Enriching Sri Lankan Lives

Annual Report 2008

an axiata company

Dialog

Introduction to the Company

Dialog Telekom PLC (The Company/Dialog Telekom/Dialog) operates Sri Lanka's largest and fastest growing mobile telecommunications network - Dialog GSM. The Company is also one of the largest listed companies on the Colombo Stock Exchange in terms of market capitalisation (USD 433.6 Mn. as of 31 December 2008), representing 10% of the market capitalisation of the Colombo Stock Exchange.

Dialog Telekom PLC is a subsidiary of Axiata Group Berhad (formerly known as TM International Berhad). Dialog has spearheaded the mobile industry in Sri Lanka since the late 90's, propelling it to a level of technology on par with the developed world. The Company operates 2.5G, 3G and 3.5G mobile services, supporting the very latest in multimedia and mobile internet services as well as international roaming across over 200 countries. Dialog Telekom accounts for more than 50% of Sri Lanka's mobile subscribers.

In addition to its core business of mobile telephony, the Company operates a wide portfolio of international telecommunication services, including but not limited to retail and wholesale international voice and data services, based on cutting edge International Gateway Infrastructure. Dialog Global, the international arm of Dialog Telekom, provides state-of-the-art gateway facilities through partnerships with "Tier-1" international carriers.

Dialog Broadband Networks (Private) Limited ("DBN") is a fully owned subsidiary of the Company, and is a key player in Sri Lanka's ICT infrastructure sector, providing backbone and transmission infrastructure facilities and data communication services. DBN also operates a fixed wireless telephony service based on CDMA technology. DBN was also the first service provider in Sri Lanka to introduce high-speed broadband internet services based on WiMAX technology.

Dialog Television (Private) Limited ("Dialog TV"), a subsidiary of Dialog Telekom PLC, operates Dialog Satellite TV, a Direct to Home (DTH) Digital Satellite TV service. Dialog TV supports a broad array of international and local content including CNN, BBC, HBO, Cinemax, AXN, ESPN, Ten Sports, Discovery Channel, MTV (Music Television) and Cartoon Network alongside a wide portfolio of Sri Lankan television channels.

NOTE: The Company and its subsidiaries DBN and Dialog TV will hereinafter be collectively referred to as the "Dialog Telekom Group".

Our Vision

To be the undisputed leader in the provision of multi-sensory connectivity resulting always, in the empowerment and enrichment of Sri Lankan lives and enterprises.

Dialog

Our Mission

To lead in the provision of technology-enabled connectivity touching multiple human sensors and faculties, through committed adherence to customer-driven, responsive and flexible business processes, and through the delivery of quality service and leading edge technology unparalleled by any other, spurred by an empowered set of dedicated individuals who are driven by an irrepressible desire to work as one towards a common goal in the truest sense of team spirit.

Contents

Corporate Values

- **Total commitment to our customers**
- **Dynamic and human-centred leadership**
- **Commitment to task & excellence**
- **Uncompromising integrity**
- **Professionalism and accountability**
- **Teamwork**
- **Foremost respect for concern & care**

Corporate Information

NAME OF COMPANY
Dialog Telekom PLC

COMPANY REGISTRATION NO.
PQ 38

LEGAL FORM
A public quoted company with limited liability. Incorporated as a private limited liability company on 27 August 1993 and subsequently converted to a public limited liability company on 26 May 2005. Listed on the Colombo Stock Exchange in July 2005.

STOCK EXCHANGE LISTING
Ordinary Shares of the Company listed on the Colombo Stock Exchange of Sri Lanka

BOARD OF DIRECTORS
Datuk Azzat bin Kamaludin - Chairman
Dr. Shridhir Sariputta Hansa Wijayasuriya – Group Chief Executive
Mr. Moksevi Rasingh Prelis
Dato' Yusof Annuar bin Yaacob
Mr. Mohamed Vazir Muhsin
Mr. Jayantha Cudah Bandara Dhanapala
Mr. Azwan Khan bin Osman Khan
Mr. Roni Lihawa Abdul Wahab

BOARD AUDIT COMMITTEE
Mr. Moksevi Rasingh Prelis - Chairman
Dato' Yusof Annuar bin Yaacob
Mr. Mohamed Vazir Muhsin
Mr. Jayantha Dhanapala
Mr. Azwan Khan bin Osman Khan

NOMINATING & REMUNERATION COMMITTEE
Dato' Yusof Annuar bin Yaacob - Chairman
Mr. Moksevi Rasingh Prelis
Mr. Mohamed Vazir Muhsin

COMPANY SECRETARY
Mrs. Anoja J. Obeyesekere

AUDITORS
PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place
Colombo 02
Sri Lanka

BANKERS
Bank of Ceylon
Citibank N.A.
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Bank
Hatton National Bank PLC
Hongkong and Shanghai Banking Corporation Limited
National Savings Bank
Nations Trust Bank PLC
NDB Bank PLC
Pan Asia Banking Corporation PLC
Peoples' Bank
Public Bank Berhad
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank Ltd
Union Bank of Colombo Ltd.

REGISTERED ADDRESS
475, Union Place
Colombo 02
Sri Lanka

Telephone : +94777 678700

Website : www.dialogtelekom.com

INVESTOR RELATIONS
Telephone : +94777 081304

E-mail : ir@dialog.lk

SHAREHOLDER SERVICES
Group Corporate Services
Dialog Telekom PLC
1st Floor, Dialog TV Building,
No 275, Nawala Road,
Nawala, Sri Lanka.

Telephone : +94 77 3 908 929,
+94 77 7 081 471

Fax : +94 11 7 694 350

E-mail : cosecunit@dialog.lk

Board of Directors

	Board of Directors
01	Datuk Azzat Kamaludin (Chairman)
02	Mr. Jayantha Dhanapala
03	Mrs. Anoja Obeyesekere (Company Secretary)
04	Mr. Moksevi Prelis
05	Dato' Yusof Annuar Yaacob
06	Mr. Mohamed Muhsin
07	Dr. Hans Wijayasuriya (Group Chief Executive)
08	Mr. Azwan Khan Osman Khan
*	Mr. Roni Lihawa Abdul Wahab (not pictured)

Milestones & Recognition

(JANUARY) DIALOG TV LAUNCHED TERRESTRIAL DIGITAL VIDEO BROADCAST (DVB-T) SERVICES

Dialog TV launched Sri Lanka's first Terrestrial Digital Video Broadcast in 2008 with the pilot broadcast covering the city of Colombo enabling viewers to enjoy higher video and audio quality, while also having a host of multi-lingual options and electronic program guides.

(APRIL) DIALOG TELEKOM RECOGNISED BY BOI AS THE SINGLE LARGEST FOREIGN INVESTOR

Dialog Telekom was recognised as the single largest investor in Sri Lanka with the highest level of realised investment in 2007 totaling USD 328 Mn. This is the third successive year that Dialog Telekom occupied this position in Sri Lankan investment rankings.

(APRIL) DIALOG TELEKOM AND IWS GIS LAUNCHED SAT NAV

Dialog Telekom and IWS GIS launched Dialog SatNav, Sri Lanka's first Mobile Satellite Navigation Device for vehicles.

(APRIL) DIALOG TELEKOM NAMED SRI LANKA'S MOST VALUABLE BRAND FOR THE SECOND CONSECUTIVE YEAR

Dialog Telekom was recognised as Sri Lanka's Most Valuable Brand by Brand Finance from among a total of 100 brands, with a valuation of LKR 12,401 Mn., reflecting a substantial value enhancement relative to its previous year's value of LKR 12,324 Mn.

(APRIL) DIALOG TELEKOM RANKED AS BUSINESS TODAY'S NUMBER 1 COMPANY

Dialog Telekom was ranked as Number 1 among Business Today's Top Ten Companies in Sri Lanka. Based on their performance in the 2006/2007 period Dialog Telekom emerged at the top following an in-depth evaluation of multiple performance indicators that was conducted by Business Today.

(MAY) DIALOG CUSTOMER SERVICE GAINED INTERNATIONAL RECOGNITION FOR EXCELLENCE

Dialog Telekom received three awards for Customer Management Strategy, Customer Management Technology and Retail Customer Experience at the Customer Management Awards held in China in 2008. These awards gave due recognition to Dialog Telekom's overall customer strategy, use of technology to help effectively execute measure and monitor the company customer management, strategy and effective customer experience delivery at customer service points along with its overall track record of success.

(JULY) DIALOG TELEKOM LAUNCHED 3G SERVICES IN JAFFNA PENINSULA

Dialog Telekom emerged as the first mobile service provider to offer 3G services in Jaffna, following the setting up of the 350th 3G base station in Mannipai, Jaffna. With the launch of 3G services in Jaffna Dialog Telekom also offered video calling via 3G to its customers in Jaffna.

(JULY) DIALOG TELEKOM AWARDED BEST IN CLASS RECOGNITION AT THE CUSTOMER RELATIONSHIP SUMMIT

Dialog Telekom's Service Centres and Enterprise Contact Management was rated Best in Class in the Asia Pacific at the Customer Relationship Summit organised by the Asia Pacific Customer Service Consortium in Hong Kong. This is the second consecutive year that Dialog Telekom received such recognition.

(AUGUST) DIALOG TELEKOM EMERGED RUNNER UP IN "SRI LANKA'S MOST RESPECTED BUSINESS ENTITY"

Dialog Telekom was placed Number 2 in a city wide survey to determine "Sri Lanka's Most Respected Business Entity". Dialog Telekom has retained its position for the second consecutive year in this survey which was conducted by the Nielsen Company and commissioned by Media Services (Pvt.) Ltd.

(OCTOBER) MOST POPULAR MOBILE TELECOM BRAND OF THE YEAR AWARD, SLIM-NIELSEN PEOPLE'S AWARD 2008

Dialog Telekom won the Most Popular Mobile Telecom Brand of the Year Award at the SLIM-Nielsen People's Award 2008. The SLIM-Nielsen People's Awards are widely regarded as a true reflection of the consumers' choice and winners are nominated by the public during a five-month long selection process.

(DECEMBER) DIALOG TV WINS SILVER & GOLD AT 2008 SLIM BRAND EXCELLENCE

Dialog Telekom received a Silver Award in the New Entrant Brand of the Year category for Dialog TV as well as a Gold Award for the Most Innovative Brand in recognition of its innovative achievements in 3G, mobile based news services at 2008 SLIM Brand Excellence. These awards represented the highest honours in their respective categories.

(DECEMBER) DIALOG TELEKOM RECEIVES ASIA PACIFIC BEST CUSTOMER SERVICE CENTRE AWARD

Dialog Telekom's flagship Customer Service Centre, Dialog Future World, received the Asia Pacific Best Customer Service Centre Award, at the Asia Pacific Customer Service Recognition of Excellence held in Hong Kong.

Profile of Board of Directors

DATUK AZZAT KAMALUDIN

Chairman / Non-Executive, Non-Independent Director

Datuk Azzat Kamaludin was appointed to the Board of Dialog Telekom as Chairman and Director on 21 July 2008.

He is an Independent Non-Executive Director of Axiata Group Berhad. Datuk Azzat Kamaludin is a lawyer by profession and is a partner of the law firm of Azzat & Izzat, Malaysia.

Datuk Azzat Kamaludin graduated from the University of Cambridge, United Kingdom, with degrees in Law and in International Law, and was admitted as a Barrister-at-Law of the Middle Temple, London in 1970. Prior to being admitted as an advocate and solicitor of the High Court of Malaya in 1979, he served as an administrative and diplomatic officer with the Ministry of Foreign Affairs, Malaysia from 1970 to 1979.

Datuk Azzat Kamaludin is presently a director of several public listed and private limited companies. He has also served as a member of the Securities Commission, Malaysia from 1993 to 1999.

DR. HANS WIJAYASURIYA

Group Chief Executive / Non-Independent, Executive Director

Dr. Hans Wijayasuriya was appointed to the Board of Dialog Telekom on 19 January 2001.

Dr. Wijayasuriya joined the Company in 1994 as a member of the founding management team, and has functioned in the capacity of the Chief Executive of Dialog Telekom, since 1997. He counts over 15 years experience in technology related business management. In addition to his role as the Group Chief Executive of Dialog Telekom, Dr Wijayasuriya also carries regional responsibilities as the Group Chief Operating Officer of Axiata Group Bhd ("Axiata"). He presently serves on the Boards of several international subsidiaries of the Axiata Group.

A Fellow of the Institute of Engineering Technology of the United Kingdom (IET) Dr. Wijayasuriya is a Chartered Professional Engineer and also a member of the Institution of Electrical and Electronic Engineers (IEEE), USA. Dr. Wijayasuriya graduated with a degree in Electrical and Electronic Engineering from the University of Cambridge, United Kingdom in 1989. He subsequently read for and was awarded a PhD in Digital Mobile Communications at the University of Bristol, United Kingdom. Dr. Wijayasuriya also holds a Masters in Business Administration from the University of Warwick, United Kingdom.

Dr. Wijayasuriya is a past Chairman of GSMA Asia Pacific – the regional interest group of the GSM Association representing 49 Asia Pacific member countries, and has earned the distinction of being included in the GSM 100 Roll of Honour for his contribution to GSM in the Asia Pacific Region.

Dr. Wijayasuriya was also the recipient of the CIMA-Janashakthi Business Leader of the Year award in its inaugural year of presentation in 2003, and the coveted Sri Lankan of the Year award for 2008 presented by Sri Lanka's premier business journal-LMD.

MR. MOKSEVI PRELIS

Independent, Non-Executive Director

Mr. Prelis was appointed to the Board of Dialog Telekom on 15 September 2004.

He has 27 years experience in the banking sector out of which 21 years was in the capacity of CEO/ Director of the DFCC Bank and the Nations Trust Bank. Prior to this he has worked for 16 years as an Engineer and a Manager in the automobile manufacturing and steel industries. He has held the posts of Chairman – Ceylon Electricity Board, Chairman – National Institute of Business Management, Chairman – Association of Development Finance Institutions of Asia & Pacific, headquartered in Manila and Chairman – St. Johns National Association of Sri Lanka. He has served as a Director on the boards of 20 companies and five state institutions. He is currently the part time Sri Lanka Country Adviser to UN Habitat and a member of the Presidential Task Force on IT and English.

He holds a Bachelors degree with Honours in Mechanical Engineering from the University of Ceylon, a Masters degree in Industrial Engineering and Management from Purdue University USA, a Postgraduate Certificate in Industrial Administration from Aston University Birmingham and has completed the International Senior Management Programme of the Harvard Business School, USA. He is a Chartered Engineer of UK, a Fellow of the Institution of Engineers Sri Lanka, a (Hon) Member of the Institute of Personnel Management and a (Hon) Fellow of the Institute of Bankers Sri Lanka.

DATO' YUSOF ANNUAR YAACOB

Non-Independent, Non-Executive Director

Dato' Yusof Annuar was appointed to the Board of Dialog Telekom on 9 September 2005.

Dato' Yusof Annuar is a Chartered Accountant by profession. He completed his Chartered Institute of Management Accountants professional examination from the London School of Accountancy in 1987. He has had investment banking, corporate management and telecommunication experience throughout his career.

He is an Executive Director and the Group Chief Financial Officer of Axiata Group Bhd ("Axiata"). He was the Chief Executive Officer of TM International Sdn Bhd from June 2005 till March 2008. He presently serves as a member of the Board of several public listed international subsidiaries of the Axiata Group, which includes PT Excelcomindo Pratama Tbk. (Indonesia), Spice Communications Limited (India) and MobileOne Ltd (Singapore).

MR. MOHAMED MUHSIN

Independent, Non-Executive Director

Mr. Muhsin was appointed to the Board of Dialog Telekom on 14 June 2006.

Mr. Muhsin's experience includes working as a Strategic Management Consultant and Director on international corporate and foundation Boards. Prior to his retirement as the Vice President & Chief Information Officer at the World Bank, Mr. Muhsin was responsible for aligning information technology with the organisation's business strategy. He successfully implemented major reforms in global telecommunications, video conferencing, information management and enterprise business systems.

A Chartered Accountant and a Fellow of the Institute of Chartered Accountants of Sri Lanka, Mr. Muhsin also worked in senior positions in the private sector in Sri Lanka and served for several years as an advisor to the then President of Zambia, Dr. Kenneth Kaunda on state enterprise reform and as the Group Financial Director of Zambia's Mining and Industrial conglomerate.

MR. JAYANTHA DHANAPALA

Independent, Non-Executive Director

Mr. Dhanapala was appointed to the Board of Dialog Telekom on 3 August 2007.

He was a career diplomat in the Sri Lanka Foreign Service and the United Nations ("UN"). He was the Ambassador of Sri Lanka and the Permanent Representative to the UN in Geneva (1984-87), the Ambassador of Sri Lanka to the USA (1995-97) and the UN Under-Secretary-General (1998-2003). he si the current President of the 1995 Nobel Peace Prize-winning Pugwash Conferences on Science and World Affairs, and sits on the UN University Council, the Governing Board of the Stockholm International Peace Research Institute and advisory boards of other international institutes. Mr. Dhanapala was named 'Sri Lankan of the Year 2006' by Sri Lanka's premier business magazine, the Lanka Monthly Digest ("LMD"). He has also received many international awards.

Mr. Dhanapala was awarded a Bachelor of Arts (Honours) degree majoring in English Literature with French from the University of Peradeniya Sri Lanka and a Master of Arts degree in International Studies from the American University in Washington DC. He was awarded honorary doctorates by the Universities of Peradeniya and Sabaragamuwa, Sri Lanka, the Monterey Institute of International Studies in the USA and the University of Southampton UK. He has published several books and written articles for international journals.

MR. AZWAN KHAN OSMAN KHAN

Non-Executive, Non-Independent Director

Mr. Azwan Khan was appointed to the Board of Dialog Telekom on 21 July 2008.

He is the Group Chief Strategy Officer of Axiata Group Berhad. His current responsibilities include Group Corporate Strategy, Group Marketing and Product Development, Group Synergies, Strategic Initiatives, Branding and Corporate Communications. He was formerly the Senior Vice President, Corporate Strategy and Development in Celcom (Malaysia) Bhd ("Celcom"), a position he held since mid-2005.

Mr. Azwan Khan is an engineering graduate (First-Class Honours) from the Imperial College, University of London, with a broad mix of telecommunications and non-telecommunications experience across a range of companies. Before joining Celcom, he spent five years with The Boston Consulting Group, where he worked on developing and implementing strategies for various blue chip organizations in the region in a variety of areas including strategy, planning and change management, spanning a wide range of industries. Prior to that, he spent seven years in Shell Malaysia where his job functions included IT development, Retail Marketing, Loyalty Cards and Commercial Marketing, which included a secondment as Operations Manager of Bonuslink.

Mr. Azwan Khan is also an active board member in Celcom Timur (Sabah) Sdn Bhd, Sacofa Sdn Bhd, C-Mobile Sdn Bhd, Telekom Malaysia International (Cambodia) Company Limited , Multinet Pakistan (Private) Limited and SAMART Corporation Public Limited Company (Thailand). He is also a member of the GSMA Chief Strategy Officer Group.

MR. RONI LIHAWA ABDUL WAHAB

Non-Executive, Non-Independent Director

Mr. Roni L. Abdul Wahab was appointed to the Board of Dialog Telekom on 9 October 2008.

Mr. Abdul Wahab is currently the Senior Vice President, Investments of Khazanah Nasional Berhad, Malaysia. He started his career in 1997 in investment banking with Capstar Partners, Inc. and later in 2000, at J.P Morgan Securities Inc. Prior to joining Khazanah in 2005, he was with United Engineers (Malaysia) Berhad Group where he was involved with the group-wide corporate turnaround, restructurings, mergers and acquisitions activities.

Mr. Abdul Wahab holds a Bachelor of Science degree in Economics from the Wharton School, University of Pennsylvania.

Group Senior Management

Mothilal De Silva
Group Chief Corporate Officer

Sandra De Zoysa
Group Chief Customer Officer

Upali Gajanaike
Chief Executive Officer
Dialog Tele - Infrastructures

Vipula Gunatilleka
Group Chief Financial Officer

Anoja Obeyesekere
Group Chief Legal Officer/
Company Secretary & Chief
Executive Officer - Dialog Global

Nushad Perera
Group Chief Marketing Officer &
Chief Executive Officer
Dialog TV

Thivanka Rangala
Group Chief Commercial Officer

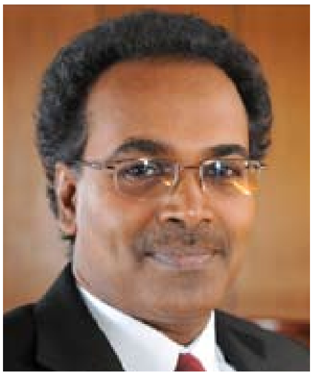
Kavan Ratnayaka
Chief Executive Officer
Dialog Fixed Telephony &
Broadband Services

Mohd. Rosman Mat Ali
Group Chief Technology Officer

Mohan Villavarayan
Chief Financial Officer – DBN &
Chief Operating Officer
Fixed Telephony and Data
Services

Supun Weerasinghe
Chief Operating Officer
Dialog Mobile

Pradeep De Almeida
Group Senior Vice President
Network Operations, Core
Networks & New Technology



Lalith Fernando
Group Chief Internal Auditor

Suren Goonewardene
Group Senior Vice President
Retail Business & Corporate
Development

Ranjeewa Kulatunga
Group Senior Vice President
Human Resources & Facilities
Management

Shayam Majeed
Group Senior Vice President
Access Networks & Technology
Resource Planning

Chaminda Ranasinghe
Group Senior Vice President
Information Technology &
Charging Systems

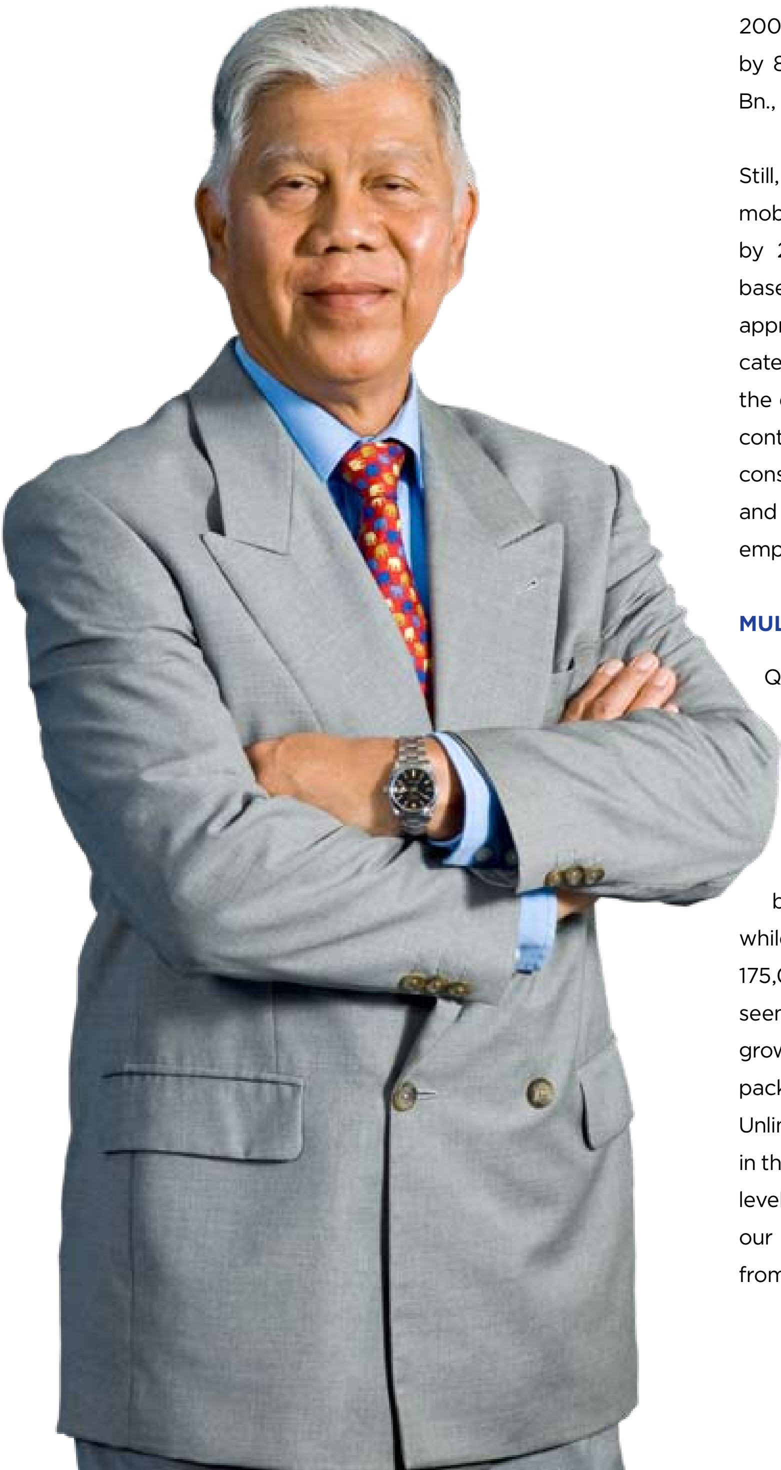
Priyanka Undugodage
Vice President - Technology
Fixed Telephony & Broadband
Services

Message from the Chairman

STEADFAST IN CHALLENGING TIMES

It gives me great pleasure to present you with our Annual Report for the year ended 31 December 2008 particularly as I am doing it for the first time.

The year under review was a testing one for the global economy and industry, and the pressures posed have had an adverse effect on Dialog's performance. Despite the setback, I am happy to report that our market fundamentals grew stronger during the year, and Dialog is poised to take advantage of the country's improving development and economic prospects in the medium-term.



The Company incurred a loss of Rs. 388 Mn., on a modest revenue growth of 1% amounting to Rs. 33.11 Bn. Our revenue was impacted by successive adjustments to mobile telephony charges to offer greater respite to consumers in the wake of economic pressures. Sharp appreciations in energy costs and interest rates saw the Company's non-operating costs (including depreciation) spike by 107% over the previous year, whilst finance costs grew by 233%. These included investments made to expand and enhance our coverage footprint, capacity and service – the returns of which will be witnessed in the future.

Your company contributed significantly to government revenue in 2008, with the remittance of direct and indirect levies increasing by 80% to Rs. 6.36 Bn. over the previous year's figure of Rs.3.53 Bn., the profit impact of which is recorded at Rs. 3.41 Bn.

Still, Dialog consolidated its leadership position in the Sri Lanka mobile telecommunications sphere growing its subscriber base by 29% (1.25 million) during the year, to record a subscriber base of 5.5 million customers. The Company also commands approximately 60% of the revenue share in the country's mobile category. Despite the aggressive competition in the market and the entry of a fifth player into the country's mobile sector, Dialog continues to capture a major share of mobile subscribers due to constantly adding value to consumer experience with affordability and cutting-edge solutions – an embodiment of our vision to empower.

MULTI-SENSORY TOUCH

Quadruple play is a key facet of Dialog's vision for empowerment, and your company aggressively pursued the promotion of broadband internet, fixed-line telephony and digital television services in addition to its core business of mobile. The Group as a whole recorded consolidated revenue of Rs. 36.17 Bn. – a growth of 6%. Dialog Television grew its subscriber base to over 122,000 – a 121% growth over the previous year, while CDMA and Broadband grew its base nearly five-fold to over 175,000 subscribers. Mobile Broadband on HSPA technology has seen tremendous growth within a very short period of time. This growth has been mainly fueled by the introduction of unlimited packages in September 2008, including the University Students Unlimited package. An exponential growth in this area is expected in the year 2009 with internet penetration, improving from current level of less than 2%. We are encouraged by the performance of our subsidiaries, and are confident of significant contributions from these sectors to the Group in the year ahead.

INDUSTRY STATUS

Sri Lanka's telecommunications industry is the most vibrant industry in the country, and is a key factor in the country's development process. Mobile telephony is the catalyst with the sector with over 10 million Sri Lankans connected – almost 50% penetration. With a growth rate of over 15%, plus, the aggressive competition amongst operators, the booming telecommunications sector will have further positive influence on the country's economy. Much of Sri Lanka's rural population is yet to experience the full potential of this robust industry, and Dialog has placed itself at the helm of efforts to bridge the communication divide. The Company has expanded its footprint across the island with 1,360 base stations and the deployment of a state-of-the-art 3.5G network. The Company's infrastructure arm, Dialog Tele Infrastructures, recorded significant progress in many of its strategic projects during 2008. This is largely a result of the investments made on state-of-the-art infrastructure covering both microwave and fibre optic transmission technologies.

SERVICE EXCELLENCE

Your company continues to lead in the sphere of best-in-class customer service in the region. Dialog came out on top at the Asia Pacific GCCRM Customer Management Awards in the categories of Customer Management Strategy, Customer Management Technology and Retail Customer Experience – a fine example of your company's delivery upon its promise of service excellence. It also received Best Customer Service Centre Award at the Asia Pacific Customer Service Excellence Awards.

Again, these achievements demonstrate the commitment and focus delivered by your company to enrich customer experience – to add value to their experience with Dialog. It's a yet again a fine example of effective synergies between human and technology-based elements achieved by the country's Most Valuable Brand. In 2008, Dialog finished at the top of Sri Lanka's Top 100 Brand Index for the second year in succession. These accolades are a manifestation of our commitment to excellence in our every operation; it's a springboard for further success.

CORPORATE PERSPECTIVES

Dialog is a responsible corporate – committed to deliver value to our consumers and stakeholders. The Company exercises a stringent level of prudence with respect to good corporate governance, which is reviewed and updated regularly to align with international best practice. Dialog regularly changes the way it does business to complement our environment, and to ensure we are aligned with the nation's goals. The Board acknowledges its responsibility to maintain a sound system of internal controls to safeguard shareholders' investments and company assets. After careful consideration, the Board of Directors and the Senior Management have put in a number of corrective measures to maximise the Group's operational efficiency and profitability considering the external pressures of the world economy.

CHANGES TO THE BOARD

I extend my sincere thanks to Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, our former Chairman, Ir. Prabahar N.K. Singam and Dato' Sri Mohammed Shazalli bin Ramly, who resigned from the Board, for their valued contributions which placed Dialog at the forefront of the telecommunications sector in South Asia.

On behalf of the Company, I warmly welcome Mr. Azwan Khan bin Osman Khan and Mr. Roni Lihawa bin Abdul Wahab to the Board. Their combined management expertise will be invaluable in our pursuit of further excellence.

OUR GRATITUDE

I wish to acknowledge the efforts of the entire Dialog team, ably led by its Group Chief Executive, Dr. Hans Wijayasuriya. It is their vision and dynamism that has steered your company towards success; it is they who challenge the boundaries of technology to deliver the best. My appreciation goes out to every member on the Board, for their advice during the past year. I would also like to thank the Government of Sri Lanka, the regulatory authorities, our customers and business partners for their continued support and guidance towards the Company's success.

Datuk Azzat Kamaludin
Chairman
01 March 2009

Group Chief Executive's Review of Operations

The Year 2008 in terms of business outcomes was disappointing in the context and aftermath of a decade long and uninterrupted trend of robust profitability. A loss of Rs. 2.88 Bn. in 2008 as compared with a profit in the previous year of Rs. 8.91 Bn. requires a contextual analysis, and is the focus of my review of operations which follows.

It is important however to note on the positive side, that in 2008, the Company consolidated its market leadership with an active mobile subscriber base of 5.5 million, up 29% from the previous year and representing a market share of 50% and industry revenue share of 60%. Likewise, a focused strategy to invest in infrastructure as an aggressive but responsible market leader has provided the Dialog Group with an infrastructure footprint and product portfolio across multiple ICT sectors, that is unmatched in the country. Indeed Dialog and its principal shareholder Axiata Group (formerly known as TM International Bhd) was recognised as the largest investor in Sri Lanka by the Board of Investment in successive years 2007 and 2008.

With this background, my review of business operations in 2008 provides an overview of the dynamics and circumstances surrounding the down turn in financial performance. It also elucidates the seeding of strategies aimed at value recreation and a return to robust profitability. In so paving the way for future growth, we will continue to be astutely committed to excellence in service to our customers and to making a quantum and empowering contribution to the national economy and society at large.

