Annual Report 2009 | Enriching Sri Lankan Lives

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 Mobile. The Company is also one of the largest listed companies on the Colombo Stock Exchange in terms of market capitalisation (valued at Rs. 57 Bn. as at 24th February 2010).

Dialog Telekom PLC is a subsidiary of Axiata Group Berhad (Axiata). 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 per cent 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.

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

REGISTERED ADDRESS

475, Union Place
Colombo 02
Sri Lanka
Telephone : +94 777 678700
Website : www.dialog.lk

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 Kamaludin - *Chairman*
Dr. Hans Wijayasuriya – *Group Chief Executive*
Mr. Moksevi Prelis
Dato' Yusof Annuar Yaacob
Mr. Mohamed Muhsin
Mr. Jayantha Dhanapala
Mr. Azwan Khan Osman Khan
Mr. Roni Lihawa Abdul Wahab

BOARD AUDIT COMMITTEE

Mr. Moksevi Prelis - *Chairman*
Dato' Yusof Annuar Yaacob
Mr. Mohamed Muhsin
Mr. Jayantha Dhanapala
Mr. Azwan Khan Osman Khan

NOMINATING & REMUNERATION COMMITTEE

Dato' Yusof Annuar Yaacob - *Chairman*
Mr. Moksevi Prelis
Mr. Mohamed Muhsin

COMPANY SECRETARY

Mrs. Anoja J. Obeyesekere
Resigned w.e.f. 31 December 2009

Ms. Viranthi Attygalle
Appointed w.e.f. 1 January 2010

AUDITORS

Messrs. 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 Vardhana Bank Ltd
Hatton National Bank PLC
Hongkong and Shanghai Banking Corporation Ltd
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

SHAREHOLDER SERVICES

Group Corporate Services

Dialog Telekom PLC

3rd Floor,
57, Dharmapala Mawatha, Colombo 3

Telephone : +94 773 908 929, +94 777 081 471

Fax : +94 117 694 350

E-mail : cosecunit@dialog.lk

INVESTOR RELATIONS

Telephone : +94 777 081304

E-mail :ir@dialog.lk

CONTACT FOR MEDIA

Group Corporate Communications

Telephone : +94 777 080 331

E-mail : corporate.communications@dialog.lk

Board of Directors

Seated Left to Right:

Dr. Hans Wijayasuriya
(Group Chief Executive)

Datuk Azzat Kamaludin
(Chairman)

Mr. Moksevi Prelis

Standing Left to Right:

Mr. Jayantha Dhanapala

Mrs. Anoja Obeyesekere
(Company Secretary)

Dato' Yusof Annuar Yaacob

Mr. Roni Lihawa Abdul Wahab

Mr. Mohamed Muhsin

Mr. Azwan Khan Osman Khan

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. 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 in Malaysia. 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 of the Company, and has functioned in the capacity of the Chief Executive of Dialog Telekom, since 1997. He counts over 16 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. He also serves on the boards of several international subsidiaries of the Axiata Group.

A Fellow of the Institute of Engineering Technology of the UK (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, UK in 1989. He subsequently read for and was awarded a PhD in Digital Mobile Communications at the University of Bristol, UK. Dr. Wijayasuriya also holds a Masters in Business Administration from the University of Warwick, UK.

Dr. Wijayasuriya is a past Chairman of GSM 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 Role of Honour for his contribution to GSM in the Asia Pacific Region.

Dr. Wijayasuriya was a recipient of the CIMA - Janashakthi Business Leader of the Year award in its inaugural year of presentation in 2003 and of the coveted 'Sri Lankan of the Year' award in 2008 presented by Sri Lanka's premier business journal the 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. John's 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 Chairman of the Capital Trust Securities Group 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 and 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 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. 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) 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 UN Under-Secretary-General (1998-2003). He is 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, the University of Southampton UK and the Dubna International University in the Russian Federation. 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. 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. His professional experience also included an extensive time with The Boston Consulting Group and Shell Malaysia.

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 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

Pradeep De Almeida
Group Chief Technology Officer

Mothilal De Silva
Group Chief Strategy Officer

Sandra De Zoysa
Group Chief Customer Officer

Upali Gajanaike
Chief Executive Officer
Dialog Tele - Infrastructures

Vipula Gunatilleka
Group Chief Financial Officer

Shayam Majeed
Group Chief Programme Officer

Anoja Obeyesekere
Group Chief Corporate 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
Fixed Telephony &
Broadband Services

Supun Weerasinghe
Chief Executive Officer
Dialog Mobile

Lalith Fernando
Group Financial Controller

Suren Goonewardene
Chief Operating Officer
Fixed Telephony &
Broadband Services

Mohan Villavarayan
Chief Financial Officer
Fixed Telephony &
Broadband Services

Priyanka Undugodage
Vice President - Technology
Fixed Telephony &
Broadband Services

