Strength and Resilience in Diversity

Sri Lanka Telecom

Annual Report 2008

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

Our 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.

Financial Reports

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

*The 'Kaleidoscopic' approach
illustrates well, the 'weave and interplay'
that SLT's premier qualities - its strength,
diversity and resilience - bring to the
Company's enterprise.*

*These are the qualities that embolden
us to look beyond... to take a mercurial
business in hand and align it with
customer expectation... to lay strategy
that is always forward thinking...
to pre-empt challenge and change...
to always build business
with the customer.*

*These are exciting times...
our goals beyond are many.*

SRI LANKA TELECOM IN A NUTSHELL

Sri Lanka Telecom (SLT) is the Country's leading telecom operator. It is a Company that has gainfully carried forward the legacy of the incumbent whilst successfully integrating related businesses plus a modern organisational structure and culture. SLT is listed on the Colombo Stock Exchange and is its largest capitalised Company. In addition to dominating the fixed wire-line segment, SLT is also rapidly developing its fixed wireless and mobile segments. The latter is SLT's major growth area at present. SLT is also the market leader and technological forerunner of the burgeoning broadband segment. SLT's island-wide copper-line network together with its island-wide fibre optic network and the newly acquired wireless WiMAX network gives it a unique and significant advantage to rapidly expand its broadband services catering to every market segment and geographical area of the Country. SLT also leads in the Internet Service Provider (ISP), Data and External Gateway Operator (EGO) segments. SLT has also just entered the entertainment segment with the launch of IPTV services. The SLT Group is further fortified with subsidiaries providing networking and systems integration, manpower, software and directory publishing services. SLT is arguably the most integrated and future proof telecom Company in the Country. It also has a significant and growing international business including major investments in undersea cables and points of presence overseas. The SLT Group will in the next three years become a true quadruple player when it completes its migration into a Next Generation Network.

AAA (lka)
Credit rating by Fitch

B+
International credit rating by Standard & Poor's

CHAIRPERSON'S MESSAGE- *Page 04*

The story behind SLT's sterling performance in what would go down in history as one of the most challenging years in the global economy where no country including Sri Lanka was spared. Having played a dual role as Chairperson and de facto CEO in the year under review, details of the strategic direction being pursued are also dealt with.

GROUP REVIEW - *Page 12*

An attempt to give an integrated review of the SLT Group. Today, SLT is a Group consisting of seven subsidiaries in addition to the parent company which has widespread operations in it, in addition to being the holding company. SLT is moving in the direction of integrating group operations and services around common customer needs. Integration is far from complete. In fact, it has just begun. Hence, we are gradually changing our reporting structure in this chapter to reflect the integrated whole whilst retaining the requisite structure and content from previous years to enable easy comparison.

Infrastructure - Page 12
Gives an update of SLT's networks and technologies which form the bedrock from which the Company launches its various services.

Services - Page 15
A performance review and status update of the main services provided by the Group - viz - wire line and wireless voice; Internet, where the world's latest Internet Protocol Version IPv6 was launched in the year under review; Broadband where the customer base has approached a 100,000 which is over 50% of market share, covering 248 cities in 21 districts; IPTV which was launched in the year under review and marked SLT's foray into the exciting entertainment segment; and corporate solutions where SLT provides an unmatched total communications solution to large enterprises. Mobile is discussed on page 21.

Supporting ICT Initiatives - Page 18
A snapshot of the progress made in the various mega ICT projects of SLT run on a national scale.

SLT... Serving the Global Market - Page 19
A brief status update of SLT's overseas ventures.

Customer Convenience - Page 19
An update of SLT's customer-care infrastructure and initiatives.

Symbiosis and Success... Mobitel in 2008 - Page 21
A comprehensive review of SLT's subsidiary Mobitel, that focuses on the mobile segment. 2008 was a banner year for Mobitel, where its overall subscriber base grew by 1.3 million to reach 2.7 million and where revenue grew by 72% to surpass Rs. 12 billion and after tax profit crossed the Rs. 1 billion mark. Key initiatives in the year such as the launch of the highly successful UPAHARA package are discussed in detail under the backdrop of Mobitel's overarching strategy of value innovation.

GROUP DATA

	2008	2007
Revenue (Rs. million)	**47,044**	43,234
EBIT (Rs. million)	**10,411**	9,345
Earnings before Tax (Rs. million)	**9,560**	8,399
Earnings after Tax (Rs. million)	**7,367**	5,640
Earnings per Share (Rs.)	**4.08**	3.12
Return on Capital Employed (%)	**13.00**	11.67
Return on Equity (%)	**15.50**	13.46
No of Employees	**9,925**	7,987

FINANCIAL REVIEW - *Page 46*

For ease of comparison with previous years and greater clarity, this year too we are continuing to present separate financial reviews for SLT (the company) and Mobitel our 100% owned subsidiary.

SLT Financial Review - Page 46

Revenue decreased by 3% in 2008 to Rs. 36.11 billion due to intense competition and tariff reductions. Data-related revenues contributed significantly recording an impressive 43% growth. Operating costs, including International Telecommunication Operators' Levy and the VRS rose by a marginal 3.9% to Rs 30.1 billion. Finance costs decreased by 11.8% to a modest Rs. 1.2 billion. Tax payable was also down by 21% to Rs. 2.17 billion. Profit before tax was up by 8% to Rs. 8.77 billion whilst profit after tax was up by 22.5% to Rs. 6.60 billion. The increase in profits despite the decrease in revenue is attributed to additional income in the form of a refund from the Telecommunication Regulatory Commission (TRC) on account of Telecommunication Development. The refund granted was Rs. 2.18 billion. Total assets were Rs. 81.97 billion, as against Rs. 78.9 billion the previous year. Gearing ratio is healthy at 22%. Working capital eroded significantly due to the US$ 100 million bond shifting from non-current liabilities to current liabilities. Cash flow of the Company continues to remain strong.

Mobitel Financial Review - Page 51

Revenue increased by an impressive 72% to Rs. 12.06 billion in 2008. This increase is attributed to the rapid growth in prepaid subscriber base coupled with an increase in postpaid subscribers during the latter part of 2008. EBITDA grew by a phenomenal 71% to Rs. 4.27 billion. Net profit was up a whopping 360% to Rs. 1.17 billion compared to the net profit of Rs. 0.25 billion in 2007.

SUSTAINABILITY REPORT - *Page 28*

A comprehensive look at the Company's conduct of its business affairs across the tri-dimensional foundations of sustainability - the economic, the social and the environmental aspects. We also elaborate on the volition behind endeavour - being the national communications service provider, identifying strategic common ground such as supporting learning, ICT development and more.

CORPORATE GOVERNANCE - *Page 41*

An account of the policies and ethics that underpin every action and thought of the Company. The form and content of Governance, where areas of responsibility and the functions of the Company's various administrative and governance units also deliver on the rights and expectations of stakeholders.

INVESTOR RELATIONS - *Page 56*

The year under review saw important changes in SLT's ownership profile. On 1 April, the Company was the subject of the largest single transaction ever to take place on the Colombo Stock Exchange when NTT Corp., then SLT's second largest shareholder, sold the entirety of its 35.2% holding to Global Telecommunications Holdings (GTH) N.V. Currently, the Government of Sri Lanka and GTH holds 49.5% and 44.98% of the shares respectively. In total there are some 15,000 shareholders. In line with the Board policy, no member of the Board of Directors had any shareholding in the Company.

2009 - THE YEAR OF ICT AND ENGLISH

SLT welcomes the Government of Sri Lanka's declaration of 2009 as the year of ICT and English. We are conscious of our pivotal role in delivering this nationwide strategic imperative.

Dear Shareholders,

In the face of negatives like escalating costs and an inclement economic scenario, Sri Lanka Telecom kept to speed... new initiatives... new investments... it was not the time to look back. This is possible when you have right strategies... great capacities... astute leadership... formidable technologies... in such diversity lies our strength and resilience.

CHAIRPERSON'S MESSAGE

You have in your hands the Annual Report and Audited Accounts of your Company, Sri Lanka Telecom, for the year 2008.

Through this message I would like to share with you the strategic direction that drives Sri Lanka Telecom's enterprise within the context of local and global industry trends and environments, whilst also touching briefly upon the key developments and achievements of the year.

The year 2008 was a challenging one.

It was a year in which failures in leading financial markets of the world heralded imminent world economic recession.

Sri Lanka, with its imports-dependant economy, was already grappling with high international oil and commodity prices that prevailed in early 2008. Soaring price levels, high interest rates and lending restrictions also contributed to a generally difficult year for business.

Thus, your Company operated within a climate of turmoil, with high inflation rates, rising costs and a reducing tariff regime all creating pressure on our income and profitability. We had to resort to bold measures to withstand adversities and remain sustainable. If the economic challenges were not taxing enough, there were other challenges the sector had to endure in the form of increased spectrum fees, increases in mobile subscriber levy, regulation on mobile subscriber re-registration amongst others.

Challenge also arose from the very nature of the industry we are in. Fast paced and super-dynamic evolution and development continues to change the face of communications across the world. We are now further along the road than ever before, towards an era of com-media - a realm where technology and infrastructure now provide a single platform for all communications, data and entertainment needs. Challenge arises in keeping abreast of change; often pre-empting change. External factors such as local and global economies also exert challenge to enterprise.

Also, we had to manage the affairs of the Company without the services of a Chief Executive Officer and in this context, the positive results achieved, which I will discuss later in this message, stand as eloquent testimony to the commitment and loyal, unstinted support of the Board of Directors, all the chief officers and employees at all levels which was rendered to me as Chairperson to chart a profitable course during the year in review.

If we were to capture in one phrase, the attributes of your Company in pursuing success within such an environment, it would read, 'Strength and Resilience in Diversity'. Your Company counts over a century of service to the Nation, in the telecommunications sphere. Such longevity has built our enterprise into one of Sri Lanka's largest business entities. It is Sri Lanka's strongest player in the communications arena. Sagacity in administration and planning has also equipped Sri Lanka Telecom with a resilience and diversity not born of technology and products alone - ours is an enterprise embracing great diversity in terms of skill and professionalism, all of which have enabled us to truly convert challenge into opportunity.

Let me now lend some perspective to the achievements and progress of Sri Lanka Telecom, in respect of the year in review.

ECONOMIC AND INDUSTRY ENVIRONMENT

Sri Lanka's economy grew by 6.6% during the first half of 2008. The Services sector, within which communications is a sub-sector, recorded a marginal deceleration from the previous financial year 6.7% during the first half of 2008 as against 6.8% in 2007 during the same period. However, the telecommunications sector maintained its high growth momentum, with overall growth rates in terms of subscribers standing at 42% for Fixed Access telephones, 39.6% for Cellular telephones and 48.7% for Internet and E-mail services during the first six months of 2008. Inflation stood at 25% over the same period.

The 'cumulative thrust' of all operators and service providers active in the market enabled them to achieve a market penetration of 51%. Of this total, Fixed Line penetration reached 13%, whilst Mobile penetration reached 38%.

From a developing country perspective, Fixed Line penetration is at an average of 16% and thus it can be seen that Sri Lanka is below this average. The global voice market also indicates high mobile growth, low fixed line growth and high voice traffic growth, whilst in the international voice market the traditional technology known as TDM (Time Division Multiplexing) is becoming dominant over the newer technology VoIP (Voice over Internet Protocol), with an approximate growth rate of 10%.

What is becoming increasingly apparent is that Broadband services are truly the future of communications across the globe. Trends show services such as IPTV growing at an extremely healthy rate worldwide.

STRATEGIES THAT ARE DRIVING OUR BUSINESS

Over the past decade, your Company tread strategically planned paths that kept it at the cutting edge of the industry. Thus we moved seamlessly across several phases - from initial investment, to building required corporate management skills, strengthening structure, building image and becoming a technology leader espousing diversification. In 2008, the year under review, we focussed on fulfilling the role of a Global IP Solutions provider.

We see the way unfolding before us, over the coming years, where emphasis will shift from networks to markets. Customer centricity is key in the unfolding process where the developing market scenario displays all the signs of significant growth in the mobile and data domains, whilst the fixed line voice market will be stagnant.

Our fully owned subsidiary Mobitel carries strategy forward in terms of developing mobile telephony across the country. In growing its product/technology and service portfolios very significantly over the years, Mobitel is a key contributor to the holistic communications solution Sri Lanka Telecom is able to offer the market.

It is envisaged that Broadband services will dominate and play a highly significant role in delivering to the customer a 'one time' solution to a variety of needs spanning Voice, Data and Entertainment - all delivered on a single, triple play platform. Today, Sri Lanka Telecom is geared to enhance this further to a 'quad play' platform which will add Mobile Telephony to the existing triple play suite of products and services.

In its optimised deployment, broadband introduces far reaching 'lifestyle changing' opportunities to customers to enjoy multiple services from a single source. The day is here when one can enjoy Entertainment via the Internet, Telephony, including Mobile Telephony and use the same source to access e-mail, surf the web and use other computer applications. One can see a blurring of boundaries between home and office, which is also an indication of what future work and home lifestyles could become.

In the years ahead, Sri Lanka Telecom will seek to maintain its share of the voice market, lead the data market and grow the exciting new entertainment market.

In terms of strategic focus across the Sri Lanka Telecom Group, we have five key areas demarcated . They are – the strengthening and development of our Global Business sector, enhancing the Broadband product in the market, continuing to pursue Diversification, working towards a position of pre-eminence as Sri Lanka's premier ICT Solutions Provider and further developing Customer Centricity across all areas of business.

Whilst Sri Lanka Telecom the Company is very much on track in this regard, these are strategic areas that will be pursued by the Group.

TAKING STRATEGIES FORWARD

In terms of *Global Business*, Sri Lanka Telecom is establishing a growing presence beyond Sri Lanka. A Point of Presence in Hong Kong is already established. More are planned for the future.. We are partners in several undersea cable projects such as SEA-ME-WE 3, SEA-ME-WE 4, Bharat-Lanka and Dhiraagu-Lanka, which allow us to fulfil the role of a Global IP Solutions provider.

In respect of these undersea cable projects, Sri Lanka Telecom has adopted a cautious approach when pursuing options available. The coming years will see the Company becoming more pro-active in pursuing strategically beneficial alliances with reputed third parties, thus better utilising the full potential these cable projects can yield.

Sri Lanka Telecom enjoys a dominant presence in the *Broadband* segment. However, as more service providers enter the market we envisage some erosion of market share to take place in the years ahead.

As the incumbent with an extensive and exclusive copper line network, it was natural that we launched our broadband services on this. Thereafter, we expanded our broadband offering with higher speeds over our fibre optic network. However, as acceleration of the pace of rolling out our broadband services to reach the hinterland of the country became our priority, we introduced broadband over the wireless technology known as WiMAX. We did so by acquiring the Company Sky Network (Pvt) Limited which is today a subsidiary of Sri Lanka Telecom becoming fully operational in the current year.

A key strategic objective for accomplishment within the next three years will be a complete transfer of services to our Next Generation Network (NGN). This is the future as regards the evolution of Sri Lanka Telecom's core network. Instead of the current separate terminals, one requires to access Fixed Telephony, Mobile Telephony and Personal Computer/Personal Digital Cellular applications, NGN will enable a single source access to all these plus Entertainment such as TV.

With the launch of IPTV services this year, Sri Lanka Telecom has provided the market with a strong icon for its efforts at *Diversification*. Prospects look favourable.

IPTV is a huge step the industry has been able to take, underpinned by state-of-the-art networks and broadband technology, where the world of communications has converged with that of media, allowing communication and entertainment products on one platform. It has seen a quantum leap in customer freedom of choice, enabling Television services to be bundled with Internet, web access and Voice over Internet services. The possibilities such a product offers are limitless.

The potential of IPTV is such that Sri Lanka Telecom in the year under review, incorporated a fully owned subsidiary company, SLT VisionCom (Pvt) Limited, to exclusively manage the product.

Other subsidiary companies of SLT also play a significant role in moving our strategies forward.

SLT Manpower Solutions (Pvt) Limited was incorporated in the year under review and when fully operational, will handle total manpower requirements of Sri Lanka Telecom in the future whilst also expanding its offering into the external market.

The Directory publishing operation that was handled by our Directory Service Division was later developed and upgraded to a fully-fledged independent subsidiary entitled SLT Publications (Pvt) Limited This new entity will in addition to directory publishing, focus on a broader market segment by providing information, printing and publishing services.

Sri Lanka Telecom (Services) Limited is SLT's pioneer subsidiary company which today specialises in providing 'customer premises solutions', including cabling, products/ service packages such as ADSL, Internet, Voice and Data, Wireless LAN and ICT consultancy services.

Your Company is the leader in the provision of Data and *ICT Solutions*.

The global renaissance that ICT has brought about has radically transcended parochial boundaries that had limited access to information, learning and business opportunities, to traditional methods. Today, the customer needs only to be connected to the worldwide web and an unimaginable world of learning and opportunity unfolds. This is particularly heartening for Sri Lanka Telecom as a Company to be privy to, as we are in the vanguard of the ICT revolution in Sri Lanka.

Our commitment to providing platforms for e-learning, e-commerce, e-government and e-health sees Sri Lanka Telecom supporting initiatives of the Government such as SchoolNet, LGN (Lanka Government Network), Nenasala Knowledge Centres as well as LEARN and NODES, two University oriented e-learning programmes.

Customer Centricity is a core facet of Sri Lanka Telecom. In reality, this is more a core personality trait of Sri Lanka Telecom today than a stratagem. We just listen more; and serve better.

Customer centricity is a key driver in our pursuit of new technologies, expanding networks and our growing portfolio of products.

Our strategic focus is evolving as we progress into the future - the shift in emphasis from networks to markets, which I have already mentioned, is in itself customer inspired.

Significant reorganisation was initiated throughout the Company, where people and other resources were better aligned to meet the new strategic direction of the organisation. The results of this will be seen in the ensuing years.

2008 – BRIEFLY

Elsewhere in this report, you will find a more detailed analysis and review of your Company's performance in 2008. I would however, like to touch upon some aspects of note.

It is pertinent to dwell briefly, on some of the issues that made the path of your Company a rocky one, during 2008.

With our erstwhile partner NTT expressing intent to sell their holdings in Sri Lanka Telecom, a protracted litigation ran its course over much of the year, which hampered this process of divestiture. This in turn, hampered the functioning of the Board of Directors, whilst NTT were also unable to contribute fully in the Company's interests, over this period.

The impact of a ruling in another protracted court case concerning revision of our tariffs, to which I alluded in my message last year, impacted our business in the year under review. In the case referred to, the Company sought the setting aside of a judgement by the Court of Appeal, which had granted the annulment of an approval we had received from the Telecommunications Regulatory Commission for our tariffs implemented in September 2003.

The retrospective payback to customers, although welcomed by Sri Lanka Telecom as beneficial for Company and customer, impacted our bottom line fairly significantly.

I am happy to report that another issue on which we have been seeking resolution for some time now, has reached conclusion. I refer to the refund of International Telecommunications Levy (ITL) due to SLT. The Telecommunications Regulatory Commission (TRC) has acknowledged that, under the regulatory provisions governing this issue, Sri Lanka Telecom has provided 87,301 PSTN connections in un-served and under-served areas specified by TRC during the period 3 March 2003 to 31 December 2005 and has also acknowledged its agreement to set off Rs. 2,182,525,000/- in lieu of two-thirds of the relevant Telecommunications Development Charge (TDC), which was payable to the TRC by your Company. Accordingly, the Company transferred this amount to its income statement from the ITL payable account.

As regards rising costs, your Company embarked on its latest Voluntary Retirement Scheme which brought with it financial implications, which served to increase our HR costs.

Operations and Maintenance costs also rose consequent to the launch of an island-wide mobile maintenance service to all CDMA customers, which on the positive side, considerably increased service standards and lowered complaint rates.

This challenging environment did not dampen our spirited performance this year. Sri Lanka Telecom's financial performance indicators remain robust. Group revenue grew by 9% to reach Rs. 47 billion. We were able to maintain a healthy Profit Before Tax of Rs. 9,560 million whilst Profits After Tax also grew by 31% to reach Rs. 7,367 million. Operating costs increased by 21%.

However, challenge also yields opportunity.

2008 had its high points for your Company. It was a year when we did not back down. We went ahead with significant investment in new initiatives such as IPTV and WiMAX the latter being ready for launch in 2009.

These are exciting new developments that hold great promise for the future well-being of your Company. In fact, they are expected to bear fruit in the coming year.

Our subsidiary Mobitel also enjoyed a year of great success. Whilst their key indicators reflect this success and are explained in greater detail within the chapter 'Group Review', it is pertinent to note that Mobitel's operations contribute 23% to the overall revenue and 16% to overall profits of the Sri Lanka Telecom Group.

With more areas in the North and East of Sri Lanka emerging from and being secured from conflict, there is a need for developing the communication footprint in these areas. The market is lucrative but we will still be challenged to mount the service we desire, given the ground realities in those areas.

We continue to be a major contributor to the development of telecom infrastructure in the country and since privatisation in 1997 to date Sri Lanka Telecom has contributed Rs. 116.26 billion in this cause.

Your Company retains with pride its AAA (lka) domestic credit rating as reaffirmed by Fitch for the 4th consecutive year and its B+ international credit rating by S&P.

Subsequent to the sale by NTT Communications Corporation of Japan of their shares in Sri Lanka Telecom to M/s.Global Telecommunications Holdings N.V., M/s. GTH have a 44.98% shareholding in the Company.

I thank the Board of Directors and the Management too for their unstinted efforts and co-operation in guiding Sri Lanka Telecom to another year of good performance.

In an important post-balance sheet development, the Company appointed Mr. Greg Young as its new Chief Executive Officer. On behalf of you all, I would like to welcome Mr. Young to the Company and extend good wishes to him for a successful tenure with us in which we may look forward to his contribution in taking Sri Lanka Telecom to new heights.

The years ahead hold challenge and opportunity in equal measure and the Company looks forward eagerly to reap reward together with you.

May I, on behalf of Sri Lanka Telecom thank all our Stakeholders - we value your friendship and support over all these years - we look forward to nurturing and cherishing these relationships for many more years to come.

Leisha De Silva Chandrasena
Chairperson

17 February 2009


Beyond Voice...

Beyond simple voice telephony lies
a world we've already begun to tap.

It was a year of challenge, throughout which SLT displayed the strength and resilience it draws from its diversity, to close on a positive note. All the Company's attributes, its infrastructure, technology, skilled personnel, products and services employed both in Sri Lanka and beyond, came together in a holistic sense to record a satisfactory performance.

SLT continues to remain Sri Lanka's pre-eminent telecommunications service provider.

SLT is today, a vibrant group of six fully owned subsidiaries whilst it is the dominant shareholder in another. The chart on this page serves to illustrates the subsidiaries of the Company.

Infrastructure

In order to lend perspective to our narrative, we begin by detailing the key elements of our infrastructure, which consist of Core and Access Networks and Core and Access Technologies. It is from this base that the Company is able to launch state-of-the-art products, and fulfil its strategic direction.

Core Networks

Optical fibre supported by microwave constitutes SLT's core network. The network is configured in 11 Rings linking the entire island. The network consists of 4,200 km of optical fibre cabling. This system is considered to be the launch pad for SLT's Next Generation Network (NGN).

In a strategic sense, our journey towards becoming a fully-fledged Global IP-Solutions Provider, evolved over the course of the year into its latest phase, which sees SLT pursuing leadership of the industry via a paradigm shift - from network to market.

This is a logical progression which sees the Company's emphasis on network and infrastructure shifting towards a more inclusive customer centricity.

NGN is the 'shape of things to come' - it is a single network that can host multiple services and when it becomes operational in the near future, it will provide a single platform providing Voice, Data and Multi-media services. Apart from the futuristic product portfolio it opens up for the customer, NGN will also yield great economies in terms of operational and maintenance costs whilst considerably reducing complexity.

The Company's 'test drive' of the NGN is currently running in Matara. It is also being implemented in Negombo, Gampaha, Galle and Avissawella.

Access Networks

These consist primarily of Wireline and Wireless categories.

SLT has been blessed with an unmatched copper wire line network that stretches across the length and breadth of Sri Lanka. This is the network which supported the Company's earliest telecom services. Today, this copper-based network continues to be an invaluable medium, delivering the Company's broadband technologies such as ADSL.

The Company also expanded its 'Fibre to the Building' connectivity programme, which comprises 70 km of optical fibre cabling connecting 110 important buildings in the Colombo area.

With the increasing demand for high-speed data services from areas outside Colombo, the Metro Ethernet Network was expanded to other regions under Phase-II of this project.

The Network now reaches Anuradhapura in the North Central Province, Ampara in the Eastern Province and Hambantota in the Southern Province of the country and serves major cities in these provinces as well as major cities such as Gampaha, Negombo, Chilaw, Kurunegala, Kegalle, Galgamuwa, Matale, Kandy, Nuwara Eliya, Badulla, Hatton, Nawalapitiya, Avissawella, Ratnapura, Kalutara, Moratuwa, Mt. Lavinia, Ambalangoda, Galle, Matara, Kelaniya, Wattala, Kotte, Nugegoda, Ratmalana, Maharagama and Piliyandala. More cities are to be connected soon depending on customer demand.

This network provides the foundation for wide area network technologies such as the Metro Ethernet, a full description of which appears in our segment on Access Technologies, appearing further on in this review.

The key technology employed by the Company in the wireless category is CDMA (Code Division Multiple Access). With 321 base stations covering 92% of the island, SLT's CDMA network is one of Sri Lanka's largest. This year, the Company added 62 base stations to the network.

CDMA has been a boon to the Company, enabling it to reach areas of the country not served by a wire line network. Thus it was a great answer to the telecom needs of customers in the rural areas of the country.

Global Networks

With our avowed goal of becoming a Global IP Solutions Provider as well as an effective regional telecommunications player, it was necessary for the Company to have in place a suitable infrastructure and network to support our progress well beyond current times.

SLT is a key partner in four state-of-the-art submarine fibre optic cable systems. They are - the SEA-ME-WE systems 3 and 4, the Bharat-Lanka system and the Dhiraagu-Lanka system.

These undersea cable networks further enable the Company to pursue its global business options.

Core Technologies

In our pursuit of the optimum technology in keeping with strategic direction, our key focus continues to be on the provision of multiple services on single connectivity.

The Company employs state-of-the-art IP-MPLS (Internet Protocol-Multi Protocol Label Switching) as a core technology. This is the foundation for the provision of a multiple service delivery regime, which we envisage with the coming NGN. IP-MPLS roll out across our fibre network is complete. Our core network is evolving towards IP-MPLS.

IP-MPLS transforms a traditional IP network into a carrier class IP bearer network with the best multi-service offering in Sri Lanka.

It provides a prime technological platform for SLT to offer value added services such as Internet Protocol TV (IPTV), the NGN and an IP Multimedia sub-system which opens the door to offering Fixed Mobile Convergence.

IP-MPLS technology also supports the Company's offer of Internet Protocol Virtual Private Networks (IP-VPN) used for enterprise networking, which is a huge boon to the ICT segment of our operations. This is more fully expounded on page 18 of this report.

WiMAX is a wireless technology suitable to support multiple service delivery and is a key component of our future suite of core technologies.

An acronym for Worldwide Interoperability for Microwave Access, WiMAX is a provider of Broadband Wireless Access to customers which is scheduled to come on line in 2009.

It is an all-IP, all-packet technology with no legacy telephony, which makes operational expenses very low.

SLT's subsidiary Sky Network (Pvt) Limited will roll out this service with product packages designed for the household as well as the business.

WiMAX is today a field proven technology embraced by a growing number of countries across the world. What it will bring to SLT and its customers is a low cost, wireless broadband option that supports the Company's triple play services. Its scalability ensures it can embrace quad play services when they come on stream.

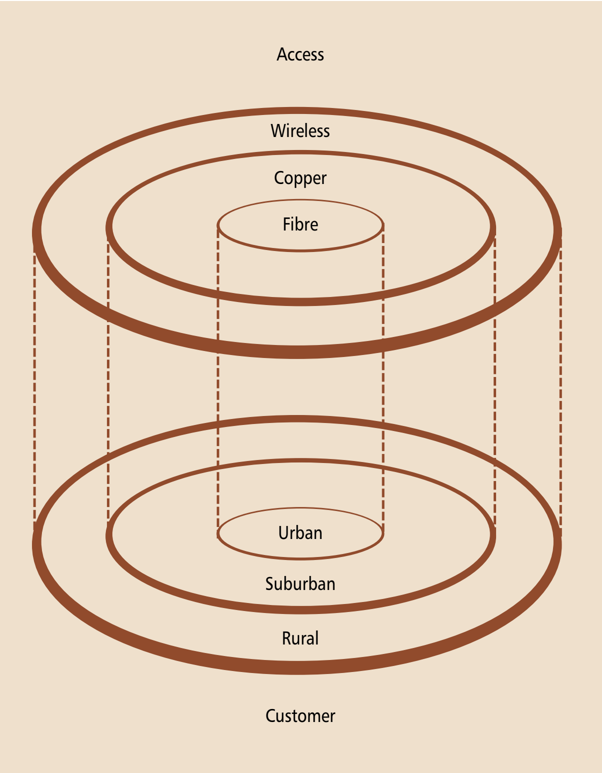
Access Technologies

These are the technologies that bring innovative and state-of-the-art services and products to SLT customers, wherever they are.

We have already spoken of CDMA as one of the Company's Access Networks. It is a key wireless technology which supports a variety of services and has a 'no boundaries' aspect to the manner in which it is deployed as a network.

The illustration on this page depicts customer distribution patterns for the three Access Mediums as described in this segment of the Review.

For yet another year in succession, SLT was able to achieve a 100% growth in its customer base for ADSL, the Company's broadband wireline technology. As at the end of 2008, a customer base fast approaching the 100,000 mark was enjoying top-of-the-line broadband services via ADSL access technology.



Metro Ethernet is a triple play ready system that enables accessing of voice, data and video content via single port connectivity. It is an access technology consisting of a network of fibre optic rings, employing MPLS technology, linking many designated building complexes. The Metro Ethernet is particularly suited for businesses and high-end customers, who require access to specific services such as video conferencing, high speed internet, high speed data and voice applications.

In 2008, Metro Ethernet covered 23 access rings and linked 110 buildings in Colombo.

Services

It is from such an excellent platform of network and technology that SLT launches a complete portfolio of highly innovative services to customers. The development of this platform has provided the Company with a firm base from which to launch its strategic journey through the coming years.

Wireline and Wireless Services - Voice

In the wireline category, SLT was able to add approximately 25,000 new connections for the year 2008. Our customer base thus swells towards 900,000.

During the year, the Company launched SLT Megaline, a suite of four packaged service offerings, wherein a host of value additions such as CLI, SLTPlus, SMS, SLTnet and ADSL were offered as different options for wireline fixed phone connection. Megaline was introduced with the aim of increasing fixed line sales. It is interesting to note that over 50% of customer preference has been for wireline with broadband facilities.

In the wireless category, our CDMA services under the brand SLT Citylink was able to attract excess of 100,000 new connections for the year under review. A highly competitive market place in respect of CDMA exerted downward pressure on prices, which in turn adversely affected the number of new connections and revenues for SLT this year, fairly significantly.

Our CDMA customer base as at end 2008 exceeding 500,000.

In terms of products, Citylink offers a range of pre-paid and post-paid options, with different service configurations (e.g. - Voice only or Data and Voice) to suit customer preference.

The Company also offers SLT Passport - a pre-paid card product which has been enhanced to incorporate all related services such as local and IDD calls.

During the latter period of 2008, strong competition in the IDD market prevailed. This led to SLT announcing significant reductions to its IDD rates by, up to 86% to Australia, Japan and European countries, up to 80% to all SAARC countries, up to 72% to Middle Eastern countries, up to 71% to Russia and South East Asian countries and up to 45% to the USA, Canada, Singapore, China, Malaysia and Hong Kong whilst 60% to Gulf and South American countries.

The Company operates Payphone Booths across the country. At the close of the year, the total number of such booths stood at 2,734 which number includes 95 new booths (caretaker basis indoor type booths) situated basically across all districts in the island. The SLT Payphone booth is ubiquitous across the island, and has effectively brought telecommunications facilities within reach of the wider community. During the year 2008, these booths were upgraded to render a better service to customers. SLT is the Nation's leading Payphone booth operator, with more functioning booths across a wider geographical spread of the country than any other operator.

SLT's ubiquitous pay phone booths across the island were upgraded in the year under review

At the Bandaranaike International Airport SLT continues to provide travellers with FOC internet facilities on a 24-hour basis.

We have expanded our presence at the Bandaranaike International Airport through the establishment of several new locations offering free of charge Internet surfing facilities adjacent to and inside boarding areas. These new developments offer more service facilities to passengers, whilst also enhancing airport facilities.

