



Sri Lanka Telecom

Annual Report 2010



FUTURE READY



FUTURE

A better and brighter future
awaits everyone. It's a future
filled with new experiences.
It's a life filled with new hope.

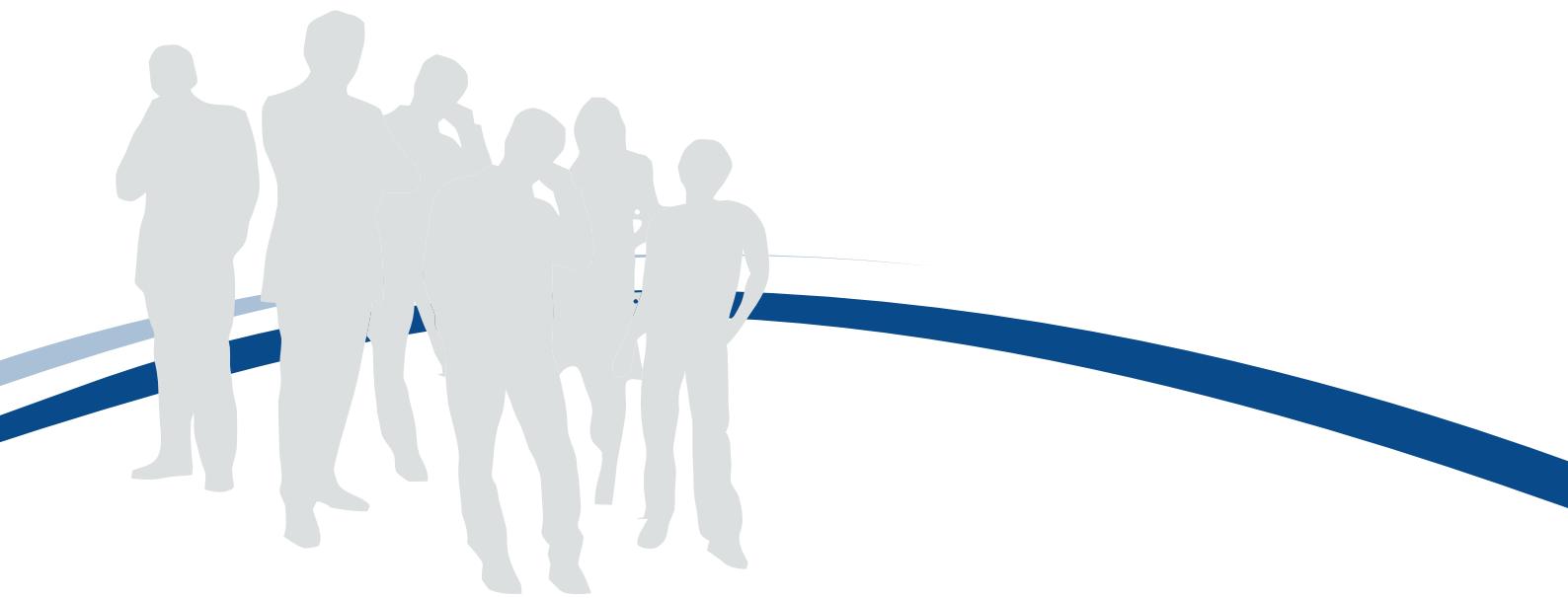
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READY

Sri Lanka Telecom stands committed to empowering and strengthening the people of Sri Lanka as they stride towards their brighter future.



OUR 2010 HIGHLIGHTS

GROUP

	2010	2009
Revenue	Rs. 50.25 Bn	Rs. 48.08 Bn
Profit Before Tax	Rs. 5,961 Mn	Rs. 1,395 Mn
Profit After Tax	Rs. 3,943 Mn	Rs. 778 Mn
Earnings Per Share	Rs. 2.18	Rs. 0.43

COMPANY

	2010	2009
Revenue	Rs. 33.31 Bn	Rs. 34.09 Bn
Profit Before Tax	Rs. 3,969 Mn	Rs. 1,608 Mn
Profit After Tax	Rs. 2,478 Mn	Rs. 1,232 Mn
Earnings Per Share	Rs. 1.37	Rs. 0.68

Group	2010 Rs. Mn	2009 Rs. Mn	%
Results for the Year			
Income	50,250	48,077	4.52
Profit Before Tax	5,961	1,395	327.31
Profit After Tax	3,943	778	406.81
Gross Dividends (2010 proposed)	1,083	451	140.13
At the Year End			
Shareholders' Funds (Capital and Reserves)	49,849	46,311	7.64
Total Assets	87,030	90,220	(3.54)
Information Per Ordinary Share			
Earnings - Rs.	2.18	0.43	406.97
Dividends - Rs. (2010 proposed)	0.60	0.25	140.00
Dividend Yield - % (2010 proposed)	1.22	0.54	125.92
Net Asset Value (Rs.)	27.62	25.66	7.64
Market Value (Rs.)	49.00	46.00	6.52
Ratios			
Return on Average Shareholders' Funds (%)	8.20	1.67	
Dividend Cover - Times (2010 proposed)	3.64	1.73	



SLT REPORT 2010 OVERVIEW

OUR BUSINESS	OUR PERFORMANCE	SUSTAINABILITY	FINANCIALS
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Our Vision

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

Our Mission

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



OUR GOALS & OBJECTIVES

PERFORMANCE AGAINST STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE	ACHIEVEMENT IN THE FINANCIAL YEAR
Customer and Market Centric Enhance customer experience by being more responsive to customer needs, delivering higher quality products and services faster with increased value aligned to market requirements	New Customer Centres/ Front Office Refurbishment, Call Centre Modification, Improvements to maintenance centres, CRM Implementation, New products development, facilities and customized solutions provision via IP technology. Services expanded to Unserved and Underserved areas
Grow and Protect our Traditional Business Grow and protect our market, usage and revenue share of traditional business, increase our revenues and sustain our profitability as the voice market becomes increasingly commoditised and subject to price erosion, reduce churn, improve quality of service and manage cost.	A total of 118,375 new telephone connections made up of 58,328 wired connections and 60,047 CDMA connections. Expanding geographically to unserved areas (North/East). Maintaining the Megaline position as the best medium for the triple play. Emphasizing unmatched quality of wire line telephone. Improving reliability and functionality/services (NGN) Managing the churn. Maintaining the CDMA position as the low cost option for fixed line phone.
Transform and Innovate Transform ourselves by changing the way we work and how we work, driving new innovative products and services across new platforms and a cutting-edge network with processes and organisation focused on delivering customer and shareholder value.	New Vision , Mission and Values, Best practices, governance, prudent risk management, emphasis on ethics, professionalism, transparency, accountability and sincerity of action
Grow our Broadband Coverage Grow our broadband penetration and profitability through widening our infrastructure footprint, to provide Sri Lanka with a digital backbone on which to build new products and services and service national requirements with affordability, quality and availability.	84,686 new ADSL connections and 26,569 new IP-TV connections added to the network. Most of the SLT exchanges made ADSL capable. Introduced new volume based broadband packages. Launched Sri Lanka's first ever WiMax 16e wireless broadband network to further penetrate broadband services.
Grow our Wholesale capability Become the leading wholesale communications partner within Sri Lanka driving new opportunities for profitable growth through the provision of capacity and infrastructure to other communication providers nationally and internationally.	Telecommunication Infrastructure facility and capacity provisioning for other telecom operators, to facilitate their operations in the country.

STRATEGIC OBJECTIVE	ACHIEVEMENT IN THE FINANCIAL YEAR
Grow our ICT capability Grow and develop ICT solutions for our customers, expanding the enterprise solutions marketplace in Sri Lanka and our share of it, building new ICT capabilities and becoming the partner of choice for businesses, corporation and government clients.	Empowered and further strengthened communication networks of schools, universities, distance learning centres, Lanka Government Network, Vocational Development Centres with state-of-the-art technology
Improve our Global Reach Grow and sustain existing international voice and data profitability and seek new sources of revenue through new global IP products and services.	Took steps to further strengthen global presence by partnering with global IP Network service providers like Cable and Wireless company
Develop a Convergence Agenda and deliver Group Synergies Leverage competitive advantage through driving a convergence agenda, gain cost leadership by identifying and delivering network, IT and service convergence, delivering new innovative converged products to our customers, growing new sources of income.	Able to leverage on the synergies among all the subsidiaries and Sri Lanka Telecom, to astutely cost manage and utilise the abundance of technology features within the group
Diversify our portfolio organically and inorganically Diversify our portfolio of products and services and diversify our business through new innovative business models, sustainable partnerships.	Diverse portfolio of Mobile (3.5G), Entertainment (IPTV), Wireless broadband (WiMax), Information services (Rainbow Pages), Network and IT integration solutions, Global wholesale business and manpower solutions.



WHO WE ARE

WE ARE SRI LANKA TELECOM

Sri Lanka Telecom (www.slt.lk) is one of the Sri Lanka's most valuable blue chip companies with an annual turnover in excess of Rs 50 billion. Listed on the Colombo Stock Exchange, the company's market capitalization as at 31 December 2010 topped Rs 88 Billion.

The two main shareholders of Sri Lanka Telecom as at year end were the government of Sri Lanka which held 52% through the Secretary to the Treasury and related institutions, and Global Telecommunication Holdings N.V. of Netherlands, which owned a 44.98% stake. The balance shares are publicly traded.

The SLT Group has a customer base of over five and a half million including multinational corporations, large and small corporate, retail and domestic customers.

The company has been awarded AAA (Ika) rating on National Long Term Rating and BB- rating on Long-term Local Currency by Fitch Ratings followed by a B+ for both long-term Corporate Credit Rating and Long-term Debt Rating with a stable outlook, and one notch above the country rating by Standard & Poor's.

SLT provides facilities and services in the areas of voice, data, video and mobile to its customers. These services, which are unmatched in scope, range from domestic and international voice, advance data transmission services which include internet services on leased lines, broadband and dial up, data circuits, and frame relay solutions to IP services such as IP-VPN based on IP-MPLS technology, total corporate solutions of multiple services, satellite uplink services and mobile telephony, through the fully owned subsidiary Mobitel.

With a view to making Sri Lanka a broadband island, SLT is in the process of introducing the necessary infrastructure in the form of NGN [Next Generation Networks] using optical fibre backbone and broadband services such as IMS, IPTV etc. SLT also provides high speed global connectivity to countries in the South Asian region through its investments in international submarine cables such as SMW3, SMW4, Bharat Lanka submarine cable system [between India and Sri Lanka] and Dhirragu-SLT submarine cable system [between Maldives Islands and Sri Lanka].

Together with its subsidiaries, SLT offers a full gamut of telecommunication solutions. Mobitel, branded Sri Lanka's National Mobile Service Provider, is technologically at the cutting edge and a leader in Sri Lanka's telecommunication industry. SLT Hong Kong Ltd is fully geared to provide services such as IP transit, IPVPN, IPLC and International voice traffic transit services to global telecom operators and corporates in Hong Kong while SLT VisionCom Private Limited redefined the future of tele-viewing in Sri Lanka with the launch of Internet Protocol Television (IPTV). SLT Publications produces the country's premier telephone directory used by the entirety of the industry and accessible worldwide. SLT Services provides project management and consultancy services to Sri Lanka Telecom for its development projects. SLT Manpower Solutions provides the human resource management service to the group by recruiting, training, assessing, outsourcing and providing consultancy.



“Sri Lanka Telecom has a catalytic role to play in the development of the country as a whole. While physical infrastructure is being established, connectivity remains the key to holistic development. It was in line with this that we launched our new corporate vision, mission and values which take us further towards transformation and customer centricity...”

Group
Customer
Base

5.5 Mn

Rated
AAA (lka)

Market
Capitalisation
Rs. 88 Bn



THE SLT GROUP

A QUICK OVERVIEW OF THE SLT GROUP OF HOLDINGS

MOBILE TELEPHONY



MOBITEL PVT LIMITED

Holding 100%

TOTAL NETWORK SOLUTIONS



SLT (SERVICES) LIMITED

Holding 100%

POP FOR TRANSIT SERVICES



SLT Hong Kong

SLT HONG KONG LIMITED

Holding 100%

DIRECTORY PUBLICATIONS



SLT PUBLICATIONS (PVT) LIMITED

Holding 100%

PAY TELEVISION SERVICES



SLT VISIONCOM PVT
LIMITED

Holding 100%

WIMAX OPERATIONS



SKY NETWORK (PVT)
LIMITED

Holding 99.89%

WORKFORCE SOLUTIONS



SLT MANPOWER SOLUTIONS
(PVT) LIMITED

Holding 100%

COMPANY NAME

MOBITEL (PVT) LIMITED

Holding 100%
Principal activity MOBILE TELEPHONY

SLT (SERVICES) LIMITED

Holding 100%
Principal activity TOTAL NETWORK SOLUTIONS

SLT HONG KONG LIMITED

Holding 100%
Principal activity POP FOR TRANSIT SERVICES

SLT PUBLICATIONS (PVT) LIMITED

Holding 100%
Principal activity DIRECTORY PUBLICATIONS

SLT VISIONCOM (PVT) LIMITED

Holding 100%
Principal activity PAY TELEVISION SERVICES

SLTMANPOWER SOLUTIONS (PVT) LIMITED

Holding 100%
Principal activity WORKFORCE SOLUTIONS

SKY NETWORK (PVT) LIMITED

Holding 99.89%
Principal activity WIMAX OPERATIONS

MANAGEMENT REPORTS



FUTURE READY

Committed to empowering the people of Sri Lanka



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CHAIRMAN'S MESSAGE

It is most apt that your company's Annual Report this year is themed 'Future Ready'. Sri Lanka Telecom is an organization that has carved for itself the position of national telecommunications solutions provider, and, given the ambitious plans that have always been in the country's development mandate, ensured that Sri Lanka would be 'Future Ready' when it comes to taking the national agenda forward. The macro telecommunications solution plan which included numerous visionary initiatives and some of the region's firsts, ensured that Sri Lanka is ready to become the ICT hub of this region, having envisaged the needs of the future and implemented them, right here in the present.

I am honoured therefore to present to you the Annual Report and Statement of Accounts of your company for the year ended 2010, a year that saw us aggressively leapfrogging into the future in readiness for the extensive development plans being mooted for the country, in our role as the catalyst upon which all these plans depend.

The Global Economy and Telecommunications Industry

Global economic growth decelerated on a broad front by mid 2010, even though it had shown signs of a fragile recovery at the beginning of the year as a postlude to the global recession. World Gross Product, according to the UN baseline forecast is estimated at 3.6 per cent in 2010, with 2011 envisaged lower at 3.1 per cent. Weaknesses in major developed economies were blamed for the risks they pose towards world economic stability in the coming years, even though unprecedented policy measures infused by various governments did stabilize financial markets and prod a recovery of sorts.

This contrasts greatly with the GDP growth seen in many developing economies and economies in

transition, who contributed more than half the world's expansion during the year. It is believed that 150 large metropolitan areas have spurred the shift in growth from the US and Europe to Asia and Latin America, especially Brazil, India and China, post recession having fully recovered from the global crisis, while the US and Europe continue to struggle out of the mire. With urbanization being one of the more important factors that spearheads the global economy, the metropolitan regions have created a daunting economic dominance. This paradigm shift of demography from rural to urban areas requires bold new solutions including smarter planning and development to tackle future climate change, building better infrastructure, poverty reduction and the creation of a more sustainable world – basically the triad of innovation, infrastructure and human capital. And I strongly believe that the dynamics of this triad will be firmly embedded in the development of the telecommunications industry.

Amid the economic uncertainty that prevailed in the last two years, telecommunication has been a key factor buoying economic growth. Now widely accepted as a facilitator that fuels socioeconomic advancement, the World Bank estimates global telecommunication spending at a mere 2.5 per cent, estimated to grow to 5.9 per cent by 2013, despite being beleaguered by the recession. Worldwide revenues which stand at under US \$1.9 trillion in 2010, are expected to spiral upwards to US \$3.7 trillion in 2015. In this upbeat milieu, the Europe, Middle East and Africa (EMEA) region has displayed the slowest growth rate of 9.1 per cent annually, while the Asia Pacific region notched the highest five year growth percentage overall at 17.8 per cent, positioning it as the largest telecommunication revenue producer. For China and India that showcased higher GDP growth, as well as Japan, South Korea and Taiwan whose economies are reliant on high-tech industries, the pathway to fuelling telecommunication industry growth is specifically appealing.



“Sri Lanka Telecom is an organization that has carved for itself the position of national telecommunications solutions provider, and, given the ambitious plans that have always been in the country’s development mandate, ensured that Sri Lanka would be ‘Future Ready’ when it comes to taking the national agenda forward..”

Nimal Welgama Director/Chairman



CHAIRMAN'S MESSAGE

There's also been a marked increase in the usage of broadband and 3G wireless services, which are the primary features driving revenue. Broadband and wireline revenues are seeing a growth of approximately 6 percent, although narrowband wireline service revenues have remained at a flat 0.6 percent. What we have seen is a global trend of much higher growth in wireless services compared to wireline services. In a worldwide sense, broadband service providers have been adding a fillip to the delivery of high speed broadband, leveraging largely on Internet Protocol packet delivery, signalling an unprecedented take off globally for the IP based applications services market. Just as Sri Lanka Telecom is fuelling the fast tracked development of network architecture and the market for next generation enhanced services, most other burgeoning markets are on a similar track, creating a global environment that will soon be completely connected.

Sri Lanka's Economic Performance and Telecommunications

We are now a Middle Income Emerging Market, which is indeed a feather in the cap of our country that for thirty years struggled to rid itself of the scourge of terrorism. The Government's fast tracked development, which is aligned to the Mahinda Chinthana, the country's development vision, gave Sri Lanka the appropriate push in the right direction to notch a GDP of 8 per cent in 2010. It is significant that Sri Lanka reached a GDP of US \$50 billion in 2010 (which, in 2005 was just US\$24 billion). It is also evidence that the economic woes of the past have been left behind, and that our development initiatives coupled with prudent fiscal policy management were taken note of by the international community as well. Sri Lanka's sovereign ratings were upgraded in 2010 with Standard & Poor (B+) and Moody's (B1) giving Sri Lanka further impetus

with a 'stable' outlook and Fitch Ratings (B+) giving it the 'positive' label.

All key developmental sectors displayed significant growth, clearly reflecting the positivity of the peace dividend. This has also paved the way for a high growth trajectory in the next few years, seen now in inflation at single digits, an appreciating Sri Lankan Rupee, astute fiscal management policies, fast tracked infrastructure development especially in tourism and ICT and concerted efforts to increase productivity and efficiency levels overall. Domestic agricultural production too gained noteworthy concentration from the State. The IMF which continued to present the tranches of its US \$2.6 billion Standby Arrangement, in a review of the country's status, very positively commented that it found little sign of emerging demand-driven inflation and expected average inflation to remain within single digits the whole year through.

Unemployment has been curtailed to 5 per cent, which when compared regionally is firmly above average and remains a good barometer of the country's steady progress. External balances remain strong, while remittance inflows continue unabated, propping a significant sector of the economy, while gross revenues remain at comfortable levels. Per capita income has risen significantly to US \$2,500 with plans well on track to ensure it climbs to US \$ 4,500 by 2015.

And while Sri Lanka continues its development trajectory, the telecommunications industry became the backbone upon which most of the country's development initiatives rested, also making it one of the fastest growing industries in the country. In fact, the industry remains far ahead of its time in some areas, having been the first to implement 3G, 3.5G and HSDPA networks in South Asia. Penetration in 1999 in mobile services was a mere 1 percent and has commendably

grown to over 75%, almost creating an imbalance in mobile versus fixed line. The Government's e-initiative which encompasses the e-Sri Lanka Road Map has aligned national development with telecommunication and therefore IT accessibility. There are considerable thrusts into e-government, e-health and e-schools initiatives, the latter having gained considerable impetus through the Nenasala and Schools-Net programmes.

Sri Lanka Telecom being Future Ready

We are now firmly entrenched as being Future Ready, having rolled out our national backbone based on Multi-Protocol Label Switching technology in readiness for our Next Generation Network Services and Standards. With our 100 per cent owned subsidiary covering our mobile abilities and thus the Sri Lanka Telecom Group possessing over 85% of market share in fixed and mobile broadband areas, in addition to being prudently diversified, we are ready to take on the complex challenges of an economy that has long harboured the vision of becoming an ICT hub.

With the end to the war, it has become more than apparent that Sri Lanka Telecom has a catalytic role to play in the development of the country as a whole. While physical infrastructure is being established, connectivity remains the key to holistic development. It was in line with this that we launched our new corporate vision, mission and values which take us further towards transformation and customer centricity.

Having already instituted our Transformation Programme, which proved successful on numerous

levels, the new vision was thus constructed to reflect the pragmatic focus we have in taking the concept of telecommunication solutions to a higher realm. Embracing the exciting possibilities that new technology initiatives have to offer, our vision is that 'All Sri Lankans are seamlessly connected with world class information, communication and entertainment services', while our mission is that Sri Lanka Telecom is, 'Your trusted and proven partner for innovative and exciting communication experiences, delivered with passion, quality and commitment.'

Together with our values which encompass customer care, trustworthiness, innovation, responsiveness, teamwork, excellence and the drive to achieve superior results, we have already laid the foundation for our pragmatic vision in placing the trusses to transform our traditional network to a Next Generation Network, investing considerably in infrastructure, technology, training and development and other related functions.

We now have a significant collation of 1.4 million fixed lines within our customer portfolio, with over 4.0 million mobile customers added to connectivity. We attained the milestone of reaching 200,000 fixed broadband customers this year, an achievement that was reaped through targeted promotions, quality service delivery and good customer service tenets.

The North and East received considerable enthusiastic input from the Group. We achieved a noteworthy milestone when the Optical Fibre Connectivity Project, which currently has over 8,000 kilometers of optical fibre connecting most of the country, installed the fibre optic cable system along the A9 route, connecting



CHAIRMAN'S MESSAGE

Mannar, Vavuniya, Trincomalee and Jaffna. While establishing new telephone exchanges in Mankulam and Mulaithivu, Sri Lanka Telecom also added 5,890 new connections in fixed voice services and 7,215 ADSL fixed broadband services in these areas in our bid to contribute towards macro economic development while boosting connectivity as the backbone.

Subsidiaries' Performance

One of the greatest successes in our operations this year has been our ability to leverage on the synergies of our subsidiaries and Sri Lanka Telecom, to astutely cost manage and utilise the abundance of technology features we have within our group, in order to institute a highly innovative state of the art plethora of telecommunication solutions. By fostering greater cooperation and collaboration between the subsidiaries, we have also minimised duplication, enhanced resources and created a multi-pronged axis of innovation that will augment our position as the industry leader in all business competencies.

The Group revenue this year stands at Rs 50 billion, a considerable boost to our bottom line, reflective of our prudent cost management initiatives and focus on subsidiary profitability. This Rs 50 billion revenue achievement is also cognizant of the fact that Sri Lanka Telecom is the first Sri Lankan Group of companies to achieve the milestone of Rs 50 billion in turnover. Given the strategic focus we have instituted in all our areas of business and the emphasis we have constantly infused in ensuring that our end objectives and targets are met or exceeded, it is indeed noteworthy that we have posted a profit of Rs 3.9 billion and turned the Company around to be a sustainable, profit making, going concern.

Sky Network unveiled Sri Lanka's first ever WiMax 16e high speed wireless broadband network in November

2010, while Sri Lanka Telecom Mobitel is in the process of expanding its 3.5G network, both of which are two considerable expansion plans being supported by Sri Lanka Telecom in order to ensure that we are indeed 'Future Ready'. Sri Lanka Telecom Mobitel grew its customer profile to 4.0 million this year, while showcasing a growth in Profit before Tax of 2.0 billion, which is an impressive 98% over last year.

Our fully owned subsidiary, SLT Publications has the unique position of being the sole directory publisher in Sri Lanka and has expansively grown its product and service portfolio to numerous avenues of use including a trilingual call centre, an interactive web portal, WAP for mobile phone users and this year, partnered SLT VisionCom to develop the directory through PEOTV services. This year also saw SLT Publications post a profit of Rs 109 million, which is a reduction over last year which notched Rs 111 million. However it still maintains its status as a stand alone profitable entity under the SLT Group umbrella.

Sri Lanka Telecom services, now an independent profit centre, also implemented its largest ever telecommunications infrastructure project, investing US \$220 million to infuse state of the art technology in telephone exchanges and microwave and optical fibre cable transmission networks.

Another significant accolade conferred on one of our subsidiaries was the ISO 9001:2008 quality certification for SLT Manpower Services. This company, which espouses a slightly different model to the other subsidiaries under our umbrella. The company's mandate is to provide the Group with skilled and knowledgeable Human Resource, having deployed a total of over 2,200 personnel within the Group, ensuring optimum performance on the platforms of high productivity and high efficiency. Given the

successes achieved vis a vis our Business Plan goals and performance targets, SLT Manpower Services has excelled in its targets.

Governance and Transformation

Governance has always been a fundamental tenet of the ethos of Sri Lanka Telecom although with the Transformation Programme and the unveiling of our new vision, mission and values this year, saw the whole process of governance take on added momentum. While we have striven to create a conducive environment for sustained and consistent organisational growth, at the same time governance has been a prerequisite in our growth paradigms. Best practices, governance, prudent risk management, emphasis on ethics, professionalism, transparency, accountability and sincerity of action have been continuously emphasized and improved upon to ensure that we not only adhere to the existing laws and regulations, but also strive to work in an environment that's beyond compliance.

Being responsible for the Group's operations in addition to discharging legal responsibilities, mapping strategy development and growing shareholder value, oversight and control and corporate governance is the overarching mandate the Board is tasked with. In addition, the Board also approves the Annual Business Plans and Strategic Plans, capital expenditure and budgets, the overall system of internal controls, governance and compliance as well as larger capital expenditure proposals. This year's impressive capital expenditure that works towards the larger national interest in creating an enabling and empowered ICT

environment for the country is due to the Board's visionary foresight. All our investments therefore are aligned with the long term Strategic Plan. Given that the Board fully comprehends the capital investment in detail, it also details transparency and the use of best practices, implements cross functional viability and involvement and as can be seen with the leveraging of synergies between the Group and the sharing of resources, avoids duplication of investments, which justifies such capex expenditure.

The Board made a strategic directive this year with the appointment of two vital committees to further streamline our future plans. The Technology Sub Committee, comprising members collated from within the Group, reviews the Group's technology strategy and deployment plans, technical operational plans, processes and actual performance, benchmarks key performance indicators across the Group and consolidates common technical requirements to influence development in both standards bodies and common strategic vendors. The Group Network Architecture Committee has the participation of senior members within the Group and is tasked with technically facilitating a high level TSC strategy to approach the market, collating formidable customer offerings and optimising group resources. The mandate of this Committee also includes the proposition of an Optimal Network Architecture based on NGN concepts as a Group by studying existing NGN capabilities, upgrades and subsystems which will form the roadmap for this goal and assisting in the acquisition of new resources that are both future proof and can be imbibed into the proposed architecture.



CHAIRMAN'S MESSAGE

Another key transformation feature in governance and operational capabilities came with the Board appointing the CEO of Sri Lanka Telecom to oversee all the subsidiaries under the Group's umbrella as well. This decision, as you can see, has brought us good results from all our subsidiaries and a well managed prudent management of costs and resources as well, displaying a better governed organization overall.

Social Stewardship

While we have numerous social responsibility initiatives based on the platforms of health, education, preserving culture and heritage, sport development and environmental awareness, being a national entity tasked with the larger responsibility of being a national leader in ICT, I strongly believe that we have a mandate to be magnanimous in our assistance towards national causes. Whenever the country has faced national disasters including the devastating floods in December this year, we led the way in ensuring that flood relief reached the affected populace in a timely and efficient manner. It is here that our team's voluntary stance also came into play, as they individually donated in cash and kind towards our country wide relief efforts.

Our mobile subsidiary Sri Lanka Telecom Mobitel has been the flag-bearer for the national cricket team, supporting the team with a generous sponsorship for the last four years, ensuring that Sri Lanka Cricket etches the country firmly on the map of world class cricket. Going into a World Cup year in 2011, we fervently hope that our backing will be a truss upon which our team will bring the World Cup back to Sri Lanka.

Having observed the young blood that has been infused into the national team, we have been supporting younger cricketers who hold promise in other parts

of the country as well. Given that Sri Lanka's national pastime is cricket, we also believe that team sports make for a united country and instil team work and a sense of togetherness among youth. We now sponsor cricket development for youth in Mahiyangana and Homagama in the hope that these youth will be those who will continue to pump new blood into our national team, while building a strong, well balanced and empowered group of youth that Sri Lanka as a nation can be proud of.

The Future in Perspective

The country is now firmly positioned on a platform of fast tracked development and I believe that Sri Lanka Telecom has to shoulder the responsibility of ensuring that connectivity, which is a key driver in this development initiative, is driven hard and fast into this platform of being future ready. While we have instituted a plethora of initiatives that are future ready, in order to make Sri Lanka the ICT hub it aspires to be, we must continue to develop and build on the foundations we have already constructed.

The national vision is to make every citizen ICT empowered and we have already begun marching on that road of getting IT into the remotest of villages. Through a developed ICT network, essential rights like health and education can be delivered to the people with minimum delay, triggering an empowered, healthy and knowledge-oriented nation. Extracurricular activities and entertainment can be developed to become essential to an emerging lifestyle, while with these improvements, the quality of life will undoubtedly improve. This will move Sri Lanka into a higher bracket in the Middle Income Country Status, while helping us to transform and achieve the ambitious but achievable goals we have set for ourselves as a nation.

In appreciation

My heartfelt and sincere thanks to the Board of Directors who have been extremely supportive in helping me lead the Sri Lanka Telecom Group in a year that signalled massive transformation and visionary change. I would also like to thank the CEO who undertook the added responsibilities he was tasked with and confidently delivered the results we anticipated, together with his dynamic teams including those of the subsidiaries, who all deserve words of appreciation. I take this opportunity to thank the employees who have given their unstinted support. Our customers, who are undoubtedly discerning and demand the best technology from us – thank you for being the force that drives us to overcome obstacles and achieve very challenging goals to ensure that we remain a market leader. Our stakeholders, including shareholders and valued business partners, your committed loyalty in being with us every step of the way, truly deserves our thanks.



CHIEF EXECUTIVE OFFICER'S REVIEW

As I look back on our company performance over 2010, it has been a year that has seen SLT overcome numerous challenges to achieve many goals and objectives, but I also see a company that has historically and consistently planned and delivered innovative and modern telecommunication facilities for our nation, ensuring that we are, and always will be, Future Ready.

Future Ready for Sri Lanka Telecom has many facets, which span from our nationwide network and infrastructure, to the capability and talent of our staff across an organization that is focused on continuously transforming itself to meet not only current but future customer needs and demands. The ICT sector globally continues to undergo rapid and evolutionary change, a change that is also reflected in Sri Lanka as we strive to deliver increased ICT access and literacy through ongoing technology innovation and expansion of access to telecommunication services for all.

We have made great progress this year, which establishes a sound footing for our ongoing growth, it is thus with great pleasure that I present the Review of Operations for your company for the year 2010, which has been enlightening and rewarding in our journey to deliver market leadership and pioneering status in every facet of our business.

2010 in focus

If one reflects back briefly to 2009, Sri Lanka was emerging from a debilitating thirty year war, the local economy was impacted by the global economic recession, our telecommunication sector had its share of major challenges to deal with, which naturally was reflected in the year 2009 financial performance. However, recognizing these challenges, the management team was quick to examine the options and to develop strategies and institute remedial measures in our investment strategy, expense management, financial discipline and product and service delivery. This included strong investment particularly in the North and East to deliver improved and modernized services and leverage the significant growth potential and demand for telecommunications in these areas. At the same time, key

changes in the regulatory environment combined with strong economic growth have brought stability and improving profitability to our industry, delivering confidence that our investment and business strategies are solid and well targeted, supporting an accelerated and growing investment program. Two significant regulatory changes during 2010 were the introduction of a floor price and the introduction of an interconnect regime for domestic voice calls between operators, which have combined to reduce uncertainty and return stability to the sector. Our strong results this year are a clear validation of our transformation plan, our business and investment strategies and our focused delivery against our objectives. They lay a solid foundation for increased investment for our company and the country's future.

Getting 'Future Ready'

Given the industry and competitive dynamics of 2009, it was both important and necessary for Sri Lanka Telecom to re-examine our Vision and Mission and to adjust our strategies, including rapid transformation that will truly align us to the needs and aspirations of our customers and to support the macro vision and goals for the country. Our Transformation Programme which began in 2009 is delivering results; it has guided us in optimising and restructuring our organization, with renewed focus on accountability, governance and delivery of internal efficiencies. Our transformation programme objectives provide a foundation for our Annual Business Plan, with its deliverables integrated and embedded to support business achievement and our objective to transform into a truly customer centric and market driven organization.

The unveiling of our Annual Business Plan 2010 included an updated long range plan aligned with connecting every Sri Lankan citizen to world class communication services. Positioning ourselves as a trusted and proven partner in innovative and exciting communication experiences, delivered with passion, quality and commitment, we also focused on nine strategic business objectives to chart our ongoing journey.



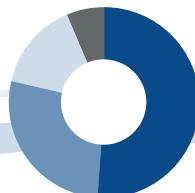
“Future Ready for Sri Lanka Telecom has many facets, which span from our nationwide network and infrastructure, to the capability and talent of our staff across an organization that is focused on continuously transforming itself to meet not only current but future customer needs and demands..”

Greg Young *Chief Executive Officer*

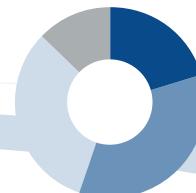
Fixed Telephones
Regional Distribution



Mega LIne Telephone
Regional Distribution



City Link Telephones
Regional Distribution



CHIEF EXECUTIVE OFFICER'S REVIEW

Among these, customer and market centricity, transforming and innovating, growing and defending traditional business, broadband growth, ICT penetration and access, and wholesale took precedence, and as you read through my review and report, you will observe that our business strategies were well in focus as we began our journey in 2010.

Customer Centricity

With over 60 operators providing an array of telecommunication services encompassing domestic and international voice, Internet, data and wholesale, there is intense competition that underpins a trend of customer preference for low cost solutions to meet prevailing economic conditions. Much customer demand is driven by price rather than quality of service, service fulfilment or service assurance. However at Sri Lanka Telecom, we believe in and have a strategy to provide customers with quality, choice, efficiency and most importantly, overall value for money. This continues to drive our strategy to enhance customer experience by being responsive, trustworthy, efficient and reliable; and delivering a quality, innovative and market-focused product portfolio.

Penetration of fixed lines by household stands at around 67%, with fixed wireline (PSTN) and CDMA penetration levels of 17% and 49% respectively, but most importantly, we have seen consistent demand and growth in our fixed wireline customer base driven by strong demand for broadband. After falling during early 2009, Wireline customers have grown to an all time high, reaching almost 900,000, an increase of 2.8% YoY, with ongoing growth forecast for the coming year. Despite this customer growth, call usage of fixed telephones has continued to decline, consistent with the expected trend towards mobile services, but this has resulted in strong growth in mobile calls observed in our Mobitel subsidiary. Business customers continue to show a strong preference for fixed services due to clarity, quality, safety and prestige, while our CDMA customer base and call usage has fallen as a result of customer migration to mobile services. Fixed voice Revenue has reduced YOY predominantly due to the migration of

customers and mobile phone substitution for voice, a trend that's increasing and one that we remain acutely aware of. To combat this trend, we have renewed efforts on customer retention programs and have introduced new pricing plans to deliver enhanced value, particularly for customers who choose double and triple play services. This strategy is reaping dividends as we have experienced enormous demand for broadband, with customer growth of 36.4% YoY, totalling over 213,000 ADSL customers by year end. To this end, one of our key strategies was to increase our investment in the expansion of copper access lines which has made a positive contribution to fixed broadband customer increases; an encouraging sign that our strategy remains sound, positioning us for future growth.

At the same time we continued our network modernization through our Next Generation Network (NGN) imperative, a key strategy aimed at revolutionizing the network to improve quality and reliability while lowering operational costs and delivering higher efficiency. Already almost 20% of our customers are served by this technology, with plans to increase this to over 40% by end 2011.

Financial Performance

As one of the largest capitalized companies in the Colombo Stock Exchange, Sri Lanka Telecom has posted consistently strong results despite the challenges we have faced. Our network expansion and other investments in 2010 resulted in capital investment of Rs 4.9 billion, which is comparable with the average over previous years, however our declining depreciation is a clear indication of our ageing network that calls for increased investment to accelerate modernization combined with expansion to meet the explosive data growth and broadband demand. We remain committed to ensuring that connectivity becomes the right of all citizens of Sri Lanka and therefore have aligned our modernization plans to that ultimate goal.

The complete details of the financial performance of the Company and the Group are presented in the Financial Review

later in this Annual Report. However, I will give you a synopsis of the year that was.

SLT Group achieved revenue of Rs.50.25 billion which is a 4.5% growth YoY while delivering a Profit before Tax (PBT) of Rs 5.96 Bn, with a YoY noteworthy growth of 327%.

Group achieved a Profit after Tax (PAT) of Rs 3.94 Bn, a remarkable increase of 407%. The impressive financial results were mainly driven by the improved performance delivered by SLT, the parent Company of the Group and exceptional performance by Mobitel, the Mobile arm of the SLT group.

The company saw an impressive 147% growth of Rs. 3.97 Bn in PBT achieved by SLT in 2010 is primarily due to the infusion of prudent operational efficiencies and through restructuring. The Company experienced a marginal drop in revenue to Rs. 33.31 Bn in 2010 from Rs. 34.09 Bn in 2009, mainly due to price pressures and alternative solutions available in the market.

However, SLT was able to improve its PAT margin from 4% in 2009 to 7% in 2010, while maintaining an EBITDA margin of 30%. During 2010, overall financial performance has improved significantly with solid bottom line growth in Profit After Tax which stood at Rs 2.48 Bn, an impressive 101% increase when compared to Rs. 1.23 Bn in the prior year.

Even though there was a drop of 4.8% in revenue in the first two quarters of the year, a trend that continued from 2009, However, the last two quarters have seen a consistent increase in revenue, confirming that the strategies and plans we have instituted into the workings of the company are yielding positive results. Overall for the year, revenues declined by only 2.3 % as a result of the improving revenue trend in the second half, indicative of the future trend as

we transform ourselves and meet increasing demands for telecommunication services.

Having scaled down our short term investment in infrastructure capacity in 2009, which was reduced in line with the stability and profitability levels prevalent in the industry, we have commenced a ramp up in capital expenditure during 2010, consistent with our improving financial performance. This trend will continue into 2011. Capex expenditure in 2010 stood at Rs 4.87 billion, with a significant increase projected for 2011. The groundwork set during 2010 for investment will deliver a substantial increase in the coverage and performance of our network, particularly in broadband, in addition to numerous other infrastructure investment initiatives that will improve the quality, service and speed of the network. There is also the dimension of modernization of our existing network capability which is fully integrated with our broadband expansion plan.

However, it must be underscored that our fiscal management remains astute in managing capital investment and operational expenditure, ensuring that both areas are well balanced and that the fundamentals always remain in focus. In earlier years, we grappled with the continued increase in operating costs and have implemented improved financial discipline, cost controls, elimination of wastage and improved efficiencies to bring about fiscally prudent behaviour that has helped bring operational expenditure under control as evidenced by a reduction of 2.3 % YoY. This year, operational costs are posted at Rs. 23.31 Bn, compared to Rs. 23.87 Bn last year, despite a VRS cost in the first half of Rs. 189 Mn. Fuel and energy costs continue to be significant components of expenditure, while repairs and maintenance to our existing albeit aging network adds to our bottom line. The modernization plan currently underway will progressively



CHIEF EXECUTIVE OFFICER'S REVIEW

deliver benefits to our bottom line, both in a qualitative and quantitative sense.

With careful cost management throughout the year and an improving revenue trend in the second half, we have delivered an EBITDA of Rs. 9.99 Bn in 2010 with a corresponding EBITDA margin increase to 30.0% in 2010 from 29.9 % in 2009.

The North and East Journey

One of the stark realizations confronting the industry at the end of the conflict in 2009 was the poor connectivity and outdated network capability that plagued the embattled zones. It was imperative therefore that we moved speedily to restore connectivity in those areas, which naturally would have a cascading advantage in economic development. Modernizing the network therefore became a priority and we worked on this initiative tirelessly, investing and expanding the capability of our network.

In 2010, Sri Lanka Telecom installed 04 new telephone exchanges and 14,000 fixed wireline loops, providing the necessary foundation for extending fixed voice services and delivering ADSL fixed broadband services to customers in the North and East. This was assisted by the completion of the fibre optic transmission project along the A9 route, yet another milestone in our nationwide optical fibre network. The fibre optic network now connects Mannar, Vavuniya, Trincomalee and Jaffna to the rest of the country and boosts the capabilities of our fixed network in addition to providing connectivity for Mobitel and other network operators in the Northern Peninsula. With significantly low levels of penetration in these areas, we are now seeing unprecedented demand from business and the community at large, a demand which we met with speed and dedication to contribute to business growth and customer needs.

It is also part of the Company's ongoing investment strategy, to build networks that will fuel economic growth, create new business opportunities, develop existing businesses and create new employment avenues, while bringing state of the art telecommunications to all communities across the country.

Infrastructure modernization

Our Next Generation Network is a significant modernization programme that brings together our access networks onto a single core platform, enabling us to provide fixed voice as well as fixed broadband and data services from a common platform. This will reduce and eventually over time eliminate historic legacy platforms with a consequent reduction in the cost of maintaining those multiple and ageing platforms. While being extremely efficient in terms of speed and delivery of services, NGN also brings increased reliability and performance combined with additional capabilities; all adding up to a Future Ready network and a total focus on customer service. To serve broadband customer demand, we have doubled network availability this year, while increasing network capacity domestically and internationally in line with the explosive growth and demands we've observed from both existing customers who are consuming larger volumes of data and require faster access, as well as new customers who seek exemplary broadband services that feed their present and future needs. We passed the milestone of 200,000 broadband customers during 2010, and have continued to introduce new broadband pricing plans and enhanced value into existing plans, to address all customer segments and recognize the growing demands for increased speed and larger data volumes.

Along with the North and East, our focus and plans have delivered broadband access to hundreds of new locations across the country, ensuring that more customers in more parts of the island can avail themselves of high speed broadband.

Our national Optical Fibre backbone and access network now stands at over 8000 km after further expansions this year and will grow by a further 4000+ km in 2011 with plans made during 2010. The network now covers all parts of the Island and provides a future ready network to deliver high speed connectivity solutions for not only SLT, but all operators.

This network serves as the backbone of connectivity for our NGN, broadband and data networks and its expansion will underpin our i-Sri Lanka project.

i-Sri Lanka Project

The i-Sri Lanka project launched at the end of 2010 will enhance and upgrade our existing fixed network lines that connect our customers; it will expand the fibre network closer to our customers through fibre to the node, thereby reducing the length of the copper connections with a resultant significant increase in reliability, quality and broadband data speeds. Reducing the copper cable lengths not only improves reliability, but will reduce maintenance and replacement costs. Through this program we plan to enhance the network bringing high speed broadband connectivity at greater than 20Mbps speed for almost all our fixed customers over a 3 year period. This program is fully integrated with our NGN modernization and broadband access targets for 2011 and forms a significant part of our increased capital expenditure in 2011 and following years. In addition, this expansion will bring our PeoTV IP based multi channel TV network to all our fixed customers for the first time.

In addition, we continue to selectively expand the reach of our fixed line network, particularly to new areas in the North and East and around the edges of the existing network, bringing even more customers inside the reach of SLT high speed broadband and PeoTV service.

We successfully completed a number of significant upgrades to our ISP and Internet platforms this year including an increase of 8.3 Gbps capacity of the international backbone that connects Sri Lankan customers with the Internet.

Group Synergy

As part of our group synergy program to leverage capabilities and assets across our group subsidiary companies, we have targeted expansion of our fibre network to meet the growing demands of Mobitel and Sky Networks wireless broadband. We continue to identify opportunities to share infrastructure, network connectivity and operational resources between our subsidiaries including joint planning of network and technology architecture, all to deliver efficiencies and a future ready capability. This will support ongoing rapid expansion of the Sri Lanka Telecom Mobitel 3.5G network and Sri Lanka's first ever WiMax 16e high speed wireless broadband launched by Sky Networks, just two examples of the significant expansion and investment plans instituted across the group to support the national objectives for the entire country to have access to state of the art ICT services.

Wholesale

In addition to providing backbone capability and connectivity for SLT and our group subsidiaries, our network and infrastructure support the growth in our wholesale business, which is vital in our overall business strategy and will also be a crucial springboard for the telecommunication industry of Sri Lanka. During 2010 our revenues from wholesale have continued to increase in line with our plan to become the leading wholesale communications partner in Sri Lanka, driving new opportunities for profitable growth and supporting the connectivity requirements of all operators.

The initiatives detailed above, undoubtedly demonstrate Sri Lanka Telecom's Future Ready position, aligning us with our vision of seamlessly connecting all Sri Lankans to world-class information, communication and entertainment services.



