

Focussed on Goals Beyond



Annual Report 2004 www.slt.lk



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”

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Sri Lanka Telecom has truly come of age. We are the pioneer telecommunications service provider to Sri Lanka. Over time, we've built up our technological base to one of clear supremacy as Sri Lanka's only fully integrated telecommunications service provider.

SLT has been voted Sri Lanka's No.1 Corporate entity in 2004, by LMD, and Sri Lanka's No.1 Company in terms of networth, by Dun and Bradstreet.

This year, in keeping with our vision, we began to "look outwards"; to explore the diversity of opportunity that lay before us in the international telecommunications world; to set our sights on establishing SLT as a premier regional telecommunications operator.

Within the pages of this report you will find an account of the direction in which this freshly charted course is taking us; to greater global connectivity through several strategic partnerships as well as the starting up of several international services; to an enhanced capacity to seize opportunities that lie along this course, through the ongoing introduction of ever evolving state-of-the-art technology.

The excitement has not left the world of telecommunications. Indeed, it is continuing to drive our passion to excel. It is causing us to pause and reflect on whether "telecommunications" as a nomenclature, does true justice to the direction in which this field is moving, embracing as it does technology beyond "the fixed line" concept; beyond "mobile" even.

One thing is clear. Sri Lanka Telecom has been carefully positioned along this new course with a clear intent. That of successfully and profitably grasping the opportunities that lie before us, providing an ever growing portfolio of products and services to a growing and more discerning customer base, whilst strengthening the Company and offering maximum returns to shareholders. We will accomplish all this with the greatest adherence to responsibility, transparency and good ethics.

Setting our Sights on a World Beyond...



Sri Lanka Telecom continued to push boundaries in the year 2004, recording significant gains in a good all-round performance.

To place these achievements in perspective, it is pertinent to review the environment within which we operated.

Sri Lanka - 2004

The economy grew despite an uncertain political climate in early 2004 as well as unfortunate situations of flood and drought that affected areas of the island at different times.

The growth in GDP was maintained for the second year running at 5.5%. However, inflation escalated to 7%. The fiscal deficit in 2004 is set to reach 8.7% of GDP, significantly higher than the forecasted level of 6.8%. It is also expected to be higher than the overall budget deficit of 8.0% in 2003.

Whilst one could say that on a business and economic level the country was closing a year of modest gain, nothing prepared us for the catastrophic disaster that ravaged the country on 26 December 2004, in the shape and fury of a tsunami of epic proportions.

The loss of life and property has been unlike any we have seen in recent history. Elsewhere in this report you will read of the implications this single disaster held for SLT.

Whilst an unprecedented outpouring of caring and assistance was evoked amongst Sri Lankans of every circumstance in response, an equally unprecedented global response saw aid rushing into Sri Lanka.

The rehabilitation and reconstruction of communities and livelihoods will take years to accomplish.

This incident looked at in the cold light of economics, is not expected to make any significant impact on the national economy. However, given the

scale and scope of what lies ahead, and the actual quantum of assistance that the country receives to mitigate the disaster, the situation could change in terms of its effect on the economy.

Seizing Opportunities in 2004

Development in the industry, technology and customer expectations drove our business in relatively new directions this year. As we said last year, SLT began to aggressively diversify its sources of revenue. We shifted focus from the traditional fixed line revenue to other areas such as mobile telephony and wireless loop technology, among others.

Before I comment on the performance of the Company, I must mention that last December's tsunami damaged approximately 2% of our Total Network, or 10% of Area Networks in the affected areas. Whilst a fuller account appears elsewhere in this Report, I am extremely pleased to report that SLT was able to restore services in a very short period of time to the affected areas; in fact we provided connectivity to all essential service agencies within a matter of hours after the disaster.

One of the highlights for the Company this year was our entry to the Debt Capital Market through an International Bond Issue which attracted over US\$ 1 billion at launch, which was an oversubscription over tenfold. SLT was the first Sri Lankan Company to go in for such an Issue, which attracted an international rating of B+ from both Fitch and Standard & Poor's. This strategic initiative of the Company will undoubtedly pave the way for other local companies to source funding. The country too will benefit in the long term, through an inflow of funds.

I am also happy to report that SLT inaugurated an Indo-Sri Lanka microwave link in October 2004, bringing to fruition one of the Company's long term

goals of becoming an international long distance carrier for Indian telecom traffic. This initiative is the result of an agreement signed in 2003, between SLT and India's leading telecommunications Company, Bharat Sanchar Nigam Limited (BSNL). This project enables SLT to have access to a over 40 million strong customer base.

In August 2004, we carried this concept further by signing an MoU with BSNL to establish an optical fibre submarine cable system between India and Sri Lanka, further enhancing services.

As reported last year, Sri Lanka is a co-partner with 15 other countries in the SEA-ME-WE 4 submarine cable project which will significantly enhance the core infrastructure of our industry. This year, we were honoured by being unanimously elected to chair its Financial and Administration Committee, with responsibility to secure its completion.

The other area of significant growth during 2004, was seen in the field of mobile telephony. I am pleased to report satisfactory growth in the subscriber base of Mobitel, now wholly owned by SLT. This growth can be attributed to the expansion of Mobitel's product offering and reach, fuelled by the roll out of its GSM services. Mobitel's subscriber base has grown from 142,700 as at 31 December 2003, to 285,000 as at 31 December 2004. The 1st phase GSM roll out is expected to be complete by the second quarter of 2005.

Mobitel's strategy is to leverage its supremacy in technology, value added services and customer care to expand coverage, offer the best and most modern mobile telecom solutions in the market and become Sri Lanka's No.1 Mobile Telecom Operator in terms of the 4 Cs - Coverage, Customer Care, Clarity and Content.

For many years now, SLT has been extremely conscious of being responsible for its actions within the wider stakeholder community. We must be responsive as well as responsible for needs

and wants that will eventually lead to the growth of the economy, the preservation of the environment and the creation of a healthy social milieu to build strong rural and urban societies. A full account of our activities in this cause appears in our Social Impact Report, on pages 38 to 48.

Of the accolades we garnered in 2004, SLT being chosen the No.1 Company in Sri Lanka by the LMD Business Magazine, ranks high. Our blockbuster IPO in 2002, plus our success at transforming SLT into a vibrant blue chip Company saw us virtually storm into the LMD Top 50 to occupy the No.1 slot as Sri Lanka's Most Valuable Brand, and the country's top corporate.

We are also extremely proud to have received a SL AAA (sri) bestowed by Fitch Ratings Lanka, in recognition of SLT's lowest expectation of credit risk. Only companies with exceptionally strong capacity to meet their financial commitments in full and on time, are recipients of such high honour.

SLT is ranked as the second largest public company in Sri Lanka on the strength of a market capitalisation exceeding Rs. 30 billion.

Reviewing the Company's financial performance for the year 2004, revenues amounted to Rs. 29,588 million as against Rs. 25,553 million for 2003. Net Profit for 2004 amounted to Rs. 1,293 million as against Rs. 2,249 million in 2003.

One factor that contributed in large measure to a drop in profits was the effect of the Government's levy on International Telecommunication Operators. SLT made a provision against this levy, of Rs. 2,067 million for 2004, which in turn impacted negatively on profits.

Additionally, the Company has made full provision for an outstanding debt amounting to Rs. 1.0 billion, recoverable on the Sigiriya Card transaction. The Board is making every possible effort to ensure that all legal remedies are pursued to recover this outstanding. The consolidated profits have also been impacted by the substantial level of capital investment made by Mobitel, the return on

which should be reflected in Mobitel's performance in the coming years, and also by the excessive level of receivables in the books of Mobitel, provision for part of which has been made in the accounts. These negative aspects were outside the control of the present Board, many members of which took office only in the latter part of last year.

The Road Ahead

SLT's successes have been built upon rock solid ground - we have worked extremely hard over a number of years to build the Company into a blue chip corporate, shedding our earlier image of a moribund giant and transforming ourselves into a vibrant, modern and competitive institution at the cutting edge of a sophisticated and futuristic world of communications.

We are moving beyond traditional, locally based fixed line telephony to the exciting world of mobile communications and internet and satellite enabled voice, data, media and entertainment products.

The Company's main strategy is to position SLT as a premier regional telecommunications operator. This outward looking approach sees the Company seeking to upgrade its global connectivity through additional investments in its international bandwidth capacity such as through the SEA-ME-WE 4 submarine cable project and through interconnection agreements with other national and regional carriers.

We also intend to continue expansion of our international operations by setting up points-of-presence (POPs) outside Sri Lanka, to be able to offer termination, hubbing and transit services to overseas telecommunications service providers.

We will continue to expand and modernise network and services to meet anticipated demand. A whole plethora of technology and product offerings continue to become available at blinding speed. SLT has cumulatively spent Rs. 97,409 million in infrastructure and network development up to

31 December 2003. Our spend in 2004 was Rs. 7,379 million bringing the cumulative spend to Rs. 104,764 million. For 2005, we will earmark Rs. 8,000 million for this purpose.

We are looking to introduce several new value added services whilst fine tuning and developing existing ones to increase our customer base and usage, whilst improving revenue.

A key area of diversification of revenue streams will consist of the Company marketing its considerable capacities and expertise in network, system integration and advanced technology to other telecommunications operators in South Asia and elsewhere in the world.

We also intend to introduce new technology in line with global trends.

A key strategy is also the development of SLT's brand image into that of a technologically advanced, reliable and customer focussed telecommunications service provider with global reach.

Acknowledgements

I would like to take this opportunity to pay tribute to and thank, every employee of the Company across rank and file, for their excellent effort and commitment to the success of SLT. They have taken our strategies from drawing board to operational areas with commendable success. I also thank my colleagues on the Board, whose support and contributions have been invaluable in conducting the business of the Company.

I thank our shareholders for their confidence and continued support of SLT and wish to assure them of our continued commitment to safeguarding and adding value to their investment in the Company.

Anil Obeyesekere, P.C.

Chairman



1. 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.

2. 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 Thai Telephone & Telecommunications Company. Mr. Anan is also a Director of STTSL and Mobitel. Mr. Anan was appointed to the Board of Directors of the Company on 5 June 1999.



3. Kiyoshi Maeda

Director

Mr. Maeda holds a Bachelor of Arts degree in Economics from the Waseda University of Japan and obtained a Master's degree from the J.L. Kellogg Graduate School of Management of North-Western University in 1986. From 1979 to 1999 he was employed at Long-Term Credit Bank of Japan Limited, where he held various managerial positions, his most recent position being Joint General Manager of the International Finance Division. Having joined NTT Com, Mr. Maeda was appointed to the Board of Directors of the Company on 25 April 2002.



5. 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.

4. 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.



6. Nigel Hatch, P.C.

Director

Mr. Hatch holds a Bachelor of Laws degree from the University of Colombo and was admitted to the Bar as an Attorney-at-Law in 1986. He was appointed as President's Counsel in 2004. After admission to the Bar, he practised in the Original and Appellate Courts, in the fields of civil, commercial and banking, labour and public law (constitutional and administrative law). He has served as a visiting lecturer and examiner at the University of Moratuwa, Sri Lanka on building construction law, and at the Law Faculty and Faculty of Graduate Studies at the University of Colombo. He is the author of "A Commentary on Industrial Disputes Act of Sri Lanka" (1989), which is the standard reference in this area. Mr. Hatch has served from 2001 to 2004 as a member of the National Education Commission and served as a Board Member of the former Rupavahini Corporation from November 2003 to April 2004. He is presently an Adviser to H. E. the President on Legal Affairs, and is a member of the Advisory Committee on Constitutional Law Reform and the Company Law Advisory Commission. He serves on the Board of Securities and Exchange Commission of Sri Lanka. Mr. Hatch was appointed to the Board of Directors of the Company on 24 June 2004.



7. Lalith De Mel

Director

Mr. De Mel completed the tripos in Economics at Cambridge University and the Advanced Management Programme at Harvard Business School. He served Reckitt & Colman in Sri Lanka in various capacities commencing as Marketing Manager and finally assuming the position of Managing Director in 1971. In 1997, he was transferred to corporate headquarters in the United Kingdom as Regional Director. At various time he oversaw their business in this capacity covering North America, Africa, the Middle East, South Asia, and Australasia. In 1989, he headed the Group's initiative on developing their interest in the Far East. In 1991, he was appointed as Group Director on the Main Board of Reckitt & Colman plc for Asia, Far East and Australasia. In 1994, he assumed responsibility for Africa. In the re-organised corporate structure he assumed responsibility for Reckitt & Colman Pharmaceuticals Worldwide in 1996. Having resigned from the Main Board in 1999 he continued to serve as the Chairman of Reckitt Benckiser Lanka Limited until 2004. In December 1998, he was appointed Chairman of Sri Lanka Telecom Limited which position he resigned at the end of 2001. From 2000 to 2004, he served in the Main Board of CDC Capital Partner's plc, UK. He has also served as Chairman and Director-General, Board of Investment in Sri Lanka. Additionally he had been on the Board of



John Keells Holdings Limited, Ceylon Glass Company Limited and People's Bank. He is currently a Director of Delmage Forsyth & Co. Limited, Serendib Hotels Limited, Serendib Leisure Management Limited, Hemas Holding Limited, Brown & Co. Limited, Associated Hotels Co. Limited, and is also a Director of the Strategic Management Enterprises Agency. Mr. De Mel was appointed to the Board of Directors of the Company for the second time on 26 August 2004.

8. Sadao Maki

Director

Mr. Maki holds a Bachelor of Arts degree from the University of Tokyo and a Master's degree in Business Administration from the University of Chicago. He joined NTT in 1977 and since then served that company in a

variety of positions, including Senior Manager - Commercial - NTT International, Head of Finance and Accounting - Kyushu Regional Headquarters, General Manager - Overseas Business Development, Vice President - Global Strategy - NTT Communications and Vice President & Executive Manager - Accounts & Finance. Effective from June 2004, he has assumed the position of Vice President & Executive Manager - Corporate Planning at NTT Com. He currently serves on the Boards of Philippines Long Distance Telephone Company, NTT America Inc., NTT Europe Limited and NTT Investment Singapore Pte Limited. Mr. Maki was appointed to the Board of Directors of the Company on 26 August 2004.



We are in an industry that must cope with change at the speed of light. From the leisurely days of hand cranked telephones, manual exchanges, booked international calls and the word "wireless" was only applied to a valve driven radio set, we are today in an era of the Internet, palm top devices that combine telephone, camera and computer into a single device, fibre optic cabling that delivers, voice, data and images - at the speed of light.

A new world; with new demands and exciting new challenges.

And as I said last year, the manner in which the industry has developed and the "no boundaries" nature of the communications world today has made deregulation a sine qua non.

The implications within this scenario for a company such as SLT is that it must hit the ground running - day after day after day; it must exhibit a nimbleness and flexibility of mind and muscle to stay ahead; a sharpness that keeps it always on the cutting edge of the industry.

Today's ceiling really does become tomorrow's floor.

I am happy to report that SLT's performance in 2004, displays the attributes and has achieved the results that make it a successful enterprise within this challenging field.

Let us look at some of the Company's achievements over the year in review.

Looking Beyond our Shores

This year we stepped back, took stock and identified certain initiatives that we felt would fuel our expansion and growth in the coming years. We looked for areas of potential in terms of revenue generation, deployment of technology and consumer demand, with particular focus on those areas where the Company expects industrial development to result in increased telecommunication traffic.

This led us to look beyond our shores, to the potential that lies in the international sphere, given our unique geo-strategic location.

Thus we took our joint agreement with India's Bharat Sanchar Nigam Limited (BSNL), which has already provided for a microwave link between Talaimannar and Rameshwaram, a few steps further by signing up for the establishment of an optical fibre submarine cable linking Tiruchchundur with Colombo.

Where the microwave link facilitated voice communication through a digital radio link, the proposed optical fibre submarine cable will support a public telephone network (PSTN), IP Broadband services, International Private Leased Circuits (IPLC) and Multimedia traffic between India and Sri Lanka.

BSNL is the largest telecommunications company in India having well over 40 million customers across that country. The relationship with BSNL will help increase telecommunication traffic between the two countries. More importantly, it will pave the way for SLT to handle telecommunication traffic from BSNL towards other international destinations, which will definitely strengthen SLT's position in the South Asian region.

SLT has also entered into bilateral agreements with all Indian telecom operators who hold international licences, including BSNL, VSNL, Bharti Telesonic Limited, Reliance Infocom Limited and Data Access.

This move we believe will offer opportunities to increase international and generate additional revenue.

In this regard, SLT is strategically well placed to enhance its global connectivity capabilities with three gateway exchanges, two cable landing stations, three satellite earth stations and one mobile earth station. The Company also has access to facilities and services under the SEA-ME-WE 2 and SEA-ME-WE 3 submarine optical fibre cable consortia with whom we have membership.

In March 2004, SLT was a co-signatory with 15 other international telecommunications carriers to collaborate on the construction of SEA-ME-WE 4 optical fibre cable, which is a USD 500 million collective investment and should be ready for use by

After the Wave...

At 8.27 am on the 26th of December 2004, nature unleashed unbridled fury in the form of a tsunami of unparalleled proportions, making landfall on the coast of Kalmunai. A stunned nation watched as people ran for their lives or were simply washed away to a watery death, all along the coast of Sri Lanka, from Jaffna southwards along the entire Northern, Eastern, Southern and South-Western seaboard of the island.

Internationally, the tsunami ravaged Indonesia, Thailand, the Andaman Islands, Sri Lanka, India and even reached the East coast of Africa.

Rehabilitation and reconstruction of communities, personal lives, businesses and livelihoods will take many years and great personal sacrifice.

Sri Lanka Telecom shares fully in the grief of our Nation and other countries.

As an essential support service, SLT responded in a matter of hours, to the crisis. We set up a Disaster Management Centre and also within a matter of hours, established connectivity to all essential service agencies such as the Police, Hospitals, GA's Offices and other local authorities. Satellite communication facilities and wireless phones were provided immediately to relief agencies.

By the 27th December 2004, the Company had made arrangements for telephone facilities on a free of charge basis for the public to convey urgent messages to relations, friends, relief centres, hospitals etc. These facilities were set up at the Regional Telecom Offices of Galle, Trincomalee, Batticaloa, Ampara, Kalmunai, Vavuniya and Hambantota. We also widened the scope of the service offered under our '101' - SLT Operator Assisted services which provided connectivity to relief centres, hospitals, the Police etc.

One of the worst hit areas in the South was Hambantota, where our tower was completely destroyed and the exchange badly damaged by flood waters. Consequently, nearly 10,000 lines in 12 towns were inoperable.

Every day thereafter, SLT teams working round the clock brought telecom connectivity back to town after town.

Here now is a summary of the tsunami's impact on SLT and the status of restoration as at the time of writing:

Impact

- Damaged telephones - Approximately 59,000 or 6.9% of Total customer base.
- Damage to Network - 2% of Total Network or 10% of Network of Affected Areas.
- Estimated Revenue Loss per month - Rs. 25 million.
- Affected Areas - Hambantota, Trincomalee, Galle, Batticaloa, Matara, Ampara, Kalutara, Kalmunai, Panadura and Jaffna.

Restoration

- By 7th January 2005, approximately 20,000 or 33% of damaged lines were reconnected.
- Restoration of approximately 10,000 lines will take 3-4 months due to the requirement to rebuild the locations where they were sited, in accordance with GOSL restoration policy.

the end of 2005. SLT holds the seat of Finance and Administration in the SEA-ME-WE 4 Management Committee.

SEA-ME-WE 4, an ultra modern and high capacity undersea cable will not only assist us in becoming an important regional player in South Asia but also enable us to handle high volumes of telecommunication traffic including voice, data, multimedia, etc.

The Company also pursues many other strategic initiatives that we expect will enhance global connectivity which in turn will facilitate capacity enhancements to segments such as multinationals and other telecommunications operators on key international traffic routes.

An Increasing Mobility...

Our fully owned mobile telecom company Mobitel is currently nearing completion of the roll out of its GSM network. Targeted for completion within the first quarter of 2005, its GSM services will give Mobitel a coverage of the entire Greater Colombo area and substantially all of Sri Lanka's main cities and highways.

The new network coupled with the planned expansion of Mobitel served to increase the Company's customer base by 19% going from 142,700 subscribers as at 31 December 2003 to 285,000 customers by 31 December 2004.

Growth in the mobile market will depend upon a number of areas including the availability of cellular capacity. Therefore we are embarking on a phased expansion of Mobitel to suitably position the Company to face the future. We plan to expand network across the island to encompass rural areas, strengthen existing coverage and increase our customer base.

Other Areas of Strength

SLT's competitive strengths lie in several areas. We enjoy market dominance in fixed line services, representing 87% of such customers islandwide. Through Mobitel we reach about 19% of active mobile customers in Sri Lanka, whilst as an Internet Service Provider (ISP) we occupy a position of leadership.

