

REPORT OF THE DIRECTORS

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 & 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).

On 2 July 1998, the Government of Sri Lanka divested a further 3.5% of the issued share capital of SLTL by the sale of 63,170,010 ordinary shares to the employees of SLTL.

Results

The results for the year and the changes in equity, are set out in the income statement on page 25 and in the statement of changes in equity on pages 27 and 28 respectively.

State of Affairs

The state of affairs of the Company at 31 December 1999 is set out on page 26.

Property, Plant & Equipment

The movements in property, plant & equipment during the year are set out in note 8 to the financial statements.

Group Activities

The main activity of the Group is the provision of domestic and international telephone services and other telecommunication services such as telex, telegraph, leased circuits and data networks in Sri Lanka.

Dividends

The Directors recommend a dividend of Rs. 0.30 per share for the year ended 31 December 1999.

Substantial Shareholdings

According to the share register the undernoted held more than 5% interest in the issued share capital of the Company at the Balance Sheet date:

Government of Sri Lanka	61.5%
NTT Communications Corporation	35.2%

REPORT OF THE DIRECTORS

Directors

The Directors of the Company at 31 December 1999 were:

Mr. J.C.L. de Mel - <i>Chairman</i>	Appointed on 24 December 1998
Mr. R.N. Wijeratne	Appointed on 6 August 1997
Mr. Takao Sakagami	Appointed on 12 November 1997
Mr. K.A.P. Goonatilleke	Appointed on 24 December 1998
Mr. S.S. Ediriweera	Appointed on 24 December 1998
Mr. D.J. Amarasinghe	Appointed on 4 May 1999
Mr. Shuhei Anan	Appointed on 5 June 1999
Mr. Satoru Hashimoto - <i>Chief Executive Officer</i>	Appointed as Director on 29 October 1999 and as CEO on 20 December 1999
Mr. Norio Asami	Appointed on 20 December 1999

Mr. Hideaki Kamitsuma, Chief Executive Officer, resigned office with effect from 19 December 1999.

Mr. M. Kasahara, a Director of the Company, resigned office with effect from 5 June 1999.

Mr. R.D. Somasiri and Mr. S. Tagami, Directors of the Company resigned office with effect from 14 October 1999 and 20 July 1999 respectively.

Mr. H.N. Gunewardene was appointed as a Director of the Company on 21 February 2000.

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 26 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.

Directors' Interests in Shares of the Company

Mr. R.D. Somasiri, a Director of the Company who resigned office on 14 October 1999, transferred his 17,677 shares in the Company to Mr. R.N. Wijeratne, another Director of the Company.

None of the other Directors held any shares in the Company during the year ended 31 December 1999.

Donations

During the year the Company contributed Rs. 5 million for charitable purposes.

Post Balance Sheet Events

No events have occurred since the balance sheet date which would require adjustments to, or disclosure in, the financial statements, other than those disclosed in note 28 to the financial statements.

Appointment of Auditors

A resolution to re-appoint our present Auditors, Messrs. PricewaterhouseCoopers, Chartered Accountants, who have expressed their willingness to continue, was proposed at the Annual General Meeting held on 29 March 2000.

By order of the Board

Sgd. **Mrs. P.G. Dias**

Secretary

20 June 2000

REPORT OF THE AUDITORS

To the Members of Sri Lanka Telecom Limited

We have audited the balance sheet of Sri Lanka Telecom Limited as at 31 December 1999, the consolidated balance sheet of the Company and its Subsidiary as at that date, and the related statements of income and cash flows for the year then ended, together with the accounting policies and notes thereon appearing on pages 25 to 51.

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 Audit

Except as discussed in paragraph 4 below, 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, as well as 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 therefore believe that our audit provides a reasonable basis for our opinion.

Limitation of Scope

Information relating to the age of amounts due in respect of telephony services provided to Government departments and other Governmental institutions, and confirmation of those balances, were not available. Further, these debts had not been settled by 31 October 1997 as specified in the shareholders agreement. We are therefore unable to state whether Rs. 281 million shown as a receivable from the Government is fairly stated.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in paragraph 4, the said balance sheet and the related statements of income and cash flows and the accounting policies and notes thereto, have been 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 1999 and the results of its operations and its cash flows for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in paragraph 4, the consolidated balance sheet and statements of income and cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act, No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31 December 1999 and the results of its operations and its cash flows for the year then ended of the Company and its Subsidiary dealt with thereby, so far as concerns the members of the Company.

REPORT OF THE AUDITORS

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 Company during the year ended 31 December 1999 except as stated in note 26 to the financial statements.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 8(f) to the financial statements. As disclosed in that note, the Company does not insure its property, plant & equipment and does not take insurance policies on other insurable risks. The amount set aside to meet any future uninsured loss is Rs. 62 million at the balance sheet date. These financial statements have been prepared on a going concern basis on the assumption that a substantial loss in excess of the amount provided would not arise.

Without qualifying our opinion, we also draw your attention to notes 25 and 28 to the financial statements. Two parties have made claims against SLTL amounting to Rs. 587 million on account of loss of profit resulting from the stay order secured by SLTL. After the balance sheet date, an internet service provider has filed action against the Company, claiming Rs. 1,500 million as damages for defamation arising out of an advertisement placed by the Company. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Sgd.

PricewaterhouseCoopers

21 June 2000

CONSOLIDATED INCOME STATEMENT

		Group		Company	
		1999	1998	1999	1998
<i>For the year ended 31 December 1999</i>		Rs.million	Rs.million	Rs.million	Rs.million
Notes					
	Revenue	18,281	17,082	18,281	17,082
	Operating costs	(13,220)	(12,071)	(13,193)	(12,047)
	Operating profit	5,061	5,011	5,088	5,035
	Non-operating income	447	256	447	256
	Interest expense and related charges	(3,313)	(1,899)	(3,313)	(1,899)
	Interest income	103	90	103	90
	Profit share from Associate Company	27	3	–	–
	Profit before tax	2,325	3,461	2,325	3,482
	Taxation	(1,056)	(1,260)	(1,056)	(1,260)
	Profit after tax	1,269	2,201	1,269	2,222
	Transfer to reserves	(1,269)	(2,201)	(1,269)	(2,222)
		–	–	–	–
	Earnings per share	–	–	0.70	1.23

All the Group's activities are continuing activities.

