fi enabled PC card) or a hand held device (with a Wireless Local Area Network (WLAN) adapter) to access the Internet and surf the web at speeds of up to 11 Mbps. It is easy to access and does not require a waiting period. The Wi-Fi Hotspot can be accessed with a SLT prepaid Internet Card which is sold at a number of shops in the BIA airport.

The Wi-Fi Internet Zone enables both the business traveller and the leisure traveller to keep in touch with office and home, and to surf the net for information and entertainment while waiting to board their aircraft. SLT plans to introduce Wi-Fi zones at other public places including hotels and shops.

Internet Rates Revised

In a bid to make the 'net' more accessible, SLT revised its Internet tariff structure in 2003. It did this by increasing the call unit duration for SLTNet internet access on '150'. During peak hours the seconds per call unit will be 120 and during the economy hours the seconds per call unit will be 360. The discounted time is 540 seconds per unit. The recent tariff rebalance exercise helped this.

Expanding and Strengthening Our Network

Expanding our access network, core network and Border Gateway is essential to improve the performance and reliability of all Internet related services. Our network components are monitored on a 24 hour basis by the Network Operations Centre (NOC).

We will constantly strengthen our security by strengthening and restructuring our network architecture. SLT's IP Backbone will also be strengthened. SLT's network is currently connected to Global Tier - 1 uplink providers UUNET and NTT/Verio at a capacity of 45 Mbps each. We hope to upgrade this capacity in the next phase to 155 Mbps.



Passport Card was launched to offer consumers a unique international calling package. Its impact exceeded all expectations. The element of success is the high voice quality that the product offers.

International

The Sigiri Calling Card allows consumers in many parts of the world to call Sri Lanka at rates that are among the lowest in those countries. The Card now accounts for nearly 35% of the international voice traffic into Sri Lanka on the SLT network

SLT continues to control international traffic a year after liberalisation.



Signing of agreement on the construction of a new SEA-ME-WE IV submarine cable



Talaimannar Tower

Dominating International Traffic

Sri Lanka offers IDD Services to 226 countries. This is done through bilateral agreements with some 80 telecom operators in 50 countries around the world. Relationships with some of these telecom operators are more than 100 years old.

In these six years SLT has considerably strengthened its international network with a view to enhancing its global connectivity and international traffic routes. Its current network consists of three gateway exchanges, two cable landing stations, three satellite earth stations and one mobile earth station. This network is supplemented by the access that SLT has to two submarine cables: SEA-ME-WE II and SEA-ME-WE III.

Also in 2002 SLT signed an agreement with Bharti Telesonic of India, a leading mobile operator in India in a bid to strengthen traffic between the two countries. Interconnection will be provided through SEA-ME-WE III and Network i2i in Singapore.

The Company's international operations will be strengthened by the establishment of points of presence outside Sri Lanka to offer termination, hubbing and transit services to overseas telecommunications service providers.

Partnering a Optical Fibre Submarine Cable

In 2002 SLT entered into an agreement with international operators to collaborate on the construction of a new SEA-ME-WE IV submarine cable. SLT hosted SEA-ME-WE IV management meetings in Decemeber 2003 in Sri Lanka and SLT signed the multiparty agreement with 16 international partners to the next generation submarine cabling system for high speed data communication which is expected go into operation in 2005.

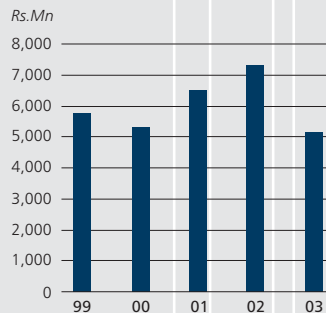
A fresh Challenge from the New EGOs

Thirty two External Gateway Operator (EGO) licences were issued in 2003. This is a further phase in the process of deregulation. However, only a few of these are currently in operation. As a consequence international calling rate were reduced drastically. Revenue from international outgoing calls dropped immediately. We are proud to note though that this was only temporary and in a matter of 9 months revenue levels stabilised through an aggressive marketing campaigns. Although rates have come down, volume has increased progressively and that has helped stabilise revenue levels in the medium term. SLT continues to control international traffic a year after liberalisation.

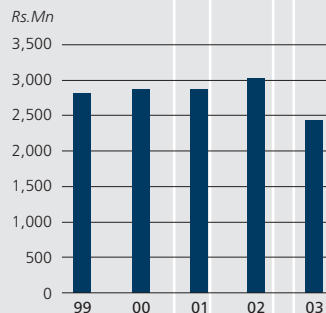
In today's competitive market one has to be proactive and dynamic to survive. We cannot rest on our

achievements of the past few years but need to constantly look for new business opportunities. The international calling market is a growing one and shows lots of potential. Steady economic growth is likely to help expand this market to its full potential.

International Revenue - Incoming



International Revenue - Outgoing



SLT's Passport Card: Exceeding all Expectations

SLT regenerated its Passport Card in June 2003 with an intense marketing campaign. This was launched to offer consumers a unique international calling package and stimulate international traffic. Its impact has exceeded all expectations and SLT has been hard pressed to meet the demand.

A unique feature of the Passport card is that an IDD facility is not needed. Any phone will do. Pre paid calling cards allows a good credit control and permits consumers to regulate their calling time precisely. This flexibility has attracted a large number of customers.

The success of the Passport Card is also linked to the high voice quality that the product offers, in comparison to other cards and the value for money that comes with it. The voice quality is on par with the conventional IDD calls. There are no hidden costs and you get what you pay for.

In addition to the Passport Card, SLT also introduced an 'Extra Time' Card to respond to the needs of cost conscious customers. It 'out' competes other inferior cards on the market by providing better voice quality at better price.

Heights unknown: The Sigiri Card

Like the Passport Card, the Sigiri Card has also exceeded all expectations. The Sigiri Calling Card allows consumers in Australia, Canada, Denmark, France, Germany, Holland, Italy, Norway, Sweden, Switzerland and the United Kingdom to call Sri Lanka at rates that are among the lowest in those countries.

The Sigiri Card was a direct and 'front end action' marketing strategy that went aggressively to those markets where traffic was originating.

Because we offered a 'state-of-the-art' 'value for money' product the Sigiriya Card has had exceptional success. Like the Passport Card the voice quality is exceptional and compares with any other international calling cards. The Sigiri Card now accounts for nearly 35% of the international voice traffic into Sri Lanka on the SLT network.

The product also allows calls within the group of 11 countries. Thus it is possible for a Sri Lankan based in the United Kingdom to call his family in Canada. However, the rates are not as competitive as the rates from any of these countries to Sri Lanka.

Reviving the Rameshwaran - Talaimannar Microwave Link

The radio communication link between Rameswaran and Talaimannar was first established in 1981 and was instrumental in facilitating telecommunication links between India and Sri Lanka during the eighties. The link was operational till the late eighties.

In 2003 the microwave link was re-commissioned as a result of an agreement SLT signed with BSNL (Bharat Sanchar Nigam Limited). The microwave link will automatically connect to Madurai and Colombo through separate Rameshwaran - Madurai links and Talaimannar - Colombo links.

BSNL is the seventh largest telecommunications company in the world and has a customer base of 43 million. The link will facilitate traffic between the two countries and make Sri Lanka a hub in South Asia for international traffic. As a result of the link SLT will be able to offer attractive rates for Indian telecommunications traffic generated by BSNL. In addition to better rates the link will provide better quality and bigger bandwidth.

Social Impact Report

- » A Richer Community
- » Visionary Company
- » Contented Shareholders
- » Motivated Employees

For the first time this year Sri Lanka Telecom has included a Social Impact Report. As the one of the largest companies in Sri Lanka, we realize that our business activities have an impact that has a wide sweep. While business entities have usually reported to their shareholders we realise that in today's world this is not sufficient. Modern corporates now impact on a variety of other stakeholders and not just their shareholders. That is why we have considered it important to report on the broader impact our activities have been having on our employees, their families, the community and the physical environment.

We also realise that SLT is in a unique position in today's corporate world. As the leading provider of fixed and wireless communications services, and with the largest network, by far, of fixed line subscribers, we have a responsibility that surpasses most modern companies our size.

Business activities are so closely linked to the communities in which we function. Communities that respect us will necessarily develop close links with us. There is a strong connection between corporate profitability and community respect. To earn this community respect we know that we must treat our customers, our employees, their families, members of the public and our shareholders with dignity and respect. While we seek to enhance our profitability we must do this in a way that fosters and nourishes the community, our employees and the physical environment. We need profits that are sustainable and are equitable.

Modern corporate citizenship demands that all enterprises seek to enhance the common good. At SLT while we focus on that we are also conscious of our role in enhancing the social wealth of the entire society. We are conscious of the role we play as the major provider of voice and data communications in this country and our proud of the position we occupy.



We carry customers from all walks of life.



SLT's consolidated call centre



Meeting the Fund Managers

Our Customers

One of our primary responsibilities is to our customers. We are proud that we carry customers from all walks of life. Very few companies across the globe could boast of a customer profile of the sort that SLT has. We know that this is a legacy of state control and state monopoly of telecommunications. But it is a legacy that we are proud to carry, a mantle we are proud to wear.

As a result we are committed to treating every customer with equal respect and concern. It is only through such a policy that we can further broaden our customer network and earn their loyalty and respect. We know that customer loyalty and respect has a direct bearing on the sustainability of the enterprise as a profitable entity and we will do all that we can to nourish this. We will continue with our transformation into a customer-oriented enterprise that provides customers with a consistent and high quality service.

The New Call Centre: A Solution Oriented Initiative

In 2003 we laid the foundation for a modern customer centric call centre to respond to a myriad of queries that SLT's wide range of customers have. SLT's 'Operator Service' which originally formed the backbone of the telephone service and was established to assist the customer to make calls, has been transformed into a state-of-the-art customer focused problem solving centre.

Previously, customers had to dial a variety of numbers to find answers to the different problems they had. Billing complaints, faults, alarm calls, assisted international and trunk calls, telegrams, all had different telephone numbers and prescribed staff to respond to these queries.

SLT has now consolidated this into a single call centre and trained staff to respond to a variety of queries or if they are unable to do so, to transfer the call to someone who can respond. Customers now need to dial any of the numbers and could get a response to a variety of queries through this single call. The focus of this change has been to provide a service that is truly customer centred and solution oriented. Waiting time is reduced and a variety of queries could be answered in a single call. Customers with queries and complaints need a quick, coherent and intelligent response. This is what the customer centric call centre aims to provide.

SLT's call centre staff has been re-trained to respond in this manner and will receive continuous training. The training has focused among other things on, managing customer relations, product thoroughness, courtesy, consistency in communication, language proficiency and projecting the SLT image. The emphasis has been to empower SLT staff to respond efficiently and courteously. Where previously there was a division between staff in relation to 'voice' and 'non-voice' products, now this has changed. All

staff can respond to the full range of products and it is only if specialised assistance is needed that the call is transferred to a special help desk.

Rainbow Pages: Creating a New Brand

For the second year in succession SLT delivered its telephone directory without outside assistance. We are in the process of creating a new brand: the Rainbow Pages.

Last year the entire consignment of more than 500,000 copies of the Greater Colombo Directory were printed within Sri Lanka. Fifty per cent of the provincial directory was printed locally while the balance was printed by NTT Quaris Corporation (a subsidiary of NTT Directory Services)

Our Teleshops continue to Grow

Our teleshops have revolutionised telecommunications marketing in this country. Our first four teleshops were opened in 1997 and another 21 have been established since then. With the islandwide distribution network in place the customers can enjoy the benefit it provides throughout the island.

These teleshops are one-stop centres and perform a variety of functions. Customers may pay their bills, lodge a complaint, register for a new telephone or invest in a range of new equipment, in a customer friendly environment. The goal has been to create a customer friendly environment at a single location and provide a wide range of services at one spot.

Weaving IT Systems into a Consolidated Arrangement

SLT is progressively improving its IT infrastructure through the enhanced use of computerised information systems. Currently finance functions, human resources administration, procurement and inventory management, billing, fault reporting and new connection management operate on separate systems. Our plan is have an integrated system for these functions which would ensure greater accuracy and more efficiency. Our new billing system is the first step in this process. The headquarters and all regional offices are linked by Intranet. Each division maintains a web page and dissemination of information among the different offices and departments has increased significantly.

Online Shopping Online Assistance

SLT Homepage, www.slt.lk is designed to provide up-to-date information to customers on the products and services we offer. The benefits and the costs of each product are found on the website. The website will soon be upgraded to incorporate several new features.

An Online eTeleshop caters to the needs of customers who wish to buy products through the web. Our user friendly Online Directory enables customers to find telephone numbers with ease. In the near future SLT will launch e Rainbow, the Classified Directory Section, online.

Average visits per month	45,044
Average visits per day	1453
Average visits per hour	60

Our Shareholders

Shareholders are the essence of the companies. It is their money that fuels the Company and provides growth and services to the larger society. Our primary responsibility to them is to enhance their shareholder value. But it is not shareholder value at any cost but value with responsibility and profits with sustainability. Part of our responsibility to our shareholders is to create a vision, an infrastructure and a human resource base that will make the Company a truly competitive organisation that will lead from the front in the area of communications.

At Rs. 52,341 million, we are now the largest company in terms of market capitalisation in the Colombo Stock Exchange. The SLT share reached a high of Rs. 30.00 in October 2003 before stabilising at Rs. 18.00 in December 2003. Earnings per share grew from Rs. 0.12 in 2000 to reach an all time high of Rs. 1.25 in 2003.

Investor Care: A New Frontier in Shareholder Relations

SLT recently set up an Investor Relations Division the main task of which is to communicate with our shareholders and address their concerns. In 2003 we launched a plush quarterly newsletter 'Investor' which is available both in PDF format

on our website and is also issued as a hard copy to all stakeholders. The newsletter presents in a concise and easily digestible form, the main events at SLT during the previous quarter.

The SLT website has a separate section, Investor Relations that addresses investors concerns specifically. It contains the Annual Reports in PDF and HTML formats and the daily share price. Trading details are updated periodically and investors may register to receive daily newsletters on the performance of the share and other relevant company information. Trading history is also available on the website for those investors who want plot the performance of the share over a period of time.

Constant Dialogue with Fund Managers

Last year SLT met the country's leading fund managers. The objective of the meeting was to share with the fund managers information on SLT's performance and business potential. The financial position of the Company and SLT's strategy over the medium to long were also discussed. Events since privatisation, the security of the investment and the potential returns on investments were other issues that were taken up.

Marketing SLT at the Investor Forum

SLT participated at the CLSA Investor Forum 2003 held in Hong Kong, held over five days. One thousand institutional investors from

29 countries attended presentations and investor meetings hosted by 430 corporates. The event provides a unique opportunity for telecom executives to meet potential investors and dialogue with them on their company's investment potential.

Our Employees

Employees are the nerve centre of the Company. It is they who translate the vision into reality and convert the business plan into profitability. It is they who take the intangible and make it tangible. They are the public face of the Company. We recognise that our greatest resource continues to be our employees. We are committed to provide a friendly working environment to encourage their personal involvement and development.

SLT is committed to providing a work life that is rewarding and satisfying, not just in the short term but in the medium and long term too. We realise that employee motivation is the key to corporate success and the key to motivation is employee satisfaction at the workplace.