Our fully digitalised backbone telecommunication infrastructure extends to every region of the country, supported by its own transport backbone of microwave links and fibre optic cabling. Particularly in the last two years, SLT has expanded reach and capacity substantially, enabling us to restore services in the North and East of the country. When you add in Mobitel's GSM network, all these give SLT an unparalleled reach and "edge" over the competition.

Another area of strength that has been particularly gratifying to watch as it grew, is in reliability of service and distribution. One of the key areas in which the SLT of years gone by suffered was in customer service and maintenance. Today, these areas of operation are unrecognisable from days of yore. **SLT brings to bear the**

fruits of state-of-the-art facilities, embodied in a network of Outside Plant Maintenance Centres (OPMCs), 4 in the Colombo Metropolitan area and another 5 to be introduced by 2005. OPMC takes care of

outside plant, network between telephone exchange and customer premises. These OPMCs are serving the customer through the customer interfaces, Regional Telecom Offices (RTOs) and Teleshops. Currently there are 35 RTOs and 23 Teleshops in SLT's distribution channel. These facilities have vastly improved service delivery to

customers, whether they be new services or maintenance of existing ones. OPMC, a fairly new concept to Sri Lanka, centralises resources and facilitates rapid deployment to locations where they are needed. OPMCs will eventually take over all network expansion, new service provisioning related outside plant, preventive maintenance and faults clearance, redefining the traditional RTO functions. Whilst ensuring higher productivity in resource management hence much improved customer care, OPMCs enable RTOs to focus completely on customers' needs and marketing activities. This concept has paid off quite well. We are now focussing on centralisation of resources in the transport network where transmission and switching functions take place.

SLT's Data and IP services has been another clear winner. With a market share of 65%, SLT's data services offers a host of benefits to customers. Supported by an IP backbone in the Colombo Metropolitan area as well as Katunayake and Kandy, we offer domestic leased line services such as IP-VPN, Broadband ADSL, VOIP and Internet Data Centres.

SLT-IDC is our new state-of-the-art Internet Data Centre which offers customers data housing, hosting and management services. For organisations whose core business does not lie in IT and to whom maintaining a separate in-house data facility as a business support is costly in terms of technology, staffing and facility upgrade, the new Centre provides a tailor made answer to their needs. Outsourcing is a growing global trend and more companies are concentrating on core business whilst looking elsewhere for support services.

In terms of financials, we have yet again posted a revenue growth of 15.7% to reach 29.588 billion by 31 December 2004. Operating Profits increased by 0.5% over last year. Pre-Tax Profits were Rs. 1.441 billion, whilst Post-Tax Profits reached Rs. 1.293 billion.

SLT is the second largest Company to be listed on the Colombo Stock Exchange in terms of market capitalisation and with a shareholder base exceeding 25,000, is a clear leader in the corporate domain.

When you add SLT's increasing strengths in the international telecommunications arena, and the benefits derived from its strategic relationship with major shareholder NTT Communications, the Company assumes a clear leadership positioning.

Our New Face

Last year I commented on the creation of a new brand image for SLT. I am happy to report that we have been on track in this regard and are continuing to reinforce our "new visage" as a technologically advanced, reliable and customer focussed telecommunications service provider with a global reach both to its customers in Sri Lanka as well as to multinationals and other international telecommunications service providers.

The Company's new Billing system which was introduced in 2003 provides both customer and the Company with added benefits. We can now combine billing for various services, provide itemised billing on main bills and market packaged offerings and value added services with cross-product discounts, volume discounts and promotions. The new system also enables the Company to pursue arrears with customers in a timely and more efficient manner than before. Once the migration of data from the old system to the new one is fully realised, a consistently prompt service will ensure optimum benefits for both customer and Company.

Another area of change has been our Call Centre operation. From a service specific multiple number system where a customer had to dial a different number for varied needs, we introduced the one-call concept, where a customer need dial just one of the service numbers and get all his queries attended to. The new concept entailed the re-training of staff and the upgrade of infrastructure to render a streamlined, customer friendly service.

In Conclusion

I am grateful for this opportunity to acknowledge and thank all our employees across the Company. Their minds, hearts and brawn have carried the fortunes of SLT to another year of success as the dominant player in communications in Sri Lanka. This is a matter to be extremely proud of. In particular I wish to commend the efforts of all employees who worked tirelessly to bring the backbone telecommunications network back on track after the tsunami disaster. I extend my deepest sorrow and sympathy to the Company's employees, their families and members of the general public who were affected by the tsunami disaster.

Likewise, all our efforts have been channelled to making the Company successful, profitable and a pride to shareholders and the wider stakeholder community. One of our prime goals is to offer increasing value to shareholders in terms of their vested interests and our success is amply reflected through the content of this report.

I would also like to thank the Chairman and the Board of Directors for their support and contributions in taking SLT to greater heights.

Shuhei Anan

Chief Executive Officer

Business Review

Fixed Telephony

Mobile Telephony

Data & IP

Internet

International

Playing the Lead Role

SLT is the flagship telecommunications service provider in Sri Lanka. When one considers that telephone services were introduced to Sri Lanka in 1880 and for a large part of history thereafter our forebears the Postal and Telecommunications Services and after them, the Telecommunications Department “carried the torch”, one can appreciate the tremendously stable grounding and penetration SLT enjoys today.

Today, SLT commands 87% of the market for fixed line operations providing a total of 860,468 Direct Exchange Lines (DELs).

For the year 2004, SLT provided 53,656 new connections.

Telephone connection is now available on demand in most locations in the Colombo Metropolitan area and in other major cities. In rural areas the Company has improved its ability to meet demand and installation is available on demand in most areas where the network is present, such as by way of radio link.

SLT is exploring more cost effective ways of expanding its rural network, since the financial returns from this sector remain poor.

Our customer profile is wide and varied and consists of top multinational corporates, through small and medium scale entrepreneurs to urban and rural folks.

Our telecommunications network has the widest reach and is the most technologically advanced in Sri Lanka. It features a fully digitalised telecommunication transport network, reaching deep into every region of the country supported by its own transport backbone. It comprises 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 hence routed to the Company’s National Switching Centre in Colombo.

We run approximately 950 km of fibre optic cabling supported by microwave, which link key towns with Colombo.

Fine Tuning our Lead Role for the Future



860,

Fixed Lines across Sri Lanka...

A Fibre Optic Super Highway

One of the exciting new developments we are planning will see fibre optic connectivity introduced into the regions.

The Company plans to connect the Southern, Eastern and Northern regions of the island to the centre via optical fibre cabling.

We envisage that a Southern network of 325 km, an Eastern network of 583 km and a Northern network of 564 km will be connected to the Company's existing Central network by the years 2006, 2007 and 2008 respectively.

Going CDMA

SLT is also planning to deploy a network using CDMA technology, which has the potential of connecting 225,000 customers to our services.

The Company is currently in discussion with the TRC with a view to re-deploying frequency bands used for WLL services for the proposed CDMA operations.

The proposed services would help us grow our customer base for fixed line services from the rural and semi-rural areas of the country. CDMA based services would provide a cost advantage as the cost of expanding the network through a wireless based technologies.

Building Up "Hope"

SLT continued to focus on restoring and developing services and infrastructure in conflict ravaged areas of the North and East. Our aim is to bring an increasing number of customers initially back on line and then to provide access to our value added services, thereby bringing the entire region up to par with the best available service in the country.

For the year in review, the Company completed network expansion and restoration of services in the areas of Jaffna and Kilinochchi. We expect to complete similar projects for Chunnakam Town and Mullaitivu by 2005.

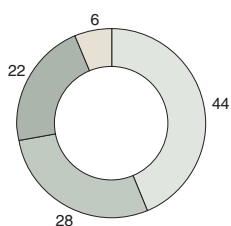
Similarly we were able to complete work in the Mannar Town area during 2004, and will be completing work in Pesalai, Erukkalampitty, Vankalai and Murunkan in the Mannar District, by 2005.

468



Customer Base
%

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



In Ampara, network expansion was completed in Thirukovil whilst we will be completing work in Uhana in 2005.

One of the landmark achievements for SLT in 2004 was the enhancement of "Project Hope" - our initiative to develop telecommunication facilities in the Jaffna peninsula. This enhancement came in the form of a commissioning of a second link to Jaffna via a new high capacity transmission tower.

Standing over 150 metres tall, the new tower whilst being the tallest of its kind anywhere in Sri Lanka, also facilitates a high capacity transmission link over an entirely land based route in contrast to the radio transmission link operating to Jaffna over the sea via Mannar.

The new link, classified as an STM 1 link, operates via Kilinochchi offering a capacity of 126 Megabits per second (Mbps). The radio transmission link that was inaugurated last year under "Project Hope" was of a 34 Mbps capacity.

New Connections for 2004 within SLT's four operational regions

<input type="radio"/> Metro	Colombo and its suburbs.	19,209
<input type="radio"/> Region 1	Central, Western/North, North-Western and North-Central Provinces.	17,112
<input type="radio"/> Region 2	Uva, Southern, Sabaragamuwa and Western/South Provinces.	12,972
<input type="radio"/> Region 3	Northern and Eastern Provinces.	4,363

In 2004, SLT provided

53,

new connections

The two links together have significantly augmented our services to and from Jaffna.

This rapid deployment of telecommunication facilities in the North has prompted the formation of a special project team to handle development work in terms of telecommunications in the Northern area with responsibility for Outside Plant Development, Switching, Radio and transport and installation of transmission equipment.

Cutting Edge Maintenance for Cutting Edge Technology

One of the key elements of SLT's new brand image is to be a customer focussed telecommunications service provider. This means that from "connection to call completion", every step in between must be accomplished with a high degree of professionalism incorporating top class technology.

Since 2002, SLT has introduced the concept of Outside Plant Maintenance Centres or OPMCs as they are known in the industry. These centres are self contained "one stop" locations that offer a comprehensive service be it a new service or the repair of an existing one.

OPMC functions are centralised in terms of human resources, materials and transport facilities and with the deployment of advanced computer technology, they have been able to yield considerable savings and prune costs whilst providing superior maintenance.

Four such centres are in operation in the Colombo Metropolitan area whilst two centres are operational in Jaffna and Kurunegala. Another ten centres will be introduced across the island in 2005.

Revamping Regional Telecommunications Offices (RTOs)

SLT's network of 35 RTOs have undergone a major facelift to improve customer comfort and satisfaction as well as to enhance productivity. They have

656

received updated infrastructure that equips them to handle sales, service, billing and collection functions.

These developments dovetail with the Company's OPMC project, which will see the OPMCs gradually take over all network expansion, new service provisioning related outside plant, preventive maintenance and faults clearance which was hitherto the domain of the RTOs.

New Look Call Centres

The Company's Call Centre operations across the country are undergoing a phased improvement. Begun in 2003, the improvements are being implemented in two phases.

Under Phase 1, the Company has equipped and trained all personnel manning the Company's service numbers, 121, 122, 161, 133, 134, 132, 100 and 2555555, in order that a customer inquiry to a single point in this network could yield a solution, instead of the customer being channelled to each individual point in the chain for different queries.



Staff were thus given a broader training to deal with a range of queries and infrastructure was also updated to support them.

The Call Centre operation will be augmented with the opening of centres in Galle, Kandy and Anuradhapura. Phase 1 of this development programme was completed in April 2004.

Phase 2 of the upgrade will involve the introduction of a Computer Telephone Integration system that will automatically channel a customer to the three main areas of Clarity (Fault Rectification and Servicing), Geneva (which is our Billing System) and Directory Information.

In addition to the significant enhancement in service to the customer, staff manning these centres also benefit from vastly improved work processes and working environment.

Their training plus the upgrade of infrastructure in terms of making vital information available to them to help answer the full range of customer queries has empowered them to make a very positive difference in the way they are perceived by the general public.

They have now been designated as Call Centre Officers, which title does more justice to the tasks they perform and in recognising and affording them the rightful dignity that comes with the job, the Company has also been able to enhance motivation.

That we are on the right track is borne out by an 80% increase in productivity.

There is also better communication between staff and the Management and reward in the form of promotions has been linked with the Customer Sales Index, which is an added motivating factor.

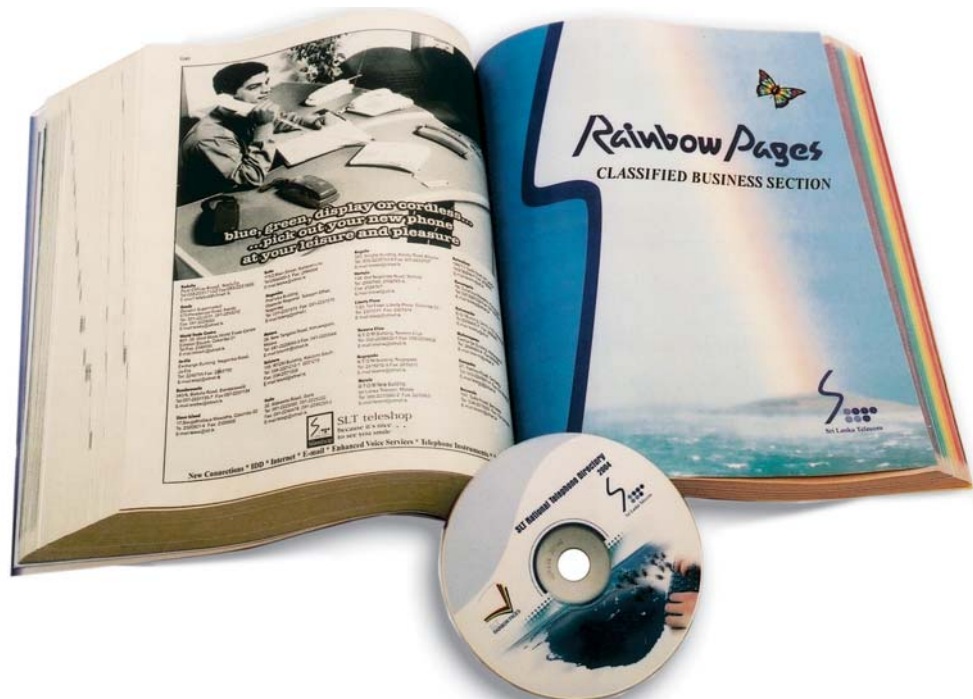
In summary, the new Call Centres reflect the changing face of the Company - that of a more customer centric, efficient and professional institution where technology opens many doors to great service whilst invigorating and developing staff at all levels.

New Look Rainbow Pages

The Rainbow Pages classified business section within our National Telephone Directory was given a new identity and logo. The changes fully capture the essence of the product, giving it a contemporary look.

At the same time, the Rainbow Pages concept was widened to include three new services - teleRainbow, eRainbow and the Rainbow Pages CD.

TeleRainbow is a 24-hour operator assisted service that provides information on Rainbow Pages. It is an



enhanced Directory Service that allows customers to phone in and ask the operator for assistance in their language of choice.

eRainbow is an integrated search facility available to customers over SLT's website, where information on Rainbow Pages is available on-line. The service also provides banners, pop up messages and special customer pages for listed customers as advertising options, at nominal rates.

The Rainbow Pages CD contains information plus all-island directory information including that of Government and religious institutions, business organisations and personal phone numbers.

The Rainbow's colour spectrum has become a boon to customers, making their search for listed products easier.

Improved Billing System

The Company's new Billing system was introduced in 2003. A fully computerised, integrated system now allows the Company to combine billing for its various services, provide itemised billing on the customer's main bill and market new packaged offers and value added services.

It also allows multi-party billing, including billing on behalf of content providers. The new system also enhances credit control with the ability to set usage limits, monitor international use on-line and programme voice reminders and disconnection.

The Company also established a system of pursuing arrears with customers. This has improved collections quite significantly. For example for the year ending 31 December 1997, the Company's average telephone customer debtor months stood at 6.5. As at 31 December 2004, we were able to reduce this figure to 5.6 months.

The Proof of the Pudding

The coined phrase is apt when one is considering how to measure the Company's performance in terms of Quality.

The efforts of the Company over the years to improve the quality of its networks, replacing obsolete equipment, enhancing staff training and improving the management of fault rectification has really paid off today.

The improvement in the Company's call completion ratios to present levels is primarily due to the expansion of its telecommunications network and to the relocation of equipment to higher usage areas.

Statistically speaking, fault rates in the Colombo Metropolitan area dropped by 0.1% over 2003, whilst on an islandwide basis they increased by 0.8%. Fault clearance rates in the Colombo Metro area stood at 94.5% as against 95% in 2003. On an islandwide basis, fault clearance was 76.8% in 2004 as against 83% in 2003. Call completion stood at 46.4%.

Badges of Honour

SLT has enjoyed a consistent winning streak for a good few years now. If one were looking for an indicator of how well the Company was doing, outside of the obvious Balance Sheet, it would lie in the accolades it has received for the responsible conduct of its business.

At the Awards Ceremony held in December 2004 to bestow honour on those companies whose business practices have been modelled on the Japanese Kaizen systems and who have excelled, SLT was once again honoured when our Matale RTO carried away the prize for the Overall Winner - Taiki Akimoto 5S for 2003.

The Nagaki Yamamoto Kaizen Award (Runner Up) was won by our Kandy RTO.

SLT has also participated at the Asian Regions Convention on Quality and Productivity held at the BMICH during the year in review. The Company's Quality Circles and Continuous Improvement Teams won several awards at the Service Sector Quality Circle Competition and the Continuous Improvement Team Competition respectively.

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From Strength to Strength

Mobitel, wholly owned by SLT is Sri Lanka's second largest mobile operator in terms of revenue. However, it can be proud of many features in its operations which supersede the competition.

For example, Mobitel is the only service provider in Sri Lanka to have a fully EDGE enabled GSM system in Sri Lanka. Indeed, Mobitel was the first network in the world to offer an EDGE enabled mobile operation.

The key initiative of Mobitel during 2004 was to continue the roll out of its GSM operations. This single factor catalysed huge growth for Mobitel and has enabled it to move ever closer to its goal of becoming Sri Lanka's No.1 mobile operator, delivering the 4 Cs - Coverage, Customer Care, Clarity and Content.

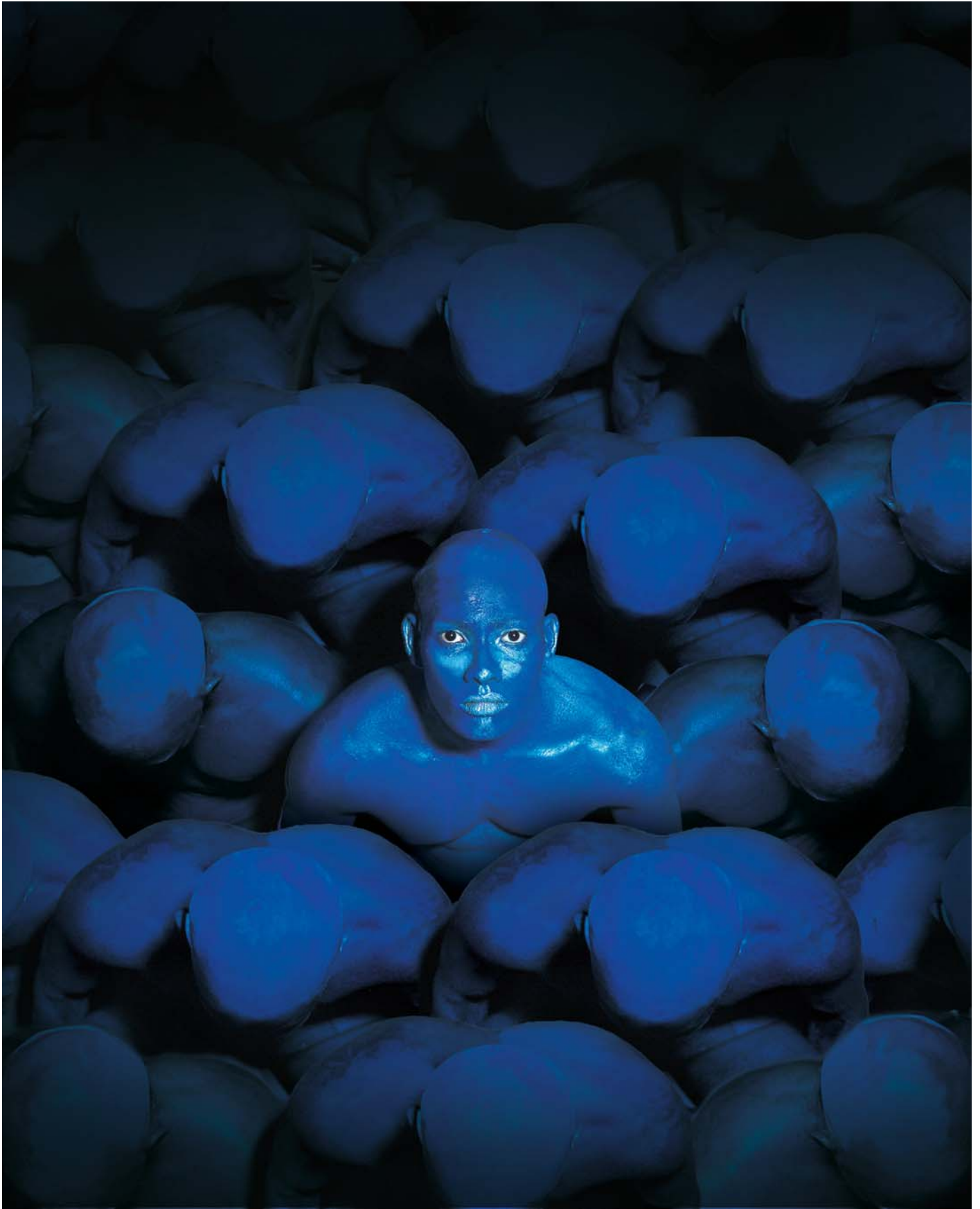
Mobitel's presence within the SLT fold has galvanised great synergies for both institutions. To SLT, Mobitel has brought the capability of becoming Sri Lanka's only fully integrated telecommunications service provider, offering both fixed line and mobile services in addition to its Data, IP and Internet services.

