

Independent auditors' review report

To the Directors of Dialog Telekom Plc

We have reviewed the accompanying balance sheet of Dialog Telekom Plc and its subsidiaries as at 31 March 2009, and the related statements of income and cash flows for the 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 assurances as to whether the financial statements are 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 financial statements are not presented fairly, in all material respects in accordance with Sri Lanka Accounting Standards.

14 May 2009

COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

Partners

Y Kanagasabai FCA, D.T.S.H. Mudalige FCA, S. Manoharan ACA, N. R. Gunasekera FCA, S. Gajendran FCA,
Ms. S Hadgie FCA, Ms. S. Perera ACA,

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Balance sheet

(all amounts in Sri Lanka Rupees thousands)

	31 March 2009		31 December 2008	
	Group	Company	Group	Company
ASSETS				
Non-current assets				
Property, plant and equipment	65,734,435	57,265,418	64,698,584	56,718,021
Intangible assets	3,925,234	1,388,545	3,901,887	1,337,747
Investments in subsidiaries	Nil	8,826,010	Nil	8,826,010
Other investment	16,000	16,000	16,000	16,000
Amount due from subsidiaries	Nil	3,644,767	Nil	2,779,612
	69,675,669	71,140,740	68,616,471	69,677,390
Current assets				
Inventories	596,484	588,012	655,957	646,601
Trade and other receivables	9,878,646	7,504,114	10,742,903	8,308,351
Cash and cash equivalents	14,371,714	14,208,161	1,645,866	1,544,735
	24,846,844	22,300,287	13,044,726	10,499,687
Total assets	94,522,513	93,441,027	81,661,197	80,177,077
EQUITY				
Capital and reserves attributable to equity holders of the company				
Stated capital	32,556,113	32,556,113	32,556,113	32,556,113
ESOS Trust shares	(1,990,921)	(1,990,921)	(1,990,921)	(1,990,921)
Dividend reserve - ESOS	260,067	260,067	260,067	260,067
Revaluation reserve	19,798	19,798	19,913	19,913
Retained earnings	8,675,051	13,012,406	10,964,118	14,549,916
	39,520,108	43,857,463	41,809,290	45,395,088
LIABILITIES				
Non-current liabilities				
Borrowings	20,739,106	19,802,258	8,828,439	7,818,455
Retirement benefit obligations	208,376	190,688	205,069	187,378
Provision for other liabilities	255,203	255,203	194,924	194,924
Deferred tax liability	745,509	739,563	607,437	605,992
	21,948,194	20,987,712	9,835,869	8,806,749
Current liabilities				
Trade and other payables	13,137,344	10,426,378	11,060,739	8,464,849
Current income tax liabilities	61,655	60,328	60,506	59,590
Borrowings	19,855,212	18,109,146	18,894,793	17,450,801
	33,054,211	28,595,852	30,016,038	25,975,240
Total liabilities	55,002,405	49,583,564	39,851,907	34,781,989
Total equity and liabilities	94,522,513	93,441,027	81,661,197	80,177,077
Net Asset per Share	4.85	5.39	5.13	5.57

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors on 13 May 2009.

Signed
.....
Vipula M. Gunatilleka
Group Chief Financial Officer

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

Signed
.....
M.R. Prelis
Director

The notes on pages 6 to 8 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income statement

(all amounts in Sri Lanka Rupees thousands)

	Three months ended 31 March 2009		Three months ended 31 March 2008	
	Group	Company	Group (Restated)	Company
Revenue	8,443,081	7,708,805	8,887,149	8,220,210
Direct costs	(5,468,606)	(4,821,129)	(4,130,057)	(3,683,050)
Gross margin	2,974,475	2,887,676	4,757,092	4,537,160
Other operating income	133,947	147,301	47,673	60,551
Administrative expenses	(2,414,394)	(1,945,326)	(2,318,047)	(1,862,537)
Distribution costs	(1,624,511)	(1,433,802)	(1,432,108)	(1,269,574)
Operating (loss) / profit	(930,483)	(344,151)	1,054,610	1,465,600
Finance costs	(799,403)	(639,090)	(100,667)	(45,933)
(Loss) / profit before tax	(1,729,886)	(983,241)	953,943	1,419,667
Tax	(138,678)	(133,766)	(65,329)	(61,811)
(Loss) / profit for the period	(1,868,564)	(1,117,007)	888,614	1,357,856
(Loss) / earnings per share for (loss) / profit attributable to the equity holders of the Company during the period (expressed in Rs per share)				
- Basic	(0.29)	(0.19)	0.11	0.17
- Diluted	(0.29)	(0.19)	0.11	0.17