Internet

An Exciting New Arrival - IPv6 (Internet Protocol version 6)

The Company's ISP network service arm SLTNet received a huge boost this year with the successful deployment of IPv6, the world's latest Internet Protocol version.

SLTNet becomes the first ISP in Sri Lanka to implement IPv6 providing ever faster access to information anytime, anywhere and on any device, via SLT's NGN architecture.

This step by SLT is actually ahead of time and is an example of the Company's strategic focus on keeping its business and customers at the cutting edge of world trends and services. The currently deployed IPv4 is moving towards obsolescence.

What IPv6 provides is the foundation and flexibility necessary to develop and deliver applications and services that are required not only to meet future functionality, but also to fill any void in critical capabilities that exist in today's portfolio of services.

SLT is Sri Lanka's largest Internet service provider with a market share in excess of 60%. With the increased capacity added to its Internet backbone, SLT now has a capacity of 3.8 Gbps of IPBB (Internet Protocol Broadband connectivity).

Our product portfolio includes dial-up Internet, broadband internet via ADSL technology, Wi-Fi (Wireless Fidelity), international internet roaming facilities, broadband internet support for corporate clients via IP-VPN (Internet Protocol-Virtual Private Networks), VoIP (Voice over Internet Protocol) and international IP transit services, the latter as part of our global services. Other customer centric services we continue to offer are the extension of our Internet services to the customers of our mobile telephony subsidiary, Mobitel. A pre-paid Internet account can be enjoyed by a Mobitel customer at attractive rates, Our SLTNet-E-mail to SMS service is provided to customers of Mobitel as well as those of Dialog and Tigo.

SLT's Internet network also supports services to other Internet Service Providers. These include a Domestic Internet Exchange Service, IP-Transit Service (which is the sale of Internet bandwidth on a megabit per second per month basis), Wi-Fi Mobile Internet Zones (which are Wi-Fi 'Hotspots' typically located in major Hotels and Airport) and Peering.

Our state-of-the-art Data Centre Services, offered under our brand name SLTiDC, continue to be Sri Lanka's most advanced and sophisticated, offering world class data centre solutions to the corporate customer.

I-Root Server hosted by SLT

This year, SLT was selected as the host for the Asia Pacific I-Root Server in partnership with Asia Pacific Network Information Centre (APNIC), Netnod and Autonomica.

This is just one of very limited Root Servers available globally and being selected to host this server is testament to SLT's skilled professionals as well as to the state-of-the-art Data Centre, SLTiDC.

The root server will facilitate the increased performance of the DNS (Data Naming Service) server systems in Sri Lanka and in surrounding countries. This server is connected to all ISPs in Sri Lanka who are connected via SLT's Internet Exchange.

Thus, this development is also a further strengthening of SLT's commitment to the enhancement of the country's Internet infrastructure.

Broadband

Broadband delivered via ADSL access technology is viewed as the gateway to the coming years. With a customer base approaching to 100,000, which is over 50% of market share, and a coverage extending across 248 cities in 21 districts, SLT is the clear leader in this category.

It is envisaged that, over the ensuing years, more service providers will enter the market, particularly the mobile operators using wireless technology, which will see SLT's market share eroded to some extent. However, the Company believes that with the head-start it has achieved and the constant search for optimisation of the broadband medium, particularly with products such as IP-TV, we are well placed to hold market ground.

The Company offers three packaged products, which are distinguished by differing mixes of three factors - download speeds, upload speeds and monthly volumes.

The Company's Metro Ethernet Network is a prime enabler in the broadband services to Enterprise and SME customers where high speed services are delivered through highly resilient ring access networks, supporting triple play services that bring voice, broadband Internet, IPTV, PABX, MoD (Media on Demand), VoD (Video on Demand) to the residential consumer, whilst delivering IP-VPN (Internet Protocol-Virtual Private Network services), VPLS (Virtual Private Local Area Network Services), LAN (Local Area Network), Multi Media, MLLN (Managed Lease Line Networks), IPLC (International Private Leased Circuits) - in short, delivering fully enabled broadband connectivity.

IPTV - the 'Hot' New Kid on the Block

SLT launched on 22 September 2008 through its subsidiary SLT VisionCom (Pvt) Limited, the Company's Internet Protocol- Television which brought a next generation TV experience into the homes of Sri Lankans across the island.

PEO TV (Personal Entertainment Option TV) brings customers a single product that can deliver never before enjoyed features such as video-on-demand, Time Shift TV - which allows the watching of programmes at a time chosen by the customer, Trick Play - which allows viewers to control and play live TV, just as they would a DVD or video, with facilities such as pause, play in slow motion, fast forward and rewind, plus a host of other interactive features.

PEO delivers digital quality TV viewing, over a telephone line via a broadband/ADSL platform.

This product will also allow access to e-mail, internet directory services, telephony and all other business communications through one converged IP broadband network, delivered through a single converged line offering triple services - data, voice and multimedia.

SLT aims to make IP-TV accessible to more customers across the country, and thus making a very real contribution to the upliftment of education and infotainment throughout the land.

Corporate Solutions

Each year, a growing number of business enterprises approach SLT for premium quality packaged service, which includes voice, data, video, Internet and centralised communication options. Some customers also wanted SLT to provide them with enterprise solutions such as enterprise networks, servers, systems and security enforcements, based on CAPEX and OPEX models in addition to traditional networking and connecting services. The reality is that they

SLT entered the exciting and promising entertainment segment with the launch of IPTV in Sri Lanka

One of SLT's many initiatives in 2008 to promote awareness on corporate solutions among its employees seek a total communications solution, which they entrust with confidence to SLT to deliver.

For the year under review, SLT has been able to support several key enterprises in the sectors of Banking, Education, Finance, Healthcare, IT, Research, Automobiles, Media and Manufacturing.

● *Supporting ICT (Information and Communication Technology) Initiatives*

This is an area of enterprise which is particularly important and fulfilling to SLT, in that we are given the opportunity of being the network provider for a series of mega ICT projects run on a national scale. Here is a 'snapshot' of the projects and the progress made in each area for the year 2008.

Lanka Government Network (LGN)

LGN is a Government initiative to apply ICT across a gamut of public sector enterprise, which in interconnecting public administration systems, moves institutions closer towards an environment of e-government. It is a strategic project under the Re-engineering Government programme being run by the Information and Communication Technology Agency (ICTA).

SLT's IP-VPN solution connects Government offices to a unified network providing products such as voice, video, broadband Internet, networking and data hosting.

In terms of progress this year, the first phase of this project connected 325 Government offices from the Western, Central, Southern, Uva and Sabaragamuwa Provinces.

SchoolNet

Under the aegis of the Ministry of Education, SchoolNet is an on-line educational system that seeks to promote efficiency and academic achievement in public schools across the country. It is a revolutionary tool aiding teacher, student, school administrator and parent alike to be more involved in the education process.

SLT's IP-VPN solution hosts a unified network offering multiple services such as voice, video, broadband Internet, network and hosting services.

For the year under review, 75 schools were linked with SchoolNet, that escalated the total to 1,275 by end of 2008.

Nenasala Knowledge Centres

'Nenasala' means 'global knowledge centre'. In this project SLT partners ICTA to provide communications Solutions Island-wide to a total of 125 Nenasala Centres by the end of 2008 and of which 30 Centres were new during the year under review.

The Nenasala concept is community-based and thus its centres are located in suitably central locations within villages. These centres provide services such as high speed Internet, e-mail, telephony, computer training programmes and serve as a conduit for other ICTA related facilities.

SLT shows its support to several key enterprises in different sectors by offering total communication solutions

In 2008, SchoolNet linked 75 public schools across Sri Lanka

The aim is to take ICT to the masses, beginning at grass roots level and fostering distance learning, e-learning and unveiling the benefits of the Internet to the rural community.

SLT services this project via its IP-VPN platform.

Lanka Education and Research Network (LEARN)

This is another project which operates under the aegis of the Ministry of Education.

LEARN links 13 Universities from around the country with the University Grants Commission. In operation, it facilitates e-learning, enhanced video conferencing and streaming whilst routing inter-University voice and offering broadband Internet access for students and academics.

Our provided solution includes IP-VPN and STM-1 linkages, enhanced this year through the successful deployment of IPv6, which we have described more fully in the preceding segment on the Internet.

National Online Distance Education Service (NODES)

NODES is the acronym for the National Online Distance Education Services, which is an initiative under the Ministry of Education's Distance Education Modernisation Project (DEMP).

Its objective is to strengthen the distance learning infrastructure in the country to be able to support instructional courses leading to a variety of higher educational/university level Degree/Diploma qualifications.

SLT's solution incorporates a WAN (Wide Area Network) operating on fibre optic based Virtual Private LAN Service (VPLS) on the Metro Ethernet. This system connects the multi-media centres of NODES across the country.

● *SLT... Serving the Global Market*

The SEA-ME-WE, Bharat-Lanka and Dhiraagu-Lanka submarine fibre optic cable systems give SLT an excellent founding medium through which to pursue its legitimate credentials as a global IP solutions provider.

The Company is participating in the upgrade of the SEA-ME-WE 3 cable system which is expected to increase the capacity of this system threefold.

In 2008, SLT signed up with 10 potential Global Carriers for voice exchange.

Currently SLT operates a fully owned subsidiary, SLT Hong Kong Limited, which is a vital Point of Presence (PoP) geared to maximise the Company's strategic IP solutions path. It offers IP-Transit, IP-VPN, Internet Protocol Subscriber Line (IPSL) plus international voice traffic transit services VoIP and TDM to global telecom operators and corporates in Hong Kong.

SLT further extended its reach by establishing virtual presence in several major countries across the world.

● *Customer Convenience*

At the heart of our commitment to place customers at the heart of business and in our quest to deliver ever-evolving standards of customer care and convenience lies a fully-developed structure of offices delivering a gamut of services - from sales and marketing, through to technical assistance, installation and maintenance and back-up.

By end of December 2008, the Company had a total of 22 Teleshops and 3 Tele Bureaus, in operation, across the island. The Teleshop network is the key distribution channel for all SLT products and services.

There is even an On-line Teleshop accessed via our web address www.slt.lk.

The Company also operates 34 Regional Telecommunications Offices.

Outside Plant Maintenance Centres (OPMCs) were further expanded across the country in the year under review

Handling the installation and maintenance of the Company's technical assets in the respective regions is a network of Outside Plant Maintenance Centres (OPMCs). As at the year under review, there are 15 OPMCs situated in Narahenpita, Ratmalana, Biyagama, Ragama, Negombo, Kandy, Kurunegala, Anuradhapura, Panadura, Matara, Avissawella, Bandarawela, Trincomalee, Batticaloa and Jaffna, with a further 19 mini-OPMCs spread across the Island.

Another area where the Company has made significant gains is in CDMA Fault Clearance. A comprehensive process begins with the adoption of a clear-cut Operational and Maintenance Policy. Thus an optimised process for inventory control as well as materials management is in place.

This is augmented with the introduction of a fully mobile service team, delivering doorstep service to our customers.

Several other measures such as network optimisation, signal improvement, regular customer awareness programmes, service upgrades at our Call Centres and improvements in Billing cycles also augment our CDMA service to the customer.

Also during the year, SLT added to its network of Call Centres located in key cities around the country, with the opening of a centre in Matara. This is the fifth centre, with the others located in Colombo, Kandy, Galle and Anuradhapura.

These centres are points of state of the art, customer focussed problem solving across a wide area of query. We are constantly upgrading skill and process levels through such initiatives as e-learning opportunities, quality assurance systems and process review programmes.

Upgrades at our call centres were initiated in order to enhance customer service

High Standards... Top Quality - 2008

- Action initiated to implement ISO 9001:2000 Quality Management System across Support Services and some Customer Interface Points.
- Quality Policy developed and communicated to all employees.
- SLT Annual Quality Convention held in October 2008.
- 3 winning Continuous Improvement teams and 1 Quality Circle will take part at the National Quality Competition in 2009.

The Company continues to pursue strategic liaisons with reputed external organisations to expand its distribution channels.

SLT's ongoing liaison with PC House, one of Sri Lanka's leading IT solutions providers, sees the Company's broadband products being marketed through over 40 PC House branches across the country, including many areas in the North and East. All other prepaid retailing services are enabled via private and individual business entities. This extensive choice of accession points across a wide geographic sweep reinforces the substantial size and reach of our dealer network.

Further, SLT offers greater convenience to customers in terms of payment of bills via a network of almost all Banks, both State and Private Sector, where payment methods range from traditional counter service to phone banking, ATM services and Internet banking.

The Company continues to pursue strategic liaisons with reputed external organisations to expand its distribution channels

Symbiosis and Success... Mobitel in 2008

Despite adverse macro conditions the telecom sector in general recorded modest growth levels, but oligopolistic conditions within the mobile telephony sector drove prices in favour of the consumers making Sri Lanka one of the lowest in call charges in the region. The intensity of competition in all forms despite increases in market penetration affected the profit growth trend experienced by the telecom sector. Some industry players were compelled to adjust, revamp and rationalise their businesses in the face of the changing industry landscape, but Sri Lanka Telecom Mobitel, spurred by the response and results of its investments in new technology, processes and products thrived and raced forward, building in the process new market spaces and seizing new opportunities.

Sri Lanka Telecom Mobitel continues to benefit from the reputation and strength of its parent, Sri Lanka Telecom, and as the National Mobile Service Provider finds itself in a privileged position gaining from the knowledge, experience, infrastructure, resources and fullest backing of the National Telecom Service provider and lead fixed line telecom operator in the country.

Sri Lanka Telecom Mobitel continued its buoyant thrust on building the market and financial strength during the year. The phenomenal growth did not come by accident but by the result of a meticulously planned and executed strategy that has put Mobitel on a growth trajectory and mood of promise. Achievements of Sri Lanka Telecom Mobitel cannot be fully appreciated unless viewed in the context of the dismal position the Company had to recover from before making any quantum leaps to command even the semblance of a chance of establishing its position in the market. This the Company has done successfully within a short turnaround period because of the fortitude, financial backing and guidance of Sri Lanka Telecom.

The Early and Mid Years

An early entrant to the Mobile telephony market in Sri Lanka, Mobitel commenced operations in 1993 on the AMPS standard, later to be upgraded to a DAMPS platform. Under market supply driven conditions for a brief period of time the Company enjoyed marginal strength in a relatively small and static market dominated by postpaid customers. Mobitel soon found itself fast losing relevance with the popularity and growing demand for services based on the GSM standard because of the superiority, higher acceptability and versatility of the GSM based technology. Recovery and Consolidation was not an option but a requirement if the Company was to remain a going concern.

Sri Lanka Telecom having entered its own phase of growth and consolidation, guided by good foresight, equipped with the financial strength and endowed with an abundance in knowledge and competency increased its stake in the ownership and control of Mobitel by buying out the majority interest held by its joint venture partner of the Company in October 2002 whereby Mobitel became a wholly owned subsidiary of Sri Lanka Telecom.

Within a period of just over a year, in January 2004 Mobitel successfully implemented and commissioned its fully-fledged 2.5G EDGE/GPRS enabled GSM network designed to operate on dual band. Albeit positioning itself within the tagline ***Simple & Amazing***, limitation of the 1800Mhz Spectrum stifled any prospect of matching the competition on value added services rollout and local and international coverage. Market reach, breadth and depth suffered due to an inadequate and poor distribution system. High gearing and low asset utilisation coupled with mounting bad debts predominantly due to defaulting postpaid customers fast rendered the Company cash strapped. In the final analysis having found itself in a situation of Over Promised and Under Delivered, brand diffusion started to take effect and a crisis was looming.

Catching Up

Under the stewardship of Sri Lanka Telecom, the new management of the Company with the active participation of its best resource - its committed and competent employees - fully aware of the need of a quick but durable and effective plan for success reached for the drawing board, and since then have not looked back. Mobitel immediately aligned itself to assume the role of the

National Mobile Service Provider and commenced a comprehensive repositioning exercise with a distinct focus on ***customer centricity*** and choosing true to its renewed focus the new tagline '***We Care. Always.***'

By December 2006 having phased out the AMPS network and completed the user migration from AMPS to GSM, Mobitel became solely a GSM service provider.

In late 2005 Mobitel augmented its brand with that of Sri Lanka Telecom under the name and style of Sri Lanka Telecom Mobitel. The high brand equity of Sri Lanka Telecom offers great strength to the Company in the formation of the Company's bonding and trust with the market.

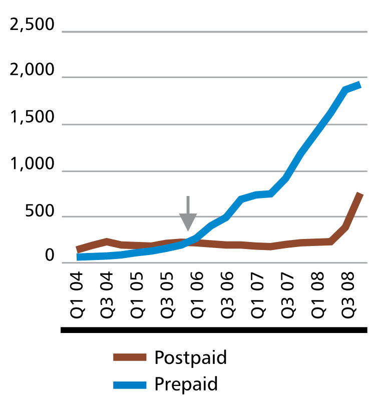
Turning Point - Pursuing the Prepaid Market

Driven by a strategy evolved around value innovation and with the threefold objectives of appreciably strengthening the renewed brand perception, maximising asset utilisation and becoming a formidable player in the prepaid segment, the Company introduced its revolutionary Prepaid product **SMART 5** in March 2006.

SMART 5 has been a great success and the imitation of the product characteristics and style by the competition in their own campaigns is testimony to the **SMART 5** success.

Prepaid volume of Sri Lanka Telecom Mobitel increased by 500,000 in its first year and YoY growth increased steadily, reaching a level of 1.9 million in 2008.

Mobitel Quarterly Subscriber Growth
Nos. '000



Further to gaining market share SMART 5 has positively contributed to the financial and liquidity position of the Company resulting from upfront cash collections and reduced bad debts.

The New Growth Phase - M3

Lagging the competition by ten years in GSM adoption, it is difficult to dislodge the incumbent market leader or deny its *first mover advantages*. Building a position of future market leadership requires the creation of *Blue Oceans* and Sri Lanka Telecom Mobitel is on course to leading the way in 3G technology, the latest generation of mobile technology poised to cause paradigm shifts.

In December 2007 Sri Lanka Telecom Mobitel launched M3, its 3.5G High Speed Packet Access (HSPA) technology based service capable of 14.4Mbps on downlink and up to 1.98Mbps on uplink. The network is expected to offer speeds of 20Mbps on downlink and 12Mbps on uplink in its next evolution, which at present is under trial.

Sri Lanka Telecom Mobitel is the first and only operator in all of South Asia and among the top ten networks in the world to implement a Super 3.5G network.

The 3G technology employed by Sri Lanka Telecom Mobitel has the advantage of future proofing investments in technology upgrades,and importantly offers unparalleled service quality, be it in voice and video telephony, high speed internet, video streaming, mobile TV, music streaming, online music and other non-voice services.

The Mobitel Philosophy

Technology, unless offering benefit, value and capable of improving the quality of life of the consumer is meaningless and of no consequence. ***Customer Centricity*** is of core importance at Sri Lanka Telecom Mobitel; hence the Company strategy is one of ***'Value Innovation'***. Technology, distribution, products and packages, added services and support are only means to an end, and at Sri Lanka Telecom Mobitel, the end is about caring for the customer and always having their best interest at heart.

Value Innovation at Mobitel then is not guided by the principle of first to market, but by the principle of right for market if not best for market.

The nimbleness and agility of Mobitel Team spirited by a sense of ownership and volunteerism and fuelled with a passion for excellence has been core to realising Mobitel's challenging operational and strategic goals and strictest conformance to best business practices. To this end, Mobitel draws inspiration from the advice of the twentieth century great physicist Albert Einstein; '***We have to do the best we can. This is our sacred human responsibility***'.

Coverage and Distribution

The wide and expanding GSM network of Mobitel at present covers 70% of the geographical expanse and about 95% of the population. The Company is rapidly expanding the number of base stations and hopes to by mid-2009 have 2000 base stations operational, and this would include base stations in newly cleared areas in the country. A large part of the areas covered are also 3G enabled, and this satisfies the findings of a trial group survey that people desire very good broadband access with a semblance of mobility from at least three different locations.

Mobitel embarked on a plan of expanding its international reach, and through an established international roaming network spanning the globe, offers a range of voice and video services at competitive rates to the international traveller.

A formidable distribution network capable of extensive reach complements the Company's strong product offering. The 1,000+ outlets comprise own branches, Singer Mega Outlets, SLT Offices, Online Dealers, Post Offices (for Prepaid services), Banks and Keells Super Markets (Payment Centres) and Arpico Super Centres. Leading the way in value innovation, Prepaid and Postpaid customers are also offered the convenience of managing their Mobitel accounts through the branch networks of National Savings Bank.

Coinciding with its M3 product launch In December 2007 Mobitel launched its plush and spruce Flagship Store developed around a store-in-a-store concept offering Nokia, Sony Ericsson, HTC, LG, Motorola, Samsung & Huawei. The Mobitel Flagship Store designed to showcase the M3 products and accessory range also offers the opportunity to experience 3.5G in action in an aptly harmonised luxurious surrounding. In 2008, the M3 Flagship Store was upgraded with five-star touch to include the M3 Café operated by Hilton Colombo. Busy customers could also at their own convenience settle bills, top their Prepaid accounts in real time 24 hours a day, 7 days a week using the Citibank provided multimedia, trilingual touch screen automated kiosk system also located at the Company's Mobitel Flagship Store.

2008 - Beating Expectations against the odds

2008, for many telecom companies maybe a year best be forgotten, but for Sri Lanka Telecom Mobitel it was a year to stand up and be recognised.

Mobitel, clear in its resolve and focus to grow its core business, harnessed its technological and market prowess and broke new ground in captive segments.

Well placed to exploit the fast converging modes of communication, the Company rolled out M3 Journalist, a live 3G video calling facility of particular use to the media. Stemming from a commitment to Value Innovate, Mobitel upgraded its SMART suite of Prepaid offerings by pioneering free bundles of on-net outgoing calls/SMS with its SMART Freedom. The offering is in three flavours: Weekly/Daily/Hours and free bundle of Internet use and video calls with its 3G Daily Delight. This initiative made SMART the smartest Prepaid offering which addresses the widest needs spectrum.

As the National Mobile Service Provider, conscious of the needs of a broad cross-section of the people and sensitive to their respective economic considerations, particularly under conditions of rising cost of living, Mobitel innovated product offerings to suit both Prepaid and Postpaid customers. Number portability within the Mobitel network allowed customers to switch between Prepaid and Postpaid packages and from the Company perspective it provided the advantage of flexibility in product development.

Flowing from the proactive stance adopted by the Company to value innovate and adapt due to flexibility, Mobitel created history in Sri Lanka by introducing the UPAHARA Postpaid package designed specifically with State Sector Employees and Pensioners in mind. The UPAHARA Package launched together with State Trading (General) Corporation, offers State Sector Employees and Pensioners the opportunity of calling any local fixed line number or Mobitel number free of charge and receive calls from any network free of charge, subject to a Fair Use Policy (FUP), and all this at a nominal charge of Rs. 240/- per month.

The demand for the UPAHARA Postpaid package has been overwhelming with more than 500,000 Post-paid subscribers registering for the service within the first four months of the launch of the package.

Although many telecom operators observed a decline in profitability and liquidity during the year, for Sri Lanka Telecom Mobitel, 2008 was a year of outstanding success. Overall subscribers grew by over one million to reach a subscriber base of 2.7 million by end-December 2008. An interesting statistic is that in the history of Mobitel it took 14 years to reach the first one million subscribers making 2007 a significant milestone, but it took only one year to reach the second million in 2008. Revenue grew by 72% to over Rs.12 billion and Net Profit After Tax crossed the Rupees one billion mark.

Investments committed by the Company in its 3.5G/2.5G networks and service offerings amount to over US$ 300 million.

Creating Value through Public Partnerships

As the National Mobile Service Provider, Sri Lanka Telecom Mobitel believes in the real prospect of value added services and synergies through selective collaborations and partnerships. The Company collaborated with Sri Lanka Post to increase its prepaid penetration through the Postal Network. Mobitel established collaboration with the Immigration Department and redesigned immigration

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3

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1. History was created in 2008 when Mobitel introduced the UPAHARA Postpaid package designed specifically for State Sector Employees and Pensioners
2. A joint product of Mobitel and the University of Colombo, mLearning is set to break through traditional boundaries addressing learning shortcomings through advanced technology
3. Mobitel introduced an all-encompassing subscriber registration system as directed by the TRC whilst managing customer convenience

cards thus enhancing its brand awareness among the international travellers while in the process aiding in electronically capturing data of national importance by the Immigration Department. Mobitel also successfully collaborated with State Trading (General) Corporation to launch UPAHARA.

With a view to promoting mLearning, a unique and novel approach to making Higher Education accessible to everyone, anytime, anywhere Mobitel is collaborating with the University of Colombo. mLearning, also known as mobile learning is the teaching and learning process through the use of mobile and hand-held devices such as Mobile Phones, Personal Digital Assistants (PDAs), Laptops and Tablet Personal Computers. A joint product of Mobitel and the University of Colombo, mLearning is set to break through traditional boundaries as well as address traditional learning shortcomings through advanced technology.

In adherence to the directive issued by the Telecommunication Regulatory Commission of Sri Lanka to register all subscribers, Mobitel introduced its all-encompassing subscriber registration system. With a view to minimising the inconvenience to customers, Mobitel provided registration facilities at 65 Mobitel centres across the country. A convenience in the form of the use of MMS facilities to transmit photographs and issuance of a temporary Mobitel Identification Certificate was offered as an alternative.

Awards

For the third consecutive year Mobitel won the "Best Consumer Pull Award" for Sri Lanka at the SAARC Voice and Data CEO Conclave Awards held in Hyderabad in India.

Mobitel also won first and third places for the Best Commercial at the 2008 Sumathi Awards.

The Institute of Engineers of Sri Lanka honoured Mobitel with the "Excellence in Engineering Award" for the Best Engineering Organisation.

Way Ahead

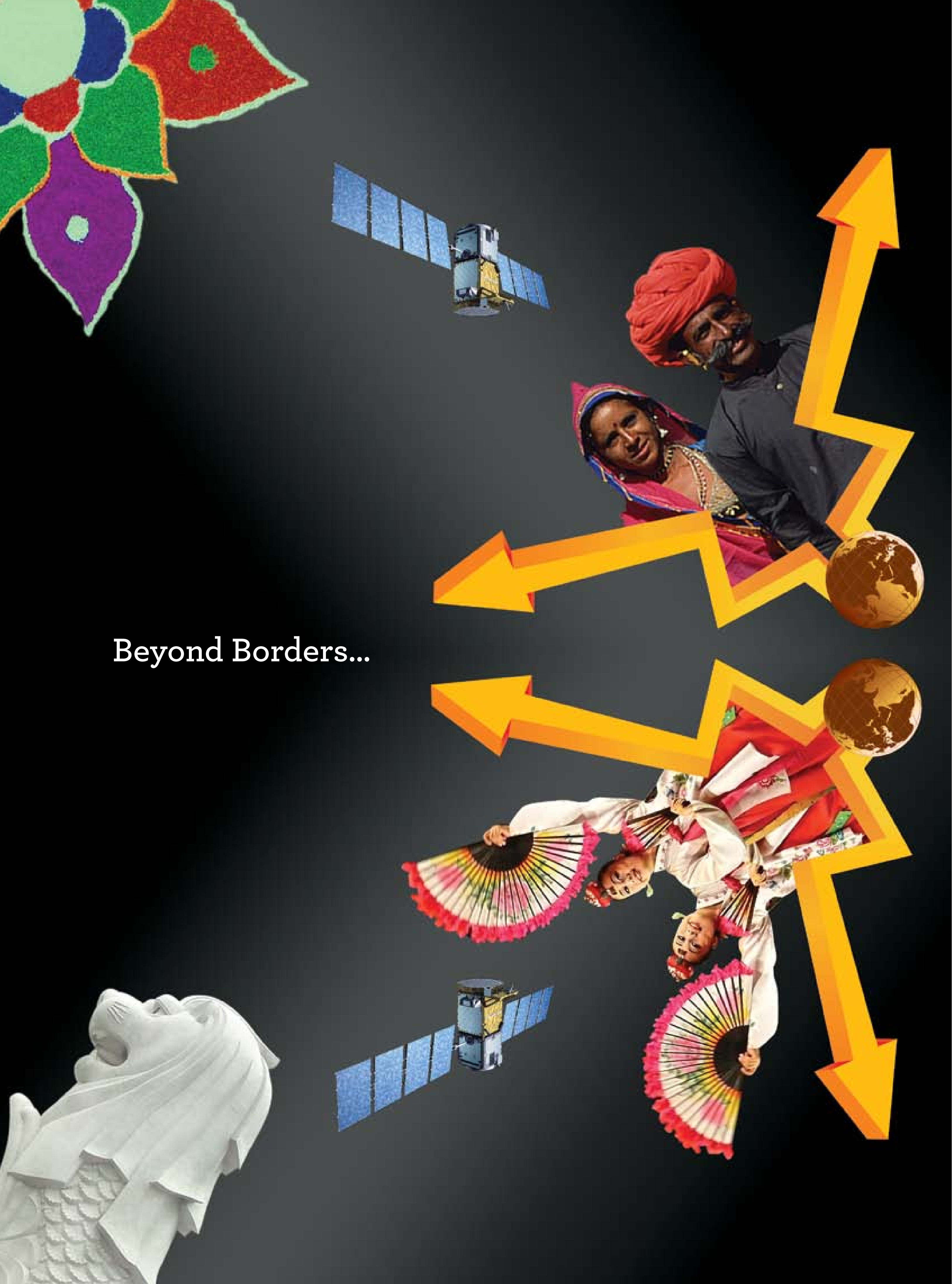
Propelled by the vision to "Lead Sri Lanka towards an Info-com and Knowledge Rich Society through our service offerings" and viewing the entire country as one Mobitel family, Mobitel will in 2009 - the Year of ICT and English - commit itself to drive Mobile ICT, strengthen its technological leadership, strive for optimum asset utilisation and through a deliberate programme of Thought Leadership pursue among other things a position of cost leadership. Growth in 3G and Broadband will strategically figure in future value innovations of the Company.

With a clear focus on Value Innovation, Mobitel is swayed heavily towards continuing to create *Blue Oceans* based on developments on the 3G-front with a view to claiming leadership in that uncontested market space ripe for growth.

Best Consumer Pull Award

Sumathi Awards

Excellence in Engineering Award


Beyond Borders...

SLT has set its sights on becoming a Global IP Solutions Provider and to shift from Network to Market.

For many years now, the 'business of conducting business' has been underpinned by a tri-dimensional approach. Global business has emerged from its historical concept of 'enterprise - customer - profit' to one which recognises the impact businesses have on the environment, on society and on bottom lines. It became clear that enterprise without regard for all three factors together, was untenable in the long term; was unsustainable in the long term.

Whilst these parameters define today, what responsible business is all about, it is gratifying to note that SLT, throughout its long history, and particularly during the past decade, has had sustainable business practice at the very core of its enterprise.

We hold very firmly to the premise that we have an obligation to all stakeholders to present fairly and most transparently, an account of how sustainability in our business domain is cherished and manifested across economic, social and environmental dimensions.

STAKEHOLDER ENGAGEMENT

The Company actively pursues a multi-channel process of engagement across all key stakeholder groups.

It is relevant for us to mention some of these key areas of engagement, in lending perspective to this report.

Employees

At all points of an employee's career path, we ensure that there are avenues open for meaningful, two-way dialogue.

From an emancipated process of performance evaluation, performance based remuneration and reward, to training, career progression, a constantly evolving and improving work environment, dissemination of information and an inclusive approach to the Company's planning, a comprehensive medical scheme and calendar of extra-curricular activity, the employee-employer channels are well served.

Customers

As has already been stated, SLT is focussing on a shift of strategy - from networks to markets - which leads us to an enhanced level of customer centricity.

SLT is one of Sri Lanka's largest Service sector entities and thus already has in place very vibrant and productive customer engagement processes.

From the perspective of infrastructure, the Company interacts with customers through an extensive network of offices, maintenance units, Call Centres, Dealer networks and dedicated Account Management units.

Our product and service offers are the results of significant customer input coupled with the vision and strategy of SLT in pushing boundaries and giving customers 'products of the future by bringing freedom for their innovations'.

We maintain many surveys such as a Customer Satisfaction Index, which serve as a barometer for customer engagement.

The Wider Community

The Company fulfils its statutory and regulatory role in that we ensure Annual General Meetings are conducted as scheduled, where shareholder engagement is assured. Similarly, our Annual Audited Accounts and Report are published as required, both in print and web format.

