Annual Report 2001

SOLUTIONS
SOLUTIONS

FOR THE FUTURE
FOR THE FUTURE

Sri Lanka Telecom

www.slt.lk

VISION

To lead Sri Lanka to become the hub of telecommunications in South Asia

MISSION

"To anticipate and fulfil the communications requirements of all sectors of the nation, in a service oriented work ethic which will provide total customer satisfaction through the most modern telecommunication facilities"

CONTENTS

1 .. Group Highlights
2 .. A letter from the Chairman
3 .. Board of Directors
5 .. CEO's Review
19 .. Financial Review
21 .. Report on Corporate Governance
23 .. Report of the Directors
26 .. Statement of the Directors' Responsibilities in Relation to the Financial Statements
27 .. Report of the Auditors
28 .. Income Statement
29 .. Balance Sheet
30 .. Statement of Changes in Equity
32 .. Cash Flow Statement
33 .. Accounting Policies
38 .. Notes to the Financial Statements
55 .. Five Year Progress
56 .. Value Addition
57 .. Investor Information
58 .. Notice of Meeting
Enclosed .. Form of Proxy/Attendance Slip/Notice

GROUP HIGHLIGHTS

GROUP	2001 Rs. Mn	2000 Rs. Mn	Increase/ (Decrease) %
Financial Position			
Property, Plant & Equipment	**59,093**	61,498	(3.9)
Total Assets	**80,210**	82,497	(2.8)
Borrowings	**31,571**	34,633	(8.8)
Equity	**36,957**	35,742	3.4
Performance			
Revenue	**22,060**	19,605	12.5
Operating Profit	**6,314**	4,984	26.7
Finance Cost	**3,585**	4,516	(20.6)
Earnings before Tax	**3,618**	914	295.8
Taxation	**1,515**	693	118.6
Earnings after Tax	**2,103**	221	851.6
Cash Flow			
Net Operating Cash Flows	**9,568**	9,566	0.0
Net Cash used in Investing Activities	**4,425**	8,894	(50.2)
Net Cash used in/(from) Financing Activities	**4,978**	(2,066)	(340.9)
Non-Financial Indicators			
Number of Connections	**704,095**	653,144	50,951
Number of Employees	**8,487**	8,648	(161)
Key Financial Indicators			
Earnings per Share (Rs.)	**1.17**	0.12	851.6
Return on Assets %	**7.9**	6.0	
Return on Equity %	**5.7**	0.6	
Operating Margin %	**28.6**	25.4	
Asset Turnover (No. of times)	**0.28**	0.24	15.7
Current Ratio (No. of times C.L.)	**1.13**	1.01	12.6
Quick Asset Ratio (No. of times C.L.)	**1.05**	0.90	16.5
Gearing Ratio (Debt to Rs. 1/- of Equity)	**0.85**	0.97	(11.8)

A LETTER FROM THE CHAIRMAN

Dynamic Communications for Tomorrow to meet the challenges in Information Communication Technology (ICT)

Dear Stakeholder,

Since privatization, Sri Lanka Telecom (SLT) has been through five tremendous years of change. These changes have been absolutely necessary because of the global advances in telecommunications, deregulation in Sri Lanka and SLT's vision of becoming the hub of telecommunication activity in South Asia.

The year in review was one of the most economically challenging years in Sri Lanka. The negative growth rate was the clearest indicators of the difficulties the business community had to face to keep their 'heads above the water'.

Within this scenario SLT has performed very creditably, increasing its profits, expanding the network, reducing waiting time for its services among users, increasing customer satisfaction and despite competition, maintaining its position as the leading communications service provider in Sri Lanka.

In the coming years SLT will be developing a dynamic business model that will focus on achieving our vision, whilst preparing the Company to face healthy competition.

With satellite communication made accessible simply through a mobile phone, and fibre optic technology further increasing the overall efficiency and clarity of communication, especially in the Audio Visual sector, 'tomorrow's technology' is, without a doubt, already here. Given these and several other advancements, a professional, skilled and customer friendly Service Provider is needed by people in all walks of life.

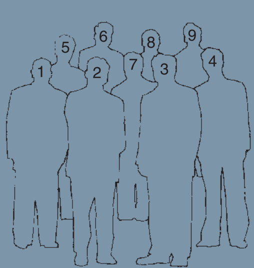
With this in mind, SLT will need to move ahead with its development and restructuring plans by forming separate business units (SBU's) in a bid to take advantage of the many opportunities global change has brought about. The Government of Sri Lanka is now faced with the short-term task of kick-starting the country's economy. Long-term plans are underway to revitalize the economy, raise the quality of life for the people and put Sri Lanka firmly on the map as a rapidly emerging force in the Asian region. Once a lasting peace is achieved, currently a pressing issue for the Government, it will be able to divert precious resources to more fruitful development activity across a united nation.

The changes in the economy will be the key to SLT's success in the future. In a global context, we are more than confident that SAFTA will generate more commerce and trade in the region, which will open up many opportunities for SLT in time to come.

Our most important asset has been the staff at SLT, they have made untiring contributions to our success. I extend very special thanks to each member of our team. My very personal and sincere thanks to every member of the Board for the unstinted support and corporation they extended to me to fulfil my responsibility with this new challenge.

Thilanga Sumathipala
Chairman

BOARD OF DIRECTORS



(1) N. Pathmanathan, (2) Shuhei Anan *(CEO)*,
(3) Thilanga Sumathipala *(Chairman)*, (4) Kazuhiro Yaginuma
(5) Setsuya Kimura, (6) Ajit Ekanayake, (7) Ananda Goonatilleke,
(8) H.N. Gunewardena, (9) Kiyoshi Maeda

Absent: Ruwan Fernando

Board of Directors

THILANGA SUMATHIPALA

Thilanga Sumathipala was appointed to the Board and nominated as the Chairman of the Board by the Government of Sri Lanka in January 2002.

A printer by training, he has had wide experience in the printing and publishing industry. He also has extensive experience in international cricket administration.

Mr. Sumathipala is an entrepreneur and a businessman, who jointly leads a variety of companies who are engaged in diverse businesses ranging from hotels, garments, entertainment, leisure and communications to trading, sports and cinema.

He also serves in the capacity of a Director/ Member of many institutes and organizations such as the International Cricket Council (ICC), Asian Cricket Council, Asian Cricket Committee, Development Committee, International Advertising Association (IAA), Newspaper Society of Sri Lanka, INCA-FIEJ Research Association (IFRA) India, Asian Mass Communication Research & Information Center (AMIC) and the Ingrin Institute of Printing & Graphics of Sri Lanka.

Mr. Sumathipala has had extensive experience in international cricket administration having been the President of the Asian Cricket Council in 1997/98 and the President of the Board of Control for Cricket in Sri Lanka in 1997/98 and 2000/2001. From 1998 to 2000 he served as a Director of the International Cricket Council. He also spearheaded the development of cricket in Sri Lanka and led the development of the Galle International Cricket Stadium and the Rangiri Dambulla International Cricket Stadium.

Mr. Sumathipala holds a Diploma in Photolithography and Graphic Reproduction from the London College of Printing, UK.

SHUHEI ANAN

Shuhei Anan has been serving the Board since 5.6.99 as a nominee Director of NTT Communications Corporation. However, beginning March of that year he had attended Board Meetings in the capacity of an alternate to Mr. Masaaki Kasahara who was also a nominee of NTTC. Effective from 21.7.2001 Mr. Anan was appointed the Chief Executive Officer of the Company in addition to being a Board Member.

Prior to this he had served Thai Telephone & Telecommunication Company as Assistant Vice President in charge of Operations and Maintenance for three years since 1993.

Between 1991-93, Mr. Anan has held the position of General Manager, Global Business Development at NTT International Affairs Headquarters and prior to that in various managerial capacities at NTT. His entire career has been with Nippon Telegraph and Telephone Corporation of Japan having joined the Corporation soon after graduation in 1976.

Mr. Anan received a Bachelors Degree in Construction Engineering from the University of Waseda in 1974 and a Masters Degree from the same university in 1976.

Sri Lanka Telecom is the national telecom flag carrier in Sri Lanka. Thus the development of our network and providing a superior service to our customers is important, if we are to contribute towards the development of the economy and society.

By any yardstick, the field of telecommunications in Sri Lanka has shown massive development, particularly over the last five years. Worldwide advances in communication technology such as the Internet, Fibre Optics and Digital systems have not only changed the way we communicate, but even our very lifestyles.

However, SLT still remains within a cycle of change, and development continues, constrained to some extent by the impact of the ethnic conflict on the economy.

Even though our penetration of the fixed phone sector stands at around 4% of the population, we face competition from several quarters - particularly WLL, cellular operators. SLT has substantial issues to resolve at this stage of its development.

A New Focus

Over the past five years we have focussed our efforts on:

- Strengthening access to our network by adding new customs.
- Developing the infrastructure necessary to build a telecommunications network of truly international standard.
- Improving Customer Care and Fault Management Systems.
- Expanding our customer base.
- Improving the quality of Internet services with a view to facilitating e-commerce, enabling our customers to venture into new businesses (new business models).
- Re-balancing tariffs and improving billing systems.
- Developing customer relations.
- Providing new opportunities for human resource development.

CEO's Review

We recognise the need to take advantage of the rapid expansion and advancement in the field of communications, and the resultant need to re-focus for the future. At the same time, it has become necessary to build our infrastructure, business practice and train our workforce to deliver a service of international repute. These are some of the areas we will concentrate on:

- Diversifying our sources of revenue through the introduction of new services and cost-cutting exercises.
- Effective management strategies that will enhance customer satisfaction and improve the quality of our management data.
- The introduction of new business areas and the development of skills within the organization to market these new products.
- Building a work environment that is challenging, productive and which generates pride in all its members.
- Playing an integral role in the further liberalisation of the telecom industry.
- Improving the quality of our service and service delivery.
- Shareholder value increases.

Better Financial Foundation

To put our plans into better perspective, let us examine some financial highlights for the year.

Our total revenue increased by 13%, from Rs. 19.6 billion to Rs. 22.1 billion. Operating costs increased from Rs. 8.5 billion to Rs. 8.9 billion. Profits before depreciation rose from Rs. 11.1 billion to Rs. 13.2 billion, up by 19% over the previous year. Depreciation increased over last year, Rs. 6.86 million as against Rs. 6.3 million; we were still able to contain the quantum of increase to under a billion.

Our net profits reflect the amazing turn around we were able to achieve. From Rs. 221 million for the previous year, to Rs. 2.1 billion for the year under review.

According to current trends, the international telecommunications market has seen tariffs and revenues plummeting almost overnight. SLT experienced this adverse phenomena in late 1999 and the year 2000. Our volume of international traffic fell by almost 50% due to the prevalence of unauthorized by-pass measures in the market.

However, in 2001, SLT adopted improved commercial and technical strategies to protect itself from such by-pass, and coupled with the assistance we received from the relevant Government authorities, we were able to regain lost custom and begin to usher in considerable improvement in the overall position. We were able to earn almost double this quantum of traffic again as new business.

In the history of the international telecommunications industry, this is the first time that a right about turn of such completeness has been achieved. Indeed, it prompted our counterparts in India to liken it to "reversing the tide of the Ganges"! We also took several other far reaching measures to improve our financial well being.