CHIEF EXECUTIVE OFFICER'S REVIEW

Marketing for growth

We have delivered sustained growth in our customer segments especially in fixed wireline fuelled by targeted marketing campaigns built on the platforms of double play and triple play. Given the past trend of fixed line growth being somewhat flat due to mobile market popularity, it is encouraging to see the benefits from our strategy and marketing focus delivering an upward trend in fixed line customers, driven by our marketing efforts and innovative pricing plans for broadband double play & PeoTV triple play services. We observe that more than 70% of our new connections are driven by broadband subscription and increasingly in the future triple play PeoTV service adoption.

During 2010 we introduced innovative and targeted new pricing plans across all our services including fixed voice, broadband and PeoTV, with targeted campaigns such as our 'SLT Broadband Twenty20' campaign delivering our 200,000 broadband customers.

Besides these customer centric initiatives, for the convenience of our customers we have also increased the number of locations accessible for bill payments, by adding an extensive network of supermarkets and consumer outlets which, combined with our own SLT Teleshops and the extensive banking network now total more than 3500 locations for bill payments.

Transformation and Governance

At the heart of our Transformation Programme launched in 2009, the initiatives that will create a sustainable organization and future capability based around our stated goals of becoming a customer centric and market driven organization were unleashed across a range of projects. Having implemented the plans that were charted throughout both 2009 and 2010, we now see the fruition of these ambitious yet achievable plans. The governance process surrounding capital investment, procurement and larger operational expenditure has delivered the required tangible quantitative results, while the restructuring process has helped us to focus on accountability and to target

and focus our resources into areas aligned with our key strategies and business targets. We've emphasized greatly on managing costs astutely and controlling and monitoring expenditure, a culture and business process that will stand us well in the future as we embark on an aggressive capital expansion program. We have implemented improved project and program management disciplines to help guide us in the efficient delivery of large projects, and to ensure delivery of expected benefits and capability in a timely manner.

Consistent with improving accountability and structuring ourselves to better serve our customers, the organisational structure was updated and optimised during the year to align with the current market environment, emerging trends, changing technology and customer needs with accountability and transparency constituting the core of our decision-making process. This change in organisational structure has also led to a more contented workforce, with better work-life balance and an ability to meet their individual career aspirations. Training and development took on added vigour to prepare our team to optimise their performance levels and be equipped with the required knowledge and competencies to excel in a 'Future Ready' environment.

While our trade unions have been supportive of our revolutionary plans for change and our transformation program, they have also been cooperative in our VRS strategy, which takes into account our aging workforce and the opportunity for staff to choose an early retirement. This year's VRS saw a total of 103 employees opt for the scheme, for which an expense of Rs 189 mn was recorded during 2010.

Our desire to develop a winning team was further enhanced with an additional focus on Occupational Health & Safety wherein we established a dedicated health and safety division during the year. Operating across all facets of our organisational structure, encompassing not only our immediate team but also our subcontracted staff, we are improving the health and safety of not only our staff but also the general public and our customers with whom we

interact across a myriad areas on a daily basis. Our welfare group continues to actively promote and support our staff development through sports, through a number of companywide tournaments and sporting challenges including football, cricket and netball, to name but a few.

Stewardship in social responsibility

We have always espoused the ethos of connecting life and work as the foundation to sustainability, where stakeholders in every sphere will see their quality of work and life enhanced from the positive impact we have on them. Our social responsibility platforms are founded on education, health, professional development and preservation of culture, heritage and nature. A detailed account of our social responsibility initiatives are published in the Sustainability Report.

A technological revolution awaits

Sri Lanka Telecom is in the enviable position of being the National Telecommunications Solutions Provider, a responsibility we take very seriously. We also recognize that access to world class ICT is a right of all Sri Lankans and must be efficiently and effectively delivered to derive maximum social, business and economic benefits for the country. It is with this at the forefront of our long range and strategic planning, that we are constantly evolving our company across multiple platforms of technology, service delivery, marketing and innovative new products. This is the foundation for our plan to be ‘Future Ready’ as we prepare our infrastructure, services, products and overarching technology for the trends of the future.

We have a national responsibility in driving forward the country’s vision of becoming an ICT hub and the economic hub for the South Asian region. Due to our leadership position

in broadband, and with domestic backbone and international voice and data network connectivity unparalleled in Sri Lanka, we have the capability and presence to serve not only our retail end users, but also our wholesale partners as we support them in the expansion of their networks that creates a sustainable and competitive telecommunications industry in Sri Lanka. We are very aligned with the Government’s objectives of ensuring that ICT is accessible to all and through our short and longer term plans will deliver against these objectives.

We are now poised on the threshold of a broadband telecommunication revolution, and through our capital investment program in 2011 will build upon the expansive existing network presence to construct the foundation that will serve telecommunications in Sri Lanka for the next decade. The integration of our NGN, fibre backbone and access network, optimization of our extensive copper network and the aggressive plan for super fast broadband speeds under our i-Sri Lanka project, combine seamlessly to deliver a world class and Future Ready capability.

Appreciations

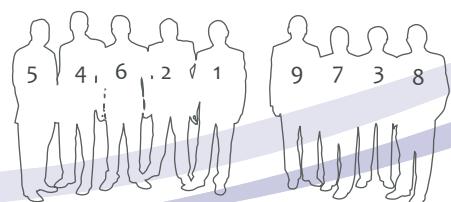
My sincere appreciation to the Chairman and Board of Directors for the confidence placed in me to lead this extraordinary organization that not only has an important legacy in the history of this country but is one that proved its mettle in maintaining its corporate leadership status and remains Future Ready. A warm thank you also to my management team and to all staff for your determination and motivation to ensure the growth of SLT and your passionate commitment to our transformation and delivering quality service to our customers



BOARD OF DIRECTORS



1. Mr. Nimal Welgama Director / Chairman 2. Mr. Sandip Das Director 3. Mr. Chan Chee Beng Director 4. Mr. Jeffrey Jay Blatt Director .
5. Mr. Jayantha Dharmadasa Director 6. Mr. Shameendra Rajapaksa Director 7. Mr. Kalinga Indatissa Director .
8. Mr. Lawrence Paratz Director 9. Mr. Dayananda Widanagamachchi Director .



FUTURE READY



See next page for Directors' profiles >>



BOARD OF DIRECTORS PROFILES

Mr. Nimal Welgama

Director / Chairman

Mr. Nimal Welgama joined the Board of Sri Lanka Telecom PLC on 20th May 2010 and was appointed Chairman of the Board. He is also a Director/Chairman of Mobitel (Pvt) Ltd., SLT Publications (Pvt) Ltd., SLT Visioncom (Pvt) Ltd., SLT Manpower Solutions (Pvt) Ltd., SLT Hong Kong Ltd and Sky Network (Pvt) Ltd. and a director of Sri Lanka Telecom (Services) Ltd., Mr. Welgama is the CEO of the Upali Group of Companies and also serves as a member of the Monetary Board of the Central Bank of Sri Lanka.

Mr. Sandip Das

Director

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

In addition, he serves as a Director on the Board of Directors of Aircel Limited and as a Commissioner on the Board of Commissioners of PT Natrindo Telepon Seluler (“NTC”) in Indonesia. Internationally, he is a Board member of Bridge Mobile Pte Ltd, a strategic alliance of 11 regional telecommunications providers.

Prior to joining MCB in January 2007, he was deputy Managing Director and a Director of the Board of Hutchison Essar limited (now known as Vodafone Essar Limited, India), one of India’s largest mobile operators. He joined Hutchison Essar, then known as Hutchison Max Telecom, and started the company’s operations in India in 1994.

He has 32 years of work experience in the consumer durable, automobile and the telecommunications industries. Prior to working at Hutchison Essar Limited, he spent 5 years with Al Futtaim Motors, the Toyota franchise of the Al Futtaim Group in Dubai, UAE and 10 years with the Indian consumer durable giant Usha International, Shriram Group.

He holds a Master of Business Administration degree from the Faculty of Management Studies, University of Delhi in India and a Bachelor’s degree in Mechanical Engineering from the Regional Engineering College (now known as National Institute of Technology), Rourkela in India.

Mr. Chan Chee Beng

Director

Mr. Chan Chee Beng was appointed to the Board of Directors on the 05th June 2008 and subsequently to the Board of Mobitel (Pvt) Ltd. Mr. Chan, aged 55, is a Malaysian National.

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

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

Mr. Chan holds a degree in Economics and Accounting from UK and is a fellow of the Institute of Chartered Accountants of England and Wales.

Mr. Jeffrey Jay Blatt

Director

Mr. Jeffrey Jay Blatt was appointed to the Board on 05th June 2008. He currently serves as Special Counsel to Astro All Asia Networks PLC, and Usaha Tegas Sdn. Bhd., in Malaysia, and is a Counsel at the law firm of Tilleke & Gibbins in Bangkok, Thailand, leading its Telecom, Media and Communications practice. He is

responsible for handling complex negotiations as part of multinational and multiethnic teams in a variety of international settings in the telecom, broadcasting, satellite and technology sectors.

Prior to his current positions, 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"). At Astro All Asia Networks, he was one of three members of the Executive Committee, reporting to the Board of Directors that provided strategic guidance and operational management to launch and build the Malaysian "Astro" digital satellite pay television business. At the UT Group, he handled complex transactions across the Group's varied business interests in the satellite, telecom, broadcasting, multimedia, power and energy sectors.

Before moving to Malaysia in 1997, his career from 1984 in the United States covered stints as a partner in the nationally recognized law firms of Irell & Manella LLP, and Blakely, Sokoloff, Taylor and Zafman, both in Los Angeles, California, and represented a wide spectrum of technology companies including Apple Computer, Sun Microsystems, Intel, Broadcom, Oracle, Western Digital and Sony Electronics. He also represented Sony Pictures Entertainment, Light Storm Entertainment and other entertainment companies in multimedia and special effects matters.

Mr. Blatt attended the Lewis and Clark Law School, Oregon, USA where he graduated with a Juris Doctor (J.D.) degree, cum laude. He holds a Bachelor of Science (B.S.) degree in Engineering from the University of California, Los Angeles (UCLA) School of Engineering and Applied Science, and a Master of Science (M.S.) degree from Tiffin University, Ohio. He is a member of the California and United States Federal Bars, and is a registered United States Patent Attorney.

Mr. Dayananda Widanagamachchi

Director

Mr. D. Widanagamachi was appointed to the Board on 5th July 2010, and is a senior public servant with over thirty years experience at various public institutions. He currently holds the position of Deputy Secretary to the Treasury at the Ministry of Finance and Planning.

He has served on the Boards of several public enterprises, Airports Aviation Services (Sri Lanka) Ltd. BCC (Lanka) Ltd, Sri Lanka Transport Medical Institute, National Water Supply and Drainage Board, CWE and Lak Sathosa Ltd, to name a few.

Mr. Widanagamachchi possesses a Bachelor of Science Degree in Business Administration from the University of Sri Jayawardhanapura. He has also obtained Postgraduate Diplomas in Public Administration from the Postgraduate Institute of Management, Colombo and Public Financial Management from the Sri Lanka Institute of Development Administration. He has undergone extensive training at overseas and local Institutes.

Mr. Shameendra Rajapaksa

Director

Mr. Shameendra Rajapaksa was appointed to the Board of Sri Lankan Telecom PLC as an Independent Non-executive Director with effect from 26th May 2010.

Mr Rajapaksa presently serves as a Director of Sri Lankan Airlines Limited and is the Private Secretary to the Minister of Finance and Planning. Mr. Rajapaksa has previously served as a Director of the Sri Lanka Ports Authority, an observer on the Board of Mihin Lanka (Private) Limited and as the Private Secretary to the Minister of Ports and Aviation.

His professional experience includes serving as Head of Engineering Service /Senior System Analyst at S2



BOARD OF DIRECTORS PROFILES

Technologies, Inc., a private, venture-funded company founded in 2000, which pursues the underserved market for developer-oriented solutions for integrating and verifying complex embedded software systems. He was a founding member and Director of Development of Leads to Wealth, Inc - A Start-up Company. He has also worked as Software Engineer at Sun Microsystems, Inc and as Software Team Leader at NASS ISS Earthkam, a NASA sponsored programme that provides high quality photography of Planet Earth taken from the space shuttles and International Space Station (ISS). His experience includes teaching Fundamentals of Electrical Engineering at the University of California.

He holds a B.Sc in Computer Engineering obtained from the University of California, San Diego (UCSD), and is a member of the Institute of Electrical and Electronics Engineers (IEEE). He is also an Inducted Member of Phi Theta Kappa, an International Honour Society.

Mr. Jayantha Dharmadasa **Director**

Mr. Jayantha Dharmadasa was appointed to the Board of Sri Lanka Telecom PLC as an Independent Non-Executive Director with effect from 26th May 2010.

A key business leader in Sri Lanka, Mr Dharmadasa has over 34 years experience in Executive Business Management and 24 years in Healthcare Industry.

Having completed his secondary education at St. Thomas College, he joined the family owned business conglomerate Nawaloka Group of Companies which was founded in 1942.

He currently serves as the Deputy Chairman and Chief Executive Officer of Nawaloka Hospitals PLC and Chairman of the Board of Nawaloka Holdings (Pvt) Ltd, Nawaloka Construction Company (Pvt) Ltd, Nawaloka Polysacks Ltd (Sharjah U.A.E), Nawaloka Plassacks (Pvt) Ltd, Nawaloka Trading (Pvt) Ltd, Nawaloka Aviation (Pvt) Ltd, Nawaloka Machinery Leasing, Nawaloka

Motors (Pvt) Ltd, New Nawaloka Medical Centre (Pvt) Ltd, Nawaloka Professional Training Academy (Pvt) Ltd, Nawakrama (Pvt) Ltd, New Ashford International (Pvt) Ltd, Concord Ventures Export Lanka Ltd, and Sasiri Polysacks (Pvt) Ltd. His experience includes serving as Chairman of the National Film Corporation from 2002 to 2003 and from 2008 to date, and as Chairman of Sri Lanka Cricket during the period of 2005 to 2007 and president Asian Cricket Council 2006 to 2007. He also serves on the Board of the Galadari Hotel (Lanka) PLC and Nawaloka Metropolis Clinical Laboratories (Pvt) Ltd. Mumbai – India.

Mr. Dharmadasa is a fellow Member of the Institute of Certified Professional Managers (FCPM).

Mr. Kalinga Indatissa **Director**

Mr. Kalinga Indatissa joined the Board of Sri Lanka Telecom PLC on 26th May 2010 as an Independent Non-executive Director. Mr. Indatissa is an attorney-at law of the Supreme Court of Sri Lanka and counts 24 years of practice at the Bar, initially as a Public Prosecutor attached to the Chambers of the Attorney General of Sri Lanka and subsequently as a member of the Private Bar since 1991.

Mr. Indatissa currently serves as the head of a legal Firm consisting of 20-25 lawyers. He is also a member of the Interim Committee of the Sri Lankan Cricket Board and a Director of the Sri Lanka Foundation Institute. In addition, he is a Director of the Employees Trust Fund Board, a Lecturer at Sri Lanka Law College and is a visiting lecturer of the Sri Lanka Hotel School and the Sri Lanka Police Higher Training Institute.

He has previously been an Examiner, Lecturer and Tutor at the Sri Lanka Law College in subjects such as Civil Procedure, Law of Evidence and Criminal Law. Among his many publications are Law relating of Revision Application; A Commentary on the National Authority on Tobacco and Alcohol Act No. 27 of 2006;

Drafting in Civil Actions- Volume 1; A commentary on the Computer crime Act No. 54 of 2007; Law relating to Bail in Sri Lanka with a commentary on the Bail Act-2nd edition; Law relating to Civil Procedure in Sri Lanka – Volume 2; Law relating to Civil Procedure in Sri Lanka – Volume 3; Criminal Liability under The Companies Act No 7 of 2007 and Law Relating to Computer Crimes and A commentary on the Computer Crimes Act No. 24 of 2004.

Mr Indatissa passed out with First Class Honours from the Sri Lanka Law College in 1985, having been placed first in his batch in order of Merit. He also participated in a six month course of study in 1994, for Commonwealth Youth Lawyers at the Institute of Advanced Legal Studies of the University of London, UK.

Mr. Lawrence Paratz
Director

Mr. Lawrence Paratz was appointed to the board of Sri Lanka Telecom PLC as an Independent Non-Executive Director with effect from 26th May 2010.

Mr. Paratz has more than 30 years experience in all facets of the telecommunication industries including mobile, fixed, broadband, satellite and international networks. This includes capital and infrastructure development, operations, sales, customer service and regulatory issues. He is a Director of Maxis Communication Berhad, Chairman of the Technology Committee of the Board and a former senior executive of Telstra Corporation.

Mr. Paratz has had executive responsibility for multi-billion dollar programs and integrations including network transformations and deployments across multiple technologies, with extensive experience in regional and rural communications. As a Director and Chief Executive of Acacia Australia Pty Ltd, he was

responsible for the development of an integrated proposal for delivery of national broadband communication for Australia. He previously served as a member of the Board of the Australian Government's Internet Assistance Program. He has been an invited speaker at the Australian Health Informatics Conference, and the Australian Academy of Technology, Science and Engineering. He was also formerly the Chairman of the On-trac@Peter Mac Adolescent and Young Adult Cancer Programme, and has been involved in a number of initiatives in e-health.

Mr. Paratz holds an M.Sc. (Telecommunication Systems) with Distinction, and was awarded the Philips prize from Essex University, and an M.Eng.Sc. from the University of Queensland. He is a Fellow of Engineers Australia (FIEAust) and an alumnus of the Stanford University Executive Development Program. He also holds Bachelor's Degrees in Science and Engineering (Honours).



SENIOR MANAGEMENT



Greg Young
Chief Executive Officer, Sri Lanka Telecom



Priyantha Perera
Chief Administration Officer



S. K. Lal Ranjith
Chief Corporate Officer



Shiron Gooneratne
Chief Financial Officer



D. W. R. Wijeweera
Chief Information Officer



P Roshan Kaluarachchi
Chief Marketing Officer



M. B. P. Fernandez
Chief Network Officer



Chinthaka Wijesuriya
Chief Regional Officer



Mohan Padmaperuma
Chief Transformation and Development Officer

Committed to empowering the people of Sri Lanka

Greg Young

Chief Executive Officer, Sri Lanka Telecom

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

Priyantha Perera

Chief Administration Officer

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

S. K. Lal Ranjith

Chief Corporate Officer

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

Shiron Gooneratne

Chief Financial Officer

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

D. W. R. Wijeweera

Chief Information Officer

Joined SLT in 1982 and served as Head of the Billing Division in 2001 and became CIO of SLT in 2005. He is a member of The Institution of

Engineers, Sri Lanka (C.Eng.), IIESL, IET (UK) and CSSL. He has been engaged in major IT projects to provide the strategic IT road map for SLT. As Programme Manager he implemented the Integrated OSS and BSS system.

P Roshan Kaluarachchi

Chief Marketing Officer

Joined SLT in 2010. He is a Chartered Marketer with over 17 years of experience in the entire spectrum of marketing, communication and branding services, with exposure to the FMCG, consumer durables and telecom services sectors in Sri Lanka. Prior to joining SLT, he served as General Manager - Marketing at Mobitel where his aggressive strategic marketing leadership contributed towards the company becoming the second largest mobile operator within a short span of 3 years.

M. B. P. Fernandez

Chief Network Officer

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

Chinthaka C.Wijesuriya

Chief Regional Officer

Joined SLTD in 1984 and served as Regional Head in 2001 and became Chief Regional Officer of SLT in 2010. He obtained the Graduate membership of Radio and Electronic Engineers (London, UK) and became a Chartered Engineer of the Institution of Electrical Engineers (London, UK). He is a Member of the Association of Professional Engineers Scientists and Managers Associations in Australia and holds an MBA (Technical Management) from La Trobe University of Australia. He has wide experience in the telecommunications industry, in areas such as operations, maintenance, sales, marketing, customer service, quality management and project management.

Mohan Padmaperuma

Chief Transformation and Development Officer

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



SUBSIDIARY CEOs



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



Prasanna Perera
Chief Executive Officer, Sri Lanka Telecom Services



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



Malraj Balapitiya
Chief Executive Officer, SLT Publications (Pvt.) Ltd.



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



Ranjith Ganganath Rubasinghe
Chief Executive Officer, SLT Manpower Solutions (Pvt) Ltd.



Mahinda B. Herath
Chief Executive Officer, Sky Network Private Limited.

Suren J. Amarasekera

Chief Executive Officer, Mobitel (Pvt) Limited

Mr Amarasekera was appointed Chief Executive Officer of Mobitel in June 2005. He counts over 19 years experience in telecoms and prior to his present role, had acquired over 13 years experience working for SingTel with the initial half in Sri Lanka and the latter half at its head office in Singapore.

He also serves as Council Member of Sri Lanka Institute of Directors; Member of General Committee of Colombo Club; Vice Chair of Board of Overseas School of Colombo and Council Member of the Royal College Union. He has previously served as a Council Member of the University of Colombo (2007-2008) and also served as a Member of the Board of Governors of the Arthur C Clarke Institution for Modern Technologies (2009 – 2010).

Mr Amarasekera received his MBA from the University of Chicago and possesses his Bachelor's and Master's degrees in Computer Systems Engineering from Syracuse University.

Prasanna Perera

Chief Executive Officer, Sri Lanka Telecom Services

Mr. Prasanna Perera joined Sri Lanka Telecom Services in 2003 as Head of Marketing and was appointed CEO of the company subsequently. He is a qualified marketer and has a Master of Business Management from University of Lincoln, UK.

Prior to moving to Sri Lanka Telecom Services, he served in several senior managerial positions at the Metropolitan Group, EDS Lanka and Lanka Communication Services. During his career spanning 22 years, Prasanna worked in the ICT industry with his exposure ranging from software development to communication companies.

Tilak R. de Silva

Chief Executive Officer, SLT Hong Kong Limited

Mr. Tilak R. de Silva joined SLT in 1984 and has more than 26 years of experience in the IT and communication fields. He has held the key positions of Head of IT, Chief Global Officer and Chief Network Officer at SLT. Mr. De Silva holds the Degree of Bachelor of Science of Engineering (Specializing in Electronics & Telecommunications Engineering) from University of Moratuwa and the Degree of Master of Science in Data Communication from Brunel University U.K. He is a Chartered Engineer of Sri Lanka as well as U.K and a Chartered IT Professional of U.K. In addition, he serves as a Vice President of IESL and is a member of many other professional bodies..

Malraj Balapitiya

Chief Executive Officer, SLT Publications (Pvt.) Ltd

Mr. Malraj Balapitiya is a professionally qualified Chartered Engineer and a Fellow Member of the Institute of Engineers of Sri Lanka. He counts over 27 years of work experience at various levels of the SLT Administration and has swiftly climbed the corporate ladder, starting as a Technical Officer and then holding positions such as Regional Telecom Engineer, Head of the Province and General Manager.

He has been able to transform the locally established Rainbow Pages to create a reputed brand that competes with international brands in the same category. Keeping national commitments in mind, he has established a common platform to extend directory services to customers of other operators via various media such as CD, Web, WAP e Directory etc.

Thusha Weerasooriya

Chief Executive Officer, SLT VisionCom (Pvt) Ltd.

Mr. Thusha Weerasooriya holds a Bachelor's Degree (Honors) in Electronic Engineering from the Royal Melbourne Institute of Technology and a Master's Degree in Electronics, majoring in Telecommunications from the Victoria University, Australia. He is also a Chartered Engineer of the Institute of Electrical Engineers (UK). Prior to SLT Visioncom, Mr Weerasooriya worked for Philips Telecommunications Australia, Motorola Australia/Asia Pacific and Cisco Systems.

Ranjith Ganganath Rubasinghe

Chief Executive Officer, SLT Manpower Solutions (Pvt) Ltd.

Joined SLT as an Engineer in 2001. He holds a BSc Engineering in Electrical and Electronics, a Postgraduate Diploma in Engineering and an MBA. He is a Chartered Engineer, Representative Fellow of the Council and Chairman of the Young Members' Section of IESL. He was among the key members that headed the transformation of SLT's Directory Services under the new brand 'SLT Rainbow pages' to make it competitive with global brands in the same category. He served as Chairman, Techno exhibition in Y2007 and 2008. The winner of the 'HR LEADERSHIP AWARD' at Global HR Excellence Awards 2010, Rubasinghe holds memberships of all three premier professional bodies of the country; Fellow Member - IESL, Associate Member - IPM and a Certified Member - SLIM.

Mahinda B. Herath

Chief Executive Officer, Sky Network Private Limited.

Mahinda B. Herath joined SLT in 1984. He is a Chartered Engineer and holds a Degree in Engineering from the University of Moratuwa and a Masters in Industrial Mathematics from the University of Sri Jayawardenapura. His multi-disciplinary qualifications include certifications in Telecommunication Regulation from Commonwealth Telecommunications Organization (CTO), Australian Communication & Media Authority (ACMA) and the University of Florida. He has also been involved in the activities of ITU study groups, Sri Lanka Association for the Advancement of Science (SLAAS) and the International Development Research Centre (IDRC), with several research and study papers and a book chapter (in the publication "ICT Infrastructure in Emerging Asia – Policy and Regulatory Roadblocks") to his credit.



MANAGEMENT DISCUSSION AND ANALYSIS

Overview

As the premier ICT enabler in Sri Lanka, we are the integrated, national telecommunications solutions provider, aligned to the macro vision of a country that is poised for unprecedented growth. Sri Lanka Telecom has seen the features of fast tracked development and the zeal that accompanies a nation wanting to develop at a pace beyond the norm. Development is fuelled by technology and this is Sri Lanka Telecom's forte. It is we therefore, who are tasked with ensuring a suitable foundation to meet the national development vision. Sri Lanka Telecom has taken up this task with great responsibility and over the last few years the necessary platforms were placed in readiness, while 2010 marked a watershed year. We have imbued a slew of 'Future Ready' technological innovations that have formed the trusses for development, to give the country the necessary fillip to meet its ambitious Key Performance Indicators. The year 2010 thus became the springboard for Sri Lanka Telecom's foray into the 'Future Ready' milieu, a journey that will surely give the country the impetus to move determinedly towards the goal of becoming an ICT hub for South Asia.

Sri Lanka Telecom's involvement in the telecommunication sector of the country expanded within the year to include infrastructure development in urban as well as rural areas, covering 160 electorates and 25 districts, with the infusion of impressive investments to construct an optical fibre backbone network covering the whole island, including the North and East. The company now has an exemplary network of 1.4 million fixed lines (PSTN & CDMA) connecting the citizenry, coupled with services to over 4.0 million mobile customers extended by our mobile arm, Sri Lanka Telecom Mobitel. The year saw aggressive expansion of broadband facilities with fixed (ADSL) broadband customers exceeding 200,000 in total. In addition, our broadband services extend to over 90,000 mobile 3.5G broadband customers, accounting for the SLT Group holding the majority share of the domestic broadband market.

We have also begun the process of aligning the company with the global trend in convergence of services, networks and devices. As part of this process, our investments in network evolution towards Next Generation Networks (NGN) saw the planning for a shift from several separate networks, to one unified network. In more new

developments, the introduction of a new architectural framework would allow the delivery of IP multimedia to mobile users.

Revamping of the company through the Transformation Program gained momentum in 2010, taking Sri Lanka Telecom closer towards the goal of becoming 'Future Ready', to deliver next generation services and technologies to our customers.

Economic overview

Sri Lanka's telecommunications sector, which saw a volatile year with market upheavals from new players and new regulations, is expected to benefit in 2011 from the national economic growth momentum of 2010 and from Government development initiatives for the telecommunications sector.

A number of reforms for the telecommunications sector were introduced in the Fiscal Budget of 2011 and other regulatory reforms are lined up by the Telecommunications Regulatory Commission of Sri Lanka. The Government, in its central development theme of empowering the village, has pledged to focus on rural development initiatives to ensure that people in every village have access to telecommunication facilities, in addition to other essential services.

The telecommunication sector is also expected to see higher returns from improved economic fundamentals. The country's macro economic conditions continued to improve in 2010 with higher economic growth forecast in 2011. The service sector marked an 8.0% growth in the third quarter of 2010 against a 5.1% growth in the same quarter of 2009. Services growth was boosted by strong growth in the major sub sectors of hotels and restaurants by 32.2%, transport and communication by 12.4%, banking, insurance and real estate by 8.5% and the wholesale and retail trade by 7.7%. The transport and communication sector indicated a 12.4% growth in the third quarter of 2010, against a 7.0% growth in the same quarter of 2009. This growth was supported by passenger and goods transportation, cargo handling, ports and civil aviation and posts and telecommunication sub sectors achieving growths of 12.1%, 17.0% and 12.8% respectively.

The country's total telephone density (mobile and fixed telephone connections per 100 persons) increased to 96% in the third quarter 2010 from 82% in the same quarter of 2009, due to the increase of fixed and mobile subscribers. The entry of new service providers to the telecommunication industry and the introduction of new

consumer friendly packages have also contributed towards telecommunication growth in Sri Lanka.

Operating climate

In the year under review, Sri Lanka Telecom continued to lead Sri Lanka's telecommunication sector of over 60 operators that provide telecommunication services in the areas of domestic voice, international voice, internet services, data services and wholesale services. During the year, new global players entered the Sri Lankan market through the acquisition of an existing operator..

Meanwhile, Fitch Ratings assessed Sri Lanka's telecommunication market at the highest Regulatory Risk Score in the Asia Pacific region. The Regulatory Risk Score reflects the assessment on the major regulatory sub categories of political and social policy risks, industrial policy risks and the inability of ownership/management to offset regulatory risks.

The year also saw the industry regulator, the Telecommunications Regulatory Commission, changing the interconnection regime and introducing a floor price for calls (on-net and off-net calls) and short messages (SMS). The 'No Payment' interconnection system has now been replaced by the 'All Party Pays' (Rs.0.50 per min) system. In addition, the International Telecommunication Operators Levy (ITL) was reduced to 0.015 USD per minute, but with no reimbursement, with effect from 15th July, 2010. The Telecommunications Regulatory Commission has also initiated a monitoring mechanism on telecommunication operators to ensure high quality of broadband services, in line with government objectives of increasing IT and broadband penetration. During the

year, the regulator assisted the industry in controlling international 'by-pass traffic,' flagged plans to introduce a floor rate for broadband, sponsored a 'National Backbone Network' and introduced a new 'Industry Policy and Regulatory Framework' for the future. Supported by the regulatory initiatives and economic growth, an impetus was observed in the telecommunication sector towards the latter part of the year.

Future focused transformations

Sri Lanka Telecom's Company Transformation Program, which is geared to align the company with industry and consumer trends and technologies of the future, continued to gain headway in 2010. A new corporate vision, mission, values and new business strategies were introduced, with the transformation process now aligned to reach every aspect of our business. This evolves through the six areas of Products, Business Processes, Networks, Business Model, IT Systems and Organization. Tranche 1 of the program was completed in 2010 and Tranche 2 is to be completed in January 2011. Based on the Transformation Program, Sri Lanka Telecom's Annual Business Plan for 2010 was streamlined and new corporate strategies were introduced. Major focus areas of the transformation during the year 2010 were improving investment governance practices, project and program management practices, increasing efficiency of internal operations and enhancing the customer experience.

A New Corporate Program Office (CPO) was established as a Centre of Excellence for implementation of changes in the company. A Project Management Practice Section was also established under the CPO. The Project Management Section focuses on managing



MANAGEMENT DISCUSSION AND ANALYSIS

cross functional, large scale projects. This process will enable the use of best practices to implement, monitor and control projects from end-to-end and achieve business objectives more economically, effectively and efficiently.

Other crucial initiatives have also been implemented to facilitate Future Ready technology transformations which will lead to the attainment of our vision, mission and business objectives. A Technical Sub Committee has been established within the Group, bringing together Sri Lanka Telecom and our subsidiaries under one umbrella, leveraging our synergies to coordinate and collaborate across areas, including products, services, technology and customer. This avoids duplication of services to the customers, improves connectivity and improves efficiencies, responses, time lines, quality and productivity.

In addition, a Group Network Architecture Committee (GNAC) was established under the Technical Sub Committee to facilitate the development of customer offerings as a group, by optimally utilizing Group resources within the statutory, regulatory and legal framework. The planning horizon of this study group is five years.

As understanding human resources is one of the most vital factors for being Future Ready, staff awareness programs and extensive internal training programs were conducted to orient the SLT workforce towards the new direction of the company. Training and development programs were conducted in the areas of developing skills to meet industry challenges successfully and to decentralize operation-and-maintenance activates. Awareness was improved on new technologies and trends in the market and an NGN test-bed for training, and product and service development, was introduced.

E-learning systems were used to train staff, particularly on CRM and information security policies.

Customer centric

In transforming Sri Lanka Telecom from a network driven organization to a customer centric, market driven Future Ready organization, a number of targeted initiatives were introduced in 2010 to increase efficiency of service delivery to SLT customers. The shift towards a customer centric system is implemented at two levels. Through a culture change at organization level and at a product level, where services are bundled into products that better meet the needs of customers.

To increase access to our customer services, we opened reconstructed Teleshops and Regional Offices around the country. During the year, the company added four new Teleshops in Mattakkuliya, Tangalle, Puttalam and Wennappuwa to its network of customer touch points. In view of increasing accessibility, reach and convenience for our customers, the Teleshops in these areas will become a convenient point of contact for all SLT related sales and customer service inquiries. In total, there are 35 Teleshops and 31 Regional Offices in operation to serve customer needs.

Bill payment facilities have been extended to over 3,500 locations through all the leading banks in the country (Bank of Ceylon, National Savings Bank, People's Bank, HSBC, HNB, NTB, Commercial Bank, Seylan Bank, Sampath Bank, NDB Bank, Standard Chartered and City Bank), leading super market chains (Cargills Food City and Keells Super) and leading consumer electronic goods sellers (Singer, Abans and A-Z Electronics).



The Sri Lanka Telecom pre-paid services of SLT Citylink (CDMA), SLT Passport (IDD) and SLTnet (internet) expanded through a dealer/retailer network of over 11,500, around the country. SLT Citylink CDMA and SLT Broadband services expanded through a service system of 29 and 14 dealers respectively.

In order to improve the quality of customer service, the Quality Assurance Division conducted surveys across all the Customer Service Centres as a third party evaluator. The incoming material inspection processes were also continually improved, complying with the quality standards of the company, to ensure high quality materials.

- **Call centre operations**

The SLT Call Centre has been certified by the Sri Lanka Standard Institution for Quality Management Systems according to ISO 9001:2008/SLS ISO 9001:2008 standards during 2010 and exceeded the Customer Satisfaction Index on service delivery, responsiveness and friendliness. Personalized training programs have improved the staff as knowledge workers, resulting in high productivity of the team. Outbound services have been strengthened to increase revenue collection and profit opportunities and the Telegram service has been streamlined to improve revenue collection.

- **Churn management initiatives**

During the year, SLT took several measures to reduce the number of customers switching to other networks. A special team was established to analyze and identify reasons for customer churn. A quarterly customer satisfaction survey was conducted during the year. Initiatives were also introduced to improve SLT employee awareness on churn management and marketing activities were targeted to improve customer awareness of new SLT products that would suit their needs. As a result of these initiatives SLT achieved a significant reduction of customer churn with respect to the growth of the customer base.

Traditional business

We have recognized telephone services as our traditional business in which SLT has been serving customers since inception. Due to the advancement of technology and varying customer needs, SLT's revenue composition is shifting more towards broadband, data and wholesale segments. Our traditional business consists of Megaline (wireline), Citylink (CDMA) and IDD services. However, despite the declining trend in the world, in Sri Lanka, we have

witnessed a growing demand for fixed telephones, supported by the growth in broadband services.

As the supplier for wireline telephone services in Sri Lanka, SLT has identified an opportunity to increase market share due to the customer preference for wireline over CDMA. This preference is due to factors such as quality and clarity, and also the trend towards high speed wireline broadband access. Emerging new markets in the North and East also present further opportunities.

- **Fixed line - SLT Megaline**

Our wireline telephone installations (SLT Megaline connections) continued to expand in 2010. The Megaline strategy helped sustain our market share in the fixed line sector (Megaline and Citylink), above 40% and helped retain the Megaline market share above 25% in 2010. The Megaline customer base increased by 24,590 in 2010 while expanding the addressable market to successfully maintain its position as the best medium for triple play. At present, more than 70% of Megaline connections are driven by broadband and this is expected to continue.

A new price plan, or call plan, was launched, positioning Sri Lanka Telecom on a differentiated platform on call rates for voice, data and entertainment services. Previously, a single call plan was maintained for Megaline and CDMA, and this has now been separated. Call rates are now differentiated where, for example, voice only (Single Play) customers, voice and broadband (Double Play) customers and voice, broadband and PEOTV (Triple Play) customers, have three different call rates. Our Triple Play services are ready to provide unmatched future experiences to entertain our customers.



MANAGEMENT DISCUSSION AND ANALYSIS

• Fixed line - SLT Citylink CDMA

SLT Citylink CDMA services faced challenges due to the market being squeezed by customer migrations to wireline and mobile. Prices dropped due to the proliferation of competing products, although with almost 49% of households having CDMA phones, there is an opportunity for growth in the underserved areas of the country.

The SLT Citylink CDMA strategy focused on maintaining the market share of 15% for Citylink, to ensure an above 40% share in the total fixed line (Megaline and Citylink) market in 2010. We managed effectively to do this through a strategy of extending the reach of prepaid cards, expanding the addressable market, improving network quality and maintaining our position as the low cost option for a fixed line telephone.

In 2010 SLT extended the Citylink Melody service to prepaid customers. Earlier this service was only available for postpaid customers. The Citylink Melody service comprises a song base of English, Tamil, Sinhala and Hindi songs.

A new tariff plan for SLT Citylink CDMA prepaid and postpaid telephone connections were introduced, giving Sri Lanka Telecom the advantage of being the lowest on-net call rate provider, at Rs. 1/= per minute.

SLT also revised IDD tariffs during 2010, effective to both Megaline and Citylink customers. Premium IDD prices were revised for 12 countries Italy, Australia, UAE, UK, India, Saudi Arabia, USA, Qatar, Kuwait, Oman, France and Germany. Also, price plans for the Home Country Direct Service were revised for 11 countries.

Broadband Business

Sri Lanka's broadband penetration has shown an increasing trend during the last three years and according to forecasts, this growth trend is expected to continue for at least another five years. As the incumbent operator, SLT maintains the network and necessary infrastructure, including an optical network of about 8,000 kms around the country, connecting all the provinces and districts. Our ring network and linear network give us the flexibility to be the most efficient broadband service provider. SLT currently serves

213,816 ADSL broadband customers and is the only operator providing wireline broadband services.

We now have the opportunity of exploiting the broadband market by utilizing the existing island wide copper access network and the up-coming NGN infrastructure. Expected improvements in ICT literacy in Sri Lanka, increasing customer demand for high speed broadband solutions and new customers from the North and East, will all support this broadband growth paradigm. Broadband also provides an opportunity as a low cost solution for connectivity and as a channel for entertainment.

In 2010, SLT succeeded in achieving its target of 200,000 broadband connections ahead of the targeted timeline due to a well positioned island-wide marketing and promotional campaign, called 'SLT Broadband Twenty20 Promotion'. Through this promotion, the company targeted broadband growth across the country based on our objective of every Sri Lankan household being within the SLT broadband footprint in the future.

SLT held a special awards ceremony to announce and reward the winners of the SLT Broadband Twenty20 Promotion which was held from 20th September to 20th October 2010. Customers had the opportunity of winning exciting prizes during the promotion. A total of 30 desktops and three laptops were presented to the lucky winners from all parts of the country.

SLT has also launched several new ADSL packages, which are well positioned in the market and are serving customer expectations. The introduction of volume based, free of contention broadband packages is a remarkable achievement in our broadband roadmap. We hope to address distance limitations of copper technology through cost effective solutions, such as NGN and outdoor MSAN, and all SLT exchanges are to be made ADSL capable.

Sky Network, our subsidiary company, which possesses unprecedented WiMax technology, will also be important for company plans of extending broadband coverage across the island. Wireless broadband will be used to cover the gaps and limitations experienced via wireline broadband. Together with Sri Lanka Telecom Mobitel's broadband market share, the Group will eventually hold an impressive broadband market share.

In addition to the above initiatives, existing services were improved and many new products were introduced to add value to SLT services. The quality of our broadband services was enhanced to provide dedicated internet services to customers where volume based packages offer one-to-one contentions. The 'SLT Broadband Unlimited' packages provide the best broadband speed in the market with improved contention ratio, while our international internet bandwidth has been upgraded to 8.3 Gbps capacity to give a better internet/broadband experience to customers. Google caching was introduced, enabling better performance for Google applications, which in turn, enables a better internet experience.

Wholesale and corporate sales

Our corporate and wholesale business accounted for an impressive revenue in 2010. Sri Lanka Telecom's corporate business can be categorized into the three broad segments of Government agencies and departments, large private sector corporates, and medium to large private sector companies. The Government sector includes very large national scale operations such as ministries, hospitals, defense establishments and the Police. Our large private sector activities involve blue chip conglomerates as well as large commercial banks and insurance companies.

Among its many product offerings Sri Lanka Telecom's future ready customized enterprise solutions not only connect the physical infrastructure of an organization, but also establishes enterprise networks, where security features can be enforced and kept connected to dynamic databases. Storage areas and disaster recovery is implemented in tandem with increased connectivity to some global destinations.

The Government of Sri Lanka makes up a significant segment of our client portfolio. We have been responsible for networking and automating public sector organizations including the Registrar's Office, defence forces and even schools. SchoolNet, an IT connectivity project under the aegis of the Ministry of Education, facilitates internet access for school children with Sri Lanka Telecom having connected more than 1,000 schools under this project.

A new aggregation network was introduced for improved service availability and resilience and nearly 20 new customer locations/buildings were added to the Metro Ethernet Network (MEN) during 2010. The Metro Ethernet connects more than 100 important commercial locations in metro areas, including cities outside Colombo. The Sri Lanka Police video surveillance network was implemented with 107 cameras connected through the SLT MEN. Rings of the IP/MPLS backbone network were upgraded to 1 Gbps Ethernet.

Corporate data solutions through data radios, as a stop-gap solution for non-wired network areas which support the e-governance initiatives of the government, were successfully implemented.

In provision of services to the private sector, leveraging on the synergies we now possess, SLT has provided infrastructure for other telecom operators to facilitate their activities in the country. A wholesale product line and business unit has also been established. The business process has been changed to improve customer service and billing and collection has been streamlined, including revenue assurance.



MANAGEMENT DISCUSSION AND ANALYSIS

Different business models are also being developed for SLT's wholesale business. A dedicated team has been appointed for international activities and has been tasked with collaborating with international operators and carriers, focusing more on facilitating connectivity, voice termination and origination with other operators. SLT was also involved in the provision of infrastructure for other operators, such as tower space, building space, AC and power.

Our intention is to become the leading wholesale communications partner in Sri Lanka, driving new opportunities for profitable growth, speedily introducing new products, while also extending the current portfolio.

Improving global reach

Sri Lanka Telecom has taken steps to further strengthen its global presence by partnering with global IP network service providers. With these initiatives SLT's global business capabilities have gone beyond the boundaries of unparalleled global connectivity. Through these partnerships SLT is in a position to offer reliable bandwidth solutions, and thereby add more value, to its growing customer base in Sri Lanka.

In line with this objective, strategic moves such as strengthening and expanding business relationships with global and regional operators and selling international bandwidth to facilitate their operations, are currently in play. This also includes providing world class international connectivity by utilizing capacities of the company's undersea cable systems.

SLT has been aggressively pursuing new markets in the region with a technology strategy that supports it. Its global coverage has significantly strengthened with the undersea optical fibre links: SEA-ME-WE 3, SEA-ME-WE 4, Bharat-Lanka submarine cable (between India and Sri Lanka) and Dhiraagu, the SLT submarine cable system between the Maldives islands and Sri Lanka. Sri Lanka's strategic location ensures that the country plays a crucial role in the process of unfolding new technologies across different regions.

In the global business landscape, SLT aims to be the preferred cable capacity provider for mission critical communications. The company is one of the region's leading critical communication services providers delivering a range of high-quality managed voice, data and IP-based services to large corporates, multinational companies, governments, carrier customers and resellers across the region.

Next Generation Network [NGN]

The year 2010 saw many new developments in the local telecommunications sector, including proposed regulatory changes that have direct impacts on future operations of the company.

The introduction of NGN will mean considerable changes to the local telecommunication sector after nearly 20 years. NGN technologies would enable Sri Lanka Telecom to shift from the current multiple network model of operating different networks for different services, such as mobile and ADSL, to a single network model, allowing us to service different customer segments through a single network. In anticipation of the change, we have already



begun the migration process from the multiple network model to a single network model.

NGN will lead to lower maintenance costs, development of new products and services, sharing of operational support infrastructure and sales channels, development of technology convergence, product and service convergence and the development of an investment sharing model.

By the end of 2010, almost 20% of fixed wireline customers were migrated to the NGN platform, taking the total number of customers served by the enhanced features of NGN technology, to 165,000.

Diversifying our portfolio

The year 2010 also saw a flurry of diversifications, mergers and acquisitions in the telecommunications sector. In another market development, telcos began venturing into the entertainment business, with broadband [IPTV, VoD]. A shifting of revenues, from voice services to non-voice services, such as data, VPN and broadband and IP based services, was also observed.

Due to the economic climate, domestic markets were price sensitive with consumer preference tending towards low cost options. Customer needs saw a shift towards total solutions, as opposed to a basket of products to choose from, with customers demanding good broadband coverage, mobility, portability and access to broadband services, irrespective of the type of network or geographical location.

