1. The Directors present herewith the audited financial statements for the year ended 31 December 2002.

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 Telecommunications 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.

The Company sought and obtained a stock exchange listing from the Colombo Stock Exchange in March 2000, following a Board decision to issue Unsecured Redeemable five year Debentures 2000/2005 with a par value of Rs. 1,000/- each, to the public. Consequent to the listed status conferred, the Company now comes under the supervision of the Securities Exchange Commission and the Colombo Stock Exchange.

On 28 November 2002, the Government of Sri Lanka divested a further 12% of the holding in the Company by an Initial Public Offering.

Pursuant to the special resolution passed at the Extraordinary General Meeting of the Company held on 12.11.2002 a new set of Articles of Association of the Company came into effect on 29.11.2002, which date was the closing date of the Company's IPO.

The shares of the Company commenced trading publicly on the Colombo Stock Exchange in 14 January 2003.

3. RESULTS

The results for the year and the changes in equity, are set out in the Income Statement on page 31 and the Statements of Changes in Equity on pages 33 and 34 respectively.

4. REVIEW OF BUSINESS

The state of affairs of the Company at 31 December 2002 is set out in the Balance Sheet on page 32.

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 8 to the financial statements. The value shown therein is not materially different from its current market value.

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.

In November 2002 the Company acquired the remaining 60% of the issued share capital of Mobitel (Pvt) Limited from Telstra Holdings (Pty) Limited of Australia for a purchase consideration of US Dollars 9,500,000 to be in three instalments of which the first instalment of US$ 3,000,000 was paid upfront. Thus Mobitel which was an associate company as at 31 October 2002, bacame a fully owned subsidiary of SLT on 01.11.2002.

With the acquisition of Mobitel, SLT becomes the only integrated operator in Sri Lanka able to offer fixed line, data and mobile services to its retail and corporate customers.

7. DIVIDENDS AND TRANSFERS TO RESERVES

An interim dividend of Rs. 0.3 per share for the year ended 31 December 2002 was declared by the Board and paid out on 11 February 2003.

The Directors also propose a distribution of a Final Dividend of Rs. 0.3 less tax per share, bringing the total dividend for the year ended 31 December 2002 to Rs. 0.6.

8. RESERVES

Total reserves of the Group and their composition have been given in the Statement of Changes in Equity on page 31 of the financial statements.

9. SUBSTANTIAL SHAREHOLDINGS

According to the Share Register the under noted held more than a 5% interest in the issued share capital of the Company at the Balance Sheet date:

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

The public holds 15.30% of the Issued Share Capital.

10. DIRECTORS

The Directors of the Company as at 31 December 2002 were:

Mr. Thilanga Sumathipala - Chairman	Appointed on 24 January 2002
Mr. Shuhei Anan - Chief Executive Officer	Appointed on 5 June 1999 and as CEO on 21 July 2001
Mr. K.A.P. Goonatilleke	Appointed on 24 December 1998
Mr. H.N. Gunewardena	Appointed on 21 February 2000
Mr. Kazuhiro Yaginuma	Appointed on 20 July 2001
Mr. A.R. Ekanayake	Appointed on 24 September 2001
Mr. W.R.H. Fernando	Appointed on 24 September 2001
Mr. N. Pathmanathan	Appointed on 28 March 2002
Mr. Setsuya Kimura	Appointed on 28 March 2002
Mr. Kiyoshi Maeda	Appointed on 25 April 2002

Mr. J.C.L. de Mel, Mr. S. Hashimoto, Mr. N. Asami and Mr. W.H.W. Soysa, who were Directors of the Company as at January 2002 resigned their office with effect from 23 January 2002, 28 April 2002, 25 April 2002 and 28 April 2002 respectively.

In terms of the Company's new Articles of Association which came into effect on 29.11.2002, one-third of the Directors or the number nearest thereto retire at each Annual General Meeting of the Company. Therefore the following Directors will retire and being eligible offer themselves for re-election at the AGM: Messrs. Goonatilleke and Yaginuma.

In terms of Section 181 of the Companies Act, Mr. H.N. Gunewardena has informed the Company that he has reached the age of 70 on May 6, 2002. The Board recommends that he be elected a Director of the Company and that the age limit specified in Section 181 shall not apply to him.

11. CORPORATE GOVERNANCE

Within the corporate entity, the Company's 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 recognized stakeholders.

In keeping with the best practice guidelines an Audit Committee consisting of 4 Non-Executive Directors have been appointed during the year.The CFO and the Internal Auditor attend all meetings of the Committee.

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

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

Name	**As at 31.12.02**	As at 31.12.01
Mr. N. Pathmanathan	**5,000**	–
Mrs. M. Pathmanathan	**5,000**	–
Mr. W.R.H. Fernando	**10,000**	–
Mrs. A. Fernando	**5,000**	–

14. DIRECTORS' INTERESTS IN DEBENTURES OF THE COMPANY

Mr. H. N. Gunewardena, a Director of the Company, held 5,000 debentures of the Company during the year ended 31 December 2002.

None of the other Directors directly or indirectly held any debentures in the Company during the year ended 31 December 2002.

15. STATUTORY PAYMENTS

All statutory payments to the Government and the employees have been made up to date.

16. ENVIRONMENTAL PROTECTION

The Company has not engaged in any activities which would have been detrimental to the environment.

17. INVESTMENTS

The Company holds unlisted investments in Intelsat as well as Inmarsat, international satellite consortia as at 31.12.2002.

18. DONATIONS

During the year, the Company contributed Rs. 1,384,286/- (2001 - Rs. 389,000/-) for charitable purposes. Of the above contributions Rs. 1,100,000/- was for a government approved charity.

19. POST BALANCE SHEET EVENTS

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

20. APPOINTMENT OF AUDITORS

A resolution to reappoint 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.) **Ms. P.G. Dias**
Secretary

Colombo
21 April 2003

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 30.

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 29 to 59, 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.) **Ms. P.G. Dias**
Secretary

21 April 2003

Report of the AUDITORS

TO THE MEMBERS OF SRI LANKA TELECOM LIMITED FOR THE YEAR ENDED 31 DECEMBER 2002

We have audited the Balance Sheet of Sri Lanka Telecom Limited (the Company) and its subsidiaries (the Group) as at 31 December 2002, 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 31 to 59.

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 2002, 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 2002 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 2002 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 2002 except as stated in Note 29 to these financial statements.

PricewaterhouseCoopers
Chartered Accountants

Colombo
21 April 2003

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2002

	Notes	Group		Company	
		2002	2001	**2002**	2001
Revenue	1	**25,383**	22,060	**25,207**	22,060
Operating costs	2	**(9,826)**	(8,877)	**(9,710)**	(8,877)
Operating profit before depreciation		**15,557**	13,183	**15,497**	13,183
Depreciation	8	**(7,604)**	(6,869)	**(7,558)**	(6,867)
Operating profit		**7,953**	6,314	**7,939**	6,316
Non-operating income		**108**	62	**107**	62
Interest expense and related charges	4	**(3,377)**	(3,585)	**(3,365)**	(3,585)
Interest income		**552**	777	**551**	777
Share of result before tax of associate	10	**(29)**	50	**(29)**	50
Profit before tax		**5,207**	3,618	**5,203**	3,620
Tax	5	**(2,522)**	(1,515)	**(2,522)**	(1,515)
Net profit		**2,685**	2,103	**2,681**	2,105
Earnings per share (Rs.)	6	**1.49**	1.17	**1.49**	1.17

All the Group's activities are continuing activities.

The Accounting Policies on pages 36 to 40 and the Notes on pages 41 to 59 form an integral part of these financial statements.

