Risk Factors

Before investing in the Shares offered hereby, prospective purchasers should carefully consider all the information contained in this Offering Memorandum, including the risks set forth below.

Risks relating to Sri Lanka

There is significant political uncertainty in Sri Lanka

Sri Lanka has from time to time experienced social tensions and civil unrest. Tensions involving certain groups associated with the Tamil ethnic minority have resulted in outbreaks of violence and military actions over the past 19 years, particularly in the north and east regions of Sri Lanka. Since 1983, the principal Tamil separatist group, the Liberation Tigers of Tamil Eelam ("**LTTE**") has committed terrorist acts in Sri Lanka with the objective of establishing a separate Tamil homeland. The terrorist acts have resulted in both military and civilian casualties, the destruction of property and the assassination of several leading political figures, including the assassination, in 1993 of the President of Sri Lanka, and the assassination attempt in 1999 of the current President of Sri Lanka. In the past several years, the LTTE has been involved in several bomb attacks which have resulted in numerous civilian casualties. The LTTE attacked Sri Lanka's principal airport serving the capital city of Colombo, resulting in casualties and the destruction of several commercial aircrafts in July 2001.

On 22 February 2002, the Government and the LTTE signed a Norwegian-facilitated cease-fire agreement. A Norwegian-led team is monitoring the agreement and Norway has been given absolute authority to interpret any agreements. On 4 September 2002, the Government ban on the LTTE was lifted. On 16 September 2002, the first of four rounds of formal peace negotiations between the Government and the LTTE was held in Thailand. These initial discussions resulted in both parties affirming their intentions to expand on confidence-building measures, and to address a range of issues pertaining to a political settlement to the conflict. The second round of formal peace negotiations was held on 31 October 2002, during which chief negotiators of the Government and the LTTE agreed to maintain direct contacts during the month-long intervals between formal talks. The parties have agreed to establish three committees, which will focus on returning displaced persons to their place of origin. They also agreed to establish a Joint Task Force for Humanitarian and Reconstruction Activities, which will be responsible for urgent humanitarian and reconstruction work in the north and east of the country. However, there can be no assurance that the current ceasefire will continue, that peace efforts will prove successful or that the hostilities will not resume.

As an essential service provider, the Company is vulnerable to acts of terrorism. In the two years ended 31 December 2001, the cost incurred by the Company in relation to damage from armed conflict with the LTTE was non-material. If the conflict resumes, the Company could suffer greater damages and such damage could have a material adverse effect on the Company's operations. See "- Risks relating to the Company - The Company is not insured with respect to damage to property and certain other risks".

Civil disturbances have seriously affected telecommunications services in the northern and eastern regions. Consequently, many communications projects in these regions and other parts of the country have been cancelled or postponed. The Company's plans for the expansion of its service in the northern and eastern regions could be cancelled or suspended if civil disturbances in such regions were to resume.

If there is further or intensified political instability in Sri Lanka, this could have a material adverse impact on business and economic conditions in Sri Lanka in general, and the business, financial condition, results of operations or prospects of the Company.

The Government exercises significant influence on the Sri Lankan economy

The Government exercises significant influence on the Sri Lankan economy. Prior to 1997, the Government had imposed restrictions on foreign ownership of Sri Lankan property, mandated a 100% tax on the purchase of shares of Sri Lankan companies by foreigners, and nationalised and requisitioned various industries, including tea and rubber plantations and other agricultural and industrial enterprises.

Since the ruling United National Party assumed power in 1977, the Government has undertaken a broad economic liberalisation programme. Economic reforms have included the relaxation of restrictions on foreign ownership of most Sri Lankan companies, the elimination of the 100% foreign share purchase tax, and the lifting of several foreign exchange controls. All investments overseas remain subject to such controls. Pursuant to a programme initiated in 1989, the Government has privatised the ownership and management of a number of state-owned enterprises, such as the National Development Bank, several hotel companies and the management of plantation companies. In 1994, the People's Alliance, a coalition of political parties in which the Sri Lanka Freedom Party is the dominant force, was elected to power. The Sri Lanka Freedom Party publicly endorsed free market politics and continued the previous Government's programme of privatisation, leading to the privatisation of the Company, the national gas utility and the national airline and the sale of tea and rubber plantations. A coalition led by the United National Party was elected to power in December 2001 and has stated its intention to continue the Government's economic liberalisation programme.

The Government's 2003 budget, which was released in early November 2003, continues policies for the rationalisation of taxation (both direct and indirect) and a further liberalisation of state-dominated sectors of the economy. However, there is a threat that resistance from opposition political parties and trade unions to socially sensitive reforms such as labour reforms, privatisation of state-owned utilities and civil service reform could dilute or delay the reform process. Such groups have recently staged mass protests against such liberalisation and reform initiatives in Colombo.

The 2003 budget also proposed the imposition of VAT on gross interconnection payments, international as well as domestic. Budget proposals are not effective unless and until actually implemented into law through the parliamentary process. The Company has received assurance from the Secretary to the Treasury of the Government that such budget proposal pertains to payments made by licensed gateway operators operating in Sri Lanka to domestic operators in Sri Lanka for termination of international calls on the domestic operators network and does not pertain to payments made by international operators to licensed international gateway operators operating in Sri Lanka. If VAT were to be applied to international in-payments (to which it does not currently apply), this would have a material adverse effect on the financial condition of the Company.

The 2003 budget also proposed the imposition on telecommunication operators of an undetermined levy on telephone number blocks. The impact of such proposed levy on the Company is presently unknown.

The Government's economic policies have had and are expected to continue to have a significant effect on private-sector entities, including the Company, and on market conditions and prices of Sri Lankan securities, including the Shares.

Although the current Government has continued Sri Lanka's economic liberalisation policies, there can be no assurance that these policies would be continued in the future. If there is a significant change in Sri Lanka's liberalisation and deregulation policies, this could adversely affect business and economic conditions in Sri Lanka in general, the industry in which the Company operates and the business, financial condition, results of operations and prospects of the Company.

Sri Lanka has experienced in the past and may experience in the future high rates of inflation

Sri Lanka has in the past experienced high rates of inflation. The inflation rate as measured by the annual average Colombo Consumers Price Index ("**CCPI**") was 21.5% in 1990. There was a gradual decline in following years, from 15.9% in 1996 to 4.7% in 1999. Since 2000, the rate of inflation increased again, to 14.1% in 2001. The Government has recently relaxed its monetary policy and currently allows the market to set prices, with a view to more stable and lower interest rates.

Inflation in Sri Lanka is also dependent on exchange rates, the price of oil and other non-consumer goods, Government borrowing and seasonal effects on domestic prices, among other factors. Principal factors for the increased rate of inflation in 2001 were international price increases in consumer and non-consumer goods, the depreciation of the Rupee, the imposition of a temporary 40% import surcharge in early 2001 and domestic shortages of goods.

Although the Government has implemented programmes to curb inflation, there can be no assurance that domestic inflation will not increase from its current level. If inflation in Sri Lanka were to increase significantly, the business, financial condition, results of operations and prospects of the Company could be adversely affected.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely affect the Sri Lankan economy and the Company

Financial turmoil in Asia and elsewhere in the world in recent years has affected different sectors of the Sri Lankan economy in varying degrees. Although economic conditions are different in each country, investors' reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Sri Lanka. A loss of investor confidence in the financial systems of other emerging markets may cause increased volatility in Sri Lankan financial markets and, indirectly, in the Sri Lankan economy in general. Any worldwide financial instability could influence the Sri Lankan economy and could have a material adverse effect on the market for securities of Sri Lankan companies, including the Shares, and on the market for the Company's services.