In the context of the wider community, the Company publishes regular press releases detailing information on its performance, from financial highlights to key business/product/service developments.

SLT also conducts Investor Forums on a periodic basis, and also publishes an Investor Magazine.

An up-to-date Corporate website is in operation.

Business Partners

Our partners are vital to our business. Meaningful avenues of engagement help to support this view, as well as to reinforce our own commitment to play a vital role in their own areas of business.

Investor Relations plays a key part at SLT

Thus the Company organises frequent conventions for our partners, distributors and dealers. We also maintain robust communication systems which enable a continuing dialogue on product quality, marketing, customer satisfaction and problem solving.

To facilitate business transactions we have an e-tendering process online.

THE SOCIAL PERSPECTIVE

Our account will cover our activities within two broad categories of people - our employees and the wider community.

Our Employees

When you operate in an industry 'evolving at the speed of light' you need the right people with you, with 'quick silver' abilities that help your organisation turn challenge into an opportunity, run with passion… day in and day out, feel intense loyalty towards 'the hands that feed' and can empathise with the people they offer products and services to.

Finding and hiring people with the potential to develop into this vision of perfection, is only a small fraction of the overall picture.

One has to match this with the responsibility incumbent on the employer to provide work that embodies dignity, working conditions that are safe and enabling, financial and job security of the highest order, freedom from discrimination whether it be on account of gender, caste, creed or colour, plus allowing adequate opportunities for professional development.

This could easily be the 'human face' of SLT.

Whilst we do not claim perfection, we can safely say, employee and employer together, that we have come far down the road on all these issues, and our track record as a responsible employer with an equally responsible work force is very good.

From a Company perspective, we seek to promote inclusiveness across rank and file – all grades of employees, management, directorate.

Against this backdrop let us evaluate 2008 from an 'SLT Family' aspect.

At the Outset...

Being as we are, Sri Lanka's premier Company operating in the telecom sector, we are a technology intensive, skill intensive organisation.

The people who work for SLT are required to possess the aptitude, attitude and learning necessary to perform well in such an environment.

The Company is of the view that this is a pursuit that must be undertaken together - the employee and the Company must work in tandem to realise each other's aspirations.

Thus, from recruitment, through training, to career advancement, the Company and the employee are on a single track journey.

SLT employs a sizeable staff, numbering 6,972 as at end 2008. Over the years the Company has sought an optimum balance between its role as a career provider and its need to enhance productivity, transform mindsets to face the new 'com-media' world's demands and transform its HR base into a leaner, yet more effective and fulfilled work force.

One of the key aspects of an emancipated HR regime is the ability for both Company and employee to meet in 'the middle ground' to discuss and effect retirement plans that benefit both. Thus, in May 2008, SLT announced its latest VRS (Voluntary Retirement Scheme) to aid those of our employees who wished to avail themselves of a Company supported early retirement.

STAFF STRENGTH

Employee Functional Level	2008	2007	2006	2005	2004
Executives	**1,083**	578	572	505	506
Technical Employees	**2,816**	3,195	3,254	3,367	3,373
Non-Technical Employees	**2,478**	2,658	2,671	2,793	2,822
Contract Employees	**595**	583	650	509	473
Total	**6,972**	**7,014**	**7,147**	**7,174**	**7,174**
Income per Employee (Rs. '000)	**5,180**	5,285	5,053	4,005	3,719
Profit per Employee (Rs. '000)	**947**	768	766	595	365
Assets per Employee (Rs. '000)	**11,758**	11,249	11,075	10,387	10,111

GENDER DIVERSITY (AS AT 31.12.2008)

Employee Levels	Male	Female	Total
Executives	787	296	1,083
Technical Employees	2,680	136	2,816
Non-Technical Employees	1,352	1,126	2,478
Contract Employees	142	453	595
Total	**4,961**	**2,011**	**6,972**

SERVICE ANALYSIS (AS AT 31.12.2008)

Service (years)	Corporate Mgt.	Executive Mgt.	Senior Mgt.	Middle Mgt.	Non-Mgt.	Total
Above 20	10	22	14	413	2,452	2,911
16-20	03	16	21	79	402	521
11-15	01	12	25	187	1,686	1,911
6-10	–	11	42	119	275	447
Below 5	02	–	02	104	1,074	1,182
Total	**16**	**61**	**104**	**902**	**5,889**	**6,972**

The chart entitled 'Source of Recruitment' appearing on this page is interesting. It is a five year analysis of how the Company has filled its cadre requirements. From the year 2007 onwards, the trend of hiring from external sources as a preferred medium has been reversed in the past two years, where vacancies have been internally filled. This also reflects the manner in which SLT has inducted necessary skills in the earlier years.

SOURCE OF RECRUITMENT

	2008	2007	2006	2005	2004
External Recruitment	**380**	413	600	590	267
Internal Recruitment	**982**	669	238	519	607

Staff productivity too has been on a steady rising curve.

DIRECT EXCHANGE LINES PER EMPLOYEE

	2008	2007	2006	2005	2004
Direct Exchange Lines per Employee	**223**	207	166	133	120

Training

The Company has a twofold objective behind its training regime. Whilst it seeks to acquire and develop the skills necessary to keep its business at the forefront of a futuristic industry, it also seeks to open up more avenues in terms of career development and advancement, which is vital in developing a stimulated, motivated workforce who are in fact, the custodians of the Company itself.

INVESTMENT ON TRAINING

	2008	2007	2006	2005	2004
Total Expenditure (Rs. million)	**148**	174	206	127	140.7
Training Investment per Employee (Rs.)	**21,228**	24,807	28,823	17,702	19,612

TRAINING PROGRAMMES

	In-house	Local	Foreign	Total for 2008	Total for 2007
No. of Programmes	669	153	92	914	828
No. of Training Hours	419,286	16,928	8,862	445,076	279,042
No. of Participants	12,802	802	237	13,841	15,787

During 2008, Rs. 148 million was invested on training, covering 914 programmes with a total duration of 445,076 training hours attended by 13,841 participants

SLT's Training has been developing in parallel with the progress of the Company in its other fields of endeavour. Today, its centres have sought and obtained affiliation with reputed qualifying bodies such as City and Guilds, where we are now able to conduct their Certificate, Diploma and Higher Diploma courses and the BTEC Higher National Diploma which we offer in collaboration with Edexcel of UK.

The next step is to seek affiliation to reputed universities, both locally and abroad after which we will be able to offer enhanced training and career development opportunities to employees who would be able to follow such courses at the SLT Training Centres for the first year, and then proceed to register themselves with universities in either UK or Australia.

SLT continues to follow 5S and Kaizen concepts as in previous years.

Assessment for Progress

The Company has been working over the years towards introducing a performance based remuneration and reward structure. This is now a reality along with a fully fledged performance evaluation system.

We are confident that this performance evaluation and grading system is the best way forward not only for achievers who can progress to 'next level' career advancement, but is also a boon to others who will be provided with the necessary opportunities to train and learn and bridge the gaps in their own achievement plans.

The system encompasses career progression through its evaluation of overall individual performance which is then matched to available career openings.

Keeping an Even Tenor

As we know, where there is a sizeable body of people engaged in enterprise, there is often a divergence of views and a climate of dissension is always possible.

SLT has a vibrant culture amongst its people, and issues pertaining to their rights are represented through a number of Trade Unions.

It has not always been easy for an employee and Company to see eye to eye. However, the Company and the Unions have been working on many measures to smoothen the way ahead.

Awareness programmes for all grades, fostering a universal acceptance of industrial democracy in order that dialogue continues unhindered between management and unions, enhancing the lines of communication and the exploration of collective agreements are some of the measures being worked on.

Many more measures are in the pipeline and these, augmented by the Company's grievance handling processes ensure we are on the right track to achieving industrial contentment across the Company.

Staff Welfare

In tandem with our efforts at providing the optimum operating environment for our employees, which in itself encompasses all that we've written about up to now, we are mindful of the well-being of every employee.

To this end, the Company has striven over the years to constantly improve its welfare services and staff benefits.

INVESTMENT ON STAFF WELFARE

	2008 (up to 17.12.2008)	2007	2006	2005	2004
Total Investment	**1,000.02**	1,459.6	858.8	693.6	554.2

ICT

One of the key initiatives we have been working on over the years is the increasing deployment of ICT across the Company. Quite apart from the obvious benefits to the employee from computerisation of several important HR processes, ICT is also a pivotal measure in moving the work culture and processes of the Company from the conventional, to a modern, more open and proactive system.

IT/e-based communication processes are also transforming the paper-based internal communication systems of the Company.

These developments help to make work life for the SLT staffer a less stressful and more productive experience.

The Wealth that is Health

It has always been a core value area to SLT - the sustained well-being and health of its employees. Healthy lives are often productive lives and where our employees are concerned, we aren't just referring to the productivity that is derived by the Company. We look at the benefits to the individual; the quality of personal and family life; the value gained through a healthy balance of work and leisure.

SLT continues to implement its annual medical programme 'Suwatha" which has been operating since 2006. This programme helps our employees to check their health at regular intervals and has been invaluable in early detection of medical conditions, which has led to timely treatment and recovery. Employee participation remains high.

'Suwatha' is also augmented by a year round health education programme.

Here are some of our vital statistics as regards employee health and welfare.

The total number of employees who retired from service in the year 2008 was only 171. As a result, our employee turnover ratio is maintained at a healthy rate. The total number of work accidents for the years 2007 and 2008 respectively were 51 and 57. In the year 2007, the number of lost man days due to accidents was 2152 whilst the cost to the Company in this respect was Rs. 1,351,525/-. In 2008, the number of lost man days due to accidents was 1,603 whilst the cost to the Company was Rs. 1,705,000/-.

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

The continuous efforts of SLT to improve the quality of worklife of people and the deployment of improved technology will also mitigate the risk of accidents at the workplace.

The Company supports a fully-structured sports regime, which offers employees of all grades, *sans* any discrimination, the opportunity to indulge in sports such as Cricket, Swimming, Karate, Badminton, Netball, Football, Basketball, Elle and Tennis.

We conduct Inter-Group Tournaments in many of these sports too.

A case in point – for the past three years, a much looked forward to annual event is the cricket encounter between SLT and Mobitel, played off for the Convergence Cup.

The Company supports a well-structured sports regime offering employees of all grades the opportunity to participate in sports

On a socio-cultural level, we have a full calendar of events that range from the religious to the arts and cultural spheres.

Access to Information and Learning

SLT places great emphasis on the value of awareness and knowledge amongst all its people. We believe that the more information an employee gains of the Company and its affairs, the better equipped he/she is not only to carry out their daily work, but also to be able to contribute to the Company's planning processes and to act as ambassadors for their place of work, in the face of misconceived perceptions that could arise outside the Company.

To this end, SLT's management processes are structured around several tiers of formal meetings that take place at Group, Divisional, Sectional, Operational, Provincial and Senior Management levels.

This system helps to educate all employees on management decisions taken and disseminates information on a variety of other matters such as industrial developments, technological developments, information security issues, policy developments as well as socio-cultural material.

We have several delivery mechanisms that, in addition to meetings, facilitate this information flow such as - the intranet, info-mails, Information security newsletters, Amathuma, Media Watch and Art Watch – the latter two are vehicles for dissemination of industrial information and socio-cultural information.

SLT operates 3 libraries in different locations offering borrowing to both employees and their families

The Company also operates three libraries – at its Head Office, Havelock Town and Welisara Training School. These are proper libraries with borrowing facilities that are extended not only to employees, but to their family members as well.

Together all three libraries offer an inventory of over 25,000 books, magazines and periodicals, whilst some material is also available in electronic formats.

The Company acknowledges the support and contribution of the Asia Foundation and the International Telecommunications Union (ITU) who donate material regularly to us.

These libraries are proving to be a vital resource provider for employees, particularly those preparing to sit for Company examinations.

Our Customers

In our Chapter 'Group Review' we have extensively covered our ethos and its manifestation in terms of products and services extended to the customer.

Customer centricity underpins all organisational decision-making processes. It is a core driver of enterprise – from recruiting and equipping employees, to adopting the finest of materials, to fashioning state-of-the-art products and services, to being a learning organisation with the resilience and flexibility to face challenge and grasp opportunity in a fast-changing environment and so much more.

Add an infrastructure of ever growing customer outlets, service networks and facilitating points and you have a very effective customer centric operation that is SLT today.

For the morrow, we are advancing our strategy along a new path – from networks to markets – placing the customer more in focus than ever before. This we believe, is the direction of the future – it is the path along which the industry as a whole will move.

SLT within a Wider Social Landscape

From the basic fact that SLT's products and services touch the lives of people all over Sri Lanka and indeed beyond our borders, it is also a fact that we are playing multiple roles across a range of activity in the wider community.

In a range of activity across a wide spectrum of society, the Company seeks to be a catalyst for economic and social prosperity in Sri Lanka. We contribute heavily towards the broad areas of social reform such as IT knowledge enhancement, education, career guidance, enhancing English language skills whilst also promoting nature conservation and the arts and culture of the Nation.

Here is an account of the role SLT plays in the 'different' lives of the Nation.

Disseminating Knowledge

SLT - Asia Foundation Book Project - 6th Consecutive Year

The year in review, 2008, marks the 6th consecutive year in which we've given life to our guiding concept for this project, 'Spreading the Wealth of Knowledge'.

In a project which began in 2003, in partnership with the Asia Foundation, SLT has, each year, donated over 120,000 books to schools, universities, public libraries, professional institutions, technical colleges, religious institutions, Sarvodaya institutions and NGOs island-wide.

The highlight of our endeavours this year has been the donation of text books in Braille to the Institute for the Hearing and Sight Impaired (formerly known as the Ceylon School for the Deaf and Blind).

This is the first occasion that SLT has been able to help this institution and we believe we are the pioneer corporate entity to have distributed books in Braille.

'Praja Shakthi' is an initiative to provide the tools of learning and education to the plantation sector.

SLT donated 1,500 books to this worthy cause, under its 'Spreading the Wealth of Knowledge' initiative.

'Praja Shakthi' functions under the auspices of the Thondaman Foundation and has a network of over 30 centres across the country.

EDEX 2008

The EDEX Fair and Exhibition is a prime event in the educational calendar of Sri Lanka and was held for the 5th consecutive year in 2008, at the BMICH, Colombo.

SLT annually supports this event as its Theme Attraction Sponsor. The Company views EDEX as taking the lead to meet the 'Skills Gap' whilst SLT meets the 'Information Gap' on the 'canvas' of national education and skills.

Distance Learning

Our initiatives in this segment have been fully detailed in the 'Group Review' Chapter, under the heading - 'Supporting ICT Initiatives'.

In summary, SLT offers a wide range of technical and infrastructural support to national, distance learning ventures such as the National Online Distance Education Service (NODES), SchoolNet, Nenasala Knowledge Centres and LEARN.

SLT donated 120,000 books under its 'Spreading the Wealth of Knowledge' initiative which took place for the 6th consecutive year

SLT supported The Asia Foundation by donating text books in Braille to the Institute for the Hearing and Sight Impaired

Through these projects and utilising its state-of-the-art IP-VPN based solutions, SLT puts ICT enabled learning tools within the reach of educational institutes such as schools, universities and village educational centres, all across Sri Lanka.

Supporting National Enterprise

SLT is the National telecom service provider and in that light we are always ready to lend our support to initiatives that present a national perspective on development.

SLT Powering e-Government

This subject has been extensively covered within our chapter on 'Group Review' under the segment on 'Supporting ICT Initiatives'.

'Lanka Government Network' (LGN) is proliferating ICT across all public sector offices and HR bases.

SLT is the total communications solutions provider and communications infrastructure provider for the project.

Employment Generation

Through the establishment of our subsidiary SLT Manpower Solutions, the Company has established a dedicated HR solutions provider which initially provides SLT's manpower requirements. Long-term plans will see SLT Manpower Solutions offer their expertise to external organisations.

From a National perspective, SLT is an employer of some size and our contribution to employment generation is significant.

Through another subsidiary, SLT Publications, we are now printing our entire requirement of Directories in Sri Lanka, where hitherto, part-printing took place overseas.

Earlier Directory part-printing was undertaken overseas but now through the new subsidiary SLT Publications (Pvt) Limited, our entire consignment of Directories is being printed locally. As a result more jobs opportunities would be created for local youth and valuable foreign currency spent on printing to be done overseas and the cost of importing paper and machinery inclusive of the applicable taxes would be saved, which in fact make a direct contribution to the national economy.

Further, the fast-growing subsidiaries such as Mobitel, SLT VisionCom, SLTSL, SLT Hong Kong Limited and Sky Network are contributing significantly in terms of employment generation. Hence, SLT Group provides nearly 10,000 direct employment within the Group of Companies and in addition to that a fairly large amount of indirect employment by outsourcing services such as cable laying, debt collection, authorised dealing (for bill payments, retailing products such as prepaid cards etc.), security services, janitorial services, couriering services and cafeteria services amongst others.

Such outsourcing not only yields benefits to the nation through the creation of more business opportunities for Sri Lankan entrepreneurs, the creation of more jobs for Sri Lankans with the resulting empowerment and uplifting of the lives of more people in the country but it has also led SLT to contribute significantly to the nation's economy.

Our Technology - Empowering the Banking Sector

SLT's state-of-the-art technology powers the banking sector - state, private and global - enabling them to expand their banking and financial services to reach even the most far-flung rural areas of the country.

The benefits to their customers are many - they save on travel costs as more banking services are handled *in situ*, without the necessity of visiting Head Office/Main Branches.

Deyata Kirula National Development Exhibition

SLT was the Principal Sponsor and total communications service provider for the Government's Deyata Kirula Exhibition in 2008.

Our subsidiary SLT Publications, now undertakes printing the entire requirement of Telephone Directories in Sri Lanka

The Company's digital lifestyle stall at the exhibition, powered by our broadband network and subsidiary Mobitel's 3.5G mobile broadband network gave visitors a comprehensive preview of the 'world to come' in terms of a convergence-enabled suite of futuristic products and services.

SLT also provided broadband connectivity to more than 100 stalls at the BMICH allowing access to high speed internet, video and telephone services.

Deyata Kirula is a showcase of the country's history and its forward march through the pages of time, into the future. It also enlightens the public regarding the development initiatives undertaken by the Government.

Communications Service Provider to the 15th SAARC Summit

SLT provided comprehensive communications services at the 15th SAARC Summit in Colombo this year, with services at several locations - the BMICH, the Bandaranaike International Airport and at several host hotels.

The services were state-of-the-art and catered well to the needs of all delegates.

SLT Support for Foreign Employment Bureau

SLT has provided the Sri Lanka Bureau of Foreign Employment (SLBFE) with a state-of-the-art communications solution to enhance its activities in service to migrant workers.

SLT was the principal sponsor and total communications service provider for the Deyata Kirula Exhibition 2008

The Company's IP-VPN supported solution will carry broadband services providing premier voice and data transmission capabilities in a highly cost-effective package.

The resultant savings on revenue will allow the SLBFE to plough back more resources in service to migrant workers, thus upgrading their services and facilities.

CDMA Support for Sri Lanka Mahajana Development Foundation

In a landmark agreement, SLT has offered its support to the Sri Lanka Mahajana Development Foundation, a non-profit making NGO which seeks to uplift the living standards of the community at large, across a varied spectrum of activity.

Under the agreement, SLT will initially provide 50,000 CDMA telephone connections to facilitate the communication needs of the Foundation's members, island-wide.

With a membership of 10,000 rural community leaders, 275 regional community leaders and 18 district co-ordinators working in the remotest areas of the country, SLT's City Link CDMA option is the most practical communications solution that best meets the needs of the Foundation.

Empowering e-Channelling

Today, e-channelling facilities have proved to be a huge boon to the public, who now have easier access to the doctors and medical facilities of their choice, at the press of a button.

SLT stepped forward to support E-Channelling Limited, Sri Lanka's pioneer e-commerce technology deploying institution, through the offer of a total data communication solution plus a co-location telecom solution.

The IP-VPN based solution coupled with a data hosting service from SLT allows E-Channelling Limited to link its Head Office and all its centres to a centralised online information system.

Sponsorship Specials

SLT entered into several strategically selected sponsorships that supported key initiatives of both public and private sectors.

Empowering the National HR Conference 2008

SLT was the strategic partner of the National Human Resources Conference organised by the Institute of Personnel Management (IPM) in 2008.

'People Driven Business' was the theme of the Conference and highlighted the vital importance that is attached to the field of HR as it strives to provide the HR resources necessary to build the 'work force of tomorrow' for national enterprise.

The Company identifies with the dynamic change the HR sector is undergoing, as it reflects much of the evolution that has taken, and is taking place in SLT.

Platinum Sponsorship of National IT Conference 2008

Being an area intrinsically part of the communications industry, it was only logical that SLT stepped in as Platinum Sponsor of the 26th National Information Technology Conference that was held in August 2008 in Colombo.

Organised by the Computer Society of Sri Lanka (CSSL), the conference had as its theme the idea of 'e-Inclusion for a Knowledge Economy'.

SLT is proud of its own role as a flag bearer of the IT revolution in the country, as we set about building a world-class communications infrastructure for the country.

We are seeing the phenomenal expansion of the communications industry leading to convergence with the IT industry. It is here that organisations like CSSL play a vital role in leading operators, academics and vendors in the communications and IT industries to work together towards the common goal of creating a society replete with digital democracy.

Supporting 8th Annual Conference of CIM

The Company once again came forward as a sponsor of the Chartered Institute of Marketing, Sri Lanka Region's 8th Annual Conference held in Colombo during the year 2008.

This is the sixth consecutive year of SLT's sponsorship of CIM's Conference and reinforces the Company's commitment in uplifting standards in key areas of discipline and education.

From SLT's point of view, the burgeoning ICT sector is changing the way information is sought and imparted in every imaginable area. We feel ICT builds a solid bridge between brands and customers.

Partnering the British Council for the IYFE Awards 2008

The International Young Fashion Entrepreneur (IYFE) Award 2008 has been introduced by the British Council, Colombo as a means to celebrate the important role creative young entrepreneurs play in the world of fashion.

SLT had no hesitation in coming in as project partner as we acknowledge the doors such an event can open for young, talented Sri Lankan designers and entrepreneurs in the international fashion world. The event is also an important meeting ground for local and international talent.

SLT stepped in as Platinum Sponsor of the 26th National Information Technology Conference 2008

SLT was the sponsor of the Chartered Institute of Marketing, Sri Lanka Region's 8th Annual Conference 2008

Supporting Broadcast Sri Lanka

The Company was the Principal Sponsor of Broadcast Sri Lanka - a Multimedia and Infotainment Technology Exhibition held at the BMICH in 2008.

The objective of this exhibition was to update professionals in the broadcasting industry, consumers and the general public on the modern, innovative technology and equipment that the evolution of the industry has spawned, in the international arena.

The relevance of this event for SLT is obvious - the phenomenal evolution of the communications industry into a 'com-media' industry, blending communications and media delivered from a single platform, has brought the word 'broadcast' within our own vocabulary - witness IP-TV and other such products and services.

SLT - Platinum Sponsor of CIMA's World Conference 2008

CIMA is a world recognised body and the custodian of one of the world's most respected Accounting qualifications.

SLT can identify with its world standards - importantly we want to do what we can to promote such educational opportunities to Sri Lankans, helping them to attain world standards of professionalism and satisfying lifestyles in their personal domain.

Supporting the Sri Lankan Contingent to the Beijing Olympics

National empowerment and upgrading sporting standards in the country are just two of the factors that bring SLT on board year after year, to support key sporting initiatives of the Nation.

SLT was the Platinum Sponsor of CIMA's World Conference 2008

Within this initiative, we were especially honoured to be able to sponsor Sri Lanka's Paraolympics contingent to the Beijing Games.This is a reaffirmation of the Company's commitment to contribute to the development and enhancement of standards of the differently-abled sportsmen and women of our country.

As Official Sponsor, the SLT support package, valued at Rs.10 million, also provides track suits for the entire team.

Support for Thilini Jayasinghe - Sri Lanka's first-ever Badminton Player at the Olympics

SLT was particularly happy to extend sponsorship of Sri Lanka's No. 1 Women's Badminton player, Thilini Jayasinghe, as she made history as Sri Lanka's first-ever women's badminton player to compete at the Olympics.

We could identify with Thilini's drive and determination that has brought her to this pinnacle of her career.

Support for Sri Lankan sport has never been far from the reach of our sponsorship.

SLT and National Athletics

The Company teamed up with the National Athletics Association of Sri Lanka to sponsor both the Women's Athletics Championship 2008 and the Senior National Athletics Championship 2008.

Supporting both these events as their Principal Sponsor is an avowal of SLT's deep commitment to uplifting sports whilst strengthening and building relationships through such events which prepare our young athletes to compete in arenas far beyond our own shores.

SLT Powers Inter-Provincial Twenty/20 Cricket

SLT was the title sponsor of the first-ever National Inter-Provincial Twenty/20 Cricket Tournament held during 2008. Six teams named - Kandurata, Ruhuna, Wayamba, Basnahira North, Basnahira South and a Schools Invitation XI were pitted against each other, with the team Wayamba emerging ultimate champions.

This was an important initiative in the country's bid to raise the standard of provincial cricket and is in keeping with SLT's own ethos of developing and strengthening relationships through sports and being a responsible 'social enabler' for all Sri Lankans.

Our Internal Soccer Tournament

February 16th 2008 saw 50 teams drawn from various departments and regions of SLT's business enterprise, meet and compete at the Company's Seven-a-Side Soccer Tournament.

It was a keenly contested event, which epitomised the Company's desire that teamwork and relationships be strengthened across the Company.

SLT - Overall Badminton Champs at Inter-Operators Tournament 2008

The Company's Men's and Women's shuttlers combined to put SLT on top at this tournament.

The tournament was held for the third successive year and is organised by the Telecommunications Regulatory Commission of Sri Lanka.

This is just one of the sporting events that dot the Company calendar and targeted as it is at the industry, it is a great opportunity to build healthy relationships through sports.

Sponsoring Ballet - Macbeth - an Oriental Adaptation

Ravibandu Vidyapathi is one of Sri Lanka's most accomplished dancers and percussionists and when he staged an adaptation of William Shakespeare's Macbeth in ballet form, with the Ravibandu-Samanthi Dance Ensemble, SLT was on hand to lend its support as sponsor of the event.

The uniqueness of the concept, plus its occurrence in the domain of our country's rich culture, were key aspects of consideration for SLT, in extending sponsorship.

THE ENVIRONMENTAL PERSPECTIVE

The world today is replete with examples of a crumbling environment in the wake of the harmful actions of man.

There is a direct link between global warming and man-made pollution; between earth slips and forest denudation caused by man; between flooding and man causes misuse of land resources… and so much more.

Everywhere we look, the world as we knew it is very different to the world as we *know* it. These issues are of such magnitude and concern that to ignore them would be the greatest foolhardiness.

These are problems for business entities just as much as for the individual.

SLT has a long-established ideal of doing everything it can to preserve and protect the resources of nature - of preserving them for future generations - of educating people *now* for a better *tomorrow*.

The Company happily extended their sponsorship to Thilini Jayasinghe, Sri Lanka's No. 1 Women's Badminton player who was the country's first-ever women's badminton player to compete at the Olympics

SLT was the title sponsor of the first-ever National Inter-Provincial Twenty/20 Cricket Tournament held in 2008

Here are some of the ways how we take our efforts forward:

SLT and the Field Ornithology Group of Sri Lanka

For the third consecutive year, SLT has combined resources with the Field Ornithology Group of Sri Lanka (FOGSL) in a project that seeks to create awareness about the Sinharaja Forest Reserve, designated by UNESCO in 1990, as a World Heritage Site.

This initiative is in line with the Company's own avowed pursuit of 'Preserving Heritage for Tomorrow'.

The project encourages groups of students and teachers from schools from across the country to visit the Sinharaja Reserve over a two-day period, where they have class-oriented instruction as well as field trips that reveal the phenomenal bio-diversity of the Reserve and what should be done to protect and preserve these natural riches of our land.

FOGSL's team is led by Prof. Sarath Kotagama, Sri Lanka's renowned ornithologist.

SLT's sponsorship helps to make these visits happen and through them, awareness and good conservation habits are inculcated in the emerging generation of young Sri Lankans, who hopefully will one day take the reins and build a different world.

An Uniquely Themed Company Calendar

In addition to the initiative described in the previous section, SLT publishes a Calendar each year along the lines of our theme 'Preserving Heritage for Tomorrow'.

For the 3rd consecutive year, SLT combined resources with the Field Ornithology Group of Sri Lanka (FOGSL) to create awareness about the Sinharaja Forest Reserve

A depiction of our calendars themed 'Preserving Heritage Tomorrow'

In previous years, we have held true to our theme in the production of the Company calendar, extensively featuring such facets of the bio-diversity and arts and culture of Sri Lanka as endemic birdlife, endemic species of orchid, the 'kolam' masks of Sri Lanka, endemic species of freshwater fish and the magic of 'Gok' art (coconut leaf weaving).

Our calendar for 2009 features the butterflies of Sri Lanka.

These annual 'pictorial treasures' help to raise awareness amongst the public and also play a role in 'events to follow' such as the setting up of support programmes for the conservation of species and the arts.

Our New Company Theme Song - Totally Employee Produced

The well-renowned Prof. Sunil Ariyaratne commented that it was a rare occurrence indeed, to learn of an organisation with a theme song composed entirely by its employees - and that is exactly what SLT's employees came up with.

The new Company song was unveiled by our Chairperson on the 1st of January 2009.

The process began when the HR division canvassed entries from staff for their contributions in ideas, lyrics, tune and visuals.

Ultimately, this is a great triumph for the creativity and talent of our people and has received justifiable praise from all quarters.

POLICY AND ETHICS OF GOVERNANCE

Sound Corporate Governance practices are recognised as the mechanism through which SLT's ethos of accountability and transparency in the conduct of the affairs of the Company is developed. The transparency and openness brought about by high standards of corporate governance has enhanced investor confidence in the Company. Our aim has always been to achieve exemplary corporate governance whilst delivering shareholder value, in line with the approach mandated in 2007 by the Colombo Stock Exchange. The Company is committed to continuously improving these practices and inculcating an ethical corporate culture. The Company requires all Directors, officers and employees to maintain the highest standards of integrity and honesty in performing their duties.

THE INDEPENDENCE AND EFFECTIVENESS OF THE BOARD OF DIRECTORS

a. The Independence of Directors

For a Director to be considered independent, the Board must be satisfied that the Director does not have any direct or indirect material relationship with the Company. In determining the independence of Directors, the Board follows the requirement set out in the CSE Listing Rules on Corporate Governance as well as the Code of Best Practice on Corporate Governance issued by the ICASL. Consequent to the induction of SLT's new shareholder GTH, the Company's policies and procedures are being reviewed in order to adhere to best practices and achieve common objectives.

b. The Composition of the Board

In terms of the Articles of Association of the Company the Board of Directors consists of ten (10) seats. Any Director shall be selected by resolution passed by a simple majority of the votes cast at a general meeting by the holders of shares present in person or proxy.

According to the shareholding of major shareholders, GOSL is entitled to 05 seats in relation to its 49.50% equity holding and GTH to 04 seats in relation to its holding of 44.98% while 01 seat is reserved in respect of the minority shareholders who together hold 5.52% of equity.

Shareholders are thus responsible for the appointment of Directors to fill even casual vacancies. The Chairperson of the Board is a Director nominated by GOSL and is appointed as per the Articles of Association of the Company.

The NTT appointed nominee Director functioned as the CEO until the GTH takeover in April 2008.

In the absence of a CEO, the Chairperson together with the members of the Board managed the business with the support of the senior management and staff of SLT.

c. Core Duties of the Board

The Board provides strategic direction to the Company through the medium of the Annual Business Plan. The Annual Business Plan is reviewed by the Board quarterly or by mid-year. In consideration of the latest developments taking place in the business environment, technology and other key areas, the existing systems and processes are being reviewed. Proposals are implemented by the Board as per Corporate Governance rules and SEC guidelines.

d. Board Meetings and Attendance of Directors

During the year 2008, the Board convened 15 meetings. The chart appearing below illustrates details of attendance of each of the Directors.