The accompanying notes on pages 30 to 51 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 1999		Group		Company	
		1999	1998	1999	1998
	Notes	Rs.million	Rs.million	Rs.million	Rs. million
Assets					
Non-current assets					
Property, plant & equipment	8	58,136	47,044	58,224	47,104
Investments	9	872	777	807	739
Non-current receivables	10	883	809	883	809
		59,891	48,630	59,914	48,652
Current assets					
Inventories	11	1,486	1,255	1,486	1,255
Receivables and prepayments	12	8,536	8,722	8,535	8,721
Cash & cash equivalents	13	1,140	1,161	1,138	1,159
		11,162	11,138	11,159	11,135
Total assets		71,053	59,768	71,073	51,787
Equity and Liabilities					
Capital and reserves					
Ordinary share	20	18,049	18,049	18,049	18,049
Capital reserves	21	188	188	188	188
Retained earnings		4,348	3,530	4,351	3,533
		22,585	21,767	22,588	21,770
Non-current liabilities					
Borrowings	14	25,631	18,560	25,631	18,560
Deferred tax liabilities	15	6,188	5,131	6,187	5,131
Deferred income	16	5,400	4,326	5,400	4,326
Provisions for liabilities and charges	18	321	241	320	240
		37,540	28,258	37,538	28,257
Current liabilities					
Trade and other payables	17	4,913	5,611	4,932	5,628
Borrowings	14	5,485	3,710	5,485	3,710
Deferred income	16	530	422	530	422
		10,928	9,743	10,947	9,760
Total equity and liabilities		71,053	59,768	71,073	59,787

The accompanying notes on pages 30 to 51 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 May 2000 and were signed on its behalf by:

J.C.L. de Mel
Chairman

S. Hashimoto
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share capital	Advances towards share capital	Capital reserves	Retained earnings	Total
<i>As at 31 December 1999</i>	Notes	Rs.million	Rs.million	Rs.million	Rs.million	Rs.million
Group						
Balance at 1 January 1998						
- as previously reported		18,049	2,987	188	2,065	23,289
- prior year adjustment	6	-	-	-	257	257
- as restated		18,049	2,987	188	2,322	23,546
Advances towards share capital		-	23	-	-	23
Dividend for 1997		-	-	-	(542)	(542)
Dividend for 1998		-	-	-	(451)	(451)
Net profit restated for the effect of the prior year adjustment		-	-	-	2,201	2,201
Set off against goodwill		-	(3,010)	-	-	(3,010)
Balance at 31 December 1998		18,049	-	188	3,530	21,767
Balance at 1 January 1999						
- as previously reported		18,049	3,010	188	2,585	23,832
- prior year adjustment	6	-	-	-	945	945
- set off against goodwill		-	(3,010)	-	-	(3,010)
- as restated		18,049	-	188	3,530	21,767
Dividend for 1998		-	-	-	(451)	(451)
Net profit		-	-	-	1,269	1,269
Balance as at 31 December 1999		18,049	-	188	4,348	22,585

The accompanying notes on pages 30 to 51 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share capital	Advances towards share capital	Capital reserves	Retained earnings	Total
<i>As at 31 December 1999</i>	Notes	Rs.million	Rs.million	Rs.million	Rs.million	Rs.million
Company						
Balance at 1 January 1998						
- as previously reported		18,049	2,987	188	2,045	23,269
- prior year adjustment	6	-	-	-	259	259
- as restated		18,049	2,987	188	2,304	23,528
Advances towards share capital		-	23	-	-	23
Dividend for 1997		-	-	-	(542)	(542)
Dividend for 1998		-	-	-	(451)	(451)
Net profit restated for the effect of the prior year adjustment		-	-	-	2,222	2,222
Set off against goodwill		-	(3,010)	-	-	(3,010)
Balance at 31 December 1998		<u>18,049</u>	<u>-</u>	<u>188</u>	<u>3,533</u>	<u>21,770</u>
Balance at 1 January 1999						
- as previously reported		18,049	3,010	188	2,586	23,833
- prior year adjustment	6	-	-	-	947	947
- set off against goodwill		-	(3,010)	-	-	(3,010)
- as restated		18,049	-	188	3,533	21,770
Dividend for 1998		-	-	-	(451)	(451)
Net profit		-	-	-	1,269	1,269
Balance as at 31 December 1999		<u>18,049</u>	<u>-</u>	<u>188</u>	<u>4,351</u>	<u>22,588</u>

The accompanying notes on pages 30 to 51 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

		Group		Company	
		1999	1998	1999	1998
<i>For the year ended 31 December 1999</i>		Rs.million	Rs.million	Rs.million	Rs.million
Notes					
Operating activities					
	Cash generated from operations	10,589	10,158	10,615	10,178
	Interest received	107	84	107	84
	Interest paid	(3,332)	(1,925)	(3,332)	(1,925)
	Net cash from operating activities	7,364	8,317	7,390	8,337
Investing activities					
	Purchase of property, plant & equipment	(15,606)	(13,359)	(15,632)	(13,381)
	Purchase of investments	(68)	(72)	(68)	(72)
	Disposal of property, plant & equipment	389	60	389	60
	Net cash used in investing activities	(15,285)	(13,371)	(15,311)	(13,393)
Financing activities					
	Deferred expenditure	(10)	(161)	(10)	(161)
	Proceeds from long-term borrowings	11,244	5,372	11,244	5,372
	Payment on long-term borrowings	(3,143)	(2,381)	(3,143)	(2,381)
	Net exchange loss on financing activities	1,041	1,425	1,041	1,425
	Dividend paid	(992)	-	(992)	-
	Net cash from financing activities	8,140	4,255	8,140	4,255
	Increase/(decrease) in cash & cash equivalents	219	(799)	219	(801)
	Movement in cash & cash equivalents				
	At start of year	132	931	130	931
	Increase/(decrease)	219	(799)	219	(801)
	At end of year	351	132	349	130

The accompanying notes on pages 30 to 51 form an integral part of these financial statements.