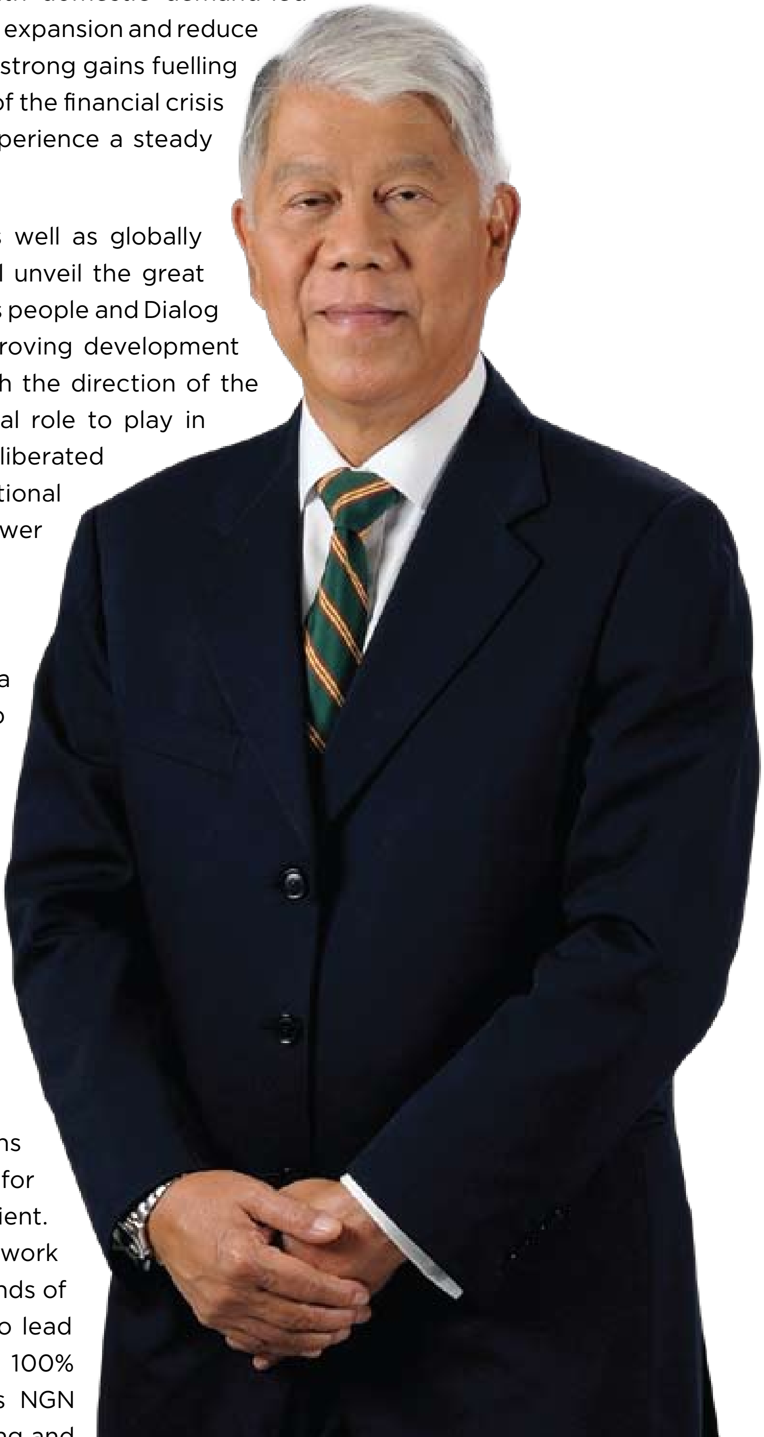
Message from the Chairman

The Year That Was

It gives me immense pleasure to write to you at this significant juncture in the course of your company and country – a time of revival and opportunity. Sri Lanka rejoices the end of a nearly three-decade long conflict that makes way for greater national development; a springboard for success in this global recovery era.

The year that ended was a challenging one for the industry all over, as global economies endeavoured to overcome the downturn experienced during 2008. The pace of the recovery has been slow and it will extend to some part of 2010. A great deal of uncertainty clouded the outlook during the second half of 2009 and beyond, as Government and organisational policies focused more on productivity enhancing growth strategies. Recession forced a change in consumer trends prompting companies to invest more in the process of innovation, research and development.

However, the recovery process is gathering steam with domestic demand-led growth, plus, government interventions to prop economic expansion and reduce uncertainty. Financial markets began once again to post strong gains fuelling a wave of optimism. It is safe to say that the acute phase of the financial crisis has passed and economies and industry-alike would experience a steady accession in fiscal strength in the lead up to 2011.



Despite the economic challenges both domestically as well as globally in 2009, the emergent milieu of peace in Sri Lanka will unveil the great potential that exists before the Sri Lankan industry and it's people and Dialog has taken every possible step to capitalise on the improving development and economic prospects of the country. In concert with the direction of the Sri Lankan Government, the private-sector has a critical role to play in extending the peace dividend to the people of the newly liberated areas. Dialog is proud to take a lead in this process of national revival; to serve as a digital bridge to connect and empower the lives and futures of these people.

A Time To Rebuild

Dialog is steadfast and confident in its quest to return to a state of singularly profitable operations. On the backdrop of an overall downturn in the profitability of the country's telecommunication sector, the Year 2009 was used as a year of structural re-engineering with respect to many aspects of the organisation and its business. Despite the setbacks and the stiff external challenges during the course of this year, your company took steps to restructure its operations and businesses. The company has made steady progress on top of an effective and well-administered programme of business restructuring and cost rescaling.

During the course of the year we took several bold decisions with the objective of building an infrastructure platform for the future which is both competitive as well as cost efficient. Dialog embarked on an aggressive programme of network modernisation to meet the diverse challenges and demands of the fast-changing mobile landscape. We will continue to lead South Asia's mobile communications landscape with a 100% Next Generation Network (NGN) deployment. Dialog's NGN core network will support the company's 6 Mn. plus strong and rapidly growing subscriber base at much reduced operational cost, in addition to enabling a host of advanced subscriber features and convergence opportunities.

A Penchant for Excellence

Your company has maintained best-in-class status in nearly every sphere of operation and continues to set benchmarks both in Sri Lanka and in the region. During the Year, our Mobile business continued to lead the mobile market with an aggressive market share of 48 per cent. Our Satellite TV service operated by Dialog Television continued to grow with its subscriber base increasing by 22 per cent. Completing our portfolio of quadruple play services, the fixed telephony business operated by Dialog Broadband Networks exhibited growth of 3 per cent while Broadband services grew by 57 per cent.

In parallel with excelling in the market place we have constantly endeavoured to implement global best practice and governance initiatives and our untiring efforts manifested in Dialog topping the country's first-ever corporate accountability rating, while simultaneously winning several accolades with respect to the value of the 'Dialog' brand and the esteem of the organisation in Sri Lanka's corporate sector. Recognition of our paradigm and its implementation, as being best-in-class will no doubt encourage us to be steadfast in our quest to empower Sri Lankan lives and enterprise. The rating bears testimony to the highest levels of corporate responsibility, business ethics and transparency we have maintained across all our business practices; a dimension we must all stand proud of.

Your Company's Future

The years 2008 and 2009 posed a challenging period for all at Dialog, which compelled us to implement an aggressive programme of business re-engineering while keeping our customers and shareholders in focus at all times. We believe we have built a platform for future growth and continued enhancement of our leadership position in Sri Lanka's ICT sector.

For the year under review, Normalised Operating Profits (EBITDA) showed consistent quarter-by-quarter growth to end at Rs. 9.3 Bn. However, the application of non-recurring charges and non-cash expenditure arising in the main from the asset restructuring and modernisation strategies alluded to earlier, results in a negative Net Profit after Tax of Rs. 12.2 Bn.

The untiring efforts of the management and staff of your company in respect to cost rescaling have shown fruit, and 2010 holds much promise as a turnaround year for Dialog Telekom. We have been relentless in our pursuit of technology and service excellence over the years, which has positioned us as the undisputed leader in the mobile services sector in Sri Lanka. We will draw upon these same strengths to once again position Dialog as a singularly profitable entity on Sri Lanka's corporate landscape.

Our Gratitude

I wish to thank our customers and our shareholders who continue to support and encourage us in our endeavour to build and operate the countries premier portfolio of quadruple play services.