Sri Lanka has wide-ranging labour laws

Sri Lankan companies are subject to wide-ranging labour laws regulating retrenchment, termination benefits, workman's compensation, pensions, wages and hours of work, among others. If there occur changes in laws, regulations or governmental policies affecting the Company's ability to deal with its work force, this could adversely affect the business, financial condition, results of operations and prospects of the Company.

Risks Relating to the Company

The Company is subject to significant Government regulation

The Company's telecommunications business is subject to governmental regulation regarding licensing, competition, and costs and arrangements pertaining to interconnection and tariffs. Changes in laws, regulations or governmental policy affecting the business activities of the Company could adversely affect its financial condition and results of operations. Decisions by regulators, including the amendment or revocation of the Company's telecommunications licence, could also adversely effect the financial condition and results of operations of the Company.

The telecommunications regulatory environment in Sri Lanka is undergoing significant change. The Company's monopoly status for international calls and fixed wireline calls ended in August 2002. The Government has announced its intention to significantly restructure the current regulatory framework and has published draft policy statements for comment. Proposed changes include the further liberalisation of the industry and the grant of additional fixed wireline and international voice telephony licences. However, formal policy decisions have not yet been announced. See "Regulation". Delays in the publication or implementation of such new framework and policies could create uncertainty in formulating the Company's business plan and make it difficult to expand the Company's business as anticipated. In addition, policy determinations unfavourable to the Company could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The initial term of the Company's licence expires on 8 August 2011. Neither the Telecommunications Act nor the Company's license provide for the renewal of the licence. Accordingly, the Company may be required to comply with the new licence issuance requirements provided by the Telecommunications Act at the expiration of the Company's licence. If the Company fails to renew its licence on its existing terms or to obtain a new licence on terms favourable to the Company, this would have material adverse consequences for the Company's business, financial condition, results of operations and prospects.

As the dominant fixed line operator, all tariffs for the Company's services (including non-basic telephony such as internet and value-added services) are subject to approval by the TRC. Other operators are not subject to any restriction in the setting of their tariffs other than notice thereof to the TRC. Certain tariffs (such as call charges for low usage subscribers and domestic rental charges) for the Company's domestic basic telephony services have historically been set at levels below profitability. If these tariffs are maintained at these levels, the Company may not be able to maintain profitability in the provision of its other services to offset their adverse effect on the Company's financial condition and results of operations.

The Company is exposed to increasing competition

The market for telecommunications service in Sri Lanka is competitive. The Company's status as sole licensed provider of fixed wireline and international voice services may end at any time. The Government has announced its intention to significantly restructure the current regulatory framework and has published draft policy statements for comment, with proposed changes including the further liberalisation of the industry and the grant of additional fixed wireline and international voice telephony licences. Increasing competition in the Sri Lankan telecommunications industry has had, and is expected to continue to have, a significant impact on the Company's financial condition and results of operations. Service providers compete for customers in a number of different areas including geographic coverage, the services and features offered, the technical quality of the system, customer service and price. In addition, the telecommunications industry in Sri Lanka is experiencing technological changes, evolving industry standards, liberalisation and changes in customers' preferences. Competition in the telecommunications industry in Sri Lanka may increase as a result of industry consolidation, the entry of new competitors and foreign investment in existing competitors, and the development of new technologies, products and services.

Increased competition from existing and new operators has resulted in, and is expected to continue to result in, greater price competition in the telecommunications market, with operators lowering tariffs, providing subsidies and offering more attractive product and service packages, resulting in a loss of customers, lower average revenue per user, slower growth in total subscribers and increased subscriber acquisition cost. As at 30 June 2002, the Company accounted for approximately 86.7% of fixed line subscribers and approximately 45.9% of total fixed line and mobile subscribers in Sri Lanka. There can be no assurance that the level of existing and future competition will not adversely effect the results of operations and financial condition of the Company.

Revenues from international gateway services have been adversely affected by competition from a number of data operators who are licensed to provide various data transmission services. Since December 1998, these data operators have supplied international voice telecommunications services by receiving and sending international calls through their data transmission networks, thereby bypassing the Company's network. The Company believes that these activities violated its monopoly on international voice traffic (which expired in August 2002) and the Company instituted legal proceedings seeking cessation of these activities in 1998. The Company concurrently entered into negotiations with Suntel and Lanka Bell, the two WLL operators whose networks the data operators used to terminate their international traffic. These negotiations resulted in the Company, Suntel and Lanka Bell entering into the WLL Commercial Arrangement in September 2001 with respect to the transmission of their incoming international voice traffic through the Company's network. The WLL Commercial Arrangement has had the effect of significantly increasing international voice traffic and revenues for the Company. However, with the expected further liberalisation of the international voice, fixed wireline and mobile market, the benefit to the Company of the WLL Commercial Arrangement could be significantly diminished or eliminated. There can be no assurance that further liberalisation and increasing competition will not have a material adverse effect on the results of operation and financial condition of the Company.

The Company's existing operations and planned investments require significant capital investment and existing borrowings and covenants may limit its operating and financing activities

The Company's telecommunications operations are capital intensive in nature. In order to continue to be competitive and provide services and technology compatible with that of other telecommunications providers, the Company must continue to expand and improve its network, which involves significant ongoing capital investment. The Company expects to require substantial financing to broaden the existing range of telecommunications services, develop new services and upgrade its network using new technologies. The Company has invested approximately Rs 52,354 million over the five year period ended 31 December 2001 to expand and improve its network and supporting systems infrastructure.The Company has funded such capital investments primarily from loan financing and cash flows from operations.

The Company plans to incur significant capital expenditure to further enhance its network. Capital expenditure was Rs 4,464 million in 2001 and the Company anticipates that capital expenditure (excluding any capital expenditure related to Mobitel) will be approximately Rs 3,600 million in 2002 and Rs 7,400 million in 2003. The Company plans capital expenditures of U.S.$ 70 million over the next two years on Mobitel's progressive GSM network roll out. Phase I of the roll out is expected to be completed by mid 2003. The Company intends to fund its future planned capital investments primarily through cash deposits, cash flows from operations and debt. However, adequate financing for the expansion and improvement of its network and for planned telecommunications-related investments may not be available to the Company on commercially acceptable terms, or at all. If adequate financing is not available, the Company's business prospects will be adversely affected.

As at 30 June 2002, the Company had borrowings (consisting of long term and current portion of long term debt) of Rs 28,532 million. Any deterioration in the Company's financial performance may increase the future cost of borrowing for the Company and the burden on the Company with respect to interest and the repayment of existing or future borrowings. There can be no assurance that the financial condition of the Company will not be adversely affected in the event of such adverse changes.

In addition, certain of the Company's credit facilities contain covenants which may limit the Company's operating and financing activities. See "Description of Material Indebtedness". Events of default under such credit facilities would give rise to a right by the lender to terminate the relevant facility and may cause cross default on other credit facilities, which would have a material adverse effect on the Company.