SLT owns seven subsidiaries that offer diversified services such as mobile telephony, video on demand, wireless broadband services, directory services, man power solutions etc. We have been successful in providing the necessary services to external customers while facilitating the SLT Group.

Expansion in the North and East

A milestone was reached in the company's plans for a nationwide optical fibre network with the commissioning of the SLT optical fibre cable that connected the Jaffna peninsula to the south of the country, via the A9 road, in August 2010. This fibre optic cable project connects Mannar, Vavuniya, Trincomalee and Jaffna, enabling business expansion and a sound platform for economic development.

Figure 2: SLT expands the fibre optic information superhighway to the Northern peninsula, Sri Lanka.

Our development efforts run parallel to the Government's Uthuru Wasanthaya program, of which Phase 1 has now been 100% completed, with the installation of 177 kms of optical fibre cable laid along the A9 road. Under this project Jaffna, Manipay, Sitthankerny, Chunnakam, Kopay, Chavakachcheri and Nelliady have already been connected to the SLT broadband network. From these locations the copper access network has been extended to customer premises. In addition, six new, un-served areas in the North and East were provided with voice (basic telephony services), while 80 new CDMA sites were introduced during 2010, with 28 in the North and East. The Mannar-Jaffna microwave radio link (STM-1 capacity) was also set up.

Telecommunications connectivity of the North and East, with the rest of the country and other countries, would generate large scale benefits by contributing towards economic growth, new business opportunities, growth of existing businesses, creation of new job opportunities, improvement of the lifestyles of people in the North and East and by also contributing towards strengthening communal harmony in the country.

In 2010, our Operations and Maintenance teams undertook the steering of a massive development project to fulfill the country's communication needs, by adding 14,000 network capacity to the network. Through this project, telecommunication infrastructure



MANAGEMENT DISCUSSION AND ANALYSIS

that was destroyed was restored and new connections installed. The network covering Kilinochchi, Nallur, Nelliady, Chavakachcheri, Kopai, Manipal and Choonkam was re-installed and new connections were added. The switching and transmission systems in the Northern peninsula, which had been destroyed during the war, were reconnected and renovated. Two new switching centres, with seven regional switching units, were established in Jaffna and Mannar. These new centres will provide communication services to over 12,000 customers in the area, enabling them to reap the benefits of the latest communication technologies.

In addition, new telephone exchanges at Mankulam and Mullaitivu in the North of Sri Lanka, will enhance basic communication facilities and broadband coverage for customers in the areas. These new telephone exchanges are part of Sri Lanka Telecom's ongoing effort to drive innovation and extend its broadband network throughout the island, bringing state of the art communication facilities to all communities of the country.

Future focused infrastructure and technology

Sri Lanka Telecom plans to improve broadband capability to offer more broadband and IPTV services over the copper network and also plans to add more ADSL ports and copper loops to the core network. By expanding the fibre optic network closer to customer premises we hope to improve the quality of last mile access.

Meanwhile, the iSri Lanka project, launched at the end of 2010, is aimed at enhancing and upgrading the existing copper network, which is somewhat outdated. SLT broadband customers are currently connected through this copper line network, which from a maintenance point of view, is expensive and also has reduced data range and quality. i-Sri Lanka is poised to increase the use of the optical fibre network by taking the optical fibre closer to the customer and by shortening the distance to the copper line, connecting the customer to the high speed backbone network. This process would allow the customer to experience a substantial increase in data speeds and improved quality and reliability, while SLT would enjoy reduced maintenance costs and hence, better cost management. In this project, which forms a significant part of our future investment program and which we have titled 90-20-13, we

aim to allow more than 90% of our fixed line customers to access at least 20Mbps data speed by the end of 2013.

In addition, we continue to expand the reach of our fixed line network and are selectively expanding reach, particularly to areas around the edges of our existing network. This will also increase capacity and numbers inside our current footprint in terms of new households. Network capacity is being expanded not only to meet customer demands, but also to support expansion plans undertaken by our subsidiaries. It is pertinent to note that Sri Lanka Telecom is leveraging its synergies to empower the 'Future Ready' initiatives of our subsidiaries as well, sharing resources and facilities to gain the best return on investment and above average delivery to the customer. Our mobile arm, Sri Lanka Telecom Mobitel, which is in the process of expanding its 3.5G network, and Sri Lanka's first ever WiMax 16e high speed wireless broadband network launched by Sky Networks, are two mega expansion plans that Sri Lanka Telecom will be supporting to ensure a modern ICT platform for the country.

In addition to providing backbone capability and connectivity, these infrastructure development features are also imperative for the growth of our wholesale business, which is vital in our overall business strategy and will also be a crucial springboard for the telecommunication industry of Sri Lanka in general.

New SLT IT Data Centre

A new SLT IT Data Centre was opened at the SLT headquarters building. The Data Centre occupies 1,400 sq.ft space which is expandable up to a 2,500 sq.ft area. This facility will provide a more controlled and secure operating environment for the company's IT assets. With the centralization of SLT servers, all SLT enterprise applications will be migrated to this facility. The Data Centre has an energy efficient design to reduce power consumption and provides for IT staff geographic consolidation through space optimization.

Information security

The Information Security Division introduced a number of initiatives to secure the company's information base. An information classification exercise was carried out throughout the company to classify information in all departments and to apply the required

protection for sensitive information. The Information Security Policy was revised to include the SLT subsidiaries in its scope. A detailed policy was introduced on internet usage and security. A surveillance audit was carried out with the support of the British Standards Institute (India), to reinforce the ISO 27001:2005 certification obtained for customer oriented departments of SLT such as the Internet Data Centre, ISP operations, IP Network Operations, IP Services Operations and Data and Access Network Operations.

Revenue assurance

The company is now in the process of automating its revenue assurance functions. The scope of revenue assurance activities includes the analysis and correction of retail rating rejects and avoiding revenue leakages. During the year domestic and international interconnect rejects were analyzed and rectified, to maintain the SLA. Revenue assurance is also involved in corporate customer dispute resolution and resolved many disputes during the year in a timely manner. Several major international disputes were resolved, saving money for the company. The revenue assurance team works with the product development team to ensure product profitability and to avoid possible revenue leakages upon implementation. The revenue assurance activities have also included taxation related matters and ensuring billing completeness. The revenue assurance does testing of services during cutovers, price changes, package introductions, tax changes etc., to ensure billing completeness. In addition, case studies on collection assurance, bulk SMS, return bills and accumulated bills were carried out and fraud management and detection activities were automated and expanded.

SLT training centres

Sri Lanka Telecom has four fully equipped and modern training centres at Moratuwa, Welisara, Peradeniya and Galle. SLT training centres cater to the training needs of SLT employees while

providing education facilities to external and internal customers. During the year SLT entered into a partnership with the University of Moratuwa to conduct a Bachelor of Information Technology (BIT) External Degree program at its established Training Centre, at Welisara. The benefits to students, of following the BIT Degree program at the Sri Lanka Telecom Training Centre, are multi-fold. The students will receive a highly recognized qualification from one of the leading technological universities in Sri Lanka, the University of Moratuwa and a high demand is expected in the industry, for BIT graduates. Also the Sri Lanka Telecom Training Centre was recently upgraded to an 'A Grade' training centre for BTEC HND, by Edexcel International, one of the leading awarding bodies in UK. The SLT Training Centre has been conducting the BTEC HND study program since July 2005, and is one of the leading institutions in Sri Lanka offering a study program for the Edexcel BTEC qualification in the field of telecommunications. The Sri Lanka Telecom Training Centre has been a very successful initiative and has seen the graduation of two batches of students so far, with very high pass rates among them.



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“...in 2010 Mobitel takes great pride in reporting an operating profit of Rs. 2.3 billion and a net profit of Rs. 1.5 billion. This profit is derived from a combined 30% growth in revenue over the previous year as well as from a well-managed cost structure. In 2010, Mobitel revenue reached Rs. 20 billion...”

A Stellar Performance

True to its stated intent as part of its 2009 review, Mobitel delivered a stellar performance in 2010 in all aspects of its business. Recovering from a dip in profits in the previous year that was due to a consolidation of its position, in 2010 Mobitel takes great pride in reporting an operating profit of Rs. 2.3 billion and a net profit of Rs. 1.5 billion. This profit is derived from a combined 30% growth in revenue over the previous year as well as from a well-managed cost structure. In 2010, Mobitel revenue reached Rs. 20 billion.

Having embarked on a drive to offer superior products and services comparable to any world-class operator, over the last five years Mobitel consistently invested in the best and latest technology and in network expansion. These investments have paved the way for the company to resurge as a leading mobile telephony operator. Mobitel with its several key partnerships and initiatives is on course to finding its place in the company of global giants both within and outside the telecommunications sphere, and together with such players has begun designing the circuitry of a future networked world.

A superior network in terms of both technology and scale fused with a highly motivated and talented team of people driven by a passion to offer a greater customer experience and value is the foundation upon which Mobitel has set-forth to grow its business. The enhanced customer experience has led to a growing base of loyal customers, and in 2010 the Mobitel subscriber base reached 4 million subscribers. The growing customer base and high usage of the Mobitel services contributed to the revenue of Rs.20 billion during the year, up from a level of Rs. 15.4 billion a year ago. Ever conscious of the need to match the growing market demand and committed to offering a superior customer experience, Mobitel continues to expand and upgrade its network and service range.

A Business-friendly Macro Environment

The reduced lending rates and lower and stable inflation conditions favoured a positive business climate. The decision by the government to simplify the tax structure particularly with regard to the telecom sector is a welcome move and also signals the government's intention to fast develop the ICT literacy level of the country, which in turn would function as a multiplier in the country's economic growth process.

The proposed tax modifications effectively favours the mobile subscribers and would potentially stimulate higher mobile usage, hence improved revenue of the mobile operator. The removal of VAT as part of the revised concessions to the subscriber, although enhances the customer affordability, would increase the cost structures of operators as recovery of input VAT would be constrained. This limitation to some extent however would be mitigated by the exemption of future telecom infrastructure investments from import taxes such as Excise duty.

The fast return to normalcy of the North and East and overall tension-free conditions in all parts of the country offered greater momentum for business expansion. The promise of the potential emanating from the opening of hitherto unexplored geographical areas of the country has led to all telecom operators racing to capture pieces of the unfolding markets, and Mobitel too with an already established foothold in those markets will accelerate and execute plans to further strengthen its position.

Infocomm and Economy

The State's recognition that the telecom sector can perform a pivotal and integral role in accelerating economic growth is a significant development, and that was translated into action when the government declared 2009 as the year of English and ICT. As a result

Sri Lanka has swiftly moved towards building a strong infocomm infrastructure and is becoming an ICT savvy nation.

As the North and East opens for development and the whole country buzzes with economic activity, Mobitel has steadily geared up to perform its catalyst role in economic development. It is well known that the telecom sector of any country propels all other economic activity, and universal studies and economic research have shown that a direct correlation exists between the ICT Development Index (IDI) and GNI per capita of a country.

It could be safely predicted that the expansion and growth of the telecom sector of Sri Lanka would potentially trigger a hyper exponential pace of change by driving other growth sectors through new market opportunities, access to global knowledge and integration with other geographies and sectors within and outside the country. Within the overall scheme of developments in the telecom sector, mobile technology especially is actively enabling the free movement of information, the efficient movement of markets, and the unleashing of entrepreneurship. A rapid deployment of the infocomm infrastructure hence is bound to boost Sri Lanka's progress towards its envisaged doubling of current per capita income by 2016.

Mobitel, having within its sight the vast potential the country would be able to harness from the presence of a strong telecom sector, unmoved by the challenges faced by the industry in recent years, has with foresight invested towards becoming future ready. Having wisely invested in the future and braced to launch into the emerging networked world with broadband technology, Mobitel, the National Mobile Telecom Service provider, stands ready to enable Sri Lanka move in great stride towards the country's next phase of economic development by bridging the digital divide and bringing broadband within reach of all.

World trends of a dynamic mobile industry

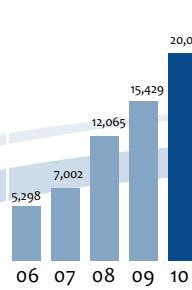
It has been observed that in the history of the telecom industry, mobile telephony has made a greater difference to the lives of more people, more quickly than any other technology. As the mobile industry globally crossed five billion subscribers in 2010 - an important milestone - the prospect of a whole world consisting of networked people is becoming a real possibility.

The International Telecom Union (ITU) predicts that within the next decade, if not earlier, global teledensity will surpass 100%. That would however not mean that everyone has a phone, because many may have more than a single handset or multiple SIMs. However, with mobile technology spreading fast due to growing affordability and ease of adaption, at the current rate of mobile phone adoption, it is likely that sooner than later, anyone who wants a mobile phone will have one. And as mobile networks widely offer 3G broadband, everyone will have access to the Internet, and as expressed by the ITU, that would mean "mobile telephony would have done more than anything else in history, to advance the democratisation of telecoms, and all that comes with it."

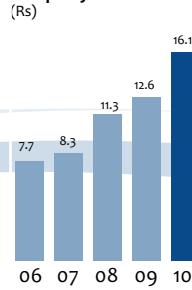
An interesting development is that the reducing prices and size of laptops and the increasing power and versatility of the mobile handsets, is leading to the laptop and the mobile handset converging into a new range of devices that combine power, versatility and greater portability. This convergence has increased the power of the mobile handset producers who are becoming the axis around which operators, platform vendors, software and application developers, operating system developers, standards alliances and Chip/Processor manufacturers etc. are building their businesses.

**Islandwide
Mobitel
Customers**
4.0 Mn
up 19%

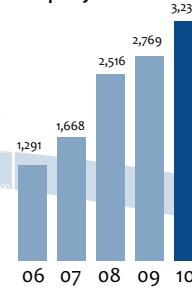
Revenue
(Rs)



**Revenue per
Employee**
(Rs)



**Subscribers per
Employee**



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Implications of that development can be significant, and a potential consequence could be the possibility of the importance of voice calls as a source of revenue declining and stress on the revenue streams of operators being applied by the handset manufacturers. The challenge then is for the mobile operators to assiduously review their existing business models and redefine their game plan to match the emerging challenge. An inactive or “sleepy” operator would obviously be left behind, and the future ready operator would be best placed to take on the future. For Mobitel then, these would be interesting times!

Mobitel proactively responding to the changing mobile landscape

With foresight Mobitel has over the last few years diligently shaped its future direction. The company transformed itself to an active market shaper by investing in future technology that gives it a technological edge. Technology by itself is of little use unless it adds value to its users and has the capacity to improve the experiences and quality of peoples' lives. With a clear understanding of the customer mindset and a distinct ability to predict future market trends, in true customer centric fashion, Mobitel proactively developed a range of products to suit diverse user needs and brought those services to the doorstep of the customer.

With a clear advantage in 3G, Mobitel offers superior mobile broadband services to its customers and this, the company views as a distinct growth sector. As advantages in voice communications weans off and broadband gains currency in a future world in which most communications would perhaps be machine-to-machine than subscriber to subscriber, Mobitel would assume its envisioned lead role in that future market. Mindful of that future, Mobitel continues to further its advantages in the mobile broadband front.



State of Art Flagship Store at World Trade Centre, Colombo

As a direct consequence of past investments Mobitel has made measured gains in the emerging broadband dominated mobile market, and its record of achievement in the year 2010 amply demonstrates its growing superiority in the broadband sector and innate ability to offer greater customer service and value.

Leveraging on its strengths in mobile broadband technology, Mobitel, desirous of entering the m-Commerce domain tied up with Sony FeliCa to bring Near Field Communication Technology (NFC) to Sri Lanka. As part of the strategic partnership, Mobitel will develop with support from Sony FeliCa, a nationwide NFC platform to facilitate various utility sector and consumer applications. This is only the first of many things to come and is the preliminary step of a larger plan between Mobitel and a global corporate giant to make an impact on the future networked world.

Fully aware of the emerging challenges, Mobitel will continue to build formidable platforms to drive greater services and value. Where relevant such platforms would be reinforced by the collaborative ingenuity of strategic partners including mobile device manufacturers and other key players to offer greater customer experiences and value for both the customer as well as for the stakeholder. Plans already are underway to develop a host of such new applications that would enhance customer experience and convenience.



Mobitel SMART Pre Paid services launched SMART Loan

Committed to empowering the people of Sri Lanka

“Mobitel’s I AM SRI LANKA idea and programme is brilliant, relevant and world-class. Sri Lankans are fortunate to have such a forward thinking company.”

David Taylor, Author and Professor of Leadership
- Warwick University Business School

Constantly committed to deliver value

With a resolute commitment to constantly value innovate in the interest of the customer, Mobitel never pause in its search for ways of offering greater customer value. SMART, which has been the envy of many in the industry and the main revenue-generating product of the company was enhanced by the introduction of SMART Loan and SMART Abacus. Using SMART Loan, a SMART subscriber could request a Loan from Mobitel when their available value is exhausted. Customers maintaining a prepaid balance in excess of Rs.200 are extended preferential rates through SMART Abacus, and these two enhancements to the SMART portfolio has received favourable response from the pre-paid market.

Post-paid revenue too recorded an improvement resulting from a meticulously planned and executed marketing drive that focused on corporate customers. Competitive prices offered to the diaspora community who were reached via a carefully chosen channel proved successful as revenue from international services recorded a healthy improvement.

Understanding the importance of going to the customer rather than expecting the customer to find the product, Mobitel continued to strengthen its product distribution through the genial Postal Service. Further, with a view to serving the professionals, business travellers and other niche markets, the company expanded its presence to

premium locations such as the World Trade Centre and the Colombo Hilton.

Towards strengthening its position in the larger and growing mass market, during the year Mobitel entered into a partnership to promote Micromax for dual SIM Phones in order to overcome the lack of number portability.

Such value enhancing product innovations, deep and diverse distribution channels and rewarding partnerships have led to a satisfied and growing base of loyal customers for the company.

Mobitel – A World Class Company and Brand

The Mobitel brand well engraved into the local telecom landscape is a household name synonymous with quality, reliability and futuristic appeal. As a home-grown brand, Mobitel has furthered many national causes and is the proud sponsor of Sri Lanka Cricket. Along with Sri Lanka Cricket, the Mobitel brand has crossed the shores of Sri Lanka and is gaining wider publicity among the many cricket playing nations, particularly those within the South Asian region.

The dynamism of the company and its team of dedicated people have led Mobitel to the international stage through many future defining initiatives encompassing specialist products and applications and partnerships with global players. The aforementioned strategic



Honourable Member of Parliament Namal Rajapaksa looks on while Mr Nimal Welgama, Chairman - Mobitel and Mr. Izumi Kawanishi, Senior General Manager - Sony FeliCa exchange agreements



“1 GOAL: Education for All” campaign spearheaded by Queen Rania of Jordan launched at Mobile World Congress 2010

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“...Several mobile networks in developing countries, including Vodafone, Telefonica, Roshan, and Mobitel, have pledged significant support for increasing women’s access...”

Secretary of State Hillary Rodham Clinton

Thursday, October 07, 2010 the launch event of mWomen

(Source: http://blogs.state.gov/sgwi/index.php/site/entry/live_gsma)

partnership with Sony's FeliCa is only one example of how the company intends impacting on future transaction processing and lifestyle transformation. The company also has similar partnerships with world-class players such as Google. Several other collaborative products are in a formative stage and would be rolled out, and such initiatives will further the global recognition of the Mobitel brand.

mLearning, Mobitel's cutting edge globally accessible content delivery and learning platform has helped connect the knowledge and education seekers with specialist education providers. mLearning, a concept first tried and perfected with several faculties of the University of Colombo has now been extended to offer specialist lectures to aspiring accountants from any part of the world. Mobitel entered into partnership with the Chartered Institute of Management Accountants (CIMA), the leading Professional Management Accounting body in the world with 172,000 members and with a presence in 168 countries, and as per the partnership, initially students from Sri Lanka, Bangladesh, Maldives, Pakistan and the Middle East would be able to follow lessons developed by a specialist world acclaimed CIMA lecture panel via mLearning. It is a transformational endeavour to deliver education in a manner thus far thought infeasible. mLearning in fact received special mention in the GSMA Development Fund 2010 report and was allocated two pages in that report which explained the role of mLearning as an important mobile solution for remote vocational qualification

acquisition. Mobitel, became the founding operator from Sri Lanka to support “1 Goal: Education for All” Mobile Campaign at the Mobile World Congress.

mWomen is yet another transformational concept that has won international recognition for Mobitel as a means of empowering women to actively engage in economic activity. The importance placed on Mobitel's novel mWomen initiative was recognized by way of an honour bestowed upon the company to join a distinguished panel at an international event hosted by the US State Department and chaired by the US Secretary of State together with the patronage of the Chairperson of the Cherie Blair Foundation. This recognition was of great significance as it exemplifies Mobitel's intentions of creating value for its stakeholders, while also participating in the noble cause of serving humanity.

Awards and Endorsements

The many awards and accolades won in the past have not deceived the company to bask in a false sense of success, but are a constant reminder of the need to keep pushing the boundaries of excellence.

Continuing its journey of excellence, Mobitel claimed overall Silver and won four Gold awards in other categories at the National Business Excellence Awards. Mobitel has been a regular feature at



The National Mobile Service Provider, proud sponsor of Sri Lanka Cricket Team

Committed to empowering the people of Sri Lanka



Mobitel enters a strategic partnership with CIMA to offer courses globally through Mobitel mLearning an exclusive purpose-built globally accessible learning platform

the National Business Excellence Awards over the last few years and continues to retain its reputation for excellence.

The pursuit for excellence also won the company the distinction of the coveted Service Brand Award at the SLIM Brand Excellence Awards. Mobitel also took Gold at the Sumathi Tele Awards for the Best TV Commercial of the Year, and collected Silver at the Effie awards for its TV commercial “Digin Digata Katha”

Mobitel was rated Best in Customer Care in the Telecommunications category based on independent research conducted by TNS Lanka. As per the research findings Mobitel was described and profiled by the market as Beautiful, Clear and Talented.

These are many achievements the company takes great pride in, but more importantly these achievements symbolise the great efforts and dedication of a pool of talented people at Mobitel, who constantly strive above and beyond their call of duty to deliver excellence through everything they do.

Team Mobitel

Endowed with some of the industry's brightest minds and greater energies, Mobitel's team of people are its main competitive advantage. From the bright engineer, smart marketer, professional accountant, diligent lawyer and sharp IT specialist to the dedicated frontline contact point staff, delighting the customer through superior experience and value is an inculcated and deeply instilled passion at Mobitel.

Independently acknowledged as the most cost effective telecom operator, Mobitel maintains a lean staff structure, but capable of superior performance. A clearly focused team of people with high energy levels and a collective desire to excel have made Mobitel's

forward advance to lead in the broadband space and make a difference in the lives of all Sri Lankans a real possibility.

An achievement culture that encourages innovation at every level makes Mobitel different, and a low level of attrition and high level of retention of key talent compared to the industry strengthens Mobitel's drive to claim its due place on a larger world platform.

Mobitel – Future Ready

A strong mobile phone operator with a growing subscriber base, backed by the financial might and reputation of Sri Lanka Telecom, Sri Lanka Telecom Mobitel has emerged as Sri Lanka's fastest growing mobile telephony network. With a growing top line and carefully managed cost structure, Mobitel has grown in profitability and is a growing contributor towards Sri Lanka Telecom's Group profitability. Although constrained by lower capitalisation, the company has been successful in financing its capital investments that are critical for success, and has managed its working capital requirements. Notwithstanding challenges such as the establishment of floor prices and interconnection charges imposed by the authorities, the company posted a post tax profit of Rs.1.5 billion in the financial year 2010.

Financially healthy, technologically competitive and currently well placed in the market, and all that under favourable macro economic conditions, the company stands determined to stake a stronger claim in the future evolving market. Mobitel owns and operates a technologically advanced network capable of a superior voice and data service that it will use to full potential. With a view to sustaining and growing its market position the company is constantly improving and expanding its network capacity and plans are already underway to embark on the next phase of network improvement and expansion. The company is in the process of expanding its



MOBITEL (PVT) LIMITED

network coverage and is improving its service quality in order that the growing demand for the company's services are well matched in terms of both capacity and quality. On completing the latest phase of expansion, Mobitel would further strengthen its footprint in the North and East where it already has a significant presence.

In preparing for the future, Mobitel leapfrogged into the mobile broadband space with its high speed 3.5G HSPA network and stamped its mark on the market as the future mobile broadband network of Sri Lanka. Having established its identity in the market and rising to a higher call by articulating the vision to lead Sri Lanka to an Infocomm and Knowledge Rich Society, the company has with single-minded pursuit relentlessly shaped and built its market. Mobitel's ambition is to be the benchmark operator for the future.

The global industry talk is centring on higher broadband speeds, and new technologies such as WiMAX and Long Term Evolution (LTE) as the global telecom industry moves into the next phase of development. Mobitel, the lead mobile broadband operator in Sri Lanka will continue to invest in necessary future technology to stay abreast with such world developments and will power Sri Lanka's future ICT prowess in its journey to become the Marvel of Asia.

Believing that a single spark can lead to illuminating an entire nation, Mobitel launched a campaign that commenced from I am Mobitel that will potentially culminate into reviving an entire nation with I am Sri Lanka. Assuming the position of a lead torch bearer of the nation, Mobitel, the National Mobile Telecom Service Operator, is on its way to making Sri Lanka proud by placing the Mobitel name along side the great corporate names in a future connected world. This, the company will strive for, as Mobitel is Future Ready!



"I am Sri Lanka" campaign launched by Mobitel reaching out to all Sri Lankans to unleash their potential

SRI LANKA TELECOM SERVICES

“...2010 also showcased that innovation can be conjoined with financial gain. We reached a turn over of Rs. 225 Million, a 50% growth compared to 2009. The newer processors acquired by the company will ensure that SLTS continues to be unmatched in providing networking needs...”

The future rests on the shoulders of technology and at Sri Lanka Telecom Services, we are undoubtedly Future Ready as we've ensured that we anticipate future requirements, today. Our skill in providing ICT Solutions will continue to enable us to position ourselves among the best. Furthermore SLTS provides the backbone for Sri Lanka Telecom's data networking, which stands proudly as the best in the country and continues to provide total networking solutions to corporate customers, and furnish cabling systems to customer premises. Our formula for the future incorporates building a company that utilizes its legacy, teamed with superior engineering and project management skills, to continue delivering networking needs.

Now as an independent profit centre, a journey we embarked on in 2002, we are able to explore new markets leveraging on the core product offerings of Sri Lanka Telecom and this include the data networking infrastructure, the best available in the country.

With our diverse customer portfolio spanning both the public and private sectors, we currently have on going projects with the Ministry of Education, University of Colombo, Mahajana College Jaffna as well as the Department of Wildlife. We have completed projects recently for the Ministry of Education, University of Peradeniya, John Keells Group, Bandaranaike Centre for International Studies, Bank of Ceylon, MRI, Coconut Research Institute, Ministry of Defence and Board of Investment, with numerous other customers also within this portfolio, while the Irrigation Department and Ruhuna were also noteworthy initiatives instituted by SLTS, augmenting our long list of satisfied customers.

2010 also showcased that innovation can be conjoined with financial gain. We reached a turnover of Rs. 225 Million, a 50% growth compared to 2009. The newer processors acquired by the company will ensure that SLTS continues to be unmatched in providing networking needs.

Being ISO 9001-2008 certified accentuates our productivity and competence. The company's success is driven by its youthful and vigorous staff, who seamlessly adapt to newer technologies, as they become available.

As a leading network and systems solutions provider, SLTS boasts of a comprehensive portfolio of products and services. We are leveraging the availability of a broad range of expertise to build an engineering capability that will be unmatched in the industry and are thus able to provide networking and communications solutions to meet a wide range of requirements. LAN and Premises Cabling for voice, data and power, Wide Area Networking, Inter Branch Voice Communication, and Surveillance, Internet Connectivity, Internet Security, Networking Equipment Sales and providing Servers, and Managed Services are some of the services within our extensive portfolio. The company also provides a range of Products and Solutions to its customers including SLTS Mail Server Solution (Mail Doctor), IBM Server Solution, SLTS IP PBX Solution (IP Voice), Trend Net Networking Products and IT Maintenance Services.

Further emphasizing our vision of being committed to help the country bridge the digital divide providing ICT solutions aligned to international standards and given that the country's economic development is propitious, SLTS is looking forward to further growth and development in the future. Plans have been set in motion with our engineering team currently deployed in providing cabling requirements for future construction developments. We also plan to focus on the leisure and hospitality sector in 2011, as newer hotels establish themselves in the country.



SLT HONG KONG LIMITED

“...The company’s goal in Hong Kong is to generate revenues through global business by providing seamless connectivity to India and the rest of South Asia. The last three years have seen our ventures being extremely successful...”

As Sri Lanka Telecom’s singular presence overseas, SLT Hong Kong’s trajectory to being Future Ready is well in line with the expectations of the future. Initiated in 2007, this subsidiary is authorized to conduct telecommunications related business and to engage in telecommunications related activities within, as well as outside Hong Kong, aligned to the two licenses (PNETS & EFTNS) issued by the Office of the Telecommunications Authority (OFTA) in Hong Kong. Our physical presence in Hong Kong is a boon to potential businesses, as the interconnectivity between the two nations allows the company to gear itself to being ‘internationally’ Future Ready.

Hong Kong is the business hub of the South East Asian Region and our presence stems from Sri Lanka Telecom’s need to support and expand international business in this Region. The company’s goal in Hong Kong is to generate revenues through global business by providing seamless connectivity to India and the rest of South Asia. The last three years have seen our ventures being extremely successful.

Initially the company’s main business was to facilitate Sri Lanka Telecom to provide International Private Leased Circuits (the full circuit between Sri Lanka and Hong Kong) to Enterprise Customers in Sri Lanka and global carriers in the region. Thus Sri Lanka Telecom won several IPLC orders from both these customer segments with the support of SLT Hong Kong. Furthermore an advantage of the business license issued for Hong Kong territory is that we can perform submarine cable capacity sales from Hong Kong to other countries. We have been selling SEA-ME-WE3 capacity of Sri Lanka Telecom in order to facilitate the international connectivity requirement of Hong Kong based carriers, a business competency that was launched in September 2008 and continues to date. It is to be noted that submarine cable capacity sales from and out of Hong Kong territory can be exclusively implemented only by an entity duly licensed by the OFTA of Hong Kong. With Sri Lanka Hong Kong possessing that license, Sri Lanka Telecom is well poised to ensure growth in the identified business areas.

Remedial solutions are being pursued currently and we look toward the future with a sense of optimism, knowing that our business strategy will change due to the change in regulatory conditions. This optimism is fuelled by the knowledge that the Global Transfer segment is a possible and probable avenue open to us. The foundation for this venture has already been laid, given our successful relationships with operators in the region.

The new submarine cables going through India (IMEWE & EIG), will also provide us with another future operation. Given that these cables are being laid from India to Europe, touching down in the Middle East, operators from Hong Kong and the region will look to companies such as SLT Hong Kong for connectivity, as these carriers need the capacity via SMW3, SMW4 cables. Being a license holder in Hong Kong, opportunities exist for us to sell the SMW3 and SMW4 capacities. Thus, it is expected that there will be a demand from Global carriers/Global ISPs for connectivity from Hong Kong to India. Furthermore, with our positive relationships with Hong Kong based operators such as NTT and other Hong Kong entities who already have well established Data Centres in Hong Kong, opportunities to promote Sri Lanka Telecom’s Data Centre facilities among those operators, providing back up or disaster recovery facilities for their enterprise customers, are on the cards.

SLT PUBLICATIONS (PVT) LIMITED

“...SLT Rainbow Pages, the country’s most comprehensive directory, has incorporated the latest technologies to develop an IT driven, national information base and to uplift information services in Sri Lanka to the next realm...”

SLT Publications has this year come up with multiple futuristic innovations, products and services that will give our customers fast and quick access to directory information. In keeping with the SLT Group's future focus policy, SLT Publications (Pvt.) Ltd, a fully owned subsidiary of the SLT Group and the only directory publisher in Sri Lanka, has continued to align its operations with the future in mind. SLT Rainbow Pages, the country's most comprehensive directory, has incorporated the latest technologies to develop an IT driven, national information base and to uplift information services in Sri Lanka to the next stage. Our state - of - the - art information products and services now include the Directory CD, trilingual Call Centre Services, the www.rainbowpages.lk web portal, Rainbow Pages on IPTV and WAP for mobile phone access, with a host of amazing plans being developed to give our portfolio an even more customer centric, and innovative flavour.

Corporate objectives

SLT Publications' corporate objectives are to meet the Telecommunications Regulatory Commission's regulatory requirement of publishing and distributing directories under the parent company's licensing conditions, while transforming the operation into a more commercialized and diversified business entity while generating profits for the SLT Group. In addition, we are also enthusiastic about developing a national level information base and related access medium, catering to the information needs of a broader segment of telephone users that include the public. In the year under review, SLT Publications has initiated numerous developments that focus on this wide ranging scope to meet the above stated objectives.

The company revenue, which has been improving significantly, showed marked improvement during 2010. The revenue growth during the year was based on advertising revenues culled from different segments and signal the opening up of new and significant revenue streams for the Group. Profits before tax too, have shown upward inclines from around Rs 170 million in 2009 to Rs 186 million this year.

In a strategic move to enhance the national information base and to improve the dissemination of directory information, agreements

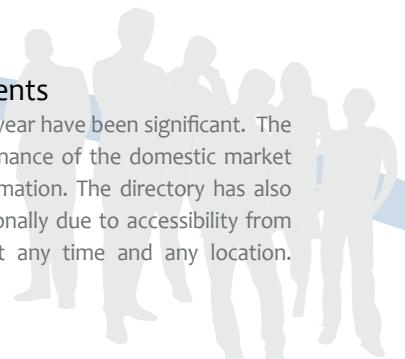
are being initiated with other telecom operators. Meanwhile, accessibility of directory information has increased sharply with the Rainbow Pages utilizing new information media such as CDs, IPTV, WAP, E Directory and the Rainbow Pages website. According to Google analytical reports, people from 154 different countries visited the Rainbow Pages website in 2010 for directory services. This online listing has exposed even local small businesses to massive international exposure. To further increase accessibility, by dialing 444, directory services have been made available to Dialog, Mobitel and Etisalat customers as well, while directory services are available to SLT customers when they dial 1231.

Work on 'Town Pages' is also under way. The Town Pages will be developed for all major cities in the country, will allow people to speedily find and access essential services including petrol sheds, garages and hospitals via Web, Call centre and WAP on their mobile phones. Other information oriented services such as digital maps are also in the pipeline.

In addition, the Rainbow Pages' highly diversified business information is regularly updated, to provide the most accurate and most comprehensive information to the general public. The classified business section of the directory contains 1,300 product and service categories and contact information of over 20,000 suppliers. In addition, information on Government Institutions, Religious Organizations and Other Organizations is also available. The Rainbow Pages directory is provided free of charge to all Sri Lanka Telecom subscribers, advertisers , government entities & business organizations irrespective of their telecom service providers. The directory is also available in all Sri Lankan embassies throughout the world.

Product Developments, Innovations and Achievements

The milestones achieved during the year have been significant. The Rainbow Pages retained their dominance of the domestic market as the primary source of vital information. The directory has also strengthened its presence internationally due to accessibility from any device especially electronic, at any time and any location.



SLT PUBLICATIONS (PVT) LIMITED

Close links with our customer base remained a priority and a major customer forum was organized to further enhance services.

The Rainbow Pages achieved a major milestone in 2010 with the Government conferring the noteworthy title of its being the only source directory for all public departments and institutions. Named by the Government as the common directory for the listing of suppliers of goods and services to all state institutions, the Finance Ministry recommended that all state institutions including ministries, provincial councils, Government departments, state corporations statutory boards, local Government institutions, authorities and state owned companies use the Rainbow Pages to find suppliers for their establishments.

State institutions can now call for quotations from reputed suppliers listed in the Rainbow Pages and select suitable suppliers as stipulated by financial regulations and procurement guidelines. The Ministry has suggested using the Rainbow Pages as an alternative method in finding suppliers for goods and services, instead of publishing advertisements calling for bids, which is very costly and time consuming.

Unlike in the past when the SLT Directory was limited to Sri Lanka Telecom customers, limiting access and listings, today, the Rainbow Pages has crossed all boundaries and directory information is accessible to anyone, including non-SLT customers. Access to information is also being actively expanded through different initiatives. Currently over 15 million customers have access to the Rainbow Pages and work is in progress with all local telecommunication operators to make the SLT Rainbow Pages the national directory. Already the Rainbow Pages has linked up with mobile service providers, Dialog, Mobitel and Etisalat.

In June 2010, the SLT Rainbow Pages, together with the Postal Department of Sri Lanka, launched an island wide business directory information collecting campaign. A pilot project was launched in Nuwara Eliya and targeted for completion in 2012. The objective of the campaign is to widen Sri Lanka Telecom listings and increase services to the country by including organizations that are not listed in our directory. Under the programme, postmen are utilized to

gather contact information on business organizations that are not currently within the Sri Lanka Telecom customer umbrella.

The e-Directory is one of the latest downloadable products we have unveiled and the exact replica of the printed version with added features. It also gives the feel of perusing the printed book. In keeping with the government policy of developing IT we feel that e-directory is the ideal solution to disseminate directory information among the rapidly expanding IT users in the country. It contains invaluable links that provide the user access to web sites and facilitates to send mails instantly. It can be readily downloaded and widely circulated via e-mail both locally and internationally. Due to practical reasons and logistical problems, SLT finds it difficult to distribute the printed directories to customers other than SLT, but this is an ideal opportunity for SLT as the flagship telecom service provider to share directory information with everybody through this novel product.

SLT Publications' extensive experience and expertise have also been harnessed to provide services to institutions and companies in order to streamline their businesses and achieve maximum results. A good example are our collaborations that have been initiated to develop 'membership directories' for professional organizations such as the Institute of Personnel Management [IPM] and the Sri Lanka Institute of Marketing [SLIM]. These directories, which not only include Membership information but also the full Rainbow Pages, are distributed in electronic format via CDs. This facilitates connectivity between professionals and the inclusion of the Rainbow Pages provides additional value. The first Member CD was successfully developed for IPM this year and received with great enthusiasm by the IPM professional fraternity.

SLT VISIONCOM (PVT) LIMITED

“...The functionalities infused within the portals of PEO TV are multi-dimensional, bringing together a host of facilities and amenities which can all be operational on the simple television, embracing the busy and diverse time schedules that are becoming the norm for the modern day Sri Lankan...”

Television viewing had undergone a complete revolution since the launch of PEO TV to Sri Lanka. No longer, is television simply entertainment. We have made it an interactive technology feature that is integral to the functioning of any home. The functionalities infused within the portals of PEO TV are multi-dimensional, bringing together a host of facilities and amenities which can all be operational on the simple television, embracing the busy and diverse time schedules that are becoming the norm for the modern day Sri Lankan. The future in television viewing has unfolded already and we at SLTVC have proven beyond doubt that we are ‘Future Ready’.

PEO TV ended 2010 with a positive sales (acquired) growth of 23% compared to year 2009. Brand awareness of SLT PEO TV increased during the year 2010 and total active IPTV customer base stood at 26,569. A very dynamic direct marketing team is on the field to expand our growth paradigms. PEO TV was launched in the Northern and Eastern provinces in 2010, while we also have representation at SLT Teleshops, ready to communicate with walk in customers.

In spite of these positive features, the company faced challenges owing to technical limitations. IPTV connections depend extensively on existing broadband coverage and unfortunately not every fixed line is eligible for broadband connectivity, which hinders our potential customer base. Thus our target range is limited to an area of 2.5 to 3 kilometres from the telephone exchange. Given that the signal does reduce and diminish beyond the stipulated area and quality therefore is compromised, our preference would be to align ourselves to quality delivery rather than post unbridled growth in numbers beyond the addressable boundaries, which may compromise quality. This would be one of the reasons for our moderate subscriber growth but one for which we have already sought remedial action jointly with SLT.

With the extension of the fibre optic network which will eventually replace the existing copper network, Sri Lanka Telecom enables us to position ourselves to make our business more viable, greatly increasing the viable areas and minimizing the limitations we now face. Currently this strategy is being evaluated in suburban areas and upon successful completion, we will have unlimited bandwidth complementing our services. Our goal is to incorporate High Definition viewing as soon as this project is completed.

Presently our Video On Demand (VoD) service offers Sinhala language films and teledramas, recently boosted with a host of English blockbuster movies and popular tele-series with the launch of SVOD in collaboration with HBO. Another facility available for PEOTV subscribers will be the telephone directory, accessible via the television, through a strategic tie up we instituted with our sister company, SLT Publications. In future Customers will simply ‘click’ the number on screen and the SLT fixed line will make the call immediately, assuring the consumer of a hassle free service. Furthermore the inclusion of a city guide service will enable viewers to access key places and even ordering food from their favourite restaurant will be a possibility in the near future, without moving away from the television!

We have introduced the new Electronic Program Guide (EPG), a more user friendly version developed in house. Through the Government Information Service (GIS), PEO TV customers are also currently offered accurate and timely information of Railway Service, which will be further enhanced with a train tracking system, while we are in negotiations with commercial banks to introduce TV banking services to customers as well. A further portal is also being created to connect vegetable farmers and retailers, eliminating the need for a “middle man”. SLT PEO TV is the only Pay TV provider that can deliver value addition beyond the local and international channels offered, clearly creating a competitive advantage in the market place. Decisions have been made to introduce newer packages with fewer international channels and more value additions, designed to have a larger impact on the Sri Lankan consumer. Plans are also made to provide multiple screens to customers by introducing “Mobile TV” and access through personal computers as a strategic move to build new markets.

Ensuring that our younger generation is Future Ready, we are currently developing an education portal, intended to revolutionize the entire face of education in Sri Lanka. The concept of ‘Knowledge Anywhere Anytime’ is being brought into focus with students being able to study and enhance their knowledge through well designed interactive study guides and lessons in their own time. With the latest applications developed, PEOTV is hoping to offer some of the most popular internet related applications such as Photo Search and email. Although at present we will not be able to offer the entire plethora of Internet search capabilities, we strongly believe that our foundation is sturdy and our thinking visionary, to make this a possibility.

SLT MANPOWER SOLUTIONS (PVT) LIMITED

“...We continued to strengthen relationships with the wide network of vocational training, educational and professional organisations who have been a partner in our journey and have a large and diverse pool of talent and competencies, in skill, knowledge and professional outlook...”

It is manpower that gears an organization for the future. Thus, our task has been to ensure that this facet has a strong trajectory driven by us, in order that the Sri Lanka Telecom Group excels when pitched against the barometer of future demands in the industry. Given our success in ensuring that the Group has and will be equipped to deal with and exceed the demanded expectations, while having implemented systems and processes that will further augment that final goal, we believe that SLT Manpower solutions has achieved the zenith of being Future Ready.

The highlight for us this year was being accorded the ISO 9001:2008 quality certification, which further endorses our focus on productivity, continuous quality improvement, efficiency and prudent cost management. The preparation process for this certification also ensured that fundamentals in HR including grievance handling and complaint management, customer centricity which involved feedback and customer satisfaction surveys and a complete streamlining of systems and processes such as software solutions were implemented speedily and efficiently. This also gave the company a strategic leaner and meaner well managed structure that will assist us in taking our future goals forward.

It must be noted that our business model is slightly different to that of the other subsidiaries as our main focus is in ensuring apt HR infusion into the Sri Lanka Telecom Group framework, to ensure optimum performance and productivity overall. Hence, our competencies lie primarily with sourcing the ‘right person for the right job at the right time’ while maintaining a healthy and contented work force, with profit and growth being the complementary priorities in this process.

Given that our mandate is in headhunting specialized talents and skills, payroll management, employee training and development, performance management, employee grievance handling, employee welfare and benefits management and industrial relations, the innovative workforce solutions provided by us ensure that the Group increases productivity vis a vis improved strategies which facilitate better quality and cost reductions, thus increasing efficiency. We

continued to strengthen relationships with the wide network of vocational training, educational and professional organisations who have been partners in our journey and have a large and diverse pool of talent and competencies, in skill, knowledge and professional outlook.

Infusing cutting edge technology that will aid an increase in efficiency and productivity also gained focus with the integration of eMpower, our own state of the art HR management software being integrated into our systems. eMpower’s uses are wide and varied and extremely user friendly, enabling our HR pool who span various literacy and social strata to access information related to their employment. We also use the system for information dispatch and collection, where employees are able to apply for leave and view their pay slip details, leave balance and other details related to their employment via the system. This facilitates the reduction of internal overheads and operational expenditure.

Personnel deployed under SLT Manpower Services number a total of 2,212 with all being given appropriate rewards, remuneration and benefits on par with the industry. Medical and hospitalization insurance, in addition to remuneration increments and performance incentives are included in the remuneration packages. Being a performance driven organization, performance reviews take high priority, with training and development initiatives being designed and implemented according to the identified gaps. We also remain conscious of maintaining a healthy work life balance for our team and have therefore instituted numerous welfare initiatives including emergency and natural disaster relief, scholarships for employees’ children, provision of uniforms and sports days to instill a sense of team work and camaraderie.

We have also begun instituting a path towards a paperless office and have introduced the concept of recycling paper, while automating 80% of our manual operations. Pursuant to these being implemented, there has been a marked increase in efficiency in our responsiveness and a positive benefit in waste management as well.