TRANSITIONING FROM 2007

My review of operations last year, described the onset of constricting domestic economic conditions, and in particular the primary and secondary impacts of inflation and escalating interest rates on the spending power of the Sri Lankan consumer and likewise on the cost base of the Company. My report was however underpinned by the sentiment of near term optimism – which augured in favour of capacity building and the laying of foundations for the capture of future business from across the multiple sectors of mobile, broadband, fixed line and digital television. We entered 2008 with an unmatched infrastructure and customer service footprint, advanced technology and a quadruple play service formulation designed to capture synergies, efficiencies and indeed markets across multiple ICT sectors. A principal assumption underlying our optimism was that the infrastructure and service capacity we had put in place, as well as those under implementation, as at the end of 2007, would translate to the capture of new revenue pools in the near term – i.e. during the course of 2008. The assumption in terms of the existence of such new revenue pools in turn were seemingly justified by past trends in the mobile and fixed line sectors and the significantly underpenetrated condition of the broadband (< 5% of households) and digital (pay) television (< 4% of television owning households) sectors.

THE YEAR UNDER REVIEW – MACRO ENVIRONMENT 2008

Macro economic conditions continued to be challenging in 2008 with point to point inflation rates ranging from 20% to 28% during the first half. Interest rates hovered in the 19% to 22% range during the same period, correcting thereafter to levels of 16% to 17% in the latter half of the year in tandem with the stabilisation of the Sri Lanka Rupee at 113 to the USD and the de-escalation of global energy prices.

Later in the year, challenges arising from the domestic economy were exacerbated by downstream impacts of the global financial crisis putting pressure on foreign capital inflows. Significantly, in comparison to its regional counterparts, Sri Lanka and its industries showed resilience to global externalities recording a GDP growth rate of 6% for the Year 2008. The Industrial sector recorded growth of 5.9%, whilst services grew at 5.6%. The telecommunications sector too delivered aggressive growth in terms of service adoption. The sector grew by 22.3%, with fixed and mobile telephony usage increasing by 25.7% and 39% respectively. Dialog alone, added 1.25 million mobile subscribers during the year reaching a composite subscriber base of 5.5 million accounting for 50% of the country's mobile market. Dialog's fixed line service operated by it's subsidiary Dialog Broadband Networks (DBN) added 100,000 subscribers, reaching a total subscriber base of 150,000 and market share of approximately 6% in the fixed line sector.

Growth recorded by the Sri Lankan economy as well as the telecommunications sector in terms of service adoption though impressive relative to regional comparables, was not seen to manifest in a revival of spending capacity (and hence service usage) at the level of the consumer. It could be surmised that disposable income levels challenged in the wake of high inflation in 2007/8 did not improve significantly in spite of encouraging dynamics in terms of de-escalation of inflation (decelerating to 14% point to point by end of the year) and economic growth.

CORPORATE PERFORMANCE

As stated earlier the Company consolidated its market leadership position in the mobile industry recording an (active) subscriber base of 5.5 million customers as at End of Year (EoY) 2008, up 29% from the previous year. The growth in subscriber base was achieved on the backdrop of challenging economic conditions, heightened competition and price aggression across the sector. Expansive coverage, superior customer service, competitive tariffs and a wide portfolio of cutting edge mobile services laid the foundation for Dialog's continued success in capturing a major share of subscriber additions during the year and consolidation of its position as the clear market leader with a subscriber market share of 50% and revenue market share of 60%.

In contrast with Dialog's market success, financial performance was however moderate in the year under review, with the Company recording a revenue of Rs. 33.11 Bn. for the year; a modest growth of 1% compared to that of FY 2007.

Dialog's mobile business remained steadfast to its vision of enriching Sri Lankan lives through connectivity solutions that facilitate empowerment across multiple layers of the economic pyramid. The drive towards affordability enhancement – rendering the high quality mobile communications services offered by the Company increasingly affordable to Sri Lankan consumers from across a rapidly expanding geographic footprint, was characterised by falling tariffs and Average Revenue Per Minute (ARPM).

ARPM fell by 38% YoY. Elasticity levels of 1 to 1.5 experienced in 2006/7 were seen to fall sharply in 2007/8 to less than 0.7, most likely as a result of reduced consumer spending power, heightened cost of living and competing pressures on the consumer wallet. Inelastic consumption and mitigation of revenue growth is demonstrated through the micro-measures relating to ARPM (decrease of 38% YoY), minutes of usage per subscriber (increase of 25% YoY) and Average Revenue Per User (ARPU - decrease of 22% YoY).

Growth in subscribers and consumption at an absolute level was supported through overall expansion of the Company's operations – in terms of base stations (network size) and capacity (minutes of telecommunications traffic generated and carried by the network). The Company grew its base station network by 32% to a total of 1,360 base station sites as at the end of 2008 – representing approximately 45% of total industry base stations, to support the growth in the Company's subscriber base. Growth in operations on the backdrop of inflation in terms of cost of inputs (energy, materials, regulatory fees and levies etc.) resulted in cost expansion of 42% YoY. Energy costs grew by 59% YoY while regulatory fees comprising frequency fees increased by 73% YoY to Rs.2,787 Mn.

Significant divergence of growth rates in company revenue and cost (1% and 42% respectively) lead to drastic margin erosion in the mobile business with the EBITDA margin falling from 44% to 25% and absolute EBITDA displaying negative growth of 42% YoY falling from Rs. 14.33 Bn. in 2007 to Rs. 8.37 Bn. in 2008.

In the wake of network investments and subscriber growth, depreciation charges escalated to Rs. 7.25 Bn. (22% of revenue). The Company also faced harsh external environments with respect to borrowing costs and foreign exchange exposure. Net finance costs totalled to Rs. 1.62 Bn. in 2008. Dialog's balance sheet however exhibits a relatively moderately geared configuration with a Debt to Equity ratio of 0.56. Exposure to currency devaluation resulted in a (non-cash) impact in excess of Rs. 780 Mn. during the financial year 2008 relative to an exchange gain of Rs. 1.40 Mn. in the previous year.

The Company has been prudent in cost recognition through the effecting of provisional charges and accounting adjustments totalling Rs. 1.96 Bn. The Company exercises a stringent level of prudence with respect to the treatment of its fixed assets, and has maintained close adherence to international best practice with respect to provisions made against equipment obsolescence on the backdrop of rapid technology advancement and asset impairment. Exceptional charges and provisions relating to depreciation of capital inventory, asset impairment and obsolescence charges totaled to Rs. 1.25 Bn. in 2008.

Overall non-operating costs inclusive of depreciation, finance costs, foreign exchange losses, taxation and provisions totalled to Rs. 9.39 Bn. EBITDA recorded at Rs. 8.37 Bn., was accordingly diluted to a NPAT of negative Rs. 388 Mn. – reflecting a 104% dilution on a YoY basis.

INVESTMENTS

As alluded to in my year 2007 review, Dialog remains steadfast in its commitment to drive long-term growth derived from market creation across multiple ICT sectors. Accordingly, we are conditioned to meet the challenges arising from near term uncertainties, with the confidence that building for the Sri Lankan consumer will create the foundations of certainty, for multi-faceted growth in the longer-term.

Our investments in 2008 focused on network expansions targeting near and medium-term revenue and market opportunities. These projects were in the main those seeded in the previous financial year (2007) and were driven to completion alongside a realignment of priorities to near term incremental revenue opportunities. Incremental markets captured were derived from new coverage areas as well as from expansion of usage and adoption.

The Company's infrastructure footprint forms an unmatched foundation for the deployment and marketing of multiple technologies and services (WiMAX, HSPA, 3G and CDMA services in addition to widely available GSM services) operated by the Dialog Group. The Company operates the country's largest and widest 2G and 3G network, as well as the largest customer service infrastructure in the sector, giving it a distinctive strategic advantage over competition. Dialog's network of close to 1,400 base station sites which is by far the largest and most far reaching telecommunications infrastructure footprint in the country provides connectivity across all 9 provinces of Sri Lanka. More than 328 base station sites were added to the Dialog network in 2008 alone, making it the fastest growing network in the country in addition to providing the widest coverage. .

Dialog's mobile communication service portfolio remained true to its brand promise of "The Future Today" introducing a host of innovative value-added service offerings during the year. Dialog made calculated investments in the enhancement of its value added service portfolio founded on state of the art technology adoption. Customers of HSPA mobile broadband, 2G and 3G International Roaming, Blackberry, mobile commerce, mobile television and infotainment services experienced continuous enhancement of product offerings and related services experience during the course of 2008.

SUBSIDIARY PERFORMANCE

Subsidiaries of Dialog Telekom – DBN and Dialog Televison (Dialog TV) made significant strides in their respective markets during the course of 2008. Dialog's objectives with respect to subsidiary business were underpinned by the intent to create a new wave of ICT growth in Sri Lanka with respect to broadband, advanced fixed-line and digital television services.

DBN and Dialog TV recorded a healthy take up of services. The fixed line and broadband service operated by DBN achieved a subscriber base of over 175,000 (4.6 times compared to FY 2007) fuelling revenue growth of 129% compared to FY 2007, signifying the growing potential to eclipse capacity building costs through aggressive revenue growth.

Dialog TV, in its 2nd year of operation achieved aggressive inroads in to the Pay Television market – reaching a subscriber base of 122,854 (121% growth YoY). Dialog TV recorded a revenue of Rs. 1.29 Bn. representing a growth of 91% relative to FY 2007.

Both subsidiaries were however hampered by cost escalations arising from energy prices and general inflation, as well as the devaluation of the Sri Lankan Rupee; the latter being of significant relevance to Dialog TV due to its foreign currency indexed broadcast content and satellite bandwidth costs.

The subsidiaries continued to be dilutive to the Dialog Telekom Group at net profit level, but exhibited upward trends in operational and bottom line profitability in line with the strong potential of their respective markets. Negative contributions from DBN (Rs. 1.51 Bn.) and Dialog TV (Rs. 0.93 Bn.) resulted in the dilution of Company earnings by a total of Rs. 2.49 Bn. (inclusive of consolidated adjustments) resulting in a Group Loss of Rs. 2.88Bn. for FY 2008, representing negative growth in group earnings of 132% YoY.

On the backdrop of challenging macro environment conditions, both subsidiaries have excelled in terms of revenue creation, buoyed by the creation of strong subscriber segments and the accompanying share of ICT spend.

CONTRIBUTION TO THE NATIONAL ECONOMY

Dialog continues to be a major stakeholder and contributor to the national economy through direct and indirect investments, business creation and citizen empowerment. As elucidated above, the Company made direct investments of Rs. 16.5 Bn. in 2008, gaining recognition by the Board of Investment as being the largest investor in Sri Lanka.

Dialog contributed Rs. 2.86 Bn. in taxes, fees and levies to the GoSL in 2008. In addition to this sum, the Company collected a further Rs. 7.53 Bn. in VAT, MSL and other taxes on behalf of the GoSL, remitting a total of Rs. 6.36 Bn. to the exchequer during the course of 2008.

It is encouraging to note that a substantial part of the Company's direct and operating cost budgets represented payments to Sri Lankan business partners, distributors and service providers drawn from across a variety of sectors. Dialog's island wide operation is also estimated to have created 10,000 indirect employment opportunities across all 9 provinces of the country. Indirect employment supplements the 4,000 direct employees of the company in supporting the nation's largest telecommunications network.

Dialog Telekom is by far the mobile sector's largest employer – accounting for over 70% of mobile sector employment. Over the past decade, Dialog Telekom and its principal shareholder Axiata have been consistent in their commitment to developing Sri Lankan talent and creating employment and development opportunities for Sri Lankans from all walks of life and from across all regions of the country.

A RESPONSIBLE CORPORATE

In 2008, we continued to challenge paradigms in terms of the leverage of mobile communications towards the empowerment and development of communities. Accordingly, Dialog continued to develop and enhance a range of products and services with a high social value. Dialog has founded its contribution to community development at local and national level on five thematic pillars encompassing the objectives of Education, Humanitarian Relief, Environmental Development, Empowerment of the Differently-able and the deployment of ICTs for citizen and national Development. Dialog is committed to ensure that the ambit of Corporate Responsibility (CR) is based on an inclusive business model which delivers multi faceted benefits in terms of empowerment and enrichment to as many people as possible.

Dialog Telekom lead the development of the Disaster & Emergency Warning Network (DEWN) in collaboration with its partners the Dialog-University of Moratuwa Mobile Communications Research Laboratory, and Microimage (Pvt) Ltd. DEWN is an innovation of national significance based on its potential to transform the mobile phone in to a life saving early warning device. DEWN received a number of accolades, both internationally as well as locally, for its concept and innovative implementation.

Dialog's scholarship programme continued to support and launch careers of exceptionally talented Sri Lankan students from across all 25 districts of the country. The Scholarship Programme supported a total of more than 250 students during the course of 2008.

In line with its commitment to empower the differently-able, Dialog spearheaded the establishment of a Digital Listening Library and Therapeutic Centre at the Ranaviru Sevana in Ragama in January 2008. The Listening Library and Therapeutic Centre is the first of its kind in Sri Lanka. The Centre provides audio-based knowledge and learning services for the inmates of Ranaviru Sevana. Dialog subsequently gifted a fully-equipped water therapy unit to the physiotherapy centre of the Sri Lanka Army Commando Regiment Camp located in Ganemulla, Kadawatha. Dialog also became the first donor towards an initiative to train teachers to care for autistic children using modern techniques. In recognition of its beachhead effort to establish the Ratmalana Audiology Centre at the Ceylon School for the Deaf and Blind, Sri Lanka's first digitally-equipped, state-of-the-art hearing centre, Dialog received an Excellence Award in the "Concern for Health" category at the 2008 Asian CSR Awards.

THE 2008 CHAPTER

The Year 2008 threw at the Company, the challenge of aligning its cost structures and operating strategies to the realities of a challenging macro-environment, while simultaneously consolidating its position as a paradigm setting industry leader. On one hand we were emboldened in our vision to deliver ever increasing levels of mass affordability and social empowerment, while on the other we were called upon to restructure our business in line with emerging cost and revenue environments.

As reflected in our investment strategy, we exercised fundamental focus on the consumer – which in turn cemented a steadfast commitment to service excellence, product enhancement and technology leadership.

Accordingly, we have adopted a balanced and multi-faceted approach to right sizing our cost base to better match local and global economic realities while applying single minded focus to delivering an unmatched service experience to our customers. During the course of 2008 we commenced rescaling many aspects of our business including but not limited to re-engineering of processes across multiple segments of our operations, downsizing of real estate usage and the architecting of a Voluntary Separation Scheme aimed at stretching productivity at executive and management levels.

In parallel with rescaling of support operations, we continued to expand our customer facing operations as manifested in our 100+ outlet service network, advanced customer relationship technology platforms and customer reward programmes. Founded on our leadership in the product and service space, we exercised aggression in the market place capturing a major share of incremental additions in the mobile sector and achieving quantum strides in our subsidiary businesses.

GOING FORWARD

The Year 2009 promises new vistas for Sri Lankan citizens and enterprises and accordingly quantum re-sizing of growth opportunities going forward. The ultimate elimination of terrorism and the liberation of the Northern province provides an all new and invigorating environment for economic development. Dialog, a pioneer investor in the Northern and Eastern provinces and a key stakeholder in community and economic development at national level visualises a new wave of growth in 2009 and going forward.

While forward opportunity emboldens us in our focus and investment thrust with respect to our customers and product and service leadership, we will continue to reshape our business to be leaner and stronger in terms of productivity and cost leadership. Notwithstanding an aggressive right sizing of our cost base, and adjusting and adapting the way we do business, we will continue to lead the mobile and digital television industries while making aggressive inroads in the fixed line and broadband sectors respectively. In particular cost right sizing will not involve trimming our service levels. Accordingly we will continue to invest in customer care and in the quality of our network and the services we deliver.

Investments in network and customer service infrastructure made over the past years enables capital investments going forward to be incremental in nature. In effect we have built, albeit during challenging economic times, a platform for aggressive market capture across multiple sectors. Invigoration of consumer spending power and resultant demand for our products and services as a result of a nation in rebound, would provide Dialog with a buoyant forward growth trajectory.

CONCLUSION

In conclusion, 2008 was a year of mixed performance in the face of multi-faceted change in terms of environmental conditions and business drivers. The year 2008 has enforced the beginning of self-transformation to which we are astutely committed. This transformation is founded on the challenge of leveraging the Company's inherent and multi-faceted strengths to further maximise its potential and productivity in the face of harsh economic and competitive environments. We have been consistently confident of the resilience of the Sri Lankan economy and the country's markets. As we step into an era of peace and economic growth, we welcome with unbridled excitement, the opportunity of enriching and empowering Sri Lankan citizens and enterprises who in turn would contribute to build a future of promise and prosperity.

I would like to record my appreciation for the support and encouragement extended to us by the Government of Sri Lanka and its agencies – in particular, the Telecommunications Regulatory Commission of Sri Lanka, the Board of Investment, the Ministry of Mass Media and Information and the Ministry of Posts and Telecommunications. I also extend my thanks and appreciation to our chairman Datuk Azzat bin Kamaludin and my fellow Board members for their strategic input and direction, and for their steadfast commitment to carry Dialog into the next year as a flagship service provider in the region. My sincere gratitude also goes out to our former chairman Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor for his leadership and guidance over the past near decade.

In conclusion I would like to thank my team; it is their dedication, unity and innovative spirit that has made Dialog the great company it is. It is they who continue to transform our every vision into reality. Together we envisage change – internal as well as external. As a company we will transform aggressively towards being a supremely profitable operation. As an industry leader we will continue to extend our competitiveness, excel in service to our customers, and continue to set paradigms for others to follow.

Dr. Hans Wijayasuriya
Group Chief Executive
01 March 2009

Business & Financial Review

Business & Financial Review

GROUP BUSINESS AND FINANCIAL OVERVIEW

2008 was a challenging year for the Dialog Telekom Group on macro-economic and competitive fronts. Despite these testing market conditions Dialog Telekom continued to remain steadfast to its strategy to provide greater value to its customers through product portfolio and service enhancements. The Company remained true to its core philosophy of inclusion and innovation which have been the driving force of the Company's unprecedented growth since its inception. Dialog Telekom has also remained true to its beliefs of empowering and enriching Sri Lankan lives and enterprises through multiple services such as fixed-line telephony, satellite television, broadband internet and mobile services.

Macro Indicators	2006	2007	2008
Inflation	10%	15%	23%
Interest Rates	15%	17%	22%
Exchange Rate (USD)	Rs. 108	Rs. 109	Rs. 113
GDP Growth	7.7%	6.8%	6%

Source: Central Bank of Sri Lanka

Table 1: Economic Performance

The Dialog Telekom Group recorded consolidated revenues of Rs.36,169 Mn. in FY 2008 delivering YoY revenue growth of 6%. Group costs (direct and operating) grew by 49% YoY resulting in a negative growth in PAT of 132% to Rs. 2,879 Mn.

The Group made capital investments in excess of Rs. 22 Bn. in FY 2008 in line with rationalising of capex compared to a figure of Rs.25.7 Bn. in FY 2007.

The Company recorded a revenue growth of 1% to attain a revenue of Rs. 33,108 Mn. for the FY 2008. Revenue growth was moderate mainly due to the introduction of a range of affordability enhancement mechanisms against a backdrop of inflation-induced pressures on consumer spending.

Costs (direct and operating) increased by 42% YoY to Rs. 31,987Mn. in FY 2008. Enhanced growth in subscriber additions (29% YoY), strategic investments in network coverage, customer service infrastructure and traffic handling capacity, partly contributed to the negative performance in costs along with escalating energy prices and general inflation during 2008.

Investments during 2008 were focused on network expansion, targeting near and medium term revenue and market opportunities. Incremental markets captured were derived from new coverage areas as well as from expansion of usage and adoption within existing coverage areas. Dialog currently operates 1,360 base station sites and is placed well ahead of competition. Dialog has consistently achieved rapid growth in terms of coverage and capacity ahead of competition. Against the backdrop of compressed margins and the prevailing economic conditions, the Company has however focused forward investments on the mobile sector, while directing aggressive market capture efforts with respect to the new (non-mobile) business lines with a view to monetising corresponding start-up investments in fixed line, broadband and digital television. Accordingly, cash used for investing activities decreased by 17% YoY to Rs. 20,944 Mn. in FY 2008.

The Company exercises a stringent level of prudence with respect to the treatment of its fixed assets, and has maintained strict adherence to international best practice with respect to provisions made against equipment obsolescence amidst rapid technological advancement and asset impairment. Accordingly depreciation charges included the depreciation of capital inventory by Rs.358Mn., and asset impairment and obsolescence charges of Rs.887 Mn. Total "exceptional provisions and adjustments" amounted to Rs. 1,955 Mn. (net of reversals) which contributed to 18% of total cost variance.

Foreign exchange exposure pertaining to borrowing costs resulted in an exchange loss of Rs. 783 Mn. for FY 2008 which further contributed to negative profitability.

Both subsidiaries (DBN and Dialog TV) recorded a healthy take up of services. DBN recorded a revenue of Rs. 2,407 Mn. (129% growth YoY) in FY 2008. Dialog TV, in its 2nd year of operation, made aggressive inroads into the Pay Television market and recorded a revenue of Rs. 1,285 Mn., representing a growth by 91% relative to FY 2007.

1.0 DIALOG TELEKOM PLC

Dialog Telekom PLC consists of 3 strategic business units ("SBUs"), namely Dialog Mobile, Dialog Global and Dialog Tele-Infrastructure. The following sections will highlight the business performance of these three SBUs.

1.1 DIALOG MOBILE

The Company witnessed a year of consolidation in the mobile industry with subscribers growing at 29% over 2007 and minutes of usage exceeding 15 Bn. minutes during 2008. The ability to carry the significant volume of minutes while maintaining top class clarity, coverage and customer satisfaction was derived from the increased investments made on network infrastructure on the backdrop of an unfavorable environment for capital infusion.

Customer Growth	29% YoY ↑
Usage	Over 15 Bn. Minutes of Usage ↑
Value Added Services	Most comprehensive list of VAS available in the market ↑
Network	1360 Base Station Sites ↑
Investments	Over Rs. 17 Bn. ↑

Table 2 : Performance Indicators

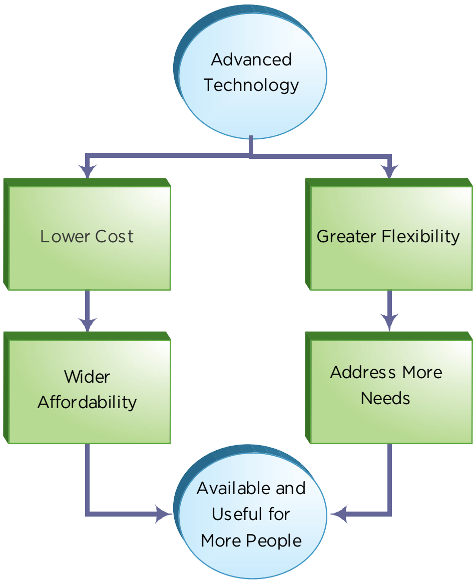


Figure 1: Bottom of the Pyramid Initiatives

1.1.1 Mobile Sector Performance

2008 was a competitive year in the mobile industry with operators moving aggressively to acquire and retain customers, triggering a price war, stalling revenue growth and reducing industry margins.

1.1.2 Mobile Business Performance Snapshot

1.1.2.1 Subscriber Base of 5.5 Million

The Company claimed a 50% market share claiming a subscriber base of 5.5 million by the end of 2008 and reinforcing its position as the undisputed leader in the mobile telecommunications industry in the country. By the end of 2008 Dialog had connected a quarter of Sri Lanka's population, serving 1 out of 5 Sri Lankans.

1.1.2.2 Affordability Enhancement

In 2008 the Company introduced a multitude of products at economical rates for consumers at a time when they were economically distressed. This was mainly due to the Company's strategic intent to use technology in a manner that creates greater value to consumers in terms of cheaper and more reliable mobile communication services.

1.1.2.3 Packaging for Affordability

The introduction of per second billing along with the proposition of a 1000 outgoing minutes free on the network for the post paid segment was a revolutionary packaging of the service that enabled accessibility and offered an unparalleled value proposition to the customer.

The same impact was achieved on the pre paid front via the introduction of rental free MY10 services along with per second billing. These two packaging propositions served to vastly enhance the affordability of services for customers in both segments while ensuring a competitive edge over rivals in the market.

A further value proposition that vastly improved affordability for the customer was the Dialog Lifetime Discount, which offered a 50% discount from the third minute onwards and a 25% discount on the second minute, for local outgoing calls to any network irrespective of the time of day. This was the first tariff program of its kind in Sri Lanka.

The Kidz & Family packages were another two initiatives introduced by the Company under the affordability banner. Based on a closed user group concept, these two packages provide affordability and - in the case of the Kidz package - more control over misuse.

Budget SMS was the most recent of the affordability enhancements provided for the benefit of the customer.

Launched as a low-cost text message option, this enhancement allows Dialog-to-Dialog SMS at just 50 cents per message. Under this initiative, customers are given the ability to send up to 10 messages per day at 50 cents to any Dialog mobile number.

1.1.3 Value Added Services

In 2008, the Company was once again the first to launch several value-added services, raising the bar for this segment of the industry yet again.

BREAKING NEWS – LET THE NEWS ALERT YOU AS AND WHEN IT HAPPENS! Deemed one of the most successful Value-Added Services, Breaking News services allowed customers to choose from a range of news providers to keep them posted on local, international and business news as it all happens.
DIALOG SONG CATCHER Dialog Song Catcher allows customers to identify and download their favorite songs anytime, anywhere. Song Catcher is based on advanced music recognition technology.
DIALOG BACKGROUND MUSIC Dialog Background Music allows all Dialog customers to play background music, songs and other sound effects during call conversations.
DIALOG PHONE BACK UP This service was launched as a simple and convenient way to back up and restore information on a mobile phone such as contacts, SMS, photographs, and music.

Table 3 : Recent VAS Launches

1.1.4 Dialog 3G – Sri Lanka's Widest and Largest 3G Experience

During 2008, Dialog 3G was segmented into two categories to cater to the Business and Youth markets separately.

On the business platform, the Company introduced Phone eye. A top-of-the-line surveillance system, Phone eye uses Broadband technology to transmit LIVE images captured from cameras/CCTV systems, allowing customers to view what is happening in their home, office or any other location from anywhere.

On the youth platform, MyTV, the personal television experience by Dialog 3G, added 11 new channels during the year, totaling 13 channels, thereby enriching the mobile entertainment experience for Dialog 3G customers.

1.2 DIALOG GLOBAL

The Company consolidated its distinctive position as the regional leader in the areas of International Wholesale Services and International Roaming through the expansion of its bi-lateral partnerships with global carriers.

The Company continued to enhance the breadth and depth of its GSM and GPRS/EDGE roaming network with significant improvements in its 3G/HSPA roaming network as well. Year 2008 witnessed a near 10% expansion with roaming reaching a network size in excess of 190 countries and a choice of over 420 partner operators.

The international business operations had a positive year with overall revenue growing by 35% with strong performances in all product lines.

1.2.1 International Voice & Video

Interconnection partnerships with foreign carriers were expanded in 2008 to cater to increased demand. The year 2008 witnessed a 30% increase in traffic volumes in comparison to 2007. The Company supports video calling to an increasing number of countries.

1.2.2 International Data

The Company reached a significant milestone in 2008 with the deployment of a host of key corporate data solutions favored by global companies through the MPLS-based Global IPVPN service. The Global IPVPN is a Layer 3 IP Virtual Private networking service which caters to the voice, data and video requirements of enterprise customers.

1.2.3 International Roaming

Dialog's partnership with Vodafone and Axiata continued to provide a seamless international roaming experience to roaming customers. Dialog offers roaming in over 190 countries with a choice of 420 partner operators. In addition, its 3G Roaming Network was expanded to provide services in 53 countries with over 90 partner operators. Highlights in 2008 included the launch of the daily data bundles and the free WiFi service for roamers.

1.3 DIALOG TELE-INFRASTRUCTURE (DTI)

The company's infrastructure arm DTI recorded significant progress in many of its strategic projects during 2008. DTI has been able to achieve significant revenue growth through sales to its ever expanding clientele. This is largely as a result of the investments made on state-of-the-art infrastructure covering both microwave and fiber optic transmission technologies. DTI has maintained unparalleled network quality performance with near zero outages guaranteeing maximum customer satisfaction.

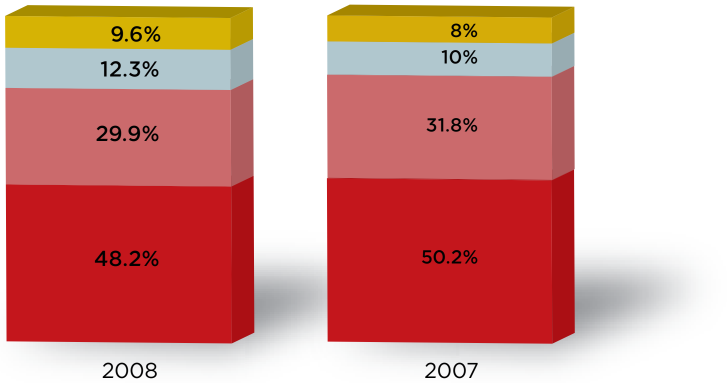


Figure 2: Revenue Mix

2. 0 DIALOG TELEKOM PLC FINANCIAL REVIEW

Dialog Company (All figures in Rs.Mn. except for ratios)	Financial Year Ended 31 December		Change %
	2008	2007	
Net Revenue	33,108	32,787	1
Direct Costs	17,630	11,882	48
Gross Profit	15,478	20,905	(26)
Gross Margin (%)	**47**	**64**	
OPEX	14,357	10,575	36
EBITDA	8,370	14,329	(42)
EBITDA Margin (%)	**25**	**44**	
PBT	138	10,172	(99)
PAT	(388)	10,127	(104)
PAT Margin (%)	**(1)**	**31**	
EPS (Rs.)	(0.14)	1.30	(111)

Table 4: Company Financial Performance

2.1 FINANCIAL PERFORMANCE

2.1.1 Revenue Growth

The Company recorded a revenue of Rs. 33,108 Mn. for FY 2008, with a growth of 1% YoY. As mentioned previously, revenue growth was mitigated mainly due to the Company's focus on leading the expansion of Sri Lanka's mobile market by means of a range of affordability enhancement mechanisms on the backdrop of macro inflation and commensurate pressures on consumer spending. The achievement of revenue objectives were further conditioned by declining elasticity levels in the market, with usage growth not being commensurate with price reductions delivered in the form of base tariffs as well as the introduction of per-second charging and free talk time bundles.

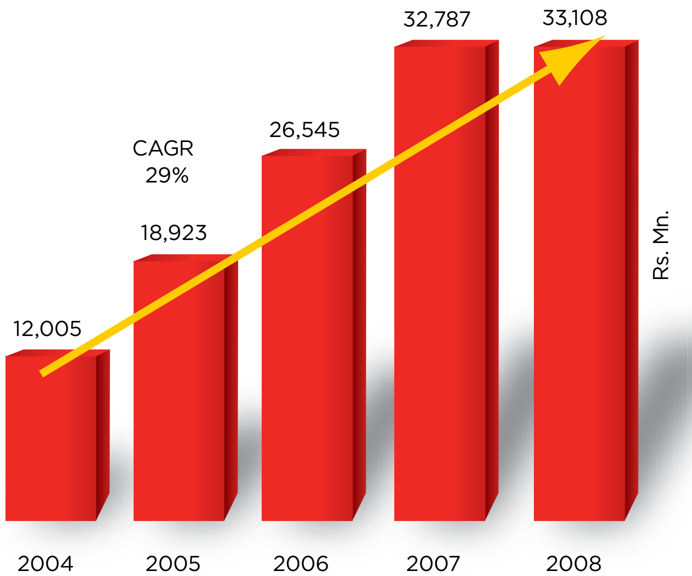


Figure 3: Revenue Growth

2.1.2 Direct Costs

(all figures in Rs. Mn.)	2008	%	2007	%	Change %
Network Related Costs*	7,898	44.8	5,715	48.1	38.2
Telco Depreciation	5,137	29.1	3,418	28.8	50.3
Levies**	2,686	15.2	1,510	12.7	77.9
Customer Related Costs***	1,474	8.4	1,239	10.4	19.0
Exceptional Provisions/ Adjustments	435	2.5	-	-	-
Total Direct Costs **As a % of Revenue**	**17,630** **53**	**100**	**11,882** **36**	**100**	**48**

Table 5: Direct Costs

* includes energy costs

** includes International Telecommunication Levy and frequency fees

*** includes Phone and equipment sales, customer servicing costs, etc

Direct costs increased by 48% to Rs. 17,630Mn. in FY 2008.