The notes on pages 6 to 8 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statement of changes in equity

(all amounts in Sri Lanka Rupees thousands)

Group

	Note	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2008							
As previously reported		33,056,413	(2,000,439)	172,722	20,377	19,096,588	50,345,661
Prior year adjustment	7	Nil	Nil	Nil	Nil	(60,306)	(60,306)
As restated		33,056,413	(2,000,439)	172,722	20,377	19,036,282	50,285,355
Net profit		Nil	Nil	Nil	Nil	950,716	950,716
Change in revenue recognition policy of subsidiary	7	Nil	Nil	Nil	Nil	(62,102)	(62,102)
Legal fee on issue of shares		(300)	Nil	Nil	Nil	Nil	(300)
Depreciation transfer		Nil	Nil	Nil	(116)	116	Nil
Shares exercised - ESOS		Nil	6,479	Nil	Nil	Nil	6,479
Subscription in advance		Nil	(1,242)	Nil	Nil	Nil	(1,242)
Balance at 31 March 2008		33,056,113	(1,995,202)	172,722	20,261	19,925,012	51,178,906
Balance at 1 April 2008		33,056,113	(1,995,202)	172,722	20,261	19,925,012	51,178,906
Net loss		Nil	Nil	Nil	Nil	(3,767,955)	(3,767,955)
Redemption of rated cumulative redeemable preference shares		(500,000)	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to ordinary shareholders		Nil	Nil	Nil	Nil	(4,479,078)	(4,479,078)
Dividend paid to rated cumulative redeemable preference shares		Nil	Nil	Nil	Nil	(714,209)	(714,209)
Dividend received - ESOS		Nil	Nil	87,345	Nil	Nil	87,345
Depreciation transfer		Nil	Nil	Nil	(348)	348	Nil
Shares exercised - ESOS		Nil	4,281	Nil	Nil	Nil	4,281
Balance at 31 December 2008		32,556,113	(1,990,921)	260,067	19,913	10,964,118	41,809,290
Balance at 1 January 2009		32,556,113	(1,990,921)	260,067	19,913	10,964,118	41,809,290
Net loss		Nil	Nil	Nil	Nil	(1,868,564)	(1,868,564)
Depreciation transfer		Nil	Nil	Nil	(115)	115	Nil
Dividend paid to rated cumulative redeemable preference shares		Nil	Nil	Nil	Nil	(420,618)	(420,618)
Balance at 31 March 2009		32,556,113	(1,990,921)	260,067	19,798	8,675,051	39,520,108

The notes on pages 6 to 8 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statement of changes in equity

(all amounts in Sri Lanka Rupees thousands)

Company

	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2008	33,056,413	(2,000,439)	172,722	20,377	20,130,681	51,379,754
Net profit	Nil	Nil	Nil	Nil	1,357,856	1,357,856
Legal fee on Issue of shares	(300)	Nil	Nil	Nil	Nil	(300)
Depreciation transfer	Nil	Nil	Nil	(116)	116	Nil
Shares exercised - ESOS	Nil	6,479	Nil	Nil	Nil	6,479
Subscription in advance	Nil	(1,242)	Nil	Nil	Nil	(1,242)
Balance at 31 March 2008	33,056,113	(1,995,202)	172,722	20,261	21,488,653	52,742,547
Balance at 1 April 2008	33,056,113	(1,995,202)	172,722	20,261	21,488,653	52,742,547
Net loss	Nil	Nil	Nil	Nil	(1,745,798)	(1,745,798)
Redemption of rated cumulative redeemable preference shares	(500,000)	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to ordinary shareholders	Nil	Nil	Nil	Nil	(4,479,078)	(4,479,078)
Dividend paid to rated cumulative redeemable preference shares	Nil	Nil	Nil	Nil	(714,209)	(714,209)
Dividend received - ESOS	Nil	Nil	87,345	Nil	Nil	87,345
Depreciation transfer	Nil	Nil	Nil	(348)	348	Nil
Shares exercised - ESOS	Nil	4,281	Nil	Nil	Nil	4,281
Balance at 31 December 2008	32,556,113	(1,990,921)	260,067	19,913	14,549,916	45,395,088
Balance at 1 January 2009	32,556,113	(1,990,921)	260,067	19,913	14,549,916	45,395,088
Net loss	Nil	Nil	Nil	Nil	(1,117,007)	(1,117,007)
Dividend paid to rated cumulative redeemable preference shares	Nil	Nil	Nil	Nil	(420,618)	(420,618)
Depreciation transfer	Nil	Nil	Nil	(115)	115	Nil
Balance at 31 March 2009	32,556,113	(1,990,921)	260,067	19,798	13,012,406	43,857,463