ACCOUNTING POLICIES

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

1. 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.

2. Consolidation

Subsidiary undertakings, which are those companies 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. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. If the Company owns less than 100% of the voting rights, separate disclosure is made of minority interests.

The Group's subsidiary is set out in note 19.

3. Investments in Associates

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Provisions are recorded for long-term impairment in value.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

The Group's principal associated undertaking is shown in note 19.

4. Foreign Currencies

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. Where such gains and losses are incurred as part of operating activities, they are included in operating costs. Where they arise on foreign currency loans incurred to acquire fixed assets, they are capitalised as part of the cost of fixed assets to the extent that they are regarded as an adjustment to interest costs.

ACCOUNTING POLICIES

5. Investments

Fixed asset 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.

6. 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, materials, customs duty and borrowing costs.

Significant renovations are capitalised if they extend the life of the asset or increase its value. Maintenance, repairs and minor renewals are charged to income as incurred.

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.

The basis of valuation used on the transfer of assets from SLT to SLTL is explained under the heading "Assets acquired on incorporation".

Depreciation is calculated on a straight line method to write off the cost of each asset to their residual values over their estimated useful lives as follows:

Freehold buildings	50 years
Ducts and other outside plant	10 to 25 years
Undersea cables (included under ducts, cables and other outside plant)	8 to 10 years
Telephone exchanges and transmission equipment	12.5 years
Motor vehicles	5 years
Other fixed assets	5 to 10 years

Freehold land is not depreciated, as it is deemed to have an infinite life.

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

ACCOUNTING POLICIES

The property, plant & equipment records maintained by SLTL are insufficient to allow an accurate assessment of the appropriate depreciation charge of individual assets, as much of the accounting information is aggregated and incapable of being allocated to individual assets, nor do these records enable a detailed assessment to be made for provision for permanent diminution in value, if any. Accordingly the accumulated depreciation and the depreciation charge for the year have been based on broad estimates, using the best information available.

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.

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.

7. Assets acquired on Incorporation

As at 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 for the opening cost of fixed assets at 1 September 1991 in the first statutory accounts of SLT for the year ended 31 December 1991.

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.

8. Inventories

Inventories are stated at the lower of cost and net realisable value. For this purpose, the value of stocks per standard costs used, is reduced by the corresponding price variance at the year end. As a result cost is calculated on a first in first out basis. Provision is made for slow-moving and obsolete inventories.

9. Trade Receivables

Receivables are carried at anticipated realisable value, after providing for bad and doubtful amounts. The available records do not provide sufficient information concerning domestic receivables to enable an accurate assessment to be made of the necessary provision. Accordingly, estimates have been made on the basis of the best information available.

10. Cash & Cash Equivalents

For the purpose of the cash flow statement, cash & cash equivalents comprise cash in hand, deposits held at call with banks, excluding those restricted at bank, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

ACCOUNTING POLICIES

11. Deferred Expenditure

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 twelve years.

12. 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.

13. 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 fixed 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.

14. Taxation

Taxes on income are accounted for using the liability method. Under this method the expected effect of temporary differences between the figures used for financial reporting and income tax reporting purposes are recorded as deferred taxes at the rates that are expected to apply when the temporary differences reverse.

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 pensions and other post-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 unused tax losses can be utilised.

ACCOUNTING POLICIES

15. Defined Benefit Plan

SLTL operates an approved pension fund for the payment of pensions and monthly contributions are made to the pension fund based on a percentage of the gross emoluments excluding certain allowances. The percentage of contributions was determined by an independent actuary and retirement benefits are provided for all members of the permanent staff.

SLTL as a matter of policy obtains actuarial valuation of the pension fund 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 1998. The valuation was made adopting the Projected Unit Credit Method as recommended by the Sri Lanka Accounting Standard No. 16, Retirement Benefit Costs.

The assumptions based on which the results of the actuarial valuation was determined, include the rate of interest for discounting future cash flows, rate of salary increases, mortality, withdrawal and disability and retirement age.

The liability is not funded externally.

16. Defined Contribution Plan

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

17. Revenue Recognition

Revenue, comprises the value of services provided and equipment sales.

Revenues for all services are recognised when earned. Billings for local telephone services were made on a monthly basis during the year ended 31 December 1999. Unbilled revenue is estimated and included in the financial statements.

Revenues are received from the customers and other network operators, for the use of its network and completing connections. A proportion of the revenue received is paid to other foreign operators for the use of their networks, where appropriate. These revenues and costs are stated gross in these financial statements. Amounts due to and receivable from the same operators are shown net, where a right of set-off exists.

Revenue receivable from foreign operators is recognised solely on the basis of their statements.

Connection fees are treated as deferred income and credited to the income statement over 15 years, being an estimate of the period over which the related assets are depreciated. The element of deferred income credited to profit annually is included in the revenue. The accounting records do not provide details of the connection charges received in previous years. Hence estimates have been made, on the basis of the best information available, of the appropriate amounts of connection fees to defer and credit to income.

ACCOUNTING POLICIES

18. Comparatives

Where necessary, comparative figures have been adjusted to conform with a change in accounting policy on goodwill and with changes in presentation in the current year.

The policy followed by the Company in accounting for goodwill, which represents the excess of share capital of SLTL over the aggregate of the values of the separable net assets of SLT (Corporation) on 25 September 1996 when SLT was converted to SLTL, was changed during the year. The Share Capital, specified in the Memorandum of Association of SLTL in accordance with the Government Gazette No. 942/7 of 25 September 1996, was based on retained earnings shown in the unaudited accounts of SLT (Corporation) as at 31 December 1995. However, on the completion of the audit for the year ended 31 December 1995 the retained earnings reflected in those financial statements were adjusted to reduce the said figure by approximately Rs. 4,747 million. After the year end (31 December 1995), Rs. 392 million of those adjustments were reversed as the income taxes up to 1994 had been since agreed and settled. Accordingly, the goodwill figure of Rs. 3,441 million at 1 January 1997 is net of these adjustments.