BALANCE Sheet

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2002

	Notes	Group 2002	Group 2001	Company 2002	Company 2001
ASSETS					
Non-current assets					
Property, plant & equipment	8	**56,722**	59,093	**54,977**	59,090
Intangible assets	9	**375**	–	**–**	–
Investments	10	**710**	1,151	**2,069**	1,176
Non-current receivables	11	**995**	932	**995**	932
Deferred tax asset	16	**2,703**	5,225	**2,704**	5,226
		61,505	66,401	**60,745**	66,424
CURRENT ASSETS					
Inventories	12	**665**	973	**610**	973
Receivables and prepayments	13	**9,324**	9,010	**9,284**	8,998
Cash & cash equivalents	14	**5,974**	3,789	**5,937**	3,780
		15,963	13,772	**15,831**	13,751
Total assets		**77,468**	80,173	**76,576**	80,175
EQUITY AND LIABILITIES					
Capital and reserves					
Ordinary share capital	22	**18,049**	18,049	**18,049**	18,049
Capital reserve	23	**188**	188	**188**	188
Hedging reserve	24	**(1,146)**	(888)	**(1,146)**	(888)
Retained earnings		**21,696**	19,608	**21,752**	19,612
		38,787	36,957	**38,843**	36,961
Non-current liabilities					
Borrowings	15	**18,986**	24,440	**18,718**	24,440
Deferred income	17	**6,413**	6,216	**6,413**	6,216
Retirement benefit obligations	19	**429**	330	**411**	329
Provisions	20	**86**	86	**86**	86
		25,914	31,072	**25,628**	31,071
Current liabilities					
Trade and other payables	18	**5,108**	4,387	**4,689**	4,386
Borrowings	15	**6,940**	7,094	**6,697**	7,094
Deferred income	17	**719**	663	**719**	663
		12,767	12,144	**12,105**	12,143
Total equity and liabilities		**77,468**	80,173	**76,576**	80,175

These financial statements were approved by the Board of Directors on 21 April 2002 and were signed on its behalf by:

(Sgd.)
Thilanga Sumathipala
Chairman

(Sgd.)
Shuhei Anan
CEO/Director

The Accounting Policies on pages 36 to 40 and the Notes on pages 41 to 59 form an integral part of these financial statements.

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2002

	Notes	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
GROUP						
Year ended 31December 2001						
Balance at 1 January 2001						
- as previously reported		18,049	188	–	3,732	21,969
- prior year adjustment	16	–	–	–	13,661	13,661
- group consolidation adjustment		–	–	–	112	112
As restated		18,049	188	–	17,505	35,742
Cash flow hedges						
- foreign currency						
translation difference	24	–	–	(1,351)	–	(1,351)
- charged to income	4	–	–	463	–	463
Net profit for the year 2001		–	–	–	2,103	2,103
Balance at 31 December 2001		**18,049**	**188**	**(888)**	**19,608**	**36,957**
Year ended 31 December 2002						
Balance at 1 January 2002		18,049	188	(888)	19,608	36,957
Cash flow hedges						
- foreign currency						
translation difference	24	–	–	(829)	–	(829)
- charged to income	4	–	–	571	–	571
Conversion of associate						
to subsidiary		–	–	–	(56)	(56)
Dividend for 2001	7	–	–	–	(541)	(541)
Net profit for the year 2002		–	–	–	2,685	2,685
Balance at 31 December 2002		**18,049**	**188**	**(1,146)**	**21,696**	**38,787**

The Accounting Policies on pages 36 to 40 and the Notes on pages 41 to 59 form an integral part of these financial statements.

(All amounts in Sri Lanka Rupees millions)
For the year ended 31 December 2002

	Notes	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
COMPANY						
Year ended 31December 2001						
Balance at 1 January 2001						
- as previously reported		18,049	188	–	3,846	22,083
- prior year adjustment	16	–	–	–	13,661	13,661
As restated		18,049	188	–	17,507	35,744
Cash flow hedges						
- foreign currency translation difference	24	–	–	(1,351)	–	(1,351)
- charged to income	4	–	–	463	–	463
Net profit for the year 2001		–	–	–	2,105	2,105
Balance at 31 December 2001		**18,049**	**188**	**(888)**	**19,612**	**36,961**
Year ended 31 December 2002						
Balance at 1 January 2002		18,049	188	(888)	19,612	36,961
Cash flow hedges						
- foreign currency translation difference	24	–	–	(829)	–	(829)
- charged to income	4	–	–	571	–	571
Dividend for 2001	7	–	–	–	(541)	(541)
Net profit for the year 2002		–	–	–	2,681	2,681
Balance at 31 December 2002		**18,049**	**188**	**(1,146)**	**21,752**	**38,843**

The Accounting Policies on pages 36 to 40 and the Notes on pages 41 to 59 form an integral part of these financial statements.

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2002

	Notes	Group 2002	Group 2001	Company 2002	Company 2001
Operating activities					
Cash generated from operations	25	**15,966**	12,015	**15,878**	12,006
Interest received		**546**	767	**545**	767
Interest paid		**(3,054)**	(3,214)	**(3,042)**	(3,214)
Net cash generated from operating activities		**13,458**	9,568	**13,381**	9,559
Investing activities					
Acquisition of subsidiary	26	**(265)**	–	**–**	–
Acquisition of property, plant & equipment	8	**(3,460)**	(4,464)	**(3,445)**	(4,461)
(Acquisition)/disposal of investments	10	**–**	35	**(293)**	35
Disposal of property, plant & equipment		**3**	4	**3**	4
Net cash used in investing activities		**(3,722)**	(4,425)	**(3,735)**	(4,422)
Financing activities					
Proceeds from long-term borrowings		**944**	3,104	**944**	3,104
Payment on long-term borrowings		**(7,580)**	(7,541)	**(7,517)**	(7,541)
Dividends paid	7	**(541)**	(541)	**(541)**	(541)
Repayment of debentures	15	**(375)**	–	**(375)**	–
Net cash used in financing activities		**(7,552)**	(4,978)	**(7,489)**	(4,978)
Increase in cash & cash equivalents		**2,184**	165	**2,157**	159
Movement in cash & cash equivalents					
At start of year		**3,789**	3,624	**3,780**	3,621
Increase		**2,184**	165	**2,157**	159
At end of year	14	**5,973**	3,789	**5,937**	3,780

The Accounting Policies on pages 36 to 40 and the Notes on pages 41 to 59 form an integral part of these financial statements.

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

(1) Subsidiary undertakings

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 subsidiary are the same as those of the Company. No disclosure of minority interest is made as the subsidiary is wholly owned.

The Group reporting dates are set out in Note 21.

(2) Associated undertakings

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.

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 10.

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.

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 8 to the financial statements.

Depreciation is calculated using the most appropriate method to allocate the cost of each asset to their residual values over their estimated useful lives. The depreciation methods and useful lives are shown in Note 8 to the financial statements.

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 invoice amount 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

Cash and Cash Equivalents are carried in the Balance Sheet at cost. For the purpose of the cash flow statement, cash & cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts. In the Balance Sheet, bank overdrafts are included in borrowings in current liabilities.

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

Taxes on income are accounted for using the liability method. Under this method the expected tax 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 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 2001. 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 19 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 is 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. FINANCIAL INSTRUMENTS

The Group adopted IAS 39 - Financial Instruments: Recognition and Measurement, at 1 January 2001. The financial effects of adopting IAS 39 are displayed in Note 24 to the financial statements.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies but mainly with respect to the US Dollar, Euro and Japanese Yen.