SKY NETWORK

“...the launch of the WiMax 16e rollout to us was the greatest achievement for 2010, although the challenges along the way have been many. Coverage in Phase 1 will see the establishment of 63 sites in eight districts in the country...”

Launching the first ever WiMax 16e broadband service in Sri Lanka, places us alongside the U.S.A, Russia, Malaysia, Taiwan, South Korea and Japan – developed economies that are renowned for their technological prowess in the world. WiMax, marketed in most countries as 4G technology, has therefore placed us on a springboard, propelling us towards the future - primed and Future Ready.

Naturally, the launch of the WiMax 16e rollout to us was the greatest achievement for 2010, although the challenges along the way have been many. Coverage in Phase 1 will see the establishment of 63 sites in eight districts in the country. In our fledgling month since the launch, our subscriber numbers stood at a mere 1,000 which is expected to grow significantly month by month. In a bid that introduces prudent management strategies on the platform of shared services, we are utilizing the core facilities of marketing, engineering, maintenance, billing, operational system and teleshops from Sri Lanka Telecom on a transfer price basis at present, helping both companies utilise their resources to the optimum.

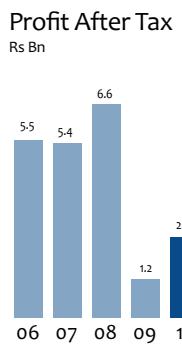
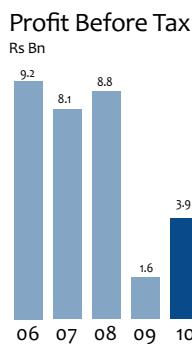
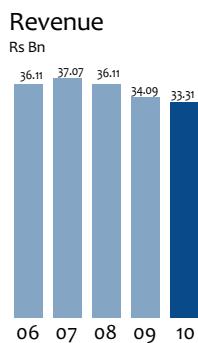
With the envisaged rollout, our team received specialized training and development in preparation, which included 48 OPMC officers completing training on CPE installation and maintenance, while related team members visited the equipment supplier in Thailand for more in depth skill development.

SNPL's objective is to provide all Sri Lankans with equal opportunities to access high-speed broadband connectivity and digital content, irrespective of location. We believe that technology should suit all lifestyles and budgets, which is why our broadband technology attempts to connect people at affordable rates by maintaining the best possible price-performance ratio. Sky Network's core business therefore is centred on providing Broadband Wireless Access (BWA) connectivity and digital content freedom anywhere in the country.

Next year will see SNPL continue the well laid plans for the rollout which include prepaid services and Layer 2 and 3 implementation, which is currently under development. Another area being pursued is the bundling of WiMax with various laptops and net-books, the possibility of higher bandwidth products depending on market sensitivities and demand, Wholesale and white labelling, special BB products for CDMA customers and IPTV offerings, for which testing has already been initiated.



SLT FINANCIAL REVIEW 2010



2010 has been the first full year of operations since the cessation of ethnic conflict and the country's fast tracked development pace which brought together avenues that would cohesively meet the targeted growth areas from a macro perspective, were seen throughout the year. As the national telecommunications solutions provider, Sri Lanka Telecom was mandated with ensuring infrastructure pertaining to ICT was quickly established aligned with the country's vision of far reaching development vis a vis expansive connectivity. This in fact was spurred further with the SLT Group initiating some pioneering and visionary initiatives that would help us achieve that mandate. This meant that capital projects and initiatives were upped considerably this year while at the same time, we accelerated our plans for accessibility to all parts of the country which in turn cascaded to milestone revenue growth and profitability. Cost management initiatives gathered more momentum and the prudent measures we had already implemented last year were further enhanced to bring about astute equilibrium between revenue and expenditure.

Revenue

Revenue at Group level reached Rs. 50.25 billion which is the highest revenue achieved by a listed company in a financial year, signalling a major hallmark in our journey. Group level revenue growth was mainly driven by Mobile Voice and Fixed Broadband. At company level, SLT experienced a marginal drop in revenue to Rs. 33.31 Bn in 2010 from Rs. 34.09 Bn in 2009, mainly due to price pressures and alternative solutions available in the market

Fixed wire line and CDMA saw reduction in revenue this year, primarily driven by reduced usage of fixed wireline. Subscriber numbers did see an upward curve of 3%, in wire line while CDMA saw a decline of 2%. Although these features do bring about a pall in the final results, numerous initiatives were implemented through the year to stem the persistent negativities which saw a stabilization in fixed voice revenue towards latter part of the year and an increase in revenues posted by broadband, wholesale and IPTV.

Expenditure

Key priority in 2010 was to effectively manage our expenditure, an initiative that gained immense focus from the very first quarter of 2010. Key initiatives were imbued and expenditure management reporting systems, controls and monitoring given emphasis. This was certainly a challenge but one that was managed very pragmatically and sees us showcases a reduction in expenses at Group Level and Company Level.

Interest Costs

There was a noteworthy reduction in interest costs which were positively impacted due to improved cash flow, compared to the challenges we grappled with last year with high interest expenses.

The Voluntary Retirement Scheme (VRS)

The Voluntary Retirement Scheme accepted by employees this year saw a reduction in numbers compared to previous year. The total amount expended on the VRS this year was Rs. 189 Million compared to Rs. 480 Million in 2009.

Profitability

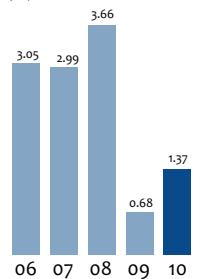
Sizeable increases are seen in profitability at Group level and Company level, with the former posting a profit before tax of Rs 5.96 billion and after tax profit of Rs. 3.94 billion, displaying a noteworthy 327% and 407% increase respectively. At Company level SLT posted a profit before tax of Rs 3.94 billion and a profit after tax of Rs. 2.48 billion, displaying a growth of 147% and 101% respectively.

Interest Cover

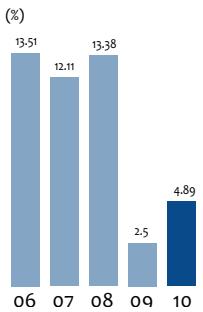
Interest cover was also increased due to the repayment of borrowing. It has improved from 2009 to 13.48% in 2010.

Interest cover has also shown a favourable trend due to the increase in profitability and repayment of borrowings in 2010.

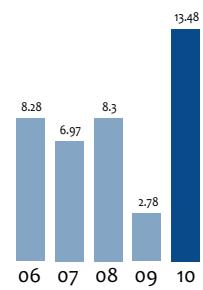
Earnings Per Share
(Rs)



ROE
(%)

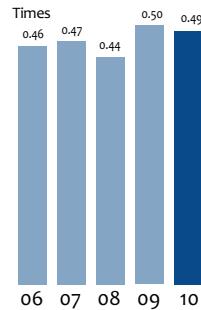


Interest Cover
(Times)

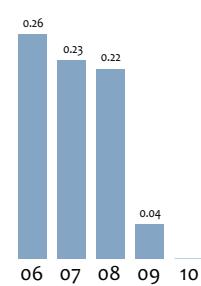


SLT FINANCIAL REVIEW 2010

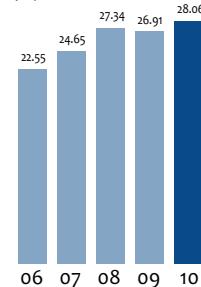
Assets Turnover



Gearing



NA per Share (Rs)



Cash Flows

There was a significant improvement in collections which greatly augmented our working capital both at Group and entity level. Provision for bad debts for the year reduced by Rs. 626 Million and 595 Million for the Group and Company respectively.

Group annual free cash flow showed an incline from a negative Rs. 2.03 billion in 2009 to Rs. 8.8 billion in 2010, while Company annual free cash flow increased to Rs. 5.8 billion from Rs. 2.51 billion. Comparatively low capital expenditure and better performance overall, saw an improvement in cash flows.

Balance Sheet

Gearing

At Group level gearing as at 31st December was 0.14 and 0.22 while at Company level gearing was reduced to almost zero from 0.04 in 2009.

Non Current Assets

Total non-current assets of the Company decreased marginally to Rs. 48.48 Bn, as against Rs. 50.67 Bn from the previous year.

Property, Plant & Equipment

The property, plant & equipment decreased by Rs. 2.19 Bn from Rs. 36.26 Bn in 2009 to Rs. 34.07 Bn in 2010.

Investments in Subsidiaries

The increase in investments in subsidiaries amounting to Rs. 0.20 Bn was related to Rs. 0.20 Bn investment in Sky Network (Private) Limited.

Activity and Liquidity Ratios

The envisaged changes did take place during the year. Fixed Asset turnover increased from 0.94 in 2009 to 0.98 in 2010.

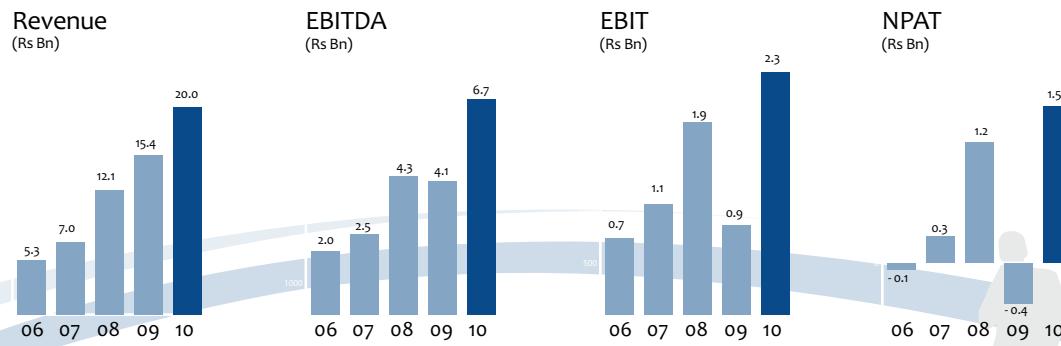
MOBITEL FINANCIAL REVIEW 2010

Mobitel excelled in delivering an exceptional performance during the year under review in all spheres of its business. Company was able to record a strong growth in profitability due to consolidation of Mobitel's market position, realizing highest reported operating profit (EBIT) of Rs.2.34 billion in 2010. This was attained as a combined result of 30% growth in revenue over previous year duly complemented by cost efficiencies obtained through a well managed cost structure.

In a market that is fast approaching maturity Mobitel was able to capture a significant share of prepaid subscribers amidst intense competition while making significant strides in mobile broadband segment which is the new growth force in the infocomm industry. Thus in 2010 company was able to consolidate its position further with its subscriber base reaching 4 million and revenue crossing the milestone of Rs. 20 billion. This revenue growth was achieved through the continued growth in prepaid services complemented by Mobile Broadband gaining momentum. This growth in subscriber base and revenue can be attributed to carefully executed strategies based on value innovation and brand building through service excellence.

The EBITDA recorded a strong growth as a result of increased revenues and the appreciable reduction in operating expenditure as a percentage of revenue. Additionally, the continuous improvement in productivity measures positively contributed towards growth in EBITDA. Moreover the EBITDA growth above 60% was achieved despite net out payment on domestic interconnection.

This significant growth in EBITDA contributed to an EBIT growth of 172% and a Net Profit growth of 482% over previous year. During the year company recorded a net profit of 1.5 Bn and it is pertinent to note that while the macroeconomic environment having favourable impact on profitability company had to overcome several challenges such as the growing intensity in competition, slowing of voice market and having to provide corporate tax for the full year amounting to Rs 431Mn.



A COMPETITIVE EDGE

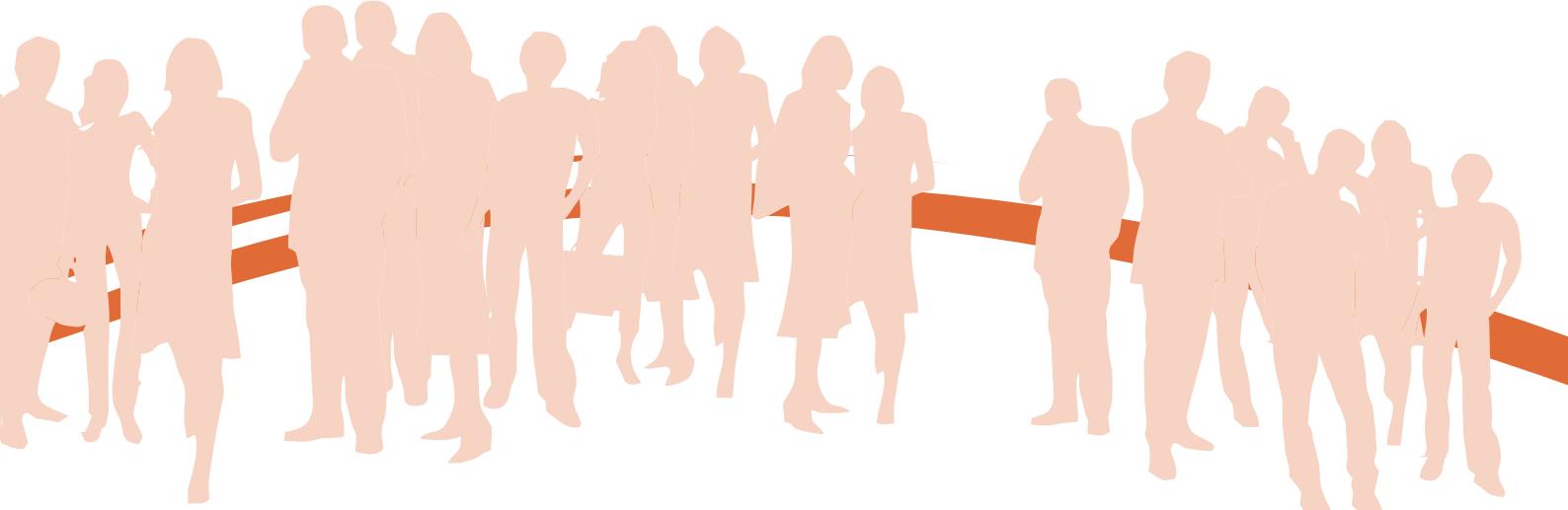
Committed to empowering the people of Sri Lanka



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GOVERNANCE REPORTS



RISK MANAGEMENT

The management of risk is an important element in the achievement of organisational business objectives. Risks can be both positive and negative: Negative risks are unrewarded risks which are being adopted, avoided or transferred by allocating minimum resources, whereas positive risks are the rewarded risks which are the opportunities that should be managed by allocating appropriate resources, as these eventually lead to the growth of the business by creating and realising value for stakeholders.

The present context of the telecommunications industry has necessitated the management of a numbers of risks arising from the effects of globalization, rapid development of technology, competition among international players in the local market, changes in the legal and regulatory framework and the economic downturn. In this scenario SLT has no option than to carefully manage both unrewarded and rewarded risks in order to grow, create and realize value. At this juncture senior management shall identify the most critical business risks, assign the owners to that risk and communicate appropriately to functional units on how best to manage the risk.

In this regard, SLT's Company Transformation Programme (CTP) delivered a first version of risk management capability i.e. risk management process to create risk-intelligence across SLT. Now all the projects initiated through the CTP are being evaluated against our risk management framework, a process that is slowly evolving to maturity. Furthermore, in 2011 all proposed investment projects must contain the 'Risk Intelligent Component' within their business cases to obtain approval and qualify for fund allocation. This is a positive step taken to safeguard the shareholders' investment and create value for stakeholders while growing the business in the future context of the industry.

Apart from that, initiatives have been taken to deliver the next version of the risk management capability - Enterprise Risk Management (ERM) through CTP. In this regard, SLT will take reference of ERM framework of The Committee of Sponsoring Organization of the Tradeway Commission (COSO) and ISO31000:2009 standard to deliver the capability. This will enable SLT to define its own ERM framework to suit to business requirement. The Board of Directors and the senior management are committed to setting the tone of ERM across SLT. A mature ERM structure takes time and effort however the initial investment in the ERM process is low, with the only requirement being triggering knowledge #

The ERM will provide dynamic and critical risk information that would affect the achievement SLT's business objectives. It will also provide Key Risk Information (KRI) so that the board and senior management can make better decisions through solid insights and better intelligence. The company is thereby able to initiate an appropriate response plan and implementation strategy to manage risk.

Many of the risks and uncertainties that influence the performance of Sri Lanka Telecom are macroeconomic and are likely to affect the general performance of the business sector. However there are other risks which are particular to our operations. In this section we have attempted to highlight some of those particular risks identified as affecting our business, and our approach to the mitigation or management of those risks.

The nature of the risks facing our business changes constantly – while some potential risks may be unknown to us today, there are others that we may consider immaterial in the present, which may become material risks in future. As such, we recognise that this is not an extensive or exhaustive analysis of the gamut of risk and uncertainty affecting our business. What we have highlighted are those issues which have the potential to impact our business, revenue, profits, assets, liquidity and capital resources adversely, prioritised according to their likelihood of occurring and potential impact. The regulatory environment and market environment are discussed in greater detail due to their significant influence on the business of the Group.

Market risk

While there are many factors which contribute to the high level of competition, the prominent factors include technology substitution, market and service convergence, customer churn, declining levels of market differentiation, declining market growth rates, regulatory intervention which is focused on promoting competition, and the emergence of competitors with distinctive and non replicable sources of competitive advantage.

SLT faces a number of challenges in relation to growing revenues. A distinct challenge is that our voice and connectivity business is a mature business subject to price deflation and declining or negative market growth rates leading to declining revenues, margins and cash flow. The net effect is that we increasingly have to look beyond the voice market to secure profitable revenue growth from adjacent markets, both inside and outside the country.

This in turn is dependent on developing strong and advantaged competitive positions in attractive product and service markets. As well as looking beyond the voice market we also need to deliver major new investments (e.g. super-fast broadband) which will not only help us defend existing revenues but also open up new adjacent markets for us to penetrate. These new areas of growth might not yield the necessary returns or offset declining revenues in our traditional business, if we fail to manage their associated risks that include high investment in development and launch.

The markets in which we operate are very competitive. In the consumer market, our voice and broadband offerings compete with a range of players and propositions. Our competitors include a number of well known brands that utilise SLT's infrastructure to provide competing services in telephony and broadband.

Legal and Regulatory Risks

SLT is faced with the risk of changes in the regulatory environment, and steps are taken to ensure our readiness to face sudden and unexpected regulatory changes. The company maintains close dialogue with the regulator and the industry on key issues and is an active participant in collective discussions while key company employees are constantly evaluating the regulatory environment and the potential business impact of new proposals.

Regulation of Tariffs

Some of our activities continue to be subjected to significant price and other regulatory controls which may affect our market share, competitive position and future profitability.

The revenue of SLT can even be adversely affected by the recently introduced price revisions of voice services, broadband services, leased circuits and backhauling services where the prices had to be slashed down due to market and regulatory pressures towards the achievement of government objectives of increasing broadband penetration in the country.

Many of our wholesale fixed network activities are subject to significant regulatory controls which are reviewed periodically. The controls regulate, among other things, the prices we may charge for many of our services and the extent to which we have to provide services to other operators.

Operator License

One of the challenges identified for 2011 is the need for renewal of SLT's 20 year operating license, which expires on 07 August 2011. The

company is in the process of requesting its renewal from the Telecom Regulatory Commission. However, the regulator is in the process of formulating a Next Generation Network (NGN) policy for Sri Lanka through which a new licensing regime will be introduced and SLT may be the first operator to face the newly introduced changes to license conditions.

SLT has noted the main changes with regard to the licensing structure of future, as detailed in "Public Consultation for NGN Policy" published by TRC, and we have identified that some of these changes can cause a direct impact on some of the business areas of SLT. The main objective of the new TRC policy and framework for NGNs and high speed broadband services is to address the main technical, economic and regulatory issues that we may need to overcome in order to migrate and adopt NGN while protecting the interests of existing consumers as well as the stakeholders in the telecom sector.

National Backbone Network (NBN)

TRC intends to establish a National Back bone network to facilitate the transportation of the networks of telecom operators and TRC strongly believes that the existing SLT fibre network could be used, by way of entering into a partnership model with SLT for provisioning of the network transport facilities to all operators. Under such circumstances, the fibre backbone network presently owned by SLT, should be prepared to deliver services to other operators with stringent regulations where the wholesale business model needs to be suitably adjusted to deliver national service obligations. This may even have a negative impact on the revenue of SLT due to stringent regulation of wholesale prices by the TRC.

Socioeconomic and political risk

Socioeconomic and political factors can have a considerable influence on the business climate and are often not within the company's control. Following the end of the North East conflict and the successful completion of Presidential and General elections, the political uncertainty of the country has been greatly reduced, while the economy has been buoyant. While the environment remains positive for the foreseeable future, we recognise that a sudden downturn could impact our operations and results negatively. SLT has thus sought to establish itself as a superior service provider, made inroads into multiple channels and has mechanisms in place to review pricing structures if need be.

Technology risk

SLT is critically dependent on the secure operation and resilience of its information systems, networks and data. The scale of our

RISK MANAGEMENT

business and global nature of our operations mean we are required to manage significant volumes of personal and commercially sensitive information. Any significant failure or interruption of such data transfer as a result of factors outside our control could have a material adverse effect on the business and our results from operations. We have a corporate resilience strategy and business continuity/disaster recovery plans in place, designed to deal with such catastrophic events including, for example, major terrorist action, industrial action, cyber-attacks or natural disasters. A failure to deliver that strategy may lead to a reduction in our profitability and there can be no assurance that material adverse events will not occur.

Human Resource risk

Sri Lanka Telecom relies on its cadre of competent employees to achieve its business targets and maintain steady growth. It is imperative that the company is able to retain existing talent and recruit new talent to successfully manage the business. In response to this risk, SLT has made efforts to create a positive workplace culture where careers are nurtured and performance is rewarded. By building a strong employee brand, we aim to ensure that SLT remains an employer of choice.

Reputational risk

The image of SLT in the eyes of its many stakeholders has a profound impact on our business and as such, we are extremely cautious of negative perceptions that may create a bad reputation and tarnish our image, thereby impairing our ability to operate. In order to mitigate the possibility of reputational risk, the Group engages in constructive dialogue with stakeholders, regularly surveys customer satisfaction levels and monitors our obligations to our business partners. Furthermore, the Group engages in extensive Corporate Social Responsibility initiatives in an effort to establish positive relationships with our stakeholders.

Financial Risk

SLT continues to adopt a holistic approach in managing financial risk. Accordingly, the company has developed following financial risk management measurements to mitigate these risks.

Exchange Rate (FX) Risk

Foreign Exchange Risk is a major source of Market Risk and is unavoidable in any entity where re-pricing of Foreign Currency Assets and Liabilities are not identically matched. The company manages its Foreign Exchange exposure by maintaining foreign currency accounts for related inflows and using same for paying off its Liabilities in

Foreign Currency. This serves as an effective hedging mechanism against Foreign Currency exposure.

As a further measure, only optimum amounts are maintained in these Foreign Currency accounts and any excesses are converted to SLT's base currency (LKR) after carefully studying the future forecasts of the currency movements.

Interest Rate Risk

Interest rate Risk mainly arises as a result of SLT having interest sensitive assets and liabilities, which are directly impacted by changes in the Interest Rates. The Company's debt and investments are maintained in a mix of fixed and variable interest rate instruments and periodical maturity gap analysis is carried out to take timely action and to mitigate possible adverse impact due to volatility of the interest rates.

Liquidity Risk

Liquidity Risk is risk that an entity may not be able to meet its payment commitments due to unforeseen factors or be forced to borrow funds on unfavourable terms. In order to manage this risk, SLT employs regular financial planning and monitoring systems to ensure that sufficient cash flows are available to meet all financial commitments on time.

Credit Risk

The possibility of losses arising from the diminution in the credit quality of debtors can be considered the Credit risk. This Risk may not be limited to Balance Sheet items, but can also arise as a result of Off-Balance Sheet items such as Financial Guarantees .Comprehensive systems and procedures are in place to monitor and evaluate debtors and recoveries of the company. Further, Pre-paid sales are used as a means of mitigating Credit risk.

Operational Risk

Operational Risk is an unavoidable part of SLT's business as it is inherent in all the processes and operations that provide service to the customers. This Risk mainly arises due to losses arising from fraud, human error, unauthorized activities, omissions, negligence, inefficiency, process errors, system failures or external events. SLT manages this Risk through sound and acceptable internal controls, well-defined processes, policies and procedures which are reviewed and updated periodically in response to changing conditions.

CORPORATE GOVERNANCE

Why is corporate governance important?

Corporate governance refers to the way that Boards oversee the running of a company by its managers, and how Board members are held accountable to shareowners and the company. This has implications for Company behaviour not only towards shareowners but also towards employees, customers, those financing the company, and other stakeholders, including the communities in which the business operates.

Research shows that responsible management of environmental, social and governance issues creates a business ethos and environment that builds both a company's integrity within society and the trust of its shareowners.

The Board of Directors of Sri Lanka Telecom PLC understands that good governance is fundamental to good business decision-making and organisational performance. Sri Lanka Telecom PLC has continuously endeavoured to abide by best practices in governance; and conducted operations in a legal and ethical manner displaying professionalism, transparency and accountability. Thus, for instance, the Company as a listed entity has adhered to the following laws and regulations, which constitute part of the statutory and regulatory framework governing its affairs:

1. The Companies Act No. 7 of 2007
2. The Telecommunication Act No. 25 of 1991 (and amendments thereto)
3. The Listing Rules of the Colombo Stock Exchange
4. Inland Revenue Act No. 10 of 2006 (and amendments thereto)
5. Various laws which govern industrial relations such as the EPF Act, ETF Act, Shop and Office Employees Act and Payment of Gratuity Act
6. The Articles of Association of the Company

The Board, which operates as a single team, is made up of the Chairman and eight non-executive directors. During the 2010 financial year,

seven non-executive directors out of nine directors met, and continue to meet, the criteria for independence set out in the Colombo Stock Exchange Listing Rules and are therefore considered by the Board to be independent. The Board viewed the Chairman as independent at the time of his appointment.

The Board is ultimately responsible for the management of the group's operations in addition to discharging certain legal responsibilities. It has final responsibility for the group's strategy and for overseeing the group's performance. Its principal focus is on:

- Strategy Development
- Growing shareholder value
- Oversight and control
- Corporate governance

It approves SLT's

- Annual Business Plan
- Strategic Plans
- Capital expenditure and investments budgets
- Larger capital expenditure proposals
- Overall system of internal controls, governance and compliance

The Board also oversees controls, operating and financial performance and reviews the risk management process. The Board normally meets once in two months and if necessity arises, on a monthly basis.

With the Chief Executive and the Company Secretaries, the Chairman ensures that the Board is kept properly informed, is consulted on all issues reserved to it and that its decisions are made in a timely and considered way that enables the directors to fulfill their fiduciary duties.

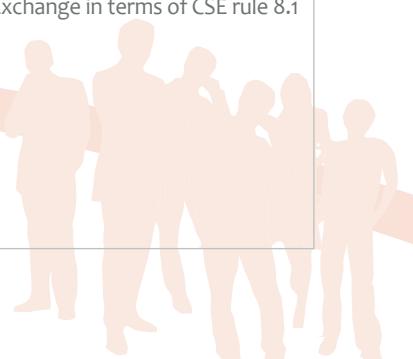
Corporate Governing Reporting

The Company's Corporate Governance structure is illustrated below.



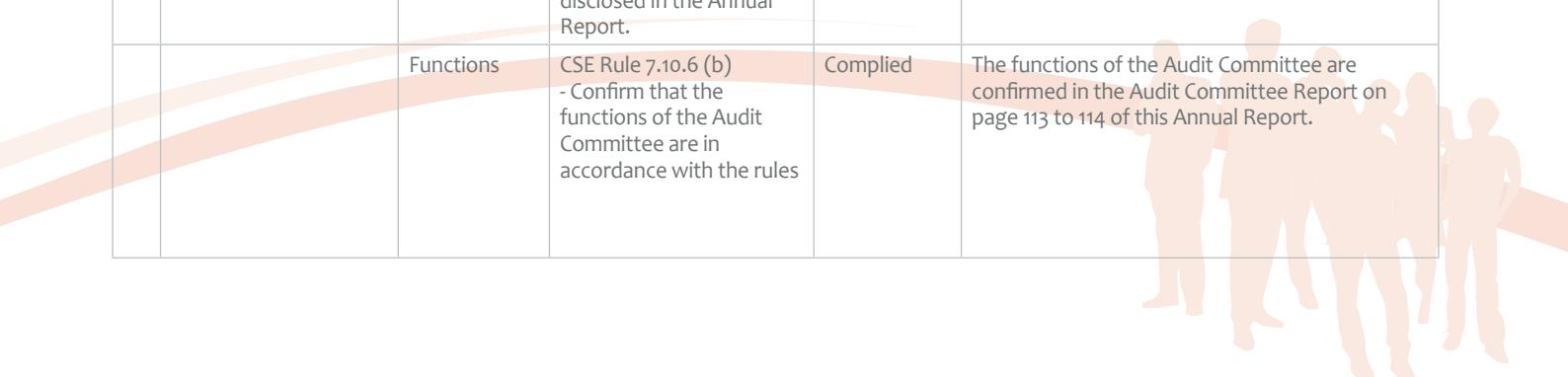
CORPORATE GOVERNANCE

Corporate Governance Principle			Level of Compliance by Sri Lanka Telecom PLC		
Disclosure regarding the Board of Directors					
1	Board of Directors	Composition	Rule 7.10.1 (a) -2 or such number equivalent to 1/3 of the total number of Directors, whichever is higher should be Non-Executive Directors	Complied	Board currently comprises nine members, all of them being non-executive Directors (one of whom is the Chairman) Details of each Director's background appear in the Annual Report pages 32 - 35.
			Rule 7.10.1 (b) -The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding AGM	Complied	At the conclusion of the previous AGM held on 27th April 2010, being the immediately preceding AGM of the Company, the Board was comprised of 9 Directors all of whom were Non –Executive Directors
			Rule 7.10.1 (c) - Change occurring to the ratio referred above shall be rectified within 90 days from the date of the change.	Complied	No change has occurred to this ratio during the period under review.
		Disclosures relating to Directors	Rule 7.10.2. (a) - 2 or 1/3 of the Non-Executive directors appointed to the Board of Directors, whichever is higher Shall be “independent”	Complied	The Board comprised of nine Non-Executive Directors, Seven of them being independent Directors.
			Rule 7.10.2 (b) - The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non independence against the specified criteria in a specified format	Complied	In accordance with the criteria for “Independence” specified by Section 7.10.4 of the listing rules of the Colombo Stock Exchange, the Board has received a declaration signed and dated by the each non-executive director of their independence/non independence.
			Rule 7.10.3 (a)- Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of Directors determined to be “independent”	Complied	According to the declarations submitted by the Directors, out of the nine directors 7 directors were considered independent non-executive directors. The remaining two directors - namely Mr. Chan Chee Beng and Mr. D. Widanagamachchi are considered to be non independent. Mr. Chan Chee Beng is a director of the Board of Global Telecommunication Holdings N.V which has a significant stake in SLT and Mr. D Widanagamachchi also an employee of Ministry of Finance and Planning which holds 49.5% stake in SLT through the Secretary to the Treasury.

Corporate Governance Principle			Level of Compliance by Sri Lanka Telecom PLC	
Disclosure regarding the Board of Directors				
		Rule 7.10.3 (b) -In the event a Director does not qualify as 'independent' against any of the criteria set out in rule 7.10.4 of CSE rules but if the Board, taking into account all the circumstances, is of the opinion that the Director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report	Complied	The Board did not consider them Independent since the independent directors exceed the requirement of 2 or 1/3 of the total non – executive directors.
		Rule 7.10.3 (c) - A brief resume of each Director which includes information on the nature of his/her expertise in relevant functional areas is to be published in the Annual Report	Complied	The biographical details of the Directors are set out on pages 32 - 35 of this Report
		Rule 7.10.3 (d)- Upon appointment of a new Director to its Board, the entity shall forthwith provide to the CSE a brief resume of such Director which includes details relating to Rule 7.10.3 (a), (b) and (c) above	Complied	<p>During the year the following new Directors were appointed in terms of Article 97 of Articles of Association of the Company to fill the casual vacancies arising from the resignation of Directors from the Board</p> <p>Mr. Nimal Welgama - appointed w.e.f 20.05.2010</p> <p>Mr. Jayantha Dharmadasa - appointed w.e.f.26.05.2010</p> <p>Mr. Shameendra Rajapaksa - appointed w.e.f 26.05.2010</p> <p>Mr. Kalinga Indatissa - appointed w.e.f 26.05.2010</p> <p>Mr. Lawrence Paratz - appointed w.e.f. 26.05.2010</p> <p>Mr. Dayananda Widanagamachchi - appointed w.e.f 05.07.2010</p> <p>Shareholders are informed of the appointment of new Directors by announcement on the Colombo Stock Exchange in terms of CSE rule 8.1</p> 

CORPORATE GOVERNANCE

Corporate Governance Principle			Level of Compliance by Sri Lanka Telecom PLC	
Disclosure regarding the Committees				
2	The Remuneration Committee	Composition CSE Rule 7.10.5 (a) The remuneration Committee shall comprise of a minimum of 2 independent Non –Executive Directors (in instances where an Entity has only two directors on its Board); or of non-executive directors a majority of whom shall be independent, whichever shall be higher.	Complied	The Remuneration Committee consists of 3 Non-Executive Directors all being independent Non-Executive Directors. The Committee has recommended a new set of Terms of Reference for the Committee based on the international best practices for approval of the Board.
		Whether separate Remuneration Committee is formed or whether the Remuneration Committee of listed parent is used.	Complied	The Company has formed a separate Remuneration Committee
		Non –Executive Director shall be appointed as the Chairman of the Remuneration Committee by the Board.	Complied	The Chairman of the Remuneration Committee is a Non-Executive Director.
		Functions CSE Rule 7.10.5 (b) - The Remuneration Committee shall recommend the remuneration payable to the Executive directors and CEO, to the Board of the Company which will make the final determination upon consideration of such recommendation	Complied	The Remuneration Committee of SLT has been permitted to oversee the matters relating to the subsidiary Companies' remuneration policies and procedures in order to maintain uniformity and transparency in remuneration rates. The Committee has met twice during the year 2010 and has recommended the annual bonus and salary review of employees of SLT and its subsidiary Companies for approval of the Board taking into consideration each Company's ongoing progress and individual performance criteria. The CEO's Remuneration shall be decided by the Board of Directors considering the recommendation of the Remuneration Committee and the remuneration to the other members of the management shall be decided by the CEO, following consultation with the Remuneration Committee and the Board of Directors. The remuneration levels for the management shall be revised yearly. A fixed basic remuneration shall apply to management members, based on position/area of responsibility, qualification and individual performance. As a general rule, variable remuneration shall be paid out to all the employees based on their performance.

Corporate Governance Principle			Level of Compliance by Sri Lanka Telecom PLC	
Disclosure regarding the Committees				
		<p>Disclosure in the Annual Report</p> <p>CSE Rule 7.10.5 (c) – The Annual Report should set out the names of the Directors comprising the Remuneration Committee, contain a statement of the Remuneration policy and set out the aggregate remuneration paid to Executive Directors and Non –Executive Directors</p>	Complied	<p>The Board of Directors has appointed a Remuneration Committee within the Board, consisting of the following directors:</p> <p>Mr.Jayantha Dharmadasa – Chairman Mr. Sandip Das Mr. Nimal Welgama</p> <p>A customised performance management scheme has been implemented based on ‘pay for performance’ with individual organisational performance ratings for all employees (executives and non-executives). This is also extended to the other subsidiaries companies’ employees.</p> <p>The aggregate remuneration paid to Directors is disclosed on page 131 (Note 6 to the Financial Statements) of this report.</p>
3	Audit Committee	<p>Composition</p> <p>CSE Rule 7.10.6 (a) – The Audit Committee shall comprise of a minimum of 2 independent Non-Executive Directors (in instances where an entity has only two Directors on its Board) or of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher</p>	Complied	<p>The Audit Committee comprises of five Board members of whom the majority are independent, non –executive Directors. As prescribed in the Listing Rules of the Colombo Stock Exchange, Mr. Chan Chee Beng a member of the Committee is a fellow member of the Institute of Chartered Accountants of England & Wales with several years of experience in financial, auditing and accounting.</p>
		<p>Whether a separate Audit Committee is formed or whether the listed parent’s Audit Committee is used.</p>	Complied	<p>The Company has formed a separate Audit Committee.</p>
		<p>The names of the Directors (or parent in the parent Company’s committee in case of a group Company) comprising the Audit Committee should be disclosed in the Annual Report.</p>	Complied	<p>The names of the members of the Audit Committee and other information pertaining to the Committee are given on pages 113 to 114 of this Annual Report.</p>
	<p>Functions</p> 	<p>CSE Rule 7.10.6 (b)</p> <p>- Confirm that the functions of the Audit Committee are in accordance with the rules</p>	Complied	<p>The functions of the Audit Committee are confirmed in the Audit Committee Report on page 113 to 114 of this Annual Report.</p>

CORPORATE GOVERNANCE

Corporate Governance Principle	Level of Compliance by Sri Lanka Telecom PLC
Chairman & CEO Division of Responsibilities	<p>The functions of the Chairman and CEO are clearly separated in order to ensure a balance of power and authority, so that no individual has unfettered powers of decision.</p> <p>The Chairman is responsible for leadership of the Board. In particular, he will:</p> <ul style="list-style-type: none"> • Ensure effective operation of the Board and its committees in conformity with the highest standards of corporate governance. • Support the Chief Executive in the development of strategy and, more broadly, to support and advise the Chief Executive. <p>The Chief Executive is responsible for leadership of the business and managing it within the authorities delegated by the Board. In particular, he will:</p> <ul style="list-style-type: none"> • Develop strategy proposals for recommendation to the Board and ensure that agreed strategies are reflected in the business. • Develop annual plans, consistent with agreed strategies, for presentation to the Board for support. • Plan human resourcing to ensure that the Company has the capabilities and resources required to achieve its plans. • Develop an organisational structure and establish processes and systems to ensure the efficient organization of resources. • Be responsible to the Board for the performance of the business in consistence with agreed plans, strategies and policies. • Lead the executive team, including the development of performance contracts and appraisals. • Oversee the performance of strategic investments made in subsidiaries.
Procedures for Directors to obtain independent professional advice	The Articles of Association of the Company provide provision for directors to take independent professional advice in the furtherance of their duties at the expense of the Company.
Access to Company Secretary	All directors have access to the advice and services of the Company Secretaries.
Independent judgment	<p>The presence of independent non –executive Directors with proven experience and success in their respective fields creates an environment in which an uninhibited exchange of views can take place. This has yielded improvements in both compliance and performance.</p> <p>The non executive directors possess considerable skills in their respective fields that include Finance, Treasury management, Marketing, Legal and Telecommunications, enabling them to contribute better decision making at the Board.</p>
Dedication of adequate time and efforts to matters of the Board and Company	<p>The Company provides for the meeting of non-executive directors appropriately in order to give opportunity to non-executive directors to discuss problems and suggestions for the company operations and development.</p> <p>The non-executive Directors dedicate reasonable time and effort to the affairs of the Company. They do so within busy schedules for other work and business commitments and, as a consequence, the principal focus of their endeavours (while operating within a sound base for corporate governance) must necessarily be the promotion of the Company's activities and improving shareholder value. In addition to attending Board meetings, they attend sub-committee meetings and also make decisions via circular resolution. The Board sub-committees include;</p> <ul style="list-style-type: none"> • Audit Committee • Remuneration Committee • Procurement Committee/Senior Tender Board • Technologies Sub Committee

Corporate Governance Principle	Level of Compliance by Sri Lanka Telecom PLC
Technologies Sub Committee	<p>The Board felt that though it is not a statutory committee it is an integral part of any business which deals with technology and it provides platform to engage in intense technical discussion and to look at roadmaps and its long term perspective.</p> <p>Technologies Sub Committee comprises of three (03) non-executive Directors namely Mr. Lawrence Paratz, Mr. Shameendra Rajapaksa and Mr. Jeffrey Jay Blatt and the Chief Executive Officer taking into consideration their expertise in the field of technologies.</p> <p>Mr. Lawrence Paratz, who became the Chair of the Committee, has more than 30 years experience in all facets of the telecommunication industries including mobile, fixed, broadband, satellite and international networks both domestically and internationally.</p> <p>According to the Terms of Reference approved by the Board, the technical heads of SLT and its subsidiary companies are brought together for sharing the group synergies/opportunities and for collective learning.</p> <p>The Responsibilities of the Committee are to review relevant matters with members of the group in four key areas;</p> <ul style="list-style-type: none"> • Review existence and appropriateness of plans • Review existence and appropriateness of processes • Review planned and achieved Network Performance, and Methods of Assessment • Review the Company's Technology, People and Skill Plans and their implementation.
Senior Tender Board	<p>The Senior Tender Board "STB" plays a vital role in the procurement process where it has the responsibility of both taking/recommending the final decision of all procurements. It also reviews SLT's procurement strategy and procurement plans/processes and actual performance. Consolidation of common procurement requirement across SLT and its subsidiaries to leverage economies of scale and competition across common strategic vendors is also a one of the key function of the STB.</p> <p>The STB comprises of seven members including 4 non-executive directors, Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer appointed by the SLT Board.</p> <p>The Board is of the view that the STB adds great value to the whole end-to-end procurement process of the Company and good decision making thereon.</p>
Role of Chairman Leading Board deliberations & facilitating participation of all Directors	<p>The Chairman's primary responsibility is leading the Board and ensuring its effectiveness.</p> <p>The role of the Chairman includes:</p> <ul style="list-style-type: none"> • Setting the Board agenda, ensuring that Directors receive accurate, timely and clear information to enable them to take sound decisions, ensuring that sufficient time is allowed for complex or contentious issues, and encouraging active engagement by all members of the Board; • Ensuring effective communication with shareholders and in particular that the Company maintains contact with its principal shareholders on matters relating to strategy, and governance. Ensuring that the views of shareholders are communicated to the Board as a whole; • Being available to the Chief Executive to advise on matters relating to strategy and operations; • In conjunction with the Chief Executive, representing the Company to customers, government, shareholders, financial institutions and the community.
Supply of information Adequacy of Notice and Formal Agenda to be discussed at Board Meetings	<p>The agenda for the business to be transacted at board meetings is circulated at least a week in advance of the meeting along with the comprehensive proposals and reports submitted by the key Senior Executive Management through the CEO to be considered at the meeting for approval and information of the Board, and to seek their guidance and direction.</p> <p>During the year under review, the following important matters were considered on the agenda.</p> <ul style="list-style-type: none"> Review of long term strategy initiatives Review and approval of Annual Business Plan and forecasts Review appointment of External Auditors Approve publication of all Interim and Annual Financial Statements.