Goodwill, which was previously amortised over 5 years commencing from 1 January 1997, has now been set-off against Advances toward Share Capital, which, as explained in note 22 to the financial statements, represents the custom duty waivers of Rs. 3,010 million on equipment imported for the 150,000 line project. Since the value of goodwill, Rs. 3,441 million at the time of conversion, exceeded the value of Advances toward Share Capital by Rs. 431 million, the excess has been charged to the income statement during the year ended 31 December 1997. The Directors are of the view that the proposed treatment gives a fairer picture of the results for the year and the assets and liabilities at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

1. Revenue

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

	Group		Company	
	1999 Rs.million	1998 Rs.million	1999 Rs.million	1998 Rs.million
Release of deferred connection charges (note 16)	537	479	537	479
Rental income	1,260	731	1,260	731
Domestic call revenue	7,298	4,820	7,298	4,820
Receipts from other network operators - domestic	190	179	190	179
International call revenue	2,075	2,153	2,075	2,153
Receipts from other network operators - international	741	642	741	642
International settlements (in payments) [note(a)]	5,764	7,691	5,764	7,691
Telex, data transmission and other telephony services	416	387	416	387
	18,281	17,082	18,281	17,082

(a) The Company is experiencing a reduction in international settlements. The Directors are of the view that some international calls are by passing the SLTL gateway for such reduction in revenue to occur. This issue has been referred to the Telecommunication Regulatory Commission.

2. Operating Costs

The significant categories of operating costs are as follows:

	Group		Company	
	1999 Rs.million	1998 Rs.million	1999 Rs.million	1998 Rs.million
Staff costs (note 3)	2,313	2,088	2,313	2,088
Depreciation of tangible fixed assets (note 8)	5,003	4,795	5,001	4,793
Payments to international network operators	2,251	2,206	2,251	2,206
Auditors' remuneration	3	3	3	3
Repairs and maintenance	735	817	735	817
Electricity	229	205	229	205
Bad debt/Stock provisions	421	723	421	723
Net foreign exchange gains on operating activities	(100)	(503)	(100)	(503)
Payments to NTT Communications Corporation [note(a)]	451	463	451	463
GST expense	478	-	478	-
Travelling, administration and other operating expenses	1,436	1,274	1,411	1,252
	13,220	12,071	13,193	12,047

(a) Represents amounts payable to NTT Communications Corporation on account of re-engineering expenses, salaries and expenditure of seconded experts and management fees (refer note 26).

NOTES TO THE FINANCIAL STATEMENTS

- (b) Operating costs include Directors' emoluments for the year 1999 of Rs. 41 million. This includes fees paid to NTT of Rs. 40 million for the secondment of expatriate personnel who are also Directors of SLTL.

3. Staff Costs

	Group		Company	
	1999	1998	1999	1998
	Rs.million	Rs.million	Rs.million	Rs.million
Salaries, wages and allowances	2,084	1,891	2,084	1,891
Social security contributions	229	197	229	197
	<u>2,313</u>	<u>2,088</u>	<u>2,313</u>	<u>2,088</u>

4. Finance Costs

	Group/Company	
	1999	1998
	Rs.million	Rs.million
Interest expense and related charges		
Rupee loans (long-term)	1,260	1,101
Rupee loans (short-term)	174	21
Foreign currency loans	1,419	907
Net foreign exchange losses and other charges (note a)	950	561
Total interest payable	<u>3,803</u>	<u>2,590</u>
Interest capitalised	(490)	(691)
Total interest charged	<u>3,313</u>	<u>1,899</u>

- (a) Other charges are for interest on bank overdrafts and the guarantee premium paid for 150K projects.

5. Taxation

The charge for taxation is made up as follows:

	Group/Company	
	1999	1998
	Rs.million	Rs.million
Current tax	-	-
Deferred tax charge	1,056	1,260
	<u>1,056</u>	<u>1,260</u>

No income tax is payable for the year in view of tax losses available for carry forward. At 31 December 1999, tax losses available for carry forward amounted to approximately Rs. 15,000 million.

NOTES TO THE FINANCIAL STATEMENTS

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:

	Group/Company	
	1999	1998
	Rs.million	Rs.million
Net profit before taxes	2,325	3,482
Tax at 35%	814	1,219
Expenses not deductible	397	65
Income not subject to tax	(155)	(24)
	1,056	1,260

Further information about deferred tax is presented in note 15.

6. Prior year Adjustments

As explained in the Accounting Policy No. 18, the policy followed by the Company in recording goodwill was changed during the year. The change in the accounting policy was treated as a prior year adjustment in accordance with the recommendation made in Sri Lanka Accounting Standard No. 10, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. The Directors take the view that the proposed treatment gives a fairer presentation of the results for the year and assets and liabilities at the balance sheet date.

The impact of this change is set out below:

	Group	Company
	Rs.million	Rs.million
Increase in retained profit at 1 January 1998	257	259
Increase in retained profit for the year ended 31 December 1998	688	688
Increase in retained profit at 1 January 1999	945	947

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.

	Company	
	1999	1998
	Rs.million	Rs.million
Net profit attributable to shareholders	1,269	2,222
Weighted average number of ordinary shares in issue (million)	1,805	1,805
Basic earnings per share	0.70	1.23