The Company hedges 100% of anticipated foreign currency loan repayments in each year.

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	
	2002	2001	**2002**	2001
Release of deferred connection charges (Note 17)	**728**	665	**728**	665
Rental income	**2,214**	1,868	**2,172**	1,868
Domestic call revenue	**10,760**	9,221	**10,634**	9,221
Receipts from other network operators - domestic	**300**	201	**300**	201
International call revenue	**2,088**	1,995	**2,080**	1,995
Receipts from other network operators - international	**948**	869	**948**	869
International settlements (in payments)	**7,345**	6,493	**7,345**	6,493
Telex, data transmission and other telephony services	**1,000**	748	**1,000**	748
	25,383	22,060	**25,207**	22,060

2. OPERATING COSTS

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

	Group		Company	
	2002	2001	**2002**	2001
Staff costs (Note 3)	**3,053**	2,797	**3,034**	2,797
Payments to international network operators	**2,016**	2,163	**2,016**	2,163
Payments to other network operators - international	**1,157**	934	**1,146**	934
Auditors' remuneration	**3**	3	**3**	3
Repairs and maintenance	**826**	688	**819**	688
Bad debt/Stock provisions	**682**	507	**670**	507
Net foreign exchange gains on operating activities	**(369)**	(342)	**(371)**	(342)
Payments to NTT Communications Corporation [Note (a)]	**393**	557	**393**	557
Amortisation of goodwill (Note 9)	**13**	–	**–**	–
Other operating expenditure	**2,052**	1,570	**2,000**	1,570
	9,826	8,877	**9,710**	8,877

(a) Payments to NTT Communications Corporation represents amounts payable (to NTT Communications Corporation) on account of salaries and expenditure of seconded experts and management fees (refer Note 29).

(b) The above expenses include Directors' emoluments for the year 2002 of Rs. 42 million (2001 - Rs. 36 million). This wholly consists of fees paid to NTT (2001 - Rs. 35 million) for the secondment of expatriate personnel who are also Directors of SLTL.

3. STAFF COSTS

	Group		Company	
	2002	2001	**2002**	2001
Salaries, wages, allowances and benefits	**2,670**	2,435	**2,653**	2,435
Retiremet costs - defined contribution plans	**284**	272	**283**	272
- defined benefit plans (Note 19)	**99**	90	**98**	90
	3,053	2,797	**3,034**	2,797

4. FINANCE COSTS

	Group		Company	
	2002	2001	**2002**	2001
Interest expense and related charges				
Rupee loans (long-term)	**2,260**	2,061	**2,248**	2,061
Foreign currency loans	**660**	1,489	**660**	1,489
Debenture interest	**174**	218	**174**	218
Amortisation of deferred costs	**48**	48	**48**	48
Other charges [Note (a)]	**2**	–	**2**	–
Total interest payable	**3,144**	3,816	**3,132**	3,816
Interest capitalised	**(338)**	(694)	**(338)**	(694)
Total interest charged	**2,806**	3,122	**2,794**	3,122
Foreign exchange loss (Note 24)	**571**	463	**571**	463
Aggregate value of finance costs	**3,377**	3,585	**3,365**	3,585

(a) Other charges include debenture and loan related expenses.

5. TAX

The charge for taxation is made up as follows:

	Group/Company	
	2002	2001
Current tax	**–**	–
Deferred tax charge (Note 16)	**2,522**	1,515
	2,522	1,515

No income tax is payable for the year in view of tax losses available for carry forward. At 31 December 2002, tax losses available for carry forward amounted to approximately Rs. 8,000 million (2001 - Rs. 16,000 million).

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	
	2002	2001
Profit before tax	**5,203**	3,620
Tax calculated at a tax rate of 35% (2001 - 35%)	**1,821**	1,267
Expenses not deductible	**263**	273
Income not subject to tax	**(13)**	(25)
Effect of 5% tax credit	**451**	–
Tax charge	**2,522**	1,515

6. 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	
	2002	2001	**2002**	2001
Net profit attributable to shareholders (Rs. million)	**2,685**	2,103	**2,681**	2,105
Weighted average number of ordinary shares in issue (million)	**1,805**	1,805	**1,805**	1,805
Basic earnings per share (Rs.)	**1.49**	1.17	**1.49**	1.17

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

7. DIVIDENDS PER SHARE

A first and final dividend in respect of 2002 of 0.30 per share amounting to a total of Rs. 541,458,000/- has been paid out of the profits for the year.

8. PROPERTY, PLANT & EQUIPMENT

Group

	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 2001							
Opening net book amount	1,573	32,558	9,094	8,491	1,136	8,646	61,498
Additions	3	212	22	16	157	4,054	4,464
Transfers from work-in-progress	94	4,329	1,414	555	252	(6,644)	–
Inter-Group transfers	–	(2)	1	–	1	–	–
Depreciation charge	(28)	(4,601)	(995)	(888)	(357)	–	(6,869)
Closing net book amount	**1,642**	**32,496**	**9,536**	**8,174**	**1,189**	**6,056**	**59,093**
At 31 December 2001							
Cost	1,805	54,789	14,523	12,030	2,785	6,056	91,988
Accumulated depreciation	(163)	(22,293)	(4,987)	(3,856)	(1,596)	–	(32,895)
Net book amount	**1,642**	**32,496**	**9,536**	**8,174**	**1,189**	**6,056**	**59,093**
Year ended 31 December 2002							
Opening net book amount	1,642	32,496	9,536	8,174	1,189	6,056	59,093
Acquisition of subsidiary	–	108	–	1,157	92	416	1,773
Additions	–	327	60	49	528	2,496	3,460
Transfers from work-in-progress	120	2,473	1,583	1,097	36	(5,309)	–
Inter-Group transfers	(2)	(4)	–	–	6	–	–
Depreciation charge	(30)	(4,938)	(1,168)	(1,031)	(437)	–	(7,604)
Closing net book amount	**1,730**	**30,462**	**10,011**	**9,446**	**1,414**	**3,659**	**56,722**
At 31 December 2002							
Cost	1,923	56,581	16,166	13,153	3,361	3,256	94,440
Acquisition of subsidiary							
-Cost	–	135	–	2,209	278	403	3,025
-Accumulated depreciation	–	(30)	–	(1,065)	(187)	–	(1,282)
Accumulated depreciation	(193)	(26,224)	(6,155)	(4,851)	(2,038)	–	(39,461)
Net book amount	**1,730**	**30,462**	**10,011**	**9,446**	**1,414**	**3,659**	**56,722**

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 2001							
Opening net book amount	1,573	32,558	9,094	8,491	1,134	8,646	61,496
Additions	3	212	22	16	154	4,054	4,461
Transfers from work-in-progress	94	4,329	1,414	555	252	(6,644)	–
Inter-Group transfers	–	(2)	1	–	1	–	–
Depreciation charge	(28)	(4,601)	(995)	(888)	(355)	–	(6,867)
Closing net book amount	**1,642**	**32,496**	**9,536**	**8,174**	**1,186**	**6,056**	**59,090**
At 31 December 2001							
Cost	1,805	54,789	14,523	12,030	2,768	6,056	91,971
Accumulated depreciation	(163)	(22,293)	(4,987)	(3,856)	(1,582)	–	(32,881)
Net book amount	**1,642**	**32,496**	**9,536**	**8,174**	**1,186**	**6,056**	**59,090**
Year ended 31 December 2002							
Opening net book amount	1,642	32,496	9,536	8,174	1,186	6,056	59,090
Additions	–	327	60	39	523	2,496	3,445
Transfers from work-in-progress	120	2,473	1,583	1,084	36	(5,296)	–
Inter-Group transfers	(2)	(4)	–	–	6	–	–
Depreciation charge	(30)	(4,935)	(1,168)	(995)	(430)	–	(7,558)
Closing net book amount	**1,730**	**30,357**	**10,011**	**8,302**	**1,321**	**3,256**	**54,977**
At 31 December 2002							
Cost	1,923	56,581	16,166	13,153	3,344	3,256	94,423
Accumulated depreciation	(193)	(26,224)	(6,155)	(4,851)	(2,023)	–	(39,446)
Net book amount	**1,730**	**30,357**	**10,011**	**8,302**	**1,321**	**3,256**	**54,977**