A Company-wide Cost Management programme served to rationalize and reduce costs, contributing significantly to our bottom line. We increased our Network capacity thereby growing our business and reaping the resultant returns. Another significant improvement has been the increased productivity levels we were able to achieve from our Human Resource factor.

This turn of events has resulted in SLT achieving a very healthy financial position overall, and has led to a resurgence in its international services.

Investment & Introduction of New Technology

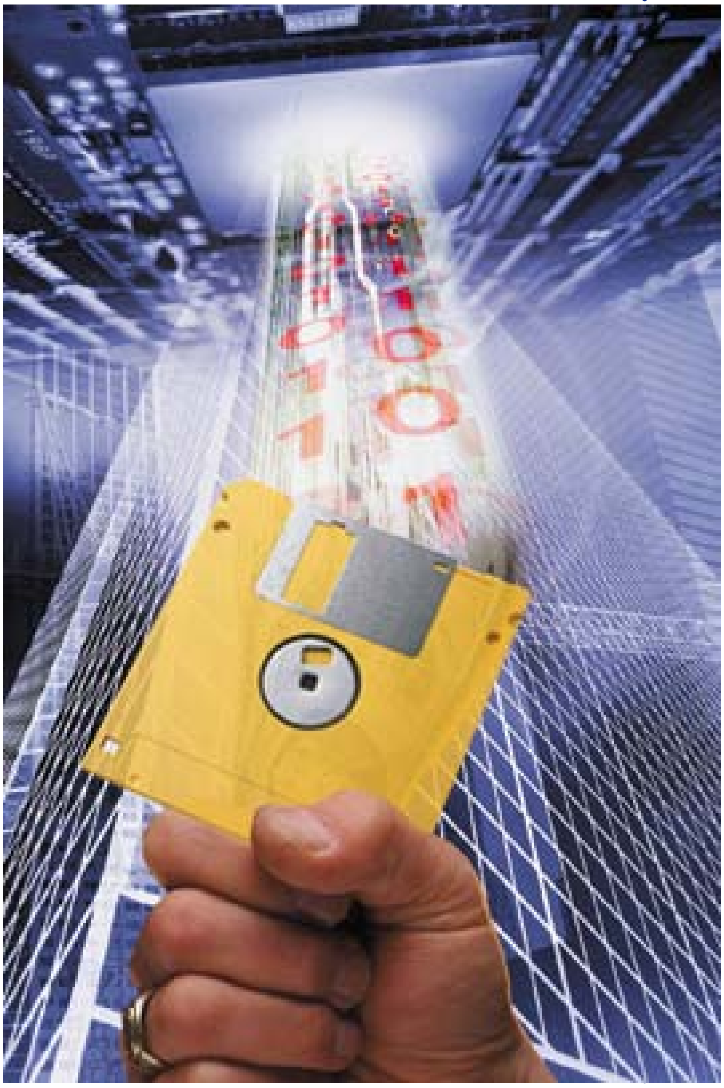
Over the past five years, SLT has invested Rs. 40 billion in developing a state-of-the-art communications infrastructure. However, telephone density remains low at about 5%. Therefore, potential for expansion and development is quite high. To meet the demand and support the introduction of new services, it is necessary to have in place a good infrastructure.

SLT can no longer rely on "old" technology, or to remain stagnant while advances in technology threaten to overtake us. Technology change has been so rapid, it has even been feared by more conventionally oriented telecommunication business thinkers. Therefore, top priority is given by SLT to adopting and introducing change, which is crucial to its maintaining its position as the premier telecom service provider in the country, and to maintain strong connectivity with the networks of international business.

In keeping with our new focus, we will continue to invest in upgrading and strengthening the main telecommunication infrastructure in the country. In this context, let us look at a few key strategies that guided infrastructure development over the past few years:

- The wide use of a fibre optic ring configuration backbone system. This was in an effort to strengthen the nation's telecommunication backbone, enhance quality of service and expand SLT's product portfolio.
- The application of a Synchronized Digital Hierarchy (SDH) ring, and C7 signalling technologies for greater reliability and efficiency.
- The introduction of modern Network Management Systems for the efficient management of transmission and switching systems.
- Investment in an Internet backbone.

Such developments have not overlooked the global trend of gradual migration to Internet Protocol based services and the predicted exponential growth of Internet based traffic. New transmission systems in particular were designed, keeping the future broadband



demand in mind. In addition, it was envisaged that the new copper access networks deployed would support broadband access to customers through new technologies such as Asymmetric Digital Subscriber Lines (ADSL). In 2000, we expanded our Optical Fibre Network, and in 2001 we took this expansion further.

For the year 2001, 152,518 Switching lines, 138,220 Primary pairs and 527 transmission circuits were added. SLT's current capacities are 939,736 Switching lines and 1,134,695 Primary pairs.

Over the last five years, significant investments were made in upgrading rural infrastructure and in developing rural telecommunications.

The Growth of the 'Net'

Tapping the vast resources of the Internet was an obvious step for SLT, along the communications highway. From 3,683 customers in 1997, Internet customer base grew up to 33,208 as at 31 December 2001. Over the year 2001 alone, our customer base grew by 800%.

The Internet is, without doubt, the growth area of the future, and much of SLT's expansion will feature web based and Internet based solutions.

When SLT launched SLT Net, its own arm to introduce web based services such as e-mail and access to the Internet, it opened a whole new world of knowledge, communication and opportunity to the people of Sri Lanka.

SLT currently provides a state-of-the-art Internet Product Portfolio which includes:

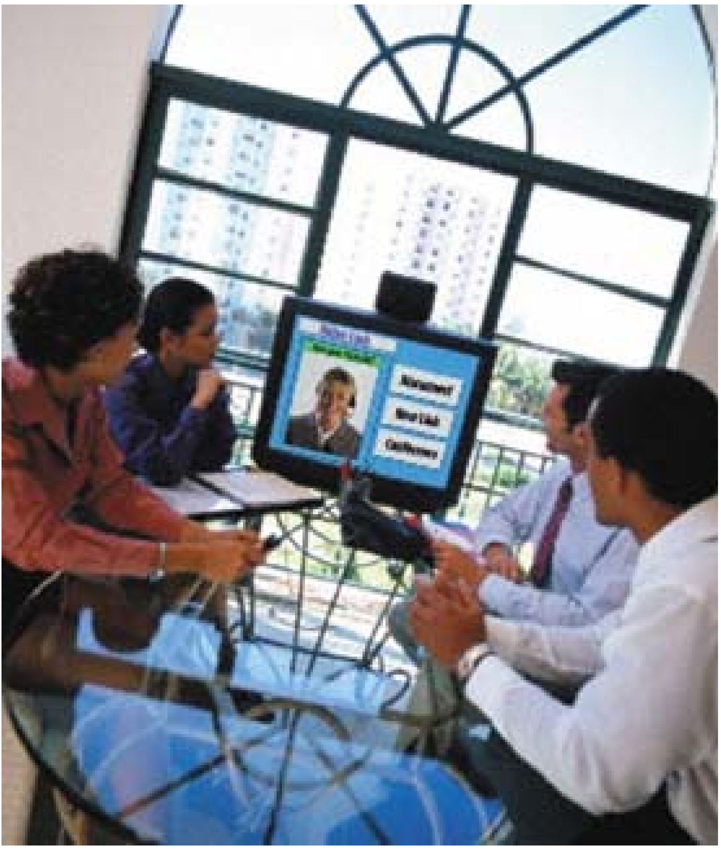
- PSTN Dial-up at 56 kbps
- ISDN Dial-up at 64 kbps and 128 kbps
- Internet Leased Line Services at 64 kbps, 128 kbps, 256 kbps and 512 kbps and 2 Mbps.
- Client Mail Server Installations
- Web Hosting

Complementing this substantial growth, the Internet Backbone bandwidth was enhanced to an aggregate of 18 Mbps.

Dial-up port capacity was enhanced during this year. Regional access servers were further expanded to Maradana, Havelock Town, Kandy and Galle, thereby significantly improving the quality of service.

SLTNet became a member of the Asia Pacific Network Information Centre (APNIC), which is a registry for management and a centre of Internet Protocol (IP) address blocks.

For the future, a fully fledged call centre will be in place by the year 2003. This will consist of a Management Information System (MIS) and a comprehensive Trouble Ticket Handling and Escalation System. Integrated Voice Response (IVR) and Computer Telephony Integration functionalities will also be incorporated in this new system. Our capacity to provide on-line assistance to customers will be greatly improved as a result.



International Revenue

Revenue from international sources reflected a very marginal reduction of 0.3% from the results for the previous financial year. For the year under review, we earned a total of Rs. 2.864 billion as opposed to Rs. 2.872 billion for the year before. Our international earnings constituted 40% of total revenue for this period.

In terms of traffic, SLT recorded 26 million incoming call units per month, and 4.5 million outgoing call minutes per month. These rates continue to show growth due to the efforts of SLT in many areas of business, to promote use of its services.

IDD

As we reported last year, we fully intended to adopt a rationalization on tariff structure to cushion any adverse effects on consumers. But events both in Sri Lanka and internationally dictated otherwise. First, the attack on Sri Lanka's international airport brought tourism and commerce to its knees, and later the September attacks on the World Trade Centre in the USA, similarly affected business, particularly internationally. These events and the resulting downturns in the economic environment, coupled with high IDD tariffs, had an obvious negative impact on the profitability of the international call sector.

In theory, and according to Ministry thinking, SLT enjoys a monopoly on incoming and outgoing international telephony up until August 2002. However, this is not reality. Therefore, SLT continues to battle for profitability in this sector.

As at 31 December 2001, SLT provides IDD facilities to 219 countries, and enjoys direct connectivity to 51 countries.

We provide such connectivity through 3,619 submarine circuits and 1,586 satellite circuits.

ISDN

SLT's ISDN customer base grew by 353 new customers to reach 1,167. ISDN facilities are available to 8 countries: Japan, Singapore, the UK, the UAE, India, the USA, Hong Kong and France. A further expansion of access is on the cards. The basis of ISDN technology is its ability to conduct simultaneous transmission and reception of voice, data and images at great speed. It is a very cost effective medium too. We plan to build on these qualities to promote ISDN as a cost effective and speedy means of browsing on the Internet, with the required technological back up.

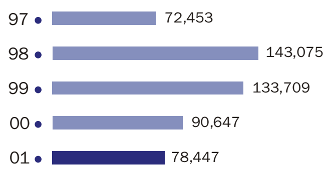
New Connections - Developing the Telecom Network

The SLT has come a long way from those "dark days" of slow growth, and an inability to meet the demand for new telephone connections.

As a fixed telephone operator, even though revenue per line does not reflect the expected returns, SLT has to expand the local network gradually, subsidizing costs with revenue from its international services in an effort to reduce the 270,000 waiters for our services, throughout the island.

Today, in all locations in the Colombo Metro region and other major cities, telephones are available over the counter. The waiting time for a telephone has been completely eliminated in those areas. Even in rural areas, we have been able to meet demand, and indeed, we have the capacity to exceed it. At the same time, we are exploring more cost effective ways of expanding our rural network, since the financial return from this sector is poor.

