

DIALOG TELEKOM LIMITED

Income statement - Company

(all amounts in Sri Lanka Rupees Thousands)

| | Quarter ended 31 December | | Year ended 31 December | |
|--|------------------------------|----------------|---------------------------|------------------|
| | 2005 | 2004 | 2005 Audited | 2004 Audited |
| Turnover | 5,221,699 | 3,385,075 | 18,034,397 | 11,406,685 |
| Direct Cost | (1,956,515) | (1,138,452) | (6,213,808) | (3,931,917) |
| Gross Margin | 3,265,184 | 2,246,623 | 11,820,589 | 7,474,768 |
| Other operating income | 13,033 | 7,796 | 53,271 | 30,092 |
| Administrative expenses | (706,473) | (619,968) | (2,222,031) | (1,597,415) |
| Distribution costs | (604,247) | (558,728) | (2,334,944) | (1,555,080) |
| Operating profit | 1,967,497 | 1,075,723 | 7,316,885 | 4,352,365 |
| Finance cost | (90,693) | (109,965) | (263,065) | (212,464) |
| Profit before tax | 1,876,804 | 965,758 | 7,053,820 | 4,139,901 |
| Tax | (11,586) | (9,652) | (41,949) | (39,382) |
| Profit attributable to the shareholders | 1,865,218 | 956,106 | 7,011,871 | 4,100,519 |
| Basic earnings per share (Rs) | 0.27 | 0.23 | 1.15 | 0.98 |
| Par value per Ordinary share (Rs) | 1 | 1 | 1 | 1 |

DIALOG TELEKOM LIMITED

Consolidated Balance sheet

(all amounts in Sri Lanka Rupees Thousands)

| | Group 31 December 2005 Audited | Company 31 December 2005 Audited | 2004 Audited |
|---|--|--|------------------------|
| ASSETS | | | |
| Non - current assets | | | |
| Property, plant and equipment | 20,801,836 | 19,598,958 | 13,383,592 |
| Intangible assets | 1,628,305 | 348,448 | 82,300 |
| Investment in subsidiary | Nil | 1,970,764 | Nil |
| | 22,430,141 | 21,918,170 | 13,465,892 |
| Current assets | | | |
| Inventories | 350,495 | 350,495 | 229,410 |
| Receivables and prepayments | 3,726,080 | 3,494,222 | 2,268,281 |
| Cash and cash equivalents | 6,689,919 | 6,624,188 | 3,190,744 |
| | 10,766,494 | 10,468,905 | 5,688,435 |
| Total assets | 33,196,635 | 32,387,075 | 19,154,327 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Ordinary shares | 7,403,435 | 7,403,435 | 370,000 |
| ESOS Trust shares | (2,385,320) | (2,385,320) | Nil |
| Preference shares | Nil | Nil | 1,268,979 |
| Share premium | 5,276,943 | 5,276,943 | Nil |
| Revaluation reserve | 4,896 | 4,896 | 4,896 |
| Retained earnings | 6,900,917 | 6,900,917 | 7,068,281 |
| | 17,200,871 | 17,200,871 | 8,712,156 |
| Non - current liabilities | | | |
| Subscription in advance | Nil | Nil | 3,414,190 |
| Borrowings | 9,048,749 | 8,913,470 | 3,137,717 |
| Retirement benefit obligations | 81,833 | 75,190 | 48,497 |
| | 9,130,582 | 8,988,660 | 6,600,404 |
| Current liabilities | | | |
| Trade and other payables | 5,214,388 | 5,099,826 | 3,483,757 |
| Current tax liabilities | 35,760 | 35,760 | 32,854 |
| Borrowings | 1,615,034 | 1,061,958 | 325,156 |
| | 6,865,182 | 6,197,544 | 3,841,767 |
| Total liabilities | 15,995,764 | 15,186,204 | 10,442,171 |
| Total equity and liabilities | 33,196,635 | 32,387,075 | 19,154,327 |
| Net Asset per share (Rs) | 2.32 | 2.32 | 201.17 |
| Number of ordinary shares in issue (thousand) | 7,403,435 | 7,403,435 | 37,000 |

The Board of Directors is responsible for the preparation and presentation of these financial statements.

