

SG/217/2006

26 July 2006

The Board of Directors  
Dialog Telekom Limited  
475 Union Place  
Colombo 2

Dear Sirs

## **Dialog Telekom Limited**

### **Limited review report for the 3 months period ended 30 June 2006**

We have reviewed the accompanying consolidated balance sheet of Dialog Telekom Limited as at 30 June 2006, and the related statements of income, changes in equity and cash flow for the three months period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Sri Lanka Auditing Practice Statement on Audit applicable to review engagements. This guidance requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurances than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view in accordance with Sri Lanka Accounting Standards.

**(Signed) PricewaterhouseCoopers**

**CHARTERED ACCOUNTANTS**

**COLOMBO**

# DIALOG TELEKOM LIMITED

## Income statement

(all amounts in Sri Lanka Rupees Thousands)

	Six Months ended 30 June 2006		Six Months ended 30 June 2005
	Group	Company	Company
Sales	12,279,734	12,030,700	8,138,224
Cost of sales	<u>(4,270,798)</u>	<u>(4,151,258)</u>	<u>(2,594,678)</u>
Gross profit	8,008,936	7,879,442	5,543,546
Other operating income	45,870	38,000	15,763
Administrative expenses	(1,267,421)	(1,241,269)	(965,748)
Distribution costs	<u>(1,509,947)</u>	<u>(1,505,587)</u>	<u>(1,019,294)</u>
Operating profit	5,277,438	5,170,586	3,574,267
Finance cost	<u>(279,533)</u>	<u>(220,915)</u>	<u>(99,307)</u>
<b>Profit before tax</b>	<b>4,997,905</b>	<b>4,949,671</b>	<b>3,474,960</b>
Tax	(65,089)	(64,399)	(28,741)
<b>Net profit</b>	<b><u>4,932,816</u></b>	<b><u>4,885,272</u></b>	<b><u>3,446,219</u></b>
Basic earnings per share (Rs.)	0.684	0.678	0.681
Par value per Ordinary share (Rs.)	1	1	1

# DIALOG TELEKOM LIMITED

## Income statement

(all amounts in Sri Lanka Rupees Thousands)

	Three Months ended 30 June 2006		Three Months ended 30 June 2005
	Group	Company	Company
Sales	6,327,179	6,201,717	4,285,578
Cost of sales	<u>(2,190,113)</u>	<u>(2,084,572)</u>	<u>(1,274,022)</u>
Gross profit	4,137,066	4,117,145	3,011,556
Other operating income	29,312	21,675	8,195
Administrative expenses	(649,080)	(631,293)	(615,431)
Distribution costs	<u>(800,733)</u>	<u>(797,311)</u>	<u>(562,039)</u>
Operating profit	2,716,565	2,710,216	1,842,281
Finance cost	<u>(145,095)</u>	<u>(101,821)</u>	<u>(107,012)</u>
<b>Profit before tax</b>	<b>2,571,470</b>	<b>2,608,395</b>	<b>1,735,269</b>
Tax	(35,203)	(34,513)	(10,864)
<b>Net profit</b>	<b><u>2,536,267</u></b>	<b><u>2,573,882</u></b>	<b><u>1,724,405</u></b>
Basic earnings per share (Rs.)	0.352	0.357	0.317
Par value per Ordinary share (Rs.)	1	1	1

# DIALOG TELEKOM LIMITED

## Balance sheet

(all amounts in Sri Lanka Rupees Thousands)

ASSETS	30 June 2006		31 December 2005	
	Group	Company	Group	Company
<b>Non - current assets</b>				
Property, plant and equipment	22,579,116	21,372,100	20,188,444	18,985,566
Intangible assets	1,675,536	455,353	1,628,305	348,448
Investment in subsidiary	-	1,970,764	Nil	1,970,764
	<b>24,254,652</b>	<b>23,798,217</b>	<b>21,816,749</b>	<b>21,304,778</b>
<b>Current assets</b>				
Inventories	1,127,236	1,127,236	963,887	963,887
Receivables and prepayments	6,602,432	6,342,937	3,726,080	3,494,222
Cash and cash equivalents	4,515,629	4,414,742	6,689,919	6,624,188
	<b>12,245,297</b>	<b>11,884,915</b>	<b>11,379,886</b>	<b>11,082,297</b>
<b>Total assets</b>	<b>36,499,949</b>	<b>35,683,132</b>	<b>33,196,635</b>	<b>32,387,075</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Ordinary shares	7,403,435	7,403,435	7,403,435	7,403,435
ESOS Trust shares	(2,145,272)	(2,145,272)	(2,385,320)	(2,385,320)
Share premium	5,276,943	5,276,943	5,276,943	5,276,943
Revaluation reserve	4,896	4,896	4,896	4,896
Dividend Reserve	70,309	70,309	-	-
Retained earnings	9,020,428	8,972,884	6,900,917	6,900,917
	<b>19,630,739</b>	<b>19,583,195</b>	<b>17,200,871</b>	<b>17,200,871</b>
<b>Non - current liabilities</b>				
Subscription in advance	428	428	Nil	Nil
Borrowings	7,206,395	6,570,180	9,048,749	8,913,470
Deferred Tax Liability	29,444	29,444	Nil	Nil
Retirement benefit obligations	88,529	88,529	81,833	75,190
	<b>7,324,796</b>	<b>6,688,581</b>	<b>9,130,582</b>	<b>8,988,660</b>
<b>Current liabilities</b>				
Trade and other payables	8,489,545	8,386,487	5,214,388	5,099,826
Current tax liabilities	70,435	70,435	35,760	35,760
Borrowings	984,434	954,434	1,615,034	1,061,958
	<b>9,544,414</b>	<b>9,411,356</b>	<b>6,865,182</b>	<b>6,197,544</b>
<b>Total liabilities</b>	<b>16,869,210</b>	<b>16,099,937</b>	<b>15,995,764</b>	<b>15,186,204</b>
<b>Total equity and liabilities</b>	<b>36,499,949</b>	<b>35,683,132</b>	<b>33,196,635</b>	<b>32,387,075</b>
Net Asset per share (Rs)	2.652	2.645	2.323	2.323