Name of Director	No. of meetings attended
Mrs. B.L.N. de Silva Chandrasena, Chairperson	15
Mr. P. Asoka W. de Silva (Resigned w.e.f. 22.02.08)	03
Mr. Shoji Takahashi, CEO (Resigned w.e.f. 04.04.08)	07
Mr. Shuhei Anan (Resigned w.e.f. 04.04.08)	01
Mr. S.N. Kumar (Resigned w.e.f. 26.11.08)	12
Mr. Sumith Wijesinghe	15
Mr. P.A. Abeysekara (Resgined w.e.f. 03.12.08)	13
Mr. Sidath Fernando (Appointed w.e.f. 04.03.08)	08
Mr. Sandip Das (Appointed w.e.f. 05.06.08)	06
Mr. Chan Chee Beng (Appointed w.e.f. 05.06.08)	05
Mr. Jeffrey Jay Blatt (Appointed w.e.f. 05.06.08)	05
Mr. Geoffrey William Shelley (Resigned w.e.f. 20.01.09)	04
Mr. Yoga Perera (Appointed w.e.f. 26.11.08)	02

e. Appointment of Members and their Re-Election

In terms of the Articles of Association of the Company, the shareholders are entitled to appoint the Directors. The details of the duly appointed Board of Directors and any changes thereto are disclosed via the Directors' Report appearing in the Company's Annual Report on page 64.

In conformity with the Company's Articles of Association, members comprising a third of the Board of Directors, except the Chairman and the CEO, retire from office by rotation at every Annual General Meeting.

A retiring Director is eligible for re-appointment by the shareholders.

f. The Accountability of the Board

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company. The Annual Report and interim financial statements which are principal tools of communications with shareholders present the Company's financial position and operating results in comprehensive detail, often far exceeding statutory and regulatory obligations. These reports and statements are published and circulated to shareholders within the duly stipulated time frames. The statutory accounts comply with the requirements of the Sri Lanka Accounting Standards, the requirements of the CSE and the Companies Act.

g. Role of the Company Secretary

The Company Secretary attends Board meetings, maintains minutes of all such meetings and the Board decisions resulting therefrom whilst liaising with the Directors on all matters in relation to the Board. The Company Secretary is expected to adhere to proper Board processes and is tasked with the timely preparation and dissemination of requisite material such as Agendas for Board Meetings in consultation with the Chairperson and Board Committees.

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

h. Board Committees and their Composition

The Board has two sub-committees; an Audit Committee and a Remuneration Committee. The Board also delegates its authority to other *ad hoc* committees as and when required.

Audit Committee

The Audit Committee is responsible for monitoring the integrity of financial statements of the Company. In addition to the review of financial information of the Company, the Audit Committee also oversees the relationship between the Company and the Auditor and reviews the Company's financial reporting system, internal audit policy, internal control and risk management procedures. The Committee also leads the regularisation of processes where necessary, pursuant to recommendations from the external auditors.

The decisions of the Audit Committee are recommended to the Board for approval.

The Audit Committee comprises four Directors; two nominee Directors of the GOSL and two nominee Directors of GTH. The CFO and Internal Auditor regularly attend the Audit Committee meetings by invitation.
The Audit Committee consists of

- Mr. Sidath Fernando - *Chairman*
- Mr. Sandip Das - *Member*
- Mr. Sumith Wijesinghe - *Member*
- Mr. Chan Chee Beng - *Member*

Mr. Chan Che Beng is a Fellow of the Institute of Chartered Accountants in England and Wales.

The Audit Committee held 04 meetings in the year 2008.

Name of Director	No. of meetings attended
Mr. Sidath Fernando	03
Mr. Sandip Das	03
Mr. Sumith Wijesinghe	03
Mr. Chan Chee Beng	03

The Audit Committee Report will appear on page 70.

REMUNERATION COMMITTEE

The Company has in place a remuneration policy which is formulated by the Remuneration Committee and approved by the Board. The Remuneration Committee comprises two independent non-executive Directors, to oversee the remuneration policy of the Company in respect of non-executive Directors as well as the remuneration policy and incentive schemes pertaining to the Company's senior management. The decisions of the Remuneration Committee are recommended to the Directors for their approval.

The Remuneration Committee during the year in review comprised:

- Mr. Sidath Fernando
- Mr. Sandip Das

INVESTOR RIGHTS AND RELATIONS

Shareholders can exercise their voting rights at the AGM and EGM. Shareholders are entitled to one vote for every share held by them. Meetings are held as per the Articles of Association of the Company. The Company shall in each year, hold a General Meeting as its AGM in addition to any other general meetings in that year.

The Company actively promotes investor relations and communication with the investment community when the interim and year-end financial results are announced and during the course of the year. The Board is committed to providing comprehensive information about the Company's affairs in a transparent manner to shareholders through the publication of notices, announcements, circulars, interim and annual reports. Moreover, additional information is also available to shareholders through the Investor Relations page on the Company's website. Shareholders are encouraged to attend all general meetings of the Company. The Company promptly discloses significant material information to the CSE.

INTERNAL CONTROL AND RISK MANAGEMENT

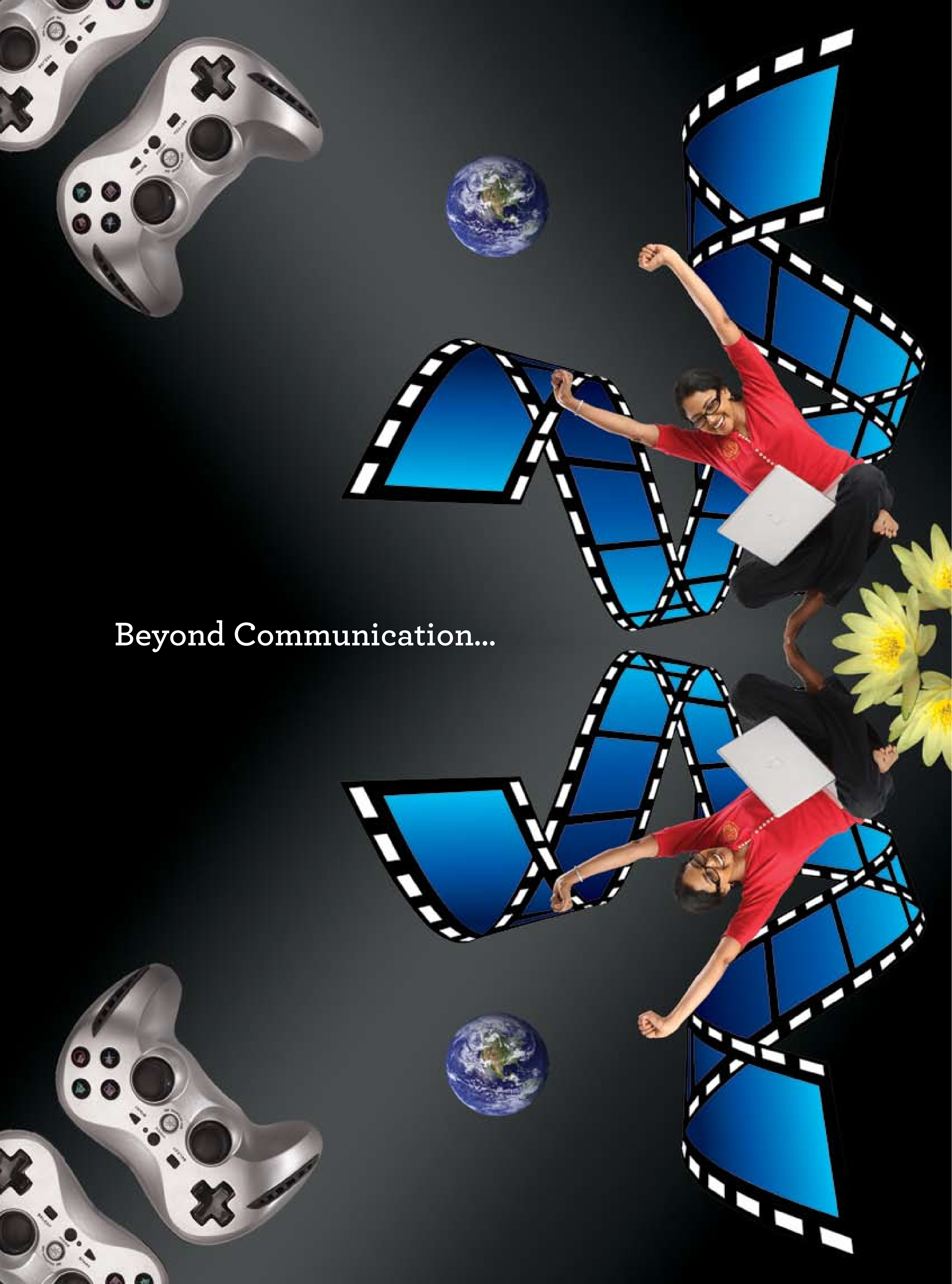
The Board has overall responsibility for establishing and maintaining the Company's internal control systems as well as the assessment and management of areas of risk.

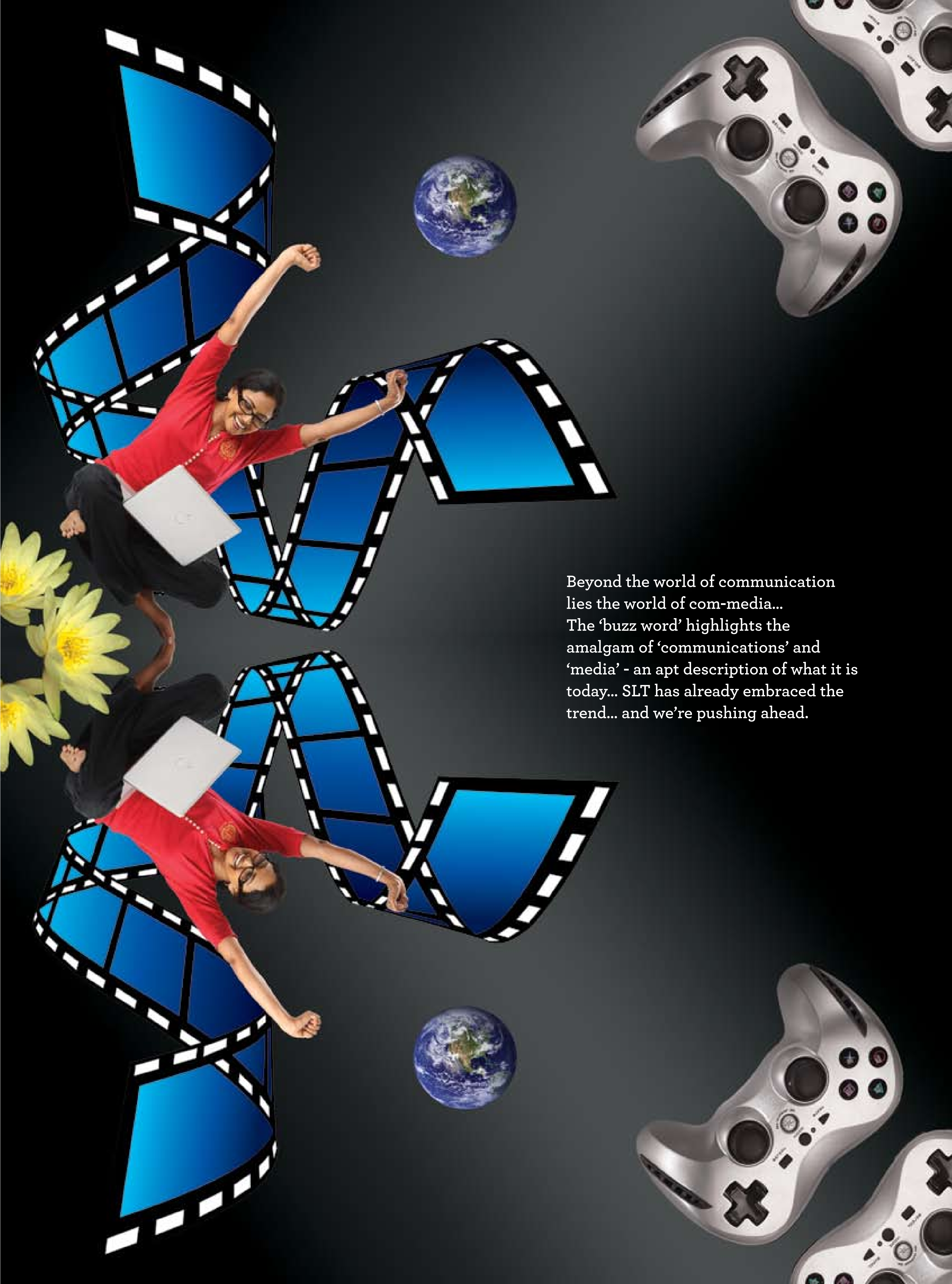
In meeting its responsibilities, the Board seeks to increase risk awareness across the Company's business operations and has put in place policies and procedures, including parameters of delegated authority, which provide a framework for the identification and management of risks. The Board has ensured that the Company has in place appropriate internal control and approval procedures.

Together with the internal audit team, the Auditor and the Company's senior management, the Audit Committee reviews and monitors such internal control and approval procedures with a view to ensuring their effectiveness.

The Company also maintains a system of disclosure controls and procedures to ensure that information required to be disclosed by the Company is recorded, processed, summarised and reported within the required time periods and accumulated and communicated to the Company's management to allow timely decisions regarding disclosure.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Company's business objectives, they do not provide absolute assurance against material misstatement, errors, losses or fraud.


Beyond Communication...



Beyond the world of communication lies the world of com-media... The 'buzz word' highlights the amalgam of 'communications' and 'media' - an apt description of what it is today... SLT has already embraced the trend... and we're pushing ahead.

Sri Lanka Telecom

FINANCIAL PERFORMANCE

Revenue

SLT recorded a revenue of Rs. 36.11 billion which resulted in a marginal decline of 2.6% as compared to the previous year. This was mainly due to the Company facing intense competition during the year from mobile operators and wireless operators which resulted in tariff reductions. The tough economic conditions faced in the country also impacted the general usage resulting in lower volumes of traffic.

Domestic Revenue

This consists mainly of the revenue generated from fixed line rentals and call charges. This accounted for 42.9% of total revenue as against 45.9% in 2007. The domestic revenue decreased by 9.0% to Rs. 15.52 billion in 2008 as against Rs. 17.04 billion in the previous year. This was mainly attributable to significant reduction in rentals.

CDMA

Revenue from CDMA services amounted to Rs. 5.13 billion in 2008, a 17.0% decrease in comparison to last year's results of Rs. 6.19 billion. CDMA revenue accounts for 14.2% of the total revenue. New connection tariffs reduction as well as lower usage volumes was the main factor that contributed to the decline in CDMA revenue.

Over 100,000 new CDMA connections were established during the year resulting in the total CDMA customer base to exceed 500,000. The Company plans to initiate new attractive packages in the CDMA arena to boost this line of revenue.

International Revenue

Total international revenues declined by 3.9% to Rs. 8.81 billion. This comprises international call revenue, receipts from other network operators and international settlements. International call revenue accounted for Rs. 1.54 billion whilst international settlements accounted for Rs. 7.12 billion. The decline was unavoidable even though the IDD rates being reduced by 45% to 86% depending on the country in order to stay in line with competition and to stimulate usage. The Company would engage in more competitive offers to improve usage. The IDD facility was opened for residential PSTN customers as a first step in this endeavour.

Data & Other Operating Income

Data, Internet protocol (IP) services and other sector revenues increased significantly to a record Rs. 6.66 billion in 2008 compared to Rs. 4.67 billion in 2007. An impressive 42.6% growth when compared with last year.

The Company maintains its strong position as market leader boasting a market share in excess of 60% in internet related services. The broadband customer base at the end of 2008 is almost 100,000 which accounts for a market share of over 50%.

This source of revenue is expected to increase substantially in view of the investments made in the latest IP technology, IPTV and further service offerings utilising the undersea cable network.

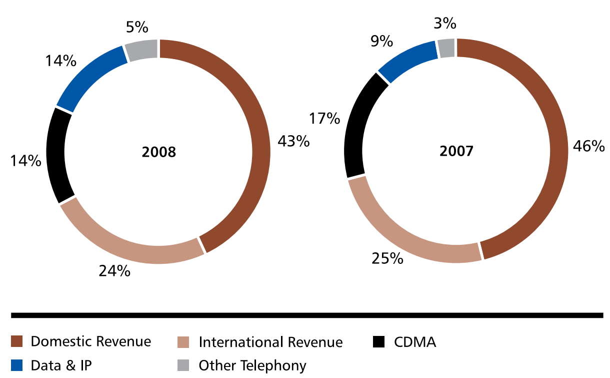
Operating Costs & Depreciation

The Company has done well to maintain its operating costs. Operating costs including International Telecommunications Operators' Levy (ITL) and Voluntary Retirement Scheme (VRS) increased by a marginal 3.9% to Rs. 30.11 billion in 2008.

Staff costs increased by 7.1% to Rs. 5.87 billion, a considerably lower increase as compared with the previous years increase of 20.0%. This is mainly due to 273 employees accepting the VRS scheme. The VRS costs incurred in 2008 amounted to Rs. 390.46 million as against Rs. 43.41 million in 2007.

Repairs and maintenance expenditure increased by 28.3% to Rs. 1.97 billion.

Composition of Revenue



Provision for doubtful debts increased by 52.5% to Rs. 1.58 billion. This was on account of recovery issues on CDMA phones and connections given on installment schemes. Enhanced credit control measures were introduced which is expected to reduce bad debts in CDMA during 2009.

Depreciation charges amounted to Rs. 8.21 billion as against Rs. 8.88 billion in the previous year.

Fourth Voluntary Retirement Scheme

During the second quarter of 2008, the Company announced its fourth VRS, incurring a cost of Rs. 390.46 million compared to Rs. 43.41 million incurred in 2007. The objective of this VRS was to benefit the Company as well as employees, the Company moving towards a lean structure and employee being supported with early retirement. 273 employees availed themselves to the VRS in 2008 versus 52 employees in 2007.

International Telecommunications Operators' Levy (ITL)

ITL was introduced in 2004 by Finance Act No. 11 of 2004 whereby all International Telecommunications Operators are required to contribute to the Government of Sri Lanka at the rate of US$ 0.038 per international incoming traffic minute. The law is retroactive with effect from 3 March 2003. This amount would be credited as Telecommunications Development Charge (TDC). According to gazetted terms, SLT is entitled to reclaim two-thirds of the TDC within three years against the funds expended by the Company in terms of network roll out to unserved and underserved areas of Sri Lanka.

In December 2008, Telecommunication Regulatory Commission (TRC) informed SLT that for the period 3 March 2003 to 31 December 2005 a sum of Rs. 2.18 billion would be refunded in lieu of two-thirds of TDC.

Finance Costs

Finance costs consist mainly of interest expenses and include the effects of exchange rate fluctuations generated by the restatement of monetary assets and the writing off of realised exchange fluctuations from the hedging reserve. Finance costs decreased by 11.8% during the year under review to Rs. 1.20 billion.

Taxation

Taxation was Rs. 2.17 billion, a decrease of 20.8% against Rs. 2.74 billion from the previous year.

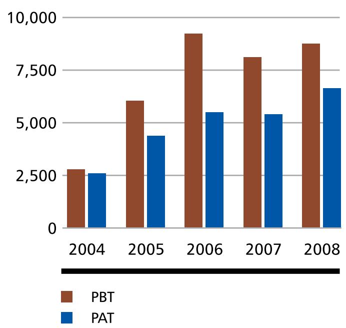
Profitability

Operating profits after taking into account the ITL and VRS declined by 25.8% to Rs. 6.01 billion in 2008 against Rs. 8.09 billion in 2007. Lower revenues and increased costs mentioned above contributed to the decrease.

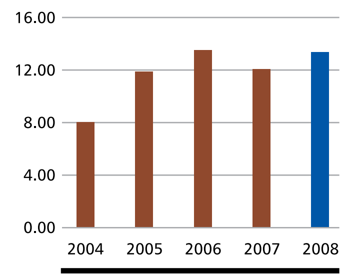
However Profit Before Tax (PBT) at Rs. 8.77 billion was up 7.9% from Rs. 8.13 billion in the previous year. The main contributory factor for this turnaround in profits was the additional income from TRC on account of the refund of TDC amounting to Rs. 2.18 billion.

Profit After Tax (PAT) increased by 22.5% to Rs. 6.60 billion in 2008 as against Rs. 5.39 billion in 2007. The substantial increase in PAT is mainly attributed to the refund from TRC

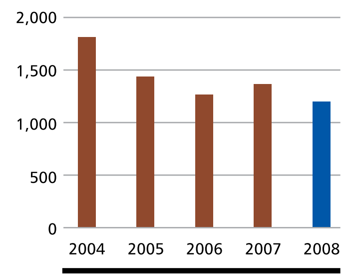
Profit Before Tax & Profit After Tax
Rs. Mn.



ROE
%



Finance Costs
Rs. Mn



not being taxed. Thereby the effective tax rate in 2008 was 24.7% verses 33.7% in the previous year. The Company recorded a PAT margin of 18.3% in 2008 compared to 14.5% in 2007.

Measuring Performance

Earnings per Share (EPS) recorded an increase of 22.4% to Rs. 3.66 over the Rs. 2.99 recorded in the previous year. Return on Equity (ROE) also increased to 13.4% from 12.1% in 2007.

FINANCIAL POSITION

Balance Sheet

Total assets as at 31 December 2008 were Rs. 81.97 billion, as against Rs. 78.90 billion the previous year primarily due to an increase of Rs. 2.95 billion in Current Assets.

Total equity increased by Rs. 4.85 billion to Rs. 49.34 billion. As the US$ 100 million bond becomes payable in 2009 there has been a major shift from non-current liabilities to current liabilities. Current liabilities increased by Rs. 13.21 billion while non-current liabilities decreased by Rs. 13.49 billion.

Non-Current Assets

Total non-current assets of the Company increased marginally to Rs. 50.89 billion, as against Rs. 50.79 billion from the previous year. The decrease in property, plant & equipment of Rs. 2.86 billion was over and above the increase in subsidiaries amounting to Rs. 2.42 billion. The investments of Rs. 2.42 billion mentioned above related mainly to Rs. 2.10 billion investment in Mobitel and Rs. 0.10 billion and Rs. 0.17 billion investments made in SLT VisionCom (Pvt) Limited and Sky Network (Pvt) Limited respectively. The other notable factor was the increase in receivables by 23.9% to Rs. 1.57 billion.

Working Capital

Working Capital eroded significantly as at 31 December 2008 to Rs. 6.64 billion, a decrease of 60.7% over the previous year. The main contributory factor to the decrease was the US$ 100 million bond shifting from non-current liabilities to current liabilities as mentioned above. Increase in trade and other receivables of 7.1% to Rs. 10.78 billion and growth in cash and cash equivalents by 7.7% to Rs. 17.97 billion were the other notable factors. The Cash and cash equivalents includes a sinking fund of Rs. 9.96 billion created in 2005 to redeem the US$ 100 million bond in 2009.

Activity and Liquidity Ratios

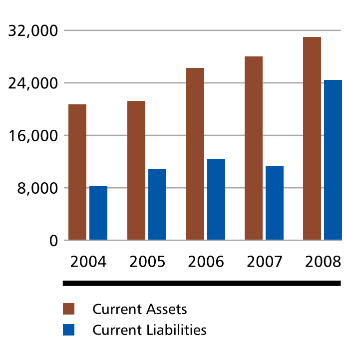
Asset turnover decreased, from 0.47 in 2007 to 0.44 in 2008.

The current ratio decreased significantly from 2.32 in 2007 to 1.27 in the year under review. This is mainly on account of the increase in current liabilities as the US$ 100 million bond becomes payable in 2009. The quick asset ratio also decreased to 1.18 during 2008 as compared with 2.21 of the previous year.

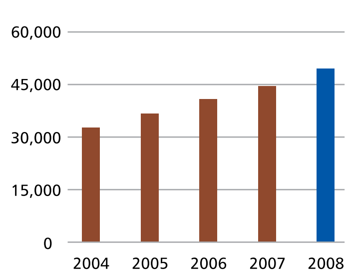
Interest Cover

Interest cover showed a healthy increase to 8.30 in 2008 as against 6.96 in 2007. Contributory factors were 6.2% increase in Earnings Before Interest and Tax (EBIT), and a decrease in interest expenses of 11.8%.

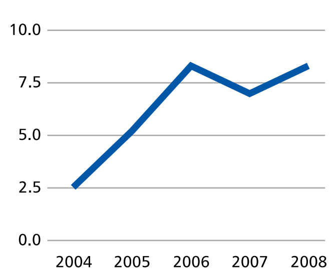
Current Assets & Current Liabilities
Rs. Mn.



Equity
Rs. Mn



Interest Cover
No. of Times



Capital Structure

The total assets of SLT, amounting to Rs. 81.97 billion, were funded by shareholders' funds (60%), long-term liabilities (10%) and short-term liabilities (30%).

Debt

The total debt of the Company was Rs. 13.83 billion as at balance sheet date, 4.8% higher than in 2007. This was due to an increase in short-term bank borrowings increasing by Rs. 0.90 billion. The Company's overall debt comprises Rs. 0.68 billion long-term debt (4.9% of the total) and Rs. 13.15 billion (95.1%) short-term debt. 83.8% of the total debt consists of foreign-currency borrowings, while the balance 16.2% are local-currency borrowings.

Notes for US$ 100 million issued by the Company and redeemable in 2009 constitute 98.9% of the foreign-currency debt.

The Gearing ratio reduced marginally from 22.9% in 2007 to 21.9% in 2008.

CASH FLOW

Operating Activities

Cash and cash equivalents increased by Rs. 1.28 billion during the year. Net cash flow from operating activities was Rs. 10.57 billion in 2008, reflecting a decrease of Rs. 1.20 billion over 2007. This was primarily due to a decrease in cash generated from operations. Interest paid during the financial year was Rs. 1.20 billion, as against Rs. 1.39 billion in 2007.

Investing Activities

Net cash outflow from investing activities was Rs. 8.13 billion for the year in review, compared with Rs. 6.51 billion in 2007.

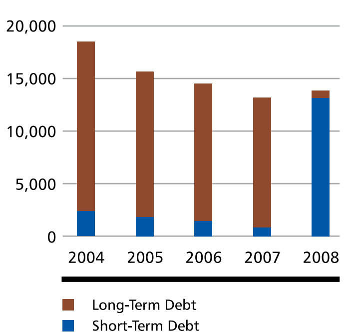
Financing Activities

Net cash outflow from financing activities was Rs. 1.71 billion in the financial year 2008, compared with Rs. 3.08 billion in 2007. Net cash flow from financing activities includes the repayment of Rs. 796.32 million for maturing debt and a dividend payment of Rs. 1.80 billion.

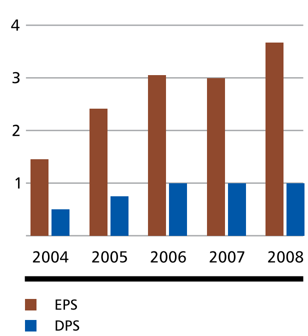
STATEMENT OF CHANGES IN EQUITY

Shareholders' funds as at 31 December 2008 stood at Rs. 49.34 billion, as against Rs. 44.48 billion as at 31 December 2007. This constitutes an increase of 10.9%. Changes in equity were primarily impacted by profit after taxation, which was Rs. 6.60 billion.

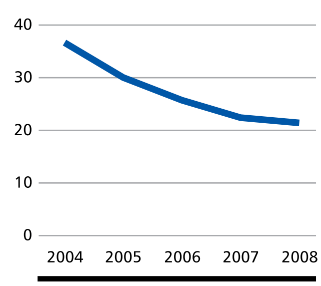
Total Debt
Rs. Mn.



Earnings per Share & Dividends per Share
Rs.



Gearing Ratio
%



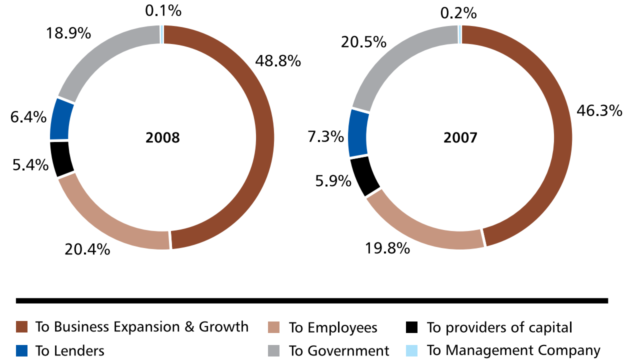
VALUE ADDED STATEMENT

	2008 Rs. Mn	2007 Rs. Mn
Revenue	**47,044**	43,234
Other Income	**3,881**	1,455
	50,925	44,689
Goods and Services purchased from other sources	**(17,508)**	(13,934)
Value creation	**33,417**	30,755

	2008	%	2007	%
Distribution of Value Added				
To Employees				
- Salaries, wages, and other benefits	**6,823**	**20.42**	6,090	19.80
To Providers of Capital				
- Dividend to Shareholders	**1,805**	**5.40**	1,805	5.86
To Management Company				
- Remuneration and Expenditure	**15**	**0.04**	54	0.18
To Government				
- Taxes and Regulatory Fees	**6,319**	**18.91**	6,323	20.56
To Lenders				
- Interest and Related Charges	**2,130**	**6.38**	2,232	7.26
To Business Expansion and Growth				
- Depreciation	**10,763**	**32.21**	10,416	33.87
- Retained Income	**5,562**	**16.64**	3,835	12.47
	33,417	**100.00**	30,755	100.00

	2008 %	2007 %
To Business Expansion and Growth	**48.85**	46.34
To Employees	**20.42**	19.80
To Providers of Capital	**5.40**	5.86
To Lenders	**6.38**	7.26
To Government	**18.91**	20.56
To Management Company	**0.04**	0.18
	100.00	100.00

Value Added Statement
%



● Mobitel

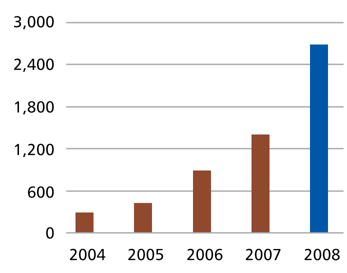
In the face of growing macroeconomic pressures and intense competition within the industry Mobitel has performed exceptionally well during the year under review. Revenue posted a growth of 72%, an increase from Rs. 7.0 billion in 2007 to Rs. 12.06 billion in 2008. This increase in revenue can be attributed to the rapid growth in prepaid subscriber base coupled with swift take up of postpaid subscribers during the latter part of 2008 with the introduction of UPAHARA Postpaid package. Mobitel Postpaid Subscriber base grew more than threefold within a short time span of four months while the overall Mobitel subscriber base grew by 92% to reach 2.69 million subscribers. Rapid growth in subscribers is attributable to the planned approach taken by Mobitel in introducing products and features more appealing to distinct market segments. Despite rapid erosion in prices in the market the Company was able to manage Average Revenue Per User (ARPU) through innovative pricing plans which saw extensive adoption. Rapid growth in distribution channels, product suite etc. complemented the above course.

Operating Profit Before Interest, Tax, Depreciation and Amortisation (EBITDA) grew by 71% to Rs. 4.27 billion in 2008 compared to Rs. 2.49 billion in 2007, while Earnings before Interest and Tax (EBIT) increased by 74.6% to Rs. 1.86 billion, compared to Rs. 1.06 billion in 2007.

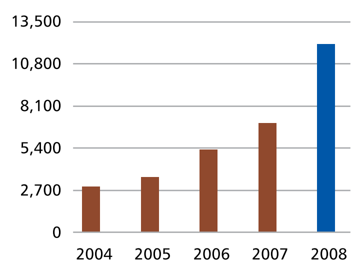
During the year Mobitel recorded a net profit of Rs. 1.17 billion, compared to the net profit of Rs. 0.25 billion made in 2007. Revenue has been the key driver of profitability which the Company achieved during the year under review. The sharp increase in profitability was attained despite escalation of costs in many fronts stemming from macro environment as well as factors that are specific to the mobile industry. Rising inflation, increase in energy prices highlighted the key macro effects while increase in frequency charges and the costs associated with the mandatory registration of all mobile subscribers being challenges the mobile industry had to face. Despite these costs affecting the supply side, Mobitel was able to achieve optimum asset utilisation and productivity leading to healthy profits.

Growth in revenues during the year contributed to the strong growth in Company cash flows. The cash flow from operations grew by 45% to Rs. 6.04 billion compared to Rs. 4.19 billion over previous year.

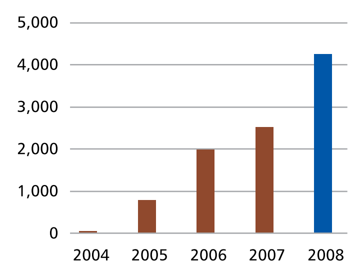
Subscribers
No. '000



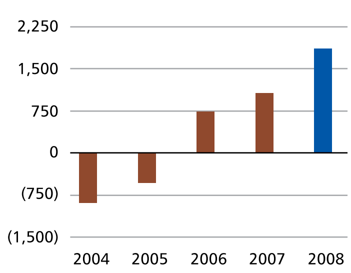
Revenue
Rs. Mn.