Learning: A Part of Our Corporate Lifestyle

A job in the Company should not be a mere source employment, but a career and part of a lifestyle. Providing opportunities for employees to develop their skills, further their career aspirations, enhance their knowledge and develop their minds is a major aspect of a company's responsibilities to its employees.

Over the past few years our human resource training policy focused on customer orientation; team building; interpersonal cooperation; workplace cooperation; IT skills; communication skills; productivity improvement and attitude development.

Our training schemes have been broadened to include all levels of level management and technical staff. Where our in-house training capacities are insufficient, we use external consultants. The major focus of these initiatives exercise will be to trigger initiative and to reward dynamism and creativity.

A number of other measures have been implemented to ensure that SLT's work culture is more performance and profit driven. Apart from new training programmes, annual performance appraisals and Japanese productivity improvement measures such as 'Kaizen' and '5S' have also been integrated.

Promotions are now based on competitive examinations, which have created a culture of learning in the organisation. Another strategic concern at SLT is with regard to our recruitment procedures. In the future the recruitment of personnel will be strictly a 'needs based' exercise. We have also focused on re-training employees to meet new tasks and to fit new job profiles. To us as at SLT learning is a continuous process and this is another value we are trying ingrain.

Developing a 'Win-Win' Work Ethic

Several employee involvement programmes have been initiated. This included a collaborative management programme sponsored by the International Labour Organisation. As a result local and regional discussion groups between management and the staff have been set up to encourage participatory management and to resolve conflicts through dialogue and negotiation. This has created an entirely new work ethic in the organisation based on mutual understanding and cooperation and has created win-win situations for both management and employees.

A Commonwealth Telecommunications Organisation (CTO) Telecommunications Business Solutions (TBS) workshop was held in October supported by SLT. Representatives from ten countries in the Asia Pacific region attended the workshop. TBS was designed as a training and learning experience for managers in the telecommunications business. The focus of the programme was to educate telecom managers on how to respond to market liberalisation and to explore different models of organisational restructuring. Relationship building between regulators and operators through scenario building exercises also figured in the programme.

Responding to Human Resource Conflict in the Field

In 2003 SLT launched its Human Resource Mobile Service. This service was launched to better understand human resource related problems at

the Company's regional locations. A particular focus was on issues pertaining to Management, Development and Welfare. These mobile 'clinics' enabled the human resource staff to engage with other staff on a variety of issues and offered an efficient problem solving forum for those employees in the field. The first 'clinic' was held at the Kurunegala Regional Office and others have been conducted at regional centres around the country during the course of the year.

Bidding Farewell

In 2003 SLT implemented a comprehensive Voluntary Retirement Scheme (VRS). Awareness programmes were held throughout the country to educate the employees prior to implementing the scheme. 1,116 employees, took advantage of this voluntary scheme. Outgoing employees obtained a package of between Rs. 150,000/- and Rs. 1,100,000/- under this scheme. It was oversubscribed.

SLT organised a series of valedictory functions to bid farewell and hand over terminal benefits and service certificates. Several programmes were arranged in various provinces to enable employees in the regions to attend these functions. The cheques of the VRS package as well as the cheques relating to EPF and gratuity were presented at these functions attended by immediate family members of the retirees. The Company will bear the cost of tax on the VRS package, if any. In addition,

a rental free residential phone will be made available till the age of 55.

Counselling and other investment support was provided to those who took advantage of the VRS. Several seminars were held for the retirees to enlighten them on their future career prospects. As a further incentive SLT opened a counseling desk called the 'VRS Watch' that will function for three years and monitor the projects undertaken by retirees.



A Learning Experience - Telecommunications Business Solutions workshop



Bidding Farewell to VRS retirees

Our Community

Corporate entities must build healthy relationships with the communities in which they function. A healthy and content community can only boost the corporate image and contribute directly to a company's bottom line.

A company's relationship with the community depends on the products it markets and on whether the community perceives that it is getting value for money. It is also dependent on what the Company puts back into the community on which its profits are built.

At SLT we understand the need to develop strong and healthy links with the broader society. In that respect we initiated a number of programmes to nourish and build strong urban and rural societies.

The 'Books for Asia' Programme: Spreading Knowledge and Stimulating Curiosity

SLT and the Asia Foundation are working together to enhance child, adult and professional education through the provision of educational material on a variety of topics.

Our Books for Asia Programme in collaboration with the Asia Foundation has been based on our philosophy of stimulating curiosity, fostering knowledge and improving literacy levels. In 2003 we partnered the Asia Foundation to support their 'Books for Asia' Programme. SLT entered into an agreement with the Asia Foundation to support the distribution of 100,000 books which will help meet the needs of schools, universities, libraries and local English resource centres. We hope that the books would carry 'more weight'

especially with the re-introduction of English as a medium of instruction.

SLT hope that this partnership will act as a catalyst for other companies to make similar contributions.

Enhancing English Skills

A particular aspect of community care on which we have focused over the past few years has been on developing English Language skills of young people. We are conscious that a command of English can help them in the future.

Last year SLT supported D. S. Senanayake College with their Impromptu English Debating Competition. The Impromptu Competition and SLT Prepared Debating Competition are part of a series of debating competitions conducted by the school. 32 teams from 21 schools took part in the competitions.

Creating Awareness of the Internet

For last 2 years SLT has been associated with the 'Web Spinners Unite' series of seminars. The seminars conducted islandwide focus on the many uses of the Internet and its benefits. The objective is to increase the levels of computer and IT literacy among school children. The Sri Lankan Division of the Chartered Institute of Management Accountants (CIMA) has been SLT's partner in this respect.

The topics discussed ranged from basics to various other aspects of the Net such as eCommerce, eLearning, career guidance on the Internet, and web design for eCommerce.



Helping to distribute 100,000 books



Sharpening English Oratorical skills



Empowering professionalism



Creating Internal Awareness

SLT was also associated in assisting three schools - Devi Balika, Sirimavo Bandaranaike and Anula Viyalaya - to establish their own websites. Through these Internet awareness programmes SLT plans to encourage school children to use the Internet for knowledge acquisition purposes.

**Developing Careers:
Providing New Opportunities**

SLT continued its career development programme in collaboration with four professional bodies to guide young adults, school leavers and higher grade school students on their future career paths.

In a bid to build career awareness among the young population of Jaffna, SLT supported a seminar on the Chartered Institute of Management Accountants (CIMA) professional qualification. This was the ninth of a series of programmes aimed at creating an awareness of different careers among students. The objective was to expose young people to the potential that accountancy, marketing, personal management and administration hold as careers. More than 500 students from six schools in the Jaffna district participated.



Partnering with AAT

In collaboration with Chartered Institute of Management Accountants (CIMA), Chartered Institute of Marketing (CIM), Institute of Personnel Management (IPM) & Institute of Chartered Secretaries & Administrators (ICSA) SLT organised a career development seminar "To be number one" at the BMICH. This programme was aimed to create an awareness among professional education and career development.

SLT will extend this programme island-wide to enable students from all parts of the country who complete their school education to choose a profession.

SLT fully supported the Annual Conference of the e-Club of the University of Moratuwa. The e-Club is the Public Relations arm of the Electronics Department of the University. SLT understands the necessity of bridging the gap between the industry and the academic arena. The e-Club's effort is to showcase their capabilities to their future employers and obtain the feedback from them in order to improve and restructure their academic activities. In this light we give our helping hand to young and future engineering professionals.

In 2003 SLT supported mini Comfest competitions around the country and a National Commerce Festival organised by The Association of Chartered Certified Accountants (ACCA). These events include "Wiz Kid 2003" - a do-you know contest, "Student Bulletin 2003" - a competition involving a team from each school compiling a Commerce magazine on an impromptu basis, "Ad Act" - where a group of students from each school act out an advertisement. The winners would be those who get the message across

best and "Business Talk" - a three-minute speech contest on topics of current interest.

Individuals were awarded prizes while the best school and runner-up were chosen on the basis of aggregate points. There were 15 leading schools participating in this competition from Kandy, Galle, Negombo & Colombo.

**Pushing the Frontiers of
Excellence: Empowering the
Country's Professionals**

SLT's 'Empowering Professionalism' initiative is designed to enable Sri Lankan professionals achieve excellence in their chosen fields. To facilitate this SLT has been supporting a number of activities of Sri Lanka's major professional bodies.

Over 200 professionals from the South Asian region attended the inaugural Networking South Asia (NetSA) meeting held last year. It was organised by South Asia Network Operators Group (SANOG) and Asia Pacific Advanced Network (APAN).

NetSA is a forum that brings together Internet Service Providers (ISPs), Internet related technology providers and corporate networks to share information and exchange ideas. SLT sponsored the opening session and also served as the official Internet supplier for the session. Lasting six days, the programme included workshops, tutorials and SANOG and APAN meetings.

ACCA with over 300,000 members and students located in 160 countries marked its 100th year with special sessions to highlight the important role Risk Management and Corporate Governance plays in the success of an organisation. The seminar was



Networking South Asia



Providing strategic partnership to IPM



Promoting environmental consciousness among the youth



Answering Earth's Call - Mihimadala Exhibition

mainly for corporate and senior executives involved in the two areas.

The annual sessions of the Institute of Personnel Management (IPM) was supported by SLT last year. IPM is the largest professional organisation on human resources in this country. Over 600 professionals from a broad range of corporate entities attended the annual event.

SLT also sponsored the fourth annual sessions of the Chartered Institute of Marketing (CIM) and was the strategic partner to the Association of Accounting Technicians (AAT) for its annual sessions held in August last year. SLT extended its strategic partnership to Institution of Engineers - Sri Lanka's (IESL) 97th International Annual Sessions.

Our Environment

Answering the Earth's Call

The preservation of our natural resources for the next generation has become a top priority not just for those in the environmental movement but for the corporate sector and for the larger public. Natural resources are to be exploited for the benefit of humankind but they should be exploited in a manner that is sustainable and allows for renewal where this is possible. Preserving our physical environment is an important aspect any modern company's strategic plan.

SLT has focused on developing a spirit of environmental consciousness among the country's youth. We will be able to preserve our natural riches for the next generation only if the values of nature conservation and protecting our bio-diversity can be internalised among the younger generation.

SLT has been supporting a number of initiatives in this area with this objective in view.

Last year SLT supported three exhibitions organised by the Young Zoologists' Association (YZA) of Sri Lanka. These were the 12th Annual Photographic Exhibition held at the Alliance Francaise, the 9th Annual Art Exhibition held at the British Council and the Mihimadala Exhibition held at the National Zoo last year.

YZA is a non-government, non-profitable, voluntary youth organisation whose mission is to create a love and concern for nature among young people.

SLT continued with Nature for its popular calendar. Our 2004 calendar chose as its theme 'Earth is calling'. The objective of this calendar project was to take an object that has a daily use and to convert this into a message of environmental preservation. The calendar's visuals and captions project an image of a love for nature and her riches. Last year SLT highlighted Sri Lanka's endemic birds in its calendar, again with the objective of fostering a love for our fauna and flora. SLT homepage hosts e-greeting cards, calendar wallpapers and screensavers developed based on visuals of the calendar.

These initiatives are only a very early part of a broader plan to focus on environmental consciousness. We hope that through efforts of this kind society will forge a healthy and productive relationship with the physical environment: a relationship that will focus on preservation and conservation and on sustainable exploitation. It is a relationship that should focus on 'giving back' as much as 'taking out'.

Corporate Governance

One of the key facets of our social responsibility system is the corporate governance structure. Our system of corporate governance is based on transparency, equity and efficiency focusing on the need for consistent progress of the Company, and with a view to laying a solid foundation for management and oversight.

Although government intervention in the form of prescriptive legislation has not been forthcoming, the Company has endeavoured to build a corporate governance practice based on OECD guidelines, the Code of Best Practice on corporate governance by the Institute of Chartered Accountants of Sri Lanka, and the combined code on Corporate Governance, UK.

The environment in which our Company has to operate today is increasingly international, complex and pressured. Under the circumstances SLT's objective has been to put in place an effective system of checks and balances that govern the relationship between the shareholders and the Board of Directors on the one hand and the executive management and the Board of Directors on the other.

The Board

The Board of Directors consists of one Executive Director who is the CEO and nine Non-Executive Directors. The Board assumes responsibility for the stewardship of SLT and is fully accountable to the shareholders. The profiles of the Directors are given on page 4 and 5 of this Report. Board

responsibilities are discharged directly or through the various committees. There have been eight regular meetings of the Board during 2003.

The Board procedures have been established to deal with matters which often have to be dealt with urgency, often between regular Board meetings. Telephone conference meetings are held in which as many Directors as possible could participate.

Matters reserved for the Board, a precedent to good governance is firmly laid down and closely followed by the Board. All Directors are subject to election by the shareholders at the first Annual General Meeting except CEO and the Chairman, after their appointment, and to re-election thereafter at intervals of no more than three years. The Directors receive accurate, timely and clear information. The Management provides such information and wherever necessary Directors seek clarification or amplification.

The positions of Chairman and CEO are separate providing for greater transparency in decision making. The CEO enjoys a clear remit and specific responsibilities. With a view to allowing flexibility, which is an important need considering the pressured environment the Company has to operate, the Board wherever necessary delegates authority to the CEO.

The Annual Business Plan which includes the capital expenditure budgets are approved by the Board in advance and reviewed periodically for necessary corrective action.

The Board ensures the presentation of balanced and understandable assessment in all interim and other price sensitive and public reports to the regulators as well as information required to be presented in accordance with statutory requirements.

The Board has adopted systems to ensure checks and controls. It also ensures that the requisite technology, systems, procedures, and strategic planning are in place. Considerable care is taken to make sure that proper audit controls, both internal and external are in place and that these are controlled by persons who are independent and competent.

Corporate Management Team

The day-to-day operations are carried out by a Corporate Management Team headed by the Chief Executive Officer. While the Board frames the policy and strategic objectives, autonomy is extended to the Management Team which operates within the broad parameters in accordance with the highest professional standards.

Board Committees

The Remuneration Committee comprises of the Chairman and the CEO who decides on the remuneration of the Senior Management which is performance related.

Investor Relations

The Company maintains a healthy dialogue with major shareholders, analysts and brokers through regular meetings in order to develop an understanding of the views of the major shareholders about the Company.

Competitive State-of-the-Art Customer Focused

SLT's Business Strategy has focused on meeting and beating the competition that has been created by deregulation and liberalisation.

Sri Lanka was the first country in the South Asian region to commence deregulating its telecommunications industry. It now has one of the most liberal regulatory environments in the region. In 2003 the country took another step towards liberalisation when 32 new gateway operators were licensed. Despite the entry of other operators SLT continues to retain its competitive and leading edge. Its financial performance over the past few years is testimony to this.

The Leading and Dominant Provider

SLT continues to lead the field in the telecommunications industry in this country. Approximately 88% of the 900,000 odd fixed line subscribers in this country were using SLT at the end of 2003. Since the Company was privatised in 1997 SLT has added around 500,000 new direct exchange lines (DELS).

Over the past six years we have invested Rs. 52.25 billion in infrastructure and network development. By completely acquiring Mobitel, we are now the only operator to offer integrated fixed and mobile services. Mobitel's conversion to GSM now makes it competitive with

other mobile operators. With the progressive introduction of value added services we anticipate that Mobitel will soon be able to set new standards for mobile telephony in this country.

