

SG/2006

25 October 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 September 2006

We have reviewed the accompanying consolidated balance sheet of Dialog Telekom Limited as at 30 September 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

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

Adviser P.D. Rodrigo FCA

DIALOG TELEKOM LIMITED

Income statement

(all amounts in Sri Lanka Rupees Thousands)

	9 Months ended 30 September 2006		9 Months ended 30 September 2005
	Group	Company	Company
Sales	18,890,373	18,500,085	12,812,698
Cost of sales	<u>(6,525,977)</u>	<u>(6,331,894)</u>	<u>(4,245,777)</u>
Gross profit	12,364,396	12,168,191	8,566,921
Other operating income	82,817	62,454	40,238
Administrative expenses	(2,097,105)	(2,073,891)	(1,527,074)
Distribution costs	<u>(2,301,551)</u>	<u>(2,292,178)</u>	<u>(1,730,697)</u>
Operating profit	8,048,557	7,864,576	5,349,388
Finance cost	<u>(416,349)</u>	<u>(334,846)</u>	<u>(172,372)</u>
Profit before tax	7,632,208	7,529,730	5,177,016
Tax	(83,263)	(70,737)	(30,363)
Net profit	<u>7,548,945</u>	<u>7,458,993</u>	<u>5,146,653</u>
Basic earnings per share (Rs.)	1.046	1.034	0.896
Par value per Ordinary share (Rs.)	1	1	1

DIALOG TELEKOM LIMITED

Income statement

(all amounts in Sri Lanka Rupees Thousands)

	3 Months ended 30 September 2006		3 Months ended 30 September 2005
	Group	Company	Company
Sales	6,610,639	6,469,385	4,674,474
Cost of sales	<u>(2,255,179)</u>	<u>(2,180,636)</u>	<u>(1,651,099)</u>
Gross profit	4,355,460	4,288,749	3,023,375
Other operating income	36,947	24,454	24,475
Administrative expenses	(829,683)	(832,622)	(561,326)
Distribution costs	<u>(791,604)</u>	<u>(786,591)</u>	<u>(711,403)</u>
Operating profit	2,771,120	2,693,990	1,775,121
Finance cost	<u>(136,816)</u>	<u>(113,931)</u>	<u>(73,065)</u>
Profit before tax	2,634,304	2,580,059	1,702,056
Tax	(18,175)	(6,339)	(1,622)
Net profit	<u>2,616,129</u>	<u>2,573,720</u>	<u>1,700,434</u>
Basic earnings per share (Rs.)	0.362	0.356	0.239
Par value per Ordinary share (Rs.)	1	1	1

DIALOG TELEKOM LIMITED

Balance sheet

(all amounts in Sri Lanka Rupees Thousands)

ASSETS	30 September 2006		31 December 2005	
	Group	Company	Group	Company
Non - current assets				
Property, plant and equipment	24,646,099	23,282,191	20,188,444	18,985,566
Intangible assets	2,044,591	471,329	1,628,305	348,448
Investment in subsidiary	Nil	2,295,844	Nil	1,970,764
	26,690,690	26,049,364	21,816,749	21,304,778
Current assets				
Inventories	1,541,422	1,541,422	963,887	963,887
Receivables and prepayments	5,866,025	5,549,129	3,726,080	3,494,222
Cash and cash equivalents	5,480,215	5,454,061	6,689,919	6,624,188
	12,887,662	12,544,612	11,379,886	11,082,297
Total assets	39,578,352	38,593,976	33,196,635	32,387,075
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares	7,403,435	7,403,435	7,403,435	7,403,435
ESOS Trust shares	(2,047,438)	(2,047,438)	(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	Nil	Nil
Retained earnings	11,636,557	11,546,605	6,900,917	6,900,917
	22,344,702	22,254,750	17,200,871	17,200,871
Minority interest	36,048	Nil	Nil	Nil
Total equity	22,380,750	22,254,750	17,200,871	17,200,871
LIABILITIES				
Non - current liabilities				
Subscription in advance	6,335	6,335	Nil	Nil
Borrowings	6,757,094	6,015,871	9,048,749	8,913,470
Deferred Tax Liability	33,653	33,653	Nil	Nil
Retirement benefit obligations	96,990	96,990	81,833	75,190
	6,894,072	6,152,849	9,130,582	8,988,660
Current liabilities				
Trade and other payables	9,161,709	9,074,556	5,214,388	5,099,826
Current tax liabilities	67,914	67,914	35,760	35,760
Borrowings	1,073,907	1,043,907	1,615,034	1,061,958
	10,303,530	10,186,377	6,865,182	6,197,544
Total liabilities	17,197,602	16,339,226	15,995,764	15,186,204
Total equity and liabilities	39,578,352	38,593,976	33,196,635	32,387,075
Net Asset per share (Rs)	3.018	3.006	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 25 October 2006.