If the Company is unable to install and maintain telecommunications facilities and equipment in a timely manner, the Company may not be able to successfully compete with its principal competitors, which may have negative implications for its revenue and profitability

The Company's business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment. The Company anticipates installing additional equipment to expand the capacity and improve the quality of its network. The Company's ability to continue to maintain or increase its customer base is dependent in part on its ability to expand and upgrade its network on a timely basis. The continued expansion and upgrading of its network, and the maintenance of its facilities and equipment are subject to numerous risks and uncertainties, including:

- shortage of equipment, materials and labour;
- work stoppages and labour disputes;
- interruption resulting from natural disasters, acts of terrorism and acts of war;
- unforeseen engineering, environmental and geological problems;
- unanticipated cost increases;
- the ability to procure sufficient financing; and
- general economic and political conditions in Sri Lanka.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent the Company from properly maintaining the equipment used in the Company's networks, and could have a material adverse effect on its results of operations and financial condition.

The telecommunications industry is subject to rapid technological changes

The telecommunications industry is subject to rapid and significant changes in technology. The Company faces competition from entities providing other communications technologies and may face competition in the future both from the introduction of existing rival telecommunications technologies into Sri Lanka and the development of new telecommunications technologies. The impact of these technologies and services on the Company's network cannot be predicted and may result in the technologies and services employed by the Company becoming obsolete or subject to increased competition. Such developments could have a material adverse effect on the financial condition and results of operations of the Company.

Currency fluctuations may have an adverse effect on the Company's results of operations

The Company generated approximately 71% of its revenues for the year 2001 in Sri Lankan Rupees. The Company expects a significant portion of its debt to continue to be denominated in currencies other than the Sri Lankan Rupee. In addition, all of the Company's network equipment purchases are denominated in currencies other than the Sri Lankan Rupee. As at 30 June 2002, the Company had total borrowings (consisting of long term and current portion of long term debt) of Rs 28,532 million of which Rs 11,262 million was denominated in currencies other than the Sri Lankan Rupee. Therefore, the Company will encounter currency risk relating to its obligations and expenditures denominated in currencies other than the Sri Lankan Rupee. Any further material devaluation of the Rupee against foreign currencies could limit its ability to make further network equipment purchases and its ability to contract additional or service its existing and future foreign currency denominated debt obligations, and could adversely affect its business, financial condition, results of operation and prospects of the Company.

NTT Com has ceased to provide certain resources that the Company has relied on

The Company has derived substantial benefits from the support of NTT Com and its parent NTT, in the areas of network operations and general management. Under the NTT Services Agreement, NTT and NTT Com (as NTT's assignee) have provided the Company with operational plans and technical know-how as well as technical assistance services, including assistance through the secondment of employees of NTT and NTT Com to fill key management and technical positions. The NTT Services Agreement expired by its terms on 4 August 2002. However, pursuant to the Shareholders' Agreement, NTT Com (as NTT's assignee) has appointed and currently maintains four members of the Company's Board of Directors and has designated the Company's Chief Executive Officer. Pursuant to the NTT Secondment Agreement, the Chief Executive Officer and the Chief Financial Officer of the Company have been seconded by NTT Com to the Company for a period expiring at the end of 2004 and at the end of 2003, respectively. The Company believes that its development in the past five years with the assistance of NTT and NTT Com, together with the continuing supervision and guidance provided by NTT Com pursuant to the Shareholders' Agreement and the executive personnel services under the NTT Secondment Agreement will be sufficient to execute its strategic objectives. However, if such supervision, guidance and executive personnel services were to be withdrawn or terminated, this could have a material adverse effect on the Company's business, financial condition and results of operations.

Disputes with the Company's labour unions may disrupt its operations and prevent the rationalisation of its operations

Almost all of the Company's executive and non-executive employees are unionised and 32 labour organisations are currently accredited with respect to the Company. The Company believes that its relations with its employees are good and the Company has not suffered any material disruption of its operations due to labour action for the last five years. However, there can be no assurance that the Company will not experience labour unrest and strikes in the future.

In addition, there is a threat that resistance from opposition political parties and trade unions to socially sensitive reforms such as labour reforms, privatisation of state-owned utilities and civil service reform could dilute or delay the reform process. Such groups have recently staged mass protests against such liberalisation and reform initiatives in Colombo. If any such protests were to be held against the Company, this could have a material adverse effect on the business, financial condition and results of operations of the Company.

The Company's ability to compete effectively will depend on the availability of a skilled workforce

As telecommunications industries become increasingly competitive and liberalised, both in Sri Lanka and elsewhere, the Company's success will depend to a significant extent upon, among other factors, its ability to attract and retain qualified personnel. The competition for qualified employees is significant and the loss of the services of key personnel or the inability to attract new qualified personnel or retain existing personnel could have a material adverse effect on the business of the Company.

The ownership rights of the Company in respect of certain of its properties are uncertain

The legal conveyance of land and buildings transferred to the Company in connection with its conversion from a state-owned corporation to a company in 1996 was deficient in certain respects. While the Company believes it has freehold title to such land and buildings, the legal instrument creating the Company which stated that all the assets of the Company's predecessor would devolve on the Company failed to specify the demarcations and extents of the relevant land and buildings. A significant number of these properties are essential to the Company's operations. The Company is involved in nine disputes with third parties in respect of such properties, one of which has been resolved in favour of the Company. The Company is currently in discussions with the Government for the resolution of this matter. However, if the Company cannot establish its title to such properties, this could have a material adverse effect on the business, results of operations and financial condition of Company.

The Company may not have licensing rights to the software in use on its desktop computers

The Company may not have licensing rights to the third party software programmes in use on the Company's desktop computers, as desktop computers are generally sold in Sri Lanka with pre-installed software and no evidence of right to use such software having been granted by the third party license owner. The Company is currently seeking to acquire licensing rights to such programmes and has contacted a number of third party license owners for that purpose. The cost of obtaining such rights is estimated by the Company to be up to approximately Rs 20 million, however the amount of any payments that may be required for prior unauthorised use of such programmes is unknown. There can be no assurance that the Company will be able to acquire such licensing rights at an affordable cost. High acquisition costs could have an adverse effect on the results of operations and financial condition of the Company or could be so prohibitive as to prevent the Company from acquiring such rights. Failure by the Company to acquire such licensing rights could lead to legal action by third party license owners in respect of the Company's use of such software, which could have an adverse effect on the Company's business, results of operations and financial condition.

The Company is not insured with respect to damage to property and certain other risks

The Company does not carry insurance other than in respect of its vehicles and cash in transit. However, the Company maintains an insurance reserve which had a balance of Rs 86 million as at 30 June 2002. If there is any material damage to property or liability for third party injury or any other material uninsured loss or liability, to the extent such loss is not fully covered by the Company's insurance reserve, this could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company.

Risks Relating to the Shares

The Government and NTT Com have the power to determine shareholder resolutions requiring a majority vote

The Government and NTT Com currently own 61.5% and 35.2%, respectively, of the Company's Ordinary Shares and are expected to own 49.5% (46.5% if the Over-Subscription Option is exercised in full) and 35.2%, respectively, after the Offering. After the Offering, the Government and NTT Com will continue to be able to determine the approval of corporate matters that require a majority shareholder vote, including the election of directors and the declaration of dividends. As a result, the ability of other shareholders to influence the Company may be limited.