The next step for SLT, would be to consolidate the Company's stable financial base by repaying loans, maintaining a good gearing ratio and a revenue assured tariff structure. At the end of the day, we need make SLT a gilt edged investment for our shareholders.

Generating New Sources of Revenue

The cornerstone of our strategy over the short to medium term will be to diversify and generate new sources of revenue. Our core business has previously been fixed voice telephony. However, the demands of competition generated by deregulation mean that we can no longer rely exclusively on this to generate our main revenue. We need to diversify the sources of revenue to maintain our competitive edge.

Strategic investments have included investments in mobile telephony, non-voice sector, micro links with an Indian operator and the Telecom City project. SLT is spreading its wings into the non-voice sector by providing IP based services such as ADSL, IP-VPN and Internet Data Centres through its fibre optic infrastructure. The Wireless Local Loop (WLL) technology is another area Company is looking at in terms of investments.

Realising the Revenue Potential of Mobile Telephony

The future expansion and development of Mobitel will be an important part of SLT strategy for the next phase. Over the next few years SLT will focus on transforming Mobitel into a state-of-the-art mobile operator and will actively seek to increase its customer base. According to Central Bank statistics there are close to 1.3 million mobile customers in the country. This compares with the slightly over 900,000 fixed line customers. SLT is aware that the mobile market exhibits huge potential, the surface of which has barely been scratched. We see ourselves as beginning to capture more of this market as we begin to integrate more features and products in the area of mobile telephony.

Becoming a Regional Player

Whilst maintaining a healthy and strong relationship with SLT's longstanding Indian business partner Videsh Sanchar Nigam Limited (VSNL) SLT took a few strategic moves by forging close business relationships with three other major Indian operators in view of becoming a regional player.

In 2002 SLT signed an agreement with Bharti Telesonic of India, a leading mobile operator in India in a bid to strengthen traffic between the two countries. Interconnection will be provided through SEA-ME-WE III and Network i2i in Singapore.

We established links with a major Indian mobile telephone operator, Reliance Infocom. These links will be facilitated with interconnections via SEA-ME-WE III and Flag Cable.

In a bid to enhance our global connectivity we re-commissioned the microwave link between India and Sri Lanka in partnership with Bharat Sanchar Nigam Limited (BSNL).

BSNL is the seventh largest telecommunications company in the world and has a customer base of 43 million. The link will facilitate traffic between the two countries and make Sri Lanka a hub in South Asia for international traffic. As a result of the link SLT will be able to offer attractive rates for Indian telecommunications traffic generated by BSNL. In addition to better rates the link will provide better quality and bigger bandwidth.

Next generation terabit optical fibre submarine cable, SEA-ME-WE 4 project is on course and is expected to be commissioned in 2005, which would immensely enhance SLT's potential and capabilities as a regional player.

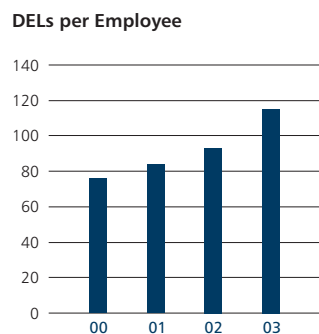
Rightsizing and Enhancing Productivity

In 2003, a comprehensive VRS package introduced last year was part of SLT's restructuring plans to improve productivity and create better efficiencies within the organisation. The scheme will help the Company to rightsize and to re-engineer its work

force based on actual demand. Enhancing productivity and maintaining quality can strengthen employee relationships and provide a more prosperous future for both the Company and the country. The employees were educated of the scheme through a series of awareness programmes. 1,116 employees, which accounts for 13.5% of the staff, took advantage of this voluntary scheme. Outgoing employees obtained a package of between Rs. 150,000/- and Rs. 1,100,000/- under this scheme.

The average age of the staff, which was 43 years before the VRS, has plummeted enabling SLT to keep the right blend of the age of its staff. The right blend and higher skill levels of staff are absolute necessities in an era where the Company is facing stiff competition from other providers.

International telecom industry standards recommend a high ratio of Direct Exchange Lines (DEL) per employee. As a result of the VRS, the DEL per employee ratio increased by 15%: moving to 115, from 38 in 1996.



The VRS package cost SLT Rs. 710 million. We hope to recover this sum in two years. Our Outside Plant Maintenance Centres (OPMCs) and other strategies such as outsourcing will help SLT bridge the gaps created by the VRS in the short term.

Next Generation Infrastructure

SLT will continue to invest to enhance its optical fibre capabilities in its transmission network which would provide the Company with a high level competitive edge. SLT's transmission network is equipped with high capacity state-of-the-art optical fibre technology including the 700 km Inter Province Optical Fibre Transmission Central Ring and the Colombo Ring. A 325 km Southern Ring will be implemented soon and subsequently the 564 km Northern Ring. A 583 km Eastern Ring too is in the pipeline.

Telecom City: One-Stop Shop, Better Connectivity, Fuller Bandwidth

Telecom City, launched in early 2004, is pioneering initiative that seeks to make the best use of communications and information technology. The primary function of Telecom City will be to provide a hub for state-of-the-art call centres. This it will do by providing better connectivity and enhanced bandwidth, to increase speed, reduce cost and boost efficiencies all round.

Telecom City will also support the Sri Lanka's ICT initiatives by providing the necessary infrastructure, connectivity learning facilities and technology. The objective is to build an entire city dedicated to telecom and IT and the new technologies that both these provide. It will be a one stop shop for ICT and place Sri Lanka on the global map of connectivity and communications.

Telecom City will house a combination of IT and communication-based entities such as call centres, data storage and back up services (disaster recovery), IT outsourcing services for research and training, and communication hubs. It will also provide an attractive location for vendors to set up sales and service centres.

Telecom City, to be developed on a 66 acre site, will be developed in three phases with the first phase focused on developing the infrastructure for state-of-the-art call centres. Sri Lanka's human resource base, 'unaccented' English and learning capabilities make it a rich base for call centres.

The next two phases will encompass data storage, management services, communications hubs and vendor businesses supported by SLT's technology infrastructure with its large capacity, bandwidth and security.

NTT continues to Add Value

Although the Management Agreement with NTT Communications Corporation of Japan ended in August 2002, NTT nominees continue to sit on the Board and provide strategic direction to the Company. Over the past seven years NTT has provided advice and expertise in a number of areas: network design, service platforms and information technology. It has also assisted in strengthening operating and financial reporting systems and controls.

Our partnership with NTT has converted the Company from lethargic state entity to a truly modern service provider, able to compete with the best in the world. From a top heavy and loosely focused organisation SLT has metamorphosed into customer driven, technologically innovative and lean entity. The partnership began in 1997 when NTT bought a 35% per stake in the Company. This was followed by a management agreement through which NTT agreed to provide management advice and training to SLT. The NTT's stake was subsequently transferred to NTT Communications Corporation.

The proposed Lanka Bell Acquisition: Fixed Line Telephony at Lower Cost

In October 2003 SLT signed a due diligence agreement with Lanka Bell. The agreement will result in a comprehensive valuation of Lanka Bell as a prelude to a complete

acquisition of the Company by SLT. As we have noted elsewhere in this report SLT is committed to providing fixed line telephones to Sri Lankans scattered all over the country, including in the most remote areas. However, the competition generated by deregulation means that we should be able to provide a cost effective connection.

Wireless technology such as that used by Lanka Bell is one option. It is to explore the use of wireless technology as a cost effective option that SLT proposes to acquire Lanka Bell and to ensure that it will continue to dominate the fixed line telephony market. Not only is wireless technology cost effective, it also permits speedy installation. We hope that both these features will give ensure that SLT retains its competitive edge.

Financial Review

Introduction

From a financial point of view 2003 was a challenging year for SLT. The shares of SLT were listed on the Colombo Stock Exchange (CSE) following the Initial Public Offering in the latter part of 2002. Trading commenced on 14 January 2003 since then SLT share has been the most liquid share on the CSE. It has been the highest market capitalised company on the CSE for most of the time.

With the full liberalisation of the telecommunications market of Sri Lanka 32 External Gateway licences were issued during the year. As a result international telephony services have been under tremendous pressure. International Direct Dialling rates had to be shed significantly whereas the international settlement rates were also pruned down. Rebalancing of these revenue losses was rather late as the Telecommunications Regulatory Commission approved the fifth tariff revision effective from September 2003.

SLT was also affected by the inconsistent fiscal policies of the government. In the budget of 2003 the Investment Tax Allowances were abolished with effect from 2005 depriving SLT of a large amount of tax benefits, which would have been accrued.

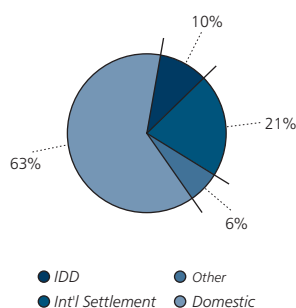
Financial Statements at a Glance - Company (Rs. million)

	2003				2002
	1st Qtr. 3 months	2nd Qtr. 6 months	3rd Qtr. 9 months	4th Qtr. 12 months	12 months
Turnover	6,177	12,228	18,385	24,477	25,207
EBITDA (after VRS)	3,643	6,762	10,368	13,743	15,497
Earnings B. Int & Tax	1,687	2,810	4,426	5,756	7,939
Earnings A. Int & Tax	768	1,007	1,841	2,383	2,681
Shareholders' Funds	39,202	39,170	40,113	30,790	29,080
Total Assets	74,650	72,475	71,892	68,827	73,872

Revenue

The major contributors to the revenue of the Company in 2003 were domestic revenue 63%, IDD 10% and international in-payments 21%. The total turnover of the Company show a marginal decline in 2003 compared to 2002.

Composition of Revenue



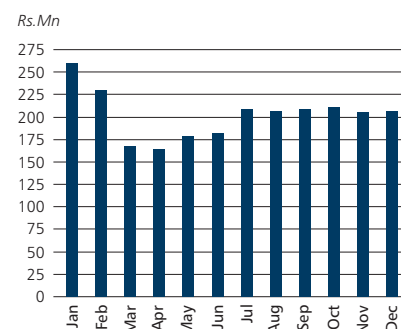
The IDD rates were significantly reduced in March 2003 following the liberalisation of telecommunications services. This caused an immediate reduction in IDD revenue. But, IDD volumes increased tremendously so that even at lower rates the IDD revenue levels reached almost the same levels prevailed prior to the reduction of rates.

International settlement rates were also reduced significantly causing a drop in 'international in-payment' revenue compared to the previous year.

The comparative reduction was 30% from the previous year amounting to Rs. 2.1 billion. A further reduction of revenue was prevented by the timely strategies implemented by SLT to secure traffic volumes.

Though a tariff rebalancing activity through an increase in local tariffs was due, the regulator approved that only in September 2003. Accordingly the local tariff increase, which was effective only during the last quarter of 2003, was not sufficient to cover the revenue loss in International telephony.

IDD Revenue



With the consolidation of full year revenue of the fully owned subsidiary Mobitel the Group revenue was almost in line with the previous year. The contribution of revenue to the Group by Mobitel during the year after eliminating inter-company transactions was Rs. 1,124 million.

Operating Costs

The operating costs of the Company including cost of VRS were Rs. 10,734 million (previous year Rs. 9,710 million) and the depreciation cost was Rs. 7,987 million (previous year Rs. 7,558 million). The cost consciousness and improved productivity of SLT employees in day-to-day operations contributed to control the costs. The operating costs of the Company increased only by 10% compared to the previous year. Increase in employee costs by Rs. 330 million mainly reflects the increments and higher bonuses.

During the year Company successfully launched a voluntary retirement scheme where the cost was Rs. 710 million. This was the main reason for the increase in total costs.

Increase of Rs. 605 million in payments to other network operators (international) is a reflection of increase in IDD volumes. The increase was however controlled to a certain extent by effectively negotiating the termination rates with overseas carriers.

Consequent to consolidating the results of Mobitel for the full year, Group operating costs were 11% higher than the previous year.

Finance Costs

Interest costs of the Company were reduced mainly due to reduction in loan capital. Interest on borrowings was Rs. 2,193 million during the year, which is 22% less than the previous year. However due to settlement of loans denominated in foreign currency, an amount of Rs. 609 million of exchange losses was realised under the treatment of cash flow hedge accounting.

Cash Flow Hedge

Transfer to hedge reserve in 2003 was Rs. 208 million compared to Rs. 829 million in the previous year. The reduction was partly due to reduction in foreign currency denominated loans. Another factor was the stability of Sri Lanka Rupee against the United States Dollar.

Rs. 609 million was charged back to Income Statement as realised exchange losses. The figure in the previous year was Rs. 571 million. The increase of this amount is due to two factors. One is the higher amount of loans settled during the year. The other is that the amount charged to Income Statement consists of unrealised exchange losses over the past two years whereas the previous year amount consisted of unrealised exchange losses of only one past year as this treatment was commenced only in 2001.

As a result the hedge reserve decreased only by Rs. 401 million during the year.

Taxation

The Company is not liable to pay tax in respect of 2003 due to brought forward losses. The tax charge in the Income Statement represents the deferred taxes provided in terms of the Sri Lanka Accounting Standards. The corporate tax rate applicable in computation of these deferred taxes was 30%.

Previous year tax charge included adjustment of deferred tax assets due to reduction in tax rates affected in that year. This was one reason to the comparative reduction of tax charge during the year. The reduced profits and lower tax rate of 30% (previous year 35%) also contributed to lower amount

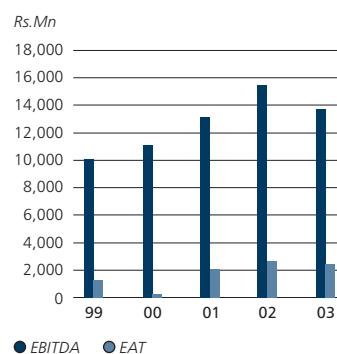
of tax charge in 2003 compared to the previous year.

In the budget of the government in 2003, the tax benefits arising from brought forward investment tax allowances were abolished with effect from 2005. Accordingly, SLT will not be able to make use of brought forward investment tax allowances amounting to Rs. 39,000 million relating to the heavy investments made in the period between 1998 and 2000. As a result Rs. 9,849 million representing the unclaimable balance of the related tax asset, which was recognised at the time of those investments had to be reversed during 2003. This reversal was affected through the Statement of Changes in Equity.

Profitability

Earnings before interest, tax, depreciation and amortisation (EBITDA) were Rs. 14,453 million prior to deducting the cost of VRS. This is 7% lower than the previous year. The reduction is mainly due to the reduction in revenue and increase in operating costs. Depreciation has increased compared to the previous year because of the incremental capital expenditure. Consequently earnings before interest and tax after deducting cost of VRS is Rs. 5,756 million, which is 27% below the previous year.

EBITDA/EAT



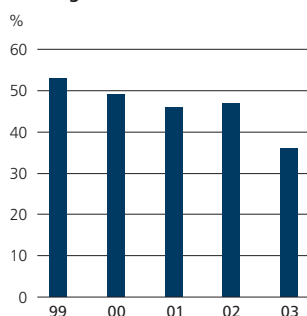
However, this deficit was eliminated to a large extent by the reduction in finance costs and taxation. Accordingly, the final earnings after tax was Rs. 2,383 million, only Rs. 298 million less than the previous year. Prior to deducting the cost of VRS (net of tax effect), earnings after tax would have been Rs. 2,880 million, which in effect an increase of 7% compared to the previous year.