NOTES TO THE FINANCIAL STATEMENTS

8. Property, Plant & Equipment

Group

	Freehold land and buildings Rs.million	Ducts, cables and other outside plant Rs.million	Telephone exchanges Rs.million	Transmission equipment Rs.million	Other fixed assets Rs.million	Capital work-in- progress Rs.million	Total Rs.million
Year ended 31 December 1998							
Opening net book amount	844	14,719	1,878	2,532	305	17,518	37,796
Additions	–	2,172	46	1	479	11,412	14,110
Transfers from work-in-progress	355	13,598	4,954	2,465	165	(21,537)	–
Disposals	–	–	(1)	(32)	(13)	–	(46)
Inter-group transfers	–	(1,690)	–	1,690	(21)	–	(21)
Depreciation charge (note 2)	(21)	(3,274)	(663)	(594)	(243)	–	(4,795)
Closing net book amount	<u>1,178</u>	<u>25,525</u>	<u>6,214</u>	<u>6,062</u>	<u>672</u>	<u>7,393</u>	<u>47,044</u>
At 31 December 1998							
Cost or valuation	1,264	35,563	8,656	7,701	1,385	7,393	61,962
Accumulated depreciation	(86)	(10,038)	(2,442)	(1,639)	(713)	–	(14,918)
Net book amount	<u>1,178</u>	<u>25,525</u>	<u>6,214</u>	<u>6,062</u>	<u>672</u>	<u>7,393</u>	<u>47,044</u>
Year ended 31 December 1999							
Opening net book amount	1,178	25,525	6,214	6,062	672	7,393	47,044
Additions	8	1,591	640	159	402	13,304	16,104
Transfers from work-in-progress	322	7,297	1,641	1,117	189	(10,566)	–
Disposals	(5)	(4)	–	–	–	–	(9)
Inter-group transfers	–	6	–	–	(6)	–	–
Depreciation charge (note 2)	(22)	(3,452)	(686)	(601)	(242)	–	(5,003)
Closing net book amount	<u>1,481</u>	<u>30,963</u>	<u>7,809</u>	<u>6,737</u>	<u>1,015</u>	<u>10,131</u>	<u>58,136</u>
At 31 December 1999							
Cost or valuation	1,589	44,451	10,937	8,977	1,955	10,131	78,040
Accumulated depreciation	(108)	(13,488)	(3,128)	(2,240)	(940)	–	(19,904)
Net book amount	<u>1,481</u>	<u>30,963</u>	<u>7,809</u>	<u>6,737</u>	<u>1,015</u>	<u>10,131</u>	<u>58,136</u>

NOTES TO THE FINANCIAL STATEMENTS

8. Property, Plant & Equipment (Contd.)

Company

	Freehold land and buildings	Ducts, cables and other outside plant	Telephone exchanges	Transmission equipment	Other fixed assets	Capital work-in- progress	Total
	Rs.million	Rs.million	Rs.million	Rs.million	Rs.million	Rs.million	Rs.million
Year ended 31 December 1998							
Opening net book amount	844	14,719	1,878	2,532	301	17,558	37,832
Additions	–	2,172	46	1	477	11,436	14,132
Transfers from work-in-progress	355	13,598	4,954	2,465	165	(21,537)	–
Disposals	–	–	(1)	(32)	(13)	–	(46)
Inter-group transfers	–	(1,690)	–	1,690	(21)	–	(21)
Depreciation charge (note 2)	(21)	(3,274)	(663)	(594)	(241)	–	(4,793)
Closing net book amount	<u>1,178</u>	<u>25,525</u>	<u>6,214</u>	<u>6,062</u>	<u>668</u>	<u>7,457</u>	<u>47,104</u>
At 31 December 1998							
Cost or valuation	1,264	35,563	8,656	7,701	1,370	7,457	62,011
Accumulated depreciation	(86)	(10,038)	(2,442)	(1,639)	(702)	–	(14,907)
Net book amount	<u>1,178</u>	<u>25,525</u>	<u>6,214</u>	<u>6,062</u>	<u>668</u>	<u>7,457</u>	<u>47,104</u>
Year ended 31 December 1999							
Opening net book amount	1,178	25,525	6,214	6,062	668	7,457	47,104
Additions	8	1,591	640	159	412	13,320	16,130
Transfers from work-in-progress	322	7,297	1,641	1,117	189	(10,566)	–
Disposals	(5)	(4)	–	–	–	–	(9)
Inter-group transfers	–	6	–	–	(6)	–	–
Depreciation charge (note 2)	(22)	(3,452)	(686)	(601)	(240)	–	(5,001)
Closing net book amount	<u>1,481</u>	<u>30,963</u>	<u>7,809</u>	<u>6,737</u>	<u>1,023</u>	<u>10,211</u>	<u>58,224</u>
At 31 December 1999							
Cost or valuation	1,589	44,451	10,937	8,977	1,961	10,211	78,126
Accumulated depreciation	(108)	(13,488)	(3,128)	(2,240)	(938)	–	(19,902)
Net book amount	<u>1,481</u>	<u>30,963</u>	<u>7,809</u>	<u>6,737</u>	<u>1,023</u>	<u>10,211</u>	<u>58,224</u>

NOTES TO THE FINANCIAL STATEMENTS

- (a) The cost of fully depreciated assets as at 31 December 1999 is Rs. 3,346 million (1998 - Rs. 1,512 million).
- (b) Borrowing costs capitalised during the year to 31 December 1999 were Rs. 490 million (1998 - Rs. 691 million). No assets have been mortgaged or pledged as security by SLTL.
- (c) The value of property, plant & equipment includes capitalised borrowing costs. The cost and net book value of such borrowing costs are as follows:

	1999	1998
	Rs.million	Rs.million
Cost	3,386	2,896
Accumulated depreciation	(738)	(471)
Net book value	2,648	2,425

- (d) The cost of property, plant & equipment also includes Rs. 2,437 million (1998 - Rs. 2,707 million), being the net book value of customs duty waivers granted to SLTL on the import of equipment for the 150,000 Line Project to 31 December 1999 (refer note 22).
- (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 a future loss with regard to uninsured property, plant & equipment. At the balance sheet date, Rs. 62 million stood to the credit of the reserve and is included under provisions (note 18). The sinking fund investment of that amount is included under cash & cash equivalents (note 13 (a)).

