



Sri Lanka Telecom

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

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

Tomorrow's world will be  
one in which a single intelligent  
**IP based network**

will provide a rainbow of  
converged services  
through this single platform.



The challenge will be to build  
**a single platform** to provide this  
broad spectrum of services  
with optimum clarity, efficiency and cost.

**Infinite Possibilities  
Unlimited Opportunities**

SLT's constantly growing network capacities, its state-of-the-art access technologies and its corporate vision present unlimited opportunities for entrepreneur, professional, farmer and other.

In these 10 years since privatisation, SLT has focussed on strengthening its internal processes, systems and human resource culture. While not ignoring the 'external' we have given priority to getting the 'internal' dimensions in place in order to lay the foundation for our next phase of growth. In these 10 years we have faced many challenges. At the same time, it has been a huge learning experience for us. The time is now ripe to build on this learning.

With the exponential growth in new communications technologies SLT's focus over the next ten years will be on making optimum use of these technologies, opening a new world of opportunities for our broad range of customers and adding value to the country as a whole.

Our current microwave and fibre optic network provides the right ambience for the migration into a Next Generation Network (NGN). **Tomorrow's world will be one in which a single intelligent IP based network will provide a rainbow of converged services through this single platform.** This platform will be complemented by island wide access technologies on copper and wireless network providing new and infinite possibilities. SLT is poised to usher in this technology rich and user friendly new world not just in Sri Lanka but in the entire South Asian region.

Sri Lanka's strategic location will ensure that the country plays a crucial role in the unfolding of new technologies across the different regions. Already SLT's investments in the SEA-ME-WE submarine cables and the Bharat-Lanka submarine cable, supported by satellite connectivity, have provided an unparalleled global connectivity and enhanced Sri Lanka's competitiveness in the global market.

The challenge for the future will be a challenge of innovation: to present to the customer the unlimited opportunities that the new communications technology offers. The challenge will be to build a single platform to provide this broad spectrum of services with optimum clarity, efficiency and cost. Above all such networks should be simple and easily accessible to a wide range of consumers. SLT will leverage its investments in its existing network, its investments in NGN and its leadership role in the region to ensure that it becomes the powerhouse of communications and opens up unlimited opportunities for Sri Lanka. Its investments in its human resource capabilities will ensure the Company is geared with the marketing and customer skills to capitalise on its product and technology assets.

### **Transforming yet again**

SLT closed the year once again on a positive note. The year was full of challenges but the Company responded magnificently to these challenges and posted yet another strong performance.

### **Economy Grows after the Tsunami**

Recovering well after the tsunami, the economy grew by 5.1% in the first half of 2005. The services sector performed even better and grew by 6.4% during the first half of 2005. The growth was due in large measure to developments in telecommunications, port services, storage and warehousing, public administration, and the export trade.

The transport, storage and communications sector recorded the highest sectoral growth, growing by 15.4% during the first half of the year, as against a growth of 13.9% during the first half of the previous year. The largest contribution came from the telecommunications sub-sector, mainly driven by the growth in mobile phone usage, which increased by 53% during the first half of 2005. A substantial growth of 14.5% was also seen in the subscriber network of Fixed Access-Wireless Local Loop telephones, supported by the new Code Division Multiple Access (CDMA) technology.

With the new CDMA technology and the continuing expansion of the mobile telephone network, it is anticipated that the telecommunications subscriber network, would expand by 19.5% in 2006.

### **Another Positive year**

Group's revenue grew by 10% to reach Rs. 32.5 billion during the past year. Of this revenue 66% came from local telephone services, 24% came from international telephone services and 9% came from data and other services. Operating profits increased by 26%. Pre-tax profits were Rs. 4.8 billion and post-tax profits were Rs. 3.1 billion respectively. These are highest figures achieved by the Company since privatisation.

A reduction in interest expenses and an effective treasury management boosted our profits. The new income tax surcharge had a negative impact on the bottom line.



Anil Obeyesekere, P.C.  
Chairman/Director

### **Stepping into the Region**

Over the past 10 years we have established ourselves as the only fully integrated communications service provider in this country. In 2005, we took concrete steps towards becoming a major player in the regional telecommunications market. Our investments in infrastructure, human resources and technology have provided the foundation for this next phase of growth. We will continue to expand in the local market and continue with our efforts at offering the domestic customer the widest and most cost efficient choice coupled with the latest in technology. At the same time we pursue aggressively new markets in the region and beyond. Our technology strategy completely supports this.

Our global coverage was significantly strengthened with the undersea optical fibre links: SEA-ME-WE-3 and SEA-ME-WE-4. The Bharat-Lanka link will bring a whole new dimension to our international connectivity and provide a backbone to link East Asia with the Sub-Continent, the Middle East and Europe. The local fibre optic capacity was also strengthened.

### **Meeting the Challenges Head on**

There were three main challenges that the Company faced over the past year. The first was the imposition of the International Telecommunications Operators' Levy (ITL). Based on the Finance Act No. 11 of 2004 enacted by the Parliament in late 2004, a levy was imposed on International Telecommunication Operators with retrospective effect dating back to March 2003.

In 2005, there was an increase in the volume of 'incoming minutes'. The ITL paid was still less than the previous year as the levy in 2004 was paid for 22 months including the provision for 2003. The ITL for 2005 was paid for 12 months.

As in the previous year, the Company continues to recognise the expense arising from ITL in arriving at the results for the year. This was unexpected and had consequences for our bottom line, yet we were able to cope.

The Gazette notification of 31 March 2005 provides that each domestic PSTN operator may claim two-thirds of the Telecommunications Development Charge

We took concrete steps towards becoming a major player in the regional telecommunications market. Our **investments in infrastructure, human resources and technology** have provided the foundation for this next phase of growth.

(TDC) funds, for the development of their telecommunications network in unserved and underserved areas of Sri Lanka. This will be determined by the Telecommunications Regulatory Commission (TRC), within a period of three years.

The other challenge was the delay in approving our CDMA licence. The licence was finally made available in August 2005, and we entered the market as a third player in October. Despite our late entry we were able to attract 35,000 CDMA customers in a matter of two months and continue to do so at a phenomenal rate.

A more realistic tariff rate implemented in September 2003 was stymied by the Consumer Association of Lanka and the matter is before the Supreme Court. We are waiting for a speedy resolution of this matter to move forward with a time based tariff structure for our domestic voice service which will be simpler and easy to understand.

#### **Exceeding Targets and Broadening Coverage**

Last year we had targeted 60,000 new connections. However, due largely to the dynamism of our staff we exceeded this target by a third and installed 100,000 new connections by the year end.

SLT continues to hold 82% of the market share in fixed line operations and 65% of the market in data services. Our coverage is by far the widest and our links penetrate even the most rural of areas. Our coverage is supported by offices and maintenance centres countrywide. SLT Citylink CDMA broaden the horizon of communication on wireless connectivity.

In 18 months Mobitel rolled out its 300th base GSM station and by the end of 2005 it had 420,062 customers or 19% of the mobile market.

Since it launched its state-of-the-art EDGE/GPRS GSM network in January 2004 the Company has grown at an unprecedented rate of 300%. So far the Company has invested in excess of US\$ 140 million in its GSM network and is working on enhancing its coverage to meet the growing demand. A further US\$ 40 million has been targeted for the next phase of operations which is due to be completed in October 2006.

In 2005, Mobitel launched a dual band IDD solution: the first network to offer this solution. This is part of the Company's strategy of providing customers with the widest possible choice using the most modern technology.

#### **High Ranking Reaffirmed**

LMD ranked SLT for the second consecutive year as the No. 1 Company in Sri Lanka for the fiscal year 2004/05. The grading is performed annually by LMD with analysis of the turnover, payable dividends, stock market reserves, assets and capital reserves of the

companies listed at the share market. LMD also ranked SLT as Sri Lanka's most valuable brand for a second time in succession.

The Brand value of SLT was further enhanced when we were presented with the National Icon Award for the most preferred brand in the Information & Communications Technology sector, which is held annually by the Sri Lanka Institute of Marketing.

Last year 'Business Today' placed SLT among the top ten companies in this country. We were ranked 3rd in this prestigious group. These awards recognise the Company's performance in the past ten years and acknowledge its potential for the future.

#### **Excellence in Reporting**

The Institute of Chartered Accountants of Sri Lanka adjudged the Annual Report of SLT for the financial year 2004 as the first runner-up in the Services sector at its Annual Report Awards Competition. Further, SLT was placed in the second position in the Communication and IT Category of the "Best Presented Accounts Award 2004" competition held by the South Asian Federation of Accountants (SAFA). The criteria of selection prove the Company's high standards in ensuring transparency, good governance and compliance with statutory and best accounting practices.

#### **Achieving High Standards**

In 2005, Fitch Ratings Lanka reconfirmed the AAA (sri) domestic rating of SLT. They further upgraded SLT's foreign currency rating from 'B+' to 'BB-'. This is in recognition of our robust market position and strong growth prospects.

Standard & Poor's Rating Services revised its outlook on SLT from negative to stable. At the same time S&P affirmed its B+ foreign currency and BB- local currency corporate credit ratings on the Company.

#### **Taking Customer Service to New Levels**

It is our service quality that will attract customers. The newer players in the market are also developing rapidly and beginning to use technology to develop their product portfolio. We need to take our customer service to new levels to ensure that our existing clients stay with us and we continue to attract new customers to our network.

#### **Staff Commitment Grows**

I would like to thank employees at every level and in every part of the country for their efforts. Without their hard work and commitment the Company would not have performed the way it did.

My thanks also to my colleagues on the Board for their advice and guidance. I look forward to another rewarding year.



**Anil Obeyesekere, P.C.**  
*Chairman/Director*

Mr. Obeyesekere is an Attorney-at-Law and a President's Counsel, and became an Advocate to the Supreme Court in 1962. He has served as the Chairman of the Ceylon Petroleum Corporation, Chairman of Lanka Marine Services and Chairman of Lanka Tankers. He has also served as Sri Lanka's Trade Commissioner and Head of Mission in the Czech Republic from 1973 to 1977. Additionally, he practised as an Attorney both in the Civil and Criminal Courts in Sri Lanka. He has served on the Board of Lanka Cement from 1997 to 2001 and from 1998 to 2001 as a Member of the Public Enterprises Reform Commission. Mr. Obeyesekere was appointed to the Board of Directors of the Company on 24 June 2004.



**Shuhei Anan**  
*Director and  
Chief Executive Officer*

Mr. Anan holds a Master of Science degree from Waseda University of Japan. He has held a number of senior managerial positions at NTT Com and was the Assistant Vice President in-charge of Operations & Maintenance at the Thai Telephone & Telecommunications Company. Mr. Anan is also a Director of Sri Lanka Telecom (Services) Limited and Mobitel.

He has over 20 years experience working in Overseas Business Enterprises, which includes an extensive working knowledge of the Telecom industry and the technological developments within the industry.

He was in charge of the Mergers and Acquisitions of Telecom companies such as Philippine Long Distance Telephone Company (PLDT), Starhub, Sri Lanka Telecom and Thai Telephone & Telecommunication Public Limited Company (TT&T).

Mr. Anan was appointed to the Board of Directors of the Company on 5 June 1999.



**S.B. Divaratne**  
*Director*

Mr. Divaratne holds a Bachelor of Arts degree from the University of Kelaniya and a Postgraduate Diploma in Economics and Policy Planning from the University of Manchester, United Kingdom. He has over 30 years of experience in public service, having joined the Sri Lanka Administrative Service in 1971. In public service he has held a variety of positions and is currently the Deputy Secretary to the Treasury. He serves on the Boards of Sri Lanka Ports Authority, Public Enterprises Reform Commission and Private Sector Infrastructure Development Company. Mr. Divaratne was appointed to the Board of Directors of the Company on 27 May 2004.



**Haruhiko Yamada**  
*Director*

Mr. Yamada holds a Bachelor of Laws degree from the University of Tokyo and obtained a Master's degree in Business Administration from the University of Chicago. He began his career with NTT Corporation in 1976. Over the following twenty-five years, he held numerous posts within NTT Corporation including Director, Finance & Treasury Division and Vice President, Group Strategy, Corporate Planning Department of NTT Com. Mr. Yamada was appointed to the Board of Directors of the Company on 4 September 2003.



**Shoji Takahashi**  
*Director*

Mr. Takahashi joined the Board in August 2005. He holds a Bachelor's degree from Nihon University, Japan in Mechanical Engineering. Currently he is the President and CEO of NTT Com Asia Limited, HKNet Co. Limited, NTT Com Asia Network Systems (Guang Zhou), all subsidiaries of NTT Com. Since joining NTT in 1979, he has held a variety of roles in that Company. In 1997 he was appointed Director, Overseas Carrier Business Division to oversee NTT's investment in Asia Pacific Region. In 2000 he was appointed Executive Vice President of NTT Hong Kong Limited. He is aged 40.



**Mrs. Leisha Chandrasena**  
*Director*

Mrs. Chandrasena joined the Board on 27 February 2006. She is an Attorney-at-Law & Notary Public by profession who has been in active practice from 1978 to 1987 and has served as a Legal Manager/Company Secretary in the mercantile sector. Currently she is in active practice in the civil courts and serves as a Partner of a family owned Legal Firm. She is aged 52.



**Mr. S.N. Kumar**  
*Director*

Mr. Kumar is a businessman involved in the textile and garments sector. He started off his career in the garment industry in 1982 as Finance Manager and thereafter in 1983 ventured into his own business. He currently serves as Advisor to the Minister of Foreign Employment Promotion and is also the Chairman of a reputed Company.

## Enhancing Quality of Life through New Wave Technology

In 2006, SLT will complete 10 years as a privately managed company. These past ten years have been challenging and demanding. More importantly it has been transformative, rewarding and a tremendous learning experience.

The investments we have made in both infrastructure and internal management processes have placed us to offer state-of-the-art ultra modern solutions for our growing customer base.

In terms of financials, we have continued to perform on an upward trend with growth in revenues. Group's post-tax profit at Rs. 3.1 billion recorded an increase of Rs.1.8 billion which is an improvement of 139% in comparison to the previous year.

Modern customers are becoming highly sophisticated and are increasingly demanding rich and ready to use enhanced latest technologies. We are poised to roll out aggressively a modern IP based platform on our network again in this year. That will bring together both voice and data and provide a broad range of services to our customers. We will evolve our network with an ultra modern Next Generation Network (NGN), which will give us the capability of providing multiple services on one network. NGN technically meets the today's challenge - information anywhere anytime - on any device. As the national communications provider meeting the social challenge it is our responsibility to bring each and every citizen of Sri Lanka into the network. SLT is planning to invest approximately Rs. 7 billion to provide this state-of-the-art platform, the first phase of which will go into operation in 2006.



Shuhei Anan  
Director and Chief Executive Officer

## Our Infrastructure begins to Perform

Over the past ten years we have made substantial investments in developing new infrastructure and strengthening existing infrastructure. Among the strategic investments we made were investments in the domestic optical fibre network and SEA-ME-WE 3 and SEA-ME-WE 4. These two giant undersea fibre optic cables have enhanced our international connectivity in leaps and bounds.

In the SEA-ME-WE 4 Consortium SLT has been the leading player. We invested US\$ 30 million of the total investment of US\$ 500 million and SLT chairs of the Finance and Administration Committee which oversees the financial sector of the entire project. The SEA-ME-WE 4 represents the next generation in fibre optics and will revolutionise connectivity. It has been built with state-of-the-art DWDM technology to perform at terabits per second levels. It is the main connectivity backbone across East and West and will link South East Asia to the Sub-Continent, the Middle East and Europe.

## Bharat-Lanka commences Operations in 2006

The other strategic investment we made in infrastructure was with regard to the Bharat-Lanka optical fibre submarine cable. This project was conceived in 2004 and in that year we agreed in principle with Bharat Sanchar Nigam Limited (BSNL), the seventh largest telecommunications operator in the world, to the construction of this link. In 2005, along with BSNL we signed the Supply Contract Agreement with NEC for the implementation of the Bharat-Lanka cable system and we hope to have the link up and running by July 2006.

Bharat-Lanka cable will improve connectivity and strengthen links between the two countries. It will also provide a foundation for other entrepreneurial activities between the two countries [redacted] with win-win scenarios for both countries.

Prior to this, in 2003, SLT had established a micro wave link between Talaimannar and Rameshwaram, India to handle regional traffic between the two countries. This was also in partnership with BSNL. However, we both realised that there was a need for a reliable link with significantly enhanced capacity so that this project was born. The link will provide a win-win situation for both countries and enable SLT and BSNL to access other countries through existing and future cable networks such as SEA-ME-WE 3 and SEA-ME-WE 4 and the large internal terrestrial networks of BSNL. The microwave link will provide a back up link when the submarine cable is offline.

The Bharat-Lanka optical fibre cable will run between Tuticorin in India and Mount Lavinia with substantial benefits for both Sri Lanka and India. The cable system will initially support traffic capacity of 10 gigabits per second and will be progressively upgraded to 160 gigabits per second. It has the potential to reach a terabits per second level in the future. Corporate and personal customers in India and Sri Lanka will benefit by competitive International Private Leased Circuits (IPLCs), broadband Internet, direct and transit International Direct Dialling (IDD) traffic, Internet Protocol (IP) backbone networks, and multimedia content services.

At one level the Bharat-Lanka cable will improve connectivity and strengthen links between the two countries. At another level it will provide a foundation for other entrepreneurial activities between the two countries with win-win scenarios for both countries.

### **Telephone Service for everyone**

SLT received the CDMA (Code Division Multiple Access) licence in August 2005, much later than the other two operators and so we were forced to be creative in our marketing to break into the market. CDMA technology is a huge leap forward in communications and will broaden access to communications especially for those in remote locations. It will provide a superior quality, an enhanced range of services and wider geographical reach.

CDMA technology will enable rapid deployment at reduced costs in comparison to the present wired access technology used by SLT. It will enable SLT to offer communications facilities to those areas such as the North, East and deep South where telecommunication networks are scarce.

It will also enable the rural consumer to subscribe to new value added service such as SMS, Voice Mail Service, Internet Access, Data Services and CLI. SLT will soon introduce other services such as Free Phone Service, Calling Name Identification Presentation and Colour Ring Back Tone (CRBT). CDMA will also be compatible with the development of SLT's next generation network, which will provide multiple services be merged into the existing communication services with new products.

The entire CDMA network will be leveraged by SLT's national backbone network and its extensive resources and SLT will provide strong service guarantees to guard against service interruptions.

Our target is to increase the subscriber capacity to another 150,000 by the end of 2006 and with this focus we have commenced installing Base Transmitting Stations throughout the country. We hope to invest Rs. 1.5 billion in the first phase of the CDMA expansion plan.

SLT has to compete in the market without the advantage of tax concessions enjoyed by other competitors. We are thus forced to provide CDMA phones at higher prices since the duty concession is not available to us. We are now engaging with the Telecommunications Regulatory Commission (TRC) asking them to level the playing field in this regard. A level playing field will enable us to offer our rural customers an even more cost effective solution.

### **Broadband Demand Grows**

In 2005, to meet a rising demand of Broadband services, SLT expanded its ADSL (Asymmetric Digital Subscriber Line) coverage into the Mount Lavinia, Ratmalana, Moratuwa,

Maharagama, Kelaniya, Negombo and Kandy. ADSL has become synonymous with the new Internet revolution because it facilitates higher speeds at an affordable price. The ADSL package offered by SLT has two options: one aimed at domestic users and the other at corporate users and allows consumers to browse and communicate via telephone at the same time. ADSL will further facilitate the growth of the Internet by becoming an access technology for e-learning, online gaming, video and audio streaming. SLT expands ADSL to empower business models such as community Internet centres which will help minimise digital divide in the country.

### **Mobitel becomes a Challenger**

Mobitel is progressively providing a greater range of services to its growing customer base. It focuses on expansion of its network to all relevant parts of Sri Lanka, both urban and rural, enabling wider accessibility and ensuring high quality connections.

Mobitel recently pioneered a range of customised menu-driven Over The Air (OTA) value added services which enables the customer to enjoy hassle-free downloading of information without the inconvenience of having to remember a list of short codes. These services range from usage balance and billing details to sports and financial updates as well as a range of entertainment options. This unique service is available even whilst roaming.

Mobitel, a wholly owned subsidiary of SLT provides an extensive roaming network and has the distinction of being the only network to offer pre-paid roaming to its subscriber base.

### **Bringing in Next Generation Networks**

The future will be a future of convergence where one intelligent IP based network will provide a platform for existing services and new services both in the local and global markets. Voice, data, internet connectivity and application service will converge into a

single high performance platform. SLT is poised to lead the industry with the introduction of next generation networks and to provide the sophisticated functionality that IP based networks offer.

Whilst strengthening its access network with modern wireless technologies such as CDMA, SLT is taking steps to evolve its core network into a Next Generation Network (NGN) replacing its existing circuit switched technology with soft switches. NGN will enhance SLT's capability to deliver IP based services: voice, data and video services making maximum use of existing networks. Consumers will soon be able to access voice, data or video on any device. New services such as E-Learning, Tele-Medicine and a broader range of entertainment services will provide consumers with increased choice and ultimately richer lifestyles. NGNs will eliminate a fair number of network components and thereby reduce complexity. It will provide greater reliability and enhanced performance. SLT will also extend its fibre backbone to cover all major cities throughout the country in order to support this NGN.

The key challenge in all of this is to provide consumers with more choices, increased flexibility and greater control. Telecommunications providers need to evolve new products that deliver at faster speeds and with superior quality and greater reliability. We will also explore how this new technology can reduce costs and create new sources of revenue. The investments that we are making are designed to do this not just for the local market but for the regional and global markets as well.

### **Trail-blazing**

Sri Lanka's telecommunications industry is one of the most advanced in the region. Three operators now have CDMA technology which means the penetration capacity is greater. Four mobile operators have GSM which has taken the industry to the next level and SLT has a solid and widespread infrastructure.

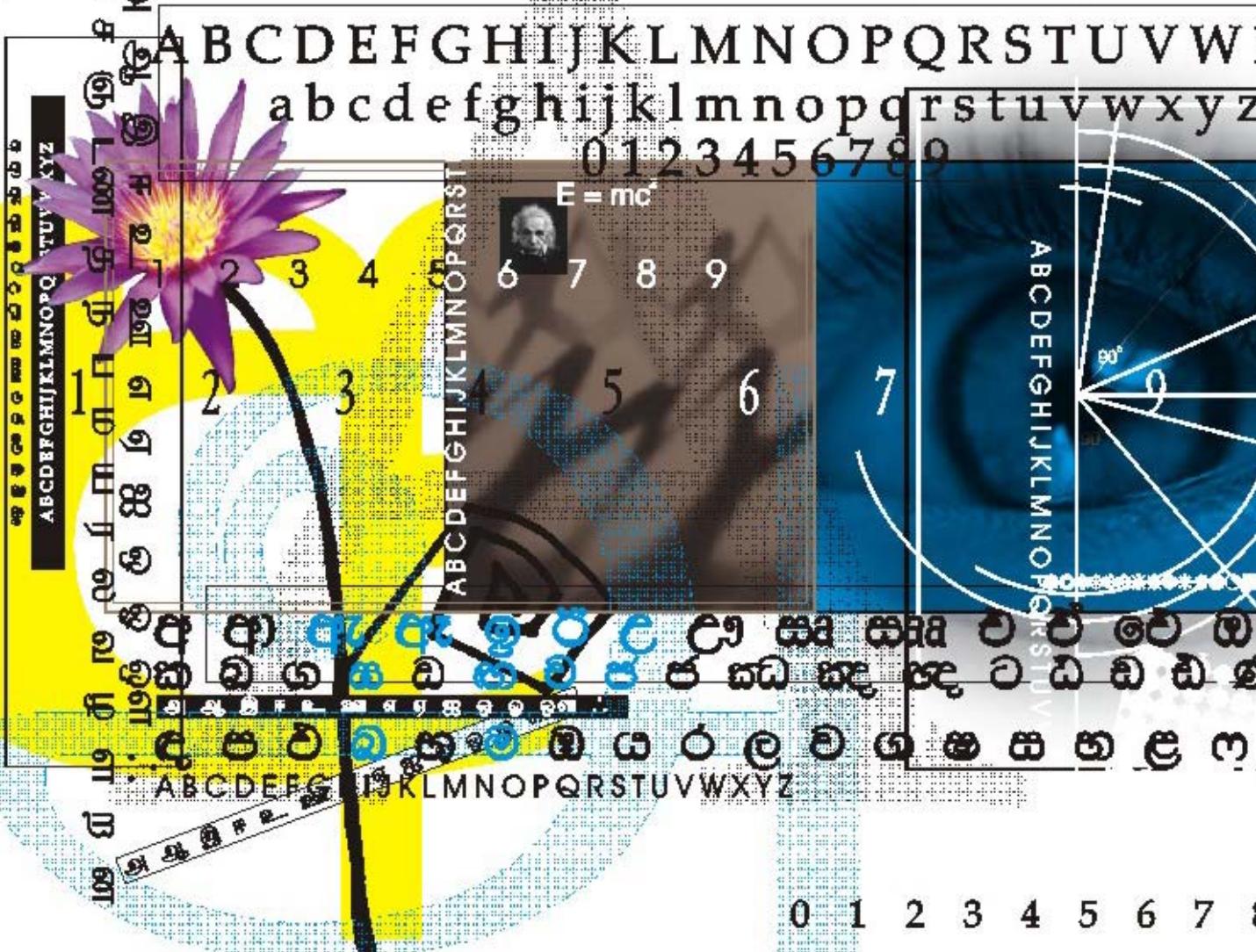
Next Generation Networks will eliminate a fair number of network components and thereby **reduce complexity**. It will provide **greater reliability and enhanced performance**.