CORPORATE GOVERNANCE

Corporate Governance Principle	Level of Compliance by Sri Lanka Telecom PLC																																																	
Board appointments and Re –election of Directors	<p>A formal procedure for all Board appointments is maintained as per the Articles of Association of the Company. The Articles of Association of the Company require that 1/3 of the Directors retire and are eligible to be re-elected by the shareholders at the Annual General Meeting. The Directors who so retire in a year shall be those who have served the longest in office since their last election. Shareholders must formally approve all new appointments at the first opportunity after their appointment as provided by the Article 91 of the Articles of Association of the Company.</p>																																																	
Board Meetings	<p>During the year 2010, there were 7 Board meetings and the Board has maintained an excellent record of attendance at the meetings. The attendance of the Directors at the Board meetings is detailed as follows;</p> <table> <thead> <tr> <th></th> <th>Date of Appointment</th> <th>No. of meetings attended</th> </tr> </thead> <tbody> <tr> <td>Mr. Nimal Welgama</td> <td>20.05.2010</td> <td>04</td> </tr> <tr> <td>Mr. Sandip Das</td> <td>05.06.2008</td> <td>07</td> </tr> <tr> <td>Mr. Chan Chee Beng</td> <td>05.06.2008</td> <td>06</td> </tr> <tr> <td>Mr. Jeffrey Jay Blatt</td> <td>05.06.2008</td> <td>07</td> </tr> <tr> <td>Mr. Jayantha Dharmadasa</td> <td>26.05.2010</td> <td>04</td> </tr> <tr> <td>Mr. Shameendra Rajapaksa</td> <td>26.05.2010</td> <td>03</td> </tr> <tr> <td>Mr. Kalinga Indatissa</td> <td>26.05.2010</td> <td>02</td> </tr> <tr> <td>Mr. Lawrence Paratz</td> <td>26.05.2010</td> <td>04</td> </tr> <tr> <td>Mr. D Widanagamachchi</td> <td>05.07.2010</td> <td>03</td> </tr> </tbody> </table> <p>Three (03) Board meetings were held prior to the resignations of the following directors. The attendance at the meetings during their tenure are as follows</p> <table> <thead> <tr> <th></th> <th>Date of Resignation</th> <th>No. of meetings attended</th> </tr> </thead> <tbody> <tr> <td>Mrs. Leisha De Silva Chandrasena</td> <td>19th May 2010</td> <td>03</td> </tr> <tr> <td>Mr. Sumith Wijesinghe</td> <td>19th May 2010</td> <td>03</td> </tr> <tr> <td>Mr. Sidath Fernando</td> <td>24th May 2010</td> <td>03</td> </tr> <tr> <td>Mr. Yoga Perera</td> <td>24th May 2010</td> <td>03</td> </tr> <tr> <td>Mr. U R Seneviratne</td> <td>26th May 2010</td> <td>02</td> </tr> </tbody> </table> <p>The Board meetings were conducted on a formal agenda which covers the main functions and responsibilities of the Board.</p> <p>The Board reviewed and approved the Company's 3 year strategic business plan providing strategic direction to the management.</p> <p>The Board members are permitted to obtain independent professional advice from 3rd parties as deemed necessary which includes the Company's external lawyers and auditors, at the expense of the Company</p>			Date of Appointment	No. of meetings attended	Mr. Nimal Welgama	20.05.2010	04	Mr. Sandip Das	05.06.2008	07	Mr. Chan Chee Beng	05.06.2008	06	Mr. Jeffrey Jay Blatt	05.06.2008	07	Mr. Jayantha Dharmadasa	26.05.2010	04	Mr. Shameendra Rajapaksa	26.05.2010	03	Mr. Kalinga Indatissa	26.05.2010	02	Mr. Lawrence Paratz	26.05.2010	04	Mr. D Widanagamachchi	05.07.2010	03		Date of Resignation	No. of meetings attended	Mrs. Leisha De Silva Chandrasena	19th May 2010	03	Mr. Sumith Wijesinghe	19th May 2010	03	Mr. Sidath Fernando	24th May 2010	03	Mr. Yoga Perera	24th May 2010	03	Mr. U R Seneviratne	26th May 2010	02
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Mr. Yoga Perera	24th May 2010	03																																																
Mr. U R Seneviratne	26th May 2010	02																																																
Appraisal of the CEO	<p>The annual appraisal of the CEO is carried out at the Board level considering the Company performance and taking into consideration the recommendations of the Remuneration Committee in line with terms of his contract .</p>																																																	
Relations with Shareholders	<p>By order of the Board, the Company Secretaries giving the requisite advance notice, forward the Annual Report in printed form to those who have requested and CD ROMs to the rest of the shareholders. The Notice convening the meeting provides details of the Agenda to be dealt with at the meeting as separate resolutions.</p>																																																	

Corporate Governance Principle	Level of Compliance by Sri Lanka Telecom PLC
Annual General Meeting	<p>Shareholders are encouraged to participate in Annual (and other) General Meetings to ensure a high level of accountability and identification with the Company's strategies and goals. A process is in place to record all proxies lodged at the registered office as stipulated in the Form of Proxy that accompanies the Annual Report. Along with the Notice of Meeting, The Company Secretaries inform the shareholders of their voting rights as well as the procedure they could adopt to vote in the event the shareholder is unable to attend the meeting. A copy of the AGM Notice is sent to the Company's external auditor as required by law. As also required by law, the auditor's representative attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.</p>
Major Transactions	<p>There were no Major Transactions as defined under Section 185 by the Companies Act No. 07 of 2007 during the year under review.</p>
Accountability and Audit	<p>The Board is accountable to the stakeholders of the Company to ensure that the business is conducted in an appropriate manner based on approved business plan and that the financial and non-financial targets of the Company are achieved.</p> <p>The Annual Business Plan is approved by the Board after detailed management review.</p>
Financial Reporting	<p>The interim and annual financial statements are prepared and forwarded in a timely manner. The Colombo Stock Exchange is updated with any information that is considered to be price sensitive while regulatory reports and returns are submitted by the due dates.</p> <p>The Board ensures that the financial statements of the Company and the Group are prepared in compliance with the relevant Sri Lanka Accounting Standards, the requirements of the Colombo Stock Exchange and the Companies Act No.07 of 2007.</p> <p>The Statement of Directors' Responsibility for the preparation of the Financial Statements is provided on page 112 while the report of the Auditors is on page 115.</p>



SUSTAINABILITY REPORT



GENERATIONS AHEAD

Committed to empowering the people of Sri Lanka



SUSTAINABILITY REPORT

“What is sustainability? It’s more than environmentalism. It’s about living and working in ways that don’t jeopardize the future of our social, economic and natural resources. In business, sustainability means managing human and natural capital with the same vigor we apply to the management of financial capital. It means widening the scope of our awareness so we can understand fully the ‘true cost’ of every choice we make.”

Ray Anderson,
Sustainable Business Guru and CEO of Interface Inc.

The Sri Lanka Telecom Sustainability Mission

Having meticulously built strong relationships with all our stakeholders for over one and half centuries, we have also added the dimensions of fulfilling our responsibilities to our customers, valued business partners, investors, government authorities and regulatory bodies, our team and the wider community and environment into our wider business canvass. The unveiling of our new corporate vision, mission and values takes us towards our goal customer centricity and emphasized our commitment to all our stakeholders, mapping the journey of being Future Ready.

Being Future Ready means that we have not only have to get our physical infrastructure in order, but also that our tangible and intangible resources must all be aligned to the macro vision of being Future Ready. This is doubly accentuated with our role as an organization tasked with the responsibility of being a role model and mentor for others, and therefore imperative that our actions are constructed on the springboard of transparency and accountability, while we ensure that we remain aware of those impacts. If the impacts are adverse even though all our actions

have been sincere, accountable and transparent to the best of our knowledge, we realize that we must make amends speedily to minimize that adverse impact. We have continued to promote public interest and development of all stakeholder groups.

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

Sustainability Reporting at Sri Lanka Telecom

Our Sustainability Reporting process is yet in its fledgling years although, as an organization we are striving towards aligning ourselves to the GRI process. While Sri Lanka Telecom continues to construct strong foundations in sustainability for all stakeholders groups, documentation and quantification of such actions in a uniform manner is yet being experimented with. However, we do realize the importance of this process and have thus, attempted



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to work on the GRI guidelines and present a sustainability report that reports on the triple bottom line concept of economic, social and environmental dimensions, and will include a majority of the features required in such a report.

Sustainability Report for Annual Report 2010

Our standing as a national entity and a corporate leader in Sri Lanka is etched indelibly in the economic annals of Sri Lanka's history. In similar vein, it is important that Sri Lanka Telecom remains true to the underlying tenets of social responsibility which have now evolved into the wider sphere of sustainability, broadly based on economic, social and environmental platforms. Ours is a national responsibility, not simply to those immediate stakeholders but rather one that encompasses the whole nation. As the national telecommunications solution provider, we are also one of the largest employers in the country, while augmenting the dual role of industry leader as well, which naturally permeates to being even more conscious of the need for accountability, transparency and sincerity of action in everything we do.

While being acutely aware of this responsibility, we have unreservedly supported the State's interventions when it came to national needs and expectations, being a strategic partner in the national journey of development, upliftment and sustainability. We have thus enhanced value with each of our stakeholder segments – shareholders, customers, employees, investors, suppliers, regulatory and other related state authorities, the media, the community and in the larger context, the State.

We have now transformed ourselves into a truly Future Ready organization, grasping opportunities and building on them to ensure that the organization remains a sustainable going concern, very conscious of the role we play in the larger macro picture. Our investment into constructing and strengthening our national backbone, where the Next Generation Network (NGN) becomes an integral part of connectivity and ensuring that our business strategies ultimately envision state of the art communication avenues for the entirety of Sri Lanka, penetrating every corner of this country both rural and urban goes hand in hand with improving the quality of life of the community around us and gaining optimum from our human resources. Our accolades have been many this year including being named among the top 10 Best Corporate Citizens in Sri Lanka, runner up in the Knowledge integration category

and the Infrastructure & Utility category in the National Business Excellence awards, Number One in the Business Today Top Twenty and winning the SAFA and Institute of Chartered Accountants of Sri Lanka Annual Report Award.

Hence, this Sustainability Report undertakes the reporting process realizing there are constraints but with an open mind that will enable us to realize those constraints to find solutions and gain a positive advantageous impact overall. This report is life-centered and we have tried to explore the real meaning of operationalised sustainability, which is ultimately how sustainability fits into the formula of a business. We have striven to show our sustainability reporting in a practical sense and how it fits into the daily operational aspects of Sri Lanka Telecom and our commitment to ensure that we remain truly aligned to our larger vision.

Economic Dimension

Our contribution to national development is indicated by the fact that we continue to remain the undisputed market leader and the national telecommunications solutions provider, having a comprehensive and extensive slew of products and services to meet and exceed customer expectations. For 150 years, Sri Lanka Telecom has been continually working towards being Future Ready and has continued to maintain its position as the backbone and instigator of the telecommunications revolution in Sri Lanka. The cutting edge technology, innovations and multiple platforms of connectivity that the company has introduced, have given every Sri Lankan citizen the option of being connected. Penetration continues to grow and the investment thus into mega infrastructure continues unabated.

While we reached our milestone of a revenue standing of Rs 50 billion, the first and only Sri Lankan company to do so, it is significant that our contribution via taxation to the Government Treasury, utilizes those funds towards large scale development projects. This in effect ensures ready funds for the government to invest into the ambitious development plans in place for fast tracking national development. Direct & Indirect Taxation for 2010 alone stood at approximately Rs. 9 Billion positioning us as the second largest taxation contributor to the Government of Sri Lanka and we appreciate that these funds are a significant facet in the sustainable development of the nation.



SUSTAINABILITY REPORT

We have been consciously partnering the Government of Sri Lanka in its Ten Year Development Plan based on the UN Millennium Development Goals, wherein ICT becomes a citizen's right rather than an option. Our strategies and plans therefore are constructed on this foundation, with the National Backbone now firmly established, the accessibility of ICT to difficult and rural areas through Nanasalas, Schoolnet, Government and LEARN, the WiMax launch and the New Generation Network leapfrogging the country into the next dimension of connectivity.

Investor Relations

The average daily volume of shares traded during this year was around 100,000, although this volume was constrained by the low free float of Sri Lanka Telecom shares trading on the CSE. As the Government together with its affiliates and Global Telecommunications Holdings N.V, hold more than 97% of issued share capital of the Company, the free float remains below 3% or 54 million shares, which is owned by about 15,000 investors.

We also worked on educating and creating awareness by engaging with investors and analysts during the year, vis a vis media releases and one to one meetings. One of the highlights of the year was our participation at the IIFL organized Discover Sri Lanka 2010 conference which brought together a high powered delegation of global investors to Sri Lanka, intent on studying and analysing the investment potential available in the country.

Sri Lanka Telecom (www.slt.lk) is one of the country's most valuable blue chip companies with an annual Group turnover in excess of Rs 50 billion. Global Telecommunication Holdings N.V. of Netherlands owns 44.9% stake in Sri Lanka Telecom (SLT) as at end December 2010, while 52% of the shareholding comes under the ownership umbrella of the Government of Sri Lanka and its affiliated institutions. The Company having an issued stated capital of Rs. 18,049 millions representing 1,804.46 million shares is listed in Colombo Stock Exchange.

The company was rated at AAA (lka) on National Long Term Rating and Long-term Local Currency and Foreign Currency Ratings as BB- and B+ respectively by Fitch Ratings with a positive outlook, while Standard & Poor's rated the company at BB- and B+ respectively on local currency and foreign currency credits with a positive outlook.

Reiterated Ratings

Being the country's most valuable blue chip company having surpassed the milestone of Rs 50.25 billion in turnover, which is certainly commendable in the annals of corporate Sri Lanka, it is noteworthy that Sri Lanka Telecom is the first company to have achieved this feat. The company's creditable performance during the year has been further augmented with the ratings conferred by both Fitch Ratings and Standard & Poor's, the latter a notch above the country rating, signaling our financial credibility and viability. Fitch Ratings awarded an AAA rating on the National Long Term Rating for the fourth consecutive year and a BB- on Long Term Local Currency. Standard & Poor's awarded a B+ rating for both Long Term Corporate Rating and Long Term Debt Rating.

List of Twenty Major Shareholders based on their Shareholdings as at 31 December 2010

Name of Shareholder	No. of Shares	%
Secretary to the Treasury	893,405,709	49.5
Global Telecommunications Holdings NV	811,757,869	44.98
Employees Provident Fund	18,891,689	1.05
Sri Lanka Insurance Corporation Ltd-Life Fund	17,713,735	0.98
National Savings Bank	13,158,700	0.73
Bank of Ceylon A/C Ceybank Unit Trust	8,776,600	0.49
Employees Trust Fund Board	3,302,188	0.18
Sri Lanka Insurance Corporation Ltd General Fund	3,164,200	0.18
Deutsche Bank AG-London	1,200,000	0.07
Bank of Ceylon A/C Ceybank Century Growth Fund	969,400	0.05
Associated Electrical Corporation Ltd	853,100	0.05
Ellawala Exports (Pvt) Ltd	500,000	0.03
Union Assurance PLC/ No-01A/C	488,200	0.03
Mr. C.K. Vandrevala/ Mrs. P. Hiranandani	463,000	0.03
The Incorporated Trustees of the Church of Ceylon	414,100	0.02
HSBC Intl Nom Ltd-HSBC-Fund Services A/C 006- JF Asia New Frontiers Fund	367,500	0.02
E.W. Balasuriya & Co. (Pvt) Ltd	322,200	0.02
The Ceylon Chamber of Commerce Account No.02	290,400	0.02
Commercial Bank of Ceylon PLC A/C No.04	286,600	0.02
Mr. M.T.T. Al - Nakib	260,000	0.01
Total	1,776,585,190	98.46

Analysis of Shareholders According to the Number of Shares as at 31-Dec-2010

Resident	No. of Shareholders	No. of Shares	Percentage %	Non Resident	No. of Shareholders	No. of Shares	Percentage %	No. of Shareholders	No. of Shares	Percetange %
1 to 1000 shares	10,235	3,587,636	0.2	18	8,500	0	0	10,253	3,596,136	0.2
1001 to 10000 shares	3,086	13,107,956	0.73	39	183,600	0.01	0.01	3,125	13,291,556	0.74
10,001 to 100, 000 shares	425	8,341,518	0.46	15	539,700	0.03	0.03	440	8,881,218	0.49
100,001 to 1,000,000 shares	21	6,297,300	0.35	5	1,423,100	0.08	0.08	26	7,720,400	0.43
Over 1,000,000 Shares	7	958,412,821	53.1	2	812,957,869	45.04	45.04	9	1,771,370,690	98.14
Total	13,774	989,747,231	54.84	79	815,112,769	45.16	45.16	13,853	1,804,860,000	100



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Returns to Shareholders

31 Dec. 03	First & Final Dividend	902,430,000
31 Dec. 04	First & Final Dividend	902,430,000
31 Dec. 05	First & Final Dividend	1,353,645,000
31 Dec. 06	First & Final Dividend	1,804,860,000
31 Dec. 07	First & Final Dividend	1,804,860,000
31 Dec. 08	First & Final Dividend	1,804,860,000
31 Dec. 09	First & Final Dividend	451,215,000
31 Dec. 10	First & Final Dividend	1,082,916,000

Categories of Shareholders

Analysis of Shareholders	No. of Shareholders	No. of Shares
Individual	13,674	25,486,284
Institutional	179	1,779,373,716
Total	13,853	1,804,860,000

Trading Activity, Year - on -Year

	2010	2009
No. of Transactions	9730	8180
No. of Shareholders traded	24,014,500	14,655,550
Value of Shares Traded (Rs)	1,005,295,210	625,084,199

Share Price Trend	2010	2009	2008	2007	2006	2005	2004	2003
Highest Value (Rs.)	51	48	49.75	43.25	29.75	27	23	30
Lowest Value (Rs.)	35	39.5	29.75	28	14.75	15.5	15	10.5
Last Traded Price (Rs.)	49	46	31	31.5	27.75	16.5	15.5	18
Market Capitalisation (Rs. Billion)	88.44	83.02	55.95	56.85	50.08	29.78	27.97	32.49

AAA (Ika)

National Long term rating for the seventh consecutive year

BB-

BB- The Local Currency IDR (Issuer Default Rating)

B+

B+ for both Long Term Corporate Rating and Long Term Debt Rating by Standard & Poor's

Honours, accolades and recognition

As mentioned above, from a bottom line perspective, Sri Lanka Telecom has accomplished a corporate first in being the only Sri Lankan company to achieve the milestone of reaching Rs 50 billion in turnover. In addition to our emphasis on accountability and transparency in our systems, processes and reporting features, all of which etch our ranking in the honour roll of corporate leadership, our Future Ready journey has won a number of kudos in various spheres, further emphasizing these tenets.

- Business Today Top Twenty awards
 - SLT among top 10 business entities in Sri Lanka
 - ‘BT top 10 awards’ through evaluation of listed companies for its ratings
 - No. 7 (2009 - 2010)
- National Business Excellence awards
 - Knowledge integration category - runner up
 - Infrastructure & Utility category - runner up
- Best Corporate Citizens awards
 - SLT among top 10 Best Corporate Citizens in Sri Lanka
- Taiki Akimoto 5S Competition conducted by JASTECA
 - SLT won 3 merit awards and 2 certificates of commendation
- LMD 50 ratings
 - SLT among top 5 business entities in Sri Lanka
 - ‘LMD 50 awards’ through evaluation of listed companies
- ICASL - Annual report awards
 - Gold award in the telecom category.

- SAFA International Awards
 - Best presented accounts in the ICT sector
- Sri Lanka Telecom receives ISO 9001:2008 certification
 - For the Quality Management System established in its Call Centre and Customer Service Centres.

Our Valued Business Partners

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

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



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Rewarding Dealers

Each year, Sri Lanka Telecom felicitates and honours the commitment and hard work displayed by dealers around the country through the Annual Dealer Convention held in strategic parts of the country. While continuous dialogue is conducted throughout the year, this dealer convention also helps in finding solutions to challenges faced by these loyal dealers, while recognizing them individually for their stellar performance. This year, Dealer Conventions were held in Jaffna and Bandarawela.

Procurement Procedures

A very transparent process is implemented in procurement as we strongly believe that sound economic fundamentals must be instituted to ensure a win-win solution for both the procurer and supplier. All procurement has a standardized uniform format built on levels of transparency. Tenders from interested suppliers are initially called for and Sri Lanka Telecom uses its secure complete online tendering and procurement system to add meritocracy to the process. The online system allows easy registration, is cost effective, allows a choice of immediate notification of status of surveys using numerous methods including SMS and email, allows systematic amendment notification of the system and is completely paperless, efficient and speedy.

Further, a new survey was launched by the Procurement Division to gauge satisfaction levels and obtain feedback internally, on the quality of the procurement procedures and improvement areas if any. Solutions implemented are:

Supplier Dialogue

In addition to the suggestion and complaint box available for suppliers to formulate an open dialogue with us, continuous surveys are conducted to further augment this process, ensuring that we gain frank and up to date information and feedback from our suppliers, which forms the springboard to raise the continuous improvement bar.

Our Customers

Our new vision, mission and values have much riding on the fundamentals of customer centricity, which is ultimately what drives us towards being Future Ready. As a very strong brand that has stridently championed the tenet of delivering on our brand promises and values, Sri Lanka Telecom has journeyed a long way in ensuring top of the mind recall, building and retaining confidence and delivering strongly and consistently in our promise of quality, innovation, technology advancement and customer service excellence. The islandwide state of the art infrastructure supported by a highly specialized team whose experience spans decades, has given us an undisputed positioning at the top of the ladder, as Sri Lanka's premier telecommunications solutions provider.

One of our most strategic steps implemented in creating this strong sense of customer centricity comes from the fact that Sri Lanka Telecom Call Centres and Customer Centres, the lifeblood of our customer communication strategy are now a fully fledged ISO 9001:2008 certified units. Having infused the ISO Quality Management Systems within our internal workings vis a vis



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cohesive Quality Circles, Continuous Improvement Teams, Kaizen and 5S, all efforts at inculcating best practices into our customer service initiatives, these ISO certified Centres are now firmly placed on a platform of providing better service, building strong bonds between our customers and creating an open dialogue culture which in effect gives the company astute feed back to be Future Ready. The Regional Telecom Offices and Teleshops at Havelock Town, Maradana, Nugegoda, Ratmalana, Wattala, Kotte, Kalutara, Panadura, Anuradhapura, Chillaw, Gampaha, Gampola, Kandy, Kurunegala, Matale, Negombo and Polonnaruwa all now come under the umbrella of ISO certification.

Customer Satisfaction & Complaints

As a feature of the ISO process, we have in place a perceptive and well thought out procedure to deal with customer complaints. Our Regional Telecom Offices and Teleshops continued to conduct customer surveys each month to gauge customer satisfaction levels, problem areas and gaps that need to be bridged. The findings on these surveys are regularly analysed, with gaps and improvements addressed with workable solutions being implemented. The Quality Assurance Division also conducts customer surveys, with one of its primary functions being to ensure that recommended solutions and corrective actions are speedily and effectively implemented. We have seen a continuous improvement in customer service levels with the corrective actions taken based on customer feedback.

In addition, the call centre also monitors information such as the number of faults reported remaining un-rectified, how many have been acknowledged and when no action was taken. This information is then disseminated and corrective action effected.

Key Customer Service Features

Being customer centric has spurred us to initiate a number of features into our products, services and offerings to ensure that our wide and varied customer portfolio will always remain on par with or exceed the prevailing paradigms available in the telecommunications industry today. Throughout 2010, we concentrated on numerous facets that would allow us to enhance our delivery promise and quality of service consistently and with much greater commitment.

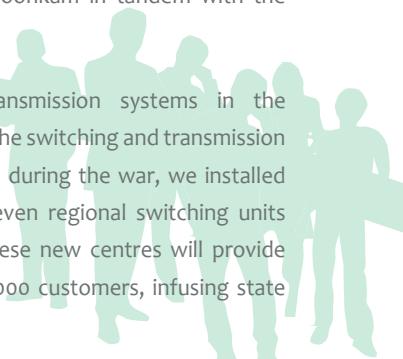
Enhancing Broadband Quality – With our emphasis on quality coming to the fore this year, we now provide dedicated Internet services to customers with volume based packages offering a 1:1 contention ratio. This is exclusively for customers who do not use shared bandwidth. We also have the advantage of offering unlimited Broadband packages which are benchmarked as the best broadband speed in the market. We also upgraded international Internet bandwidth to a capacity of 8.3 Gbps, giving customers the option of a better broadband experience.

SLT Citylink Melody service for prepaid customers – SLT extended the Citylink Melody service to prepaid customers as well, a facility that was hitherto only available for postpaid customers. The Citylink Melody services comprise an extensive collection of songs in English, Tamil, Sinhala and Hindi languages.

PDAs for Field Maintenance Staff – To ensure speedy response to customer needs, all Field Maintenance staff were provided with PDAs, positioning us yet another notch ahead in excelling in customer service. They now have access to faults information including fault reference number, detailed description of fault (including any equipment and supplies needed and their quantity etc.) and location. In addition, no sooner a fault is rectified, the fault status is updated on the PDA, which then gets updated in the SLT Clarity system so that Call Centre staff will be able to accurately respond to further queries by the customer. It also provides a more effective way of monitoring performance and keeping track of work in progress.

The North and East gets connected – Steering the mega development plan in which the North and East gain considerable fillip in connectivity, we established 14,000 new connections to the network for the North and East of the country. Those telecommunication networks that had been destroyed during the war years were restored in Kilinochchi, Nallur, Nelliady, Chavakachcheri, Kopai, Manipal, Choonkam in tandem with the new connections being established.

Re-establishing switching and transmission systems in the Northern Peninsula – Rehabilitating the switching and transmission systems which had been deconstructed during the war, we installed two new switching centres with seven regional switching units in the Jaffna and Mannar areas. These new centres will provide communication services to over 12,000 customers, infusing state



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of the art cutting edge communicating technology into the region, which had hitherto not had the option of such modern initiatives being available to them.

Enabling the visually challenged

We continued with our option of presenting Braille bills for the visually challenged customers who request it. With the underlying theme of inclusivity for all customer segments which would create an enabling and empowered society in the larger sense, this is just one such aspect that we, as a responsible corporate citizen can introduce into the tenets of customer service prevalent today.

Governance

Being the National Telecommunication Solutions Provider, it is imperative that we walk the talk in setting an example for others in the corporate arena. We want to be recognized as a company that is governed firmly on the tenets of transparency, accountability, sincerity of action and values as being the fundamental of our operations. We strictly conform to stringent governance and accounting policies guidelines wherein our financial, governance and risk management policies are in conformance to the standards and guidelines laid down by the Institute of Chartered Accountants of Sri Lanka, the Telecommunication Regulatory Authority of Sri Lanka, the Government of Sri Lanka and other relevant statutory authorities that govern such issues. (A more detailed version of our corporate governance and risk management practices is contained in the Corporate Governance Section of this report).

Social Dimension

The social aspect in sustainability reporting is wide and varied but the common thread that runs through is the fact that relationships must be strengthened in both an internal and external sense. Whether it's our team or the community we work in, our social stakeholders perform a vital and crucial facet to ensure the sustainability of our business. This is a fundamental that remains very much atop our conscience and one where we realize that our responsibility to the human features of our organization forms the unshakable foundation to our continued success as a business.

A Team for the Future

Over the years, we have built a team that we can unreservedly proclaim as being Future Ready. The innovations, engineering feats, entrepreneurial culture, unparalleled professionalism, varied communication strategies and the overarching banner of ensuring connectivity across the country to bring empowerment and inclusivity to every citizen our driven on multiple dimensions by our dynamic and highly motivated team. It is they who have taken on a stance of ownership to ensure the success, achievements and results we have been enjoying and infused sustainable features to guarantee a 'continuing business'. It must be noted that having essentially been operated as a public sector organization which did have its hereditary challenges, Sri Lanka Telecom's amazing team took it upon themselves to drive towards 'Future Ready', driven to deliver on ever increasing standards and quality platforms which now steers our focus towards strengthening the efficiencies and efficacy within our team.

We are an equal opportunity company, adhering to all relevant ILO and other relevant statutory regulations pertaining to employment procedures. All recruits, male or female are treated with equality, where meritocracy overrides all other factors in promotions, benefits and career progression. We ensure that the working environment for our team is devoid of discrimination and harassment of any kind, instituting stringent policy adaptations and continuous reviews of existing policies. We encourage our team to use technology for personal development as well as to seek awareness on regulatory and policy issues that have an impact on their working lives.

Sri Lanka Telecom's staff strength is 6291 made up of a healthy mix of professionals, technical experts, management, field operatives and a dynamic support staff. The Voluntary Retirement Scheme which has been a regular feature from last few years, saw 102 employees opt to take the VRS. This is aligned to working towards a leaner meaner organisational structure that will be built on productivity and enhanced quality, while ensuring optimum performance at all levels. Recruitment procedures are concentrated on internal head hunting rather than external recruitment. Our recruitment policy is based on the paradigm of 'the right person for the right job', culled internally from the already existent HR pool.

Transforming mindset, instilling change

With the launch of the new vision, mission and values this year, Sri Lanka Telecom's Transformation Programme, begun a few years ago, took on the added dimensions of fast tracking the culture and the workings of the organization. The Transformation Programme is aimed at transparently and openly creating an environment where team members are guided into the evolving company tenets, now very much positioned as a leading corporate in Sri Lanka.

The company Transformation Website was launched this year in three languages providing team members with updated information on the progress of the programme and initiatives being implemented by us. Team members can also seek answers to any questions they may have regarding the Transformation Programme.

The Transformers Awards Scheme was introduced to reward those team members who have made outstanding contributions towards the Transformation Programme, initiating and spearheading change and project management excellence.

The internal newsletter Amathuma also publishes a dedicated section with news pertaining to the Transformation Programme. This has the added benefit of team members' families also staying abreast of the progress of this Programme.

A telephone survey conducted by an independent research agency gauged employee knowledge and understanding on the depth of the Transformation Programme. The results displayed that

the awareness and communication campaign carried out by us was extremely successful, recording 98% of survey respondents, unequivocally stating that they comprehended the major elements of the Programme.

Grievance handling

While Sri Lanka Telecom has a comprehensive published Code of Conduct for all personnel within the organization, we also introduced an emancipated grievance handling procedure, which serves as a means of fostering harmony and understanding among the team and also between employee and employer. Into this procedure, we have added counseling, awareness creation and education on a wide range of topical issues, which have over the last five years, seen the positive feature of a decrease in absenteeism, which was a significant challenge for us to overcome.

Industrial Disputes

Dealing with a large number of trade unions, in effect amounting to 32, the cordial relations we have developed over the years with our trade unions have held us in good stead to the mindset change we had to instill in order to create the apt milieu for looking ahead. The change culture we introduced had the input and support of the trade unions, who in turn permeated the message positively to their membership and also ensured that no industrial disputes came in the way of progress. The unions, some of which are politically affiliated, have been amazing partners in our bid for change, where transforming mindset, introducing new systems and processes and creating a performance driven culture were significant



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challenges which the unions cohesively helped us through, with a smooth transition. This is the fourth year in which the company has operated smoothly, devoid of any industrial disputes since the beginning of our transformation evolution.

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

Performance Management

Our performance evaluation process this year added the introduction of a quarterly performance review for the upper echelons of management, reviewing the performance of the cadre of general managers and above. This is to ensure that the performance driven culture we espouse continues to be improved and developed for optimum results. We already have a fully fledged performance evaluation and grading system which enables all employees to work towards their individual career advancements aligned to their personal ambitions and goals. Training and development is thus aligned to these aspirations with knowledge gaps bridged along the journey.

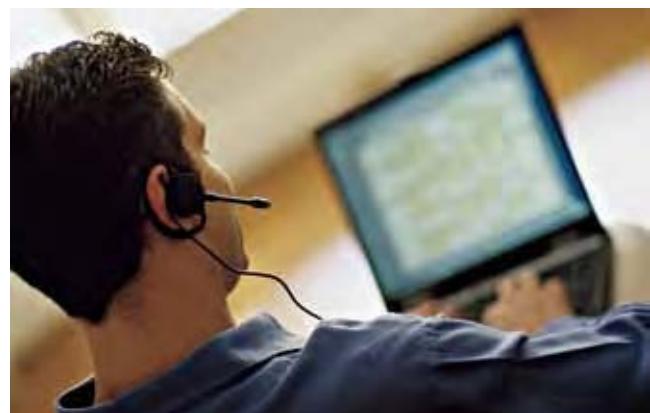
Knowledge Permeation

Given the competitive playing field and our very own ambitious objectives, it is essential that skills and knowledge within our team are continually upgraded and enhanced. This includes keeping abreast of all aspects of the technology evolution which means studying and developing knowledge, an activity that's strongly encouraged at Sri Lanka Telecom.

Training and development therefore takes on added impetus each year. Both internal and external training workshops are conducted with some aligned to training needs and individual career goals. Soft skills are also developed in tandem, while technological boundaries are broken in training technical staff to deliver the best in competencies and technology. Seminars on product awareness, sales, effective communication, people management, network security and ethical hacking and taxation all formed a part of the extensive calendar pertaining to training and development.

e-Learning

The concept of knowledge anywhere anytime has been brought home at Sri Lanka Telecom with the introduction of e-learning into the annals of Training & Development. Not only does the e-learning concept assist in disseminating knowledge to a larger number of persons, it also can be done with minimum hassle and maximum productivity. Wherever possible, our T&D now works on disseminating training programmes through e-learning modules based on a comprehensive manual, enabling our team members to avail themselves of a variety of lessons and competencies.



SLT Libraries

This thought process is augmented further as we keep adding the latest range of books, magazines and periodicals in both hard copy and electronic formats to the three libraries which now have a collation of over 30,000 books. These libraries are at Head office, Havelock Town and the Welisara Training Centre. The Havelock Town library is open not only to members of our team, but also to their family members as well.

Amathuma/Digital Life magazine

This is a tri-lingual internal magazine which compiles the latest activities, news and information pertaining to Sri Lanka Telecom and the industry. This also serves as a memoir of past activities and individual achievements of both team members and their families. A dedicated segment on nature and eco-friendly initiatives, in addition to Digital Life which disseminates information about the latest technological innovations, add lustre to the publication. To effectively optimise company resources, the publication is now circulated once in two months as opposed to monthly as it was done in earlier years.

Media Watch & Art Watch

Providing the most up to date industrial and cultural information, these vignettes are circulated to the team each Wednesday via the Intranet, to provide a more holistic take on socio cultural information which includes events and programmes scheduled during the week.

Information Security Handbook

In order to emphasize the importance of information security and other related information, we produced an information security handbook in all three languages which is now widely circulated among the team.

Knowledge Towards Service Excellence Quiz

Held at the Swiss Residence in Kandy for the Central and North West, North Central and Western (North) Provinces, the 48 competing teams made up of 192 team members pitched their knowledge against each other in the arena of customer service excellence. While Training & Development ensures a definite improvement in knowledge competencies, quizzes and competitions add a different dimension to the concept of learning, as they bring in the features of excitement, passion and teamwork into the T&D arena.

SLT Quiz 2010

On our foundation of customer centricity, this is an annual table quiz conducted for the frontline staff, in order to enhance their knowledge of customer products and services. The subjects for the quiz range from SLT products and services, to billing and operational support systems, collection and credit control, business rules and processes, customer care, the telecommunications business environment as well as latest communication technologies. Held at Water's Edge Battaramulla, the quiz saw the participation of 42 teams (of four members each), comprising staff from all regional telecom offices.

Open Culture

We pride ourselves on having inculcated an open dialogue culture where an open door policy allows for a two way dialogue. From an emancipated process of performance evaluation, performance based remuneration and rewards, to training, career progression, a constantly evolving and improving work environment, dissemination of information and an inclusive approach to the Company's planning, a comprehensive medical scheme and calendar of extra-curricular activities, the employee-employer channels are well served.

All team members are kept informed of management decisions and other important announcements through regular meetings, circulars and discussions

Details of new product launches, Sri Lanka Telecom innovations, services and branding are emailed to all employees via circulars to ensure that everyone remains on a common platform.

Breakthrough Thinker Awards

The Breakthrough Thinking Concept introduced in 2006 is an effort in encouraging team members to become champions of change. Implementing a holistic approach to problem solving and helping users deal with the rapidly changing professional, technical or social environment, the awards encourage, motivate and empower team members to involve themselves in decision making. Suggestions and ideas towards organisational improvement are encouraged. The competition this year focused on the transformation of the organization, business processes, core processes and supportive processes, organisational structure and HR practices. Creative and

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innovative ideas were invited from employees pertaining to any of these topics.

Sri Lanka Telecom Star Awards and Sales Night

For the sixth consecutive year, Sri Lanka Telecom held a gala event to reward Call Centre Officers who have demonstrated outstanding performance during the year. Held at the SLT auditorium, the Sri Lanka Telecom Star Awards is a much anticipated event in the SLT calendar and serves as a motivator that encourages better performance and higher customer service levels and productivity.

The Sales Night is an event which rewards the commitment and dynamism of the Sales Team and it is held annually.

The Quest for Quality

We are Future Ready! We have been infusing quality tenets into every action, every service and every product to ensure that we will be Future Ready. We have worked on the single minded focus of continuously raising the bar and in this quest, continuous improvement would be an imperative that is fundamental to creating this culture. With the new vision, mission, values and objectives cascading through, we continue on our concerted drive towards improving quality standards, processes and systems which has resulted in our Call Centres becoming ISO certified entities.

5S Programme and Kaizen concepts

We also fully espouse the Kaizen and 5S concepts into our day to day activities creating a working environment in which quality is the norm rather than the exception. All SLT offices have implemented the 5S system, based on an organisation-wide campaign to improve productivity, safety, quality, employee morale and reduce wastage.

Our teams did us proud at this year's highly competitive Taiko Akimoto 5S competition, wherein a host of both private and public sector teams from a variety of organizations that practice the concept of 5S participated. We won three merit awards and gained two certificates of commendation at this year's competition organized by JASTECA.

SLT Quality Convention 2010

The 9th annual SLT Quality Convention was held in October 2010 aligning with The International Standard Day and The National Quality Week. At this awards ceremony awards were presented for the best implementation of 5S, ISO 9001:2008, Kaizen suggestions, Quality circles, Continuous Improvement teams and quality related slogan and poster winners. Participation has increased significantly this year when compared to previous years, demonstrating the focus of all employees towards maintaining higher standards of quality.

Occupational Health & Safety

Occupational Health and Safety at the workplace has an emphatic thrust in the daily workings of SLT. Being an industry that deals with engineering and technology, it is vital that our team members feel safe and secure at the workplace, a responsibility that lies primarily with us, the employer.

The dedicated Health and Safety Unit mandated with establishing and implementing health and safety matters ensures that regular health and safety education programmes are conducted to institute a safety conscious team. The workshops and seminars conducted this year included diverse areas of health and safety, but with the overarching concept of imbuing an importance on the health and safety of each individual and the team in the larger context of things. Workshops were held on engineering safety, road and fire safety, ergonomics, food safety and safety for wind power project teams, while seminars were held on medical issues such as breast cancer awareness, diabetes and the ill effects of tobacco and alcohol.

This is further emphasized in the newly launched website, which disseminates information on a variety of health and safety issues. Circulars were also distributed on the prevention and identification of non-communicable diseases, as a postlude to a presentation made by the MRI Colombo.

In addition, we also offer our team professional counselling and guidance services, either as group or individual counselling.

Workplace Accidents

We continue to up the ante when it comes to occupational safety and strive towards a zero lost workday milieu each year. We have created stewardship within our team infusing detailed procedures that ensure prevention or in the worst case scenario, quick action in the case of a workplace accident. Once a medical board has seen the police report, team members are entitled to compensation depending on the nature of the accident.

Benefits and welfare

Our team members are constantly encouraged to have a healthy work life balance, which in turn translates to a productive, contented work force. The benefits and welfare facilities extended to our team ensure that we create a happy work place and that coming to work would be an enjoyable experience. Numerous initiatives are already in place to meet these goals, with some of them being constantly reviewed and improved upon.

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

Low interest loan facilities are extended for various needs including personal requirements, housing loans (with the company taking on 2/3rds of the loan responsibility), educational and vehicle loans are some of the benefits afforded to our employees.

Outstanding sportsmen and women are felicitated by Sri Lanka Telecom as we firmly believe that extracurricular activities are as important in instilling team spirit and unity as formal training and development programmes. One of the sports events held this year include the SLT/Mobitel Convergence Trophy cricket tournament.

Cultural events and annual trips also form a large part of the extracurricular calendar. We are extremely aware that the multi-cultural multi-religious tenets that form the foundation of the company must be encouraged and therefore activities like the Poson Bakthi Gee programme, Christmas Carols, which saw fifty team members participated and annual trips for employees and their families are organized with much enthusiasm by the Welfare Society. In addition, a new holiday bungalow was also opened in Nuwara Eliya with a capacity to house 14 persons, which has now become a very popular holiday abode for our employees. With this new holiday bungalow SLT now maintains eight holiday bungalows in different parts of the country.

Community Initiatives

When it comes to our social stewardship, Sri Lanka Telecom's role is one that encompasses a national vision. Whether it is in ensuring that our future generations are readied for the challenges of a global marketplace, or in gearing connectivity for business to thrive or in steering the country towards achieving its goal as an ICT hub for this region, we are the spearheads of multiple national goals that will eventually be the platforms for the country's trajectory for growth.



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This was amply demonstrated when Sri Lanka Telecom partnered Sri Lanka's flagship ICT expo INFOTEL 2010 as a Gold Sponsor, reiterating our commitment to spreading ICT to every corner of the country. Held under the theme, 'It's about growth', this year's exhibition provided valuable insight into the critical role played by ICT in the economic development of a country.

Our social platforms are based on education, spearheading professionalism, sport development, appreciation of our heritage and developing national enterprise.

We are also extremely proud to have honed a team for whom volunteerism and the concept of 'giving' is an everyday occurrence. This is amply evidenced in their enthusiastic team response to refurbish the Lady Ridgeway Blood Bank, spending time with orphans and elders while also donating towards their requirements and donating blood.

We also brought in the fun, excitement, traditions and cultural facets imbued in the Sinhala and Tamil New Year to the Vajira Sri Rehabilitation Children's Home, organizing a day of festivities steeped in traditional customs and food as well as games, enabling these deprived children to enjoy the festivities associated with the event and also to learn about the wider sense of Sri Lankan culture through this process.

Enabling the Differently Abled

With an unwavering objective of building an inclusive society, Sri Lanka Telecom has worked on identified programmes which will

empower the challenged segments of society. Having already introduced Braille bills for the visually impaired and making our teleshops and tele-bureaus disabled friendly and donating Braille books for the visually impaired in the past, this year too, we tried to add a little more impetus into our drive of empowering challenged communities.

250 white canes were presented to visually challenged individuals commemorating International White Cane day. These canes were handed over to the Sri Lanka Council for Visually Handicapped Graduates.

We also provided training for five visually challenged individuals at the SLT Call Centre for a period of five months, enabling them to gain a stepping stone in employability and empowering them with a skill which will ensure that employability.

Educating the future generation

One of our primary sustainability projects, this project has been in existence now for eight years and during 2010 has seen a total of 131000 books presented to students and adults pursuing a professional education in rural geographical areas, making literacy accessible to all. This year, the distribution encompassed 96 schools in Jaffna including the hallowed halls of the Jaffna Public Library and the University of Jaffna, as well as books to the value of Rs 5 million presented to schools and libraries in the Northern and Eastern provinces. Educational material on diverse subjects including Science, Geography, Arts, Engineering and English Language are distributed.



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In addition, highlighting the importance of Literacy Day, we distributed books to public libraries located country wide. During 2010, the book distribution program was completed by covering all 25 districts, donating 131,718 books to total of 2072 institutions.

Apey Daruwo Scholarship Programme

Continuing on a project begun last year, fifty children directly and indirectly affected by the war, between the ages of 5 and 16 years were awarded scholarships at a ceremony held at the SLT Headquarters in Colombo. The effort is a bid to provide these affected students a sustainable secure platform to continue their education. The children were selected from Kebethigollewa, Padaviya, Medawachchiya, Killinochchi and Mannar.

A gift pack comprising a school bag, shoes, books and other essential school material was handed over to each child plus a fixed deposit account was opened at Bank of Ceylon, where Rs. 25,000/- was deposited on behalf of each child, accessible upon reaching 18 years of age. The Sri Lanka Telecom team contributed for a whole year at Rs 100 per month towards the scholarships.

ICT awareness programmes

SLT Regional Managers of Central, North Western, North Central and Western (North) provinces organized a series of ICT awareness programmes for students and teachers of Gampaha Thakshila Maha Vidyalaya and Mathale Sangamitta Maha Vidyalaya. This was done with the aim of upgrading students' ICT knowledge, giving them opportunities to become more familiar with the Internet and related ICT areas, considered vital for furtherance in the current working environment.

Gearing youth for the future

The BTEC Higher National Diploma from the Sri Lanka Telecom Training Centre is a solid foundation option presented for higher education. Partnering Edexcel International to inculcate an international curriculum into the diploma, on completion, students have the option of entering the third year of a B.Eng degree. This diploma opens up a path for numerous higher education options including an M.Sc. With an expert faculty and state of the art laboratories in addition to 'real time on the job' training, students gain first hand knowledge of the inner workings of the industry, which is highly advantageous for their future careers.

In addition, our Training Centre also conducts shorter specialist courses under UK's City and Guilds to equip young people for a wider array of challenges and opportunities in this industry.

Empowering professionalism

CIM Annual Conference 2010

CIM, which is the country's premier professional marketing body invited Sri Lanka Telecom to be a strategic partner at its annual conference, which aims to foster excellence in marketing. The theme of this year's conference was 'Navigating the Sri Lankan Consumer Landscape', centering ideally on our customer centric drive for the future.

CIMA Business Leaders' Summit 2010

Being the world's largest and leading professional body of management accountants that has made a tremendous contribution to the development of society and the corporate world through a high caliber of professionals, Sri Lanka Telecom's long standing partnership further reiterated the tenets of professionalism, when we continued to partner the CIMA Business Leaders' Summit this year too. Mooted on the theme, 'Re-imagine; re-create', the summit dealt with the key issue of effectively managing organizations in volatile business environment, which fell ideally in line with our transformation process. The summit, as is the practice, had erudite resource people from both Sri Lanka and abroad at its multiple sessions.

Industrial Excellence Awards 2010

As Principal Sponsor of the Industrial Excellence Awards conducted by the Sri Lanka Chamber of Small and Medium Industries (SLCSMI), Sri Lanka Telecom was extremely honoured to be a spearhead in recognizing the outstanding achievements of small and medium industrialists. Having understood the importance of the development of local industry for the sustainable development of Sri Lanka, we supported this event with the hope of encouraging small and medium industrialists to maintain the highest standards of business excellence.



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Ceylon National Chamber of Industries Awards 2010

We continued our partnership with the Ceylon National Chamber of Industries at the CNCI Awards 2010, demonstrating our commitment to gearing the industrial community towards excellence, encouraging local industry, manufacturing and services and urging them to contribute towards the larger picture of development.

National HR Conference 2010

Based on the theme, 'Motivating Economic Optimism', Sri Lanka Telecom partnered the Institute of Personnel Management (IPM) once again, in its bid to demonstrate the importance of HR professionals' role in the journey of an organization. The conference highlighted the importance of acquiring, equipping, managing and retaining staff of the right caliber to sustain the vision, mission and goals of contemporary business. Given that human resources remains a fundamental asset to any organization and a vital stakeholder in the sustainability of the organization and with Sri Lanka Teelcom undergoing a transformation programme at present, the partnership was indeed timely.

Team Spirit through Sport

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

National Olympic Committee

Sri Lanka Telecom continued to be a strategic partner for the National Olympic Committee, sponsoring its calendar of events for 2010 including the National Olympic Day Run in Jaffna which had the participation of about 1,000 students from 96 schools and the Annual Sessions of the National Olympic Academy. The annual sessions are conducted to instill the Olympic values of friendship, solidarity, fair play and equality, mutual understanding and respect for others, with emphasis made on ethics and fair play among the undergraduates of Sri Lanka, as it is they who are on the threshold of positions of authority and steering the country's future. It is their value systems that will drive the value systems of the country and determine how this country will interact with the rest of the world into the future.

