

25<sup>th</sup> July 2007

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

Dear Sirs

## **Dialog Telekom PLC**

### **Limited review report for the three months ended 30 June 2007**

We have reviewed the accompanying condensed consolidated interim balance sheet of Dialog Telekom PLC as at 30 June 2007, and the related condensed consolidated interim statements of income, changes in equity and cash flows for the three months then ended. This condensed consolidated interim financial information is the responsibility of the Company's management. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

We conducted our review in accordance with the Sri Lanka Auditing Practice Statement applicable to review engagements. This guidance requires that we plan and perform the review to obtain moderate assurance as to whether the condensed consolidated interim financial information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance 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 condensed consolidated interim financial information has not been prepared, in all material respects, in accordance with Sri Lanka Accounting Standard 35 "Interim Financial Reporting".

**SIGNED**  
**CHARTERED ACCOUNTANTS**

**COLOMBO**

**Income Statement**

(all amounts in Sri Lanka Rupees Thousands)

	<b>Six months ended 30 June 2007</b>		<b>Six months ended 30 June 2006</b>	
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
Turnover	15,356,556	14,826,555	12,279,734	12,030,700
Direct costs	(5,934,849)	(5,304,695)	(4,270,798)	(4,151,258)
Gross margin	9,421,707	9,521,860	8,008,937	7,879,443
Other operating income	230,999	178,609	45,870	38,000
Administrative expenses	(2,460,675)	(2,272,415)	(1,267,421)	(1,241,269)
Distribution costs	(1,603,878)	(1,534,880)	(1,509,947)	(1,505,587)
Operating profit	5,588,153	5,893,174	5,277,438	5,170,586
Finance costs	(656,282)	(585,653)	(279,533)	(220,915)
Profit before tax	4,931,871	5,307,521	4,997,905	4,949,671
Tax	(63,404)	(54,039)	(65,089)	(64,399)
<b>Net profit</b>	<b>4,868,467</b>	<b>5,253,482</b>	<b>4,932,816</b>	<b>4,885,272</b>
<b>Attributable to:</b>				
Equity holders of the company	4,868,467	5,253,482	4,932,816	4,885,272
Minority interest	Nil	Nil	Nil	Nil
Basic earnings per share attributable to the equity holders of the company (Rs)	0.650	0.701	0.675	0.668

The notes on page 8 from an integral part of these condensed consolidated interim financial statements.

**Income Statement**

(all amounts in Sri Lanka Rupees Thousands)

	Three months ended 30 June 2007		Three months ended 30 June 2006	
	Group	Company	Group	Company
Turnover	7,850,138	7,586,868	6,327,179	6,201,717
Direct costs	(3,009,081)	(2,644,078)	(2,190,112)	(2,084,573)
Gross margin	4,841,057	4,942,790	4,137,067	4,117,145
Other operating income	164,655	128,114	29,312	21,675
Administrative expenses	(1,297,442)	(1,223,260)	(649,080)	(631,292)
Distribution costs	(843,913)	(787,499)	(800,733)	(797,311)
Operating profit	2,864,357	3,060,145	2,716,565	2,710,216
Finance costs	(385,899)	(337,236)	(145,095)	(101,621)
Profit before tax	2,478,458	2,722,909	2,571,470	2,608,595
Tax	(36,234)	(34,456)	(35,203)	(34,513)
<b>Net profit</b>	<b>2,442,224</b>	<b>2,688,453</b>	<b>2,536,267</b>	<b>2,574,082</b>

**Attributable to:**

Equity holders of the company	2,442,224	2,688,453	2,536,267	2,574,082
Minority interest	Nil	Nil	Nil	Nil
Basic earnings per share attributable to the equity holders of the company (Rs)	0.326	0.359	0.347	0.352

The notes on page 8 from an integral part of these condensed consolidated interim financial statements.