One of our goals is to ensure that all areas of the country have the same opportunities. In pursuit of this goal we will use state-of-the-art technology to ensure that modern communications solutions are available to everyone in every part of the country. Rural consumer should not be at a disadvantage as against the urban consumer and our goal is to eliminate existing disadvantages in access to communications.

SLT has been a trail-blazer in many respects. We have earned the respect of those in the industry and those outside as a modern powerhouse of state-of-the-art communications solutions. We will continue to play this trail-blazer role and continue to provide vision and leadership to the communications industry in this country. After 10 years of privatisation we are now ready to take this vision and leadership to the region and beyond.

My thanks to all our employees who are helping to take the SLT vision forward. Their dynamism has propelled the Company to new heights. My thanks also to my colleagues on the Board for their inspiration and foresight.

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අධ්‍යාපනය කළමනී Education

Almost 10,000 schools, 4,000,000 students and  
 200,000 teachers make up Sri Lanka's  
 respected educational system. The possibilities of  
 enriching education through the use of  
 SLT networks and technologies are  $\infty$

### New Capabilities for the New Generation

SLT's rich mix of sophisticated networks, access technologies and global connectivity places it on par with the world's best providers and provides a depth and range of services that no other local provider can match.

Currently our microwave copper based network and optical fibre network enable us to provide state-of-the-art services such as CDMA (Code Division Multiple Access) and ADSL (Asymmetric Digital Subscriber Line). Our investments in SEA-ME-WE 3 and 4 provide unparalleled global connectivity.

Over the next few years Sri Lanka Telecom will transform its voice networks from traditional circuit switches into next generation architecture through an integrated infrastructure that will facilitate new and converged services. This migration to a NGN will put SLT on par with the world's leading telecommunications providers and once again SLT will be blazing new trails, not just in this country, but also in the larger South Asian region. The move into soft switches will enable SLT to launch WiMAX and CDMA - high speed services along with a number of other accompanying products.

Our current microwave and fibre optic network provides the right ambience for the which a single intelligent IP based network will provide a rainbow of converged services access technologies on copper and wireless network providing new and infinite world not just in Sri Lanka but in the entire South Asian region.



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Sri Lanka's strategic location will ensure that the country plays a crucial role in the unfolding of SEA-ME-WE submarine cables and the Bharat-Lanka submarine cable, supported by satellite connectivity, have provided an unparalleled global connectivity and enhanced Sri Lanka's competitiveness in the global market.

new technologies across the different regions. Already SLT's investments in the

### **Islandwide State-of-the-Art Microwave Network**

SLT's current microwave network is by far the most technologically sophisticated network in the country and the one with the widest reach. It features a fully digitalised telecommunication transport network, reaching into every region of the country supported by its own transport backbone.

SLT's microwave network consists of 500 digital switching nodes with 80 master telecommunication exchanges divided into 29 area codes each served by a secondary switching centre. The secondary switching centres are in turn connected to four tertiary switching centres at Colombo, Kandy, Galle and Anuradhapura and routed to the Company's National Switching Centre in Colombo. The network supports a number of value added services such as Value-Added Services in Wireline, Abbreviated Dialling, Absentee Service, Call Forwarding Service, Conferencing Service, Hotline Hunting Service, IDD with Secret Code, CLI and Voice Mail.

### **New Investments in High Capacity Optical Fibre**

Our fibre network is being enhanced to take over from our copper based network in the future. A future proof high-speed islandwide optical fibre telecommunications infrastructure is SLT's medium term goal.

Four Metro Rings (STM-4), one Central Ring (STM-16), part of the Southern Ring (STM-4), part of the North-East-Central Ring (STM-4) and part of the East-Uva Central Ring (STM-4) are already in service.

SLT's Optical Fibre Rings and Linear Networks have been designed to provide high transport capacity. The rings will provide around 1500 km of Optical Fibres to interconnect all provinces in Sri Lanka and ensure seamless connectivity to every corner of the country.

In support of the fibre backbone, SLT is in the process of introducing a Multi Protocol Label Switching System (MPLS), which is the next generation packet-based IP transport technology.

The MPLS backbone expansion will enable SLT to spread its converged broadband services such as NGN, All-IP CDMA, ADSL, Wi-Fi throughout the country. Also in the pipeline is an additional fibre ring, the high speed Optical Fibre Super Highway (STM-64) which is expected to be running by 2009.

### **NGN: The Voice of the Future**

The introduction of the Next Generation Network (NGN) will add an entirely new dimension to our network capacity. NGN is already on trial in Matara catering to more than 10,000 subscribers. NGN is a service-driven network, which employs an open and integrated network architecture. With abundant service provisioning capabilities, NGN will be able to provide a variety of services, such as voice, data and multi-media services as an integrated service based on IP packets. Apart from the basic services, NGN service features will include Unified Communications facilities, Computer-Telephony Integration (CTI), Personal Voice Mails, IP Centrex Services, CRBT, Multi-media Services: IP TV, Video Call, Video Conferencing; Enhanced Class Features: Follow Me, Find Me, Group Ring, One Number, Dynamic Interactive Voice Response (IVR), Subscriber Control Tools and other Multi-media Value-Added Services. Initially NGN will be available in select urban areas such as Gampaha, Negombo, Avissawella, Matara and Jaffna with the potential to reach 100,000 subscribers.

### **Superior Access Technologies to Complement our Network Capabilities**

SLT's network capability enables it to provide state-of-the-art services through the existing ADSL and CDMA access technologies.

SLT's ADSL (Asymmetric Digital Subscriber Line) technology was launched in 2003 and currently has 13,312 subscribers.

The recent enhancements in ADSL based technology have begun to make its way into the ADSL deployments worldwide, opening up possibilities for new service offerings. SLT is planning on introducing ADSL 2 and ADSL 2 Plus both of which are enhanced xDSL versions with increased bandwidth capabilities enabling more advanced services over the existing copper lines.

The introduction of CDMA is a landmark in SLT's history and will enable SLT to speedily implement its vision of rural and universal empowerment.

SLT Citylink, SLT's CDMA network, was launched on 28 October 2005 in Anuradhapura. The introduction of CDMA is a landmark in SLT's history and will enable SLT to speedily implement its vision of rural and universal empowerment. Our goal is to build the largest and most sophisticated CDMA network that will provide state-of-the-art services to the most remote areas.

CDMA (Code Division Multiple Access) is a wireless access technology that provides superior coverage and faster connectivity. SLT's roll-out plan consists of three phases having the capacity of 150,000 customers in each phase. Presently, phase 1 is being implemented covering about 90% of the island including the North and East. Phase 1 will entail the installation of 110 sites (Base Transceiver Stations). As at end February 2006, 101 base stations were in service providing access to over 80,000 customers in 22 districts.

With consumer demand for CDMA being particularly strong in Phase 1, SLT decided to accelerate the implementation of Phase 2 immediately. Under Phase 2, SLT's CDMA network will be expanded to cater to another 150,000 lines with 100 more base stations. By the end of 2006 there will be a high quality CDMA overlay network covering the entire country with a potential capacity of 300,000 customers.

SLT Citylink currently offers several value added services such as 16 party Call Conferencing, Calling Line Identification (CLI), Call Transfer and Forwarding, Do Not Disturb (DND), IDD, Wireless Public Pay-phones, G3 Fax, Internet Access, Packet Data Services, SMS (Short Message Service) and CRBT (Colour Ring Back Tone).

An amazing bunch of value added services such as MMS (Multi-media Messaging Service), VMS (Voice Mail Service) and PTT (Push-To-Talk) will be introduced in the near future. SLT Citylink customers will enjoy not only text-based SMS but also MMS with its feature rich contents including picture, music, flash, video and their combinations. Customised Ring Back Tone (CRBT) is a new

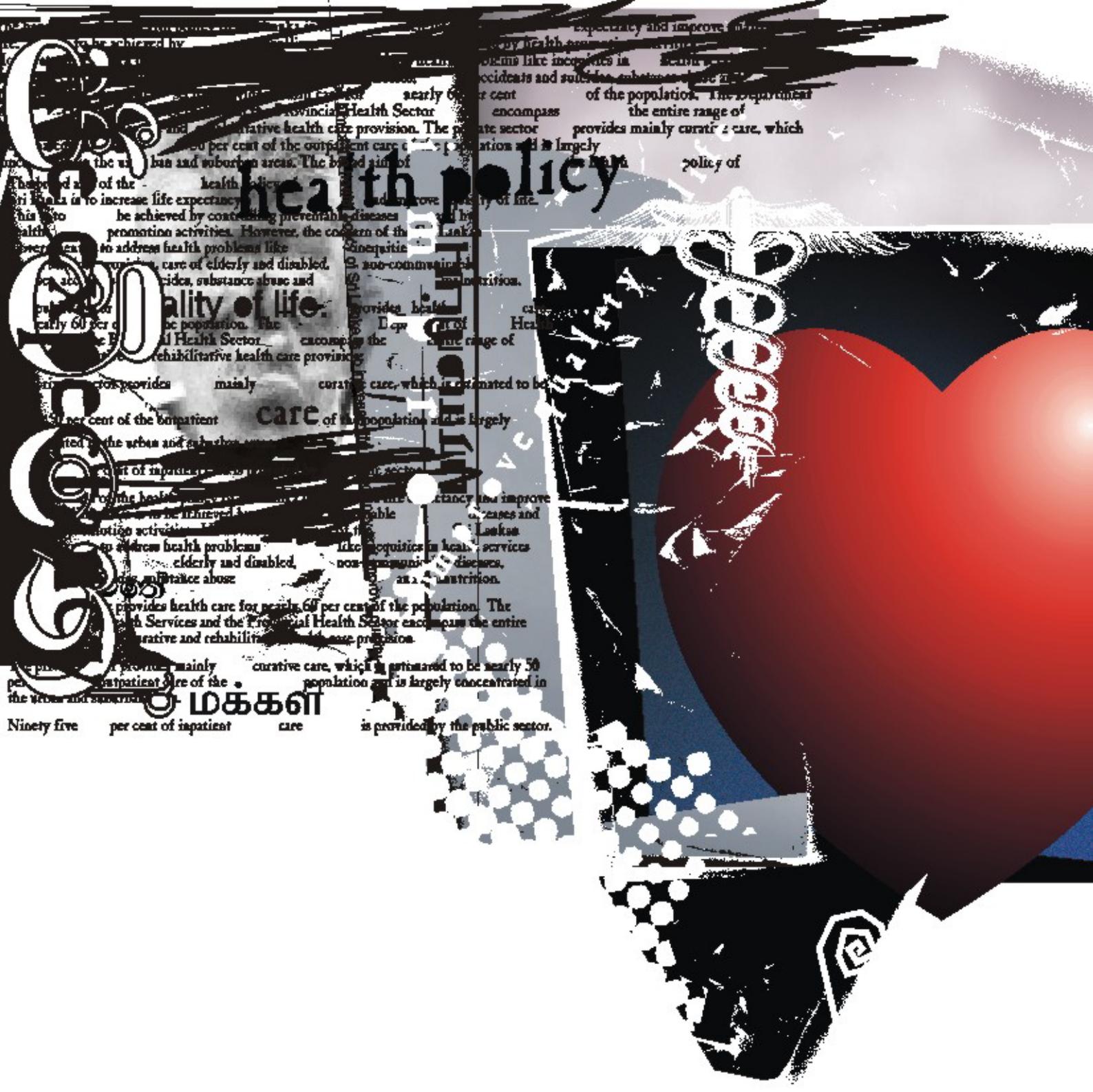
value-added service that allows the telephone subscribers to customise their own ring-back tones. With CRBT, SLT subscribers, when called, will no longer respond with monotonous beeping ring-back tones but humanised response tones such as the use of a melody or the owner's own greeting.

Voice mail service will enable personalised telecommunications facilities through Voice mailboxes. The CDMA system can provide both G3 Fax and Packet Data Services. PTT (Push-To-Talk) offers a new means of fast communication with one or more individuals at the push of a PTT button on a wireless terminal. Location based service (LBS) is highly featured with world telecom trends, especially for dedicated markets such as transportation, tourism and fashionable groups. In addition to the earlier mentioned value-added services SLT hopes to introduce the advanced services such as Free-Phone Service, Voice and Packet Concurrent Service (VPCS), Wireless Virtual Private Network Service (WVPN), Message-Over IP and Wireless LAN.

Having successfully launched CDMA 2000-1X services, SLT is looking at implementing a high end CDMA service such as CDMA2000 high speed, a 3G technology to transfer high speed wireless data up to 2.4 Mbps.

CDMA high speed will enable high speed data services such as broadband Internet access, FTP, VPN, large E-mail attachments and Multi-media services. One part of the SLT CDMA network will be upgraded for CDMA2000 high speed solutions by April 2006 and will provide reliable, high performance and cost effective data solutions for high end customers and business professionals.

SLT's investments in NGN will enable the Company to soon offer WiMAX. WiMAX is a standards-based wireless technology that provides high-throughput broadband connections over long distances through the use of microwaves. WiMAX is suitable for voice, high speed internet connectivity, email, fax, data and services such as audio and video streaming. In addition, WiMAX can support other applications, including 'last mile' broadband connections,



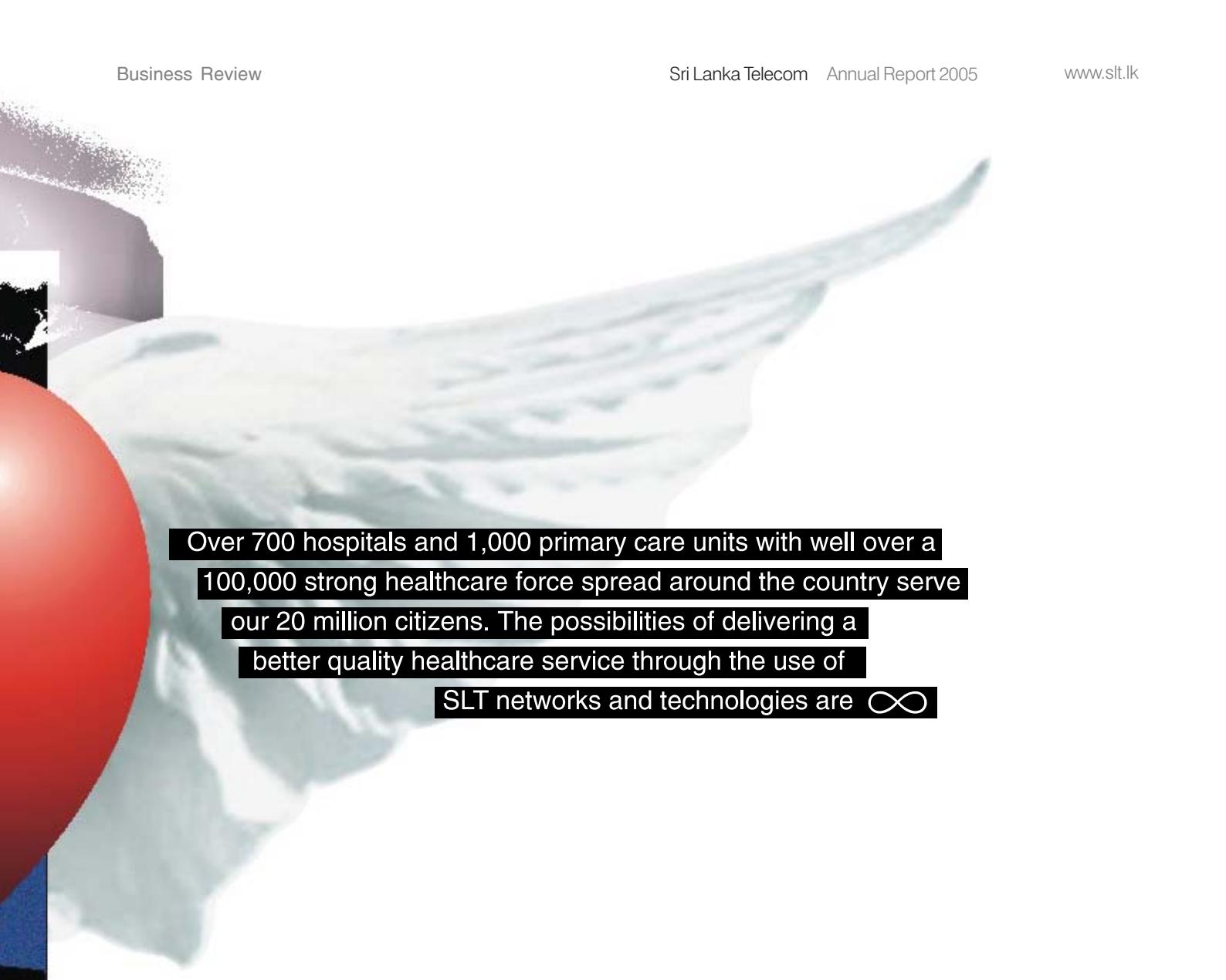
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new technologies across the different regions. Already SLT's investments in the





Over 700 hospitals and 1,000 primary care units with well over a 100,000 strong healthcare force spread around the country serve our 20 million citizens. The possibilities of delivering a better quality healthcare service through the use of SLT networks and technologies are  $\infty$

hotspots and cellular backhaul, and high speed enterprise connectivity for businesses. WiMAX will provide wireless connectivity and dispense with the need to rely on the existing copper based network.

In Sri Lanka, SLT will use the standard WiMAX which uses the 3.5 GHz frequency band unlike India, the Philippines and Indonesia which still use pre-WiMAX.

Last year SLT signed MoUs with Aperto Networks, USA and SR Telecom, Canada, to develop its WiMAX capability. Aperto Networks and SR Telecom will provide radio access and core

network elements for SLT's WiMAX, and a team from SLT, SR Telecom and Aperto's engineering staff are already working together to start trial testing. SLT will be the first company to roll out a Standard WiMAX network in South Asia.

#### **SLT's Global Connectivity: Investments for the whole Country**

Over the past few years after privatisation SLT has invested considerable amount in enhancing the country's global connectivity. SLT's investments in SEA-ME-WE 2, 3 and 4 ensured that Sri Lanka is locked into the global market with the most sophisticated connectivity. SLT's investments in this area are not

just enhancements for the Company and its consumers, but for the entire nation. The investments in the submarine cable are guaranteed to make best use of the country's strategic location and increase Sri Lanka's global competitiveness. In addition, it will provide access to higher connectivity, better reliability, improved security and enhanced speed.

SLT's current capabilities consist of four Satellite Earth Stations and one Mobile Satellite Earth Station (SLTFLY). In addition, it is

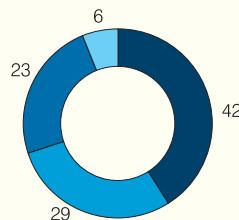
also linked to two (or three) submarine optical fibre cables SEA-ME-WE 2, 3 and 4. The Bharat-Lanka Cable submarine link is under construction and will be operational by 2006.

SLT invested US \$ 30 million on the construction of SEA-ME-WE-4 and currently has a 6% (or 400,000 MIU\*Km which is equivalent to 100 x 155Mbps full links between Colombo and Singapore) stake in the multi-national consortium. SEA-ME-WE-4 will support an enhanced capacity of 1.28 terabits per second traffic capacity.

#### Customer Analysis - Region-wise

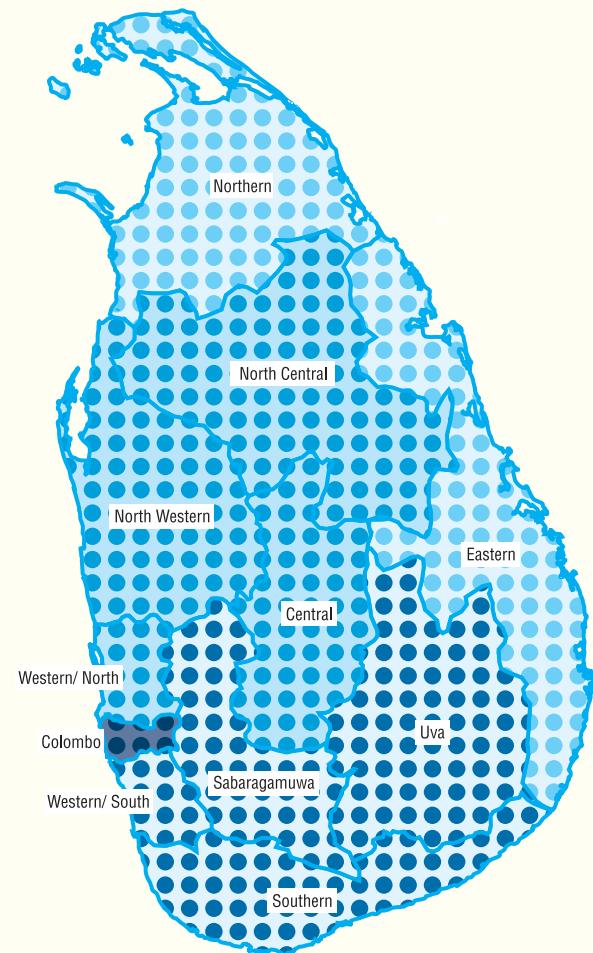
%

- Metro
- Region - 1
- Region - 2
- Region - 3



#### New Connections for 2005

Area	Number of Connections
Metro Area	27,615
Central	9,308
North-Central & North-Western	17,203
Western - North	16,541
Western - South	7,861
Sabaragamuwa	5,627
Southern	15,628
Uva	6,116
North & East	10,923



As Sri Lanka is strategically located in the path of any future SEA-ME-WE cable, this will allow SLT the opportunity to create substantial value addition.

This is significantly more than the currently existing capacity of 160 gigabits per second on SEA-ME-WE-3. The improved capacity will enable further extension of the broadband capability of the IP backbone network, which will allow for higher speeds and better effectiveness in transfers between countries. Superior reliability and greater connectivity will be additional consequences of adding this cable's capabilities to SLT's existing network.

SEA-ME-WE-4 will allow Sri Lanka to exploit its geographical location to provide a significantly higher bandwidth in the future. As Sri Lanka is strategically located in the path of any future SEA-ME-WE cable, this will allow SLT the opportunity to create substantial value addition.

## Fixed-Line Telephony

Despite the widespread adoption of new communication technologies, which is proceeding as quickly in Sri Lanka as it has in the rest of the world, fixed-line telephony remains the largest segment of the market in terms of connections. As new technologies are being made available at a phenomenal rate, fixed line telephony network will continue to be the delivery path for them.