New Connections



2001

Colombo	31,272
Regions	47,175

Telephones are available in most areas, on demand, where a network is available.

In 2001, we connected 78,447 new customers to our network. Of these, 47,175 new connections were to regions outside Colombo. SLT's Network Roll-out Expansion has cumulatively yielded 704,095 connections up to the year of review. The trend for new connections in the regions shows growth.

With the supply-demand ratio well in hand, SLT has decided that one of the key considerations when contemplating new projects would be the economic viability factor.

In addition to the utilization of normal copper loops, Digital Pair Gain Systems and Wireless Systems such as RLL and WILL were also used to connect new customers and meet demand.

Of course, radio systems were only used to connect subscribers in remote villages and in locations where difficult terrain made traditional installation impractical.

In addition, public phone facilities were installed in all parts of the country, and 125 new connections were provided to Sub-Post Offices to afford telecommunication facilities to those without personal access. The public phone system has contributed significantly towards raising the quality of life of the populace.

Billing and Collection

We have made significant gains in recovery of dues and management of costs.

In terms of billing and collection, our collection rate for domestic telephone revenues improved radically from 70% to 99%. The debt holding ratio also improved from 4.88 to 3.67 months.

Customer Care and Quality of Service

The rapid expansion of SLT's services and the introduction of many new products have led to a radical change in the way we look after our customers.

A major expectation of our customers is to have a fault-free telephone line. Our customer base has now exceeded 700,000 for the first time, and this has required a sophisticated system to respond to faults. Whilst one part of our strategy has been to develop systems where faults do not occur, the other part of our strategy has been to develop a capacity to respond to, and clear faults effectively.

The "121" Faults Reporting Centres which were introduced in 1998, were further strengthened during 2000 and 2001. Today, there is just one number - 121 - that need be contacted, to report a fault. This is a charge free number, and accesses a fully computerised system permitting automated data transfer from the "121" centre to all regional maintenance centres.

Our fault clearance rates islandwide improved from 83% last year to 87% for the year under review. We were also able to reduce fault occurrence rates from 7.9% to 7.3% for the same periods. The regions were provided with adequate resources and new Resource Management systems, which have contributed significantly to a dramatic improvement in their faults clearance ratios.

Customers who need to query their billing have been provided with fast access through the dedicated number "122". 80% of our regional billing centres have been connected to this service, and officials who man the number have been further empowered to resolve problems speedily.

Credit control was improved in June 2001, with a commensurate increase in collections from 26% to 66%. We aim to achieve a collection level of 80% for 2002, through further development and streamlining of our credit control procedures.

Collection of revenue from subscribers to the Internet was comparatively low. This was due in the main, to the fact that we were unable to fully reap the benefits of planned efforts to improve billing procedures and optimise credit controls.

Also on the cards is a new, flexible billing system which can accommodate a wide range of customer friendly packages and discount schemes.

For internet users, dialling "123" puts them in immediate contact with a help desk that looks after their problems.

All these numbers come under the umbrella of our Customer Care programme.

We plan an extension of such services, through the establishment of a call centre.

Teleshops

Another important facet of our customer care system is the Teleshop concept. Beginning in 1997 with just four, today we have established 21 of these shops.

The Teleshop was designed to be a one-stop centre performing a variety of functions. Customers can pay their bills, register for a new phone, invest in a range of new equipment or even lodge a complaint in a customer friendly environment.

Our goal was to create a single location which could handle as many customer requirements as possible, reducing inconvenience levels to a minimum. The Teleshops have increased levels of customer satisfaction and generated enormous goodwill.

This concept was primarily driven by our focus on improving quality of service and customer care. Thus, a considerable emphasis has been placed on a continuous development of staff competencies, helping them discharge their duties professionally and also helping them to cope with new technologies as they become available, through our ever expanding product menu.

Another exciting prospect that has been lined up for implementation soon, is SLT's e-commerce operation via the e-teleshop section of our website. This e-enabling will let customers have access to the products of SLT via the ease of the Internet. We plan to expand this facility further, to offer on-line registration for SLT's services and on-line payments of bills.

The Teleshops have proved to be the largest sales channel of the SLT, through their convenience and comprehensive service offer.

For our Corporate Clients

In addition to the already sizeable portfolio of products SLT offers its customers, we "go the extra mile" for our blue chip clientele.

We looked at our product portfolio and services, and examined the drivers behind their launch. Our research revealed to us the "way to go" in offering value additions to our customers, particularly corporates.

Thus we began to tailor and offer the concept of total solutions; not only upgrading existing product offers, but tailoring them to perform a multitude of tasks to appeal to this clientele. Such an approach has brought us substantial success within this segment of the market.

SLT has also concurrently strengthened its marketing activities to the corporate sector, to promote the wide variety of products and services now on offer.

We've also streamlined our Account Management System and are focussing on offering a total solution concept to this segment of customer.

Regional Performance

For operational reasons, SLT is divided into four regions:

- Metro - consisting of Colombo and its suburbs
- Region 1 - consisting of the Central,Western/North, North Western and North Central provinces
- Region 2 - consisting of the Uva, Southern, Sabaragamuwa and Western/South provinces
- Region 3 - consisting of the Northern and Eastern provinces.

Metro

31,272 new connections were provided in 2001, taking Metro's overall customer base to 320,772. This constitutes 45.61% of the total number of lines installed to date by SLT. The Metro is one of the most important regions for SLT as it is home to the largest proportion of SLT's customer base.

Our plans for this year include the continuing development of the Outside Plant Network and the development of the human resource skills of all persons involved in the day to day operations of the Company. Providing contactability to our maintenance vehicles via a radio network is also planned.

Region 1

Nine RTOM areas fall within this region. They are: Kandy, Gampola, Matale, Kurunegala, Chilaw, Anuradhapura, Polonnaruwa and Negombo. During 2001, the regional customer base increased by 24,754 bringing the total number of customers to 191,036 by the end of the year. This constitutes 27.09% of SLT's total customer base.

Region 2

Eleven RTOM areas make up this region. They are: Kegalle, Avissawella, Ratnapura, Badulla, Bandarawela, Hatton, Nuwara-Eliya, Kalutara, Galle, Matara and Hambantota.

In the year under review, 18,817 new connections were established bringing the overall customer base to 158,240 or 22.34% of SLT's total customer base.

Region 3

One of SLT's strategies over the past few years has been to develop the switching and transmission capacities in difficult areas. Accordingly, we have embarked on a major infrastructure development programme in those areas.

3,604 new connections were provided across the region as a whole during 2001, bringing the total to 34,042 or 4.94% of SLT's total customer base.

Enhancing the Quality of Work

A complete refurbishment of our human resource policy has been one of the corner-stones of our new management strategy. This has led to a fundamental re-think of basic company policy, on this issue.

Change has become a "way of life" in our business. Managing change successfully requires a harmonizing of organisational change with the human factor.

This is why we have devoted considerable energy and resources towards training employees and providing a new motivation and finesse to their work. Our place as market leader and trend setter will be guaranteed only if we can ensure that our human resources can continue to adapt and respond to new situations.

For the year 2001, we focussed our training efforts on providing management competency and skill development to middle level staff, attitude and skill development to lower grades, computer literacy and usage of e-mail and Internet facilities to clerical and allied service staff and market orientation and financial literacy across all grades. We also upgraded technical knowledge of our skilled staff to enable them to cope with new technology and the demands for quality service. Of particular emphasis were the areas of large scale optical fibre failure recovery, preventive maintenance of outside plant, and emergency handling of switching systems.

One of the important changes introduced in the beginning of 2001 was the concept of performance evaluation feed back. This will help employees identify their strengths and weaknesses and develop accordingly. Also introduced in 2001 were new examinations leading to promotion and also for new recruitment.

Worker safety is another area of prime importance to SLT. Modern safety equipment is in place, and this is supplemented by intensive training. The Company has made it compulsory for all technical staff to use the safety equipment relevant to their areas of work.

Career Development

SLT conducted a special programme titled "Advanced Educational Programme in Telecommunications" for 25 of our workers. The participants were selected through a competitive examination. These employees were released full time from their normal duties to attend, and were provided with their normal pay and free accommodation at the training centre for the duration of the programme. The 25 persons selected were employees who had not been able to complete their studies due to various personal reasons. Thus we were able to assist 25 deserving and talented employees to realise their true potential and acquire the knowledge necessary to advance in their careers to the overall benefit of the organisation and the telecommunications industry.

Telecom Training Centre - internationally recognised

Our Training Centre received recognition from the Commonwealth Telecommunications Organization as an offering body for its "Programme for Development and Training". We offered 6 programmes for PDT 2001/2002 to the Commonwealth countries of Trinidad & Tobago, Tanzania, Ghana, Mozambique and Papua New Guinea.

Locally as the only telecommunications training centre in the country, we are committed to offering our facilities to all interested and relevant institutions. We have imparted training to over 100 persons in various disciplines, from several external sources including the Sri Lankan Armed Services.

In the year 2001, we spent Rs. 51.2 million on training.

Productivity Improvement

Productivity has risen sharply over the last five years. This is illustrated through the ratio of Direct Exchange Lines to Number of Employees over this period. From an employee base of 8,721 supporting 315,865 lines in 1997, the ratio has improved to 8,487 employees supporting 704,095 lines. This is an improvement of 235% over the last five years.

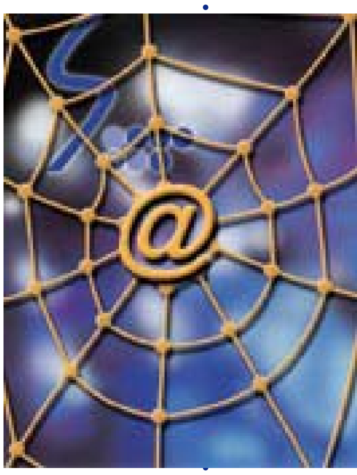
5S and Kaizan

The 5S concept forms the foundation for all other Kaizan and total quality management programmes. Care for the workplace, equipment and good work ethics and practices are the main products of these programmes. From early 2002, we began to take 5S and Kaizan principles across the entire company.

The benefits of these programmes are already beginning to show. Worker enthusiasm and acceptance is very high.

The Changing Face of Communications

Possibly the most significant era of change in the field of telecommunications in Sri Lanka began to unfold from the mid-'90s. It is pertinent to dwell briefly on the "times that were", in order that our current performance may be put in perspective.



The SLT of the past could never match the demand for telephones. The waiting list for new connections in 1997, just prior to privatisation, exceeded the number of customers.

In 1995, SLT projected an installation of 56,000 new lines; only 24,556 were installed. In 1996, the projection was for 87,000 new lines; only 50,171 were installed. By June 1997, out of a projected number of 74,000, only 24,556 new lines had been installed. As at 31 March 1997, the SLT had 270,500 lines in service. The waiting list for telephones stood at 287,200 as at the same date, and was estimated to swell to 700,000 by the year 2000.

The telephone penetration rate which was 0.74 per 100 persons in 1991, grew to 1.4 per 100 persons by March 1997. It was estimated at that time, that to reach a rate of 5 per 100 persons by the year 2000, an investment of US $ 450 - 500 million would be required, in addition to the investment made by private operators, who had begun business by then.