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

Signed
M.R.Prelis
Director

The notes on pages 6 and 7 form an integral part of these financial statements.

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DIALOG TELEKOM LIMITED

Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Group	Attributable to equity holders of the Company						Minority Interest	Total Equity
	Ordinary share capital	Share Premium	Preference share capital	Shares in trust	Revaluation reserve	Dividend reserve	Retained earnings	
Balance as at 1 January 2006	7,403,435	5,276,943	Nil	(2,385,320)	4,896	Nil	6,900,917	17,200,871
Net profit	Nil	Nil	Nil	Nil	Nil	Nil	7,548,945	7,548,945
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	344,217	Nil	Nil	Nil	344,217
Subscription in advance	Nil	Nil	Nil	(6,335)	Nil	Nil	Nil	(6,335)
Minority interest arising on business consolidation	Nil	Nil	Nil	Nil	Nil	Nil	Nil	36,048
Balance as at 30 September 2006	7,403,435	5,276,943	Nil	(2,047,438)	4,896	70,309	11,636,557	22,380,750

Company	Ordinary share capital	Share Premium	Preference share capital	Shares in trust	Revaluation reserve	Dividend reserve	Retained earnings	Total Equity
Balance as at 1 January 2005	370,000	Nil	1,268,979	Nil	4,896	Nil	7,068,281	8,712,156
Net profit	Nil	Nil	Nil	Nil	Nil	Nil	5,146,653	5,146,653
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
New issue of shares - IPO	489,967	5,389,634	Nil	Nil	Nil	Nil	Nil	5,879,601
IPO cost setoff	Nil	(112,691)	Nil	Nil	Nil	Nil	Nil	(112,691)
Balance as at 30 September 2005	7,403,435	5,276,943	Nil	Nil	4,896	Nil	5,035,699	17,720,973
Balance at 1 October 2005	7,403,435	5,276,943	Nil	Nil	4,896	Nil	5,035,699	17,720,973
Net Profit	Nil	Nil	Nil	Nil	Nil	Nil	1,865,218	1,865,218
Share Option Scheme	Nil	Nil	Nil	(2,385,320)	Nil	Nil	Nil	(2,385,320)
Balance at 31 December 2005	7,403,435	5,276,943	Nil	(2,385,320)	4,896	Nil	6,900,917	17,200,871
Balance as at 1 January 2006	7,403,435	5,276,943	Nil	(2,385,320)	4,896	Nil	6,900,917	17,200,871
Net profit	Nil	Nil	Nil	Nil	Nil	Nil	7,458,993	7,458,993
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	344,217	Nil	Nil	Nil	344,217
Subscription in advance	Nil	Nil	Nil	(6,335)	Nil	Nil	Nil	(6,335)
Balance as at 30 September 2006	7,403,435	5,276,943	Nil	(2,047,438)	4,896	70,309	11,546,605	22,254,750

DIALOG TELEKOM LIMITED

Cash Flow Statement

(all amounts in Sri Lanka Rupees Thousands)