### Leadership in a Still-Growing Market

As the nation's premier telecom service provider, SLT dominates the fixed-line market, with a volume share that has remained in the high-eighties percentile despite inroads by other fixed-line operators in recent years. Market share in 2005 was 86%, representing a customer base of 954,060 lines.

Though market share has been relatively stable in recent years, it is worth pointing out that the fixed-line market in Sri Lanka is still far from mature and continues to grow even as alternative technologies make their mark since the teledensity of the country is low. The market grew by 9.6% in the year under review:

### Customer Base

	2001	2002	2003	2004	<b>2005</b>
Customer					
Base	708,200	768,620	822,922	860,468	<b>954,060</b>

### SLT Market Share in Fixed-Lines

	2001	2002	2003	2004	<b>2005</b>
Market Share					
in Fixed-Lines	85%	87%	88%	87%	<b>77%</b>

Despite difficulties, SLT was able to provide 10,923 new connections in the North-East.

Despite the lures of competition, customers still tend to prefer SLT fixed-line services. SLT users made five billion call units in 2005. However, thanks to improved operating efficiencies, this increase in traffic has not resulted in proportionately greater costs to the Company. An indicator of this is the number of direct-exchange lines per employee, which has risen from 84 in 2001 to 130 in 2005.

### Key Value Drivers

	2001	2002	2003	2004	<b>2005</b>
Direct Exchange					
Lines	708,200	768,620	822,922	860,468	<b>954,060</b>
DELs per					
Employee	84	93	115	120	<b>130</b>
Domestic					
Call Units (million)	4,464	4,706	5,004	4,304	<b>5,202</b>

### Going Wireless on SLT Citylink CDMA

By far the most significant development in fixed-line telephony in 2005 was the launch of SLT Citylink CDMA, SLT's new Code Division Multiple Access (CDMA) service. Relying on wireless connections between locations and exchanges, Citylink requires relatively



modest infrastructure and offers consumers more rapid access to a phone or data connection than conventional technologies can. For a country in which several pockets are still beyond the reach of 'wired' fixed-line technology and where demand for fixed-line connections often exceeds supply, CDMA is an invaluable technology.

A planned three-phase rollout is now under way. Each phase is to make a maximum of 150,000 lines available. The current first phase has been very successful, especially in rural areas where customers have been reported to turn down competitors' offerings, preferring to wait for the Citylink rollout in their region. By the completion of the first phase, approximately 90% of the

land area of Sri Lanka will be CDMA-enabled, with 116 base stations covering most of the island.

For customers, the easy access and convenience of Citylink will be augmented by a range of value added services such as SMS, Voicemail, CLI and Internet access, comparable to those offered by mobile service providers.

#### Extension of Network and Services

While strengthening network access through the use of technologies like CDMA, SLT is also extending and modernising its wired network with the introduction of soft-switch-based next generation network technology. This will enhance our capacity to deliver IP-based voice,

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new technologies across the different regions. Already SLT's investments in the

**08 Provincial Councils, 25 District Secretariats, 320 Divisional Secretariats, in approximately 14,000 Grama Niladhari Divisions**

**provide governmental services and documents to those in the provinces.**

**They are often a 'one stop shop' delivering vital services to the citizen.**

**These institutions facilitate citizen-state relationships and relationships between state and business. The possibilities of**

**Government delivering a better service to citizen and business through the use of SLT networks and technologies are  $\infty$**



data and video services on existing lines. Meanwhile, moves are under way to extend access to the Company's fibre-optic 'backbone' from all major cities in Sri Lanka.

## Voice, Data & Networking

### Intelligent Solutions

The new IP service bundle, SLT Intelligent Solutions, was launched in August 2005. It is targeted at businesses that want to achieve operational excellence through reliability, speed and flexibility.

The offering features next generation communications solutions based on IP-MPLS (Multi-Protocol Label Switching) and similar advanced technologies, enabling us to deliver improved IP-based services such as virtual private networks for voice and data, ADSL and broadband content hosting. The offering complements SLT's state-of-the-art Internet Data Centre, which enables customers to store sensitive data and host mission-critical applications. It also enables wideband international connectivity through International Private Leased Circuits (IPLC) over SLT's undersea cables and satellite connections.

### Corporate Focus

2005 was a good year for Sri Lanka Telecom in respect of sales to the corporate sector as a total communications provider. The Company won major share of corporate WAN (Wide Area Network) projects in the financial sector, sealing deals with the Bank of Ceylon, Commercial Bank, NDB, NSB and People's Bank. Two of the country's largest and most prestigious corporates, Hayleys and John Keells Holdings, both identified SLT as their preferred telecommunications partner, while the equally prestigious Singer Sri Lanka Group selected the Company to provide both voice and data services.

Wi-Fi services proved to be among the new technologies most popular with the leisure sector in the year under review, with Jetwing Hotels being the first customer to take advantage of our Wi-Fi Hotspot technology. Other offerings popular with corporates

included IP-based VPNs and Internet Data Centre solutions. Among our VPN customers were the Bank of Ceylon, Ceylinco Life, the Maharaja Organisation and People's Bank. The success of the IP VPN initiative is due in large part to our programme to educate customers on this technology and promote its popularity. The 'IP VPN Boot Camp' held in November and attended by IT professionals and systems integrators was a highly successful part of this effort.

SLT's dominance of the international communications backbone remained a major strength. Among customers for our IPLCs and international leased lines were many leading companies, among them HSBC Bank and the Call Centre, Unilever (Sri Lanka) and Virtusa.

In the public sector, key business wins in 2005 included the Ceylon Electricity Board, the Foreign Employment Bureau and several educational institutions, including the LEARN network.

### Serving Small and Medium Business

SMB Sales section was formed at the latter part of 2004 to provide a focused service to cater to the needs of the SMB segment. During 2005, the section was able to achieve the given non-voice and voice sales targets convincingly.

Some of the remarkable new businesses captured by this operation include Valista International (Pvt) Limited, Colombo Stock Exchange, Kelwood Trading (Pvt) Limited, Nolimit, Capital Reach (Pvt) Limited, Asha Philip Securities (Pvt) Limited, Nine Hearts (Pvt) Limited, Bata Shoe Co. Limited, QZ Systems (Pvt) Limited, Hela Cloathing (Pvt) Limited and Vision Apparels (Pvt) Limited.

The main objective of this section is to build and strengthen the relationship with existing and potential customers. We also plan to develop a professional, specialised sales force with required knowledge, skills and competencies to enable us to serve this segment better.

## Internet Services

### Dial-Up Services

Despite early advances in this market by competitors, SLT has recaptured and continues to increase its share of this sector. With a two-thirds share in 2005, the Company now enjoys a position of unchallenged dominance in the market.

#### SLT Market Share in Internet & E-mail

	2001	2002	2003	2004	<b>2005</b>
Market Share in					
Internet & E-mail	53%	54%	53%	61%	<b>64%</b>

#### SLT Internet Subscribers

	2001	2002	2003	2004	<b>2005</b>
Dial Up					
Subscribers	32,937	40,234	45,091	49,444	<b>58,622</b>
Pre-paid	-	5,431	17,231	31,007	<b>41,407</b>
Dedicated Internet	271	471	700	768	<b>857</b>
ADSL - Internet	-	-	2,882	6,378	<b>13,312</b>
Total	33,208	46,136	65,904	87,957	<b>114,198</b>

For travelling entrepreneurs, we offer an Internet Pre-paid Card which gives users access to the internet at a flat per-minute rate without the inconvenience of application, activation and monthly billing.

### Services for SMBs

SLT Internet is far and away the market leader in the supply of Internet and Web-based services to small and medium-sized enterprises, with roughly 75% market share. This dominance is driven by a range of SMB-targeted products such as site hosting, mail servers for Internet cafes and high-bandwidth lines for more affordable and convenient international telephony, webcams and a variety of special corporate packages. SMBs, which rarely have the funds for extensive IT networks of their own, are also well served by SLT's high-security Internet Data Centre. The

countrywide network of SLT Teleshops, sales outlets and service centres makes our services more accessible to small entrepreneurs and is unmatched by any other service provider.

### Serving the Corporates

SLT currently offers Internet leased lines at 64kbps, 512 kbps and 2Mbps. Mail server services, Web and Domain Name Server (DNS) hosting are other value added products for business customers. SLT also provides Internet services to most of the other Internet Service Providers (ISP). Internet services for corporates are packages in Intelligence Business Solutions which are discussed in the Voice, Data and Networking section in the Business Review.

### Expanded Broadband Coverage

SLT's sector dominance is largely the result of its leadership in broadband (ADSL) services, which are very competitively priced and have proved highly popular. As a result of the Company's efforts in this area, Sri Lankan customers were the first in the South Asia region to enjoy the benefits of broadband.

Since its launch in 2002, SLT ADSL coverage has expanded beyond the Colombo metropolitan zone to include Kandy, Kelaniya, Maharagama, Moratuwa, Mt. Lavinia, Negombo and Ratmalana. Two packages are offered: a 'residential' package that enables downloads at speeds of up to 512kbps and uploads at up to 128kbps, and a 'corporate' package which offers up to 2Mbps and 512kbps respectively. Further additions and extensions are planned for 2005.

### Online Call Waiting

Many SLT customers, especially those using dial-up connections, must choose between browsing the Internet and keeping their line free for incoming voice calls. For the benefit of these customers, SLT in June introduced a free online call waiting service, available from any SLT Teleshop or sales outlet. SLT's Web Accelerator Service provides fast access through the dial-up connection.

# New streams of income





**Sri Lanka's strategic location opens up**  
**∞ possibilities for new streams of**  
**income and entrepreneurship. The fast and easy transfer of**  
**huge amounts of information in a matter of seconds**  
**is now a basic requirement for individual and business and**  
**the investments made by SLT opens up**  
**∞ possibilities for all Sri Lankans.**

## International Connectivity

In addition to its role as the leading telecom service provider in the country's largely deregulated domestic market, SLT is also responsible for the operation and maintenance of international telecom connections to and from Sri Lanka.

Sri Lanka Telecom is also one of 16 international telecom operators that are partners in the SEA-ME-WE-4 submarine cable system linking South-East Asia (SEA) with the Middle East (ME) and

Western Europe (WE). 20,000 km of fibre optic cable was laid as part of this project, which was completed in 2005.

It is one of the most advanced of its kind in the world. The system among the most economical cable systems in the region, is built with state-of-the-art Terabit DWDM technology to achieve ultra fast terabit per second connectivity. The project will support telephone, internet, multi-media and various broadband data applications.

Our current microwave and fibre optic network provides the right ambience for the which a single intelligent IP based network will provide a rainbow of converged services access technologies on copper and wireless network providing new and infinite world not just in Sri Lanka but in the entire South Asian region.

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SLT's investment in the project amounts to Rs. 3 billion. The Company will act as the Chairman of the Financial & Administrative Sub-Committee.

In 2004, we entered into collaboration with one of the world's top ten telecom operators, Bharat Sanchar Nigam Limited (BSNL), to jointly establish and operate a 10 gigabit capacity submarine cable between India and Sri Lanka. The construction contract for this project, known as the Bharat-Lanka submarine cable system, was awarded in the year under review to the Japanese electronics and communications giant NEC. The cable is due for completion in mid-2006. The resulting increase in bandwidth will allow both Indian and Sri Lankan customers to avail themselves of new technologies and services such as international private leased circuits, broadband internet, IP services, more reliable IDD connections and so on. In particular, Sri Lankans will be able to watch their favourite Hindi movies and other Indian-made content with real-time audio and video streaming facilities for the first time.

In fact, SLT's success at upgrading and improving Sri Lanka's international connectivity have succeeded to the point where the country can now act as an international hub in its own right. In 2005, the Company signed a Memorandum of Understanding with Dhiraagu, the national telecom provider of the Republic of Maldives, on the implementation of an optical-fibre submarine cable between the two countries. As was pointed out by SLT's CEO on that occasion, SLT's existing submarine cable links connect Sri Lanka to the world, and the new cable will make it possible for Maldivians, too, to enjoy this advantage. Dhiraagu customers would see a strong improvement in the quality of their international telecommunications, with almost unlimited bandwidth to cater for state-of-the-art innovative services such as broadband, multimedia and other bandwidth-hungry applications.

To improve the efficiency and profitability of our international connectivity infrastructure, SLT recently contracted Millennium Information Technologies to implement a new routing optimisation

and business steering software solution, Carrier Cockpit, in collaboration with Ascade, the well-known Swedish manufacturer of telecommunications software. Carrier Cockpit, which supports greater flexibility in the buying, pricing and selling of international traffic time, will be of particular importance in optimising the Company's returns.

### **'Rainbow Pages' as a new Revenue Stream**

SLT's Directory Services took over the total workload of publishing and distributing the the SLT Telephone Directory. As a result what was previously outsourced has now been imaginatively transformed into an income generating tool for the Company.

SLT has been publishing directories since 1930 and every subscriber is, by regulation, entitled to one. In 1983, we had only 70,000 subscribers and our directory consisted of only 280 pages. Today we have 954,060 subscribers and the directory consists of 3,760 pages. The cost incurred in publishing the annual directory is offset by the advertisements placed in the 'Rainbow Pages' - the classified business section.

The new SLT directory now contains an enhanced range of information and accommodates the telephone numbers of other operators as well. Where previously only the fixed line number was given, the new directory provides other information like mobile numbers, e-mail addresses and web sites. Information is presented in a number of different categories and we are constantly looking at ways of making it more user friendly.

The classified section - the Rainbow pages - has also been made more attractive. It contains over 1,000 classifications and our latest edition contains over 12,000 listings. A comprehensive contents page provides listings in Sinhala, Tamil and English. Colour indexing and four-colour advertisements are some other recent value additions. In addition to the paper directory, SLT also

The introduction of eProcurement system, a web-based supply chain management system in August 2005 made possible the complete automation of procurement processes.

provides listings on its web site and has published directory information in the form of a CD as well. Soon we will make the SLT Directory accessible via mobile phones as well.

Approximately 972 metric tons of paper, or 49 containers, go towards the printing of the directory. SLT is exploring more environmentally friendly ways of producing the directory in the years ahead.

## Support Services

SLT's support services played their customary vital role in enabling and facilitating the Company's business operations.

### On-line Procurement Process

The introduction of eProcurement, a web-based supply chain management system, in August 2005 made possible the complete automation of procurement processes. In addition to increasing efficiency, the new system is more transparent and employs world best practices in procurement processes. Moreover, eProcurement has the ability to capture strategic information on procurement processes, including purchasing patterns that can be analysed and interpreted to improve the process further.

The eTENDER website provides suppliers with the up-to-date information they need to make competitive bids for the supply of goods and services needed by the Company. Since it is accessible to any web user in the world, the eTENDER site also broadens the choice of potential suppliers and frees SLT from the constraints of dependence on exclusively Sri Lankan suppliers of goods and services.

eTENDER is only one aspect of the new eProcurement system being put in place at SLT. This broader procurement system additionally covers the following areas:

- automated materials requirements planning;
- on-line purchase requests;
- generating electronic letters of credit;

- automated customs clearing;
- associated alert system

all at a single point of contact. Supplementing and supporting the eProcurement system is SLT's new electronic document management system, eDMS, where documents related to procurement are generated, distributed, authorised, approved and archived electronically.

With the exception of automated customs clearance, all aspects of eTENDER, eDMS and the rest of the eProcurement system were completed and nearly all suppliers had migrated to the new system by end December 2005.

### Improved Customer Care & Technical Support

Customer inquiries, issues and complaints are dealt with through the Company's network of Regional Telecom Offices (RTOs). Most of these offices were established during the era when Sri Lanka Telecom was a State-owned monopoly. An initiative to improve the customer orientation and customer-friendliness of these offices commenced in 2003. It made further progress in the year under review with the opening of the first modernised RTO at Ratmalana.

The new RTO, now known as a Customer Service Centre, features a new, more efficient office layout and works as a one-stop shop for all customer needs. All SLT services, residential and corporate, are made available under one roof.

The Ratmalana RTO was the first of six new RTOs in the Colombo metropolitan area to be completed. Staff have responded positively to its clean, friendly, comfortable atmosphere, resulting in a general increase in productivity.

In the area of technical support, too, innovations have been made to improve our competitiveness and serve customers better. Two new Outside Plant Management Centres were opened in 2005 at Batticaloa and Biyagama. These centres, known as OPMCs, are responsible for the installation and maintenance of

SLT technical assets in their respective regions. By bringing together a variety of human and material resources, the OPMC concept optimises customer service provision in terms of technical issues and maintenance. Between them, the Batticaloa and Biyagama OP MCs serve nearly 100,000 fixed-line connections and employ 210 staff.

### **Strengthening our IT Infrastructure**

In October 2005, Sri Lanka Telecom entered into a contractual agreement with one of the world's leading companies, Microsoft, for the purpose of strengthening SLT's information-technology infrastructure. The agreement licences SLT to make use of the latest Microsoft technology, software packages, innovations and training components. Besides improving SLT's IT capabilities, the arrangement will also help to improve data security for the Company and its Data Centre customers.

### **Expanding Call Centre Operators**

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

Restructuring and consolidating the former system into a single, integrated call centre, where the customer need only dial any of the service numbers and, irrespective of the former area of business dealt with, the SLT staff would handle any query to resolution. The staff was trained through e-learning to respond to a variety of queries and where they were unable to do so, they could channel the query to someone who could.

SLT is taking this concept into its second phase of development through the commissioning of three call centres in Galle, Kandy and Anuradhapura. Further, the upgrade will also involve the introduction of a Computer Telephone Integration system that will automatically channel customer queries to the three main areas of Fault Rectification, Billing Inquiries and Directory Information.

### **Mobitel**

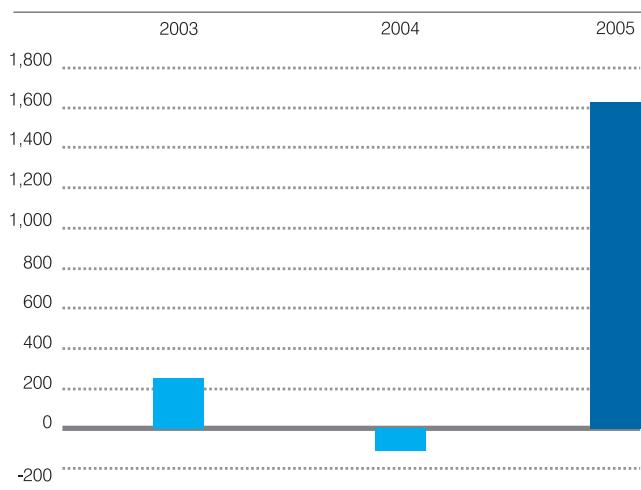
Mobitel, incorporated in 1993, was the second mobile telephony provider to enter the Sri Lanka market. Originally a collaboration between Sri Lanka Telecom and Telstra Australia, Mobitel has been wholly owned by SLT since November 2002. It is now Sri Lanka's second largest mobile operator in terms of revenue and remains the fastest-growing, wooing an ever-broadening customer base with continually expanding coverage and a suite of attractive value-added services.

### **Continually Expanding Coverage**

Since the rollout of Mobitel's state-of-the-art GSM network in January 2004, the Company has installed more than 400 base stations at a variety of locations across the island and is on course to achieve its target of more than 675 base stations by the end of 2006. Its coverage now extends to almost two-thirds of the country, with all major populated areas to be covered by the end of 2006.

### **Operating Cash Flow**

Rs. Mn

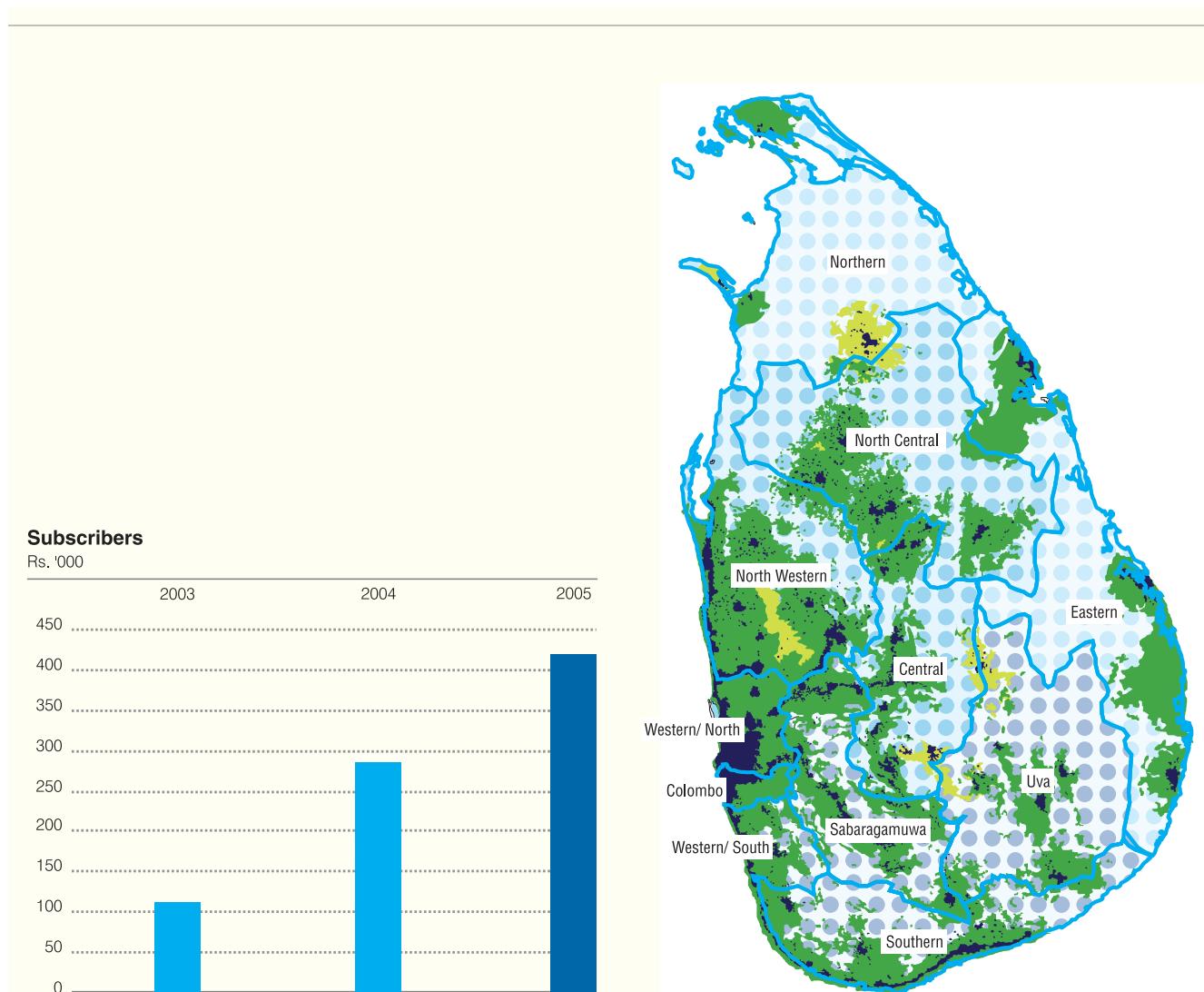


Mobitel has installed more than 400 base stations at a variety of locations across the island and is on course to achieve its target of more than 675 base stations by the end of 2006.

Mobitel's active subscriber base has grown by 48%, from a total of 284,430 in 2004 to 420,062 by 31 December 2005. This represents an approximate 19% of the active subscriber base of the mobile telephony market in Sri Lanka. The increase was driven mainly by dramatic growth in the prepaid segment, in keeping with the trend in growing mobile markets.

#### **Strong Operational Performance**

Strong growth in operational cash flow and earnings before interest, tax and depreciation were key features of the year under review. Revenue net of bad debts increased by 46%, while the bad debt percentage itself was reduced to a single-digit figure. This is attributed to the Company's emphasis on retaining more



creditworthy subscribers in the post-paid market and to improve an efficiency in all aspects of business.