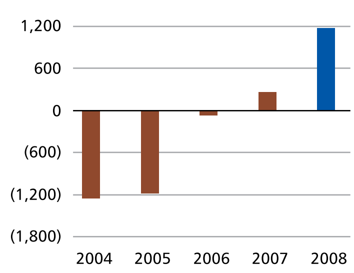
EBITDA
Rs. Mn.



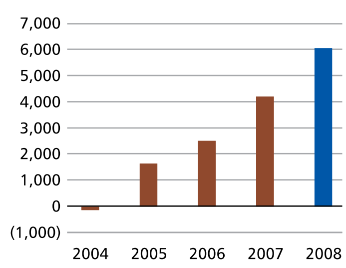
EBIT
Rs. Mn.



Net Profit After Tax
Rs. Mn.



Operating Cash Flow
Rs. Mn.



Every form of endeavour or enterprise brings with it opportunity as well as risk.

In business, when a strategic course is charted and a business plan is formulated, such opportunities and perceived risk factors are addressed. Thus a business entity will have in force a mechanism by which such perceived risks could be managed in terms of pre-empting or mitigating adverse effects from such risks.

However, there are often unexpected risks which arise from a multitude of change factors that can affect original strategy and planning.

Managing perceived and unexpected risk factors to render the least disruption of enterprise, and the least harm to the organisation, is true Risk Management.

SLT's well structured risk management system encompasses the whole Company and all its dealings.

We present here the key Risk Management initiatives in operation, within the Company.

RISKS FROM THE OPERATING ENVIRONMENT

As the Economy Grows

The National economy grew by 6.9% in 2008. The Telecom sector was a key driver, with over 40% growth during the year.

Such significant levels of growth in the sector are testament to the vast potential that remains to be tapped in further proliferating telecom services across the island.

With such lucrative market conditions on offer, the communications sector is an attractive proposition for other operators whose entry to the market could pose a threat to SLT.

However, within such an enabling environment, it is difficult to fully mitigate such risks.

We are confident that SLT's emancipated strategic focus and business planning will maintain the Company's competitive edge to meet future challenges.

The Changing Face of Telecommunications

Mirroring world trends, Sri Lanka too is proceeding with ever-increasing speed along the path of product and service diversification, moving away from traditional, fixed location voice telephony, towards a world of Internet enabled products delivered to the customer via superior network and technology platforms.

Statistically speaking, as at December 2008, the telecom industry in Sri Lanka achieved a total market penetration of 51%, of which 13% was in the fixed line category and 38% was in the mobile telephony segment.

The phenomenal potential that broadband technology, promises is not without risk. In general, there is risk from not 'keeping up with developments' - there is also risk from unplanned entry into a 'highly complex new market place'.

In terms of broadband, the demand for SLT's service offering has been growing YoY, by 100% over the past 04 years.

SLT has been travelling this new path for some years now – ours has been a strategically planned journey in which the Company has built the infrastructure and skills necessary to deliver, in the emerging 'com-media world'.

Thus, by broadening our product and service portfolio to encompass this emerging world and through strategic diversification, international expansion and convergence, SLT is well placed to mitigate risks in this area.

Product Substitution

With particular reference to convergence, as the 'platform of tomorrow', we could face a threat from technologies that are developed in parallel processes outside the industry, which could themselves overtake and supersede those that telecom operators are familiar with.

Convergence could also throw up threats from VoIP (Voice over Internet Protocol), wireless networks and mobile Internet.

Happily, SLT is the market leader in IP-based solutions, including VoIP, delivered on our extensive IP network.

Some of the most exciting opportunities being introduced to the world of communications through the process of convergence is IPTV (Internet Protocol TV) and Mobile TV. SLT has already launched IPTV services whilst Mobile TV is 'on the radar' of our subsidiary Mobitel, who has already obtained a licence to operate such services.

Our diversification strategy fully addresses these opportunities whilst managing associated risk.

Tariff Structure Related Process

SLT's operations in terms of timely launching of products/services are largely dependent on timely approval of relevant tariff structures by the Telecommunications Regulatory Commission (TRC). Since 2006, SLT has been engaged in a dialogue with the TRC in order to address the broader policy issues related to the tariffs approval regime. Whilst it has been observed that there is some progress in the recent past, this area of risk remains a concern.

Licensing Issues

The currently prevailing regulatory regime favours new entrants to the industry. In our continuing dialogue with the TRC, we seek to reinforce the case for a level playing field approach signified by an unified licensing regime and a more accurate assessment of competing service providers.

Delays in reclaiming TDC

The mandatory International Telecommunication Operators' Levy (ITL) imposed by the State includes a component called the Telecommunication Development Charge (TDC), two-thirds of which may be reclaimed in lieu of development work carried out in unserved and underserved areas, subject to the proviso that all such claims are approved by the TRC.

Through a process of meaningful dialogue, SLT has been able to claim the due component of its TDC for Telecom infrastructure development work around the country.

New Interconnection Regime

The TRC has embarked on the determination of cost-based termination charges for all domestic operators. This process is intended as a replacement of currently prevailing 'Sender Keeps All' (SKA) regime . The effects on, and risk to SLT's net cash flow as a consequence is to be ascertained, once such charges are known.

RISKS TO INFRASTRUCTURE

SLT has a comprehensive risk management protocol in place to protect vital infrastructure.

A key area under overall risk management is disaster recovery. With the ever-present threat of risks due to fire, terrorism, data corruption and 'hard' errors such as prolonged server failure and the like, the Company has mitigatory/pre-emptive measures in place to meet eventualities should they arise.

Technical

SLT operates a reliable network with self-healing capability (Ring Network Protection). All important units are fully protected through protection mechanisms with optimal specifications.

Our Network Management System (NMS) in Colombo controls and monitors the network, its management, operation, maintenance and provisioning of necessary network elements.

Power systems are fully redundant supported through rectifiers, battery backup and generator power supplies on tap.

Highly professional and fully-skilled staff are engaged in manning the systems which involves configuring, operating and maintaining the whole network.

A strict schedule of routine maintenance, a decentralised spares management system, long-term after sales support by the supplier and due compliance with all statutory and environmental requirements are some of the other measures that help us address risks in the technical sphere.

Man Made Risk

Operational errors and acts of sabotage are just two instances that give rise to risk.

SLT has in place a stringent security system across all its facilities throughout the country. Remote alarm systems are also in place.

The Company also operates a hierarchy of authorisation levels to address both genuine error and attempts at malpractice, if any.

The modular nature of the Company's Optical Fibre Ring Network makes it possible to maintain services via redundancy and alternate routing.

Risk from Naturally occurring Catastrophes

Given that the telecom field employs sophisticated and expensive technology, which is also highly sensitive, and also that our operations deploy such technology across almost the entire country, the Company can be particularly susceptible to risk from naturally occurring phenomena such as adverse weather – floods and lightning to name just two.

In mitigation, SLT employs height specified installation regimes, where equipment is installed at higher elevations to guard against flood damage.

The Company also employs special lightning protection equipment.

Other mitigatory measures include Dual Homing, Back Up Systems and VSAT Very Small Aperture Terminal) Systems.

PROCUREMENT ISSUES

Given the nature of its business, SLT relies on a variety of suppliers and a complex inventory of products to run its operations successfully.

Potential threats in this area could arise from – supplier delays or default, product obsolescence and inappropriate inventory situations.

Mitigatory measures include the adoption of a consistent policy framework across the entire procurement cycle, with all purchases being evaluated by Permanent Evaluation Teams (PETs).

In order to avoid product obsolescence and supplier default, multiple vender sourcing has been adopted across the majority of our core commodity requirements. In addition, inventory shortage and the risk of over-stocking which could arise due to uncertain demand patterns, is being managed through inventory buffering and the use of material requirement planning and forecasting software.

To minimise possible risks due to undue delays, product standardisation and supplier short-listing practices have been introduced.

Fundamental risks could also arise as a result of materials and equipment failing to conform to required quality standards. SLT manages this risk through an extensive process of quality inspection and control that sweeps across the entire procurement cycle.

LEGAL RISKS

SLT is party to several court and out-of-court proceedings with Government agencies and other parties. The following is a summary of these proceedings during 2008, which could have a material negative impact on the Company.

- SLT appealed against the Arbitration award of ICC application No: 13839/M filed by M/s Informatics (Pvt) Limited, regarding the licence upgrade cost and maintenance fee for the TBR system provided to SLT by Informatics, which involves the award of compensation of US$ 1,143,630 and the payment of costs for US$ 85,000 and Rs. 9,440,625/- by SLT.
- Global Electroteks Limited has initiated legal action under the High Court Case No: 20/2006 claiming damages of US$ 12 million from SLT for purported unlawful disconnection of interconnection services.
- Directories Lanka (Private) Limited (DLPL) filed case No: 2/2006(3) in the Commercial High Court against SLT claiming Rs. 250 million in damages for purported unfair competition with regard to the artwork on the cover of the SLT Directory Publication.
- SLT have filed an application under case No: IN/03/2008, seeking to set aside the determination issued by the Board of Review under which it is stated that the 'balance of profit' shall refer to 'book profit'. In the event the determination of the Board of Review is upheld by the courts, SLT will have to incur a further cost of Rs. 642,986,293/-.

- Under Case No: DSP/00111/2008, SLT have filed action against the Colombo Municipal Council (CMC) requesting reduction of the Assessment Tax as amount due to CMC as at present to CMC as a consequence of an increase in Assessment Tax is approximately Rs.125 million.
- Under Case No: DSP/00139/2008, SLT filed action against the Kandy Municipal Council (KMC) requesting a reduction of the Assessment Tax, as the amount due to KMC as a consequence of an increase in assessment tax by KMC is approximately Rs. 59 million.

HR RELATED RISKS

SLT has a highly unionised workforce, represented through 29 active Trade Unions.

Risk arising from employee actions remains a matter of concern. Several new initiatives began during the year in review, to address the situation.

Measures such as enhanced communication within the Company, awareness programmes, espousing 'industrial democracy' as a means to providing access to management on any issue relevant to union membership, the exploration of feasibility of the Collective Agreement approach, introducing a 'Change Agent' system, better grievance identification and resolution and aligning everyone with SLT's vision, are being put forth in a very real attempt to address and mitigate risk.

AREAS OF FINANCIAL RISK

SLT continues to push ahead with aggressive investment as a necessary requisite in a highly dynamic market place. Such aggressive investment also lays the Company open to risk in the event that desired returns are not achieved from projects into which resources are infused.

The Company has an inbuilt 'prudence factor' that ensures careful evaluation of probability of risk with regard to projects put forward for investment.

On evaluation and approval of a project for infusion of financial resources, the project is rigorously monitored to ensure that desired results are obtained.

This system also governs the investments made in our subsidiary companies.

Exchange Rate and Interest Rate Risks

SLT's foreign currency inflows are maintained in foreign currency accounts, which act as a natural hedge against foreign currency exposure.

This currency hedging policy requires that cash flows from international revenues be first utilised to service the Company's foreign currency debts. A separate sinking fund in US Dollars is maintained for the redemption of the US$ 100 million notes in 2009.

The Company maintains a mix of fixed and floating rate interest debts, to mitigate the risks arising from volatility of interest rates.

Refinancing, early settlement of loans and alternative financing methods are some of the measures considered when mitigating risks associated with interest rates.

Liquidity Risk

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

Credit Risk

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

AN IMPORTANT YEAR ON THE MARKET

Sri Lanka Telecom had a significant year on the market. On 2 April, the Company was the subject of the largest single transaction ever to take place on the Colombo Stock Exchange when NTT Corp, then SLT's second-largest shareholder, sold the entirety of its 35.2% holding to Global Telecommunications Holdings (GTH) N.V. A total of 635 million shares were transferred at a price of Rs. 50.50 per share. GTH is a wholly-owned subsidiary of Usaha Tegas Sdn. Bhd., which also owns Maxis Communications Bhd., a leading telecommunications provider based in Malaysia and operating in that country as well as in India and Indonesia.

Following news that the proposed transaction had been approved by the Supreme Court of Sri Lanka, energetic trading in SLT shares commenced in early March 2008 (see share price chart). This was largely fuelled by anticipation of the mandatory offer to other shareholders that is dictated by CSE rules in the event of a single buyer purchasing a stake of more than 30% in a listed company. This phase of activity continued after the GTH's purchase of NTT's stake on 2 April, subsiding only after the offer lapsed on 2 June.

Following the mandatory offer, GTH acquired a further 5.22% of SLT in transactions with individual shareholders. This had the effect of reducing the 'free float', or regularly-traded volume of SLT shares on the Colombo Stock Exchange, from over 15% of total equity to around 5%.

The Government of Sri Lanka, SLT's largest shareholder and its associated institutions, declined GTH's mandatory offer as expected and collectively retained over 50% holding in the Company.

		2008
Issued Share Capital		**1,804,860,000**
Less: Holding over 10%		
Secretary to the Treasury	893,405,709	
Global Telecommunications Holdings N.V.	811,757,869	**(1,705,163,578)**
		99,696,422

Trading Activity, Year-on-Year

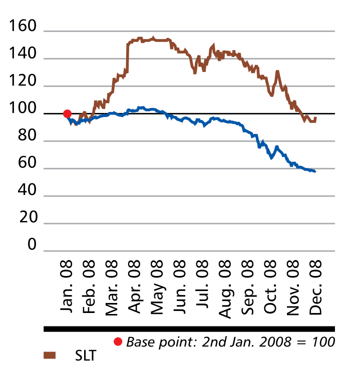
	2008	2007
No. of transactions	**16,473**	28,350
No. of Share traded	**901,856,789**	157,119,304
Value of Shares traded (Rs.)	**43,850,830,079**	5,604,532,534

MAINTAINING VALUE IN TURBULENT TIMES

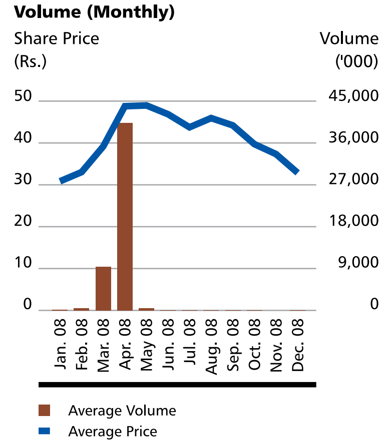
Share Price Trend since IPO

	2008	2007	2006	2005	2004	2003
Highest Value (Rs.)	**49.75**	43.25	29.75	27	23	30
Lowest Value (Rs.)	**29.75**	28.00	14.75	15.5	15	10.5
Last Traded Price (Rs.)	**31.00**	31.5	27.75	16.5	15.5	18
Market Capitalisation (Rs. Billion) (year end)	**55.95**	56.85	50.08	29.78	27.97	32.49

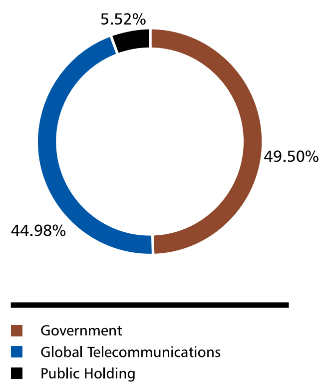
SLT Share Price & CSE All Share Price Movements
(% change)



SLT Share Price & Transaction Volume (Monthly)



Shareholder Structure as at 31 December 2008



The GTH offer and the activity surrounding it had a strong positive effect on SLT's share price, which rose from around Rs. 30.00 at the beginning of the year to peak at Rs. 49.75 on 21 April. The price remained above Rs. 40.00 for the remainder of the second and third quarters before falling in the final quarter in concert with the rest of the market.

Already suffering from the effects of domestic economic and political troubles, the Colombo securities market was, like its counterparts in other countries, severely impacted by the effects of the world financial crisis. The most severe effects were felt in the final quarter of 2008. As a result of this universal slump in share value, SLT's share price ended the year only marginally higher than it had begun. However, as a comparison with market trend data shows, SLT shares have done relatively well on the market - as is only to be expected from one of Sri Lanka's leading blue-chip securities.

CONSISTENTLY HIGH DIVIDENDS

Despite the inevitable flurry of trading activity following the NTT/GTH transaction, SLT remains a steady, productive stock for the long- and medium-term investor. In times of financial crisis and economic uncertainty, the attractiveness of such a stock is enhanced, though this is not necessarily reflected in trading volumes as investors often choose to 'buy and hold'.

Total Shareholder Return since IPO

Period	Dividend	Rs.
31 Dec. 02	Interim Dividend	541,458,000
31 Dec. 02	Final Dividend	541,458,000
31 Dec. 03	First & Final Dividend	902,430,000
31 Dec. 04	First & Final Dividend	902,430,000
31 Dec. 05	First & Final Dividend	1,353,645,000
31 Dec. 06	First & Final Dividend	1,804,860,000
31 Dec. 07	First & Final Dividend	1,804,860,000
31 Dec 08	Proposed First & Final Dividend	1,804,860,000
Total Return		**9,656,001,000**

STAYING CLOSE TO THE MARKET

SLT's unique industry position and market profile makes it always newsworthy. This was especially so in the year under review, as the NTT/GTH transaction placed the Company under the media spotlight.

Anticipating the attention and the trading activity that would accompany it, the Company remained closely in touch with investors and the financial media. Though share promotion activities were somewhat restricted in view of the anticipated ownership transfer, an investor forum was held in Sri Lanka in February and regular meetings continued to be held throughout the year with stockbrokers, analysts and prospective investors. As usual, the Company's investor newsletter continued to be published every quarter.

RATING STATUS

Some rating issues affected SLT over the course of the year. These were not due to internal or industry-related causes but to the effects of the overall economic situation and the influence of changes in country ratings awarded to Sri Lanka by international agencies.

Fitch Ratings Lanka has reaffirmed SLT's AAA(lka) domestic credit rating. Standard & Poor's international credit rating of B+ for SLT is one notch above the country rating.

RECOGNITION BY OUR PEERS

Sri Lanka Telecom remains a highly admired Sri Lankan company, a position reinforced by the number of awards it received from contemporaries in the year under review. Among these, in the year under review, were

- appearance on the *Lanka Monthly Digest* list of the top 10 Sri Lankan companies for the fourth consecutive year;
- appearance on the *Business Today* list of the top 10 Sri Lankan companies, also for the fourth consecutive year;
- a SLIM Nielsen 'Power of the People' award for People's Telecom Provider of the Year;
- a Best Performance Team award at the International Quality Convention;
- a National Business Excellence Award;
- a Silver Award at the 2008 ARC international annual report competition in New York for its 2007 Annual Report; and
- a Gold Award in the Telecommunications category at the Chartered Accountants' Annual Report Awards 2008

OWNERSHIP PROFILE

The year under review saw important changes in SLT's ownership profile. Apart from the NTT/GTH transaction that precipitated these changes, the number of small, private investors was somewhat diminished, while a reduction in the 'free float' was also observed, as mentioned.

Investor Ratios

	Group	
	2008	2007
Earnings per Share (Rs.)	**4.08**	3.12
Dividends per Share (Rs.)	**1.00**	1.00
Net Assets per Share	**26.33**	23.22
Gearing Ratio (Debt/Capital Employed)		
No. of Times	**0.31**	0.32
Quick Asset Ratio (No. of Times)	**0.91**	1.61
Interest Cover (No. of Times)	**5.49**	4.76

Shareholder Analysis

List of Twenty Major Shareholders based on their Shareholdings as at 31 December 2008.

Name of Shareholder	No. of Shares	%
Secretary to the Treasury	893,405,709	49.50
Global Telecommunications Holdings	811,757,869	44.98
Employees' Provident Fund Board	18,354,289	1.02
Sri Lanka Insurance Corporation Limited - Life Fund	17,713,735	0.98
National Savings Bank	13,158,700	0.73
Sri Lanka Insurance Corporation Limited - General Fund	3,164,200	0.18
Employees' Trust Fund Board	3,086,088	0.17
Alchemy Heavy Metals (Pvt) Limited	1,779,400	0.10
Bank of Ceylon A/C Ceybank Unit Trust	1,600,700	0.09
Eagle Insurance Company Limited. A/C No. 03	774,900	0.04
Bank of Ceylon - No. 02 A/C	750,000	0.04
Asian Alliance Insurance PLC - A/C 02 (Life Fund)	641,500	0.04
Galleon International Master Fund, Spc Limited	636,700	0.04
Ellawala Exports (Pvt) Limited	500,000	0.03
Thurston Investments Limited	475,000	0.03
The Incorporated Trustees of the Church of England in Ceylon A/C No. 01	414,100	0.02
HSBC - Ceylon Index Fund	411,100	0.02
Bank of Ceylon A/C Ceybank Century Growth Fund	371,500	0.02
The Ceylon Chamber of Commerce Account No. 02	290,400	0.02
Life Insurance Corporation (Lanka) Limited	285,000	0.02
Total	**1,769,570,890**	**98.04**

Analysis of Shareholders as at 31 December 2008

	Resident			Non-Resident			Total		
Shareholdings	No. of Share-holders	No. of Shares	% of Share-holdings	No. of Share-holders	No. of Shares	% of Share-holdings	No. of Share-holders	No. of Shares	No. of Share-holdings
1 - 1,000	10,813	4,030,175	0.22	16	7,200	–	10,829	4,037,375	0.22
1001 - 5,000	2,565	6,695,438	0.37	20	60,600	–	2,585	6,756,038	0.37
5,001 - 10,000	1,193	9,458,686	0.52	13	119,700	0.01	1,206	9,578,386	0.53
10,001 - 50,000	528	9,147,811	0.51	13	259,200	0.01	541	9,407,011	0.52
50,001 - 100,000	30	2,243,600	0.12	1	80,000	–	31	2,323,600	0.12
100,001 - 500,000	24	5,158,800	0.29	3	775,000	0.04	27	5,933,800	0.33
500,001 - 1,000,000	3	2,166,400	0.12	1	636,700	0.04	4	2,803,100	0.16
Over 1,000,000	8	952,262,821	52.77	1	811,757,869	44.98	9	1,764,020,690	97.75
	15,164	991,163,731	54.92	68	813,696,269	45.08	15,232	1,804,860,000	100

Categories of Shareholders

	31 December 2008			31 December 2007		
Analysis of Shareholders	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	15,033	30,887,958	1.71	20,223	78,979,129	4.38
Institutions	199	1,773,972,042	98.29	402	1,725,880,871	95.62
	15,232	1,804,860,000	100.00	20,625	1,804,860,000	100.00

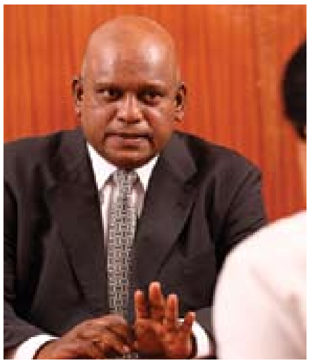
Directors' Shareholdings as at 31 December 2008

Mrs. Leisha De Silva Chandrasena	Nil
Mr. Sumith Wijesinghe	Nil
Mr. Sidath Fernando	Nil
Mr. Sandip Das	Nil
Mr. Chan Chee Beng	Nil
Mr. Jeffrey Jay Blatt	Nil
Mr. Geoffrey William Shelley	Nil
Mr. Yoga Perera	Nil

BOARD OF DIRECTORS

Mrs. Leisha De Silva Chandrasena

Mr. Sumith Wijesinghe



Mr. Sidath Fernando

Mr. Sandip Das

Mrs. Leisha De Silva Chandrasena

Mrs. Leisha De Silva Chandrasena joined the Board of Directors on 27 February 2006 and was subsequently appointed as Chairperson of the Board on 25 February 2008.

She is an Attorney-at-Law & Notary Public by profession who has been in active practice from 1978 to 1987 and has served as a Legal Manager/Company Secretary in private sector enterprises.

Mrs. Chandrasena is also the Chairperson of the Boards of Mobitel (Pvt) Limited, SLT Hong Kong Limited, SLT VisionCom (Pvt) Limited, SLT Publications (Pvt) Limited, SLT Manpower Solutions (Pvt) Limited and Sky Network (Pvt) Limited.

Mr. Sumith Wijesinghe

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

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

Mr. Wijesinghe has a Degree in Law from the University of Colombo. He is also an Attorney-at-Law. Prior to his appointment to SLT, Mr. Wijesinghe was a practising lawyer who, from 1993 to 1999 served as a Director of a National NGO which was involved in community development in the dry zone and the northern and eastern provinces.

During the period 1999 to 2004, he held several appointments as Co-ordinating Secretary to the Minister of Fisheries & Aquatic Resources Development, the Minister of Ports, Shipping, Fisheries & Aquatic Resources Development and to the Leader of the Opposition. From 2004 to 2005 he was the Co-ordinating Secretary to The Hon. Prime Minister and from 2005 onwards he was the Co-ordinating Secretary to HE the President.

Mr. Sidath Fernando

Mr. Sidath Sri Vidanage Fernando joined the Board on 4 March 2008. He is a successful business entrepreneur in Sri Lanka with business interests in manufacturing, real estate, property management and information communications technology sectors. He also serves as a Director of the Sky Network (Pvt) Limited and SLT Manpower Solutions (Pvt) Limited. Mr. Fernando is the Principal Shareholder and Chairman of V.D.P. Fernando Co. Limited, a family owned business established in 1958 and Managing Partner of the Crystal Holding (Pvt) Limited.

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

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

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

Mr. Sandip Das

Mr. Sandip Das joined the Board on 5 June 2008. He is also a member of the Board of Mobitel (Pvt) Limited. He is the CEO/Director of Maxis Communications Berhad (Maxis) responsible for the Maxis Group's operations and investment in Malaysia, India and Indonesia.

He serves on the Board of Aircel Group (Maxis Indian subsidiary) and as Commissioner on the Board of Commissioners of PT Natrindo Telepn

Mr. Chan Chee Beng

Mr. Jeffrey Jay Blatt

Mr. Yoga Perera

Seluler (NTS). He is also a Board member of Bridge Mobile Alliance which is the largest mobile alliance in the Asian Region.

Prior to joining Maxis in January 2007, he had served as Deputy Managing Director and Director of the Board of Hutchison Essar Telecom of India.

He has also served as Franchise Head of Toyota cars and Hino trucks with Al Futtaim Group in Dubai after his stint at The Shriram Group in India.

He holds a First Class Degree in Mechanical Engineering from the Regional Engineering College, Rourkela, India and an MBA from the University of Delhi.

Mr. Chan Chee Beng

Mr. Chan Chee Beng was appointed to the Board of Directors on 5 June 2008 and subsequently to the Board of Mobitel (Pvt) Limited, Mr. Chan aged 52 is a Malaysian National and is a Director of Binariang GSM Sdn. Bhd. Maxis Communication Bhd and Aircel Limited.

He holds a BA degree with Honours in Economics and Accounting and is a Fellow of the Institute of Chartered Accountants in England and Wales.

He has been closely involved in the development of Maxis, from the start-up phase in 1993, the tie up with strategic investors, IPO, privatisation through to date, focusing on the financial management function including debt and equity financing, mergers and acquisitions.

He counts over 29 years of experience in investment banking, financial management, auditing and accounting including stints with Ernst & Young and Morgan Grenfell & Co. Limited. At Morgan Grenfell & Co. Limited he had advised on several takeovers, IPO and project and structured financing including the largest management buyout in Malaysia.

His other directorships include Powertek Berhad, a wholly-owned subsidiary of Tanjong Public Limited Company ("Tanjong"), Bumi Armada Berhad (BAB) Group and Usaha Tegas Sdn. Bhd. which has a significant interest in Maxis, Tanjong, Astro All Asia Networks PLC and BAB.

Mr. Jeffrey Jay Blatt

Mr. Jeffrey Jay Blatt was appointed to the Board on 5 June 2008. He currently serves as the CEO of X Ventures Co. Limited, Bangkok, Thailand, and is Special Counsel to Astro All Asia Networks PLC and Usha Tegas. Sdn Bhd. in Malaysia.

Prior to his current position, he was the Senior Vice-President of Business Affairs and General Counsel, at Astro All Asia Networks PLC, and the Group General Counsel of Usaha Tegas Sdn. Bhd. ("UT Group"). He was one of the three members of the Executive Committee that provided strategic guidance and operational management to launch the Malaysian "Astro" digital satellite pay television service and reported to its Board of Directors. He was responsible for leading complex international negotiations in a variety of setting in multinational and multiethnic corporate environments. Before moving to Malaysia, he was a partner in the nationally recognised law firms of Irell & Manella LLP, and Blakely, Sokoloff, Taylor and Zafman, both in Los Angeles, California, USA.

Mr. Jeffrey Jay Blatt has attended the Lewis and Clark Law School (J.C. cum laude) Oregon, USA. He holds a Bachelor's Degree in Engineering from the University of California, USA and a Master's Degree from the Tiffin University, Ohio, USA. He is a member of the California and United States Federal Bars, and is a registered United States Patent Attorney.

Mr. Yoga Perera

Mr. Yoga Perera was appointed to the Board of Directors on the 26 November 2008.

Mr. Perera is a businessman who has been involved in the automobile industry since 1985 in Sri Lanka and in South Africa. He has also started a joint venture in Dubai in 2006, which trades in Tiles and Markets in Dubai.

He holds a Degree in Business Management and currently holds the position of Committee Member of SLAS which is the controlling body for Motor Sports in Sri Lanka.

Financial Reports

Financial Calendar 2008

Annual Report 2008 (Audited) ....04 March 2009

12th Annual General Meeting ....27 March 2009

First & Final Dividend Proposed ....27 March 2009

First & Final Dividend Payable .... 03 April 2009

Interim Financial Reports in terms of Rule 8.3 of the Colombo Stock Exchange (CSE).

1st Quarter 2008 Interim Financial Report (Unaudited)...................... 23 May 2008

2nd Quarter 2008 Interim Financial Report (Unaudited) ....30 July 2008

3rd Quarter 2008 Interim Financial Report (Unaudited) .... 27 November 2008

4th Quarter 2008 Interim Financial Report (Unaudited) .... February 2009

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2008

1. The Directors present herewith the audited consolidated financial statements of Sri Lanka Telecom PLC ('SLT PLC' or 'the Company') and its subsidiaries (collectively 'the Group') for the year ended 31 December 2008.

2. **FORMATION**

   Sri Lanka Telecom (SLT) was formed by an Incorporation Order made under Section 2 of the State Industrial Corporations Act No. 49 of 1957 and published in the Extraordinary Gazette No. 596/11 of 6 February 1990. Subsequently, in terms of an Order made by the Minister of Posts and Telecommunications ('the Minister') on 24 July 1991 under Section 23 of the Sri Lanka Telecommunications Act No. 25 of 1991 and published in the Gazette No. 675 of 9 August 1991, all properties, rights and liabilities (other than those excluded by the agreement entered into between the Minister and SLT as per sub-section 2 of Section 23 of the Sri Lanka Telecommunications Act) to which the Department of Telecommunications (DOT) was entitled or subject to immediately before the transfer date of 1 September 1991 were vested with SLT.

   On 25 September 1996, SLT was converted to a public limited company under the Conversion of Public Corporations of Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987, vide Extraordinary Gazette No. 942/7 dated 25 September 1996.

   On 5 August 1997, the Government of Sri Lanka as the sole shareholder of SLT divested 35% (631,701,000 ordinary shares) of the issued ordinary share capital to Nippon Telegraph and Telephone Corporation (NTT) and entered into an agreement to transfer the management of SLT to NTT. On 2 July 1998, the Government of Sri Lanka divested a further 3.5% of the issued ordinary share capital by transfer of 63,170,010 ordinary shares to the employees of SLT. On 22 March 2000, NTT transferred the entire 35% of their holding in SLT to NTT Communications Corporation (NTT Com).

   The Government of Sri Lanka divested further 12% of its holding to the public through a listing on the Colombo Stock Exchange in November 2002, reducing its holding to 49.5%.

   On 4 June 2007, SLT was re-registered under the Companies Act No. 07 of 2007 as Sri Lanka Telecom PLC (SLT PLC).

   On 1 April 2008, NTT Com of Japan who held 635,076,318 ordinary shares, which constituted 35.2% of the total issued stated capital of SLT PLC, sold their entire holding to Global Telecommunications Holdings N.V. of Netherlands (GTH) at a price of Rs. 50.50 per share. Following the share trade by NTT Com, GTH, in terms of the Takeovers and Mergers Code, announced a mandatory offer to the remaining shareholders which was closed on 2 June 2008. At the close of the mandatory offer, GTH had acquired additional 9.78% of the stated capital of SLT PLC, making the total shareholding to 44.98% of the total issued stated capital of SLT PLC. Since the expiration of the management agreement with NTT, no management agreement had been entered into by SLT PLC.