Athletic Association of Sri Lanka

We have been a passionate and enthusiastic supporter of the activities of the Athletic Association of Sri Lanka, as we strongly believe that it provides an invaluable service to our nation by fostering local sporting talent. In 2010, we were the telecommunications partner for:

- The Junior National Athletic Championships
- The 88th National Athletic championships which gathered athletes of all ages from across the island
- The Women's Athletic Championships 2010, which displayed our appreciation and paid tribute to the women of Sri Lanka

Carlton Cup 2010

Organized by the Tharunyata Hetak Organisation, the Carlton Sports Club aims to empower and develop sporting talent especially amongst the youth in Sri Lanka whilst forging the values of unity, harmony and equal opportunity for all people everywhere. Sri Lanka Telecom sponsored the Carlton Cup Basketball Tournament 2010 held in September.

Uthuru Mithuru Pipena Kekulu - Netball Tournament in Jaffna

The Sri Lanka Telecom Netball Association, in collaboration with the Jaffna District Netball Association organized a friendly netball tournament in Jaffna, in order to strengthen ties with the people in the Jaffna region. Two teams from Sri Lanka Telecom and seven schools from the Jaffna district (Kokuvil Hindu College - Kokuvil, Sandilipai Hindu College - Sandilipai, Ramanathan College - Chunnakam, Sri Somaskantha College - Puttur, Union College - Thellipalai, Methodist Girls' High School - Point Pedro and Vada Hindu Ladies College - Point Pedro) participated in this tournament.

School Big Match Tournaments

Given that we support not only our national cricket team (through our fully owned subsidiary Sri Lanka Telecom Mobitel) but also the lower tiers of cricket which will eventually breed the future national cricketers of Sri Lanka, we sponsored the Battle of the Maroons held annually between Ananda and Nalanda Colleges and the Battle of the Saints, the big match between St. Peters and St. Joseph's Colleges.

Appreciating our Heritage

As a country, ours is a heritage that reverts to the very roots of civilization. However, as modernity creeps in, the preservation of the multi-cultural, multi-religious smorgasbord dims and it remains the responsibility of industry stewards like us to ensure that the heritage which we proudly descend from, remains in tact. Sri Lanka Telecom undertakes this as a national responsibility and has over the years, been a flag-bearer in creating awareness and promoting the diverse heritage Sri Lanka has on offer.

Festivals and Pageants

Sri Lanka Telecom sponsored one of Asia's most spectacular pageants this year - the Navam Perahera, in addition to the Buddha Rashmi Wesak Festival held at the Gangarama Temple, the Mahara Wesak Zone and the CMC Wesak Festival. These events, held under the aegis of religious centres, bring together communities and creates awareness of the religious and cultural diversity that needs to be appreciated.

Developing National Enterprise

Deyata Kirula National Development Exhibition 2010

Held for the fourth consecutive year, Sri Lanka Telecom was proud to be the Total Communications Provider for the Deyata Kirula Exhibition organized by the Government of Sri Lanka. Our stalls provided an extensive portfolio built on the concept of communication in the future - demonstrating future-televiwing options through IPTV technology.



Environmental Dimensions

With the GRI Guidelines becoming the norm rather than the exception when it comes to corporate responsibility and sustainability reporting, we are more than conscious that we too must adhere strictly to the guidelines wherever and whenever possible. The commitment to triple bottom line reporting which comes with the GRI Guidelines, gives stakeholders a platform to demand accountability of action on environmental impact.

We are honoured with the accolade of an industry leader by our peers as shown in our continuous placement within the top ten corporate leaders in Sri Lanka, but it is also imperative that our leadership extends to our responsibility towards the environment as well. This is further reiterated with our commitment to initiate triple bottom line reporting into our reporting endeavours, creating an ethos where the impacts to the environment, the standards maintained and the efforts we imbue towards its preservation remain overriding factors in whatever we do. While the process is still in its infancy, we emphasize our commitment to doing what's best for the planet.

Environmental Objectives:

- To be compliant with legislation and deal with environmental issues accountably
- Design and develop products that have minimum environmental impact



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

Sri Lanka Telecom Environmental Policy

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

Environmental Certifications

Clearance certificates from the Central Environmental Authority to build transmission towers

Clearance certificates from Urban Development Authority and local authorities for new civil construction, based on their guidelines

Preserving Nature

Sinharaja Workshops

Its been five years now since Sri Lanka Telecom began its partnership with the Field Ornithology Group of Sri Lanka (FOGSL), aimed at raising awareness among the youth and younger students of Sri Lanka on the importance of nature conservation. The Sinharaja Forest, a UNESCO World Heritage Site and one of the few surviving

rainforests in the world plays host to a two day workshop every month.

This year, one hundred students and 25 teachers followed the workshop which included a tour of the forest reserve, a series of lectures and presentations conducted by Prof. Sarath Kotagama, Head of Zoology of the University of Colombo, complimented with field trips. As a synopsis of the workshop, the students are encouraged to conduct their own research, resulting in assignments modulated by FOGSL and presented in handwritten books. The participating schools this year were Vidyaloka Maha Vidyalaya Wattala, Vijayaba Central College Mahawa, Mahajana College Jaffna, Sylvester College Kandy and a grouping of schools comprising Alawathupitiya Junior School, Raddolugama Junior School, Dandugama Lanka Sabha College, Udamvita Kulasinghe College and Batuwatta Maha Vidyalaya.

Since 2006, a total of 38 programmes have been conducted for 42 schools attended by 760 students and 180 teachers.

Heritage calendars

As mentioned in the Social Dimension section of this report under the heading ‘Appreciating our Heritage’, Sri Lanka Telecom has for the last eight years, produced calendars and complimentary items on the central theme of creating awareness about our heritage, working on the features of arts, culture and bio-diversity. The primary objective is to raise awareness among the general public on the importance of preserving the rich heritage, which can be preserved for future generations. Past themes have revolved



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around endemic bird life, orchids, fresh water fish, kolam masks and butterflies of Sri Lanka.

The 2010 calendar was worked on the theme of the biodiversity, with the focus on the 'Heritage of Sinharajah'. The calendar journeys through the Sinharajah forest with picturesque illustrations of the diversity ranging from 300 m to 11709 meters with the rich and colourful imagery of the fauna and flora of the locale. The Sinharaja Forest Reserve was designated a World Biosphere Reserve in 1978 and a World Heritage Site in 1988 by UNESCO, because of its uniquely rich biodiversity and heritage. With the UN declaring 2010 as the "International Year of Biodiversity", we thought it apt that we select the theme based on this declaration.

Research and analysis for this calendar was provided by expert resource persons including renowned ornithologist Professor.

Sarath Kotagama, Head of Zoology, University of Colombo, Professor Nimal Gunatilleke who is the Professor of Botany at the University of Colombo, Professor Savithri Gunatilleke is the Senior Professor of Botany at the University of Colombo, Kelum Manamendra-Arachchi is a Herpetologist and visiting lecturer at the University of Kelaniya and Dr. Mayuri Wijesinghe Senior Lecturer at the Department of Zoology, University of Colombo.

The themes of some of our earlier calendars were Endemic birds of Sri Lanka (2003), Endemic orchids of Sri Lanka (2005), Kolam masks of Sri Lanka (2006), Endemic fresh water fish of Sri Lanka (2007), Gok Art (2008) and Endemic Butterflies of Sri Lanka (2009).



LONG TERM VALUE

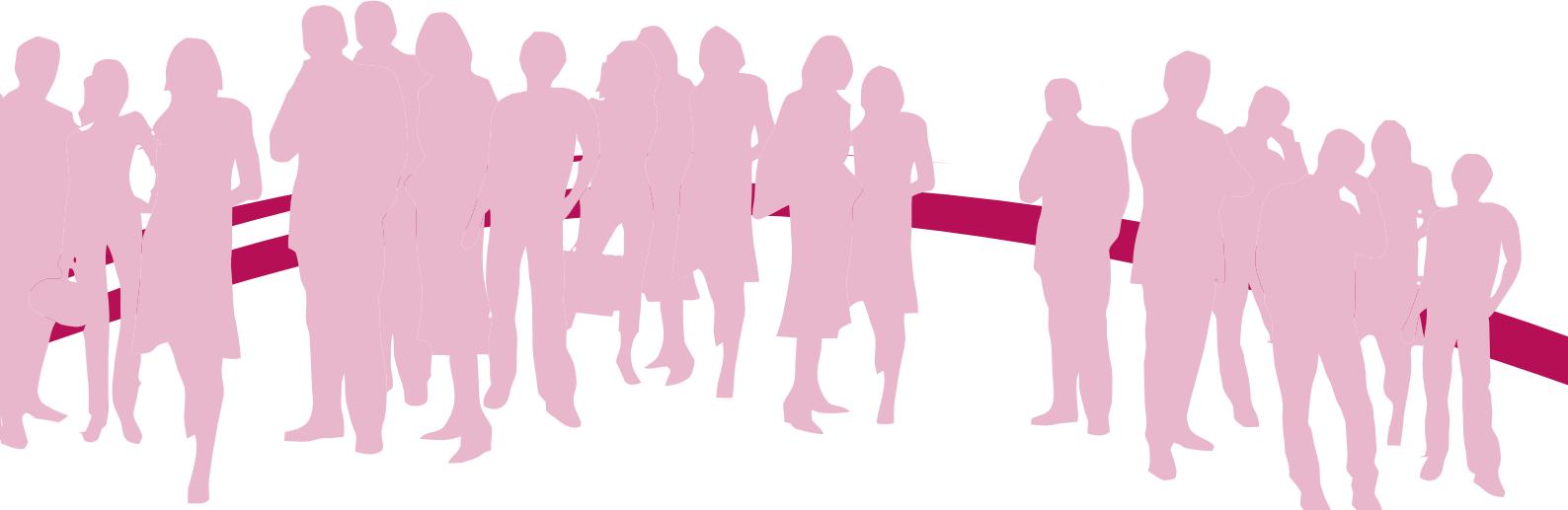
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FINANCIAL REPORTS



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors submit their report and the audited financial statements of the Company, Sri Lanka Telecom PLC [‘SLT PLC’ or ‘the Company’] and its subsidiary Companies [collectively ‘the Group’] for the financial year ended 31st December 2010.

1. Review of the year

The Review of the year on pages 14 to 67 forms part of this report. The audited financial statements are presented on pages 106 to 159.

2. Corporate governance statement

Corporate Governance practices prevalent within the organization are described in the Corporate Governance Report given in pages 73 to 81.

The directors confirmed that the Company has complied with the Corporate Governance Rules contained in the Listing Rules of Colombo Stock Exchange.

3. Formation

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

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

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.

4. 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 reporting entity to the consolidated financial statements on page 121.

5. 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 2010 are set out on pages 116 to 159. All amounts are stated in Sri Lanka Rupees million, unless otherwise stated.

6. Respective Responsibilities of Directors and Auditors for the Financial Statements

The Directors are responsible for the preparation of the Financial Statements so that they present a true and fair view of the state of affairs of the Company. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Companies Act No.7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995 and the Continuing Listing Rules of the Colombo Stock Exchange.

7. Independent auditors' report

The independent auditors' report is set out on page 115.

8. Changes in accounting policies

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

9. Revenue

The revenue of the Group was Rs. 50,250 Mn (2009 – Rs 48,077.Mn). The contribution to the group from different business segments is provided in Note 4 to the Financial Statements.

10. Financial Results

The Company recorded a net profit of Rs 2,478 Mn for the year. The Group recorded a consolidated net profit of Rs 3,943 Mn for the year under review. A synopsis of the Company's and Group's performance is presented in the table on page 116.

11. Review of business

The state of affairs of the Group at 31 December 2010 is set out in the consolidated balance sheet on page 117. 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.

12. Property, plant and equipment

The movements in property, plant and equipment during the year are set out in Note 15 to the consolidated financial statements. Current status of value of properties are disclosed in page 163.

13. 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, inter-alia, internet services, IPTV, Wimax operations, data services, domestic and international leased circuits, frame relay, satellite uplink and maritime transmission.

14. Subsidiaries

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

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

15. Dividend

The Directors have recommended the payment of a first and final dividend for the financial year ended 31 December 2010 of Sixty Cents (60 cents) per share amounting to Rs. 1,082,916,000/-mn on 1,804,860,000 ordinary shares of Rs. 10/-each (2009 – 25 cents per share amounting to Rs. 451,215,000/- mn) In accordance with the Sri Lanka Accounting Standard No. 12 (Revised) - Events after the Balance Sheet Date, this proposed first and final dividend has not been recognised as a liability as at 31 December 2010.

Taking into account the above distribution, the Board is satisfied that the Company meets the solvency test requirement under section 56 (2) of the Companies Act No. 7 of 2007.

16. Reserves

Total reserves and their composition are set out in the statements of changes in equity on pages 118 and 119 of the consolidated financial statements.

17. 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 2010.

Secretary to the Treasury (Government of Sri Lanka)	49.5%
Global Telecommunications Holdings N.V. of Netherlands	44.98%
Shares held by the public	5.52%
	100%

18. Directors

Changes to the composition of the Board from 1 January 2010 are set out in the table below:

Mr. Nimal Welgama	appointed w.e.f 20th May 2010
Mr. Sandip Das	
Mr. Chan Chee Beng	
Mr. Jeffrey Jay Blatt	
Mr. Jayantha Dharmadasa	appointed w.e.f 26th May 2010
Mr. Shameendra Rajapaksa	appointed w.e.f 26th May 2010
Mr. Kalinga Indatissa	appointed w.e.f 26th May 2010
Mr. Lawrence Paratz	appointed w.e.f 26th May 2010
Mr. Dayananda Widanagamachchi	appointed w.e.f 05th July 2010

Former Directors

Mrs. Leisha De Silva Chandrasena	resigned w.e.f 19th May 2010
Mr. Sumith Wijesinghe	resigned w.e.f 19th May 2010
Mr. Sidath Fernando	resigned w.e.f 24th May 2010
Mr. Yoga Perera	resigned w.e.f 24th May 2010
Mr. U R Seneviratne	resigned w.e.f 26th May 2010

Mrs. Leisha De Silva Chandrasena, Chairperson resigned from the Board on 19th May 2010. She was succeeded by Mr. Nimal Welgama, who was appointed to the Board on 20th May 2010.

The Board wishes to place on record their sincere appreciation of the services rendered by the Directors who resigned from the Board during the financial year 2010.

19. 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. Accordingly, Mr. Sandip Das retire in terms of Article 91 and being eligible for himself for re-election.

During the year, Mr. Nimal Welgama, Mr. Jayantha Dharmadasa, Mr. Shameendra Rajapaksa, Mr. Kalinga Indatissa, Mr. Lawrence Paratz and Mr. D. Widanagamachchi 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.

20. Directors' interest in contracts with the Company

The particulars of entries made in the Interests Register pertaining to General Disclosures made by the Directors of the Company in terms of the Companies Act No. 7 of 2007 during the financial year under review, are given below:

Name of Director	Company	Position
Mr. Nimal Welgama	Mobitel (Pvt) Ltd	Chairman/ Director
	SLT Publication (Pvt) Ltd	Chairman/ Director
	SLT Visioncom (Pvt) Ltd	Chairman/ Director
	SLT Manpower Solutions (Pvt) Ltd	Chairman/ Director
	Sky Network (Pvt) Ltd	Chairman/ Director
	SLT Hong Kong Ltd	Chairman/Director
	Sri Lanka Telecom Services Ltd	Director
	Upali Group of Companies	CEO
	Monetary Board of the Central Bank of Sri Lanka	Member
Mr. Sandip Das	Mobitel (Pvt) Ltd	Director
	Maxis Communications Berhad	Director
	Maxis Berhad, Malaysia	Executive Director/CEO
	Aircel Ltd	Director
	Bridge Mobile Alliance	Director
	PT Natrindo Telepon Seluler Ltd., Indonesia	Board of Commissioner
Mr. Chan Chee Beng	Mobitel (Pvt) Ltd	Director
	Usaha Tegas Sdn. Bhd	Executive Director
	Maxis Communications Berhad	Director
	Maxis Berhad, Malaysia	Director
	Aircel Ltd	Director
	Binariang GSM Sdn. Bhd	Director
	Tanjong Capital Sdn Bhd	Director
	Bumi Armada Berhad	Director
Mr. Jeffrey Jay Blatt	SLT Hong Kong Ltd	Director
	SLT Visioncom (Pvt) Ltd	Director
	Astro All Asia Networks PLC	Special Counsel
	Usaha Tegas Sdn. Bhd	Special Counsel
Mr. Shameendra Rajapaksa	SLT Publication (Pvt) Ltd	Director
	SLT Hong Kong Ltd	Director
	Sri Lankan Airlines Limited	Director

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Mr. Jayantha Dharmadasa	SLT Visioncom (Pvt) Ltd SLT Manpower Solutions (Pvt) Ltd Nawaloka Hospitals PLC Nawaloka Group of Companies New Ashford International (Pvt) Ltd Concord Ventures Export Lanka Ltd. Sasiri Polysacks (Pvt) Ltd Nawakrama (Pvt) Ltd National Film Corporation Galadari Hotel (Lanka) PLC Nawaloka Metropolis Clinical Laboratories (Pvt) Ltd, India	Director Director Deputy Chairman/CEO Chairman/Director Chairman Chairman Chairman Chairman Chairman Director Director
Mr. Kalinga Indatissa	SLT Manpower Solutions (Pvt) Ltd Interim Committee of the Sri Lankan Cricket Board Sri Lanka Foundation Institute Employee Trust Fund Board	Director Member Director Director
Mr. Dayananda Widanagamachchi	Ministry of Finance & Planning	Deputy Secretary to the Treasury
Mr. Lawrence Paratz	Mobitel (Pvt) Ltd Skynetwork (Pvt) Ltd Maxis Communication Berhad	Director Director Director

21. 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 131.

22. Directors' interests in shares of the Company

As at 31 December 2010, none of the Directors held shares of the Company or its subsidiaries.

23. 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 131.

24. Auditors' relationship or any interest with the Company

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

25. 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.

26. Environmental protection

After making adequate enquiries from management, the Directors are satisfied that the Company and its subsidiaries operate in a manner that minimizes 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.

27. Donations

During the year the Directors had approved donations amounting to Rs.751,592 for charitable purposes (2009 - Rs 1,600,575). The amount includes contributions on account of Corporate Social Responsibility (CSR) initiatives as well.

28. 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.

29. Sustainability Reporting

The Group is conscious of the impact, direct and indirect, on the environment due to its business activities. Every endeavour is made to minimise the adverse effects on the environment to ensure sustainable continuity of our natural resources. The activities undertaken by the Group in recognition of its responsibility as a corporate citizen are disclosed more fully on pages 84 to 103 of this Report.

30. 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.

31. Appointment of auditors

The Board of Directors has recommended that Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants be reappointed as Auditors for the Financial Year ending 31st December 2011, subject to the approval of the shareholders at the next Annual General Meeting. Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants have indicated their willingness to continue as Auditors of the Company, accordingly, a resolution proposing their reappointment as Auditors will be proposed at the Annual General Meeting. Details of the Audit Fees paid to the Auditors are set out in page 131 of the Financial Statements.

32. Annual Report

The audited consolidated Financial Statements were approved by the Board of Directors on 22nd February 2011. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

33. Annual General Meeting

The Annual General Meeting will be held at the Kings Court, Cinnamon Lakeside Colombo, No.115, Sir Chittampalam A Gardiner Mawatha, Colombo 02 on 28th of March 2011 at 10.00 am. The Notice of the Annual General Meeting appears on page 164.

This Annual Report is signed for and on behalf of the Board of Directors by:



Nimal Welgama
Chairman / Director



Dayananda Widanagamachchi
Director

And By Order of the Board

Sgd.
P W Corporate Secretarial (Pvt) Ltd.
SECRETARIES

22 February 2011

STATEMENT OF DIRECTORS IN RELATION TO THEIR RESPONSIBILITY FOR THE PREPARATION OF FINANCIAL STATEMENTS

The responsibility of the Directors in relation to the financial statements of the Company and the Group, is set out in the following statement. The responsibility of the Independent Auditors, in relation to the financial statements, prepared in accordance with the provisions of the Companies Act No. 07 of 2007 [“the Act”], is set out in the Independent Auditors’ Report on page 115.

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

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

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

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

The internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures

of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances 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 35 to the financial statements covering contingent liabilities.

By order of the board
Sri Lanka Telecom PLC

Sgd.
P W Corporate Secretarial (Pvt) Ltd.
SECRETARIES

22 February 2011
Colombo

AUDIT COMMITTEE REPORT

Role of the Audit Committee

The Audit Committee “AC” is a formal Committee of the Board, and has powers delegated to it under the Articles of Association of the Company. Its terms of reference were reviewed and approved by the Board in April 2009 and are compliant with the provisions of the Listing Rules of the Colombo Stock Exchange and other international best practices.

During the period covered by this report (1 January 2010 to 31 December 2010), the AC continued to operate under the Terms of Reference approved by the Board of Directors in April 2009. The terms of reference set out the primary purposes of the AC, which are:

- To monitor the integrity of the Company's financial statements and announcements relating to its financial performance, reviewing significant financial reporting judgments.
- To keep under review the effectiveness of the Company's internal controls and risk management systems.
- To monitor the effectiveness of the internal audit function and review its material findings.
- To oversee the relationship with the external auditors, including agreeing their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness and ensuring that policy surrounding their engagement to provide non-audit services is appropriately applied.

The AC is authorised to investigate any matters within its terms of reference, access all Group documents and information, seek information from any CEO or employee of the Group and co-opt any resources (including external professional assistance) it sees fit in order to fulfil its duties.

The AC presents a summary of its activities to shareholders and other interested parties by means of this report, and the AC Chairman attends all general meetings of the Company's shareholders to answer any questions on the AC's activities.

Composition of the Audit Committee

The AC has five non-executive Directors of whom three directors are independent Directors in accordance with the criteria defined in the Sec.7.10.4 of the CSE Listing Rules. All the members have the basic financial literacy and Mr. Chan Chee Beng is a member of the Institute of Chartered Accountants of England and Wales.

The AC comprised the following members during the year and to the date of this report, except where stated otherwise:

- i. Mr. Sandip Das –independent Director
- ii. Mr. Chan Chee Beng - non independent Director.
- iii. Mr. Jayantha Dharmadasa – independent Director (appointed to the AC effective 17.08.2010)
- iv. Mr. Kalinga Indatissa – independent Director (appointed to the AC effective 05.07.2010)
- v. Mr. D Widanagamachchi – non independent Director (appointed to the AC effective 05.07.2010)

- vi. Mr. Udaya Seneviratne – non independent Director (resigned from the Board effective 26.05.2010)
- vii. Mr. Sumith Wijesinghe – independent Director (resigned from the Board effective 19.05.2010)

Biographical details of each Director are set out on page 32 and 35 of this Annual Report.

None of the members receive a fee for serving as a member of the AC.

External audit

KPMG Ford Rhodes was appointed as Auditors of the Company at the previous Annual General Meeting in place of the retiring Auditors PricewaterHouseCoopers. The AC deliberated on the matter considering that the outgoing Auditors had functioned since 1996 and also the best practices on good governance to enable greater independence of the Auditors. The appropriateness of their appointment was also based on their independence, qualification, expertise and resources, and effectiveness of their audit process.

The Audit Committee has recommended to the Board that Messrs KPMG Ford Rhodes Thornton & Co., Chartered Accountants be re-appointed External Auditors of Sri Lanka Telecom PLC for the financial year ending 31 December 2011, subject to approval by the shareholders at the Annual General Meeting.

The external auditors may not be engaged on any material non-audit work without the prior approval of the AC, who recommends them to Board for approval. As policy, the AC would not allow the external auditors to perform any work that they may subsequently need to audit, or which might otherwise create a conflict of interests.

Total Audit Fee for the year under review amounts to Rs. 3,500,000/- Non-audit fees incurred during the year was Rs. 1,500,000/- and relate primarily to an assignment on inventory and a review engagement. The AC is satisfied that the overall level of non-audit fees is not material and that the nature of the services provided are appropriate and in line with the Company's policies in this area.

Attendance at the Meeting

According to the terms of reference the AC is normally required to meet six times annually. However, the AC met twice during the financial year ended 31st December 2010 due to the changes that took place in the Directorate of the Company. Attendance was as follows:-

Name of Director	Attendance
Mr. Jayantha Dharmadasa (appointed w.e.f 17.08.2010)	02
Mr. Sandip Das	02
Mr. Chan Chee Beng	02
Mr. D.Widanagamachchi (appointed w.e.f 05.07.2010)	01
Mr. Kalinga Indatissa (appointed w.e.f 05.07.2010)	–

Before the reconstitution of the Board with the new appointments, the previous Committee chaired by Mr. Udaya Seneviratne held one meeting in February 2010 which was attended by all the members who were in the Committee.

AUDIT COMMITTEE REPORT

Meetings of the AC are attended by the chief Executive Officer, the Chied Financial Officer and the Chief Internal Auditor and the Assistant Company Secretary (who acts as Secretary to the AC). The External auditors attend AC meetings as and when they are invited.

Activities of the Audit Committee

At its meeting on 02nd February 2010 the AC reviewed the subsidiary company's financial statements for the financial year ended 31st December 2009.

The AC met with SLT's external Auditors at the Meeting held on 20th October 2010 for the first time after their appointment. KPMG's team provided an overview of the audit work conducted for the half year 2010, focusing mainly of their review of the accounts, including auditing and accounting matters, policies and areas of judgment, and their comments on risk management and control matters.

The principal business of these meetings was:

- Review of the progress of implementation of the procurement process approved by the Board.
- Review of the progress of the formulation of limits of authorities "LOA" and Enterprise Risk Management system.
- Update from the external auditors following their review of the audit for the period ended 31st December 2010; consideration of the 'going concern' statement; review of the annual reporting documents (including the accounts); consideration of review of the existing accounting policies on the areas of Property, Plant and Equipment and Impairment of Assets to ensure that the policies in practices are in consistence with the current accounting standards.
- Review of the effectiveness of the internal auditors; review of the work of the internal auditors and their principal findings; approval of the scope and focus of the internal audit programme.

Conclusion

Based on the reports submitted by the External Auditors and the Internal Auditors, the Audit Committee is satisfied with the control environment and the financial position of the Company and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the financial statements are reliable.

The Committee is also of the view that the Company's compliance framework provides reasonable assurance that all relevant laws, rules and regulations have been followed.

On behalf of the Audit Committee.



Jayantha Dharmadasa
Chairman of the Audit Committee

INDEPENDENT AUDITORS' REPORT



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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TO THE SHAREHOLDERS OF SRI LANKA TELECOM PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Sri Lanka Telecom PLC (the "Company"), the consolidated financial statements of the Company and its subsidiaries ("the Group") as at 31st December 2010 which comprise the balance sheet as at 31st December, 2010, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 116 to 159 of this Annual Report. The corresponding figures presented are based on financial statements of the Company as at and for the year ended December 31, 2009, which were audited by another auditor whose report dated 17th March 2010 expressed an unqualified opinion on those statements.

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 policies 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 31st December, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December, 2010 and its profit 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 31st December, 2010 and the profit 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 concerns the shareholders 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) of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

22nd February 2011
Colombo, Sri Lanka

CONSOLIDATED INCOME STATEMENT

(All amounts in Sri Lanka Rupees Million)

For the year ended 31 December	Notes	Group		Company	
		2010	2009	2010	2009
Revenue	5	50,250	48,077	33,311	34,087
Operating costs	6	(33,527)	(33,740)	(23,313)	(23,870)
Operating profit before depreciation and amortisation		16,723	14,337	9,998	10,217
Depreciation	15	(11,090)	(11,332)	(7,017)	(8,302)
Amortisation and impairment of intangible assets	16	(489)	(458)	(227)	(196)
Operating profit		5,144	2,547	2,754	1,719
Refunds on Telecommunication Development Charge [TDC]	8	152	-	152	-
Voluntary Retirement Scheme [VRS] costs	9	(189)	(480)	(189)	(480)
Other income		1,232	188	969	147
Interest expense and finance costs	10	(1,012)	(2,024)	(318)	(905)
Interest income	11	634	1,164	601	1,127
Profit before tax		5,961	1,395	3,969	1,608
Income tax expenses	12	(2,018)	(617)	(1,491)	(376)
Net profit		3,943	778	2,478	1,232
Attributable to:					
Equity holders of the Company		3,943	785	2,478	1,232
Minority interest		0	(7)	-	-
		3,943	778	2,478	1,232
Earnings per share for profit attributable to equity holders of the Company					
Basic (Rs)	13	2.18	0.43	1.37	0.68

The notes on pages 121 to 159 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

(All amounts in Sri Lanka Rupees Million)

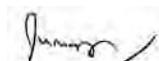
As at 31 December	Notes	Group		Company		
		2010	2009 Restated	2010	2009 Restated	
Assets						
Non-current assets						
Property, plant and equipment	15	61,258	65,896	34,075	36,261	
Intangible assets	16	1,585	1,776	570	684	
Financial Prepayments	16.a	272	328	-	-	
Investments in subsidiaries	17	-	-	11,522	11,317	
Long term investments	18	673	47	626	-	
Deferred income tax assets	25	13	515	-	510	
Non-current receivables	19	1,991	1,894	1,991	1,894	
		65,792	70,456	48,784	50,666	
Current assets						
Inventories	20	1,281	1,982	1,158	1,742	
Trade and other receivables	21	11,053	11,448	10,494	10,410	
Current tax receivables		457	287	446	287	
Short term Investments	22	3,617	2,998	3,487	2,815	
Cash and cash equivalents	23	4,830	3,049	4,133	2,630	
		21,238	19,764	19,718	17,884	
Total assets		87,030	90,220	68,502	68,550	
Equity						
Capital and reserves						
Stated capital	31	18,049	18,049	18,049	18,049	
Hedging reserve	32	-	-	-	-	
Insurance reserve	29	344	281	344	281	
Exchange equalisation reserve		(7)	(6)	-	-	
Retained earnings		31,463	27,987	32,253	30,242	
Minority interest in equity		49,849	46,311	50,646	48,572	
Total equity		49,849	46,311	50,646	48,572	
Liabilities						
Non-current liabilities						
Grants	30	91	110	48	54	
Borrowings	24	5,380	8,034	72	1,059	
Deferred income	26	3,965	4,356	3,965	4,356	
Deferred income tax liabilities	25	248	-	248	-	
Employee benefits	28	1,796	1,458	1,664	1,373	
Trade and other payables	27	1,659	2,548	289	290	
		13,139	16,506	6,286	7,132	
Current liabilities						
Trade and other payables	27	18,848	20,375	10,550	10,818	
Current tax liabilities		287	137	-	-	
Borrowings	24	2,970	5,317	28	1,136	
Deferred income	26	1,937	1,574	992	892	
		24,042	27,403	11,570	12,846	
Total liabilities		37,181	43,909	17,856	19,978	
Total equity and liabilities		87,030	90,220	68,502	68,550	

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


Shiron Gooneratne
Chief Financial Officer

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 22 February 2011


Nimal Welgama
Chairman / Director


D. Widanagamachchi
Director

The notes on pages 121 to 159 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees Million)

For the year ended 31 December 2010

	Notes	Stated capital	Hedging reserve	Insurance reserve	Exchange equalisation reserve	Retained earnings	Minority interest	Total
Group								
Balance at 1 January 2009								
As previously reported								
		18,049	(32)	236	1	29,270	31	47,555
Effect of adopting SLAS 10 (Revised 2005)	15 (j)	-	-	-	-	1	-	1
Effect of adopting SLAS 16 (Revised 2005)	36 (f)					(111)		(111)
Restated Balance as at 1 January 2009		18,049	(32)	236	1	29,160	31	47,445
Hedging reserve								
- foreign currency translation differences	32	-	-	-	-	-	-	-
- charged to income statement	32	-	32	-	-	-	-	32
Insurance reserve - charged to income statement	29	-	-	45	-	-	-	45
Effect of movement in foreign exchange rates		-	-	-	(7)	-	-	(7)
Dilution of minority interest on acquisition of shares		-	-	-	-	24	(24)	-
Dividend for 2008	14	-	-	-	-	(1,805)	-	(1,805)
Net profit / (loss) for the year 2009		-	-	-	-	785	(7)	778
Balance at 31 December 2009		18,049	-	281	(6)	28,164	0	46,488
As previously reported								
Effect of adopting SLAS 10 (Revised 2005)	36 (h)	-	-	-	-	(18)		(18)
Effect of adopting SLAS 16 (Revised 2005)	36 (f)					(111)		(111)
Effect of adopting SLAS 14 (Revised 2005)	36 (a)					(159)		(159)
Restated balance at 31 December 2009		18,049	-	281	(6)	27,987	0	46,311
Insurance reserve - charged to income statement	29	-	-	47	-	-		47
Transfer to Insurance Reserve	29			16		(16)		-
Effect of movement in foreign exchange rates		-	-	-	(1)	-		(1)
Dividend for 2009	14	-	-	-	-	(451)		(451)
Net profit for the year 2010		-	-	-	-	3,943		3,943
Balance at 31 December 2010		18,049	-	344	(7)	31,463	0	49,849

(All amounts in Sri Lanka Rupees Million)

For the year ended 31 December 2010

	Notes	Stated capital	Hedging reserve	Insurance reserve	Retained earnings	Total
Company						
Balance at 1 January 2009						
As previously reported		18,049	(32)	236	31,084	49,337
Effect of adopting SLAS 10 (Revised 2005)	15 (j)	-	-	-	1	1
Effect of adopting SLAS 16 (Revised 2005)	36 (f)				(111)	(111)
Restated Balance as at 1 January 2009		18,049	(32)	236	30,974	49,227
Hedging reserve						
foreign currency translation differences		-	-	-	-	-
charged to income statement	32	-	32	-	-	32
Insurance reserve						
charged to income statement	29	-	-	45	-	45
Transfer to Insurance Reserve	29					-
Dividend for 2008	14	-	-	-	(1,805)	(1,805)
Net profit for the year 2009		-	-	-	1,232	1,232
Balance at 31 December 2009		18,049	-	281	30,401	48,731
As previously reported		18,049	-	281	30,512	48,842
Effect of adopting SLAS 16 (Revised 2005)	36 (f)				(111)	(111)
Effect of adopting SLAS 14 (Revised 2005)	36 (a)				(159)	(159)
Restated balance at 31 December 2009		18,049	-	281	30,242	48,572
Insurance reserve						-
charged to income statement	29	-	-	47	-	47
Transfer to Insurance Reserve	29			16	(16)	-
Dividend for 2009	14	-	-	-	(451)	(451)
Net profit for the year 2010		-	-	-	2,478	2,478
Balance at 31 December 2010		18,049	-	344	32,253	50,646

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Sri Lanka Rupees Million)

For the year ended 31 December	Notes	Group		Company	
		2010	2009 Restated	2010	2009 Restated
Cash flows from Operating activities					
Cash generated from operations	33	16,656	23,467	11,257	12,738
Interest received		793	1,259	671	1,223
Interest paid		(838)	(2,241)	(345)	(1,122)
Income Tax paid		(1,268)	(4,111)	(872)	(3,988)
Gratuity paid (Note 28)		(83)	(161)	(80)	(159)
Net cash generated from operating activities		15,260	18,213	10,631	8,692
Cash flows from investing activities					
Acquisition of property, plant and equipment	16	(6,472)	(20,244)	(4,822)	(6,182)
Acquisition of intangible assets		(208)	(687)	(113)	(248)
Proceeds from disposal of property, plant and equipment		129	21	87	21
Proceeds / (Purchase) of short term investments		(701)	13,557	(754)	13,723
Proceeds / (Purchase) of long term investments		(723)	115	(723)	(322)
Investments in subsidiaries		-	-	(205)	(1,115)
Net cash / (used) generated in investing activities		(7,975)	(7,238)	(6,530)	5,877
Cash flows from financing activities					
Proceeds from borrowings		1,723	5,626	1,000	1,500
Finance lease principal re-payments		(26)	(13)	(23)	(11)
Re-payment of borrowings		(5,211)	(15,216)	(3,118)	(13,027)
Dividends paid to the Company's shareholders	14	(451)	(1,805)	(451)	(1,805)
Net cash used in financing activities		(3,965)	(11,408)	(2,592)	(13,343)
Increase / (Decrease) in cash and cash equivalents		3,320	(433)	1,509	1,226
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of year (Note 23)		854	1,291	2,630	1,408
Effect of exchange fluctuation on cash and cash equivalents		(6)	(4)	(6)	(4)
		848	1,287	2,624	1,404
Increase / (Decrease) in cash and cash equivalents		3,320	(433)	1,509	1,226
At end of year	23	4,168	854	4,133	2,630

The notes on pages 121 to 159 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Reporting entity

Sri Lanka Telecom PLC (the “Company”) is a company domiciled in Sri Lanka. The address of the Company’s registered office is Lotus Road, Colombo 1. The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group primarily is involved in providing broad portfolio of telecommunication services across Sri Lanka. In addition, the range of services provided by the Group include, inter-alia, internet services, data services, domestic and international leased circuits, broadband, satellite uplink, maritime transmission, IPTV service, directory publishing, Wi-max service and provision of manpower. The Company is a quoted public Company which has its listing on the Colombo Stock Exchange.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) as laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 07 of 2007.

The consolidated financial statements were authorised for issue by the Board of Directors on 22 February 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except foreign operations which are accounted as explained in Notes 3(b) to the Financial Statements.

The financial statements have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the Company’s functional currency, and the Group’s presentation currency. All financial information presented in Sri Lankan rupees has been rounded to the nearest million.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with SLAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in notes;

- Note 16 – Intangible Assets
- Note 25 - Deferred Tax
- Note 28 – Retirement Benefit Obligations
- Note 35 – Provisions & Contingencies

(e) Changes in Accounting policies

No changes in accounting policies have taken place during the year 2010.

3 Consistency in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies during the year, except where stated otherwise.

Certain comparative amounts have been reclassified and restated to conform with the current year’s presentation (see note 36).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Foreign exchange differences arising on the settlement or reporting of the Company's monetary items at rates different from those which were initially recorded are dealt in the Income Statement. Unrealised gains and losses are dealt with through the Income Statement.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to rupees at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to rupees at exchange rates at the dates of the transactions.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the exchange equalisation reserve .

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. As disclosed in Note 15 where property, plant and equipment of the Department of Telecommunications were transferred to Sri Lanka Telecom at a valuation performed by the Government of Sri Lanka and was used as the opening cost of fixed assets.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling

and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. In the year of acquisition depreciation is computed on proportionate basis from the month the asset is put in to use and no depreciation will be charged to the month in which the particular asset was disposed. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the assets are as follows:

Freehold Buildings	40 years
Ducts, cables and other outside plant	8 - 12.5 years
Submarine cables	10 years
Telephone exchanges and transmission equipment	10 - 12.5 years
Motor Vehicles	5 years
CDMA Handsets	3 years
PABX System	2 - 6 years
Other Fixed Assets	4 - 10 years

Revision in estimated useful life of CDMA handsets

During the year the company revised the estimated useful life of CDMA handsets. Previously the company recognised full depreciation for each handset in the month of issuance to customers, leaving Rs. 1 on the carrying value for each handset. Depreciation charge is now spread over a three year period.

(iv) Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization.

(v) Derecognition

The carrying amount of an item of Property, Plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

(d) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Licenses

Separately acquired licences are shown at historical cost. Expenditures on license fees that is deemed to benefit or relate to more than one financial year is classified as license fee and is being amortized over the License period on a straight line basis.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available

for use. The estimated useful lives for the current and comparative periods are as follows:

Software 3- 5 years

(e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

For operating leases, the leased assets are not recognised on the Group's balance sheet.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

(g) Impairment

Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Government Grants

Other government grants are recognised initially at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(i) Investments in equity securities

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.

(j) Trade receivables

Trade receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

The cash flow has been prepared using the indirect method in accordance with the Sri Lanka Accounting Standard 9 - 'Cash Flow Statements'.

(l) Stated capital

Ordinary shares

Ordinary shares are classified as equity.

(m) Borrowings

Borrowings include bank borrowings. They are accounted at the gross value of the outstanding balance.

(n) Employee benefits

(1) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which contributions are made into a separate fund and the entity will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plan are recognised as an employee benefit expense in profit or loss in the periods during services is rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(1.1) Employee Provident Fund

All employees of the Company are members of the Sri Lanka Telecom Provident Fund to which the Company contributes 15% of such employees' basic salary and allowances.

All employees of subsidiaries of the Group except for Sri Lanka Telecom (Hong Kong) Limited and SLT Services (Pvt) Ltd are members of Employees' Provident Fund (EPF), to which respective subsidiaries contribute 12% of such employees' basic salary and allowances. Employees of SLT Services (Pvt) Ltd are members of Employees' Provident Fund (EPF), where the company contribute 15% of such employees' basic salary and allowances.

(1.2) Employee Trust Fund

The Company and other subsidiaries contribute 3% of the salary of each employee to the Employees' Trust Fund.

(2) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The valuation is performed annually by a qualified actuary using the projected unit credit method. When the valuation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the

extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The group recognises all actuarial gains and losses arising from defined benefit plans directly in the income statement.

(3) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(4) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or leave encashment plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) Revenue

Revenue from services rendered in the course of ordinary activities is measured at fair value of the consideration received or receivable net of trade discounts, volume rebates and after eliminating the sales within the Group.

Revenue is recognized when persuasive evidence exist, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the services rendered, and the amount of revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The revenue is recognised as follows:

(i) Domestic and international call revenue, rental income

Revenue for call time usage by customers is recognised as revenue as services are performed, with unbilled revenue resulting from services already provided accrued at the end of each period.

Fixed rental is recognised as income on a monthly basis in relation to the period of services rendered.

(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 are recognised, net of taxes, based on usage taking the traffic minutes/per second rates stipulated in the relevant agreements and regulations and based on the terms of the lease agreements for fixed rentals.

Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the group's network and presented on gross basis. The relevant revenue accrued is recognised under income in the income statement and interconnection expenses recognised under operating costs in the income statement.

(iii) Revenue from broadband

Revenue from Data services and Peo Tv services is recognized on usage and the fixed rental on a monthly basis when it is earned net of taxes, rebates and discounts.

(iv) 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.

(v) Connection fees

The connection fees relating to Public Switched Telephone Network (PSTN) are deferred over a period of 15 years. Revenue is recognized on an annual basis irrespective of the date of connection.

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

(vi) Service Agreements revenue

Capacity contracts which do not convey the right to use a specified capacity in an identified fibre cable are accounted as service arrangements. Revenues from capacity contracts under service arrangements are recognized on a straight line basis over the period of the contracts. Amounts received in advance for any services are recorded as deferred revenue. In the event that a customer terminates an IRU prior to the expiry of the contract and releases the Company from the obligation to provide future services, the remaining unamortized deferred revenue is recognized in the period the contract is terminated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(vii) Prepaid Card revenue

Revenue from the sale of prepaid card on CDMA, Internet is deferred until such time as the customer uses the call time, downloadable quota or the credit expires.

(viii) Equipment Sales

Revenue from sale of equipment is recognised, net of taxes, on completion of the transaction.

(ix) Sales of services

Revenue from fixed - price contracts for providing manpower is generally recognised in the period the services are provided. Revenue from fixed-price contracts for delivering network project services is recognized under the percentage-of-completion (POC) method. Under the POC method, revenue is generally recognized based on the services performed to date as a percentage of the total services to be performed.

Revenue from publication sales relating to advertising revenue is recognised on publishing the advertisement on the telephone directory and a copy delivered to the advertisers.

(q) Expenditure

The expenses are recognised on an accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant and equipment in a state of efficiency is charged against income in arriving at the profit for the year.

(r) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(s) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of fixed assets and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, and losses on hedging instruments that are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis.

(t) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred Taxation

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Economic Service Charge (ESC)

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed payment can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

(u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(v) Insurance reserve

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

(w) 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.

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders.

(x) Comparatives

Except when a standard permits or requires otherwise, comparative information is disclosed in respect of the previous period. Where the presentation or classification of items in the financial statements are amended, comparative amounts are reclassified unless it is impracticable

(y) New Accounting standards issued but not effective as at balance sheet date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1 January 2012. These Standards have many changes and consequential changes from the adoption of SLAS 44 and 45. These new Accounting Standards are prefixed both SLFRS and LKAS which correspond to the relevant IFRS and IAS. Disclosure requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new Standards are not presented in these Financial Statements.

(z) Financial risk management

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(iv) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of stated capital, reserves and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern

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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.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain the gearing ratio below 35 %. The gearing ratios at 31 December 2010 and 2009 were as follows:

	Group	Company		
	2010	2009	2010	2009
Total borrowings	8,350	13,351	100	2,195
Total equity	49,849	46,311	50,646	48,572
Total capital	58,199	59,662	50,746	50,767
Gearing ratio	14.3%	22.4%	0.2%	4.3%

4 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(a) Primary reporting format - business segment

Management has determined the primary segments based on the nature of products and services and risks and rewards associated.

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

Fixed telephony operations (including CDMA) - Fixed Voice
Other Network Operations - ONO
Mobile telephony operations - Mobile Voice
Other value added services

The connection charges, rental and call charges derived from fixed wired lines and fixed wireless lines (CDMA) are included in Fixed Telephony revenue.