Operating profit before depreciation grew by 382% from Rs. 167million in 2004 to Rs. 806 million in 2005. However, the rapid network and subscriber growth necessitated considerable investment in technology and network expansion. The outcome was higher depreciation and interest charges, which brought about a net loss of Rs.1.1billion. This figure nevertheless represents a 6% decrease in net loss when compared to the previous year. This is typical of a growing telecommunications company and a return to full profitability is expected by the end of 2006, in spite of the high level of gearing.

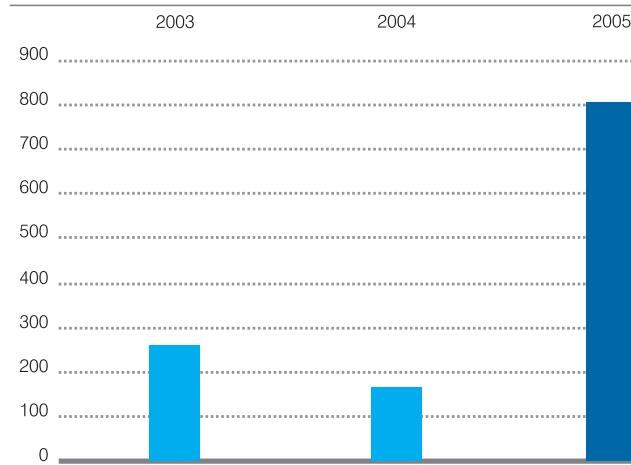
### **Investments in Network & Technology**

Mobitel currently operates state-of-the-art 2.5G GPRS/EDGE and MMS-enabled GSM network.

To date, Mobitel has invested over US\$ 140 million in improvements to its GSM network. Under Stage II which is scheduled for completion by end of 2006, subscriber capacity will increase from 400,000 to 1,000,000 and more than 350 new base stations will be added. The enhanced network will operate mainly in the 900MHz frequency range, providing better coverage and penetration capability and complementing the current 1800MHz infrastructure. With dual band capability, customers are assured of uninterrupted connectivity.

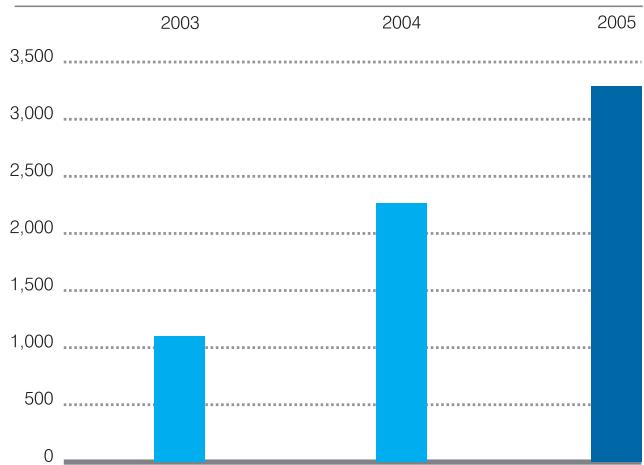
#### **EBITDA**

Rs. Mn



#### **Revenue Net of Bad Debts**

Rs. Mn



### Adding Value to Existing Services

In 2005, Mobitel became the first network to launch an innovative dual International Direct Dialling (IDD) solution for its subscribers. Customers have the choice of making international calls over a high quality service that offers crystal clarity, or using a low cost alternative with some reduction in quality. The services are known as IDD Premier and as IDD Buddy.

With services to more than 170 countries, Mobitel provides reliable and economical roaming for customers travelling overseas and visitors to Sri Lanka. With the introduction of pre-paid roaming for the first time in Sri Lanka along with GPRS roaming and SMS roaming , the Company's offering is unmatched in the market.

### New Value-Added Services

Several new value-added services were introduced in 2005. The most popular was SMS banking which allows customers to perform a range of selected banking operations on their mobile phones. "Multividual", one of the latest features added to the network, allows the user to manage calls generated within a specially defined group to suit his own requirements. Another new service, Twintalk, enables a client to maintain two simultaneous numbers on the same phone with a single Mobitel SIM card.

### Customer Care

The addition of such features is yet another manifestation of Mobitel's continued commitment to live up to its slogan, "We Care Always". A truly technology-driven Company, Mobitel strives to prove that it transcends mere customer care - in all aspects of its network, products, services and features.

#### Menu Driven Services

(66 Services)

SMS2Email, SMS Banking, Prepaid Top-Up (Reload), Dedication, Chat, Dating, Lottery, Dictionary, Horoscope, First Aid Tips, Usage, Account Balance, Cricket, Jokes, Picture Messages, Ring Tones, Alerts etc.

#### WAP/GPRS Based Services

[www.mobitellanka.com](http://www.mobitellanka.com)

[wap.mobitel.lk](http://wap.mobitel.lk)

Infotainment	- SLT Number Search, Horoscope, News, Weather
Multi-Media	- Greetings, Wallpapers, Animated Games
MMS Portal	- Personal Album, Greetings, Cartoons, Astrology
SMS Portal	- Chat, Dating, Games

#### Voice Based Services

Scoreboard	- Cricket, Rugby
Rasakatha	- Jokes, Bedtime Stories
Kawuluwa	- News, Lottery, Horoscope, Recipe, Forex

## A relief programme for those affected by the tsunami

SLT has taken immediate steps to implement both long-term and short-term measures to assist those employees who have been affected by the tsunami catastrophe. Under this programme, the dependant/family of an employee who lost his life in this tragedy will get an additional payment of Rs. 25,000 besides the present entitlement of Rs. 25,000. An employee who has lost more than an immediate family member in this tragedy will get a payment of Rs. 25,000 per death.

Those who have been displaced temporarily will receive a payment of Rs. 10,000 per family unit. Those employees who have suffered destruction of their houses will receive a sum not exceeding Rs. 60,000 as a donation. In addition, the donation will be disbursed on assessing the site, after impacting and evaluating the extent of damage caused.

Employees who have lost their property will be entitled to a sum not exceeding Rs. 200,000 as a loan recoverable within five years. The first two years will be interest free and thereafter for the next three years a nominal interest of 3.3% will be charged.

Several teams comprising the staff of the Human Resource Division have already visited employees who have been affected by this disaster. They have been able to provide some form of emotional support to those who have been traumatised by the disaster. Fellow employees of SLT have provided their support in this hour of need by supplying food, clothes, medicine and other essential items. A majority of the employees of SLT have also volunteered to contribute either the 6% salary increment, which is to be implemented in January 2005 or one day's salary towards a fund, which has been organised to help the displaced.

The Human Resource Division is in the process of compiling a database containing information about employees affected by this disaster. The compiling of this database is almost completed. Those who are yet to confirm and provide information can do so by contacting the Welfare Section.

Further details on the welfare scheme implemented to provide relief measures can be obtained from the Head of Industrial Relations and Welfare Division or Manager - Welfare.

தமிழ்நாடு முனிஸிபல் குழுமம் தமிழ்நாடு முனிஸிபல் குழுமம்



# 'Breakthrough Thinking' for effective decision making

தூஞி கலீபன  
இணை பகுப்பு

2005-ஆம் ஆண்டிலும் அறிவுச் செல்வத்தினை  
பல திசைகளிலும் பரப்பிவையும்



SLT and  
HighQ - q

"Spreading the  
Asia Foundation"

# **SLT powers rural entrepreneurship through Rajarata Aruna-Anuradhapura**

SLT was a prominent participant at the Rajarata Aruna Trade Fair In Anuradhapura, which was held recently. Through this participation we demonstrated our commitment in addressing the communication challenges of rural communities through mobile telephony and Internet in the Anuradhapura District.

With SLT's presence and participation we could provide an incentive to entrepreneurs to expand business. This will provide impetus to entrepreneurship by stimulating economic development through the creation of successful small businesses which drive rural economies.

The trade exhibition, conducted over three days had a daily turnout of nearly 40,000 visitors. The participation for this exhibition was jointly organised by SLT and Mobitel.

கிராமிய தொழில்நுறை மேம்பாட்டுக்கு தொலைத்தொடர்பு வசதிகள் பற்றி விரிவான அறிவு

# **inking'**

The seminar on 'Breakthrough Thinking' sponsored by Sri Lanka Telecom, concluded with a positive response from over 400 participants including the private and public sector.

The seminar was aimed at a cross-section of participants from the private and public sector including SLT employees interested in learning the new thinking paradigm proposed for this rapidly changing world. This concept comprises of seven basic mental assumptions, which is considered completely different to conventional thinking.

Internationally acclaimed presenter and best selling author, Prof. Shozo Hibino, PhD, from the Chukyo University is the brainchild behind this new theory of creativity. Some of the concepts discussed were 'Seven Principles of Breakthrough Thinking', 'Hybrid Thinking Engine', 'Learning from the Future', 'Strategic Thinking', 'Customer Delight' and 'Breakthrough Culture'.

ACCA join hands to launch  
quiz programme for school children+

## **"The Wealth of Knowledge" Programme with ion continues in 2005**



Following partial deregulation of the Sri Lanka telecommunications market and SLT's privatisation in 1996, the Company was obliged to function in a new context. Shareholders demanded profits, while competition threatened business margins and market share. To succeed, SLT's working culture had to change. Effecting this change meant motivating the Company's employees to be more efficient, effective, market-sensitive and customer-focused.

This was the primary challenge facing SLT's Human Resources Group in the years following privatisation. Overstaffing was addressed by means of a voluntary retirement scheme, successfully completed in 2003. Efficiency was promoted through the adoption of 5S and Kaizen techniques organisation-wide in addition to the extensive use of IT and other new technologies. Customer focus was promoted through consciousness-raising and training.

These efforts continued in 2005, in line with the Company's policy of continuous improvement, but the challenge, it is now clear, has been successfully met and mastered.

A further impetus in this direction is planned for 2006 with the introduction of the 'breakthrough thinking' concept at SLT. Breakthrough thinking is a new problem-solving paradigm geared to help users deal with a rapidly changing professional, technical or social environment. It is a concept of Japanese origin, composed of seven basic mental assumptions, that provides a holistic approach to problem-solving. Breakthrough thinking has been introduced to many leading corporations in Japan, USA, Korea, China, among them Canon, Fuji, NEC, Toyota and Xerox. In addition, numerous governmental organisations and other top companies worldwide also follow this approach.

### Promoting a Profit and Performance-driven Culture

SLT's efforts to promote a profit and performance-driven working culture have consistently borne fruit. Success in this area is reflected by increasing productivity as measured by the number

of direct exchange lines per employee, a figure that has shown continuous increase since privatisation in 1996, as shown:

#### **Direct Exchange Lines per Employee**

	96	97	98	99	00	01	02	03	04	05
Direcet Exchange										
Lines per Employee	38	36	55	64	75	84	93	115	120	<b>130</b>

Another ongoing initiative with the same objective is the management of absenteeism through awareness programmes, counselling and discipline. Absenteeism results from sicknesses, mobility issues and other personal problems of employees. In order to address such problems 30 employees have been trained as counsellors and employees with grievances are referred to them for counselling on informal basis.

	2002	2003	2004	2005
Number of Employees				
on No-pay Leave by year	574	545	490	<b>536</b>

### **Our Employees**

SLT is, by Sri Lankan standards, a very large employer. As at 31 December 2005, there were 7,311 men and women on the Company payroll. This figure comprised:

Executives	527
Technical Employees	3,393
Non-Technical Employees	2,768
Contract Employees	623
Total	7,311

### **Recruiting Right People with Right Skills**

In terms of personnel, SLT faces the problem of an ageing workforce. The average age of an SLT employee is 43 years, while around a quarter of all employees are over 50 years old. Last year SLT recruited 328 new employees to address this issue and to meet the needs of service expansion and the introduction of new services.

Recruitment is strictly in a needs basis. SLT makes special efforts to attract employees with the right competencies and appropriate skills.

### **Introduction to the “SLT Way”**

The HR Division holds residential induction programmes for all newly recruited staff. Their purpose is to introduce and accustom newcomers to SLT's technically skilled, market-oriented working environment.

### **Performance Appraisal**

SLT has a continuous process of recognition integrated deep into its culture and work processes. An enhanced performance management system was introduced to align employees with Company goals & objectives, to monitor the performance of the employees and to provide feedback and development opportunities. To enhance the effectiveness of the performance appraisal scheme, current methods are being customised to the needs of the jobs. The results of these appraisal schemes are used for employee remuneration and for career progression schemes.

### **Performance Management through Employee Development**

The advancement of telecommunications is very rapid and employees have to be encouraged to keep up with these new developments. Competency and performance based career progression schemes together with necessary assistance from SLT Training Centres have helped to achieve this successfully.

### **Enhancing Skills of our Employees**

To us at SLT learning is a continuous process and this is another value we are trying to ingrain. We operate five training centres, which offer a variety of programmes to upgrade technical know-how and soft skills alike. The main areas of focus in 2005 were:

- IT orientation and enhancement
- New technology
- Management development
- Soft skills development

In all, 4,045 employees - substantially more than half the total workforce - participated in programmes at SLT training centres during the year under review. A further 908 attended external programmes conducted by other organisations in Sri Lanka, while 545 received training overseas.

### **IT Training**

2,025 employees received training aimed at improving their IT skills.

### **Familiarising Employees with New Technology**

In a fast-changing technological environment, it is essential that SLT's people stay on top of relevant new developments. SLT HR group always facilitates the employees to upgrade their skills and knowledge. In pursuance of this goal, a High Speed Internet Lab was opened at Telecom Training Centre, Moratuwa in 2005.

During the year 2005, Training centres provided many training programmes in new technologies with experts in the fields. Among them VOIP, DSL & CDMA training attracted many and were conducted with foreign experts.

### **Management Development Programmes**

Management development programmes are primarily conducted to enhance the management decision-making abilities of the managers. Among many programmes conducted programmes on Competency Mapping and Business Decision-Making were highlights. Competency Mapping programme was conducted aiming at practising competency based HRM whilst Business Decision-Making Programme would enhance the management in business decision-making and formulation in strategy.

### **Soft Skills Development**

For a performance-focused company, 'soft' skills are essential to ensure better corporate relations and brand image. This year too our human resource training policy focused on customer orientation; team building; interpersonnel cooperation; workplace cooperation and attitude development.

### **Use of surplus capacity to generate revenue for the Company**

SLT, through the HR group, uses surplus capacity in training facilities to provide internationally recognised training and educational programmes in Sri Lanka. Most of these programmes are in the field of telecommunications and utilise our core competencies. In 2005 the training division conducted the following initiatives:

- Training to Certificate, Diploma and Advanced Diploma levels in Telecommunications: These courses are offered in partnership with City & Guilds of London Institute, and were attended by 124 participants in the year under review.
- Classes leading to a BTEC Higher National Diploma in Telecommunication: The BTEC HND is pre-degree professional qualification awarded by Edexcel International, UK. The course was attended by 48 students.
- Training programmes for external trainees in IT, Datacom, P&AC, TX and SW fields as part of the CAIT programme. 80 participants attended.

The results, in financial terms, represented a contribution to Company turnover, of Rs.11.6 million exceeding the targeted Rs. 10.0 million.

### **Employee Welfare**

We believe that employee motivation is the key to corporate success and the key to motivation is employee satisfaction at the workplace. As always, the HR group was responsible for activities connected with employee welfare.

### **Tsunami Relief to Employees**

In terms of employee welfare, priority was given to the rehabilitation of tsunami-affected employees. The effect of this national tragedy on SLT's employees was substantial, as the following statistics indicate:

- Employee deaths connected with the tsunami : 2
- Employee bereavements: 10
- Temporary displacements: 166
- Permanent displacements : 83

The Company's response to the tragedy was as follows:

- Immediately after the disaster, officers of HR group visited almost every employee affected and provided assistance and many others and trade unions too provided helping hands to affected employees.
  - A payment of Rs. 10,000 was made to every employee displaced.
  - A grant of Rs. 50,000 was made to all employees permanently displaced. In addition, housing loans were provided without interest for two years and on nominal interest of 3.3% for the last three years of the five-year repayment period.
- |                       |    |
|-----------------------|----|
| Applications received | 83 |
| Loans granted         | 68 |
- Funds donated by employees were donated to affected persons on a need basis. The total amount disbursed was Rs. 6.1 million.

### **HR Mobile Clinics**

The HR mobile programmes introduced in year 2003, help to resolve employee grievances at regional locations. These mobile clinics also help to identify the HR policies and procedures which need to be fine-tuned. Three such clinics were conducted in 2005, at Galle, Bandarawela and Kandy respectively solving many issues.

### **Other Welfare Initiatives**

Many different welfare activities were undertaken in 2005. Some of these, such as get-togethers, employee outings, were undertaken to promote team spirit and cohesiveness. Other programmes, such as health education, awareness programmes on EPF & labour law and cultural shows, were undertaken to educate and enhance the knowledge of employees. To encourage all employees to get their annual health checks, two health camps were organised during the year. SLT employees also came together to donate blood by way of three blood donation camps to help to save the lives of many.

To ensure that our people feel at home and get the best of facilities at work and when on holiday, SLT undertook the upgrading and expanding of the staff canteen and staff holiday bungalows.

While Sri Lanka Telecom provides a national service by building and maintaining Sri Lanka's communications backbone, the Company does not confine its corporate citizenship activities to this functional area. SLT actively supports initiatives in four broad areas: IT knowledge, education and career guidance (with particular emphasis on English Language skills), nature conservation and, finally, support for artistic and cultural projects. In all these areas, SLT is making an investment in society, helping to disseminate modern knowledge, increase youth employment, bridge the gap between academia and industry and protect Sri Lanka's natural environment and cultural heritage.

### **Education and Knowledge Dissemination**

A number of activities in the year under review were concerned with education and knowledge dissemination. Some of the principal ones are discussed in this section.

#### **SLT Strengthen**

For some years, Sri Lanka Telecom has partnered the Asia Foundation in distributing books and other educational materials to schools, libraries and other centres of learning. Nearly 200,000 books have been distributed, approximately half of them in 2005. The programme also helps schoolteachers and other educators improve their English skills. In doing so, the programme, SLT Strengthen, addresses a serious national issue, in that English Language teaching has been severely constrained due to a lack of resources and suitably qualified and capable instructors.

Books distributed under the SLT Strengthen programme range in subject-matter from technical texts to schoolbooks at kindergarten level, and are sourced from various donors in the USA.

In July, SLT and the Asia Foundation donated Rs. 1,000,000 worth of books to the Central Library in Mt. Lavinia. Other beneficiaries of the programme included the Rajarata and Moratuwa Universities, the Mawanella Pradeshiya Sabha, the Central Bank of Sri Lanka's Training Centre, Sarvodaya, the Central Province Library Service Board and the Technical College.

#### **Schools Debating Competition**

For the third year running, the Company supported an inter-school debating trophy challenge organised by the English Literary Society of D.S. Senanayake College. The 2005 competition was held at the BMICH recently. Twenty-two schools participated in the championship, the object of which was to improve English Language skills and personal development among senior school pupils. The trophy was won by St. Thomas' College, Mount Lavinia, with St. Joseph's College, Colombo, declared the runner-up. Royal College, Colombo beat St. Joseph's in the final round of the impromptu debates.

#### **High-Q Quiz Programme for Schoolchildren**

SLT, in collaboration with the Association of Chartered Certificate Accountants (ACCA), will shortly introduce a quiz programme for schoolchildren in Sri Lanka. The 'High-Q' quiz will be the first of its kind in the country. Its purpose is to recognise general IQ among schoolchildren. The quiz, coordinated by the ACCA, is fully approved by the Ministry of Education.

High-Q is inspired by research indicating that many intelligent children go unnoticed and unrewarded, largely due to the emphasis on examination performance and the acquisition of educational qualifications at the expense of real education. The quiz is open to all schoolchildren aged between 12 and 20, who must apply through their respective institutions. Every school is encouraged to enter two current students.

The competition will be conducted at three levels and will be aired weekly on Sri Lankan Television for a season of 15 programmes. Quiz topics include the sciences, cultural heritage, the performing arts and IT.

#### **Empowering Professionalism**

##### **IPM National HR Conference - 2005**

Principal sponsorship for Sri Lanka's national HR Conference, organised by the Sri Lanka Institute of People Management, was an honour that fell to SLT in 2005.

The conference, whose theme was 'People: the Leading Edge in Business', was held over two days in July at the BMICH, Colombo. Concerning itself with issues such as strategic personnel and development approaches within the context of defined business objectives, the conference was attended by several participants and was generally acclaimed a success.

#### **CIMA Global Leaders' Summit - 2005**

Another sponsorship of importance was that of the Global Leaders' Summit of the Chartered Institute of Management Accountants. The conference, whose theme last year was 'A Passion for Perfection', was attended by delegates from Sri Lanka and overseas. As Strategic Sponsor, SLT provided telecommunications facilities, including IDD, to facilitate conference registration and delegates' travel arrangements.

#### **Knowledge sharing for the Media**

In telecommunications and data communications, fields where scientific and technical advances take place very rapidly, keeping the public up to date with emerging trends and technologies demands specialised knowledge. To help bring Sri Lanka's mass media up to speed, SLT hosted a special programme on 'Emerging trends in telecommunications business and

technologies' for journalists and other media professionals at Hotel Amaya Lake in Dambulla. The programme included a briefing on SLT's transformation, new network developments, international connectivity, trends in mobile telephony, etc.

#### **Reaching Out to Entrepreneurs**

Rural entrepreneurs face their own set of unique challenges, one of which is telecommunications connectivity. The nation's premier telecom provider was a prominent participant at the Rajarata Aruna Trade Fair in Anuradhapura on 21-23 July, demonstrating its commitment to serve rural entrepreneurs with a better and wider choice of communications services, from direct subscriber lines to mobile telephony to Internet access.

SLT's presence at the fair, which included demonstrations of the capability of its technology, helped familiarise small entrepreneurs and rural professionals with the number of affordable and effective communications options on offer. The Company also made full use of the opportunity to impart ICT knowledge and provide career guidance to rural entrepreneurs and young people.

Our presence at the Rajarata Aruna 1  
Trade Fair in Anuradhapura



Institute of Engineers, Sri Lanka 2  
felicitating SLT for its post-tsunami  
reconstruction work



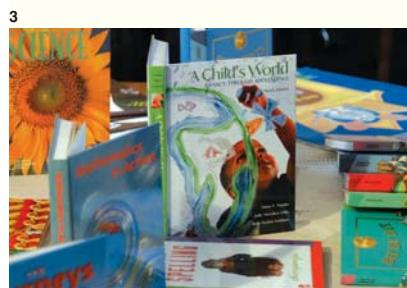
## Preserving Heritage for Tomorrow

### Supporting the Archaeology Department

In commemoration of World Archaeology Day, which fell on 7 July, the Sri Lanka Archaeology Department held a week-long programme entitled 'Let's Protect Our Cultural Heritage'. This initiative was adopted in recognition of the need to create awareness of Sri Lanka's cultural heritage and the need to protect it for future generations. The Archaeology Department also initiated a *shramadhana* campaign with community participation to clean up Sri Lanka's heritage sites.

Another aspect of this project was the printing of 30,000 cards that portray some of Sri Lanka's oldest heritage sites. Each card costs Rs. 10 and is available to the public at the Archaeology Department. The cards may also be purchased at all bookstores in the future. The money used to purchase these cards will be used to fund the Department's future projects. Six *tampitta viharas* in the Kurunegala District are also being reconstructed with the sponsorship of SLT.

SLT is proud to support the Sri Lanka Archaeology Department in its endeavour in publishing cards to commemorate the 'Let's Protect Our Cultural Heritage' week.



3



4

3 Partnering with Asia Foundation to distribute books in order to enhance knowledge

4 Our continuous support for the schools debating competition

The year under review was a profitable one for SLT, which recorded an all-time high after tax profit of Rs. 3.1 billion. This represents an increase of 139%, year on year.