I wish to recognise the untiring efforts of the entire Dialog team, ably led by its Group Chief Executive, Dr. Hans Wijayasuriya and his management team whose unremitting commitment has steered Dialog through what was no doubt a difficult period. My appreciation goes out to every member on the Board, for their support and advice during the past year. I would also like to thank the Government of Sri Lanka, the regulatory authorities and our business partners for their continued support towards the Company's success.

Datuk Azzat Kamaludin
Chairman
30 April 2010

Group Chief Executive's Review of Operations

The Year 2009 embodies a phase of aggressive and multi-faceted transformation at Dialog. While operational efforts remained focused on enhancing market and financial performance, we applied equal if not greater emphasis to structural transformation. A host of strategic initiatives, some seeded in tandem with the onset of harsh external environments in 2008, were accelerated towards full blooded implementation and manifestation during the course of the year 2009. The focus and effort of management was hence three pronged - to deliver through structural transformation a rescaled and reinvigorated platform for future growth and sustainability, to regain in the short term a position of fundamental profitability through operational performance improvements, and to secure, simultaneously with both the former objectives, the consolidation and growth of the company's position of leadership as Sri Lanka's premier connectivity provider. Management commitment and determination remained consistent and undifferentiated along these three dimensions throughout the year.

In reporting on the outcome of our efforts, I would hence seek to focus separately, on fundamental financial and market performance trajectories on one hand, and structural transformation on the other.

Macro-environmental Impact on the Mobile Sector

The impact of, micro and macro external environments on our business, was singularly evident in 2008. The inter-play between macro-economic dynamics experienced in 2008, consumer behaviour, and price elasticity of ICT consumption, resulted in radical stunting of growth trajectories enjoyed by Dialog and other aggressive investors in the sector. In particular revenue pools and resulting top line growth envisaged had failed to materialise at year end 2008. Compounding a sluggish revenue environment, primary and secondary impacts of inflation and escalating interest rates experienced in 2008, had adverse impacts on the spending power of the Sri Lankan consumer as well as on the organic cost base of the Company.

These dynamics and their proximity to fundamental profitability belied seemingly justified assumptions we had made during the growth years of 2006 and 2007, with respect to returns on capital and capacity building. Accordingly, we placed little emphasis on predicting or typifying the macro-environment in 2009 or on the derivation of assumptions with regard to its inter-play with business fundamentals. Instead, we remained focused on transforming ourselves to achieve a sustainable and profitable business formulation, aligned with the new competitive and economic order.

The Economy and Industry in 2009

Sri Lanka's economy grew by 3.5 percent in 2009. The Industrial sector recorded growth of 4.2 per cent, (down from 5.9 per cent in 2008) whilst services grew at 3.3 per cent. The telecommunications sector however, posted a negative growth of approximately 4 per cent with respect to overall industry revenues in comparison to the previous year. Subscriber growth was however aggressive, with the number of mobile connections increasing by 25.9 per cent to 13.9 million. In contrast the number of fixed telephone lines decreased by 0.5 per cent to 3.4 million leading to an overall telecommunications sector growth of 19.6 per cent to reach a total subscriber base of 17.4 million.

Mobile penetration (Mobile Connections per capita) reached 68.2 per cent at year end, leading fixed line penetration which is estimated at 17 per cent, by a significant multiple. In line with subscriber growth, Mobile Industry Revenue depicted a decline of 4 per cent.

The year 2009 presented significantly less offensive macro-economic conditions and in particular, exhibited relatively benign dynamics with respect to domestic inflation (decelerating to 4.8 per cent point to point by end of the year). In contrast, competitive environments in 2009 presented an exacerbation of the price war behaviours seeded in the previous year. The combine of modest economic growth (3.5 per cent), post-inflation consumer inertia and industry precipitated price de-escalation on the backdrop of stunted price elasticity of consumption, flagged the extinguishing of industry growth as we knew it from the perspective of the pre-2008 era. The impact of unabated price reductions manifested in an estimated reduction of 25 per cent in industry Revenue per Minute (RPM) and (an estimated) modest growth of 4 per cent in minutes consumption demonstrating constrained price elasticity of consumption. Industry profitability declined to significantly negative levels as a result, signalling the need for far reaching structural correction at a company as well as industry stratum.

Structural Transformation and Rescaling

As alluded to earlier in this report, structural transformation formed one of three fundamental pillars in Dialog's strategic focus for 2009. Within this transformation agenda the company applied parallel scrutiny to the right sizing and corresponding rescaling of technology platforms, operating cost structures and organisation design. Rescaling along multiple organisational dimensions, and against aggressive time scales, presented the organisation with the challenge of implementing simultaneously and on a timely basis, a multiplicity of impactful structural corrections. A principal tenet of the transformation agenda was however the application of equal emphasis to the continuous strengthening and uncompromised development of the company's customer offering in terms of service excellence, product quality and value.

Technology, automation and modernisation emerged as a central lever within our transformation ethos. Rescaling of our technology platforms and related operating cost structures and capability frameworks were derived directly from the opportunity presented by emerging Next Generation Network (NGN) technologies. NGNs empower technologically progressive operators with the opportunity to de-scale operating costs by a significant margin. NGNs also enable quantum reductions in incremental capital expenditure and in the carrying values of core network assets, due to the 80 per cent over reduction in per-subscriber core network capital costs.

Other structural dimensions addressed via rescaling initiatives included process optimisation and automation, alongside the strategic application of information systems and efficient technology solutions across multiple segments of the company's value chain. These structural thrusts formed the cornerstone of efficiency and productivity enhancement, operational process cost reduction, and organisation rightsizing related outcomes achieved during the course of the year under review.

Accelerated rescaling as alluded to above necessarily gave rise to one-off correctional costs being recorded during the course of Financial Year 2009 (FY09). Network modernisation resulted in the accelerated amortisation of the company's legacy core network, and its replacement with a 100% NGN infrastructure. While the resulting one-off amortisation charge amounted to Rs. 6 Bn., the company is set to benefit by related operating cost savings of Rs. 1.5Bn. on an annualised basis, yielding an IRR in excess of 100% and payback of less than 12 months on NGN investments.

Rescaling also extended to organisation design optimisation and rightsizing. The Company's Human Resource Optimisation programme was implemented through a Two-Phase Voluntary Resignation Scheme ('VRS'). The total provision in 2009 for the two phase VRS programme was Rs. 904 Mn.

Exceptional Charges & Prudence in Treatment of Assets

In addition to modernization specific amortization charges, the company continued to exercise a stringent level of prudence with respect to the treatment of its fixed assets. The company has reinforced close adherence to international best practice with respect to accounting provisions made against equipment obsolescence on the backdrop of rapid technology advancement and potential asset impairment. Furthermore, depreciation estimates and Inventory/Capital Work in Progress provisioning policies were set at conservatively stringent levels in line with International best practices.