(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) Assets are depreciated as follows:

Asset category	Depreciation method	Useful life
Freehold land	–	–
Freehold buildings	Straight line	50 years
Ducts and other outside plant	Straight line	10 to 25 years
Undersea cables		
(ducts, cables and other outside plant)	Straight line	8 to 10 years
Telephone exchanges and transmission equipment	Straight line	12.5 years
Motor vehicles	Straight line	5 years
Other fixed assets	Straight line	5 to 10 years

(c) The cost of fully depreciated assets as at 31 December 2002 is Rs. 4,488 million (2001 - Rs. 4,338 million).

(d) Fully depreciated motor vehicles, the cost of which amounted to Rs. 5 million, was disposed of during the year for Rs. 3.5 million.

(e) Borrowing costs capitalised during the year to 31 December 2002 was Rs. 338 million (2001 - Rs. 694 million).

(f) No assets have been mortgaged or pledged as security by SLTL.

(g) 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.

(h) A fully depreciated asset, the cost of which amounted to Rs. 984 million was scrapped at nil value.

(i) 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. 86 million stood to the credit of the reserve and is included under provisions (Note 20). The sinking fund investment of that amount is included under cash & cash equivalents [Note 14 (a)].

9. INTANGIBLE ASSETS

	Goodwill
Year ended 31 December 2002	
Opening net book amount	–
Acquisition of subsidiary (Note 26)	388
Amortisation charge (Note 2)	(13)
Closing net book amount	375
At 31 December 2002	
Cost	388
Accumulated amortisation	(13)
Net book amount	375

10. INVESTMENTS

	Group		Company	
	2002	2001	**2002**	2001
Investment in Subsidiary [Note (a)]	**–**	–	**25**	25
Investment in Associate Company [Note (b)]				
At 1 January	**441**	391	**441**	391
Share of result	**(29)**	50	**(29)**	50
Conversion of associate to subsidiary	**(412)**	–	**–**	–
Additions	**–**	–	**922**	–
At 31 December	**–**	441	**1,334**	441
Investment in others [Note (c)]				
At 1 January	**710**	745	**710**	745
Disposals	**–**	(35)	**–**	(35)
At 31 December	**710**	710	**710**	710
Aggregate value of investments at 31 December	**710**	1,151	**2,069**	1,176

(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 October 2002. 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 (Private) 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), 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 23).

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

On 1 November 2002 the Company bought over the remaining 60% of the issued share capital of Mobitel (Private) Limited from Telstra Holdings (Private) Limited for a purchase consideration of US $ 9,500,000 to be paid in three instalments, of which the first instalment of US $ 3,000,000 was paid upfront. Thus, Mobitel (Private) Limited which was an associate as at 31 October 2002, became a fully owned subsidiary of the Company on 1 November 2002.

(c) The investment in others represents unlisted investments in Intelsat and Inmarsat, the international satellite consortia.

11. NON-CURRENT RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
Employee loans [Note (a)]	**776**	665	**776**	665
Deferred expenses (Prepaid Insurance Premium)	**219**	267	**219**	267
Amounts due after one year	**995**	932	**995**	932

(a) Employee loans are repayable in equal monthly instalments over five years. The amount shown as non-current receivables represent staff loan instalments falling due for payment after 1 January 2004.

(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.

12. INVENTORIES

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

13. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2002	2001	**2002**	2001
Domestic trade receivables	**4,575**	4,299	**4,459**	4,299
Foreign trade receivables	**3,731**	3,805	**3,731**	3,805
Advances and prepayments [Note (a)]	**771**	686	**847**	674
Employee loans	**199**	172	**199**	172
Deferred expenses	**48**	48	**48**	48
Amounts due within one year	**9,324**	9,010	**9,284**	8,998

(a) Advances and prepayments include an interest free short term loan granted to Mobitel (Private) Limited amounting to Rs. 138 million which is repayable within seven days of demand (Refer Note 29).

14. CASH & CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
Cash at bank and in hand	**593**	472	**579**	463
Restricted at bank [Note (a)]	**116**	146	**116**	146
Short-term deposits [Note (b)]	**5,265**	3,171	**5,242**	3,171
	5,974	3,789	**5,937**	3,780

(a) The restricted cash balance is a bank deposit of Sri Lankan Rs. 116 million with the People's Bank which represent 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 treasury bills/bonds with a face value of Rs. 701 million which have been secured as collateral against a letter of credit opened for the settlement of the remaining purchase consideration to Telstra Holdings (Private) Limited in the acquisition of the 60% holding in Mobitel (Private) Limited [Note 18 (a)].

For the purpose of the Cash Flow Statement, the year end cash & cash equivalents comprise the following:

	Group		Company	
	2002	2001	**2002**	2001
Cash & cash equivalents	**5,974**	3,789	**5,937**	3,780
Bank overdrafts (Note 15)	**(1)**	–	**–**	–
	5,973	3,789	**5,937**	3,780

15. BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
Current (due within one year)				
Bank overdrafts	**1**	–	**–**	–
Government borrowings	**2,626**	2,782	**2,626**	2,782
Bank borrowings and others	**3,938**	3,937	**3,696**	3,937
Debentures	**375**	375	**375**	375
	6,940	7,094	**6,697**	7,094
Non-current (due after one year)				
Government borrowings	**11,264**	13,327	**11,264**	13,327
Debentures [Note (a)]	**750**	1,125	**750**	1,125
Bank borrowings and others	**6,972**	9,988	**6,704**	9,988
	18,986	24,440	**18,718**	24,440
Total borrowings	**25,926**	31,534	**25,415**	31,534

(a) The redemption of debentures will be 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	
	2002	2001	**2002**	2001
Total borrowings				
- at fixed rates	**18,445**	22,507	**18,445**	22,507
- at floating rates	**7,481**	9,027	**6,970**	9,027
	25,926	31,534	**25,415**	31,534

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

	Group		Company	
	2002	2001	**2002**	2001
Foreign currency	**9,325**	12,150	**9,325**	12,150
Local currency	**16,601**	19,384	**16,090**	19,384
	25,926	31,534	**25,415**	31,534

	Group/Company	
	2002	2001
Average effective interest rates:		
- Bank overdrafts	**14.5%**	–
- Domestic Bank borrowings	**14.0%**	17.0%
- Foreign Bank borrowings	**5.7%**	6.5%
- Government borrowings	**13.0%**	13.0%
- Debentures		
- Fixed (annually)	**14.5%**	14.5%
- Fixed (quarterly)	**14.0%**	14.0%
- Floating	**13% - 16%**	13% - 16%

Maturity of non-current borrowings:

	Group		Company	
	2002	2001	**2002**	2001
Between 1 and 2 years	**9,203**	6,441	**8,960**	6,441
Between 3 and 5 years	**6,224**	11,584	**6,199**	11,584
Over 5 years	**3,559**	6,415	**3,559**	6,415
	18,986	24,440	**18,718**	24,440

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 2002 is Rs. 13,335 million (2001 - Rs. 14,627 million). Exchange fluctuations on repayments of these loans are borne by the Government.