#### Financial Summary - Group Rs. million

	2005			2004
	Quarter 1 3 months	Quarter 2 6 months	Quarter 3 9 months	Quarter 4 12 months
Turnover	7,513	15,168	23,589	32,515
EBITDA	4,077	8,125	12,897	17,003
Earnings				29,516
before Tax	1,219	1,987	3,708	4,812
Earnings				1,441
after Tax	909	1,379	2,489	3,093
Shareholders' Funds	32,218	31,956	33,076	33,793
Total Assets	78,894	77,559	79,659	81,520
				78,872

#### Revenue

SLT recorded Group revenue of Rs. 32.5 billion, a 10% increase over the previous year. All revenue sectors have contributed towards this increase. Local call revenue grew by 9%, directly reflecting the increase in size of SLT's customer base. International settlements, too, have grown by 9% in the face of strong competition and narrowing margins on international call charges and settlement rates. Revenues from data-oriented services, value-added services and new businesses such as the telephone directory recorded a growth of 33% over the previous year.

Mobitel increased its revenue by 22% to Rs. 3.6 billion from Rs. 3 billion in 2004, while the operating costs reduced by 3% to Rs. 2.8 billion, against Rs. 2.9 billion in the previous year. The subsidiary has increased its domestic call revenue, international call revenue and roaming revenue by 18%, 73% and 145% respectively. Reduction in dealer commissions, provisions

for bad debts, and cost of hand sets has contributed towards the savings in operating costs. The net cash generated from operating activities has improved from a negative Rs. 789 million in 2004 to a positive Rs. 980 million in 2005. An investment of Rs. 3.7 billion was made during the year on property, plant and equipment.

#### Composition of Revenue

%

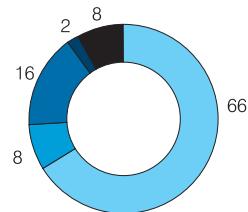
● Domestic

● IDD

● International Settlements

● CDMA

● Data & Others



#### Revenue Analysis

Local earnings, consisting mainly of rentals and domestic call charges, accounted for 66% of total revenues. Although SLT was a late entrant to the market on CDMA services, the Company recorded revenues of Rs. 563 million within the last two months of 2005. This accounted for 2% of the total revenue.

IDD revenue accounted for 8% of total revenue, a marginal decrease when compared with the sector's contribution in 2004. This was due to a decrease in traffic volumes following liberalisation of the international gateway operations.

International incoming traffic volumes increased during the year under review, but there was no corresponding increase in the revenue since international settlement rates had to be decreased in keeping with the world market trends. International revenues, which account for 16% of the total, increased by 9% in 2005 when compared with previous year.

Data-oriented and other new services increased by 33%, accounting for 8% of the total revenue.

### **Costs and Depreciation**

Operating costs of the Group were Rs. 15.5 billion in 2005, an increase of 7% on those of 2004. Repairs and maintenance and personnel costs were the main contributory factors. Apart from these, almost all other costs have been maintained at 2004 levels. 2005 also saw a remarkable improvement in collections from debtors; this, too, helped curtail operating expenses.

There was a significant increase in capitalisations during the year. However, the increase in Group depreciation is marginal, since a material quantity of assets was fully depreciated in 2004.

### **Finance Costs**

Finance costs consist mainly of interest expenses and include the effects of exchange rate fluctuations generated by restatement of monetary assets and the writing-off of realised exchange fluctuations from the hedging reserve. Finance costs of the Group reduced by 7% in the year under review, from Rs. 2.3 billion in 2004 to Rs. 2.1 billion in 2005, resulting from SLT accelerating the retirement of high-interest-rate-bearing loans during the latter part of 2004. Interest expenses of Mobitel rose by Rs. 208 million due to an increase in borrowings to cater for the expansion of services.

### **International Operators' Levy**

The Government introduced an International Operators' Levy (ITL) on international incoming traffic in late 2004, with retrospective effect from March 2003. ITL expenditure for the year 2005 decreased by Rs. 924 million when compared with last year, as the ITL for year 2004 included the provision for 2003 as well. As per Gazette notification of 31 March 2005, the Company may reclaim two-thirds of the Telecommunication Development Charge (TDC) Funds, corresponding to the investment made for network rollout in unserved and underserved areas. However, the refund has not been recognised in the financial statements at this time, since the concurrence of the Telecommunication Regulatory Commission is still being awaited.

### **Taxation**

Taxation increased by 1,061% in the year under review, rising to Rs. 1,719 million from Rs. 148 million in the previous year. This was due to the full utilisation of brought forward tax losses in 2004 and the subsequent abolition of the Investment Tax Allowance (ITA). SLT enjoyed the benefits of the ITA, granted for qualifying investments made by the Company in infrastructure development projects in rural areas, until the ITA was abolished by the 2003 budget.

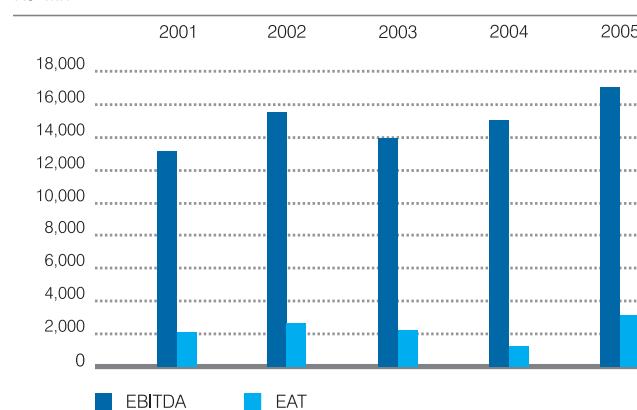
### **Profitability**

Earnings Before Interest, Tax, Depreciation, Amortisation and International Telecommunications Levy (EBITDA) of the Group amounted to Rs. 17 billion, 13% more than the previous year.

After recognising finance costs other income and interest income Earnings Before Tax (EBT) amounted to Rs. 4.8 billion, an increase of 234% over the previous year. Interest income rose by 221% compared to 2004, due to effective treasury management. However, due to increases in taxation, Earnings After Tax (EAT) for the year under review were only Rs. 3.1 billion, a 139% increase over the figure for 2004.

### **EBITDA/EAT**

Rs. Mn



### **Working Capital**

The working capital of the Group as at 31 December 2005 was Rs. 10 billion, a decrease of 8% from that of 2004. The main cause was the increase in current tax liability from Rs. 297 million to Rs. 2.8 billion. Cash and cash equivalents amounting to Rs. 14.5 billion as at balance sheet date includes a sinking fund of USD 2.0 million equivalent to Rs. 2.0 billion created during the year to redeem the USD 100 million bond in 2009. The closing inventory level has come down from Rs. 1.3 billion in 2004 to Rs. 844 million in 2005, as Mobitel managed to control its inventory levels, while writing-off some TDMA inventories amounting to Rs. 167 million.

A significant improvement in collections from both local and international debtors resulted in lowering the receivables and prepayments from Rs. 10 billion to Rs. 8.5 billion in 2005, while increasing the cash and cash equivalent from Rs. 10.8 billion in 2004 to Rs. 14.5 billion in 2005. Trade and other payables have increased by Rs. 800 million as a result of increase in payables pertaining to capital expenditure. At the same time, deposits and advances received from customers worth Rs. 297 million, which was included under trade and other payables of current liabilities in the previous year, was shifted to non-current liabilities as the settlement of this liability does not fall within one financial year.

The total asset turnover of the year has improved to 0.4 times when compared with 0.37 in 2004. Return on assets was 7% during 2005. The current ratio of the Group has decreased to 1.7 times from 1.9 in the previous year since current liabilities and current assets have increased by 22% and 7.7% respectively. The quick asset ratio at the end of 2005 was 1.66, compared with 1.83 in 2004.

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### **Activity and Liquidity Ratios**

	2001	2002	2003	2004	2005
Asset Turnover Ratio	0.28	0.34	0.35	0.37	<b>0.40</b>
Current Ratio	1.13	1.32	1.17	1.95	<b>1.72</b>
Quick Asset Ratio	1.05	1.27	1.11	1.83	<b>1.66</b>

### **Capital Structure**

The total assets of the Group, amounting to Rs. 81 billion, were funded by shareholders' funds together with deferred income, long-term and short-term liabilities in proportions of 51%, 32% and 17% respectively.

SLT maintained its strategy of reducing gearing. There were no additional borrowings. As at 31 December 2005, the balance of borrowings stood at Rs. 15.7 million, 15% lower than in 2004. As at the balance sheet date, the borrowings of the Group stood at Rs. 22.8 billion, 10% lower than the previous year.

SLT's low gearing is effectively leveraged for the Group as a whole. Mobitel borrowed Rs. 2 billion for expansion activities in the year under review. SLT transferred Rs. 4 billion being part of the international bond proceeds to the same company by way of 12% redeemable preference shares and a five-year loan bearing an interest rate of 12% per annum.

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### **Capital Structure - Rs.**

	Shareholders' Funds	Debt
SLT	36.6 billion	15.7 billion
Group	33.8 billion	22.8 billion

### **Debt**

The total debt of the Company was Rs. 15.7 billion as at balance sheet date and comprises 88% of long-term debt as against 12% of short-term debt. In 2004, long-term debt was 87% of the total. The debt/equity ratio at the end of the year under review was 0.3, a reduction of 14% when compared with the ratio for 2004. The total debt of the Group was Rs. 22.8 billion at the end of 2005, which consisted of 84% long-term debt, as against a Rs. 25.3 billion total debt in 2004, which includes 82% of long-term debt.

Debt/equity ratio of the Group for 2005, was 0.4, a reduction of 11.1% when compared with 2004.

### Interest Cover

The Company's interest cover ratio of 8.5 in the year under review is a remarkable improvement when compared with a figure of 2.7 in 2004. When viewed against the low debt/equity ratio, it accurately reflects the Company's potential debt capacity. However, the Group interest cover is 4.3 during 2005, due to Mobitel's borrowings, for its expansion of GSM network.

### Interest Cover - Group

	2005	2004
EBIT (Rs. million)	<b>6,249</b>	3,491
Net Finance Expenses (Rs. million)	<b>1,437</b>	2,050
Interest Cover (No. of Times)	<b>4.3</b>	1.7

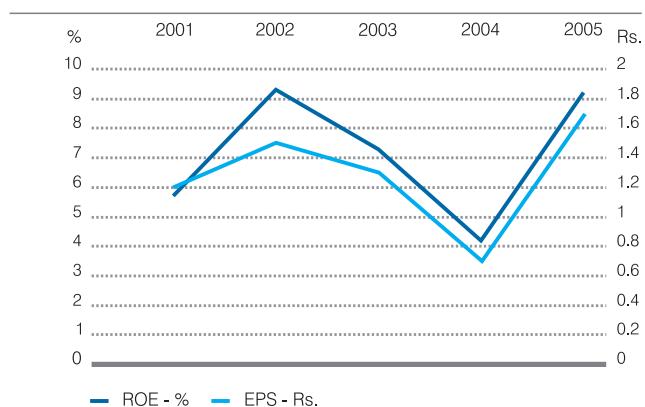
### Cash Flow

The net increase in cash and cash equivalents was Rs. 3.9 billion. Cash generated from operating activities was Rs. 17 billion as compared to Rs. 10.4 billion in 2004. Of this, Rs. 10.7 billion was invested. The main investment was in the South-East Asia-Middle East-Western Europe (SEA-ME-WE 4) submarine optical fibre cable, which cost Rs. 2.9 billion. Dividend payments of Rs. 899 million accounted for net cash outflow in financing activities.

### Performance Measurement

Basic Earnings Per Share (EPS) of SLT (Group) for the year were Rs. 1.71 compared to Rs. 0.72 the previous year. Return on equity was 9.2% in 2005, based on Group figures as at 31 December 2005. The comparative ratio for 2004 was 4.2%.

### ROE/EPS



### Statement of Changes in Equity

The Group's equity as of balance sheet date was Rs. 34 billion, as against Rs. 31 billion in 2004. The key cause of the movement is an increase in retained earnings.

Every business entity, irrespective of its size, is exposed to various types of risks. A company that is fully aware of this universal truth takes steps to be prepared for and mitigate these various risks.

Risks to a business entity may emerge from a variety of sources including the market, credit, liquidity and interest rates. SLT has put in place systems, policies and procedures in all of its major areas of operation in order to identify, measure and monitor risks in a systematic way. Through these systems, the Company hopes to standardise its risk interpretation procedure. In addition, the Company hopes to achieve better coordination between the process of quantifying risk and their management. In essence, these systems and procedures will ensure that SLT takes well-calculated risks, attempting to eliminate certain types of risks altogether and minimising the impact of others. The Board of Directors of SLT are kept well informed of implementation and any changes to risk management systems by the senior management through frequent reports. Risk management at SLT is a dynamic process warranted by the frequently-changing business environment the Company operates in. As such, its adequacy and efficacy is constantly monitored and modified.

## Market Risks

The market risk associated with SLT is the risk of increasing competition. The telecommunications policy of the Sri Lankan Government favours fierce competition in the sector. This increases the market risk of the Company.

Commanding a share of about 77%, SLT is the clear market leader in the fixed-line business. Nevertheless, competition has intensified with the introduction of fixed wireless services in 2005. In order to cope with this heightened competition, SLT has adopted a three-pronged approach. It has diversified its lines of businesses and sources of revenue, continuously upgrades its technology and network, and has developed high standards of customer service.

Mobitel, the fully-owned subsidiary of SLT, also faces intense competition, in addition to being vulnerable to the vagaries of consumer sentiment and market forces. Although the wireless telecommunications services market of Sri Lanka is expected to show strong growth, SLT's ability to capitalise on this development is limited by its weak market position. It only commands a share of about 16% in the modest-sized but growing wireless telecommunications market of about 2 million subscribers. Some strategies SLT might need to adopt in the future might be aggressive pricing policies and attractive promotional campaigns.

Mobitel was not fully transferred with the initial frequency allocated to provide GSM services. However, the GSM phase II roll out in the 900MHz spectrum, which is the correct bandwidth, will be completed by August 2006. This will enable Mobitel to improve its coverage more than two-fold from its current position. Such an improvement in coverage will provide Mobitel a definitive advantage in its drive to capitalise on the strong growth expected in Sri Lanka's mobile telecommunications services market.

## Regulatory Risks

Not only with regard to licensing and competition, SLT's telecommunications business is subject to governmental regulation even with regard to its costs and arrangements pertaining to interconnection and tariffs. As such, any changes in governmental policy have the potential to affect the financial status and operational results of the Company. Any decision taken by the regulatory authorities to amend and/or revoke the Company's telecommunications licences could adversely affect the Company.

SLT, being the dominant fixed-line operator in Sri Lanka, is required to subject its tariff structures for the prior approval of the Telecommunications Regulatory Commission of Sri Lanka (TRC). However, the other fixed line operators who are in competition with SLT are not subject to this procedure. Their tariff structures could be set up and amended without notice to the TRC. SLT's tariffs also come under the purview of the Consumer Affairs Authority.

Currently, there is some uncertainty on SLT's fixed-line tariff as a result of a reversal by the Court of Appeal of a tariff revision that was implemented in September 2003. SLT has lodged an appeal, which will be heard by the Supreme Court in March 2006. Pending the hearing of the appeal, the tariff remains unchanged. It also remains unclear if SLT will receive a fund of the International Operators' Levy amounting to two-thirds of the levy for the development of its network in rural areas, pending these regulatory changes. Nevertheless in order to minimise the risk, SLT has recognised the entire levy in its accounts and has not accounted for any benefits that might accrue to the Company from the possible refunds.

SLT's continued profitability is threatened by the absence of a 'level playing field'. There might also be potentially adverse repercussions on SLT's profitability from possible external controls or influences on the Company's tariffs.

At SLT, efficient systems and procedures are in place to ensure strict compliance with the standards laid down by the TRC. Steps have also been taken to develop the Company's capacity to work with the TRC, in order to optimise the regulatory framework.

## Labour Relations

As industrial harmony is a much valued tenet at SLT, the senior management team of the Company strives always to maintain extremely good relations with its employees. It has continued to succeed in its endeavours over the years.

The privatisation process at SLT was completed with fair success. Among the benefits it has delivered to the employees are: better working conditions and facilities, better job realignment, better training and efforts at improving their self worth and personal development.

Almost the entire executive and non-executive cadre of the Company is unionised.

Reforms such as those pertaining to labour, privatisation of State-owned utilities and civil service reforms have always been and socially sensitive and remain so today. In Sri Lanka, such reforms have prompted many public debates, protests and opposition from political groups and trade unions. Although so far SLT has not been embroiled in such debate and opposition, this remains a potential area of risk. Any labour unrest and resulting work disruptions could have an adverse impact on the Company.

Another risk pertaining to labour is SLT's heavy reliance on its skills base. The telecommunications industry is technologically driven and skilled staff are in great demand. With the expansion of services, SLT has a greater need for highly-skilled staff but may face insufficient supply in a rapidly-growing telecommunications market.

## Disaster Recovery

SLT's businesses are dependent on their ability to transfer substantial volumes of data speedily and without interruption. Risk to the Company of any significant failure or interruption to such data transfer is significant. In order to mitigate these risks, measures such as comprehensive fire protection systems and other emergency response mechanisms are implemented.

## Financial Risks

The high expected growth in the wireless market in Sri Lanka will ensure high investment needs for SLT. In particular, SLT's planned rollout of the network to cover the entire country will demand significant investment.

## Exchange Rate Risk

The Group generates cash flows in foreign and local currency, and its main foreign currency exposures are long-term debt denominated in foreign currencies and import-related transactions.

In order to manage the exchange rate risk, SLT has adopted a currency hedging policy. This policy demands that any cash flows

from international revenues be first used to service debts denominated in foreign currencies. At SLT, all foreign currency inflows are maintained in foreign currency accounts.

A sinking fund to be used for the bullet redemption of bonds and debentures was also created in order to manage the exchange rate risk of the Company.

#### **Interest Rate Risk**

In a volatile interest rate environment, high exposure to either long-term or short-term debt instruments is inadvisable. As such, Group debt is maintained in a mix of fixed and variable interest rate instruments. This is expected to mitigate the negative financial impact that could result due to the volatility of capital markets.

#### **Liquidity Risk**

This is the risk that the Company will not be able to meet its financial commitments when due without incurring unacceptable losses. In order to manage this risk, the Group employs regular planning and monitoring systems. Maintenance of sufficient cash is a top priority at SLT as is the preparation of regular cash flow projections in line with business movements.

#### **Credit Risk**

Credit risk to the Company is managed by taking initial customer deposits, pre-paid sales and by operating comprehensive systems to monitor SLT's debtors and recoveries.

SLT's processes of corporate governance are on par with international best practices and are designed to ensure transparency, accountability and efficiency in the Company's operations.

### **Board of Directors**

The main decision-making power in the Company belongs to the Board of Directors. The Board is responsible for the strategic direction of the Company. Many of the operational decision-making responsibilities have been delegated to the executive management headed by the CEO. The Board monitors the performance of the executive management.

The executive management prepares the Annual Business Plan with financial projections. The Business Plan receives careful review and scrutiny by the Board. The implementation of the approved Business Plan is the responsibility of the management and periodic review of the Business Plan is undertaken by the Board to ensure that it is consistent with the strategic direction of the Company. The Board is also responsible for ensuring that adequate internal controls are in place.

The Board comprises nine Directors. Each investor holding more than 10% of the share capital is entitled to one seat on the Board. Accordingly, the Government of Sri Lanka, which holds 49.5% of the issued capital, has 5 seats on the Board and NTT Communications Corporation, which holds 35.2%, has 4 seats. Apart from the Chief Executive Officer who is nominated by NTT Com all other Directors hold office in a non-executive capacity. None of the Non-Executive Directors have held executive positions in the Company. The profile of the current Directors is provided on pages 6 and 7 of this Report.

The functions of the Chairman and the CEO are kept separate in accordance with best practices in corporate governance.

Discussions at Board meetings are free and fair, helping to achieve balance and objectivity in decision-making.

All appointments to and resignations from the Board are included in the Directors' Report and with the exception of the Chairman and the CEO, all Directors are subject to retirement by rotation in terms of the Articles of Association and are subject to re-election by the shareholders at the Annual General Meeting.

The Company Secretary who possesses the necessary qualifications as required by the Company's Act records all decisions reached at Board Meetings.

The Company has been divided into key divisions headed by Chief Officers who possess expertise in the relevant fields. The management team functions under the leadership of the CEO, who is responsible for all operational functions and human resource management. The management structure has been designed to allow for individual career advancement within the executive management.

All statutory and regulatory requirements are complied with to the letter. Transparency is a key value in our systems of governance. SLT has at all times promoted full, fair, accurate, timely and understandable disclosures of all reports and documents that the Company has filed with the Colombo Stock Exchange or otherwise made public.

### **Board Processes**

The Board of Directors meets at least once a month. During the past year 16 Board meetings were held. At the monthly meetings, financial performance and the progress of the Company, as well as that of the Group are evaluated. The NTT nominee Directors participate at Board meeting by teleconference. The CEO, who is also a Director, is present at all Board meetings.

The CEO meets the Chief Officers every week to discuss operational strategy and meets with Heads of Division and Regional Heads once a month to monitor progress of operations.

### Audit Committee

SLT's Audit Committee is part of the corporate reporting process, operating within defined terms of reference. The Committee oversees all aspects of 'financial reporting' on behalf of the Board.

The Audit Committee comprises of 3 Non-Executive Directors: Mr. Lalith de Mel (Chairman), Mr. Kiyoshi Maeda and Mr. S.B. Divaratne. The Audit Committee met four times during the past year. The Chief Financial Officer, the Chief Internal Auditor, Chief Operations Officer and other senior executives attend these meetings on invitation.

The Audit Committee also reviews the standards of internal control and takes measures to put in place controls which would reduce the incidence and impact of risks on the business.

The Audit Committee also approves the terms of engagement of external auditors.

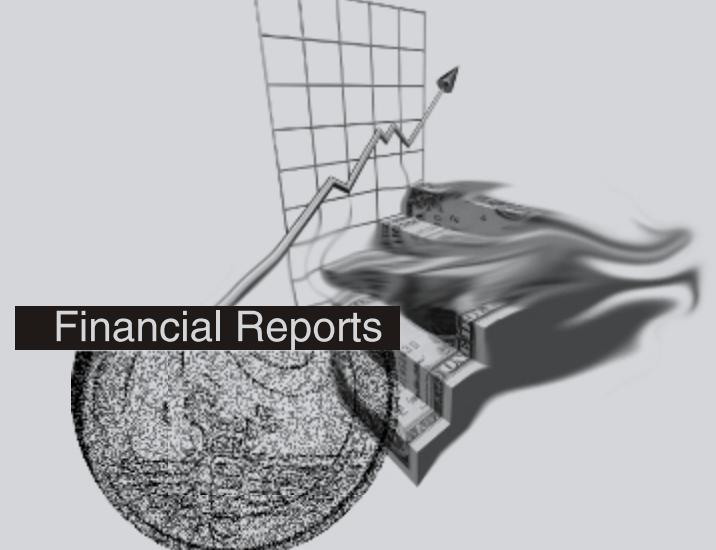
The Audit Committee Chairman keeps in touch on a continuing basis with the key people involved in the Company's governance, including the Board Chairman, the CEO, the CFO and the external audit lead partner.

### Other Aspects of Governance

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

The CEO maintains an ongoing dialogue with institutional shareholders through an investor-relations programme.

All statutory payments have been made in a timely manner.



## Financial Reports

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1. The Directors present herewith the audited financial statements for the year ended 31 December 2005.

## 2. FORMATION

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

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

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

The Government of Sri Lanka divested a further 12% of its holding to the public through the Colombo Stock Exchange in November 2002, bringing down the Government's holding to 49.5%.

## 3. RESULTS

The results for the year and the changes in equity are set out in the income statement on page 56 and, the statements of changes in equity on pages 58 and 59 respectively.

## 4. REVIEW OF BUSINESS

The state of affairs of the Company at 31 December 2005 is set out in the balance sheet on page 57. An assessment of the Company during the financial year is given in the CEO's Review.

## 5. PROPERTY, PLANT & EQUIPMENT

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

## 6. GROUP ACTIVITIES

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

## **7. SUBSIDIARIES**

Mobitel (Private) Limited and Sri Lanka Telecom (Services) Limited are both wholly-owned subsidiaries of SLTL. Whereas Mobitel is engaged in a mobile phone operation, Sri Lanka Telecom (Services) is a data communication solutions provider.