Accordingly, the Group accounted for a total of Rs. 11.05 Bn. in exceptional and non-recurring charges during the course of 2009. A majority (92 per cent) of these exceptional charges, amounting to Rs. 10.15 Bn. were non-cash in nature. The remaining cash impacting charges being those one-off charges arising from rescaling activities in the domain of organisation rightsizing.

The Group Net Profit After Tax (NPAT) of negative Rs. 12.2 Bn., hence includes one-off rescaling costs totaling Rs. 11.05 Bn., 92 per cent of which are Non-Cash in nature.

Normalised Operational Performance

Normalised NPAT (excluding exceptional/non-recurring charges set out above) was recorded at Negative Rs. 1.16 Bn., down 45 per cent from 2008 (during which period normalised NPAT was recorded at Rs. 801 Mn.). Correspondingly, normalised EBITDA and Revenue exhibited 4 per cent growth and negative 1 per cent contraction respectively, on a YoY basis.

Notwithstanding negative movement in normalised earnings Year on Year, a detailed analysis of Quarter on Quarter performance trends during the year under review, signal the tangible manifestation of structural correction outcomes. These outcomes vindicate the company's strategy of compressing the major and impactful part of its Structural and Operational rescaling programme into a single calendar year. The acceleration strategy was based on the rationale that the enhanced operating model envisioned, if approached expeditiously, would in turn commence delivering returns within the same year. Operational improvements so envisioned were achieved notwithstanding harsh external impacts including but not limited to those arising from price war conditions and resultant dilution of revenue growth aspirations.

Accordingly, company EBITDA grew 27, 14, 11, and 27 per cent over successive quarters of 2009 compounding to 19 per cent corresponding quarter growth in the last quarter of 2009 relative to the corresponding quarter of 2008. Group EBITDA followed a similar trajectory with successive quarter growth of 36, 24, 9 and 33 per cent. EBITDA turnaround was underpinned by expeditious implementation of Cost Rescaling activities. Direct costs and Operating Costs (excluding depreciation and non-recurring charges) reduced by 6 per cent and 21 per cent respectively relative to Q4 2008, signifying the quantum impact of strategic cost rescaling initiatives undertaken by the Company. Full-year operating costs exhibited a reduction of 11 per cent, relative to year 2008.

Quantum improvement in terms of Cost performance was supplemented with robust revenue growth notwithstanding the challenges posed by price-war conditions and the dilution of price elasticity of consumption. Company revenues grew by 7% in Q4 2009 on an immediate QoQ basis. Revenues in Q4 2009 exceeded prior year corresponding quarter revenues by 10 per cent, but full year revenues remained diluted relative to 2008 as a consequence of pressure on revenue growth during the 12 months commencing Q3 2008. Overall, Revenue Growth was fuelled by positive gains in the mobile market on the backdrop of aggressive price competition. The Company's mobile subscriber base stood at 6.37 Mn. representing a 16 per cent growth over the previous year. Accordingly, the company reinforced its leadership in Sri Lanka's mobile sector with a revenue and subscriber share of approximately 57 per cent and 48 per cent respectively.

Our non-mobile businesses spanning fixed telephony, broadband and data services (sited in Dialog Broadband Networks – DBN), and digital television services (sited in Dialog Television - DTV) demonstrated similar positive performance trends over the year. Both subsidiaries remained dilutive to the Group recording negative Full Year NPAT levels of Rs. 2,588 Mn. and Rs. 769 Mn. respectively. DBN's Broadband and internet based service segment continued to exhibit aggressive growth with revenue increasing by 8 per cent QoQ and 57 per cent over the previous year. DBN's fixed-line CDMA subscriber base grew by 3 per cent as at the end of 2009 to stand at 177,000 subscribers. DTV recorded revenue of Rs. 458 Mn. in Q4 2009, up 12 per cent QoQ and 28 per cent over the previous year. Revenue growth at DTV was fuelled by aggressive market performance characterised by a year-end subscriber base of 150,000, representing a 22 per cent growth over the previous year.

Strengthening profitability trends featuring revenue growth and re-scaling of cost structures were supported by diligent working capital management to yield Group operating cash flows of Rs. 10.82 Bn., up over 50 per cent YTD relative to the previous year. Company cash flows grew by a similar dimension, with operating cash flows for 2009 recorded at Rs. 12.3 Bn., a two-fold increase relative to 2008.

Country Rebound and Future Potential

Robust and consistent performance enhancement over successive quarter of 2009 signal that rescaling initiatives during 2009 have yielded, albeit during challenging economic times, a platform for aggressive market capture going forward. The ingredient of well founded optimism we would add to the sustainability of our growth aspirations is derived from the certain rebound in the country's economy. As Sri Lanka enters an era of peace and limitless opportunity on the regional landscape, an accelerated rebound is within immediate reach of multiple tiers of the country's economy and socio economic stratum. Invigoration of consumer spending power, and resultant demand for our products and services as a result of a nation in rebound, is expected to provide Dialog with a buoyant forward growth trajectory.

The Year 2010 would no doubt signal an inflexion point in Sri Lanka's growth trajectory. The combine of an upturn in the domestic economy arising from multiple facets of the peace dividend, increased FDI and economic and market expansion arising from the comprehensive integration of the northern and eastern provinces is expected to result in 7 per cent GDP growth in 2010 and 7.2 per cent in 2011. The resultant improvement in per Capita income is expected to lead to an increase in disposable income and household spending power which will in turn provide expanded revenue potential for the mobile sector in particular and the telecommunications and infotainment sectors in general.

Broadband and Pay Television sectors remained significantly under-penetrated at estimated levels of 1 per cent per capita and 3 per cent per household respectively. Under-penetration of these sectors, leaves open the prospect for significant growth going forward especially in the context of a rebound in consumer spending power and disposable income.

We are singularly confident of the rebound and forward potential of the Sri Lankan economy and the market for ICTs. Accordingly, Dialog will continue to play a lead role in the country's ICT development thrust, thereby making a lasting and sustainable contribution towards the achievement of the country's socio economic development objectives going forward.

Leadership & Excellence

The third and singularly overarching strategic objective for the Year under review was the delivery of an uncompromised and excellent level of service to our customers, notwithstanding the aggressive focus on structural and operational rescaling. The context in which service delivery excellence is addressed at Dialog encompasses a multitude of product leadership dimensions including but not limited to the 4A paradigm of Availability, Affordability, Applicability and Affinity, supported by excellence in customer service aimed at delivering an unparalleled and value adding customer experience. Undisputed coverage leadership, excellence in customer service and a cutting edge portfolio of value-added services continue to be cornerstones of the Company's leadership position and competitive advantage in Sri Lanka's mobile industry.