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

These financial statements were approved by the Board on 26 July 2006.

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

*Signed*  
M.R.Prelis  
Director

# DIALOG TELEKOM LIMITED

## Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Group	Ordinary share capital	Share Premium	Preference share capital	Shares in trust	Revaluation reserve	Dividend reserve	Retained earnings	Total
<b>Balance as at 1 January 2006</b>	<b>7,403,435</b>	<b>5,276,943</b>	<b>Nil</b>	<b>(2,385,320)</b>	<b>4,896</b>	<b>Nil</b>	<b>6,900,917</b>	<b>17,200,871</b>
Net profit	Nil	Nil	Nil	Nil	Nil	Nil	4,932,816	4,932,816
Dividend Received - ESOS Trust	Nil	Nil	Nil	Nil	Nil	70,309	Nil	70,309
Dividend Paid	Nil	Nil	Nil	Nil	Nil	Nil	(2,813,305)	(2,813,305)
Shares exercised	Nil	Nil	Nil	240,476	Nil	Nil	Nil	240,476
Subscription in advance	Nil	Nil	Nil	(428)	Nil	Nil	Nil	(428)
<b>Balance as at 30 June 2006</b>	<b>7,403,435</b>	<b>5,276,943</b>	<b>Nil</b>	<b>(2,145,272)</b>	<b>4,896</b>	<b>70,309</b>	<b>9,020,428</b>	<b>19,630,739</b>

Company	Ordinary share capital	Share Premium	Preference share capital	Shares in trust	Revaluation reserve	Dividend reserve	Retained earnings	Total
<b>Balance as at 1 January 2005</b>	<b>370,000</b>	<b>Nil</b>	<b>1,268,979</b>	<b>Nil</b>	<b>4,896</b>	<b>Nil</b>	<b>7,068,281</b>	<b>8,712,156</b>
Net profit	Nil	Nil	Nil	Nil	Nil	Nil	3,446,219	3,446,219
Dividend Paid	Nil	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	Nil
Premium on preference shares conversion	Nil	Nil	634,489	Nil	Nil	Nil	(634,489)	Nil
Bonus share issue	3,685,810	Nil	Nil	Nil	Nil	Nil	(3,685,810)	Nil
Share issue against subscription in advance	954,190	Nil	Nil	Nil	Nil	Nil	Nil	954,190
<b>Balance as at 30 June 2005</b>	<b>6,913,468</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>4,896</b>	<b>Nil</b>	<b>3,335,265</b>	<b>10,253,629</b>
<b>Balance at 1 July 2005</b>	<b>6,913,468</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>4,896</b>	<b>Nil</b>	<b>3,335,265</b>	<b>10,253,629</b>
Net Profit	Nil	Nil	Nil	Nil	Nil	Nil	3,565,652	3,565,652
New issue of shares - IPO	489,967	5,389,634	Nil	Nil	Nil	Nil	Nil	5,879,601
Share Option Scheme	Nil	Nil	Nil	(2,385,320)	Nil	Nil	Nil	(2,385,320)
IPO cost setoff	Nil	(112,691)	Nil	Nil	Nil	Nil	Nil	(112,691)
<b>Balance at 31 December 2005</b>	<b>7,403,435</b>	<b>5,276,943</b>	<b>Nil</b>	<b>(2,385,320)</b>	<b>4,896</b>	<b>Nil</b>	<b>6,900,917</b>	<b>17,200,871</b>
<b>Balance as at 1 January 2006</b>	<b>7,403,435</b>	<b>5,276,943</b>	<b>Nil</b>	<b>(2,385,320)</b>	<b>4,896</b>	<b>Nil</b>	<b>6,900,917</b>	<b>17,200,871</b>
Net profit	Nil	Nil	Nil	Nil	Nil	Nil	4,885,272	4,885,272
Dividend Received - ESOS Trust	Nil	Nil	Nil	Nil	Nil	70,309	Nil	70,309
Dividend Paid	Nil	Nil	Nil	Nil	Nil	Nil	(2,813,305)	(2,813,305)
Shares exercised	Nil	Nil	Nil	240,476	Nil	Nil	Nil	240,476
Subscription in advance	Nil	Nil	Nil	(428)	Nil	Nil	Nil	(428)
<b>Balance as at 30 June 2006</b>	<b>7,403,435</b>	<b>5,276,943</b>	<b>Nil</b>	<b>(2,145,272)</b>	<b>4,896</b>	<b>70,309</b>	<b>8,972,884</b>	<b>19,583,195</b>