## **8. DIVIDEND**

During the year a first and final dividend of 5% per share was paid out of the profits of 2004 in May 2005.

The Directors recommend a first and final dividend of 7.5% per share for the year ended 31 December 2005 on the issued share capital of Rs. 18,048,600,000.

## **9. RESERVES**

Total reserves of the group and their composition have been given in the statement of changes in equity on pages 58 and 59 of the financial statements.

## **10. SUBSTANTIAL SHAREHOLDINGS**

As at 31 December 2005 there were 1,804,860,000 ordinary shares of Rs. 10 each in issue, and according to the share register the undernoted held more than a 5% interest therein at the balance sheet date.

	<b>Holding %</b>	<b>No. of shares</b>
Government of Sri Lanka	49.50	893,405,700
NTT Communications Corporation	35.20	635,076,318

The balance 15.30% is held by the public.

## **11. SHAREHOLDER RELATIONS**

The Board lays emphasis on good investor relations. In addition to the Annual General Meetings at which the Directors have a dialogue with the shareholders, timely financial reports are presented to them on quarterly and annual basis. The Investor Relations Officers together with CEO meet institutional shareholders and Fund Managers on a regular basis. Additionally shareholders are kept up-to-date on the Company's business endeavours and other activities undertaken to enhance shareholder value, through its quarterly newsletter "Investor".

## **12. DIRECTORS**

During the year the Board comprised eight Directors and as at 31 December 2005 the Directors were:

Mr. Anil Obeysekere, P.C. - *Chairman*

Mr. Shuhei Anan - *Chief Executive Officer*

Mr. S B Divaratne

Mr. Nigel Hatch, P.C.

Mr. Lalith De Mel

Mr. Kiyoshi Maeda

Mr. Haruhiko Yamada

Mr. Shoji Takahashi - Appointed on 25 August 2005

Mr. Takashi Akiyama ceased to be the alternate to Mr. Kiyoshi Maeda and Mr. Haruhiko Yamada on 25 August 2005. The principal Directors being non-executive their alternate only attended Board meetings.

With the resignation of Mr. Kiyoshi Maeda, on 13 February 2006, Mr. Tadashi Imachi who replaced Mr. Takashi Akiyama as alternate to Mr. Kiyoshi Maeda, also ceased to hold office of Alternate Director. However, he remains as Alternate to Mr. Haruhiko Yamada.

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

Mr. Palitha Thenuwara	Compulsory resignation 28 February 2005
Mr. Sadao Maki	Resigned on 25 August 2005
Mr. Nigel Hatch	Resigned on 26 January 2006
Mr. Lalith De Mel	Resigned on 26 January 2006
Mr. Kiyoshi Maeda	Resigned on 13 February 2006

#### **Re-election of Directors**

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

Accordingly Mr. Haruhiko Yamada retires in terms of Article 91 and being eligible offers himself for re-election.

During the year and in early part of 2006, the undermentioned Directors were appointed to fill casual vacancies arising from the resignation of incumbent Directors. The Directors who have been so appointed by the Board retire in terms of Article 97 and being eligible offer themselves for re-election.

Mr. Shoji Takahashi	25 August 2005
Mr. S.N. Kumar	27 February 2006
Ms. Leisha Chandrasena	27 February 2006

#### **13. DIRECTORS' INTEREST IN CONTRACTS AND PROPOSED CONTRACTS WITH THE COMPANY**

The Directors' interests in contracts and proposed contracts with the Company, both direct and indirect, are set out in Note 29 to the financial statements. The Directors have disclosed the nature of their interests in contracts and proposed contracts with the Company at meetings of the Directors.

#### **14. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY**

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

<b>Name</b>	<b>Number</b>	
	<b>2005</b>	<b>2004</b>
Mr. Lalith De Mel	<b>35,500</b>	35,500

**15. CORPORATE GOVERNANCE**

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

The Audit Committee comprises three non-executive Directors namely Mr. Lalith De Mel, Mr. S.B. Divaratne and Mr. Kiyoshi Maeda.

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

**16. STATUTORY PAYMENTS**

All statutory payments payable to the government and the employees have been made at the balance sheet date.

**17. ENVIRONMENTAL PROTECTION**

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

**18. DONATIONS**

The Directors did not consider it prudent to make any contribution for charitable purposes during the year as the Company itself was a victim of the tsunami and had to incur considerable expenditure in rehabilitating its network.

**19. GOING CONCERN**

The financial statements are prepared based on the going concern concept. The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future.

**20. Post balance sheet events**

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

**21. APPOINTMENT OF AUDITORS**

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

By Order of the Board

**P.G. Dias**

*Secretary*

Colombo

13 March 2006

The responsibilities of the Directors, in relation to the financial statements of the Group, differ from the responsibilities of the Auditors which are set out in the Report of the Auditors on page 55.

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

The Directors consider that, in preparing these financial statements set out on pages 56 to 81, appropriate accounting policies have been selected and applied in a consistent manner and supported by reasonable and prudent judgement and that all applicable Accounting Standards, as relevant, have been followed.

The Directors are also confident that the Group has adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements. Further, the Directors have a responsibility to ensure that the Group maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Group, and to ensure that the financial statements presented comply with the requirements of the Companies Act No 17 of 1982.

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

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

By Order of the Board

**P.G. Dias**

*Secretary*

Colombo

13 March 2006



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**TO THE MEMBERS OF SRI LANKA TELECOM LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2005**

We have audited the balance sheet of Sri Lanka Telecom Limited (the Company) and its subsidiaries (the Group) as at 31 December 2005, the Consolidated Balance Sheet of the Group as at that date, and the related Income, Changes in Equity and Cash Flow Statements for the year then ended, together with the Accounting Policies and Notes thereon appearing on pages 56 to 81.

**Respective Responsibilities of Directors and Auditors**

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

**Basis of Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards which require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material mis-statements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements and determining whether the said financial statements are prepared and presented in accordance with Sri Lanka Accounting Standards. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31 December 2005, and to the best of our

information and according to the explanations given to us, the said Balance Sheet and the related Income, Changes in Equity and Cash Flow Statements and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been properly prepared and presented in accordance with Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 December 2005 and of the results of its operations and its cash flows and changes in equity for the year then ended.

In our opinion, the Consolidated Balance Sheet and related Income, Changes in Equity and Cash Flow Statements and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 17 of 1982 and give a true and fair view of the state of affairs as at 31 December 2005 and of the results of the operations and cash flows and changes in equity for the year then ended of the Company and its Subsidiaries dealt with thereby, so far as concerns the members of the Company.

**Directors' Interests in Contracts**

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Group during the year ended 31 December 2005 except as stated in Note 29 to these financial statements.

**PricewaterhouseCoopers**

*Chartered Accountants*

Colombo

13 March 2006

*(All amounts in Sri Lanka Rupees millions)**For the year ended 31 December 2005*

	Notes	2005	Group	2004	Company
			2005	2004	
Revenue	1	<b>32,515</b>	29,516	<b>29,282</b>	26,681
Operating costs	2	<b>(15,512)</b>	(14,485)	<b>(12,898)</b>	(11,601)
Operating profit before depreciation and other income		<b>17,003</b>	15,031	<b>16,384</b>	15,080
Depreciation	9	<b>(9,366)</b>	(8,952)	<b>(8,144)</b>	(8,114)
Operating profit		<b>7,637</b>	6,079	<b>8,240</b>	6,966
Other income		<b>162</b>	216	<b>158</b>	194
International Telecommunication Operators' Levy	4	<b>(1,550)</b>	(2,474)	<b>(1,549)</b>	(2,469)
Loss due to Tsunami		–	(330)	–	(300)
Interest expense and related charges	5	<b>(2,085)</b>	(2,252)	<b>(1,437)</b>	(1,812)
Interest income		<b>648</b>	202	<b>633</b>	190
Profit before tax		<b>4,812</b>	1,441	<b>6,045</b>	2,769
Tax	6	<b>(1,719)</b>	(148)	<b>(1,694)</b>	(148)
Net profit		<b>3,093</b>	1,293	<b>4,351</b>	2,621
Earnings per share (Rs)	7	<b>1.71</b>	0.72	<b>2.41</b>	1.45

All of the Group's activities are continuing activities.

*The Accounting Policies on pages 61 to 64 and the Notes on pages 65 to 81 form an integral part of these financial statements.*

*Report of the Auditors on page 55.*

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2005

	Notes	2005	Group 2004	Company 2005	2004
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant & equipment	9	<b>56,151</b>	54,360	<b>47,607</b>	48,210
Intangible assets	10	<b>141</b>	219	—	—
Investments	11	—	710	<b>3,497</b>	2,707
Non-current receivables	12	<b>1,385</b>	1,439	<b>3,498</b>	969
		<b>57,677</b>	56,728	<b>54,602</b>	51,886
<b>CURRENT ASSETS</b>					
Inventories	13	<b>844</b>	1,312	<b>694</b>	771
Receivables and prepayments	14	<b>8,531</b>	9,987	<b>7,906</b>	9,157
Cash & cash equivalents	15	<b>14,468</b>	10,845	<b>12,735</b>	10,736
		<b>23,843</b>	22,144	<b>21,335</b>	20,664
<b>Total assets</b>		<b>81,520</b>	78,872	<b>75,937</b>	72,550
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Ordinary share capital	23	<b>18,049</b>	18,049	<b>18,049</b>	18,049
Capital reserve	24	<b>188</b>	188	<b>188</b>	188
Hedging reserve	25	(208)	(677)	(208)	(677)
Insurance reserve	21	<b>166</b>	100	<b>166</b>	100
Retained earnings		<b>15,598</b>	13,404	<b>18,374</b>	14,922
		<b>33,793</b>	31,064	<b>36,569</b>	32,582
Deferred income	18	<b>7,546</b>	7,272	<b>7,546</b>	7,272
<b>Non-current liabilities</b>					
Grants		<b>89</b>	10	<b>89</b>	10
Deferred tax liabilities	17	<b>6,013</b>	7,489	<b>6,013</b>	7,489
Borrowings	16	<b>19,139</b>	20,905	<b>13,848</b>	16,106
Retirement benefit obligations	20	<b>751</b>	520	<b>721</b>	497
Trade and other payables	19	<b>297</b>	234	<b>297</b>	234
		<b>26,289</b>	29,158	<b>20,968</b>	24,336
<b>Current liabilities</b>					
Trade and other payables	19	<b>7,414</b>	6,616	<b>6,263</b>	5,656
Current tax liabilities		<b>2,777</b>	297	<b>2,757</b>	297
Borrowings	16	<b>3,701</b>	4,465	<b>1,834</b>	2,407
		<b>13,892</b>	11,378	<b>10,854</b>	8,360
<b>Total liabilities</b>		<b>40,181</b>	40,536	<b>31,822</b>	32,696
<b>Total equity and liabilities</b>		<b>81,520</b>	78,872	<b>75,937</b>	72,550

These financial statements were approved by the Board of Directors on 13 March 2006 and were signed on its behalf by:

(Sgd.)

**Anil Obeyesekere**

Chairman

(Sgd.)

**Shuhei Anan**

CEO/Director

*The Accounting Policies on pages 61 to 64 and the Notes on pages 65 to 81 form an integral part of these financial statements.**Report of the Auditors on page 55.*

*(All amounts in Sri Lanka Rupees millions)**For the year ended 31 December 2005*

	Notes	Insurance reserve	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
<b>GROUP</b>							
<b>Year ended 31 December 2004</b>							
<b>Balance at 1 January 2004</b>		95	18,049	188	(745)	13,013	30,600
Cash flow hedges							
- foreign currency							
translation difference	25	–	–	–	(408)	–	(408)
- charged to income	5	–	–	–	476	–	476
Insurance reserve							
- charged to income	21	5	–	–	–	–	5
Dividend for 2003	8	–	–	–	–	(902)	(902)
Net profit for the year 2004	–	–	–	–	–	1,293	1,293
<b>Balance at 31 December 2004</b>		<b>100</b>	<b>18,049</b>	<b>188</b>	<b>(677)</b>	<b>13,404</b>	<b>31,064</b>
<b>Year ended 31 December 2005</b>							
<b>Balance at 1 January 2005</b>		<b>100</b>	<b>18,049</b>	<b>188</b>	<b>(677)</b>	<b>13,404</b>	<b>31,064</b>
Cash flow hedges							
- foreign currency							
translation difference	25	–	–	–	245	–	245
- charged to income	5	–	–	–	224	–	224
Insurance reserve							
- charged to income	21	66	–	–	–	–	66
Dividend for 2004	8	–	–	–	–	(902)	(902)
Unclaimed dividend written back	–	–	–	–	–	3	3
Net profit for the year 2005	–	–	–	–	–	3,093	3,093
<b>Balance at 31 December 2005</b>		<b>166</b>	<b>18,049</b>	<b>188</b>	<b>(208)</b>	<b>15,598</b>	<b>33,793</b>

*The Accounting Policies on pages 61 to 64 and the Notes on pages 65 to 81 form an integral part of these financial statements.*

*Report of the Auditors on page 55.*

*(All amounts in Sri Lanka Rupees millions)**For the year ended 31 December 2005*

	Notes	Insurance reserve	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
<b>COMPANY</b>							
<b>Year ended 31 December 2004</b>							
<b>Balance at 1 January 2004</b>		95	18,049	188	(745)	13,203	30,790
Cash flow hedges							
- foreign currency							
translation difference	25	–	–	–	(408)	–	(408)
- charged to income	5	–	–	–	476	–	476
Insurance reserve							
- charged to income	21	5	–	–	–	–	5
Dividend for 2003		–	–	–	–	(902)	(902)
Net profit for the year 2004		–	–	–	–	2,621	2,621
<b>Balance at 31 December 2004</b>		<b>100</b>	<b>18,049</b>	<b>188</b>	<b>(677)</b>	<b>14,922</b>	<b>32,582</b>
<b>Year ended 31 December 2005</b>							
<b>Balance at 1 January 2005</b>		<b>100</b>	<b>18,049</b>	<b>188</b>	<b>(677)</b>	<b>14,922</b>	<b>32,582</b>
Cash flow hedges							
- foreign currency							
translation difference	25	–	–	–	245	–	245
- charged to income	5	–	–	–	224	–	224
Insurance reserve							
- charged to income	21	66	–	–	–	–	66
Dividend for 2004		8	–	–	–	(902)	(902)
Unclaimed dividend written back		–	–	–	–	3	3
Net profit for the year 2005		–	–	–	–	4,351	4,351
<b>Balance at 31 December 2005</b>		<b>166</b>	<b>18,049</b>	<b>188</b>	<b>(208)</b>	<b>18,374</b>	<b>36,569</b>

*The Accounting Policies on pages 61 to 64 and the Notes on pages 65 to 81 form an integral part of these financial statements.*

*Report of the Auditors on page 55*

*(All amounts in Sri Lanka Rupees millions)**For the year ended 31 December 2005*

	Notes	2005	Group	2004	Company
			2005	2004	
<b>Operating activities</b>					
Cash generated from operations	26	<b>19,668</b>	13,045	<b>18,049</b>	13,473
Interest received		<b>541</b>	224	<b>526</b>	212
Interest paid		<b>(2,294)</b>	(2,829)	<b>(1,581)</b>	(2,389)
Tax paid		<b>(715)</b>	(38)	<b>(710)</b>	(38)
<b>Net cash generated from operating activities</b>		<b>17,200</b>	10,402	<b>16,284</b>	11,258
<b>Investing activities</b>					
Acquisition of property, plant & equipment	9	<b>(11,460)</b>	(7,623)	<b>(7,843)</b>	(5,071)
Disposal of investments	11	<b>762</b>	–	<b>762</b>	–
Disposal of property, plant & equipment		<b>12</b>	12	<b>12</b>	12
Loan given to subsidiary	12	–	–	<b>(2,500)</b>	–
Investments in subsidiary	11	–	–	<b>(1,500)</b>	–
<b>Net cash used in investing activities</b>		<b>(10,686)</b>	(7,611)	<b>(11,069)</b>	(5,059)
<b>Financing activities</b>					
Proceeds from borrowings		<b>2,041</b>	20,970	–	13,949
Payment on borrowings		<b>(3,338)</b>	(16,379)	<b>(1,723)</b>	(12,483)
Dividends paid	8	<b>(899)</b>	(902)	<b>(899)</b>	(902)
Redemption of debentures	16	<b>(375)</b>	(375)	<b>(375)</b>	(375)
<b>Net cash (used in)/from financing activities</b>		<b>(2,571)</b>	3,314	<b>(2,997)</b>	189
<b>Increase in cash and cash equivalents</b>		<b>3,943</b>	6,105	<b>2,218</b>	6,388
<b>Movement in cash and cash equivalents</b>					
Cash and cash equivalents at beginning of the year (Note 15)		<b>10,485</b>	4,599	<b>10,517</b>	4,348
Increase		<b>3,943</b>	6,105	<b>2,218</b>	6,388
<b>At end of year</b>	15	<b>14,428</b>	10,704	<b>12,735</b>	10,736

*The Accounting Policies on pages 61 to 64 and the Notes on pages 65 to 81 form an integral part of these financial statements.*

*Report of the Auditors on page 55.*

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

#### **A. BASIS OF PREPARATION**

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

#### **B. GROUP ACCOUNTING**

Subsidiary undertakings, which are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Consolidated financial statements are prepared from the date on which effective control is transferred to the Group and are no longer consolidated from the date of cessation of such control through disposal or otherwise. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. The accounting policies of the subsidiaries are the same as those of the Company. No disclosure of minority interest is made as the subsidiaries are wholly owned.

The Group reporting dates are set out in Note 22.

#### **C. FOREIGN CURRENCY TRANSACTIONS**

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

#### **D. GOODWILL**

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

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

#### **E. GRANTS**

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

#### **F. PROPERTY, PLANT & EQUIPMENT**

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

Cost includes all costs directly attributable to bringing an asset to working condition for its intended use. Cost in the case of the network comprises all expenditure up to and including the cabling within customers' premises, undersea cables, contractors' charges and payments on account of materials, customs duty and borrowing costs. Significant renovations are capitalised if they extend the life of the asset beyond its originally estimated useful life or increase its recoverable value. Maintenance, repairs and minor renewals are charged to income as incurred.

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

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

Depreciation is calculated using the most appropriate method to write off the cost of each asset to their residual values over their estimated useful lives. The Company depreciates its assets on the straight line method commencing from the month of purchase and the useful lives are as follows:

Asset Category	Useful Life
Freehold land	—
Freehold buildings	40 years
Ducts and other outside plant	10 to 20 years
Undersea cables (ducts, cables and other outside plant)	10 years
Telephone exchanges and transmission equipment	12.5 years
Motor vehicles	5 years
Other fixed assets	4 to 10 years

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

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

## G. INVESTMENTS

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

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

## H. INVENTORIES

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

## I. TRADE RECEIVABLES

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

## J. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments, net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## K. SHARE CAPITAL

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

## L. DEFERRED INSURANCE PREMIUM

Insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the grounds that the benefit of this expenditure is not exhausted in the period in which it is incurred and will be written off to the income statement over the repayment period of the loans.

## M. BORROWING COSTS

Borrowing costs are written off to the income statement as incurred, unless they relate to borrowings which fund significant capital projects, in

which case they are capitalised with the relevant qualifying asset up to the date of commissioning, and written off to the income statement over the period during which the asset is depreciated. Borrowing costs include interest charged, commitment fees, guarantee premium and exchange differences on foreign loans to the extent that they are regarded as an adjustment to interest costs.

#### **N. TAXATION**

The current tax charge is based on the results for the year as adjusted for disallowable items.

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

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

The principal temporary differences arise from depreciation on property, plant & equipment, revaluations of certain non-current assets, provisions for retirement benefits and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

#### **O. DEFINED BENEFIT PLAN**

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

An actuarial valuation was carried out by an independent professional valuer to ascertain the full liability arising in terms of the Payment of Gratuity Act No. 12 of 1983, in respect of all employees of SLTL as at 31 December 2005. The valuation was made adopting the Projected Unit Credit Method as recommended by the Sri Lanka Accounting Standard No 16, Retirement Benefit Costs.

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

The liability is not funded externally.

#### **P. DEFINED CONTRIBUTION PLAN**

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

#### **Q. PROVISIONS**

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

#### **R. REVENUErecognition**

Revenue is recognised on an accrual basis when it is probable that the economic benefits will flow to the Company and the revenue and associated costs can be reliably measured. Revenue is measured at the amount of consideration net of discounts and taxes. The specific criteria used for recognition of revenue are as follows:

##### **(1) Domestic and international call revenue and rental income**

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

**(2) Revenue from other network operators and international settlements**

Revenue is received from other network operators, local and international, for the use of SLTL network for completing connections.

These revenues are recognised, net of taxes, based on traffic minutes and stipulated rates.

**(3) Revenue from other telephony services**

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

**(4) Connection fees**

Connection fees relating to Public Subscriber Telephone Network are initially recognised as deferred income and subsequently recognised as revenue by amortising over a period of 15 years.

**(5) Equipment sales**

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

**(6) Interest income**

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

**S. EXPENDITURE**

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

For the purpose of presentation of the income statement information nature of expense method is used.

**T. FOREIGN EXCHANGE RISK**

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

The Company hedges between 50% to 75% of anticipated net foreign earnings for 5 years.

Approximately 75% (2004 - 75%) of projected net foreign earnings qualified as 'highly probable' for which hedge accounting was used in 2005.

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

**U. COMPARATIVES**

The Company previously disclosed grants received and IDD deposits and prepayments of VOIP services within 'property, plant and equipment' and 'trade and other payables - due within one year' respectively. Management believes that their inclusion in 'grants' and 'trade payables - due after one year' is a fairer representation.

The management also believes that the inclusion of 'profit on sale of investment' and 'foreign exchange gain on foreign currency deposits' within 'other income' and 'interest expense and related charges' respectively rather than within 'revenue' and 'operating costs' respectively as disclosed previously, is a fairer representation.

(All amounts in Sri Lanka Rupees millions)

## 1. REVENUE

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

	Group 2005	2004	Company 2005	2004
Release of deferred connection charges (Note 18)	<b>896</b>	833	<b>896</b>	833
Rental income	<b>7,687</b>	7,069	<b>6,992</b>	6,497
Domestic call revenue	<b>12,221</b>	11,481	<b>10,096</b>	9,668
Receipts from other network operators - domestic	<b>215</b>	343	<b>304</b>	373
International call revenue	<b>2,430</b>	2,514	<b>2,275</b>	2,306
Receipts from other network operators - international	<b>291</b>	280	<b>351</b>	329
International settlements (in payments)	<b>5,207</b>	4,794	<b>5,207</b>	4,794
Telex, data transmission and other telephony services	<b>3,005</b>	2,202	<b>2,598</b>	1,881
CDMA revenue	<b>563</b>	—	<b>563</b>	—
	<b>32,515</b>	29,516	<b>29,282</b>	26,681

## 2. OPERATING COSTS

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

	Group 2005	2004	Company 2005	2004
Staff costs (Note 3)	<b>4,144</b>	3,619	<b>3,857</b>	3,395
Directors emoluments	<b>32</b>	25	<b>30</b>	25
Payments to international network operators	<b>1,755</b>	1,750	<b>1,755</b>	1,750
Payments to other network operators - international	<b>688</b>	664	<b>662</b>	661
Payments to other network operators - domestic	<b>146</b>	316	<b>237</b>	316
Auditors' remuneration				
Audit fees	<b>4</b>	4	<b>3</b>	3
Non-Audit fees	—	2	—	2
Repairs and maintenance	<b>2,024</b>	1,420	<b>1,801</b>	1,342
Provision for doubtful debts	<b>849</b>	2,563	<b>577</b>	1,904
Provision for fall in value of inventories	<b>290</b>	90	<b>109</b>	40
Net foreign exchange losses/(gains) on operating	<b>46</b>	(86)	<b>69</b>	(200)
Amortisation of goodwill (Note 10)	<b>78</b>	78	—	—
Other operating expenditure	<b>5,067</b>	3,956	<b>3,493</b>	2,363
CDMA expenditure	<b>305</b>	—	<b>305</b>	—
Write off of inventories	<b>84</b>	84	—	—
	<b>15,512</b>	14,485	<b>12,898</b>	11,601

**3. STAFF COSTS**

	Group 2005	2004	Company 2005	2004
Salaries, wages, allowances and benefits	<b>3,547</b>	3,226	<b>3,298</b>	3,031
Retirement costs - defined contribution plans	<b>349</b>	315	<b>318</b>	293
- defined benefit plans (Note 20)	<b>248</b>	78	<b>241</b>	71
	<b>4,144</b>	3,619	<b>3,857</b>	3,395
Number of employees at the end of the period	<b>7,995</b>	7,879	<b>7,311</b>	7,174

**4. INTERNATIONAL TELECOMMUNICATION OPERATORS' LEVY**

	Group 2005	2004	Company 2005	2004
Charge for the year/period	<b>1,691</b>	2,474	<b>1,690</b>	2,469
Over provision in respect of previous period	(141)	–	(141)	–
Charge to income statement	<b>1,550</b>	2,474	<b>1,549</b>	2,469

According to Finance Act No. 11 of 2004, International Telecommunications Operators are required to make a contribution to the Government at the rate of US\$ 0.038 per international incoming traffic minute w.e.f. 3 March 2003. The total amount of the levy in respect of SLTL from 1 January 2005 to 31 December 2005 has been estimated at Rs. 1,690 million (2004 - Rs. 2,469 million) and has been recognised as an expense in the current financial year. The corresponding liability has been recognised in the balance sheet.