Notable drivers of cost expansion include network costs of 38% YoY (which includes an increase in network energy costs of 84% YoY), levies of 78% YoY (of which frequency fee increased by 348% YoY) and telco depreciation of 50% YoY. The Company has also been prudent in cost recognition through effecting provisional charges and accounting adjustments totalling Rs. 435Mn. of which Rs. 358 Mn. is recorded on account of the depreciation of capital inventory.

2.1.3 Operating Costs

(all figures in Rs. Mn.)	2008	%	2007	%	Change %
Selling Expenses	5,652	39.4	5,149	48.7	9.8
Manpower	3,261	22.7	2,530	23.9	28.9
Maintenance	1,047	7.3	696	6.6	50.4
Energy & Fuel	999	6.9	630	5.9	58.6
Material	123	0.9	124	1.2	-0.8
Incidental *	1,550	10.8	1,446	13.7	7.2
Exceptional Provisions/ Adjustments	1,725	12.0	-	-	
Total Operating Costs **As a % of Revenue**	**14,357** **43**	**100**	**10,575** **32**	**100**	**36**

Table 6: Operating Costs

* includes professional fees, stamp duty, courier charges and postage etc.

The total operating costs increased by 36% to Rs.14,357Mn. during FY 2008. Selling expenses increased by only 10% YoY despite 29% YoY growth in subscriber base.

Maintenance costs increased by 50% YoY due to an increase in non-telco depreciation. Principal cost lines show an expansion due to inflationary pressures and expansion in operations.

The Company has been prudent in operational cost recognition through effecting exceptional provisions and adjustments which recorded at Rs. 1,725 Mn. This constituted an exceptional asset impairment and obsolescence charge of Rs. 887 Mn., an annual adjustment for bad debts of Rs. 183 Mn., a provision for non-refundable taxes of Rs. 109 Mn., and a provision for slow moving inventory of Rs. 166 Mn.

2.1.4 Remittances to Government of Sri Lanka (GoSL)

During the course of 2008, the Company contributed significantly to GoSL revenues with the remittance of direct and indirect levies amounting to Rs. 6,364 Mn., up 80% YoY from the corresponding figure of Rs. 3,532Mn. in FY 2007. This is attributable to the revision of the Mobile Subscriber Levy (MSL) from 2.5% to 10% on 26 September 2007 and revision of the frequency fee with effect from 1 August 2007.

The profit and loss impact of GoSL levies is recorded at approximately Rs. 3.41 Bn. in FY 2008, compared to a figure of Rs. 1.68 Bn. in FY 2007.

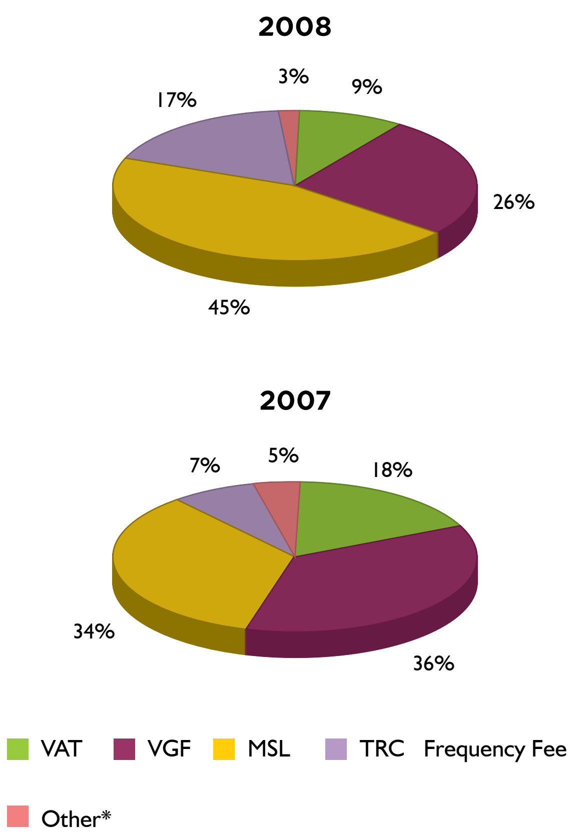


Figure 4: GoSL Payments Composition – FY 2007 and FY 2008
*Includes Economic Service Charge, Stamp Duty, Turnover tax.

2.1.5 Finance Costs

The Company faced harsh external environmental conditions with respect to borrowing costs and foreign exchange exposure. Net finance costs totalling Rs.1,617Mn. in FY 2008. The Company's balance sheet however exhibits a relatively moderately geared configuration with a Debt to Equity ratio of 0.56. Exposure to currency depreciation resulted in a (non-cash) impact in excess of Rs. 780 Mn. during FY 2008 compared to an exchange gain of Rs. 1.40 Mn. in FY 2007. Depreciation of the Rupee by 5% against the US Dollar and 3% against the Euro in the fourth quarter of 2008 contributed to this significant foreign exchange loss.

2.1.6 Taxation

Dialog Telekom has been granted Flagship Investor status by the Board of Investment of Sri Lanka (BoI) by virtue of the quantum of inward infrastructure investments made by the Axiata Group. The terms of the Flagship Investor agreement bestow a 15-year tax exemption period on the Company, which terminates in the year 2012. Upon the expiry of the tax holiday, for 15 years to follow, the Company would be liable to pay corporation tax either at a concessionary rate of 2% on revenue, or at the prevailing corporation tax rate. The Company will be required to select its preferred option at the end of the tax holiday in 2012. Dialog Telekom, however, is liable to pay taxes on interest earnings on Rupee deposits and is also subject to the Economic Service Charge (ESC) of 0.25% with effect from January 2005.

In line with investments made, deferred taxation provisions increased 507% YoY from Rs. 80 Mn. In FY 2007 to Rs. 486 Mn. in FY 2008 incorporating conservation provisioning for tax liabilities in future periods.

2.1.7 EBITDA & NPAT

EBITDA (Operating Profit before Depreciation and Amortisation) was recorded at Rs. 8,370 Mn. Overall operating costs inclusive of provisional charges and adjustments expanded by 34% on the backdrop of modest revenue growth (of 1%) which resulted in negative growth of 42% YoY reflecting a drop in the Company EBITDA level from Rs. 14,329 Mn. recorded in FY 2007.

FY 2008 EBITDA incorporates exceptional charges and adjustments of Rs. 916 Mn. FY 2008 EBITDA normalised for exceptional items amounted to Rs. 9,286 Mn.

The resulting NPAT for FY 2008 was recorded at negative Rs. 388 Mn., representing a decrease of 104% from the FY 2007 PAT of Rs. 10,127 Mn.

Exceptional Charges below EBITDA were driven by the Company making prudent provisions for the depreciation of inventory & technology obsolescence totalling Rs.1,245 Mn. The Company also provided for the impact of exceptional depreciation of the Rupee against the US Dollar and Euro to the value of Rs. 723 Mn. In the fourth quarter of 2008. PAT normalised for exceptional items.

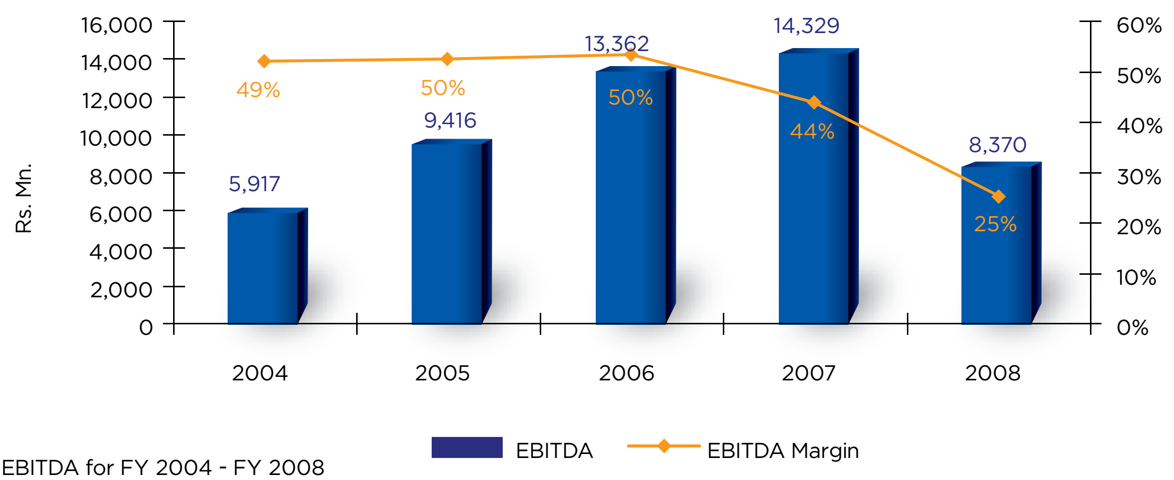


Figure 5: EBITDA for FY 2004 - FY 2008

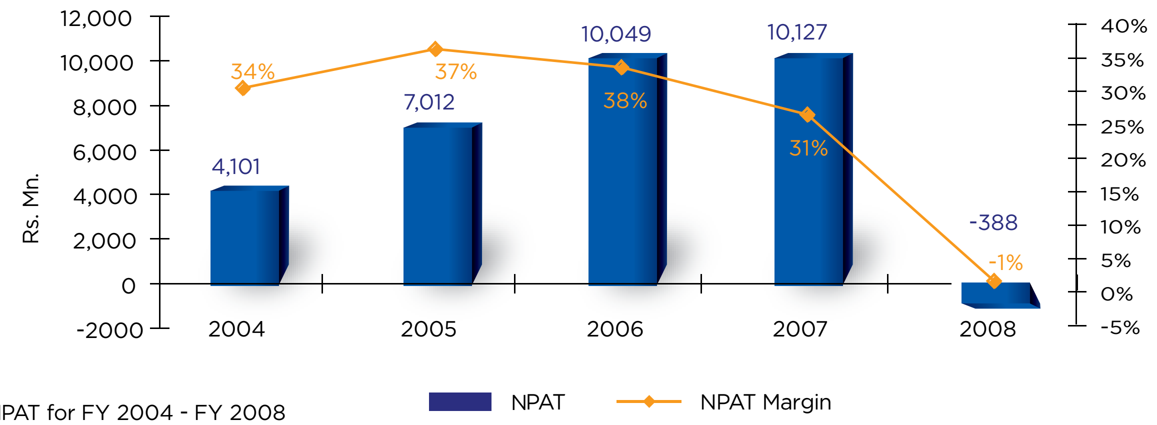


Figure 6: NPAT for FY 2004 - FY 2008

2.2 CAPITAL STRUCTURE

The total assets of the Company, as at 31 December 2008, of Rs. 80,177 Mn. was funded by a combination of shareholder funds and short and long term creditors in the proportions of 57% and 43% respectively. Gross Debt increased during the year due to additional borrowings of Rs. 23,407 Mn. EBITDA to interest expenses stood at 5 times in FY 2008. The Company has a credit rating of AA (lka).

2.3 CASH FLOW MOVEMENTS

2.3.1 Operating Activities

The net cash flow generated from the Company's operating activities was recorded at Rs. 6,216 Mn. in FY 2008 compared to Rs. 12,274 Mn. in FY 2007, representing a decrease of 49% YoY.

Operating Cash flows were mitigated mainly due to the revenue remaining flat on the backdrop of cost expansion during the year.

2.3.2 Investing Activities

Investments during 2008 were focussed on network expansion, targeting short and medium term revenue and market opportunities. Accordingly, cash used in investing activities decreased by 17% YoY to Rs. 20,944 Mn., as compared to Rs. 25,270 Mn. invested in FY 2007. The Company currently operates over 1350 base station sites.

2.3.3 Financing Activities

Cash flow resulting from financing activities was recorded at Rs. 7,815 Mn. Proceeds from borrowings amounted to Rs. 23,407 Mn. while repayment of long-term borrowings amounted to Rs. 9,974 Mn. during FY 2008. New borrowings also included a short term advance of USD 10 Mn. from TM International (L) Limited for capital expenditure.

Ordinary dividends of Rs. 4,479 Mn. and Preference dividends of Rs. 714 Mn. were paid during FY 2008.

3.0 DIALOG BROADBAND NETWORKS (PVT) LTD

DBN is a fully owned subsidiary of Dialog Telekom, and is a key player in Sri Lanka's ICT infrastructure sector, backbone and transmission infrastructure facilities and data communication services. DBN was the first to introduce high- speed broadband on WiMAX technology and is also a fixed Wireless telephony service provider on CDMA technology.

3.1 BROADBAND SECTOR PERFORMANCE

Internet penetration has witnessed significant growth, reaching a penetration rate of 3.7% in 2008, compared to 2.2% in 2007 (source: International Telecommunication Union). This was mainly as a result of explosive growth in the number of broadband subscribers during 2008. As per ITU, this market segment is estimated to grow at an annual rate of 22-25% during 2009-2011, creating a huge demand for ICT products and services. Furthermore, massive growth is expected in this sector especially in 2009 due to the declaration of this year as the 'Year of ICT' by the GoSL.

3.2 BROADBAND BUSINESS PERFORMANCE SNAPSHOT

3.2.1 Dialog Broadband : DNET

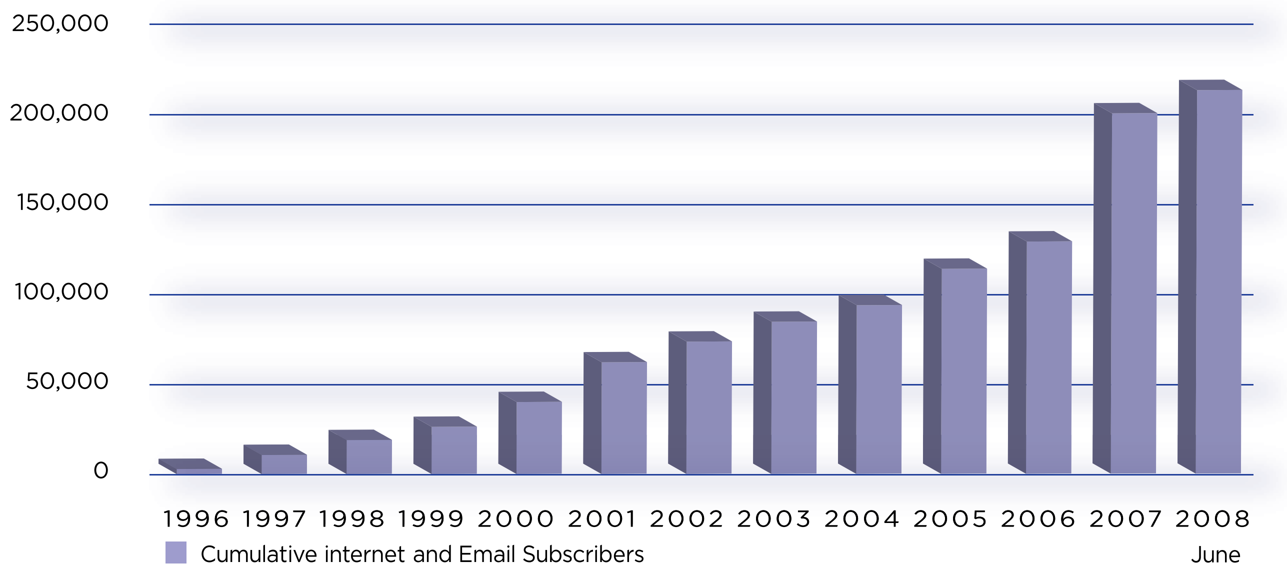
DNET offers asymmetric broadband Internet access, delivered through WiMAX technology, providing Ethernet interface to the customer. In addition to the main service, there are pre-defined optional services, such as email boxes and web space availability, to cater to customer requirements. This product is available in four variants, namely Home Net, Home Net Plus, Office Net and Office Net Plus, catering to different segments. DNET has experienced a growth rate of 87% throughout the year and is expected to further boost its customer base through the newest addition, the Home Net Package.

3.2.2 Residential Segment : Launch of Home Net Package (512Kbps)

Launched in July 2008, this is positioned as the ideal Broadband solution for light to medium users of the residential segment. It provides a downlink of 512 Kbps and an uplink of 128 Kbps.

3.2.3 Product Innovations : Box Office

'Box Office' integrates Broadband Internet, Voice, E-mail



Source: Telecommunications Regulatory Commission of Sri Lanka
Figure 7: Cumulative Internet and Email Subscribers

Figure 8: WIMAX Coverage Map 2008

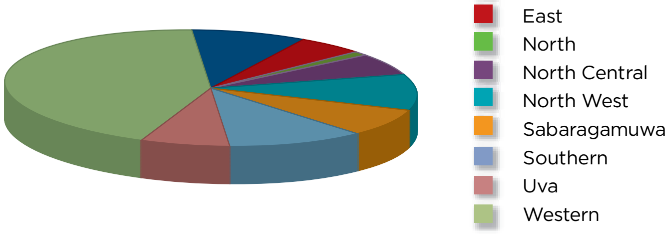
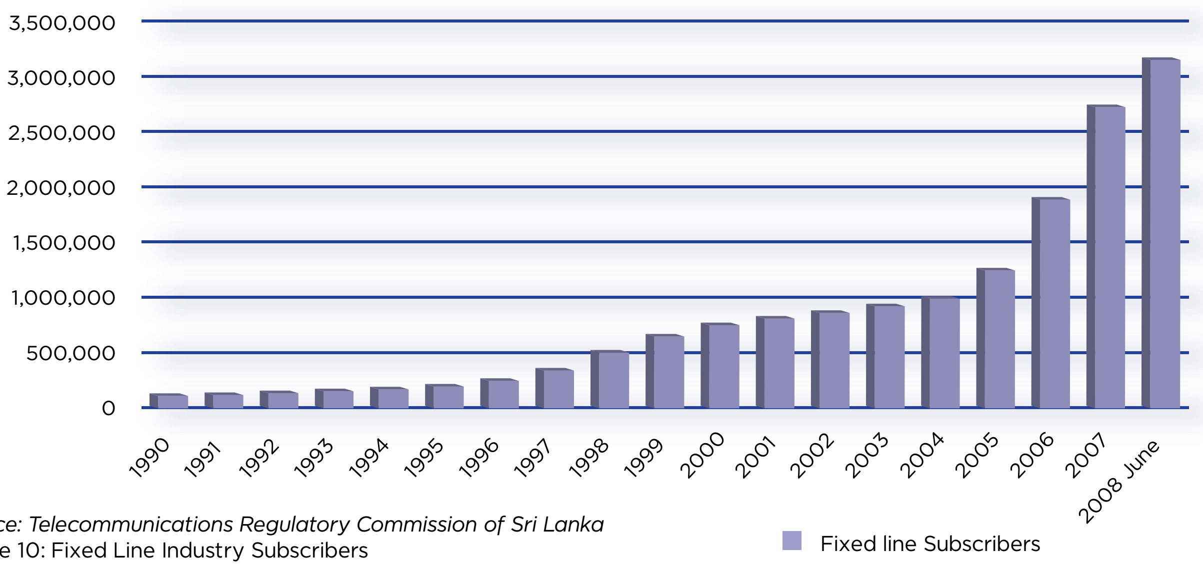


Figure 9: Provisional Distribution of Fixed Line Subscribers

and Private Branch Exchange (PBX) communication facilities and is designed to connect phone systems, fax, PBX services and Local Area Networks (LAN) to the internet using WiMAX technology. The outcome is a smooth flow of information and total integration, in every sphere of business activity.

3.3 FIXED TELEPHONY AND DATA SECTOR PERFORMANCE

Sri Lanka's Fixed-Line Sector experienced a strong surge of growth with over 400,000 additions in the first half of 2008 reaching a penetration of 61%. The Fixed-Line Sector was driven by the growing popularity of fixed wireless CDMA/Wireless local loop (WLL) as a direct result of market liberalisation and increased consumer demand. However, there is room for growth in rural penetration levels when compared to urban and semi urban areas of the country. Provincial distribution of Fixed-Lines indicated heavy concentration in the Western Province amounting to 45% of Fixed-line users.



Source: Telecommunications Regulatory Commission of Sri Lanka
Figure 10: Fixed Line Industry Subscribers

3.4 DIALOG FIXED LINE TELEPHONY & DATA BUSINESS PERFORMANCE SNAPSHOT

Amidst growing competition, Dialog Fixed Telephony & Broadband Services captured a customer base exceeding well over 150,000 connections in less than 2 years of operation, displaying an aggressive growth rate of 538%. As at end 2008, the company operated 184 base stations covering all provinces.

Dialog Fixed Telephony & Broadband Services have been successful in launching new products of which many are Sri Lankan firsts, leveraging on its advanced technological expertise. It has experienced a surge especially in the enterprise segment with extensions of its current services.

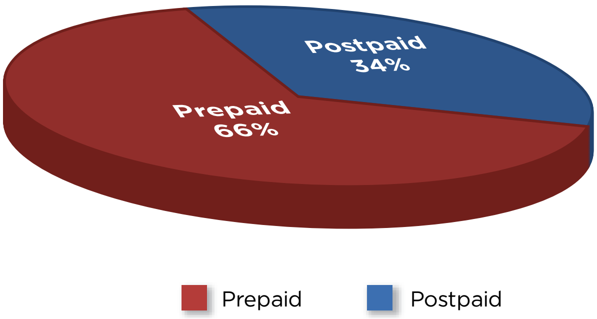


Figure 11: Fixed Line Pre/Post Composition

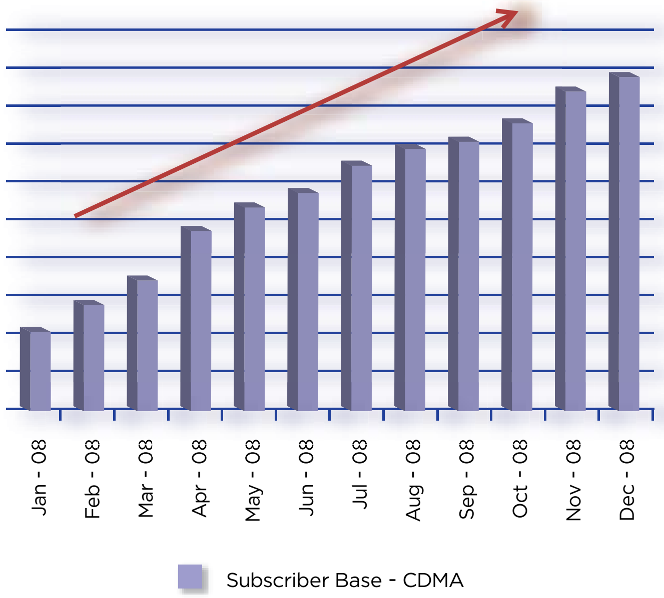


Figure 12: CDMA Subscriber Base

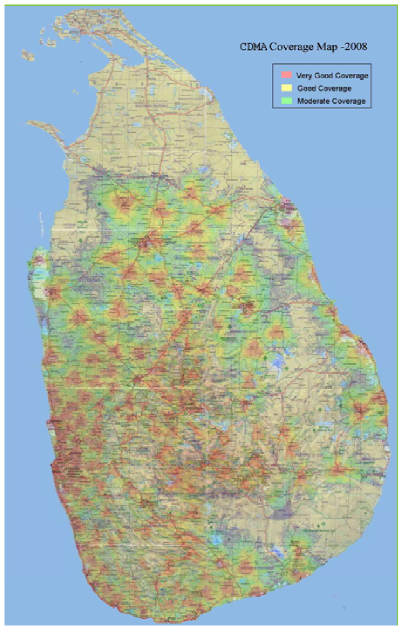


Figure 13 : CDMA Coverage Map 2008

4.0 DBN FINANCIAL REVIEW

4.1 REVENUE

In 2008, DBN recorded a healthy take up of its services. A five-fold increase in CDMA and Broadband subscribers YoY led to a growth in revenue of 129% YoY, recording at Rs. 2,407 Mn. in FY 2008. Revenue components included Fixed Telephony (CDMA WLL) and Data Communication, Broadband and Internet services along with the Transmission and Infrastructure business.

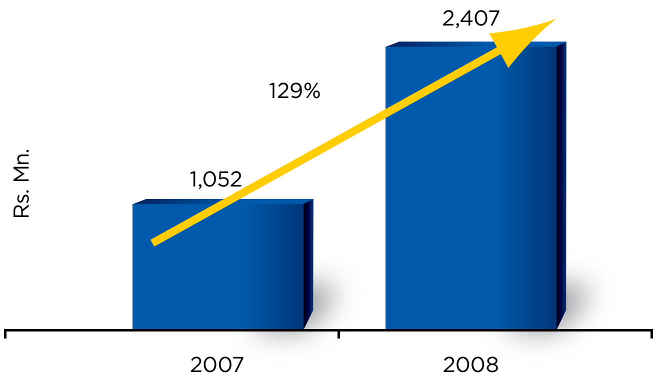


Figure 14: DBN Revenue

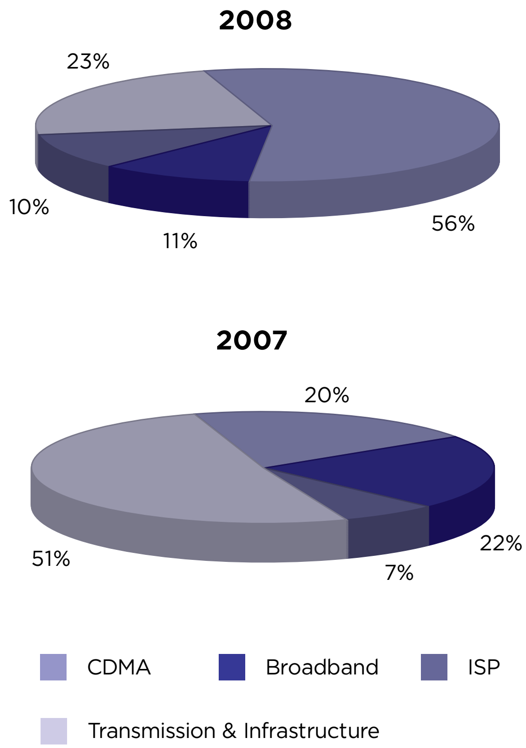


Figure 15: DBN Revenue Mix

4.2 TAXATION

During 2007, DBN entered into an investment agreement with the BoI, encapsulating a USD 75 Mn. investment in telecommunications infrastructure, but not limited to the development of a fibre optic network and the expansion of its WiMAX and CDMA networks. Within the framework of the terms of the said agreement, DBN was awarded an extension to its incumbent tax holiday. Accordingly, the company is deemed exempt from income tax up to five years (ending March 2011) from the expiry of the incumbent tax holiday. Upon expiry of the exemption period, the company will be subject to a corporate tax rate of 15%.

However, the MSL of 10% pertaining to mobile phone usage has been extended to CDMA phone usage from 1 April 2008 in addition to other levies that are payable (Frequency Fees, Cess, VAT etc.).

4.3 EBITDA & NPAT

EBITDA recorded at negative Rs. 118 Mn., which is a decline of 172% YoY relative to the EBITDA of Rs. 164Mn. recorded for FY 2007.

NPAT was recorded at negative Rs. 1.5 Bn. for FY 2008, compared to a figure of negative Rs. 318 Mn. recorded in FY 2007.

Profitability was affected due to expenditure relating to both the CDMA and WiMAX operations incurred as part of capacity build up, resulting in the escalation of fixed costs and depreciation. Planned revenues are yet to be generated from the investments made in CDMA and WiMAX operations.

5.0 DIALOG TELEVISION (PVT) LTD

Dialog Television (Private) Limited is a fully owned subsidiary of Dialog Telekom and currently holds the distinction of being the single largest direct-to-home (DTH) digital television service provider in the country. Dialog TV supports a broad array of international and local content.

5.1 PAY TV SECTOR PERFORMANCE

2008 proved to be a challenging year for Pay-TV. Due to the economic down-turn which eroded the consumer's disposable income, the market for Pay-TV was under penetrated. However, amidst economic adversities Dialog TV managed to maintain its dominant position by continuously investing in enhancing the user experience through the launch of new content and technological advancements.

5.2 DIALOG TV BUSINESS PERFORMANCE SNAPSHOT

Dialog TV adopted an aggressive customer acquisition strategy based on unparalleled programme quality and technology. As a result, the subscriber base grew by 121% during 2008.

This aggressive customer acquisition strategy enabled the company to reach over 120,000 Sri Lankan homes as at end 2008 (inclusive of multi tenant-units and multi-room subscribers). This has resulted in Dialog TV securing its place as the undisputed leader in the Pay-TV market. Dialog TV currently dominates the Pay TV market having captured 91% of the market share and successfully differentiating on content, service and brand. The direct-to-home Pay TV business has a high fixed-cost base that comprises satellite capacity costs and minimum payments to content providers. The achievement of a break-even volume of subscribers and operating revenues will ensure the company is in a position to override its high fixed cost base, leading thereafter to positive bottom line contribution. The following graph depicts the annual growth in the active subscriber base and sales.

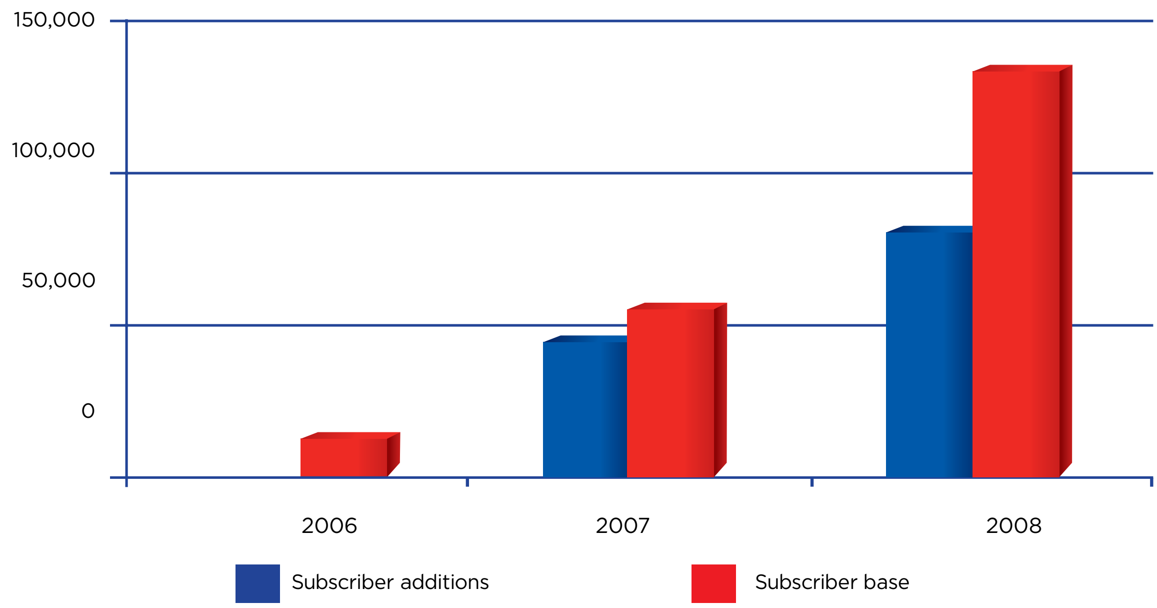


Figure 16: Dialog TV Subscriber Growth

5.3 ENHANCING USER EXPERIENCE

5.3.1 Content Portfolio Expansion

The Dialog TV channel bouquet grew to 61 channels by end 2008 which included the newly launched Channel C, one of the major breakthroughs in local TV. The content channel acquisition strategy was based on consumer feedback and channel availability in the region for DTH operators. Some of the key channels launched in 2008 targeted niche audiences such as infants and young children, the military and business professionals.

Programme Type	New Channels 2008
Entertainment	Channel C, TBO, Kalaigner TV, NDTV Good Times, UTV World Movies, UTV Movies, Boomerang, Baby TV
Business News	Bloomberg
Religious	Aarti TV
Military Channel	Ranaroo

Table 7: New Channels 2008

5.3.2 Technology

In a bid to remain on par with industry standards by adopting the latest technology, Dialog TV made several strategic technological advances with the view of creating superior value to customers.

5.3.2.a Rain Fade – HPA installation

Dialog TV commenced the installation of a High-Powered Amplifier (HPA) to its uplink which was completed within 100 days with a near-zero hours downtime to the uplink in September 2008. The installation has successfully managed to minimise the signal loss due to uplink attenuation.

5.3.2.b Downlink Dish Farm (TVRO)

Dialog TV carried out another significant development to its platform by installing a state of the art Dish Farm, for receiving signals of International Channels (TVRO).

5.3.2.c Migration to MPEG 4 Technology

During 2008, Dialog TV migrated to MPEG 4 technology which provides higher compression efficiency and better motion picture quality than MPEG2, while also offering more flexibility towards channel expansion.