Possible sales by the Government or NTT Com of Ordinary Shares could affect the trading price of the Ordinary Shares

The Government and NTT Com currently own 61.5% and 35.2%, respectively, of the Company's Ordinary Shares and are expected to own 49.5% (46.5% if the Over-Subscription Option is exercised in full) and 35.2%, respectively, after the Offering. There are no restrictions on the ability of the Government or NTT Com to sell their Ordinary Shares. If the Government or NTT Com in the future sell or are perceived as intending to sell additional Ordinary Shares, this could adversely affect the trading price of the Ordinary Shares.

Like other companies in the telecommunications industry, the Company's share price may be volatile

The price of the Ordinary Shares may fluctuate as a result of variations in its operating results. If the trading volume of the Ordinary Shares is low, the price fluctuations may be exacerbated. Since the Company's prospects are intricately linked with technology and the Company and its business are to a great extent driven by technology, the price of the Ordinary Shares may rise and fall in tandem with announcement of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors. The price of the Ordinary Shares, as are typical of those of companies in telecommunications sectors, is also sensitive to news regarding the gain or loss of significant customers or key personnel, as well as changes in securities analysts' estimates of the Company's financial results or other recommendations.

There is a limited market for the Ordinary Shares

The Ordinary Shares will be listed and traded on the Colombo Stock Exchange, Sri Lanka's only stock exchange. The Colombo Stock Exchange is substantially smaller and less liquid than the securities markets in the United States, European Union countries and certain other countries. As at 30 October 2002, the market capitalisation of the CSE was approximately Rs 166 billion and daily average turnover for the period from January 2002 to September 2002 was approximately Rs 141 million. It is expected that the Ordinary Shares will represent approximately 16% of the total market capitalisation of the Colombo Stock Exchange immediately following the listing of the Ordinary Shares. The market prices of listed securities on the Colombo Stock Exchange have in the past fluctuated substantially. These and other market characteristics have in the past affected, and may in the future affect, the market price and liquidity of the Ordinary Shares.

Regulation

Overview

Sri Lanka's regulatory regime is governed by the Sri Lanka Telecommunications Act No. 25 of 1991 (the "**1991 Act**"). Prior to the enactment of the 1991 Act, the Department of Telecommunications was the sole operator of telecommunications services in Sri Lanka, providing both domestic and international voice telephony, and there was no independent regulator of the telecommunications sector. Pursuant to the 1991 Act, the Department of Telecommunications was converted into a corporation under the name of Sri Lanka Telecom. The 1991 Act also provided for the creation of a telecommunications authority (the "**Authority**") to regulate the telecommunications sector, headed by a Director General, and for the issue of a licence to SLT for both domestic and international services.

The 1991 Act was amended in 1996 by the Sri Lanka Telecommunications (Amendment) Act No. 27 of 1996 (the **"1996 Act"**), whereby the Authority was converted into the Telecommunications Regulatory Commission of Sri Lanka (the **"TRC"**) with the Director-General as its chief executive.

Regulatory Framework in Sri Lanka

Telecommunications Law

The 1991 Act, as amended by the 1996 Act (the "**Telecommunications Act**"), is the principal legislation governing the telecommunications sector in Sri Lanka. The Telecommunications Act provides for the establishment of the TRC, describes its composition and delineates its powers and obligations. It also contains procedures for granting and refusing the grant of a licence to provide telecommunications services or to operate telecommunications networks, and basic regulation in relation to radio frequency management. It contains provisions describing the rights of operators to have access to public and private property for the purpose of installing or maintaining services, and sets out mechanisms for corrective action to be taken in the event of breach by an operator of licence terms or other failure to comply with legal requirements.

The Regulator and the Minister

Under the Telecommunications Act, the Minister of Mass Communication (the "**Minister**") appoints the Chairman (who is the Secretary to the Minister), the Director-General (who is the Chief Executive Officer of the TRC) and three other members of the TRC. They are assisted by staff appointed by the TRC, reporting through three directorates, namely Technical, Economic Affairs and Legal Affairs. The present Director-General is Themiya L. B. Hurulle.

The TRC's main responsibilities include: making recommendations to the Minister in respect of the granting, refusal and revocation of licences and other authorisations for the operation of telecommunications systems; issuing licences and other authorisations for the dealing in telecommunications apparatus, the use of radio frequency or radio frequency emitting apparatus and the performance of cabling work; managing the use of radio frequency spectrum; making rules under the Telecommunications Act, subject to the Minister's approval; determining, in consultation with the Minister, tariff and tariff policies in respect of telecommunications services; to approve interconnection charges; to ensure compliance by telecommunications operators with statutory obligations and licence conditions; and to approve telecommunications apparatus.

The TRC has the power to issue rules (subject to ministerial approval) to specify detailed requirements to ensure compliance with the provisions of the Telecommunications Act and to issue directives to ensure that the provision of telecommunications services conforms to the standards relating to quality of service imposed under the Telecommunications Act. Where a licensee is in breach of the conditions of its licence, the TRC has the power to make an order to such licensee for the purpose of ensuring compliance with the relevant conditions of its licence. The Minister has the power to issue directions to the TRC.

Proposed changes to the National Telecommunications Policy and amendments to the Act

The Government, through the TRC, is currently reviewing the National Telecommunications Policy (the "**NTP**") and the Telecommunications Act. However, the conclusions of the TRC's review and the substance and schedule of implementation of any consequent amendments to the NTP and/or the Telecommunications Act have not been announced yet. The most notable features of the policy changes which have been proposed include full liberalisation of the telecommunications sector, that there be no distinction between the technologies to provide a service (i.e. whether fixed wireline, WLL or mobile) and anticipation of convergence through emphasis on information and communication technology ("**ICT**").

In addition, the Roadmap for ICT development in Sri Lanka is being prepared by the Ministry of Economic Reform, Science and Technology and is considered to be the basis for a national ICT policy, if implemented, it would also affect the regulation of the telecommunications sector. However, considering the emphasis given to ICT in the NTP, a certain level of confusion has arisen in the telecommunications sector regarding the role of these two seemingly overlapping proposed policy statements.

Having as its main objectives information infrastructure development and making available affordable and effective choices of communication to the country, the revision of the NTP is expected to bring about many substantial changes in the telecommunications sector. The TRC is to be renamed Communications Regulatory Commission to reflect its convergent mandate which will include media and information technology. The new Commission is proposed to have greater independence and authority to regulate ICT sectors, which would in turn result in improved transparency and public participation in the procedures of the new Commission.

A universal access policy would be established to promote access to ICT in rural areas and for all citizens, with obligations for licensed operators to contribute to universal access development. Where individual licences are offered which require access to scarce resources, such licences would have more comprehensive rights and obligations attached to them, such as:

- requirements related to the effective and efficient use of scarce resources such as radio frequencies and rights-of-way;
- universal service obligations;
- obligations related to interconnection of networks and interoperability of services;
- obligations to provide leased lines;
- obligations to maintain network integrity, interoperability of services, data protection, and avoidance of harmful interference;

- obligations to provide certain information to the regulator for regulatory and statistical purposes;
- measures to prevent anti-competitive behaviour;
- obligations related to consumer protection (such as billing, disputes settlement, change of access, tariffs, and other conditions);
- obligations to provide customer data base information for a universal directory;
- requirements to provide emergency services; and
- special arrangements for disabled persons.