SLTL bears the foreign exchange risk and the related costs on a loan re-lent by the Government (a loan not among the above loans), bearing interest at 10% per annum. The balance as at 31 December 2002 was Rs. 554 million (2001 - Rs. 1,483 million).

Certain Government re-lent loans amounting to Rs. 1,086 million (2001 - Rs. 2,492 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.

The Government has guaranteed third party loans amounting to Rs. 8,127 million (2001 - Rs. 9,408 million).

Total value of loans that have neither been guaranteed nor secured is Rs. 2,062 million (2001 - Rs. 4,215 million).

The majority of the loans require SLTL to submit audited financial statements among other matters to the lenders within stated periods of the calendar year end, and to maintain adequate accounting records in accordance with generally accepted accounting principles.

The Directors believe the Company will have sufficient finances available to meet its present commitments.

16. DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2001 - 35%).

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

	Group		Company	
	2002	2001	**2002**	2001
At beginning of year				
- as previously reported	**(5,225)**	6,921	**(5,226)**	6,920
- prior year adjustment	**–**	(13,661)	**–**	(13,661)
As restated	**(5,225)**	(6,740)	**(5,226)**	(6,741)
Income statement charge (Note 5)	**2,522**	1,515	**2,522**	1,515
At end of year	**(2,703)**	(5,225)	**(2,704)**	(5,226)

The prior year adjustment in 2001 was in respect of the deferred tax asset arising on Investment Tax Allowances which had not been previously recognised in the financial statements having been recognised on the completion of the 150K project and on the assumption that there would be no large scale investment projects in the foreseeable future.

The following amount is shown in the Balance Sheet:

	Group		Company	
	2002	2001	**2002**	2001
Deferred tax asset	**(14,273)**	(19,419)	**(14,273)**	(19,419)
Deferred tax liability	**11,570**	14,194	**11,569**	14,193
	(2,703)	(5,225)	**(2,704)**	(5,226)

17. 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	
	2002	2001
Balance at 1 January	**6,879**	6,495
Connection fees for the year	**981**	1,049
Amount amortised during the year	**(728)**	(665)
Balance at 31 December	**7,132**	6,879
Amortisations fall due as follows:		
Within one year	**719**	663
After one year	**6,413**	6,216
	7,132	6,879

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
Amounts due within one year				
Domestic trade payables	**509**	810	**483**	810
Capital expenditure payables	**1,123**	384	**738**	384
Taxation	**172**	71	**171**	71
Social security	**49**	70	**49**	70
Interest payable	**718**	1,014	**718**	1,014
Other creditors [Note (a)]	**2,537**	2,038	**2,530**	2,037
	5,108	4,387	**4,689**	4,386

(a) Other creditors include Rs. 410 million (2001 - Rs. 808 million) payable to NTT on account of salaries and expenditure of seconded experts and management fees (Refer Note 29). Other creditors also include an amount of Rs. 629 million payable to Telstra Holdings (Private) Limited, being the balance instalments payable on the acquisition of the 60% holding in Mobitel (Private) Limited (Refer Note 10).

19. RETIREMENT BENEFIT OBLIGATIONS

Movement in the liability recognised in the Balance Sheet:

	Group		Company	
	2002	2001	**2002**	2001
At beginning of year	**330**	254	**329**	253
Liabilities acquired in business combination	**16**	–	**–**	–
Current service cost (Note 3)	**99**	90	**98**	90
Contributions paid	**(16)**	(14)	**(16)**	(14)
At the end of year	**429**	330	**411**	329

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 2001.

The principal actuarial assumptions used were as follows:

	Company
	2001
Discount rate	11%
Future salary increases	9%
Future pension increases	3.2%

In addition to the above, demographic assumptions such as mortality, withdrawal and disability and retirement age were considered for the actuarial valuation.

20. PROVISIONS

Provisions comprise wholly of a provision made for insurance reserve, which amounted to Rs. 86 million as at 31 December 2002 (2001 - Rs. 86 million).

21. GROUP REPORTING DATES

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 as at 31 October 2002 was prepared to 30 June each year. With the Company becoming a wholly owned subsidiary from 1 November 2002, the financial year has been changed to 31 December.

22. ORDINARY SHARES

	Company	
	2002	2001
Authorised		
10,000,000,000 (2001 - 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:

	2002		2001	
	Holding Percentage	**No. of Shares**	Holding Percentage	No. of Shares
Government of Sri Lanka (GOSL)	49.50%	**893,405,700**	61.50%	1,109,988,900
NTT Communications Corporation	35.20%	**635,076,318**	35.20%	635,076,318
Employees and others	15.30%	**276,377,982**	3.30%	59,794,782
		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.

On 28 November 2002, the GOSL divested a further 12% of its holding in SLTL amounting to 216,583,200 shares by an Initial Public Offering.

23. 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 10).

24. HEDGING RESERVE

	Group/Company	
	2002	2001
Balance at 1 January	**(888)**	–
Effect of adopting IAS 39	**–**	(1,351)
	(888)	(1,351)
Cash flow hedges		
- Foreign currency translation difference	**(829)**	–
- Charged to income (Note 4)	**571**	463
Balance at 31 December	**(1,146)**	(888)

25. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2002	2001	**2002**	2001
Profit before tax	**5,207**	3,618	**5,203**	3,620
Adjustments for:				
Depreciation (Note 8)	**7,604**	6,869	**7,558**	6,867
Amortisation of deferred costs (Note 4)	**48**	48	**48**	48
Net exchange loss on financing activities	**571**	463	**571**	463
Interest expense and related charges	**2,758**	3,074	**2,746**	3,074
Interest income	**(552)**	(777)	**(551)**	(777)
Connection fees less amortisation (Note 17)	**253**	384	**253**	384
Share of result before tax of associates (Note 10)	**29**	(50)	**29**	(50)
Profit on sale of property, plant & equipment	**(3)**	(4)	**(3)**	(4)
Provision for insurance reserve (Note 20)	**–**	8	**–**	8
Amortisation of goodwill (Note 9)	**13**	–	**–**	–
Retirement benefits (Note 19)	**83**	76	**82**	76
	16,011	13,709	**15,936**	13,709
Changes in working capital				
- trade and other receivables	**(360)**	(1,678)	**(391)**	(1,667)
- inventories	**368**	260	**363**	260
- payables	**(53)**	(276)	**(30)**	(296)
Cash generated from operations	**15,966**	12,015	**15,878**	12,006

26. ACQUISITION

On 1 November 2002 the Group acquired the remaining 60% of the share capital of Mobitel (Private) Limited. The acquired business contributed revenues of Rs. 202 million and operating profit of Rs. 16 million to the Group for the period 1 November 2002 to 31 December 2002.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	922
Fair value of net assets acquired	(534)
Goodwill (Note 9)	388
The assets and liabilities arising from the acquisition are as follows:	
Cash & cash equivalents	28
Property, plant & equipment	1,064
Inventories	36
Receivables	158
Payables	(315)
Pensions	(10)
Borrowings	(427)
Fair value of net assets	534
Goodwill	388
Total purchase consideration	922
Less:	
Cash & cash equivalents in subsidiary acquired	(28)
Outstanding purchase consideration payable [Note 18(a)]	(629)
Cash outflow on acquisition	265

27. COMMITMENTS

Capital Commitments

Capital expenditure contracted for at the Balance Sheet date but not recognised in the financial statements is as follows:

	Group		Company	
	2002	2001	**2002**	2001
Property, plant & equipment	**3,737**	2,735	**3,570**	2,735

Lease Commitments

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

	Group		Company	
	2002	2001	**2002**	2001
Later than one year and not later than five years	**22**	–	**–**	–

Financial Commitments

Under the agreement dated 6 February 2001, Mobitel (Private) Limited was granted flagship status whereby the tax exemption period of seven (7) years under the Board of Investments (BOI) agreement dated 15 January 1993 was extended up to a period of fifteen (15) years. This extension is on the condition that Mobitel (Private) Limited will increase actual investment in fixed assets up to a minimum of US $ 50 million (USD 50 million) on or before 31 December 2003.