Rs. 78 million of 'goodwill on consolidation' was amortised in the Group Income Statement. The losses incurred by the subsidiaries were Rs. 56 million and have been included in arriving at the Group profit.

Capital Structure

SLT continued its strategy of reducing the gearing levels of the Company through settlement of borrowings. Borrowings amounting to Rs. 7,599 million were settled during the year. Out of this amount 51% represented loans denominated in foreign currency. Accordingly, the balance of borrowings as at 31 December 2003 was Rs. 17,490 million compared to Rs. 25,415 million a year ago. The debt portion of the Company as at 31 December 2003 was 36% of total capital compared to 47% a year ago.

Gearing

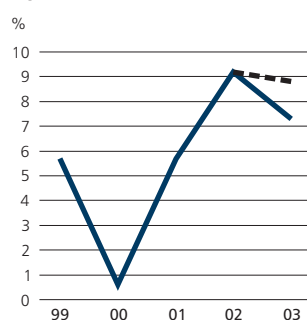


The low gearing of SLT is being effectively leveraged for the Group as a whole. The fully owned subsidiary, Mobitel borrowed Rs. 3,324 million during the year for its expansion activities.

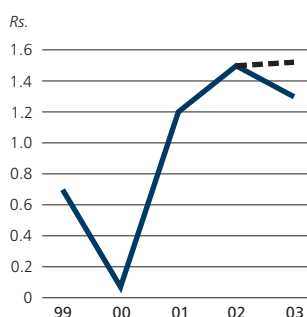
Performance Measurement

Basic Earnings per Share (EPS) of SLT (Group) for the year was Rs. 1.25 compared to Rs. 1.49 of the previous year. However based on the profit prior to deduction of the cost of VRS which is a non-recurring item EPS would have been Rs. 1.52 which would have been a growth of 2% from the previous year.

ROE



EPS



Return on Equity was 7.3% in 2003 based on the Group figures as at 31 December 2003. Based on the profit prior to deduction of the cost of VRS it would have been 8.8%.

With the positive market sentiments SLT share price was increased to Rs. 30/- per share. As at 31 December 2003 it was trading at Rs. 18 per share. Market capitalisation at year-end was Rs. 32.4 billion, which accounted for 12.3% of total market capitalisation on the CSE. During the year a total of 279,750,200 shares of SLT were traded, generating a value of Rs. 5.5 billion.

Dividends

SLT has proposed a dividend of 5% in respect of 2003. This amounts to Rs. 903 million, which is 38% of the earnings after tax. The dividend cover is 2.64 times compared to 2.47 times in the previous year.

Excellence in Reporting

SLT is committed to adopting the best practices in financial reporting in its relationship with investors and other users of financial statements. The Company also gives high priority to provide quarterly financial information in a timely manner. Relevant Information is disseminated through 'Investor' magazine published on a Quarterly basis.

The Institute of Chartered Accountants of Sri Lanka adjudged the Annual Report of SLT for the financial year 2002 the runner-up in the Services sector. This is a creditable achievement gained by the Company in the Corporate Financial world. The criteria of selection prove the Company's high standards in ensuring transparency, good governance and compliance with statutory and best accounting practices.

Risk Management

In the field of entrepreneurship risk and reward are closely linked. Rewards can be generated only if a business entity is willing to take risks. It is the capacity to take informed and intelligent Risk Management measures that generate sustainable rewards that are the hallmark of a business enterprise.

While all companies take risks, most companies also have in place systems and controls to mitigate, minimise and manage risk. The essence of a good Risk Management system is to be able to identify risks as precisely as possible, to quantify the impact that risks will have on a company's performance, and to generate a capacity within the Company to manage and control these risks as far as possible.

Business risks are events which have the potential to adversely impact on the realisation of business objectives. An effective system of Risk Management would need to identify these events in advance, predict when they are most likely to occur and prevent or mitigate the impact of these risks on the organisation's activities. An effective system of Risk Management should not only minimise or reduce risks but also be able to translate these risks into opportunities for greater rewards.

SLT has put in place systems, policies and procedures in all of its major areas of operation to identify, measure and monitor risks in a systematic way. These systems and procedures seek to generate a uniform interpretation of risk and a synchronised approach to quantifying the impact of the risk and its management. These systems and procedures ensure that SLT takes well

calculated risks, but at the same time tries to eliminate certain types of risks altogether and minimise the impact of others. Our senior management constantly reports to the Board on the systems being implemented in their areas of operation. The adequacy and efficacy of SLT's Risk Management procedures are constantly monitored in the light of a constantly changing business environment.

Risks emerge from a variety of sources:

Natural Disasters

Risks from natural disasters such as fire, water and lightning have the potential to impact on most businesses in varying degrees. Mitigation measures include comprehensive fire protection systems and other emergency response mechanisms.

In 2003 SLT had to respond to the floods which devastated much of the Western, Sabargamuwa and Southern Provinces.

Reputation Risks

SLT's activities have touched the lives of many stakeholders including the broader public. We know that we are in a business area that has an important impact on the lives of ordinary people. We are conscious of this larger social responsibility and have taken steps to forge a close relationship not just with our customers but with larger society as well. We have invested in the well-being of the community including the under-privileged. We have also invested in the preservation of the environment for future generations.

However, we are mindful of the fact that because of the nature of our operations our reputation can change over time

and sometimes very quickly. In this respect we have a major public relations drive that constantly communicates with the public and explains the changes that we are constantly bringing about. Whether it is the introduction of new technology, the expansion of our network, prices revisions, the introduction of a new billing structure or a VRS package, we are constantly making attempts to communicate not just with those affected but with larger public too.

Risks arising out of Competition

Previously SLT was the only player in the telecommunications market. This has changed and now SLT has to compete not just with domestic players but also with international players and a combination of both international and domestic.

As we have noted elsewhere in this report SLT has taken many steps to cope and respond to this increasing revenue. This includes diversifying our lines of business and sources of revenue, continuously upgrading our technology and network, and developing our levels of customer service.

Regulatory Risks

The TRC is the statutory body that regulates the telecommunications industry. Because of SLT's dominant position in the market we are sometimes required to conform to standards not imposed on other players.

We have put in place systems and procedures to ensure that SLT complies strictly with the standards laid down by the TRC. We are also developing our capacity to engage with the TRC so that we can optimise the regulatory framework.

Financial Reports

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1. The Directors present herewith the audited financial statements for the year ended 31 December 2003.

2. FORMATION

Sri Lanka Telecom (SLT) was established by an Incorporation Order made under Section 2, State Industrial Corporations Act No. 49 of 1957 and published in Gazette Extraordinary No. 596/11 of 6 February 1990. Under an Order made by the Minister of Posts and Telecommunications on 24 July 1991 under Section 23, Sri Lanka Telecommunications Act No. 25 of 1991 and published in Gazette No. 675 of 9 August 1991, all the property, 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 (1 September 1991) were vested in SLT.

As part of the privatisation process SLT was converted to a public limited company, Sri Lanka Telecom Limited (SLTL), on 25 September 1996 under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987, vide Gazette Extraordinary No. 942/7 of 25 September 1996. Following the incorporation of SLTL, all of the business and related assets and liabilities of SLT were transferred to SLTL.

Subsequently, on 5 August 1997, the Government as the sole shareholder of SLTL divested 35% of its holding in the issued share capital of SLTL by the sale of 631,701,000 ordinary shares of Rs. 10/- each to Nippon Telegraph and Telephone Corporation (NTT) and entered into an agreement with NTT to transfer the management of the Company to NTT. On 2 July 1998, the Government of Sri Lanka divested a further 3.5% of the issued share capital of SLTL by the distribution of 63,170,010 ordinary shares to the employees of SLTL. On 22 March 2000, NTT Corporation transferred the full amount of its shares in the Company to NTT Communications Corporation on reconstitution of the former.

The Company sought and obtained a stock exchange listing from the Colombo Stock Exchange in March 2000, following a Board decision to issue Unsecured Redeemable five year Debentures 2000/2005 with a par value of Rs. 1,000/- each, to the public. Consequent to the listed status conferred, the Company now comes under the supervision of the Securities Exchange Commission and the Colombo Stock Exchange. On 28 November 2002, the Government of Sri Lanka divested a further 12% of the holding in the Company by an Initial Public Offering (IPO).

3. RESULTS

The results for the year and the changes in equity, are set out in the Income Statement on page 55 and the Statements of Changes in Equity on pages 57 and 58 respectively.

4. REVIEW OF BUSINESS

The state of affairs of the Company as at 31 December 2003 is set out in the Balance Sheet on page 56. An assessment of the Company during the financial year is given in the CEO's Review.

5. PROPERTY, PLANT & EQUIPMENT

The movements in property, plant & equipment during the year are set out in Note 9 to the financial statements.

6. GROUP ACTIVITIES

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

With the acquisition of Mobitel, Sri Lanka Telecom becomes the only integrated operator in Sri Lanka able to offer fixed line, data and mobile services to its retail and corporate customers.

The following who were Directors of the Company at the beginning of the year resigned from the Board on the dates mentioned below:

Mr. R.H. Fernando	Resigned on 7 February 2003
Mr. K. Yaginuma	Resigned on 22 July 2003
Mr. S. Kimura	Resigned on 4 September 2003
Mr. H.N. Gunewardena	Resigned on 10 October 2003
Mr. A.R. Ekanayake	Resigned on 11 November 2003

Mr. N. Saito who was alternate to Mr. Yaginuma was appointed on 23 January 2003 which appointment was revoked on 27 May 2003.

Mr. T. Akiyama was appointed as alternate to Mr. S. Kimura on 27 May 2003 which appointment was revoked on 4 September 2003.

Re-election of Directors

The Company's Articles of Association require that one-third of the Directors retire at each Annual General Meeting of the Company.

Accordingly, Mr. N. Pathmanathan retires in terms of Article 91 and being eligible offers himself for re-election.

During the year, the undermentioned Directors were appointed to fill casual vacancies arising from the resignation of incumbent Directors. The Directors who have been so appointed by the Board retire in terms of Article 97 and being eligible offer themselves for re-election.

Mr. Mitsuhiro Takase
 Mr. Haruhiko Yamada
 Ms. M.A.R.C. Cooray
 Mr. K.C. Logeswaran

Directors' Interests in Debentures of the Company

Mr. H.N. Gunewardena who resigned from the Board on 10 October 2003, held 2,500 debentures of the Company. None of the other Directors directly or indirectly held any debentures of the Company during the year ended 31 December 2003.

12. 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 29 to the financial statements. The Directors have disclosed the nature of their interests in contracts and proposed contracts with the Company at meetings of the Directors.

13. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

Directors' individual shareholdings and their spouses' shareholdings in the Company as at the year end and their corresponding holdings as at the end of the previous year are as shown below:

Name	Number	
	2003	2002
Mr. N. Pathmanathan	5,000	5,000
Mrs. M. Pathmanathan	5,000	5,000
Mr. W.R.H. Fernando	-	10,000
Mrs. A. Fernando	-	5,000

14. CORPORATE GOVERNANCE

Within the corporate entity, the Company's business and affairs are managed and directed with the objective of balancing the attainment of corporate objectives, the alignment of corporate behaviour within the expectation of the law and society and the accountability to shareholders and responsibility to other recognized stakeholders.

The Remuneration Committee comprising of the Chairman and the CEO determines the Senior Executives remuneration and compensation.

15. STATUTORY PAYMENTS

All statutory payments to the Government and the employees have been made up to date.

16. ENVIRONMENTAL PROTECTION

It is the responsibility of the Company to operate in a manner that will not have detrimental effect on the environment and to provide products and services of highest quality that have a beneficial effect for our customers and the communities within which we operate.

17. INVESTMENTS

The Company holds an unlisted investment in Intelsat Limited which provides telephony and other related services via geosynchronous satellites around the globe.

In November 2003 the Board decided to dispose of SLT's investment in Inmarsat Ventures plc on a Management buy out. On this arrangement all selling shareholders including SLT received US\$ 15 per share. The total amount realised by SLT on the sale its holding of 50,000 shares was US\$ 750,000.

18. DONATIONS

During the year, the Company contributed Rs. 1,425,000/- (2002 - Rs. 1,384,286/-) for charitable purposes. Of the above contributions Rs. 1,200,000/- (2002 - Rs. 1,100,000/-) was for a government approved charity.

19. POST BALANCE SHEET EVENTS

No events have occurred since the Balance Sheet date, which would require adjustments to, or disclosure in, the financial statements.

20. APPOINTMENT OF AUDITORS

A resolution to reappoint our present 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

(Sgd.) P.G. Dias
Secretary

Colombo
6 April 2004

Statement of the Directors' Responsibilities in Relation to the Financial Statements

Sri Lanka Telecom Annual Report 2003

The responsibilities of the Directors, in relation to the financial statements of the Group, differ from the responsibilities of the Auditors which are set out in the Report of the Auditors on page 54.

As per the provisions of the Companies Act No. 17 of 1982 the Directors are required to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Group as at the end of the financial year and of the results of its operations for the financial year.

The Directors consider that, in preparing these financial statements set out on pages ... to ..., appropriate accounting policies have been selected and applied in a consistent manner and supported by reasonable and prudent judgement and that all applicable Accounting Standards, as relevant, have been followed.

The Directors are also confident that the Group has adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements. Further, the Directors have a responsibility to ensure that the Group maintains sufficient accounting records to disclose with reasonable accuracy, the financial

position of the Group, and to ensure that the financial statements presented comply with the requirements of the Companies Act No. 17 of 1982.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems to prevent and detect fraud and other irregularities.

The Directors are confident that they have discharged their responsibilities as set out in this statement. The Directors also confirm that to the best of their knowledge, all statutory payments payable by the Group as at the Balance Sheet date have been paid or where relevant, provided for.

By Order of the Board

(Sgd.) **P.G. Dias**
Secretary

Colombo
6 April 2004

TO THE MEMBERS OF SRI LANKA TELECOM LIMITED FOR THE YEAR ENDED 31 DECEMBER 2003

We have audited the Balance Sheet of Sri Lanka Telecom Limited (the Company) and its subsidiaries (the Group) as at 31 December 2003, the Consolidated Balance Sheet of the Group as at that date, and the related Income, Changes in Equity and Cash Flow Statements for the year then ended, together with the Accounting Policies and Notes thereon appearing on pages 60 to 80.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements and determining whether the said financial statements are prepared and presented in accordance with Sri Lanka Accounting Standards. 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 books of account for the year ended 31 December 2003, and to the best of our information and according to the explanations given to us, the said Balance Sheet and the related Income, Changes in Equity and Cash Flow Statements and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been properly prepared and presented in accordance with Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 December 2003 and of the results of its operations and its cash flows and changes in equity for the year then ended.

In our opinion, the Consolidated Balance Sheet and related Income, Changes in Equity and Cash Flow Statements and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 17 of 1982 and give a true and fair view of the state of affairs as at 31 December 2003 and of the results of the operations and cash flows and changes in equity for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interests in Contracts

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Group during the year ended 31 December 2003 except as stated in Note 29 to these financial statements.

