

INVESTOR RELATIONS

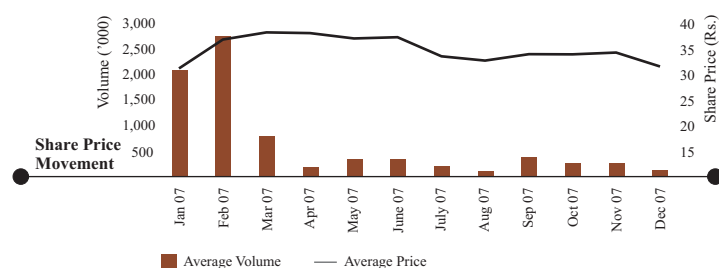
Maintaining a steady and worthwhile dividend policy over the years

A STEADY YEAR ON THE MARKET

Regarded by investors as a blue-chip security, Sri Lanka Telecom PLC shares have shown a generally increasing value trend since the Company's initial public offering on 28 November 2002.

Share Price Trend since IPO

	2007	2006	2005	2004	2003
Highest Value (Rs.)	43.25	29.75	27.00	23.00	30.00
Lowest Value (Rs.)	28.00	14.75	15.50	15.00	10.50
Last Traded Price (Rs.)	31.50	27.75	16.50	15.50	18.00
Market Capitalisation (Rs. Billion) (year end)	56.85	50.08	29.78	27.97	32.49



Following profitability gains in 2006, the share price rose still further in the first quarter of the year under review. Trading likewise increased, with a peak reached on 28 February amid news reports that NTT Corp. was considering a divestment of a portion of its holdings. The controversy that followed these reports resulted in an intervention by the Supreme Court in May that effectively ended the speculation and restabilised the share price.

In the end, the effect of these apparently newsworthy rumours on trading was relatively mild. As shown by the accompanying chart, price movements in SLT shares tracked movements in the All Share Price Index quite closely through the year.

Not unexpectedly, this correlation maintained itself even as the ASPI declined in the year's final quarter in reaction to increased terrorist activity, security worries and investors' concerns regarding interest rate increases as well as a possible revision in the business tax structure.

MANAGEMENT REPORT

Overall, trading volumes in 2007 varied little from the picture in 2006:

Trading Activity, Year on Year

	2007	2006
Transactions	28,350	24,392
Shares Traded	157,119,304	294,236,116
Value (Rs.)	5,604,532,534	6,858,224,712

A STEADY STREAM OF DIVIDENDS FOR SHAREHOLDERS

The Company's steadily appreciating market value is strongly based on actual earnings per share, making SLT shares offer a solid, productive stock for the long-term investor, one that to date has earned nearly Rs. 6 billion for its holders. Dividend policy has remained consistent over the years, delivering returns of around 34%.

Total Shareholder Return between IPO and 31 December 2007

		Rs.
31 Dec. 02	Interim Dividend	541,458,000
31 Dec. 02	Final Dividend	541,458,000
31 Dec. 03	First & Final Dividend	902,430,000
31 Dec. 04	First & Final Dividend	902,430,000
31 Dec. 05	First & Final Dividend	1,353,645,000
31 Dec. 06	First & Final Dividend	1,804,860,000
31 Dec. 07	Proposed First & Final Dividend	1,804,860,000
Total Return		7,851,141,000

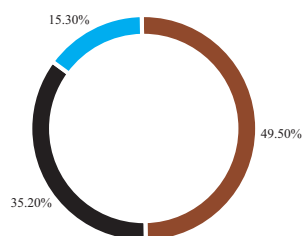
A STEADY RELATIONSHIP WITH THE MARKET

The year saw a number of interactions between SLT managers on the one hand and investors, potential investors and members of the professional community such as brokers, analysts and financial journalists on the other. Coverage of SLT-related events was frequent in the media. Additionally, there was considerable interest from Web-based media in the Company and its activities.

A considerable portion of management time was spent in meetings and briefings with investors. The Company was a participant at two well-attended investor forums in Sri Lanka during the course of the year and also participated in the second Merrill Lynch Asian Emerging Market 'New Frontiers' conference, which was held in Singapore on 12-14 February. Meetings with the clients of a key international investment bank were also held in Hong Kong and Singapore during September.

In addition to such personal contacts, the Company also issues a quarterly newsletter entitled *Investor* to all its shareholders.

MANAGEMENT REPORT



Shareholder Structure
as at 31 December 2007

■ Government ■ NTT ■ Public

A SOUND, STEADY INVESTMENT PROFILE

The ownership structure and investment profile of SLT have remained somewhat consistent since the IPO, despite the always-steady business in publicly-traded company shares. This is in large part due to the division of holdings, in which the Government and NTT Corp. are major shareholders:

Public Holding - 15.30%

	2007	2006
Issued Share Capital	1,804,860,000	1,804,860,000
Less: Holdings over 10%		
Secretary to the Treasury	(893,405,709)	(893,405,709)
NTT Communications Corp.	(635,076,318)	(635,076,318)
Holdings less than 10%	276,377,973	276,377,973

Speculative movements are further discouraged by the fact that a further percentage of holdings is held by institutional investors, with only a relatively small aggregate of shares held by individuals:

TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER 2007

Name of Shareholder	No. of Shares	%
Secretary to the Treasury (Government of Sri Lanka) **	893,405,709	49.50
NTT Communications Corporation*	635,076,318	35.19
Galleon Technology Offshore Limited	35,328,300	1.96
Employees' Provident Fund	17,885,989	0.99
Sri Lanka Insurance Corporation Limited - Life Fund	17,287,235	0.96
National Savings Bank	13,348,600	0.74
Galleon International Master Fund, SPC Limited	8,210,800	0.45
Bank of New York - Bear Stearns Securities Corporation	5,978,500	0.33
Seylan Bank Limited/Shanker Varadananda Somasundaram	4,676,485	0.26
Pershing LLC S/A Averbach Grauson & Co.	4,620,700	0.26
DFCC Bank A/C I	4,335,900	0.24
Alchemy Heavy Metals (Pvt) Limited	4,314,200	0.24
Galleon Diversified Fund Limited	4,209,200	0.23
Sri Lanka Insurance Corporation Limited - General Fund	3,885,300	0.22
Bank of Ceylon A/C Ceybank Unit Trust	3,357,800	0.19
Indra Traders (Pvt) Limited	3,340,900	0.19
Ceylon Guardian Investment Trust PLC A/C I	3,110,100	0.17
Mas Holdings (Pvt) Limited	2,876,500	0.16
Sampath Bank Limited A/C No. I	2,575,000	0.14
Mr. Shanker Varadananda Somasundaram	2,557,315	0.14
	1,670,380,851	92.56

* Major shareholder

** Government-owned shares are held in the name of the Secretary to the Treasury

MANAGEMENT REPORT

In fact, the number of individual investors and the quantum of their holdings declined somewhat over the course of the year. As of 31 December 2007, a total of 20,223 individuals held a total of 78,979,129 SLT shares, amounting for 4.38% of all issued

shares. This compares with a figure of 21,164 investors holding a total of 91,034,278 shares (or 5.04% of all issued shares) on 31 December 2006.

The following graphic illustrates the distribution of shareholdings.

ANALYSIS OF THE DISTRIBUTION OF SHAREHOLDERS AS AT 31 DECEMBER 2007

Shareholdings	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	% of Share-holdings	No. of Share-holders	No. of Shares	% of Share-holdings	No. of Share-holders	No. of Shares	% of Share-holdings
1 - 1,000	12,706	5,312,604	0.29	19	11,500	0.00	12,725	5,324,104	0.29
1001 - 5,000	4,007	10,764,513	0.60	29	97,900	0.01	4,036	10,862,413	0.61
5,001 - 10,000	2,324	18,453,156	1.02	18	149,157	0.01	2,342	18,602,313	1.03
10,001 - 50,000	1,234	22,087,884	1.22	20	514,800	0.03	1,254	22,602,684	1.25
50,001 - 100,000	92	6,886,437	0.38	6	498,300	0.03	98	7384,737	0.41
100,001 - 500,000	98	23,926,918	1.33	15	2,885,100	0.16	113	26,812,018	1.49
500,001 - 1,000,000	14	10,452,300	0.58	1	714,500	0.04	15	11,166,800	0.62
Over 1,000,000	35	100,736,8013	55.81	7	694,736,918	38.49	42	170,210,4931	94.30
	20,510	110,5251,825	61.23	115	699,608,175	38.77	20,625	180,4860,000	100.00

CATEGORIES OF SHAREHOLDERS

Analysis of Shareholders	31 December 2007			31 December 2006		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	20,223	78,979,129	4.38	21,164	91,034,278	5.04
Institutions	402	1,725,880,871	95.62	400	1,713,825,722	94.96
	20,625	1,804,860,000	100.00	21,564	1,804,860,000	100.00

MANAGEMENT REPORT

Rating Status

As a Sri Lankan company ranked by investors as a blue-chip, SLT consistently enjoys top credit ratings. This was again the case in 2007, when Standard & Poor's raised its long-term foreign currency rating on the Company 'BB-' from 'B+.' - one notch above the sovereign rating. The Fitch rating currently enjoyed by the Company is BB-, while its domestic rating status remains at AAA(Ika) for the third consecutive year.

A STEADY PRESENCE AT THE TOP

Sri Lanka Telecom continues to maintain a steady presence at the top table of Sri Lankan corporates, a status reflected in the number of awards and accolades the Company received in 2007.

- For the fourth year in succession, SLT retained its place at the head of the *Lanka Monthly Digest* LMD 50 list, which ranks the Top Fifty companies in Sri Lanka in terms of turnover.
- The Company also attained runner-up position in *Business Today's* Top Ten list, in which ranking is by 'performance for the fiscal year and other relevant criteria'. It was SLT's third consecutive appearance on the list.

INVESTOR RATIOS

	2007	Group 2006
Earnings per Share (Rs.)	3.12	3.01
Dividend per Share (Rs.)	1.00	1.00
Net Assets per Share (Rs.)	23.21	20.98
Debt Equity Ratio (Debt/Equity) - No. of times	0.32	0.35
Quick Asset Ratio - No. of times	1.70	1.58
Interest Cover - Number of Times	4.76	5.90

DIRECTORS' HOLDINGS

As at 31 December 2007, no member of the Board of Directors of Sri Lanka Telecom had any shareholding in the Company.

DIRECTORS' SHAREHOLDING AS AT 31 DECEMBER 2007

Mr. Asoka W. de Silva	NIL
Mr. Shoji Takahashi	NIL
Mr. Suhei Anan	NIL
Mrs. Leisha Chandrasena	NIL
Mr. S.N. Kumar	NIL
Mr. Sumith Wijesinghe	NIL
Mr. P.A. Abeysekara	NIL