Mobitel (Private) Limited is liable to pay maintenance charges with regard to the Network Switch to Ericsson Australia (Private) Limited against which no provision has been made as the basis for such payment is yet to be agreed.

The Department of Inland Revenue has issued assessments with regard to interest income of Mobitel (Private) Limited amounting to Rs. 1,424,647/- on ground it is not exempt under the BOI agreement. Further a sum of Rs. 25,568,225/- remains a contingent liability on account of tax on interest income for which assessments have not been issued. No provision has been made in the financial statements on account of a liability as Mobitel (Private) Limited is in the process of negotiating with the Inland Revenue.

28. CONTINGENCIES

Mobitel (Private) Limited is a defendant against a law suit to the value of Rs. 1 million. As per legal opinion the outcome of this is uncertain and the Directors of the Company believe based on the information currently available, that the ultimate resolution of such legal procedures would not likely have a material adverse effect on the results of operation, financial position or liquidity. Accordingly no provision for any liability has been made in these financial statements.

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 dependant family members is involved in a contract with the Company.

The Directors of Sri Lanka Telecom Limited held Directorship in the following companies:

Director	Company	Position
Mr. T. Sumathipala	Sumathi Trading Company	Partner (50% holding)
	Sumathi Book Printing (Private) Limited	Director
	Sri Lanka Telecom Services (Private) Limited	Director
	Mobitel (Private) Limited	Chairman
Mr. R. Fernando	Lanka Securities (Private) Limited	Chairman
	Comble of Ceylon Limited	Alternate Director
	Central Industries Limited	Director
	Ernst & Young	Partner
	Ernst & Young Investment Consultants (Private) Limited	Director
	MSL Audits (Private) Limited	Director
	MSL Systems Limited	Director
	MSL Galle (Private) Limited	Director
	Secretarial Services Limited	Director
	Business Intelligence Limited	Director

Director	Company	Position
Mr. N. Pathmanathan	Ceylon Petroleum Corporation	Director
	Sri Lanka Export Development Board	Director
	Galadari Hotels Limited	Director
	Eastern University of Sri Lanka	Council Member
Mr H.N. Gunewardena	Aitken Spence and Company Limited	Director
Mr. Shuhei Anan	Mobitel (Private) Limited	Director
	Sri Lanka Telecom Services (Private) Limited	Director

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

Mobitel (Private) Limited

Payments amounting to Rs. 4.9 million (2001 - Rs. 3.5 million) have been made during the year on call charges relating to cellular phones purchased for SLTL employees. Further, cellular phones amounting to Rs. 3.3 million (2001 - Rs. 1 million) were purchased from Mobitel (Private) Limited during the year.

During the year a short term interest free loan amounting to Rs. 138 million was granted to Mobitel (Private) Limited. This loan is repayable within 7 days of demand by the Company.

The Company has given a letter of comfort on behalf of Mobitel (Private) Limited to obtain loan facilities.

The amount payable as interconnection charges to SLTL at 31 December 2002 amounted to Rs. 65 million. This amount is shown net of a provision of Rs. 13 million made in respect of a disputed amount that arose in 1997.

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:

	2002	2001
Remuneration for experts seconded to SLTL	**102**	123
Expenditure for experts seconded to SLTL	**51**	55
Management fees to NTT	**240**	379
	393	557

However, the management agreement between NTT Communications Corporation and the Company came to an end on 4 August 2002.

Ernst & Young

During the year payments amounting to Rs. 12.5 million have been made to Ernst & Young in respect of a due diligence study and valuation and for providing assistance in the acquisition of Mobitel (Private) Limited.

SLTL did not have any other transactions with the above companies during the year.

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 (SLTL) 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 1 November 2002 and 31 December 2002 and balances as at the Balance Sheet date between the two Companies have been eliminated in preparing consolidated financial statements.

Mrs. M. Pathmanathan and Mrs. A. Fernando, wives of Mr. N. Pathmanathan and Mr. R. Fernando respectively, Directors of the Company, held 5,000 ordinary shares each of the Company as at 31 December 2002.

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

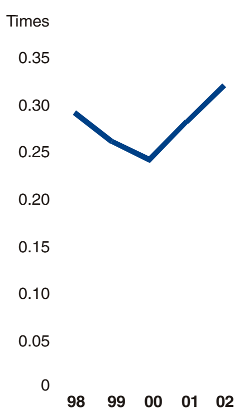
31. POST BALANCE SHEET EVENTS

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

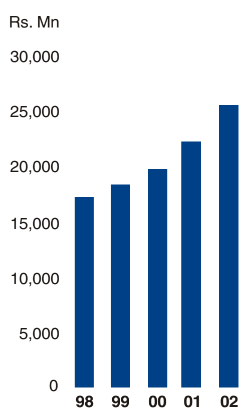
FIVE YEAR Progress

	2002 Rs. Mn	2001 Rs. Mn	2000 Rs. Mn	1999 Rs. Mn	1998 Rs. Mn
Financial Position - (Group)					
Property, Plant & Equipment	**56,722**	59,093	61,498	58,136	47,044
Total Assets	**77,468**	80,173	82,497	70,797	59,768
Current Assets	**15,963**	13,772	12,213	10,906	11,138
Current Liabilities	**12,767**	12,144	12,134	10,920	9,743
Borrowings	**25,926**	31,534	34,633	31,116	22,270
Equity	**38,787**	36,957	35,742	22,329	21,767
Performance					
Revenue	**25,383**	22,060	19,605	18,281	17,082
Operating Profit	**7,953**	6,314	4,984	5,061	5,011
Finance Cost	**3,377**	3,585	4,516	3,313	1,899
Earnings before Tax	**5,207**	3,618	914	2,325	3,461
Taxation	**2,522**	1,515	693	1,056	1,260
Earnings after Tax	**2,685**	2,103	221	1,269	2,201
Cash Flow					
Net Operating Cash Flows	**13,458**	9,568	9,566	8,461	8,317
Net Cash used in Investing Activities	**3,722**	4,425	8,894	15,285	13,371
Net Cash used in/(from) Financing Activities	**7,552**	4,978	(2,066)	(7,099)	(4,255)
Key Financial Indicators					
Earnings per Share (Rs.)	**1.49**	1.17	0.12	0.70	1.22
Return on Assets (%)	**10.26**	7.9	6.0	7.1	8.4
Return on Equity (%)	**6.9**	5.7	0.6	5.7	10.1
Operating Margin (%)	**31.3**	28.6	25.4	27.7	29.3
Asset Turnover (No. of times)	**0.32**	0.28	0.24	0.26	0.29
Current Ratio (No. of times C.L.)	**1.25**	1.13	1.01	1.00	1.14
Quick Asset Ratio (No. of times C.L.)	**1.20**	1.05	0.90	0.86	1.01
Gearing Ratio (Debt to Rs. 1/- of Equity)	**0.67**	0.85	0.97	1.39	1.02
Interest Cover (No. of times Interest)	**2.85**	2.27	1.21	1.71	2.91