Expansive coverage, superior customer service, competitive tariffs and a wide portfolio of cutting edge mobile services has consistently laid the foundation for Dialog's continued success in capturing a major share of subscriber additions during the year. In 2009, Dialog became the first mobile operator in the country to extend its GSM network to the newly liberated areas in the Northern Province with the cities of Kilinochchi and Mullaitivu being covered within 3 months of the liberation of the Northern Province. From a forward looking perspective, the opening of markets in the Northern and Eastern provinces of Sri Lanka affords us with the dual opportunity of new subscriber growth and the extension of connectivity and empowerment solutions to communities in the recently liberated areas. The Company's 2G and 3G base station sites stood 1,643 and 673 respectively as of FYE 2009. Accordingly Dialog reinforced and extended its leadership as the country's largest and fastest growing 2G and 3G network, supported by the widest customer service infrastructure in the sector, spanning all 9 provinces of Sri Lanka.

Dialog's product portfolio is also well positioned with respect to the escalation in adoption of Internet based services. Advanced Internet and data solutions will shape the future of the global telecommunications industry, a trend which is mirrored in Sri Lanka with significant growth in demand for mobile and fixed broadband services. Despite a relatively modest growth in demand in absolute terms, during 2009, as a result of the consumer level microeconomic dynamics described earlier, broadband revenues have grown by over 100 per cent in relative term signifying the forward potential of this sector. Dialog's broadband technology portfolio spans 3.5G HSPA services at speeds up to 28.8Mbps and WiMAX based services for fixed and nomadic applications. Both networks (HSPA and WiMAX) provide extensive wireless broadband access, with coverage across most cities and towns across Sri Lanka.

In the sphere of infotainment, Dialog Television continues to offer a market leading portfolio of local and international content delivered through an island wide digital satellite broadcast footprint. Dialog Television remains the undisputed leader in the provision of Pay TV in Sri Lanka with dominant market share and an unparalleled service offering to current and potential customers. DTV will continue to transform pay-television in Sri Lanka, with the ultimate objective of making satellite based education, information and entertainment affordable and accessible to all citizens.

Dialog's leadership in the customer and market space, was reinforced through international and domestic recognition. The Dialog Brand was voted the People's Mobile Telecom Brand and the Youth Brand of the Year, at the SLIM-Nielsen People's Awards, which is widely regarded as a representation of the people's choice. Dialog's commitment to achieve world class standards in service delivery processes was rewarded through the company achieving Customer Operations Performance Centre (COPC) 2000 CSP Standard Release 4.2. Accordingly, Dialog has the distinction of becoming the first Sri Lankan company to achieve this prestigious international BPO industry certification. Dialog ECM, the company's multi-channel contact centre operation will continue to motivate Sri Lanka's BPO industry to levels on par with global standards.

Customer and Market performance was also underpinned by a robust fabric of Corporate Accountability and Governance. In 2009, Dialog topped the country's first-ever corporate accountability rating. Recognition of our paradigm of business integral corporate responsibility which creates an inextricable link between business strategies and sustainable development, and will no doubt embolden our quest to empower Sri Lankan lives and enterprises through an ICT4D paradigm. The rating bears testimony to the highest levels of corporate responsibility, business ethics and transparency we have maintained across all our businesses.

Contribution to the Nation & Corporate Responsibility

Dialog continues to be a committed and significant stakeholder in the national economy with respect to direct and indirect investments as well as in terms of tangible (consumer surplus) contributions to socio-economic development through ICT4D. Dialog and its principal shareholder Axiata Group (formerly known as TM International Bhd) continued to be placed among the largest investors in Sri Lanka in 2009. The company was recognized as the largest investor in Sri Lanka by the Board of Investment in successive years 2007 and 2008. Dialog made direct investments of Rs. 10.1 Bn. in 2009, gaining recognition by the Board of Investment as one of the largest investors in Sri Lanka for the 3rd consecutive year.

The Group contributed Rs. 5.02 Bn. in taxes, fees and levies to the GoSL in 2009. In addition to this sum, the Group collected a further Rs. 6.56 Bn. in VAT, MSL and other taxes on behalf of the GoSL, remitting a total of Rs. 8.06 Bn. to the exchequer during the course of 2009. It is encouraging to note that a major part (52 per cent) of the Company's direct and operating cost related outflows 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 employees supplement the 3,384 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 approximately 55 per cent 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.

Dialog also made a transformational contribution to Sri Lanka's education sector in 2009 through the launch of 'Nenasa' – a satellite based distance learning channel produced in collaboration with the Ministry of Education and the National Institute of Education (NIE) and Broadcast by Dialog Television. Nenasa opens a new vista in access to education in Sri Lanka with the use of satellite technology to function as a distance learning bridge for Sri Lanka's student population from across the island. Nenasa bridges teacher arbitrage through the broadcast of high quality curriculum based education content supplemented with a state of the art web based learning management system. The company also continues to grow the Dialog scholarship programme which supports 250 students through advanced level and university education, with the objective of offering parity education opportunities, transcending geographic and societal barriers.

In 2009 Dialog unequivocally reiterated its commitment towards ensuring its business operations were aligned to support the ideals of sustainability and accountability. Dialog is also mindful of the delicate balance that it needs to strike between delivering strong financial growth with development that is ultimately equitable and sustainable. Dialog sees this challenge as an opportunity to draw on our innate forward-looking organisational culture to deliver socially innovative and inclusive multi-sensory ICT services, which lead towards the digital empowerment of all Sri Lankans and the enabling of an information society.

Conclusion

The Year 2009, was one which presented us with multiple and seemingly incongruent challenges. On one hand we were called upon to restructure our business in line with emerging cost and revenue environments, while on the other we were challenged to grow our position of leadership in Sri Lanka's ICT sector through the delivery of sustainable business outcomes embodied in increasing levels of mass affordability and social empowerment. We will continue to reshape our business to be leaner and stronger in terms of productivity and cost leadership, while being uncompromising in maintaining our leadership as Sri Lanka's premier ICT provider. We will also 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.

We are emboldened by the robust, Quarter-wise fiscal performance improvements and business growth trajectories, the completion of a comprehensive portfolio of Operational and Structural Rescaling activities, and the emergence of a positive business environment in the wake of peace. Dialog rejuvenated, is in a position of confidence and strength to capture and monetise growth opportunities going forward.