Thus the bottom line was that the state operated system could neither meet the demand for services, nor generate the required investment for expansion.

Competition

SLT faces several competitors already, and it is necessary to make our Company stronger and more customer friendly to withstand their challenge. This means utilizing our human assets to the fullest; ensuring proper usage of unutilised assets productively, introducing the latest technology and restructuring the Company to respond suitably.

Global Telecommunications

Sri Lanka's strategic geographical location, almost equidistant from East and West makes it a vital factor in the field of marine transportation. Added importance stems from its proximity to the Indian Sub-Continent.

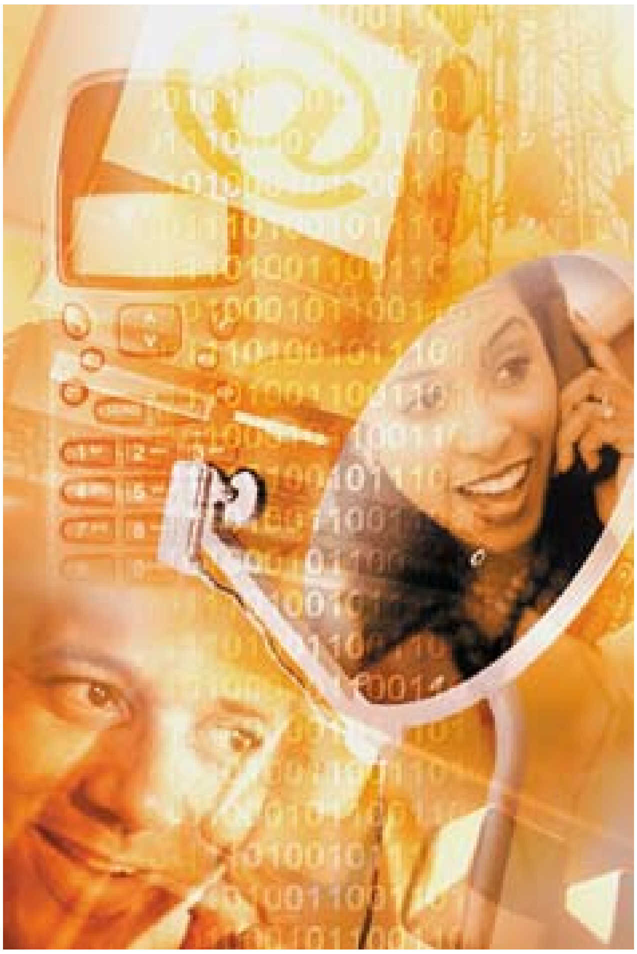
Sri Lanka enjoys a diversity of peoples, religion and culture, coupled with a rich history of trade with the Middle East, India, Japan and several other Asian countries, the UK, other Western Nations, Europe and America.

This combination of features present Sri Lanka as an ideal hub for all telecommunication networks; not just for regional networks, but also a through-point between Europe and Asia.

Such an endeavour is consonant with our vision for the Company - to lead Sri Lanka to become the hub of telecommunications in South Asia.

SLT's network connection has been well established, not only through voice traffic, but also IPBB, affording MNCs the opportunity to carry on their business in this country, unhampered by any restrictions of technology or service management.

SLT's extensive development showcases a Company gearing itself for the future, enjoying strong support from its trade unions, deservedly claiming leadership not only in the telecommunications industry, but also in the corporate world.



Deregulation

Deregulation, in an embryonic way, began back in 1981 when the first licence to operate a paging service was granted to a private operator. Private initiative received a huge impetus with the introduction of cellular technology. The first operator of a mobile telephone service was a private entity, in 1988. Since then, three more companies have entered the field, and the resulting competition has led to lower prices.

Private operators have also entered the area of pay-phones. In addition, there are dozens of private agencies offering telephone and facsimile services to the public.

In 1995, SLT gave up its monopoly when licences were given to two private operators to commence wireless fixed phone services. The two companies began operation in 1997, and enjoy a duopoly status. Telecom's monopoly in the area of international traffic will remain till August 2002.

Infrastructure in relation to telecommunication has also been deregulated. The laying of Optical Fibre Cables and Terrestrial Optical Fibre Cables has been opened up to the private sector.

Whilst deregulation and privatisation have gone on in many areas, in the field of communications in particular, the rapid advancement in technology has given this process a huge impetus. In many cases, even if the state wished to retain a monopoly of communications and telecommunications, it would have become increasingly difficult as technology developed.

The process of deregulation is set to advance further by August 2002.

A Model Privatisation

The privatisation of Sri Lanka Telecom has so far involved a purchase of a 35% stake by NTT in 1997, in a sum of US $ 225 million or approximately Rs. 13.5 billion.

The privatisation of SLT is looked upon by many, as a model. A model privatisation in the price that was obtained by the Government, in the strategic partner that was brought in and in the transparency of the entire process. It was also a complex privatisation since it involved a state utility with significant public involvement and strong unions. The engagements with the unions had to be intense and sustained. It had to allow them the time and space to reflect on strong perceptions they held about the role of the state in economic development.

The Impetus for Privatisation

The impetus to privatise came from many sources:

- Assembling an attractive infrastructure that would attract both foreign and private capital was an important factor. It was important that the country developed its communications infrastructure so as to be able to compete with other investment destinations. Communication services needed to be on par with the developed and newly developed world, and there was no indication that this would occur under state control.

- Technological advancement was another. Thirty years of dabbling with telecommunications had shown conclusively that the state was unable to provide a quality telecommunications service to the public of Sri Lanka. Public funds were inadequate to fund the required expansion and the injection of private funds was imperative. The technological advancements that other parts of the world had begun to savour, were being withheld from Sri Lankans, as a result.

- Accounting and billing systems were archaic and there was a need for more fluent procedures and the injection of rationality, in the process. Privatisation and a tie up with a global conglomerate was seen as a vehicle for turning a moribund state utility into a high performance communications operator.

The field of communications in Sri Lanka today, bears ample testimony to the success of our strategy - in a myriad products and services that access knowledge, business and human contact like never before.

Initial Public Offering (IPO)

Globally this year, telecommunications companies experienced sharply falling share prices.

Here in Sri Lanka, the year 2001 was an "annus horribilis" - almost every sector of business was negatively affected by stagnation of the economy and a first ever negative growth.

Such an environment was not conducive for SLT to contemplate going for a Public Offering hence we regretfully had to shelve any such plans.

We are very hopeful that a general brightening in the economic climate for 2002 may lead to an IPO next year.

Shuhei Anan

Chief Executive Officer

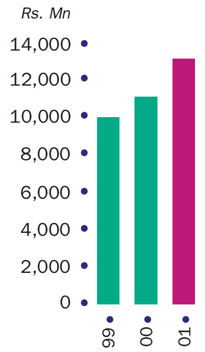
SHAREHOLDER VALUE

SLT has strived to enhance shareholder value through effective and efficient use of resources. The Company this year generated a net profit of Rs. 2,105 million, which is a significant increase from last year's profit of Rs. 242 million.This profit resulted in earnings of Rs. 1.17 per share against Rs. 0.12 in the previous year. The Board of Directors proposes a dividend of Rs. 0.30 per share for the year ended
31st December 2001.

OPERATING RESULTS

The operating profit before depreciation during the year was Rs. 13,183 million, which is a 19% increase from Rs. 11,124 million last year. This has been due to significant increase in revenue and increased management effort to control of operating costs. While revenue increased by Rs. 2,455 million, an increase of

Operating Profit
before Depreciation



12% from previous year, operating cost (other than depreciation) increased by only Rs. 396 million resulting in Rs. 2,059 million of the revenue increase directly contributing towards operating profits. An Increase of Rs. 748 million in depreciation finally resulted in a net operating profit of Rs. 6,316 million, an increase of 27% compared with that of last year. During the past two years the increase in costs had been almost at par with the increase in revenue, which resulted in a lower contribution towards the operating profit and as a result profit growth was low in those years.

Structure of Operating Revenue

REVENUE

The operating revenue was Rs. 22,060 million, which is a 13% increase from
Rs. 19,605 million last year. The increase in revenue has been mainly due to the increase in domestic call revenue including rental income and in international in payment. The increase in domestic call revenue is purely due to volume increase, as SLT did not increase the domestic call rates. The 78,447 new connections given in 2001 also contributed to this growth. Increase in international incoming traffic, which has been recovered by the arrangement with WLL operators has resulted in growth of international in payment. The share of international revenue from outgoing and incoming calls has reached 42% of total operating revenue.

OPERATING COSTS

The operating costs were Rs. 8,877 million and the depreciation cost was
Rs. 6,869 million. The cost consciousness of SLT employees in day-to-day operations contributed to control the increase in costs. Increase in operating costs was mainly due to increase in payments to other network operators, local as well as international. Payments to international network operators

was increased by Rs. 267 million due to increase in international calls. The Payments to other local network operators also increased by Rs. 527 million, due to higher termination of calls on their network. These increases were however mitigated to a certain extent by reduction in repairs and maintenance, bad debts/stock provisions.

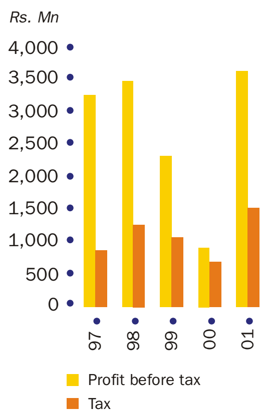
CASH FLOW HEDGE

SLT, in accordance with its policy of complying with statutory and best accounting practise standards adopted International Accounting Standard 39, Financial Instruments with effect from 2001. Consequently cash flow hedging principles were applied and as a result the Company could not recognize the book losses on translating foreign currency denominated loans. This had favourable impact of Rs. 888 million on the income statement. Retrospective adjustments were not made as per the transitional provisions of the standard.

PROFIT AND TAXATION

The profit before tax was Rs. 3,618 million, which was the largest pre-tax profit in these five years. The tax charge of Rs. 1,515 million represents charge in respect of deferred taxation. Due to brought forward tax losses and Investment Tax Allowance SLT does not have to pay tax in respect of 2001. The deferred tax charge in 2001 is Rs. 822 million increases compared to the previous year. This is mainly due to the increase of profit before tax.

Profit Before Tax & Tax



INVESTING ACTIVITIES

The investing activities were not very high compared to the last year as most of the major projects were completed. The total additions to property, plant & equipment during the year were Rs. 4,461 million at cost. This was mainly in respect of outside plant, exchanges and transmission equipment.

FINANCING ACTIVITIES

During the year there were net settlements amounting to Rs. 4,437 million of long-term borrowings and the total debt balance as of the end of 2001 was Rs. 31,571 million. In addition to regular repayment of loans, the Company was able to prepay some high interest rate, foreign currency denominated loans, utilising the excess cash inflows. Efficient management of funds coupled with high interest rates during the year under review, SLT earned a record interest income of Rs. 777 million, an increase of 129% over the previous year.

EXCELLENCE IN REPORTING

The Annual Report of SLT for the financial year 2000 was adjudged the winner in the categories of "New Companies Incorporated on or after 1st April 1996" and "Unquoted Companies" at the Annual Report awards competition organised by the Institute of Chartered Accountants of Sri Lanka. This is a creditable achievement gained by the Company in the Corporate Financial world. The criteria of selection underscore the Company's high standards in ensuring transparency, good governance and compliance with statutory and best accounting practises.