# DIALOG TELEKOM PLC

## Balance Sheet

(all amounts in Sri Lanka Rupees Thousands)

	30 June 2007		31 December 2006	
	Group	Company	Group	Company
<b>ASSETS</b>				
<b>Non - Current Assets</b>				
Property, plant and equipment	35,943,890	33,017,989	30,031,500	28,029,423
Intangible assets	3,721,191	1,140,433	3,602,737	1,004,362
Investment in subsidiary	Nil	2,295,844	Nil	2,295,844
	39,665,081	36,454,266	33,634,237	31,329,629
<b>Current Assets</b>				
Inventories	874,745	576,945	580,215	519,063
Receivables and prepayments	7,684,525	9,120,803	6,910,094	7,709,931
Cash and cash equivalents	12,857,592	12,544,702	2,301,422	2,237,455
	21,416,862	22,242,450	9,791,731	10,466,449
<b>Total Assets</b>	<b>61,081,943</b>	<b>58,696,716</b>	<b>43,425,968</b>	<b>41,796,078</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Stated Capital	28,116,282	28,116,282	12,680,378	12,680,378
ESOS Trust shares	(2,045,911)	(2,045,911)	(1,925,226)	(1,925,226)
Reserve	20,608	20,608	20,840	20,840
Retained Earnings	15,073,927	15,388,715	14,277,117	14,206,890
	41,164,906	41,479,694	25,053,109	24,982,882
<b>Minority interest In Equity</b>	<b>(72)</b>	<b>Nil</b>	<b>(72)</b>	<b>Nil</b>
<b>Total Equity</b>	<b>41,164,834</b>	<b>41,479,694</b>	<b>25,053,037</b>	<b>24,982,882</b>
<b>LIABILITIES</b>				
<b>Non - Current Liabilities</b>				
Subscription in advance	538	538	1,235	1,235
Borrowings	8,942,417	7,854,297	8,057,847	7,338,450
Deferred tax liability	95,045	91,202	39,717	39,717
Retirement benefit obligations	128,785	117,823	111,997	102,635
Provision for other liabilities	113,304	113,304	86,666	86,666
	9,280,089	8,177,164	8,297,462	7,568,703
<b>Current Liabilities</b>				
Trade and other payables	9,031,492	7,917,394	8,795,818	8,142,897
Current tax liabilities	74,422	47,027	63,491	44,624
Borrowings	1,531,106	1,075,437	1,216,160	1,056,972
	10,637,020	9,039,858	10,075,469	9,244,493
<b>Total Liabilities</b>	<b>19,917,109</b>	<b>17,217,022</b>	<b>18,372,931</b>	<b>16,813,196</b>
<b>Total Equity and Liabilities</b>	<b>61,081,943</b>	<b>58,696,716</b>	<b>43,425,968</b>	<b>41,796,078</b>
Net Asset per share (Rs)	5.05	5.09	3.37	3.36

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

These financial statements were approved by the Board on 25 July 2007.

Signed

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

Signed

**M R Prelis**  
Director

The notes on page 8 from an integral part of these condensed consolidated interim financial statements.

## Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Group	Attributable to equity holders of the Company					Total
	Stated capital*	Shares in trust	Revaluation reserve	Retained earnings	Minority interest	
<b>Balance as at 1 January 2006</b>	<b>12,680,378</b>	<b>(2,385,320)</b>	<b>4,896</b>	<b>6,900,917</b>	<b>Nil</b>	<b>17,200,871</b>
Net profit	Nil	Nil	Nil	4,932,816	Nil	4,932,816
Shares exercised - ESOS	Nil	240,476	Nil	Nil	Nil	240,476
Dividend Paid	Nil	Nil	Nil	(2,742,996)	Nil	(2,742,996)
Subscription in advance	Nil	(428)	Nil	Nil	Nil	(428)
<b>Balance as at 30 June 2006</b>	<b>12,680,378</b>	<b>(2,145,272)</b>	<b>4,896</b>	<b>9,090,737</b>	<b>Nil</b>	<b>19,630,739</b>
<b>Balance at 1 July 2006</b>	<b>12,680,378</b>	<b>(2,145,272)</b>	<b>4,896</b>	<b>9,090,737</b>	<b>Nil</b>	<b>19,630,739</b>
Net profit	Nil	Nil	Nil	5,186,077	Nil	5,186,077
Shares exercised - ESOS	Nil	221,281	Nil	Nil	Nil	221,281
Revaluaion of building	Nil	Nil	16,247	Nil	Nil	16,247
Depreciation transfer	Nil	Nil	(303)	303	Nil	Nil
Subscription in advance	Nil	(1,235)	Nil	Nil	Nil	(1,235)
Minority interest arising on business acquisition	Nil	Nil	Nil	Nil	(72)	(72)
<b>Balance as at 31 December 2006</b>	<b>12,680,378</b>	<b>(1,925,226)</b>	<b>20,840</b>	<b>14,277,117</b>	<b>(72)</b>	<b>25,053,037</b>
<b>Balance as at 1 January 2007</b>	<b>12,680,378</b>	<b>(1,925,226)</b>	<b>20,840</b>	<b>14,277,117</b>	<b>(72)</b>	<b>25,053,037</b>
Net profit	Nil	Nil	Nil	4,868,467	Nil	4,868,467
Shares purchased - ESOS	Nil	(205,452)	Nil	Nil	Nil	(205,452)
Issue of shares	15,435,904	Nil	Nil	Nil	Nil	15,435,904
Shares exercised - ESOS	Nil	85,305	Nil	Nil	Nil	85,305
Dividend Paid	Nil	Nil	Nil	(4,071,889)	Nil	(4,071,889)
Depreciation transfer	Nil	Nil	(232)	232	Nil	Nil
Subscription in advance	Nil	(538)	Nil	Nil	Nil	(538)
Minority interest arising on business acquisition	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance as at 30 June 2007</b>	<b>28,116,282</b>	<b>(2,045,911)</b>	<b>20,608</b>	<b>15,073,927</b>	<b>(72)</b>	<b>41,164,834</b>