5.3.2.d Network Monitoring and Operating Center (NMOC)

Dialog TV's NMOC received a complete face-lift and the development of its operations center also took place during 2008. A 24-hr dedicated monitoring unit was set up to monitor all TV Channels for break-downs and interruptions.

5.4 VALUE ADDED SERVICES

Dialog TV launched several services during the year, some of which are set out below.

Programme Guide on your Phone
Dialog TV and Dialog Telekom combined its resources to develop a unique electronic programme guide on the phone. Any Dialog Telekom – Dialog TV customer could enter #679# and obtain information or set alarms for Dialog TV Programming.
Dialog TV Bill balance on your Mobile
Any Dialog TV customer could simply dial 456 from their Mobile phone (Dialog Telekom) to find out the bill balance of Dialog TV.
Breaking News on your TV
Together with Dialog Telekom news providers, Dialog TV telecasts vital news alerts direct to your TV. This service is complimentary for all Dialog TV customers.

Table 8: Value Added Services

5.5 POSITIONING AS AN ENTERPRISE TV OPERATOR

In 2008, Dialog TV widened its portfolio within the enterprise segment with growth exceeding 50% and has successfully managed to reach out to most of the major star-class establishments through its branding and service excellence. Dialog TV's expansion into the enterprise segment encompasses hospitals, hotels and the real-estate sector.

5.6 AWARDS

Success in branding and marketing strategies enabled Dialog TV to walk away with two prestigious awards at SLIM Brand Excellence Awards 2008: Best Turn-Around Brand 2008 and Best New Entrant in 2008.

6.0 DIALOG TV FINANCIAL REVIEW

6.1 REVENUE

Dialog TV achieved aggressive inroads into the Pay TV market and recorded a revenue growth of 91% representing a recorded revenue of Rs. 1,285 Mn. in its 2nd year of operation. Revenue growth was fuelled by subscriber growth of 121% YoY), relative to FY 2007.

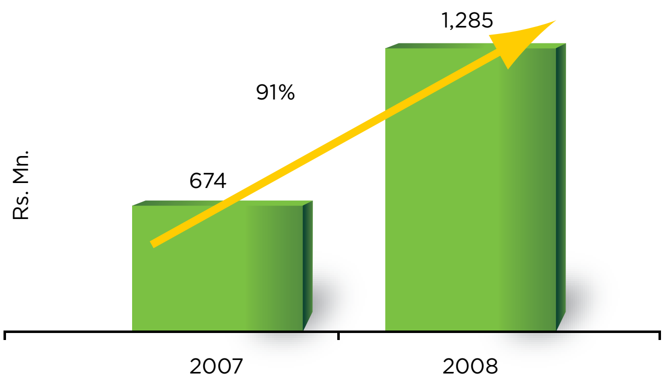


Figure 17: Dialog TV Revenue Growth

Revenue comprises initial connection fees and subscription rentals. Connection fee revenue represented 39% of total revenue, totaling Rs. 500 Mn. The revenue generated from monthly subscriptions totalled Rs.785Mn., contributing to 61% of total revenue.

Connection fees relating to a single Pay TV connection is recognised as revenue by considering Rs. 4,000 up front and the balance over a period of 18 months.

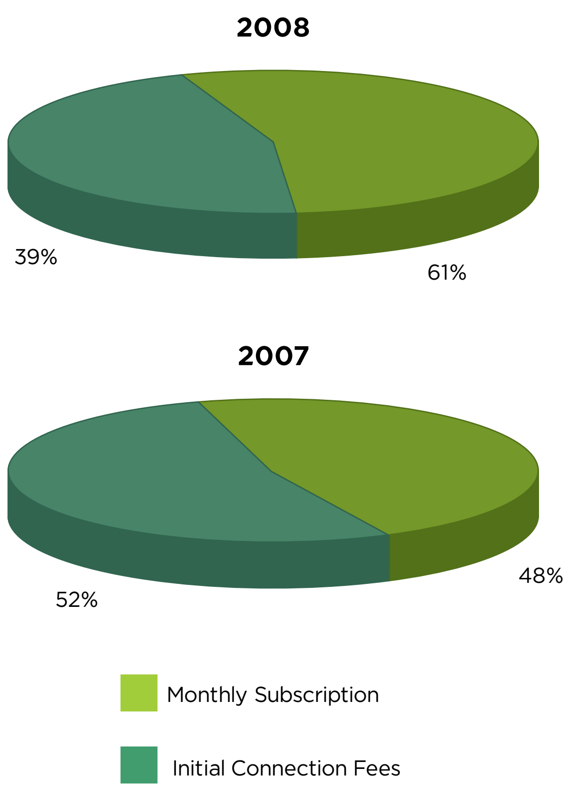


Figure 18: Revenue Mix

6.2 TAXATION

Dialog TV was awarded a tax exemption by the BoI, in keeping with the company's investment of USD5Mn. towards the development of a Digital Television Broadcasting Platform utilising satellite-based and Terrestrial UHF technologies. The tax exemption is for a period of 3 years from the first year of assessment. The aforesaid first year of assessment is the earlier of either the year in which the enterprise commences to make profits or two years from the commencement of operations. Thereafter, profits will be taxed at a concessionary rate of 10% p.a. for a period of two years. Upon the expiry of the two-year period, the company's profits will be subject to a tax of 20% p.a.

6.3 EBITDA & NPAT

EBITDA and NPAT recorded at negative Rs. 633 Mn. and negative Rs. 934 Mn. respectively for the FY 2008 compared to negative Rs. 631 Mn. and negative Rs. 849 Mn. recorded in FY 2007.

Several external macro factors hampered Dialog TV's performance in 2008 resulting in cost escalation, such as energy-related and general inflation. The depreciation of the Rupee being of particular and significant relevance to Dialog TV in the context of its television content and satellite bandwidth costs.

7.0 SERVICE EXCELLENCE

Dialog Telekom prides itself in consistent performance with respect to the provision of excellent customer service to more than 5.5 million Sri Lankan consumers. The unparalleled quality of service has been substantiated by the numerous awards and accolades received during 2008, namely the SLIM Brand Excellence award for the Best Mobile Service Brand for 2008 as well as the international certification on Service Quality Standard for the second consecutive year.

7.1 DIALOG ENTERPRISE CONTACT MANAGEMENT – BPO

Dialog ECM is the only multi-channel Contact Centre in the country, handling all possible channels of service across a diverse portfolio of businesses. The existing portfolio of clients spans a variety of domains such as travel, health and channeling services, hotel and leisure and data entry services, emphasizing the capabilities of Dialog Enterprise Contact Management to deliver quality & value to customers.

7.2 UNPARALLELED SERVICE REACH

As part of our philosophy of true service excellence, the Group invested heavily in service centers and dealer network expansion with a rapid increase in the number of consumer touch points made available in 2008.

The Company operates with close to 45,000 unique touch points across the Island which over 5.5 million Sri Lankans can access to meet their needs with regard to the Company's products and services.

Subscribers	5.5 million
Calls to Contact Centre	2 Mn. per month
New Connections	
Mobile	100,000 per month
CDMA	4000 per month
Dialog TV	3000 per month
Service Reach	
Geographic Presence	Branches : 8
	Arcades : 7
	Franchise Outlets : 103
	Main Dealers: 10
	Sub Dealers: 6,200
	Retail Outlets: 37,000
	EZ Buddy: 1000+

Table 9: Group Service Statistics

8.0 HUMAN CAPITAL

The Dialog Telekom Group has provided many opportunities in the Sri Lankan employment market by opening up avenues for more than 4,000 employees. An equal opportunity employer, the Group strives to acquire the most skilled, outstanding and talented personnel through their stringent selection process, and various assessments for all positions.

Description	2003	2004	2005	2006	2007	2008
Staff Strength	926	1,217	1,706	2,680	4,008	4,329
Staff Retention	87%	90%	88%	92%	88%	82%
Staff Growth	32%	31%	40%	57%	50%	8%

Table 10: Key HR Indicators

As depicted in the table below, 75.8% of the work force is in the Generation Y category, less than 30 years of age.

Age	Year Range	Employees as at 31 December 2008		%
60-64	1942-1946	Veterans	3	0.1
41-59	1947-1965	Boomers	94	2.2
29-40	1966-1977	Generation X	961	21.9
<29	>1977	Generation Y	3314	75.8
Total				100.0

Table 11 : Employee Age Profile

9.0 GROUP FINANCIAL SUMMARY

The Dialog Telekom Group performance is derived from a consolidation of the performance of the Company and its subsidiaries, DBN and Dialog TV.

9.1 FINANCIAL PERFORMANCE

Dialog Telekom Group (All figures in Rs.Mn. except for ratios)	Financial Year Ended 31 December		Change %
	2008	2007	
Net Revenue	36,169	34,127	6
Direct Costs	19,989	13,154	52
Gross Profit	16,180	20,973	(23)
Gross Margin (%)	**45**	**61**	
OPEX	17,159	11,759	46
EBITDA	7,779	13,919	(44)
EBITDA Margin (%)	**22**	**41**	
PBT	(2,372)	8,952	(126)
PAT	(2,879)	8,907	(132)
PAT Margin (%)	**(8)**	**26**	
EPS (Rs.)	(0.45)	0.95	(147)

Table 12: Group Financial Performance

The Dialog Telekom Group recorded a consolidated revenue of Rs. 36,169 Mn. for the year ended 31 December 2008, delivering YoY revenue growth of 6%.

The Group's direct and operating costs grew by 49% YoY, resulting in a negative growth in PAT of 132% amounting to Rs .2,879 Mn.

The Group EBITDA for the year was recorded at Rs. 7,779 Mn. The total non-operating costs were recorded at Rs. 11,269 Mn., comprising depreciation (Rs.8,758 Mn.), finance cost (Rs. 2,004 Mn.) and charges pertaining to taxation (Rs. 507 Mn.).

The subsidiaries continued to be dilutive to the Dialog Telekom Group at net profit level, but exhibited upward trends in operational and bottom line profitability in keeping with the strong potential of their respective markets and further excelled in terms of value and revenue creation, fuelled by the creation of strong subscriber segments and accompanying share of ICT spend.

Negative contributions from DBN (Rs. 1,507 Mn.) and Dialog TV (Rs. 934 Mn.) resulted in the dilution of the Group earnings by a total of Rs. 2,491 Mn. (inclusive of consolidated adjustments), resulting in a Group Loss of Rs. 2,879 Mn. for FY 2008, representing a negative growth in Group earnings of 132% YoY.

9.2 CAPITAL STRUCTURE

The total assets of the Group, as at 31 December 2008, of Rs. 81,661 Mn. were funded by a combination of shareholders funds and short and long term creditors in the proportions of 51% and 49% respectively.

The gross debt increased during the year due to additional borrowings of Rs. 26,671 Mn. The Group EBITDA stood at approximately 4 times the net interest expense.

9.3 CASH FLOW MOVEMENTS : GROUP CASH FLOW

9.3.1 Operating activities

The net cash flow generated from the Group operating activities was recorded at Rs. 6,792 Mn. in FY 2008, compared to Rs. 12,534 Mn. in FY 2007, representing a decrease of 46% YoY.

9.3.2 Investing Activities

During the year, forward investments were focused on the mobile sector, while directing aggressive efforts to capture markets with respect to the new (non-mobile) business lines with a view to monetising corresponding start-up investments in fixed line, broadband and digital television. Accordingly, cash used in investing activities decreased by 10% YoY to Rs. 23,026 Mn. in comparison to the figure of Rs. 25,499 Mn. invested in FY 2007.

9.3.3 Financing Activities

The Group cash flow resulting from financing activities was recorded at Rs. 9,094 Mn. Proceeds from new borrowings amounted to Rs. 26,671 Mn., while repayment of long-term borrowings amounted to Rs. 11,931 Mn. during FY 2008.

Corporate Responsibility

Corporate Responsibility

At Dialog Telekom PLC, our allegiance to the management of the Triple Bottom Line (TBL) through monitoring and reporting of sustainability indicators, reflects the maturing of a corporate that understands that it is not only about the financial bottom line, but also about how this is achieved.

The Company sees this as a responsibility to carry through our innovative nature towards developing and enhancing business integral TBL systems to ensure our own sustainability in new ways, in addition to subscribing to globally recognised norms. Monitoring of Performance Indicators according to the Global Reporting Initiative (GRI) G3 guidelines enables Dialog Telekom to elicit comparable information on the interplay between economic, environmental, and social performance of the organization.

OUR MAIDEN SUSTAINABILITY REPORT - "ENABLING AN INFORMATION SOCIETY"

The Company's maiden Sustainability Report is an attempt to portray a picture of the organization's performance in 2008 in a transparent manner, to enable an unbiased assessment of overall TBL performance for the benefit of our stakeholders. The issues covered in the report are the most material issues to Dialog Telekom in the context of sustainability. The report has been compiled by the Dialog Telekom Group Corporate Responsibility unit, with input from the Dialog Corporate Responsibility Group Leadership Committee, selected internal stakeholders, divisional experts in identified topics and 'indicator owners'. The Company's maiden Sustainability Report is in accordance with the Global Reporting Initiatives G3 Guidelines. This report has been verified independently by DNV India, and carries an A+ GRI Application Level (3rd party checked) rating. The Sustainability Report should be read along with this report (Dialog Telekom 2008 Annual Report) for a complete representation of GRI core indicator information. The Sustainability Report also serves as the Company's UN Global Compact Communication on Progress for the 12 month period ending 31 December 2008.

OUR APPROACH TO CORPORATE RESPONSIBILITY ("CR")

The evolution of a TBL approach to managing sustainability performance at Dialog Telekom has been a gradual yet exhaustive process that surpasses anecdotal CR rhetoric. The Company's CR strategy draws a strong distinction between philanthropy and integral CR.

The Integral CR footprint is pegged against a best practice derived CR performance management scorecard that records the organisations performance against the GRI and other indicators relevant to the organisation. Both the internal analysis and the external verification helped the organisation to establish Dialog Telekom's integral CR baseline. The Company also developed its own CR scorecard to track key sustainability data against in holistic CR framework, the UN Global Compact principles, the GRI, and existing statutory and regulatory requirements of Sri Lanka. Dialog Telekom will continue to invest in building CR competencies across all levels within the organisation in 2009 as a key strategic initiative to ensure CR principles become second nature to all Dialog employees. Integral CR operational responsibility at Dialog Telekom is decentralized across line management and strategic business unit Chief Executive Officers.

Further information on performance on sustainability, according to GRI guidelines is available in the Sustainability Report.

At Dialog Telekom, we realise that to be a leader in any chosen field, a corporate has the responsibility to not only ensure its own sustainability but also contribute to the sustainable development of the environment it operates in. As a group in the Global South, this responsibility means that we strive to use our core competence in digital technology for community benefit, in support of National Development and the United Nations' Millennium Development Goals (MDGs). The Group embraces its commitment to serve the Nation through strong and vibrant actions across community outreach initiatives that forms a critical aspect of the Company's CR thrust. Dialog's outreach CR thrust (philanthropic and flagship) is carried out under five thematic aspects at present, with particular emphasis on using our competency in ICT for Development.

Further information on the outreach CR efforts is available in the 2008 Sustainability Report CD given with this Annual Report.

CR AWARDS AND RECOGNITION IN 2008

Dialog Telekom has been recognised, consistently, as a leader in the mobile industry for its innovative spirit and focus particularly in terms of leveraging GSM technologies for the benefit of the community. This focus has made Dialog the only company in the World to be awarded three consecutive GSMA World awards for leveraging GSM technology in the community.

In 2008 Dialog Telekom was rated No. 1 for Corporate Social Responsibility by AC Nielsen (LMD 2008 Most Respected Survey) and awarded two accolades for its consistent and inclusive CR outcomes:

- Excellence Award at the Asian CSR Awards 2008 in the 'Concern for Health' category.
- Silver Award for CSR Brand of the Year by the Sri Lanka Institute of Marketing.

Corporate Governance

Corporate Governance 2008

The development of the capital market of any country, depends largely on the performance of its listed companies and the confidence investors have in them. The effectiveness of the Board of Directors of those companies, in carrying out their responsibilities, is one of the main factors that determines the success or failure of those companies.

Whilst Boards must be given the liberty to take business decisions without undue interference, it is equally important to ensure that Boards exercise that freedom within a framework of effective accountability and transparency. Sound Corporate Governance practices are the mechanism through which accountability and transparency may be developed. This would in turn encourage and build confidence among investors.

Dialog Telekom PLC (The Company), being listed, takes no exception to the above sentiments. Its Board is responsible to the shareholders for the strategic guidance and oversight of the Company. It recognises its overriding responsibility to act honestly, fairly and diligently, in accordance with relevant laws, in building sustainable value for shareholders.

In furtherance of this commitment, the Company has developed and adopted its own Code of Corporate Governance ("Code"), which is applicable to the Group, which encourages the creation of value through entrepreneurship, innovation and development, while providing for accountability and the internalisation of control systems, commensurate with the risks involved in the Group's business operations.

The Code has been structured in the form of "Principles" and "Best Practices" and spells out a governance framework underpinned by eight (08) core principles within which the business is conducted. The Code is reviewed regularly in light of local and international laws, regulations and best practices. Due emphasis has been given to comply with the Rules on Corporate Governance promulgated in 2007, the Listing Rules of the Colombo Stock Exchange, the disclosure requirements for listed public companies as mandated by the Securities and Exchange Commission of Sri Lanka and the stipulations as per the Companies Act No. 7 of 2007.

The Company is fully compliant with the above requirements and in line with the above, this Report sets out the Corporate Governance framework, application and practice within the Company for the year 2008.

BOARD

The Company's business and Group operations are managed under the supervision of the Board, which consists of members with experience and knowledge in the areas of business management, financial governance and technology management. The matters reserved for the Board include:–

- Providing entrepreneurial leadership to the Company;
- Providing strategic guidance and evaluating, reviewing and approving corporate strategy and the performance objectives for the Company;
- Approving and monitoring financial and other reporting practices adopted by the Company;
- Effectively reviewing and constructively challenging management performance in meeting the agreed goals, monitoring the reporting of performance and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;

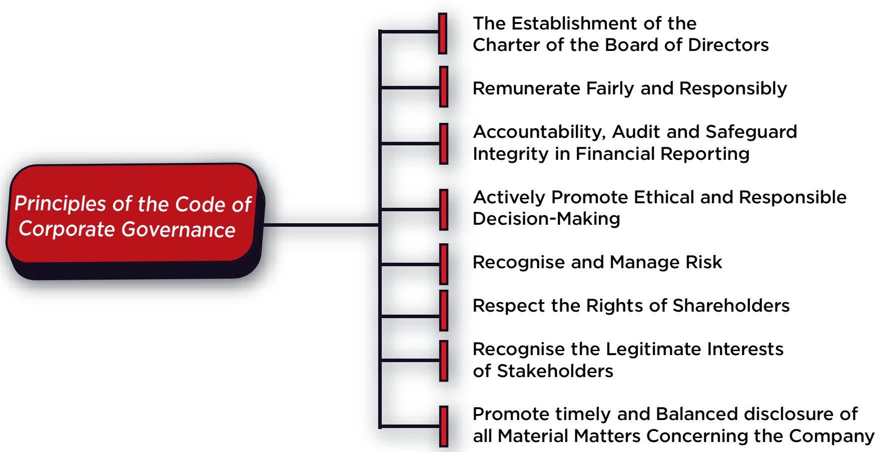


Figure 20: Principles of the Code of Governance

The Board meets regularly to discharge its duties effectively. In addition, special Board meetings are also held whenever necessary. A total of 08 meetings were held in the financial year ended 31 December 2008, which included 04 special meetings. The attendance of Directors at these meetings is set out in the table below:

Name of Director	Date of Appointment / Resignation during the year	Attendance	Percentage of Attendance
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	Resigned on 21 July 2008	5/5	100
Dr. Hans Wijayasuriya	-	8/8	100
Ir. Prabahar N.K. Singam	Resigned on 21 July 2008	5/5	100
Mr. Moksevi Prelis	-	8/8	100
Dato' Yusof Annuar Yaacob	-	8/8	100
Dato' Sri Mohammed Shazalli bin Ramly	Resigned on 21 July 2008	3/5	60
Mr. Mohamed Muhsin	-	8/8	100
Mr. Jayantha Dhanapala	-	8/8	100
Datuk Azzat Kamaludin	Appointed on 21 July 2008	3/3	100
Mr. Azwan Khan Osman Khan	Appointed on 21 July 2008	3/3	100
Mr. Roni Lihawa Abdul Wahab	Appointed on 9 October 2008	1/1	100

Table 12: Attendance at Board Meetings

CONSTITUTION OF THE BOARD

The roles of the Chairman and the Group Chief Executive Officer ("GCEO") are separate with a clear distinction of responsibilities between them, which ensures the balance of power and authority between the running of the Board, and the executive responsibility for the running of the Company's business.

The Chairman, Datuk Azzat Kamaludin, who was appointed during the year, is a Non-Executive Director and is responsible for providing leadership to the Board, for the efficient organization and conduct of the Board's function, and in ensuring the integrity and effectiveness of the relationship between the Non-Executive and Executive Director(s). The GCEO, Dr. Hans Wijayasuriya, who is also an Executive Director, is responsible for the implementation of broad policies and strategies approved by the Board, and is responsible for developing and recommending to the Board, the business plans and budgets that support the Company's long-term strategy and vision that lead to the creation of shareholder value.

BOARD BALANCE AND INDEPENDENCE

The Board comprises 08 Directors, of which 07 are Non-Executive Directors and 01 is an Executive Director who is also the GCEO. The present Board composition and expertise are sufficient to ensure optimum effectiveness to meet the needs of the Company.

The Non-Executive Directors provide considerable depth of knowledge collectively gained from experiences, whilst serving in a variety of public and private companies.

Out of the 07 Non-Executive Directors, 03 are Independent, namely, Mr. Moksevi Prelis, Mr. Mohamed Muhsin and Mr. Jayantha Dhanapala. They are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their judgment.

The Board considers that the other 04 Non-Executive Directors, namely Datuk Azzat Kamaludin, Dato' Yusof Annuar Yaacob, Mr. Azwan Khan Osman Khan and Mr. Roni Lihawa Abdul Wahab are Non-Independent as they are nominees of Axiata Group Berhad, the ultimate parent company.

The profiles of the Directors are found on pages 9 through 12 of this report.

ACCESS TO INFORMATION

The Board is supplied with complete, adequate information, which includes an agenda, minutes, background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and internal financial statements in advance of each meeting to enable them to make informed decisions.

The Board has separate and independent access to the Company's Senior Management. All Directors have access to the advice and services of the Company Secretary. Directors, especially Non-Executive Directors, have access to independent professional advice in the course of fulfilling their responsibilities, at the Company's expense.

BOARD COMMITTEES

The Board is supported by the following Board Committees which have been delegated with certain specific responsibilities -

1. Board Audit Committee
2. Nominating and Remuneration Committee
3. Group Board Executive Committees

All committees have written Terms of Reference ("ToR") and the Board receives reports of their proceedings and deliberations. Where committees have no authority to make decisions on matters reserved for the Board, recommendations are highlighted for approval by the Board. The chairmen of each of the committees report the outcome of the committee meetings to the Board and the relevant decisions are incorporated in the minutes of the Board meetings.

BOARD AUDIT COMMITTEE

As at 31 December 2008 the Board Audit Committee ("BAC") consisted of 05 Non-Executive Directors. The members are Mr. Moksevi Prelis (Chairman), Dato' Yusof Annuar Yaacob, Mr. Mohamed Muhsin, Mr. Jayantha Dhanapala and Mr. Azwan Khan Osman Khan.

The BAC ensures that the Company complies with applicable financial standards and laws. In addition, it ensures high standards of transparency and corporate disclosure and endeavours to maintain appropriate standards of corporate responsibility, integrity and accountability to the shareholders. The appointed members of the BAC are required to exercise independent judgment in carrying out their functions.

The BAC has a specific ToR defining its scope of authority, which includes review of the internal and external audit process, the adequacy of internal controls, accounting policies and compliance with accounting standards. It also reviews and approves the quarterly and annual financial statements and recommends to the Board the appointment and re-appointment of Auditors.

The BAC held 08 meetings during the financial year ended 31 December 2008. Details of the attendance of the Directors are set out in the table below.

The activities conducted by the BAC are set out in the BAC Report on pages 48 and 49 of this report.

Name of Director	Date of Resignation/ Appointment	Attendance	Percentage of Attendance
Mr. Moksevi Prelis (Chairman)	-	8/8	100
Ir. Prabahar N.K. Singam	Resigned on 21 July 2008	5/5	100
Dato' Yusof Annuar Yaacob	-	8/8	100
Mr. Mohamed Muhsin	-	8/8	100
Mr. Jayantha Dhanapala	-	7/7	100
Mr. Azwan Khan Osman Khan	Appointed on 21 July 2008	3/3	100

Table 13: Board Audit Committee Meeting Attendance

NOMINATING AND REMUNERATION COMMITTEE

The Nominating and Remuneration Committee ("NRC") comprises 03 Non-Executive Directors, namely Dato' Yusof Annuar Yaacob (Chairman), Mr. Moksevi Prelis and Mr. Mohamed Muhsin.

The role of the NRC is to identify, consider and propose suitable candidates for appointment as new Directors and to formulate, review, approve and make recommendations to the Board with regard to the remuneration of the Executive, Non-Executive Directors and key positions within the Senior Management.

The NRC ensures that the Directors appointed to the Board possess the background, experience and knowledge in business, technology, finance and/or management, so as to maintain an appropriate balance of skills and experience of the Board, and also to ensure that each Director brings to the Board an independent and objective perspective to ensure that balanced and well-considered decisions are made.

The NRC held 03 meetings during the financial year ended 31 December 2008 and the attendance at these meetings are set out below.

GROUP BOARD EXECUTIVE COMMITTEES

Five (5) Group Board Executive Committees (GBECs) have been established:

i. Dialog Mobile
ii. International Business and Television Services
ii. Fixed and Internet Services
iv. Infrastructures Services
v. Group Functions & Shared Services

The main objectives of the GBECs are to discuss and consider all matters relating to the strategy and the operation of the respective SBUs, Group and Shared Services functions prior to the same being presented to the Board, so that Board proceedings may be expedited. The GBECs also assist the Board by overlooking specific matters and the implementation of specific Board resolutions relating to the respective SBU, Group and Shared Services functions within such parameters so as to perform functions as specially determined/delegated by the Board from time to time.

Each GBEC comprises representatives of the Board, Group Senior Management and the Chief Officers of the respective SBUs and/or Group functions and Shared Services.

Name of Director	Attendance	Date of Resignation/ Appointment	Percentage of Attendance
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor (Chairman until July '08)	3/3	Resigned on 21 July 2008	100
Dato' Yusof Annuar Yaacob (Chairman)	-	Appointed on 21 July 2008	-
Ir. Prabahar N.K. Singam	3/3	Resigned on 21 July 2008	100
Mr. Moksevi Prelis	3/3	-	100
Mr. Mohamed Muhsin	-	Appointed on 21 July 2008	-

Table 14: NRC Meeting Attendance

PERFORMANCE EVALUATION AND PROFESSIONAL DEVELOPMENT

The NRC is responsible for evaluating the Board's performance and decides how the Board's performance may be evaluated and it also proposes objective performance criteria.

RE-ELECTION

The Company's Articles of Association require that one-third of the Directors, excluding the Executive Director, retire and submit themselves for re-election at every Annual General Meeting ("AGM"). The Directors who retire are those who have been longest in office since their appointment/re-appointment.

The re-election of Directors ensures that shareholders have a regular opportunity to reassess the composition of the Board. The names of the Directors submitted for re-election are provided to the shareholders to enable them to make an informed decision on their election.

The retiring Directors eligible for re-election this year are mentioned in the Notice of the AGM on page 117.

REMUNERATION

The Company endeavours to attract, retain and motivate Directors of the quality required to run the Group successfully. The remuneration policy for Directors is proposed, evaluated and reviewed by the NRC, in keeping with criteria of moderation. The Company furnishes information each year regarding the emoluments paid to the Board of Directors in the Annual Report.

Further the performance-related elements of remuneration have been designed to align the interests of Executive Directors with those of shareholders and to link rewards to corporate and individual performance.

The remuneration of the Executive Director, in his capacity as an employee, comprises a salary, bonuses and other customary benefits as appropriate. Salary reviews take into account market rates and the performance of the individual and the Company.

The remuneration of Non-Executive Directors comprises a monthly stipend and allowances paid in accordance with the number of meetings attended during the year 2008.

A total of Rs. 23.9 Mn. was paid to the Directors as emoluments for the financial year 2008.

ACCOUNTABILITY AND AUDIT

- Financial Reporting

The Board believes that independent verification is necessary to safeguard the integrity of the Company's financial reporting.

The Board aims to provide and present a balanced and understandable assessment of the Company's position and prospects. Therefore, the Board has established a formal and transparent process for conducting financial reporting and internal control principles. Further, the Company has in place a structure of review and authorization designed to ensure a factual presentation of the Company's financial position and to independently verify and safeguard the integrity of the Company 's financial reporting. The structure includes:

- review and consideration of the accounts by the Audit Committee;
- a process to ensure the independence and competence of the Company's external auditors Messrs PricewaterhouseCoopers (PwC);

The GCEO and the Group Chief Financial Officer ("GCFO") declare in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

RESPONSIBLE DECISION-MAKING

The Code of Business Ethics ("CBE") has been drafted to actively promote ethical and responsible decision-making endeavours to influence and guide the Directors, employees and other representatives ("Stakeholders") of the practices necessary to maintain confidence in the Company's integrity and to demonstrate the commitment of the Company to ethical practices.

The Company has in place an Insider Trading Policy ("ITP") which deals with the trading practices of Directors, officers and employees of the Company in Group securities. The ITP raises awareness of the prohibitions under the law and specifies the restrictions relating to trading by designated officers in specific circumstances, details of such circumstances, and the basis upon which discretion is applied.

RECOGNISE AND MANAGE RISK

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investments and the Company's assets. The BAC conducts a review of the effectiveness of the Company's system of internal controls and reports its finding to the Board. The review covers all material controls, including financial, operational and compliance controls and risk management systems.

- Internal Control

The Board acknowledges its overall responsibility in ensuring that a sound system of internal control is maintained to safeguard shareholders' investment and the Company's assets.

The BAC conducts a review of the effectiveness of the Company's system of internal controls and reports its finding to the Board. The review covers all material controls, including financial, operational and compliance controls and risk management systems.

- Risk Management, Compliance & Control

The Board has established policies on risk oversight and management that examines the roles and respective accountabilities of the Board, BAC (or other appropriate Board committee), management and any internal audit function.

The Company has established and implemented an Enterprise Risk Management system for identifying, assessing, monitoring and managing material risk throughout the organization, which includes:

- Oversight of the risk management system;
- Risk profile - a description of the material risks facing the Company including financial and non-financial matters;
- Risk management;
- Compliance and control;
- Assessment of effectiveness - mechanism to review, at least annually, the effectiveness of the Company's implementation of that system and update the risk profile of the Company.

- Internal Audit

Internal audits are conducted by the Internal Audit Unit ("IAU") which is independent of management. The internal auditor has access to management and the authority to seek information and explanations. Once completed, a report is submitted to the BAC.

The BAC oversees the scope of the internal audit and has access to the internal audit without the presence of management.

In order to enhance the objectivity and performance of the internal audit function, the Company has created a direct reporting line from the internal audit function to the Board or the BAC. The BAC recommends to the Board the appointment and dismissal of any chief internal audit executive.

RESPECT THE RIGHTS OF SHAREHOLDERS

The Company is committed to having regular and proactive communication with the investors and shareholders. The communications strategy promotes effective communication with the shareholders. The Company respects the rights of the shareholders and seeks to empower them by communicating effectively and providing ready access to balanced information about the Company.

The forthcoming AGM will be used to effectively communicate with shareholders and allow reasonable opportunity for informed shareholders to communicate their views on various matters affecting the Company.

Information on the Company's performance, financial information, press releases, annual reports all relevant announcements made to the Colombo Stock Exchange ("CSE") and related information and other corporate information is made available on the Company's web site at www.dialog.lk/about/investors/.

- Investor Relations

The Company's fully fledged established Investor Relations ("IR") unit proactively disseminates relevant information about the Company to the investment community, specifically the institutional fund managers and analysts.