PricewaterhouseCoopers

Chartered Accountants

Colombo
6 April 2004

Consolidated Income Statement

Sri Lanka Telecom Annual Report 2003

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2003

	Notes	Group		Company	
		2003	2002	2003	2002
Revenue	1	25,553	25,383	24,477	25,207
Operating costs	2	(10,924)	(9,826)	(10,024)	(9,710)
Operating profit before depreciation		14,629	15,557	14,453	15,497
Depreciation	9	(8,241)	(7,604)	(7,987)	(7,558)
Operating profit		6,388	7,953	6,466	7,939
Voluntary Retirement Scheme (VRS)	4	(710)	-	(710)	-
Non-operating income		111	108	111	107
Interest expense and related charges	5	(2,863)	(3,377)	(2,802)	(3,365)
Interest income		316	552	311	551
Share of result before tax of associate	11	-	(29)	-	(29)
Profit before tax		3,242	5,207	3,376	5,203
Tax	6	(993)	(2,522)	(993)	(2,522)
Net profit		2,249	2,685	2,383	2,681
Earnings per share (Rs.)	7	1.25	1.49	1.32	1.49

All the Group's activities are continuing activities.

The Accounting Policies on pages 60 to 63 and the Notes on pages 64 to 80 form an integral part of these financial statements.

Consolidated Balance Sheet

Sri Lanka Telecom Annual Report 2003

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2003

	Notes	Group		Company	
		2003	2002	2003	2002
ASSETS					
Non-current assets					
Property, plant & equipment	9	55,763	56,722	51,243	54,977
Intangible assets	10	297	375	-	-
Investments	11	710	710	2,707	2,069
Non-current receivables	12	977	995	977	995
		<u>57,747</u>	<u>58,802</u>	<u>54,927</u>	<u>58,041</u>
CURRENT ASSETS					
Inventories	13	785	665	500	610
Receivables and prepayments	14	9,242	9,324	9,052	9,284
Cash & cash equivalents	15	4,599	5,974	4,348	5,937
		<u>14,626</u>	<u>15,963</u>	<u>13,900</u>	<u>15,831</u>
Total assets		<u>72,373</u>	<u>74,765</u>	<u>68,827</u>	<u>73,872</u>
EQUITY AND LIABILITIES					
Capital and reserves					
Ordinary share capital	23	18,049	18,049	18,049	18,049
Capital reserve	24	188	188	188	188
Hedging reserve	25	(745)	(1,146)	(745)	(1,146)
Insurance reserve	21	95	86	95	86
Retained earnings		13,013	11,847	13,203	11,903
		<u>30,600</u>	<u>29,024</u>	<u>30,790</u>	<u>29,080</u>
Deferred income	18	7,214	7,132	7,214	7,132
Non-current liabilities					
Deferred tax liabilities	17	8,139	7,146	8,139	7,146
Borrowings	16	13,523	18,986	12,276	18,718
Retirement benefit obligations	20	457	429	439	411
		<u>22,119</u>	<u>26,561</u>	<u>20,854</u>	<u>26,275</u>
Current liabilities					
Trade and other payables	19	4,882	5,108	4,755	4,688
Borrowings	16	7,558	6,940	5,214	6,697
		<u>12,440</u>	<u>12,048</u>	<u>9,969</u>	<u>11,385</u>
Total equity and liabilities		<u>72,373</u>	<u>74,765</u>	<u>68,827</u>	<u>73,872</u>

These financial statements were approved by the Board of Directors on 6 April 2004 and were signed on its behalf by:

(Sgd.)

Thilanga Sumathipala

Chairman

(Sgd.)

Shuheil Anan

CEO/Director

The Accounting Policies on pages 60 to 63 and the Notes on pages 64 to 80 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Sri Lanka Telecom Annual Report 2003

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2003

	Notes	Insurance reserve	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
GROUP							
Year ended 31 December 2002							
Balance at 1 January 2002							
- as previously reported	21	86	18,049	188	(888)	19,608	37,043
- prior year adjustment	17	-	-	-	-	(9,849)	(9,849)
- as restated		86	18,049	188	(888)	9,759	27,194
Cash flow hedges							
- foreign currency							
translation difference	25	-	-	-	(829)	-	(829)
- charged to income	5	-	-	-	571	-	571
Conversion of associate to subsidiary							
		-	-	-	-	(56)	(56)
Dividend for 2001							
		-	-	-	-	(541)	(541)
Net profit for the year 2002							
		-	-	-	-	2,685	2,685
Balance at 31 December 2002		86	18,049	188	(1,146)	11,847	29,024
Year ended 31 December 2003							
Balance at 1 January 2003							
- as previously reported		86	18,049	188	(1,146)	21,696	38,873
- prior year adjustment	17	-	-	-	-	(9,849)	(9,849)
- as restated		86	18,049	188	(1,146)	11,847	29,024
Cash flow hedges							
- foreign currency							
translation difference	25	-	-	-	(208)	-	(208)
- charged to income	5	-	-	-	609	-	609
Insurance reserve							
- charged to income	21	9	-	-	-	-	9
Dividend for 2002							
	8	-	-	-	-	(1,083)	(1,083)
Net profit for the year 2003							
		-	-	-	-	2,249	2,249
Balance at 31 December 2003		95	18,049	188	(745)	13,013	30,600

The Accounting Policies on pages 60 to 63 and the Notes on pages 64 to 80 form an integral part of these financial statements.

Statement of Changes in Equity

Sri Lanka Telecom Annual Report 2003

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2003

	Notes	Insurance reserve	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
COMPANY							
Year ended 31 December 2002							
Balance at 1 January 2002							
- as previously reported	21	86	18,049	188	(888)	19,612	37,047
- prior year adjustment	17	-	-	-	-	(9,849)	(9,849)
- as restated		86	18,049	188	(888)	9,763	27,198
Cash flow hedges							
- foreign currency							
translation difference	25	-	-	-	(829)	-	(829)
- charged to income	5	-	-	-	571	-	571
Dividend for 2001		-	-	-	-	(541)	(541)
Net profit for the year 2002		-	-	-	-	2,681	2,681
Balance at 31 December 2002		86	18,049	188	(1,146)	11,903	29,080
Year ended 31 December 2003							
Balance at 1 January 2003							
- as previously reported		86	18,049	188	(1,146)	21,752	38,929
- prior year adjustment	17	-	-	-	-	(9,849)	(9,849)
- as restated		86	18,049	188	(1,146)	11,903	29,080
Cash flow hedges							
- foreign currency							
translation difference	25	-	-	-	(208)	-	(208)
- charged to income	5	-	-	-	609	-	609
Insurance reserve							
- charged to income	21	9	-	-	-	-	9
Dividend for 2002	8	-	-	-	-	(1,083)	(1,083)
Net profit for the year 2003		-	-	-	-	2,383	2,383
Balance at 31 December 2003		95	18,049	188	(745)	13,203	30,790

The Accounting Policies on pages 60 to 63 and the Notes on pages 64 to 80 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Sri Lanka Telecom Annual Report 2003

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2003

	Notes	Group		Company	
		2003	2002	2003	2002
Operating activities					
Cash generated from operations	26	14,121	15,966	14,402	15,878
Interest received		348	546	343	545
Interest paid		(3,040)	(3,054)	(2,979)	(3,042)
Net cash generated from operating activities		11,429	13,458	11,766	13,381
Investing activities					
Acquisition of subsidiary		-	(265)	-	-
Acquisition of property, plant & equipment	9	(7,282)	(3,460)	(4,253)	(3,445)
Acquisition of investments	11	-	-	(500)	(293)
Disposal of property, plant & equipment		4	3	4	3
Net cash used in investing activities		(7,278)	(3,722)	(4,749)	(3,735)
Financing activities					
Proceeds from long-term borrowings		3,400	944	76	944
Payment on long-term borrowings		(7,467)	(7,580)	(7,224)	(7,517)
Dividends paid	8	(1,083)	(541)	(1,083)	(541)
Repayment of debentures	16	(375)	(375)	(375)	(375)
Net cash used in financing activities		(5,525)	(7,552)	(8,606)	(7,489)
(Decrease)/increase in cash & cash equivalents		(1,374)	2,184	(1,589)	2,157
Movement in cash & cash equivalents					
At start of year		5,973	3,789	5,937	3,780
(Decrease)/increase		(1,374)	2,184	(1,589)	2,157
At end of year	15	4,599	5,973	4,348	5,937

The Accounting Policies on pages 60 to 63 and the Notes on pages 64 to 80 form an integral part of these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

A. BASIS OF PREPARATION

The consolidated financial statements are prepared in accordance with 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 (SLAS), International Accounting Standards (IAS) are followed.

B. GROUP ACCOUNTING

(1) Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated.

Consolidated financial statements are prepared from the date on which effective control is transferred to the Group and are no longer consolidated from the date of cessation of such control through disposal or otherwise. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. The accounting policies of the subsidiary are the same as those of the Company. No disclosure of minority interest is made as the subsidiary is wholly owned.

The Group reporting dates are set out in Note 22.

(2) Associated undertakings

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Equity accounting involves recognising in the Income Statement the Group's share of the associates' profit or loss for the year.

The Group's interest in the associate is carried in the Balance Sheet at an amount that reflects its share of the net assets of the associate.

The Group's principal associated undertaking is shown in Note 11.

C. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions in Group companies are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement. Such balances are translated at year-end exchange rates unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. All other gains and losses are recognised in the Income Statement to the extent that they are regarded as an adjustment to borrowing cost.

D. GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's shares of the net assets of the acquired subsidiary undertakings at the date of acquisition and is written off in equal amounts, over a period of five years commencing from the date of acquisition.

The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

E. PROPERTY, PLANT & EQUIPMENT

Property, plant & equipment is carried at cost less accumulated depreciation, less a provision for any permanent diminution in value.

Cost includes all costs directly attributable to bringing an asset to working condition for its intended use. Cost in the case of the network comprises all expenditure up to

and including the cabling within customers' premises, undersea cables, contractors' charges and payments on account of materials, customs duty and borrowing costs. Significant renovations are capitalised if they extend the life of the asset beyond its originally estimated useful life or increase its recoverable value. Maintenance, repairs and minor renewals are charged to income as incurred.

The cost of property, plant & equipment that are disposed of are eliminated from the Balance Sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such disposal is included in current income. Gains and losses on disposal of property, plant & equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

The basis of valuation used on the transfer of assets from SLT to SLTL is explained in Note 9 to the financial statements.

Depreciation is calculated using the most appropriate method to write off the cost of each asset to their residual values over their estimated useful lives. The depreciation methods and useful lives are shown in Note 9 to the financial statements.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Interest costs on borrowings to finance the construction of property, plant & equipment are capitalised, during the period of time that is required to complete and prepare the property for its intended use, as part of the cost of the asset.

F. INVESTMENTS

Long-term investments are shown 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.

G. INVENTORIES

All inventories are held to be used by the Company in providing its services. Inventories are stated at the lower of cost and net realisable value. For this purpose, the cost of inventories is based on the standard cost, which is reduced by the corresponding price variance at the year end. Cost is calculated on a first in first out basis. Provision is made for slow-moving and obsolete inventories, which are not expected to be used internally.

H. TRADE RECEIVABLES

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off once decided as irrecoverable after due recovery procedures.

I. CASH & CASH EQUIVALENTS

For the purpose of the Cash Flow Statement, cash & cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments.

J. SHARE CAPITAL

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

K. DEFERRED INSURANCE PREMIUM

Insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the grounds 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 the repayment period of the loans.

L. BORROWING COSTS

Borrowing costs are written off to the Income Statement as incurred, unless they relate to borrowings which fund significant capital projects, in which case they are capitalised with the relevant qualifying asset up to the date of commissioning, and written off to the Income Statement over the period during which the asset is depreciated. Borrowing costs include interest charged, commitment fees, guarantee premium and exchange differences on foreign loans to the extent that they are regarded as an adjustment to interest costs.

M. TAXATION

Taxes on income are accounted for using the liability method. Under this method the expected tax effect of temporary differences between the figures used for financial reporting and income tax reporting purposes are recorded as deferred taxes at the rates that are expected to apply when the temporary differences reverse.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Under this method the Group is required to make provision for deferred income taxes on revaluations, if any, of non-current assets and, in relation to an acquisition, on the difference between the fair values of the net assets acquired and their tax base. Provision for taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, is only made where there is a current intention to remit such earnings.

The principal temporary differences arise from depreciation on property, plant & equipment, revaluations of certain non-current assets, provisions for retirement benefits and tax losses carried forward. Deferred tax assets relating to the carry forward of

unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

N. DEFINED BENEFIT PLAN

SLTL as a matter of policy obtains an actuarial valuation of the retirement benefit liability once in three years.

An actuarial valuation was carried out by an independent professional valuer to ascertain the full liability arising in terms of the Payment of Gratuity Act No. 12 of 1983, in respect of all employees of SLTL as at 31 December 2003. The valuation was made adopting the Projected Unit Credit Method as recommended by the Sri Lanka Accounting Standards No. 16, Retirement Benefit Costs.

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 20 to the financial statements.

The liability is not funded externally.

O. DEFINED CONTRIBUTION PLAN

All employees of the Company are members of the Employees' Provident Fund of SLTL and the Employees' Trust Fund to which SLTL contributes 15% and 3% respectively of such employees' basic salary and allowances.

P. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Q. REVENUE RECOGNITION

Revenue is recognised on an accrual basis when it is probable that the economic benefits will flow to the Company and the revenue and associated costs can be reliably measured. Revenue is measured at the amount of consideration net of discounts and taxes.

The specific criteria used for recognition of revenue are as follows:

(1) Domestic and international call revenue and rental income

The customers are billed for calls and rental on monthly cycle based on the calendar months. Customers are charged Government taxes at the applicable rates but accounted for as a liability. Revenue is recognised net of such taxes based on the amounts billed.

(2) Revenue from other network operators and international settlements

Revenue is received from other network operators, local and international, for the use of SLTL network for completing connections. These revenues are recognised, net of taxes, based on traffic minutes and stipulated rates.

(3) Revenue from other telephony services

Revenue is recognised on an accrual basis based on the usage of these services.

(4) Connection fees

These are initially recognised as deferred income and subsequently recognised as revenue by amortising over a period of 15 years.

(5) Equipment sales

Revenue on equipment sales is recognised, net of taxes, on completion of sales transaction.

(6) Interest income

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

R. EXPENDITURE

Expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the period.

For the purpose of presentation of the Income Statement information nature of expense method is used.

S. FOREIGN EXCHANGE RISK

The Company hedges a portion of exchange risks of loans obtained in foreign currency using future net foreign earnings.