9. Investments

	Group		Company	
	1999	1998	1999	1998
	Rs.million	Rs.million	Rs.million	Rs.million
Investment in Subsidiary [note (a)]	-	-	25	25
Investment in Associate Company [note (b)]				
At 1 January	322	319	259	259
Share of profits	27	3	-	-
At 31 December	349	322	259	259
Investment in others [note (c)]				
At 1 January	455	383	455	383
Additions	68	72	68	72
At 31 December	523	455	523	455
Aggregate value of investments at 31 December	872	777	807	739

NOTES TO THE FINANCIAL STATEMENTS

- (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 investment in the Associate Company represents a 40% shareholding (22,170,640 ordinary shares of Rs. 10 each) in a cellular telephone company, Mobitel (Private) Limited at 31 December 1999. Of the investment in Mobitel (Private) Limited 15,170,640 ordinary shares were initially allotted, in consideration of SLTL signing a Joint Venture Agreement with Telstra Holdings (Pty) Limited, Australia and discontinuing a Build Own Transfer (BOT) Agreement they had entered into in 1992. For the purposes of preparing these financial statements this investment of 15,170,640 shares was valued at 40% of the Net Assets of Mobitel (Private) Limited as at 30 June 1996 (the date on which Mobitel (Private) Limited effected such issue of shares in its accounts), according to its audited accounts at that date. As at that date the 15,170,640 ordinary shares represented 40% of the issued share capital of Mobitel (Private) Limited and its value was Rs. 188 million. Since SLTL did not pay cash for the 15,170,640 ordinary shares, the consideration was credited to capital reserve (note 21).

In 1996, Mobitel (Private) Limited increased its issued share capital and SLTL made a cash investment of Rs. 70 million in another 7,000,000 ordinary shares of Rs. 10 each, so as to maintain a 40% shareholding in Mobitel (Private) Limited.

The investment in others represent unlisted investments in Intelsat and Inmarsat, the international satellite consortia.

10. Non-Current Receivables

	Group		Company	
	1999 Rs.million	1998 Rs.million	1999 Rs.million	1998 Rs.million
Employee loans [note (a)]	509	397	509	397
Deferred expenses	374	412	374	412
Amounts due after one year	883	809	883	809

- (a) Employee loans are repayable in equal monthly instalments over five years.

11. Inventories

Inventories consist of engineering stores and consumables and office equipment.

12. Receivables and Prepayments

	Group		Company	
	1999 Rs.million	1998 Rs.million	1999 Rs.million	1998 Rs.million
Domestic trade receivables	5,213	3,857	5,213	3,857
Foreign trade receivables [note (b)]	2,266	4,175	2,266	4,175
Advances and prepayments	893	553	892	552
Employee loans [note (a)]	127	100	127	100
Deferred expenses	37	37	37	37
Amounts due within one year	8,536	8,722	8,535	8,721

NOTES TO THE FINANCIAL STATEMENTS

- (a) Employee loans are repayable in equal monthly instalments over five years.
- (b) Although there is no legal right of set-off, foreign trade receivables are shown net of certain amounts payable to overseas telecom operators who have a net credit balance in respect of overseas traffic.

13. Cash & Cash Equivalents

	Group		Company	
	1999	1998	1999	1998
	Rs.million	Rs.million	Rs.million	Rs.million
Cash at bank and in hand	198	313	196	311
Restricted at bank [note (a)]	535	479	535	479
Short-term deposits	407	369	407	369
	<u>1,140</u>	<u>1,161</u>	<u>1,138</u>	<u>1,159</u>

- (a) The restricted cash balances are bank deposits in US dollars with Citibank and Credit Agricole Indosuez under terms specified in the agreements for loans from these entities, and bank deposits of Sri Lankan Rupees 62 million with the People's Bank which represents the sinking fund investment for the insurance reserve. These deposits are interest bearing on commercial terms.

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

	Group		Company	
	1999	1998	1999	1998
	Rs.million	Rs.million	Rs.million	Rs.million
Cash and cash equivalents	1,140	1,161	1,138	1,159
Bank overdrafts (note 14)	(254)	(550)	(254)	(550)
Restricted at bank	(535)	(479)	(535)	(479)
	<u>351</u>	<u>132</u>	<u>349</u>	<u>130</u>

14. Borrowings

	Group/Company	
	1999	1998
	Rs.million	Rs.million
Current		
Bank overdrafts	254	550
Government borrowings	1,532	1,262
Bank borrowings	3,699	1,898
	<u>5,485</u>	<u>3,710</u>
Non-current		
Government borrowings	9,114	7,421
Bank borrowings	16,517	11,139
	<u>25,631</u>	<u>18,560</u>
Total borrowings	<u>31,116</u>	<u>22,270</u>

NOTES TO THE FINANCIAL STATEMENTS

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

	Group/Company	
	1999	1998
	Rs.million	Rs.million
Total borrowings		
- at fixed rates	24,954	16,550
- at floating rates	6,162	5,720
	31,116	22,270

Weighted average effective interest rates:

	Group/Company	
	1999	1998
	Rs.million	Rs.million
- Bank overdrafts	14.25%	14.25%
- Domestic Bank borrowings	13.99%	14.38%
- Foreign Bank borrowings	7.5%	7.25%
- Government borrowings	13%	13%

Maturity of non-current borrowings:

	Company	
	1999	1998
	Rs.million	Rs.million
Between 1 and 2 years	5,314	3,997
Between 2 and 5 years	12,510	8,980
Over 5 years	7,807	5,583
	25,631	18,560

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 1999 is Rs. 10,646 million (1998 - Rs. 8,683 million).

One loan was fixed in Sri Lanka Rupees at the exchange rate on the date of incorporation of SLTL or on the draw down dates of the loan facility, as appropriate. Accordingly the exchange losses on this loan are borne by the Government of Sri Lanka. The interest rates were fixed at 13% per annum. The liability as at 31 December 1999 is Rs. 772 million (1998 - Rs. 1,158 million).

SLTL bears the foreign exchange risk and the related costs on a loan, bearing interest at 10% per annum. The balance as at 31 December 1999 is Rs. 2,717 million (1998 - Rs. 2,903 million).

Certain Government re-lent loans amounting to Rs. 3,780 million (1998 - Rs. 4,143 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.

NOTES TO THE FINANCIAL STATEMENTS

The Government has guaranteed third party loans amounting to Rs. 10,978 million (1998 - Rs. 9,841 million).

Total value of loans that have neither been guaranteed nor secured is Rs. 6,440 million (1998 - Rs. 316 million). All bank overdrafts are unsecured.

The majority of the loans require SLTL, among other matters, to submit audited financial statements to the lenders within stated periods of the calendar year-end, and to maintain adequate accounting records in accordance with generally accepted accounting practice. SLTL has not complied with some of these requirements. However, the Directors believe that the lenders were aware of the likely shortcomings in SLTL's accounting records when signing the loan agreements, and have not notified SLTL of any breach. The Directors do not believe that the lenders will materially alter any of the terms of these loans to SLTL's detriment.