The Company is one of the most actively covered companies in the All Share Price Index ("ASPI") with regular tracking by the 20 stock brokering firms of the CSE, the Fitch ratings agency and over 100 domestic and foreign institutional investors, both in the equity and debt markets. The IR unit maintains close contact to ensure that the Company's strategies, operational activities and financial performance are well understood and that such information is made available to them in a timely manner. Some of the methods used to provide accurate and timely information are road shows, company visits, one-on-one meetings, teleconferences, and emails etc.

The Company participated in more than four (04) overseas investor conferences in Hong Kong, Malaysia and Singapore in the year 2008, including the Bursa Malaysia's Investor Week 2008. In addition, the Company has also conducted one-on-one meetings with key local and foreign investors on a regular basis.

The Company has established the best practice of conducting investor forums every quarter to brief analysts on results achieved in that quarter. These sessions not only provide analysts with a comprehensive review of the Company's financial performance, but also gives them the opportunity to clarify related queries they may have. The contents of these briefings are posted on the Company's web site at http://www.dialog.lk/about/investors/.

The GCEO and other members of the Senior Management team are actively involved in IR activities such as conducting regular meetings with fund managers and analysts. Information which is disseminated to the investment community conforms to the CSE disclosure rules and regulations. Care is taken to ensure that no market sensitive information, such as corporate proposals, financial results and other material information is disseminated to any party prior to making an official announcement to the CSE for public release.

RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Company's CBE encompasses the following areas, in recognition of the Company's legal and other obligations to all legitimate stakeholders, including obligations to non-shareholder stakeholders, such as employees, clients/customers and the community as a whole:

- Clear commitment by the Board and Management to the Code;
- Responsibilities to shareholders and the financial community;
- Obligations relative to fair-trading and dealing;
- Responsibilities to the community;
- Compliance with legislation affecting its operations;
- Environment and pollution controls.

THE FUTURE

The Company is steadfast in its commitment to imbibe a governance culture that is in line with international best practices. To this end, the Code will be continuously reviewed and updated to enhance and further strengthen the Company's commitment to conduct its affairs with integrity, efficiency and with utmost transparency. The governance policies and procedure established within the Company will ensure that these objectives are achieved, practiced and consistently enhanced during 2009 and beyond.

Report of the Board Audit Committee

The Board Audit Committee's ("BAC") primary role is to provide assurance on the reliability of financial statements through an independent review of risks, controls and the governance process.

BAC COMPOSITION

The BAC comprises of three independent non-executive directors and two non-independent non-executive directors of the Board of Directors. The BAC is chaired by Mr. Moksevi Prelis, an independent non-executive director.

The members of the BAC as at 31 December 2008 were:

1. Mr. Moksevi Prelis - Independent Non-Executive Director (Chairman)
2. Mr. Mohamed Muhsin - Independent Non-Executive Director
3. Mr. Jayantha Dhanapala - Independent Non-Executive Director
4. Dato' Yusof Annuar Yaacob - Non-Independent Non-Executive Director
5. Mr. Azwan Khan Osman Khan - Non-Independent Non-Executive Director

There are two (02) financial experts among the five (05) member committee.

Ir. Prabahar N.K. Singam resigned from the BAC with effect from 21 July 2008. The BAC wishes to place on record its appreciation to Ir. Prabahar N.K. Singam for his invaluable contribution to the BAC. Mr. Azwan Khan Osman Khan was appointed as a member of the BAC on 21 July 2008.

Mr. Lalith T. Fernando, the Group Chief Internal Auditor (GCIA) functioned as the Secretary to the BAC until 9 October 2008. The Company Secretary, Ms. Anoja Obeyesekere, was appointed as the Secretary to the BAC with effect from 9 October 2008.

MEETINGS

The BAC had eight meetings during the year 2008 which includes two (02) special meetings. The meeting attendance of the members is given on page 43 of the Annual Report.

The Group Chief Executive Officer, Group Chief Financial Officer and the external Auditors, Messrs. PricewaterhouseCoopers ("PwC") attended these meetings upon invitation to brief the BAC on specific issues. PwC met with the BAC without the presence of the Management.

The Board is apprised of the significant issues discussed at the BAC.

THE TERMS OF REFERENCE OF THE BAC

The Terms of Reference ("TOR") clearly defines the roles, responsibilities and powers of the BAC, and it ensures that the composition and the activities of the BAC are in line with international best practices and the requirements of Corporate Governance Rules applicable to listed companies.

The TOR is reviewed regularly by the BAC and was revised during the year with the approval of the Board.

SUMMARY OF PRINCIPAL ACTIVITIES OF THE BAC DURING THE YEAR

During the year, the BAC reviewed significant business risks and control issues and recommended appropriate remedial measures. Matters that are of high risk were deliberated at its meetings and the BAC had private sessions with PwC, the GCIA and the Management.

The BAC deliberated on specific accounting matters and obtained expert opinion on revenue recognition and amortisation methods as permitted by the accounting standards. During the year, the BAC also :

- reviewed and deliberated on reports and updates, including follow up actions on previous reports as provided by the GCIA;
- reviewed Management Audit Committee reports on the progress of management actions to resolve significant internal control issues as highlighted by the internal and External Auditors;
- carried out interim financial reviews for purposes of quarterly announcement of financial results;
- reviewed Enterprise Risk Management reports on significant risk exposures and risk mitigation plans;
- reviewed and monitored compliance with the provisions of the Companies Act No. 7 of 2007;
- reviewed new policy updates, revisions, enhancements of the internal policies and procedures as recommended by the Management to ascertain that the improvements made are aligned to best business practices and effective internal control processes;
- reviewed and monitored the effectiveness of the Company's system of internal controls, through reports

furnished by the internal Auditors, the external Auditors and the Management;

- approved amendments to the Internal Audit Charter to formalize the scope and the functions of the Group Internal Audit Division (GIAD);

The Chairman of the BAC had formal discussions with the GIAD of Axiata Group Berhad and the PwC representatives from the Axiata Corporate Audit Team.

GROUP INTERNAL AUDIT

The BAC is strongly supported by the GIAD which has a dotted line relationship with the Axiata Group Internal Audit team in order to leverage global best practices and lessons learnt through the Group's operations. The GCIA reports directly to the BAC. The GCIA periodically reports the activities and key strategic and control issues noted by internal audit to the BAC.

The main focus of the internal audit function is to provide independent assurance over the overall system of internal control, risk management and governance processes by evaluating the adequacy, integrity and effectiveness of internal controls. The risk based internal audit plan is developed to cover key compliance, financial, operational, information technology, network and strategic matters that are significant to the overall performance of the Group.

The GIAD performed 40 audit assignments and highlighted key risk issues with recommendations for action. In addition, the GIAD coordinated and updated the follow up action review on external audit issues.

The GIAD has a mix of expertise in the disciplines of finance, information technology and network engineering that comprise 16 qualified audit personnel in those disciplines. Further, Axiata Group Internal Audit provides guidance and resources in terms of training new auditors, updating latest developments in the profession and allocating audit expertise on loan as and when required.

QUALITY ASSURANCE REVIEW OF THE INTERNAL AUDIT FUNCTION

The GCIA is responsible for maintaining quality assurance and improvement programs, which includes annual self assessment and external assessment which are performed by a certified quality assurance reviewer, in accordance with international standards for maintaining professional practices of internal auditing. During the year under review the Institute of Internal Auditors ("IIA") – Malaysian Chapter carried out the external quality assurance review and awarded GIAD with the highest quality rating given by the IIA. Accordingly, the GIAD conforms to all three (03) International Internal Auditing standards namely, attribute standards, performance standards, and code of ethics.

EXTERNAL AUDIT

The BAC reviewed the interim reports issued by PwC and the Management responses thereto.

The BAC carried out an annual evaluation of PwC to establish the independence and objectivity of the external audit function.

The BAC is of the view that any service outside the scope of the statutory audit provided by PwC has not impaired the independence of the Auditor.

The BAC had a private meeting with PwC prior to the year-end audit to discuss their audit approach and procedures, including matters relating to the scope of the audit and use of the work done by internal audit.

The BAC has recommended to the Board that PwC be reappointed as Auditors for the financial year ending 31 December 2009, subject to the approval of the shareholders at the Annual General Meeting.

Mr. M.R. Prelis
Chairman
Board Audit Committee
23 February 2009

Shareholder Information

Shareholder Information

THE DIAL SHARE

The DIAL share fell 70% to Rs. 6.00 as at 31 December 2008 compared with a closing price of Rs. 20.00 at the end of the previous year.

The DIAL share traded between a low of Rs. 5.75 and a high of Rs.20.00 during the year under review. In general the depressed market conditions and poor results coupled with lower trading volumes were the main reasons for the fall in the DIAL share price.

The Company has been able to sustain the foreign institutional interest which is evident in the composition of the public float with a strong foreign investor holding at 80% as at end 2008 (compared with 83% as at end 2007).

MARKET CAPITALISATION

The total market capitalisation of Dialog Telekom as at 31 December 2008 was Rs. 49 Bn., 70% lower than the Rs. 163 Bn. as at 31 December 2007, representing approximately 10% of the total market capitalisation.

DIAL is one of the largest companies on the CSE in terms of market capitalisation, and the Company has the distinction of having become the first and to date the only company in Sri Lanka to have achieved a market capitalisation exceeding USD 1 Bn.

LIQUIDITY

The average daily turnover of the DIAL share was Rs. 11.9 Mn. in 2008 compared to a Rs. 464.1 Mn. average daily turnover recorded by the CSE.

Liquidity of the DIAL share decreased to 2.6% of the total market turnover compared with 13.8% recorded in 2007.

Total volumes traded during the year decreased to 187.1 Mn. shares in 2008 compared to 556.6 Mn. shares recorded in 2007.

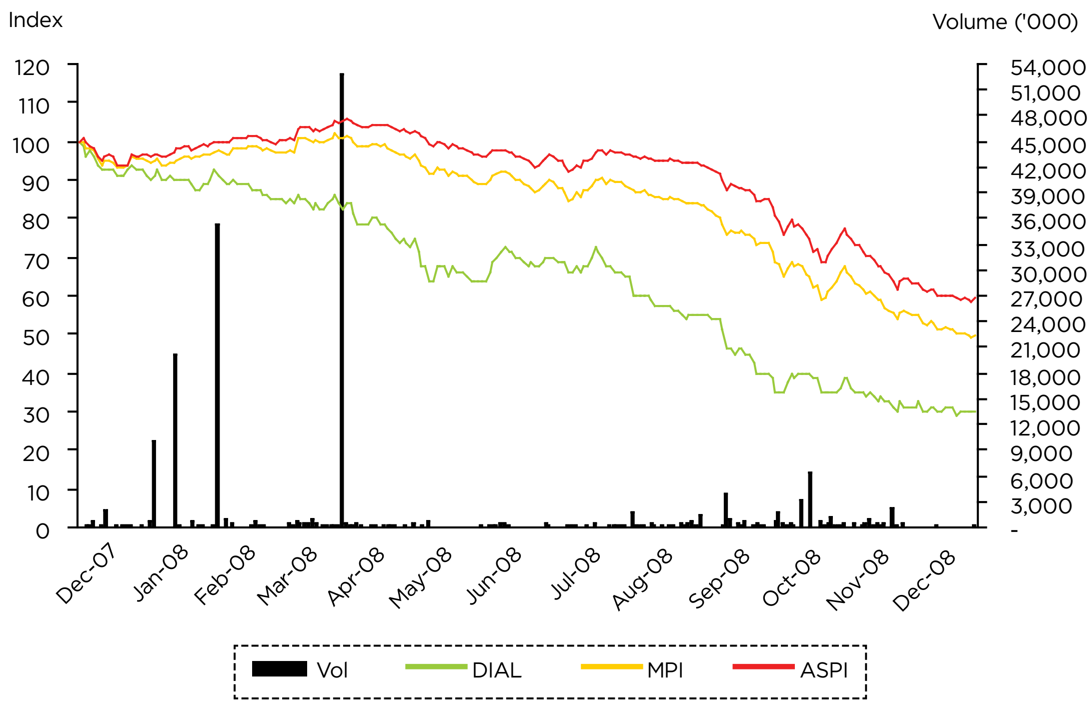


Figure 25: Share Price, Share Volume and Market Indices

Market information on DIAL share	FY 2008	FY 2007
Share information		
Highest Price (Rs.)	20.00	29.75
Lowest Price (Rs.)	5.75	19.75
As at the year end (Rs.)	6.00	20.00
Trading statistics		
Number of Trades	12,994	15,744
Number of Shares Traded ('000)	187,060	556,591
% of Total Shares Traded	**5.9**	**18.9**
% of Public Float *	15.6	45.9
Value of all Shares Traded (Rs. Mn.)	2,849	14,504
Average Daily Turnover (Rs. '000)	11,972	60,183
% of Total Market Turnover	**2.6**	**13.8**
Market Capitalisation (Rs. Mn.)	48,863	162,876
% of total Market Capitalisation	**10.0**	**19.8**

Table 16: Market Information

*Excludes unexercised ESOS shares and TM International (L) Limited holding

DISTRIBUTION OF COMPOSITION OF SHAREHOLDERS

The total number of Shareholders of DIAL increased to 22,314 as at 31 December 2008 compared to the 22,230 as at 31 December 2007.

The public float of DIAL was 14.73% as at 31 December 2008 compared to 14.89% in 2007. In terms of composition of the public float, foreign investors held 80% of the float, 14% was held by local institutional investors and 6% by local retail investors.

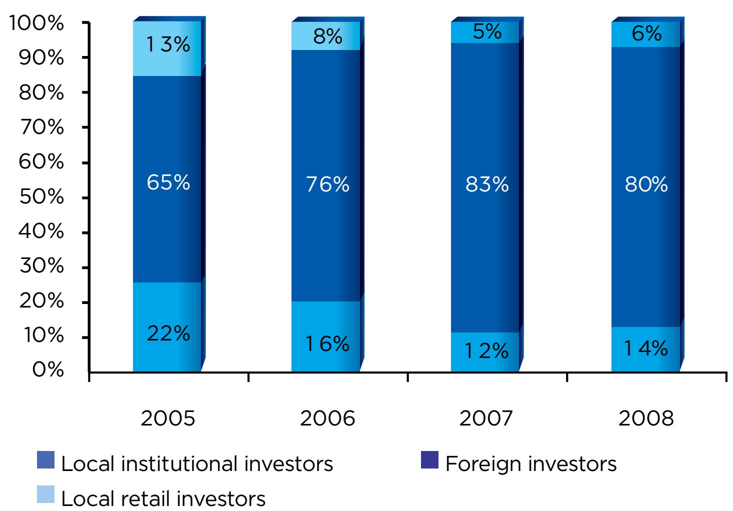


Figure 26: Composition of Shareholders

SHAREHOLDERS PROFILE

	31 December 2008				31 December 2007			
	No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1 to 1,000	10,148	45.48	6,040,523	0.08	9,973	44.86	6,104,314	0.08
1,001 to 5,000	10,209	45.75	19,510,146	0.24	10,437	46.95	19,686,490	0.24
5,001 to 10,000	844	3.78	6,016,594	0.07	763	3.43	5,282,322	0.06
10,001 to 50,000	789	3.54	16,048,867	0.20	739	3.32	14,709,378	0.18
50,001 to 100,000	115	0.52	8,188,839	0.10	96	0.43	7,066,279	0.09
100,001 to 500,000	119	0.53	25,455,565	0.31	122	0.55	27,221,611	0.33
500,001 to 1,000,000	17	0.08	13,342,810	0.16	21	0.09	16,003,520	0.20
Over 1,000,000	73	0.33	8,049,175,061	98.84	79	0.36	8,047,704,491	98.82
Total	**22,314**	**100.00**	**8,143,778,405**	**100.00**	**22,230**	**100.00**	**8,143,778,405**	**100.00**

Table 17: Distribution of Shareholders

* The issued Ordinary Shares of Dialog Telekom PLC are listed on the Colombo Stock Exchange.

* Stock exchange ticker symbol for Dialog Telekom shares : DIAL

* Newswire codes

Bloomberg : DIAL.SL   Dow Jones : DIAL.SL   Reuters : DIAL.CM

TWENTY LARGEST SHAREHOLDERS OF THE COMPANY

	31 December 2008		31 December 2007	
Shareholder's Name	No. of Shares	%	No. of Shares	%
TM International (L) Limited	6,785,252,765	83.32	6,771,539,665	83.15
HSBC Intl Nominees Ltd - JPMLU - Genesis Smaller Company	191,221,640	2.35	104,100,140	1.28
Dialog Telekom Employees ESOS Trust	158,572,462	1.95	159,365,662	1.96
HSBC Intl Nominees Ltd - JPMCB - Emerging Markets Growth Fund	149,615,180	1.84	149,615,180	1.84
HSBC Intl Nominees Ltd - BPSS LUX - Aberdeen Global Asia Pacific Fund	73,606,300	0.90	73,606,300	0.90
HSBC Intl Nominees Ltd - JPMLU - Capital International Emerging Markets Fund	71,265,260	0.88	71,265,260	0.88
HSBC Intl Nominees Ltd - SSBT - International Finance Corporation	64,086,800	0.79	64,086,800	0.79
Sri Lanka Insurance Corporation Limited - Life Fund	57,486,120	0.71	33,413,850	0.41
HSBC Intl Nominee Ltd - SSBT - SSGA - Emerging Market Fund	56,711,403	0.70	56,711,403	0.70
HSBC Intl Nominees Ltd - SSBT- Daily Active Emerging Markets Securities Lending Common Trust Fund	48,954,381	0.60	52,046,481	0.64
Investors Bank and Trust s/a South Asia Portfolio	30,080,680	0.37	38,443,680	0.47
HSBC Intl Nominees Ltd - BPSS LDN - Aberdeen Asia Pacific Fund	22,000,000	0.27	22,000,000	0.27
Sri Lanka Insurance Corporation Limited - General Fund	21,120,360	0.26	21,120,360	0.26
HSBC Intl Nominees Ltd - SSBT - State Street Bank & Trust Company Investment Funds	19,605,896	0.24	19,605,896	0.24
Danske Bank A/S	19,014,600	0.23	19,014,600	0.23
Employees Provident Fund	18,396,189	0.23	18,146,189	0.22
Northern Trust Co s/a Murray Johnstone International Delaware Business Trust	18,371,430	0.23	18,371,430	0.23
HSBC Intl Nominees Ltd - SSBT - State Street Emerging Markets	17,227,870	0.21	17,227,870	0.21
Bank of Ceylon A/C Ceybank Unit Trust	15,743,800	0.19	9,100,900	0.11
RBC DEXIA Investor Services Trust s/a Edinburgh Dragon Trust	14,407,030	0.18	14,407,030	0.18

Table 18: Twenty Largest Shareholders

Financial Statements

Report of the Board of Directors

The Directors of Dialog Telekom PLC ("the Company") hereby submit their Report and the Audited Consolidated Financial Statements of the Company and its subsidiaries ("the Group") for the financial year ended 31 December 2008.

GENERAL

The Company was incorporated on 27 August 1993, as a private limited liability company and subsequently converted to a public limited liability company on 26 May 2005. The issued shares of the Company were listed on the Colombo Stock Exchange ("CSE") on 28 July 2005 and the Company is one of the largest listed companies on the CSE in terms of market capitalisation. Pursuant to the requirements of the Companies Act No. 7 of 2007, the Company was re-registered on 19 July 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company include the provision of mobile telephony services and external gateway operations.

The principal activities of the subsidiaries, Dialog Broadband Networks (Private) Limited and Dialog Television (Private) Limited, mainly comprise of the provision of internet services, fixed wireless servises and transmission Infrastructure services and television broadcasting and media related services.

There were no significant changes to the activities of the Group during the period under review.

REVIEW OF BUSINESS

The statements made by the Chairman and the Group Chief Executive on pages 15 and 17 through 21 respectively, provide an overall assessment of the business performance of the Group and its future developments. These reports, together with the Audited Financial Statements, reflect the state of affairs of the Company and the Group.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company and the Group to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007 and the Listing Rules of the CSE.

FINANCIAL STATEMENTS

The Financial Statements of the Company and the Group for the year ended 31 December 2008 are set out on pages 62 to 114.

The Consolidated Financial Statements were approved by the Board of Directors on 23 February 2009.

AUDITORS' REPORT

The Auditors' Report on the Financial Statements is given on page 61.

ACCOUNTING POLICIES

The accounting policies adopted in the previous years by the Company and the Group have been consistently applied, except for the policy followed by the subsidiary company, Dialog Television (Private) Limited, which changed its policy relating to the recognition of revenue during the year under review. The revenue derived as connection fees which was previously recognised in full in the period in which the connection is granted, is now recognised over the subscriber churn period.

The accounting policies adopted in the preparation of the Financial Statements are given on pages 67 through 78.

INTERESTS REGISTER

The Company has maintained an interests register as required by the Companies Act No. 7 of 2007. All Directors have made declarations in accordance with the aforesaid Act. The names of the Directors who were directly or indirectly interested in a contact or a proposed transaction with the Company or the Group during the year are given in Note 31 to the Financial Statements.

BOARD OF DIRECTORS

The Directors of the Company as at 31 December 2008 were:

Datuk Azzat bin Kamaludin (Chairman)
Dr. Shridhir Sariputta Hansa Wijayasuriya (Group Chief Executive)
Mr. Moksevi Rasingh Prelis
Dato' Yusof Annuar bin Yaacob
Mr. Mohamed Vazir Muhsin
Mr. Jayantha Cudah Bandara Dhanapala
Mr. Azwan Khan bin Osman Khan
Mr. Roni Lihawa bin Abdul Wahab

The biographical details of the Directors are given on pages 9 through 12.

The following Directors resigned from the Board during the year:

Tan Sri Dato' Ir Muhammad Radzi bin Haji Mansor (Chairman) - Resigned on 21 July 2008
Ir. Prabahar N.K. Singam - Resigned on 21 July 2008
Dato' Sri Mohammed Shazalli bin Ramly - Resigned on 21 July 2008

The following Directors were appointed to the Board during the year:

Datuk Azzat bin Kamaludin (Chairman) - Appointed on 21 July 2008.
Mr. Azwan Khan bin Osman Khan - Appointed on 21 July 2008
Mr. Roni Lihawa bin Abdul Wahab - Appointed on 09 October 2008.

The remaining Directors held office throughout the year ended 31 December 2008.

Datuk Azzat bin Kamaludin, Mr. Azwan Khan bin Osman Khan and Mr. Roni Lihawa bin Abdul Wahab will submit themselves for retirement and are eligible for re-election at the forthcoming Annual General Meeting.

In accordance with the Articles of Association of the Company, Mr. Mohamed Muhsin retires by rotation and is eligible for re-election at the forthcoming Annual General Meeting.

Mr. Moksevi Prelis, who attained the age of 72 years on 2 July 2008 and Mr. Jayantha Dhanapala, who attained the age of 70 years on 30 December 2008, retire pursuant to Section 210 of the Companies Act No. 7 of 2007, and resolutions that the age limit of 70 years referred to in Section 210 of the Companies Act shall not be applicable to Mr. Moksevi Prelis and Mr. Jayantha Dhanapala, will be proposed at the forthcoming Annual General Meeting.

DIRECTORS' REMUNERATION

The remuneration and other benefits of the Directors are given in Note 20 to the Financial Statements.

DIRECTORS' MEETINGS

The details of Directors' meetings are set out on page 42 of the Annual Report.

DIRECTORS' SHAREHOLDINGS

The details of shares held by the Directors and their spouses as at the end of the year are as follows:

	2008	2007
Dr. Hans Wijayasuriya	42,570	42,570
Mr. Moksevi Prelis	18,480	18,480
Mr. Mohamed Muhsin	18,040	18,040

None of the Directors other than those disclosed above hold any shares in the Company.

BOARD COMMITTEES

As at 31 December 2008, the Board Audit Committee ("BAC") and the Nominating and Remuneration Committee ("NRC") comprised the following non-executive Directors of the Board:

BOARD AUDIT COMMITTEE

Mr. Moksevi Rasingh Prelis (Chairman)
Dato' Yusof Annuar bin Yaacob
Mr. Mohamed Vazir Muhsin
Mr. Jayantha Cudah Bandara Dhanapala
Mr. Azwan Khan bin Osman Khan

NOMINATING & REMUNERATION COMMITTEE

Dato' Yusof Annuar bin Yaacob (Chairman)
Mr. Moksevi Rasingh Prelis
Mr. Mohamed Vazir Muhsin

AUDITORS

A resolution to re-appoint Messrs PricewaterhouseCoopers, Chartered Accountants ("PwC"), as Auditors of the Company will be proposed at the forthcoming Annual General Meeting.

The BAC reviews the appointment of the Auditor, its effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the Auditor. The report of the BAC is given on pages 48 and 49 of the Annual Report.

The audit and non-audit fees paid and payable by the Group to the Auditors is given in Note 20 to the Financial Statements.

The Directors are satisfied that, based on representations made by the Auditors to the Board, the Auditors did not have any relationship or interest with the Company and the Group that would impair their independance, other than as auditors and tax consultants for income tax compilation.

RESULTS AND DIVIDENDS

The loss after tax of the Company was Rs. 388 Mn. (2007 NPAT - Rs. 10,127 Mn.), whilst the Group loss for the year was Rs. 2,879 Mn. (2007 NPAT - Rs. 8,907 Mn.).

The results for the year under review and changes in equity are set out in the Income Statement and in the Statement of Changes in Equity on pages 63 and 64 through 65 respectively.

The ordinary share dividends amounting to Rs. 4,479,078,123.00 (Rs. 0.55 per share) for the year ended 31 December 2007 were paid during the year.

PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in Note 6 to the Financial Statements.

MARKET VALUE OF PROPERTIES

The Directors are of the opinion that the carrying amount of properties, stated in Note 6 to the Financial Statements reflects the fair value of the properties.

CORPORATE GOVERNANCE

The Directors place great emphasis on instituting and maintaining internationally accepted corporate governance practices and principles with respect to the management and operations of the Group, in order to develop and nurture long-term relationships with our key stakeholders.

The Directors confirm that the Company is in compliance with the Corporate Governance Rules contained in the Listing Rules of the CSE.

RISK MANAGEMENT AND INTERNAL CONTROL

The Directors are responsible for the Company's system of internal controls covering financial operations and risk management activities and reviews its effectiveness in accordance with the provisions of the corporate governance framework. The Directors consider that the system is appropriately designed to manage the risk environment facing the Company and provides reasonable assurance against material mis-statement or loss. The Directors further confirm that there is an ongoing process allowing for the identification, evaluation and management of significant business risks.

HUMAN RESOURCES

The Group continued to implement apt Human Resource Management policies and practices to develop its employees and ensure their optimum contribution towards the achievement of corporate goals. The role of employees are regarded as pivotal in translating policies and strategies into commercial success. The employment policy of the Group embodies the principle of equal opportunity and the employee ownership in the Company is facilitated through the Employee Share Option Scheme.

The number of persons employed by the Group as at 31 December 2008 was 4,406 (2007 – 4,092).

EMPLOYEE SHARE OPTION SCHEME (ESOS)

In an effort to align the interest of the employees of the Company with those of the shareholders, the Company introduced an ESOS in 2005. The details of the options granted, options exercised, the exercise price and the options outstanding as at the year-end is disclosed in Note 13 to the Financial Statements.

The Company has granted a loan to the ESOS Trust in 2005 to subscribe to the ESOS shares.

ENVIRONMENTAL PROTECTION

The Group is sensitive to the needs of the environment and makes every endeavour to comply with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from the Management, the Directors are satisfied that the Company operates in a manner that minimises detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Company operates.

Specific measures taken to protect the environment are given in the Sustainability Report given together with this Annual Report.

EQUITABLE TREATMENT TO SHAREHOLDERS

The Company endeavours at all times to ensure equitable treatment to all shareholders.

SHARE INFORMATION

The details relating to Earnings, Net Book value, Market value per share and information on share trading are given on pages 51 to 54 of the Report.

SUBSTANTIAL SHAREHOLDINGS

The parent company, TM International (L) Limited holds 83.32% of the total ordinary shares in issue of the Company. The twenty largest shareholders and the percentages held by each of them are disclosed on page 54 of this report.

As at 31 December 2008 the public holds 14.73% of the total ordinary shares in issue of the Company.

STATED CAPITAL

The stated capital of the Company as at 31 December 2008 was Rs. 32,556,113,435 comprising 8,143,778,405 ordinary shares and 4,500,000,000 rated cumulative redeemable preference shares. The details of the Stated Capital are contained in Note 13 to the Financial Statements.

RESERVES

Total reserves and their composition are set out in the statement of changes in equity on pages 64 and 65 in the Financial Statements.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The Contingent Liabilities and Commitments made on account of capital expenditure as at 31 December 2008 are given in Notes 27 and 28 to the Financial Statements.

DONATIONS

The total donations made by the Company during the year amounted to Rs. 47,296,831.00 (2007 – Rs. 14,187,358.00).

STATUTORY PAYMENTS

The Directors confirm that to the best of their knowledge all taxes, duties, levies and statutory payments payable by the Company and its subsidiaries and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group, as at the Balance Sheet date, have been duly paid or where relevant provided for.

EVENTS AFTER BALANCE SHEET DATE

No material events that require adjustments to the Financial Statements have taken place, subsequent to the date of the Balance Sheet other than those disclosed, if any, in Note 33 to the Financial Statements.

GOING CONCERN

The Directors have reviewed the Group's business plans and are satisfied that the Group has adequate resources to continue as a going concern for the foreseeable future. As such, the Financial Statements have been prepared on that basis.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 24 June 2009 at the Committee Room B, BMICH.

The Notice of Meeting relating to the 12th Annual General Meeting is given on pages 117 and 118 of this report.

For and on behalf of the Board.

Datuk Azzat bin Kamaludin
Chairman

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

Mrs. Anoja Obeyesekere
Company Secretary
23 February 2009

Group Chief Executive's
and Group Chief Financial Officer's Declaration

The Financial Statements have been prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and as per the requirements of the Companies Act No. 7 of 2007, and any other applicable statutes to the extent applicable to the Company and the Group. There are no departures from the prescribed accounting standards in their adoption. To the best of our knowledge, the accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied unless otherwise stated in the notes accompanying the Financial Statements.

We the Group Chief Executive and Group Chief Financial Officer accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and responsible basis after making all reasonable enquiries in order that the Financial Statements reflect in a true and fair view, the form and substance of transactions, and reasonably present the Company and the Group's state of affairs. To ensure this, Dialog Telekom PLC, has taken proper and sufficient care in implementing a system of internal control and accounting records, for the safeguarding of assets, and preventing and detecting of fraud as well as other irregularities. Internal controls are reviewed, evaluated and updated on an ongoing basis and effective functioning of Board Audit Committee ensures that the internal controls and procedures are followed consistently.

The Financial Statements were audited by Messrs. PricewaterhouseCoopers, Chartered Accountants, the independent auditors.

The Company's Board Audit Committee meets periodically with the independent auditors to review the manner in which they are performing their responsibilities, adherence to statutory and regulatory requirements, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors have full and free access to the members of the Board Audit Committee to discuss any matters of substance.

It is also declared and confirmed that after making all reasonable enquiries and to the best of our knowledge the Company and the Group has complied with, and ensured compliance by the Auditors with the guidelines for the audit of Listed Companies wherever mandatory compliance is required. It is further confirmed that all other guidelines have been complied with.

We confirm that the Company and the Group have complied with all applicable laws, regulations, and guidelines and there are no material litigation against the Group other than those disclosed in the notes to the Financial Statements of the Annual Report.

We also confirm that to the best of our knowledge all taxes, duties, levies and all statutory payments by the Company and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and the Group as at the Balance Sheet date have been paid, or where relevant provided for.