The Company hedges between 50% to 75% of anticipated net foreign earnings for 5 years. Approximately 75% (2002 - 75%) of projected net foreign earnings qualified as 'highly probable' for which hedge accounting was used in 2003.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to forecast transactions. The Company also documents its assessment, both at the hedge inception and on an on going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

T. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(All amounts in Sri Lanka Rupees millions)

1. REVENUE

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

	Group		Company	
	2003	2002	2003	2002
Release of deferred connection charges (Note 18)	776	728	776	728
Rental income	3,916	2,214	3,675	2,172
Domestic call revenue	11,109	10,760	10,418	10,634
Receipts from other network operators - domestic	444	300	444	300
International call revenue	1,890	2,088	1,845	2,080
Receipts from other network operators - international	584	948	584	948
International settlements (in payments)	5,164	7,345	5,164	7,345
Telex, data transmission and other telephony services	1,670	1,000	1,571	1,000
	25,553	25,383	24,477	25,207

2. OPERATING COSTS

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

	Group		Company	
	2003	2002	2003	2002
Staff costs (Note 3)	3,484	3,053	3,364	3,034
Payments to international network operators	828	2,016	828	2,016
Payments to other network operators - international	1,765	1,157	1,751	1,146
Auditors' remuneration	3	3	3	3
Repairs and maintenance	773	826	745	819
Bad debt provision	812	667	739	660
Inventory provision	(5)	15	(15)	10
Net foreign exchange gains on operating activities	(37)	(369)	(36)	(371)
Payments to NTT Communications Corporation [Note (a)]	72	393	72	393
Amortisation of goodwill (Note 10)	78	13	-	-
Other operating expenditure	3,151	2,052	2,573	2,000
	10,924	9,826	10,024	9,710

(a) Payments to NTT Communications Corporation represent amounts payable (to NTT Communications Corporation) on account of salaries and expenditure of seconded experts (refer Note 29).

(b) The above expenses include Directors' emoluments for 2003 of Rs. 36 million (2002 - Rs. 42 million). This wholly consists of fees paid to NTT for the secondment of expatriate personnel who are also Directors of SLTL.

3. STAFF COSTS

	Group		Company	
	2003	2002	2003	2002
Salaries, wages, allowances and benefits	3,016	2,670	2,913	2,653
Retirement costs - defined contribution plans	313	284	299	283
- defined benefit plans (Note 20)	155	99	152	98
	3,484	3,053	3,364	3,034

4. VOLUNTARY RETIREMENT SCHEME

Following the announcement made on 20 May 2003, the Company has received applications from 1,112 employees who have opted for the VRS. Based on the numbers of applications and the defined plan identified for each grade of staff the VRS is amounted to Rs. 710,361,084.

5. FINANCE COSTS

	Group		Company	
	2003	2002	2003	2002
Interest expense and related charges				
Rupee loans (long-term)	1,628	2,260	1,567	2,248
Foreign currency loans	553	660	553	660
Debenture interest	120	174	120	174
Amortisation of deferred costs	48	48	48	48
Other charges [Note (a)]	1	2	1	2
Total interest payable	2,350	3,144	2,289	3,132
Interest capitalised	(96)	(338)	(96)	(338)
Total interest charged	2,254	2,806	2,193	2,794
Foreign exchange loss (Note 25)	609	571	609	571
Aggregate value of finance costs	2,863	3,377	2,802	3,365

(a) Other charges include debenture and loan related expenses.

6. TAX

The charge for taxation is made up as follows:

	Group/Company	
	2003	2002
Deferred tax charge	2,092	3,218
Deferred tax release	(1,099)	(696)
	993	2,522

No income tax is payable for the year in view of tax losses available for carry forward. At 31 December 2003, tax losses available for carry forward amounted to approximately Rs. 2,000 million (2002 - Rs. 8,990 million).

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	Company	
	2003	2002
Profit before tax	3,376	5,203
Tax calculated at a tax rate of 30% (2002 - 35%)	1,013	1,821
Tax effect of expenses not deductible	1	263
Tax effect of income not subject to tax	(21)	(13)
Effect of 5% reduction in tax rate	-	451
Tax charge	993	2,522

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2003	2002	2003	2002
Net profit attributable to shareholders (Rs. million)	2,249	2,685	2,383	2,681
Weighted average number of ordinary shares in issue (million)	1,805	1,805	1,805	1,805
Basic earnings per share (Rs.)	1.25	1.49	1.32	1.49

All ordinary shares are at a par value of Rs. 10.

8. DIVIDENDS PER SHARE

In respect of 2002, an interim dividend of Rs. 0.30 and a final dividend of Rs. 0.30 per share amounting to a total of Rs. 1,082,916,000 has been paid in the current year.

9. PROPERTY, PLANT & EQUIPMENT

Group	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Contract work-in- progress	Total
Year ended 31 December 2002							
Opening net book amount	1,642	32,496	9,536	8,174	1,189	6,056	59,093
Acquisition of subsidiary	–	108	–	1,157	92	416	1,773
Additions	–	327	60	49	528	2,496	3,460
Transfers from work-in-progress	120	2,473	1,583	1,097	36	(5,309)	–
Inter-Group transfers	(2)	(4)	–	–	6	–	–
Depreciation charge	(30)	(4,938)	(1,168)	(1,031)	(437)	–	(7,604)
Closing net book amount	1,730	30,462	10,011	9,446	1,414	3,659	56,722
At 31 December 2002							
Cost	1,923	56,581	16,166	13,153	3,361	3,256	94,440
Acquisition of subsidiary							
-Cost	–	135	–	2,209	278	403	3,025
-Accumulated depreciation	–	(30)	–	(1,065)	(187)	–	(1,282)
Accumulated depreciation	(193)	(26,224)	(6,155)	(4,851)	(2,038)	–	(39,461)
Net book amount	1,730	30,462	10,011	9,446	1,414	3,659	56,722
Year ended 31 December 2003							
Opening net book amount	1,730	30,462	10,011	9,446	1,414	3,659	56,722
Additions	–	123	43	56	3,747	3,410	7,379
Transfers	–	–	–	(97)	–	–	(97)
Transfers from work-in-progress	42	2,436	77	5	586	(3,146)	–
Depreciation charge	(32)	(5,252)	(1,211)	(1,220)	(526)	–	(8,241)
Closing net book amount	1,740	27,769	8,920	8,190	5,221	3,923	55,763
At 31 December 2003							
Cost	1,965	59,274	16,286	15,345	7,972	3,923	104,765
Accumulated depreciation	(225)	(31,505)	(7,366)	(7,155)	(2,751)	–	(49,002)
Net book amount	1,740	27,769	8,920	8,190	5,221	3,923	55,763

Company	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Contract work-in- progress	Total
Year ended 31 December 2002							
Opening net book amount	1,642	32,496	9,536	8,174	1,186	6,056	59,090
Additions	–	327	60	39	523	2,496	3,445
Transfers from work-in-progress	120	2,473	1,583	1,084	36	(5,296)	–
Inter-Group transfers	(2)	(4)	–	–	6	–	–
Depreciation charge	(30)	(4,935)	(1,168)	(995)	(430)	–	(7,558)
Closing net book amount	1,730	30,357	10,011	8,302	1,321	3,256	54,977
At 31 December 2002							
Cost	1,923	56,581	16,166	13,153	3,344	3,256	94,423
Accumulated depreciation	(193)	(26,224)	(6,155)	(4,851)	(2,023)	–	(39,446)
Net book amount	1,730	30,357	10,011	8,302	1,321	3,256	54,977
Year ended 31 December 2003							
Opening net book amount	1,730	30,357	10,011	8,302	1,321	3,256	54,977
Additions	–	108	43	40	761	3,301	4,253
Transfers from work-in-progress	42	2,436	77	5	100	(2,660)	–
Depreciation charge	(32)	(5,237)	(1,211)	(1,017)	(490)	–	(7,987)
Closing net book amount	1,740	27,664	8,920	7,330	1,692	3,897	51,243
At 31 December 2003							
Cost	1,965	59,124	16,285	13,198	4,199	3,897	98,668
Accumulated depreciation	(225)	(31,460)	(7,365)	(5,868)	(2,507)	–	(47,425)
Net book amount	1,740	27,664	8,920	7,330	1,692	3,897	51,243

- (a) On 1 September 1991 the Department of Telecommunications (DOT) transferred its entire telecommunications business and related assets and liabilities to SLT. A valuation was performed by the Government of the assets and liabilities transferred to SLT. The net amount of those assets and liabilities represents SLT's Contributed Capital on incorporation, and those values were used as the opening cost of fixed assets at 1 September 1991 in the first statutory accounts of SLT.

Further, SLT was converted into a public limited company, Sri Lanka Telecom Limited (SLTL), on 25 September 1996 and on that date all of the business and the related assets and liabilities of SLT were transferred to SLTL as part of the privatisation process.

- (b) Assets are depreciated as follows:

Asset category	Depreciation method	Useful life
Freehold land	–	–
Freehold buildings	Straight line	50 years
Ducts and other outside plant	Straight line	10 to 20 years
Undersea cables (ducts, cables and other outside plant)	Straight line	10 years
Telephone exchanges and transmission equipment	Straight line	12.5 years
Motor vehicles	Straight line	5 years
Other fixed assets	Straight line	4 to 10 years

- (c) The cost of fully depreciated assets as at 31 December 2003 is Rs. 6,722 million (2002 - Rs. 4,488 million).

- (d) Condemned motor vehicles, the cost of which amounted to Rs. 6 million, were disposed of during the year for Rs. 4 million.

- (e) Borrowing costs capitalised during the year to 31 December 2003 was Rs. 96 million (2002 - Rs. 338 million).

- (f) No assets have been mortgaged or pledged as security by SLTL.

- (g) The Directors believe SLTL has freehold title to land and buildings transferred from SLT on incorporation (conversion of SLT to SLTL on 25 September 1996), although it is uncertain whether vesting orders specifying all the demarcations and extents of such land and buildings were issued.

- (h) 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 future loss with regard to uninsured property, plant & equipment. At the Balance Sheet date, Rs. 95 million stood to the credit of the reserve and is included under provisions (Note 21). The sinking fund investment of that amount is included under cash & cash equivalents [Note 15 (a)].

10. INTANGIBLE ASSETS

	Goodwill
Year ended 31 December 2003	
Opening net book amount	375
Amortisation charge (Note 2)	(78)
Closing net book amount	<u>297</u>
At 31 December 2003	
Cost	388
Accumulated amortisation	(91)
Net book amount	<u>297</u>

11. INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
Investment in subsidiary [Note (a)]	-	-	25	25
Investment in subsidiary/associate company				
At 1 January	-	441	1,334	441
Share of result of associate	-	(29)	-	(29)
Conversion of associate to subsidiary	-	(412)	-	-
Additions [Note (b)]	-	-	638	922
At 31 December	-	-	1,972	1,334
Investment in others [Note (c)]				
At 1 January	710	710	710	710
At 31 December	710	710	710	710
Aggregate value of investments at 31 December	710	710	2,707	2,069

- (a) The investment in the subsidiary company consists of 2,500,000 ordinary shares, representing a 100% holding in the issued share capital of Sri Lanka Telecom (Services) Limited.
- (b) The short-term loan of Rs. 138 million provided to Mobitel (Private) Limited was converted to ordinary shares and another allotment of share capital of Rs. 500 million comprising 50 million ordinary shares were made to Sri Lanka Telecom Limited on 28 August 2003.
- (c) The investment in others represents unlisted investments in Intelsat and Inmarsat, the international satellite consortia.

12. NON-CURRENT RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
Employee loans [Note (a)]	806	776	806	776
Deferred expenses (prepaid Insurance Premium)	171	219	171	219
Amounts due after one year	977	995	977	995

- (a) Employee loans are repayable in equal monthly instalments over five years. The amount shown as a non-current receivable represents staff loan instalments falling due for payment after 1 January 2005.
- (b) As explained in Accounting Policy K, insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the grounds 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 the repayment period of the loans.

13. INVENTORIES

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

14. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2003	2002	2003	2002
Domestic trade receivables	6,003	4,575	5,946	4,459
Foreign trade receivables	2,223	3,731	2,223	3,731
Advances and prepayments	705	771	624	847
Employee loans	205	199	205	199
Deferred expenses	48	48	48	48
Other receivables	58	-	6	-
Amounts due within one year	<u>9,242</u>	<u>9,324</u>	<u>9,052</u>	<u>9,284</u>

Other receivable includes Rs. 6 million (2002 - Nil) receivable from Telecom City (Private) Limited.

15. CASH & CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
Cash at bank and in hand	385	593	136	579
Restricted at bank [Note (a)]	136	116	136	116
Short-term deposits [Note (b) & (c)]	4,078	5,265	4,076	5,242
	<u>4,599</u>	<u>5,974</u>	<u>4,348</u>	<u>5,937</u>

(a) The restricted cash balance is a bank deposit of Sri Lankan Rs. 136 million with the People's Bank which represents the sinking fund investment for the insurance reserve. The restrictions on this balance are self-imposed.

(b) These deposits are interest bearing on commercial terms.

(c) Short-term deposits include cash deposit of USD 15 million (equivalent Rs. 1,449 million) which has been pledged as collateral for a letter of credit opened by Mobitel (Private) Limited for the import of equipment for the GSM rollout.

For the purpose of the Cash Flow Statement, the year-end cash & cash equivalents comprise the following:

	Group		Company	
	2003	2002	2003	2002
Cash & cash equivalents	4,599	5,974	4,348	5,937
Bank overdrafts (Note 16)	-	(1)	-	-
	<u>4,599</u>	<u>5,973</u>	<u>4,348</u>	<u>5,937</u>

16. BORROWINGS

	Group		Company	
	2003	2002	2003	2002
Current (due within one year)				
Bank overdrafts	-	1	-	-
Government borrowings	2,353	2,626	2,353	2,626
Bank borrowings and others	4,830	3,938	2,486	3,696
Debentures	375	375	375	375
	<u>7,558</u>	<u>6,940</u>	<u>5,214</u>	<u>6,697</u>
Non-current (due after one year)				
Government borrowings	8,709	11,264	8,709	11,264
Debentures [Note (a)]	375	750	375	750
Bank borrowings and others	4,439	6,972	3,192	6,704
	<u>13,523</u>	<u>18,986</u>	<u>12,276</u>	<u>18,718</u>
Total borrowings	<u>21,081</u>	<u>25,926</u>	<u>17,490</u>	<u>25,415</u>

- (a) The redemption of debentures will be in 4 equal annual instalments, commencing from 23 March 2002, two years from the initial date of allotment.

The interest rate exposure of the borrowings of the Company was as follows:

	Group		Company	
	2003	2002	2003	2002
Total borrowings				
- at fixed rates	13,242	18,445	13,216	18,445
- at floating rates	7,839	7,481	4,274	6,970
	<u>21,081</u>	<u>25,926</u>	<u>17,490</u>	<u>25,415</u>

The currency exposure of the borrowings of the Company at the Balance Sheet date was as follows:

	Group		Company	
	2003	2002	2003	2002
Foreign currency	5,678	9,325	5,678	9,325
Local currency	15,403	16,601	11,812	16,090
	<u>21,081</u>	<u>25,926</u>	<u>17,490</u>	<u>25,415</u>

	Group/Company	
	2003	2002
Average effective interest rates		
- Bank overdrafts	-	14.5%
- Domestic bank borrowings	14%	14.0%
- Foreign bank borrowings	5.56%	5.7%
- Government borrowings	12.74%	13.0%
Debentures		
- Fixed (annually)	14.50%	14.5%
- Fixed (quarterly)	14.00%	14.0%
- Floating	13% - 16%	13% - 16%

Maturity of non-current borrowings:

	Group		Company	
	2003	2002	2003	2002
Between 1 and 2 years	8,517	9,203	7,270	8,960
Between 3 and 5 years	3,684	6,224	3,684	6,199
Over 5 years	1,322	3,559	1,322	3,559
	<u>13,523</u>	<u>18,986</u>	<u>12,276</u>	<u>18,718</u>

- (b) The Government borrows amounts in foreign currencies to fund the development of SLTL's network. These amounts have been re-lent to SLTL with shorter repayment periods than the underlying loan. The loan balance as at 31 December 2003 is Rs. 11,061 million (2002 - Rs. 13,335 million). Exchange fluctuations on repayments of these loans are borne by the Government.
- (c) SLTL bears the foreign exchange risk and the related costs on a loan re-lent by the Government (a loan not among the above loans), bearing interest at 10% per annum. The loan was fully repaid during the financial year (2002 - Rs. 554 million).
- (d) Certain Government re-lent loans amounting to Rs. 354 million (2002 - Rs. 1,086 million) have been granted on condition that at least 25%-30% of the average capital expenditure on the related projects is funded from funds generated internally. These projects have been completed as at the Balance Sheet date.
- (e) The Government has guaranteed third party loans amounting to Rs. 5,486 million (2002 - Rs. 8,127 million). Total value of loans that have neither been guaranteed nor secured is Rs. 115 million (2002 - Rs. 2,062 million).
- (f) The majority of the loans require SLTL to submit audited financial statements among other matters to the lenders within stated periods of the calendar year end, and to maintain adequate accounting records in accordance with generally accepted accounting principles.
- (g) The Directors believe the Company will have sufficient finances available to meet its present commitments.

17. DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2002 - 35%).

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

	Group		Company	
	2003	2002	2003	2002
At beginning of year				
- as previously reported	7,146	(5,225)	7,146	(5,225)
- prior year adjustment	-	9,849	-	9,849
- as restated	7,146	4,624	7,146	4,624
Income Statement charge (Note 6)	993	2,522	993	2,522
At end of year	8,139	7,146	8,139	7,146

The prior year adjustment represents a reversal of deferred tax assets arising on Investment Tax Allowances which had been previously recognised in the Balance Sheet, having been reversed due to the Government policy change, which resulted in the final year for unabsorbed Investment Tax Allowance being up to 2004/2005. The prior year adjustment, though a departure from Sri Lanka Accounting Standard SLAS 10 - Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies, has been adopted in accordance with the provisions of SLAS 3 - Presentation of Financial Statements.

Reversal of the entire amount of deferred tax asset in the current year will lead to a net loss of Rs. 7,466,000,000 which would be misleading and therefore the departure from the requirement of SLAS 10 becomes necessary to achieve a fair presentation as permitted by SLAS 3 - Presentation of Financial Statements. Therefore a prior year adjustment was considered necessary to achieve a fair presentation.

The amounts shown in the Balance Sheet represent the following:

	Group		Company	
	2003	2002	2003	2002
Deferred tax asset	(2,332)	(4,424)	(2,332)	(4,424)
Deferred tax liability	10,471	11,570	10,471	11,570
	8,139	7,146	8,139	7,146

18. DEFERRED INCOME

Deferred income represents the new connection charges, net of amounts amortised to the Income Statement. Connection charges are initially recognised as deferred income and amortised over a period of 15 years as stated in Accounting Policy Q.

	Group/Company	
	2003	2002
Balance at 1 January	7,132	6,879
Connection fees for the year	858	981
Amount amortised during the year	(776)	(728)
Balance at 31 December	7,214	7,132

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	2003	2002
Amounts due within one year				
Domestic trade payables	717	509	472	483
Capital expenditure payables	1,289	1,123	1,271	738
Social security and other taxes	257	221	257	220
Interest payable	543	718	543	718
Other creditors [Note (a)]	2,076	2,537	2,212	2,529
	4,882	5,108	4,755	4,688

- (a) Other creditors include Rs. 654 million (2002 - Rs. 118 million) payable to various telecommunication operators, Rs. 237 million (2002 - Rs. 237 million) dividend payable to Government Treasury and Rs. 290 million (2002 - Nil) and Rs. 36 million (2002 - Nil) payable as compensation and gratuity respectively to employees who retire under the Voluntary Retirement Scheme.

20. RETIREMENT BENEFIT OBLIGATIONS

Movement in the liability recognised in the Balance Sheet:

	Group		Company	
	2003	2002	2003	2002
At beginning of year	429	330	411	329
Liabilities acquired in business combination	-	16	-	-
Current service cost (Note 3)	155	99	152	98
Contributions paid				
- VRS employees	(68)	-	(68)	-
- Other employees	(23)	(16)	(20)	(16)
At the end of year	493	429	475	411
Current (due within one year)				
Liability for VRS employees	(36)	-	(36)	-
Non-current (due after one year)	457	429	439	411

As stated in Accounting Policy N, an actuarial valuation was carried out by an independent actuary in respect of all employees of SLTL as at 31 December 2003.

The principal actuarial assumptions used were as follows:

	Company 2003
Discount rate	11%
Future salary increases	9%
Future pension increases	3.2%

In addition to the above, demographic assumptions such as mortality, withdrawal and disability and retirement age were considered for the actuarial valuation.

21. INSURANCE RESERVE

	Group/Company	
	2003	2002
At beginning of year	86	86
Income Statement charge	9	-
At end of year	95	86

22. GROUP REPORTING DATES

The financial statements of Sri Lanka Telecom (Services) Limited (SLTSL) and Mobitel (Private) Limited, wholly-owned subsidiaries, are prepared to 31 December each year.

23. ORDINARY SHARES

	Company	
	2003	2002
Authorised		
10,000,000,000 (2002 - 10,000,000,000) ordinary shares of Rs. 10/- each	100,000	100,000
Issued and Fully Paid		
1,804,860,000 ordinary shares of Rs. 10/- each	18,049	18,049

The issued and fully paid share capital is held as follows:

	2003		2002	
	Holding Percentage	No. of Shares	Holding Percentage	No. of Shares
Government of Sri Lanka (GOSL)	49.50%	893,405,700	49.50%	893,405,700
NTT Communications Corporation (NTT)	35.20%	635,076,318	35.20%	635,076,318
Employees and others	15.30%	276,377,982	15.30%	276,377,982
		1,804,860,000		1,804,860,000

24. CAPITAL RESERVE

Capital reserve includes capital reserve arising on the acquisition in 1996, of 15,170,640 shares in Mobitel (Private) Limited, a joint venture cellular telephony company.

25. HEDGING RESERVE

	Group/Company	
	2003	2002
At beginning of year	(1,146)	(888)
Cash flow hedges		
- Foreign currency translation difference	(208)	(829)
- Income Statement charge (Note 5)	609	571
At end of year	(745)	(1,146)

- The Company's risk management objective is to minimise losses on foreign currency translation relating to the repayment of loans denominated in foreign currency. This is accounted as a cash flow hedge.
- The policy for hedging each type of forecast transaction is stated in Accounting Policy S.
- The future transactions are forecasted for a period of five years.

26. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2003	2002	2003	2002
Profit before tax	3,242	5,207	3,376	5,203
Adjustments for				
Depreciation (Note 9)	8,241	7,604	7,987	7,558
Amortisation of deferred costs (Note 5)	48	48	48	48
Net exchange loss on financing activities (Note 5)	609	571	609	571
Interest expense and related charges	2,254	2,758	2,193	2,746
Interest income	(316)	(552)	(311)	(551)
Connection fees less amortisation (Note 18)	82	253	82	253
Share of result before tax of associates (Note 11)	-	29	-	29
Profit on sale of property, plant & equipment	(4)	(3)	(4)	(3)
Provision for insurance reserve (Note 21)	9	-	9	-
Amortisation of goodwill (Note 10)	78	13	-	-
Retirement benefits (Note 20)	64	83	64	82
	<u>14,307</u>	<u>16,011</u>	<u>14,053</u>	<u>15,936</u>
Changes in working capital				
- trade and other receivables	20	(360)	32	(391)
- inventories	(120)	368	110	363
- payables	(86)	(53)	207	(30)
Cash generated from operations	<u>14,121</u>	<u>15,966</u>	<u>14,402</u>	<u>15,878</u>

27. COMMITMENTS**Capital Commitments**

The Group/Company has purchase commitments incidental to ordinary course of business as at 31 December 2003 as follows:

	Group		Company	
	2003	2002	2003	2002
Property, plant & equipment	<u>17,589</u>	<u>3,737</u>	<u>9,278</u>	<u>3,570</u>

Lease Commitments

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

	Group		Company	
	2003	2002	2003	2002
Later than one year and not later than five years	<u>93</u>	<u>22</u>	<u>57</u>	<u>-</u>

Financial Commitments

Except for the regular maintenance contracts entered into with third parties within the normal course of business there are no other material financial commitments which should require separate disclosure.

28. CONTINGENCIES

- (a) Mobitel (Private) Limited is a defendant against a law suit to the value of Rs. 2 million. As per legal opinion the outcome of this is uncertain and the Directors of the Company believe based on the information currently available, that the ultimate resolution of such legal procedures would not likely have a material adverse effect on the results of operation, financial position or liquidity. Accordingly, no provision for any liability has been made in these financial statements.
- (b) A draft bill of the Vishwa Grama Fund is presently being considered by Parliament to impose a levy on the Company. Pending the enactment of the bill the financial statements for the year ended 31 December 2003 do not include a provision in respect for the contribution. Accordingly, no provision for liability has been made in these financial statements.

29. DIRECTORS' INTERESTS IN CONTRACTS

A Director is considered to have a direct interest in a contract with the Company, if the Director him/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 Limited held Directorship in the following companies:

Director	Company	Position
Mr. T. Sumathipala	Sumathi Trading Company	Partner (50% holding)
	Sumathi Book Printing (Private) Limited	Director
	Sri Lanka Telecom Services (Private) Limited	Director
	Mobitel (Private) Limited	Chairman
Mr. R. H. Fernando	MSL Audit (Private) Limited	Director
	Commercial Bank of Ceylon Limited	Alternate Director
	Central Industries Limited	Director
	Ernst & Young	Partner
	Ernst & Young Investment Consultants (Private) Limited	Director
	Management Systems Limited	Director
	MSL Galle (Private) Limited	Director
	Secretarial Services Limited	Director
Business Intelligence Limited	Director	
Mr. N. Pathmanathan	Ceylon Petroleum Corporation	Director
	Galadari Hotels Limited	Director
Mr. Shuhei Anan	Mobitel (Private) Limited	Director
	Sri Lanka Telecom Services (Private) Limited	Director
Ms. M.A.R.C. Cooray	Sri Lanka Institute of Information Technology	Director
	Development Finance Corporation of Ceylon	Director
	Ceylon Electricity Board	Director
	Thomas De La Rue and Company Limited	Director
Mr. A.R. Ekanayake	Council of Information Technology	Director
Mr. Kiyoshi Maeda	NTT Com Asia Limited	Director
	HK Net Co., Limited	Director
	NTT Korea Co., Limited	Director
	NTT Australia Pty. Limited	Director
	NTT Australia IP Pty. Limited	Director
	Milletechno, inc.	Director

Director	Company	Position
Mr. H. Yamada	AutoWeb Communications, Inc	Director
	StarHub Pte. Limited	Director
	NTT America, Inc.	Director
	NTT Europe Limited	Director
	NTT Singapore Pte. Limited	Director
	NTT MSC Sdn. Bhd.	Director
Mr. Mitsuhiro Takase	NTT Communications Corporation	Director
	Philippine Long Distance Telephone Company	Director
Mr. Setsuya Kimura	NTT Communications Corporations (Thailand) Co. Limited	Director

SLTL had the following transactions with the above companies during the year under review:

Mobitel (Private) Limited

Payments amounting to Rs. 7 million (2002 - Rs. 4.9 million) have been made during the year on call charges relating to cellular phones purchased for SLTL employees. Further, cellular phones amounting to Rs. 2 million (2002 - Rs. 3.3 million) were purchased from Mobitel (Private) Limited during the year.

During the year 2002 a short-term interest free loan amounting to Rs. 138 million was granted to Mobitel (Private) Limited for which ordinary shares were issued in favour of this balance during the year ended 31 December 2003.

Mobitel (Private) Limited has entered into an agreement with the Sri Lanka Cricket for sponsoring the England Cricket tour for which the Company incurred Rs. 7.5 million.

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

- (i) Loans amounting to Rs. 4,498 million and USD 10 million for GSM roll out and operational expenses.
- (ii) To obtain an investment commitment guarantee amounting to Rs. 250 million issued by banks in favour of TRC for bidding for a slot in the 1800 MHz band for the GSM roll out.
- (iii) To open L/C for GSM roll out a guarantee for USD 5 million was issued to a bank.
- (iv) Loan for USD 11.5 million and Rs. 7.3 billion for the GSM roll out. This loan will absorb Rs. 3 billion and USD 10 million described in (i) above, and also the USD 15 million cash deposit kept as collateral to open an L/C referred to in Note 15 (c), and will also absorb the USD 5 million guarantee issued to a bank, referred in (iii).

Outstanding balances arising from sale/purchase of services

	2003	2002
Receivable from related party		
Mobitel (Private) Limited	37	78
Payable to related parties		
Mobitel (Private) Limited	37	-
Sri Lanka Telecom (Services) Limited	15	15
	52	15

NTT Communications Corporation

As per the shareholders' agreement with NTT, which owns 35% of the issued share capital of SLTL, the following charges have been borne by the Company:

	2003	2002
Remuneration for experts seconded to SLTL	60	102
Expenditure for experts seconded to SLTL	12	51
Management fees to NTT	-	240
	72	393

Management agreement between NTT Communications Corporation and the Company came to an end on 4 August 2002.

Sumathi Book Printing (Private) Limited

The following tenders were awarded to Sumathi Book Printing (Private) Limited:

Tender number	Value (Rs. million)	Description
LS/MTCE/SS/2003	44	Printing of Telephone Colombo Directories
LS/MTCE/LSSO/86/2002	5	Printing of Provincial Directories

SLTL did not have any other transactions with the above companies during the year.

30. 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.

Accordingly, Sri Lanka Telecom Services Limited (SLTSL) is a related party of SLT where SLT has the ability to control. 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 SLT where SLT has the ability to control. All transactions during 31 December 2003 and balances as at the Balance Sheet date between the two companies have been eliminated in preparing consolidated financial statements.

Mrs. M. Pathmanathan, wife of Mr. N. Pathmanathan, Directors of the Company, held 5,000 ordinary shares of the Company as at 31 December 2003.

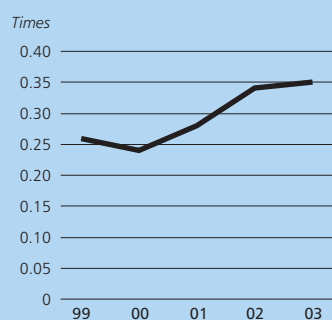
Other related party transactions should be read in conjunction with Note 29 to the financial statements.

31. POST BALANCE SHEET EVENTS

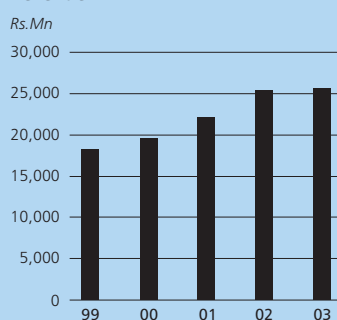
No events have arisen since the Balance Sheet date which would require adjustments to, or disclosure in, the financial statements.