Acknowledgments

First, I would like to thank our customers for their valued patronage of our services. Their encouragement and loyalty has provided the Dialog team with the courage and determination to steer operations through challenging environments. I would also like to express my sincere 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 herein my gratitude to our chairman Datuk Azzat bin Kamaludin and my fellow Board members for their strategic input, direction and invaluable counsel made available to me at all times.

In closing, my unreserved gratitude goes out to my team; for it is their determination, unfailing commitment to the company, and inimitable sprit of innovation that has enabled Dialog to execute self transformation of significantly radical proportions whilst simultaneously consolidating its position at the helm of Sri Lanka's ICT sector. Together we are confident that the rejuvenated Dialog will build on its industry leadership to achieve a position of robust profitability while continuing to set paradigms for others to follow and making a lasting contribution to our country and people.

Dr. Hans Wijayasuriya
Group Chief Executive
30 April 2010

Business & Financial Review

DIALOG TELEKOM PLC

The **first telco** in South Asia to launch **HSPA+** the latest upgrade in mobile broadband

The **first mobile operator** in the country to extend its GSM network to the **newly liberated areas**

Dialog - continuing to grow with the largest **3G/3.5G** Network in the country

New Image to unite with Parent Company

Dialog Telekom transformed its logo, aligning with the re-branding exercise carried out by the parent company Axiata. Currently Axiata is one of the largest Telcos in Asia operating in 10 countries serving over 120 Mn. customers. The name and logo change was subsequent to the de-merger from the Telekom Malaysia Group and this symbolises a new beginning, uniting the operating companies with a visual and tangible sense of shared purpose and belonging. Hence the refreshed Dialog logo, in line with aforesaid resembles Axiata's brand identity. This is not only a change in appearance for Dialog but a renewal of brand promise in enriching lives through multi sensory connectivity, and to move forward continuing the trust and excellence the brand has built over the years. Strengthened by this new identity Dialog will strive to deliver its unparalleled service, reach out to connect lives and to carry forward the vision of empowerment into the future.

Dialog Telekom consists of 3 strategic business units ("SBU"), namely Dialog Mobile, Dialog Global and Dialog Tele-Infrastructure (DTI). In addition to its core business of mobile telephony, Dialog Global operates a wide portfolio of international telecommunications services, whilst DTI is the Company's national telecommunications infrastructure arm.

Dialog Mobile

The Company has successfully maintained its market share reaffirming its position as the undisputed leader in the mobile market amidst macro-economic externalities. The Company's mobile subscriber base grew by 16 per cent YoY to stand at 6.37 Mn. while minutes of usage was 18 Bn., a 27 per cent increase compared to 2008.

Mobile Sector Perfomance

As depicted in figure 1, Sri Lanka has witnessed an accelerated mobile penetration growth reaching close to 68 per cent in 2009. A study by Nokia has unveiled that Sri Lanka has the lowest Total Cost Ownership (TCO) with a mobile phone being less than USD 5, making it highly affordable, a key driver for high penetration rates.

Further, liberalization of the Northern Province will provide an opportunity for greater network investments and new subscriber growth. Sri Lanka's mobile market indicates a high level of competition with the country's operators jostling for market position, largely through tariffs and the basic non-voice services.

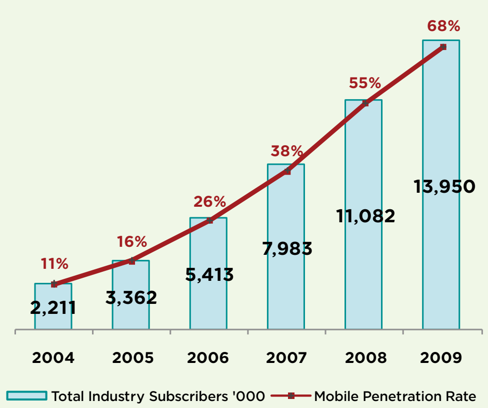


Figure 1: Mobile Subscriber Growth & Penetration
Source TRC

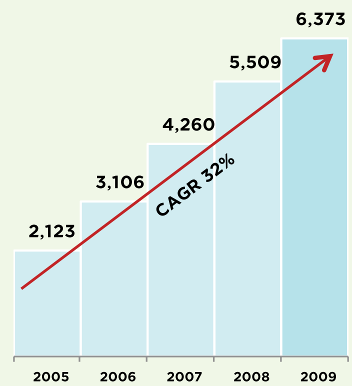


Figure 2: Dialog Subscriber Growth (in '000)

Customer Management	• Over 6Mn mobile subscribers connected • 16% YoY
Non Voice services	• Unmatched portfolio of VAS • 2.1X in mobile data revenue, driven by Mobile Broadband
Usage	• 18Bn total minutes of usage • 27% YoY
Coverage	• 1,643 2G & 673 3G base station sites • Over 100 base stations in North & East
Technology	• 100% NGN core network • Launch of HSPA+

Table 1: Performance Indicators in 2009

Mobile Business Performance Snapshot

The Company has consolidated its position as the leader in the Mobile telecommunications industry in 2009 by maintaining its SIM market share at 48 per cent and revenue share at 57 per cent withstanding intense competition. Dialog has deepened its ties with the subscriber by connecting over 6 Mn. mobile customers and has also elevated the user experience to a new dimension through many Sri Lankan firsts and continuous investment in technology.

A boom in data services was evident in 2009, especially driven by Mobile Broadband based on HSPA (High Speed Packet Access) Technology. Total Data services grew by 2.1 times during the year with over 28,000 subscribers opting for Mobile Broadband. Other data services that experienced a hike were GPRS and SMS, revenue growing by 32 per cent and 7.5 per cent respectively.

Dialog strives to reach out to many lives through the concept of affordability and inclusion, tapping the bottom of the pyramid with many consumer centric offers. Undisputed coverage leadership, excellence in customer service and a cutting edge portfolio of value added services continue to be cornerstones of the Company's leadership position in the Sri Lankan mobile industry.

Focus on Affordability and Inclusion

Dialog Discount Zones

Dialog Mobile, unveiled yet another first for its prepaid customers with 'Dialog Discount Zones' in December 2009. Dialog is the first and the only operator in the country to introduce this revolutionary location and time based discount scheme to Sri Lankan mobile users. Dialog's Discount Zones provide customers with 'dynamic discounts and pricing' based on the location of the customer and the time of day. This unique offer entails customers on a random basis to receive notifications that can be activated instantly by dialing #677#. This enables customers to experience 50 to 70 per cent reductions in tariffs not only for local calls and SMSs but also for IDD.

Prepaid Mobile Broadband on "Per Minute Sachets"

As a key initiative to provide affordable mobile broadband services, Dialog launched prepaid mobile broadband priced at per minute sachet packs. Dialog has managed to proliferate broadband access through mobile broadband technology at very low rates making it accessible to all. Its constant commitment to consumer has resulted in offering rates as low as Rs. 20 for 30 minutes of usage.