REPORT ON CORPORATE GOVERNANCE

Sri Lanka Telecom

With globalization, the importance of good corporate governance has increased. While the "Code of Best Practices" developed by the Institute of Chartered Accountants of Sri Lanka is not yet a mandatory requirement, in recognition of the importance of good Corporate Governance, Sri Lanka Telecom fully supports principles of corporate governance. Sri Lanka Telecom is committed to continuously improving standards of Corporate Governance. This commitment is driven by the recognition that there is a need for a system by which the Board of Directors can act diligently, transparently, honestly and independently to achieve an increase in shareholder value.

EFFECTIVENESS OF THE BOARD

The Board of Sri Lanka Telecom is composed of ten members. Of these ten, seven members are Non-Executive Directors. Six of these are Nominee Directors of the Government and one is a Nominee Director of NTT. The Chief Executive Officer, the Chief Financial Officer and the Chief Operations and Technical Officer are Executive Directors and also nominees of NTT with whom the Company also has a management agreement. The Non-Executive Board members have a wide range of experience and expertise.

As the Chairman of the Board is separate from that of the Chief Executive Officer the principle of separation of the two functions is maintained.

DIRECTORS' RESPONSIBILITIES

The Directors' Report on page 23 to 25 embodies the principle that the preparation of the financial statements is the responsibility of the Board of Directors and not that of the Auditors. The financial statements are reviewed and approved by the Board prior to publication.

The Board of Directors is responsible for the strategic direction of the Company. Towards this, the management prepares an Annual Business Plan for the year along with rolling Financial Projections (budgets) for 10 years. The Annual Business Plan is carefully reviewed and once approved, management is responsible for implementing the Business Plan. The Board of Directors reviews progress at each Board Meeting. The Board also reviews the Business Plan on an on-going basis and makes necessary adjustments to the plan and the corresponding financial projections, as required. Based on the on-going review, management prepares a revised business plan at the middle of the financial year, if required. The Board reviews this mid-term revision and adjustments are approved as appropriate.

COMMITTEE STRUCTURES FOR THE BOARD

To help the Board focus attention on specific matters, it has, from time to time, appointed ad-hoc Sub-Committees of the Board to address specific urgent matters. As risk management is a key responsibility of the Board, it has an Audit Sub-Committee. The Board also has a Remuneration Sub-Committee, which addresses remuneration matters.

These Sub-Committees have well defined Terms of Reference. They meet regularly, and they make reports to the full Board as and when necessary. The Board and the Sub-Committees have obtained professional advice as needed in carrying out their respective functions.

The Audit Sub-Committee consists of independent Non-Executive Directors. It reviews the audited financial statements and makes its recommendations to the full Board for approval prior to publication and submission to the shareholders at the Annual General Meeting. The Audit Sub-Committee works closely with the External Auditors and the Internal Auditors in fulfilling its mandate on the review of internal controls. It reviews accounting policies and where necessary, recommends adjustments, to the Board. The Audit Sub-Committee works with the management to streamline processes in the Company.

The Remuneration Sub-Committee, consisting of the Chairman, CEO and two specified Non-Executive Directors, reviews proposals for adjustments to remuneration scales. It has also initiated various actions with a view to strengthening our human resource base.

BOARD MEETINGS AND SECRETARY TO THE BOARD

The Board of Directors meets at least once a month. At these monthly meetings the financial performance and progress is evaluated. During the year there were fourteen (14) Board Meetings. The Board Secretary, who has the necessary qualifications as required by law, records all decisions taken at these meetings.

SHAREHOLDER RELATIONS

The Company has over seven thousand nine hundred shareholders. While the Government of Sri Lanka and NTT are the largest shareholders, with a combined holding of over 96.7% of the Company's shares, the balance are owned by employees and others. Therefore, the Annual Report which includes the Chairman's Message, the CEO's Review and audited accounts is the main source of information for the shareholders, particularly for the minority shareholders.

The Annual General Meeting provides the forum for discussion of the business, its future prospects, and other matters of interest and concern of shareholders.

REPORT OF THE DIRECTORS

The Directors present herewith the audited financial statements for the year ended 31 December 2001.

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.

RESULTS

The results for the year and the Changes in Equity, are set out in the Income Statement on page 28 and in the Statement of Changes in Equity on pages 30 and 31 respectively.

REVIEW OF BUSINESS

The state of affairs of the Company at 31 December 2001 is set out in the Balance Sheet on page 29.

An assessment of the Company during the financial year is given in the CEO's Review.

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.

GROUP ACTIVITIES

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

The activities of the Group have not changed materially from the last financial year.

DIVIDENDS AND TRANSFERS TO RESERVES

The Directors recommend a dividend of Rs. 0.30 per share for the year ended 31 December 2001.

An amount of Rs. 888 million has been transferred and retained in the hedge reserve as a debit balance in accordance with the accounting policy for hedging.

RESERVES

Total reserves of the Group and its composition has been given in the Statement of Changes in Equity on pages 30 & 31 of the financial statements.

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:

	Holding Percentage	No. of Shares
Government of Sri Lanka	61.5%	1,109,988,900
NTT Communications Corporation	35.2%	635,076,318

DIRECTORS

The Directors of the Company at 31 December 2001 were:

Mr J C L De Mel - *Chairman*	Appointed on 24 December 1998
Mr K A P Goonatilleke	Appointed on 24 December 1998
Mr S Anan - *Chief Executive Officer*	Appointed on 5 June 1999 and as CEO on 21 July 2001
Mr Satoru Hashimoto	Appointed as Director on 29 October 1999 and resigned as CEO on 20 July 2001
Mr Norio Asami	Appointed on 20 December 1999
Mr H N Gunewardena	Appointed on 21 February 2000
Mr W H W Soysa	Appointed on 1 September 2000
Mr Kazuhiro Yaginuma	Appointed on 20 July 2001
Mr A R Ekanayake	Appointed on 24 September 2001
Mr R Fernando	Appointed on 24 September 2001

Mr R N Wijeratne and Mr D J Amarasinghe, Directors of the Company resigned office with effect from 24 August 2001 and 21 August 2001 respectively.

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 27 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 N Wijeratne, who was a Director of the Company held 20,543 shares in the Company during the year ended 31 December 2001.

None of the other Directors directly or indirectly held any shares in the Company during the year ended 31 December 2001.

DIRECTORS' INTERESTS IN DEBENTURES OF THE COMPANY

Mr R N Wijeratne who was a Director of the Company and Mr H N Gunawardena, a Director of the Company, held 2,000 and 5,000 debentures respectively of the Company issued during the year ended 31 December 2000.

None of the other Directors directly or indirectly held any debentures in the Company during the year ended 31 December 2001.

STATUTORY PAYMENTS

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

ENVIRONMENTAL PROTECTION

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

DONATIONS

During the year the Company contributed Rs. 389,000/- (2000 - Rs. 20,000/-) for charitable purposes. No amount of the above has been for government approved charities.

POST BALANCE SHEET EVENTS

No events have occurred since the Balance Sheet date, which would require adjustments to, or disclosure in, 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, will be proposed at the Annual General Meeting.

By Order of the Board

(Sgd.) **Ms. P.G. Dias**
Secretary

10 June 2002

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The responsibilities of the Directors, in relation to the financial statements of the Company differ from the responsibilities of the Auditors, which are set out in the Report of the Auditors on page 27.

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 Company as at the end of the financial year and of the results of its operations for the financial year.

Directors consider that, in preparing these financial statements set out on pages 28 to 54, 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 Company 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 Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company, 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 Company 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 Company 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

10 June 2002

REPORT OF THE AUDITORS

TO THE MEMBERS OF SRI LANKA TELECOM LIMITED FOR THE YEAR ENDED 31 DECEMBER 2001

We have audited the Balance Sheet of Sri Lanka Telecom Limited as at 31 December 2001, the Consolidated Balance Sheet of the Company and its Subsidiary 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 28 to 54.

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 2001, 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, 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 2001 and of the results of its operations and its cash flows 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 2001 and of the results of the operations and 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.

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 2001 except as stated in Note 27 to these financial statements.

PricewaterhouseCoopers
Chartered Accountants
Colombo

2 May 2002

Sri Lanka Telecom

INCOME STATEMENT

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2001	Notes	Group 2001	Group 2000	Company 2001	Company 2000
Revenue	1	**22,060**	19,605	**22,060**	19,605
Operating costs	2	**(8,877)**	(8,501)	**(8,877)**	(8,481)
Operating profit before depreciation		**13,183**	11,104	**13,183**	11,124
Depreciation	8	**(6,869)**	(6,120)	**(6,867)**	(6,119)
Operating profit		**6,314**	4,984	**6,316**	5,005
Non-operating income		**62**	64	**62**	64
Interest expense and related charges	4	**(3,585)**	(4,516)	**(3,585)**	(4,516)
Interest income		**777**	340	**777**	340
Share of result before tax of associate	9	**50**	42	**50**	42
Profit before tax		**3,618**	914	**3,620**	935
Tax	5	**(1,515)**	(693)	**(1,515)**	(693)
Net profit		**2,103**	221	**2,105**	242
Earnings per share (Rs.)	7	**1.17**	0.12	**1.17**	0.13

All the Group's activities are continuing activities.

The Accounting Policies on pages 33 to 37 and the Notes on pages 38 to 54 form an integral part of these financial statements.

BALANCE SHEET

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2001	Notes	Group 2001	Group 2000	Company 2001	Company 2000
ASSETS					
Non-current assets					
Property, plant & equipment	8	**59,093**	61,498	**59,090**	61,496
Investments	9	**1,151**	1,136	**1,176**	1,161
Non-current receivables	10	**932**	910	**932**	910
Deferred tax asset	15	**5,225**	6,740	**5,226**	6,741
		66,401	70,284	**66,424**	70,308
CURRENT ASSETS					
Inventories	11	**973**	1,233	**973**	1,233
Receivables and prepayments	12	**9,010**	7,343	**8,998**	7,342
Cash & cash equivalents	13	**3,826**	3,637	**3,817**	3,634
		13,809	12,213	**13,788**	12,209
Total assets		**80,210**	82,497	**80,212**	82,517
EQUITY AND LIABILITIES					
Capital and reserves					
Ordinary share capital	21	**18,049**	18,049	**18,049**	18,049
Capital reserve	22	**188**	188	**188**	188
Hedging reserve	23	**(888)**	–	**(888)**	–
Retained earnings		**19,608**	17,505	**19,612**	17,507
		36,957	35,742	**36,961**	35,744
Non-current liabilities					
Borrowings	14	**24,440**	28,389	**24,440**	28,389
Deferred income	16	**6,216**	5,900	**6,216**	5,900
Retirement benefit obligations	18	**330**	254	**329**	253
Provisions	19	**86**	78	**86**	78
		31,072	34,621	**31,071**	34,620
Current liabilities					
Trade and other payables	17	**4,387**	5,295	**4,386**	5,314
Borrowings	14	**7,131**	6,244	**7,131**	6,244
Deferred income	16	**663**	595	**663**	595
		12,181	12,134	**12,180**	12,153
Total equity and liabilities		**80,210**	82,497	**80,212**	82,517

These financial statements were approved by the Board of Directors on 25.4.2002 and were signed on its behalf by:

(Sgd.) **Thilanga Sumathipala**
Director

(Sgd.) **Shuhei Anan**
Director

The Accounting Policies on pages 33 to 37 and the Notes on pages 38 to 54 form an integral part of these financial statements.