	2003 Rs. Mn	2002 Rs. Mn	2001 Rs. Mn	2000 Rs. Mn	1999 Rs. Mn
Financial Position - (Group)					
Property, Plant & Equipment	55,763	56,722	59,093	61,498	58,136
Total Assets	72,373	74,765	80,173	82,497	70,797
Current Assets	14,626	15,963	13,772	12,213	10,906
Current Liabilities	12,440	12,048	12,144	12,134	10,920
Borrowings	21,081	25,926	31,534	34,633	31,116
Equity	30,600	29,024	36,957	35,742	22,329
Performance					
Revenue	25,553	25,383	22,060	19,605	18,281
Operating Profit	5,678	7,953	6,314	4,984	5,061
Finance Cost	2,863	3,377	3,585	4,516	3,313
Earnings before Tax	3,242	5,207	3,618	914	2,325
Taxation	993	2,522	1,515	693	1,056
Earnings after Tax	2,249	2,685	2,103	221	1,269
Cash Flow					
Net Operating Cash Flows	11,429	13,458	9,568	9,566	8,461
Net Cash used in Investing Activities	7,278	3,722	4,425	8,894	15,285
Net Cash used in/(from) Financing Activities	5,525	7,552	4,978	(2,066)	(7,099)
Key Financial Indicators					
Earnings per Share (Rs.)	1.3	1.5	1.2	0.1	0.7
Return on Assets (%)	7.8	10.6	7.9	6.0	7.1
Return on Equity (%)	7.3	9.3	5.7	0.6	5.7
Operating Margin (%)	22.2	31.3	28.6	25.4	27.7
Asset Turnover (No. of times)	0.35	0.34	0.28	0.24	0.26
Current Ratio (No. of times C.L.)	1.18	1.32	1.13	1.01	1.00
Quick Asset Ratio (No. of times C.L.)	1.12	1.27	1.05	0.90	0.86
Gearing Ratio (Debt to Rs. 1/- of Debt & Equity)	0.41	0.47	0.46	0.49	0.58
Interest Cover (No. of times Interest)	2.27	2.85	2.27	1.21	1.71

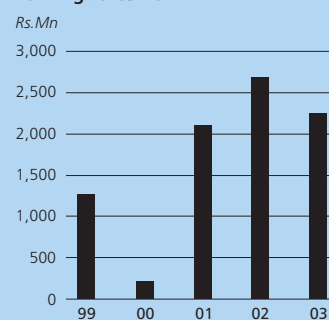
Asset Turnover



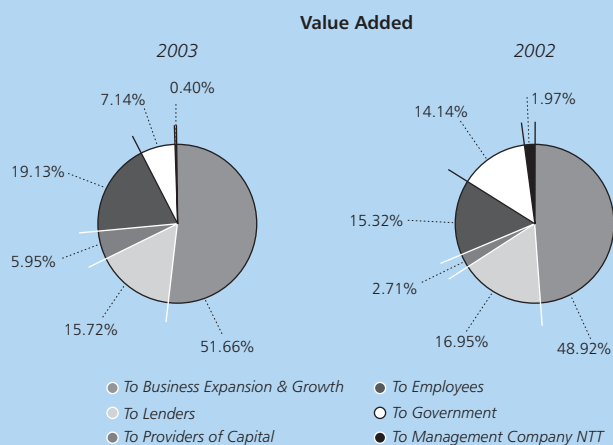
Revenue



Earnings after Tax



	2003		2002	
	Rs. Mn		Rs. Mn	
Revenue	25,553		25,383	
Profit Share of Associated Company	-		(29)	
Other Income	427		660	
	<u>25,980</u>		<u>26,014</u>	
Goods and Services purchased from other sources	(7,771)		(6,085)	
Value Creation	18,209		19,929	
	<u>18,209</u>		<u>19,929</u>	
	2003	%	2002	%
DISTRIBUTION OF VALUE ADDED				
To Employees				
- salaries, wages, & other benefits	3,484	19.13	3,053	15.32
To Providers of Capital				
-dividend to shareholders	1,083	5.95	541	2.71
To Management Company NTT				
-management fees, remuneration & exp.	72	0.40	393	1.97
To Government				
-taxes & regulatory fees	1,300	7.14	2,817	14.14
To Lenders				
-interest & related charges	2,863	15.72	3,377	16.95
To Business Expansion & Growth				
-depreciation	8,241	45.26	7,604	38.16
-retained Income	1,166	6.40	2,144	10.76
	<u>18,209</u>	<u>100.00</u>	<u>19,929</u>	<u>100.00</u>



ANALYSIS OF SHAREHOLDERS ACCORDING TO THE NUMBER OF SHARES AS AT 31.12.2003

	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
1 - 1,000	13,436	6,602,287	0.37	10	6,800	-	13,446	6,609,087	0.37
1001 - 5,000	5,450	15,164,219	0.84	18	56,800	-	5,468	15,221,019	0.84
5,001 - 10,000	3,880	31,246,796	1.73	15	128,000	0.01	3,895	31,374,796	1.74
10,001 - 50,000	2,123	35,986,069	1.99	24	734,500	0.04	2,147	36,720,569	2.03
50,001 - 100,000	135	10,263,212	0.57	5	480,000	0.03	140	10,743,212	0.60
100,001 - 500,000	115	25,473,927	1.41	16	3,747,600	0.21	131	29,221,527	1.62
500,001 - 1,000,000	22	16,118,743	0.89	2	1,560,500	0.09	24	17,679,243	0.98
Over 1,000,000	28	980,285,763	54.31	10	677,004,784	37.51	38	1,657,290,547	91.82
	25,189	1,121,141,016	62.11	100	683,718,984	37.89	25,289	1,804,860,000	100.00

Categories of Shareholders	No. of Shareholders	No. of Shares
Individual	24,928	138,732,911
Institutional	361	1,666,127,089
	25,289	1,804,860,000

20 LARGEST SHAREHOLDERS AS AT THE BALANCE SHEET DATE

Name	No. of Shares	%
Secretary to the Treasury	893,405,709	49.50
NTT Communications Corporation	635,076,318	35.19
HSBC Int'l Nominees Limited SSBT - The Emerging Markets South Asian	14,459,366	0.80
Samurdhi Authority of Sri Lanka	13,333,300	0.74
Voyager Capital (International) Limited	12,464,800	0.69
Employees' Provident Fund	9,865,289	0.55
Sri Lanka Insurance Corporation Limited - General Fund	8,615,935	0.48
Mr. Udeshi	6,700,300	0.37
Mr. Madanayake	5,236,400	0.29
MAS Holdings (Pvt) Limited	5,182,800	0.29
Mr. Rajaratnam	4,364,000	0.24
Explorer Capital (International) Services Limited	3,262,100	0.18
DFCC Bank	3,137,500	0.17
Mr. Nirmalalingam	2,997,900	0.17
Waldock Mackenzie Limited - Mr. A. H. Udeshi	2,808,500	0.16
J. B. Cocoshell (Pvt) Limited	2,632,882	0.15
Bank of Ceylon	2,624,500	0.15
Akbar Brothers Limited	2,285,400	0.13
CLSA Limited	2,188,400	0.12
Waldock Mackenzie Limited - Mr. A. F. Munas & Mrs. N. Munas	1,868,000	0.10
	1,632,509,399	90.45

MARKET VALUE OF SHARES

Market Value of the ordinary shares of the Company (Rs.)

	3 months to 31.12.2003	12 months to 31.12.2003
- Highest	30.00	30.00
- Lowest	16.00	10.50
- Last traded price	18.00	18.00

RATIOS

<i>31st December</i>	Group		Company	
	2003	2002	2003	2002
Net Assets per Share (Rs.)	20.95	25.49	21.06	25.52
Debt Equity Ratio (Debt Equity) - Number of times	0.56	0.56	0.46	0.55
Quick Asset Ratio - Number of times	1.11	1.27	1.34	1.34
<i>For the year</i>	2003	2002	2003	2002
Interest Cover - Number of times				
- before VRS	2.55	2.85	2.64	2.86
- after VRS	2.27	2.85	2.36	2.86

DIVIDEND PAYMENT

Interim Dividend - Rs. 0.30 per share paid on 11 February 2003.

Final Dividend - Rs. 0.30 per share paid on 3 June 2003.

Share trading from 14th January 2003 to 31 December 2003.

(Trading commenced on 14 January 2003)

- No. of transactions	17.397	34.041
- No. of shares traded	113,510,500	279,750,200
- Value of shares traded (Rs.)	2,693,745,650	5,509,529,600

DEBENTURES

1,500,000 unsecured redeemable 5 year debentures (2000/2005) par value of which were Rs. 1,000/- per unit were issued in March 2000.

The second tranche of 25% of the principal sum was redeemed in March 2003.

On redemption the par value of a unit was reduced to Rs. 500/-.

Market Value after redemption of 2nd tranche on 22 March 2003

	Annually (Fixed 14.5%)	Quarterly (Fixed 14%)	Half yearly (Floating)
- Highest	650.00	525.00	No transaction
- Lowest	590.00	522.00	-do-
- Last traded (as at 31.12.2003)	590.00	525.00	-do-

MARKET VALUE OF DEBENTURES DURING THE YEAR (RS.)

	Before redemption of 2nd tranche on 22 March 2003			After redemption of 2nd tranche on 22 March 2003		
	Par Value of Rs. 750.00			Par Value of Rs. 500.00		
	Annually (Fixed)	Quarterly (Fixed)	Half yearly (Floating)	Annually (Fixed)	Quarterly (Fixed)	Half yearly (Floating)
- Highest	785.00	760.00	No.	650.00	525.00	No.
- Lowest	775.00	760.00	transactions	590.00	522.00	transactions
- Last traded price	785.00	760.00		590.00	525.00	

	Annually Fixed Year ended 31 Dec.		Quarterly Fixed Year ended 31 Dec.	
	2003	2002	2003	2002
	Interest yield on last traded price	12.29%	14.50%	13.33%
Yield to maturity on last traded price	2.15%	14.50%	7.02%	12.80%
Interest rate of comparable Government Securities	7.44%	9.90%	-	-

NOTICE IS HEREBY GIVEN that the Seventh Annual General Meeting of Sri Lanka Telecom Limited, will be held at the Samudra Ball Room, Hotel Taj Samudra, No. 25, Galle Face Centre Road, Colombo 3 on Friday, 28th May 2004 beginning at 3.00 p.m. for the following purposes:

AGENDA

- 1) To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2003 with the Report of the Auditors thereon.
- 2) To declare a first and final dividend of 5% per share on the issued share capital of the Company as recommended by the Directors.
- 3)
 - i) To re-elect as Director, Mr. N. Pathmanathan, who retires by rotation in terms of Articles 91 & 92 of the Articles of Association.
 - ii) To re-elect as Director, Mr. Mitsuhiro Takase, who retires in terms of Article 97 of the Articles of Association.
 - iii) To re-elect as Director, Mr. Haruhiko Yamada, who retires in terms of Article 97 of the Articles of Association.
 - iv) To re-elect as Director, Mrs. M. A. R. C. Cooray, who retires in terms of Article 97 of the Articles of Association.
 - v) To re-elect as Director, Mr. K. C. Logeswaran, who retires in terms of Article 97 of the Articles of Association.
- 4) To re-appoint 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 business as may properly come before the meeting.

By Order of the Board

Ms. P.G. Dias

Company Secretary

6 April 2004

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

Sri Lanka Telecom Annual Report 2003

I/We of
 being a member/members of

SRI LANKA TELECOM LIMITED hereby appoint:

Mr. Thilanga Sumathipala	whom failing
Mr. Shuhei Anan	whom failing
Mr. Namasivayam Pathmanathan	whom failing
Mr. Kiyoshi Maeda	whom failing
Mr. Mitsuhiro Takase	whom failing
Mr. Haruhiko Yamada	whom failing
Mrs. M. A. Rose Chandralatha Cooray	whom failing
Mr. K. Cathiravelpillai Logeswaran	whom failing

..... of
 as my/our proxy to vote for
 me/our behalf as indicated below and/or* at the
 Seventh Annual General Meeting of the Company, to be held on the 28th day of May 2004 and at any adjournment thereof and at every
 poll which may be taken in consequences thereof.

	For	Against
1. To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2003 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of 5% per share on the issued capital of the Company as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. (i) To re-elect as Director, Mr. N. Pathmanathan, who retires by rotation in terms of Articles 91 & 92 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect as Director, Mr. Mitsuhiro Takase, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re- elect as Director, Mr. Haruhiko Yamada, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect as Director, Mrs. M. A. R. C. Cooray, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect as Director, Mr. K. C. Logeswaran, who retires in terms of Articles 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint M/s. PricewaterhouseCoopers, Chartered Accountants, as Auditors of the Company and authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to determine and make donations to charities.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this day of May, Two Thousand & Four.

.....
 Signature

Please read the instructions on the reverse of the Form of Proxy.

INSTRUCTIONS AS TO COMPLETION FORM OF PROXY

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address by signing on the space 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 any amendment to the resolutions or make any statement in regard thereto on behalf of any shareholder.
3. If you wish your Proxy Holder to speak at the meeting you should insert the words **“to speak”** in the space indicated with the* immediately after and/or and initial such insertion.
4. 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/her discretion will vote as he/she thinks fit.
5. If another proxy is perfected, delete the names printed; add the name of the proxy preferred, and initial the alteration.
6. 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.
7. The completed Form of Proxy should be deposited with the Company Secretary, Sri Lanka Telecom Limited, Telecom Headquarters, Lotus Road, Colombo 01 not less than 48 hours before the time fixed for the holding of the meeting.

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.

Stock Exchange Listing

The Ordinary Shares and the Unsecured
 Redeemable five-year Debentures of the
 Company are listed in the Colombo Stock
 Exchange.

Registered Address

Telecom Headquarters
 Lotus Road
 Colombo 1

Board Directors

Mr. Thilanga Sumathipala - *Chairman*

Mr. Shuhei Anan -
Chief Executive Officer

Mr. N. Pathmanathan

Mr. Kiyoshi Maeda

Mr. Mitsuhiro Takase

Mr. Haruhiko Yamada

Mrs. M.A.R.C. Cooray

Mr. K.C. Logeswaran

Auditors

PricewaterhouseCoopers
Chartered Accountants

Company Secretary

Ms. P.G. Dias, ACIS

Bankers

Bank of Ceylon
 People's Bank
 Commercial Bank of Ceylon Limited
 Hatton National Bank Limited
 Standard Chartered Bank
 Citibank N.A.
 HSBC Bank
 Sampath Bank
 Seylan Bank
 NDB Bank
 Nations Trust Bank
 Deutsch Bank

Regional Telecom Offices

Ampara	Hatton	Matara
Anuradhapura	Havelock Town	Negombo
Avissawella	Jaffna	Nugegoda
Badulla	Kalmunai	Nuwara Eliya
Bandarawela	Kalutara	Polonnaruwa
Batticaloa	Kandy	Panadura
Chilaw	Kegalle	Ratmalana
Colombo Central	Kotte	Ratnapura
Galle	Kurunegala	Trincomalee
Gampaha	Mannar	Vavuniya
Gampola	Maradana	Wattala
Hambantota	Matale	

Subsidiary Company

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
Telecom City (Pvt) Limited	100%	Operation of Call Centres and Data Centres