These financial statements were approved by the Board on 23 February 2006

Signed

Tan Sri Dato' Ir. M. Radzi B H Mansor
Chairman

Signed

Dr. S.S.H. Wijayasuriya
Director/Chief Executive

The notes on page 5 form an integral part of these financial statements.

Page 2

DIALOG TELEKOM LIMITED

Statement of changes in equity - Group

(all amounts in Sri Lanka Rupees Thousands)

| | Ordinary share capital | Share premium | Preference share capital | Shares in Trust | Revaluation reserve | Retained earnings | Total |
|--|------------------------------|------------------|--------------------------------|-----------------------|------------------------|----------------------|-------------------|
| Balance at 1 January 2004 | 370,000 | Nil | 1,268,979 | Nil | 5,117 | 3,833,826 | 5,477,922 |
| Depreciation transfer | Nil | Nil | Nil | Nil | (221) | 221 | Nil |
| Net Profit | Nil | Nil | Nil | Nil | Nil | 4,100,519 | 4,100,519 |
| Dividend paid | Nil | Nil | Nil | Nil | Nil | (866,285) | (866,285) |
| Balance at 31 December 2004 | 370,000 | Nil | 1,268,979 | Nil | 4,896 | 7,068,281 | 8,712,156 |
| Balance at 1 January 2005 | 370,000 | Nil | 1,268,979 | Nil | 4,896 | 7,068,281 | 8,712,156 |
| Net Profit | Nil | Nil | Nil | Nil | Nil | 7,011,871 | 7,011,871 |
| Dividend paid | Nil | Nil | Nil | Nil | Nil | (2,858,936) | (2,858,936) |
| Conversion of Preference shares to ordinary shares | 1,903,468 | Nil | (1,903,468) | Nil | Nil | Nil | Nil |
| Premium on Preference shares conversion | Nil | Nil | 634,489 | Nil | Nil | (634,489) | Nil |
| Bonus share issue | 3,685,810 | Nil | Nil | Nil | Nil | (3,685,810) | Nil |
| Share issue against subscription in advance | 954,190 | Nil | Nil | Nil | Nil | Nil | 954,190 |
| New issue of shares IPO | 489,967 | 5,389,634 | Nil | Nil | Nil | Nil | 5,879,601 |
| Purchase shares - Employee Share Option Scheme | Nil | Nil | Nil | (2,385,320) | Nil | Nil | (2,385,320) |
| IPO cost set off | Nil | (112,691) | Nil | Nil | Nil | Nil | (112,691) |
| Balance at 31 December 2005 | 7,403,435 | 5,276,943 | Nil | (2,385,320) | 4,896 | 6,900,917 | 17,200,871 |

Note: Comparatives are for the Company only

The notes on page 5 form an integral part of these financial statements.

Page 3

DIALOG TELEKOM LIMITED

Cash flow statement

(all amounts in Sri Lanka Rupees Thousands)