Dr. Hans Wijayasuriya
Director / Group Chief Executive

Mr. Vipula Gunatilleka
Group Chief Financial Officer

23 February 2009
Colombo

Report of the Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
P.O. Box 918
100, Braybrooke Place
COLOMBO 2
SRI LANKA
Telephone : +94-11-4-719838
Facsimilie : +94-11-2303197

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DIALOG TELEKOM PLC

REPORT ON THE FINANCIAL STATEMENTS

1 We have audited the accompanying financial statements of Dialog Telekom PLC ("the Company"), the consolidated financial statements of the Company and its subsidiaries, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 62 to 110.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

5 We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

6 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2008 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2008 and of its loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

7 In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 December 2008 and the loss and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

8 These financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

PricewaterhouseCoopers

23 February 2009
Colombo

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)

	Notes	Group 31 December		Company 31 December	
		2008	2007 (Restated)	2008	2007
ASSETS					
Non - current assets					
Property, plant and equipment	6	64,698,584	50,665,921	56,718,021	45,955,975
Intangible assets	7	3,901,887	3,919,177	1,337,747	1,236,106
Investments in subsidiaries	8	Nil	Nil	8,826,010	2,335,510
Other investment	9	16,000	Nil	16,000	Nil
Amount due from subsidiaries	10	Nil	Nil	2,779,612	5,332,260
		68,616,471	54,585,098	69,677,390	54,859,851
Current assets					
Inventories	11	655,957	707,031	646,601	704,194
Trade and other receivables	10	10,742,903	10,090,263	8,308,351	8,280,628
Cash and cash equivalents	12	1,645,866	6,343,121	1,544,735	6,062,156
		13,044,726	17,140,415	10,499,687	15,046,978
Total assets		**81,661,197**	**71,725,513**	**80,177,077**	**69,906,829**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Stated capital	13	32,556,113	33,056,413	32,556,113	33,056,413
ESOS trust shares	13	(1,990,921)	(2,000,439)	(1,990,921)	(2,000,439)
Dividend reserve - ESOS		260,067	172,722	260,067	172,722
Revaluation reserve	14	19,913	20,377	19,913	20,377
Retained earnings		10,964,118	19,036,282	14,549,916	20,130,681
		41,809,290	50,285,355	45,395,088	51,379,754
Total equity		**41,809,290**	**50,285,355**	**45,395,088**	**51,379,754**
LIABILITIES					
Non - current liabilities					
Subscription in advance	18	Nil	306	Nil	306
Borrowings	16	8,828,439	5,172,921	7,818,455	4,751,593
Deferred income tax liabilities	17	607,437	140,084	605,992	119,823
Retirement benefit obligations	19	205,069	211,916	187,378	201,554
Provision for other liabilities		194,924	142,979	194,924	142,979
		9,835,869	5,668,206	8,806,749	5,216,255
Current liabilities					
Trade and other payables	15	11,060,739	10,929,692	8,464,849	9,175,605
Current income tax liabilities		60,506	19,913	59,590	19,344
Borrowings	16	18,894,793	4,822,347	17,450,801	4,115,871
		30,016,038	15,771,952	25,975,240	13,310,820
Total liabilities		**39,851,907**	**21,440,158**	**34,781,989**	**18,527,075**
Total equity and liabilities		**81,661,197**	**71,725,513**	**80,177,077**	**69,906,829**

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 23 February 2009.

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

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

M.R. Prelis
Director

Vipula M. Gunatilleka
Group Chief Financial Officer

The notes on pages 67 to 110 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income statement (all amounts in Sri Lanka Rupees Thousands)

	Notes	Group Year ended 31 December		Company Year ended 31 December	
		2008	2007 (Restated)	2008	2007
Revenue	5	36,168,830	34,127,050	33,108,013	32,787,471
Direct costs		(19,989,153)	(13,153,686)	(17,630,235)	(11,881,600)
Gross margin		16,179,677	20,973,364	15,477,778	20,905,871
Other operating income		610,862	367,623	634,047	325,649
Administrative expenses		(10,468,008)	(6,325,860)	(8,501,797)	(5,426,048)
Distribution costs		(6,691,043)	(5,432,954)	(5,855,365)	(5,148,813)
Operating (loss) / profit	20	(368,512)	9,582,173	1,754,663	10,656,659
Finance costs - net	22	(2,003,761)	(630,018)	(1,617,071)	(485,059)
(Loss) / profit before tax		(2,372,273)	8,952,155	137,592	10,171,600
Tax	23	(507,068)	(45,302)	(525,534)	(45,086)
(Loss) / profit for the year		**(2,879,341)**	**8,906,853**	**(387,942)**	**10,126,514**
Attributable to:					
Equity holders of the Company		(2,879,341)	8,906,853	(387,942)	10,126,514
(Loss) / earnings per share for (loss) / profit attributable to the equity holders of the Company during the year (expressed in Rs per share)					
- basic	24	(0.45)	1.15	(0.14)	1.30
- diluted	24	(0.45)	1.13	(0.14)	1.29

The notes on pages 67 to 110 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	Attributable to equity holders of the Company						Minority interest	Total
	Note	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings		
Balance at 1 January 2007		12,680,378	(1,925,226)	70,309	20,840	14,206,808	(72)	25,053,037
Net profit		Nil	Nil	Nil	Nil	8,967,159	Nil	8,967,159
Issue of ordinary shares		15,423,820	Nil	Nil	Nil	Nil	Nil	15,423,820
Issue of rated cumulative redeemable preference shares		5,000,000	Nil	Nil	Nil	Nil	Nil	5,000,000
Expenses relating to issuance of rated cumulative redeemable preference shares		(47,785)	Nil	Nil	Nil	Nil	Nil	(47,785)
Dividend paid to ordinary shareholders		Nil	Nil	Nil	Nil	(4,071,889)	Nil	(4,071,889)
Dividend paid to rated cumulative redeemable preference shareholders		Nil	Nil	Nil	Nil	(60,988)	Nil	(60,988)
Dividend received - ESOS		Nil	Nil	102,413	Nil	Nil	Nil	102,413
Depreciation transfer		Nil	Nil	Nil	(463)	463	Nil	Nil
Purchase shares - ESOS		Nil	(205,452)	Nil	Nil	Nil	Nil	(205,452)
Shares exercised - ESOS		Nil	130,545	Nil	Nil	Nil	Nil	130,545
Subscription in advance		Nil	(306)	Nil	Nil	Nil	Nil	(306)
Transfer of minority interest		Nil	Nil	Nil	Nil	55,035	72	55,107
Balance at 31 December 2007		**33,056,413**	**(2,000,439)**	**172,722**	**20,377**	**19,096,588**	**Nil**	**50,345,661**
Balance at 1 January 2008								
As previously reported		33,056,413	(2,000,439)	172,722	20,377	19,096,588	Nil	50,345,661
Prior year adjustment	30	Nil	Nil	Nil	Nil	(60,306)	Nil	(60,306)
As restated		**33,056,413**	**(2,000,439)**	**172,722**	**20,377**	**19,036,282**	**Nil**	**50,285,355**
Net loss		Nil	Nil	Nil	Nil	(2,879,341)	Nil	(2,879,341)
Legal fee on issue of shares		(300)	Nil	Nil	Nil	Nil	Nil	(300)
Redemption of rated cumulative redeemable preference shares		(500,000)	Nil	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to ordinary shareholders		Nil	Nil	Nil	Nil	(4,479,078)	Nil	(4,479,078)
Dividend paid to rated cumulative redeemable preference shareholders		Nil	Nil	Nil	Nil	(714,209)	Nil	(714,209)
Dividend received - ESOS		Nil	Nil	87,345	Nil	Nil	Nil	87,345
Depreciation transfer		Nil	Nil	Nil	(464)	464	Nil	Nil
Shares exercised - ESOS		Nil	9,518	Nil	Nil	Nil	Nil	9,518
Balance at 31 December 2008		**32,556,113**	**(1,990,921)**	**260,067**	**19,913**	**10,964,118**	**Nil**	**41,809,290**

The notes on pages 67 to 110 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	Attributable to equity holders of the Company					
	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2007	12,680,378	(1,925,226)	70,309	20,840	14,136,581	24,982,882
Net profit	Nil	Nil	Nil	Nil	10,126,514	10,126,514
Issue of ordinary shares	15,423,820	Nil	Nil	Nil	Nil	15,423,820
Issue of rated cumulative redeemable preference shares	5,000,000	Nil	Nil	Nil	Nil	5,000,000
Expenses relating to issuance of rated cumulative redeemable preference shares	(47,785)	Nil	Nil	Nil	Nil	(47,785)
Dividend paid to ordinary shareholders	Nil	Nil	Nil	Nil	(4,071,889)	(4,071,889)
Dividend paid to rated cumulative redeemable preference shareholders	Nil	Nil	Nil	Nil	(60,988)	(60,988)
Dividend received - ESOS	Nil	Nil	102,413	Nil	Nil	102,413
Depreciation transfer	Nil	Nil	Nil	(463)	463	Nil
Share purchased - ESOS	Nil	(205,452)	Nil	Nil	Nil	(205,452)
Shares exercised - ESOS	Nil	130,545	Nil	Nil	Nil	130,545
Subscription in advance	Nil	(306)	Nil	Nil	Nil	(306)
Balance at 31 December 2007	**33,056,413**	**(2,000,439)**	**172,722**	**20,377**	**20,130,681**	**51,379,754**
Balance at 1 January 2008	33,056,413	(2,000,439)	172,722	20,377	20,130,681	51,379,754
Net loss	Nil	Nil	Nil	Nil	(387,942)	(387,942)
Legal fee on issue of shares	(300)	Nil	Nil	Nil	Nil	(300)
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 shareholders	Nil	Nil	Nil	Nil	(714,209)	(714,209)
Dividend received - ESOS	Nil	Nil	87,345	Nil	Nil	87,345
Depreciation transfer	Nil	Nil	Nil	(464)	464	Nil
Shares exercised - ESOS	Nil	9,518	Nil	Nil	Nil	9,518
Balance at 31 December 2008	**32,556,113**	**(1,990,921)**	**260,067**	**19,913**	**14,549,916**	**45,395,088**

he notes on pages 67 to 110 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Cash flow statement (all amounts in Sri Lanka Rupees Thousands)

	Notes	Group Year ended 31 December		Company Year ended 31 December	
		2008	2007 (Restated)	2008	2007
Cash flows from operating activities					
Cash generated from operations	26	7,971,169	13,211,816	7,046,778	12,793,700
Interest received		84,457	161,375	82,969	160,202
Interest paid		(1,196,927)	(774,823)	(847,309)	(618,028)
Tax / SRL / ESC paid		(60,166)	(61,532)	(60,164)	(60,270)
Retirement benefit obligations paid	19	(6,613)	(2,403)	(6,363)	(2,007)
Net cash generated from operating activities		**6,791,920**	**12,534,433**	**6,215,911**	**12,273,597**
Cash flows from investing activities					
Purchases of property, plant and equipment (PPE)		(315,671)	(404,165)	(243,620)	(193,946)
Purchases of intangible assets		(33,074)	(186,865)	(23,467)	(142,353)
Amounts advanced to subsidiaries		Nil	Nil	(2,847,427)	(3,130,476)
Investment installment to SLINTec	9	(16,000)	Nil	(16,000)	Nil
Expenditure incurred on capital work-in-progress		(22,699,473)	(24,944,964)	(17,836,330)	(21,793,825)
Acquisition of subsidiary, net of cash acquired	29	Nil	(39,666)	Nil	(39,666)
Proceeds from sale of PPE		38,230	76,721	22,876	30,036
Net cash used in investing activities		**(23,025,988)**	**(25,498,939)**	**(20,943,968)**	**(25,270,230)**
Cash flows from financing activities					
Proceeds from issuance of ordinary shares	13	Nil	15,376,035	Nil	15,376,035
Proceeds from issuance of rated cumulative redeemable preference shares	13	Nil	5,000,000	Nil	5,000,000
Redemption of rated cumulative redeemable preference shares	13	(500,000)	Nil	(500,000)	Nil
Legal fee on issuance of rated cumulative redeemable preference shares	13	(300)	Nil	(300)	Nil
Proceeds from treasury shares - ESOS		9,212	129,308	9,212	129,308
Purchase of treasury shares - ESOS	13	Nil	(205,452)	Nil	(205,452)
Repayment of finance leases		(48,031)	(43,705)	(21,795)	(18,656)
Repayment of borrowings		(11,931,408)	(12,197,706)	(9,973,546)	(11,265,833)
Proceeds from borrowings		26,670,939	12,736,259	23,406,955	11,728,760
Dividends paid to company's shareholders		(4,479,078)	(4,071,889)	(4,479,078)	(4,071,889)
Dividend received - ESOS		87,345	102,413	87,345	102,413
Dividends paid to holders of rated cumulative redeemable preference shareholders		(714,209)	(60,988)	(714,209)	(60,988)
Net cash generated from financing activities		**9,094,470**	**16,764,275**	**7,814,584**	**16,713,698**
Net (decrease) / increase in cash and cash equivalents		**(7,139,598)**	**3,799,769**	**(6,913,473)**	**3,717,065**
Movement in cash and cash equivalents					
At start of year		6,092,069	2,184,664	6,062,156	2,237,455
(Decrease) / increase		(7,139,598)	3,799,769	(6,913,473)	3,717,065
Exchange (loss)/gains on cash and bank overdraft		(756)	107,636	(756)	107,636
At end of year	**12**	**(1,048,285)**	**6,092,069**	**(852,073)**	**6,062,156**

he notes on pages 67 to 110 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

(IN THE NOTES ALL AMOUNTS ARE SHOWN 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 (television broadcasting services, pay television and cable television services, operation of a television broadcasting station and direct to home satellite TV service).

Dialog Telekom PLC is a public limited liability company incorporated and domiciled in Sri Lanka and is listed on the Colombo Stock Exchange since 28 July 2005. The registered office of the Company is located at 475, Union Place, Colombo 2.

These Group consolidated financial statments were authorised for issue by the Board of Directors on 23 February 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except as stated in Note 30.

2.1 BASIS OF PREPARATION

The consolidated financial statements of Dialog Telekom PLC have been prepared in accordance with Sri Lanka Accounting Standards (SLAS). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings.

The preparation of financial statements in conformity with SLASs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) SLASs that are not yet effective and have not been early adopted by the Group.

The following standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods:

- SLAS 44 - Financial Instruments; Presentation

The objective of this standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The substance of a financial instrument, rather than its legal form, governs its classification on the entity's balance sheet. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.1 BASIS OF PREPARATION (Contd.)

Accordingly, the preference shares that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

- SLAS 45 - Financial Instruments; Recognition and Measurement

The objective of this standard is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(b) Exposure draft that is not yet effective and has not been adopted by the Group

The following exposure draft has been published and are mandatory for accounting periods beginning on or after 1 January 2011 or later periods:

- SLAS 46 - Financial Instruments; Disclosure

The objective of this exposure draft is to provide disclosures in their financial statements that enable users to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

2.2 CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.2 CONSOLIDATION (Contd.)

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The financial period of the subsidiary undertakings are coterminous with that of the parent company.

2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 FOREIGN CURRENCIES

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within "finance income or cost".

2.5 INTANGIBLE ASSETS

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under intangible assets. Goodwill acquired in a business combination is tested annually for impairment, or more frequently if events or changes in circumstance indicate that it might be impaired; and carried at costs less accumulated impairment losses. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.5 INTANGIBLE ASSETS (Contd.)

(b) Licenses

Licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of 5 to 10 years.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of 2 years.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 2 years.

(d) Customer acquisition cost

Cost to acquire customers are recognised in the income statement as incurred.

(e) Other intangibles

Costs incurred to acquire the indefeasible right of use of Sea-Me-We, is amortised over its useful life of 15 years.

2.6 PROPERTY, PLANT AND EQUIPMENT

(a) Cost and valuation

Buildings mainly comprise of office premises. Buildings are shown at fair value, based on periodic, but at least triennial valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Cost of telecommunication network comprises expenditure up to and including the last distribution point before customer's premises and includes contractors' charges, materials, direct labour and related overheads. The cost of other property, plant and equipment comprises their purchase cost and any incidential cost of acquisition. These costs include the costs of dismantling, removal and restoration, and the obligation incurred as a consequence of installing the asset.

DIALOG TELEKOM PLC

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.6 PROPERTY, PLANT AND EQUIPMENT (Contd.)

(a) Cost and valuation (Contd.)

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to revaluation reserve under shareholder's equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves. All other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from "revaluation reserve" to "retained earnings".

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

The principle annual depreciation rates used are:

	% per annum
Buildings	2.5 - 2.9
Building - electrical installation	12.5
Building - leasehold property	33.33
Computer equipment	20
Telecom equipment - other than prepaid system	10
Telecom equipment - prepaid system	10 and 20
Office equipment	20
Furniture and fittings	20
Toolkits	10
Motor vehicles	20
ISP infrastructure	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.6 PROPERTY, PLANT AND EQUIPMENT (Contd.)

(b) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment either annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognised in the income statement unless it reverses a previous revaluation surplus for the same asset.

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 INVESTMENTS

Investments in subsidiaries are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

2.9 INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all expenses incurred in bringing the inventories to their present location and condition. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 TRADE RECEIVABLES

Trade receivables are recognised at the amounts that they are estimated to realise less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company and the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated realisable value. The amount of the provision is recognised in the income statement within selling and distribution costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three month or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 STATED CAPITAL

Ordinary shares and rated cumulative redeemable preference shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 TRADE AND OTHER PAYABLES

Liabilities classified as trade and other payables in the balance sheet are those which fall due for payment on demand or within one year from the balance sheet date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the balance sheet date.

2.14 BORROWINGS

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 CURRENT AND DEFERRED INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it related to items recognised directly in equity. In this case, the tax is also recognised in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.16 EMPLOYEE BENEFITS

(a) Defined benefit plan - Gratuity

A defined benefit plan is a pension plan that is not defined contribution plan. Defined benefit plan define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long term government bonds or high quality corporate bonds.

Past-service costs are recognised immediately in income statement, unless the changes to the defined benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 19 to the financial statements.

(b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company contributes 12% or 15% and 3% respectively, of the employees' basic or consolidated wage or salary. The Group has no further payment obligations once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

(c) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(d) Termination benefits

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.16 EMPLOYEE BENEFITS (Contd.)

(e) Bonus plans

The Group recognises a liability and an expense for bonuses on profit-sharing, based on profit attributable to the Company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised, even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.18 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company and the Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The revenue is recognised as follows:

(a) Domestic and international call revenue and rental income

The customers are charged for the usage with a monthly fixed rental for the telephony services. The customers are charged government taxes at the applicable rates. The revenue is recognised net of such taxes.

(b) Revenue from other network operators and international settlements

The revenue received from other network operators, local and international, for the use of the Group's telecommunication network for completing call connections are recognised, net of taxes, based on traffic minutes / per minute rates stipulated in the relevant agreements and regulations.

(c) Connection fees

Connection fees relating to Pay TV connections are recognised as revenue over the subscriber churn period. All other connection fees are recognised as revenue in the period in which the connection is activated.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd.)

2.18 REVENUE RECOGNITION (Contd.)

(d) Equipment revenue

These revenues consist of the sale of phones, accessories, SIM cards and starter packs. Revenues from these sales are recognised at the time that the item is sold to the customer.

(e) Prepaid card revenue

The revenue from sale of prepaid cards is recognised in the period in which it is used based on airtime.

(f) Interest income

Interest income is recognised as it accrues taking into account the effective yield on the asset.

2.19 ACCOUNTING FOR LEASES WHERE THE COMPANY AND THE GROUP IS THE LESSEE

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.20 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.2 LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

3.3 CREDIT RISK

Credit risk is managed on Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Individual risk limits are set based on internal or external ratings. The utilization of credit limits is regularly monitored. Revenue from customers are settled in cash or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

3.4 FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

3.5 INTEREST RATE RISK

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. The borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rates exposes the Group to interest rate risk. The Group analyses its interest rate exposure on a dynamic basis.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with in the next financial year are outlined below:

(a) Estimated impairment of non-current assets

The Group tests annually the indicators to ascertain whether non-current assets (including intangibles) have suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Defined benefit plan - Gratuity

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit plan. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit plan. Other key assumptions for defined benefit plan are based in part on current market conditions. Additional information is disclosed in Note 19.

(c) Provisions

The Group recognises provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each balance sheet date and adjusted to reflect the Group's current best estimate.

(d) Contingent liabilities

Determination of the treatment of contingent liabilities in the financial statements is based on the management's view of the expected outcome of the applicable contingency. The Group consults with legal counsel on matters related to litigation and other experts both within and outside the Group with respect to matters in the ordinary course of business.

(e) Allowance for doubtful debts

The Group assesses at each balance sheet date whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairment.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

5 SEGMENT INFORMATION

(a) Primary reporting format - business segments

At 31 December 2008 the Group is organised into two main business segments :

- Cellular mobile telephone network operations
- External gateway operations (Global operation)

Other Group operations mainly comprise of internet services, telecommunication infrastructure provision facilitating switch / non-switch data communication, television broadcasting and media related businesses. None of these constitute a separate segment since;

- its revenue from sales to external customers and from transactions with other segments is less than 10 per cent of the total revenue, external and internal, of all segments; or
- its segment result, whether profit or loss, is less than 10 per cent of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or
- its assets are less than 10 per cent of the total assets of all segments.

- **The segment results for the year ended 31 December 2008 are as follows:**

	Cellular Operations	Global Operations	Other	Group
Total segmental revenue	32,024,966	8,363,319	3,692,203	44,080,488
Inter-segment revenue	(3,869,565)	(3,410,706)	(631,387)	(7,911,658)
Revenue from external customers	**28,155,401**	**4,952,613**	**3,060,816**	**36,168,830**
Operating profit / (loss) segment results	(272,768)	2,027,431	(2,123,175)	(368,512)
Finance income				67,571
Finance costs				(2,071,332)
Finance cost net (Note 22)				(2,003,761)
Loss before income tax				(2,372,273)
Income tax expense (Note 23)				(507,068)
Loss for the year				**(2,879,341)**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

5 SEGMENT INFORMATION (Contd.)

(a) Primary reporting format - business segments (contd.)

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

	Cellular Operations	Global Operations	Other	Group
Depreciation / impairment (Note 6)	6,676,756	55,156	1,369,302	8,101,214
Amortisation (Note 7)	454,028	63,317	139,402	656,747

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

	Cellular Operations	Global Operations	Other	Unallocated	Group
Assets	73,381,072	6,796,004	1,484,121	Nil	81,661,197
Liabilities	7,085,136	1,762,015	2,612,638	28,392,118	39,851,907
Capital expenditure	17,573,447	543,237	4,664,900	Nil	22,781,584

o The segment results for the year ended 31 December 2007 are as follows:

	Cellular Operations	External gateway operations	Other	Group
Total segmental revenue	30,268,240	6,214,752	2,337,453	38,820,445
Inter-segment revenue	(1,723,170)	(2,583,061)	(387,164)	(4,693,395)
Revenue from external customers	**28,545,070**	**3,631,691**	**1,950,289**	**34,127,050**
Operating profit / (loss) segment results	9,906,823	596,823	(921,473)	9,582,173
Finance income				169,817
Finance costs				(799,835)
Finance cost net (Note 22)				(630,018)
Profit before income tax				8,952,155
Income tax expense (Note 23)				(45,302)
Profit for the year				**8,906,853**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

5 SEGMENT INFORMATION (Contd.)

(a) Primary reporting format - business segments (contd.)

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

	Cellular Operations	External gateway operations	Other	Group
Depreciation / impairment (Note 6)	3,473,433	48,551	674,422	4,196,406
Amortisation (Note 7)	376,818	22,835	108,264	507,917

o The segment assets and liabiities at 31 December 2007 and capital expenditure for the year then ended are as follows;

	Cellular Operations	External gateway operations	Other	Unallocated	Group
Assets	65,781,937	3,617,869	2,325,707	Nil	71,725,513
Liabilities	11,974,408	569,493	2,683,924	6,212,333	21,440,158
Capital expenditure	21,595,041	209,280	3,912,607	Nil	25,716,928

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 operating liabilities. Unallocated liabilities comprise the items such as taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 6) and intangible assets (Note 7), including additions resulting from acquisitions through business combinations (Note 7 and 29).

(b) Secondary reporting format - geographical segments

The Group's two 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.)

6 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Land & buildings	Computer systems & telecom equipment	Furniture, fittings & other equipment	Motor vehicles	Assets in the course of construction (CWIP)	Total
At 1 January 2007						
Cost / valuation	619,966	29,009,099	515,506	407,205	8,758,092	39,309,868
Accumulated depreciation	(107,362)	(8,773,248)	(202,454)	(195,304)	Nil	(9,278,368)
Net book amount	**512,604**	**20,235,851**	**313,052**	**211,901**	**8,758,092**	**30,031,500**
Year ended 31 December 2007						
Opening net book amount	512,604	20,235,851	313,052	211,901	8,758,092	30,031,500
Additions	138,865	218,363	64,739	84,289	24,925,415	25,431,671
Transferred from CWIP	152,499	9,073,906	354,218	Nil	(9,580,623)	Nil
Transferred to intangible assets (Note 7)	Nil	(28,532)	6,871	632	(518,071)	(539,100)
Disposals	(609)	(54,444)	(3,749)	(2,942)	Nil	(61,744)
Depreciation / impairment charge (Note 20)	(40,287)	(3,832,666)	(244,357)	(79,096)	Nil	(4,196,406)
Closing net book amount	**763,072**	**25,612,478**	**490,774**	**214,784**	**23,584,813**	**50,665,921**
At 31 December 2007						
Cost / valuation	909,993	38,198,429	936,052	473,027	23,584,813	64,102,314
Accumulated depreciation	(146,921)	(12,585,951)	(445,278)	(258,243)	Nil	(13,436,393)
Net book amount	**763,072**	**25,612,478**	**490,774**	**214,784**	**23,584,813**	**50,665,921**
Year ended 31 December 2008						
Opening net book amount	763,072	25,612,478	490,774	214,784	23,584,813	50,665,921
Additions	2,815	247,726	76,510	1,888	22,419,572	22,748,511
Transferred from CWIP	307,968	23,829,834	1,319,468	99,760	(25,557,030)	Nil
Transferred to intangible assets (Note 7)	Nil	Nil	Nil	Nil	(606,384)	(606,384)
Disposals	Nil	(509)	Nil	(7,741)	Nil	(8,250)
Depreciation / impairment charge (Note 20)	(100,990)	(7,552,002)	(356,136)	(92,086)	Nil	(8,101,214)
Closing net book amount	**972,865**	**42,137,527**	**1,530,616**	**216,605**	**19,840,971**	**64,698,584**
At 31 December 2008						
Cost / valuation	1,220,776	61,160,071	2,332,030	550,864	19,840,971	85,104,712
Accumulated depreciation	(247,911)	(19,022,544)	(801,414)	(334,259)	Nil	(20,406,128)
Net book amount	**972,865**	**42,137,527**	**1,530,616**	**216,605**	**19,840,971**	**64,698,584**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

6 PROPERTY, PLANT AND EQUIPMENT (Contd.)

(b) Company

	Land & buildings	Computer systems & telecom equipment	Furniture, fittings & other equipment	Motor vehicles	Assets in the course of construction (CWIP)	Total
At 1 January 2007						
Cost / valuation	503,080	27,059,753	460,197	342,313	8,318,503	36,683,846
Accumulated depreciation	(72,674)	(8,234,223)	(182,718)	(164,808)	Nil	(8,654,423)
Net book amount	**430,406**	**18,825,530**	**277,479**	**177,505**	**8,318,503**	**28,029,423**
Year ended 31 December 2007						
Opening net book amount	430,406	18,825,530	277,479	177,505	8,318,503	28,029,423
Additions	1,354	180,694	33,625	19,003	21,793,702	22,028,378
Transferred from CWIP	151,546	8,224,387	227,208	Nil	(8,603,141)	Nil
Transferred to intangible assets (Note 7)	Nil	Nil	Nil	Nil	(480,269)	(480,269)
Disposals	(609)	(7,583)	(3,749)	(2,942)	Nil	(14,883)
Depreciation / impairment charge (Note 20)	(35,198)	(3,405,574)	(108,453)	(57,449)	Nil	(3,606,674)
Closing net book amount	**547,499**	**23,817,454**	**426,110**	**136,117**	**21,028,795**	**45,955,975**
At 31 December 2007						
Cost / valuation	654,643	35,448,106	716,353	344,065	21,028,795	58,191,962
Accumulated depreciation	(107,144)	(11,630,652)	(290,243)	(207,948)	Nil	(12,235,987)
Net book amount	**547,499**	**23,817,454**	**426,110**	**136,117**	**21,028,795**	**45,955,975**
Year ended 31 December 2008						
Opening net book amount	547,499	23,817,454	426,110	136,117	21,028,795	45,955,975
Additions	2,815	224,506	28,649	918	17,836,330	18,093,218
Transferred from CWIP	290,922	20,755,752	280,842	99,760	(21,427,276)	Nil
Transferred to intangible assets (Note 7)	Nil	Nil	Nil	Nil	(595,519)	(595,519)
Disposals	Nil	(451)	Nil	(3,290)	Nil	(3,741)
Depreciation / impairment charge (Note 20)	(95,437)	(6,397,507)	(169,334)	(69,634)	Nil	(6,731,912)
Closing net book amount	**745,799**	**38,399,754**	**566,267**	**163,871**	**16,842,330**	**56,718,021**
At 31 December 2008						
Cost / valuation	948,380	55,538,206	1,025,844	425,383	16,842,330	74,780,143
Accumulated depreciation	(202,581)	(17,138,452)	(459,577)	(261,512)	Nil	(18,062,122)
Net book amount	**745,799**	**38,399,754**	**566,267**	**163,871**	**16,842,330**	**56,718,021**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

6 PROPERTY, PLANT AND EQUIPMENT (Contd.)

(c) If the buildings were stated on the historical cost basis, the amount would be as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Cost	1,054,351	743,568	927,120	633,384
Accumulated depreciation	(246,472)	(146,013)	(201,142)	(106,236)
Net book amount	**807,879**	**597,555**	**725,978**	**527,148**

(d) Land and buildings were last revalued on 25 November 2006 by independent valuers. The surplus arising on revaluation was credited to " revaluation reserve" under Shareholders' equity (Note 14).

(e) Property, plant and equipment include motor vehicles acquired under finance leases, the net book value of which is made up as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Cost	230,868	199,159	129,250	138,368
Accumulated depreciation	(151,206)	(100,960)	(100,274)	(92,365)
Net book amount	**79,662**	**98,199**	**28,976**	**46,003**

(f) The Group leases various vehicles under non cancellable finance lease agreements. The lease terms are for four years.

(g) Property, plant and equipment includes fully depreciated assets still in use, the cost of which amounted to Rs.2,736,807,744 (2007 - Rs.1,759,276,338) and Rs. 3,802,926,385 (2007 - Rs. 1,834,089,132), for Company and Group as at the balance sheet date respectively

(h) No borrowing costs were capitalised during the years 2008 and 2007.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

7 INTANGIBLE ASSETS

(a) Group

	Goodwill	Licenses	Computer software	Others	Total
At 1 January 2007					
Cost	1,799,540	1,450,438	819,224	245,686	4,314,888
Accumulated amortisation	Nil	(124,273)	(568,406)	(19,472)	(712,151)
Net book amount	**1,799,540**	**1,326,165**	**250,818**	**226,214**	**3,602,737**
Year ended 31 December 2007					
Opening net book amount	1,799,540	1,326,165	250,818	226,214	3,602,737
Acquisition of subsidiary (Note 29)	94,772	Nil	Nil	Nil	94,772
Additions	Nil	105,978	84,507	Nil	190,485
Transferred from CWIP (Note 6)	Nil	Nil	404,648	134,452	539,100
Amortisation charge	Nil	(185,521)	(314,650)	(7,746)	(507,917)
Closing net book amount	**1,894,312**	**1,246,622**	**425,323**	**352,920**	**3,919,177**
At 31 December 2007					
Cost	1,894,312	1,556,416	1,308,379	380,138	5,139,245
Accumulated amortisation	Nill	(309,794)	(883,056)	(27,218)	(1,220,068)
Net book amount	**1,894,312**	**1,246,622**	**425,323**	**352,920**	**3,919,177**
Year ended 31 December 2008					
Opening net book amount	1,894,312	1,246,622	425,323	352,920	3,919,177
Additions	Nil	Nil	33,073	Nil	33,073
Transferred from CWIP (Note 6)	Nil	Nil	343,923	262,461	606,384
Amortisation charge	Nil	(154,601)	(463,932)	(38,214)	(656,747)
Closing net book amount	**1,894,312**	**1,092,021**	**338,387**	**577,167**	**3,901,887**
At 31 December 2008					
Cost	1,894,312	1,556,416	1,685,375	642,599	5,778,702
Accumulated amortisation	Nil	(464,395)	(1,346,988)	(65,432)	(1,876,815)
Net book amount	**1,894,312**	**1,092,021**	**338,387**	**577,167**	**3,901,887**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

7 INTANGIBLE ASSETS (Contd.)

(b) Company

	Licenses	Computer software	Others	Total
At 1 January 2007				
Cost	547,718	819,224	245,686	1,612,628
Accumulated amortisation	(20,388)	(568,406)	(19,472)	(608,266)
Net book amount	**527,330**	**250,818**	**226,214**	**1,004,362**
Year ended 31 December 2007				
Opening net book amount	527,330	250,818	226,214	1,004,362
Additions	74,174	68,178	Nil	142,352
Transferred from CWIP (Note 6)	Nil	345,817	134,452	480,269
Amortisation charge	(90,018)	(293,113)	(7,746)	(390,877)
Closing net book amount	**511,486**	**371,700**	**352,920**	**1,236,106**
At 31 December 2007				
Cost	621,892	1,233,219	380,138	2,235,249
Accumulated amortisation	(110,406)	(861,519)	(27,218)	(999,143)
Net book amount	**511,486**	**371,700**	**352,920**	**1,236,106**
Year ended 31 December 2008				
Opening net book amount	511,486	371,700	352,920	1,236,106
Additions	Nil	23,467	Nil	23,467
Transferred from CWIP (Note 6)	Nil	333,058	262,461	595,519
Amortisation charge	(61,660)	(417,471)	(38,214)	(517,345)
Closing net book amount	**449,826**	**310,754**	**577,167**	**1,337,747**
At 31 December 2008				
Cost	621,892	1,589,744	642,599	2,854,235
Accumulated amortisation	(172,066)	(1,278,990)	(65,432)	(1,516,488)
Net book amount	**449,826**	**310,754**	**577,167**	**1,337,747**

(c) Other intangibles include costs incurred to acquire the indefeasible right of use of Sea-Me-We.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

7 INTANGIBLE ASSETS (Contd.)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment.

An operating segment-level summary of the goodwill allocation is presented below.