More Mobitel Customers

As at 31 December 2004, Mobitel had a customer base of 285,000. This was a 99.3% increase over 2003. Of this customer profile the majority were GSM customers,

Mobitel's market share has increased to 19% in 2004 as against 11% for 2003. This astronomical growth was largely fuelled by the introduction of GSM services.

Mobile and still growing



Mobitel customer base grew to

285,

as at 31 December 2004

An Expanding Network through Developing Technology

The current coverage achieved by Mobitel is best illustrated by the map appearing on page 23.

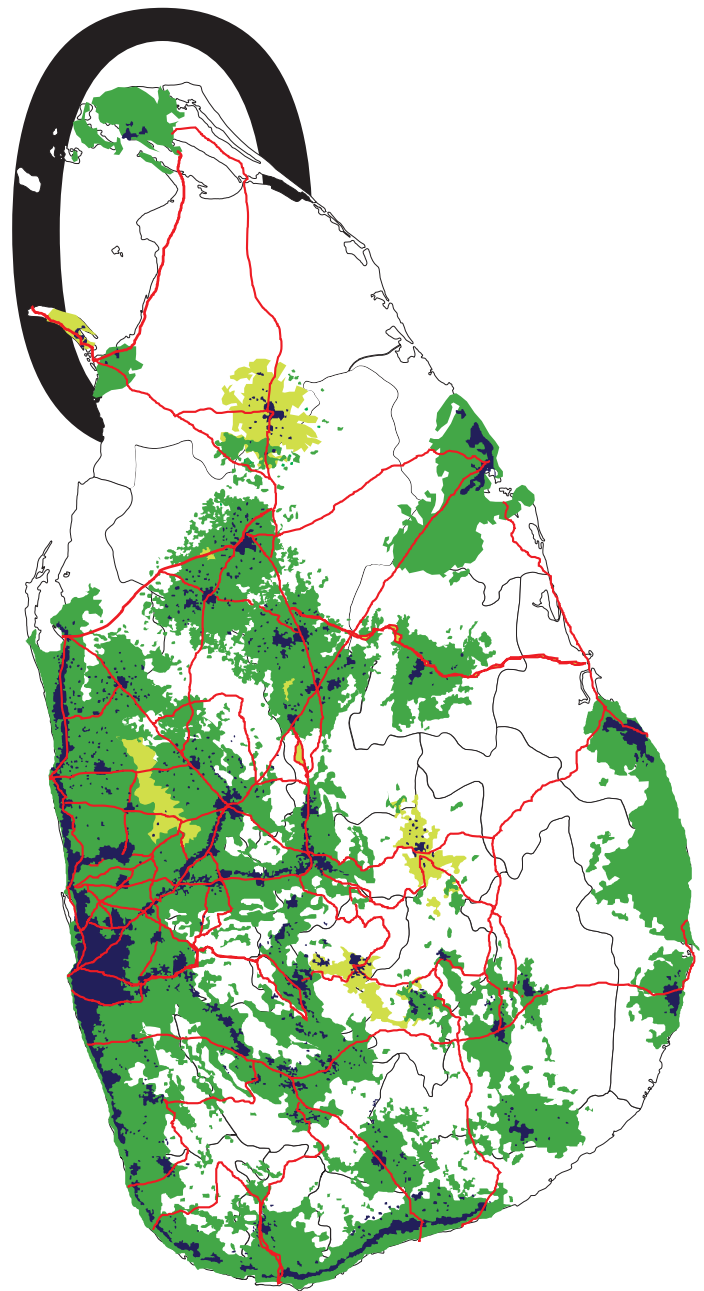
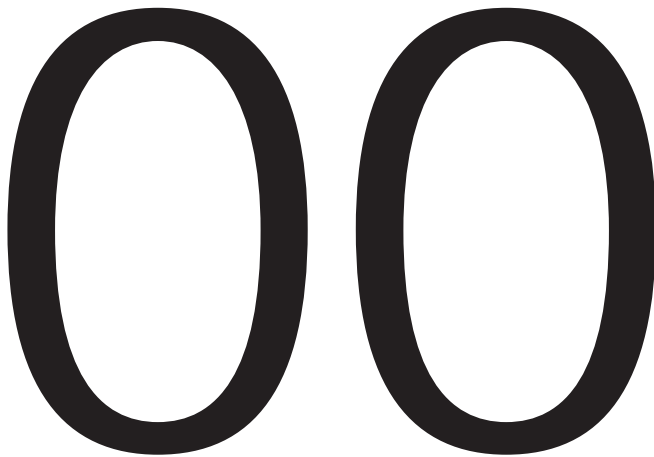
Growth in the mobile market in Sri Lanka will be influenced by several factors, one of which is the availability of cellular capacity. To ensure that Mobitel is ideally positioned to take advantage of this growth, the Company has put in place a phased expansion plan. Phase 1 of this plan is nearing completion with the completion of our GSM induction. We have earmarked a sum of US\$ 50 million for Phase 2 which will run from the second quarter of 2005 through to mid-2006.

Phase 2 will see Mobitel significantly expanding its network islandwide, particularly in the rural areas, strengthening existing coverage and targeting an increase in subscriber capacity by at least 600,000.

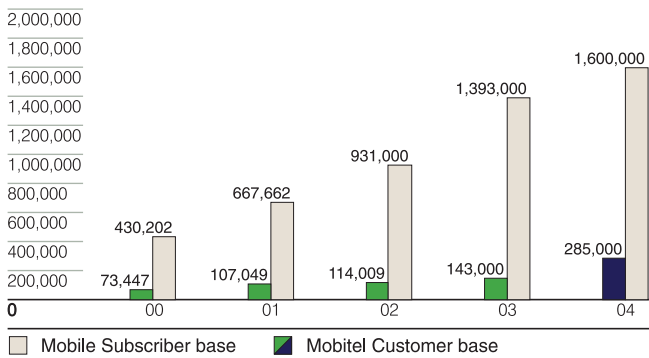
Innovative Products

Mobitel owns an impressive array of “firsts” in the product category. From being the first to introduce EDGE technology to Sri Lanka, the Company also pioneered MMS, GPRS and WAP facilities for pre paid users.

Service	Details
Mobi Services	Customer usage related information such as account balance, last payments and SMS based Complaint Management
Info Services	News, Health, Lottery Information
Financial	Stock Quotes, Currency Conversion, NASDAQ Indices
Messaging	Personal and Business Alerts, Bulk Messaging
Infotainment	TV Guides, Top Songs & Movies, Hollywood & Bollywood Gossip
Download	Logo's & Ring Tones Picture Messages
Fun	Jokes, Horoscope, Dating & Chat
Games	Hangman, Do You Know, Scrabble, Speed, Mastermind
Sports	Cricket Scores



Mobitel Customer Base



Mobitel was the first mobile operator to permit update of its SIM Menu over-the-air and the first to offer menu driven information services.

The Company's GPRS network apart from supporting WAP, GPRS and MMS features, also provides sophisticated services such as downloading of video and music, full multi media messaging, high speed internet access, e-mail on the move, multi media chat facilities and interactive gaming facilities.

Mobitel offers Roaming services, both incoming and outbound, through a network spread across 170 countries. This service is supported by a 24-hour dedicated hotline for customer assistance.

Mobitel GSM Coverage

- Indoor Coverage
- Fringe Area Coverage

Value Added Services

Mobile telephony has moved beyond the initial relatively narrow concept of pure voice communication. Today, technology has opened up a whole world of opportunity, all accessible through hand held devices. Mobitel's menu based access to SMS based information services, another first when it was introduced, is a very well appreciated value added service.

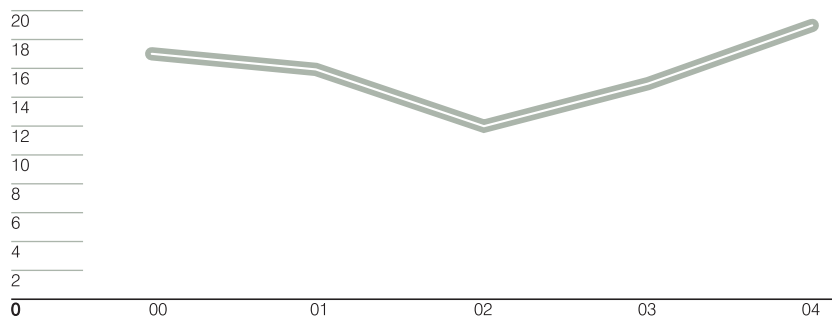
Mobitel's value added services take customers to the worlds of information and entertainment, best depicted by the chart appearing on this page.

The Future

When one considers the demographics of the cellular market, it exhibits all the characteristics of a "market in waiting". Market penetration is at 10%. An average growth of 53% has occurred over the past eight years.

There is huge potential on offer.

Mobitel's Market Share in Cellular Market
%



SLT intends growing Mobitel's penetration, usage and revenue levels through the expansion of the GSM network islandwide and an increased promotion of its Roaming facilities particularly inbound, plus its value added services such as Voice Mail and SMS to existing and new customers.

Some of Mobitel's key goals in the years to come are to maintain leadership in the offer of value added services, continue to lead in technology, promote the development of telecommunications in rural areas and play the lead role in mobile convergence to Internet.

Mobile Telephony is clearly an area of great potential growth and SLT with Mobitel is committed to tapping this potential to the full in deriving maximum value and returns to both entities and their shareholders.

“Mobitel’s Value Added Services take customers to new worlds of information and entertainment”



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Out of the Call Box

Over centuries and up until very recently, the icons of the telecommunications industry across the globe were the familiar, red, street corner call box, the domestic telephone handset and kilometre upon kilometre of winding telephone lines, stretching unbroken from one telephone post to the next and the next and so on.

What a transformation we see today.

Telecommunications today has gone from wire to wireless; from analogue to digital; from the exchange to the Internet. Today, the humble telephone of ages past has been transformed into a sleek, modern appliance, a fashion icon even, that has migrated from “desktops” to “palm helds” and offers a hitherto unimaginable range of services that have long superseded simple voice transmissions.

Welcome to SLT’s Data and IP services - offering a range of facilities that deal with the sourcing, transmission and storage of non-voice based data. At the end of 2004, the Company had a market share of 65% in data services.

SLTData - The ‘Data Gateway’

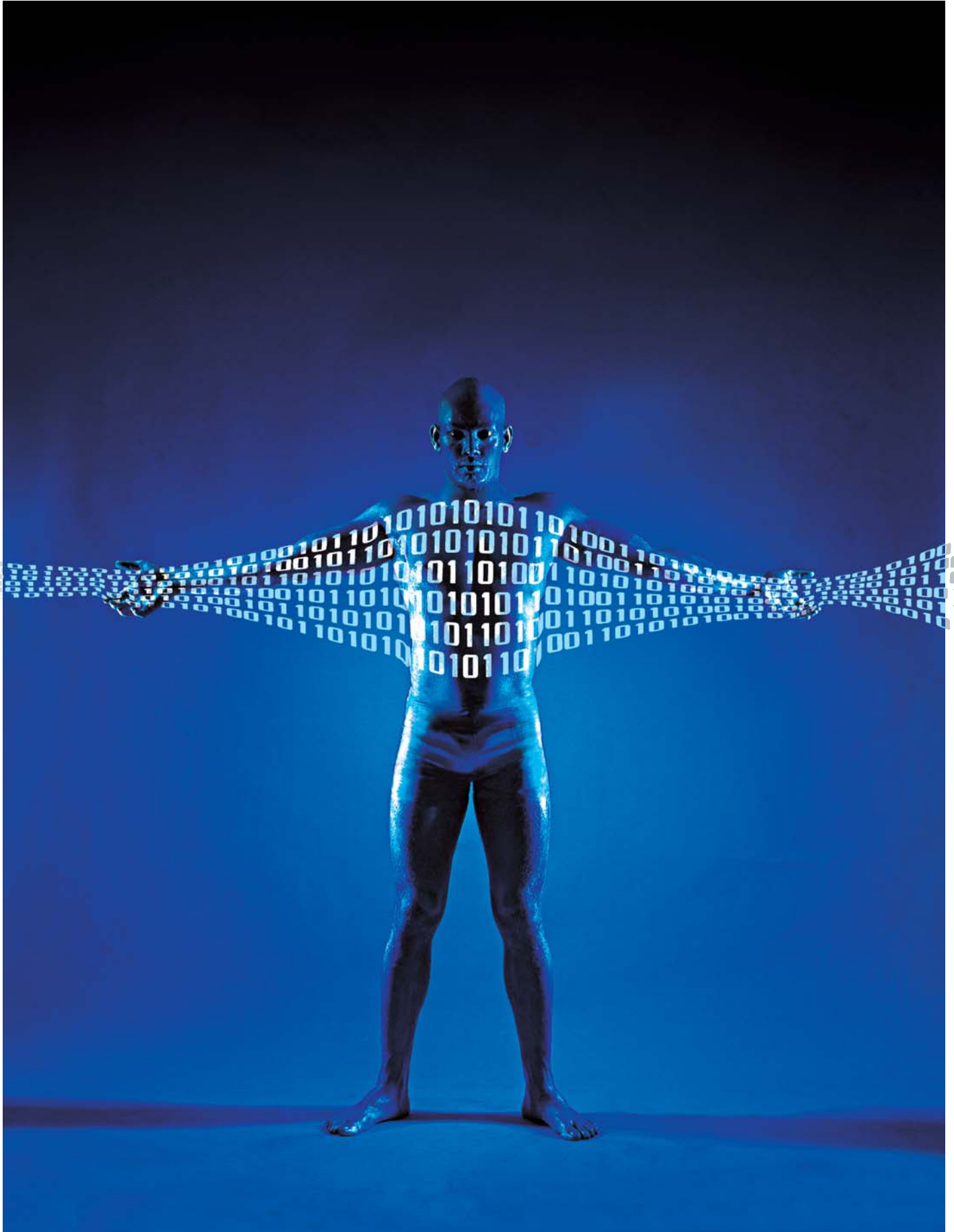
SLT offers a full portfolio of domestic data leased line services under the name “SLTData”.

The Company has leveraged its existing fibre optic infrastructure to offer a host of IP based services such as IP-VPN, ADSL, VOIP and Internet Data Centres. In support of this initiative, we have put in place an IP backbone serving the Colombo Metropolitan area, as well as Katunayake and Kandy.

The Company sees the main users of this product segment as coming from the corporate sector.

We also operate a Frame Relay service within the country.

Beyond Voice Communication an Expanding Era of Data Communication



65%

SLT provides data circuits with a capacity of between 64 kbps and 2 Mbps, and in multiples thereof.

The services provided include Domestic and International Private Leased Circuits (IPLC), Frame Relay (FR) Circuits, Internet Leased Lines (ILLs), Direct Inward Dialling (DID) and Direct Outward Dialling (DOD) connections. Customers for these services include mobile operators, data services operators, Internet service providers, software developers, banks and other large institutions.

IP-VPN

The Company continues to grow its Virtual Private Networks (VPN) product offering to an ever increasing clientele from the business sector who seek a modern solution to their need for an integrated voice, data and video communications system.

Our IP-VPN services are offered on a Multi Protocol Label Switching (MPLS) platform which is provided to customers anywhere in the country with access beyond the MPLS system provided via leased lines, frame relay or Digital Subscriber Lines (DSL).

For the future, we are looking to expand our IP backbone geographically within Sri Lanka, whilst extending IP-VPN services globally and enhancing the value added options it offers.

SLT-iDC - Our One-Stop 'Data City'

SLT truly moved into its role as a total communications solution provider, with the inauguration of a state-of-the-art Internet Data Centre.

SLT-iDC is a unique answer to a growing need in the modern business world. Companies the world over, whose core business does not lie within the IT sphere, are becoming increasingly wary about incurring additional investment in the technology, staffing and facility upgrades they would require to maintain their own in-house data facilities.

Outsourcing was a logical way to go, once we took care of the security aspect.

market share in data services

Ours is a classic facility, 80 square metres in extent, offering data housing, hosting and management.

In terms of data housing, we offer rack space and bandwidth, advanced physical security and uninterrupted power, network port and availability.

Our dedicated hosting services provide servers on rent, dedicated to customers, with their selected operating systems and web or application server. We also offer speedy and easier corporate business start-up.

The Centre offers a Shared Hosting Facility which involves a provision on server for shared resource, creation of mail and web servers, using the customer's own domain name and speedy start-up of SME and Government web sites.

Managed services include Advanced Management and Security Tools for managed services, a selectable menu programme such as back up, firewall security, monitoring and reporting and total customer support.

The Centre is housed in a state-of-the-art facility, within SLT's Head Office and features highly sophisticated structural, management and security systems.



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Great 'Net' Results - Dial-up

SLT's Internet service was launched in 1996. As you would expect, the demand for this service has been steadily growing over the years. The widening access that a wider cross-section of people are gaining to the web, augurs well for growth to be sustained well into the future.

The Company's SLTNet is by far the country's largest Internet Service Provider (ISP) by customer base. The services provided are varied and tailored to meet diverse needs for example those of students, the home and corporate offices.

In a broader sense, SLT offers its products in the categories of Post-Paid and Pre-Paid.

As at 31 December 2004, SLT counted 56,000 customers for its Post-Paid Internet, E-mail, Internet Leased Lines and ADSL products, which is a growth of 11% over 2003, whilst the Pre-Paid subscriber base as at the same date reached 70,000 customers, which is a growth of 85% over 2003.

The "Student Inbox" and the "Light Surfer"

During 2004, SLT launched two new Internet based products called "Student Inbox" and "Light Surfer". Both products were designed to promote the use of the Internet by students at an affordable price.

Born out of several workshops and seminars held across the island seeking to impart more know how on Information Communication Technology to teachers and students, the new products were designed to fulfil the need for practical training in support of the theoretical inputs of these events.

The Student Inbox is a facility provided to all students of educational institutions approved by the Government, at a monthly fee of Rs.100. Applications for the product must be certified by the Principal of the institution.

The Light Surfer is a specially designed package for the novice or those whose usage of Internet and e-mail services is of a minimum duration. For a monthly fee of Rs. 250, the "Light Surfer" can enjoy the first 15 hours of web surfing free of charge, every month.

These two new product offers were made in line with SLT's aims to popularise Internet usage by improving accessibility and affordability, whilst increasing international bandwidth.

Multi-Accessing the World



6,300 customers enjoy broadband Internet facilities

Broadband - ADSL

The Company's ADSL (Asymmetric Digital Subscriber Line) services have been expanded to provide greater coverage, moving beyond the initial areas of Colombo and a few key cities in the vicinity, to encompass a wider area.

The areas presently covered include Mattakkuliya, Nawala, Battaramulla, Havelock Town, Narahenpita, Gangodawila and Kirulapone.

The subscriber base for this service stands at 6,300 as at 31 December 2004.

ADSL offers speeds of 512 kbps and 2 Mbps, compared to ISDN speeds of 128 kbps.

Featurewise, the "always on line" nature of connectivity permits home users and business users alike to enjoy constant contact with friends, family, customers, suppliers - in fact the whole world!

Access to the Internet, phone and fax services is provided on the same line.

All services are available on payment of a monthly rental only - no additional telephone charges.

Dedicated Internet - Internet Leased Circuits (ILLs)

The Company's SLTnet ILL service comprises a 24-hour dedicated leased line providing a customer's corporate local area networks (LANs) with fast, reliable and efficient connectivity to the Internet. Operating at speeds ranging from 64 kbps to 2 Mbps, ILLs fully and efficiently support mission critical applications such as e-commerce, video conferencing and web applications.