See "Risk Factors - Risks relating to the Company - The Company is subject to significant Government regulation".

Licensing

In order to operate a telecommunications system, a licence must be obtained from the Minister, who will issue it on the TRC's recommendation (though the Minister is empowered to reject such recommendations and to grant a licence at his own discretion). Applications must be made in writing to the TRC. The TRC may, if it deems it to be in the public interest, give public notice of its intention to recommend to the Minister a grant of a licence, and it shall consider any representations or objections made thereto.

In order to sell the use of such telecommunications system to a third party, to trade, manufacture, or deal in or with telecommunications apparatus, to use radio frequency or radio frequency emitting apparatus, and to carry out cabling work, a licence or other authorisation must be obtained from the TRC.

Under the Telecommunications Act, the TRC may recommend to the Minister the modification of any condition of a licence, and SLT's licence may be revoked by the Minister, whether or not upon the TRC's recommendation. See "SLT's Licence - Termination" below.

Interconnection

The Company's licence does contain an interconnection obligation (see "SLT's Licence - Obligations"). Under the Telecommunications Act, the terms under which interconnection is provided are a matter for commercial agreement between the parties, subject to approval of the related interconnection charges by the TRC. In the event the parties are unable to agree on the interconnection terms, the TRC has the power to determine such charges, upon request by one or both the parties. The Company's interconnection rates were originally determined by the TRC, as the Company and the other operators failed to agree on terms.

The Company has recently entered into negotiations with the other fixed line operators to revise interconnection rates and has agreed in principle with Suntel in September 2002 on rates with respect to domestic interconnection and the Company's collection rate for international calls connected and is negotiating a similar agreement with Lanka Bell. The Company is also renegotiating interconnection rates with the mobile operators. However, the proposed change from the "mobile party pays" system to the "calling party pays" system may have an adverse effect on the Company's ability to agree on interconnection rates favourable to the Company.

See "Risk Factors - Risks relating to the Company - The Company is subject to significant Government regulation".

Universal Service Obligation

Neither the Telecommunications Act nor the Company's licence contain a universal service obligation. The Shareholders' Agreement provides that the Government shall not impose universal service obligations on the Company.

SLT's Licence

Services

The Company was issued a 20-year licence on 8 August 1991, to continue to provide all services previously provided by the Department of Telecommunications including both domestic and international telephony. At the time it had the monopoly on international telephony service. At the time of privatisation in 1997, the Company's licence was amended by the separation of its domestic and international components, and its international voice telephony monopoly were stipulated to end on 5 August 2002. The Company's monopoly on the provision of basic fixed wireline telephone service in Sri Lanka was stipulated to end on 5 August 2002.

The Company's licence currently authorises it to provide domestic and international telephony services; national and international public telegraph and telex services; data transmission and facsimile services; maritime mobile services; international television transmission; international photo telegram services; voice-cast transmission; IBS services; INMARSAT services; national and international leased circuits; and fixed WLL telephony on the 800 Mhz band.

The Company is also authorised to connect to telecommunications certain eligible systems outside Sri Lanka, and to employ new technologies not foreseen in the licence, subject to the TRC's approval.

Obligations

The Company is required to provide any subscriber international connection services, and to provide two-way telecommunications services (both voice and data) for maritime and aeronautical services.

The Company is required to provide interconnection to its network to other authorised telecommunications system providers, on terms as agreed between the parties. However, should they not agree, either party may request the TRC's determination (see "Regulatory Framework in Sri Lanka - Interconnection" above).

The Company must publish the terms and conditions (including charges) on which it offers telecommunications services, provides interconnection and maintenance, and brings into service any apparatus or system connected to its system. It is also required to submit to the TRC upon request updated information in respect of its systems, as well as its quarterly accounts.

Term

The initial term of the Company's licence expires on 8 August 2011. Neither the Telecommunications Act nor the Company's license provide for the renewal of the licence. Accordingly, the Company may be required to comply with the new licence issuance requirements provided by the Telecommunications Act at the expiration of the Company's licence. See "Risk Factors - Risks relating to the Company - The Company is subject to significant Government regulation".

Licence Fee

The Company is required to pay the TRC an annual licence fee equal to (i) 1% of the value of all additions to capital investment made by the Company during its preceding financial year, and (ii) 0.3% of its annual turnover. Payment must be made in arrears by 31 January of each year. The TRC may impose a penalty for failure to pay, and the Minister may revoke the licence if sums due remain unpaid for 14 days after an overdue notice is received (see "- Termination" below).

Assignment

The Company may, with the prior approval of the TRC, delegate the operation and performance of its licenced system or any part thereof to an associate, being a subsidiary of the Company, another body corporate in which the Company has an interest of more than 30% in such body's issued ordinary share capital, a holding company of the Company or a company controlling the Company, in each case whose identity has been approved by the TRC. Performance by any such associate of the Company of any action to be performed by the Company under its licence will be regarded as performance of such action by the Company.

Tariffs

Pursuant to the Original Shareholders' Agreement, the Company is subject to a five step tariff re-balancing mechanism with respect to its telephony tariffs and originally scheduled to be completed by 5 August 2002. However, only four of the five steps have been implemented to date and the Company expects that completion of tariff re-balancing will be delayed until early 2003. The Minister was to ensure that the Company was entitled to adjust its tariffs based on the tariff re-balancing formula stipulated in the Original Shareholders' Agreement. Thereafter, such adjustments must conform to price ceilings linked to the rate of inflation less 2% prescribed in the licence. See "Risk Factors - Risks relating to the Company - The Company is subject to significant Government regulation".

Termination

The Company's licence may be terminated by agreement with the Minister, or unilaterally by the Minister (upon the TRC's recommendation or otherwise) if the Company fails to pay sums due within 14 days of receipt of an overdue notice (which shall not be given earlier than 16 days after the original due date, i.e. 31 January). See "- Licence Fee" above.

The Company's licence will also be revoked if: it fails to comply with an order of the TRC under the Telecommunications Act, where such failure remains unrectified within three months of the TRC's notification of such failure; it fails to comply with any rule or regulation in force under the Telecommunications Act; or it commits a material breach of the licence which is not remedied within 30 days of the TRC's notice to that effect.

International Regulation

International Telecommunication Union

Sri Lanka is a member of the International Telecommunication Union (the "**ITU**"). The ITU comprises three sectors: the Radiocommunication Sector, the Telecommunication Standardisation Sector and the Telecommunication Development Sector. The ITU Telecommunication Standardisation Sector reviews technical, operating, tariff and accounting matters and makes recommendations on such matters with a view to standardising telecommunications worldwide.

World Trade Organisation

In February 1997, at the conclusion of the Negotiations on Basic Telecommunications, 69 World Trade Organisation ("**WTO**") member countries (the "**Signatories**") agreed to open their markets to competition in basic telecommunications services from dates specified with respect to each Signatory. Since then the number of Signatories has increased by 10 to a total of 79. This agreement, which the Signatories were required to ratify by 30 November 1997, and which came into effect on 5 February 1998, requires that the signatories allow foreign telecommunications service providers to offer their services in the Signatories' countries, as well as to purchase shares in telecommunications companies operating in that country, in accordance with specific commitments to be implemented within the agreed timetable.