New Lite Service Package for Blackberry Smartphones

Dialog partnering with Research in Motion (RIM) launched this all new BlackBerry Lite package to attract more customers to the BlackBerry platform. This package offers unlimited email at just Rs. 500.

BlackBerry smartphones from Dialog provides a great opportunity for large organizations and professionals, enabling them to be connected to co-workers and other business partners while on the move. The flexibility experienced in using the service has boosted productivity and efficiency, making it a must have in the business world. Through the introduction of such affordable packages Dialog is reaching out to a broader market segment including small business enterprises as well as entrepreneurs, enabling them to grow through the benefits offered by the service.

EZ Loan from Dialog

EZ Loan from Dialog provides an opportunity for a pre-paid customer to obtain a small loan from Dialog when out of credit. A pre-paid customer can top-up his account by Rs. 20 through a EZ Loan from Dialog. This service is an extension to Dialog's current credit share facility which enables customers to share credit between friends or family. Initiatives such as EZ Loan from Dialog re-enforces Dialog's continuous effort to reach the customer with a novel and more affordable service.

Pre-paid Per Minute Package

This is another initiative by Dialog to provide the customer with affordable tariffs, by choosing a tariff plan that best suits their calling patterns. The Company introduced a 'per minute package' for pre-paid customers facilitating selection between a 'per second' or a 'per minute' tariff plan. The all new pre-paid per minute package enables a customer to enjoy tariffs as low as Rs. 2 per minute with further discounts for the 2nd and the 3rd minute. The customer also has the benefit of easily switching between the per second and per minute plans.

Coverage Leadership

Supporting Development Drive through Connectivity

Dialog was the first mobile operator in the country to extend its GSM network to the newly liberated areas in the Northern Province, expanding mobile coverage without compromising on quality. Dialog has rolled out over 100 base stations in the North and East within a short time span delivering its promise of connectivity to its customers. The commissioning of mobile telecommunications services in the region was initiated in less than 90 days after the liberation on 18 May 2009. This demonstrated Dialog's continued contribution towards the development of infrastructure and its unstinted support for rapid growth.

Mobile coverage from Dialog now reaches areas such as Mankulam, Pooneryn, Elephant Pass, Thunukkai and Madhu in addition to main cities Killinochchi and Mullaitivu, and is currently progressively expanding its services in the province. Dialog has invested USD 10 Mn. in 2009 and is currently the largest ICT infrastructure investor in the region.

Widest Distribution Network

Dialog has established a nation-wide dealer network operated primarily by 10 exclusive business partners. Dialog's dealer network has established points of presence for its products and services in all major towns and cities across Sri Lanka including the Northern and Eastern provinces.

Dialog's distribution network comprises of over 42,000 retail outlets, 22 Dialog Arcades and Service Centers and over 100 franchise customer service points.

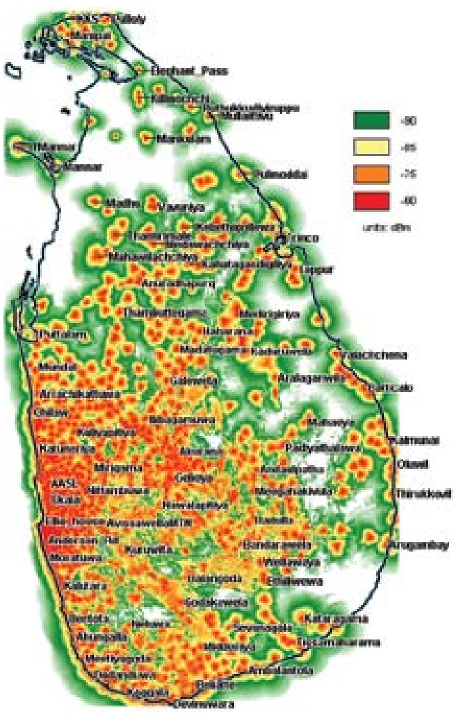


Figure 3: GSM Coverage

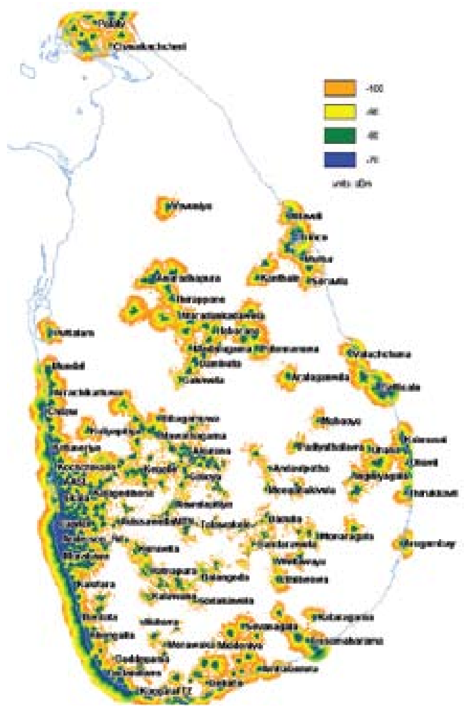


Figure 4: 3G/3.5G Coverage

Leap in Technology

First in South Asia to launch HSPA+

Dialog is the first mobile operator in the region to launch HSPA+ the latest upgrade in mobile broadband. This technology enables customers to experience faster response and less latency for media rich applications, including high definition video streaming, web surfing and other next-generation wireless applications with high bandwidth requirements. Launched in December 2009, Dialog HSPA+ supports downlink speeds up to 28.8 Mbps a colossal leap from the existing technology.

Dialog expects to rollout 28.8 Mbps HSPA+ network across its 3.5G network spanning Colombo, Kandy, Galle, Kurunegala, Anuradhapura, Nuwara Eliya, Trincomalee and other major towns in Sri Lanka, further capitalizing its strength as operator with the largest and widest 3G/3.5G network in the country.

Next Generation Network Technology

As an initiative in the ongoing cost re-scaling program Dialog stepped into a one off network modernization to achieve a 100% Next Generation Network (NGN) core network via migration of all mobile core network elements from legacy Time-Division Multiplexing (TDM) to IP based switching. NGNs provide technologically progressive operators with the opportunity to de-scale operating costs by a significant margin, while also reducing future capital expenditure and carrying values of core network assets due to the over 80 per cent reduction in per subscriber core network capital costs. Dialog's NGN core network will support the Company's strong and rapidly growing subscriber base in addition to enabling a host of advanced subscriber features and convergence opportunities.