We offer 24-hour network monitoring and Help Desk services, which ensure that customer networks operate smoothly. ILLs also guarantee service availability and network latency.

SLT's ILL service puts customers' staff, their clients and business partners, from anywhere in the world, in touch with popular Internet services such as electronic mail, bulletin boards and file downloads. They also enjoy the ability to deploy truly interactive multi-media applications and innovative e-commerce storefronts to attract prospective customers at anytime and from anywhere in the world.

Wireless - Wi-Fi

The Wi-Fi (Wireless Fidelity) Internet zone at the Bandaranaike International Airport is proving a big boon to travellers, whether on business or pleasure. The zone is basically a wireless high speed broadband network that allows the traveller to plug in a Laptop or PDA and access the Internet.

SLTNet pre-paid cards are enabled for wireless access at all Wi-Fi zones. Thus the cards can now be used, both to gain dial-up access as well as Wi-Fi access.

Whether the requirement is to keep in touch with office or home, surf the Internet for information or entertainment or just plain browse, the user gets it all at speeds of up to 11 Mbps.

The Company is planning to set up more Wi-Fi zones in several key locations around the island.

Infrastructure

The Company operates several points-of-presence (POPs) spread across the country, which enables subscribers to dial-up a single access number (150) at local call rates and get on line.

SLT's international backbone bandwidth is an unmatched 155 Mbps each, for its eastern and western routes.

The Company offers ADSL facilities at 512 kbps and 2 Mbps in the Colombo Metropolitan area, with plans to expand services further in Colombo suburbs and Kandy.

We also offer Internet leased lines at 64 kbps, 512 kbps, 2 Mbps and multiples thereof, client mail service installation, web and Domain Name Server (DNS) hosting, in addition to POPs Internet services.

Diversified Routes

SLT faced a service interruption due to a damage caused to an undersea optical fibre cable in the Indian Ocean in August 2004. Several developments for the better arose from this incident. The Company dedicated itself to the task of pursuing multiple alternate routes in both fibre optic undersea cabling and satellite media. Also, pursuant to the accidental disruption of services, SLT has gained direct connectivity to Singapore, Germany and India apart from its direct routes to the USA and Japan.

“Introducing school children to the wonders of the Internet - with responsibility”.



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Hello, World...

Calling someone half way around the world today is as easy as sitting back in a comfy chair and dialling. No operators, no booked calls, no lost connections. The technology and accessibility available to the industry today has truly made the world a smaller and more reachable place - for people from Dondra to Point Pedro.

The Company maintains direct links with 54 countries but provides international telephony to 223 countries through transit arrangements with other telecommunications operators. As at 31 December 2004, SLT enjoyed an international connectivity of 5,737 circuits of which 14 countries including the USA, UK, Canada, Australia, India, Germany and Hong Kong each have more than 120 circuits available.

The Company has sufficient switching capacity to meet current as well as anticipated levels of demand for international voice and data traffic.

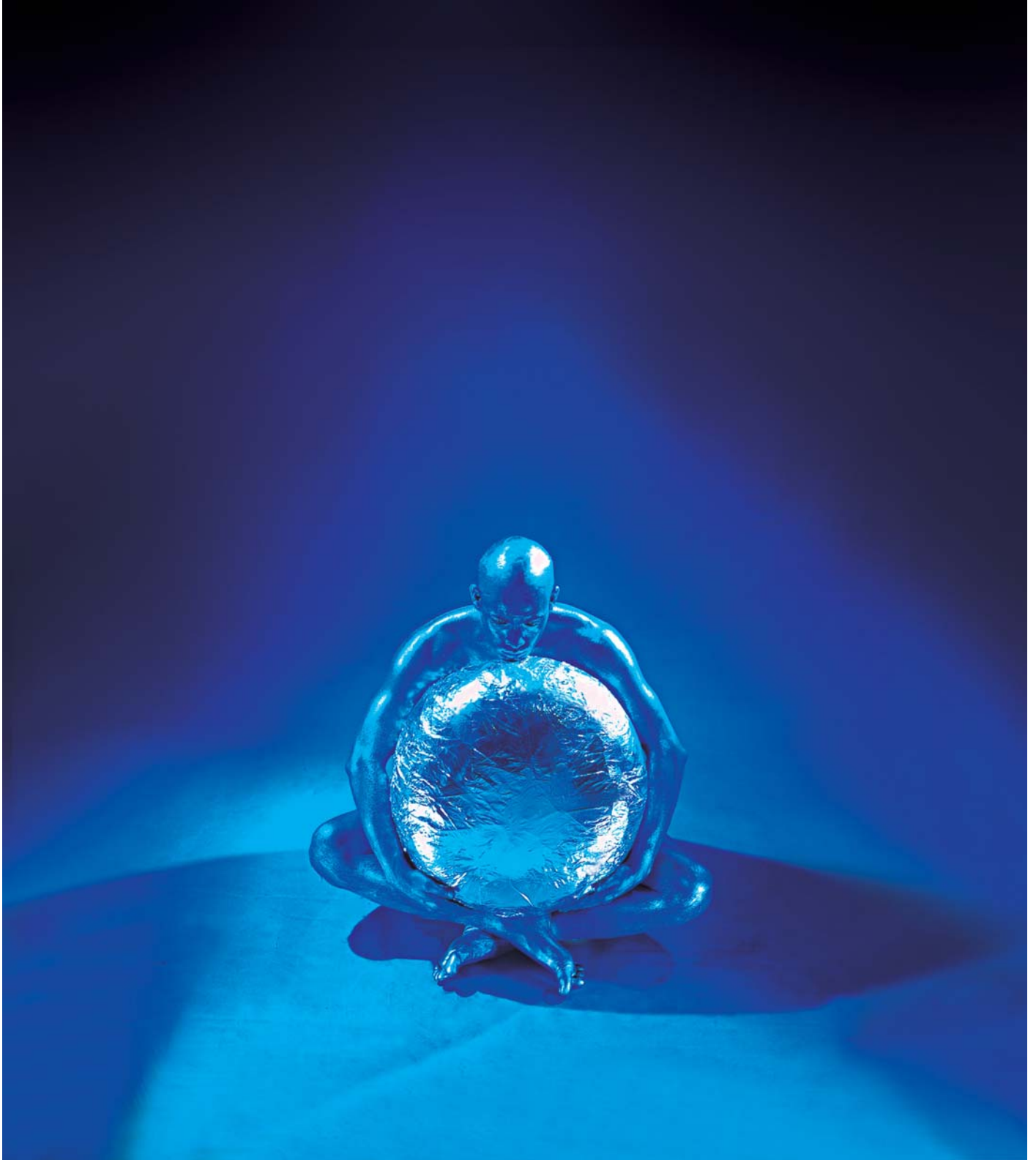
The technical infrastructure that supports SLT's international telephony consists of three gateway exchanges, two cable landing stations, three satellite earth stations and one mobile earth station, augmented by the access we enjoy to the undersea optical fibre cable facilities of SEA-ME-WE 2 and SEA-ME-WE 3.

SLT and BSNL

As has been commented on by the CEO in his message, one of the highlights of 2004 was the fulfillment of measures under the agreement signed between SLT and India's No. 1 telecommunications company, Bharat Sanchar Nigam Limited (BSNL), where under the initial agreement signed in October 2003, a micro-wave link was revived to carry voice traffic for Indian telecommunication traffic aimed at global locations.

Under a further MoU signed in August 2004, BSNL and SLT principally agreed to initiate the construction of a undersea optical fibre cable between India and Sri Lanka catering to voice and data requirements, not just between the two countries but possibly across the SAARC region.

Fully Embracing Global connectivity



SLT has an international connectivity of

5,737

The benefits of this optical fibre cable system are that it will support Public Telephone Networks (PSTN), IP Broadband services, International Private Leased Circuits (IPLC) and Multi Media traffic between India and Sri Lanka. BSNL has the opportunity to reach the world through a further routing of their traffic unserver via Sri Lanka.

SEA-ME-WE 4

SLT was unanimously nominated as the Chair of the Finance and Administrative Committee of the SEA-ME-WE 4 undersea optical fibre cable project. Thus, the Company has been given responsibility for securing this US\$ 500 million project, with its own investment being US\$ 30 million on behalf of 16 international partners. SLT built, maintains and hosts the website for the SEA-ME-WE 4 undersea cable consortium.

Expected to go on-line in the third quarter of 2005, the SEA-ME-WE 4 project which is an alliance of Sri Lanka and fifteen other international partners, the new cable will allow Sri Lanka to benefit from the new backbones enhanced quality and bandwidth.

This undersea optical fibre cable will span 20,000 km between East and West, landing in Singapore, Malaysia, Thailand, Bangladesh, India, Sri Lanka, Pakistan, the United Arab Emirates, Saudi Arabia, Egypt, Italy, Tunisia, Algeria and France.

SEA-ME-WE 4 will be the next generation in fibre optics, revolutionising connectivity as bandwidth capacity leaps from 80 Gigabits to 1.32 Terabits per second, with a 25-year guaranteed life span on the technology.

This spells speed, better connectivity, enhanced products and services and significantly enhanced competitive advantages.

circuits

“Connecting Smiles - millions of them, in fact, across oceans and continents - SLT IDD”.







A Greater Role in a Wider World

Sri Lanka Telecom stands at the forefront of the communications industry in Sri Lanka and is rapidly moving out to the global community. We have widened global boundaries, firstly by bringing people closer together via the telephone. As technology advanced, and as we introduced each new product and service that such technology spawned, we began to see boundaries ceasing to be.

Today, the communications industry has virtually no boundaries. Worldwide Internet based products and services put people in touch with the remotest corner of the globe - at the touch of a button, and through a series of relatively inexpensive service providing systems and networks.

Ironically, in a "boundary-less" world, SLT's business pursuits has not only brought a wide stakeholder group closer together, but the Company has also integrated itself much more closely with their lives and the environment within which we all co-exist.

This close integration, like any worthwhile relationship, thrives on deep respect, morals and ethics of the highest order, recognition of the rights of all parties to co-exist and enjoy a healthy symbiosis and a highly responsible and protective attitude towards the world we live in.

That said, the presentation of this Social Impact Report becomes totally relevant to the Company.

Our Customers

They are our "reason to be". Fulfilling their communications needs has been our core business over the years. We are truly proud to serve customers from every walk of life. The variety of need that they bring to the table keeps us providing optimum solutions, whether they be a simple telephone connection, or a sophisticated multi-point, multi-product offer.

Forging relationships, going the extra mile to serve their needs and retaining their custom have been all important areas of focus for SLT over the years. The importance of these endeavours are paramount, situated as we are at the core of a highly competitive industry.

SLT has carried forward many initiatives designed to provide customers access to the Company's full range of products and services with greater facility and convenience than before.

The SLT Call Centre - A One Call, One-Stop Solutions Provider

Responding to consumer queries in all their variety is important in any business. For SLT, we took this basic need a few steps further by asking ourselves what we needed to do, to make it easier for the customer to ask a question and get a definitive answer.

Thus was born the Call Centre concept in 2003. We envisaged a modern, customer centric call centre equipped to handle and respond to a wide variety of customer queries promptly and with little or no comebacks.

In the past, SLT offered several service numbers, each specific to an area of query such as billing, fault reporting, generation of alarm calls, assisted international and trunk calls, telegrams, etc. The Company realised that, while such a system had its merits in a different "world", modern communications demanded a very different approach.

The Company then restructured and consolidated 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 Company trained staff 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 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.

Teleshops, RTOs and OPMCs

SLT has established several other points of communication with its customers. The Company's Teleshop network, which stands at 23 today, provides the customer with a single location at which a multitude of needs could be met. Payment of bills, lodging of complaints, registering for a new telephone or investing in new telecommunications equipment can now all be handled under one roof, in really a really comfortable and modern environment.

Likewise the Company has transformed its 35 RTOs into more customer friendly and efficient locations providing a variety of services such as sales, service/maintenance, billing and collection. The RTOs have today become centres of comfort, satisfaction and productivity, where renovation and automation together with empowerment have transformed the service they provide to the public.

Whilst the Teleshops and RTOs directly interact with the public, our OPMCs (Outside Plant Maintenance Centres) which is a relatively new concept to Sri Lanka, sees the centralisation of key maintenance resources in key locations facilitating rapid deployment of services to the customer. The concept has already been described in our CEO's review.

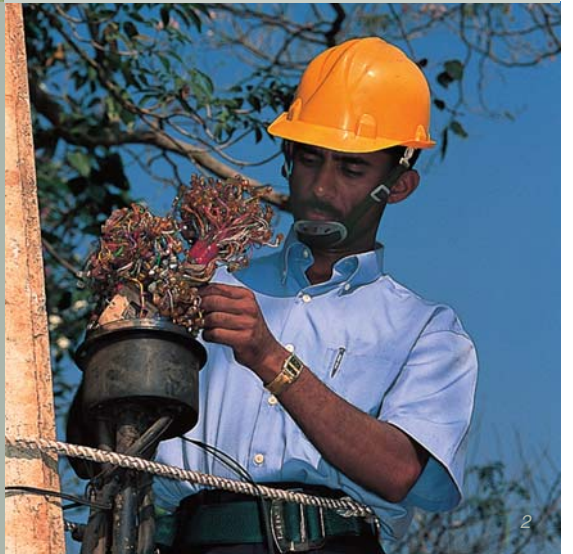
Our Shareholders

They've put their faith in the Company, invested in it, followed its progress and supported it through the years. Our shareholders have nurtured us towards making SLT an extremely successful institution. In reciprocation we have a duty to return maximum value on their investments in a sustainable manner, whilst maintaining a high degree of responsibility and ethics.



*Our new look Teleshops not only look 1
great - they work better too!*

*An OPMC - taking service and 2
maintenance to new heights*



We are therefore justifiably proud that the prestigious house of Dun and Bradstreet, in rating the Top 100 Companies of Sri Lanka 2003, rated SLT Sri Lanka's No.1 Company in terms of networth. As has been reported elsewhere in this Report, the Lanka Monthly Digest, in choosing its Top 50 Listed Companies, placed SLT in the No.1 position, in its first ever entry to the ranks of listed companies.

SLT is one of the largest companies in terms of market capitalisation in a sum of Rs. 28 billion. The Company's share reached a high of Rs. 29.00 before stabilising at Rs. 15.50 as at 31.12.2004.

Earnings per share declined from a high of Rs.1.64 in 2003 to Rs. 0.72 for the year under review due to extraordinary items that are shown in the accounts.

In the Shareholders' Interests

The Company's dialogue with its shareholder/investor community is vested with its Investor Relations Division. There are a number of forums available to this community, to gain insight into the performance of the Company.

The Investor Relations page on the Company's website contains a whole host of up to date information on share prices and a facility to register for e-mail alerts providing free daily updates on SLT's share price performance on the Colombo bourse. In addition visitors to the site can also view the Company's Financial Reports in PDF and HTML formats, as well as access the special quarterly newsletter "Investor" in PDF format, detailing the Company's share price performance as well as other key financial and business indicators. A hard copy version is made available to all shareholders.

The Investor Relations Division successfully co-ordinated the Company's responsibilities in the highly successful US \$100 million International Bond Issue and also spearheaded the Company's input towards gaining high ratings from Fitch and Standard & Poor's. SLT was the first company to go in for an international bond and the first Sri Lankan company to receive an international rating (B+ from both Fitch and Standard & Poor's), which will no doubt pave the way for other companies to source funds in similar vein. Benefits also accrue to Sri Lanka through the enhanced inflow of funds.

SLT met the investor community for the second occasion in Colombo in 2004. The objective of this meeting was to place before investors the production and financial status of the Company over the year 2003 and introduce its business plans for 2004.

Our Employees

They are the brain and brawn of the Company; the people who give life to vision and planning; who take enterprise from the drawing board to the customer and beyond. Increasingly more so than ever before, our employees are the "face" of the Company; the image that is imprinted and remains in the "minds eye" of the customer.

For the year in review, SLT had a total cadre of 7,129 employees.

Our people constitute the Company's single most important resource in its development and success.

It is therefore an honour for the Company to ensure that they are well cared for, in every way possible. We begin by ensuring that SLT is always an attractive career option, providing a work life that is

rewarding and satisfying, where skill and knowledge enhancement is encouraged as are personal development and initiative.

In achieving these objectives, SLT has put in place a whole range of activities and systems such as training opportunities, motivational programmes, productivity development and employee empowerment initiatives, welfare and recreational facilities and a whole lot more.

Let us examine some of the key initiatives the Company took in 2004.

Through Learning we Thrive

SLT operates five training centres amongst several other initiatives, imparting the skills and qualities required for continuous personal development of employees.

In terms of numbers, the Company trained 14,045 persons at its own training centres, whilst another 545 received training overseas. A further 908 were trained in other institutions within Sri Lanka.

In a broad sense, our training initiatives focused specifically upon the areas of Customer Satisfaction and Brand Image. Thus, training programmes to improve customer service such as Customer Service Excellence, plus English Language instruction to improve the skills of our front office staff were conducted.

We also provided programmes on Positive Attitude Development and Personality Development to complement those enhancing technical know-how.

In another important development, the Company took training to the regions. Here, we imparted training in Project Management Skills, specifically targeting regional staff who must manage projects at local levels.

In the field of IT, we continued to impart training particularly in terms of implementing Geneva (our Billing System) and Clarity (our Fault Rectification & Servicing System).

SLT practises the 5S and Kaizen productivity development regimes, and the Company has been rewarded for outstanding achievements this year too.

SLT forged and developed important affiliations with prestigious organisations, to augment training opportunities offered.

The Company entered into partnership with City & Guilds, UK and Edexcel BTEC, UK to provide internationally recognised programmes to Sri Lanka, especially in the field of Telecommunications.

We also continued our close relationship with the Commonwealth Telecommunications Organisation (CTO), both as a requesting body and an offering partner. SLT offered 7 programmes under CTO's PDT activities for developing countries, Mauritius, Mozambique, Bangladesh, Lesotho and Uganda.

Good Qualities in Life

Inculcating good habits and best standards as an everyday practice, is encouraged at SLT. Encouraging staff to develop not only good work habits but also well rounded personalities provides a true win-win situation - on the one hand, staff develop the skills to perform their daily chores, whilst on the other, they find fulfillment in life beyond the workplace.

The Company organised a series of competitions during National Quality Week and World Standards Day, both of which fell in the month October.

Quality Circle and Continuous Improvement teams from across the Company's departments and regional offices took part and annexed many an award.

We encourage a wide range of sports at SLT. During the year in review the SLT Cricket team met the Mobitel Cricket team in two friendly matches, both of which were won by SLT. The fellowship and good sportsmanship served to unite people from both companies and depicts exactly what we try to achieve in promoting a "life beyond the workplace".

Improving the quality of life for our people is a constant priority for the Company. A revamped medical assistance scheme was launched in collaboration with the Ceylinco Insurance Company Limited.

Under the scheme, employees will be able to avail themselves of a range of medical and health services, the reimbursement of which will be borne by the Company within certain prescribed limits. Some of the benefits will apply to the employee's family as well.

Recognising and Rewarding

Encouraging people is a great way to show your appreciation of them as well as motivate them to greater heights.

SLT has a continuous process of recognition integrated deep into its culture and work processes. For example, 29 of our Telecom Engineers obtained Charter status during the years 2003 and 2004 and were duly felicitated at the Institution of Engineers. The event was organised by the Telecom Engineers' Union.

One of the Company's key areas of focus was the development of its Call Centre systems. The staff manning this area were called upon to re-skill and enhance their knowledge base, adopt a fresh persona in terms of dealing with a wider subject base whilst offering customer satisfaction at every point of service delivery.

Similarly, the staff managing these changes had to display resource in providing correct leadership and applying technology whilst constantly assessing the needs and expectations of the customer.

A felicitation and awards ceremony was held to honour and reward the staff leading the re-organisation of the Call Centre system.

Our Community

Just as every individual has a place in society and the community, so does SLT, as an institution. We occupy a place in people's lives, not just because we provide them with products and services, unique thought they may be since we are in the business of putting people in touch with each other, but because we form relationships that allow both parties to enter the life of the other.

Their issues become ours and vice versa. The one needs the other. And then, we share the world we live in, with all its pressing needs of conservation and protection of vital resources.

We share common goals in reaching for a life of value and dignity; a life of peace and prosperity within whatever social strata we exist.

SLT is justifiably proud of its role in the wider community of Sri Lanka.

Moulding Intellect

SLT continued to partner The Asia Foundation, a leading non-profit organisation working in Sri Lanka since 1954, in their "Books for Asia" programme.

SLT recognised the vital need that exists in Sri Lanka for providing the means for education as well as the promotion of English as a link language. Therefore the Company decided to make a substantial contribution to this programme, which facilitated the initial distribution of 60,000 books valued at over US\$ 2 million.