Sri Lanka became a member of the WTO on 1 January 1995, and is a signatory of the General Agreement on Trade in Services. Pursuant to Negotiations on Basic Telecommunications, Sri Lanka committed, among other things, to guarantee a monopoly for the Company in relation to international basic voice telecommunication services until 31 December 1999 and thereafter to issue an additional licence, depending primarily on satisfactory progress having been made with respect to tariff re-balancing. However, as the re-balancing was not completed by 1999, the Government extended the time to complete the re-balancing up to 5 August 2002, thereby extending the international voice telecommunications monopoly of the Company. Sri Lanka also committed to providing access to other telecommunications services such as mobile services, pay phones, radio paging and data communication services (including ISPs). Sri Lanka has also accepted WTO regulatory principles relating to competitive safeguards to prevent anti-competitive and discriminatory measures by major service providers and network operators.

Sri Lanka has also accepted the Regulatory Reference Paper. Although, currently, the degrees of implementation of the various WTO regulatory principles differ, Sri Lanka's telecommunications policy and regulatory regime comply substantially with the Regulatory Reference Paper.

Sri Lanka's commitment to the Reference Paper in the context of telecommunications services is tabled in GATS/SC/79 dated 11 April 1997 and covers the following:

- *Prevention of Anti-Competitive Practices in Telecommunications:* Maintenance of appropriate measures to prevent major suppliers from engaging in anti-competitive practices including, cross-subsidisation, using information obtained from competitors with anti-competitive results and not providing technical information about essential facilities and commercially relevant information necessary to provide services, on a timely basis.

- *Interconnection to be Ensured:*
  - Interconnection with a major supplier to be ensured at any technically feasible point in the network under non-discriminatory terms, conditions, rates and quality.
  - Timely interconnection on terms, conditions and cost oriented rates that are transparent, reasonable, economically feasible and sufficiently unbundled.
  - Upon request interconnection at points in addition to the network termination points offered to the majority of users subject to charges reflecting cost of such additional facilities.
  - Public availability of procedures for interconnection negotiations.
  - Transparency of interconnection arrangements.
  - Interconnection dispute settlement via independent domestic body.

- *Universal Service Obligation:* Member to have the right to define the kind of universal service obligation it wishes to maintain. Such obligations not to be regarded as anti competitive per se provided they are administered in a transparent, non discriminatory and competitively neutral manner.

- *Public Availability of Licensing Criteria:* Extending to reasons for a denial to be made known to the rejected Applicant upon request.

- *Independent Regulator:* Regulatory body to be separate from and not accountable to supplier of basic telecommunications services. The decisions and procedures used by regulators to be impartial with regard to all market participants.

- *Allocation and use of Scarce Resources:* Inclusive of frequencies, numbers and rights of way to be carried out in an objective, timely, transparent and non-discriminatory manner.

Competition

Sri Lanka Telecom

Fixed Line Services

The Company is currently the only operator licensed to provide domestic fixed wireline and international voice telephony in Sri Lanka. The Company's monopoly status for fixed wireline and international voice telephony ended in August 2002. The Government has announced its intention to significantly restructure the current regulatory framework and has published draft policy statements for comment. Proposed changes include the further liberalisation of the industry and the grant of additional fixed wireline and international voice telephony licences. However, formal policy decisions have not yet been announced. See "Regulation". The Company competes directly with Suntel and Lanka Bell, two companies that have been granted licenses to provide fixed line telephony in Sri Lanka using WLL technology. Suntel is a joint venture between Telia of Sweden, Metropolitan Group of Sri Lanka and other investors. Lanka Bell is majority owned by Transmarco of Singapore.

As at 30 June 2002, the Company accounted for approximately 86.7% of fixed line subscribers in Sri Lanka. The remainder of the fixed line market is shared between WLL operators Suntel and Lanka Bell, together accounting for approximately 7.0% of the total fixed line and mobile market as at 30 June 2002.

The Company's dominant market position is primarily attributable to its geographic coverage and brand name. The Company believes that the WLL operators' subscriber growth has been primarily attributable to customers opting for a more readily available wireless connection, lower tariffs and an intensive marketing campaign conducted by the WLL operators at the commencement of their service. However, by increasing the number of total subscribers, the expansion of the WLL operators has had a certain positive impact on the Company's traffic and revenues. The Company's strategy to maintain and expand its corporate customer base includes targeting customers who migrated to the WLL operators. See "Risk Factors - Risks relating to the Company - The Company is subject to significant Government regulation" and "- The Company is exposed to increasing competition".

Mobile Services

The Company also competes indirectly with four mobile telecommunications providers, namely Celltel, Dialog GSM, Hutchison Telecom and Mobitel, together accounting for approximately 47.1% of the total fixed line and mobile market as at 30 June 2002. Market share data for the mobile market is not publicly available.

In 1996, the Company acquired a 40% interest in Mobitel, and in October 2002 the Company acquired the remaining 60% interest it did not previously own from Telstra for U.S.$9.5 million. Mobitel is one of four mobile telecommunications service providers in Sri Lanka. As at 30 June 2002, Mobitel had approximately 112,000 subscribers and, based on information published by the TRC, had approximately 14.8% of total mobile subscribers. With the acquisition of Mobitel, the Company becomes the only integrated operator in Sri Lanka able to offer fixed line, data and mobile services to its retail and corporate customers. Mobitel intends to transfer its subscriber base from its existing AMPS and DAMPS networks onto an entirely new GSM network island wide. Phase I of the GSM network rollout, which will cover the Greater Colombo Area, is expected to be completed by mid 2003.

Due to the low penetration levels of fixed line telephony and relatively long waiting lists, mobile telecommunications providers represent a substitute for fixed line telecommunications services. Dialog GSM, which is owned by Telekom Malaysia, is considered to be the largest mobile telecommunication service provider. It has since inception operated a digital GSM network. Celltel, another mobile operator which is a subsidiary of Millicom International, has substantially completed the first phase of the roll-out of its GSM network. Hutchison Telecom uses a softswitch which emulates GSM service but does not allow roaming.

Mobitel's key competitive advantage is the ability to access the Company's transmission network and thus offer a wider geographical coverage. Mobitel is expected to complete Phase I of its GSM network rollout in mid 2003 and the remainder by 2005. The GSM network is rolled out to improve quality of service and support and promote subscriber growth. See "Risk Factors - Risk relating to the Company - The Company's existing operations and planned investments require significant capital investment and existing borrowings and covenants may limit its operating and financing activities" and "- If the Company is unable to install and maintain telecommunications facilities and equipment in a timely manner, the Company may not be able to successfully compete with its principal competitors, which may have negative implications for its revenue and profitability".

Mobile telecommunications providers compete with the Company on the basis of low access cost, relatively low tariffs compared to the convenience of mobile telephony, as well as on the basis of value added services such as SMS and GPRS. Their pre-paid card service is also popular.

In addition, the mobile telecommunications providers have made a proposal to the TRC to replace the current "mobile party pays" system with a "calling party pays" system. Currently mobile telecommunications providers pay the Company to have calls terminated on such provider's fixed line network, and this cost is passed on by the mobile providers to their subscribers. Fixed and wireline telecommunications providers do not pay to terminate calls on a mobile network. Under a "calling party pays" system, both mobile providers and fixed line providers will pay to have their calls terminate on the other party's network. This is expected to decrease the cost of mobile service and increase the cost of fixed line service. The Government has announced its intention to adopt the "calling party pays" system, which will likely lead to increased competition from mobile telecommunications operators. See "Risk Factors - Risks relating to the Company - The Company is subject to significant Government regulation" and " - The Company is exposed to increasing competition".