The Directors believe the Company will have sufficient finances available to meet its present commitments, either from the renewal of its current facilities or from the negotiation of new facilities.

15. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (1998 - 35%).

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

	Group		Company	
	1999	1998	1999	1998
	Rs.million	Rs.million	Rs.million	Rs.million
At beginning of year	5,131	3,871	5,131	3,871
Income statement charge	1,057	1,260	1,056	1,260
At end of year	6,188	5,131	6,187	5,131

16. Deferred Income

The deferred income represents the deferred line connection charges, net of amounts released equally to the income statement over a period of 15 years.

	Group/Company	
	1999	1998
	Rs.million	Rs.million
Balance at 1 January	4,748	3,294
Connection fees for the year	1,719	1,933
Amount amortised during the year	(537)	(479)
Balance at 31 December	5,930	4,748
Amortisations fall due as follows:		
Within one year	530	422
After one year	5,400	4,326
	5,930	4,748

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other Payables

	Group		Company	
	1999 Rs.million	1998 Rs.million	1999 Rs.million	1998 Rs.million
Amounts due within one year				
Domestic trade payables	497	427	497	427
For capital expenditure	1,664	805	1,664	805
Taxation	127	220	127	220
Social security	54	43	54	43
Interest payable	766	505	766	505
Other creditors (refer note below)	1,805	3,611	1,824	3,628
	<u>4,913</u>	<u>5,611</u>	<u>4,932</u>	<u>5,628</u>

Other creditors includes Rs. 428 million (1998 - Rs. 416 million) payable to NTT on account of re-engineering expenses, salaries and expenditure of seconded experts and management fees (refer note 26). Other creditors also include a provision of Rs. 451 million for a final dividend declared in respect of 1998.

18. Provision for Liabilities and other Charges

	Group		Company	
	1999 Rs.million	1998 Rs.million	1999 Rs.million	1998 Rs.million
Provision for long service awards	234	200	234	200
Provision for insurance reserve	62	-	62	-
Others	25	41	24	40
	<u>321</u>	<u>241</u>	<u>320</u>	<u>240</u>

19. Group Structure

The financial statements of Sri Lanka Telecom (Services) Limited, (SLTSL), the wholly owned subsidiary, are prepared to 31 December each year.

The financial statements of Mobitel (Private) Limited, the associate company, are prepared to 30 June each year.

20. Ordinary Shares

	Group/Company	
	1999 Rs.million	1998 Rs.million
Authorised		
10,000,000,000 (1998 - 10,000,000,000) ordinary shares of Rs. 10 each	<u>100,000</u>	<u>100,000</u>
Issued and Fully Paid		
1,804,860,000 ordinary shares of Rs. 10 each	<u>18,049</u>	<u>18,049</u>

NOTES TO THE FINANCIAL STATEMENTS

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

	Holding	1999	1998
	Percentage	No. of Shares	No. of Shares
Government of Sri Lanka (GOSL)	61.5%	1,109,988,900	1,109,988,900
NTT Communications Corporation (NTT)	35.2%	635,076,318	631,701,000
Employees and others	3.3%	59,794,782	63,170,100
		1,804,860,000	1,804,860,000

On 5 August 1997, the GOSL, the sole shareholder as on that date, divested 35% of the shares in SLTL, amounting to 631,701,000 ordinary shares, to NTT under the privatisation programme.

On 2 July 1998, the GOSL further divested 3.5% of the shares in SLTL, amounting to 63,170,100 ordinary shares to the employees of SLTL.

On 7 June 1999, SLTL employees sold 0.2% of their shares to NTT Corporation.

On 22 March 2000, NTT Corporation transferred the full amount of its shares in the Company to NTT Communications Corporation.

21. Capital Reserves

Capital reserves include capital reserve arising on the acquisition, in 1996, of 15,170,640 shares in Mobitel (Private) Limited, a joint venture cellular telephony company (refer note 9).

22. Advances toward Share Capital

Up to 31 December 1999, SLTL had received customs duty waivers of Rs. 3,010 million (1998 - Rs. 3,010 million) on equipment imported for the 150,000 Line Project. In preparing these financial statements, the sum of Rs. 3,010 million representing the value of customs duty waived has been added to the value of capital work-in-progress (and subsequently capitalised into property, plant & equipment) and credited to Advances toward Share Capital, because in accordance with the agreement with the Government of Sri Lanka (GOSL) all such customs duty waivers under this project would have to be treated as equity capital contributions by the GOSL.

Following the change in the accounting policy for Goodwill, the value of Goodwill which was to have been amortised over a period of 5 years commencing from 1 January 1997, was set-off against the Advances toward Share Capital up to the value of the latter amount, and the unabsorbed amount has been expensed to the income statement in 1997.

NOTES TO THE FINANCIAL STATEMENTS

23. Cash Generated from Operations

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	1999	1998	1999	1998
	Rs.million	Rs.million	Rs.million	Rs.million
Profit before tax	2,325	3,461	2,325	3,482
Adjustments for:				
Depreciation (note 2)	5,003	4,795	5,001	4,793
Amortisation of deferred costs	40	5	40	5
Net foreign exchange gains from operations	(100)	(503)	(100)	(503)
(Profit)/loss on sale of property, plant & equipment	(380)	7	(380)	7
Interest expense and related charges	3,273	1,894	3,273	1,894
Interest income	(103)	(90)	(103)	(90)
Net connection charges (note 16)	1,182	1,454	1,182	1,454
Share of result before tax of associates (note 9)	(27)	(3)	-	-
Changes in working capital				
- trade and other receivables	15	(1,033)	15	(1,033)
- inventories	(231)	(671)	(231)	(671)
- payables	(488)	1,029	(487)	1,027
- provisions	47	(317)	47	(317)
- retirement benefits	33	130	33	130
Cash generated from operations	10,589	10,158	10,615	10,178

24. Capital Commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to Rs. 24,317 million.

25. Contingencies

Contingencies relating to income and other taxes are disclosed in note 15. Further, there is uncertainty as to whether a tax liability would arise on the balancing charge on some of the assets transferred from SLT to SLTL. The uncertainty arises because of a lacuna in Section 3(2) (f) of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987 which was intended to exempt from tax any balancing charge arising from the transfer of fixed assets which have a zero tax written down value. The law as it currently stands does not extend the exemption to profit on asset transfers where the capital allowance claimed is less than the cost of acquisition.