Income derived from local and international operators for use of telecommunication network of the Group is shown as revenue from other network operations.

Mobile revenue consist of revenue generated from mobile telephony operations of the subsidiary, Mobitel (Private) Limited.

Other value added services comprise data services, IP & Broadband and other telephony services which do not constitute reporting segments in isolation.

4 Segment information (Contd)

The segment results for the year ended 31 December 2010 are as follows:

	Voice - Fixed	ONO	Voice - Mobile	Other	Unallocated	Total
Revenue						
- Total segment revenue	16,321	12,040	15,108	12,791	-	56,260
- Inter-segment revenue	-	(3,110)	(27)	(2,873)	-	(6,010)
Revenue from external customers	16,321	8,930	15,081	9,918	-	50,250
Segment results / operating profits	1,046	670	2,062	1,366	-	5,144
Voluntary Retirement Scheme (VRS) costs						(189)
Other income						1,232
TDC Refund						152
Interest expenses and finance costs						(1,012)
Interest income						634
Profit before tax						5,961
Taxation						(2,018)
Net profit						3,943

Other segment information included in the income statement is as follows.

Depreciation	4,583	782	3,648	2,077	-	11,090
Amortisation of intangible assets	111	76	220	82	-	489

The segment assets and liabilities as at 31 December 2010 and capital expenditure for the year then ended are as follows:

	Voice - Fixed	ONO	Voice - Mobile	Other	Unallocated	Total
Assets	32,742	10,331	28,214	15,189	554	87,030
Liabilities	(6,547)	(6,732)	(19,052)	(4,115)	(735)	(37,181)
Capital expenditure	3,750	362	1,158	1,410	-	6,680

Segment assets and liabilities are reconciled to entities' assets and liabilities as follows:

	Assets	Liabilities
Segment assets and liabilities :	86,476	36,446
Unallocated:		
- Interest receivable	84	-
- Non current borrowings	-	-
- Current borrowings	-	-
- Deferred income tax assets	13	-
- Deferred income tax liabilities	-	248
- Income tax receivables	457	-
- Income tax liabilities	-	287
- Interest payable	-	200
Group assets / (liabilities)	87,030	37,181

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4 Segment information (Contd)

The segment results for the year ended 31 December 2009 are as follows:

	Voice - Fixed	ONO	Voice -Mobile	Other	Unallocated	Total
Revenue						
- Total segment revenue	19,338	9,683	12,152	10,457	-	51,630
- Inter-segment revenue	-	(1,572)	(29)	(1,952)	-	(3,553)
Revenue from external customers	19,338	8,111	12,123	8,505	-	48,077
Segment results / operating profits	224	570	621	1,132	-	2,547
Voluntary Retirement Scheme (VRS) costs						(480)
Other income						188
Interest expenses and finance costs						(2,024)
Interest income						1,164
Profit before tax						1,395
Taxation						(617)
Net profit						778

Other segment information included in the income statement is as follows.

Depreciation	5,896	775	2,715	1,946	-	11,332
Amortisation of intangible assets	116	63	188	91	-	458

The segment assets and liabilities as at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Voice - Fixed	ONO	Voice -Mobile	Other	Unallocated	Total
Assets	34,099	10,288	28,923	16,064	846	90,220
Liabilities	(7,506)	(7,660)	(20,921)	(5,306)	(2,516)	(43,909)
Capital expenditure	3,764	735	12,774	3,658	-	20,931

Segment assets and liabilities are reconciled to entities' assets and liabilities as follows:

	Assets	Liabilities
Segment assets and liabilities :	89,374	(41,393)
Unallocated:		
- Interest receivable	44	-
- Non current borrowings	-	(708)
- Current borrowings	-	(1,136)
- Deferred income tax assets	515	-
- Income tax receivables	287	-
- Income tax liabilities	-	(137)
- Interest payable	-	(535)
Group assets / (liabilities)	90,220	(43,909)

(b) Secondary reporting format - Geographical segment

The group's main business segments directly and indirectly operate within one main geographical area, hence it does not qualify for secondary reporting.

5 Revenue

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

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Release of deferred connection charges (Note 26)	897	906	897	906
Rental income	6,642	7,244	4,575	4,745
Domestic call revenue	18,261	15,977	6,150	7,115
Receipts from other network operators – domestic	852	11	603	11
International call revenue	2,274	2,270	1,371	1,508
Receipts from other network operators – International	22	9	22	9
International incoming Revenue	8,056	8,091	7,035	6,842
CDMA revenue	3,328	5,064	3,328	5,064
Broadband, data and other services	9,918	8,505	9,330	7,887
	50,250	48,077	33,311	34,087

6 Operating costs

The following items have been included in arriving at operating profit before depreciation, amortisation:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Staff costs (Note 7)	9,461	8,881	7,350	6,990
Directors' emoluments	17	31	9	22
Payments to international network operators	2,538	2,321	3,118	2,429
Payments to other network operators				
- international	595	710	709	772
- domestic	1,134	-	606	-
Int'l Telecommunication Operators Levy (Note 8)	1,928	2,954	1,367	2,425
Independent auditors' remuneration				
- audit fees	7	6	4	4
- non-audit fees	1	1	1	1
Repairs and maintenance expenditure	2,640	2,469	1,747	1,719
Provision for doubtful debts	1,345	1,971	1,076	1,671
Provision and charge for change in carrying value of inventories	379	834	379	834
Net foreign exchange (gains) / losses	64	(24)	64	(9)
Impairment of property, plant & equipment (Note 15)	14	151	14	151
Other operating expenditure	13,285	13,291	6,306	6,443
CDMA expenditure	119	144	563	418
	33,527	33,740	23,313	23,870

7 Staff costs

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Salaries, wages, allowances and other benefits	8,246	7,736	6,364	6,006
Post employment benefits				
- defined contribution plans	794	743	615	596
- defined benefit obligations (Note 28)	421	402	371	388
	9,461	8,881	7,350	6,990
Average number of persons employed by the Group / Company during the year:	9,884	9,774	6,291	6,631

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8 International Telecommunication Operators' Levy [ITL]

In terms of the Finance Act No. 11 of 2004, International Telecommunications Operators were 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. However as per the gazette notification No 1662/1 of 12 July 2010, Telecommunication Development Charge (TDC) rate has been revised from US\$ 0.038 to US\$ 0.015 per minute with effect from 15 July 2010. Further with the new rate of TDC, the disbursement process (2/3 of TDC) what has been established through the Finance Act No. 11 of 2004 has been removed from the TDC settlement process effective from 15 July 2010.

The total amount of the levy payable by the Group and Company for the period from 1 January 2010 to 31 December 2010 was estimated at Rs 1,928 million (2009-Rs 2,954 million) and Rs 1,367 million (2009- Rs 2,425 million) respectively and has been recognized as expenses in the current financial year. The corresponding liability, net of payments, has been recognised in the balance sheet.

From the claims due to SLT which had already been submitted to Telecommunication Regulatory Commission (TRC), TRC released the claim corresponding to the period from 01st January 2006 to 31st March 2006 where SLT received Rs 152 million as the TDC claim. Out of Rs.152 million a cash payment of Rs 28 million was received as the two third of TDC which had paid by other External Gateway operators (EGOs) who had terminated international traffic in SLT network. The balance Rs 124 million was set off against the 2/3 rd of TDC which was withheld by SLT against the international traffic terminated in SLT network which had been routed via SLT's international gateways.

However, the claims corresponding to the periods from 01st April 2006 to 31st March 2009 which have already been submitted to TRC are still due to SLT. The claims for the period from 01st April 2009 up to 14th July 2010 are yet to be submitted to TRC.

9 Voluntary Retirement Scheme (VRS) Costs

A VRS was announced in March 2010. Accordingly, based on the number of applications received from employees, a VRS cost of Rs 189 million (2009 - Rs 480 million) was incurred and recognised in the income statement of the Company.

10 Interest expense and finance costs

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Interest expense and finance costs				
- rupee loans	710	1,311	188	270
- foreign currency loans	149	78	-	3
- USD 100 million notes	-	804	-	804
- other (income) / charges [See Note (a) below]	153	(201)	130	(204)
Total interest and finance costs	1,012	1,992	318	873
Foreign exchange losses recognised from hedging reserve (Note 32)	-	32	-	32
Interest expenses and finance costs charged to income statement	1,012	2,024	318	905

(a) Other (income) / charges mainly include exchange loss of Rs 116 million [2009 - Rs (80) million] arising from revaluation of the fixed deposits in USD due to LKR appreciation against USD.

11 Interest income

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Interest income from:				
- bank deposits [Note (a) below]	209	874	194	861
- Government Securities [Note (b) below]	288	168	270	144
- staff loans	137	122	137	122
	634	1,164	601	1,127

The interest income on bank deposits and Government Securities reflect the prevailing rates on the date of respective investments.

(a) The weighted average interest rates on bank deposits in LKR and USD were 9.03% (2009-10.93%) and 4.22% (2009-5.32%) respectively.

(b) The weighted average interest rates on investments in Government Securities were 7.99% (2009 - 10.93%)

12 Income tax expenses

The charge for taxation is made up as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Income tax charge	1,308	2,388	776	2,142
Release of deferred tax liability relevant to previous years	-	(482)	-	(482)
(Over) / under provision of income tax relevant to previous years	(40)	-	(43)	-
Effect of change in basic tax rate	(59)	-	(62)	-
Release of deferred tax liabilities (Note 25)	809	(1,289)	820	(1,284)
	2,018	617	1,491	376

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:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Profit before tax	5,961	1,395	3,969	1,608
Tax calculated at basic tax rate of 35%	1,398	565	1,389	563
Tax calculated at a tax rate of 2% on Revenue Mobitel (Private) Limited	431	176	-	-
Tax calculated at a tax rate of 16.5% SLT Hongkong Limited	5	-	-	-
Tax effect of income not subject to tax	(232)	(382)	(228)	(368)
(Over) / under provision of income tax relevant to previous years	(40)	(22)	(43)	(22)
Expenses not deductible for tax purposes	515	280	435	203
Effect of change in basic tax rate	(59)	-	(62)	-
Tax charge	2,018	617	1,491	376

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Current income tax charge of the Group / Company is made up as follows:				
Sri Lanka Telecom PLC	776	2,142	776	2,142
Mobitel (Private) Limited	431	176	-	-
Sri Lanka Telecom Services Limited	4	-	-	-
SLT Hong Kong Limited	5	-	-	-
SLT Manpower Solutions (Private) Limited	13	6	-	-
SLT Publications (Private) Limited	78	64	-	-
Sky Network (Private) Limited	1	-	-	-
	1,308	2,388	776	2,142

- (a) Pursuant to agreements dated 15 January 1993 and 26 February 2001 entered into with Board of Investment under Section 17 of the Board of Investment Law, 15 years tax exemption period granted to Mobitel (Private) Limited expired on 30 June 2009 and as per the agreement, Mobitel (Private) Limited opted for the turnover based tax option which is charged at 2% on the turnover for a further period of 15 years commencing from 1 July 2009.
- (b) As per the agreement with the Board of Investment of Sri Lanka (BOI) dated 19 November 2009 under Section 17 of BOI Law No.4 of 1978 the Sky Network (Pvt) Ltd is exempt from income tax for a period of Six years. For the above purpose the year of assessment shall be reckoned from the year in which the company commences to make profits or any year of assessment not later than two years reckoned from the date of on which the Company commences commercial operation. whichever is earlier as may be specified in a certificate issued by the Board.

In view of the above the Company is not liable to income tax on business profit for the year of assessment 2010/11.
The Current tax wholly consists of tax on interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

For the year ended 31 December	Company		Group	
	2010	2009	2010	2009
Net profit attributable to equity holders (Rs million)	3,943	785	2,478	1,232
Weighted average number of ordinary shares in issue (million)	1,805	1,805	1,805	1,805
Basic earnings per share (Rs)	2.18	0.43	1.37	0.68

14 Dividends

In respect of 2009, a first and final dividend of Rs 0.25 (2008 - Rs 1) per share amounting to a Rs 451,215,000 (2008 - Rs 1,804,860,000) was paid during the current year.

The Board has recommended a first and final dividend of Rs 0.60 per share amounting to Rs 1,082,916,000 for the year ended 31 December 2010. This is to be approved by the shareholders at the Annual General Meeting to be held on 28 March 2011.

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 2010.

15 Property, plant and equipment

Group

	Freehold land	Freehold buildings	Ducts cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	capital work-in-progress	Total
Cost								
At 1 January 2009 as previously reported	347	2,332	69,847	18,733	39,659	14,839	7,286	153,043
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005) [See Note 15 (j) below]	-	-	-	-	-	5,272	-	5,272
Restated Cost as at 1st Jan 2009	347	2,332	69,847	18,733	39,659	20,111	7,286	158,315
Additions at cost	-	-	125	38	8,505	1,664	10,260	20,592
Transfers from capital work-in-progress	-	256	1,284	291	7,031	1,190	(10,052)	-
Disposals at cost	-	-	-	-	-	(53)	-	(53)
Cost of assets impaired [See Note 15(f) below]	-	-	-	(1,562)	-	-	-	(1,562)
Adjustments	-	(56)	(91)	(8)	65	(241)	47	(284)
Write-offs at cost	-	-	-	-	-	(11)	-	(11)
As at 31st December 2009	347	2,532	71,165	17,492	55,260	22,660	7,541	176,997
Accumulated depreciation								
At 1 January 2009 as previously reported	-	(451)	(54,386)	(13,359)	(18,526)	(9,249)	-	(95,971)
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005) [See Note 15(j) below]	-	-	-	-	-	(5,271)	-	(5,271)
Restated Accumulated depreciation as at 1st Jan 2009	-	(451)	(54,386)	(13,359)	(18,526)	(14,520)	-	(101,242)
Accumulated depreciation on disposal	-	-	-	-	-	52	-	52
Accumulated depreciation on impairments	-	-	-	1,411	-	-	-	1,411
Accumulated depreciation on write-offs	-	-	-	-	-	10	-	10
Depreciation charge	-	(60)	(3,700)	(1,202)	(3,909)	(2,461)	-	(11,332)
As at 31st December 2009	-	(511)	(58,086)	(13,150)	(22,435)	(16,919)	-	(111,101)
Carrying value as at 31st December 2009	347	2,021	13,079	4,342	32,825	5,741	7,541	65,896
Cost								
At 1 January 2010	347	2,532	71,165	17,492	55,260	22,660	7,541	176,997
Additions at cost	9	-	375	2	574	1,091	4,467	6,518
Transfers from capital work-in-progress	0	32	3,186	882	1,932	1,330	(7,362)	-
Disposals at cost	(1)	-	(32)	-	(954)	(62)	-	(1,049)
Cost of assets impaired [See Note 15(f) below]	-	-	-	(133)	-	-	-	(133)
As at 31st December 2010	355	2,564	74,694	18,243	56,812	25,019	4,646	182,333
Accumulated depreciation								
At 1 January 2010	0	(511)	(58,086)	(13,150)	(22,435)	(16,919)	0	(111,101)
Accumulated depreciation on disposal	-	-	10	-	931	56	-	997
Accumulated depreciation on impairments [See Note 15(f) below]	-	-	-	119	-	-	-	119
Depreciation charge	-	(63)	(2,974)	(1,123)	(4,823)	(2,107)	-	(11,090)
As at 31st December 2010	0	(574)	(61,050)	(14,154)	(26,327)	(18,970)	0	(121,075)
Carrying value as at 31st December 2010	355	1,990	13,644	4,089	30,485	6,049	4,646	61,258

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15 Property, plant and equipment (Contd.)

Company

	Freehold land	Freehold buildings	Ducts cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	capital work-in-progress	Total
Cost								
At 1 January 2009 as previously reported	347	2,332	69,697	18,733	15,477	13,849	5,833	126,268
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005) [See Note 15 (j) below]	-	-	-	-	-	5,272	-	5,272
Restated Cost as at 1st Jan 2009	347	2,332	69,697	18,733	15,477	19,121	5,833	131,540
Additions at cost	-	-	125	38	69	1,282	4,996	6,510
Transfers from capital work-in-progress	-	256	1,284	291	651	1,190	(3,672)	-
Disposals at cost	-	-	-	-	-	(48)	-	(48)
Cost of assets impaired [See Note 15 (j) below]	-	-	-	(1,562)	-	-	-	(1,562)
Adjustments	-	(56)	(91)	(8)	65	(241)	47	(284)
Write-offs at cost	-	-	-	-	-	(11)	-	(11)
As at 31st December 2009	347	2,532	71,015	17,492	16,262	21,293	7,204	136,145
Accumulated depreciation								
At 1 January 2009 as previously reported	-	(451)	(54,204)	(13,358)	(11,065)	(8,701)	-	(87,779)
Prior year adjustment:								
- Effect of adopting SLAS 10 - (Revised 2005) [See Note 15(j) below]	-	-	-	-	-	(5,271)	-	(5,271)
Restated Accumulated depreciation as at 1st Jan 2009	-	(451)	(54,204)	(13,358)	(11,065)	(13,972)	-	(93,050)
Accumulated depreciation on disposal	-	-	-	-	-	47	-	47
Accumulated depreciation on write-offs	-	-	-	-	-	10	-	10
Accumulated depreciation on impairments [See Note 15(f) below]	-	-	-	1,411	-	-	-	1,411
Depreciation charge	-	(60)	(3,700)	(1,202)	(1,055)	(2,285)	-	(8,302)
As at 31st December 2009	-	(511)	(57,904)	(13,149)	(12,120)	(16,200)	-	(99,884)
Carrying value as at 31st December 2009	347	2,021	13,111	4,343	4,142	5,093	7,204	36,261
Cost								
At 1 January 2010	347	2,532	71,015	17,492	16,262	21,293	7,204	136,145
Additions at cost	9	-	375	2	134	913	3,436	4,869
Transfers from capital work-in-progress	-	32	3,186	882	1,231	1,330	(6,661)	-
Disposals at cost	(1)	-	(32)	-	-	(33)	-	(66)
Cost of assets impaired [See Note 15 (f) below]	-	-	-	(133)	-	-	-	(133)
As at 31st December 2010	355	2,564	74,544	18,243	17,627	23,503	3,979	140,815
Accumulated depreciation								
At 1 January 2010	-	(511)	(57,904)	(13,149)	(12,120)	(16,200)	-	(99,884)
Accumulated depreciation on disposal	-	-	10	-	-	32	-	42
Accumulated depreciation on impairments [See Note 15 (j) below]	-	-	-	119	-	-	-	119
Depreciation charge	-	(63)	(2,974)	(1,123)	(951)	(1,906)	-	(7,017)
As at 31st December 2010	-	(574)	(60,868)	(14,153)	(13,071)	(18,074)	-	(106,740)
Carrying value as at 31st December 2010	355	1,990	13,676	4,090	4,556	5,429	3,979	34,075

15 Property, plant and equipment (Contd.)

- (a) On 1 September 1991, the Department of Telecommunications (DoT) transferred its entire telecommunications business and related assets and liabilities to SLT. A valuation of the assets and liabilities transferred to SLT was performed by the Government of Sri Lanka. The net amount of those assets and liabilities represents SLT's Contributed Capital on incorporation, and the value of property, plant and equipment as determined by the Government of Sri Lanka valuers was used as the opening cost of fixed assets on 1 September 1991 in the first statutory accounts of SLT. Further, SLT was converted into a public limited company, Sri Lanka Telecom Limited (SLTL), on 25 September 1996 and on that date, all of the business and the related assets and liabilities of SLT were transferred to SLTL as part of the privatisation process.
- (b) The cost of fully depreciated assets still in use in the company as at 31 December 2010 was Rs 64,136 million (2009 - Rs 45,178 million).
- (c) No assets have been mortgaged or pledged as security for borrowings of the Company. However, Mobitel (Private) Limited, a subsidiary of the Company, has pledged its assets at a value of Rs 9.7 billion as at 31 December 2010 (2009-17.7 billion) for its bank borrowings [Note 24 (K)].
- (d) The Directors believe that the Company has freehold title to the land and buildings transferred on incorporation (conversion of SLT into a public limited company on 25 September 1996), although the vesting orders specifying all the demarcations and extents of such land and buildings have not been formally issued. These lands consists of 250 lands. The Company has initiated action to transfer legal title documentations.
- (e) The property, plant and equipment is not insured except for third party motor vehicle insurance. An insurance reserve has been created together with a sinking fund investment to meet any potential losses with regard to uninsured property, plant and equipment. At the balance sheet date, the insurance reserve amounted to Rs 344 million (2009 - Rs 281 million) (Note 29).
- (f) Impairment of assets mainly consist of the carrying value of switches Rs 14 million that were impaired as a result of implementation of Next Generation Network (NGN) phase 3a (2009 - Rs. 151 million).
- (g) Additions include assets costing Rs 48 million (2009 - Rs 43 million) obtained under finance leases (where the Company is the lessee) and the additions of the Group includes assets costing Rs 48 million obtained under finance leases (2009 - Rs 62 million) where the Group is the lessee.
- (h) The property, plant and equipment includes motor vehicles acquired under finance leases, carrying value of which is made up as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Cost	167	118	148	99
Accumulated depreciation	(66)	(34)	(61)	(32)
Carrying value	101	84	87	67

- (i) Property, plant and equipment include submarine cables which are jointly controlled. The total cost and accumulated depreciation of all cables under this category as follows:

For the year ended 31 December	Company/ Group	
	2010	2009
Cost	6,431	6,258
Accumulated depreciation at 1 January	(3,481)	(2,888)
Depreciation charge for the year	(467)	(593)
Carrying value	2,483	2,777

- (j) As required by Sri Lanka Accounting Standard 10 (Revised 2005) Accounting Policies, Changes in Accounting Estimate and Errors, the Company retrospectively recognised the cost of the CDMA handsets under property, plant and equipment at Rs 1. Accordingly, opening retained earnings increased by 1 million and property, plant and equipment increased by 1 million as of 1 January 2008.
- (k) Estimated useful life of CDMA hand sets has been changed to 3 years from 1 January 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Intangible assets

Group	Goodwill	Licences	Software	Others	Total
At 1 January 2009 (Reclassified)					
Cost	394	746	514	1,059	2,713
Accumulated amortisation and impairment	(247)	(151)	(54)	(639)	(1,091)
Carrying amount as at 1 January 2009	147	595	460	420	1,622
Year ended 31 December 2009					
Opening net book amount	147	595	460	420	1,622
Additions at cost	-	2	360	125	487
Amortisation charge and impairment	(6)	(60)	(141)	(126)	(333)
Carrying amount as at 31 December 2009	141	537	679	419	1,776
At 1 January 2010					
Cost	394	748	874	1,184	3,200
Accumulated amortisation and impairment	(253)	(211)	(195)	(765)	(1,424)
Carrying amount as at 1 January 2010	141	537	679	419	1,776
Year ended 31 December 2010					
Opening net book amount	141	537	679	419	1,776
Additions at cost	-	-	208	-	208
Amortisation charge	-	(60)	(248)	(91)	(399)
Carrying amount as at 31 December 2010	141	477	639	328	1,585
At 31 December 2010					
Cost	394	748	1,082	1,184	3,408
Accumulated amortisation and impairment	(253)	(271)	(443)	(856)	(1,823)
Carrying amount as at 31 December 2010	141	477	639	328	1,585

16 Intangible assets (Contd.)

Company	Goodwill	Licences	Software	Others	Total
At 1 January 2009					
Cost	-	-	874	330	1,204
Accumulated amortisation and impairment	-	-	(244)	(328)	(572)
Carrying amount as at 1 January 2009	-	-	630	2	632
Year ended 31 December 2009					
Opening net book amount	-	-	630	2	632
Additions at cost	-	-	248	-	248
Amortisation charge	-	-	(194)	(2)	(196)
Carrying amount as at 31 December 2009	-	-	684	-	684
At 1 January 2010					
Cost	-	-	1,122	330	1,452
Accumulated amortisation and impairment	-	-	(438)	(330)	(768)
Carrying amount as at 1 January 2010	-	-	684	-	684
Year ended 31 December 2010					
Opening net book amount	-	-	684	-	684
Additions at cost	-	-	113	-	113
Amortisation charge	-	-	(227)	-	(227)
Carrying amount as at 31 December 2010	-	-	570	-	570
At 31 December 2010					
Cost	-	-	1,235	330	1,565
Accumulated amortisation and impairment	-	-	(665)	(330)	(995)
Carrying amount as at 31 December 2010	-	-	570	-	570

Goodwill of the Group

The goodwill in Group consists of goodwill arising on acquisition of Mobitel (Private) Limited.

Impairment tests for goodwill

Goodwill is allocated to the Group's Cash-Generating Units (CGUs). A summary of the goodwill allocation is presented below:

For the year ended 31 December	2010	2009
Mobitel (Private) Limited	141	141
Total	141	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 (Private) Limited

Gross margin	74%
Growth rate	16%
Discount rate	12%

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 2010 for the above CGU (2009 - Rs Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16.a Financial prepayments

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Cost				
As at 01 January	884	884	-	-
Acquired/Incurred during the period	-	-	-	-
As at 31 December	884	884	-	-
Amortisation				
As at 01 January	466	341	-	-
Amortisation for the year	90	125	-	-
As at 31 December	556	466	-	-
Carrying amount- Current [see note 21 (a)]	56	90	-	-
Carrying amount- Non Current	272	328	-	-
As at 31 December	328	418	-	-

17 Investments in subsidiaries

	Company	
	2010	2009
Unquoted shares		
Opening net book amount	11,317	10,172
Additions	205	1,145
Closing net book amount	11,522	11,317

Details of the subsidiary companies in which the Company had control as at 31 December are set out below:

Name of company	2010	2009	2010	2009
	Investment Rs million	Company holding	Investment Rs million	Company holding
Sri Lanka Telecom (Services) Limited				
[See Note (a) below]	25	99.99%	25	99.99%
Mobitel (Private) Limited [See Note (b) below]	10,722	100%	10,722	100%
SLT Hong Kong Limited [See Note (c) below]	36	100%	36	100%
SLT Publications (Private) Limited				
[See Note (d) below]	50	100%	50	100%
SLT Manpower Solutions (Private) Limited				
[See Note (e) below]	1	100%	1	100%
SLT VisionCom (Private) Limited [See Note (f) below]	100	100%	100	100%
Sky Network (Private) Limited [See Note (g) below]	588	99.94%	383	99.89%
	11,522		11,317	

- (a) This investment in subsidiary company consists of 2,500,000 shares representing 99.99 % of stated capital of Sri Lanka Telecom (Services) Limited.
- (b) The Company owns 619,238,240 shares representing 100% of the entire Ordinary Share Capital of Mobitel (Private) Limited. At 31 December 2010, the Company held 175,000,000 12% cumulative and redeemable preference shares with a value of Rs 10 per share and 200,000,000 14% cumulative and redeemable preference shares with a value of Rs 10 per share of Mobitel (Private) Limited. The preference dividend rank above ordinary dividends.

During the year 500,000,000 12% cumulative and redeemable preference shares with a value of Rs 10 per share has been converted to Ordinary shares of Mobitel (Private) Limited.

17 Investments in subsidiaries (Contd.)

At 31 December 2010, preference dividends amounting to Rs 1,128 million were in arrears (2009 - Rs 638 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 the entire stated capital of SLT Hong Kong Limited incorporated in Hong Kong.
- (d) This investment in subsidiary company consists of 5,000,000 shares representing the entire stated capital of SLT Publications (Private) Limited.
- (e) This investment in subsidiary company consists of 50,000 shares representing the entire stated capital of SLT Manpower Solutions (Private) Limited.
- (f) This investment in subsidiary company consists of 10,000,000 shares representing the entire stated capital of SLT VisionCom (Private) Limited.
- (g) This investment in subsidiary company consists of 42,071,251 shares representing a 99.94% holding of the issued stated capital and 6 million 12% cumulative and redeemable preference shares of Sky Network (Private) Limited.

Additions during the year, comprise the capital infusion of Rs 205 million in ordinary shares with a value of Rs 10 per share of Sky Network (Private) Limited.

At 31 December 2010, preference dividends amounting to Rs 16 million (2009 - Rs 9 million) has not been recognised in the financial statements.

All the subsidiaries except for Mobitel (Private) Limited and SLT (Hong Kong) Limited are audited by PricewaterhouseCoopers. Mobitel (Private) Limited is audited by Ernst & Young. SLT Hong Kong Limited audited by Cheng & Cheng.

18 Long term investments

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Treasury Bonds	673	47	626	-
	673	47	626	-

Long term investments are investments with a maturity beyond 1 year in Government Treasury Bonds representing the face value and the net of premium/discount.

19 Non-current receivables

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Employee loans [See Note (a) below]	1,991	1,894	1,991	1,894

(a) Employee loans are repayable in equal monthly installments over the loan period not exceeding Eight years.
The amount shown as non-current receivables represent staff loan installments falling due after 1 January 2012.

- (b) The weighted average interest rates on staff loans are between 3% and 7% (2009 - 3% and 7%).
- (c) No loans given to Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Inventories

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
CDMA Equipment	1,061	1,140	1,061	1,140
Cable & Networks	1,073	1,121	883	931
Other consumables	666	885	512	614
	2,800	3,146	2,456	2,685
Provision for change in carrying value of inventories	(1,519)	(1,164)	(1,298)	(943)
	1,281	1,982	1,158	1,742

Inventories consist of trading and capital inventory of which include telecommunication hardware, CDMA handsets, consumables and office stationery. Inventory is stated net of provisions for slow-moving and obsolete items.

21 Trade and other receivables

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Domestic trade receivables	8,857	14,398	7,067	11,861
Foreign trade receivables	2,855	1,851	2,404	1,851
	11,712	16,249	9,471	13,712
Less: Provision for bad and doubtful receivables	(3,059)	(7,694)	(2,802)	(6,782)
Less: Interest / revenue in suspense	(19)	(19)	-	-
Trade receivables - net	8,634	8,536	6,669	6,930
Amount due from subsidiaries [Note 37]	-	-	2,802	2,506
Amount due from related companies [Note 37]	168	206	168	206
Advances and prepayments [See Note (a) below]	1,118	943	117	94
Employee loans	482	400	482	400
Other receivables [See Note (b) below]	651	1,363	256	274
Amounts due within one year	11,053	11,448	10,494	10,410

- (a) Advances and prepayments of the Company mainly consist of advances on Building rent of Rs 8 million (2009 - Rs 5 million) and payments for software maintenance of Rs 72 million (2009 - Rs 71 million). Advances and prepayments of the Group mainly consist of advances on Building rent of Rs 114 million (2009 - Rs 92 million) and payments for software maintenance of Rs 72 million (2009 - Rs 71 million) and prepayment for advertising hoardings and insurances Rs 312 million (2009-224 million) other prepayments Rs 198 million (2009- Rs 207 million) and current portion of financial prepayment Rs 56 million (2009- Rs 90 million).
- (b) Other receivables of the Company consist of interest receivable of Rs 116 million (2009 - Rs 186 million), refundable deposits of Rs 85 million (2009 - Rs 74 million) and dishonoured cheques of Rs 3 million (2009 - Rs 3 million). Other receivables of the Group mainly consist of interest receivable of Rs 117 million (2009 - Rs 276 million), refundable deposits of Rs 162 million (2009- Rs 155 million), dishonoured cheques of Rs 3 million (2009- Rs 3 million) VAT receivable of Rs 181million (2009 - Rs 486 million).

22 Short term investments

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Restricted at bank [See Note (a) below]	406	351	336	281
Other Short term investments [See Note (b) below]	3,211	2,647	3,151	2,534
	3,617	2,998	3,487	2,815

Short term investments are investments with a maturity period of three to twelve months.

- (a) The restricted at bank represents the balance of the Escrow deposit maintained as the insurance reserve.
- (b) Other Short term investments represent bank deposits and investments in Government Securities.

23 Cash and cash equivalents

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Cash at bank and in hand	856	541	266	194
Other investments [See Note (a) below]	3,974	2,508	3,867	2,436
	4,830	3,049	4,133	2,630

- (a) Other investments represent US\$ fixed deposits equivalent to Rs 784 million (2009 - Rs 500 million) and investments in Government Securities amounting to Rs 3,083 million (2009 - Rs 1,936 million) maturing within a period of three months
- (b) For the purpose of the cash flow statement, the year-end cash and cash equivalents comprise the following:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Cash and cash equivalents	4,830	3,049	4,133	2,630
Bank overdrafts (Note 24)	(662)	(2,195)	-	-
	4,168	854	4,133	2,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Borrowings

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Current (due within one year)				
Bank overdrafts (Note 23 (b))	662	2,195	-	-
Government borrowings	-	619	-	619
US\$ 100 million Notes	-	-	-	-
Bank borrowings and others [See Note 24 (l) below]	2,276	2,483	-	500
Lease liabilities	32	20	28	17
	2,970	5,317	28	1,136
Non-current (due after one year)				
Government borrowings	-	-	-	-
Bank borrowings and others [See Note 24 (d) below]	5,295	7,959	-	1,000
Lease liabilities	85	75	72	59
	5,380	8,034	72	1,059
Total borrowings	8,350	13,351	100	2,195

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

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Total borrowings				
- at fixed rates	785	2,283	100	76
- at floating rates	7,565	11,068	-	2,119
	8,350	13,351	100	2,195

(b) The currency exposure of the borrowings of the Group and the Company at the balance sheet date was as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Foreign currency	3,875	3,846	-	-
Local currency	4,475	9,505	100	2,195
	8,350	13,351	100	2,195

(c) Effective interest rates of the Group and Company are as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Average effective interest rates:				
- bank overdrafts	9.41%	15.6%	-	-
- foreign bank borrowings	3.05%	2.4% - 6%	-	6.0%
- government borrowings	-	15.6%	11.41%	15.6%
- USD 100 million Notes (Redeemed in 2009)	-	6.9%	-	6.9%
- bank borrowings	10.86%	16.1% - 18.9%	10.37%	16.1%
- lease liabilities	21% - 25%	21% - 25%	21% - 25%	21% - 25%

24 Borrowings (Contd.)

(d) Maturity analysis of the Group and the Company is as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Maturity of non current borrowings :				
(excluding finance lease liabilities)				
- between 1 and 2 years	1,334	2,856	-	1,000
- between 3 and 5 years	3,900	4,820	-	-
- over 5 years	61	283	-	-
	5,295	7,959	-	1,000

(e) Analysis of the finance lease liabilities of the Group and the Company is as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Finance lease liabilities - minimum lease payments				
- not later than 1 year	52	39	45	32
- later than 1 year and not later than 5 years	103	98	88	76
	155	137	133	108
Less : future finance charges on finance leases	(38)	(42)	(33)	(32)
Present value of finance lease liabilities	117	95	100	76
Representing lease liabilities:				
- current	32	20	28	17
- non-current	85	75	72	59
	117	95	100	76

- (f) The Government of Sri Lanka(GoSL) 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. As at 31 December 2010, all the loans to Company from GoSL and other bank borrowings have been repaid infull.
- (g) 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.
- (h) The Directors believe that the Company and the Group will have sufficient funds available to meet its present loan commitments.
- (i) Lease liabilities of the Company and the Group are effectively secured by the lessor against the rights to the title of the asset.
- (j) Bank borrowings and bank overdrafts of Mobitel (Private) Limited, a subsidiary of the Company, are secured, inter alia, by corporate guarantees given by the Company.
- (k) Bank borrowings of Mobitel (Private) Limited are secured by a pledge over its property, plant and equipment at a value of Rs 9.7 billion [See Note 15 (c)]
- (l) Mobitel (Private) Limited has borrowed Rs 723 million during the year for the purpose of Capital Expansion Projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Deferred income tax (assets) / liabilities

Recognized deferred income tax (assets) / liabilities

Deferred income tax liabilities are calculated on all taxable and deductible differences arising from differences between accounting base and tax base of assets and liabilities. Deferred income tax is provided under the liability method using a principal tax rate of 28% (year of assessment 2009 / 2010 – 35%).

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

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
At 1st January	(515)	1,097	(510)	1,097
Income statement release (Note 12)	809	(1,289)	820	(1,284)
(Over)/under provision of deferred tax liability relevant to previous years	-	(482)	-	(482)
Effect of change in basic tax rate	(59)	-	(62)	-
At 31st December	235	(674)	248	(669)
(Over)/under provision of deferred tax liability relevant to previous years	-	159	-	159
Opening balance as restated	-	(515)	-	(510)

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
The amount shown in the balance sheet represent the following.				
Deferred tax liabilities	248	-	248	-
Deferred tax assets	(13)	(674)	-	(669)
(Over)/under provision of deferred tax liability relevant to previous years	-	159	-	159
	235	(515)	248	(510)

The taxable and deductible temporary differences mainly arise from property, plant and equipment, deferred income, provision for defined benefit obligations and other provisions.

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 2009	6,008
Credited to the income statement	(1,719)
At 31 December 2009	4,289
Credited to the income statement	(429)
Effect of change in basic tax rate	(772)
At 31 December 2010	3,088

25 Deferred income tax (assets) / liabilities (Contd.)

	Group/Company			
	Defined Benefit obligations	Deferred Provisions	income	Total
Deferred income tax assets				
At 1 January 2009	(400)	(2,473)	(2,038)	(4,911)
Charged / (credited) to the income statement	(81)	(174)	204	(51)
At 31 December 2009	(481)	(2,647)	(1,834)	(4,962)
(Over)/under provision of deferred tax liability relevant to previous years	-	159	-	159
(Credited) / charged to the income statement	(102)	1,195	144	1,237
Effect of change in basic tax rate	117	258	338	713
At 31 December 2010	(466)	(1,035)	(1,352)	(2,853)

Unrecognized deferred income tax (assets) / liabilities

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 64 million (2009 - Rs 66 million) in respect of tax losses of subsidiaries amounting to Rs 352 million (2009 - 177 million) that can be carried forward against future taxable income.

The adjusted tax losses available for carry forward as at 31 December are as follows:

	Adjusted tax losses available for carry forward as at 31st December	
	2010	2009
Sky Network (Private) Limited	128	64
SLT VisionCom (Private) Limited	224	110
SLT (Hong Kong) Limited	-	3
352	177	

No deferred tax is recognised in Mobitel (Private) Limited, a subsidiary of the Company, as it pays income tax based on turnover [Note 12 (a)].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income

Deferred connection charges of the Company represents the connection charges relating to PSTN network, net of amounts amortised to the income statement. The connection charges are deferred over a period of 15 years as stated in Note 3p(v). The deferred IRU sales of the Company includes the revenue arising on sale of SEA-ME-WE 4 cable capacity which is recognised over the lease period of 15 years. Release of Backhauling charges represent the revenue arising from lease of SEA-ME-WE 3 cable capacity. In addition, the deferred income of the Group represents deferred pre-paid card revenue of Mobitel (Private) Limited.

The movement in the deferred income account is as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
At beginning of year	5,930	6,467	5,248	5,822
Connection fees for the year	538	298	275	253
Income from Indefeasible Right of Use (IRU) of SEA-ME-WE 4	222	74	222	74
Backhauling charges	227	-	227	8
Release of deferred connection charges (Note 5)	(897)	(906)	(897)	(906)
Release of deferred IRU Sales	(12)	(3)	(12)	(3)
Release of Backhauling charges	(106)	-	(106)	-
Total amount credited to income statement	(1,015)	(909)	(1,015)	(909)
At end of year	5,902	5,930	4,957	5,248

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Representing deferred income:				
- current	1,937	1,574	992	892
- non-current	3,965	4,356	3,965	4,356
	5,902	5,930	4,957	5,248

27 Trade and other payables

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Amounts due within one year				
Domestic trade payables	1,963	1,868	462	369
Foreign trade payables	418	193	160	193
Amount due to subsidiaries [Note 37]	-	-	1,936	1,462
Amount due to related companies [Note 37]	9	37	9	37
Capital expenditure payables [See Note (a) below]	8,168	9,758	1,130	1,526
Social security and other taxes [See Note (b) below]	349	645	397	645
Interest payable	201	27	-	27
Other payables [See Note (c) below]	7,740	7,847	6,456	6,559
	18,848	20,375	10,550	10,818
Amounts due after one year				
International direct dialling deposits	235	234	235	234
Prepayments on VOIP services	12	13	12	13
PSTN guarantee deposits	42	43	42	43
Capital expenditure payables [See Note (a) below]	1,370	2,258	-	-
	1,659	2,548	289	290

27 Trade and other payables (Contd.)

- (a) Capital expenditure payables of the Company mainly consist of contractors' payable and retention of Rs 748 million (2009 - Rs 1,062 million) and advances on network restoration after road works of Rs 382 million (2009 - Rs 464 million). Capital expenditure payables of the Group mainly consist of contractors' payable of Rs 7,786 million (2009 - Rs 9,129 million) and advances on network restoration after road works of Rs 382 million (2009 - Rs 464 million).
- (b) Social security and other taxes of the Company mainly consist of Nation Building Tax (NBT) of Rs 77 million (2009 - Rs 69 million), Fixed Line Subscriber Levy payable of Rs 207 million (2009 - Rs 124 million), EPF payable of Rs 47 million (2009 - Rs 44 million). Social security and other taxes of the Group mainly consist of Mobile subscriber Levy Rs 229 million (2009 - Rs 218 million), Nation Building Tax (NBT) of Rs 147 million (2009 - Rs 115 million), and Fixed Line Subscriber Levy payable of Rs 207 million (2009 - Rs 124 million).
- (c) Other payables of the Company mainly consist of dividend payable to the Government of Sri Lanka of Rs 242 million (2009 - Rs 242 million), provision for Goods Received Notes (GRNs) of Rs 462 million (2009 - Rs 833 million), International Telecommunication Operators' Levy payable of Rs 4,508 million (2009 - Rs 4,091 million), Cess payable to Director General of Telecommunication of Rs 202 million (2009 - Rs 138 million) and accrued expenses and other payables of Rs 619 million (2009 - Rs 823 million). Other payables of the Group mainly consist of dividend payable to the Government of Sri Lanka of Rs 242 million (2009 - Rs 242 million), provision for Goods Received Notes (GRNs) of Rs 462 million (2009 - Rs 833 million), International Telecommunication Operators' Levy payable of Rs 4,660 million (2009 - Rs 4,091 million), Cess payable to Director General of Telecommunication of Rs 202 million (2009 - Rs 138 million) and accrued expenses and other payables of Rs 1,415 million (2009 - Rs 1,234 million).

28 Employee benefits

- (1) Movement in present value of Defined benefit obligations

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Defined benefit obligation at 1 January	1,458	1,217	1,373	1,144
Current service cost	136	104	114	97
Interest cost	160	144	151	137
Actuarial losses / (gains)	125	154	106	154
Benefits paid by the plan	(83)	(161)	(80)	(159)
Defined benefit obligation as at 31 December	1,796	1,458	1,664	1,373

- (2) The expenses recognised in the income statement

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Current service cost	136	104	114	97
Interest cost	160	144	151	137
Actuarial losses / (gains)	125	154	106	154
	421	402	371	388

The expense is recognised in staff cost in income statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Employee benefits (Contd.)

(3) As stated in Note 3. n (2) as at 31 December 2010, an actuarial valuation was carried out by an independent actuary.

The principal actuarial assumptions used were as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Discount rate [long - term]	10% - 11%	11% - 12%	10%	11%
Future salary increases	8% - 10%	8% - 10%	8%	8%

In addition to above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2010, 1967/70 Mortality Table issued by the Institute of Actuaries London (2009 - 1967/70 Mortality Table) was taken as the base for the valuation.

The provisions for defined obligations of Sri Lanka Telecom PLC and Mobitel (Private) Limited are actuarially valued by Messrs Actuarial and Management Consultants (Private) Limited and Piyal S Goonetilake respectively.

The provision for defined benefit obligations is not funded.

29 Insurance reserve

For the year ended 31 December	Group / Company	
	2010	2009
At beginning of year	281	236
Interest income on Escrow account	47	45
Charged to retained earnings	16	-
At end of year	344	281

As stated in Note 3.v the Company transfers annually from the retained earnings an amount equal to 0.1% of additions to property, plant and equipment to an insurance reserve. An equal amount is invested in a sinking fund to meet any funding requirements for potential losses from uninsured property, plant and equipment.

Management regularly monitors the charges made against the insurance reserve and the adequacy of the provision made.

30 Grants

Group

	Alcatel CIT France		TDC Refund CDMA		Total	
	2010	2009	2010	2009	2010	2009
Balance at 1 January	54	61	56	-	110	61
Grant received	-	-	-	69	-	69
credited to income statement	(6)	(7)	(13)	(13)	(19)	(20)
Balance at 31 December	48	54	43	56	91	110

Company

	Alcatel CIT France	
	2010	2009
Balance at 1 January	54	61
Grant credited to income statement	(6)	(7)
Balance at 31 December	48	54

(a) Alcatel CIT France grant consists of Exchange equipment received in 2005.

(b) Grant received comprises refund of TDC amounting to Rs 69 million by the Telecommunication Regulatory Commission in 2009 in connection with the cost of network roll out by Mobitel (Private) Limited.