Board of Directors

The Board of Directors of the Company is responsible for the establishment of policy guidelines for the Company's management. The Board of Directors of the Company has delegated operational management of the Company to the Chief Executive Officer, who is also a Director nominated by NTT Com pursuant to the Shareholders' Agreement. The Articles of Association of the Company provide that the Board of Directors shall consist of a minimum of three and a maximum of ten Directors. Pursuant to the Shareholders' Agreement up to six of such Directors are nominated by the Government and up to four are nominated by NTT Com. The Shareholders' Agreement further provides that the number of Directors who may be nominated by each of the Government and NTT Com is subject to adjustment to reflect the relative shareholding of each party.

The Board of Directors is responsible for formulating policy and business strategy of the Company. The day to day management of the Company is the responsibility of the Chief Executive Officer.

Directors

The following table shows information regarding the Directors of the Company and the entities who nominated them, as the case may be:

Name	Age	Title
Thilanga Sumathipala(1)	38	Director and Chairman of the Board
Shuhei Anan(2)	51	Director and Chief Executive Officer
Ananda Goonatilleke(1)	59	Director
Kazuhiro Yaginuma(2)	50	Director
Kiyoshi Maeda(2)	46	Director
Setsuya Kimura(2)	45	Director
Norman Gunewardena(1)	70	Director
Namasivayam Pathmanathan(1)	60	Director
Ajit Ekanayake(1)	47	Director
Ruwan Fernando(1)	40	Director

(1) Appointed by the Government.

(2) Appointed by NTT Com.

The Directors of the Company appointed by the Government have their business address at the registered office of the Company. Mr Anan has his business address at the registered office of the Company, Messrs Yaginuma and Maeda have their business address at 1-1-6 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-8019, Japan and Mr Kimura has his business address at Kowa Nishi-shinbashi Bldg. - B, 14-1 Nishi-shinbashi, 2-chome Minato-ku, Tokyo 105-0003, Japan.

Set forth below is certain biographical information concerning the Directors of the Company.

Thilanga Sumathipala

Director and Chairman of the Board

Mr Sumathipala holds a diploma in Photolithography and Graphic Reproduction from the London College of Printing. He is an entrepreneur and a businessman who jointly leads a variety of companies that are engaged in diverse businesses ranging from hotels, garments, entertainment, leisure and communications to trading, sports and cinema. Mr Sumathipala is a partner of Sumathi Trading Company and a Director of Sumathi Book Printing (Pvt.) Ltd. He is also a director of SLTSL and Mobitel.

Shuhei Anan

Director and Chief Executive Officer

Mr Anan holds a Master of Science degree from the Waseda University of Japan. He held a number of senior managerial positions at NTT Com and was the Assistant Vice President in charge of Operations & Maintenance at Thai Telephone & Telecommunications Company. Mr Anan is also a director of SLTSL and Mobitel.

Ananda Goonatilleke

Director

Mr Goonatilleke holds a Bachelor of Arts degree from the University of Ceylon and is also an Attorney-at-Law. A former director of Associated Newspapers of Ceylon Limited and of the Sri Lanka Broadcasting Corporation, he was the Deputy Chairman of Common Amenities Board.

Kazuhiro Yaginuma

Director

Mr Yaginuma holds a Bachelor of Arts degree in Economics from the Touhoku University. Having joined NTT Com in 1975, he has held several managerial positions at NTT Com and is also a Vice President of the Strategic Planning Division, Corporate Planning Department of NTT Com.

Kiyoshi Maeda

Director

Mr Maeda holds a Bachelor of Arts degree in Economics from the Waseda University of Japan and obtained a Master's degree from the J.L. Kellogg Graduate School of Management of Northwestern University in 1986. From 1979 to 1999 he was employed at Long–Term Credit Bank of Japan Ltd, where he held various managerial positions, his most recent position being Joint General Manager of the International Finance Division. Having joined NTT Com in 1999, he is presently the Director of the Strategic Planning Division, Corporate Planning Department of NTT Com.

Setsuya Kimura

Director

Mr Kimura holds a Bachelor of Science degree in Civil Engineering from the Hokkaido University of Japan. He has experience in management of project evaluation in a number of Asian countries. Until 4 August 2002, his role within the Company was to oversee the marketing and IP operations of the Company.

Norman Gunewardene

Director

Mr Gunewardena had training at the Royal Naval College of Dartmouth in the United Kingdom and also at the Indian Midshipman's Training establishment in Bombay. He is a former Chairman of Aitken Spence and Company Limited, a Sri Lankan listed company and was also a Member of the Telecommunications Regulatory Commission. Mr Gunewardena is also the Chairman of Nordel (Pvt.) Ltd.

Namasivayam Pathmanathan

Director

Mr Pathmanathan holds a Bachelor of Arts degree from the University of Ceylon and a Master of Business Administration degree from the University of Sri Jayawardenepura, Sri Lanka. He has been in public service for over 35 years and is currently the Deputy Secretary to the Treasury. Mr Pathmanathan's other principal directorships are of the Ceylon Petroleum Corporation, Galadari Hotel Ltd. and the Sri Lanka Export Development Board. He is also a Council Member of the Eastern University of Sri Lanka.

Ajit Ekanayake

Director

Mr Ekanayake holds a Bachelor of Science degree from the University of Colombo and postgraduate diplomas in Industrial Engineering from the National Institute of Business Management, Colombo and in Management Systems from the University of Waikato, New Zealand. He has over 20 years of experience in public sector institutions in the implementation and utilisation of information and communication technology to upgrade the organisational decision making process. He is also the Director and Chief Executive Officer of the Council for Information Technology and is a director of the National Institute of Library and Information Science.

Ruwan Fernando

Director

Mr Fernando holds a Master of Business Administration degree from the Post Graduate Institute of Management of the University of Sri Jayawardenepura, Sri Lanka. He is a Fellow Member of the Chartered Institute of Management Accountants of the United Kingdom and of the Institute of Chartered Accountants of Sri Lanka. He is an associate member of the Institute of Data Processing Management of Sri Lanka. He is a partner of Messrs. Ernst & Young, Chartered Accountants. He is a director of Central Industries Ltd., Harischandra Mills Ltd., Ernst & Young Investment Consultants (Pvt.) Ltd, Management Systems Ltd., MSL Audits (Pvt.) Ltd., Secretarial Services Ltd., MSL Galle (Pvt) Ltd. and Business Intelligence Ltd.

No Director of the Company is or was involved in any of the following events:

- a petition under any bankruptcy laws filed against him or any partnership in which he was a partner or any corporation of which he was an executive officer;
- convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification; or
- the subject of any order, judgement or ruling of any court of competent jurisdiction temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.

Interests of Directors

None of the Directors have any service contracts with the Company as at the date of this Offering Memorandum.

No Director of the Company owns (directly or indirectly) any shares in the Company as at the date of this Offering Memorandum.

Other than as described in Note 26 of the audited financial statements of the Company as and for the six months ended 30 June 2002, no Director of the Company had any interest in any asset acquired, disposed or leased by the Company during the past two years and in any assets proposed to be acquired, disposed or leased by the Company during the two years succeeding this Offering. Other than as described in the foregoing Notes, no Director of the Company is materially interested in any contract or arrangement with the Company.