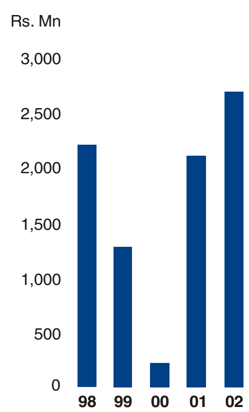
Asset Turnover



Revenue

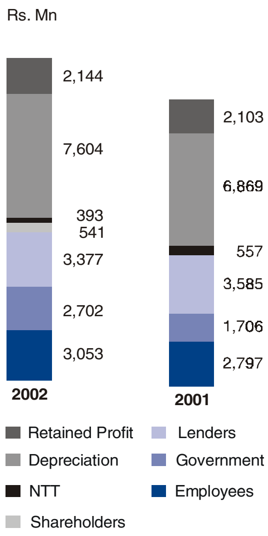


Earnings after Tax



	2002 Rs. Mn	2001 Rs. Mn	Increase/ Decrease %
Revenue	**25,383**	22,060	15
Profit share of Associate Company	**(29)**	50	(42)
Other income	**660**	839	(21.3)
	26,014	22,949	13.3
Goods and services purchased from other sources	**(6,200)**	(5,332)	16.2
Value creation	**19,814**	17,617	12.8
SHARING OF VALUE			
With employees (in the form of remuneration and welfare)	**3,053**	2,797	9.2
With the government (in the form of direct taxes & regulatory fees)	**2,702**	1,706	58.4
With lenders (in the form of interest & related charges)	**3,377**	3,585	(5.8)
With shareholders (in the form of dividends)	**541**	–	–
With Management Company NTT (in the form of management fees and remuneration)	**393**	557	(29.4)
Retained within the business			
- Depreciation	**7,604**	6,869	10.7
- Retained Profit	**2,144**	2,103	1.9
	19,814	17,617	12.5

Sharing of Value



ANALYSIS OF SHAREHOLDERS ACCORDING TO THE NUMBER OF SHARES AS AT 31.12.2002

	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
1 - 1,000	15,733	8,145,916	0.45	5	3,900	0.00	15,738	8,149,816	0.45
1001 - 5,000	6,054	16,956,212	0.94	9	30,100	0.00	6,063	16,986,312	0.94
5,001 - 10,000	4,586	37,096,782	2.06	8	63,500	0.00	4,594	37,160,282	2.06
10,001 - 50,000	2,344	38,135,371	2.11	7	188,000	0.01	2,351	38,323,371	2.12
50,001 - 100,000	112	8,850,608	0.49	3	248,100	0.01	115	9,098,708	0.50
100,001 - 500,000	93	21,145,554	1.17	7	1,794,000	0.10	100	22,939,554	1.27
500,001 - 1,000,000	12	8,885,948	0.49	4	2,849,400	0.16	16	11,735,348	0.65
Over 1,000,000	14	994,872,991	55.13	7	665,593,618	36.88	21	1,660,466,609	92.01
	28,948	**1,134,089,382**	**62.84**	**50**	**670,770,618**	**37.16**	**28,998**	**1,804,860,000**	**100.00**

Categories of Shareholders	**No. of Shareholders**	**No. of Shares**
Individual	28,708	122,895,956
Institutional	290	1,681,964,044
	28,998	1,804,860,000

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	35.20
Employees' Provident Fund	19,803,289	1.10
Samurdhi Authority of Sri Lanka	15,033,300	0.83
National Savings Bank	13,461,088	0.75
Commercial Bank of Ceylon Limited	13,333,300	0.74
Voyager Capital (International) Limited	11,989,600	0.66
Employees' Trust Fund Board	11,794,588	0.65
HSBC Int'l Nominees Limited - HSBC Bank Plc.	7,266,700	0.40
DFCC Bank	6,766,600	0.37
Sri Lanka Insurance Corporation Limited	6,633,335	0.37
MAS Holdings (Pvt) Limited	5,182,800	0.29
Investors Bank & Trust Co-Eaton Vance Asian Small Co Fu	4,830,000	0.27
Mr. Raj Rajaratnam	3,220,000	0.18
Readywear Industries Limited	3,000,000	0.17
Mr. H. H. Abdulhusein	2,500,000	0.14
HSBC Int Nominees Limited - MSIL - Asia Phoenix Fund Limited	1,923,000	0.11
Mrs. N. A. Ediriweera	1,596,100	0.09
J. B. Cocoshell (Pvt) Limited	1,352,882	0.07
The Northern Trust Co. S/A Woo Hay	1,288,000	0.07
Tong Investments Limited		
	1,659,456,609	91.96

DEBENTURE INFORMATION

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 First tranche of 25% of the principal sum was redeemed in March 2002.

On redemption the par value of a unit was reduced to Rs. 750/-.

	2002	2001
Gearing Ratio		
(Debt to Rs. 1/- of Equity	**0.67**	0.85
Interest Cover (No. of times)	**2.85**	2.27
Quick Asset Ratio		
(No. of times current liabilities)	**1.20**	1.05

MARKET VALUE OF DEBENTURES

Fixed Interest rate Debenture	**2002 Annual - 14.5% Rs.**	**2002 Quarterly - 14% Rs.**
- Highest	**850.00**	**800.00**
- Lowest	**700.25**	**725.25**
- Last Traded Price	**750.00**	**760.00**

There have been no trades in Floating Rate Debentures during the year.

Floor rate – 13%

Cap rate – 16%

INTEREST RATE OF COMPARABLE GOVERNMENT SECURITY

Interest rate of comparable Government Security

	Fixed Interest rate	Floating Interest rate
	9.90%	9.95%

OTHER RATIOS

		Annual	Quarterly
1)	Interest yield as at date of Last trade	14.5%	14.5%
2)	Yield to maturity of last trade	14.5%	12.8%

Notice of MEETING

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of Sri Lanka Telecom Limited, will be held at the Sugathadasa Indoor Stadium, Arthur de Silva Mawatha, Colombo 13 on Wednesday, 28 May 2003 beginning at 3.00 p.m. for the following purposes:

1) To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2002 with the Report of the Auditors thereon.

2) To declare a dividend as recommended by the Directors.

3) a) To re-elect as Director Mr. Ananda Goonatilleke, who retires by rotation in terms of Article 91 of the Articles of Association of the Company.

   b) To re-elect as Director Mr. Kazuhiro Yaginuma, who retires by rotation in terms of Article 91 of the Articles of Association of the Company.

   c) To re-elect as Director Mr. H. N. Gunewardena who retires pursuant to Section 181 of the Companies Act No. 17 of 1982.

   In terms of Section 182 of the Companies Act No. 17 of 1982 Special Notice of the following ordinary resolution has been received by the Company, from Mr. D. Weeratunga a member of the Company.

   "That the age limit stipulated in Section 182 of the Companies Act No. 17 of 1982 shall not apply to Mr. Hubert Norman Gunewardena, who has attained the age of Seventy years and that he be re-elected a Director of the Company".

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

Ms. P.G. Dias
Secretary

28 April 2003
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.*
2. *A proxy need not be a member of the Company.*
3. *A Form of Proxy accompanies this Notice.*

Sri Lanka Telecom

I/We ………………………...……………...…. of

.... being a member/members of

SRI LANKA TELECOM LIMITED hereby appoint:

Thilanga Sumathipala	of Colombo or failing him
Shuhei Anan	of Colombo or failing him
Kalutantrige Ananda Peiris Goonatilleke	of Colombo or failing him
Hubert Norman Gunewardena	of Colombo or failing him
Kazuhiro Yaginuma	of Colombo or failing him
Ajit Ravindra Ekanayake	of Colombo or failing him
Namasivayam Pathmanathan	of Colombo or failing him
Kiyoshi Maeda	of Colombo or failing him
Setsuya Kimura	of Colombo or failing him

……………………….............……………....……………………………......……. of ....