SLT will evaluate the outcome of this initial contribution and plan further involvement with this programme in the years ahead.

The Company's contribution was the single largest corporate donation the Foundation has received to date.

In July 2004, SLT joined hands with The Asia Foundation once again under the Company's "Spreading the Wealth of Knowledge" programme. Identifying the access to good books as a major requirement in the search for knowledge and skills, the Company entered into an agreement with

The Asia Foundation to promote and provide practical opportunities for the young and the elderly to gain access to knowledge and learning.

The project kicked off in Anuradhapura where 250 English Language books were donated to the Rajarata University's library. Then in August, 850 books were presented through the Mawanela Provincial Council, whilst 150 books were presented to the Moratuwa University. A further consignment of books was presented to the Sarvodaya Movement.

The Company took its theme, "Spreading the Wealth of Knowledge" even further afield and commemorated Reading Month by presenting 3,500 books to the Central Province Library Services Board, in collaboration with The Asia Foundation. Another 2,000 books were presented to the Technical College, Maradana.

There are, of course, other ways of moulding intellect and sharpening wit. SLT presented a Challenge Trophy for the winners of the Inter-Schools Debating Competition. Thirty schools participated at this event which sought to hone their skills in the English Language as well as develop competence and knowledge.

SLT sponsored the Sri Lankan delegation to the International Olympiad in Informatics (IOI) in 2004. The team did extremely well, winning 1 Gold and 3 Bronze medals. This event basically tests technical skill in algorithmic programming, requiring contestants to compete individually in solving a set of programming issues.

The Company also sponsored the "Anatoly Karpov" Chess Tournament conducted by the Russian Centre, Colombo.



Putting books in Libraries across the land 1
Supporting healthy debate 2
Sponsoring our Olympiad Champions 3



2

3

The SLT - CIMA Partnership

For some years now, SLT has been partnering the Chartered Institute of Management Accountants (CIMA) in furthering career opportunities through the avenues of training provided by CIMA. This signifies the working together of two top entities - SLT a top corporate and CIMA the custodian of a global management accounting qualification.

SLT signed an MoU with CIMA which seeks to share and develop areas relating to professional development in the Management and Information Technology sectors. Both parties will focus on school children, school leavers, graduates, postgraduates and professionals.

SLT came in as Strategic Partner for CIMA's 26th National Conference which was held on the theme, "The Quest for Excellence - Leveraging Global Best Practices".

The Company was once again partnered by CIMA in holding a series of Career Guidance seminars for youth. One programme was held for 200 first-year undergraduates of the Colombo University whilst another addressed 200 third and fourth year undergraduates of the Communications and Engineering faculties of the University of Moratuwa.

Partnering other Professional Institutes

SLT collaborated with four other professional bodies, the Chartered Institute of Management Accountants, the Chartered Institute of Marketing, The

Institute of Personnel Management and the Institute of Chartered Secretaries and Administrators to present a mega-programme on the theme, "To be Number One".

We partnered the ACCA to host "Mini Comfest" competitions islandwide, as well as the National Competition.

Some other Highlights of the Year

The Company sponsored the 6th International Conference on Information Technology (IITC) and the 2nd International Conference on e-Governance (ICEG).

IITC was themed "From Research to Reality" and highlighted the benefits of IT and Communications Technologies to Sri Lankan society.

ICEG was themed, "From Policy to Reality" and sought to demonstrate how electronic governance could re-engineer the way governments dealt with problems, enhancing efficiency and delivering services to the people in a more responsible manner.

Our staff have come forward voluntarily on several occasions, to show they care for their community. Many have been the contributions made by way of aid to the distressed, uniforms for school children, etc. They usually mark special days of religious or cultural significance with such acts of kindness.

During the drought in 2004, staff came together under the banners of the SLT Welfare Division and the SLT Buddhist Society to distribute dry rations to 1,300 affected families. The aid totalling Rs. 1 million was distributed through several Buddhist Temples in the area.

SLT has also worked with schools to introduce them to the Internet and the abundant world of knowledge that can be accessed through it. Called "Web Spinners Unite", our programme of activity for 2004 saw the Company reach out to 25 schools from all parts of the island. Nine schools launched websites of their own.

"SLT Team Leader" is the name of a programme the Company has put forth to develop the correct personalities and leadership qualities in school children. Styled "Grooming the Youth", the Company's programme at St. Joseph Vaz College, Wennappuwa adopted a practical approach to instructing students on team spirit, organising studies and achieving objectives.



- 1 SLT - Long term Strategic Partner of CIMA's training initiatives and Annual Conference
- 2 Sponsoring the furtherance of IT in Sri Lanka
- 3 Rapt Attention as young "Web Spinners Unite"



SLT and the Young Zoologists' Association - partners in conservation 1

SLT's "frontline" in the war against Eulex, on Horton Plains 2



In the sphere of arts and culture, SLT has stepped forward to sponsor the rebuilding of the Chitrasena Kalayathanaya. An event to raise funding and awareness "Nrithanjali" featuring the Chitrasena-Vajira Dance Foundation was staged in 2004, under the sponsorship of SLT.

Our Environment

Every living being receives a rich bounty of sustenance from the environment. There would be no enterprise, no life whether corporate or private without the bounties of nature.

It is therefore a rude shock to the system to observe how blatantly we take nature and the environment for granted. Over the centuries, man has misused what nature freely bestowed - clean air, clear water, warm sunshine and the bounties of land and sea.

The preservation of our natural resources for generations to come, has become a top priority for all.

SLT offers several programmes in the cause of preserving the environment.

Earth is Calling - Are you Listening?

The Company joined forces with the Young Zoologists' Association to present a series of public lectures on topics of high interest in this field.

Six lectures were held between July and December 2004, which covered the topics - "Land Mammals of Sri Lanka", "Fresh Water Fish of Sri Lanka", "Biodiversity and Conservation", "Environmental Law", "Custom's Role in Biodiversity Conservation" and "Marine Mammals".

The lectures were conducted by some of the most eminent and erudite persons in their respective fields of expertise.

The Company Calendar for 2005 was themed upon this project.

Other Initiatives

The Company has undertaken to keep the precincts of Sri Pada clean. As the Sri Pada season gets under way, sizeable quantities of garbage tend to build up, which if left untended, leads to adverse effects to the area. Indeed, when garbage was collected in a timely manner, changes in the species diversity were observed, especially in the bird population in the area.

Thus our cleaning programme has the dual effect of maintaining a conducive environment for pilgrims as well as enabling a study of the seasonal changes in the diversity of fauna in the Sri Pada region.

We have also commenced a project to rid the Horton Plains of the invasive Eulex plant. This rapidly growing plant has proved a menace to the beautiful Plains and SLT has an active campaign going to manually remove the plant and prevent its spread.

The Company also conducts a number of Public Awareness lectures throughout the year on different aspects of the environment and the conservation process.

Corporate Governance

One of the key facets of our social responsibility system is the corporate governance structure. Our system of corporate governance is based on transparency, equity and efficiency focusing on the need for consistent progress of the Company, and with a view to laying a solid foundation for management and oversight.

Although government intervention in the form of prescriptive legislation has not been forthcoming, the Company has endeavoured to build a corporate governance practice based on OECD guidelines, the Code of Best Practice on corporate governance by the Institute of Chartered Accountants of Sri Lanka, and the combined code on Corporate Governance, UK.

The environment in which our Company has to operate today is increasingly international, complex and pressured. Under the circumstances SLT's objective has been to put in place an effective system of checks and balances that govern the relationship between the shareholders and the Board of Directors on the one hand and the Executive Management and the Board of Directors on the other.

The Board

The Board of Directors consists of one Executive Director who is the CEO and nine Non-Executive Directors. The Board assumes responsibility for the stewardship of SLT and is fully accountable to the shareholders. The profiles of the Directors are given on page 6 and 7 of this Report. Board responsibilities are discharged directly or through the various committees. There have been twelve regular meetings and two special meetings of the Board during 2004.

The Board procedures have been established to deal with matters which often have to be dealt with urgency, often between regular Board meetings. Telephone conference meetings are held in which as many Directors as possible could participate.

Matters reserved for the Board, a precedent to good governance is firmly laid down and closely followed by the Board. All Directors are subject to election by the shareholders at the first Annual General Meeting except CEO and the Chairman, after

their appointment, and to re-election thereafter at intervals of no more than three years. The Directors receive accurate, timely and clear information. The Management provides such information and wherever necessary Directors seek clarification or amplification.

The positions of Chairman and CEO are separate providing for greater transparency in decision making. The CEO enjoys a clear remit and specific responsibilities. With a view to allowing flexibility, which is an important need considering the pressured environment the Company has to operate, the Board wherever necessary delegates authority to the CEO.

The Annual Business Plan which includes the capital expenditure budgets are approved by the Board in advance and reviewed periodically for necessary corrective action.

The Board ensures the presentation of balanced and understandable assessment in all interim and other price sensitive and public reports to the regulators as well as information required to be presented in accordance with statutory requirements.

The Board has adopted systems to ensure checks and controls. It also ensures that the requisite technology, systems, procedures, and strategic planning are in place. Considerable care is taken to make sure that proper audit controls, both internal and external are in place and that these are controlled by persons who are independent and competent.

Corporate Management Team

The day-to-day operations are carried out by a Corporate Management Team headed by the Chief Executive Officer. While the Board frames the policy and strategic objectives, autonomy is extended to the Management Team which operates within the broad parameters in accordance with the professional standards.

Board Committees

The Remuneration Committee comprises of the Chairman and the CEO who decides on the remuneration of the Senior Management which is performance related.

Management Discussion & Analysis

Setting Our Compass

Setting the strategic direction for SLT for the year 2004 required a carefully focussed approach. In an industry developing as rapidly as telecommunications, one is truly spoilt for options. Thus, pursuing the myriad areas of opportunity, greatly tempting though they were, required us to make careful choices along a planned path.

Phase IV of our Strategic Plan commenced in 2004 and will run through 2006. The key strategic direction of this phase of the Plan is to position SLT's brand image as that of a technologically advanced, reliable and customer focussed telecommunications service provider with a global reach, both in Sri Lanka to its business and other customers, and abroad to multi-nationals and other telecommunications service providers.

In terms of momentum, it indicated the necessity to "move outwards"; to position the Company as a premier regional telecommunications operator utilising its ever evolving global connectivity to provide a diversification of revenue streams through marketing such capabilities internationally.

It is against this backdrop that we present an analysis of management initiatives for 2004.

Using Enhanced Global Connectivity

In March 2004, SLT became a co-signatory with 15 other international telecommunications carriers to collaborate on the construction of SEA-ME-WE 4, the new submarine cable to be commissioned by end 2005.

Additionally, the Company chairs the Finance and Administration Committee which has responsibility to see this US\$ 500 million project to completion.

SEA-ME-WE 4 a next generation, fibre optic cable will revolutionise current connectivity, increasing bandwidth from 80 Gigabits per second to 1.32 Terabits per second. SLT will benefit by gaining higher connectivity, better reliability, improved security and enhanced speed, with many of the services offered being on par with the best in the world.

Another high point of the year was the coming to fruition of the agreement signed between SLT and Bharat Sanchar Nigam Limited (BSNL) where an Indo-Sri Lanka Microwave Link was established between Talaimannar and Rameshwaram.

This initiative is a further step along SLT's path to becoming an international long distance carrier for Indian traffic.

BSNL's strength as India's No.1 and the world's seventh largest telecommunications company, yields a consumer base of over 40 million Fixed Line customers and 6 million cellular subscribers to be served by SLT.

A further development saw the signing of a MoU between SLT and BSNL who have agreed to collaborate on the construction of a submarine cable which will cater to voice and data traffic between and beyond India and Sri Lanka.

These developments taken in tandem with our bilateral agreements with all Indian operators holding international licences, plus an international linkage network with 223 countries and an international connectivity of approximately 7,128 circuits, serve to lay a firm base for our progress towards becoming a premier regional operator.



For the future, we intend to expand international operations through hubbing and transit services to overseas telecommunications service providers.

The next step along this pathway will see SLT reaping revenue from marketing its expertise and capabilities in network, system integration and advanced technology to other telecom operators both in South Asia and other parts of the world.

This is an exciting journey for which SLT is ideally positioned and prepared.

The Growing Presence of the Mobile

Although the subject of Mobile Telephony has been covered more fully elsewhere in this report, it is pertinent to make mention of the vast potential for growth that lies within this sector. It is also relevant from point of view of the fact that the mobile is a key element in the "look beyond" approach we have adopted today - an approach that explores worlds beyond fixed telephony and more conventional forms of communication.

SLT's fully owned mobile company Mobitel may not be Sri Lanka's No.1 operator just yet, but they're getting there, fast. Mobitel's strategy is based upon using the supremacy of its technology, brilliant customer care and state-of-the-art value added services, to grow coverage and offer the best and most modern mobile telecom solutions in the country.

From this platform Mobitel will aim for the top spot as Sri Lanka's No.1 mobile telecom operator.

For the year 2004, Mobitel grew its customer base by a staggering 99.3%, fuelled mainly by its introduction of its EDGE enabled GSM services. It grew market share by 8% for 2004.

Market demographics show a penetration of just 10% whilst growth has averaged 53% over a 10-year period.

There can be no clearer example of the huge potential that lies within this sector.

Mobitel's presence within SLT's fold gives us a unique positioning within the telecommunications industry of Sri Lanka; that of the only truly integrated

telecommunications service provider in the country today, able to offer fixed line, data and mobile services to its clientele.

This is a key factor in the Company's bid to "move outwards" - taking telecommunications beyond a purely local focus, to the international arena.

Indicators of Strength

Along such a journey as SLT undertook in 2004, it was heartening to receive acknowledgment and honour which we have justifiably taken as endorsements of the Company's strength in pursuing its strategies.

International Bond Issue

SLT successfully completed an international bond issue which realised US\$ 100 million, in late 2004. The issue was oversubscribed tenfold.

In the process the Company notched up several "firsts". This was the first ever international fixed rate bond from an entity in Sri Lanka, which was also the first to receive an international credit rating. This landmark offering from SLT has created a new benchmark in the international debt capital markets for borrowers from Sri Lanka, and opened up opportunities for local companies to source similar funding.

The bond issue also attracted an international rating of B+ from both Fitch and Standard & Poor's, making SLT the first Sri Lankan company to receive such an accolade.

Another aspect of this milestone is that its success was due in no small measure to the strength and standing of SLT as the leading corporate entity in Sri Lanka.

Rated High

In 2004, Fitch Ratings Lanka assigned its highest rating of SL AAA (sri) to SLT. This level of rating is only assigned to companies of exceptionally strong capacity to meet their financial commitments in full, and on time.

The rating takes into account SLT's position as a fully integrated telecommunications service provider,

its dominant market share in Direct Exchange Lines (DELs), its capacity to offer Data and other network services and the prospects of growth in the wireless telecommunications sector.

In a comprehensive survey and rating process, the LMD Business Magazine ranked SLT the No.1 Company in Sri Lanka. We were chosen as Sri Lanka's most valuable brand and the country's top corporate entity for 2004.

A Regulatory Issue

The maximum impact for International Telecommunications Operators' Levy has already been taken into 2004 accounts. However, regulations are now being prepared to enable domestic operators to receive reimbursement of up to 2/3 of this levy in respect of rural roll out. As SLT has consistently continued to roll out network at a steady pace the Company is confident of being able to review the full amount of this reimbursement once the regulations are published.

All in all, 2004 has been a year of great opportunities successfully seized and developed upon.

Financial Review

Introduction

From a financial point of view 2004 was a year with mixed results for SLT. The shares of SLT continued to be the most liquid share in the Colombo Stock Exchange.

SLT went into record a landmark transaction by issuing USD 100 million notes in the international market to become the first Sri Lankan company to do so. In the process SLT became the first Sri Lankan company to be rated internationally.

The revised domestic tariff structure, introduced in September 2003, resulting from the fifth tariff rebalancing exercise continued throughout the year. Despite the resulting top line growth the Group ended up with a declined profit during the year compared to 2003.

The effects of liberalisation continued with the margins narrowing particularly in relation to the international call revenues.

During the year Mobitel, our fully owned subsidiary and mobile arm, laid the foundation for future growth. Negative operational result of Mobitel during this initial stage has affected the total results of the Group.

Introduction of International Telecommunication Levy and comparatively a larger proportion of doubtful debts were the other major contributors to the reduction in profitability compared to 2003.

The 'Tsunami' effect towards the end of the year caused further negative impact on the results of the Group.

Revenue

Group revenues in 2004 increased by 15% from 2003. This was mainly due to 21% increase in local revenues resulting from the tariff revision introduced in September 2003. Local revenue, which mainly consist of rental and call charges, accounted for 67% of total revenue.

IDD revenues, which were drastically reduced in 2003, recovered during the year. Compared to 2003 there was a 33% increase largely due to increased volumes. IDD revenues represented 8% of the total revenue in 2004.

Revenue from data transmission and IP services also increased by 36%.

International settlements were however almost static during the year. The increase in traffic volumes was offset by the reduction in settlement rates.

The contribution of revenue to the Group by Mobitel during the year after eliminating inter-company transactions was Rs. 2.8 billion. This represents 10% of the total Group revenue and is a 150% increase compared to Rs. 1.1 billion in 2003.

Operating Costs and Depreciation

The operating costs of the Group were Rs. 14.1 billion compared to Rs. 10.9 billion in the previous year which is a 29% increase.

Operating costs of Mobitel increased from Rs. 877 million in 2003 to Rs. 2.8 billion in 2004. This increase has been mainly due to increase in marketing

related costs and provisioning of doubtful debts. Depreciation of Mobitel also increased from Rs. 253 million in 2003 to Rs. 921 million due to accelerated amortisation of old network and additional depreciation resulting from recent heavy capital expenditure on GSM roll out.

Operating costs of SLT increased from Rs. 10 billion in 2003 to Rs. 11.3 billion in 2004. This was largely due to increase in repair and maintenance costs and provisioning of doubtful debts. Apart from them almost all other costs have been maintained at levels as same as the previous year. The cost consciousness and improved productivity of SLT employees in day-to-day operations have contributed to control the costs. The employees have been rewarded with enhanced benefits derived from the savings accrued from the Voluntary Retirement Scheme introduced in 2003.

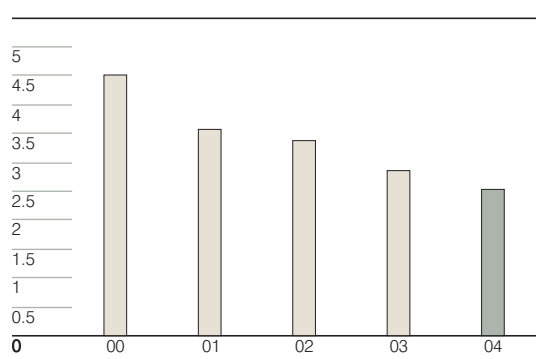
Depreciation of SLT increased only marginally in line with the incremental capital expenditure.

Finance Costs

Group interest costs were reduced by 12% from Rs. 2.9 billion in 2003 to Rs. 2.5 billion in 2004. Eventhough interest costs of Mobitel increased due to the borrowings in respect of GSM roll out, that was overshadowed by the reduced interest costs of SLT resulting in an overall decrease.

Interest costs of SLT decreased to Rs. 2 billion from Rs. 2.8 billion in the previous year largely due to repayment of loans.

Finance Cost
Rs. Bn



Cash Flow Hedge

Transfer to hedge reserve in 2004 was Rs. 408 million compared to Rs. 208 million in the previous year. The increase was mainly due to depreciation of Sri Lanka Rupee against the United States Dollar and other foreign currencies during the year.

Rs. 476 million was charged back to income statement as realised exchange losses. The figure in the previous year was Rs. 609 million. The reduction of this amount is due to the comparative reduction in the amount of foreign currency denominated loans settled during the year. As a result the hedge reserve decreased by Rs. 68 million during the year.

International Telecommunication Levy

During the latter part of the year Finance Act No. 11 of 2004 was enacted by the Parliament. A Levy was imposed thereby on International Telecommunication Operators with retrospective effect dating back to 3 March 2003. Accordingly, the Group had to recognise an expense of Rs. 2.5 billion out of which Rs. 1.1 billion is in respect of 2003. On account of rural telephony roll out 2/3 of the levy payable is likely to be refunded to the operators. However, regulations with regard to this refund are yet to be formulated by the Telecom Regulator and according to the Sri Lanka Accounting Standards such refund has not been accounted for.