31 Stated capital

For the year ended 31 December	Company	
	2010	2009
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:

	2010	2009		
	Holding percentage	Number of shares	Holding percentage	Number of shares
Government of Sri Lanka	49.50%	893,405,709	49.50%	893,405,709
Global Telecommunications Holdings N.V.	44.98%	811,757,869	44.98%	811,757,869
Public shareholders	5.52%	99,696,422	5.52%	99,696,422
	100%	1,804,860,000	100%	1,804,860,000

32 Hedging reserve

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
At beginning of year		(32)		(32)
Foreign currency translation differences	-	-	-	-
Income statement charge (Note 10)	-	32	-	32
At end of year	-	-	-	-

33 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Profit before tax	5,961	1,395	3,969	1,608
Adjustments for:				
Depreciation (Note 15)	11,090	11,332	7,017	8,302
Amortisation of grants (Note 30)	(19)	(13)	(6)	(7)
Amortisation of intangible assets (Note 16)	399	333	227	196
Amortisation of financial prepayments (Note 16 a)	90	125	-	-
Provision/write off of bad and doubtful debts	1,345	1,971	1,076	1,672
Provision & charge for change in carrying value of inventories	379	834	379	834
Interest expense and finance costs (Note 10)	1,012	2,024	318	905
Interest income (Note 11)	(634)	(1,164)	(601)	(1,127)
Connection fees less amortisation	(28)	(481)	(291)	(574)
Foreign exchange loss/(gain)	6	4	6	4
Profit on sale of property, plant and equipment	(78)	(21)	(64)	(21)
Provision for insurance reserve	47	45	47	45
Impairment on NGN phase 3a (Note 15)	14	151	14	151
Provision for Retirement benefit obligations (Note 28)	421	402	371	388
	20,005	16,937	12,462	12,376
Changes in working capital:				
- receivables and prepayments	(1,061)	(2,708)	(1,148)	(1,373)
- inventories	322	(233)	205	(246)
- payables	(2,610)	9,471	(262)	1,981
Cash generated from operations	16,656	23,467	11,257	12,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Commitments

Capital commitments

The Group and the Company have purchased commitments in the ordinary course of business as at 31 December 2010 as follows:

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Property, plant and equipment				
- approved but not contracted	9,056	4,057	9,056	4,057
- approved and contracted	9,494	12,624	4,916	2,677
	18,550	16,681	13,972	6,734

Operating Lease commitments

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

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
- not later than 1 year	102	119	102	119
- later than 1 year and not later than 5 years	165	245	165	245
	267	364	267	364

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.

35 Contingencies

- (a) 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.
- (b) Directories Lanka (Private) Limited (DLPL) filed case No. 2/2006 (3) in Commercial High Court against SLT PLC claiming Rs 250 million, damages for unfair competition with regard to Artwork on the cover page of SLT Directory Publication.
Order delivered on 23 April 2010 dismissing the claim lodged by Directories Lanka (Private)Limited and DLPL had appealed against the order Appeal is pending.
- (c) IPTV Case - Just In Time Holdings (Pvt.) Ltd (JIT) is claiming USD 4,738,846.57 as payments due to them from SLT under the contract. SLT has lodged a counterclaim of Rs. 437,970,137.00 under its statements of Defense. Claimant is under Cross examination. Next Date o8 March 2011.
- (d) Rates & Taxes - Application against the unreasonable increase of Assessment Tax of SLT Headquarters, to Rs. 8,452,500.00 per Quarter from the year 2006. SLT substituted Special Commissioner in place of dissolved Colombo Municipal Council (CMC). SLT to the amended plaint on 17 March 2011.
Appeal by CMC against the stay order granted in favour of SLT precluding CMC levying the aforementioned assessment taxes from SLT Arguments on 01 April 2011.

The Company has provided guarantees on behalf of its Subsidiaries for following loans and obligations.

- (i) Loans amounting to Rs 6,730 million (2009 - Rs 6,971 million) and USD 86.53 million (2009 - USD 87.50 million) for Mobitel (Pvt) Limited for GSM rollout stage 3, 4, and 5
- (ii) Loans amounting to Rs 16 million (2009-Nil) for Sri Lanka Telecom Services Limited to obtain facilities for working Capital requirement.
- (iii) Loans amounting to Rs 112.8 million (2009- Nil) for Sky Network (Pvt) Limited to facilitate WIMAX turnkey solution project.

With regard to cases detailed above, pending the outcome of the appeals and hearings, no provisions have been recognised in the financial statements up to 31 December 2010.

In addition to the above referred cases, there are more issues in relation to claims by employees and third parties for damages. In the opinion of the Directors none of these actions are likely to result in a material liability to the Company and its subsidiaries.

36 Comparatives

The presentation and classification of following items in these financial statements are amended to ensure comparability with the current year.

	Group 2009	Company 2009
As reported previously		
Balance Sheet		
Deferred income tax assets	674	669
Trade & other receivables	11,347	10,399
Current tax receivables	227	227
Short term investments	-	-
Cash & cash equivalents	6,094	5,445
Retained earnings	28,275	30,512
Trade & other payables	20,175	10,636
Current presentation		
Balance Sheet		
Deferred income tax assets	a	515
Trade & other receivables	b & c	11,448
Current tax receivables	d	287
Short term investments	e	2,998
Cash & cash equivalents	e	3,049
Retained earnings	a,f,h	27,987
Trade & other payables	g,h	20,375
		10,818

- a) Deferred tax asset on a bad debt provision of Rs. 159 Million, which was considered as a general provision in the previous year was re classified as a specific provision during the current year for a better presentation of the financial statements.
- b) Trade & other receivable of Rs. 11 Million, which was not recognised in the previous year was recognised as other receivable during the current year for a better presentation of the financial statements.
- c) Financial prepayment of Rs.89 Million relevant to Mobitel(Pvt) Ltd., identified as an Intangible Asset in the Group accounts previous year, was reclassified as a Financial Prepayment this year for a better presentation.
- d) Current tax receivable of Rs. 60 Million, which was not recognised in the previous year was recognised during the current year for a better presentation of the financial statements.
- e) Short term investments of Rs.2,998 Million of the group and Rs. 2,815 Million of the company, which was included in Cash & cash equivalents in the previous year was re-classified during the current year as a prior year adjustment.
- f) Leave encashment expenses amounting to Rs. 111 Million, which was included in operating cost in the previous year was recognised in the equity statement during the current year for better presentation of the financial statements.
- g) Trade & other payable amounting to Rs. 182 Million on leave encashment expenses, which was not recognised in the previous year was recognised during the current year for a better presentation of the financial statements.
- h) Adjustment of Rs.18 Million to the retained earnings of Sri Lanka Telecom (Services) Ltd. subsequent to consolidation of group accounts in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 Related party transactions

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

(a) Mobitel (Private) Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
Provision of E1 links	1,065	913
Leased Line	340	-
Infrastructure	15	-
Interconnection charges	296	1
TDM, VOIP Platform and Transit	29	105
	1,745	1,019
Purchase of goods and services:		
Call charges on official mobile phone	27	29
Interconnection charges	269	61
Antenna tower space	444	274
	740	364

Number of new GSM connections granted (special packages with no monthly rental) in 2010 is 1,928 (2009 - 275).

The Company has provided guarantees on behalf of Mobitel for following loans and obligations.

Loans amounting to Rs 6,730 million (2009 - Rs 6,971 million) and USD 86.53 million (2009 - USD 87.50 million) for Mobitel (Pvt) Limited for GSM rollout stage 3, 4, and 5.

(b) SLT Hong Kong Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
- Calls terminated to SLT subscribers	54	15
- Calls terminated to subscribers of other domestic operators	318	183
- Leased circuits	53	52
	425	250
Purchase of goods and services:		
- Time Division Multiplexing Transit (TDM Transit)	982	597
- Leased circuits	74	81
	1,056	678

(c) Sri Lanka Telecom Publications (Private) Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
Supply of services	4	2

(d) Sri Lanka Telecom (Services) Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
Supply of services	4	2
Purchase of goods and services:		
Purchase of maintenance services	82	-

37 Related party transactions (Contd.)

The Company has provided guarantees on behalf of Sri Lanka Telecom (Services) Limited for following loans and obligations. Loans amounting to Rs 16 million (2009-Nil) for Sri Lanka Telecom Services Limited to obtain facilities for working Capital requirements.

(e) SLT Manpower Solutions (Private) Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
Supply of services	4	-
Purchase of goods and services:		
Provision of manpower service	584	452

(f) SLT VisionCom (Private) Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
Supply of services	7	-
Purchase of goods and services:		
Service provisioning	115	49

(g) Sky Network (Private) Limited

For the year ended 31 December	Company	
	2010	2009
Sale of goods and services:		
Supply of services	36	-

The Company has provided guarantees on behalf of Sky Network (Private) Limited for following loans and obligations. Loans amounting to Rs 112.8 million (2009- Nil) for Sky Network (Pvt) Limited to facilitate WIMAX turnkey solution project.

(h) Fees for secondment of personnel and services provided to / by SLT PLC

For the year ended 31 December	Company	
	2010	2009
SLT Publications (Private) Limited	36	31
SLT Manpower Solutions (Private) Limited	5	4
SLT VisionCom (Private) Limited	27	24
Sky Network (Private) Limited	15	13
	83	72

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Maxis Communications Berhad and its subsidiaries

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Sale of goods and services:				
Sale of SEA-ME-WE 3 Cable capacity	15	3	15	3
International incoming traffic	558	379	558	379
	573	382	573	382
Purchase of goods and services:				
International outgoing traffic	136	154	136	154

(j) Upali Group of Companies

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Sale of goods and services:				
Providing Voice & Data services	6	-	6	-
Purchase of goods and services:				
Advertising and promotions	22	-	2	-

(k) Nawaloka Hospitals PLC

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Sale of goods and services:				
Providing Voice & Data services	1	-	1	-
Purchase of goods and services:				
Medical services	11	-	11	-

(l) Sri Lankan Airlines Limited

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Sale of goods and services:				
Providing Voice , Data & infrastructure services	21	-	21	-

(m) Sri Lanka Cricket

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Purchase of goods and services:				
Cricket Team and umpire sponsorship	132	-	-	-

(n) Galadari Hotel (Lanka) PLC

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Purchase of goods and services:				
Hotel facilities	1	-	1	-

37 Related party transactions (Contd.)

(o) Outstanding balances arising from sale / purchase of services

	Company	
	2010	2009
For the year ended 31 December		
Receivable from subsidiaries:		
Mobitel (Private) Limited	2,373	2,305
SLT Hong Kong Limited	2	10
SLT Publications (Private) Limited	80	40
SLT Manpower Solutions (Private) Limited	53	8
SLT VisionCom (Private) Limited	225	121
Sri Lanka Telecom (Services) Limited	11	-
Sky Network (Private) Limited	58	22
	2,802	2,506

	Company	
	2010	2009
For the year ended 31 December		
Payable to subsidiaries :		
Mobitel (Private) Limited	1,766	1,099
SLT Hong Kong Limited	82	306
SLT Manpower Solutions (Private) Limited	61	57
Sri Lanka Telecom (Services) Limited	27	-
	1,936	1,462

(p) Outstanding balances arising from sale / purchase of services

	Group		Company	
	2010	2009	2010	2009
For the year ended 31 December				
Receivable from related companies:				
Maris Communications berhad and its subsidiaries	161	206	161	206
For the year ended 31 December				
Receivable from related companies:				
Upali Group of Companies	2	-	2	-
Nawaloka Hospitals PLC	-	-	-	-
Sri Lankan Airlines Limited	5	-	5	-
Sri Lanka Cricket	-	-	-	-
	7	-	7	-

	Group		Company	
	2010	2009	2010	2009
For the year ended 31 December				
Payable to related company:				
Maxis Communications Berhad and its subsidiaries	9	37	9	37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(q) Key management Compensation

For the year ended 31 December	Group		Company	
	2010	2009	2010	2009
Salaries and other benefits	206	179	145	111

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. A related party transaction takes place with a transfer of resources or obligations between related parties, regardless of whether a price is charged.

All transactions during the year and balances as at the balance sheet date between the following companies have been eliminated in preparing the consolidated financial statements.

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

Related party transactions disclosed above should be read in conjunction with Notes 17 and 37 to the financial statements.

38 Directors' interests in contracts

SLT Group Directors and their directorships in other companies.

Director	Company	Position
Mr. Nimal Welgama	Upali Group of Companies	CEO
	Monetary Board of the Central Bank of Sri Lanka	Member
Mr. Sandip Das	Maxis Berhad, Malaysia	Executive Director/CEO
	Aircel Ltd	Director
	Bridge Mobile Alliance	Director
	PT Natrindo Telepon Seluler Ltd. Indonesia	Commissioneer
Mr. Chan Chee Beng	Usaha Tegas Sdn. Bhd	Executive Director
	Maxis Communications Berhad	Director
	Maxis Berhad, Malaysia	Director
	Aircel Ltd	Director
	Binariang GSM Sdn. Bhd	Director
	Tanjong Capital Sdn.Bhd	Director
	Bumi Armada Berhad	Director
Mr. Jeffrey Jay Blatt	Astro All Asia Networks PLC	Special Counsel
	Usaha Tegas Sdn. Bhd	Special Counsel
Mr. Shameendra Rajapaksa	Sri Lankan Airlines Limited	Director
Mr. Jayantha Dharmadasa	Nawaloka Hospitals PLC	Deputy Chairman / CEO
	Nawaloka Group of company	Chairman / Director
	New Ashford International (Pvt) Ltd	Chairman
	Concord Ventures Export Lanka Ltd	Chairman
	Sasiri Polysacks (Pvt) Ltd	Chairman
	Nawakrama (Pvt) Ltd	Chairman

38 Directors' interests in contracts

Director	Company	Position
	National Film Corporation	Chairman
	Galadari Hotel (Lanka) PLC	Director
	Nawaloka Metropolis Clinical Laboratories (Pvt) Ltd, India.	Director
Mr. Kalinga Indatissa	Interim Committee of the Sri Lanka Cricket Board	Member
	Sri Lanka Foundation Institute	Director
	Employee Trust Fund Board	Director
Mr. Dayananda Widanagamachchi	Ministry of Finance & Planning	Deputy Secretary to the Treasury
Mr. Lawrence Paratz	Maxis Communication Berhad	Director

39 Group reporting dates

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

40 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 REVIEW

(All amounts in Sri Lanka Rupees Million)

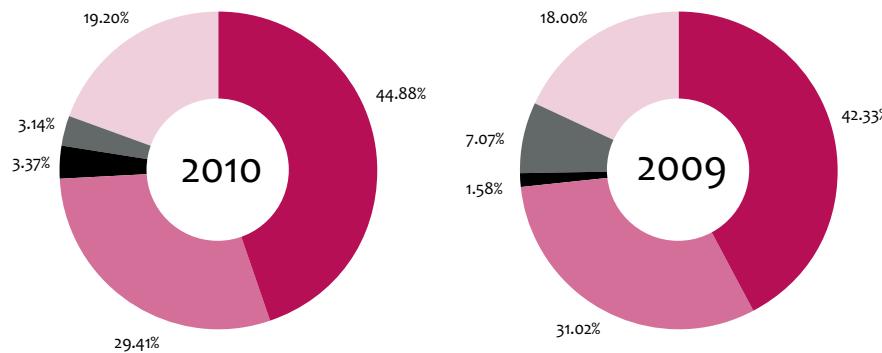
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Financial Position - (Group)										
Property, Plant & Equipment	61,258	65,896	57,073	53,881	54,202	56,151	54,360	55,763	56,722	59,093
Total Assets	87,030	90,220	93,199	85,372	84,042	81,520	78,872	72,373	74,765	80,173
Current Assets	21,238	19,764	32,389	28,609	27,292	23,843	22,144	14,626	15,963	13,772
Current Liabilities	24,042	27,403	32,819	16,830	16,370	13,892	11,378	12,440	12,048	12,144
Borrowings	8,350	13,351	21,716	19,285	20,785	22,840	25,370	21,081	25,926	31,534
Equity	49,849	46,311	47,525	41,900	37,866	33,793	31,064	30,600	29,024	36,957
Performance										
Revenue	50,250	48,077	47,044	43,234	40,691	32,515	29,516	25,553	25,383	22,060
Operating Profit	4,955	2,067	7,809	9,176	9,895	6,087	3,275	5,678	7,953	6,314
Finance Cost	1,012	2,024	2,130	2,232	1,884	2,085	2,252	2,863	3,377	3,585
Earnings before Tax	5,961	1,395	9,560	8,399	9,227	4,812	1,441	3,242	5,207	3,618
Taxation	2,018	617	2,193	2,759	3,789	1,719	148	993	2,522	1,515
Earnings after Tax	3,943	778	7,367	5,640	5,438	3,093	1,293	2,249	2,685	2,103
Cash Flow										
Net Operating Cash Flows	15,260	18,213	16,214	15,090	13,434	17,200	10,402	11,429	13,458	9,568
Net Cash used in Investing Activities	7,975	7,238	15,288	10,073	9,197	10,686	7,611	7,278	3,722	4,425
Net Cash used in/(from) Financing Activities	3,965	11,408	526	2,555	5,093	2,571	(3,314)	5,525	7,552	4,978
Key Financial Indicators										
Earnings per Share (Rs.)	2.18	0.43	4.08	3.10	3.10	1.70	0.70	1.30	1.50	1.20
Return on Assets (%)	5.91	2.82	8.38	10.70	11.80	7.50	4.20	7.80	10.60	7.90
Return on Equity (%)	7.91	1.68	15.5	13.50	14.40	9.20	4.20	7.30	9.30	5.70
Operating Margin (%)	9.86	4.30	16.6	21.20	24.30	18.70	11.10	22.20	31.30	28.60
Asset Turnover (No. of times)	0.58	0.53	0.50	0.51	0.48	0.40	0.37	0.35	0.34	0.28
Current Ratio (No. of times C.L.)	0.88	0.73	0.99	1.70	1.67	1.72	1.95	1.17	1.32	1.13
Quick Asset Ratio (No. of times C.L.)	0.83	0.65	0.91	1.61	1.58	1.66	1.83	1.11	1.27	1.05
Gearing Ratio (Debt to Rs. 1/- of Equity)	0.14	0.22	0.31	0.32	0.35	0.4	0.45	0.41	0.47	0.46
Interest Cover (No. of times Interest)	6.89	1.69	5.49	4.76	5.9	4.35	1.7	2.27	2.85	2.27

VALUE ADDED STATEMENT

	2010	2009
Revenue		
Other Income	50,250 2,018	48,077 1,352
Goods & Services purchased from other sources	52,268 (20,094)	49,429 (20,803)
Value creation	32,174	28,626

Distribution of Value Added

To Employees - Salaries ,wages, & other benefits	9,461	29.41%	8,881	31.02%
To providers of capital - Dividend to share holders	1,083	3.37%	451	1.58%
To Government - Taxes & Regulatory fees	6,179	19.20%	5,153	18.00%
To Lenders- Interest & Related charges	1,012	3.14%	2,024	7.07%
To Business Expansion & Growth				
- Depreciation	11,579	35.99%	11,790	41.19%
- Retained Income	2,860	8.89%	327	1.14%
	32,174	100.00%	28,626	100%



- To business expansion and growth
- To employees
- To providers of capital
- To lenders
- To government

PORTFOLIO OF LANDS

Valuation of lands transferred on incorporation (conversion of SLT into a public limited company in 1996) and lands acquired after the incorporation is in progress currently by a firm of incorporated valuers. Lands with high values were prioritised for this exercise. Valuation of lands already valued as at 20th February 2011 are as follows:

LOCATION	EXTENT (HECTARE)	VALUE OF LAND (LKR Mn)
No.108 & 109, Walawwaththa Rd, Anuradhapura	0.2434	24
Maithreepala Senanayake Mw, Anuradhapura	0.1125	56
Maithriepala Senanayake Mawatha, Anuradhapura	0.3355	166
Galkandehena, Kekirawa	0.1310	12
14, Nivanthaka Chethiya Road, Anuradhapura	0.0466	4
Mannar Rd, Medawachchiya	0.3315	5
Medawachchiya Road, Medawachchiya	0.1468	2
Nochchiyagama Idama, Nochchiyagama	0.1800	9
Behind the Mosque, Maithripala Senanayake Mw, Anuradhapura	0.1769	24
Nivanthaka Chethiya Road, Anuradhapura	0.0971	12
Galkantha Mawatha, Ampara	0.7657	91
Ratnapura Road, Eheliyagoda	0.0802	14
Station Road, Batticaloa	0.4383	61
Lower King's Street, Badulla	0.4020	48
Batticaloa Road, Bibile	0.089	9
Lower King's Street, Badulla	0.0340	4
Ridikotaliyagama, Mahiyangana	0.0790	5
Circuit Bangalow, Namunukula	0.2100	10
Senanayake Mw, Bandarawela	0.0705	11
Anduwakelepathana, Haputale	0.4080	32
06, Senanayake Mw, Bandarawela	0.2380	56
8, Wakwella Road, Galle	0.1697	50
Court Road, Gampaha	0.1523	54
Lotus Road, Colombo 1	1.3154	2,600
Dickmans Road, Colombo 05	0.3360	291
No. 5, Anderson Road, Colombo 05	0.1889	299
No. 7, Anderson Road, Colombo 05	0.1363	216
No. 9, Anderson Road, Colombo 05	0.1949	308
No. 17, Sugathodaya Mawatha, Colombo 02	0.2190	346
Main Street, Kalutara	0.3035	108
Primrose Hill, Kandy	0.0534	4
Prince Street, Kandy	0.2251	89
Punchi Borella, Maradana	0.2625	208
Base Line Rd, Welikada	3.0880	1,099
Tangalle Road, Matara	0.2880	148
Satellite Earth Station, Padukka	13.8960	165
Nalandarama Road, Nugegoda	0.1970	156
High Level Rd, Nugegoda	0.1170	116
Polhengoda Road, Narahenpita	0.3030	240
Pottoda, Katunayaka	0.3039	12
Thimbirigaskatuwa, Pottode, Negombo	0.6037	24
Thimbirigaskatuwa, Pottode, Negombo	1.7160	68
St. Joseph's Street, Negombo	0.6787	215
Queen Elizabeth Drive, Nuwara Eliya	0.2354	93
Main Street, Panadura	0.2542	126
Bandaragama	0.2803	55
Anguruwatta Road, Horana	0.2177	52
Sri Gunarathena Mw, Panadura	0.2952	47
Hotel Rd, Mount Lavinia	0.1913	95

LOCATION	EXTENT (HECTARE)	VALUE OF LAND (LKR Mn)
Air Port Junction, Ratmalana	0.2076	62
Main Street, Rathnapura	0.3645	86
Old Negombo Rd, Ja-Ela	0.0870	43
Ragama Road, Ragama	0.2048	40
Negombo Rd, Welisara	2.2280	484
Old Negombo Rd, Wattala	0.1012	80
Minnama Town, Awissawella	0.3655	22
Havelock Road, Colombo 5	0.0253	30
Vaverset Place, Colombo 5	0.0179	18
IDH Road, Kalapulawwa, Angoda	0.0364	6
Godapragahalanda, Malambe	0.0248	3
Madiwela, Kotte	0.0278	4
Kongahawatta, Talawathugoda, Kotte	0.0278	4
Battaramulla, Kotte	0.0185	6
478, Kaduwela Road, Thalangama North	0.0354	8
Udumullahena Watta, Kotuwegoda, Kotte	0.0311	5
Bogahawtta, Nawala	0.0304	12
Millennium City, Athurugiriya	0.0197	2
Asdiyapokunawatta, Mulleriyawa, Angoda	0.0379	4
Primrose Hill, Kandy	0.0751	6
Heiyanduwa, Biyagama	0.0506	7
Hettiyaoovita, Biyagama	0.0374	5
Walawewwatta, Delgoda	0.0320	3
Ketakelaghawatta, Ranmuthugala, Kadawatha	0.0329	5
Ihala Karagahamuna, Kadawatha	0.0430	3
Puwakghalanda, Siyambalape	0.0202	2
Mawaramandiya Road, Makola North	0.0192	2
Pitipana North, Homagama	0.0253	2
Panagoda, Homagama	0.0253	3
Mattegoda, Nugegoda	0.1265	36
320/2, Old Kottawa Road, Embuldeniya, Nugegoda	0.0234	7
Gangodawila, Nugegoda	0.0186	7
Sudharshi Mawatha, Kalubowila	0.0241	10
No.67, Mahinda Place, Kirulapane	0.0244	24
Delgahalanda, Ihala Bope, Padukka	0.0266	1
Rukmalgama, Maharagama	0.0817	8
Srimathi Rd, Keselwatta, Panadura	0.0632	15
St Anthony Road, Moratumulla, Moratuwa	0.0276	4
3A, Rawatawatte Road, Moratuwa	0.0202	4
Millagahakanatta, Molpe, Rathmalana	0.0257	3
Kahatagalhanda Estate, Makandana, Ratmalana	0.0177	2
Gorakaghawatta, Wethara	0.0253	2
Batakeththara, Piliyandala	0.0253	4
Bokundara, Piliyandala	0.0316	4
Godapragahalanda, Honnanthara, Piliyandala	0.0519	5
Kandawala Estate, Borupana, Ratmalana	0.0190	4
Madangahawatta, Laxapathiya, Moratuwa	0.0253	4
Keerakotuwa, Nawanuge Road, Peliyagoda	1.6432	325
Total		9,365

ABBREVIATIONS

4G	Information and Communication Technologies	Peo TV
Fourth Generation	Personalised Entertainment Option Television	
ACC	Information and Communication Technology Agency of Sri Lanka	PNETS
Association of Cable Communicators	Public Non Exclusive Telecommunication Services	
ADSL	International Direct Dialling	PoP
Asymmetric Digital Subscriber Line	Point of Presence	
ASPI	International Gateway	PSTN
All Share Price Index	India - Middle East - Western Europe	Public Switched Telephone Network
BSNL	IP Multimedia Subsystem	PTC
Bharat Sanchar Nigam Limited	International Mobile Telecommunications-2000	Pacific Telecommunications Council
CDMA	Internet Protocol	RWT
Code Division Multiple Access	Internet Protocol Virtual Private Network	Right When Tested
CLI	Internet Protocol Television	SAFA
Caller Line Identification	International Telecoms Week	South Asian Federation of Accountants
DEL	Key Performance Indicator	SDH
Direct Exchange Line	Lanka Education And Research Network	Synchronous Digital Hierarchy
E1	Moving Picture Experts Group	SDM
E – Carrier System level 1	Multiprotocol Label Switching	Space Division Multiplex
EBITDA	Multi-Service Access Node	SEA ME WE
Earnings Before Interest, Taxes, Depreciation and Amortisation	Next Generation Network	South East Asia-Middle East-West Europe
EIG	Nippon Telegraph and Telephone Communications	SKA
Europe - India Gateway	Officer in Charge	Sender Keeps All
EFTNS	Operational Support System	SLIM
External Fixed Telecommunications NetworkServices		Sri Lanka Institute of Marketing
EPF		SMS
Employee Provident Fund		Short Message Service
ETF		STM-1
Employee Trust Fund		Synchronous Transport Module level-1
FCR		TRCSL
Fault Clearance Rate		Telecommunication Regulatory Commission of Sri Lanka
FTTN		VoD
Fiber-To-The-Node		Video on Demand
Gbps		VoIP
Gigabyte per second		Voice over Internet Protocol
GDP		VPN
Gross Domestic Product		Virtual Private Network
GTH		WAP
Global Telecommunications Holdings		Wireless Access Protocol
ICASL		WiMAX
Institute of Chartered Accountants of Sri Lanka		Worldwide Interoperability for Microwave Access

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the FOURTEENTH ANNUAL GENERAL MEETING of Sri Lanka Telecom PLC will be held in 28th March 2011 at 10.00 am at the Kings Court, Cinnamon Lakeside Colombo, No.115, Sir Chittampalam A Gardiner Mawatha, Colombo 2 for the purpose of conducting the following Routine and Special business:

AGENDA

1. Routine Business

- 1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and Statement of Accounts for the year ended 31 December 2010 with the Report of the Auditors thereon.
- 1.2 To declare a first and final dividend of Sixty Cents (60 Cents) per share as recommended by the Directors.
- 1.3 To elect as a Director, Mr. Sandip Das, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association.
- 1.4 To elect as a Director, Mr. Nimal Welgama, who retires in terms of Article 97 of the Articles of Association
- 1.5 To elect as a Director, Mr. Jayantha Dharmadasa, who retires in terms of Article 97 of the Articles of Association.
- 1.6 To elect as a Director, Mr. Shameendra Rajapaksa, who retires in terms of Article 97 of the Articles of Association
- 1.7 To elect as a Director, Mr. Kalinga Indatissa, who retires in terms of Article 97 of the Articles of Association.
- 1.8 To elect as a Director, Mr. Lawrence Paratz, who retires in terms of Article 97 of the Articles of Association.
- 1.9 To elect as a Director, Mr. Dayananda Widanagamachchi, who retires in terms of Article 97 of the Articles of Association.
- 1.10 To re-appoint Messrs, KPMG Ford Rhodes, Thornton & Co., Chartered Accountants as Auditors for the ensuing year and to authorize the Directors to determine their remuneration:
- 1.11 To authorise the Directors to determine and make donations to charities.
- 1.12 To transact any other business of which due notice has been given.

2. Special Business

Amendments to the Articles of Association

To consider and if though fit to pass the Resolution set out in Annex "A" to this Notice of Meeting as a SPECIAL RESOLUTION.

BY ORDER OF THE BOARD

SRI LANKA TELECOM PLC

P W Corporate Secretarial (Pvt) Ltd

SECRETARIES

22 February, 2011

Colombo

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her.
2. A proxy need not be a member of the Company.
3. A Form of Proxy accompanies this Notice.

ANNEXURE "R"

IT IS HEREBY RESOLVED as a SPECIAL RESOLUTION that the Articles of Association of the Company ("Articles") be amended as follows,

1. The name of the Company be amended to read as Sri Lanka Telecom PLC and that all references to Sri Lanka Telecom Limited in the Articles be henceforth amended to read as Sri Lanka Telecom PLC.
2. To provide for amendments to the following definitions in Article 2

Board	: The board of directors of the Company from time to time;
Companies Act	: The Companies Act No. 7 of 2007 and any amendment thereto;
Statutes	: The Companies Act No. 7 of 2007 and every other Act for the time being in force concerning companies and affecting the Company;
3. To provide for an amendment to the definition of "Special Resolution Extraordinary Resolution" by deleting the words 'Extraordinary Resolution'...
4. The objects as set out in the Memorandum of Association, which are deemed to form part of the Articles pursuant to section 486 (2) of the Companies Act No. 7 of 2007 be set forth in the Articles as Article 2A under the heading "THE OBJECTS OF THE COMPANY".
5. The capital clause in the previous Memorandum of Association and the corresponding Article 3 in the Articles of Association to be deleted in their entirety.
6. The following Article be inserted as Article 7(A),
 - 7(A) (1) The Company may agree to purchase or otherwise acquire its own shares with the approval of the Board.
 - (2) Before the Company offers or agrees to purchase its own shares, the Board of the Company should resolve that –
 - i. the acquisition is in the interests of the Company.
 - ii. the terms of the offer or agreement and the consideration to be paid for the shares is in the opinion of the Company's auditors a fair value; and
 - iii. it is not aware of any information that has not been disclosed to shareholders which is material to an assessment of the value of the shares, and as a result of which the terms of an offer or consideration offered for the shares are unfair to shareholders accepting the offer.
 - (3) Before the Company –
 - i. makes an offer to acquire shares other than in a manner which will if it is accepted in full, leave unaffected the relative voting and distribution rights of all shareholders; or
 - ii. agrees to acquire shares other than in a manner which leaves unaffected the relative voting and distribution rights of all shareholders.

The Board shall resolve that the making of the offer or entry into the agreement, as the case may be, is

fair to those shareholders to whom the offer is not made or with whom no agreement is entered into.

- (4) The shares which may be so purchased shall be cancelled immediately upon purchase.
7. The following Article be inserted as Article 7(B),

7(B) The Company may issue shares which are redeemable,

 - i. at the option of the Company;
 - ii. at the option of the holder of the share; or
 - iii. on a date specified in the articles.

Redemption may be for a consideration that is specified by the Board at the time of issue of the redeemable shares or a consideration which is calculated on a formula that is also specified by the Board or to be fixed by an independent financial advisor having such qualifications as the Board may think fit.
8. Articles 9 (A) and (B) to be deleted in its entirety and substituted with the following,
- 9 (A) Consolidate or subdivide all or any of its shares in issue in such proportions as it may seem fit, in a manner which would leave the relative voting and distribution rights of all shareholders substantially unaffected.
- That Article 9 (C) and (D) be renumbered as 9 (B) and (C) respectively.
9. Article 11 to be amended by the deletion of the words "in the capital of the Company for the time being", and by the addition of the word "issue" immediately after the word "may" in line 2.
10. Article 48 to be deleted in its entirety and substituted with the following,
48. The Board of the Company shall call an annual general meeting of the shareholders to be held once in each calendar year –
 - i. not later than six months after the balance sheet date of the Company; and
 - ii. not later than fifteen months after the previous annual general meeting.
11. Article 50 to be amended by the substitution of the words "twenty one days" with the words "fifteen working days" and the words "fourteen days" with the words, "ten working days."
12. Article 116 to be substituted with the following,
- 116 (1) Subject to Article 116(4) which relates to major transactions,
 - i. the business and affairs of the Company shall be managed by or under the direction or supervision of the Board of the Company,
 - ii. the Board shall have all the powers necessary for managing and for directing and supervising the management of, the business and affairs of the Company.

ANNEXURE "R"

- (2) (i) The Company shall not enter into any major transaction, unless such transaction is –
- (a) approved by special resolution;
 - (b) contingent on approval by special resolution;
 - (c) consented to in writing by all shareholders of the Company; or
 - (d) a transaction which the Company is expressly authorized to enter into by a provision in its articles, which was included in it at the time the Company was incorporated.
- (ii) In this section the reference to –
- “assets” includes property of any kind, whether corporeal or incorporeal,
 - “major transaction” means –
- (a) the acquisition of or an agreement to acquire whether contingent or not, assets of a value which is greater than half the value of the assets of the company before the acquisition;
 - (b) the disposition of or an agreement to dispose of, whether contingent or not, the whole or more than half by value of the assets of the Company;
 - (c) a transaction which has or is likely to have the effect of the Company acquiring rights or interests or incurring obligations or liabilities of a value which is greater than half the value of the assets of the Company before the acquisition; or
 - (d) a transaction or series of related transactions which have the purpose or effect of substantially altering the nature of the business carried on by the Company.
- (iii) Nothing in this section shall apply to –
- (a) a transaction under which the Company gives or agrees to give a floating charge over all or any part of the property of the Company;
 - (b) a transaction entered into by a receiver appointed pursuant to an instrument creating a floating charge over all or any part of the property of the Company;
 - (c) a transaction entered into by an administrator or liquidator of the Company.
- (3) (i) The Board may delegate to a committee of Directors, a Director or employee of the Company or any other person, any one or more of its powers other than its powers under any of the sections in the Companies Act specified in the Sixth Schedule.
- (ii) The Board, when it delegates a power under subsection (i), shall be responsible for the exercise of the power by the delegate as if the power had been exercised by the Board, where –
- (a) the Board has reason to believe before the exercise of the power, that the delegate would not exercise the power in conformity with the duties imposed on Directors of the Company by the Companies Act and the Articles; or
- (b) the Board has failed to monitor by means of reasonable methods properly used, the exercise of the power by the delegate.
- (4) (i) Each Director shall act in good faith and in what he believes to be in the interests of the Company.
- (ii) Each Director shall not act or agree to the Company acting, in a manner that contravenes any provisions of the Companies Act or the Articles.
- (iii) Each Director –
- (a) shall not act in a manner which is reckless or grossly negligent; and
 - (b) shall exercise the degree of skill and care that may reasonably be expected of a person of his knowledge and experience.
- 13. The following Article to be added as Article 116(5),**
- 116 (5) A Director of the Company who has information in his capacity as a Director or employee of the Company which would not otherwise be available to him, shall not disclose that information to any person or make use of or act on the information except –
- i. for the purpose of the Company;
 - ii. as required by law;
 - iii. if authorized to do so by the Board, and particulars of the authorization are entered in the interests register.
- 14. Article 139 to be substituted with the following,**
- 139 The Company shall keep accounting records which correctly record and explain the Company's transactions, and will –
- i. at any time enable the financial position of the Company to be determined with reasonable accuracy;
 - ii. enable the Directors to prepare financial statements in accordance with the Companies Act; and
 - iii. enable the financial statements of the Company to be readily and properly audited.
- The accounting records must comply with Subsection (2) of Section 148 of the Companies Act.
- 15. Article 146 to be substituted with the following**
146. Auditors shall be appointed and their duties regulated in accordance with the provisions of sections 154 to 164 of the Companies Act
- 16. Article 158 to be substituted with the following,**
- 158 (1) The Company may indemnify a Director or employee of the Company or related Company, for any costs incurred by him in any proceeding –
- i. that relates to liability for any act or omission in his capacity as a director or employee; and
 - ii. in which judgment is given in his favour or in which he is acquitted or which is discontinued or in which he is granted relief under Section 526 of the Companies Act.
- (2) The Company may indemnify a Director, or employee of the Company or a related Company in respect of –

- i liability to any person other than the Company or a related Company, for any act or omission in his capacity as a Director or employee; or
 - ii. cost incurred by that Director or employee in defending or settling any claim or proceeding relating to any such liability,
 - iii. not being criminal liability or in a case of a Director, liability in respect of a breach of the duty specified in section 187 of the Companies Act.
- (3) The Company may with the prior approval of the Board, effect insurance for a Director or employee of the Company or a related Company in respect of –
- i. liability not being criminal liability, for any act or omission in his capacity as a Director or employee;
 - ii. costs incurred by that Director or employee in defending or settling any claim or proceeding relating to any such liability; or
 - iii. costs incurred by that Director or employee in defending any criminal proceedings in which he is acquitted.
- (4) In this section –
- “Director” includes a former Director;
“employee” includes a former employee.
17. The following Articles to be added as Articles 159 and 160.
- Miscellaneous
- 159 (1) The Company must keep at its registered office or at some other place, notice of which has been given to the Registrar in accordance with subsection (4) of Section 116 of the Companies Act, the following documents –
- (i) the certificate of incorporation and the Articles of the Company;
 - (ii) minutes of all meetings and resolutions of Shareholders passed within the last ten years;
 - (iii) an interest register;
 - (iv) minutes of all meetings and resolutions of Directors passed and Director’s committees held within the last ten years;
 - (v) certificates required to be given by the directors under the Companies Act within the last ten years;
 - (vi) the register of Directors and Secretaries required to be kept under Section 223 of the Companies Act;
 - (vii) copies of all written communications to all Shareholders or all holders of the same class of shares during the last ten years, including annual reports of the Company prepared under Section 166 of the Companies Act;
 - (viii) copies of all financial statements and group financial statements required to be completed under the Companies Act for the last ten completed accounting periods of the Company;
 - (ix) the copies of instruments creating or evidencing charged and the register of charges required to be kept under Sections 109 and 110 of the Companies Act;
 - (x) the share register required to be kept under Section 123 of the Companies Act; and
 - (xi) the accounting records required to be kept under Section 148 of the Companies Act for the current accounting period and for the last ten completed accounting periods of the Company.
- (2) The reference in paragraph (1) of his Article to “ten years” and to “ten completed accounting periods” shall include such lesser periods as the Registrar may decide, where he considers it necessary and appropriate.
- 160 (1) The Directors of the Company are entitled to have access to the Company’s records in accordance with Section 118 of the Act.
- (2) In addition to the records being made available for public inspection under Section 120 of the Companies Act, a Shareholder of the Company is entitled to inspect the following documents with written notice of the Company –
- (a) minutes of all meetings and resolution of Shareholders;
 - (b) copies of all written communications to all Shareholders or to all holders of a class of shares during the preceding ten years, including annual reports, financial statements, and group financial statements;
 - (c) certificates issued by directors under the Companies Act; and
 - (d) the interests register of the Company.
- (3) However,
- (a) the aforesaid documents shall be available for inspection at the place at which the Company’s records are kept between the hours of 9.00 a.m. and 4.00 p.m. on each working day during the inspection period; and
 - (b) a document of which the certified copy has been provided to the person or Shareholder concerned without charge need not be made available for inspection.
- The “inspection period” referred to above means the period commencing on the third working day after the day on which the notice of intention to inspect is served on the Company by the Shareholder concerned and ending on the eighth working day after the day of service.
- (4) A Shareholder is also entitled to require copies of or extracts from any document which he may inspect, within five working days of making a request in writing for the copy of extract, on payment of any reasonable copying and administration fee determined by the Company. The fee may be determined by any Director or by the Secretary, subject to any directions from the Board.

FORM OF PROXY

I/We(holder of NIC No.)

of

being a member/members of Sri Lanka Telecom PLC hereby appoint

.....(holder of NIC No.)

of whom failing*

Mr. Nimal Welgama	whom failing*
Mr. Sandip Das	whom failing*
Mr. Chan Chee Beng	whom failing*
Mr. Jeffrey Jay Blatt	whom failing*
Mr. Jayantha Dharmadasa	whom failing*
Mr. Shameendra Rajapaksa	whom failing*
Mr. Kalinga Indatissa	whom failing*
Mr. Lawrence Paratz	whom failing*
Mr. Dayananda Widanagamachi	whom failing*

as my/our* proxy to represent me/us* to speak and vote for me/us* and on my/our* behalf as indicated below at the 14th Annual General Meeting of the Company, to be held on 28th March 2011 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

1. Routine Business

- | | For | Against |
|--|--------------------------|--------------------------|
| 1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31 December 2010 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.2 To declare a first and final dividend of Sixty Cents (60 Cents) per share as recommended by the Directors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.3 To elect as a Director, Mr. Sandip Das, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.4 To elect as a Director, Mr. Nimal Welgama, who retires in terms of Article 97 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.5. To elect as a Director, Mr. Jayantha Dharmadasa, who retires in terms of Article 97 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.6 To elect as a Director, Mr. Shameendra Rajapaksa, who retires in terms of Article 97 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.7 To elect as a Director, Mr. Kalinga Indatissa, who retires in term of Article 97 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.8 To elect as a Director, Mr. Lawrence Paratz, who retires in terms of Article 97 of the Articles of Association. | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.9 To elect as a Director, Mr. Dayananda Widanagamachchi, who retires in terms of Article 97 of the Articles of Association | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.10 To re-appoint Messrs, KPMG Ford Rhodes, Thornton & Co., Chartered Accountants as Auditors for the ensuing year and to authorize the Directors to determine their remuneration | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.11 To authorise the Directors to determine and make donations to charities. | <input type="checkbox"/> | <input type="checkbox"/> |

2. Special Business

To pass the Special Resolution set out in Annex "A" to the Notice of Meeting to amend the Articles of Association of the Company.

In witness my/our hand/seal given on this..... day of March Two Thousand and Eleven.

.....

Signature

* Please delete what is inapplicable.

Note : Instruction as to completion appear overleaf.

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. Please indicate with an “X” in the space provided, how your proxy is to vote on each resolution. If no indication is given the proxy in his/her discretion will vote as he/she thinks fit.
3. In the case of a corporate member the proxy must be executed in accordance with the Articles of Association. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy, if it has not already been registered with the Company.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company, Sri Lanka Telecom PLC, Lotus Road, Colombo 01 not later than 48 hours before the time fixed for the holding of the meeting.

CORPORATE INFORMATION

Name of the Company

Sri Lanka Telecom PLC

Legal Form

A public Limited Liability Company incorporated in Sri Lanka in September 1996 under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Limited Companies Act No.23 of 1987 and quoted on the Colombo Stock Exchange in January 2003.

Company Registration Number

PQ 7

Stock Exchange Listing

The Ordinary Shares of the Company are listed in the Colombo Stock Exchange

Registered Address

Telecom Headquarters
Lotus Road
Colombo 01.

Board of Directors

Nimal Welgama – Chairman
Sandip Das
Chan Chee Beng
Jeffrey Jay Blatt
Jayantha Dharmadasa
Shameendra Rajapaksa
Kalinga Indatissa
Lawrence Paratz
Dayananda Widanagamachchi

Auditors

KPMG Ford Rhodes, Thornton & Co.,
(Chartered Accountants),
No. 32, Sir Mohamed Macan Makar Mw,
Colombo 03.

Company Secretary

P W Corporate Secretarial (Pvt) Ltd.

Credit Rating

The Company has received Fitch AAA (Ika) Domestic Rating and Fitch BB- foreign currency ratings.
Standard & Poor's have rated B+ for foreign currency and BB- for local currency corporate credit ratings.

Bankers

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

SUBSIDIARY COMPANIES

Name of Company

Mobitel (Pvt) Limited
Sri Lanka Telecom (Services) Limited
SLT Hong Kong Limited (off shore subsidiary)
SLT Publications (Pvt) Limited
SLT Visioncom (Pvt) Limited
SLT Manpower Solutions (Pvt) Limited
SKY Network (Pvt) Limited

Holding

100%
100%
100%
100%
100%
100%
99.89%

Principal Activity

Mobile Telephony
Providing total network solutions to corporate and small business customers
Point of Presence - Providing IP transit services
Directory publication services
IPTV operations
Workforce solutions
Wimax operations

REGIONAL TELECOM OFFICES

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

TELESHOPS

Ambalangoda	Katunayake	Mihindu Mw
Beruwala	Kegalle	Mount Lavinia
Biyagama	Kiribathgoda	Negombo
Gampaha	Kotte	Nittambuwa
Homagama	Kuliyapitiya	Piliyandala
Horana	Kurunegala	Puttalam
HQ	Liberty Plaza	Slave Island
Ja-ela	Maharagama	Thangalle
Kaduwela	Matale	Wennappuwa
Kandy	Mattakkuliya	World Trade Centre
Kankasanthuri	Matugama	



www.slt.lk