\*Stated capital includes amount previously reported under ordinary share capital and share premium, as required by the Companies Act No. 7 of 2007.

The notes on page 8 from an integral part of these condensed consolidated interim financial statements.

## Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Company	Stated capital*	Shares in trust	Revaluation reserve	Retained earnings	Total
<b>Balance at 1 January 2006</b>	<b>12,680,378</b>	<b>(2,385,320)</b>	<b>4,896</b>	<b>6,900,917</b>	<b>17,200,871</b>
Net profit	Nil	Nil	Nil	4,885,272	4,885,272
Shares exercised - ESOS	Nil	240,476	Nil	Nil	240,476
Dividend Paid	Nil	Nil	Nil	(2,742,996)	(2,742,996)
Subscription in advance	Nil	(428)	Nil	Nil	(428)
<b>Balance as at 30 June 2006</b>	<b>12,680,378</b>	<b>(2,145,272)</b>	<b>4,896</b>	<b>9,043,193</b>	<b>19,583,195</b>
<b>Balance at 1 July 2006</b>	<b>12,680,378</b>	<b>(2,145,272)</b>	<b>4,896</b>	<b>9,043,193</b>	<b>19,583,195</b>
Net profit	Nil	Nil	Nil	5,163,394	5,163,394
Shares exercised - ESOS	Nil	221,281	Nil	Nil	221,281
Revaluation of building	Nil	Nil	16,247	Nil	16,247
Depreciation transfer	Nil	Nil	(303)	303	Nil
Subscription in advance	Nil	(1,235)	Nil	Nil	(1,235)
<b>Balance as at 31 December 2006</b>	<b>12,680,378</b>	<b>(1,925,226)</b>	<b>20,840</b>	<b>14,206,890</b>	<b>24,982,882</b>
<b>Balance as at 1 January 2007</b>	<b>12,680,378</b>	<b>(1,925,226)</b>	<b>20,840</b>	<b>14,206,890</b>	<b>24,982,882</b>
Net profit	Nil	Nil	Nil	5,253,482	5,253,482
Shares purchased - ESOS	Nil	(205,452)	Nil	Nil	(205,452)
Shares exercised - ESOS	15,435,904	85,305	Nil	Nil	15,521,209
Dividend Paid	Nil	Nil	Nil	(4,071,889)	(4,071,889)
Depreciation transfer	Nil	Nil	(232)	232	Nil
Subscription in advance	Nil	(538)	Nil	Nil	(538)
<b>Balance as at 30 June 2007</b>	<b>28,116,282</b>	<b>(2,045,911)</b>	<b>20,608</b>	<b>15,388,715</b>	<b>41,479,694</b>

\*Stated capital includes amount previously reported under ordinary share capital and share premium, as required by the Companies Act No. 7 of 2007.

The notes on page 8 from an integral part of these condensed consolidated interim financial statements.