	31 December	
	2008	**2007**
Enterment and media [Dialog Television (Private) Limited]	1,504,455	1,504,455
Broadband [Dialog Broadband Networks (Private) Limited]	389,857	389,857
	1,894,312	**1,894,312**

DIALOG TELEVISION (PRIVATE) LIMITED ("DIALOG TV")

The recoverable amount of a CGU is determined based on value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimated growth rates as stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The value in use calculation was based on a 10 year period to reflect low Direct To Home (DTH) penetration in the early years which is expected to improve in subsequent years.

In the DCF model - the free cash flows (EBITDA less capital expenditure adjusted for differences in working capital) have been discounted by the Weighted Average Cost of Capital (WACC).

The Enterprise Value (EV) thus derived is in excess of the carrying value of the investment in the books of Dialog Telekom and as such it is demonstrated that there is no requirement to impair the quantum of goodwill reflected as of 31 December 2008 nor is there a requirement to write down the investment value as of the same date.

o The key assumptions used for value-in-use calculations are as follows:

	Dialog TV
Gross Margin (1)	44%
Growth Rate (2)	1%
Discounted Rate (3)	21%

1 - Budgeted gross margin is determined based on expectation of market development (average for the 10 year period)

2 - Weighted average growth rate used to extrapolate cash flows beyond the budget period.

3 - Pre-tax discount rate (WACC) applied to the cash flow projections.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

7 INTANGIBLE ASSETS (Contd.)

o Key assumptions on which forecasted cash flows are based are as follows:

	Dialog TV
- Expected television penetration level by the end of the forecast period	90%
- Expected penetration level for Dialog TV by the end of the forecast period	21%
- Average monthly rental revenue per user over the forecast period (Rs.)	977
- Year on Year (YoY) increase in operating expenses (OPEX)	10%
- Efficiencies in channel fees are expected with the increase in the subscriber base	
- Transponder fees are expected to remain fixed	
- Capital expenditure has been projected to cater to network enhancements and new investments	

o The management expects to achieve the forecast by implementing the strategies mentioned below amongst other;

- Content differentiation strategies to capture different segments of the market

- Enhanced availability and reach

- Position Dialog TV away from Traditional TV

DIALOG BROADBAND NETWORKS (PRIVATE) LIMITED

The recoverable amount of a CGU is determined based on Value-in-Use (VIU) calculation. This calculation uses projections originating from Business Plans (BP's) approved by Management covering a ten (10) year period. The calculation is derived from a Discounted Cash Flow model (DCF), where the EBITDA and capital expenditure lines have been derived from the business plan which in turn is based on the envisioned development of the Company – with capacities of the different technology platforms being built out in the initial years and with revenue aggregating upwards during the later years (which is the established pattern with any telecommunication operator). In the DCF model – the free cash flows (EBITDA less capital expenditure) have been discounted by the Weighted Average Cost of Capital (WACC).

The business model shows that a significant proportion of the cumulative revenues will be earned during the latter years of the ten year business plan. As such the valuation model has been divided into phases – where the initial five years have been projected based on current performance and expected growth rates and thereafter a prudent growth rate has been applied for the next five years. The growth rate thus applied for the latter five years is below the expected industry growth average as can be seen from Tables (1) and (2) below. Beyond the business plan period of ten years - a perpetuity growth factor of 2% has been assumed.

The Enterprise Value (EV) thus derived is in excess of the carrying value of the investment in the books of Dialog Telekom and as such it is demonstrated that there is no requirement to impair the quantum of goodwill reflected as of 31 December 2008 nor is there a requirement to write down the investment value as of the same date.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

7 INTANGIBLE ASSETS (Contd.)

- The key assumptions used for VIU calculation are as follows:

Factor	Assumption	Note
Gross margin	54%	1
Growth rate	2%	2
Pre-tax discount rate	22.10%	3
Usage drop in CDMA from October 2008	10%	
Revenue increase from transmission and infrastructure after 2011	15% YoY	
Marketing costs as a percentage of revenue	7%	
International bandwidth costs to decrease by	10% YoY	
Other direct costs increase from 2012	20% YoY	
OPEX increase from 2012	20% YoY	

Note (1) Budgeted gross margin – determined based on past performance and expectation of market development (average for the 10 year period).

Note (2) Weighted average growth rate used to project cash flows beyond the budget period which are consistent with the forecasts used in industry reports.

Note (3) Pre-tax discount rate applied to the cash flow projections which reflect specific risks relating to the relevant operating segments.

- Other assumptions on which forecasted cash flows are based are as follows:

Significant revenue share is projected from the managed services portfolio. Share in this market is projected to be 33% by 2013 in view of the limited competition within this segment.

CDMA penetration in the country is expected to exceed 100% during the forecast period. It is assumed that a percentage of households and micro enterprises will have more than one fixed telephone connection.

The number of competitors within the fixed telephony industry is assumed to remain constant.

Between 2015 and 2016 higher network CAPEX has been projected in view of the CDMA and WiMAX networks exceeding 10 years.

While a YoY 8% decrease in the cost of WiMAX CPE has been assumed – the overall benefits from price reductions in CPE are expected to be negated by increasing freight costs and potential applicability of import duties.

A significant component of the Company's total revenue is projected to be derived from Broadband/Internet operations – contributing an average of 45% of revenues over the ten year period. These projections are made in anticipation of high growth in internet penetration from the current level of less than 0.5%. The projections have been benchmarked against regional growth forecasts.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

7 INTANGIBLE ASSETS (Contd.)

Table 1 – Projected growth for revenue streams used in VIU calculation

Revenue Stream	Growth Rate	
	2014-2016	2017-2018
VPD/Data	20%	15%
E1 trunking	5%	5%
CO Lines/box office	15%	10%
Business internet	15%	10%
Managed services	25%	20%
Broadband internet	35%	25%
CDMA	-5%	-5%
Transmission & infrastructure	10%	5%

Table 2 – Expected market growth for revenue streams used in VIU calculation

Revenue Stream	Growth Rate 2014-2016
VPD/Data	27%
E1 trunking	11%
Co lines/box office	11%
Business internet	20%
Managed services	30%
Broadband internet	43%

Changing the assumptions selected by Management, in particular the discount rate assumptions used in the discounted cash flow model could significantly affect the previously discussed results. Management has carried out an impact assessment review - and based on the sensitivity analysis performed have concluded that no reasonable change in the base case key assumptions would cause the carrying amounts of cash generating units to exceed their recoverable amounts.

If a pre-tax discount of 27.2% (as opposed to the 22.1% used in the model) were applied to the cash flow forecasts and projections of the Group's cash generating units the carrying amounts of these cash generating units including goodwill will equal the corresponding recoverable value – assuming all other variables remain unchanged.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

8 INVESTMENTS IN SUBSIDIARIES

	Holding %	Market value / directors valuation	
		2008	2007
Dialog Television (Private) Ltd [Formerly known as Asset Media (Private) Limited]	100	2,364,746	364,746
Dialog Broadband Network (Private) Limited	100	6,461,264	1,970,764
Communiq Broadband (Private) Limited	0.00	Nil	Nil
CBN SAT (Private) Limited	0.07	Nil	Nil
		8,826,010	**2,335,510**
At 1 January		2,335,510	2,335,510
Shares issued in lieu of the monies advanced		6,490,500	Nil
At 31 December		**8,826,010**	**2,335,510**

The subsidiaries of the Company issued shares worth of Rs 6,490,500,000; Dialog Broadband (Private) Limited (Rs 4,490,500,000 - 449,050,000 shares) and Dialog Television (Private) Limited [Formerly known as Asset Media (Private) Limited] (Rs 2,000,000,000 - 2,000,000,000 shares) in lieu of the amounts advanced to the respective companies.

9 OTHER INVESTMENT

	Holding %	Market value / directors valuation	
		2008	2007
Sri Lanka Institute of Nano Technology ("SLINTec")	10%	16,000	Nil

The Company invested a sum of Rs 16,000,000 in Sri Lanka Institute of Nano Technology ("SLINTec"); a company set up for carrying out research on technology developments.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

10 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
Trade receivables	3,982,057	3,222,095	2,806,626	2,850,004
Prepayments	614,817	1,213,544	374,278	351,262
Amounts due from related companies (Note 31)	6,381	4,610	6,381	4,610
Other receivables	6,139,648	5,650,014	5,121,066	5,074,752
	10,742,903	**10,090,263**	**8,308,351**	**8,280,628**
The amounts due from related companies are				
classified as follows (Note 31)				
- non current	Nil	Nil	2,779,612	5,332,260
- current	6,381	4,610	6,381	4,610
	6,381	**4,610**	**2,785,993**	**5,336,870**

Other receivables of the Group and the Company mainly consists of Value Added Tax refunds due from the Department of Inland Revenue amounting to Rs 3,586,853,176 (2007 - 2,895,546,367) and Rs 2,731,016,686 (2007 - Rs 2,370,006,129) respectively.

11 INVENTORIES

	Group		Company	
	2008	2007	2008	2007
Phone stock	201,198	111,119	196,612	111,119
Accessories and consumables	454,759	595,912	449,989	593,075
	655,957	**707,031**	**646,601**	**704,194**

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	2008	2007
Cash at bank and in hand	1,174,071	1,373,114	1,072,940	1,092,149
Short term bank deposits	471,795	4,970,007	471,795	4,970,007
	1,645,866	**6,343,121**	**1,544,735**	**6,062,156**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

12 CASH AND CASH EQUIVALENTS (Contd.)

The weighted average effective interest rate on short term foreign currency bank deposits was 4.32 % p.a. while the effective earnings on rupee deposits was 13.47% p.a. Cash, cash equivalents and bank overdraft include the following for the purpose of cash flow statement.

	Group		Company	
	2008	2007	2008	2007
Cash and bank balances	1,645,866	6,343,121	1,544,735	6,062,156
Bank overdrafts (Note 16)	(2,694,151)	(251,052)	(2,396,808)	Nil
	(1,048,285)	**6,092,069**	**(852,073)**	**6,062,156**

13 STATED CAPITAL

	Number of shares (thousands)	Ordinary shares and share premium	Preference shares	Stated capital	Shares in trust	Total
At 1 January 2007	**7,242,999**	**12,680,378**	**Nil**	**12,680,378**	**(1,925,226)**	**10,755,152**
Issue of preference shares	5,000,000	Nil	5,000,000	5,000,000	Nil	5,000,000
Preference share issue related cost setoff	Nil	(47,500)	Nil	(47,500)	Nil	(47,500)
Rights issue	740,343	15,547,213	Nil	15,547,213	(205,452)	15,341,761
Rights related cost setoff	Nil	(123,678)	Nil	(123,678)	Nil	(123,678)
Shares exercised during the year - ESOS	10,853	Nil	Nil	Nil	130,239	130,239
At 31 December 2007	**12,994,195**	**28,056,413**	**5,000,000**	**33,056,413**	**(2,000,439)**	**31,055,974**
At 1 January 2008	**12,994,195**	**28,056,413**	**5,000,000**	**33,056,413**	**(2,000,439)**	**31,055,974**
Redemption of preference shares	(500,000)	Nil	(500,000)	(500,000)	Nil	(500,000)
Shares exercised during the year - ESOS	793	Nil	Nil	Nil	9,518	9,518
Legal fee on issuing of shares	Nil	(300)	Nil	(300)	Nil	(300)
At 31 December 2008	**12,494,988**	**28,056,113**	**4,500,000**	**32,556,113**	**(1,990,921)**	**30,565,192**

Pursuant to the Companies Act No. 7 of 2007 which became effective from 3 May 2007, the value of stated capital consists of ordinary shares, share premium and preference share capital.

The rated cumulative redeemable preference shares of Rs 1 each issued by the Company during the previous financial year are mandatorily redeemable on 31 May 2012 at Rs 1 per share. The rated cumulative redeemable preference share dividend is payable semi annually, at Average Weighted Prime Lending Rate (AWPLR) minus 0.9%, on 31 March and 30 September.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

13 STATED CAPITAL (contd.)

The preference shares are redeemable on 31 May each year as follows:

2008 - 10%
2009 - 15%
2010 - 25%
2011 - 25%
2012 - 25%

The parent company, TM International (L) Limited held 83.32% of the ordinary shares in issue as at the balance sheet date.

EMPLOYEE SHARE OPTION SCHEME

The Board of Directors of the Company at the meeting held on 8 June 2005 resolved and created an Employee Share Option Scheme (ESOS) in order to align the interest of the employees of the Company with those of the shareholders. On 11 July 2005 the Board resolved and issued 199,892,741 ordinary shares of the Company at the IPO price to the ESOS, being 2.7% of the issued share capital of the Company.

Of the total ESOS shares that was transferred to the ESOS Trust, 88,841,218 shares (44.44%) were allocated to 'Tranche 0', at the point of the IPO. The balance 111,051,523 shares (56.6%) shall be allocated to employees as an ongoing performance incentive. The ESOS Trust entitlement via the rights issue was 15,452,020 shares. From the total entitlement 5,668,600 shares were sold in the stock market. On Trustees' approval, the remaining rights entitlement amounting to 9,783,420 shares was exercised by the ESOS Trust.

The Trustees of the ESOS Trust as at 31 December 2008 were as follows:
Mr Moksevi Rasingh Prelis
Mr Arittha Rahula Wikramanayake
Dato' Yusof Annuar Bin Yaacob

ESOS shares are granted to eligible employees. The exercise price of the granted ESOS shares will be based on the five (5) days weighted average market price of the Company's shares immediately preceding the offer date for options, with the ESOS committee having the discretion to set an exercise price up to 10% lower than that derived weighted average market price. Options are conditional on an employee satisfying the following:

- Attainment of the age of eighteen (18) years;
- Be in the full-time employment by and on the payroll of a company within the Group; and
- Be in the employment of the Group for a period of at least one (1) year of continuous service prior to and up to the offer date, including service during the probation period.

The total number of shares granted under Tranche 0 was 88,841,218. At 31 December 2008, 51,103,699 shares (inclusive of 50,310,499 shares as at 31 December 2007) have been exercised and 35,007,419 shares remain unexercised and are exercisable before 2010.

The movement in the number of ESOS shares and their related weighted average exercised price is as follows:

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

13 STATED CAPITAL (contd.)

	2008		2007	
	Average exercise price in Rs per share	Options (thousands)	Average exercise price in Rs per share	Options (thousands)
At 1 January	12	37,529	12	48,735
Forfeited	12	(1,728)	12	(353)
Exercised	12	(793)	12	(10,853)
Expired	Nil	Nil	Nil	Nil
At 31 December		**35,008**		**37,529**
Forfeited shares to be reallocated to subsequent Tranches		2,730		1,002
Available for subsequent Tranches		111,052		111,052
At 31 December		**148,790**		**149,583**

14 REVALUATION RESERVE

	Group		Company	
	2008	2007	2008	2007
Buildings:				
At 1 January	20,377	20,840	20,377	20,840
Transfer of depreciation to retained earnings	(464)	(463)	(464)	(463)
At 31 December	**19,913**	**20,377**	**19,913**	**20,377**

The revaluation reserve is non-distributable.

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007 (Restated)	2008	2007
Trade payables	4,526,351	2,477,553	2,781,082	986,573
Amount due to parent company (Note 31)	122,434	74,074	122,434	74,074
Amount due to related companies (Note 31)	637,798	256,928	637,798	256,928
Accrued expenses	3,163,335	1,852,372	2,558,703	1,671,259
Customer deposits	1,130,332	1,350,310	1,050,218	1,290,534
Other payables	1,480,489	4,918,455	1,314,614	4,896,237
	11,060,739	**10,929,692**	**8,464,849**	**9,175,605**

As at the balance sheet date, the net current liabilities of the Company exceeded the current assets by Rs 15,475,551,945 due to the short term advances received during the year from the parent company TM International (L) Limited and trade finance facilities which are included under the current liabilities. The Board of Directors is confident that this is a transitory situation with arrangements already in place to obtain additional long term funding to meet the commitments financed by such liabilities.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

16 BORROWINGS

	Group		Company	
	2008	**2007**	**2008**	**2007**
Current				
Bank overdrafts (Note 12)	2,694,151	251,052	2,396,808	Nil
Bank borrowings	11,358,899	4,529,029	10,234,188	4,097,933
Loan from TM International (L) Limited (Note 31)	4,802,347	Nil	4,802,347	Nil
Finance lease liabilities	39,396	42,266	17,458	17,938
	18,894,793	**4,822,347**	**17,450,801**	**4,115,871**
Non current				
Bank borrowings	8,797,975	5,101,572	7,812,997	4,729,097
Finance lease liabilities	30,464	71,349	5,458	22,496
	8,828,439	**5,172,921**	**7,818,455**	**4,751,593**

	Group		Company	
	2008	**2007**	**2008**	**2007**
Maturity of non current borrowings (excluding finance lease liabilities):				
Between 1 and 2 years	3,381,088	2,155,843	3,176,861	1,783,368
Between 2 and 5 years	4,004,841	1,818,125	3,224,091	1,818,125
More than 5 years	1,412,046	1,127,604	1,412,045	1,127,604
	8,797,975	**5,101,572**	**7,812,997**	**4,729,097**

The Company utilized USD 25 Mn. out of the USD 50 Mn. term loan facility from International Finance Corporation (IFC) in June 2008 for capital expenditure related settlements.

The Company obtained a short term loan amounting Rs 3,724,346,816 as a bridging facility from the parent company TM International (L) Limited.

TM International (L) Limited has also provided short term advance amounting to USD 10 Mn. to meet expenditure relating to telecommunication expansion, launch of CDMA and Pay TV services.

Vendor Finance arrangements with deferred payment terms were also used for financing long term capital projects.

As at 31 December 2008, a total of Rs. 2,206,483,182 was drawn down from the revolving credit facility offered by Standard Chartered Bank, which would mature in December 2009. This will be used for capital project financing & working capital requirements of the Group.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

16 BORROWINGS (Contd.)

Finance lease liabilities - minimum lease payments gross finance lease obligations:

	Group		Company	
	2008	2007	2008	2007
Not later than 1 year	47,153	56,507	19,333	22,402
Later than 1 year and not later than 5 years	33,854	82,549	5,808	24,612
	81,007	**139,056**	**25,141**	**47,014**
Future finance charges on finance leases	(11,147)	(25,441)	(2,225)	(6,580)
Present value of finance lease liabilities	**69,860**	**113,615**	**22,916**	**40,434**
Present value of finance lease liabilities:				
Not ater then 1 year	39,396	42,266	17,458	17,938
Later then 1 year and not later than 5 years	30,464	71,349	5,458	22,496
	69,860	**113,615**	**22,916**	**40,434**

17 DEFERRED INCOME TAX LIABILITIES

Deferred income taxes are calculated on all temporary differences under the liability method using the tax rate of 33 1/3%.

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2008	2007	2008	2007
At 1 January	140,084	39,717	119,823	39,717
Under Provision of deferred tax - Dialog Television (Private) Limited	Nil	3,843	Nil	Nil
Income statement charge (Note 23)	467,353	96,524	486,169	80,106
At 31 December	**607,437**	**140,084**	**605,992**	**119,823**

Deferred tax liability and the deferred tax charge/ (release) in the income statement are attributable to accelerated tax depreciation and provision for defined benefit obligations, to the extent that they are likely to result in an actual liability or an asset in the foreseeable future.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

18 SUBSCRIPTION IN ADVANCE

	Group		Company	
	2008	2007	2008	2007
At 1 January	306	1,235	306	1,235
Amounts received	9,212	27,469	9,212	27,469
Shares issued	(9,518)	(28,398)	(9,518)	(28,398)
At 31 December	**Nil**	**306**	**Nil**	**306**

The current year additions relate to subscriptions received in advance by the ESOS Trust on exercise of shares for which the share certificates had not been issued at the year end.

19 RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	2008	2007	2008	2007
At 1 January	211,916	111,997	201,554	102,635
Current service cost (Note 21)	(234)	102,322	(7,813)	100,926
Contributions paid	(6,613)	(2,403)	(6,363)	(2,007)
At 31 December	**205,069**	**211,916**	**187,378**	**201,554**

This obligation is not externally funded.

The Gratuity liability of the Company is based on the actuarial valuation carried out by Actuaries, Messrs. Actuarial & Management Consultants (Private) Limited, on 16 December 2008. The principal actuarial valuation assumptions used were as follows:

		2008	2007
1.	Discount rate	12%	10%
2.	Future salary increase		

Year	1	2	3	4	5	6	7	8	9	10	11	12 onwards
Salary Escalation rate %	18%	15%	12%	10%	10%	8%	8%	8%	6%	5%	5%	4%

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. The 2007 mortality table issued by the London Institute of Actuaries (A 67 / 70 mortality table) had also been used in valuation.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

20 OPERATING (LOSS) / PROFIT

The following items have been charged / (credited) in arriving at operating (Loss) / profit:

	Group		Company	
	2008	2007	2008	2007
Directors' fee	23,912	24,748	23,878	24,748
Auditors' fee				
- audit fees	6,284	8,575	4,444	6,577
- non audit fees	849	4,026	849	4,026
Fees for other professional services	78,910	74,659	73,683	71,824
Amortisation of intangible assets (Note7)	656,747	507,917	517,345	390,877
Depreciation on property, plant and equipment (Note 6)				
- owned assets	7,164,734	4,135,197	5,827,725	3,583,407
- leased assets under finance leases	31,012	43,665	16,689	23,267
	7,195,746	**4,178,862**	**5,844,414**	**3,606,674**
Provision for impairment of property, plant and equipment (Note 6)	905,468	17,544	887,498	Nil
Repair and maintenance expenditure on property, plant and equipment	1,483,278	1,057,278	1,377,002	994,814
Provision for doubtful debts	581,342	844,902	403,363	786,254
Operating lease rentals				
- office	740,012	471,730	640,590	434,193
- base stations and lease circuits	864,327	584,324	1,006,986	688,029
Cost of inventories (included in 'direct costs')	987,221	855,868	987,221	855,868
Employee benefit expense (Note 21)	2,982,347	2,035,071	2,476,919	1,741,748
Profit on disposal of property, plant and equipment	(29,980)	(14,978)	(19,135)	(15,154)
Provision for slow moving inventory	155,051	Nil	149,423	Nil

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

21 EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2008	2007	2008	2007
Wages and salaries	2,361,332	1,525,863	1,977,904	1,309,850
Social security costs	227,123	141,488	162,647	92,847
Pension costs - defined contribution plans	394,126	265,398	344,181	238,125
Pension costs - defined benefit plan (Note 19)	(234)	102,322	(7,813)	100,926
	2,982,347	**2,035,071**	**2,476,919**	**1,741,748**
Number of persons employed as at 31 December:				
- Full time	4,372	4,008	3,767	3,423
- Part time	34	84	34	84
	4,406	**4,092**	**3,801**	**3,507**

22 FINANCE INCOME AND COSTS

	Group		Company	
	2008	2007	2008	2007
Interest income on deposits	67,571	152,746	66,083	151,572
Interest expense on:				
- bank overdrafts	(150,499)	(22,238)	(42,510)	(141)
- term loans	(1,061,751)	(720,000)	(814,096)	(595,143)
- finance cost on Asset Retirement Obligation (ARO)	(38,679)	(35,376)	(38,679)	(35,376)
- finance lease	(14,194)	(18,940)	(4,276)	(7,373)
	(1,265,123)	**(796,554)**	**(899,561)**	**(638,033)**
Net foreign exchange transaction (losses) / gains	(806,209)	13,790	(783,593)	1,402
	(2,003,761)	**(630,018)**	**(1,617,071)**	**(485,059)**

23 TAX

	Group		Company	
	2008	2007	2008	2007
Year ended 31 December				
Current tax	59,128	20,016	58,778	19,565
Reversal of overprovision	(19,413)	(42,709)	(19,413)	(26,056)
Deferred tax charge (Note 17)	467,353	96,524	486,169	80,106
Economic service charge	Nil	(28,529)	Nil	(28,529)
	507,068	**45,302**	**525,534**	**45,086**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

23 TAX (contd.)

Under the agreement entered into between the Company and the Board of Investment of Sri Lanka (BOI), the main source of income of the Company is exempt from income tax for fifteen years (initial tax exemption period of seven years was extended to fifteen years as per the amendment made to BOI agreement on 17 April 2003) commencing either from the year in which it first makes a profit, or in the fifth year subsequent to the start of commercial operations, whichever is earlier. The Company commenced commercial operations during 1995 and profits were first recorded during the year ended 31 December 1998. Accordingly, the tax exemption period commenced from 1 January 1998 and the Company is currently liable to pay income tax only on the interest income earned from fixed and call deposits maintained in Sri Lanka Rupees.

	Group		Company	
	2008	**2007**	**2008**	**2007**
Year ended 31 December				
(Loss) / profit before tax	(2,372,273)	8,952,155	137,592	10,171,600
Less: Amortisation of increase in fair value of license	50,286	50,286	Nil	Nil
	(2,321,987)	**9,002,441**	**137,592**	**10,171,600**
Tax at the applicable rate	(580,845)	3,021,775	45,864	3,390,533
Income not subject to tax	450,700	(2,991,517)	(176,355)	(7,193,159)
Allawable deduction	(4,332,406)	(4,077,908)	(453,258)	Nil
Expenses not deductible for tax purposes	4,952,102	4,174,431	1,091,645	3,912,598
Utilization of tax losses	(36,539)	(10,301)	(36,418)	(10,301)
Overprovision of tax	54,056	(42,649)	54,056	(26,056)
Adjustment on economic service charge	Nil	(28,529)	Nil	(28,529)
	507,068	**45,302**	**525,534**	**45,086**

Tax losses available for carry forward to the year of assessment 2008/ 2009 amount to Rs 914,113,001. Accordingly, the Company is entitled to set off 35% of the statutory income of any year of assessment excluding income that does not form part of the assessable income from the aforementioned brought forward losses. Any losses not utilized over the current period could be carried forward to future years.

The weighted average applicable tax rate for the Group was 24.48% (2007 - 33.75%).

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

24 (LOSS) / EARNINGS PER SHARE

(a) Basic

Basic earning per share is calculated by dividing the net (Loss) / profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held by the ESOS Trust (Note 13).

	Group		Company	
	2008	2007 (Restated)	2008	2007
Net (loss) / profit after tax	(2,879,341)	8,906,853	(387,942)	10,126,514
Less: Preference dividend paid	(714,209)	(60,988)	(714,209)	(60,988)
Net (loss) / profit attributable to ordinary shareholders	**(3,593,550)**	**8,845,865**	**(1,102,151)**	**10,065,526**
Weighted average number of ordinary shares in issue (thousands)	7,985,059	7,719,955	7,985,059	7,719,955
Basic (loss)/earnings per share (Rs)	(0.45)	1.15	(0.14)	1.30

(b) Diluted

Diluted earning per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Company has share options (ESOS) which has potential for dilution. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Group		Company	
	2008	2007 (Restated)	2008	2007
Net (loss) / profit after tax	(2,879,341)	8,906,853	(387,942)	10,126,514
Less: Preference dividend paid	(714,209)	(60,988)	(714,209)	(60,988)
Net (loss) / profit attributable to ordinary Shareholders	**(3,593,550)**	**8,845,865**	**(1,102,151)**	**10,065,526**
Weighted average number of ordinary shares in issue (thousands)	7,984,345	7,827,019	7,984,345	7,827,019
Diluted (loss)/earnings per share (Rs)	(0.45)	1.13	(0.14)	1.29

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

25 DIVIDENDS

Ordinary share dividends amounting to Rs 4,071,889,197 (Rs 0.55 per share) for the year ended 31 December 2007, were paid during the year.

26 CASH GENERATED FROM OPERATIONS

Reconciliation of (loss) / profit before tax to cash generated from operations:

	Group		Company	
	2008	2007 (Restated)	2008	2007
(Loss) / profit before tax	(2,372,273)	8,952,155	137,592	10,171,600
Adjustments for:				
Unrealised foreign exchange losses	531,824	82,599	513,907	82,599
Provision for bad debts	581,342	844,902	403,363	786,254
Profit on sale of property, plant and equipment (Note 20)	(29,980)	(14,978)	(19,135)	(15,154)
Interest expense (Note 22)	1,226,444	761,178	860,882	602,657
Interest income (Note 22)	(67,571)	(152,746)	(66,083)	(151,572)
SRL Expenses	1,043	50	1,043	50
Depreciation / impairment charge (Note 6)	8,101,214	4,196,406	6,731,912	3,606,674
Amortisation (Note 7)	656,747	507,917	517,345	390,877
Finance cost on asset retirement obligations (Note 22)	38,679	35,376	38,679	35,376
Retirement benefit obligation (Note 19)	(234)	102,322	(7,813)	100,926
Provision for slow moving inventory	155,051	Nil	149,423	Nil
CWIP write off	229,862	Nil	Nil	Nil
Capital inventory used for repair and maintenance	44,410	Nil	Nil	Nil
Transfer of CWIP	Nil	14,083	Nil	Nil
Changes in working capital				
- trade and other receivables	(1,090,654)	(4,974,497)	(1,380,363)	(3,493,241)
- inventories	(98,349)	(122,314)	(91,831)	(185,131)
- payables	63,614	2,979,363	(742,143)	861,785
Cash generated from operations	**7,971,169**	**13,211,816**	**7,046,778**	**12,793,700**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

27 CONTINGENCIES

(a) Pending litigation

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the legal cases, nor are additional payments anticipated as of date. Accordingly, no provision has been made for legal claims in the financial statements.

(b) Assessment in respect of Value Added Tax (VAT)

The Company has been issued with Value Added Tax assessments for Rs 555,673,434 and penalties of Rs 353,821,168 in respect of financial year 2006 (year of assessment 2006/07). The Company is not in agreement with the assessments and has appealed against the said assessments under Section 34 of the Value Added Tax Act.

The Company has sought legal opinion on the assessments and has been advised that the assessments are not sustainable in law. The Directors therefore are of the view that the assessments made are unlikely to result in significant liabilities and accordingly no provision has been made in the financial statements.

(c) Inquiry by Sri Lanka Customs

In August 2008, Sri Lanka Customs (SLC) detained a shipment of CDMA Customer Premises Equipment (CPE), belonging to the subsidiary company, and commenced an investigation into the eligibility of these items falling under the duty exemptions granted in the terms and conditions of the Agreement which the subsidiary has entered with the Board of Investment of Sri Lanka. The shipment was subsequently cleared by submitting bank guarantees and thereafter paying duty under a protest to clear subsequent shipments. The main contention of SLC was that the CDMA CPE could not be considered a fixed asset of the subsidiary. Having completed the investigation, SLC commenced an inquiry into this matter on 30 January 2009.

No assessment has been made on the subsidiary at the date of the balance sheet. The Directors are of the opinion that no material liability would result from the inquiry and accordingly no provision has been made in the financial statements.