The Gazette notification of 31 March 2005 provides that each domestic PSTN operator may claim two thirds of the Telecommunications Development Charge (TDC) funds, for the development of their telecommunications network in unserved and underserved areas of Sri Lanka as may be determined by the Telecommunications Regulatory Commission (TRC) within a period of three years.

The documentation supporting the Network roll out in unserved and underserved areas has been submitted to the TRC. The estimated refund of Rs. 2,020 million as at 31 December 2005 has not been recognised in the income statement, since TRC's determination of the refund is yet awaited.

**5. FINANCE COSTS**

	Group 2005	2004	Company 2005	2004
<b>Interest expense and related charges</b>				
Rupee loans (long term)	<b>944</b>	1,631	<b>344</b>	1,236
Foreign currency loans	<b>193</b>	255	<b>155</b>	229
US\$ 100 million notes	<b>691</b>	60	<b>691</b>	60
Debenture interest	<b>12</b>	66	<b>12</b>	66
Amortisation of deferred costs	<b>97</b>	114	<b>87</b>	48
Other charges [Note (a)]	(65)	(274)	(76)	(290)
Total interest payable	<b>1,872</b>	1,852	<b>1,213</b>	1,349
Interest capitalised	(11)	(76)	–	(13)
Total interest charged	<b>1,861</b>	1,776	<b>1,213</b>	1,336
Foreign exchange loss (Note 25)	<b>224</b>	476	<b>224</b>	476
Aggregate value of finance costs	<b>2,085</b>	2,252	<b>1,437</b>	1,812

(a) Other charges include exchange gain from US\$ 100 million Bond and other exchange gains and losses on foreign currency deposits, etc.

## 6. TAX

The charge for taxation is made up as follows:

	Group 2005	2004	Company 2005	2004
Income tax charge	<b>3,195</b>	798	<b>3,170</b>	798
Tax saving on brought forward losses and investment tax allowances	–	2,994	–	2,994
Release of deferred tax liability (Note 17)	<b>(1,476)</b>	(2,982)	<b>(1,476)</b>	(2,982)
Change in estimation in the amortisation of deferred tax asset	–	(662)	–	(662)
	<b>1,719</b>	148	<b>1,694</b>	148

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

	Group 2005	2004	Company 2005	2004
Profit before tax	<b>4,812</b>	1,441	<b>6,045</b>	2,769
Tax calculated at a tax rate of 30% (2004 - 30%)	<b>1,444</b>	432	<b>1,813</b>	831
Tax effect of income not subject to tax	<b>(1,240)</b>	(911)	<b>(153)</b>	(21)
Expenses not deductible for tax purposes	<b>1,515</b>	1,289	<b>34</b>	–
Change in estimation in the amortisation of deferred tax asset	–	(662)	–	(662)
Tax charge	<b>1,719</b>	148	<b>1,694</b>	148

## 7. EARNINGS PER SHARE

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

	Group 2005	2004	Company 2005	2004
Net profit attributable to shareholders (Rs. million)	<b>3,093</b>	1,293	<b>4,351</b>	2,621
Weighted average number of ordinary shares in issue (million)	<b>1,805</b>	1,805	<b>1,805</b>	1,805
Basic earnings per share (Rs.)	<b>1.71</b>	0.72	<b>2.41</b>	1.45

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

## 8. DIVIDENDS PER SHARE

In respect of 2004, a first and final dividend of 5% per share amounting to a total of Rs. 902,430,000 has been paid in the current year. (In respect of 2003, a first and final dividend of 5% per share amounting to a total of Rs. 902,430,000 was paid during 2004).

**9. PROPERTY, PLANT & EQUIPMENT**

<b>Group</b>							
<b>(a)</b>	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Contract work-in- progress	Total
<b>Year ended 31 December 2004</b>							
Opening net book amount	1,740	27,769	8,920	8,190	1,799	7,355	55,773
Additions	–	47	126	884	1,060	5,511	7,628
Transfers from work-in-progress	99	2,226	434	4,229	1,360	(8,348)	–
Adjustment	–	–	–	(46)	–	(59)	(105)
Accumulated depreciation	–	–	–	16	–	–	16
Disposals	–	–	–	–	(8)	–	(8)
Accumulated depreciation on disposal	–	–	–	–	8	–	8
Depreciation charge	(38)	(5,126)	(1,227)	(1,798)	(763)	–	(8,952)
<b>Closing net book amount</b>	<b>1,801</b>	<b>24,916</b>	<b>8,253</b>	<b>11,475</b>	<b>3,456</b>	<b>4,459</b>	<b>54,360</b>
<b>At 31 December 2004</b>							
Cost	2,064	61,547	16,845	20,412	6,962	4,459	112,289
Accumulated depreciation	(263)	(36,631)	(8,592)	(8,937)	(3,506)	–	(57,929)
<b>Net book amount</b>	<b>1,801</b>	<b>24,916</b>	<b>8,253</b>	<b>11,475</b>	<b>3,456</b>	<b>4,459</b>	<b>54,360</b>
<b>Year ended 31 December 2005</b>							
Opening net book amount	1,801	24,916	8,253	11,475	3,456	4,459	54,360
Additions	2	272	28	2,590	853	7,794	11,539
Transfers from work-in-progress	31	4,401	1,588	2,086	859	(8,965)	–
Disposals	–	–	–	–	(26)	–	(26)
Adjustment	(107)	(14)	–	1	101	–	(19)
Accumulated depreciation on disposal	–	–	–	–	26	–	26
Write off	(4)	(44)	(227)	(83)	(5)	–	(363)
Depreciation charge	(41)	(4,779)	(1,267)	(2,115)	(1,164)	–	(9,366)
<b>Closing net book amount</b>	<b>1,682</b>	<b>24,752</b>	<b>8,375</b>	<b>13,954</b>	<b>4,100</b>	<b>3,288</b>	<b>56,151</b>
<b>At 31 December 2005</b>							
Cost	1,982	66,008	17,996	24,828	8,744	3,288	122,846
Accumulated depreciation	(300)	(41,256)	(9,621)	(10,874)	(4,644)	–	(66,695)
<b>Net book amount</b>	<b>1,682</b>	<b>24,752</b>	<b>8,375</b>	<b>13,954</b>	<b>4,100</b>	<b>3,288</b>	<b>56,151</b>

Company	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Contract work-in- progress	Total
<b>Year ended 31 December 2004</b>							
Opening net book amount	1,740	27,664	8,920	7,330	1,702	3,897	51,253
Additions	–	47	126	10	1,014	3,874	5,071
Transfers from work-in-progress	99	2,226	434	247	1,246	(4,252)	–
Disposals	–	–	–	–	(7)	–	(7)
Accumulated depreciation on disposal	–	–	–	–	7	–	7
Depreciation charge	(38)	(5,111)	(1,227)	(1,032)	(706)	–	(8,114)
<b>Closing net book amount</b>	<b>1,801</b>	<b>24,826</b>	<b>8,253</b>	<b>6,555</b>	<b>3,256</b>	<b>3,519</b>	<b>48,210</b>
<b>At 31 December 2004</b>							
Cost	2,064	61,397	16,845	13,455	6,462	3,519	103,742
Accumulated depreciation	(263)	(36,571)	(8,592)	(6,900)	(3,206)	–	(55,532)
<b>Net book amount</b>	<b>1,801</b>	<b>24,826</b>	<b>8,253</b>	<b>6,555</b>	<b>3,256</b>	<b>3,519</b>	<b>48,210</b>
<b>Year ended 31 December 2005</b>							
Opening net book amount	1,801	24,826	8,253	6,555	3,256	3,519	48,210
Additions	2	272	28	84	838	6,698	7,922
Transfers from work-in-progress	31	4,401	1,588	475	824	(7,319)	–
Disposals	–	–	–	–	(25)	–	(25)
Adjustment	(107)	(14)	–	1	102	–	(18)
Accumulated depreciation on disposal	–	–	–	–	25	–	25
Write off	(4)	(44)	(227)	(83)	(5)	–	(363)
Depreciation charge	(41)	(4,707)	(1,267)	(1,025)	(1,104)	–	(8,144)
<b>Closing net book amount</b>	<b>1,682</b>	<b>24,734</b>	<b>8,375</b>	<b>6,007</b>	<b>3,911</b>	<b>2,898</b>	<b>47,607</b>
<b>At 31 December 2005</b>							
Cost	1,982	65,858	17,996	13,754	8,196	2,898	110,684
Accumulated depreciation	(300)	(41,124)	(9,621)	(7,747)	(4,285)	–	(63,077)
<b>Net book amount</b>	<b>1,682</b>	<b>24,734</b>	<b>8,375</b>	<b>6,007</b>	<b>3,911</b>	<b>2,898</b>	<b>47,607</b>

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

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

- (b) The cost of fully depreciated assets as at 31 December 2005 is Rs. 16,118 million (2004 - Rs. 10,143 million).

- (c) Borrowing costs capitalised during the year to 31 December 2005 was Nil (2004 - Rs. 13 million).
- (d) No assets have been mortgaged or pledged as security by SLTL.
- (e) The Directors believe SLTL has freehold title to land and buildings transferred from SLT on incorporation (Conversion of SLT to SLTL on 25 September 1996), although it is uncertain whether vesting orders specifying all the demarcations and extents of such land and buildings were issued.
- (f) The property, plant & equipment is not insured except for third party motor vehicle insurance. An insurance reserve has been created together with a sinking fund investment to meet any future loss with regard to uninsured property, plant & equipment. At the balance sheet date, Rs. 166 million (2004 - Rs. 100 million) stood to the credit of the reserve (Note 21). The sinking fund investment of that amount is included under cash and cash equivalents [Note 15 (a)].
- (g) Additions include an asset received as a grant amounting to Rs. 79 million.

#### 10. INTANGIBLE ASSETS

	Group Goodwill
<b>Year ended 31 December 2005</b>	
Opening net book amount	219
Amortisation charge (Note 2)	(78)
Closing net book amount	<b>141</b>
<b>At 31 December 2005</b>	
Cost	388
Accumulated amortisation	(247)
Net book amount	<b>141</b>

#### 11. INVESTMENTS

	Group 2005	2004	Company 2005	2004
Investment in subsidiary [Note (a)]	-	-	<b>25</b>	25
<b>Investment in subsidiary</b>				
At 1 January	-	-	<b>1,972</b>	1,972
Additions [Note (b)]	-	-	<b>1,500</b>	-
At 31 December	-	-	<b>3,472</b>	1,972
<b>Investment in others [Note (c)]</b>				
At 1 January	<b>710</b>	710	<b>710</b>	710
Disposal	<b>(710)</b>	-	<b>(710)</b>	-
At 31 December	-	710	-	710
Aggregate cost of investments at 31 December	-	710	<b>3,497</b>	2,707

- (a) The investment in the subsidiary company consists of 2,500,000 ordinary shares, representing a 100% holding in the issued share capital of Sri Lanka Telecom (Services) Limited.
- (b) Additions comprise investment in 150,000,000 redeemable preference shares of Rs 10 each in Mobitel (Private) Limited.
- (c) The investment in others Nil (2004 - Rs. 710 million) comprised unlisted investments in Intelsat Limited.

## 12. NON-CURRENT RECEIVABLES

	Group 2005	2004	Company 2005	2004
Licence fee	<b>82</b>	92	—	—
Employee loans [Note (a)]	<b>962</b>	846	<b>962</b>	846
Deferred expenses (prepaid Insurance Premium) [Note (b)]	<b>341</b>	501	<b>36</b>	123
Loan to subsidiary [Note (c)]	—	—	<b>2,500</b>	—
Amounts due after one year	<b>1,385</b>	1,439	<b>3,498</b>	969

- (a) Employee loans are repayable in equal monthly instalments over five years. The amount shown as a non-current receivable represents staff loan instalments falling due for payment after 1 January 2007.
- (b) As explained in Accounting Policy L, insurance premium paid by the Company to secure foreign loans under the 150K Project Scheme has been deferred on the grounds that the benefit of this expenditure is not exhausted in the period in which it is incurred and will be written off to the Income Statement over the repayment period of the loans.
- (c) During the year the Company granted a loan of Rs. 2.5 billion to its wholly owned subsidiary Mobitel (Private) Limited at an interest rate of 12% repayable over 3 years commencing 2008.

## 13. INVENTORIES

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

## 14. RECEIVABLES AND PREPAYMENTS

	Group 2005	2004	Company 2005	2004
Domestic trade receivables	<b>6,474</b>	8,174	<b>5,916</b>	7,565
Foreign trade receivables	<b>1,078</b>	1,208	<b>1,078</b>	1,208
Amount due from related parties [Refer Note 29 (c)]	—	—	<b>372</b>	—
Advances and prepayments [Note (a)]	<b>180</b>	198	<b>136</b>	89
Employee loans	<b>250</b>	198	<b>250</b>	198
Deferred expenses (prepaid insurance premium)	<b>48</b>	48	<b>48</b>	48
Other receivables [Note (b)]	<b>501</b>	161	<b>106</b>	49
Amounts due within one year	<b>8,531</b>	9,987	<b>7,906</b>	9,157

- a) Advances and prepayments mainly consist of advances on purchases Rs. 51 million (2004 - Rs. 53 million) and payments for software maintenance Rs. 65 million (2004 - Nil).
- b) Other receivables mainly consist of returned cheques Rs. 20 million (2004 - Rs. 18 million), interest receivable on investments Rs. 22 million (2004 - Rs. 8 million), interest receivable on sinking fund maintained for the redemption of the US \$ 100 million Bond Rs. 25 million (2004 - Nil) and deposit with Ceylon Electricity Board Rs. 13 million (2004 - Rs. 13 million).

#### **15. CASH AND CASH EQUIVALENTS**

	Group 2005	2004	Company 2005	2004
Cash at bank and in hand	<b>756</b>	667	<b>351</b>	367
Restricted at bank [Note (a)]	<b>2,205</b>	149	<b>2,205</b>	149
Short term deposits [Note (b)]	<b>11,507</b>	10,029	<b>10,179</b>	10,220
	<b>14,468</b>	10,845	<b>12,735</b>	10,736

- (a) The restricted cash balance is a bank deposit of Rs. 164 million (2004 - Rs. 149 million) with the People's Bank which represents the sinking fund investment for the insurance reserve. It also includes a sinking fund maintained to redeem the US \$ 100 million Bond in 2009 amounting to Rs. 2,041 million (2004 - Nil). The restrictions on these balances are self-imposed.
- (b) These deposits are interest-bearing on commercial terms.

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

	Group 2005	2004	Company 2005	2004
Cash and cash equivalents	<b>14,468</b>	10,845	<b>12,735</b>	10,736
Bank overdrafts (Note 16)	<b>(40)</b>	(141)	-	-
Cash and cash equivalents as previously reported	<b>14,428</b>	10,704	<b>12,735</b>	10,736
Effect of exchange rate changes	-	(219)	-	(219)
Cash and cash equivalents as restated	<b>14,428</b>	10,485	<b>12,735</b>	10,517

#### **16. BORROWINGS**

	Group 2005	2004	Company 2005	2004
<b>Current (due within one year)</b>				
Bank overdrafts	<b>40</b>	141	-	-
Government borrowings	<b>696</b>	769	<b>696</b>	769
Bank borrowings and others	<b>2,965</b>	3,180	<b>1,138</b>	1,263
Debentures	-	375	-	375
	<b>3,701</b>	4,465	<b>1,834</b>	2,407

	Group 2005	2004	Company 2005	2004
<b>Non-current (due after one year)</b>				
Government borrowings	<b>2,690</b>	3,386	<b>2,690</b>	3,386
Bank borrowings and others	<b>6,244</b>	7,049	<b>953</b>	2,250
US\$ 100 million Notes	<b>10,205</b>	10,470	<b>10,205</b>	10,470
	<b>19,139</b>	20,905	<b>13,848</b>	16,106
Total borrowings	<b>22,840</b>	25,370	<b>15,682</b>	18,513

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

	Group 2005	2004	Company 2005	2004
<b>Total borrowings</b>				
- at fixed rates	<b>12,327</b>	14,610	<b>12,327</b>	14,469
- at floating rates	<b>10,513</b>	10,760	<b>3,355</b>	4,044
	<b>22,840</b>	25,370	<b>15,682</b>	18,513

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

	Group 2005	2004	Company 2005	2004
Foreign currency	<b>13,182</b>	15,092	<b>12,296</b>	13,984
Local currency	<b>9,658</b>	10,278	<b>3,386</b>	4,529
	<b>22,840</b>	25,370	<b>15,682</b>	18,513
<b>Average effective interest rates</b>				
- Bank overdrafts			<b>11.18%</b>	11%
- Domestic bank borrowings			—	8.28%
- Foreign bank borrowings			<b>6.11%</b>	5.17%
- Government borrowings			<b>9.96%</b>	11.59%
<b>Debentures</b>				
- Fixed (annually)			<b>14.50%</b>	14.50%
- Fixed (quarterly)			<b>14.00%</b>	14.00%
- Floating			<b>13%-16%</b>	13% - 16%
- US\$ 100 million Notes			<b>6.875%</b>	6.875%

**Maturity of non-current borrowings**

	Group 2005	2004	Company 2005	2004
Between 1 and 2 years	<b>3,758</b>	6,466	<b>2,241</b>	3,412
Between 3 and 5 years	<b>15,373</b>	13,795	<b>11,599</b>	12,050
Over 5 years	<b>8</b>	644	<b>8</b>	644
	<b>19,139</b>	20,905	<b>13,848</b>	16,106

- (b) The Government borrows amounts in foreign currencies to fund the development of SLTL's network. These amounts have been re-lent to SLTL with shorter repayment periods than the underlying loan. The loan balance as at 31 December 2005 is Rs. 3,386 million (2004 - Rs. 4,155 million). Exchange fluctuations on repayments of these loans are borne by the Government.
- (c) The Government has guaranteed third party loans of SLTL amounting to Rs. 2,091 million (2004 - Rs. 3,473 million). Total value of borrowings that has neither been guaranteed nor secured is Rs. 10,205 million (2004 - Rs. 10,511 million).
- (d) The majority of the loans require SLTL and Mobitel (Private) Limited to submit audited financial statements among other matters to the lenders within the stated periods of the calendar year end, and to maintain adequate accounting records in accordance with generally accepted accounting principles.
- (e) The Directors believe the Company will have sufficient finances available to meet its present commitments.

**17. DEFERRED INCOME TAXES**

- (a) Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2004 - 30%).

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

	Group 2005	2004	Company 2005	2004
At beginning of year	<b>7,489</b>	8,139	<b>7,489</b>	8,139
Income statement release (Note 6)	<b>(1,476)</b>	(2,982)	<b>(1,476)</b>	(2,982)
Change in estimation in the amortisation of deferred tax asset [Note 17(c)]	-	(662)	-	(662)
Amortisation of the tax asset on account of brought forward losses and investment tax allowances [Note 17 (c)]	-	2,994	-	2,994
At end of year	<b>6,013</b>	7,489	<b>6,013</b>	7,489

- (b) The amounts shown in the balance sheet represent the following:

	Group 2005	2004	Company 2005	2004
Deferred tax asset [Note 17(c)]	-	-	-	-
Deferred tax liabilities	<b>6,013</b>	7,489	<b>6,013</b>	7,489
	<b>6,013</b>	7,489	<b>6,013</b>	7,489

(c) As at 31 December 2005 (2004 - Nil) deferred tax asset has been fully utilised as follows:

	Group/Company 2005	2004
Balance as at 1 January [Note 17 (a)]	-	2,332
Change in estimation in the amortisation of deferred tax asset [Note 17 (a)]	-	662
	-	2,994
Amortised to the income statement	-	(2,994)
As at 31 December	-	-

#### 18. DEFERRED INCOME

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

	Group/Company 2005	2004
Balance at 1 January	7,272	7,214
Connection fees for the year	1,170	891
Amount amortised during the year (Note 1)	(896)	(833)
Balance at 31 December	7,546	7,272

#### 19. TRADE AND OTHER PAYABLES

	Group 2005	2004	Company 2005	2004
<b>Amounts due within one year</b>				
Domestic trade payables	<b>893</b>	846	<b>170</b>	302
Foreign trade payables	<b>116</b>	196	<b>116</b>	196
Amount due to related parties [Note 29 (c)]	-	-	2	33
Capital expenditure payables [Note (a)]	<b>2,391</b>	1,045	<b>2,254</b>	901
Deferred revenue	<b>141</b>	89	-	-
Social security and other taxes [Note (b)]	<b>162</b>	234	<b>162</b>	234
Interest payable	<b>218</b>	237	<b>170</b>	237
Other payables [Note (c)]	<b>3,493</b>	3,969	<b>3,389</b>	3,753
	<b>7,414</b>	6,616	<b>6,263</b>	5,656
 <b>Amounts due after one year</b>				
International Direct Dialling deposits	<b>236</b>	233	<b>236</b>	233
Prepayments on VOIP services	<b>61</b>	1	<b>61</b>	1
	<b>297</b>	234	<b>297</b>	234

- (a) Capital expenditure payables mainly consist of contractors' payables Rs. 1,594 million (2004 - Rs. 351 million).
- (b) Social security and other taxes mainly consist of Value Added Tax Rs. 91 million (2004 - Rs. 135 million).
- (c) Other payables mainly consist of Rs. 239 million (2004 - Rs. 238 million) dividend payable to Government Treasury, Rs. 22 million (2004 - Rs. 300 million) as provision for Tsunami losses, Rs. 2,317 million (2004 - Rs. 2,469 million) as International Telecommunication Operators' Levy and Rs. 168 million as cess (2004 - Rs. 139 million) payable to Director General of Telecommunication.

## 20. RETIREMENT BENEFIT OBLIGATIONS

Movement in the liability recognised in the Balance Sheet:

	Group 2005	2004	Company 2005	2004
At beginning of year	<b>520</b>	493	<b>497</b>	475
Current service cost (Note 3)	<b>248</b>	78	<b>241</b>	71
<b>Contributions paid</b>				
- VRS employees	-	(30)	-	(30)
- Other employees	(17)	(21)	(17)	(19)
At the end of year	<b>751</b>	520	<b>721</b>	497

As stated in Accounting Policy 0, an actuarial valuation was carried out by an independent actuary in respect of all employees of SLTL as at 31 December 2005.

The principal actuarial assumptions used were as follows:

	Company 2005	2004
Discount rate	<b>10%</b>	11%
Future salary increases	<b>9%</b>	9%

In addition to the above, demographic assumptions such as mortality, withdrawal, retirement age were considered for the actuarial valuation. In 2005 1967/70 Mortality Table issued by the Institute of Actuaries London (2004 - 1949/52 Mortality Table) was taken as the base for the valuation.