The Company has made an appeal against the determination made by the Telecommunication Regulatory Commission of Sri Lanka to revise rates charged by the Company on interconnection services provided to wireless operators. The balance outstanding from these operations as at 31 December 1999 is Rs. 357 million. However, should this appeal fail, the amount of Rs. 63 million is doubtful of recovery.

NOTES TO THE FINANCIAL STATEMENTS

The Company has instituted action against three parties regarding the provision of international telephone services outside the “International Gateway” operated by the Company. Two of those parties have filed action against SLTL claiming redress in a sum amounting to Rs. 587 million on account of loss of profit resulting from a stay order secured by SLTL.

The potential loss, if any, on other pending litigation is estimated at Rs. 6 million.

There were no other contingent liabilities of a material amount.

26. Directors’ Interests in Contracts

- (i) Mr. J.C.L. de Mel who is the Chairman of the Company is also a Director of People’s Bank, Mobitel (Private) Limited, Delmage Forsyth Limited and Sri Lanka Telecom (Services) Limited with which the following transactions took place during the year:

People’s Bank

- (a) Four current accounts are maintained with the Bank for which the total cash book balance as at 31 December 1999 amounted Rs. 56 million.
- (b) Two loans of Rs. 300 million each obtained in 1998 and 1999 respectively have been fully settled during the year, for which interest amounting to Rs 7.8 million and Rs. 9.7 million respectively have been paid during the year.

Mobitel (Private) Limited

- (c) Payments amounting to Rs. 4.5 million have been made during the year on call charges relating to cellular phones purchased for SLTL employees.

Delmage Forsyth Limited

- (d) Payments amounting to Rs. 1 million have been made during the year for the purchase of paints and painting equipment.

Sri Lanka Telecom (Services) Limited

- (e) Management fees payable as at 31 December 1999 amounted to Rs. 23.1 million which is stated after absorbing Rs. 3.5 million into work in progress.

- (ii) Mr. D. Amarasinghe who is a Director of the Company is also a Director of Commercial Bank of Ceylon Limited, Property Development Limited and the Chairman of Sri Lanka Insurance Corporation Limited with which the following transactions took place during the year:

Commercial Bank of Ceylon Limited

- (a) Three current accounts are maintained with the Bank for which the total cash book balance as at 31 December 1999 amounted to Rs. 4.6 million.
- (b) Short-term loans of Rs. 500 million and Rs. 350 million were obtained during the year for which interest paid during the year amounted to Rs. 44 million and Rs. 27 million, respectively.

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Sri Lanka Insurance Corporation Limited

- (c) Insurance premium paid during the year on policies relating to cash in transit and motor vehicles amounted to Rs. 1.8 million and Rs 3.5 million, respectively.
- (iii) Mr. S. Anan who is a Director of the Company is also the Vice President of NTT Communications Corporation with which the following transactions took place during the year:

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 during the year:

Remuneration for experts seconded to SLTL	Rs. 113 million
Expenditure for experts seconded to SLTL	Rs. 68 million
Management fees payable to NTT	Rs. 270 million
	<u>Rs. 451 million</u>

Mr. R.D. Somasiri who was a Director (resigned on 14 October 1999) of the Company was also a Director of Mobitel (Private) Limited and Sri Lanka Telecom (Services) Limited. Mr. S. Hashimoto, the Chief Executive Officer of the Company and Mr. N. Asami, a Director of the Company, are also Directors of Mobitel (Private) Limited and Sri Lanka Telecom (Services) Limited. Transactions with these companies are stated above.

27. Related Party Transactions

SLTL provides telecommunication services to the Government of Sri Lanka, in theory on terms identical with those applicable to its other customers. However, the amounts due from the Government for these services have been outstanding for long periods. The policy to disconnect telephones for late payment is not uniformly applied to Government departments.

Related party transactions should be read in conjunction with note 26 to the financial statements.

28. Post Balance Sheet Events

The Company issued to the public on March 2000, 1,500,000 unsecured redeemable 5 year debentures (2000/2005) of Rs. 1,000 each of three (3) types, which rank equal and pari passu to each other differing only with respect to interest coupons and the frequency at which interest payments are made. The descriptions of the three types of debentures are as follows:

Interest rate of 14% p.a. payable quarterly.

Interest rate of 14.5% p.a. payable annually.

Floating interest rate of 1.25% p.a. above the simple average of 6 months weighted average Treasury Bill rate.

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A case has been filed against the Company by a certain party in January 2000, praying among other things, a declaration that the Company is not entitled to withhold or disrupt the functioning of the interconnection agreement between the said party and the Company and a declaration that the Company is not entitled to block, discriminate, congest, restrict or interfere with the calls transferred from the network of the party concerned.

A case has been filed against the Company by a certain other party in January 2000, praying among other things, a declaration that the Company has no right to block or disrupt numbers assigned by the party concerned.

An internet service provider has filed action against the Company, claiming Rs. 1,500 million as damages for defamation arising out of an advertisement placed by the Company.

The Company has instituted action against a certain party in May 2000, praying among other things, a declaration that the said party is not entitled to use or permit its telecommunication network to be used to provide international telephony/telephonic services and damages amounting to Rs. 102,008,120.

The Company has also instituted action against a certain other party in May 2000 praying among other things that, a declaration that the party concerned is not entitled to use or permit its telecommunications network to be used to allow foreign calls to terminate in Sri Lanka without coming through the international gateway of the Company, to allow calls to a recipient abroad without going through the international gateway of the Company, to have connection services with any other network other than the network of the Company for international telephony/telephonic services and for damages amounting to Rs. 174,518,740.

The damages to SLTL equipment in 2000 resulting from the military conflict in the Northern Province is estimated at Rs. 10 million.