The notes on pages 6 to 8 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Cash flow statement

(all amounts in Sri Lanka Rupees thousands)

	Three months ended 31 March 2009		Three months ended 31 March 2008	
	Group	Company	Group (Restated)	Company
Cash flows from operating activities				
Cash generated from operations	3,617,664	3,202,026	893,830	620,563
Interest received	8,634	7,962	32,182	32,131
Interest paid	(399,971)	(268,674)	(134,997)	(79,708)
Tax / ESC paid	(14,468)	(14,467)	(15,021)	(15,021)
Retirement benefit obligations paid	(4,348)	(3,065)	(401)	(401)
Net cash generated from operating activities	3,207,511	2,923,782	775,593	557,564
Cash flows from investing activities				
Purchases of property, plant and equipment	(97,841)	(97,167)	(47,929)	(28,451)
Purchases of intangible assets	(12,211)	(11,273)	(43,718)	(38,305)
Expenditure incurred on capital work-in-progress	(3,030,807)	(2,159,576)	(6,933,587)	(5,843,558)
Amount given / receipt of subsidiaries	Nil	(419,000)	Nil	(575,000)
Proceeds from sale of property, plant and equipment	4,297	700	18,150	11,167
Net cash used in investing activities	(3,136,562)	(2,686,316)	(7,007,084)	(6,474,147)
Cash flows from financing activities				
Legal fee on issuing of rated cumulative redeemable preference shares	Nil	Nil	(300)	(300)
Proceeds from treasury shares - ESOS	Nil	Nil	6,173	6,173
Repayment of finance leases	(10,561)	(5,333)	(13,244)	(4,009)
Repayment of borrowings	(3,511,038)	(3,322,863)	(2,724,371)	(1,283,839)
Proceeds from borrowings	16,864,522	16,563,186	5,497,086	4,098,118
Net cash generated from financing activities	13,342,923	13,234,990	2,765,344	2,816,143
Net increase / (decrease) in cash and cash equivalents	13,413,872	13,472,456	(3,466,147)	(3,100,440)
Movement in cash and cash equivalents				
At start of period	(1,048,285)	(852,073)	6,092,069	6,062,156
Increase / (decrease)	13,413,872	13,472,456	(3,466,147)	(3,100,440)
Exchange gains / (losses) on cash and bank overdrafts	118,406	118,406	(36,919)	(36,919)
At end of period	12,483,993	12,738,789	2,589,003	2,924,797

The notes on pages 6 to 8 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(in the notes all amounts in Sri Lanka Rupees thousands unless otherwise stated)

1 General information

Dialog Telekom PLC ("the Company") and its subsidiaries (together "the Group") provide communication (mobile, internet, international gateway, data and backbone, fixed wireless 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 period ended 31 March 2009 has 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 2008.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008.

4 Segment information

(a) Primary reporting format - business segments

o The segment results for the 3 months period ended 31 March 2009 are as follows:

	Cellular Operations	Global Operations	Broadband	Entertainment & Media	Group
Total segmental revenue	7,689,604	2,536,027	555,297	367,875	11,148,803
Inter-segment revenue	(1,657,545)	(961,282)	(83,646)	(3,249)	(2,705,722)
Revenue from external customers	6,032,059	1,574,745	471,651	364,626	8,443,081
Operating (loss) / profit segment results	(929,034)	584,883	(315,835)	(270,497)	(930,483)
Finance income					8,260
Finance costs					(807,663)
Finance costs - net					(799,403)
Loss before income tax					(1,729,886)
Income tax expense					(138,678)
Loss for the period					<u>(1,868,564)</u>

o Other segment items included in the income statement are as follows:

	Cellular Operations	Global Operations	Broadband	Entertainment & Media	Group
Depreciation / impairment	1,669,803	27,754	202,225	109,633	2,009,415
Amortization	107,636	17,649	31,805	2,201	159,291

o The segment assets and liabilities at 31 March 2009 and capital expenditure for the 3 months period then ended are as follows:

	Cellular Operations	Global Operations	Broadband	Entertainment & Media	Unallocated	Group
Assets	74,291,628	7,822,892	9,144,095	3,263,898	Nil	94,522,513
Liabilities	8,437,289	1,976,875	1,791,074	1,395,685	41,401,482	55,002,405
Capital expenditure	4,834,549	245,647	493,717	209,584	Nil	5,783,497

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(in the notes all amounts in Sri Lanka Rupees thousands unless otherwise stated)

4 Segment information (Contd)

o The segment results for the 3 months period ended 31 March 2008 are as follows:

	Cellular Operations	Global Operations	Broadband	Entertainment & Media	Group
Total segmental revenue	7,651,508	1,907,455	536,655	246,327	10,341,945
Inter-segment revenue	(521,912)	(863,655)	(65,571)	(3,658)	(1,454,796)
Revenue from external customers	7,129,596	1,043,800	471,084	242,669	8,887,149
Operating profit /(loss) segment results	992,849	472,751	(244,852)	(166,138)	1,054,610
Finance income					32,180
Finance costs					(132,847)
Finance costs - net					(100,667)
Profit before income tax					953,943
Income tax expense					(65,329)
Profit for the period					888,614

o Other segment items included in the income statement are as follows:

	Cellular Operations	Global Operations	Broadband	Entertainment & Media	Group
Depreciation / impairment	1,220,438	7,561	278,114	24,641	1,530,754
Amortization	114,369	11,266	30,636	10,108	166,379

o The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Cellular Operations	Global Operations	Broadband	Entertainment & Media	Unallocated	Group
Assets	62,840,825	6,796,004	8,733,754	3,290,614	Nil	81,661,197
Liabilities	7,119,636	1,762,015	1,651,222	927,859	28,391,175	39,851,907
Capital expenditure	17,573,447	543,237	3,765,636	899,263	Nil	22,781,583

Inter segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, intangible assets, capital work in progress, inventories, trade and other receivables, and cash and cash equivalents.

Segment liabilities comprise of operating liabilities. Unallocated liabilities are comprised of items such as taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

(b) Secondary reporting format - geographical segments

The Group's four business segments operate in one main geographical area, hence they do not qualify for secondary reporting.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements (Contd)

(in the notes all amounts in Sri Lanka Rupees thousands unless otherwise stated)

5 Stated capital

Stated Capital of the Company consists of 8,143,778,405 ordinary shares and 4,500,000,000 rated cumulative redeemable preference shares.

6 Loan facility from TM International (L) Limited

TM International (L) Limited provided short term advances amounting to USD 37.5 Mn during the period for expenditure related to telecommunication expansion, launch of CDMA & Pay TV services.

7 Prior year adjustment

The policy followed by a subsidiary in respect of revenue recognition was changed during the year 2008. The revenue which was previously recognized up front at the time of granting the connection is now recognized over the subscriber churn. This change in accounting policy has been accounted for as a prior year adjustment in the year 2008, in accordance with "SLAS 10 – Accounting Policies, Changes in Accounting Estimates and Errors", by restating comparative figures and adjusting the opening balance of retained earnings. The change, in the opinion of the directors, is considered to give a fairer representation of the results for the period and the status of the assets and liabilities at the end of the period.

8 Voluntary resignation scheme (VRS)

A voluntary resignation scheme was announced on 24 March 2009 by the Company and its subsidiaries. The compensation payable to the employees who opted to exercise their rights under this scheme has been accounted for in the financial statements for the quarter ending 31 March 2009. Accordingly an amount of Rs 255,736,571 and Rs 277,847,538 was provided for in the financial statements for the quarter ending 31 March 2009 for the company and group respectively.

9 Comparatives

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

10 Market price per share

For the three months ended 31 March

	2009 Rs.	2008 Rs.
- Highest	6.25	20.00
- Lowest	4.50	16.50
- Last traded	4.90	16.75