………………………………………………………………...........……………........…………. as my/our proxy

to represent me/us ……………………......................…....……. vote on my/our behalf at the Annual General Meeting of the Company to be held on 28 May 2003 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting.

		For	Against
(i)	To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2002 with the Report of the Auditors thereon.		
(ii)	To declare a dividend as recommended by the Directors.		
(iii)	(a) To re-elect Mr. Ananda Goonatilleke, a Director who retires by rotation at the Annual General Meeting in terms of Article 91.		
	(b) To re-elect Mr. Kazuhiro Yaginuma, a Director who retires by rotation at the Annual General Meeting in terms of Article 91.		
	(c) To re-elect as a Director, Mr. H. N. Gunewardena who has reached the age of 70 years in May 2002.		
(iv)	To re-appoint Messrs. PricewaterhouseCoopers as Auditors and authorise the Board of Directors to determine their remuneration.		
(v)	To authorise the Directors to determine and make donations to charities.		

Dated this ………….......………........……day of …………………......……….. Two Thousand & Three.

……………..……………………………

Signature

1. *A proxy need not be a member of the Company.*
2. *If you wish your proxy to speak at the Meeting you should insert the words "to speak and" immediately before the word 'vote' and initial the alteration.*
3. *Instructions as to completion appears overleaf.*

Form of PROXY

Please provide the following details:

Share Certificate No. : ....

No. of Shares held : ....

Proxyholder's NIC No. : ....

(If not a Director of the Company)

INSTRUCTIONS AS TO COMPLETION

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address and by signing in the space provided and filling in the date of signature.

2. If the shareholder is a Company or Corporate Body, the proxy should be executed under its Common Seal in accordance with its Articles of Association or Constitution.

3. If the Form of Proxy has been signed by an Attorney, the relative Power of Attorney should also accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

4. The completed Form of Proxy should be deposited at the Registered Office of the Company, located at Telecom Headquarters, Lotus Road, Colombo 1, 48 hours prior to the time appointed for the holding of the meeting, i.e. by 3.00 p.m. on Wednesday, 28 May 2003.

SRI LANKA TELECOM LIMITED
Headquarters
Lotus Road
Colombo 1

ATTENDANCE SLIP

I/We hereby record my/our presence at the Sixth Annual General Meeting of Sri Lanka Telecom Limited at the Sugathadasa Indoor Stadium, on 28 May 2003.

1. Full Name of Shareholder *(in capitals)* : ....
2. Number of Shares held : ....
3. Name of Proxyholder : ....
4. Proxyholder's NIC No. *(see Note 2 below)* : ....
5. Signature of Attendee : ....

Notes:

1. *Shareholders/proxyholders are requested to bring the attendance slip with them when attending the meeting and hand it over at the entrance to the meeting hall after signing it.*
2. *If the proxy is a Director of the Company, the National Identity Card Number of the proxyholder need not be indicated.*

ශ්‍රී ලංකා ටෙලිකොම් ලිමිටඩ්,

මූලස්ථානය,

ලෝටස් පාර,

කොළඹ 01.

පැමිණීමේ සටහන

2003 මැයි 28 දින, සුගතදාස ගෘහස්ථ ක්‍රීඩාංගනයේ පැවැත්වෙන හයවන වාර්ෂික මහා සභා රැස්වීමට පැමිණි බව මම/අපි මෙයින් වාර්තා කරමි/කරමු.

1. කොටස් හිමිකරුගේ සම්පූර්ණ නම : ....
   (පැහැදිලි අකුරෙන්)

2. දරන කොටස් ගණන : ....

3. පෙරකලාසිකරුගේ නම : ....

4. පෙරකලාසිකරුගේ ජාතික හැඳුනුම්පත් අංකය
   (පහත අංක 2 බලන්න) : ....

5. සහභාගිවන්නාගේ අත්සන : ....

සටහන:

1. කොටස් හිමිකරුවන්/පෙරකලාසිකරුවන් මෙම රැස්වීමට සහභාගි වීමේදී පැමිණීමේ සටහන රැගෙන අවුත් තම අත්සන යොදා ශාලාවට ඇතුළු වන දොරටුවේදී එය භාරදිය යුතුය.

2. පෙරකලාසිකරු සමාගමේ අධ්‍යක්ෂවරයෙක් නම් ඔහුගේ ජාතික හැඳුනුම්පත් අංකය සඳහන් කිරීම අවශ්‍ය නැත.

லங்கா ரெலிகொம் லிமிட்டெட்

தலைமை அலுவலகம்

லோட்டஸ் வீதி,

கொழும்பு 01.

வருகைத் தருவோரின் பட்டியல்

2003, வைகாசி 28ம் நாள் சிறீ லங்கா ரெலிக்கொம் லிமிடெட்டின் ஆறாவது வருடாந்த பொது கூட்டம் நடைபெற்ற சுகததாச உள்ளக அரங்கில் நான்/நாங்கள் சமூகமளித்தற்கான எனது/எங்கள் அத்தாட்சியைப் பதிவு செய்து கொள்ளுகின்றோம்.

1 பங்குதாரரின் முழுப் பெயர் : ....
  (தனி எழுத்தில்)

2 பங்கு தாரரின் இலக்கம் : ....

3 பங்குதாரரின் அனுமதிப் பெற்ற
  பிரதிநிதியின் பெயர் : ....

4 அனுமதிப் பெற்ற பிரதிநிதியின்
  தே.அ.இ (குறிப்பு 2ஐ கவனிக்க) : ....

5 வருகைத் தருபவரின் கையோப்பம் : ....

குறிப்பு

1 பங்கு தாரரின்/அனுமதி பிரதிநிதி வரவு அட்டையை கூட்டத்திற்கு வரும் போது எடுத்து வரவும். வரவு அட்டையில் கையொப்பம் இட்டு வரவேற்பு அறைக்கு ஒப்படைக்கவும்.

2 பங்கு தாரரின் அனுமதிப் பெற்ற பிரதிநிதி நிர்வாக குழுவில் இருந்தால் தே.அ.இ. தேவைபற்றது.

Legal Form
A Public Listed Company with Limited Liability
Incorporated in Sri Lanka in 1996.
The Company's Debentures were listed in the Colombo Stock Exchange in March 2000, and its shares secured a listing in January 2003.

Registered Office
Telecom Headquarters
Lotus Road
Colombo 1

Directors
Thilanga Sumathipala - *Chairman*
Shuhei Anan - *Chief Executive Officer*
Ananda Goonatilleke
H.N. Gunewardena
Kazuhiro Yaginuma
Ajit Ekanayake
N. Pathmanathan
Setsuya Kimura
Kiyoshi Maeda
Naomizu Saito - *Alternate to Mr. Setsuya Kimura*

Auditors
PricewaterhouseCoopers
Chartered Accountants

Company Secretary
Ms. P.G. Dias, ACIS

Bankers
Bank of Ceylon
People's Bank
Commercial Bank of Ceylon Limited
Hatton National Bank Limited
Standard Chartered
Citibank N.A.
Hongkong & Shanghai Bank
Sampath Bank

Subsidiary Company
Mobitel (Pvt) Limited
Sri Lanka Telecom (Services) Limited

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

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