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CHAIRMAN'S MESSAGE

Dear Shareholders,

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

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

I will make a brief sum up in this message. Details of our achievements in the past decade are given in the form of milestones on pages 4 to 5. The CEO's Message on pages 12 to 15 gives an account of our strategic thinking for the next decade. Details of

the current year's operations and financials coupled with the requisite detail of our strategic plans appear in the Operations and Financial Review on pages 22 to 44. Being one of the largest companies listed on the CSE, we have structured a new section titled Investor Relations, which appears on pages 49 to 53. We have also brought in another innovation by way of a 3-page quick read for those of you who want to get a snapshot of what this report contains in a few minutes.

Since privatisation of SLT in the year 1997, SLT has invested a total of Rs. 102.58 billion in developing the telecom infrastructure of this country as well as investing in several regional and global initiatives such as the undersea cables that will enable a healthy stream of income in foreign exchange into the country. SLT in its own right has

brought in Rs. 67.44 billion in foreign currency earnings during this period whilst the modern telecom infrastructure would have played a part in helping the country attract foreign direct investment that it did in the last decade. These figures, though impressive, do not give the magnitude of the real impact of SLT's efforts on the country's economy. Government, business and citizen have all been empowered with a range of modern services at affordable prices... and this intangible is perhaps our greatest contribution to the country.

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



CHAIRMAN'S MESSAGE

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

2007 per se was both eventful and satisfying.

A protracted and arduous court case regarding revision of our tariff was finally settled in the Supreme Court in August 2007. We appealed seeking to set aside the judgment of the Court of Appeal, which had annulled the approval granted by the Telecommunication Regulatory Commission (TRC) for the telephone tariff implemented by SLT in September 2003. Although we had to refund a sum of Rs. 1.39 billion which

directly impacted our bottom line for the year, we consider this a positive settlement creating a win-win scenario for customer and company. The time based billing as opposed to the unit based billing would lower costs to our customers whilst also reducing the processing time for billing in a big way. Reduction of business rentals is also viewed very positively and we would in fact prefer this to be brought down further. There were other pricing issues with the regulator during the year particularly with respect to CDMA and ADSL and all these were settled. After many years of lengthy representations, we also finally got partial Board of Investment approval giving us duty exemptions but not tax exemptions as given to some of our competitors. The TRC issued a guideline for the basis of the refund of International Telecommunication Levy (ITL). This too seems to be on the threshold of settlement and we have made our claim now and are awaiting approval.

Our achievements in 2007 fortunately surmount the challenges we had to grapple with. We got our IPTV licence and we will be launching this service sometime early in the second quarter of 2008. All our undersea cables are now functioning and bringing us worthwhile returns. The SLT -

Dhiraagu cable in particular is doing very well. Our fully owned mobile subsidiary marked several important milestones during the year. Key among them was the launch of 3.5G HSPA technology making us the seventh out of the 850 mobile operators globally and the first in South Asia to launch this important technology. This has made us the forerunner in mobile broadband. We also maintained our growth momentum in carving out market share as we forge ahead toward leadership in the mobile market. As at 31st December, we had 1.4 million active subscribers.

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

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

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

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

Leisha De Silva Chandrasena
Chairman