| | Group Year ended 31 December 2005 Audited | Company Year ended 31 December 2005 Audited | 2004 Audited |
|---|---|---|--------------------|
| Operating activities | | | |
| Cash generated from operations | 9,289,937 | 9,289,937 | 7,151,974 |
| Interest received | 165,092 | 165,092 | 100,914 |
| Interest paid | (403,476) | (403,476) | (276,112) |
| Tax paid | (39,042) | (39,042) | (6,528) |
| Retirement benefit obligations paid | (989) | (989) | (165) |
| Net cash from operating activities | 9,011,522 | 9,011,522 | 6,970,083 |
| Investing activities | | | |
| Purchase of property, plant and equipment | (2,043,143) | (2,043,143) | (645,310) |
| Purchase of intangible assets | (463,013) | (463,013) | (136,830) |
| Expenditure incurred on capital work-in-progress | (6,162,170) | (6,162,170) | (3,285,736) |
| Acquisition of subsidiary, net of cash acquired* | (1,441,026) | (1,506,509) | Nil |
| Proceeds from sale of property, plant and equipment | 35,926 | 35,926 | 7,248 |
| Net cash used in investing activities | (10,073,426) | (10,138,909) | (4,060,628) |
| Financing activities | | | |
| Proceeds from Issue of shares | 491,083 | 491,083 | Nil |
| Share premium from Issue of Shares | 5,401,911 | 5,401,911 | Nil |
| IPO Cost set off | (112,691) | (112,691) | Nil |
| Repayment of Subscription in advance | (2,460,000) | (2,460,000) | Nil |
| Payment to - Employee Share Option Scheme Trust (ESOST) | (2,398,713) | (2,398,713) | Nil |
| Repayment of finance leases | (21,882) | (21,882) | (18,564) |
| Repayment of long term borrowings | (520,582) | (520,582) | (424,498) |
| Proceeds from long term borrowings | 7,061,050 | 7,061,050 | 1,054,737 |
| Dividend paid | (2,858,936) | (2,858,936) | (866,285) |
| Net cash generated/ (used) in financing activities | 4,581,240 | 4,581,240 | (254,610) |
| Net Increase in cash and cash equivalents | 3,519,336 | 3,453,853 | 2,654,845 |
| Movement in cash and cash equivalents | | | |
| At start of year | 3,170,335 | 3,170,335 | 515,490 |
| Increase / (decrease) | 3,519,336 | 3,453,853 | 2,654,845 |
| At end of year | 6,689,671 | 6,624,188 | 3,170,335 |

* In the case of Company, only Investment in Subsidiary is applicable

DIALOG TELEKOM LIMITED

Notes to the Financial Statements

1. Market price per Share

For the quarter ended 31 December

| | 2005 Rs. | 2004 Rs. |
|---------------|-------------|-------------|
| - Highest | 22.50 | n/a |
| - Lowest | 15.00 | n/a |
| - Last Traded | 16.50 | n/a |

2. Accounting policies

The financial statements of Dialog Telekom Limited for the year ended 31 December 2005 have been prepared under the historical cost convention and are in accordance with Generally Accepted Accounting Principles and Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

The accounting policies have been followed consistently from one accounting period to another. There have been no significant changes in the accounting policies adopted during the year ended 31 December 2005.

3. Acquisition of MTT Networks (Pvt) Ltd.

On 22 December 2005, Dialog acquired 100% of the share capital of MTT Network (Private) Limited. Since the acquisition date was 22 December 2005, the income of the subsidiary for the 6 market days ended 31 December 2005 has not been consolidated, as it was insignificant.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

Total purchase consideration

Fair value of net assets acquired

Goodwill

(Rs.'000)

1,970,764

(1,580,907)

389,857

4. Earnings per ordinary Share (EPS)

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

The weighted average number of shares in issue during the year has been determined as follows:

| Description | Number of shares (after adjusting for the share split) | Number of months | Remarks |
|--|--|------------------|---|
| Ordinary shares as at 01/01/05 | 370,000,000 | 12 | Ordinary Shares in issue after considering the share split |
| Bonus shares issued in May'05 | 3,685,810,000 | 12 | No cash movement during the period, thus considered for 12 months |
| Retained Profits capitalised – conversion of Preference share in May '05 | 634,489,380 | 12 | |
| Conversion of Preference shares in May '05 | 1,268,978,760 | 7 | Conversion of Preference shares |
| Capitalisation of Subscription in Advance in May '05 | 954,190,000 | 7 | |
| New shares issued | 489,966,723 | 5 | Offer for subscription plus ESOS shares |
| Less ESOS Shares | (199,892,741) | 5 | |
| Weighted average number of shares | 6,108,011,750 | | |