3. **NATURE OF THE BUSINESS OF THE COMPANY AND ITS SUBSIDIARIES**

   The nature of the business of the Company and its subsidiaries is given in Note 1 - General Information to the consolidated financial statements on page 77.

4. FINANCIAL STATEMENTS

The financial statements, which include the income statements, balance sheets, statements of changes in equity and the notes to the financial statements of the Group and the Company for the year ended 31 December 2008 are set out on pages 72 to 118 All amounts are stated in Sri Lanka Rupees million, unless otherwise stated.

5. AUDITORS' REPORT

The Auditors' Report is set out on page 71.

6. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company and its subsidiaries have been consistently applied from previous years except for Mobitel (Pvt) Limited, a subsidiary of the Company, has adopted SLAS 16, (Revised 2006) - Employee Benefits, during the year.

7. REVIEW OF BUSINESS

The state of affairs of the Group at 31 December 2008 is set out in the consolidated balance sheet on page 73. An assessment of the financial performance of the Group and other developments during the financial year is included in the Management Report in the published Annual Report.

8. PROPERTY, PLANT & EQUIPMENT

The movements in property, plant & equipment during the year are set out in Note 15 to the Consolidated financial statements.

9. MARKET VALUE OF PROPERTIES

The Directors are of the opinion that the carrying amount of properties stated in Note 15 to the Consolidated financial statements reasonably reflects their fair value.

10. GROUP ACTIVITIES

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

11. SUBSIDIARIES

The Company's interest in subsidiaries and the business activities of respective subsidiaries is as follows:

Name of the subsidiary	Business activity	Shareholding (%)
Mobitel (Pvt) Limited	Mobile telephone services	100
Sri Lanka Telecom (Services) Limited	Total network solutions	100
SLT Hong Kong Limited	IP transit services	100
SLT Publications (Pvt) Limited	Directory publication services	100
SLT Manpower Solutions (Pvt) Limited	Manpower solutions	100
SLT VisionCom (Pvt) Limited	IPTV services	100
Sky Network (Pvt) Limited	Wi-Max services	75

12. DIVIDEND

The Directors have recommended the payment of a first and final dividend for the financial year ended 31 December 2008 of Rs. 1/- per share (Rs. 1,804,860,000/-) on ordinary shares. In accordance with the Sri Lanka Accounting Standard No. 12 (Revised) - Events after Balance Sheet Date, this proposed first and final dividend has not been recognised as a liability as at 31 December 2008.

Taking into account the above distribution, the Board is satisfied that Company meets the solvency test requirement under Section 56 (2) of the Companies Act No. 7 of 2007. The Statutory Auditors have issued a Certificate of Solvency confirming this matter.

13. RESERVES

Total reserves and their composition are set out in the statements of changes in equity on pages 74 and 75 of the Consolidated financial statements.

14. SUBSTANTIAL SHAREHOLDINGS

As per the share register, the following shareholders held more than 5% of the 1,804,860,000 ordinary shares in issue as at 31 December 2008.

	Holding %	No. of shares
Government of Sri Lanka	49.50	893,405,709
Global Telecommunications Holdings N.V. of Netherlands	44.98	811,757,869

The balance 5.52% shares are held by the public.

15. INVESTOR RELATIONS

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

16. DIRECTORS

During the year, thirteen Directors held office. At 31 December 2008, the Board of the Company comprised the following Directors.

Mrs. Leisha De Silva Chandrasena - *Chairperson*
Mr. Sumith Wijesinghe
Mr. Sidath Fernando - Appointed on 4 March 2008
Mr. Sandip Das - Appointed on 5 June 2008
Mr. Chan Chee Beng - Appointed on 5 June 2008
Mr. Geoffrey William Shelley - Appointed on 5 June 2008 and resigned on 20 January 2009
Mr. Jeffrey Jay Blatt - Appointed on 5 June 2008
Mr. Yoga Perera - Appointed on 26 November 2008

During the year, the following Directors resigned from the Board:

Mr. P. Asoka Weerasinghe De Silva - Resigned on 22 February 2008
Mr. Shoji Takahashi - Resigned on 4 April 2008
Mr. Shuhei Anan - Resigned on 4 April 2008
Mr. S.N. Kumar - Resigned on 21 November 2008
Mr. P.A. Abeysekara - Resigned on 3 December 2008

The Board wishes to place on record their sincere appreciation of the services rendered by Mr. P. Asoka Weerasinghe De Silva, Mr. Shoji Takahashi, Mr. Shuhei Anan, Mr. S.N. Kumar, Mr. P.A. Abeysekara and Mr. Geoffrey William Shelley during their tenure on the Board.

Re-election of Directors

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

However, no Director is subject to retirement during the year 2008, as per Article 91.

During the year Mr. Sandip Das, Mr. Chan Chee Beng, Mr. Jeffrey Jay Blatt and Mr. Yoga Perera were appointed to fill casual vacancies on the Board. In terms of Article 97 of the Articles of Association, they are required to retire at the end of the financial year. Being eligible, they offer themselves for re-election.

17. DIRECTORS' INTERESTS IN CONTRACTS AND PROPOSED CONTRACTS WITH THE COMPANY

The Directors' interests in contracts and proposed contracts with the Company, both direct and indirect, are set out in Note 36 to the Consolidated financial statements. Where necessary, the Directors have disclosed the nature of their interests in contracts and proposed contracts.

18. REMUNERATION AND OTHER BENEFITS OF DIRECTORS

The remuneration and other benefits of the Directors are given in Note 6 to the Consolidated financial statements on page 90.

19. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2008, none of the Directors held shares of the Company or its Subsidiaries.

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

The remuneration payable by the Company to the Independent Auditors is given in Note 6 to the Consolidated financial statements on page 90.

21. AUDITORS' RELATIONSHIP OR ANY INTEREST WITH THE COMPANY

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

22. CORPORATE GOVERNANCE

The business and affairs of the Group are managed and directed with the objective of balancing the attainment of corporate objectives with the alignment of corporate behaviour within the legal and the good governance framework of the industry and Sri Lanka, the accountability to shareholders and responsibility to other stakeholders.

To achieve corporate governance objectives, the Board has set up Board Sub-Committees to exercise oversight in specific areas. During the year, the Audit Committee comprised of Mrs. Leisha De Silva Chandrasena and Mr. S.N. Kumar up to 16 June 2008 and thereafter Mr. Sidath Fernando, Mr. Sumith Wijesinghe, Mr. Chan Chee Beng and Mr. Sandip Das.

The Remuneration Committee comprised Mr. Sandip Das and Mr. Sidath Fernando.

23. STATUTORY PAYMENTS

All statutory payments due to the Government of Sri Lanka and on behalf of employees have been made or accrued for at the balance sheet date.

24. ENVIRONMENTAL PROTECTION

After making adequate enquiries from management, the Directors are satisfied that the Company and its Subsidiaries operate in a manner that minimises the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Group operates.

25. DONATIONS

During the year the Directors had approved donations amounting to Rs. 1,520,856/- for charitable purposes (2007 - Rs. 575,000/-).

26. GOING CONCERN

The financial statements are prepared on going concern principles. After making adequate enquiries from management, the Directors are satisfied that the Group has adequate resources to continue its operations in the foreseeable future.

27. FUTURE DEVELOPMENTS

The Strategic Direction of the SLT Group for the next three years 2009-2011 would be 'Conquer: From Networks to Markets'. To make this strategic direction a tangible reality, three major broad market segments were identified as Relate Market, Facilitate Market and the Stimulate Market. The Relate Market will focus on services relating to people. The Facilitate Market will strive to facilitate business operations of other organisations, institutions, individuals etc. The Stimulate Market will deliver services relating to entertainment, gaming and infortainment. For the next three years from 2009 to 2011 the purpose of SLT Group could be stated as "helping people to build relationships, to facilitate individuals, organisations and institutions to establish and maintain their business operations effectively and efficiently and to stimulate and satisfy the senses through quality entertainment".

28. POST BALANCE SHEET EVENTS

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

29. APPOINTMENT OF AUDITORS

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

By Order of the Board

Leisha De Silva Chandrasena	**Sidath Fernando**	**Vasana Perera**
Director	*Director*	*Secretary*

Colombo
17 February 2009

STATEMENT OF THE DIRECTORS' RESPONSIBILITY FOR THE PREPARATION OF FINANCIAL STATEMENTS

The responsibility of the Directors in relation to the financial statements of the Company and the Group, is set out in the following statement. The responsibility of the Auditors, in relation to the financial statements, prepared in accordance with the provision of the Companies Act No. 07 of 2007 ['the Act'], is set out in the Independent Auditors' Report on page 71.

The financial statements comprise:

- Income Statements, which present a true and fair view of the profit and loss of the Company and the Group for the financial year; and
- Balance sheets, which present a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year, and which comply with the requirements of the Act.

The Directors are required to ensure that, in preparing these financial statements:

- appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- all applicable Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, as relevant, have been followed;
- judgements and estimates have been made which are reasonable and prudent.

The Directors are also required to ensure that the Company and of the Group have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and of the Group, and to ensure that the financial statements presented comply with the requirements of the Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the Independent Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Directors are required to prepare the financial statements and to provide the Independent Auditors with every opportunity to take whatever steps and undertake whatever inspections that they may consider to be appropriate to enable them to give the Independent Auditors' opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the Employees of the Company and its Subsidiaries, and all other known statutory dues as were due and payable by the Company and its Subsidiaries as at the balance sheet date have been paid, or where relevant provided for, except as specified in Note 33 to the financial statements covering contingent liabilities.

By Order of the Board

Secretary
Colombo
17 February 2009

AUDIT COMMITTEE REPORT

The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the internal audit process and the Company's process for monitoring compliance with laws and regulations and the business practices. The committee maintains effective working relationships with the Board of Directors, External Auditors and the Internal Auditors.

The Audit Committee comprised four directors; two from GOSL and two from GTH. The Chief Internal Auditor and Chief Financial Officer regularly attend the Audit Committee meetings by invitation.

By the end of year 2008, the Audit Committee members are as follows:

- Mr. Sidath Fernando - Chairman
- Mr. Sumith Wijesinghe - Member
- Mr. Sandip Das - Member
- Mr. Chan Chee Beng - Member

The Audit Committee held four meetings during the period under review and initiated appropriate action to strengthen the internal control of certain business activities reported by ensuring the corrective and preventive measures in addition to the normal business of the Audit Committee.

Specially, during the fourth quarter of the year, the Audit Committee outsourced consultant to review the existing Terms of References of Audit Committee and also to prepare the Internal Audit Charter with a view to ensure good corporate governance, practices and to implement sound systems of internal controls and risk management processes within the SLT group. The Audit Committee has also engaged the multinational Telecommunications companies in the Asian Region such as Maxis Communications Berhad with a view to understand the industry's best practices in Audit and where relevant, adapt any processes to further minimise the risk exposure to SLT Group of Companies. The Audit Committee also initiated the external reviewing of Internal Audit to strengthen the internal audit function in order to cope with the business needs of the Audit Committee.

Sidath Fernando
Chairman,
Audit Committee

17 February 2009

PRICEWATERHOUSECOOPERS

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TO THE MEMBERS OF SRI LANKA TELECOM PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Sri Lanka Telecom PLC and its subsidiaries, which comprise the balance sheets as at 31 December 2008, the income statement, the statements of changes in equity and the cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 72 to 118.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2008 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2008 and of its results for the year and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the Consolidated financial statements give a true and fair view of the state of affairs as at 31 December 2008 and consolidated results for the year and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concern the members of the Company.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

Colombo
17 February 2009

INCOME STATEMENT

(All amounts in Sri Lanka Rupees millions)

For the year ended, 31 December 2008

	Notes	Group 2008	Group 2007	Company 2008	Company 2007
Revenue	5	**47,044**	43,234	**36,113**	37,068
Operating costs	6	**(25,095)**	(20,748)	**(18,635)**	(17,231)
Operating profit before depreciation, amortisation and ITL		**21,949**	22,486	**17,478**	19,837
Depreciation	15	**(10,431)**	(10,220)	**(8,210)**	(8,884)
Amortisation of intangible assets	16	**(332)**	(196)	**(136)**	(94)
International Telecommunication Operators' Levy (ITL)	8	**(2,987)**	(2,851)	**(2,736)**	(2,727)
Operating profit		**8,199**	9,219	**6,396**	8,132
Refund on Telecommunication Development Charge (TDC)	8	**2,183**	–	**2,183**	–
Voluntary Retirement Scheme (VRS) costs	9	**(390)**	(43)	**(390)**	(43)
Other income		**419**	169	**228**	166
Dividend received	35 (b)	**–**	–	**349**	–
Interest expense and finance costs	10	**(2,130)**	(2,232)	**(1,202)**	(1,363)
Interest income	11	**1,279**	1,286	**1,208**	1,239
Profit before tax		**9,560**	8,399	**8,772**	8,131
Tax	12	**(2,193)**	(2,759)	**(2,171)**	(2,743)
Net profit		**7,367**	5,640	**6,601**	5,388
Attributable to:					
Equity holders of the Company		**7,370**	5,640	**6,601**	5,388
Minority interest		**(3)**	–	**–**	–
		7,367	5,640	**6,601**	5,388
Earnings per share for profit attributable to equityholders of the Company					
Basic (Rs.)	13	**4.08**	3.12	**3.66**	2.99

All of the Group's activities are continuing activities.

The Notes on pages 77 to 118 form an integral part of these financial statements.

BALANCE SHEET

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2008

	Notes	Group 2008	Group 2007	Company 2008	Company 2007
ASSETS					
Non-current assets					
Property, plant & equipment	15	**57,072**	53,881	**38,489**	41,350
Intangible assets	16	**2,165**	1,614	**632**	376
Investments in subsidiaries	17	**–**	–	**10,172**	7,782
Advance against investments	17	**–**	–	**30**	–
Non-current receivables	18	**1,572**	1,268	**1,572**	1,268
		60,809	56,763	**50,895**	50,776
CURRENT ASSETS					
Inventories	19	**2,583**	1,476	**2,330**	1,373
Trade and other receivables	20	**11,060**	9,938	**10,779**	10,064
Cash and cash equivalents	21	**18,746**	17,195	**17,971**	16,689
		32,389	28,609	**31,080**	28,126
Total assets		**93,198**	85,372	**81,975**	78,902
EQUITY					
Capital and reserves					
Stated capital	29	**18,049**	18,049	**18,049**	18,049
Hedging reserve	30	**(32)**	(58)	**(32)**	(58)
Insurance reserve	27	**236**	204	**236**	204
Exchange equalisation reserve		**1**	–	**–**	–
Retained earnings		**29,270**	23,705	**31,084**	26,288
		47,524	41,900	**49,337**	44,483
Minority interest in equity		**31**	–	**–**	–
Total equity		**47,555**	41,900	**49,337**	44,483
Deferred income	24	**4,932**	5,529	**4,932**	5,529
LIABILITIES					
Non-current liabilities					
Grants		**61**	68	**61**	68
Borrowings	22	**5,228**	16,660	**680**	12,366
Deferred income tax liabilities	23	**1,097**	2,777	**1,097**	2,777
Retirement benefit obligations	26	**1,217**	1,329	**1,144**	1,272
Trade and other payables	25	**289**	279	**289**	279
		7,892	21,113	**3,271**	16,762
Current liabilities					
Trade and other payables	25	**13,163**	11,174	**8,772**	8,537
Current tax liabilities		**1,633**	1,896	**1,619**	1,858
Borrowings	22	**16,488**	2,625	**13,154**	833
Deferred income	24	**1,535**	1,135	**890**	900
		32,819	16,830	**24,435**	12,128
Total liabilities		**40,711**	37,943	**27,706**	27,990
Total equity and liabilities		**93,198**	85,372	**81,975**	78,902

The Board of Directors is responsible for the preparation and presentation of these Consolidated financial statements. These Consolidated financial statements were approved by the Board of Directors on 17 February 2009

(Sgd.)
Leisha De Silva Chandrasena
Director

(Sgd.)
Sidath Fernando
Director

I certify that these Consolidated financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

(Sgd.)
Ruwan Silva
Chief Financial Officer

The Notes on pages 77 to 118 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2008

	Notes	Stated capital	Hedging reserve	Insurance reserve	Exchange equalisation reserve	Retained earnings	Minority interest	Total
GROUP								
Year ended 31 December 2007								
Balance at 1 January 2007		18,049	(236)	183	–	19,870	–	37,866
Hedging reserve	30							
- foreign currency								
translation differences		–	(17)	–	–	–	–	(17)
- charged to income statement		–	195	–	–	–	–	195
Insurance reserve								
- charged to income statement	27	–	–	21	–	–	–	21
Dividend for 2006	14	–	–	–	–	(1,805)	–	(1,805)
Net profit for the year 2007		–	–	–	–	5,640	–	5,640
Balance at 31 December 2007		**18,049**	**(58)**	**204**	**–**	**23,705**	**–**	**41,900**
Year ended 31 December 2008								
Balance at 1 January 2008		**18,049**	**(58)**	**204**	**–**	**23,705**	**–**	**41,900**
Hedging reserve	30							
- foreign currency								
translation differences		–	(4)	–	–	–	–	(4)
- charged to income statement		–	30	–	–	–	–	30
Insurance reserve								
- charged to income statement	27	–	–	32	–	–	–	32
Effect of movement in foreign								
exchange rates		–	–	–	1	–	–	1
Minority interest arising on								
business combination	34	–	–	–	–	–	34	34
Dividend for 2007	14	–	–	–	–	(1,805)	–	(1,805)
Net profit/(loss) for the year 2008		–	–	–	–	7,370	(3)	7,367
Balance at 31 December 2008		**18,049**	**(32)**	**236**	**1**	**29,270**	**31**	**47,555**

The Notes on pages 77 to 118 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees millions)
For the year ended 31 December 2008

	Notes	Stated capital	Hedging reserve	Insurance reserve	Retained earnings	Total
COMPANY						
Year ended 31 December 2007						
Balance at 1 January 2007		18,049	(236)	183	22,705	40,701
Hedging reserve	30					
- foreign currency						
translation differences		–	(17)	–	–	(17)
- charged to income statement		–	195	–	–	195
Insurance reserve						
- charged to income statement	27	–	–	21	–	21
Dividend for 2006	14	–	–	–	(1,805)	(1,805)
Net profit for the year 2007		–	–	–	5,388	5,388
Balance at 31 December 2007		**18,049**	**(58)**	**204**	**26,288**	**44,483**
Year ended 31 December 2008						
Balance at 1 January 2008		**18,049**	**(58)**	**204**	**26,288**	**44,483**
Hedging reserve	30					
- foreign currency						
translation differences		–	(4)	–	–	(4)
- charged to income statement		–	30	–	–	30
Insurance reserve						
- charged to income statement	27	–	–	32	–	32
Dividend for 2007	14	–	–	–	(1,805)	(1,805)
Net profit for the year 2008		–	–	–	6,601	6,601
Balance at 31 December 2008		**18,049**	**(32)**	**236**	**31,084**	**49,337**

The Notes on pages 77 to 118 form an integral part of these financial statements.

CASH FLOW STATEMENT

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2008

	Notes	Group 2008	Group 2007	Company 2008	Company 2007
Cash flows from operating activities					
Cash generated from operations	31	**20,462**	22,003	**14,771**	17,854
Interest received		**1,164**	1,684	**1,092**	1,637
Interest paid		**(2,131)**	(2,265)	**(1,204)**	(1,396)
Tax paid		**(4,133)**	(6,332)	**(4,090)**	(6,326)
Net cash generated from operating activities		**15,362**	15,090	**10,569**	11,769
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired		**(108)**	–	–	–
Acquisition of property, plant & equipment		**(13,680)**	(9,866)	**(5,391)**	(5,568)
Acquisition of intangible assets	16	**(733)**	(222)	**(393)**	(210)
Proceeds from disposal of property, plant & equipment		**85**	15	**75**	15
Investments in subsidiaries		**–**	–	**(2,420)**	(750)
Net cash used in investing activities		**(14,436)**	(10,073)	**(8,129)**	(6,513)
Cash flows from financing activities					
Proceeds from borrowings		**3,607**	2,653	**900**	–
Finance lease principal re-payment		**(7)**	(4)	**(7)**	(4)
Re-payment of borrowings		**(2,321)**	(3,399)	**(796)**	(1,271)
Dividends paid to the Company's shareholders	14	**(1,805)**	(1,805)	**(1,805)**	(1,805)
Net cash used in financing activities		**(526)**	(2,555)	**(1,708)**	(3,080)
Increase in cash and cash equivalents		**400**	2,462	**732**	2,176
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of year (Note 21)		**16,920**	14,335	**16,689**	14,390
Effect of exchange fluctuation on cash and cash equivalents		**550**	123	**550**	123
		17,470	14,458	**17,239**	14,513
Increase in cash and cash equivalents		**400**	2,462	**732**	2,176
At end of year	21	**17,870**	16,920	**17,971**	16,689

The Notes on pages 77 to 118 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sri Lanka Telecom PLC was incorporated under the Companies Act No. 17 of 1982 on 25 September 1996 and re-registered on 4 June 2007 under the Companies Act No. 07 of 2007, which came into effect from 3 May 2007. The registered office of the Company is situated at Lotus Road, Colombo 1. The Company is a quoted public company which has its listing on the Colombo Stock Exchange.

The Group provides a broad portfolio of telecommunication services across Sri Lanka, the main activity being domestic and international fixed and mobile telephone services. In addition, the range of services provided by the Group include, *interalia*, internet services, data services, domestic and international leased circuits, frame relay, ISDN, satellite uplink and maritime transmission, IPTV service, directory publishing, Wi-max service and provision of manpower.

The Consolidated financial statements have been approved for issue by the Board of Directors on 17 February 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1 Basis of preparation

The Consolidated financial statements are prepared in accordance and comply with Sri Lanka Accounting Standards. The Consolidated financial statements are prepared under the historical cost convention. Where any item is not covered by Sri Lanka Accounting Standards (SLASs), International Financial Reporting Standards (IFRSs) are followed.

The preparation of financial statements in conformity with SLASs & IFRSs requires the use of certain critical accounting estimates. It requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated financial statements, are disclosed in Note 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanied by a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable tangible and intangible assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (See Note 2.6).

The inter-Company transactions, balances and unrealised gains on transactions between Group Companies are eliminated. The unrealised losses are also eliminated.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. All business segments which account for more than 10% of the total Group revenue are separately reported (See Note 4).

2.4 Foreign currency translation

(a) Functional and presentation currency

The items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency'). The Consolidated financial statements are presented in Sri Lanka Rupees, which is the Company's functional and Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of such transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within ‘interest income and finance costs’. All other foreign exchange gains and losses are presented in the income statement within ‘operating costs’.

(c) Group Companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate of the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

The goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate of the date of that balance sheet.

2.5 Property, plant & equipment

All property, plant & equipment are stated at historical cost less accumulated depreciation except as noted in Note 15 where property, plant & equipment of Department of Telecommunications were transferred to Sri Lanka Telecom at a valuation performed by the Government of Sri Lanka.

(a) Measurement

The historical cost includes all costs directly attributable to bringing an asset to working condition for its intended use and significant renovations. The cost in the case of the telecommunication network comprises all expenditure up to and including the cabling cost and telecommunication equipment within customers' premises and undersea cables.

The subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amounts of the assets replaced are derecognised. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Cost of long-term capital projects are carried forward in capital work-in-progress until they are available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The interest costs on borrowings to finance the construction of property, plant & equipment are capitalised during the period that is taken to complete and prepare the asset for its intended use.

(b) Depreciation

The freehold land is not depreciated. The depreciation on other assets is calculated using the straight-line method to allocate their cost or re-valued amounts to residual values over the estimated useful lives, as follows:

Asset category	Useful life
Freehold buildings	40 years
Ducts, cables and other outside plant	10 to 12.5 years
Undersea cables	10 years
Telephone exchanges and transmission equipment	10 to 12.5 years
Motor vehicles	5 years
Other fixed assets	4 to 10 years

(c) Disposal

The gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Intangible assets

(a) Goodwill

The goodwill represents the excess of the cost of an acquisition over the fair value of the Group's shares of the net identifiable assets of the acquired subsidiary at the date of acquisition. The goodwill on acquisitions of subsidiaries is included in intangible assets. The separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination.

(b) Licences

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences have a finite useful life and are carried at cost less accumulated amortisation. The amortisation is calculated using the straight-line method to allocate the cost over the period of the licence.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

(c) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The computer software costs recognised as intangible assets are amortised over their estimated useful lives (not exceeding 5 years).

(d) Deferred insurance premium

The insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the basis that the benefit of this expenditure is not exhausted in the period in which it was incurred. This insurance premium is amortised over the loan repayment period of 10 years.

2.7 Grants

The grants relating to property, plant & equipment are included in non-current liabilities and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

2.8 Impairment of non-financial assets

The assets that have an indefinite useful life, for example, goodwill, are not subject to amortisation. They are tested annually for impairment. The assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Investments

The long-term investments are initially recognised at cost and provision is only made where, in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

2.10 Inventories

All inventories are held for the provision of service by the Group. The inventories are stated at the lower of cost and net realisable value. For this purpose, the cost of inventories is determined using the Weighted Average Cost (WAC). The cost of inventories include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for slow-moving and obsolete inventories, which are not expected to be used internally.

2.11 Trade receivables

The trade receivables are recognised initially at cost and subsequently carried at cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account. Once decided as irrecoverable after due recovery procedures, the amount of the loss is recognised as an 'operating costs' in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the income statement.

2.12 Cash and cash equivalents

The cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts. The bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Stated capital

The ordinary shares are classified as equity.

2.14 Insurance reserve

The Company transfers annually from the income statement an amount equal to 0.1% of additions to property, plant & equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant & equipment. The insurance reserve is maintained to recover any losses arising from damage to property, plant & equipment, except for motor vehicles, that are not insured with a third party insurer.

2.15 Trade payables

The trade payables are recognised at fair value.

2.16 Borrowings

The borrowings are recognised initially at fair value, net of transaction costs incurred. The borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

(a) Finance lease

The Group leases certain motor vehicles included in property, plant & equipment. The leases where the Group has substantially all the risks and rewards are classified as finance leases. The finance leases are capitalised, at the lessees commencement at the lower of the fair value of the leased assets and present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance lease is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant & equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

(b) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than in a business combination, that at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

The Group has both defined benefit and defined contribution plans.

(a) Defined contribution plan

All employees of the Company are members of the Sri Lanka Telecom Provident Fund and the Employees' Trust Fund (ETF) to which the Company contributes 15% and 3% respectively of such employees' basic salary and allowances. All employees of subsidiaries of the Group except for Sri Lanka Telecom Hong Kong Limited are members of Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which respective subsidiaries contribute 12% and 3% respectively, of such employees' basic salary and allowances.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

(b) Defined benefit plan

Typically, a defined benefit plan defines an amount of benefit that an employee will receive on retirement, which is, usually a dependent on one or more factors such as period of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using estimated long-term interest rates.

The actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement in the period in which they arise.

The assumptions, based on which the results of the actuarial valuation were determined, are included in Note 26 to the Consolidated financial statements.

2.20 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

The provision is measured at the present value of the expenditures expected to be required to settle the obligation.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for services rendered in the ordinary course of business. Revenue is shown net of value added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its revenue estimates on historical results, taking into consideration the types of the transactions and past trends. The revenue is recognised as follows:

(i) Domestic and international call revenue and rental income

Call revenue is recognised on usage and a fixed rental on a monthly basis for the telephony services. The customers are charged Government taxes at the applicable rates. The revenue is recognised net of such taxes.

(ii) Revenue from other network operators and international settlements

The revenue received from other network operators, local and international, for the use of the Group's telecommunication network for completing call connections are recognised, net of taxes, based on usage taking the traffic minutes/per second rates stipulated in the relevant agreements and regulations.

(iii) Revenue from other telephony services

The revenue from other telephony services are recognised on an accrual basis based on fixed rental contracts entered between the Group and subscribers.

(iv) Connection fees

The connection fees relating to Public Switched Telephone Network (PSTN) are deferred over a period of 15 years.

The connection fees relating to Code Divisional Multiple Access (CDMA) connections are recognised as revenue in the period in which the connection is activated.

(v) Equipment sales

Revenue from sale of equipment is recognised, net of taxes, on completion of the transaction. The CDMA handset remains the property of the Company. However, the cost of the handset is included in operating costs in the period which the connection is activated.

(vi) Prepaid card revenue

The revenue from sale of prepaid calling cards on fixed telephony is recognised in the period in which the card is sold. Due to the short validity period after activation, no adjustment is made to revenue for unused airtime at the balance sheet date. Pre-paid CDMA card revenue is recognised on usage.

(vii) Sale of services

Revenue from fixed-price contracts for providing manpower is generally recognised in the period the services are provided. Revenue from directory printing is recognised when the directories are distributed.

(viii) Interest income

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

(ix) Dividend income

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

2.22 Expenditure

The expenses are recognised on accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant & equipment in a state of efficiency is charged against income in arriving at the profit for the year.

For the purpose of presentation of the income statement information, nature of expense method is used to classify expenses.

2.23 Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

2.24 Foreign currency risk

The Company hedges foreign currency risk of loans denominated in foreign currency against foreign currency revenue streams such as receipt from international network operations and interest income from foreign currency fixed deposits. Sinking funds are maintained in foreign currency to meet future payment obligations.

The Company hedges between 50% to 75% of anticipated net foreign earnings for 5 years. Management estimates approximately 75% (2007 - 75%) of projected foreign earnings quality as 'highly probable'.

2.25 Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers and other network operators, including outstanding receivables. For bank and financial institutions, only rated financial institutions are accepted. The credit control assess the credit quality of customers, taking into account their financial position, past experience and other factors. The individual risk limits are set based on internal ratings in accordance with limits set by the Boards. The utilisation of credit limits is regularly monitored.

2.26 Liquidity risk

Effective liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. Due to dynamic nature of the underlying business, the Group maintains flexibility in funding by maintaining sufficient cash reserves and committed credit lines.

2.27 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. The borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rates exposes the Group to fair value interest rate risk. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

2.28 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated balance sheet) divided by total capital. Net debt is calculated as total borrowings. Total capital is calculated as 'equity' as shown in the Consolidated balance sheet plus total borrowings.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain the gearing ratio below 35%. The gearing ratios at 31 December 2008 and 2007 were as follows:

	Group		Company	
	2008	2007	**2008**	2007
Total borrowings (Note 22)	**21,716**	19,285	**13,834**	13,199
Total equity	**47,555**	41,900	**49,337**	44,483
Total capital	**69,271**	61,185	**63,171**	57,682
Gearing ratio	**31%**	32%	**22%**	23%

2.29 Comparatives

Current portion of deferred income of the Company which was previously included under 'deferred income' together with non-current liabilities is now included in current liabilities. Further, current portion of deferred income of the Group which was previously included under 'trade and other payables' is now included in a separate line item 'deferred income'.

Management believes that above reclassification give a fairer presentation.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements of management are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Provision for bad and doubtful debts

A provision for bad and doubtful trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments and industry trends are considered indicators that the trade receivable is impaired. Management will revise the basis to increase the provision for bad and doubtful debts where the actual recoveries are less than previously estimated, or it will write-off the trade receivables that have been determined unrecoverable.

(ii) Useful lives of Plant and Equipment

Management determines the estimated useful lives and related depreciation charges for its plant and equipment which comprise mainly the switching and other network equipment. This estimate is based on projected product lifecycles of the assets of its main business segments. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

No impairment charge requiring adjustment to the Consolidated financial statements arose in the cash generating units during the course of the year 2008.

(iv) Defined benefit obligations

The present value of the defined benefit plan obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit plan obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for defined benefit plan obligations are based in part on current market conditions. Additional information is disclosed in Note 26 to these Consolidated financial statements.

(All amounts in Sri Lanka Rupees millions)

4. SEGMENT INFORMATION

(a) Primary reporting format - business segments

Management has determined the primary segments based on the nature of products and services and risks and rewards associated.

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

Public Switched Telephone Network - PSTN
Code Divisional Multiple Access - CDMA
Other Gateway Operators - OGO
Mobile telephony operations
Other value added services

The connection charges, rental and call charges derived from fixed wired lines are included in PSTN revenue.

Similar revenue streams generated from fixed wireless connections are shown under CDMA revenue.

Income derived from local and international operators for use of telecommunication network of the Company is shown as revenue from other gateway operators.

Mobile revenue consist of revenue generated from mobile telephony operations of the subsidiary, Mobitel (Pvt) Limited.

Other value added services comprise data services, IP & Broadband and other telephony services which do not constitute reporting segments in isolation.