# DIALOG TELEKOM LIMITED

## Cash Flow Statement

(all amounts in Sri Lanka Rupees Thousands)

	Six Months ended 30 June 2006		Six Months ended 30 June 2005
	Group	Company	Company
<b>Operating activities</b>			
Cash generated from operations	4,888,034	4,707,390	3,440,981
Interest received	147,794	144,633	48,679
Interest paid	(293,923)	(243,855)	(160,269)
Tax paid	(4,693)	(4,693)	(6,907)
Retirement benefit obligations paid	(2,638)	(1,916)	(656)
<b>Net cash from operating activities</b>	<b>4,734,574</b>	<b>4,601,559</b>	<b>3,321,828</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(515,445)	(465,488)	(206,140)
Purchase of intangible assets	(37,517)	(37,517)	Nil
Expenditure incurred on capital work-in-progress	(3,283,083)	(3,257,274)	(1,429,534)
Proceeds from sale of property, plant and equipment	11,245	11,199	7,316
<b>Net cash used in investing activities</b>	<b>(3,824,800)</b>	<b>(3,749,080)</b>	<b>(1,628,358)</b>
<b>Financing activities</b>			
Proceeds from exercising ESOS shares	240,476	240,476	Nil
Repayment of finance leases	(17,772)	(17,772)	(75,265)
Receipt of finance lease	8,300	7,631	Nil
Repayment of long term borrowings	(573,859)	(549,264)	(166,504)
Proceeds from long term borrowings	2,035	Nil	675,265
Dividend received by ESOS Trust	70,309	70,309	Nil
Dividend paid	(2,813,305)	(2,813,305)	(2,858,936)
<b>Net cash used in financing activities</b>	<b>(3,083,816)</b>	<b>(3,061,925)</b>	<b>(2,425,440)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>(2,174,042)</b>	<b>(2,209,446)</b>	<b>(731,970)</b>
<b>Movement in cash and cash equivalents</b>			
At start of period	6,689,671	6,624,188	3,170,335
Increase / (decrease)	(2,174,042)	(2,209,446)	(731,970)
<b>At end of period</b>	<b>4,515,629</b>	<b>4,414,742</b>	<b>2,438,365</b>

## DIALOG TELEKOM LIMITED

### Notes to the Financial Statements

#### 1. Market Price per Share

For the three months ended 30 <sup>th</sup> June	2006 Rs.	2005 Rs.
- Highest	22.75	n/a
- Lowest	19.00	n/a
- Last Traded	19.75	n/a

#### 2. Accounting policies

The consolidated financial statements of Dialog Telekom Limited for the six months ended 30 June 2006 have been prepared under the historical cost convention and are in accordance with Generally Accepted Accounting Principles and the 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 six months ended 30 June 2006.

#### 3. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentations in the current year.

#### 4. Earnings per Ordinary Shares (EPS)

For the purpose of calculating the basic earnings per ordinary shares for the period ended 30 June 2006, the weighted average number of ordinary shares has been determined as follows:

Description	Number of shares
Ordinary shares as at 01/01/06	7,403,434,913
Less: ESOS Shares	(198,776,691)
Weighted average number of shares exercised & issued to the employees for the period January'06 to June'06 (Weighted based on the month in which the shares were exercised)	5,597,507
<b>Weighted average number of shares</b>	<b>7,210,255,729</b>

For the period ended 30 June 2005, the weighted average number of ordinary shares has been determined as follows:

Description	Number of shares (after adjusting for the share split)	Number of months
Ordinary shares as at 01/01/05	370,000,000	6
Bonus shares issued	3,685,810,000	6
Retained profits capitalised	634,489,380	6
Conversion of Preference shares in May '05	1,268,979,000	1
Capitalisation of Subscription in Advance in May '05	954,190,000	1
<b>Weighted average number of shares</b>	<b>5,060,827,547</b>	