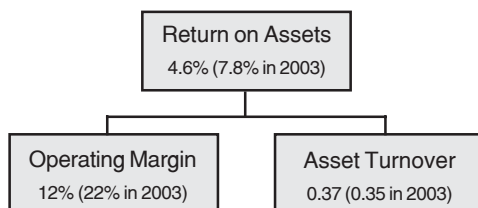
Taxation

The brought forward tax losses and Investment Tax Allowances of SLT have been fully utilised and as such the Company is liable to pay tax on account of 2004. After utilisation of the tax losses and Investment tax allowances to partly offset the taxable profits, the tax liability is Rs. 798 million. After deducting Advanced Company Taxes and Economic Service Charges amounting to Rs. 501 million already paid a further Rs. 297 million has to be paid in 2005.

Along with deferred tax effects and a change of estimation made in the previous year the net tax charge in the income statement in 2004 is Rs. 148 million.

Profitability

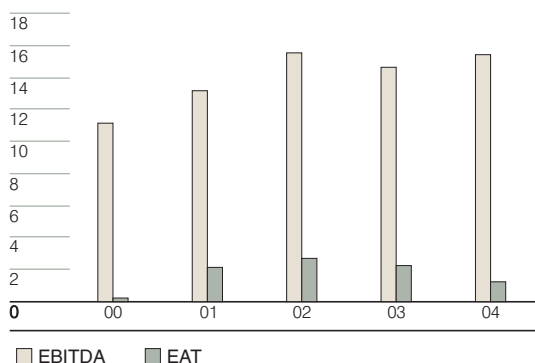
Return on Assets for 2004 was 4.6% compared to 7.8% in 2003. Operating margins dropped as explained in the introduction while Asset turnover saw a marginal increase compared to 2003.



Earnings before interest, tax, depreciation, amortisation and provisions for International Telecommunication Levy and Tsunami damages (EBITDA) of the Group were Rs. 15.5 billion. This is 5% higher than the previous year mainly due to the increase in revenue resulting from tariff revision in 2003. With increased depreciation compared to the previous year earnings before interest and tax before deducting International Telecommunication Levy and Tsunami damages is Rs. 6.4 billion which is almost as same as the previous year.

However, a large proportion of this profit has been eliminated due to provisions amounting to Rs. 2.8 billion in respect of International Telecommunication Levy and Tsunami damages. After recognising finance costs and other income the final earnings before tax was Rs. 1.4 billion which is Rs. 1.8 billion less than the previous year.

EBITDA/EAT
Rs. Mn

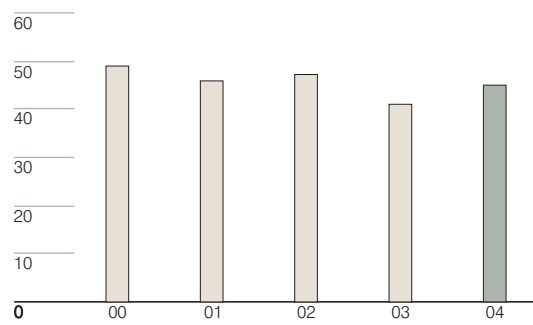


Capital Structure

SLT during the year successfully completed an international bond issue of USD 100 million. Approximately half of this amount was utilised to settle part of the existing loans. This has brought the Group borrowing levels from Rs. 21 billion (31 December 2003) to Rs. 25 billion increasing the Group gearing to 45% (31 December 2004). Net increase in SLT borrowings was Rs. 1 billion and that in Mobitel was Rs. 3 billion.

The unutilised proceeds of the bond issue has been temporarily invested in short term foreign currency fixed deposits until it is utilised for Mobitel expansion.

Gearing
Rs. Bn



Total settlements of borrowings by the Group during the year was Rs. 17 billion out of which Rs. 13 billion relates to SLT while Rs. 4 billion relates to Mobitel. The debt portion of the Group as at 31 December 2004 was 45% of total capital compared to 41% a year ago.

The low gearing of SLT has been effectively leveraged for the Group as a whole.

Performance Measurement

Basic Earnings Per Share (EPS) of SLT (Group) for the year was Rs. 0.72 compared to Rs. 1.25 of the previous year. Return On Equity was 4.1% in 2004 based on the Group figures as at 31 December 2004. The comparative ratio for 2003 was 7%.

Since disclosure of the 2004 results in the Colombo Stock Exchange at end of February 2005 SLT share was trading between Rs. 16 and Rs. 17 per share.

Excellence in Reporting

SLT is committed to adopting the best practices in financial reporting in its relationship with investors and other users of financial statements. The Company also gives high priority to provide quarterly financial information in a timely manner. Relevant information is disseminated through the 'Investor' magazine published on a quarterly basis.

The Institute of Chartered Accountants of Sri Lanka adjudged the Annual Report of SLT for the financial year 2003 as the winner in the Services sector at its Annual Report Awards Competition. Further it was adjudged as the Runner-Up of Communication and IT Category at the SAARC Regional Competition. These are creditable achievements gained by the Company in the Corporate Financial world. The criteria of selection prove the Company's high standards in ensuring transparency, good governance and compliance with statutory and best accounting practices.



Risk Management

Over the years, the world's wider stakeholder community have increasingly come to demand greater transparency from commercial entities as to the stability and viability of their enterprise. People want to be re-assured that companies are responsibly administered and are doing everything in their power to keep businesses viable by protecting them against risk, which if unaddressed adequately could lead to ultimate demise of the business and loss to stakeholders.

Every commercial enterprise is exposed to risk in some shape or form, which if unmitigated, would adversely impact on its business and assets.

Therefore, it is in their interests to put in place a "Risk Radar" to identify in a timely manner, the potential situations and events that could pose a threat to their organisations. The next step would be to enact a timely and effective Risk Management regime, which by being pro-active and applying mitigating controls in timely manner, would at the very least minimise losses to the Institution, whilst at best prevent it entirely.

Sri Lanka Telecom has put in systems, policies and procedures in every key area of operation which identify, measure and monitor risks to its business, whilst enacting management and mitigation of such risks.

In this chapter, we present an account of areas of potential risk to SLT's business and the measures we have in place to address and mitigate them.

Regulatory

SLT's telecommunications business is subject to governmental regulation in regard to licensing and competition as well as costs and arrangements pertaining to interconnection and tariffs. Changes in governmental policy have potential to affect the financial status and operational results of the Company.

Any decision taken by regulatory authorities to amend and/or revoke the Company's telecommunications licences can adversely affect us.

Against a backdrop of an increasing de-regulation of the telecommunications industry, two successive Governments of Sri Lanka, i.e. pre-2004 and post-2004, have deliberated on far reaching change in the regulatory framework of the industry. At the time of writing, there has been no ratification of change. This places SLT's business planning within a climate of uncertainty with possible material adverse effect to the Company.

Also in the light of such impending change, a potential risk area opens up in the future, when the Company's licence expires in 2011. We are then open to yet unknown licence issuance requirements which may or may not prove favourable to our business.

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). Other fixed line operators are not subject to this procedure and their tariff structure establishment could be set up without restriction with notice to the TRC. Further, the Company's tariffs also come under the purview of the Consumer Affairs Authority.

The absence of a "level playing field" plus the potentially adverse repercussions from possible external control or influence of the Company's tariffs could pose a threat to SLT's continued profitability.

In the field of Mobile Telephony, Mobitel has been provisionally granted a frequency allocation with which to commence GSM services, by the TRC. However, the TRC whilst awaiting the clearance of point to point links of other operators, has not fully transferred frequency bandwidth formally, to Mobitel. Should a situation arise where Mobitel will not have continued access to the frequencies it enjoys now, this will pose a threat to the viability of our mobile communications operations.

Another area of uncertainty lies within the enactment of a Government directive requiring international operators to pay Incoming Local Access Charges (ILAC) and Outgoing Local Access Charges (OLAC) to the domestic operators on whose networks the international call either originated or was

terminated. At present ILAC and OLAC are being paid directly to the domestic operators.

With various permutations and schemes being proposed within the industry in this regard, the amount of levy that SLT would be required to pay to the TRC has yet to be determined. The Company made a provision in a sum of Rs. 2,067 million in its September accounts towards payment of the levy, assuming the required rate to be fixed at US\$ 0.38 per minute.

Should the Company be required to revise this rate upwards, it could affect our results of operation and financial condition.

In coping with regulatory issues, SLT maintains a healthy dialogue with the TRC, keeping the channels of communication open at all times.

Competition

The market for telecommunications services in Sri Lanka is a highly competitive one.

We are operating within an era of de-regulation, which is opening up the industry to new operators and all the attendant market forces of product, price, technology and service parrying amongst service providers.

This is, in principal, an extremely healthy approach and one that holds great benefits for the consumer.

SLT enjoys a market dominance in terms of fixed line subscribers as is borne out by its 87% market share. In mobile communications the Company enjoys a 19% market share.

There can be no assurance that the level of existing and future competition will not adversely affect SLT's financial and operational results.

Elsewhere in this report, we have given detailed accounts of the Company's strategy and business plan to take it through the years to come. An "outward looking" approach towards becoming a premier regional telecom service provider, a diversification of revenue streams and expansion of our product and service portfolio, encompassing mobile telephony too, are some of these initiatives.

Technology

It goes without saying that the global telecommunications industry has advanced beyond the use of “technology” to the use of “super technology”.

Likewise, significant technological change is happening at an extremely rapid pace. Within the spirit of healthy competition, the introduction of existing rival telecommunications technology or the development of new technologies could result in the Company’s own becoming obsolete or subject to heavy competition.

Either scenario poses a risk.

Financial

Currency Fluctuation

Although SLT generates a full 79% of its revenue in Sri Lanka Rupees, we fully expect that a significant portion of the Company’s debt will be denominated in foreign currencies. All our network equipment purchases are effected in foreign currencies.

SLT’s borrowings totalled Rs. 13,949 million for 2004, of which Rs. 10,470 million was denominated in foreign currencies. Total debt for 2004 would stand at Rs. 25,370 million (Group) of which Rs. 15,092 million (Group) would be denominated in foreign currencies.

Therefore a currency risk exists, in terms of the Company’s obligations and expenditures denominated in currencies other than the Sri Lankan Rupee.

Any material devaluation of the Sri Lankan Rupee against foreign currencies could limit the Company’s ability to make further network equipment purchases as well as its ability to contract additional or service existing and future foreign currency denominated debt obligations.

In turn, this scenario could adversely impact on the Company’s business, financial and operational health, as well as affect its prospects.

Capital Investment

SLT’s business is capital intensive. In order to remain competitive and at the forefront of the industry, the Company needs to make significant capital

infusions. We expect we will require substantial financing to broaden the existing range of telecommunications services, develop new services and upgrade our network using new technologies.

Although SLT plans to fund its future planned capital investments primarily through cash deposits, cash flows from operations and debt, including a portion of the proceeds from the International Bond issue, adequate financing may not be available to the Company on commercially acceptable terms.

Such a scenario poses risk to the Company’s business prospects.

Labour Relations

SLT has maintained an extremely good relationship with its employees over the years. The Company has enjoyed industrial peace thus far.

We have gone through privatisation fairly successfully and the process has brought many benefits to the worker community through better working conditions and facilities as well as job realignment, better training and efforts at improving self worth and personal development.

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

In Sri Lanka today, socially sensitive reforms such as labour reforms, privatisation of state owned utilities and civil service reforms have attracted protest and opposition from opposing political factions and trade unions. Thus far, SLT has not been embroiled in such debate and opposition. However, this remains a potential area of risk, where any labour unrest and work disruptions could have an adverse impact on the Company.

Another aspect in terms of the human factor is that, SLT is heavily reliant on its skill base. The industry, being so greatly technologically driven means skilled staff are in great demand. Competition for qualified employees is significant in the market, and the loss of key personnel or an inability to attract new skills could have an adverse impact on the Company.

Financial Reports

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1. The Directors present herewith the audited financial statements for the year ended 31 December 2004.

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 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 64 and, the statements of changes in equity on pages 66 and 67 respectively.

4. REVIEW OF BUSINESS

The state of affairs of the Company at 31 December 2004 is set out in the balance sheet on page 65. 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 include, inter alia, internet access, data services, domestic and international leased circuits, frame relay, ISDN, satellite uplink and maritime transmission.

With the acquisition of Mobitel in 2002, the Group became the only fully integrated telecom operator in the country.

7. DIVIDEND

The Directors recommended the payment of a first and final dividend of 5% per share for the year 2004 on the issued share capital of Rs. 18,048,600,000.

8. RESERVES

Total reserves of the Group and their composition have been given in the statement of changes in equity on page 66 of the financial statements.

9. SUBSTANTIAL SHAREHOLDINGS

As at 31 December 2004 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.

Name	Holding Percentage	No. of Shares
Government of Sri Lanka	49.50%	893,405,700
NTT Communications Corporation	35.20%	635,076,318

The public holds 15.30% of the issued share capital as at 31 December 2004.

10. 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".

11. DIRECTORS

During the year the Board comprised nine Directors and as at 31 December 2004 the Directors were:

Mr. Anil Obeyesekere, P.C. - Chairman	Appointed as Director on 25 June 2004 and elected as Chairman on 29 July 2004
Mr. Shuhei Anan - Chief Executive Officer	—
Mr. S. B. Divaratne	Appointed on 27 May 2004
Mr. Nigel Hatch, P.C.	Appointed on 25 June 2004
Mr. Lalith De Mel	Appointed on 26 August 2004
Mr. Sadao Maki	Appointed on 26 August 2004
Mr. Palitha S. Thenuwara	Appointed on 30 September 2004
Mr. Kiyoshi Maeda	—
Mr. Haruhiko Yamada	—

Mr. Takashi Akiyama ceased to be an alternate to Mr. Mitsuhiro Takase with the latter's resignation from the Board on 17 June 2004. However, he continues as an alternate to Mr. Kiyoshi Maeda and Mr. Haruhiko Yamada. The principal Directors being non-executive their alternate only attended Board meetings.

Mr. Tadashi Imachi was appointed to act as alternate to Mr. Sadao Maki on 26 August 2004.

The following who were Directors of the Company at the beginning of the year ceased to hold such office on the dates mentioned below:

Mr. K. A. P. Goonatileke	Removed on 3 March 2004
Mr. N. Pathmanathan	Resigned on 10 May 2004
Mr. Mitsuhiro Takase	Resigned on 17 June 2004
Ms. M. A. R. C. Cooray	Resigned on 25 May 2004
Mr. K. C. Logeswaran	Resigned on 25 May 2004
Mr. Thilanga Sumathipala	Resigned on 4 August 2004
Mr. Palitha Thenuwara	Compulsory resignation 28 February 2005

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. Kiyoshi Maeda retires in terms of Article 91 and being eligible offers himself for re-election.

During the year, the under-mentioned 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. S.B. Divaratne
 Mr. Nigel Hatch
 Mr. Lalith De Mel
 Mr. Sadao Maki

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

The Directors' interests in contracts and proposed contracts with the Company, both direct and indirect, are set out in Note 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.

13. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

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

Name	Number	
	2004	2003
Mr. Lalith De Mel	35,500	N/A

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

The Audit Committee comprises of 3 Non-Executive Directors with CIA attending the meetings by invitation.

15. STATUTORY PAYMENTS

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

16. 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 for our customers and the communities within which we operate.

17. INVESTMENTS

The Company holds an unlisted investment in Intelsat Limited, which provides telephony and other related services via geosynchronous satellites around the globe.

18. DONATIONS

During the year, the Company contributed Rs. 2,000,000 (2003 - Rs. 1,425,000) for charitable purposes. Of the above contributions Rs. 600,000 (2003 - Rs. 1,200,000) was for a government approved charity.

19. GOING CONCERN

The Financial Statements are prepared based on the going concern concept. The Board of Directors are 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 our 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

(Sgd.) P.G. Dias
Secretary

Colombo
4th April 2005

Statement of the Directors' Responsibilities in Relation to the Financial Statements

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 63.

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 73 to 88, 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

(Sgd.) P.G. Dias
Secretary

Colombo
4th April 2005

**TO THE MEMBERS OF SRI LANKA TELECOM LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2004**

We have audited the Balance Sheet of Sri Lanka Telecom Limited (the Company) and its subsidiaries (the Group) as at 31 December 2004, 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 69 to 88.

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 about whether the financial statements are free of material misstatements. 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 2004, 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 2004 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 2004 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 2004 except as stated in Note 29 to these financial statements.

PricewaterhouseCoopers

Chartered Accountants

Colombo
4th April 2005

Consolidated Income Statement

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2004

	Notes	Group		Company	
		2004	2003	2004	2003
Revenue	1	29,588	25,553	26,753	24,477
Operating costs	2	(14,129)	(10,924)	(11,329)	(10,024)
Operating profit before depreciation		15,459	14,629	15,424	14,453
Depreciation	9	(9,036)	(8,241)	(8,114)	(7,987)
Operating profit		6,423	6,388	7,310	6,466
Voluntary Retirement Scheme (VRS)		-	(710)	-	(710)
International operators levy	4	(2,474)	-	(2,469)	-
Loss due to Tsunami		(330)	-	(300)	-
Non-operating income		144	111	122	111
Interest expense and related charges	5	(2,524)	(2,863)	(2,084)	(2,802)
Interest income		202	316	190	311
Profit before tax		1,441	3,242	2,769	3,376
Tax	6	(148)	(993)	(148)	(993)
Net profit		1,293	2,249	2,621	2,383
Earnings per share (Rs.)	7	0.72	1.25	1.45	1.32

All the Group's activities are continuing activities.

The Accounting Policies on pages 69 to 72 and the Notes on pages 73 to 88 form an integral part of these financial statements.

Report of the Auditors on page 63.

Consolidated Balance Sheet

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2004

	Notes	Group		Company	
		2004	2003	2004	2003
ASSETS					
Non-current assets					
Property, plant & equipment	9	54,350	55,763	48,200	51,243
Intangible assets	10	219	297	-	-
Investments	11	710	710	2,707	2,707
Non-current receivables	12	1,439	977	969	977
		<u>56,718</u>	<u>57,747</u>	<u>51,876</u>	<u>54,927</u>
CURRENT ASSETS					
Inventories	13	1,312	785	771	500
Receivables and prepayments	14	9,898	9,242	9,157	9,052
Cash & cash equivalents	15	10,845	4,624	10,736	4,348
		<u>22,055</u>	<u>14,651</u>	<u>20,664</u>	<u>13,900</u>
Total assets		<u>78,773</u>	<u>72,398</u>	<u>72,540</u>	<u>68,827</u>
EQUITY AND LIABILITIES					
Capital and reserves					
Ordinary share capital	23	18,049	18,049	18,049	18,049
Capital reserve	24	188	188	188	188
Hedging reserve	25	(677)	(745)	(677)	(745)
Insurance reserve	21	100	95	100	95
Retained earnings		13,404	13,013	14,922	13,203
		<u>31,064</u>	<u>30,600</u>	<u>32,582</u>	<u>30,790</u>
Deferred income	18	7,272	7,214	7,272	7,214
Non-current liabilities					
Deferred tax liabilities	17	7,489	8,139	7,489	8,139
Borrowings	16	20,905	13,523	16,106	12,276
Retirement benefit obligations	20	510	448	487	430
		<u>28,904</u>	<u>22,110</u>	<u>24,082</u>	<u>20,845</u>
Current liabilities					
Trade and other payables	19	6,761	4,846	5,890	4,719
Current tax liabilities		297	-	297	-
Borrowings	16	4,465	7,583	2,407	5,214
Retirement benefit obligations	20	10	45	10	45
		<u>11,533</u>	<u>12,474</u>	<u>8,604</u>	<u>9,978</u>
Total liabilities		<u>40,437</u>	<u>34,584</u>	<u>32,686</u>	<u>30,823</u>
Total equity and liabilities		<u>78,773</u>	<u>72,398</u>	<u>72,540</u>	<u>68,827</u>

These financial statements were approved by the Board of Directors on 4th April 2005 and were signed on its behalf by:

(Sgd.)

Anil Obeyesekere
Chairman

(Sgd.)

Shuhei Anan
CEO/Director

The Accounting Policies on pages 69 to 72 and the Notes on pages 73 to 88 form an integral part of these financial statements.

Report of the Auditors on page 63.

Consolidated Statement of Changes in Equity

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2004

	Notes	Insurance reserve	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
GROUP							
Year ended 31 December 2003							
Balance at 1 January 2003							
- as previously reported	21	86	18,049	188	(1,146)	21,696	38,873
- prior year adjustment		-	-	-	-	(9,849)	(9,849)
- as restated		86	18,049	188	(1,146)	11,847	29,024
Cash flow hedges							
- foreign currency							
translation difference	25	-	-	-	(208)	-	(208)
- charged to income	5	-	-	-	609	-	609
Insurance reserve							
- charged to income		9	-	-	-	-	9
Dividend for 2002		-	-	-	-	(1,083)	(1,083)
Net profit for the year 2003		-	-	-	-	2,249	2,249
Balance at 31 December 2003		95	18,049	188	(745)	13,013	30,600
Year ended 31 December 2004							
Balance at 1 January 2004		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
Balance at 31 December 2004		100	18,049	188	(677)	13,404	31,064

The Accounting Policies on pages 69 to 72 and the Notes on pages 73 to 88 form an integral part of these financial statements.