	9 Months ended 30 September 2006		9 Months ended 30 September 2005
	Group	Company	Company
Operating activities			
Cash generated from operations	8,947,620	8,734,693	6,198,630
Interest received	198,471	194,238	103,769
Interest paid	(421,766)	(348,901)	(230,702)
Tax paid	(19,931)	(19,931)	(3,659)
Retirement benefit obligations paid	(2,872)	(2,090)	(749)
Net cash from operating activities	8,701,522	8,558,009	6,067,289
Investing activities			
Purchase of property, plant and equipment	(579,610)	(465,688)	(1,165,782)
Purchase of intangible assets	(37,517)	(37,517)	(177,454)
Expenditure incurred on capital work-in-progress	(6,035,238)	(5,883,131)	(5,378,557)
Acquisition of subsidiary, net of cash acquired	(325,079)	(325,080)	Nil
Proceeds from sale of property, plant and equipment	15,646	15,578	8,887
Net cash used in investing activities	(6,961,798)	(6,695,838)	(6,712,906)
Financing activities			
Proceeds from exercising ESOS shares	344,217	344,217	Nil
Repayment of finance leases	(25,189)	(24,757)	(21,245)
Receipt of finance lease	8,300	7,631	Nil
Repayment of long term borrowings	(640,988)	(616,393)	(191,314)
Proceeds from long term borrowings	107,476	Nil	6,861,571
Proceed from Issue of Shares	Nil	Nil	489,967
Repayment of Subscription in Advance	Nil	Nil	(2,460,000)
Share Premium from the Issue of Shares	Nil	Nil	5,389,634
Payment to ESOS Trust	Nil	Nil	(2,398,713)
Dividend received by ESOS Trust	70,309	70,309	Nil
Dividend paid	(2,813,305)	(2,813,305)	(2,858,936)
Net cash used in financing activities	(2,949,180)	(3,032,298)	4,810,964
Increase / (decrease) in cash and cash equivalents	(1,209,456)	(1,170,127)	4,165,347
Movement in cash and cash equivalents			
At start of period	6,689,671	6,624,188	3,170,335
Increase / (decrease)	(1,209,456)	(1,170,127)	4,165,347
At end of period	5,480,215	5,454,061	7,335,682

DIALOG TELEKOM LIMITED

Notes to the Financial Statements

1. Market Price per Share

For the three months ended 30 th September	2006 Rs.	2005 Rs.
- Highest	22.00	20.00
- Lowest	19.50	14.00
- Last Traded	21.75	19.75

2. Accounting policies

The consolidated financial statements of Dialog Telekom Limited for the nine months ended 30 September 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 nine months ended 30 September 2006.

3. Acquisition of Asset Media (Private) Limited (AMPL)

On the 29th of September 2006, DTL acquired a 90% stake in Asset Media (Private) Limited (AMPL), for a purchase consideration of Rs. 325 Mn. AMPL is yet to commence operations as at 30 September 2006. The fair value of the net assets of AMPL has been incorporated in the consolidated balance sheet of DTL Group as at 30 September 2006.

Details of net assets acquired and goodwill are as follows:

	(Rs.'000)
Purchase consideration:	
Total purchase consideration	325,080
Fair value of net assets acquired	(324,430)
Goodwill	650

4. Earnings per Ordinary Shares (EPS)

For the purpose of calculating the basic earnings per ordinary shares for the period ended 30 September 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 September'06 (Weighted based on the month in which the shares were exercised)	11,175,688
Weighted average number of shares	7,215,833,910

DIALOG TELEKOM LIMITED

Notes to the Financial Statements

For the period ended 30 September 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	9
Bonus shares issued	3,685,810,000	9
Retained profits capitalised	634,489,380	9
Conversion of Preference shares in May '05	1,268,979,000	4
Capitalisation of Subscription in Advance in May '05	954,190,000	4
Total new share issued July '05	489,966,723	2
Total new share issued for the ESOS Trust July '05	(199,892,741)	2
Weighted average number of shares	5,742,835,376	