The segment results for the year ended 31 December 2008 are as follows:

	PSTN	CDMA	OGO	Mobile	Other	Unallocated	Total
Revenue							
- Total segment revenue	16,721	5,133	8,184	9,060	9,445	–	48,543
- Inter-segment revenue	–	–	(400)	(165)	(934)	–	(1,499)
Revenue from external customers	**16,721**	**5,133**	**7,784**	**8,895**	**8,511**	–	**47,044**
Segment results/operating profits	**1,724**	**785**	**1,082**	**1,368**	**3,240**	–	**8,199**
Voluntary Retirement Scheme (VRS)							(390)
TDC Refund							2,183
Other income							419
Interest expenses and finance costs							(2,130)
Interest income							1,279
Profit before tax							9,560
Taxation							(2,193)
Profit after tax							7,367

Other segment information included in the income statement is as follows:

	PSTN	CDMA	OGO	Mobile	Other	Unallocated	Total
Depreciation	6,209	282	1,119	1,665	1,156	–	10,431
Amortisation of intangible assets	66	19	27	196	24	–	332

The segment assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	PSTN	CDMA	OGO	Mobile	Other	Unallocated	Total
Assets	37,275	7,311	16,307	21,926	10,249	130	93,198
Liabilities	(7,714)	(341)	(6,912)	(4,278)	(1,819)	(24,579)	(45,643)
Capital expenditure	2,834	446	505	8,629	1,999	–	14,413

Segment assets and liabilities are reconciled to entities' assets and liabilities as follows:

	Assets	Liabilities
Segment assets and liabilities :	93,068	(21,064)
Unallocated:		
- Interest receivable	130	–
- Non-current borrowings	–	(5,228)
- Current borrowings	–	(16,488)
- Deferred income tax liabilities	–	(1,097)
- Income tax liabilities	–	(1,633)
- Interest payable	–	(133)
Group assets/liabilities	**93,198**	**(45,643)**

The segment results for the year ended 31 December 2007 are as follows:

	PSTN	CDMA	OGO	Mobile	Other	Unallocated	Total
Revenue							
- Total segment revenue	18,241	6,188	8,253	5,397	6,100	–	44,179
- Inter-segment revenue	–	–	(401)	(44)	(500)	–	(945)
Revenue from external customers	**18,241**	**6,188**	**7,852**	**5,353**	**5,600**	**–**	**43,234**
Segment results/operating profits	**3,113**	**1,342**	**1,752**	**868**	**2,144**	**–**	**9,219**
Voluntary Retirement Scheme (VRS)							(43)
Other income							169
Interest expenses and finance costs							(2,232)
Interest income							1,286
Profit before tax							8,399
Taxation							(2,759)
Profit after tax							**5,640**

Other segment information included in the income statement is as follows:

	PSTN	CDMA	OGO	Mobile	Other	Unallocated	Total
Depreciation	7,000	283	1,103	1,030	804	–	10,220
Amortisation of intangible assets	61	12	14	101	8	–	196

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	PSTN	CDMA	OGO	Mobile	Other	Unallocated	Total
Assets	39,005	7,979	17,357	15,095	5,863	73	85,372
Liabilities	(8,250)	(314)	(7,412)	(2,509)	(892)	(24,095)	(43,472)
Capital expenditure	2,672	756	1,007	4,310	1,343	–	10,088

Segment assets and liabilities are reconciled to entities' assets and liabilities as follows:

	Assets	Liabilities
Segment assets and liabilities:	85,299	(19,376)
Unallocated:		
- Interest receivable	73	–
- Non-current borrowings	–	(16,660)
- Current borrowings	–	(2,625)
- Deferred income tax liabilities	–	(2,777)
- Income tax liabilities	–	(1,896)
- Interest payable	–	(138)
Group assets/liabilities	**85,372**	**(43,472)**

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant & equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise operating liabilities. Unallocated liabilities mainly comprise taxation and borrowings.

Capital expenditure comprises additions to property, plant & equipment and intangible assets.

(b) Secondary reporting format - geographical segments

The Group's revenue, assets and liabilities can be identified geographically based on the location as follows:

	2008			2007		
	Domestic	**International**	**Total**	Domestic	International	Total
Revenue	**40,985**	**7,558**	**48,543**	36,748	7,431	44,179
Assets	**91,709**	**1,489**	**93,198**	83,986	1,386	85,372
Liabilities	**(45,440)**	**(203)**	**(45,643)**	(43,315)	(157)	(43,472)

5. REVENUE

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

	Group		Company	
	2008	2007	**2008**	2007
Release of deferred connection charges (Note 24)	**921**	927	**921**	927
Rental income	**6,098**	6,753	**4,717**	6,085
Domestic call revenue	**16,511**	13,846	**9,542**	9,469
Receipts from other network operators - domestic	**92**	419	**336**	563
International call revenue	**2,086**	2,068	**1,541**	1,760
Receipts from other network operators - international	**567**	287	**140**	259
International settlements (in payments)	**7,124**	7,146	**7,124**	7,146
CDMA revenue	**5,133**	6,188	**5,133**	6,188
Broadband, data and other services	**8,512**	5,600	**6,659**	4,671
	47,044	43,234	**36,113**	37,068

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

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

6. OPERATING COSTS

The following items have been included in arriving at operating profit before depreciation, amortisation and ITL:

	Group		Company	
	2008	2007	**2008**	2007
Staff costs (Note 7)	**6,823**	6,090	**5,867**	5,479
Directors' emoluments	**19**	58	**17**	28
Payments to international network operators	**1,311**	1,454	**1,311**	1,454
Payments to other network operators - international	**743**	542	**899**	799
- domestic	**459**	511	**369**	393
Auditors' remuneration				
- Audit fees	**6**	5	**4**	4
- Non-audit fees	**1**	1	**1**	1
Repairs and maintenance expenditure	**2,402**	1,930	**1,974**	1,539
Provision for doubtful debts	**1,783**	1,191	**1,580**	1,036
Reversal of provision for inventories	**(75)**	(82)	**(75)**	(82)
Net foreign exchange losses/(gains)	**6**	(32)	**(9)**	(2)
Other operating expenditure	**10,676**	7,267	**5,533**	4,610
CDMA expenditure	**941**	1,813	**1,164**	1,972
	25,095	20,748	**18,635**	17,231

7. STAFF COSTS

	Group		Company	
	2008	2007	**2008**	2007
Salaries, wages, allowances and other benefits	**6,213**	5,155	**5,356**	4,621
Retirement costs - defined contribution plans	**609**	509	**527**	453
- defined benefit obligations (Note 26)	**1**	426	**(16)**	405
	6,823	6,090	**5,867**	5,479
Average number of persons employed by the Group/Company during the year	**9,925**	7,987	**7,021**	7,093

8. INTERNATIONAL TELECOMMUNICATION OPERATORS' LEVY (ITL)

In terms of the Finance Act No. 11 of 2004, International Telecommunications Operators are required to make a contribution to the Government of Sri Lanka at the rate of US$ 0.038 per international incoming traffic minute with effective from 3 March 2003. The total amount of the levy payable by the Group and Company for the period from 1 January 2008 to 31 December 2008 was estimated at Rs. 2,987 million (2007 - Rs. 2,851 million) and Rs. 2,736 million (2007 - Rs. 2,727 million) respectively and has been recognised as expenses in the current financial year. The corresponding liability, net of payments has been recognised in the balance sheet.

The Gazette notification No. 1386/24 of 31 March 2005 states that the levy will be credited as Incoming Local Access Charge (ILAC) and Telecommunications Development Charge (TDC) as per the rates specified in the Table B and C to these regulations. These regulations also allow the domestic PSTN operators to claim two thirds of the TDC within three years against the cost of development of its telecommunications network in unserved and underserved areas of Sri Lanka as determined by the Telecommunications Regulatory Commission (TRC). As per the 'Guidelines for disbursement of two-third of the TDC Fund for The Fixed Wire Line Operator' issued by the TRC, the Company is entitled to claim Rs. 25,000 (Cost per line) for every connection provided in unserved and underserved areas specified by TRC.

TRC in its letter dated 30 December 2008 confirmed that SLT PLC has provided 87,301 PSTN connections in unserved and underserved areas specified by TRC during the period from 3 March 2003 to 31 December 2005 and acknowledged its agreement to setoff Rs. 2,182,525,000 in lieu of two-thirds of TDC, which was payable to TRC. Accordingly, the Company transferred this amount to the income statement from ITL payable account.

The documentation supporting the amount to be claimed from TDC against the cost of telecommunications network roll-out in unserved and underserved areas by the Company during the period after 1 January 2006 has been submitted to TRC. The estimated refund as at 31 December 2008 has not been recognised in the income statement pending approval by the TRC.

9. VOLUNTARY RETIREMENT SCHEME (VRS) COSTS

A VRS was announced on 8 May 2008. Accordingly, based on the number of applications received from employees, a VRS cost of Rs. 390 million (2007 - Rs. 43 million) was incurred and recognised in the income statement.

10. INTEREST EXPENSE AND FINANCE COSTS

	Group		Company	
	2008	2007	**2008**	2007
Interest expense and finance costs				
Rupee loans	**1,231**	1,232	**324**	313
Foreign currency loans	**31**	75	**10**	35
USD 100 million Notes	**823**	837	**823**	837
Other charges [See Note (a) below]	**15**	(17)	**15**	(17)
Total interest and finance costs	**2,100**	2,127	**1,172**	1,168
Interest capitalised	**–**	(90)	**–**	–
Net total interest and finance costs	**2,100**	2,037	**1,172**	1,168
Foreign exchange losses recognised from hedging reserve (Note 30)	**30**	195	**30**	195
Interest expenses and finance costs charged to income statement	**2,130**	2,232	**1,202**	1,363

(a) Other charges mainly include unrealised exchange gain of Rs. 549 million (2007 - Rs. 117 million) arising from revaluation of the fixed deposits in USD and unrealised exchange loss of Rs. 553 million (2007 - Rs. 100 million) arising from revaluation of the USD 100 million Notes.

11. INTEREST INCOME

	Group		Company	
	2008	2007	**2008**	2007
Interest income from - bank deposits	**919**	953	**848**	906
- financial assets	**262**	256	**262**	256
- staff loans	**98**	77	**98**	77
	1,279	1,286	**1,208**	1,239

12. TAXATION

The charge for taxation is made up as follows:

	Group		Company	
	2008	2007	**2008**	2007
Income tax charge	**3,873**	4,495	**3,851**	4,479
Release of deferred tax liabilities (Note 23)	**(1,680)**	(1,736)	**(1,680)**	(1,736)
	2,193	2,759	**2,171**	2,743

The tax charge differs from the theoretical amount that would arise using the basic tax rate on the accounting profit of the Company and Group as follows:

	Group		Company	
	2008	2007	**2008**	2007
Profit before tax	**9,560**	8,399	**8,772**	8,131
Tax calculated at a tax rate of 35% (2007 - 33 1/3%)	**3,346**	2,799	**3,070**	2,710
Tax effect of income not subject to tax	**(5,389)**	(2,617)	**(1,159)**	(283)
Expenses not deductible for tax purposes	**4,236**	2,445	**260**	184
Effect of changes in tax rates	**–**	132	**–**	132
Tax charge	**2,193**	2,759	**2,171**	2,743

Current income tax charges of the Group/Company is made up as follows:

	Group		Company	
	2008	2007	**2008**	2007
Sri Lanka Telecom PLC	**3,851**	4,479	**3,851**	4,479
Mobitel (Pvt) Limited	**19**	16	**–**	–
SLT Manpower Solutions (Pvt) Limited	**3**	–	**–**	–
	3,873	4,495	**3,851**	4,479

In terms of agreement entered into with the Board of Investment of Sri Lanka, the profit earned from operating a cellular mobile service by Mobitel (Pvt) Limited is exempt from income tax for a period of 15 years commencing from 1 June 1994. The tax charge of Mobitel (Pvt) Limited for the year wholly consists of income tax on other income.

In terms of the provisions of Inland Revenue Act No. 10 of 2006, as amended, the following companies are liable to income tax. However, in view of the adjusted tax losses brought forward and incurred during the year, such companies were not liable for income tax for the year ended 31 December 2008. The adjusted tax losses available to carry forward as at 31 December 2008 are as follows:

	Adjusted tax losses available for carry forward as at 31 December	
	2008	2007
Sky Network (Pvt) Limited	**16**	8
SLT VisionCom (Pvt) Limited	**42**	–
SLT Publications (Pvt) Limited	**15**	–
Sri Lanka Telecom (Services) Limited	**3**	2
SLT Hong Kong Limited	**21**	25
	97	35

13. EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the net profit attributable to equityholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2008	2007	**2008**	2007
Net profit attributable to equityholders (Rs. million)	**7,370**	5,640	**6,601**	5,388
Weighted average number of ordinary shares in issue (million)	**1,805**	1,805	**1,805**	1,805
Basic earnings per share (Rs.)	**4.08**	3.12	**3.66**	2.99

14. DIVIDENDS

In respect of 2007, a first and final dividend of Rs. 1/- (2006 - Rs. 1/-) per share amounting to Rs. 1,804,860,000/- (2006 - Rs. 1,804,860,000/-) was paid during the current year.

The Board has recommended a first and final dividend of Rs. 1/- per share amounting to Rs. 1,804,860,000/- for the year ended 31 December 2008. This is to be approved by the shareholders at the Annual General Meeting to be held on 27 March 2009. As stipulated by Sri Lanka Accounting Standard No. 12 (Revised) - Events After The Balance Sheet Date, the proposed dividend is not recognised as a liability as at 31 December 2008.

15. PROPERTY, PLANT & EQUIPMENT

Group

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 1 January 2007								
Cost	337	1,943	68,736	18,532	27,287	9,988	3,978	130,801
Accumulated depreciation	–	(345)	(46,438)	(10,879)	(12,943)	(5,994)	–	(76,599)
Net book amount	**337**	**1,598**	**22,298**	**7,653**	**14,344**	**3,994**	**3,978**	**54,202**
Year ended 31 December 2007								
Opening net book amount	337	1,598	22,298	7,653	14,344	3,994	3,978	54,202
Additions at cost	–	–	176	16	986	1,896	6,861	9,935
Transfers from capital work-in-progress	10	290	1,170	214	3,799	191	(5,674)	–
Disposals at cost	–	–	–	–	(30)	(40)	–	(70)
Adjustments	–	(35)	2	–	(40)	70	–	(3)
Accumulated depreciation on disposal	–	–	–	–	8	29	–	37
Depreciation charge	–	(52)	(4,970)	(1,254)	(2,351)	(1,593)	–	(10,220)
Closing net book amount	**347**	**1,801**	**18,676**	**6,629**	**16,716**	**4,547**	**5,165**	**53,881**
At 31 December 2007								
Cost	347	2,197	70,084	18,762	32,002	12,105	5,165	140,662
Accumulated depreciation	–	(396)	(51,408)	(12,133)	(15,286)	(7,558)	–	(86,781)
Net book amount	**347**	**1,801**	**18,676**	**6,629**	**16,716**	**4,547**	**5,165**	**53,881**
Year ended 31 December 2008								
Opening net book amount	347	1,801	18,676	6,629	16,716	4,547	5,165	53,881
Additions at cost	–	–	162	70	2,854	1,482	9,117	13,685
Transfers from capital work-in-progress	–	179	836	–	4,656	1,339	(7,010)	–
Disposals at cost	–	–	(79)	–	(5)	(119)	–	(203)
Write-offs at cost	–	–	(1,089)	–	–	–	–	(1,089)
Adjustments	–	(43)	(62)	(79)	128	30	14	(12)
Accumulated depreciation on disposal	–	–	58	–	3	91	–	152
Accumulated depreciation on write-offs	–	–	1,089	–	–	–	–	1,089
Depreciation charge	–	(56)	(4,130)	(1,246)	(3,219)	(1,780)	–	(10,431)
Closing net book amount	**347**	**1,881**	**15,461**	**5,374**	**21,133**	**5,590**	**7,286**	**57,072**
At 31 December 2008								
Cost	347	2,332	69,847	18,733	39,659	14,839	7,286	153,043
Accumulated depreciation	–	(451)	(54,386)	(13,359)	(18,526)	(9,249)	–	(95,971)
Net book amount	**347**	**1,881**	**15,461**	**5,374**	**21,133**	**5,590**	**7,286**	**57,072**

Company

	Freehold land	Freehold buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in-progress	Total
At 1 January 2007								
Cost	337	1,943	68,586	18,532	14,542	9,368	3,198	116,506
Accumulated depreciation	–	(345)	(46,256)	(10,878)	(8,812)	(5,582)	–	(71,873)
Net book amount	**337**	**1,598**	**22,330**	**7,654**	**5,730**	**3,786**	**3,198**	**44,633**
Year ended 31 December 2007								
Opening net book amount	337	1,598	22,330	7,654	5,730	3,786	3,198	44,633
Additions at cost	–	–	176	16	90	1,705	3,615	5,602
Transfers from capital work-in-progress	10	290	1,170	214	353	191	(2,228)	–
Disposals at cost	–	–	–	–	–	(17)	–	(17)
Adjustments	–	(35)	2	–	(40)	72	–	(1)
Accumulated depreciation on disposal	–	–	–	–	–	17	–	17
Depreciation charge	–	(52)	(4,970)	(1,254)	(1,119)	(1,489)	–	(8,884)
Closing net book amount	**347**	**1,801**	**18,708**	**6,630**	**5,014**	**4,265**	**4,585**	**41,350**
At 31 December 2007								
Cost	347	2,197	69,934	18,762	14,944	11,321	4,585	122,090
Accumulated depreciation	–	(396)	(51,226)	(12,132)	(9,930)	(7,056)	–	(80,740)
Net book amount	**347**	**1,801**	**18,708**	**6,630**	**5,014**	**4,265**	**4,585**	**41,350**
Year ended 31 December 2008								
Opening net book amount	347	1,801	18,708	6,630	5,014	4,265	4,585	41,350
Additions at cost	–	–	162	70	4	1,196	3,965	5,397
Transfers from capital work-in-progress	–	179	836	–	377	1,339	(2,731)	–
Disposals at cost	–	–	(79)	–	–	(39)	–	(118)
Write-offs at cost	–	–	(1,089)	–	–	–	–	(1,089)
Adjustments	–	(43)	(62)	(79)	128	30	14	(12)
Accumulated depreciation on disposal	–	–	58	–	–	24	–	82
Accumulated depreciation on write-offs	–	–	1,089	–	–	–	–	1,089
Depreciation charge	–	(56)	(4,130)	(1,246)	(1,111)	(1,667)	–	(8,210)
Closing net book amount	**347**	**1,881**	**15,493**	**5,375**	**4,412**	**5,148**	**5,833**	**38,489**
At 31 December 2008								
Cost	347	2,332	69,697	18,733	15,477	13,849	5,833	126,268
Accumulated depreciation	–	(451)	(54,204)	(13,358)	(11,065)	(8,701)	–	(87,779)
Net book amount	**347**	**1,881**	**15,493**	**5,375**	**4,412**	**5,148**	**5,833**	**38,489**

On 1 September 1991, the Department of Telecommunications (DoT) transferred its entire telecommunications business and related assets and liabilities to SLT. A valuation of the assets and liabilities transferred to SLT was performed by the Government of Sri Lanka. The net amount of those assets and liabilities represents SLT's Contributed Capital on incorporation, and the value of property, plant & equipment as determined by the Government of Sri Lanka valuers was used as the opening cost of fixed assets on 1 September 1991 in the first statutory accounts of SLT.

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

(a) The cost of fully-depreciated assets still in use as at 31 December 2008 was Rs. 32,725 million (2007 - Rs. 22,545 million).

(b) No assets have been mortgaged or pledged as security for borrowings of the Company. However, Mobitel (Pvt) Limited, a subsidiary of the Company, has pledged its assets at a value of Rs 4,298 million as at 31 December 2008 for bank borrowings [Note 22 (h)].

(c) The Directors believe that the Company has freehold title to the land and buildings transferred on incorporation (Conversion of SLT into a public limited company on 25 September 1996), although the vesting orders specifying all the demarcations and extents of such land and buildings have not been formally issued.

(d) The property, plant & equipment is not insured except for third party motor vehicle insurance. An insurance reserve has been created together with a sinking fund investment to meet any potential losses with regard to uninsured property, plant & equipment. At the balance sheet date, the insurance reserve amounted to Rs. 236 million (2007 - Rs. 204 million) (Note 27). The sinking fund investment is included under cash and cash equivalents [Note 21 (a)].

(e) Additions include assets costing Rs. 13 million (2007 - Rs. 33 million) obtained under finance leases (where the Group/Company is the lessee).

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

	Group		Company	
	2008	2007	**2008**	2007
Cost	**56**	43	**56**	43
Accumulated depreciation	**(16)**	(8)	**(16)**	(8)
Net book amount	**40**	35	**40**	35

16. INTANGIBLE ASSETS

Group	Goodwill	Licences	Software	Others	Total
At 1 January 2007					
Cost	388	602	738	764	2,492
Accumulated amortisation and impairment	(247)	(77)	(93)	(487)	(904)
Net book amount	**141**	**525**	**645**	**277**	**1,588**
Year ended 31 December 2007					
Opening net book amount	141	525	645	277	1,588
Additions at cost	–	–	222	–	222
Amortisation charge	–	(14)	(112)	(70)	(196)
Closing net book amount	**141**	**511**	**755**	**207**	**1,614**
At 31 December 2007					
Cost	388	602	960	764	2,714
Accumulated amortisation and impairment	(247)	(91)	(205)	(557)	(1,100)
Net book amount	**141**	**511**	**755**	**207**	**1,614**
Year ended 31 December 2008					
Opening net book amount	141	511	755	207	1,614
Additions at cost	6	144	438	295	883
Amortisation charge	–	(60)	(190)	(82)	(332)
Closing net book amount	**147**	**595**	**1,003**	**420**	**2,165**
At 31 December 2008					
Cost	394	746	1,398	1,059	3,597
Accumulated amortisation and impairment	(247)	(151)	(395)	(639)	(1,432)
Net book amount	**147**	**595**	**1,003**	**420**	**2,165**

Company	Goodwill	Licences	Software	Others	Total
At 1 January 2007					
Cost	–	–	272	330	602
Accumulated amortisation and impairment	–	–	(49)	(293)	(342)
Net book amount	**–**	**–**	**223**	**37**	**260**
Year ended 31 December 2007					
Opening net book amount	–	–	223	37	260
Additions at cost	–	–	210	–	210
Amortisation charge	–	–	(64)	(30)	(94)
Closing net book amount	**–**	**–**	**369**	**7**	**376**
At 31 December 2007					
Cost	–	–	482	330	812
Accumulated amortisation and impairment	–	–	(113)	(323)	(436)
Net book amount	**–**	**–**	**369**	**7**	**376**
Year ended 31 December 2008					
Opening net book amount	–	–	369	7	376
Additions at cost	–	–	393	–	393
Transferred to related company	–	–	(1)	–	(1)
Amortisation charge	–	–	(131)	(5)	(136)
Closing net book amount	**–**	**–**	**630**	**2**	**632**
At 31 December 2008					
Cost	–	–	874	330	1,204
Accumulated amortisation and impairment	–	–	(244)	(328)	(572)
Net book amount	**–**	**–**	**630**	**2**	**632**

Goodwill

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

Others

As explained in Accounting Policy 2.6 (d), insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the basis that the benefit of this expenditure is not exhausted in the period in which it is incurred and will be written off to the income statement over a period of 10 years.

Impairment tests for goodwill

Goodwill is allocated to the Group's Cash-Generating Units (CGUs). A summary of the goodwill allocation is presented below:

	2008	2007
Mobitel (Pvt) Limited	141	141
Sky Network (Pvt) Limited	6	–
Total	147	141

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

	Mobitel (Pvt) Limited	**Sky Network (Pvt) Limited**
Gross margin	75%	75%
Growth rate	29%	80%
Discount rate	20%	20%

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. No impairment charge has been recognised for the year ended 31 December 2008 for the above CGUs (2007 - Rs. Nil).

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
Unlisted shares		
Opening net book amount	7,782	7,032
Additions	2,390	750
Closing net book amount	10,172	7,782
Advance against investments		
SLT Publications (Pvt) Limited [See Note (d) below]	30	–

Details of the subsidiary companies in which the Company had control as at 31 December are set out below:

	2008		2007	
Name of company	**Investment Rs. million**	**Company holding %**	Investment Rs. million	Company holding %
Sri Lanka Telecom (Services) Limited [See Note (a) below]	**25**	**100**	25	100
Mobitel (Pvt) Limited [See Note (b) below]	**9,822**	**100**	7,722	100
SLT Hong Kong Limited [See Note (c) below]	**36**	**100**	35	100
SLT Publications (Pvt) Limited [See Note (d) below]	**20**	**100**	–	–
SLT Manpower Solutions (Pvt) Limited [See Note (e) below]	**1**	**100**	–	–
SLT VisionCom (Pvt) Limited [See Note (f) below]	**100**	**100**	–	–
Sky Network (Pvt) Limited [See Note (g) below]	**68**	**75**	–	–
	10,172		7,782	

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

(b) The Company owns 119,238,240 shares representing 100% of the issued ordinary share capital of Mobitel (Pvt) Limited. At 31 December 2007, the Company held 575,000,000 12% cumulative and redeemable preference shares of Mobitel (Pvt) Limited with a value of Rs. 10 per share. Additions during 2008 comprise the capital infusion of Rs. 1 billion in 12% cumulative and redeemable preference shares and Rs. 1.1 billion in 14% cumulative and redeemable preference shares of Mobitel (Pvt) Limited. The preference dividend ranks above ordinary dividends.

At 31 December 2008, preference dividends amounting to Rs. 1,318 million were in arrears (31 December 2007: Rs. 956 million). No accrual has been made in the Company's financial statements.

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

(d) This investment in subsidiary company consists of 2,000,000 shares representing a 100% holding of the issued stated capital of SLT Publications (Pvt) Limited.

Advance against investments wholly consists of Rs. 30 million paid by the Company to acquire the ordinary shares of SLT Publications (Pvt) Limited and shares are yet to be issued to the Company.

(e) This investment in subsidiary company consists of 50,000 shares representing a 100% holding of the issued stated capital of SLT Manpower Solutions (Pvt) Limited.

(f) This investment in subsidiary company consists of 10,000,000 shares representing a 100% holding of the issued stated capital of SLT VisionCom (Pvt) Limited.

(g) This investment in subsidiary company consists of 71,251 shares representing a 75% holding of the issued stated capital and 6 million 12% cumulative and redeemable preference shares of Sky Network (Pvt) Limited.

All the subsidiaries except for Mobitel (Pvt) Limited and SLT Hong Kong Limited are audited by PricewaterhouseCoopers.

18. NON-CURRENT RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
Employee loans [See Note (a) below]	**1,572**	1,268	**1,572**	1,268

(a) Employee loans are repayable in equal monthly instalments over the loan period not exceeding six years. The amount shown as a non-current receivable represents staff loan instalments falling due after 1 January 2010.

(b) The weighted average interest rates on staff loans are between 3% and 7% (2007 - 3% and 7%).

19. INVENTORIES

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

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
Domestic trade receivables	**13.562**	13,081	**11,507**	10,541
CDMA instalment debtors	–	340	–	340
Foreign trade receivables	**2,958**	2,991	**2,958**	2,991
	16,520	16,412	**14,465**	13,872
Less: Provision for bad and doubtful receivables	**(7,552)**	(7,712)	**(6,957)**	(6,135)
Less: Interest/revenue in suspense	**(19)**	(104)	–	–
Trade receivables - net	**8,949**	8,596	**7,508**	7,737
Amount due from subsidiaries [Note 35 (g)]	–	–	**2,299**	1,650
Amount due from related companies [Note 35 (g)]	**139**	–	**139**	–
Advances and prepayments [See Note (a) below]	**592**	212	**98**	144
Employee loans	**376**	324	**376**	324
Other receivables [See Note (b) below]	**1,004**	806	**359**	209
Amounts due within one year	**11,060**	9,938	**10,779**	10,064

(a) Advances and prepayments of the Company mainly consist of advances on purchases of Rs. 56 million (2007 - Rs. 89 million) and payments for software maintenance of Rs. 30 million (2007 - Rs. 37 million). Advances and prepayments of the Group mainly consist of advances on purchases of Rs. 549 million (2007 - Rs. 150 million) and payments for software maintenance of Rs. 30 million (2007 - Rs. 37 million).

(b) Other receivables of the Company mainly consist of interest receivable of Rs. 280 million (2007 - Rs. 165 million), refundable deposits of Rs. 77 million (2007 - Rs. 42 million) and dishonoured cheques of Rs. 2 million (2007 - Rs. 2 million). Other receivables of the Group mainly consist of interest receivable of Rs. 281 million (2007 - Rs. 165 million), refundable deposits of Rs. 138 million (2007 - Rs. 82 million), dishonoured cheques of Rs 2 million (2007 - Rs. 7 million) and VAT receivable of Rs 362 million (2007 - Rs. 428 million).

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
Cash at bank and in hand	**378**	393	**5**	79
Cash in transit	**15**	–	–	–
Restricted at bank [See Note (a) below]	**10,199**	7,244	**10,199**	7,244
Short-term deposits [See Note (b) below]	**8,154**	9,558	**7,767**	9,366
	18,746	17,195	**17,971**	16,689

(a) The restricted cash balance represents a deposit of Sri Lankan Rupees 236 million (2007 - Rs. 204 million) at People's Bank of Sri Lanka representing the sinking fund investment for the insurance reserve and a sinking fund amounting to Rs. 9,963 million (2007 - Rs. 7,039 million) maintained to redeem the USD 100 million Notes in 2009. The restrictions on these balances are self-imposed.

(b) The interest on short-term bank deposits are on commercial terms. The weighted average effective interest rates on short-term LKR and USD bank deposits were 16.51% (2007 - 15.9%) and 5.18% (2007 - 5.89%) respectively.

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

	Group		Company	
	2008	2007	**2008**	2007
Cash and cash equivalents	**18,746**	17,195	**17,971**	16,689
Bank overdrafts (Note 22)	**(876)**	(275)	–	–
	17,870	16,920	**17,971**	16,689

22. BORROWINGS

	Group 2008	Group 2007	Company 2008	Company 2007
Current (due within one year)				
Bank overdrafts (Note 21)	**876**	275	–	–
Government borrowings	**654**	696	**654**	696
USD 100 million Notes	**11,475**	–	**11,475**	–
Bank borrowings and others	**3,473**	1,646	**1,015**	129
Lease liabilities	**10**	8	**10**	8
	16,488	2,625	**13,154**	833
Non-current (due after one year)				
Government borrowings	**644**	1,299	**644**	1,299
Bank borrowings and others	**4,548**	4,405	–	111
USD 100 million Notes	–	10,925	–	10,925
Lease liabilities	**36**	31	**36**	31
	5,228	16,660	**680**	12,366
Total borrowings	**21,716**	19,285	**13,834**	13,199

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

	Group 2008	Group 2007	Company 2008	Company 2007
Total borrowings				
- at fixed rates	**13,417**	11,481	**12,457**	11,206
- at floating rates	**8,299**	7,804	**1,377**	1,993
	21,716	19,285	**13,834**	13,199

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

	Group 2008	Group 2007	Company 2008	Company 2007
Foreign currency	**11,591**	11,687	**11,591**	11,165
Local currency	**10,125**	7,598	**2,243**	2,034
	21,716	19,285	**13,834**	13,199

	Group 2008	Group 2007	Company 2008	Company 2007
Average effective interest rates:				
- Bank overdrafts	**20.74%**	16.29%	–	–
- Foreign bank borrowings	**2.9% - 6.4%**	5.31%	**6.4%**	5.31%
- Government borrowings	**15.02%**	12.21%	**15.02%**	12.21%
- USD 100 million Notes	**6.88%**	6.88%	**6.88%**	6.88%
- Bank borrowings	**16% - 19.84%**	15.39%	**16.00%**	–
- Lease liabilities	**21% - 25%**	21% - 25%	**21% - 25%**	21% - 25%

Maturity of non-current borrowings (excluding finance lease liabilities):

	Group		Company	
	2008	2007	**2008**	2007
Between 1 and 2 years	**2,609**	13,492	**602**	12,313
Between 3 and 5 years	**1,846**	3,137	**42**	22
Over 5 years	**737**	–	**–**	–
	5,192	16,629	**644**	12,335

Finance lease liabilities - minimum lease payments:

	Group		Company	
	2008	2007	**2008**	2007
Not later than 1 year	**18**	13	**18**	13
Later than 1 year and not later than 5 years	**46**	44	**46**	44
	64	57	**64**	57
Less: future finance charges on finance leases	**(18)**	(18)	**(18)**	(18)
Present value of finance lease liabilities	**46**	39	**46**	39

Representing lease liabilities:

	Group		Company	
	2008	2007	**2008**	2007
Current	**10**	8	**10**	8
Non-current	**36**	31	**36**	31
	46	39	**46**	39

(b) The Government of Sri Lanka had borrowed amounts in foreign currencies to fund the development of the Company's telecommunication network. These amounts had been re-lent to the Company with shorter repayment periods than the underlying loan. The total borrowings of the Government of Sri Lanka as at 31 December 2008 was Rs 1,298 million (2007 - Rs 1,995 million). The exchange of fluctuations on these loans are borne by the Government of Sri Lanka.