# DIALOG TELEKOM PLC

## Cash Flow Statement

(all amounts in Sri Lanka Rupees Thousands)

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Group	Company	Group	Company
<b>Operating Activities</b>				
Cash generated from operations	6,755,225	5,857,021	4,888,034	4,707,390
Interest received	16,080	15,899	147,794	144,633
Interest paid	(484,048)	(416,307)	(293,923)	(243,855)
Tax/ESC paid	(30,180)	(30,178)	(4,693)	(4,693)
Retirement benefit obligations paid	(819)	(819)	(2,638)	(1,916)
<b>Net cash from operating activities</b>	<b>6,256,258</b>	<b>5,425,616</b>	<b>4,734,574</b>	<b>4,601,559</b>
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(1,536,163)	(1,446,885)	(515,445)	(465,488)
Purchase of intangible assets	(148,179)	(141,729)	(37,517)	(37,517)
Expenditure incurred on capital work-in-progress	(6,454,192)	(5,258,985)	(3,283,083)	(3,257,274)
Proceeds from sale of property, plant and equipment	69,578	22,633	11,245	11,199
<b>Net cash used in investing activities</b>	<b>(8,068,956)</b>	<b>(6,824,966)</b>	<b>(3,824,800)</b>	<b>(3,749,080)</b>
<b>Financing Activities</b>				
Proceeds from ESOS shares	(121,383)	(121,383)	240,476	240,476
Repayment of finance leases	(20,855)	(11,179)	(9,472)	(10,141)
Repayment of long term borrowings	(1,146,813)	(1,024,676)	(573,859)	(549,264)
Proceeds from long term borrowings	2,145,403	1,499,817	2,035	Nil
Proceeds from Issue of shares	15,435,903	15,435,903	Nil	Nil
Dividend paid	(4,071,889)	(4,071,889)	(2,742,996)	(2,742,996)
<b>Net cash from/(used) in financing activities</b>	<b>12,220,366</b>	<b>11,706,595</b>	<b>(3,083,816)</b>	<b>(3,061,925)</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>10,407,668</b>	<b>10,307,245</b>	<b>(2,174,042)</b>	<b>(2,209,446)</b>
<b>Movement in cash and cash equivalents</b>				
At start of period	2,181,736	2,237,457	6,689,671	6,624,188
Increase/(Decrease)	10,407,668	10,307,245	(2,174,042)	(2,209,446)
<b>At end of period</b>	<b>12,589,404</b>	<b>12,544,702</b>	<b>4,515,629</b>	<b>4,414,742</b>

The notes on page 8 from an integral part of these condensed consolidated interim financial statements.

**Notes to the Financial Statements****1 General Information**

Dialog Telekom PLC (the “Company”) and its subsidiaries (together “the Group”) provides Communication (Mobile, Internet, International, Data and backbone and Transmission infrastructure) and Media related services.

Dialog Telekom PLC is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Company is located at 475, Union Place, Colombo 2.

Issued ordinary shares of the Company have been listed on the Colombo Stock Exchange since 28 July 2005.

**2 Basis of Preparation**

The condensed interim consolidated financial information of Dialog Telekom PLC for the six months ended 30 June 2007 have been prepared in accordance with Sri Lanka Accounting Standard 35 “Interim Financial Reporting”. The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

**3 Accounting Policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

**4 Proceeds from Rights Issue**

Pursuant to a resolution adopted by the shareholders at a meeting held on 21 May 2007, the company raised Rs. 15,547 Million through a 1 for 10 rights issue to its shareholders at Rs. 21/- per share, by issuing 740,343,492 ordinary shares during the quarter ended 30 June 2007.

**5 Market Price per Share**

For the three months ended 30 June;

	<b>2007</b>	<b>2006</b>
	<b>Rs</b>	<b>Rs</b>
- Highest	28.00	22.75
- Lowest	23.25	19.00
- Last traded	23.50	19.75



**Notes to the Financial Statements****6 Earnings per Ordinary Shares (EPS)**

The basic earnings per ordinary shares has been computed based on the following weighted average number of ordinary shares having adjusted the number of shares for effects of the Rights issue and ESOS shares exercised:

<b>Description</b>	<b>Period ended 30 June 2007</b>	<b>Period ended 30 June 2006</b>
Weighted average number of shares	7,489,614,419	7,311,163,917