28 COMMITMENTS

Capital commitments

Capital commitments that were approved and contracted for the supply of Telecommunication equipment and services are as follows:

Capital expenditure contracted for at the balance sheet date but, not yet incurred is as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Supply of telecommunication equipments	6,421,452	14,786,991	6,421,452	14,786,991

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

28 COMMITMENTS (Contd.)

Financial Commitments

The Group has the following annual commitments;

	Currency	Amount
Annual fee to the Board of Investment of Sri Lanka (equivalent to USD 4,000)	USD	4,000.00
Rentals for sites on which base stations reside (Office, BTS & MSC)	LKR	1,441,200,000
Annual maintenance contract	LKR	11,393,692
Rental to TM International Lanka (Private) Limited for occupying the building	LKR	7,920,000

The Company and Dialog Broadband Networks (Private) Limited have an annual commitment to pay the Telecommunication Regulatory Commission a sum equivalent to 1% on the value of all additions to all property, plant and equipment and a further 0.3% of the annual turnover to Telecommunication Regulatory Commission of Sri Lanka.

The Company also has a commitment to pay the Change Trust Fund, an amount equivalent to the value of contributions donated by its customers towards Trust. This is to uplift the standard of living of underprivileged fellow countrymen and preservation of the environmental and culture

There were no other material financial commitments outstanding at the balance sheet date.

29 BUSINESS ACQUISITION

(a) On 13 September 2007, the Company acquired balance 10% of the share capital of Dialog Television (Private) Limited (formerly known as Asset Media (Private) Limited) a company which provides television broadcasting services.

Details of net assets acquired and goodwill thereon are as follows:

Purchase consideration:	
Cash paid	39,666
Total purchase consideration	39,666
Fair value of net liabilities acquired	55,106
Goodwill	**94,772**
The fair value on the net liabilities approximated to the book value of the net liabilities acquired.	

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

30 CHANGES IN ACCOUNTING POLICIES

The policy followed by subsidiary in respect of revenue recognition was changed during the year. The revenue which was previously recognised in full at the time of granting the connection is now recognised over the subscriber churn. This change in accounting policy has been accounted for as a prior year adjustment, in accordance with Sri Lanka Accounting Standards 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.

The impact of the adjustments as a result of adopting the new accounting policy to the financial statements for the year ended 31 December 2008 is as follows:

	Changes in accounting policy in revenue recognition		
	As previously stated	**Prior year adjustment**	**As restated**
Group			
Turnover	32,516,842	(60,306)	34,127,050
Retained earnings	19,096,588	(60,306)	19,036,282
Trade and other payables	14,812,319	60,306	10,929,692

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

31 RELATED PARTY TRANSACTIONS

(a) The directors of the Company are also directors of the following companies:

	CBN Sat (Private) Limited	Communiq Broadband Network (Private) Limited	Dialog Television (Private) Limited	Dialog Broadband Networks (Private) Limited	Telekom Malaysia Bhd	T M International (L) Limited	T M International Lanka (Private) Limited	T M International Bhd
Datuk Azzat bin Kamaludin	-	-	-	-	-	-	-	X
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	-	-	-	-	X	-	-	X
Ir. Prabahar S/O Nagalingam Kirupalasingam	-	-	-	-	X	-	-	-
Dr Shridhir Sariputta Hansa Wijayasuriya	X	X	X	X	-	-	X	-
Mr. Moksevi Rasingh Prelis	X	X	X	X	-	-	-	-
Dato' Yusof Annuar bin Yaacob	X	X	X	X	-	X	X	X
Dato' Sri Mohammed Shazalli bin Ramly	-	-	-	-	-	-	-	-
Mr. Mohamed Vazir Muhsin	-	-	-	-	-	-	-	-
Mr. Jayantha Cudah Bandara Dhanapala	-	-	-	-	-	-	-	-
Mr. Azwan Khan bin Osman Khan	-	-	-	-	-	-	-	-
Mr. Roni Lihawa bin Abdul Wahab	-	-	-	-	-	-	-	-

'X' denotes the companies in which each of the persons mentioned was a Director.

Dr. Shridhir Sariputta Hansa Wijayasuriya is a trustee of the Change Trust Fund.

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, Ir. Prabahar S/O Nagalingam Kirupalasingam and Dato' Sri Mohammed Shazalli bin Ramly resigned from the Board on 21 July 2008.

Datuk Azzat bin Kamaludin and Mr. Azwan Khan bin Osman Khan were appointed to the Board on 21 July 2008.

Mr. Roni Lihawa bin Abdul Wahab was appointed to the Board on 09 October 2008.

Mr. Mohamed Vazir Muhsin was a Director of John Keells PLC from which the Company purchased computer hardware and software amounting to Rs 170,937,999 during the year. The transactions have been carried out at arms length basis.

Mr. Jayantha Cudah Bandara Dhanapala is a Director of Cargills Ceylon PLC to which the Company paid a commission of Rs 122,615,308 for services provided as collecting agent. The transactions have been carried out at arms length basis.

Mr. Moksevi Rasingh Prelis is a shareholder of the Nations Trust Bank (NTB), to which a sum of Rs 92,852,848 was paid as overdraft interest by a subsidiary. The Company also paid to NTB, a preference dividend of Rs. 67,135,603 for financial year 2008. The transactions have been carried out at arms length basis.

As at 31 December 2008, the Chief Executive Officer, Dr. Shridhir Sariputta Hansa Wijayasuriya, held options to purchase 5,424,400 ordinary shares under the employee share option scheme.

No share options have been granted to the non-executive members of the Board of Directors under the employee share option scheme.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

31 RELATED PARTY TRANSACTIONS (Contd.)

(b) The Company is controlled by TM International (L) Limited which owns 83.32% of the issued stated capital of the company. The remaining 16.68% of the shares are widely held. The ultimate parent of the Company is TM International Berhad.

(c) The related parties with whom Dialog Telekom PLC had transactions in the ordinary course of business are set out below:

	2008	2007
Sale of Service to:		
i) TM International Lanka (Private) Limited		
- Rendering of management services	2,700	2,700
ii) Dialog Broadband Networks (Private) Limited		
- Site sharing revenue	158,417	57,888
- International bandwidth revenue	25,603	51,806
iii) Dialog Television (Private) Limited [formerly known as Asset Media (Private) Limited]		
- Revenue from call centre agency fee	20,668	9,598
iv)Telekom Malaysia Berhad		
- IPLC revenue	11,106	3,816
- Interconnection revenue	214,205	83,457
	432,699	**209,265**
Purchase of service from:		
i) Telekom Malaysia Berhad		
- Lease rental	14,232	43,798
- Acquisition cost of indefeasible right of use of Sea-Me-We	262,461	134,452
- TMCH charges	33,928	41,627
- Operation & maintenance charges	38,062	22,619
- Local access charges	25,366	55,719
- Port & internet charges	21,875	43,581
- Restoration	25,142	4,299
ii) Dialog Broadband Networks (Private) Limited		
- Lease circuit rental and electricity	223,507	296,554
iii) Dialog Television (Private) Limited [formerly known as Asset Media (Private Limited]		
- Cost on Initial connection given to DTP staff and others (holiday bungalows)	5,701	5,276
- Cost on subscription fees on connection given to DTP staff	5,689	5,057
- Donation of Dialog TV connection given to SL Armed forces (margin)	3,047	1,365
- Cost on e-mobile, cartoon network and CNN mobile video streaming.	15,972	11,394
	674,982	**665,741**
Receipt of funds from the parent company:		
i) Dialog Broadband Networks (Private) Limited	1,967,000	2,924,500
ii) Dialog Television (Private) Limited [formerly known as Asset Media (Private) Limited]	880,427	205,976
	2,847,427	**3,130,476**
Transfer of funds to subsidiaries :		
Dialog Telekom PLC	**(2,847,427)**	**(3,130,476)**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

31 RELATED PARTY TRANSACTIONS (Contd.)

(d) Key management personnel include members of the Group senior management of Dialog Telekom PLC and its subsidiary companies.

	2008	2007
Key management compensation:		
Salaries and short-term employee benefits	224,036,184	172,872,454
Post employment benefits	57,037,285	54,850,430
	281,073,469	**227,722,884**

(e) Rental expense

The Company has paid a rental of Rs 7,920,000 to TM International Lanka (Private) Limited for the building space during the financial year ended 31 December 2008.

(f) Loans obtained from the parent company (Note 16).

	2008	2007
At 31 December	**4,802,347**	**Nil**

Dialog Telekom PLC obtained a short term loan amounting to Rs 3,724,346,816 as a bridging facility and a short term advance amounting to USD 10 Mn. for expenditure related to telecommunication expansion, launch of CDMA and Pay TV from the parent Company, TM International (L) Limited.

(g) Outstanding receivable balances arising from related party transactions.

	Group		Company	
	2008	2007	2008	2007
Non - current receivables (Note 10)				
- Dialog Broadband Networks (Private) Limited	Nil	Nil	1,062,669	2,982,028
- Dialog Television (Private) Limited	Nil	Nil	1,306,621	1,945,135
- CBN Sat (Private) Limited	Nil	Nil	112,700	112,700
- Communiq Broadband Network (Private) Limited	Nil	Nil	297,622	292,397
	Nil	**Nil**	**2,779,612**	**5,332,260**
Current receivables (Note 10)				
- Change Trust Fund	501	3,128	501	3,128
- Telekom Malaysia International Cambodia (Company) Limited	5,880	Nil	5,880	Nil
- TM International Lanka (Private) Limited	Nil	1,482	Nil	1,482
	6,381	**4,610**	**6,381**	**4,610**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

31 RELATED PARTY TRANSACTIONS (Contd.)

(h) Outstanding payable balances arising from related party transactions:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Amount due to parent company (Note 15)				
- TM International Berhad	**122,434**	**74,074**	**122,434**	**74,074**
Amounts due to related companies (Note 15)				
- Telekom Malaysia Berhad	580,296	198,201	580,296	198,201
- TM International Lanka (Private) Limited	484	Nil	484	Nil
- TM International (Bangladesh) Limited	57,018	58,727	57,018	58,727
	637,798	**256,928**	**637,798**	**256,928**

The Directors have disclosed the nature of their interest in contracts at meetings of Directors, which are entered in the register maintain by the Company.

There were no other related party transactions other than those disclosed above.

32 PARENT COMPANY

TM International (L) Limited is the parent company of Dialog Telekom PLC. TM International Berhad is the parent company of TM International (L) Limited. Accordingly the ultimate parent company of Dialog Telekom PLC is TM International Berhad.

33 EVENTS AFTER THE BALANCE SHEET DATE

Refund of telecommunication development charge

The Company lodged an application for the refund of telecommunication development charges paid in previous years to the Telecommunication Regulatory Commission ('the commission") on termination revenue. Following a review on the network rollout of specified areas, the Commission has refunded a sum of Rs. 497,551,143 on 05 February 2009.

US Dollar
Financial Statements

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES
BALANCE SHEET
FOR INFORMATION PURPOSE ONLY

In USD '000

	Group As at 31 December		Company As at 31 December	
	2008	**2007 (Restated)**	**2008**	**2007**
ASSETS				
Non-current assets				
Property, plant and equipment	574,078	468,045	503,265	424,536
Intangible assets	34,622	36,205	11,870	11,419
Investments in subsidiaries	Nil	Nil	78,314	21,575
Other investments	142	Nil	142	Nil
Amount due from subsidiaries	Nil	Nil	24,664	49,259
	608,842	504,250	618,255	506,789
Current assets				
Inventories	5,820	6,531	5,737	6,505
Trade and other receivables	95,323	93,213	73,721	76,496
Cash and cash equivalents	14,604	58,597	13,707	56,001
	115,747	158,341	93,165	139,002
Total assets	**724,589**	**662,591**	**711,420**	**645,791**
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Stated capital	288,874	305,371	288,874	305,371
ESOS Trust shares	(17,666)	(18,480)	(17,666)	(18,480)
Dividend reserve - ESOS	2,308	1,596	2,308	1,596
Revaluation reserve	177	188	177	188
Retained earnings	97,286	175,855	129,103	185,965
	370,979	464,530	402,796	474,640
Total equity	**370,979**	**464,530**	**402,796**	**474,640**
LIABILITIES				
Non-current liabilities				
Subscription in advance	Nil	3	Nil	3
Borrowings	78,336	47,787	69,374	43,895
Deferred tax liability	5,390	1,294	5,377	1,107
Retirement benefit obligations	1,820	1,958	1,663	1,862
Provision for other liabilities	1,729	1,320	1,729	1,320
	87,275	52,362	78,143	48,187
Current liabilities				
Trade and other payables	98,143	100,967	75,109	84,763
Current income tax liabilities	537	184	529	179
Borrowings	167,655	44,548	154,843	38,022
	266,335	145,699	230,481	122,964
Total liabilities	**353,610**	**198,061**	**308,624**	**171,151**
Total equity and liabilities	**724,589**	**662,591**	**711,420**	**645,791**
Exchange Rates	112.70	108.25	112.70	108.25

INCOME STATEMENT
FOR INFORMATION PURPOSE ONLY

In USD '000

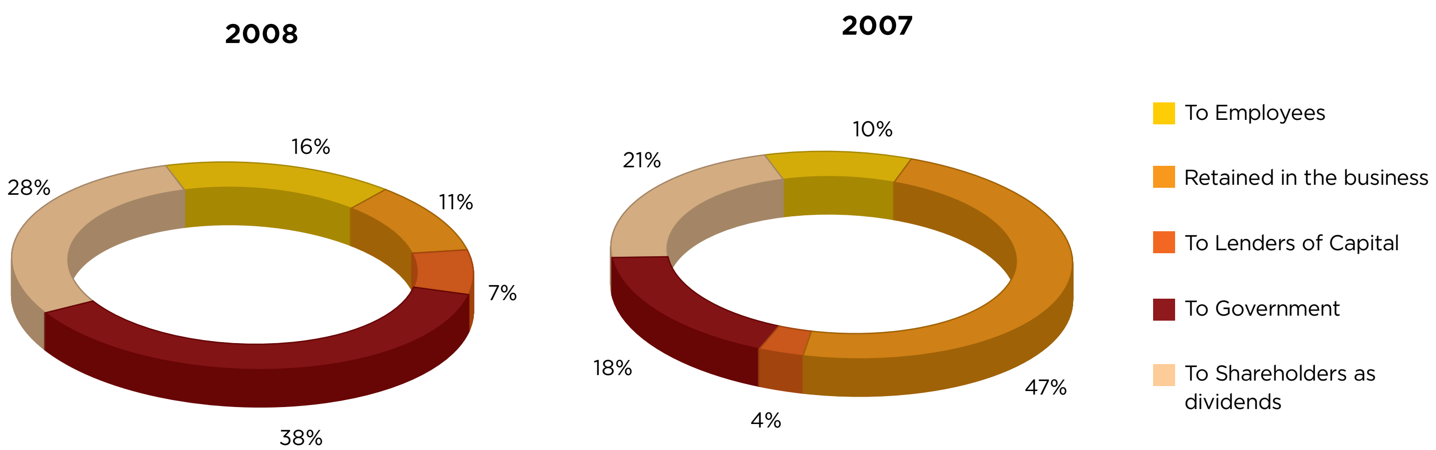
	Group Year ended 31 December		Company Year ended 31 December	
	2008	2007 (Restated)	2008	2007
Turnover	320,930	315,261	293,771	302,887
Direct costs	(177,366)	(121,512)	(156,435)	(109,761)
Gross margin	143,564	193,749	137,336	193,126
Other operating income	5,420	3,396	5,626	3,008
Administrative expenses	(92,884)	(58,438)	(75,437)	(50,125)
Distribution costs	(59,370)	(50,189)	(51,955)	(47,564)
Operating (loss) / profit	(3,270)	88,518	15,570	98,445
Finance costs	(17,780)	(5,820)	(14,348)	(4,481)
(Loss) / profit before tax	(21,050)	82,698	1,222	93,964
Tax	(4,499)	(418)	(4,663)	(416)
(Loss) / profit for the year	**(25,549)**	**82,280**	**(3,441)**	**93,548**
Exchange Rates	**112.70**	**108.25**	**112.70**	**108.25**

This information does not constitute a full set of financial statements in compliance with SLAS. The Financial Statements should be read together with the Auditors opinion and the Financial Statements from pages 61 to 110.

Exchange rates prevailing at each year end have been used to convert the Balance Sheet and Income Statement.

Group Value Added Statement

For the year ended 31st December	2008	2007
In Rs. 000s		**Restated**
Value Added		
Revenue	36,168,830	34,127,050
Other Operating Income	610,862	367,623
	36,779,692	34,494,673
Cost of Materials and Services bought in	(18,495,984)	(14,526,462)
	18,283,708	**19,968,211**
Distribution of Value Added		
To Employees		
Salaries and Other Benefits	2,930,787	2,033,220
To Government		
Taxes	6,963,472	3,648,494
To Lenders of Capital		
Interest on Borrowings	1,265,123	796,554
To Shareholders as dividends		
Dividend to Shareholders	4,479,078	4,071,889
Dividend to Rated Cumulative Redeemable Preference Shareholders	714,209	60,988
	5,193,287	4,132,877
Retained in the business		
Profit Retained	(6,826,922)	4,652,742
Depreciation	8,757,961	4,704,324
	1,931,039	9,357,066
	18,283,708	**19,968,211**



Five Year Summary

	GROUP				COMPANY
31st December Rs.000s	**2008**	**2007 Restated**	**2006**	**2005**	**2004**
OPERATING RESULTS					
Turnover	36,168,830	34,127,050	27,075,003	18,922,606	12,004,838
EBIT	(368,512)	9,582,173	10,850,776	7,316,885	4,352,365
Finance Cost	(2,003,761)	(630,018)	(657,309)	(263,065)	(212,464)
Profit Before Tax	(2,372,273)	8,952,155	10,193,467	7,053,820	4,139,901
Profit After Tax	(2,879,341)	8,906,853	10,118,893	7,011,871	4,100,519
CAPITAL EMPLOYED					
Stated Capital	32,556,113	33,056,413	12,680,378	12,680,378	1,638,979
ESOS Trust Shares	(1,990,921)	(2,000,439)	(1,925,226)	(2,385,320)	Nil
Dividend Reserve - ESOS	260,067	172,722	70,309	Nil	Nil
Revaluation Reserve	19,913	20,377	20,840	4,896	4,896
Retained Earnings	10,964,118	19,036,282	14,206,808	6,900,917	7,068,281
Shareholders Fund	41,809,290	50,285,355	25,053,109	17,200,871	8,712,156
Minority Interest	Nil	Nil	(72)	Nil	Nil
Subscription in Advance	Nil	306	1,235	Nil	3,414,190
Total Debt	28,730,662	10,490,553	13,160,736	10,745,616	3,511,370
	70,539,952	**60,776,214**	**38,215,008**	**27,946,487**	**15,637,716**
ASSETS EMPLOYED					
Property, Plant & Equipment	64,698,584	50,665,921	30,031,500	20,801,836	13,383,592
Other Non Current Assets	3,917,887	3,919,177	3,602,737	1,628,305	82,300
Current Assets	13,044,726	17,140,415	9,791,731	10,766,494	5,688,435
Liabilities Net of Debt	(11,121,245)	(10,949,299)	(5,210,960)	(5,250,148)	(3,516,611)
	70,539,952	**60,776,214**	**38,215,008**	**27,946,487**	**15,637,716**
CASH FLOW					
Cash flow from Operating Activities	6,791,920	12,534,433	12,090,080	9,011,522	6,970,083
Net Cash Flows from Investing Activities	(23,025,988)	(25,498,939)	(13,211,906)	(10,073,426)	(4,060,628)
Net Cash Flows from Financing Activities	9,094,470	16,764,275	(3,383,181)	4,581,240	(254,610)
Net (Decrease)/Increase in Cash and Cash Equivalents	(7,139,598)	3,799,769	(4,505,007)	3,519,336	2,654,845
KEY INDICATORS					
Basic Earnings Per Share (Rs.)	(0.45)	1.15	1.38	1.15	0.98
Interest Cover (No. of times)	(0.18)	15.21	16.51	27.81	20.40
Adjusted Net Asset Per Share (Rs.)	5.13	6.17	3.08	2.32	2.15
Current Ratio (No. of Times)	0.43	1.09	0.97	1.57	1.48
Price Earnings Ratio (Times)	(13.33)	17.40	18.90	14.30	Nil
Dividend per Share	Nil	0.55	0.55	0.38	Nil
Dividend Yield	Nil	2.80%	2.10%	2.30%	Nil
Market Price Per Share (Rs.)	6.00	20.00	26.50	16.50	Nil

*Previous years figures have been adjusted to conform with changes in presentation in the current period.

Sri Lanka
An Economic Overview

ECONOMIC GROWTH

The year 2008 was a tumultuous year for the global economy with the financial crisis in the United States and the EU spreading to the real sector and the rest of the world to result in a global economic crisis. The year began on a positive note for Sri Lanka with GDP growth in the first two quarters being a healthy 6.3% and 7.3% respectively. However the second half of the year saw the economy take a turn for the worse with growth rates of 6% and 4.3% in the third and fourth quarter. As a result, overall GDP growth in 2008 was 6%, still relatively healthy compared to many other economies which have been very adversely affected by the global economic crisis. Economic growth was broad based with industry growing by 5.9%, a somewhat slower rate than that of 2007, largely due to slowing external demand in the garment sector which grew by 3.1%. The agricultural sector grew at an encouraging 7.5% driven by a record paddy harvest and strong tea export performance in the first half of 2008. The services sector grew by 5.6% compared to a 7.1% growth in 2007. The slow down in the services sector was primarily due to weak growth in the fourth quarter of 3.8%. Nonetheless, certain services subsectors such as telecommunications grew rapidly at 22.3%. The number of fixed lines increased by 25.7% whilst mobile lines increased significantly by 38.8% compared to 2007.

EXTERNAL SECTOR

Being a small open economy with a high degree of trade dependence, Sri Lanka was always going to be vulnerable to an external economic shock of the magnitude of the current global economic crisis. The bulk of Sri Lanka's exports are destined for the United States and the EU (63% of export value goes to the US and EU), the two regions most adversely affected by the economic crisis. Around 40% of Sri Lanka's exports are from the garment sector (95% of which go the Europe and the US) and as a result Sri Lanka's garment exports in December contracted by 5% compared to the previous year. Tea export earnings have also been adversely affected by declining demand in the major markets which have driven prices down by 26% in the fourth quarter 2008 compared to the same quarter in 2007. The rubber and rubber products export sector has also been adversely affected by the global downturn. Falling global demand for vehicles has resulted in lower demand for rubber tyres (which make up 73% of Sri Lankan rubber product exports). Other export sectors such as ceramics, gems (63% decline in December 2008 export earnings from the same month in 2007) and service exports (tourism and port services) have also been adversely affected by the global downturn. Overall, exports which grew at 9.9% in the first three quarters of 2008, slowed rapidly to contract by - 2.8% in the final quarter of 2008 compared to the same quarter of 2007.

Prices of Sri Lanka's major imported commodities, particularly oil and food products, increased sharply in the first half of 2008 driven by a global commodity boom. The price of oil peaked at US$ 148 per barrel in July 2008, putting substantial pressure on Sri Lanka's balance of payments and inflation, which reached 28.2% in June 2008. High inflation had a negative impact on domestic savings, which amounted to 14.1% of GDP in 2008 compared to 17.6% in the previous year. However, encouragingly, the global economic crisis has deflated prices of commodities such as oil and food products, easing some of the pressure on the Balance of Payments. Nonetheless, the current account deficit more than doubled in 2008, reaching 9.3% of GDP, compared to 4.3% of GDP in 2007. Concerns in the external sector were exacerbated by an overvalued exchange rate, the defense of which contributed to a sharp decline in foreign exchange reserves.

CHALLENGES

The key challenge facing Sri Lanka and most countries in an integrated global economy, is the contraction of export markets and freezing of external finance as a result of the global economic crisis. The IMF has projected that the world economy will contract by -1.3% in 2009, with Sri Lanka's major markets, the US predicted to contract by -2.8% and the EU contracting by -4.2%. This will put substantial pressure on Sri Lanka's export sectors such as garments, tea, rubber and tourism. The freezing of global financial flows will also undermine the government's ability to borrow on international markets.

Whilst the external economic crisis has adversely affected Sri Lanka's economic performance, it has been coupled with a home grown downturn as well. In order to curb inflation that was prevalent in 2007 and 2008, the Central Bank drastically contracted monetary growth and reserve money growth fell to 10.2% in 2007 and 1.5% in 2008. As liquidity shrank interest rates increased, resulting in a slow down of the economy as investment and consumption declined. Higher interest rates also contributed to increased defaults and non-performing loans, resulting in a weakened financial sector towards the end of the year. The economic slow down was reflected in the weak performance of fourth quarter GDP, particularly that of the services sector.
The fiscal situation continues to be a challenge as current expenditure (16.9% of GDP) exceeded current revenue (14.9% of GDP), and the budget deficit reached 7.7% of GDP in 2008. Furthermore, the economic downturn continues to put pressure on government revenue as import revenue has declined due to the slow down in imports since the 2nd half of 2008. The ability to finance the budget deficit has also been undermined by the freezing up of external financial markets, forcing greater domestic borrowing which could crowd out domestic financial markets.

OPPORTUNITIES

It is encouraging to note that despite numerous challenges the Sri Lankan economy grew at a steady pace in 2008. Prospects in the medium term are enhanced by positive developments in the military front which is likely to have multiple positive impacts on the economy due to improved investor confidence, an easing of the fiscal position due to lower military expenditure requirements and the freeing up of substantial economic assets for more productive use. There have also been encouraging economic policy developments with the Central Bank adopting a tight monetary policy stance to curb inflation which fell from 28.2% in June to 14.4% in December 2008. The steps taken to allow a gradual depreciation of the exchange rate have also boosted export competitiveness. Sri Lanka is currently negotiating a Stand-By Arrangement with the IMF of US $ 1.9 Bn., which will entail greater fiscal discipline, macroeconomic stability and will boost investor confidence.

From a longer term perspective, the current global economic downturn has resulted in a shift in global economic power from the West towards the East, with countries like China and India becoming increasingly important. Sri Lanka is the ideal gateway to these markets given its access to the Indian market through a Free Trade Agreement and its strategic geographic location relative to both emerging economic powerhouses. Incomes in Sri Lanka have also been growing at a steady pace and per capita GDP has now breached the US$ 2000 mark, and there is a substantial middle class market, particularly concentrated in the Western Province, where per capita GDP is closer to US$ 3000. There have also been attempts by the government to boost domestic supply capability by investing in infrastructure (particularly energy and roads) to improve internal market connectivity and competitiveness, which will boost the country’s long term productive capacity.

Prepared by Institute of Policy Studies, Sri Lanka.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE TWELFTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON 24 JUNE 2009 AT 10:00AM AT THE COMMITTEE ROOM B, BMICH, BAUDDHALOKA MAWATHA, COLOMBO 7 :

1. To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2008 and the Auditors' Report thereon.

2. To re-elect as a Director, Mr. Mohamed Vazir Muhsin who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.

3. To re-elect as a Director, Datuk Azzat bin Kamaludin who was appointed to the Board during the year pursuant to Article 89 of the Articles of Association of the Company.

4. To re-elect as a Director, Mr. Azwan Khan bin Osman Khan who was appointed to the Board during the year pursuant to Article 89 of the Articles of Association of the Company.

5. To re-elect as a Director, Mr. Roni Lihawa bin Abdul Wahab who was appointed to the Board during the year pursuant to Article 89 of the Articles of Association of the Company.

6. To re-elect as a Director, Mr. Moksevi Rasingh Prelis, who attained the age of 72 years on 2 July 2008 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Moksevi Rasingh Prelis.

7. To re-elect as a Director, Mr. Jayantha Cudah Bandara Dhanapala, who attained the age of 70 years on 30 December 2008 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Jayantha Cudah Bandara Dhanapala.

8. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

9. To authorise the Directors to determine and make donations for 2009.

10. To amend the Articles of Association of the Company by passing the following resolutions as special resolutions :

    a) That Article 109 of the Articles of Association be deleted.

    b) That the following Article be inserted immediately after Article 108 and be numbered as Article 109:

    "109 The Board shall, subject to the provisions of these Articles, have power at any time and from time to time to appoint any person to be a Director either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not at any time exceed the maximum number fixed by these Articles. Any Director so appointed shall hold office until the next annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting."

    c) That Article 158 be amended by the insertion of the following sentence immediately at the end of Article 158:

    "Where notice is given by an advertisement, such advertisement shall be published in Sinhala, Tamil and English national daily newspapers."

11. To consider any other business of which due notice has been given.

By Order of the Board

Mrs. Anoja Obeyesekere
Company Secretary

01 March 2009
Colombo

Notes:

i) A shareholder entitled to attend and vote at the above meeting is entitled to appoint a Proxy to attend and vote in his/her place by completing the Form of Proxy enclosed herewith.

ii) A Proxy need not be a shareholder of the Company.

iii) In order to be valid, the completed Form of Proxy must be lodged at the Registered Office of the Company, No. 475, Union Place, Colombo 2, not less than 48 hours before the time appointed for holding of the meeting.

vi) For security reasons, Shareholders/Proxy Holders are kindly advised to bring along with them their National Identity Card or a similar form of acceptable identity when attending the meeting.

Form of Proxy

I/We .... of ....

being a shareholder/s of Dialog Telekom PLC hereby appoint ....

.... of..or failing him/her

Datuk Azzat bin Kamaludin, or failing him

Dr. Shridhir Sariputta Hansa Wijayasuriya, or failing him

Mr. Moksevi Rasingh Prelis, or failing him

Dato' Yusof Annuar bin Yaacob, or failing him

Mr. Mohamed Vazir Muhsin, or failing him

Mr. Jayantha Cudah Bandara Dhanapala, or failing him

Mr. Azwan Khan bin Osman Khan, or failing him

Mr. Roni Lihawa Abdul Wahab

as my/our proxy to represent me/us and vote on my/our behalf at the Twelfth Annual General Meeting of the Company to be held on 24 June 2009 at 10:00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	For	Against
Resolution 1		
To receive and consider the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2008 and the Auditors' Report thereon.		
Resolution 2		
To re-elect as a Director, Mr. Mohamed Vazir Muhsin who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.		
Resolution 3		
To re-elect as a Director, Datuk Azzat bin Kamaludin who was appointed to the Board during the year pursuant to Article 89 of the Articles of Association of the Company.		
Resolution 4		
To re-elect as a Director, Mr. Azwan Khan bin Osman Khan who was appointed to the Board during the year pursuant to Article 89 of the Articles of Association of the Company.		
Resolution 5		
To re-elect as a Director, Mr. Roni Lihawa bin Abdul Wahab who was appointed to the Board during the year pursuant to Article 89 of the Articles of Association of the Company.		
Resolution 6		
To re-elect as a Director, Mr. Moksevi Rasingh Prelis, who has attained the age of 72 years on 2 July 2008 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Moksevi Rasingh Prelis.		
Resolution 7		
To re-elect as a Director, Mr. Jayantha Cudah Bandara Dhanapala, who has attained the age of 70 years on 30 December 2008 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Jayantha Cudah Bandara Dhanapala.		
Resolution 8		
To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.		
Resolution 9		
To authorise the Directors to determine and make donations for 2009.		

	For	Against
To amend the Articles of Association of the Company by passing the following resolutions as special resolutions :		
a) That Article 109 of the Articles of Association be deleted.		
b) That the following Article be inserted immediately after Article 108 and be numbered as Article 109: "109 The Board shall, subject to the provisions of these Articles, have power at any time and from time to time to appoint any person to be a Director either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not at any time exceed the maximum number fixed by these Articles. Any Director so appointed shall hold office until the next annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting."		
c) That Article 158 be amended by the insertion of the following sentence immediately at the end of Article 158: "Where notice is given by an advertisement, such advertisement shall be published in Sinhala, Tamil and English national daily newspapers."		

(Please indicate with a "X" in the space provided how your Proxy is to vote on each resolution. If you do not do so, the Proxy will vote or abstain from voting at his discretion)

Signed on this .... day of .... 2009.

....

Signature/s of Shareholder/s

NOTE:

Instructions as to completion of the Form of Proxy are noted on the reverse hereof.

Notes and Instructions as to completion of Form of Proxy

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.

2. The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company at No. 475, Union Place, Colombo 2 not later than 48 hours before the time appointed for the holding of the Meeting.

3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

4. If the appointer is a company or a Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the company or the Corporation in accordance with its Articles of Association or Constitution.

Please provide the following details:

Shareholders NIC/ Passport/ Company registration No.	Shareholder's Folio No.	Number of shares held	Proxy Holders NIC No. (if not a Director)

Printed by JF & I Printers, Sri Lanka.

Design & concept by D Sign

Dialog Telekom PLC
No. 475, Union Place,
Colombo 02,
Sri Lanka.
T +94 (0)77 7 678 700
F +94 (0)11 2 669 701
www.dialog.lk

an axiata company

Dialog