(c) The Government of Sri Lanka has guaranteed third party loans of the Company amounting to Rs. 116 million (2007 - Rs. 240 million). Total value of borrowings, which consist of USD 100 million Notes, that have neither been guaranteed nor secured by the Government of Sri Lanka is Rs. 11,475 million (2007 - Rs. 10,925 million).

(d) The loan covenants include submission of audited financial statements to the lenders within specified periods from the financial year end, and to maintain adequate accounting records in accordance with generally accepted accounting principles.

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

(f) Lease liabilities of the Group/Company are effectively secured as rights to the leased assets revert to the lessor in the event of default.

(g) Bank borrowings and bank overdrafts of Mobitel (Pvt) Limited, a subsidiary of the Company, are secured, *interalia*, over corporate guarantees given by SLT PLC.

(h) Bank borrowings of Mobitel (Pvt) Limited are secured over guarantees issued by third parties and property, plant & equipment at a value of Rs. 4,298 million.

23. DEFERRED INCOME TAX LIABILITIES

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

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

	Group		Company	
	2008	2007	**2008**	2007
At the beginning of the year	**2,777**	4,513	**2,777**	4,513
Income statement release (Note 12)	**(1,680)**	(1,736)	**(1,680)**	(1,736)
At the end of the year	**1,097**	2,777	**1,097**	2,777

The temporary and deductible temporary differences mainly arise from property, plant & equipment, deferred income, provision for defined benefit obligations and other provisions.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	Group/Company	
	2008	2007
Deferred income tax assets:		
- Deferred tax asset to be recovered after more than 12 months	**4,600**	4,679
- Deferred tax asset to be recovered within 12 months	**311**	238
	4,911	4,917
Deferred income tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	**4,608**	6,305
- Deferred tax liability to be recovered within 12 months	**1,400**	1,389
	6,008	7,694
Deferred tax liabilities (net)	**1,097**	2,777

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the off-setting of balances within the same tax jurisdiction, is as follows:

	Group/Company Accelerated tax depreciation
Deferred income tax liabilities	
At 1 January 2007	9,004
Credited to the income statement	(1,310)
At 31 December 2007	7,694
Credited to the income statement	(1,686)
At 31 December 2008	6,008

	Group/Company			
	Defined benefit obligations	Provisions	Deferred income	Total
Deferred income tax assets				
At 1 January 2007	(311)	(1,810)	(2,370)	(4,491)
(Credited)/charged to the income statement	(134)	(412)	120	(426)
At 31 December 2007	(445)	(2,222)	(2,250)	(4,917)
Charged/(credited) to the income statement	45	(251)	212	6
At 31 December 2008	(400)	(2,473)	(2,038)	(4,911)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of Rs. 34 million (2007 - Rs. 12 million) in respect of tax losses of subsidiaries amounting to Rs. 97 million (2007 - Rs. 35 million) that can be carried forward against future taxable income.

24. DEFERRED INCOME

Deferred income of the Company represents the connection charges relating to PSTN network, net of amounts amortised to the income statement. The connection charges are amortised over a period of 15 years as stated in Accounting Policy 2.21(iv). Deferred income of the Group represents the connection charges relating to PSTN network, net of amounts amortised to the income statement and deferred prepaid-card revenue of Mobitel (Pvt) Limited.

The movement in the deferred income account is as follows:

	Group		Company	
	2008	2007	**2008**	2007
At the beginning of the year	**6,664**	7,110	**6,429**	7,110
Connection fees for the year	**724**	481	**314**	246
Amount credited to income statement during the year (Note 5)	**(921)**	(927)	**(921)**	(927)
At the end of the year	**6,467**	6,664	**5,822**	6,429

Representing deferred income:

	Group 2008	Group 2007	Company 2008	Company 2007
- Current	**1,535**	1,135	**890**	900
- Non-current	**4,932**	5,529	**4,932**	5,529
	6,467	6,664	**5,822**	6,429

25. TRADE AND OTHER PAYABLES

	Group 2008	Group 2007	Company 2008	Company 2007
Amounts due within one year				
Domestic trade payables	**1,647**	1,321	**312**	85
Foreign trade payables	**203**	157	**203**	157
Amount due to subsidiaries [Note 35 (g)]	**–**	–	**829**	357
Capital expenditure payables [See Note (a) below]	**4,220**	2,327	**1,273**	1,083
Social security and other taxes [See Note (b) below]	**268**	361	**268**	361
Interest payable	**133**	138	**133**	138
Other payables [See Note (c) below]	**6,692**	6,870	**5,754**	6,356
	13,163	11,174	**8,772**	8,537
Amounts due after one year				
International Direct Dialling deposits	**235**	235	**235**	235
Prepayments on VOIP services	**11**	44	**11**	44
PSTN guarantee deposits	**43**	–	**43**	–
	289	279	**289**	279

(a) Capital expenditure payable of the Company mainly consists of contractors' payable of Rs. 534 million (2007 - Rs. 297 million) and advances on network restoration after road works of Rs. 519 million (2007 - Rs. 577 million). Capital expenditure payables of the Group mainly consist of contractors' payable of Rs. 3,480 million (2007 - Rs. 2,487 million) and advances on network restoration after road works of Rs. 519 million (2007 - Rs. 577 million).

(b) Social security and other taxes of the Group and the Company mainly consist of Value Added Tax Rs. 24 million (2007 - Rs. 223 million), EPF payable of Rs. 80 million (2007- Rs. 53 million) PAYE payable of Rs. 90 million (2007 - Rs. 42 million) and Cellular Mobile Subscriber Levy payable of Rs. 34 million (2007 - Rs. Nil).

(c) Other payables of the Company mainly consist of dividend payable to the Government of Sri Lanka of Rs. 244 million (2007 - Rs. 244 million), provision for Goods Received Notes (GRNs) of Rs. 480 million (2007 - Rs. 105 million), International Telecommunication Operators' Levy payable of Rs. 3,583 million (2007 - Rs. 5,009 million), CESS payable to Director-General of Telecommunication of Rs. 217 million (2007 - Rs. 152 million) and accrued expenses and other payable of Rs. 868 million (2007 - Rs. 692 million). Other payables of the Group mainly consist of dividend payable to the Government of Sri Lanka of Rs. 244 million (2007 - Rs. 244 million), provision for Goods Received Notes (GRNs) of Rs. 480 million (2007 - Rs. 105 million), International Telecommunication Operators' Levy payable of Rs. 3,583 million (2007 - Rs. 5,009 million), CESS payable to Director-General of Telecommunication of Rs. 217 million (2007 - Rs. 152 million) and accrued expenses and other payable of Rs. 1,565 million (2007 - Rs. 1,175 million).

(d) Other payables of the Company and the Group also include a provision for the legal claims potentially payable of Rs. 163 million under ICC Arbitration application No. 13839/M against the Company by Informatics (Pvt) Limited claiming USD 1,143,630 being the licence upgrade cost and an annual maintenance fee of 15% of the licence fee for the TBR system to the SLT PLC by Informatics, and a provision for overtime payment of Rs. 175 million under Court of Appeal CA No. 883/2003 increasing the overtime rate from 1.5% to 1.75% and granting of lieu leave with regard to an application made by the Telecommunications Employees Union with effect from 1 January 2002. These provisions are recognised in income statement within 'operating costs'. The balance at 31 December 2008 is expected to be utilised in the first half of 2009.

26. RETIREMENT BENEFIT OBLIGATIONS

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

	Group		Company	
	2008	2007	**2008**	2007
At the beginning of the year	**1,329**	942	**1,272**	903
Current service cost	**90**	247	**81**	226
Interest cost	**133**	90	**127**	90
Provision made for gratuity payable to VRS employees	**–**	30	**–**	30
Actuarial (gains)/losses	**(222)**	(89)	**(224)**	89
Benefits paid	**(113)**	(69)	**(112)**	(66)
At the end of the year	**1,217**	1,329	**1,144**	1,272

The amounts recognised in the income statement are as follows:

	Group		Company	
	2008	2007	**2008**	2007
Current service cost	**90**	247	**81**	226
Interest cost	**133**	90	**127**	90
Actuarial (gains)/losses	**(222)**	89	**(224)**	89
	1	426	**(16)**	405

(a) As stated in Accounting Policy 2.19 (b) as at 31 December 2008, an actuarial valuation was carried out by an independent actuary.

The principal actuarial assumptions used were as follows:

	Group		Company	
	2008	2007	**2008**	2007
Discount rate (long-term)	**12%**	10%	**12%**	10%
Future salary increases	**9%-15%**	9%	**9%**	9%
Inflation rate (long-term)	**10%**	10%	**10%**	10%

In addition to above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2008, 1967/70 Mortality Table issued by the Institute of Actuaries London (2007 - 1967/70 Mortality Table) was taken as the base for the valuation.

The provision for defined obligations is actuarially valued by Messrs Actuarial and Management Consultants (Pvt) Limited. The provision for defined benefit obligations is not externally funded.

27. INSURANCE RESERVE

	Group/Company	
	2008	2007
At the beginning of the year	**204**	183
Income statement charge and interest income on sinking fund deposit	**32**	21
At the end of the year	**236**	204

As stated in Accounting Policy 2.14, the Company transfers annually from the income statement an amount equal to 0.1% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant & equipment.

28. GROUP REPORTING DATES

The annual financial statements of the subsidiaries, Sri Lanka Telecom (Services) Limited, SLT Hong Kong Limited, SLT Publications (Pvt) Limited and Mobitel (Pvt) Limited, SLT Manpower Solutions (Pvt) Limited, SLT VisionCom (Pvt) Limited and Sky Network (Pvt) Limited are prepared at 31 December each year.

29. STATED CAPITAL

	Company	
	2008	2007
Issued and fully paid		
1,804,860,000 ordinary shares issued at Rs. 10 per share	**18,049**	18,049

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

	2008		2007	
	Holding %	**No. of Shares**	Holding %	No. of Shares
Government of Sri Lanka (GOSL)	**49.50**	**893,405,709**	49.50	893,405,709
Global Telecommunications Holdings N.V.	**44.98**	**811,757,869**	–	–
NTT Communications Corporation (NTT Com)	–	–	35.20	635,076,318
Public Shareholders	**5.52**	**99,696,422**	15.30	276,377,973
	100.00	**1,804,860,000**	100.00	1,804,860,000

30. HEDGING RESERVE

	Group/Company	
	2008	2007
At the beginning of the year	**(58)**	(236)
- Foreign currency translation difference	**(4)**	(17)
- Income statement charge (Note 10)	**30**	195
At the end of the year	**(32)**	(58)

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

31. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2008	2007	**2008**	2007
Profit before tax	**9,560**	8,399	**8,772**	8,131
Adjustments for				
Depreciation (Note 15)	**10,431**	10,220	**8,210**	8,884
Amortisation of grants	**(7)**	(7)	**(7)**	(7)
Amortisation of intangible assets (Note 16)	**332**	196	**136**	94
Interest expense and finance costs (Note 10)	**2,130**	2,232	**1,202**	1,363
Interest income (Note 11)	**(1,279)**	(1,286)	**(1,208)**	(1,239)
Connection fees less amortisation (Note 24)	**(197)**	(446)	**(607)**	(681)
Profit on sale of property, plant & equipment	**(15)**	(15)	**(21)**	(15)
Provision for insurance reserve net of interest income (Note 27)	**32**	21	**32**	21
Retirement benefit obligations net of benefits paid (Note 26)	**(112)**	387	**(128)**	369
	20,875	19,701	**16,381**	16,920
Changes in working capital				
- receivables and prepayments	**(1,310)**	(86)	**(903)**	(216)
- inventories	**(1,107)**	(57)	**(957)**	(48)
- payables	**2,004**	2,445	**250**	1,198
Cash generated from operations	**20,462**	22,003	**14,771**	17,854

32. COMMITMENTS

Capital commitments

The Group/Company has purchase commitments in the ordinary course of business as at 31 December 2008 as follows:

	Group		Company	
	2008	2007	**2008**	2007
Property, plant & equipment				
- approved but not contracted	**8,266**	9,888	**8,266**	9,888
- approved and contracted	**11,219**	6,707	**5,610**	3,077
	19,485	16,595	**13,876**	12,965

Operating lease commitments

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

	Group		Company	
	2008	2007	**2008**	2007
Later than one year and not later than five years	**207**	173	**207**	173

Other financial commitments

Except for any regular maintenance contracts entered into with third parties in the normal course of business, there are no other material financial commitments that require separate disclosure.

33. CONTINGENCIES

(a) The Department of Inland Revenue issued assessments for the years of assessment 1993/94 and 1994/95 charging tax, on deemed dividend, based on book profits of the Company. The Company appealed against those assessments, on the ground that deemed dividend tax should be calculated on tax adjusted profits. The total liability for years of assessment 1993/94 and 1994/95 as per the said assessments, amounts to Rs. 643 million.

Accordingly, this appeal was referred to the Board of Review for hearing and the Board of Review confirmed these assessments. However, the Company has appealed against the Board determination to the Court of Appeal.

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

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

(d) With regard to cases detailed above, pending the outcome of the appeals, no provisions have been recognised in the financial statements up to 31 December 2008.

(e) In addition to the above referred cases, there are more litigation issues in relation to claims by employees and third parties for damages. In the opinion of the Directors none of these actions is likely to result in a material liability to the Company and its subsidiaries.

34. BUSINESS COMBINATIONS

On 16 May 2008, the Company acquired 75% of the stated capital of Sky Network (Pvt) Limited, a licensed company for the Wi-max operations in Sri Lanka. The acquired business made a loss of Rs. 10,344,592 to the Group for the period from 16 May 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group profit before allocations would have been Rs. 7,360 million. These amounts have been calculated using the Group's accounting policies.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

- Cash paid	108
- Direct costs relating to the acquisition	–
Total purchase consideration	108
Fair value of net assets acquired	(102)
Goodwill (Note 16)	6

As per SLAS 25, Business Combinations (Revised 2004), the Company determined the fair values of identifiable assets and liabilities of the acquired company on a provisional value basis as at 31 December 2008 and the Company will recognise any adjustments to these provisional values as a result of completing the initial accounting, within twelve months of the acquisition date.

The goodwill is attributable to significant synergies expected to arise after the Group's acquisition of Sky Network (Pvt) Limited.

The assets and liabilities as of 16 May 2008 arising from the acquisition were as follows:

	Fair Value	Acquirees' carrying Value
Cash and cash equivalents	–	–
Licences (included under intangible assets) (Note 16)	144	–
Trade and other payables	(8)	(8)
Net assets	136	(8)
Minority interests (25%)	34	
Net assets acquired	102	

Purchase consideration settled in cash	108
Cash and cash equivalents in subsidiary acquired	–
Cash outflow on acquisition	108

There were no acquisitions during the year ended 31 December 2007.

35. RELATED PARTY TRANSACTIONS

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

(a) Mobitel (Pvt) Limited

Sale of goods and services:

	Group 2008	Group 2007
Provision of E1 links	**496**	332
Interconnection charges	**168**	234
VOIP Platform	**8**	9
	672	575
Purchase of goods and services:		
Call charges relating to cellular phones purchased by the Company employees	**51**	44
Interconnection charges	**253**	167
Antenna tower space	**223**	159
	527	370
Preference dividend received	**349**	–

Number of new GSM connections granted (special packages with no monthly rental) in 2008 is 582 (2007 - 1,754).

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

(i) Loans amounting to Rs. 8,710 million (2007 - Rs. 10,225 million) and USD 48.1 million (2007 - USD 4.8 million) for GSM rollout stage 1, 3 and 4.

(ii) A commitment guarantee amounting to Rs. 250 million (2007 - Rs. 250 million) issued by banks in favour of TRC for the purpose of 3G rollout.

(b) NTT Communications Corporation

As per the shareholders' agreement with NTT Com, the following charges have been borne by the Company. The shareholder agreement expired on 1 April 2008 (the date of sale of shares held by NTT) and was not renewed.

	Company 2008	Company 2007
Purchase of goods and services:		
Fees for secondment of personnel from NTT Com	**11**	43
Expenditure for personnel from NTT Com	**4**	11
	15	54

(c) SLT Hong Kong Limited

	Company 2008	2007
Sale of goods and services:		
Leased circuits	**40**	4
Purchase of goods and services:		
Leased circuits	**62**	5

(d) Sri Lanka Telecom (Services) Limited

	Company 2008	2007
Purchase of goods and services:		
Supply of services to SLT	**1**	–

(e) Fees for secondment of personnel and services provided from/by SLT PLC

	Company 2008	2007
SLT Publications (Pvt) Limited	**8**	–
SLT Manpower Solutions (Pvt) Limited	**4**	–
SLT VisionCom (Pvt) Limited	**13**	–
Sky Network (Pvt) Limited	**6**	–
	31	–

(f) Maxis Communications Berhad and its subsidiaries

	Company 2008	2007
Sale of goods and services:		
Sale of SEA-ME-WE 3 Cables capacity	**61**	–
International settlements (in-payments)	**144**	–
	205	–
Purchase of goods and services:		
International settlements (out-payments)	14	–

(g) Outstanding balances arising from sale/purchase of services

	2008	2007
Receivable from subsidiaries:		
Mobitel (Pvt) Limited	**2,255**	1,646
SLT Hong Kong Limited	**2**	4
SLT Publications (Pvt) Limited	**19**	–
SLT Manpower Solutions (Pvt) Limited	**4**	–
SLT VisionCom (Pvt) Limited	**13**	–
Sky Network (Pvt) Limited	**6**	–
	2,299	1,650

	Company	
	2008	2007
Payable to subsidiaries:		
Mobitel (Pvt) Limited	**777**	350
Sri Lanka Telecom (Services) Limited	–	2
SLT Hong Kong Limited	**2**	5
SLT Manpower Solutions (Pvt) Limited	**50**	–
	829	357

Receivable from related companies

	Group/Company	
	2008	2007
Maxis Communications Berhad and its subsidiaries	**139**	–

(h) Key management compensation

	Group		Company	
	2008	2007	**2008**	2007
Salaries and other benefits	**91**	70	**54**	52

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. A related party transaction takes place with a transfer of resources or obligations between related parties, regardless of whether a price is charged.

All transactions during the year and balances as at the balance sheet date between the following companies have been eliminated in preparing the Consolidated financial statements.
Mobitel (Pvt) Limited
Sri Lanka Telecom (Services) Limited
SLT Hong Kong Limited
SLT Publications (Pvt) Limited
SLT Manpower Solutions (Pvt) Limited
SLT VisionCom (Pvt) Limited
Sky Network (Pvt) Limited

Related party transactions disclosed above should be read in conjunction with Notes 17 and 36 to the financial statements.

36. DIRECTORS' INTERESTS IN CONTRACTS

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

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

Director	Company	Position
Mrs. Leisha De Silva Chandrasena	Mobitel (Pvt) Limited	Chairperson/Director
	SLT Hong Kong Limited	Chairperson/Director
	SLT Publications (Pvt) Limited	Chairperson/Director
	Sri Lanka Telecom (Services) Limited	Chairperson/Director
	SLT Manpower Solutions (Pvt) Limited	Chairperson/Director
	SLT VisionCom (Pvt) Limited	Chairperson/Director
	Sky Network (Pvt) Limited	Chairperson/Director
Mr. Shoji Takahashi (Up to 4 April 2008)	Mobitel (Pvt) Limited	Director
	SLT Publications (Pvt) Limited	Director
	Sri Lanka Telecom (Services) Limited	Director
	SLT Hong Kong Limited	Director
Mr. Shuhei Anan (Up to 4 April 2008)	Mobitel (Pvt) Limited	Director
Mr. P. Asoka Weerasinghe De Silva (Up to 22 February 2008)	Mobitel (Pvt) Limited	Chairman/Director
	SLT Hong Kong Limited	Chairman/Director
	SLT Publications (Pvt) Limited	Director
	Sri Lanka Telecom (Services) Limited	Director
Mr. Sumith Wijesinghe	Mobitel (Pvt) Limited	Director
	National Development Trust (Guarantee) Limited	Director
	National Development Trust Fund	Trustee
	SLT Manpower Solutions (Pvt) Limited	Director
	SLT VisionCom (Pvt) Limited	Director
	Sky Network (Pvt) Limited	Director
	SLT Hong Kong Limited	Director
Mr. S N Kumar (Up to 21 November 2008)	Mobitel (Pvt) Limited	Director
	SLT Manpower Solutions (Pvt) Limited	Director
	SLT VisionCom (Pvt) Limited	Director
	Sky Network (Pvt) Limited	Director

Director	Company	Position
Mr. Sidath Fernando	SLT Manpower Solutions (Pvt) Limited	Director
(From 4 March 2008)	Sky Network (Pvt) Limited	Director
Mr. Sandip Das	Mobitel (Pvt) Limited	Director
(From 5 June 2008)	Maxis Communications Berhad	CEO/Director
	Aircel Group	Director
	Bridge Mobile Alliance	Director
Mr. Chan Chee Beng	Mobitel (Pvt) Limited	Director
(From 5 June 2008)	Binariang GSM Sdn. Bhd.	Director
	Maxis Communications Berhad	Director
	Aircel Limited	Director
	MEASAT Global Berhad Group	Director
	Bumi Armada Berhad Group	Director
	Usaha Tegas Sdn. Bhd.	Director
Mr. Jeffrey Jay Blatt	Ventures Co. Limited	CEO
(From 5 June 2008)		

Related party transactions are disclosed in Note 35 - Related Party Transactions.

37. POST BALANCE SHEET EVENTS

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

TEN YEAR PROGRESS

	2008 Rs. Mn	2007 Rs. Mn	2006 Rs. Mn	2005 Rs. Mn	2004 Rs. Mn	2003 Rs. Mn	2002 Rs. Mn	2001 Rs. Mn	2000 Rs. Mn	1999 Rs. Mn
Financial Position - (Group)										
Property, Plant & Equipment	57,072	53,881	54,202	56,151	54,360	55,763	56,722	59,093	61,498	58,136
Total Assets	93,198	85,372	84,042	81,520	78,872	72,373	74,765	80,173	82,497	70,797
Current Assets	32,389	28,609	27,292	23,843	22,144	14,626	15,963	13,772	12,213	10,906
Current Liabilities	32,819	16,830	16,370	13,892	11,378	12,440	12,048	12,144	12,134	10,920
Borrowings	21,716	19,285	20,785	22,840	25,370	21,081	25,926	31,534	34,633	31,116
Equity	47,555	41,900	37,866	33,793	31,064	30,600	29,024	36,957	35,742	22,329
Performance										
Revenue	47,044	43,234	40,691	32,515	29,516	25,553	25,383	22,060	19,605	18,281
Operating Profit	7,809	9,176	9,895	6,087	3,275	5,678	7,953	6,314	4,984	5,061
Finance Cost	2,130	2,232	1,884	2,085	2,252	2,863	3,377	3,585	4,516	3,313
Earnings before Tax	9,560	8,399	9,227	4,812	1,441	3,242	5,207	3,618	914	2,325
Taxation	2,193	2,759	3,789	1,719	148	993	2,522	1,515	693	1,056
Earnings after Tax	7,367	5,640	5,438	3,093	1,293	2,249	2,685	2,103	221	1,269
Cash Flow										
Net Operating Cash Flows	15,362	15,090	13,434	17,200	10,402	11,429	13,458	9,568	9,566	8,461
Net Cash used in Investing Activities	14,436	10,073	9,197	10,686	7,611	7,278	3,722	4,425	8,894	15,285
Net Cash used in/(from) Financing Activities	526	2,555	5,093	2,571	(3,314)	5,525	7,552	4,978	(2,066)	(7,099)
Key Financial Indicators										
Earnings per Share (Rs.)	4.1	3.1	3.0	1.7	0.7	1.3	1.5	1.2	0.1	0.7
Return on Assets (%)	8.4	10.7	11.8	7.5	4.2	7.8	10.6	7.9	6	7.1
Return on Equity (%)	15.5	13.5	14.4	9.2	4.2	7.3	9.3	5.7	0.6	5.7
Operating Margin (%)	16.6	21.2	24.3	18.7	11.1	22.2	31.3	28.6	25.4	27.7
Asset Turnover (No. of times)	0.50	0.51	0.48	0.4	0.37	0.35	0.34	0.28	0.24	0.26
Current Ratio (No. of times C.L.)	0.99	1.70	1.67	1.72	1.95	1.17	1.32	1.13	1.01	1.0
Quick Asset Ratio (No. of times C.L.)	0.91	1.61	1.58	1.66	1.83	1.11	1.27	1.05	0.9	0.86
Gearing Ratio (Debt to Rs. 1/- of Capital Employed)	0.31	0.32	0.35	0.4	0.45	0.41	0.47	0.46	0.49	0.58
Interest Cover (No. of times Interest)	5.49	4.76	5.90	4.35	1.7	2.27	2.85	2.27	1.21	1.71

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twelfth Annual General Meeting of Sri Lanka Telecom PLC will be held in Committee Room 'B', BMICH, Bauddhaloka Mawatha, Colombo 7 on Friday, 27 March 2009 at 10.00 a.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 2008 with the Report of the Auditors thereon.

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

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

   ii. To elect as Director, Mr. Chan Chee Beng, who retires in terms of Article 97 of the Articles of Association.

   iii. To elect as Director, Mr. Jeffrey Jay Blatt, who retires in terms of Article 97 of the Articles of Association.

   iv. To elect as Director, Mr. Yoga Perera, 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 businesses as may properly be brought before the meeting.

By Order of the Board

Mrs. Vasana Perera
Company Secretary

10 February 2009
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.*

NOTES

NOTES

FORM OF PROXY

I/We .... of

.... being a

member/members of SRI LANKA TELECOM PLC hereby appoint:

.... of

.... whom failing

Mrs. Leisha De Silva Chandrasena whom failing
Mr. W.W.D. Sumith Wijesinghe whom failing
Mr. S.S.V. Fernando whom failing
Mr. Sandip Das whom failing
Mr. Chan Chee Beng whom failing
Mr. Jeffrey Jay Blatt whom failing
Mr. Yoga Perera

as my/our proxy to speak and vote for me/us on my/our behalf as indicated below at the 12th Annual General Meeting of the Company, to be held on Friday. 27 March 2009 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	**Against**
1. To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2008 with the Report of the Auditors thereon.		
2. To declare a first and final dividend of Rs. 1.00 per share on the issued share capital of the Company as recommended by the Directors.		
3. (i) To elect as Director, Mr. Sandip Das, who retires in terms of Article 97 of the Articles of Association.		
(ii) To elect as Director, Mr. Chan Chee Beng, who retires in terms of Article 97 of the Articles of Association.		
(iii) To elect as Director, Mr. Jeffrey Jay Blatt, who retires in terms of Article 97 of the Articles of Association.		
(iv) To elect as Director, Mr. Yoga Perera, 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.		

In witness my/our hand/seal given on this ……………........…………..... day of March, Two Thousand and Nine.

……………...……………………….
Signature

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

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address by signing on the spaces provided and please fill in the date of signature.

2. The persons mentioned above are Directors of the Company and they are willing to represent any shareholder as proxy, and vote as directed by the shareholder. They will not, however, be willing to speak or move or second and amendment to the shareholder to the resolutions or make any statement in regard thereto on behalf of any shareholder.

3. Please indicate with an 'X' in the space provided, how your proxy is to vote on each resolution. If no indication is given the proxy in his/her discretion will vote as he/she thinks fit.

4. If another proxy is perfected, delete the names printed; add the name of the proxy perfected and initial the alteration.

5. In the case of a corporate member the proxy must be completed under its common seal, which should be affixed and attested in the manner prescribed by its Articles of Association. If the Form of Proxy is signed by an attorney, the relative power of attorney should also accompany the completed Form of Proxy, if it has not already been registered with the Company.

6. The completed Form of Proxy should be deposited with the Company Secretary, Sri Lanka Telecom PLC, Telecom Headquarters, Lotus Road, Colombo 1 not less than 48 hours before the time fixed for the holding of the meeting.

NAME OF THE COMPANY

Sri Lanka Telecom PLC

LEGAL FORM

A Public Limited Liability Company Incorporated in Sri Lanka in September 1996 under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987 and quoted on the Colombo Stock Exchange in January 2003.

COMPANY REGISTRATION NUMBER

PQ 7

STOCK EXCHANGE LISTING

The Ordinary Shares of the Company are listed in the Colombo Stock Exchange and the USD 100,000,000 Bonds due in 2009 are listed on the Singapore Stock Exchange.

REGISTERED ADDRESS

Telecom Headquarters
Lotus Road
Colombo 1

BOARD OF DIRECTORS

Mrs. Leisha de Silva Chandrasena - Chairperson
Sumith Wijesinghe
Sidath Fernando
Sandip Das
Chan Chee Beng
Jeffrey Jay Blatt
Yoga Perera

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place
Colombo 2

COMPANY SECRETARY

Mrs. Vasana Perera, Attorney-at-Law

CREDIT RATING

The Company has received AAA (lka) Domestic Rating and BB- foreign currency rating from Fitch Rating Lanka.

Standard & Poor's have rated B+ for foreign currency and BB- for local currency corporate credit ratings.

BANKERS

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

REGIONAL TELECOM OFFICES

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

TELESHOPS

Badulla	Kotte	Slave Island
Bandarawela	Kurunegala	Ratmalana
Beruwala	Liberty Plaza	Wattala
Galle	Maharagama	World Trade Centre
Gampaha	Matale	
Ja-Ela	Maradana	
Kalutara	Matara	
Kegalle	Negombo	
Kiribathgoda	Nuwara Eliya	

SUBSIDIARY COMPANIES

Name of Company	Holding	Principal Activity
Mobitel (Pvt) Limited	100%	Mobile telephony
Sri Lanka Telecom (Services) Limited	100%	Providing total network solutions to corporate and small business customers
SLT Hong Kong Limited (off-shore subsidiary)	100%	Point of Presence - Providing IP transit services
SLT Publications (Pvt) Limited	100%	Directory publication services
SLT VisionCom (Pvt) Limited	100%	IPTV operations
SLT Manpower Solutions (Pvt) Limited	100%	providing workforce solutions
Sky Network (Pvt) Limited	75%	WiMAX operations

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'Metamorphosis'... of a Different Kind!

SLT's Annual Report for 2007 reflected a 'metamorphosis' of achievement, gaining kudos far beyond the borders of Sri Lanka. A dual thematic approach articulated thus, "Give Vistas Wings - Metamorphose into Beauty" carried detailing of the fortunes of 2007 in an innovative manner.

Our on-line Annual Report won Silver at the ARC Awards 2008, an international event of great standing held annually in New York. The Company regards this as a signal acknowledgement and vindication of the direction it has steadfastly followed in reporting in both print and electronic formats.

At the locally conducted Institute of Chartered Accountants of Sri Lanka Awards, SLT's print version of its Annual Report 2007 won Gold in the Telecom category - true vindication at home as well.

Similarly, SLT has been recognised and rewarded for its excellence across many areas of endeavour. The illustration on this page highlights the awards the Company has been bestowed with, for the year 2008.

Among TOP 10 in Business Today TOP 10 rating for the 4th consecutive year

Among TOP 10 in the LMD 50 rating for the 4th consecutive year

People's Award - People's Telecom Service Provider of the Year awarded by SLIM/Neilson

Silver Award Winner of ARC Awards International for the SLT Annual Report 2007 in the category of Online, Telecommunication Sector Asia & Pacific Region

South Asian Federation of Accountants Silver Award for Best Presented Accounts Award 2007

Gold Award Winner in Telecommunication Sector at the Chartered Accountants Annual Report Awards 2008

Winner of the Infrastructure & Utilities Sectorial Award

Winner of the Best Capacity Builder Award under the Best Performance Category

Second Runner-up of the Extra Large Company Category

SLT Broadband Network achieved & maintained the highest international information security ISO standard

SLT Internet Data Centre achieved & maintained the highest international information security ISO standard

AAA (lka)

International Credit Rating Fitch Ratings Lanka confirms "AAA" local credit rating status

B+

International Credit Rating Standard & Poor's 'B+'

Sri Lanka Telecom