Audit Committee

The Audit Committee comprises of four non-executive members of the Board of Directors and the Chief Internal Auditor attends all Audit Committee meetings by invitation. The current members of the Audit Committee are Messrs Maeda, Ekanayake, Pathmanathan and Fernando. The Audit Committee meets regularly and its purpose is to oversee the internal audit policy of the Company. Decisions taken by the Audit Committee are then recommended to the Board of Directors for their approval or amendment.

Remuneration Committee

The Remuneration Committee comprises of two members of the Board of Directors, being the Chairman and the Chief Executive Officer. The current members of the Remuneration Committee are Mr Sumathipala and Mr Anan. Its purpose is to oversee the remuneration policy of the Company for non-executive Directors as well as remuneration policy and incentive schemes for the Company's senior management. Decisions taken by the Remuneration Committee are then recommended to the Board of Directors for approval or amendment.

Directors' Compensation

For the year ended 31 December 2001 the aggregate compensation of the Directors of the Company for performing the functions of their office was Rs 36 million, and is estimated to be Rs 34 million for the year ending 31 December 2002. The aggregate compensation for the Government Directors for performing the functions of their office is estimated to be Rs 400,000 for the year ending 31 December 2002.

Senior Management

The following table shows information regarding the management of the Company:

Name	Age	Title
Shuhei Anan	51	Director and Chief Executive Officer
Kenji Satoh	47	Chief Financial Officer
M.L.C. Alwis	51	Head of Customer Service and Executive Assistant to the Chief Executive Officer
S. Amarasinghe	58	Head of Network Planning and Engineering
M.M.P. Perera	45	Head of Marketing and IP
P.N.E. Abeysekera	49	Head of Corporate Strategy
C.B.R. Perera	50	Head of International Services
G.S.P. Rodrigo	49	Head of Metro Region
C.C. Wijesuriya	43	Head of Region I
U.D. Withana	59	Head of Region II
S. Canagasooriyar	57	Head of Region III
B.M. Jinadasa	41	Head of Human Resources
L.U. Joseph	45	Head of Administration
T.D.D.L. de Alwis	39	Head of Legal
P.G. Dias	54	Company Secretary

Shuhei Anan

Director and Chief Executive Officer

Mr Anan holds a Master of Science degree from the Waseda University of Japan. He held a number of senior managerial positions at NTT and NTT Com and was the Assistant Vice President in charge of Operations & Maintenance at Thai Telephone & Telecommunications Company. He has been a member of the Board of Directors since 1997 and Chief Executive Officer since August 2001. Mr Anan is also a director of SLTSL and Mobitel.

Kenji Satoh

Chief Financial Officer

Mr Satoh holds a Bachelor of Arts degree in Economics from National University of Yokohama, Japan. He has held a number of senior management positions at NTT Com since he joined NTT Com in 1979. He joined the Company in October 2001. He is also a director of SLTSL and Mobitel.

M.L.C. Alwis

Head of Customer Service and Executive Assistant to the Chief Executive Officer

Mr Alwis holds a Bachelor of Science degree in Electronics and Telecommunications Engineering from the University of Moratuwa, Sri Lanka. He is a fellow member of the Institute of Engineers of Sri Lanka and a member of the Institute of Electrical Engineers of England. He has served the Company and its predecessors for more than 25 years.

S. Amarasinghe

Head of Network Planning and Engineering

Mr Amarasinghe holds a Bachelor of Science degree in Engineering from the University of London and is also a Member of the Engineering Council of the United Kingdom. He has 32 years of experience in the fields of satellite communications, international transmission and switching. He joined the Company's predecessor in 1970.

M.M.P. Perera

Head of Marketing and IP

Mr Perera holds a Bachelor of Science degree in Electronics and Telecommunications Engineering from the University of Moratuwa, Sri Lanka. He is a Chartered Engineer and a Fellow of the Institute of Engineers, Sri Lanka. He has been employed for 20 years at the Company and its predecessors.

P.N.E. Abeysekara

Head of Corporate Strategy

Mrs Abeysekara holds a Bachelor of Science degree in Engineering from the University of Peradeniya, Sri Lanka. She is a member of the Institute Manager of Electrical Engineers of England. She served as an engineer in the field of switching, as Deputy General Manager - International Services and as the General Manager - Suppliers Credit Project and Head of Division - International Services. She has worked for the Company and its predecessors for the last 25 years.

C.B.R. Perera

Head of International Services

Mr Perera holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Peradeniya, Sri Lanka, and a postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. He is a Chartered Engineer, a Fellow of the Institute of Engineers of Sri Lanka and is also a member of the Engineering Council of the United Kingdom. He has served at the Company and its predecessors for 25 years.

G.S.P. Rodrigo

Head of Metro Regions

Mr Rodrigo holds a Bachelor of Science degree in Electronics and Telecommunications Engineering from the University of Moratuwa, Sri Lanka. He is a Chartered Engineer and a member of the Engineering Council, United Kingdom. He has served the Company and its predecessors for 25 years.

C.C. Wijesuriya

Head of Region I

Mr Wijesuriya is a Chartered Engineer and a member of the Engineering Council United Kingdom. He has served the Company and its predecessors for 20 years.

U.D. Withana

Head of Region II

Mr Withana holds a Master of Business Administration degree from University of Colombo, Sri Lanka. He is a Chartered Engineer and a member of the Institute of Engineers, Australia. He has served the Company and its predecessors for 28 years.

S. Canagasooriyar
Head of Region III
Mr Canagasooriyar holds a degree in Engineering from the University of Madurai, India. He is a Chartered Engineer and a member of the Institute of Engineers, Australia. He has served the Company and its predecessors for 24 years.

B.M. Jinadasa
Head of Human Resources
Ms Jinadasa holds a Bachelor of Science degree in Electronics and Telecommunications Engineering from University of Moratuwa and Master of Science in Electrical and Electronic Engineering. She is a Chartered Engineer and is a member of the Institute of Engineers of Sri Lanka. She has served 18 years at the Company and its predecessors.

L.U. Joseph
Head of Administration
Mr Joseph holds a Bachelor of Science degree in Electronics and Telecommunications Engineering from the University of Moratuwa, Sri Lanka. He is a Chartered Engineer and a Fellow of the Institute of Engineers of Sri Lanka. Previously, he held the positions of Engineer, Deputy General Manager and Head of Division – Maintenance. He has served the Company and its predecessors for 20 years.

T.D.D.L. de Alwis
Head of Division/Legal
Mr de Alwis is an Attorney-at-Law. He was Senior Legal Officer at DFCC Bank and Sampath Bank and held the position of Chief Legal Officer/Company Secretary at Nations Trust Bank before joining the Company. He joined the Company in March 2000.

P.G. Dias
Company Secretary
Mrs Dias is an associate member of the Institute of Chartered Secretaries and Administrators, London. She has 12 years experience as secretary to the Board of Directors and Company Secretary at the Company in addition to eight years' experience as Company Secretary in other multinational companies.

The Chief Executive Officer of the Company is not and was not involved in any of the following events:

- a petition under any bankruptcy laws filed against him or any partnership in which he was a partner or any corporation of which he was an executive officer;
- convicted for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification; or
- the subject of any order, judgement or ruling of any court of competent jurisdiction temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.