## 21. INSURANCE RESERVE

	Group/Company 2005	2004
At beginning of year	<b>100</b>	95
Income Statement charge	<b>10</b>	5
Interest income on deposit (sinking fund)	<b>56</b>	-
At end of year	<b>166</b>	100

## 22. GROUP REPORTING DATES

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

**23. ORDINARY SHARES**

	Company 2005	2004
<b>Authorised</b>		
10,000,000,000 (2004 - 10,000,000,000) ordinary shares of Rs. 10/- each	<b>100,000</b>	100,000
<b>Issued and Fully Paid</b>		
1,804,860,000 ordinary shares of Rs. 10/- each	<b>18,049</b>	18,049

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

	2005	2004		
	Holding %	No. of Shares	Holding %	No. of Shares
Government of Sri Lanka (GOSL)	<b>49.50</b>	<b>893,405,700</b>	49.50	893,405,700
NTT Communications Corporation (NTT Com)	<b>35.20</b>	<b>635,076,318</b>	35.20	635,076,318
Employees and others	<b>15.30</b>	<b>276,377,982</b>	15.30	276,377,982
	<b>1,804,860,000</b>			1,804,860,000

**24. CAPITAL RESERVE**

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

**25. HEDGING RESERVE**

	Group/Company 2005	2004
At beginning of year	<b>(677)</b>	(745)
<b>Cash flow hedges</b>		
- Foreign currency translation difference	<b>245</b>	(408)
- Income Statement charge (Note 5)	<b>224</b>	476
<b>At end of year</b>	<b>(208)</b>	(677)

- (a) The Company's risk management objective is to minimise losses on foreign currency translation relating to the repayment of loans denominated in foreign currency. This is accounted for as a cash flow hedge.
- (b) The policy for hedging each type of forecast transaction is stated in Accounting Policy T.
- (c) The future transactions are forecasted for a period of five years.

## 26. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group 2005	2004	Company 2005	2004
Profit before tax	<b>4,812</b>	1,441	<b>6,045</b>	2,769
<b>Adjustments for</b>				
Depreciation (Note 9)	<b>9,366</b>	8,952	<b>8,144</b>	8,114
Amortisation of deferred costs (Note 5)	<b>166</b>	48	<b>87</b>	48
Net exchange loss on financing activities (Note 5)	<b>125</b>	458	<b>148</b>	458
Interest expense and related charges	<b>1,937</b>	2,066	<b>1,289</b>	1,626
Interest income	(648)	(202)	(633)	(190)
Connection fees less amortisation (Note 18)	<b>274</b>	58	<b>274</b>	58
Profit on sale of property, plant & equipment	(12)	(12)	(12)	(12)
Provision for insurance reserve (Note 21)	<b>66</b>	5	<b>66</b>	5
Amortisation of goodwill (Note 10)	<b>78</b>	78	—	—
Retirement benefits (Note 20)	<b>231</b>	22	<b>224</b>	22
Profit on sale of investment	(52)	—	(52)	—
Write off of property, plant & equipment	<b>103</b>	—	<b>103</b>	—
Write off of inventories	<b>84</b>	84	—	—
	<b>16,530</b>	12,998	<b>15,683</b>	12,898
<b>Changes in working capital</b>				
- receivables and prepayments	<b>1,471</b>	(1,650)	<b>1,261</b>	(629)
- inventories	<b>384</b>	(527)	<b>77</b>	(271)
- payables	<b>1,283</b>	2,224	<b>1,028</b>	1,475
Cash generated from operations	<b>19,668</b>	13,045	<b>18,049</b>	13,473

## 27. COMMITMENTS

### Capital Commitments

The Group/Company has purchase commitments incidental to ordinary course of business as at 31 December 2004 as follows:

	Group 2005	2004	Company 2005	2004
Property, plant and equipment				
- approved but not contracted	<b>766</b>	2,723	<b>766</b>	2,723
- approved and contracted	<b>23,355</b>	9,915	<b>20,326</b>	7,741
	<b>24,121</b>	12,638	<b>21,092</b>	10,464

### Lease Commitments

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

	Group 2005	2004	Company 2005	2004
Later than one year and not later than five years	<b>299</b>	142	<b>299</b>	142

### Financial Commitments

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

## 28. CONTINGENCIES

- (a) Directories Lanka (Private) Limited has instituted legal action against SLT claiming a sum of Rs. 164 million as damages, in relation to alleged breach of contract in publishing directories.
- (b) An organisation, styling itself "The Consumer Association of Lanka", initiated legal action in the Court of Appeal seeking a writ of Certiorari to quash the approval granted by the Minister of Telecommunications (the Minister) and the Telecommunication Regulatory Commission (TRC) of Sri Lanka for tariff revision implemented by Sri Lanka Telecom Limited (SLTL) in September 2003, in which the TRC, the Minister, the Secretary to the Treasury and SLTL were cited as the respondents to the case.

The judgement delivered in July 2005 by the Court of Appeal granted the writ of Certiorari quashing the approval granted for the tariff revision by the Minister and the TRC. SLTL filed its application seeking special leave to appeal to the Supreme Court. The matter was taken up on 7 November 2005 and the Supreme Court granted special leave to appeal against the Court of Appeal order. Pending the outcome of the appeal, no adjustment has been made in the financial statements up to 31 December 2005.

- (c) Employees and third parties have filed action against SLT claiming damages. In the opinion of the Directors none of these actions is likely to result in a material liability to the Company.

## 29. DIRECTORS' INTERESTS IN CONTRACTS

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

The Directors of Sri Lanka Telecom Limited held Directorship in the following organisations during the year:

<b>Director</b>	<b>Company</b>	<b>Position</b>
Mr. Shuhei Anan	Mobitel (Private) Limited	Director
	Sri Lanka Telecom (Services) Limited	Director
Mr. Kiyoshi Maeda	NTT Com Asia Limited	Director
	HK Net Co.Limited	Director
	Milletechno, Inc	Director
	NTT Singapore Pte Limited	Director
	NTT MSC Sdn : Bhd	Director
	NTT Australia Pty. Limited	Director
	NTT America, Inc.	Director
	Verio, Inc.	Director
Mr. Haruhiko Yamada	AutoWeb Communications, Inc	Director
	NTT Europe Limited	Director
	NTT America, Inc.	Director
	Verio, Inc.	Director
	Philippine Long Distance Telephone Co.	Director

<b>Director</b>	<b>Company</b>	<b>Position</b>
Mr. Anil Obeyesekere	Mobitel (Private) Limited	Director
	Sri Lanka Telecom (Services) Limited	Director
Mr. Lalith De Mel	Hemas Holdings Limited	Director
	Serendib Hotels Limited	Director
	Delmege Forsyth and Company Limited	Director
	Associated Hotels Company Limited	Director
	Serendib Leisure Management Limited	Director
	Demchi (Private) Limited	Director
	Mobitel (Private) Limited	Director
Mr. Nigel Hatch	Mobitel (Private) Limited	Director
Mr. Sadao Maki	NTT Europe Limited	Director
	Philippine Long Distance Telephone Company	Director
	NTT Investment Singapore Pte. Limited	Director
	NTT America, Inc.	Director
	NTT Communications Corporation	Director
Mr. Tadashi Imachi	NTT Korea Company Limited	Director
	NTT Communications India (Pvt) Limited	Director
Mr Shoji Takahashi	NTT Com Asia Limited	Director
	HK Net Co. Limited	Director
	NTT Com Asia Network Systems Limited	
	(Guang Zhou) Limited	Director

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

**(b) Mobitel (Private) Limited**

Payments amounting to Rs. 19 million (2004 - Rs. 10 million) have been made during the year on call charges relating to cellular phones purchased for SLTL employees. Further, cellular phones amounting to Rs. 2 million (2004 - Rs. 1 million) were purchased from Mobitel (Private) Limited during the year.

Number of new GSM connections granted (special packages with no monthly rental) in 2005 amounted to 7,783 (2004 - 922).

Mobitel (Private) Limited has obtained several E1 links from SLTL for which Rs. 41 million (2004 - Rs. 71 million) was paid during the year.

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

- (i) Loans amounting to Rs. 7,211 million (2004 - Rs. 8,427 million) and USD 8.7 million (2004 - USD 11 million) for GSM roll out and operational expenses.
- (ii) To obtain an investment commitment guarantee amounting to Rs. 250 million (2004 - Rs. 250 million) issued by banks in favour of TRC for bidding for a slot in the 1800 MHz band for the GSM roll out.

## (c) Outstanding balances arising from sale/purchase of services

	2005	2004
<b>Receivable from related party</b>		
Mobitel (Private) Limited - Interconnection charges rental and interest on loan	<b>564</b>	83
<b>Payable to related parties</b>		
Mobitel (Private) Limited - Interconnection charges and mobile phone charges	191	97
Sri Lanka Telecom (Services) Limited	2	11
	<b>193</b>	108

**NTT Communications Corporation**

As per the shareholders' agreement with NTT Com, which owns 35.2% of the issued share capital of SLTL, the following charges have been borne by the Company:

	2005	2004
Fees for secondment of personnel from NTT Com	40	39
Expenditure for personnel from NTT Com	7	8

**30. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. A related party transaction takes place with a transfer of resources or obligations between related parties, regardless of whether a price is charged.

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

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

Related party transactions disclosed above should be read in conjunction with Note 29 to the financial statements.

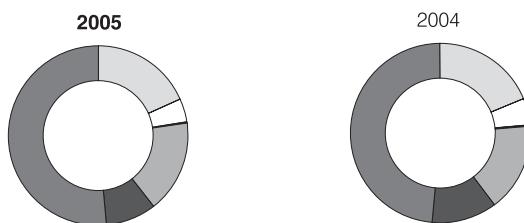
**31. POST BALANCE SHEET EVENTS**

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

	2005 Rs. Mn	2004 Rs. Mn	2003 Rs. Mn	2002 Rs. Mn	2001 Rs. Mn
<b>Financial Position - (Group)</b>					
Property, Plant & Equipment	<b>56,151</b>	54,360	55,763	56,722	59,093
Total Assets	<b>81,520</b>	78,872	72,373	74,765	80,173
Current Assets	<b>23,843</b>	22,144	14,626	15,963	13,772
Current Liabilities	<b>13,892</b>	11,378	12,440	12,048	12,144
Borrowings	<b>22,840</b>	25,370	21,081	25,926	31,534
Equity	<b>33,793</b>	31,064	30,600	29,024	36,957
<b>Performance</b>					
Revenue	<b>32,515</b>	29,516	25,553	25,383	22,060
Operating Profit	<b>6,087</b>	3,275	5,678	7,953	6,314
Finance Cost	<b>2,085</b>	2,252	2,863	3,377	3,585
Earnings before Tax	<b>4,812</b>	1,441	3,242	5,207	3,618
Taxation	<b>1,719</b>	148	993	2,522	1,515
Earnings after Tax	<b>3,093</b>	1,293	2,249	2,685	2,103
<b>Cash Flow</b>					
Net Operating Cash Flows	<b>17,200</b>	10,402	11,429	13,458	9,568
Net Cash used in Investing Activities	<b>10,686</b>	7,611	7,278	3,722	4,425
Net Cash used in/(from) Financing Activities	<b>2,571</b>	(3,314)	5,525	7,552	4,978
<b>Key Financial Indicators</b>					
Earnings per Share (Rs.)	<b>1.7</b>	0.7	1.3	1.5	1.2
Return on Assets (%)	<b>7.5</b>	4.2	7.8	10.6	7.9
Return on Equity (%)	<b>9.2</b>	4.2	7.3	9.3	5.7
Operating Margin (%)	<b>18.7</b>	11.1	22.2	31.3	28.6
Asset Turnover (No. of times)	<b>0.40</b>	0.37	0.35	0.34	0.28
Current Ratio (No. of times C.L.)	<b>1.72</b>	1.95	1.17	1.32	1.13
Quick Asset Ratio (No. of times C.L.)	<b>1.66</b>	1.83	1.11	1.27	1.05
Gearing Ratio (Debt to Rs. 1/- of Debt & Equity)	<b>0.40</b>	0.45	0.41	0.47	0.46
Interest Cover (No. of times Interest)	<b>4.35</b>	1.70	2.27	2.85	2.27

	2005 Rs. Mn		2004 Rs. Mn
<b>Revenue</b>	<b>32,515</b>		29,516
Other income	810		418
	<b>33,325</b>		29,934
Goods and Services purchased from other sources	<b>(10,848)</b>		(10,698)
<b>Value creation</b>	<b>22,477</b>		19,236
	2005	%	2004
<b>DISTRIBUTION OF VALUE ADDED</b>			
To Employees			
- salaries, wages, & other benefits	4,144	18.44	3,619
To Providers of Capital			
- dividend to shareholders	902	4.00	902
To Management Company NTT			
- remuneration & expenditure	47	0.21	47
To Government			
- taxes & regulatory fees	3,742	16.65	3,073
To Lenders			
- interest & related charges	2,085	9.28	2,252
To Business Expansion & Growth			
- depreciation	9,366	41.67	8,952
- retained Income	2,191	9.75	391
	<b>22,477</b>	<b>100.00</b>	19,236
		100.00	100.00

**Value Added**  
%



	2005	2004
○ To Employees	18.44	18.81
○ To Providers of Capital	4.00	4.69
● To Management Company NTT	0.21	0.24
○ To Government	16.65	15.98
● To Lenders	9.28	11.71
● To Business Expansion & Growth	51.42	48.57

### 1. ANALYSIS OF SHAREHOLDERS ACCORDING TO THE NUMBER OF SHARES AS AT 31.12.2005

Shareholdings	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
1 - 1,000	12,973	6,034,942	0.33	22	13,300	0.00	12,995	6,048,242	0.33
1001 - 5,000	4,957	13,710,355	0.76	23	79,645	0.00	4,980	13,790,000	0.76
5,001 - 10,000	3,196	25,680,126	1.42	17	147,000	0.01	3,213	25,827,126	1.43
10,001 - 50,000	1,820	32,208,662	1.78	21	570,900	0.03	1,841	32,779,562	1.81
50,001 - 100,000	120	9,287,512	0.51	3	172,100	0.01	123	9,459,612	0.52
100,001 - 500,000	133	31,525,500	1.75	21	4,760,000	0.26	154	36,285,500	2.01
500,001 - 1,000,000	19	13,409,800	0.74	7	4,953,947	0.27	26	18,363,747	1.01
Over 1,000,000	34	988,351,733	54.79	5	673,954,478	37.34	39	1,662,306,211	92.13
	23,252	1,120,208,630	62.08	119	684,651,370	37.92	23,371	1,804,860,000	100.00

### 2. CATEGORIES OF SHAREHOLDERS

Analysis of Shareholders	31 December 2005			31 December 2004		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individual	22,922	119,959,686	6.65	24,039	126,917,083	7.03
Institutional	449	1,684,900,314	93.35	364	1,677,942,917	92.97
	23,371	1,804,860,000	100.00	24,403	1,804,860,000	100.00

### 3. 20 LARGEST SHAREHOLDERS AS AT THE BALANCE SHEET DATE

Name	Shareholdings	%
Secretary to the Treasury	893,405,709	49.50
NTT Communications Corporation	635,076,318	35.19
HSBC INTL Nominees Limited - SSBTL-Global Advantageeng MK FD	22,378,460	1.24
HSBC INTL Non Limited - SSBT - Pro Fonds (Lux) Emerging Markets - DA50, 2203FC, C/o HSBC	13,535,400	0.75
Sri Lanka Insurance Corporation Limited - Life Fund	11,951,035	0.66
Mr. A. A. N. De Fonseka	7,285,800	0.40
Mr. M. M. Udeshi	6,786,900	0.38
DFCC Bank A/C No. 1	6,086,500	0.34
Bank of Ceylon A/C - Ceybank Unit Trust	5,484,800	0.30
Seylan Bank Limited/Mr. S. V. Somasundaram	5,285,700	0.29
National Savings Bank	4,500,000	0.25
Sri Lanka Insurance Corporation Limited - General Fund	3,561,200	0.20
Seylan Bank Limited/Softlogic International (Private) Limited	3,332,700	0.18
MAS Holdings (Private) Limited	3,226,500	0.18
Seylan Bank Limited/Mr. L. S. I. Perera	3,224,000	0.18
Employees' Provident Fund	2,619,689	0.15
Hatton National Bank Limited/ A/C No. 01	2,334,800	0.13
Waldock Mackenzie Limited/Hi-Line Trading (Private) Limited	2,293,500	0.13
Waldock Mackenzie Limited/Mr. A. F. Munas & Mrs. N. Munas	2,050,900	0.11
Phoenix Ventures Limited	2,000,000	0.11
<b>TOTAL</b>	<b>1,636,419,911</b>	<b>90.67</b>

#### 4. MARKET VALUE OF SHARES

Market Value of the ordinary shares of the Company (Rs.) during the year 2005:

	2005	2004
- Highest (Rs.)	<b>27.00</b>	23.00
- Lowest (Rs.)	<b>15.50</b>	15.00
- Last traded price (Rs.)	<b>16.50</b>	15.50

#### 5. RATIOS

<i>31 December</i>	Group		Company	
	2005	2004	2005	2004
Net Assets per Share (Rs.)	<b>18.72</b>	17.21	<b>20.26</b>	18.05
Debt Equity Ratio (Debt Equity) - Number of Times	<b>0.40</b>	0.45	<b>0.30</b>	0.35
Quick Asset Ratio - Number of Times	<b>1.66</b>	1.83	<b>1.90</b>	2.24
<i>For the year</i>		2005	2004	2005
Interest Cover - Number of Times		<b>4.35</b>	1.70	<b>8.52</b>
				2.70

#### 6. DIVIDEND PAYMENT

First & Final Dividend - Rs. 0.50 per share paid on 26 May 2005.

#### 7. SHARE TRADING INFORMATION

	2005	2004
No. of Transactions	<b>33,762</b>	23,669
No. of Shares traded	<b>253,660,200</b>	180,626,230
Value of Shares traded (Rs.)	<b>5,406,140,775</b>	3,225,939,589

#### 8. DEBENTURES

The final tranche of the 1,500,000 unsecured redeemable 5 year Debentures (2000/2005) of Rs. 1,000/- each issued in 2000 was paid off and settled in full on 21 March 2005, and debt securities de-listed on 22 March 2005.

#### 9. DIRECTORS' SHAREHOLDINGS AS AT 31 DECEMBER 2005

Mr. S. B. Divaratne	-	Nil
Mr. Anil Obeyesekere	-	Nil
Mr. Nigel Hatch	-	Nil
Mr. Lalith De Mel	-	35,500
Mr. Palitha Thenuwara	-	Nil

#### 10. PUBLIC HOLDING - 15.31%

Issued Share Capital		1,804,860,000
Less: Secretary to the Treasury	893,405,709	
NTT Communications Corp.	635,076,318	
Mr. Lalith De Mel	35,500	(1,528,517,527)
		276,342,473

NOTICE IS HEREBY GIVEN that the Ninth Annual General Meeting of Sri Lanka Telecom Limited, will be held in Committee Room B, BMICH, Bauddhaloka Mawatha, Colombo 07 on Thursday, 27 April 2006 at 3.00 p.m. for the following purposes:

**AGENDA**

- 1) To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2005 with the Report of the Auditors thereon.
- 2) To declare a first and final dividend of 7.5% per share on the issued share capital of the Company as recommended by the Directors.
- 3) i. To re-elect as a Director, Mr. Haruhiko Yamada, who retires by rotation in terms of Articles 91 & 92 of the Articles of Association.  
ii. To re-elect as a Director, Mr. Shoji Takahashi, who retires in terms of Article 97 of the Articles of Association.  
iii. To re-elect as a Director, Mr. S.N. Kumar, who retires in terms of Article 97 of the Articles of Association.  
iv. To re-elect as a Director, Mrs. Leisha Chandrasena, who retires in terms of Article 97 of the Articles of Association.
- 4) To re-appoint M/s. PricewaterhouseCoopers, Chartered Accountants, as Auditors of the Company and authorise the Board of Directors to determine their remuneration.
- 5) To authorise the Directors to determine and make donations to charities.
- 6) To transact such other businesses as may properly come before the meeting.

By Order of the Board

**Mrs. P.G. Dias**  
*Company Secretary*

3 April 2006  
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.

I/We ..... of ..... being a member/

members of SRI LANKA TELECOM LIMITED hereby appoint:

Mr. Anil Obeyesekere, P.C.	whom failing
Mr. Shuhei Anan	whom failing
Mr. Haruhiko Yamada	whom failing
Mr. S.B. Divaratne	whom failing
Mr. Shoji Takahashi	whom failing
Mr. S.N. Kumar	whom failing
Mrs. Leisha Chandrasena	whom failing

..... of ..... as my/our proxy to  
vote for me/us on my/our behalf as indicated below and/or\* ..... at the  
9th Annual General Meeting of the Company, to be held on the 27 April 2006 and at any adjournment thereof and at every  
poll which may be taken in consequence thereof.

	For	Against
1. To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2005 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of 7.5% per share on the issued share capital of the Company as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. (i) To re-elect as Director, Mr. Haruhiko Yamada, who retires by rotation in terms of Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect as Director, Mr. Shoji Takahashi, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect as Director, Mr. S.N. Kumar, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect as Director, Mrs. Leisha Chandrasena, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint M/s PricewaterhouseCoopers, Chartered Accountants, as Auditors of the Company and authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to determine and make donations to charities.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....  
Signature

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

**INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY**

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address by signing on the spaces provided and please fill in the date of signature.
2. The persons mentioned above are Directors of the Company and they are willing to represent any shareholder as proxy, and vote as directed by the shareholder. They will not, however, be willing to speak or move or second and amendment to the shareholder to the resolutions or make any statement in regard thereto on behalf of any shareholder.
3. If you wish your Proxyholder to speak at the meeting you should insert the words "**to speak**" in the space provided immediately after and/or and initial such insertion.
4. Please indicate with an "**X**" in the space provided, how your proxy is to vote on each resolution. If no indication is given the proxy in his/her discretion will vote as he/she thinks fit.
5. If another proxy is perfected, delete the names printed; add the name of the proxy perfected, and initial the alteration.
6. In the case of a corporate member the proxy must be completed under its common seal, which should be affixed and attested in the manner prescribed by its Articles of Association. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy, if it has not already been registered with the Company.
7. The completed Form of Proxy should be deposited with the Company Secretary, Sri Lanka Telecom Limited, Telecom Headquarters, Lotus Road, Colombo 01 not less than 48 hours before the time fixed for the holding of the meeting.

**LEGAL FORM**

A Public Limited Liability Company Incorporated in Sri Lanka in September 1996 under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Limited Companies Act No. 23 of 1987 and quoted on the Colombo Stock Exchange in January 2003.

**STOCK EXCHANGE LISTING**

The Ordinary Shares of the Company are listed in the Colombo Stock Exchange and the USD 100,000,000 Bonds due in 2009 are listed on the Singapore Stock Exchange.

**REGISTERED ADDRESS**

Telecom Headquarters  
Lotus Road  
Colombo 1

**BOARD DIRECTORS**

Anil Obeyesekere, P.C. - Chairman  
Shuhei Anan - Chief Executive Officer  
Haruhiko Yamada  
S.B. Divaratne  
Shoji Takahashi  
S.N. Kumar  
Ms. Leisha Chandrasena

**AUDITORS**

PricewaterhouseCoopers  
Chartered Accountants

**COMPANY SECRETARY**

Mrs. P.G. Dias, ACIS - UK

**BANKERS**

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

**REGIONAL TELECOM OFFICES**

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

**TELESHOPS**

Badulla	Kegalle	Slave Island
Bandarawela	Kotte	Ratmalana
Beruwela	Kurunegala	Wattala
Galle	Maharagama	World Trade Centre
Gampaha	Matara	
Ja-Ela	Matale	
Kalutara	Maradana	
Kiribatgoda	Negombo	
Liberty Plaza	Nuwara Eliya	

**SUBSIDIARY COMPANIES**

Name of Company	Holding	Principal Activity
Mobitel (Pvt) Limited	100%	Mobile telephony
SLT (Services) Limited	100%	Providing total network solutions to corporate and small business customers



[www.slt.lk](http://www.slt.lk)