Sri Lanka Telecom

STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2001	Notes	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
GROUP						
Year ended 31December 2000						
Balance at 1 January 2000						
- as previously reported		18,049	188	–	4,348	22,585
- prior year adjustment - 2000		–	–	–	(256)	(256)
- prior year adjustment	6	–	–	–	13,621	13,621
As restated		18,049	188	–	17,713	35,950
Dividend for 1999		–	–	–	(541)	(541)
Group consolidation adjustment		–	–	–	112	112
Net profit for the year 2000		–	–	–	221	221
Balance at 31 December 2000		**18,049**	**188**	**–**	**17,505**	**35,742**
Year ended 31 December 2001						
Balance at 1 January 2001						
- as previously reported		18,049	188	–	3,732	21,969
- prior year adjustment	6	–	–	–	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	23	–	–	(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**

The Accounting Policies on pages 33 to 37 and the Notes on pages 38 to 54 form an integral part of these financial statements.

(All amounts in Sri Lanka Rupees millions)

As at 31 December 2001	Notes	Share capital	Capital reserve	Hedging reserve	Retained earnings	Total
COMPANY						
Year ended 31 December 2000						
Balance at 1 January 2000						
- as previously reported		18,049	188	–	4,351	22,588
- prior year adjustment - 2000					(166)	(166)
- prior year adjustment	6	–	–	–	13,621	13,621
As restated		18,049	188	–	17,806	36,043
Dividend for 1999					(541)	(541)
Net profit for the year 2000		–	–	–	242	242
Balance at 31 December 2000		**18,049**	**188**	**–**	**17,507**	**35,744**
Year ended 31 December 2001						
Balance at 1 January 2001						
- as previously reported		18,049	188	–	3,846	22,083
- prior year adjustment	6	–	–	–	13,661	13,661
As restated		18,049	188	–	17,507	35,744
Cash flow hedges						
- foreign currency translation difference	23	–	–	(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**

The Accounting Policies on pages 33 to 37 and the Notes on pages 38 to 54 form an integral part of these financial statements.

Sri Lanka Telecom

CASH FLOW STATEMENT

(All amounts in Sri Lanka Rupees millions)

For the year ended 31 December 2001	Notes	Group **2001**	Group 2000	Company **2001**	Company 2000
Operating activities					
Cash generated from operations	24	**12,015**	12,617	**12,006**	12,635
Interest received		**767**	301	**767**	301
Interest paid		**(3,214)**	(3,352)	**(3,214)**	(3,352)
Net cash generated from operating activities		**9,568**	9,566	**9,559**	9,584
Investing activities					
Acquisition of property, plant & equipment	8	**(4,464)**	(8,672)	**(4,461)**	(8,691)
Disposal/(acquisition) of investments	9	**35**	(222)	**35**	(222)
Disposal of property, plant & equipment		**4**	–	**4**	–
Net cash used in investing activities		**(4,425)**	(8,894)	**(4,422)**	(8,913)
Financing activities					
Proceeds from long-term borrowings		**3,104**	6,135	**3,104**	6,135
Payment on long-term borrowings		**(7,541)**	(5,353)	**(7,541)**	(5,353)
Dividends paid		**(541)**	(216)	**(541)**	(216)
Proceed from issue of debentures		**–**	1,500	**–**	1,500
Net cash (used in)/from financing activities		**(4,978)**	2,066	**(4,978)**	2,066
Increase in cash & cash equivalents		**165**	2,738	**159**	2,737
Movement in cash & cash equivalents					
At start of year		**3,624**	886	**3,621**	884
Increase		**165**	2,738	**159**	2,737
At end of year	13	**3,789**	3,624	**3,780**	3,621

The Accounting Policies on pages 33 to 37 and the Notes on pages 38 to 54 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.

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. Where any item is not covered by Sri Lanka Accounting Standards (SLAS), International Accounting Standards (IAS) are followed.

2. GROUP ACCOUNTING

i) 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 Inter-Company 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 20.

ii) 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 09.

3. 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. Where such gains and losses arise on foreign currency loans incurred to acquire or construct qualifying assets as defined in SLAS 20 they are capitalised as part of such qualifying assets. All other gains and losses are recognised in the Income Statement to the extent that they are regarded as an adjustment to borrowing cost.

4. 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.

5. 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.

6. 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 costs, 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.

7. 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.

8. CASH & CASH EQUIVALENTS

Cash and cash equivalents are carried in the Balance Sheet at cost. For the prupose 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, cash book overdrawn balances are included in borrowings in current liabilities.

9. SHARE CAPITAL

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

10. 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.

11. 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.

12. 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.

13. DEFINED BENEFIT PLAN

SLTL as a matter of policy obtains 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 Note 18 to the financial statements.

The liability is not funded externally.

14. DEFINED CONTRIBUTION PLAN

All employees of SLTL 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.

15. 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.

16. 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:

i) 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 GST and NSL at the applicable rates but accounted for as a liability. Revenue is recognised net of such taxes based on the amounts billed.

ii) 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.

iii) Revenue from other Telephony Services

Revenue is recognised on an accrual basis based on the usage of these services.

iv) Connection Fees

These are initially recognised as deferred income and subsequently recognised as revenue by amortising over a period of 15 years.

v) Equipment Sales

Revenue on equipment sales is recognised, net of taxes, on completion of sales transaction.

vi) Interest Income

Interest income is derived from short-term investments of excess funds and is recognised on an accrual basis.

17. 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 year.

For the purpose of presentation of the Income Statement information nature of expense method is used.

18. 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 23 to the financial statements.

Financial Risk Management

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 US Dollars, Sterling Pounds and Japanese Yen.

The Company hedges 100% of anticipated loan repayments in each major currency for the following 5 years.

19. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with the prior year adjustment for the deferred tax asset arising on Investment Tax Allowance.

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

(In the Notes all amounts shown in Sri Lanka Rupees millions unless otherwise stated)

1. REVENUE

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

	Group		Company	
	2001	2000	**2001**	2000
Release of deferred connection charges (Note 16)	**665**	600	**665**	600
Rental income	**1,868**	1,594	**1,868**	1,594
Domestic call revenue	**9,221**	8,608	**9,221**	8,608
Receipts from other network operators - domestic	**201**	125	**201**	125
International call revenue	**1,995**	1,953	**1,995**	1,953
Receipts from other network operators - international	**869**	919	**869**	919
International settlements (in payments)	**6,493**	5,309	**6,493**	5,309
Telex, data transmission and other telephony services	**748**	497	**748**	497
	22,060	19,605	**22,060**	19,605

2. OPERATING COSTS

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

	Group		Company	
	2001	2000	**2001**	2000
Staff costs (Note 3)	**2,797**	2,522	**2,797**	2,522
Payments to international network operators	**2,163**	1,896	**2,163**	1,896
Payments to other network operators - international	**934**	374	**934**	374
Auditors' remuneration	**3**	3	**3**	3
Repairs and maintenance	**688**	824	**688**	824
Bad debt/Stock provisions	**507**	660	**507**	660
Net foreign exchange gains on operating activities	**(342)**	(230)	**(342)**	(230)
Payments to NTT Communications Corporation [Note (a)]	**557**	508	**557**	508

(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 27).

(b) The above expenses include Directors' emoluments for the year 2001 of Rs. 36 million (2000 - Rs. 48 million). This includes fees paid to NTT of Rs. 35 million (2000 - Rs. 47 million) for the secondment of expatriate personnel who are also Directors of SLTL.

3. STAFF COSTS

	Group		Company	
	2001	2000	**2001**	2000
Salaries, wages, allowances and benefits	**2,435**	2,247	**2,435**	2,247
Retiremet costs - defined contribution plans	**272**	245	**272**	245
- defined benefit plans (Note 18)	**90**	30	**90**	30
	2,797	2,522	**2,797**	2,522

4. FINANCE COSTS

	Group/Company	
	2001	2000
Interest expense and related charges		
Rupee loans (long-term)	**2,061**	1,524
Rupee loans (short-term)	**–**	85
Foreign currency loans	**1,489**	1,883
Debenture interest	**218**	167
Net foreign exchange transaction losses	**–**	1,477
Other charges [Note (a)]	**48**	80
Total interest payable	**3,816**	5,216
Interest capitalised	**(694)**	(700)
Total interest charged	**3,122**	4,516
Cash flow hedge		
- realised foreign exchange translation losses (Note 23)	**463**	–
	3,585	4,516

(a) Other charges for 2001 represents amortisation of the guarantee premium paid for the 150K project and other charges for 2000 includes debenture issue expenses and cost of enhancing loan facilities in addition to amortisation of guarantee premium.

5. TAX

The charge for taxation is made up as follows:

	Group/Company	
	2001	2000
Current tax	**–**	–
Deferred tax charge (Note 15)	**1,515**	693
	1,515	693

No income tax is payable for the year in view of tax losses available for carry forward. At 31 December 2001, tax losses available for carry forward amounted to approximately Rs. 16,000 million (2000 - Rs. 19,000 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:

	Group/Company	
	2001	2000
Profit before tax	**3,620**	935
Tax calculated at a tax rate of 35% (2000 - 35%)	**1,267**	327
Expenses not deductible	**273**	506
Income not subject to tax	**(25)**	(100)
Utilisation of previously unrecognised tax losses	**–**	(40)
Tax charge	**1,515**	693

6. PRIOR YEAR ADJUSTMENTS

Deferred tax asset arising on Investment Tax Allowances which has not been previously recognised in the financial statements have now 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 recognition of the deferred tax asset has been accounted for as a prior year adjustment as the Directors are of the view that this treatment will present a fairer picture of the results, the state of affairs and changes in equity for the year.