Report of the Auditors on page 63.

Statement of Changes in Equity

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2004

	Notes	Insurance reserve	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
COMPANY							
Year ended 31 December 2003							
Balance at 1 January 2003							
- as previously reported	21	86	18,049	188	(1,146)	21,752	38,929
- prior year adjustment		-	-	-	-	(9,849)	(9,849)
- as restated		86	18,049	188	(1,146)	11,903	29,080
Cash flow hedges							
- foreign currency translation difference	25	-	-	-	(208)	-	(208)
- charged to income	5	-	-	-	609	-	609
Insurance reserve							
- charged to income		9	-	-	-	-	9
Dividend for 2002		-	-	-	-	(1,083)	(1,083)
Net profit for the year 2003		-	-	-	-	2,383	2,383
Balance at 31 December 2003		95	18,049	188	(745)	13,203	30,790
Year ended 31 December 2004							
Balance at 1 January 2004							
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		-	-	-	-	2,621	2,621
Balance at 31 December 2004		100	18,049	188	(677)	14,922	32,582

The Accounting Policies on pages 69 to 72 and the Notes on pages 73 to 88 form an integral part of these financial statements.

Report of the Auditors on page 63.

Consolidated Cash Flow Statement

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2004

	Notes	2004	Group 2003	2004	Company 2003
Operating activities					
Cash generated from operations	26	13,045	14,121	13,473	14,402
Interest received		224	348	212	343
Interest paid		(2,829)	(3,040)	(2,389)	(2,979)
Tax paid		(38)	–	(38)	–
Net cash generated from operating activities		10,402	11,429	11,258	11,766
Investing activities					
Acquisition of property, plant & equipment	9	(7,623)	(7,282)	(5,071)	(4,253)
Acquisition of investments	11	–	–	–	(500)
Disposal of property, plant & equipment		12	4	12	4
Net cash used in investing activities		(7,611)	(7,278)	(5,059)	(4,749)
Financing activities					
Proceeds from borrowings		20,970	3,400	13,949	76
Payment on borrowings		(16,379)	(7,467)	(12,483)	(7,224)
Dividends paid	8	(902)	(1,083)	(902)	(1,083)
Repayment of debentures	16	(375)	(375)	(375)	(375)
Net cash from/(used in) financing activities		3,314	(5,525)	189	(8,606)
Increase/(decrease) in cash & cash equivalents		6,105	(1,374)	6,388	(1,589)
Movement in cash & cash equivalents					
At start of year		4,599	5,973	4,348	5,937
Increase/(decrease)		6,105	(1,374)	6,388	(1,589)
At end of year	15	10,704	4,599	10,736	4,348

The Accounting Policies on pages 69 to 72 and the Notes on pages 73 to 88 form an integral part of these financial statements.

Report of the Auditors on page 63.

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. 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 & 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 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.

F. 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.

G. 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.

H. TRADE RECEIVABLES

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

I. CASH & CASH EQUIVALENTS

For the purpose of the cash flow statement, cash & cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments.

J. SHARE CAPITAL

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

K. 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.

L. 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.

M. 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.

N. DEFINED BENEFIT PLAN

SLTL as a matter of policy obtains an actuarial valuation of the retirement benefit liability once in three 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 2003. The valuation was made adopting the Projected Unit Credit Method as recommended by the Sri Lanka Accounting Standards 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.

O. 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.

P. 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.

Q. REVENUE RECOGNITION

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

These 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 from staff loans and recognised on an accrual basis.

R. 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.

S. 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% (2003 - 75%) of projected net foreign earnings qualified as 'highly probable' for which hedge accounting was used in 2004.

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.

T. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(All amounts in Sri Lanka Rupees millions)

1. REVENUE

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

	Group		Company	
	2004	2003	2004	2003
Release of deferred connection charges (Note 18)	833	776	833	776
Rental income	7,069	3,916	6,497	3,675
Domestic call revenue	11,481	11,109	9,668	10,418
Receipts from other network operators - domestic	343	444	373	444
International call revenue	2,514	1,890	2,306	1,845
Receipts from other network operators - international	280	584	329	584
International settlements (in payments)	4,794	5,164	4,794	5,164
Telex, data transmission and other telephony services	2,274	1,670	1,953	1,571
	29,588	25,553	26,753	24,477

2. OPERATING COSTS

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

	Group		Company	
	2004	2003	2004	2003
Staff costs (Note 3)	3,619	3,484	3,395	3,364
Payments to international network operators	1,750	1,765	1,750	1,751
Payments to other network operators - international	664	828	661	828
Payments to other network operators - domestic	316	139	316	139
Auditors' remuneration	4	3	3	3
Non-Audit fees	2	-	2	-
Repairs and maintenance	1,420	773	1,342	745
Provision for doubtful debts	2,563	812	1,904	739
Provision for fall in value of inventories	90	(5)	40	(15)
Net foreign exchange gains on operating activities	(358)	(37)	(473)	(36)
Payments to NTT Communications Corporation [Note (a)]	47	72	47	72
Amortisation of goodwill (Note 10)	78	78	-	-
Other operating expenditure	3,934	3,012	2,342	2,434
	14,129	10,924	11,329	10,024

(a) Payments to NTT Communications Corporation represent amounts payable (to NTT Communications Corporation) on account of salaries and expenditure of seconded experts (Refer Note 29).

(b) The above expenses include Directors' emoluments for 2004 of Rs. 39 million (2003 - Rs. 36 million). This wholly consists of fees paid to NTT for the secondment of expatriate personnel who are also Directors of SLTL.

3. STAFF COSTS

	Group		Company	
	2004	2003	2004	2003
Salaries, wages, allowances and benefits	3,226	3,016	3,031	2,913
Retirement costs - defined contribution plans	315	313	293	299
- defined benefit plans (Note 20)	78	155	71	152
	3,619	3,484	3,395	3,364
Number of employees at the end of the period	7,879	7,609	7,174	7,136

4. INTERNATIONAL TELECOMMUNICATION OPERATOR'S LEVY

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 SLT from 3 March 2003 to 31 December 2004 has been estimated at 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.

According to the Finance Act No. 11 of 2004, regulations may be made for disbursement of these levies. The regulations are still under preparation. It is likely that 2/3 of the levy will be refunded to the International Telecommunication Operators for rolling out the network in rural areas. Accordingly, the refund to SLT has been estimated at Rs. 1,646 million but has not been recognised in the financial statements, as the regulations for such refund have not yet been gazetted.

5. FINANCE COSTS

	Group		Company	
	2004	2003	2004	2003
Interest expense and related charges				
Rupee loans (long-term)	1,631	1,628	1,236	1,567
Foreign currency loans	255	553	229	553
US\$ 100 million notes	60	-	60	-
Debenture interest	66	120	66	120
Amortisation of deferred costs	114	48	48	48
Other charges [Note (a)]	(2)	1	(18)	1
Total interest payable	2,124	2,350	1,621	2,289
Interest capitalised	(76)	(96)	(13)	(96)
Total interest charged	2,048	2,254	1,608	2,193
Foreign exchange loss (Note 25)	476	609	476	609
Aggregate value of finance costs	2,524	2,863	2,084	2,802

- (a) Other charges include exchange gain from US\$ 100 million Bond and other exchange gains on foreign currency deposits, etc. In 2003, it includes debenture and loan related expenses.

6. TAX

The charge for taxation is made up as follows:

	Group/Company	
	2004	2003
Income tax charge	798	–
Tax saving on brought forward losses and investment tax allowances	2,994	2,092
Release of deferred tax liability	(2,982)	(1,099)
Change in estimation in the amortisation of deferred tax asset	(662)	–
	<u>148</u>	<u>993</u>

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

	Company	
	2004	2003
Profit before tax	2,769	3,376
Tax calculated at a tax rate of 30% (2003 - 30%)	831	1,013
Tax effect of income not subject to tax	(21)	(20)
Change in estimation in the amortisation of deferred tax asset	(662)	–
Tax charge	<u>148</u>	<u>993</u>

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		Company	
	2004	2003	2004	2003
Net profit attributable to shareholders (Rs. million)	1,293	2,249	2,621	2,383
Weighted average number of ordinary shares in issue (million)	1,805	1,805	1,805	1,805
Basic earnings per share (Rs.)	<u>0.72</u>	<u>1.25</u>	<u>1.45</u>	<u>1.32</u>

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

8. DIVIDENDS PER SHARE

In respect of 2003, 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 2002, an interim dividend of Rs. 0.30 and a final dividend of Rs. 0.30 per share amounting to a total of Rs. 1,082,916,000 was paid during 2003.)

9. PROPERTY, PLANT & EQUIPMENT

Group							
(a)	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Contract work-in- progress	Total
Year ended 31 December 2003							
Opening net book amount	1,730	30,462	10,011	9,446	1,410	3,663	56,722
Additions	–	123	43	56	766	6,391	7,379
Transfers	–	–	–	(97)	–	–	(97)
Transfers from work-in-progress	42	2,436	77	5	139	(2,699)	–
Depreciation charge	(32)	(5,252)	(1,211)	(1,220)	(526)	–	(8,241)
Closing net book amount	1,740	27,769	8,920	8,190	1,789	7,355	55,763
At 31 December 2003							
Cost	1,965	59,274	16,285	15,345	4,540	7,355	104,764
Accumulated depreciation	(225)	(31,505)	(7,365)	(7,155)	(2,751)	–	(49,001)
Net book amount	1,740	27,769	8,920	8,190	1,789	7,355	55,763
Year ended 31 December 2004							
Opening net book amount	1,740	27,769	8,920	8,190	1,789	7,355	55,763
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)	–
Adjustments	–	–	–	(46)	–	(59)	(105)
Accumulated depreciation	–	–	–	16	–	–	16
Disposals	–	–	–	–	(8)	–	(8)
Accumulated depreciation	–	–	–	–	8	–	8
Depreciation charge	(38)	(5,126)	(1,227)	(1,798)	(763)	–	(8,952)
Closing net book amount	1,801	24,916	8,253	11,475	3,446	4,459	54,350
At 31 December 2004							
Cost	2,064	61,547	16,845	20,412	6,952	4,459	112,279
Accumulated depreciation	(263)	(36,631)	(8,592)	(8,937)	(3,506)	–	(57,929)
Net book amount	1,801	24,916	8,253	11,475	3,446	4,459	54,350

(b) Depreciation of TDMA network spares stock Rs. 84 million (2003 - Nil)

Company	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Contract work-in- progress	Total
Year ended 31 December 2003							
Opening net book amount	1,730	30,357	10,011	8,302	1,321	3,256	54,977
Additions	–	108	43	40	761	3,301	4,253
Transfers from work-in-progress	42	2,436	77	5	100	(2,660)	–
Depreciation charge	(32)	(5,237)	(1,211)	(1,017)	(490)	–	(7,987)
Closing net book amount	1,740	27,664	8,920	7,330	1,692	3,897	51,243
At 31 December 2003							
Cost	1,965	59,124	16,285	13,198	4,199	3,897	98,668
Accumulated depreciation	(225)	(31,460)	(7,365)	(5,868)	(2,507)	–	(47,425)
Net book amount	1,740	27,664	8,920	7,330	1,692	3,897	51,243
Year ended 31 December 2004							
Opening net book amount	1,740	27,664	8,920	7,330	1,692	3,897	51,243
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	–	–	–	–	7	–	7
Depreciation charge	(38)	(5,111)	(1,227)	(1,032)	(706)	–	(8,114)
Closing net book amount	1,801	24,826	8,253	6,555	3,246	3,519	48,200
At 31 December 2004							
Cost	2,064	61,397	16,845	13,455	6,452	3,519	103,732
Accumulated depreciation	(263)	(36,571)	(8,592)	(6,900)	(3,206)	–	(55,532)
Net book amount	1,801	24,826	8,253	6,555	3,246	3,519	48,200

- (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 2004 is Rs. 10,143 million (2003 - Rs. 6,722 million).
- (c) Borrowing costs capitalised during the year to 31 December 2004 was Rs. 13 million (2003 - Rs. 96 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. 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)].

10. INTANGIBLE ASSETS

	Goodwill
Year ended 31 December 2004	
Opening net book amount	297
Amortisation charge (Note 2)	(78)
Closing net book amount	<u>219</u>
At 31 December 2004	
Cost	388
Accumulated amortisation	(169)
Net book amount	<u>219</u>

11. INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
Investment in subsidiary [Note (a)]	-	-	25	25
Investment in subsidiary				
At 1 January	-	-	1,972	1,334
Additions [Note (b)]	-	-	-	638
At 31 December	<u>-</u>	<u>-</u>	<u>1,972</u>	<u>1,972</u>
Investment in others [Note (c)]				
At 1 January	710	710	710	710
At 31 December	<u>710</u>	<u>710</u>	<u>710</u>	<u>710</u>
Aggregate cost of investments at 31 December	<u>710</u>	<u>710</u>	<u>2,707</u>	<u>2,707</u>

- (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) The short term loan of Rs. 138 million provided to Mobitel (Private) Limited was converted to ordinary shares and another allotment of share capital of Rs. 500 million comprising 50 million ordinary shares were made to Sri Lanka Telecom Limited on 28 August 2003.
- (c) The investment in others represents unlisted investments in Intelsat Limited.

12. NON-CURRENT RECEIVABLES

	Group		Company	
	2004	2003	2004	2003
Licence fee	92	–	–	–
Employee loans [Note (a)]	846	806	846	806
Deferred expenses (prepaid Insurance Premium)	501	171	123	171
Amounts due after one year	1,439	977	969	977

- (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 2006.
- (b) As explained in Accounting Policy K, 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.

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		Company	
	2004	2003	2004	2003
Domestic trade receivables	8,085	6,003	7,565	5,946
Foreign trade receivables	1,208	2,223	1,208	2,223
Advances and prepayments	198	705	138	624
Employee loans	198	205	198	205
Deferred expenses	48	48	48	48
Other receivables	161	58	–	6
Amounts due within one year	9,898	9,242	9,157	9,052

15. CASH & CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
Cash at bank and in hand	466	410	367	136
Restricted at bank [Note (a)]	149	136	149	136
Short-term deposits [Note (b) & (c)]	10,230	4,078	10,220	4,076
	10,845	4,624	10,736	4,348

- (a) The restricted cash balance is a bank deposit of Sri Lankan Rs. 149 million (2003 - Rs. 136 million) with the People's Bank which represents the sinking fund investment for the insurance reserve. The restrictions on this balance are self imposed.

- (b) These deposits are interest bearing on commercial terms.
- (c) Short term deposits include Rs. 5,150 million which is a part of proceeds received from the USD 100 million bond issue (2003 - Nil).

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

	Group		Company	
	2004	2003	2004	2003
Cash & cash equivalents	10,845	4,624	10,736	4,348
Bank overdrafts (Note 16)	(141)	(25)	-	-
	10,704	4,599	10,736	4,348

16. BORROWINGS

	Group		Company	
	2004	2003	2004	2003
Current (due within one year)				
Bank overdrafts	141	25	-	-
Government borrowings	769	2,353	769	2,353
Bank borrowings and others	3,180	4,830	1,263	2,486
Debentures	375	375	375	375
	4,465	7,583	2,407	5,214
Non-current (due after one year)				
Government borrowings	3,386	8,709	3,386	8,709
Debentures [Note (a)]	-	375	-	375
Bank borrowings and others	7,049	4,439	2,250	3,192
US\$ 100 million Notes	10,470	-	10,470	-
	20,905	13,523	16,106	12,276
Total borrowings	25,370	21,106	18,513	17,490

- (a) The redemption of debentures is in 4 equal annual instalments, commencing from 23 March 2002, two years from the initial date of allotment.

The interest rate exposure of the borrowings of the Company was as follows:

	Group		Company	
	2004	2003	2004	2003
Total borrowings				
- at fixed rates	14,610	13,267	14,469	13,216
- at floating rates	10,760	7,839	4,044	4,274
	25,370	21,106	18,513	17,490

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

	Group		Company	
	2004	2003	2004	2003
Foreign currency	15,092	5,678	13,984	5,678
Local currency	10,278	15,428	4,529	11,812
	<u>25,370</u>	<u>21,106</u>	<u>18,513</u>	<u>17,490</u>

	Group/Company	
	2004	2003
Average effective interest rates		
- Bank overdrafts	11%	11%
- Domestic bank borrowings	8.28%	14%
- Foreign bank borrowings	5.17%	5.56%
- Government borrowings	11.59%	12.74%
Debentures		
- Fixed (annually)	14.50%	14.50%
- Fixed (quarterly)	14.00%	14.00%
- Floating	13% - 16%	13% - 16%
- US\$ 100 million Notes	6.875%	-

Maturity of non-current borrowings:

	Group		Company	
	2004	2003	2004	2003
Between 1 and 2 years	6,466	8,517	3,412	7,270
Between 3 and 5 years	13,795	3,684	12,050	3,684
Over 5 years	644	1,322	644	1,322
	<u>20,905</u>	<u>13,523</u>	<u>16,106</u>	<u>12,276</u>

- (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 2004 is Rs. 4,155 million (2003 - Rs. 11,061 million). Exchange fluctuations on repayments of these loans are borne by the Government.
- (c) Certain Government re-lent loans amounting to Rs. 331 million (2003 - Rs. 354 million) have been granted on condition that at least 25% - 30% of the average capital expenditure on the related projects is funded from funds generated internally. These projects have been completed as at the balance sheet date.
- (d) The Government has guaranteed third party loans amounting to Rs. 3,473 million (2003 - Rs. 5,486 million). Total value of loans that have neither been guaranteed nor secured is Rs. 41 million (2003 - Rs. 115 million).

- (e) The majority of the loans require SLTL 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.
- (f) The Directors believe the Company will have sufficient finances available to meet its present commitments.
- (g) Rs. 5,233 million out of proceeds from the USD 100 million bond was utilised to settle Government borrowings.

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% (2003 - 30%).

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

	Group		Company	
	2004	2003	2004	2003
At beginning of year	8,139	7,146	8,139	7,146
Income statement release	(2,982)	(1,099)	(2,982)	(1,099)
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	2,092	2,994	2,092
At end of year	<u>7,489</u>	<u>8,139</u>	<u>7,489</u>	<u>8,139</u>

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

	Group		Company	
	2004	2003	2004	2003
Deferred tax asset (Note 17('c))	–	(2,332)	–	(2,332)
Deferred tax liabilities	7,489	10,471	7,489	10,471
	<u>7,489</u>	<u>8,139</u>	<u>7,489</u>	<u>8,139</u>

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

	Group/Company	
	2004	2003
Balance as at 1 January (Note 17 (b))	2,332	4,424
Change in estimation in the amortisation of deferred tax asset (Note 17 (a))	662	–
	<u>2,994</u>	<u>4,424</u>
Amortised to the income statement	(2,994)	(2,092)
As at 31 December	<u>–</u>	<u>2,332</u>

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 Q.

	Group/Company	
	2004	2003
Balance at 1 January	7,214	7,132
Connection fees for the year	891	858
Amount amortised during the year (Note 1)	(833)	(776)
Balance at 31 December	<u>7,272</u>	<u>7,214</u>

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2004	2003	2004	2003
Amounts due within one year				
Domestic trade payables	789	717	245	472
Capital expenditure payables	1,045	1,289	901	1,271
Social security and other taxes	234	257	234	257
Interest payable	237	543	237	543
Other creditors [Note (a)]	4,456	2,040	4,273	2,176
	<u>6,761</u>	<u>4,846</u>	<u>5,890</u>	<u>4,719</u>

(a) Other creditors include Rs. 304 million (2003 - Rs. 654) payable to various telecommunication operators, Rs. 237 million (2003 - 237 million) dividend payable to Government Treasury, Rs. 300 million (2003 - Nil) as provision for Tsunami losses and Rs. 2,469 million (2003 - Nil) International Telecommunications Levy.

20. RETIREMENT BENEFIT OBLIGATIONS

Movement in the liability recognised in the Balance Sheet:

	Group		Company	
	2004	2003	2004	2003
At beginning of year	493	429	475	411
Current service cost (Note 3)	77	155	71	152
Contributions paid				
- VRS employees	(30)	(68)	(30)	(68)
- Other employees	(20)	(23)	(19)	(20)
At the end of year	<u>520</u>	<u>493</u>	<u>497</u>	<u>475</u>
Current (due within one year)				
Liability for VRS employees	-	(36)	-	(36)
Other employees	(10)	(9)	(10)	(9)
	<u>(10)</u>	<u>(45)</u>	<u>(10)</u>	<u>(45)</u>
Non-current (due after one year)	<u>(510)</u>	<u>(448)</u>	<u>(487)</u>	<u>(430)</u>

As stated in Accounting Policy N, an actuarial valuation was carried out by an independent actuary in respect of all employees of SLTL as at 31 December 2003.

Roll up of the provision was carried out by the Company in ascertaining the liability as at 31 December 2004.

The principal actuarial assumptions used were as follows:

	Company 2004
Discount rate	11.0%
Future salary increases	9.0%
Future pension increases	3.2%

In addition to the above, demographic assumptions such as mortality, withdrawal, retirement age and financial assumptions such as rate of discount and salary increases were considered for the actuarial valuation.

21. INSURANCE RESERVE

	Group/Company	
	2004	2003
At beginning of year	95	86
Income Statement charge	5	9
At end of year	100	95

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	
	2004	2003
Authorised		
10,000,000,000 (2003 - 10,000,000,000) ordinary shares of Rs. 10/- each	100,000	100,000
Issued and Fully Paid		
1,804,860,000 ordinary shares of Rs. 10/- each	18,049	18,049

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

	2004		2003	
	Holding Percentage	No. of Shares	Holding Percentage	No. of Shares
Government of Sri Lanka (GOSL)	49.50%	893,405,700	49.50%	893,405,700
NTT Communications Corporation (NTT)	35.20%	635,076,318	35.20%	635,076,318
Employees and others	15.30%	276,377,982	15.30%	276,377,982
		1,804,860,000		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 fully owned cellular telephony company.

25. HEDGING RESERVE

	Group/Company	
	2004	2003
At beginning of year	(745)	(1,146)
Cash flow hedges		
- Foreign currency translation difference	(408)	(208)
- Income Statement charge (Note 5)	476	609
At end of year	(677)	(745)

- (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 S.
- (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		Company	
	2004	2003	2004	2003
Profit before tax	1,441	3,242	2,769	3,376
Adjustments for				
Depreciation (Note 9)	9,036	8,241	8,114	7,987
Amortisation of deferred costs (Note 5)	48	48	48	48
Net exchange loss on				
financing activities (Note 5)	458	609	458	609
Interest expense and related charges	2,066	2,254	1,626	2,193
Interest income	(202)	(316)	(190)	(311)
Connection fees less amortisation (Note 18)	58	82	58	82
Profit on sale of property, plant & equipment	(12)	(4)	(12)	(4)
Provision for insurance reserve (Note 21)	5	9	5	9
Amortisation of goodwill (Note 10)	78	78	-	-
Retirement benefits (Note 20)	22	64	22	64
	12,998	14,307	12,898	14,053
Changes in working capital				
- trade and other receivables	(1,650)	20	(629)	32
- inventories	(527)	(120)	(271)	110
- payables	2,224	(86)	1,475	207
Cash generated from operations	13,045	14,121	13,473	14,402

27. COMMITMENTS**Capital Commitments**

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

	Group		Company	
	2004	2003	2004	2003
Property, plant & equipment	<u>12,638</u>	<u>17,589</u>	<u>10,464</u>	<u>9,278</u>

Lease Commitments

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

	Group		Company	
	2004	2003	2004	2003
Later than one year and not later than five years	<u>142</u>	<u>93</u>	<u>142</u>	<u>57</u>

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 (Pvt) Limited instituted action against SLT claiming a sum of Rs. 164 million as damages, in relation to alleged breach of contract in publishing directories.
- (b) Employees and third parties have filed action against SLT claiming damages. In the opinion of the Directors none of these actions are likely to result a material liability to the Company.

29. DIRECTORS' INTERESTS IN CONTRACTS

A Director is considered to have a direct interest in a contract with the Company, if the Director him/herself is involved in a contract with the Company. A Director has an indirect interest in a contract with the Company, if the Director, through his/her common Directorships or his/her dependent family members is involved in a contract with the Company.

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

Director	Company	Position
Mr. T. Sumathipala	Sumathi Trading Company	Partner (50% holding)
	Sumathi Book Printing (Private) Limited	Director
	Mobitel (Private) Limited	Chairman
	Telecom City (Private) Limited	Director
Mr. N. Pathmanathan	Telecom City (Private) Limited	Nominee Director
Mr. Shuhei Anan	Mobitel (Private) Limited	Director
	Sri Lanka Telecom Services (Private) Limited	Director
	Telecom City (Private) Limited	Director

Director	Company	Position
Ms. M. A. R. C. Cooray	Sri Lanka Institute of Information Technology	Director
	Development Finance Corporation of Ceylon	Director
	Ceylon Electricity Board	Director
	Thomas De La Rue and Company 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
Mr. H. Yamada	AutoWeb Communications, Inc	Director
	NTT Europe Limited	Director
Mr. A. J. Obeyesekere (P.C.)	Mobitel (Private) Limited	Chairman
	Sri Lanka Telecom Services Limited	Chairman
	Telecom City (Private) Limited	Chairman
Mr. Nigel Hatch (P.C.)	Mobitel (Private) Limited	Director
	Securities and Exchange Commission	Director
Mr. Lalith De Mel	Hemas Holdings Limited	Director
	Serendib Hotels Limited	Director
	Delmege Forsyth and Company Limited	Director
	Brown and Company Limited	Director
	Associated Hotels Company Limited	Director
	Serendib Leisure Management Limited	Director
	Demchi (Private) Limited	Director
	Mobitel (Private) Limited	Director
CDC Capital Partners PLC.	Director	
Mr. Sadao Maki	NTT Europe Limited	Director
	Philippine Long Distance Telephone Company	Director
	NTT Investment Singapore Pte. Limited	Director
Mr. Tadashi Imachi	NTT Korea Company Limited	Director
Mr. Mitsuhiro Takase	NTT World Engineering Marine Corporation	Director

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

Mobitel (Private) Limited

Payments amounting to Rs. 10 million (2003 - Rs. 7 million) have been made during the year on call charges relating to cellular phones purchased for SLTL employees. Further, cellular phones amounting to Rs. 1 million (2003 - Rs. 2 million) were purchased from Mobitel (Private) Limited during the year.

Number of new GSM connections granted (special packages with no monthly rental) in 2004 amounted to Rs. 922 million (2003 - Rs. 2,747 million).

Mobitel has obtained several E1 links from SLT for which 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. 8,427 million and USD 11 million for GSM roll out and operational expenses.
- (ii) To obtain an investment commitment guarantee amounting to 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.

Outstanding balances arising from sale/purchase of services:

	2004	2003
Receivable from related party		
Mobitel (Private) Limited - Interconnection charges	83	37
Payable to related parties		
Mobitel (Private) Limited	97	37
Sri Lanka Telecom (Services) Limited	11	15

NTT Communications Corporation

As per the shareholders' agreement with NTT, which owns 35% of the issued share capital of SLTL, the following charges have been borne by the Company:

	2004	2003
Remuneration for experts seconded to SLT	39	60
Expenditure for experts seconded to SLT	8	12

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 (SLTS) is a related party of SLT where SLT 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 SLT where SLT has the ability to control. All transactions during 31 December 2004 and balances as at the balance sheet date between the two companies have been eliminated in preparing consolidated financial statements.

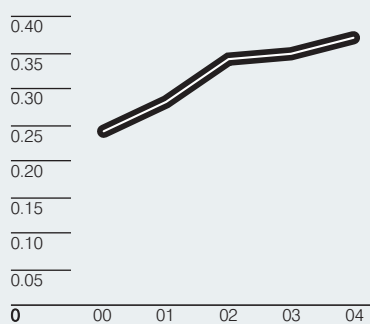
Other related party transactions should be read in conjunction with Note 29 to the financial statements.

31. POST BALANCE SHEET EVENTS

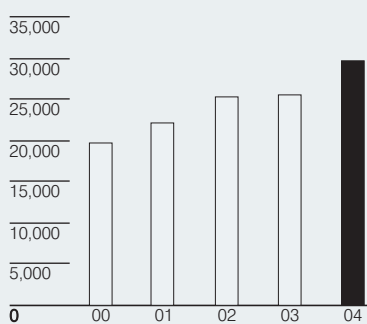
No events have arisen since the balance sheet date which would require adjustments to, or disclosure in, the financial statements.

	2004 Rs. Mn	2003 Rs. Mn	2002 Rs. Mn	2001 Rs. Mn	2000 Rs. Mn
Financial Position - (Group)					
Property, Plant & Equipment	54,350	55,763	56,722	59,093	61,498
Total Assets	78,773	72,373	74,765	80,173	82,497
Current Assets	22,053	14,626	15,963	13,772	12,213
Current Liabilities	11,533	12,440	12,048	12,144	12,134
Borrowings	25,370	21,081	25,926	31,534	34,633
Equity	31,064	30,600	29,024	36,957	35,742
Performance					
Revenue	29,588	25,553	25,383	22,060	19,605
Operating Profit	3,619	5,678	7,953	6,314	4,984
Finance Cost	2,524	2,863	3,377	3,585	4,516
Earnings before Tax	1,441	3,242	5,207	3,618	914
Taxation	148	993	2,522	1,515	693
Earnings after Tax	1,293	2,249	2,685	2,103	221
Cash Flow					
Net Operating Cash Flows	10,402	11,429	13,458	9,568	9,566
Net Cash used in Investing Activities	7,611	7,278	3,722	4,425	8,894
Net Cash used in/(from) Financing Activities	(3,314)	5,525	7,552	4,978	(2,066)
Key Financial Indicators					
Earnings per Share (Rs.)	0.72	1.3	1.5	1.2	0.1
Return on Assets (%)	4.6	7.8	10.6	7.9	6.0
Return on Equity (%)	4.2	7.3	9.3	5.7	0.6
Operating Margin (%)	12.23	22.2	31.3	28.6	25.4
Asset Turnover (No. of times)	0.37	0.35	0.34	0.28	0.24
Current Ratio (No. of times C.L.)	1.91	1.17	1.32	1.13	1.01
Quick Asset Ratio (No. of times C.L.)	1.79	1.11	1.27	1.05	0.90
Gearing Ratio (Debt to Rs. 1/- of Debt & Equity)	0.45	0.41	0.47	0.46	0.49
Interest Cover (No. of times Interest)	1.62	2.27	2.85	2.27	1.21

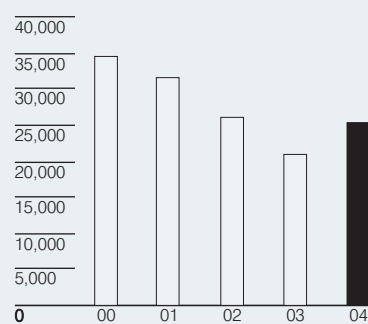
Asset Turnover
Times



Revenue
Rs. Mn



Borrowings
Rs. Mn

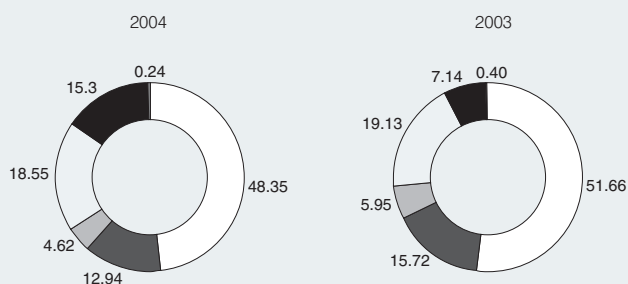


	2004		2003	
	Rs. Mn		Rs. Mn	
Revenue	29,588		25,553	
Other Income	346		427	
	29,934		25,980	
Goods and Services purchased from other sources	(10,430)		(7,771)	
Value Creation	19,504		18,209	
	2004	%	2003	%
DISTRIBUTION OF VALUE ADDED				
To Employees				
- salaries, wages, & other benefits	3,619	18.55	3,484	19.13
To Providers of Capital				
-dividend to shareholders	902	4.62	1,083	5.95
To Management Company NTT				
-management fees, remuneration & exp.	47	0.24	72	0.40
To Government				
-taxes & regulatory fees	2,985	15.30	1,300	7.14
To Lenders				
-interest & related charges	2,524	12.94	2,863	15.72
To Business Expansion & Growth				
-depreciation	9,036	46.33	8,241	45.26
-retained Income	391	2.02	1,166	6.40
	19,504	100.00	18,209	100.00

Value Added

%

- To Business Expansion & Growth
- To Lenders
- To Providers of Capital
- To Employees
- To Government
- To Management Company NTT



1. ANALYSIS OF SHAREHOLDERS ACCORDING TO THE NUMBER OF SHARES AS AT 31.12.2004

Shareholdings	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	13,134	6,262,795	0.35	14	7,493	0.00	13,148	6,270,288	0.35
1001 - 5,000	5,236	14,558,170	0.81	14	47,000	0.00	5,250	14,605,170	0.81
5,001 - 10,000	3,632	29,213,416	1.62	20	161,600	0.01	3,652	29,375,016	1.63
10,001 - 50,000	2,013	33,984,039	1.88	19	475,500	0.03	2,032	34,459,539	1.91
50,001 - 100,000	119	9,022,196	0.50	6	490,100	0.03	125	9,512,296	0.53
100,001 - 500,000	117	26,048,420	1.44	15	3,317,600	0.18	132	29,366,020	1.62
500,001 - 1,000,000	18	12,905,343	0.72	4	2,608,947	0.14	22	15,514,290	0.86
Over 1,000,000	34	998,905,463	55.34	8	666,851,918	36.95	42	1,665,757,381	92.29
	24,303	1,130,899,842	62.66	100	673,960,158	37.34	24,403	1,804,860,000	100.00

2. CATEGORIES OF SHAREHOLDERS

Analysis of Shareholders	31 December 2004			31 December 2003		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individual	24,039	126,917,083	7.03	24,928	138,732,911	7.69
Institutional	364	1,677,942,917	92.97	361	1,666,127,089	92.31
	24,403	1,804,860,000	100.00	25,289	1,804,860,000	100.00

3. 20 LARGEST SHAREHOLDERS AS AT THE BALANCE SHEET DATE

Name	No. of Shares	%
Secretary to the Treasury	893,405,709	49.50
NTT Communications Corporation	635,076,318	35.19
Samurdhi Authority of Sri Lanka	14,033,300	0.78
Employees' Provident Fund	13,885,589	0.77
Sri Lanka Insurance Corporation Limited - Life Fund	10,789,435	0.60
HSBC Int'l Nom Limited - SSBT-PRO Funds (LUX) Emerging Markets - DA50	8,975,200	0.50
Mr. M. M. Udeshi	6,786,900	0.38
Explorer Capital (International) Services Limited A/C No. 01	6,286,300	0.35
HSBC Int'l Nominees Limited - SSBTL - Global Advantage EMG MK FD	5,870,100	0.33
Voyager Capital (International) Limited	5,605,100	0.31
MAS Holdings (Private) Limited	5,000,000	0.28
Bank of Ceylon A/C - Ceybank Unit Trust	4,946,400	0.27
Mr. P. Madanayake	3,606,800	0.20
Waldock Mackenzie Limited/Mr. A. H. Udeshi	3,214,100	0.18
Seylan Bank Limited/Liyanage Saliya Ignatious Perera	3,213,400	0.18
DFCC Bank A/C 1	3,192,500	0.18
J. B. Cocoshell (Private) Limited	3,061,982	0.17
Mr. S. N. P. Paliyana	3,000,000	0.17
Waldock Mackenzie Limited - Mr. A. F. Munas & Mrs. N. Munas	2,185,600	0.16
HSBC International Nominees Limited MSNY Eastern Advisor Offshore Fund Limited	2,200,300	0.12
TOTAL	1,634,965,033	90.59

4. MARKET VALUE OF SHARES

Market Value of the ordinary shares of the Company (Rs.) during the year 2004:

	2004	2003
- Highest (Rs.)	23.00	30.00
- Lowest (Rs.)	15.00	10.50
- Last traded price (Rs.)	15.50	18.00

5. RATIOS

	Group		Company	
<i>31 December</i>	2004	2003	2004	2003
Net Assets per Share (Rs.)	17.21	16.95	18.05	17.06
Debt Equity Ratio (Debt Equity) - Number of Times	0.45	0.41	0.35	0.36
Quick Asset Ratio - Number of Times	1.79	1.11	2.24	1.34
<i>For the year</i>	2004	2003	2004	2003
Interest Cover - Number of Times	1.62	2.27	2.46	2.36

6. DIVIDEND PAYMENT

First & Final Dividend - Rs. 0.50 per share paid on 3 June 2004.

7. SHARE TRADING INFORMATION

	2004	2003
No. of transactions	23,669	34,041
No. of shares traded	180,626,230	279,750,200
Value of shares traded (Rs.)	3,225,939,589	5,509,529,600

8. DEBENTURES

1,500,000 unsecured redeemable 5 year debentures (2000/2005) par value of which were Rs. 1,000/- per unit were issued in March 2000.

The third tranche of 25% of the principal sum was redeemed in March 2004.

On redemption the par value of a unit was reduced to Rs. 250.

9. MARKET VALUE OF DEBENTURES DURING THE YEAR 2004 (Rs.)

Before redemption of 3rd tranche on 22 March 2004

	Quarterly (Fixed 14%) Rs.	Annually (Fixed 14.5%) Rs.	Half yearly (Floating) Rs.
- Highest market value		575.00*	
- Lowest market value	No transactions	575.00*	No transactions
- Last traded value		575.00*	

**Value per debenture Rs. 500.*

After redemption of 3rd tranche on 22 March 2004

	Quarterly (Fixed 14%) Rs.	Annually (Fixed 14.5%) Rs.	Half yearly (Floating) Rs.
- Highest market value	250.00*		
- Lowest market value	250.00*	No transactions	No transactions
- Last traded value	250.00*		

Value per debenture Rs. 250.*Market Value of Debentures during the year (Rs.)**

	Annually Fixed Year ended 31 Dec.		Quarterly Fixed Year ended 31 Dec.	
	2004	2003	2004	2003
Interest yield on last traded price	-	12.29%	14%	13.33%
Yield to maturity on last traded price	-	2.15%	14%	7.02%
Interest rate of comparable Government Securities	8.6%	7.44%	-	-

10. DIRECTORS' SHAREHOLDINGS AS AT 31 DECEMBER 2004

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

11. 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)
		<u>276,342,473</u>

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of Sri Lanka Telecom Limited, will be held at the Main Hall of BMICH, Bauddhaloka Mawatha, Colombo 7 on Tuesday, 17 May 2005 beginning 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 2004 with the Report of the Auditors thereon.
- 2) To declare a first and final dividend of 5% per share on the issued share capital of the Company as recommended by the Directors.
- 3)
 - i) To re-elect as Director, Mr. Kiyoshi Maeda, who retires by rotation in terms of Articles 91 & 92 of the Articles of Association.
 - ii) To re-elect as Director, Mr. S.B. Divaratne, who retires in terms of Article 97 of the Articles of Association.
 - iii) To re-elect as Director, Mr. Sadao Maki, who retires in terms of Article 97 of the Articles of Association.
 - iv) To re-elect as Director, Mr. Nigel Hatch, who retires in terms of Article 97 of the Articles of Association.
 - v) To re-elect as Director, Mr. Lalith De Mel, 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 business as may properly come before the meeting.

By Order of the Board

Mrs. P.G. Dias

Company Secretary

4th April 2005

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.

Form of Proxy

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. Kiyoshi Maeda | whom failing |
| Mr. Haruhiko Yamada | whom failing |
| Mr. S.B. Divaratne | whom failing |
| Mr. Nigel Hatch, P.C. | whom failing |
| Mr. Lalith De Mel | whom failing |
| Mr. Sadao Maki | whom failing |

..... of
..... as my/our proxy to
vote for me/us on my/our behalf as indicated below and/or* at the Eighth
Annual General Meeting of the Company, to be held on the 17 May 2005 and at any adjournment thereof and at every poll
which may be taken in consequences thereof.

	For	Against
1. To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2004 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of 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. Kiyoshi Maeda, who retires by rotation in terms of Articles 91 & 92 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect as Director, Mr. S.B. Divaratne, who retires by rotation in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect as Director, Mr. Sadao Maki, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect as Director, Mr. Nigel Hatch, who retires in terms of Article 97 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect as Director, Mr. Lalith De Mel, 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 Auditor 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 & Five.

.....
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 space 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 any amendment to the resolutions or make any statement in regard thereto on behalf of any shareholder.
3. If you wish your Proxy Holder to speak at the meeting you should insert the words **“to speak”** in the space provided with the* 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 preferred, 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 1 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*
Kiyoshi Maeda
Haruhiko Yamada
S.B. Divaratne
Nigel Hatch, P.C.
Lalith De Mel
Sadao Maki

Auditors

PricewaterhouseCoopers
Chartered Accountants

Company Secretary

Ms. P.G. Dias, ACIS - UK

Bankers

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

Subsidiary Company

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