The impact of this adjustment is given below:

	Group/ Company
Increase in retained earnings at 1 January 2000	13,621
Increase in net profit for the year ended 31 December 2000	40
Increase in retained earnings at 1 January 2001 (Note 15)	13,661

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2001	2000	**2001**	2000
Net profit attributable to shareholders (Rs. million)	**2,103**	221	**2,105**	242
Weighted average number of ordinary shares in issue (million)	**1,805**	1,805	**1,805**	1,805
Basic earnings per share (Rs.)	**1.17**	0.12	**1.17**	0.13

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

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 2000							
Opening net book amount	1,481	30,963	7,809	6,737	1,026	10,211	58,227
Additions	37	3,344	1,405	1,703	265	2,639	9,393
Transfers from work-in-progress	82	2,455	744	779	144	(4,204)	–
Disposals	–	–	–	–	(2)	–	(2)
Depreciation charge	(27)	(4,204)	(864)	(728)	(297)	–	(6,120)
Closing net book amount	**1,573**	**32,558**	**9,094**	**8,491**	**1,136**	**8,646**	**61,498**
At 31 December 2000							
Cost	1,708	50,250	13,086	11,459	2,375	8,646	87,524
Accumulated depreciation	(135)	(17,692)	(3,992)	(2,968)	(1,239)	–	(26,026)
Net book amount	**1,573**	**32,558**	**9,094**	**8,491**	**1,136**	**8,646**	**61,498**
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	2,776	6,056	91,979
Accumulated depreciation	(163)	(22,293)	(4,987)	(3,856)	(1,587)	–	(32,886)
Net book amount	**1,642**	**32,496**	**9,536**	**8,174**	**1,189**	**6,056**	**59,093**

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 2000							
Opening net book amount	1,481	30,963	7,809	6,737	1,023	10,211	58,224
Additions	37	3,344	1,405	1,703	263	2,639	9,391
Transfers from work-in-progress	82	2,455	744	779	144	(4,204)	–
Depreciation charge	(27)	(4,204)	(864)	(728)	(296)	–	(6,119)
Closing net book amount	**1,573**	**32,558**	**9,094**	**8,491**	**1,134**	**8,646**	**61,496**
At 31 December 2000							
Cost	1,708	50,250	13,086	11,459	2,361	8,646	87,510
Accumulated depreciation	(135)	(17,692)	(3,992)	(2,968)	(1,227)	–	(26,014)
Net book amount	**1,573**	**32,558**	**9,094**	**8,491**	**1,134**	**8,646**	**61,496**
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**

(a) 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.

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	–	Nil
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 2001 is Rs. 4,338 million (2000 - Rs. 3,876 million).

(d) A fully depreciated motor vehicle, the cost of which amounted to Rs. 5 million, was disposed of during the year for Rs. 4 million.

(e) Borrowing costs capitalised during the year to 31 December 2001 were Rs. 694 million (2000 - Rs. 700 million).

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

(g) The value of property, plant & equipment includes capitalised borrowing costs. The cost and net book value of such borrowing costs are as follows:

	Group/Company	
	2001	2000
Cost	**4,784**	4,087
Accumulated depreciation	**(1,338)**	(1,053)
Net book value	**3,446**	3,034

(h) 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.

(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 19). The sinking fund investment of that amount is included under cash & cash equivalents [Note 13 (a)].

9. INVESTMENTS

	Group		Company	
	2001	2000	**2001**	2000
Investment in Subsidiary [Note (a)]	**–**	–	**25**	25
Investment in Associate Company [Note (b)]				
At 1 January	**391**	349	**391**	349
Share of result	**50**	42	**50**	42
At 31 December	**441**	391	**441**	391
Investment in others [Note (c)]				
At 1 January	**745**	523	**745**	523
(Disposals)/Additions	**(35)**	222	**(35)**	222
At 31 December	**710**	745	**710**	745
Aggregate value of investments at 31 December	**1,151**	1,136	**1,176**	1,161

(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 2001. 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), 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 22).

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.

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

10. NON-CURRENT RECEIVABLES

	Group		Company	
	2001	2000	**2001**	2000
Employee loans [Note (a)]	**665**	595	**665**	595
Deferred expenses (Prepaid Insurance Premium)	**267**	315	**267**	315
Amounts due after one year	**932**	910	**932**	910

(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 2003.

(b) As explained in Accounting Policy 10, 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.

11. INVENTORIES

Inventories consist of engineering stores and consumables, office equipment and hardware.

12. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2001	2000	**2001**	2000
Domestic trade receivables	**4,299**	4,464	**4,299**	4,464
Foreign trade receivables	**3,805**	2,117	**3,805**	2,117
Advances and prepayments	**686**	557	**674**	556
Employee loans	**172**	157	**172**	157
Deferred expenses	**48**	48	**48**	48
Amounts due within one year	**9,010**	7,343	**8,998**	7,342

13. CASH & CASH EQUIVALENTS

	Group		Company	
	2001	2000	**2001**	2000
Cash at bank and in hand	**509**	488	**500**	485
Restricted at bank [Note (a)]	**146**	700	**146**	700
Short-term deposits [Note (b)]	**3,171**	2,449	**3,171**	2,449
	3,826	3,637	**3,817**	3,634

(a) The restricted cash balances is a bank deposits in US dollars with Credit Agricole Indosuez under terms specified in the agreement for a loan from this entity, and bank deposits of Sri Lankan Rupees 96 million with the People's Bank which represent the sinking fund investment for the insurance reserve. The restrictions on the former is not long-term while the restrictions on the latter are self-imposed.

(b) 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	
	2001	2000	**2001**	2000
Cash & cash equivalents	**3,826**	3,637	**3,817**	3,634
Bank overdrafts (Note 14)	**(37)**	(13)	**(37)**	(13)
	3,789	3,624	**3,780**	3,621

14. BORROWINGS

	Group/Company	
	2001	2000
Current (due within one year)		
Bank overdrafts [Note (a)]	**37**	13
Government borrowings	**2,782**	2,301
Bank borrowings and others	**3,937**	3,930
Debentures	**375**	–
	7,131	6,244
Non-current (due after one year)		
Government borrowings	**13,327**	13,715
Debentures [Note (b)]	**1,125**	1,500
Bank borrowings and others	**9,988**	13,174
	24,440	28,389
Total borrowings	**31,571**	34,633

(a) Bank overdraft represents a cashbook overdrawn situation as at 31 December 2001.

(b) The redemption of debentures will be in 4 equal annual instalments commencing from 23 March 2002 which is two years from the initial date of allotment.

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

	Group/Company	
	2001	2000
Total borrowings		
- at fixed rates	**22,507**	24,523
- at floating rates	**9,027**	10,097
	31,534	34,620

The foreign exchange fluctuation exposure of the borrowings of the Company at the Balance Sheet date is as follows:

	Group/Company	
	2001	2000
Foreign currency	**12,150**	14,644
Local currency	**17,884**	18,476
	30,034	33,120

	Group/Company	
	2001	2000
Weighted average effective interest rates:		
- Bank overdrafts	**14.25%**	27.5%
- Domestic Bank borrowings	**17%**	15.22%
- Foreign Bank borrowings	**6.5%**	7.45%
- Government borrowings	**13%**	13%
- Debentures	**14.5%**	14.5%

Maturity of non-current borrowings:

	Group/Company	
	2001	2000
Between 1 and 2 years	**6,441**	5,773
Between 2 and 5 years	**11,584**	13,765
Over 5 years	**6,415**	8,851
	24,440	28,389

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 2001 is Rs. 14,627 million (2000 - Rs. 13,590 million). Exchange fluctuations on repayments of these loans are borne by the Government.

Among the above loans, 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 is borne by the Government of Sri Lanka. The interest rates were fixed at 13% per annum. The liability as at 31 December 2001 is Nil (2000 - Rs. 386 million).

SLTL bears the foreign exchange risk and the related costs on a loan re-lent by the Government (the loan not among the above loans), bearing interest at 10% per annum. The balance as at 31 December 2001 is Rs. 1,483 million (2000 - Rs. 2,426 million).

Certain Government re-lent loans amounting to Rs. 2,492 million (2000 - Rs. 3,312 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. 9,408 million (2000 - Rs. 10,354 million).

Total value of loans that have neither been guaranteed nor secured is Rs. 4,215 million (2000 - Rs. 6,311 million).

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.

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

15. DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2000 - 35%).

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

	Group		Company	
	2001	2000	**2001**	2000
At beginning of year				
- as previously reported	**6,921**	6,188	**6,920**	6,187
- prior year adjustment (Note 6)	**(13,661)**	(13,621)	**(13,661)**	(13,621)
As restated	**(6,740)**	(7,433)	**(6,741)**	(7,434)
Income Statement charge (Note 5)	**1,515**	693	**1,515**	693
At end of year	**(5,225)**	(6,740)	**(5,226)**	(6,741)
The following amount is shown in the Balance Sheet:				
Deferred tax asset	**(19,419)**	(20,506)	**(19,419)**	(20,506)
Deferred tax liability	**14,194**	13,766	**14,193**	13,765
	(5,225)	(6,740)	**(5,226)**	(6,741)

16. 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 16.

	Group/Company	
	2001	2000
Balance at 1 January	**6,495**	5,930
Connection fees for the year	**1,049**	1,165
Amount amortised during the year	**(665)**	(600)
Balance at 31 December	**6,879**	6,495
Amortisations fall due as follows:		
Within one year	**663**	595
After one year	**6,216**	5,900
	6,879	6,495

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	**2001**	2000
Amounts due within one year				
Domestic trade payables	**810**	616	**810**	616
For capital expenditure	**384**	1,483	**384**	1,504
Taxation	**71**	232	**71**	232
Social security	**70**	48	**70**	48
Interest payable	**1,014**	1,105	**1,014**	1,105
Other creditors [Note (a)]	**2,038**	1,811	**2,037**	1,809
	4,387	5,295	**4,386**	5,314

(a) Other creditors include Rs. 808 million (2000 - Rs. 361 million) payable to NTT on account of salaries and expenditure of seconded experts and management fees (refer Note 27).

18. RETIREMENT BENEFIT OBLIGATIONS

Movement in the liability recognised in the Balance Sheet:

	Group		Company	
	2001	2000	**2001**	2000
At beginning of year	**254**	235	**253**	234
Current service cost (Note 3)	**90**	30	**90**	30
Contributions paid	**(14)**	(11)	**(14)**	(11)
At the end of year	**330**	254	**329**	253

As stated in Accounting Policy 13 an actual valuation was carried out by an independent professional valuer in respect of all employees of SLTL as at 31 December 2001.

The principal actuarial assumptions used were as follows:

	Company	
	2001	2000
Discount rate	**11%**	11%
Future salary increases	**9%**	9%
Future pension increases	**3.2%**	3%

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

19. PROVISION

Provisions comprised wholly of a provision made for an insurance reserve, balance of which amounted to Rs. 86 million as at 31 December 2001 (2000 - Rs. 76 million).

20. 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, are prepared to 30 June each year.

21. ORDINARY SHARES

	Group/Company	
	2001	2000
Authorised		
10,000,000,000 (2000 - 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:

	Holding Percentage	**2001 No. of Shares**	2000 No.of Shares
Government of Sri Lanka (GOSL)	61.5%	**1,109,988,900**	1,109,988,900
NTT Communications Corporation	35.2%	**635,076,318**	635,076,318
Employees and others	3.3%	**59,794,782**	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.

22. 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).

23. HEDGING RESERVE

	Group/ Company
Balance at 1 January 2001	–
Effect of adopting IAS 39	(1,351)
	(1,351)
Cash flow hedges	
Charged to income (Note 4)	463
Balance at 31 December 2001	**(888)**

24. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2001	2000	**2001**	2000
Profit before tax	**3,618**	914	**3,620**	935
Adjustments for:				
Depreciation (Note 8)	**6,869**	6,120	**6,867**	6,119
Amortisation of deferred costs	**48**	48	**48**	48
Net exchange loss on financing activities	**463**	1,477	**463**	1,477
Interest expense and related charges	**3,074**	2,991	**3,074**	2,991
Interest income	**(777)**	(340)	**(777)**	(340)
Connection fees less amortisation (Note 16)	**384**	565	**384**	565
Share of result before tax of associates (Note 9)	**(50)**	(42)	**(50)**	(42)
Profit on sale of property, plant & equipment	**(4)**	–	**(4)**	–
Provision for insurance reserve	**8**	(7)	**8**	(9)
Retirement benefits (Note 18)	**76**	19	**76**	19
	13,709	11,745	**13,709**	11,763
Changes in working capital				
- trade and other receivables	**(1,678)**	903	**(1,667)**	901
- inventories	**260**	253	**260**	253
- payables	**(276)**	(284)	**(296)**	(282)
Cash generated from operations	**12,015**	12,617	**12,006**	12,635

25. CAPITAL COMMITMENTS

Capital expenditure contracted for at the Balance Sheet date but not recognised in the financial statements amounts to Rs. 792 million (2000 - Rs. 8,940 million).

26. CONTINGENCIES

An internet service provider still continues with the action filed against the Company claiming damages on account of defamation arising out of an advertisement placed by the Company. Such damages claimed amounts to Rs. 1,500 million.

Based on the advice of legal experts, the Directors are confident that this case can be successfully defended, and that it will not result in any material loss to SLTL.

27. 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 common Directorships or his 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 J L C De Mel	Reckitt Benckiser Lanka Limited	Director
	John Keells Holdings Limited	Director
	Delmege Forsyth Limited	Director
	Mobitel (Private) Limited	Director
	People's Bank	Director
	CDC Capital Partners Plc (UK)	Director
	Sri Lanka Telecom (Services) Limited	Director
	Demchi (Private) Limited	Director
	Board of Investment (period between April to December)	Chairman
Mr H N Gunewardena	Aitken Spence & Company Limited	Director
Mr Shuhei Anan	Mobitel (Private) Limited	Director
Mr R N Wijeratne	Rodev Lanka (Private) Limited	Director
	Imperial Institute of Higher Education (Private) Limited	Director
Mr S Hashimoto	Mobitel (Private) Limited *(resigned in July)*	Director
	Sri Lanka Telecom (Services) Limited *(Resigned in July)*	Director
Mr N Asami	Mobitel (Private) Limited *(resigned in October)*	Director
	Sri Lanka Telecom (Services) Limited *(resigned in October)*	Director

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

Mobitel (Private) Limited

Payments amounting to Rs. 3.5 million (2000 - Rs. 4 million) have been made during the year on call charges relating to celluar phones purchased for SLTL employees. Further, cellular phones amounting to Rs. 1 million (2000 - Rs. 1.2 million) was purchased from Mobitel (Private) Limited 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:

	2001	2000
Remuneration for experts seconded to SLTL	**123**	140
Expenditure for experts seconded to SLTL	**55**	77
Management fees to NTT	**379**	291
	557	508

Sri Lanka Insurance Corporation Limited

Insurance premium amounting to Rs. 11.18 million (2000 - Rs. 11.78 million) have been paid on account of insuring cash in transit and motor vehicles during the year.

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

28. 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 (SLTSL) is a related party of SLTL where SLTL 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 SLTL where SLTL has the ability to exercise significant influence. Relevant transactions between the two companies are disclosed in Note 27 to the financial statements.

Other related party transactions should be read in conjunction with Note 27 to the financial statements.

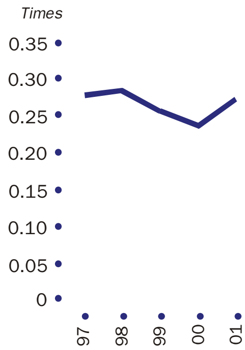
29. POST BALANCE SHEET EVENTS

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

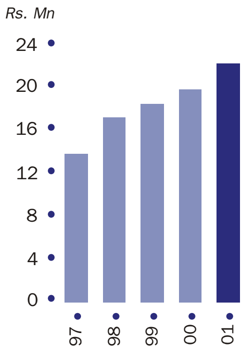
FIVE YEAR PROGRESS

	2001 Rs. Mn	2000 Rs. Mn	1999 Rs. Mn	1998 Rs. Mn	1997 Rs. Mn
Financial Position					
Property, Plant & Equipment	**59,093**	61,498	58,136	47,044	37,796
Total Assets	**80,210**	82,497	70,797	59,768	48,933
Current Assets	**13,809**	12,213	10,906	11,138	9,763
Current Liabilities	**12,181**	12,134	10,920	9,743	6,203
Borrowings	**31,571**	34,633	31,116	22,270	17,304
Equity	**36,957**	35,742	22,329	21,767	20,536
Performance					
Revenue	**22,060**	19,605	18,281	17,082	13,685
Operating Profit	**6,314**	4,984	5,061	5,011	4,381
Finance Cost	**3,585**	4,516	3,313	1,899	1,248
Earnings before Tax	**3,618**	914	2,325	3,461	3,253
Taxation	**1,515**	693	1,056	1,260	863
Earnings after Tax	**2,103**	221	1,269	2,201	2,390
Cash Flow					
Net Operating Cash Flows	**9,568**	9,566	8,461	8,317	8,206
Net Cash used in Investing Activities	**4,425**	8,894	15,285	13,371	6,616
Net Cash used in/(from) Financing Activities	**4,978**	(2,066)	(8,140)	(4,255)	1,019
Key Financial Indicators					
Earnings per Share (Rs.)	**1.17**	0.12	0.70	1.22	1.32
Return on Assets (%)	**7.9**	6.0	7.1	8.4	9.0
Return on Equity (%)	**5.7**	0.6	5.7	10.1	11.6
Operating Margin (%)	**28.6**	25.4	27.7	29.3	32.0
Asset Turnover (No. of times)	**0.28**	0.24	0.26	0.29	0.28
Current Ratio (No. of times C.L.)	**1.13**	1.01	1.00	1.14	1.57
Quick Asset Ratio (No. of times C.L.)	**1.05**	0.90	0.86	1.01	1.48
Gearing Ratio (Debt to Rs. 1/- of Equity)	**0.85**	0.97	1.39	1.02	0.84
Interest Cover (No. of times Interest)	**1.76**	1.10	1.53	2.64	3.51

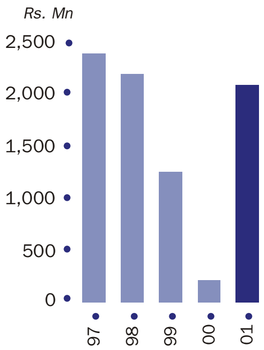
Asset Turnover



Revenue



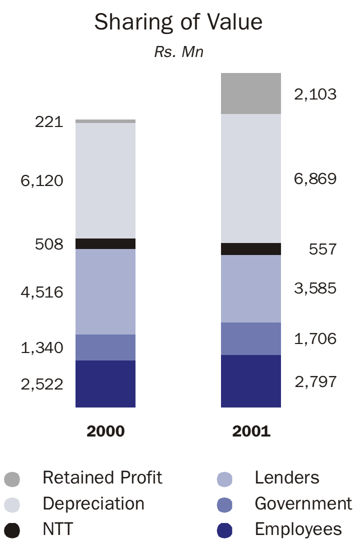
Earnings after Tax



Sri Lanka Telecom

VALUE ADDITION

	2001 Rs. Mn	2000 Rs. Mn	Increase/ Decrease %
Revenue	**22,060**	19,605	13
Profit share of Associate Company	**50**	42	
Other income	**839**	404	108
	22,949	20,051	
Goods and services purchased from other sources	**(5,332)**	(4,824)	11
Value creation	**17,617**	15,227	16
SHARING OF VALUE			
With employees (in the form of remuneration and welfare)	**2,797**	2,522	11
With the government (in the form of direct taxes & regulatory fees)	**1,706**	1,340	27
With lenders (in the form of interest & related charges)	**3,585**	4,516	(21)
With shareholders (in the form of dividends)	**–**	–	
With Management Company NTT (in the form of management fees and remuneration)	**557**	508	10
Retained within the business			
- Depreciation	**6,869**	6,120	12
- Retained Profit	**2,103**	221	852
	17,617	15,227	16



STOCK EXCHANGE LISTING

The issue of 1,500,000 unsecured redeemable 5-year debentures (2000/2005) of Rs. 1,000/- each are listed in the Colombo Stock Exchange.

DEBENTURES

	2001	2000
Gearing Ratio (Debt to Rs. 1/- of Equity	0.85	0.97
Interest Cover (No. of times)	1.76	1.10
Quick Asset Ratio (No. of times current liabilities)	1.05	0.90

EX-INTEREST MARKET PRICE OF DEBENTURES

	2001 Annual Debentures	2001 Quarterly Debentures
- Highest	925	925
- Lowest	825	825
- Last Traded Price	925	925

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

	Annual	Quarterly
Interest yield on last traded price (Annual Effective Rate)	15%	15%
Yield to maturity on last traded price	25%	24%

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of Sri Lanka Telecom Limited, will be held at the BMICH Committee Room "D", Bauddhaloka Mawatha, Colombo 7 on Friday, 19 July 2002 beginning at 3.00 p.m. for the following purposes:

- To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 December 2001 with the Report of the Auditors thereon.

- To declare a dividend as recommended by the Directors.

- To re-appoint M/s. PricewaterhouseCoopers, Chartered Accountants, as Auditors of the Company and authorise the Board of Directors to determine their remuneration.

- To authorise the Directors to determine and make donations.

- To transact such other business as may properly come before the meeting.

By Order of the Board

(Ms. P.G. Dias)
Secretary

7 June 2002
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.

FORM OF PROXY

Sri Lanka Telecom

I/We .... 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
Wellege Ruwan Harsha Fernando	of Colombo or failing him
Ajit Ravindra Ekanayake	of Colombo or failing him
Namasivayam Pathmanathan	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 19 July 2002 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 2001 with the Report of the Auditors thereon.		
(ii)	To declare a dividend as recommended by the Directors.		
(iii)	To re-appoint Messrs. PricewaterhouseCoopers as Auditors and authorise the Board of Directors to determine their remuneration.		
(iv)	To authorise the Directors to determine and make donations.		

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

....

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.

It is hereby certified that the stamp duty payable in respect of this instrument, i.e. cents 50 will be compounded and remitted in terms of Section 13 of the Stamp Duty Act, No. 43 of 1982 upon return and due registration.

Sri Lanka Telecom

Form of Proxy

Please provide the following details:

Employee Service No. : ....

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 2.00 p.m. on Wednesday, 17 July 2002.

Name of Company

Sri Lanka Telecom Limited

Legal Form

A Public Listed Company with Limited Liability Incorporated in Sri Lanka in 1996.
Listed status has been conferred following a quotation of the Company's Debentures in the Colombo Stock Exchange

Registered Office

Telecom Headquarters
Lotus Road
Colombo 1

Directors

Thilanga Sumathipala - Chairman
Shuhei Anan - Chief Executive Officer
Ananda Goonatilleke
H.N. Gunewardena
Kazuhiro Yaginuma
Ruwan Fernando
Ajit Ekanayake
N. Pathmanathan
Setsuya Kimura
Kiyoshi Maeda

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 Grindlays
Citibank N.A.
Hongkong & Shanghai Bank
Sampath Bank

Legal Advisors

D.L. & F. De Saram
Attorneys-at-Law

Subsidiary Company

Sri Lanka Telecom (Services) Limited

Associate Company

Mobitel (Pvt) 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

Produced by: Smart Media Printed by: Printel