Value addition through Innovation

Dialog TradeNet

Dialog Telekom, partnering with Govi Gnana Seva (GGS) launched a service to deliver spot and forward agricultural commodity price information via mobile phones. The service is based on Dialog's TradeNet platform which is a repository for national-level market information and this acquires on-line agri-produce price information from three dedicated Economic Centres at Dambulla, Meegoda and Narahenpita. This initiative has immensely helped the agriculture sector enabling dissemination of information via multiple digital communication technologies such as SMS, Unstructured Supplementary Service Data (USSD) via mobile phones (#977#), web and Interactive Voice Response (IVR) platforms, thus limiting information arbitrage. This pioneering initiative is able to bring down many obstacles inhibiting the growth in agricultural sector and drive development through farmer empowerment.

In-flight and Ocean Coverage

In 2009 Dialog Telekom in partnership with Aero Mobile, launched another first in Sri Lanka, the in-flight calling service which enables a customer to safely use their mobile phone on selected flights. Dialog's International Roaming customers now have access to in-flight connectivity with 14 international airlines. It is not only useful in keeping in touch with friends and family but also convenient in attending to business, while on long haul flights. Dialog also extended this service, by connecting customers on vessels operated by 24 Cruise operators for in-cabin and ocean-based connectivity. This is yet another initiative expressing Dialog's commitment to provide a consumer centric, rich mobile communication experience.

Growth in Value Added Services

Dialog continues to expand its wide portfolio of content, establishing itself as the prime mobile operator in enhancing user experience through VAS. Growth in non voice revenue has seen an unprecedented growth during the past years in the industry and avails an opportunity due to commoditization of voice. Over 20 VAS products have been launched in 2009, capitalizing on the growth in non voice services.

Dialog Global

The Company continued its impressive growth from the strong base established in 2008. International business operations continued to post positive revenue and Minutes of Usage (MoU) growth in its primary business lines of International Wholesale and International Roaming. Overall revenues grew by 33 per cent in 2009.

Having established leadership in GSM roaming with coverage of 211 destinations worldwide encompassing over 530 networks, the Company concentrated on enhancing the breadth and quality

Product	Description
Breaking News on Mobile	Dialog being the first to introduce news alerts to the country has successfully connected all major local and international news providers to keep its subscribers informed of breaking news as and when it happens. Content partners for its services include Government Information Department, Daily Mirror, Daily News, Derana, JNW News, Lanka Business Online, CNN and NDTV of India.
Call & SMS block	This feature allows the customer to block SMS and calls. Call block service can be activated by simply typing #107#. To block SMS, type BLOCK <No> and send to the customer's own number. This service can also be setup via My Dialog online self-service. Hence the customer can block (black list) receiving calls and SMS from a specific number or a list of numbers.
Friend Finder	Friend Finder is based on the latest location tracking technology, which provides the following features subsequent to subscriber registration and creation of profile with the service. It enables a customer to track the geographical location of friends and loved ones wherever they are on the mobile, look for and get to know new friends in the vicinity or send secret messages to friends anonymously.
Anonymous SMS Chat	This service enables a customer to chat with friends anonymously on their mobile through SMS. A customer can chat anonymously, engage in one to one chat or group chat, enter public chat rooms or create and amend lists of friends and groups.
Mobile Music	Mobile Music is an innovative service that enables customers to listen to personalized music on their mobile. A customer can listen to songs, dedicate songs and make play lists. This feature enables customers to choose songs from a wide variety ranging from English, Sinhala and Tamil.

Table 2: Key Value Added Services launched in 2009

of its GPRS/EDGE, 3G/3.5G and CAMEL (Pre-paid voice roaming) relationships by growing bilateral partnerships with global carriers by 50 per cent during the year.

International Voice and Video

Key international partnerships of strategic value were added to the portfolio of foreign carriers to cater to the growing demand in addition to improving the cost profile and IDD quality to targeted destinations. Traffic volumes in 2009 grew by 45 per cent compared to 2008. The Company continued to expand its Video calling destinations during 2009.

International Data

The Company added several key corporate customers to its portfolio. Majority of the demand for data services continued to be driven by the need for IP based services. Key international partners were identified and added to strengthen the coverage and flexibility when providing convergent MPLS based solutions. The availability of fiber based last mile to key locations in Sri Lanka further enhanced the service offering leading to 25 per cent increase in data revenue.

International Roaming

Dialog's 3G roaming network expanded to 124 operators in 70 destinations offering high speed connectivity in all the key roaming markets. In order to provide the same level of roaming services to the pre-paid customer base, Dialog expanded CAMEL pre-paid roaming coverage to 127 operators in 72 destinations. Key partnerships with specialized roaming service providers allowed Dialog customers to roam on specially equipped airlines and ships.

Dialog's partnerships with Axiata Group Operating Companies and Vodafone Group continued to deliver greater value innovation in the data roaming space. With the introduction of innovative price capped data roaming solutions, such as the "Daily Unlimited Data Roaming" package with Axiata operators which allows Dialog roamers to use data services, while on roaming at near local rates. Similarly 5Mb Data package was launched in Vodafone partner markets.

Dialog Tele-Infrastructure (DTI)

DTI, the Company's infrastructure arm continued to offer state of the art infrastructure as well as microwave and fiber optic transmission technologies.

The Metro Ethernet project will deliver fiber optic connectivity to all major locations in the Colombo metropolis, enabling the Company to deliver super fast Data speeds that can be leveraged by multiple businesses to provide consumers with voice, video conferencing, data and other related services. The corporate consumers can expect a host of new services as a direct result of this investment.

The ongoing Metro project has plans to cover a road network of over 150km by the end of 2010, with an additional 119km covering Colombo and greater Colombo.

The National Optical Fiber Project which completed nearly 180km by end of 2009 delivers fiber optic connectivity to the southern and central provinces.

Subsidiary Businesses

Dialog Broadband Networks (Pvt) Ltd (DBN)

DBN is a fully owned subsidiary of Dialog Telekom, which offers a wide range of fixed telecommunictions services in Sri Lanka. The Company is in the forefront of ICT infrastructure with a country-wide transmission and data communication network. Further, DBN was the first and largest service provider in the country to deliver high-speed broadband internet through WiMAX 16.d technology. DBN also provides fixed wireless telephony services through CDMA technology.

Broadband Sector Performance

The growth in broadband penetration fell short of industry and International Telecommunication Union's (ITU) annual growth estimate of 22-25 per cent for 2009-2011. According to the Telecommunication Regulatory Commission of Sri Lanka (TRCSL), internet and email subscriber growth was 15.6 per cent in 2008, where as the subscriber base has grown by 2.6 per cent in 2009. However, improvement in the current economic conditions and increase in computer penetration is expected to enhance demand in the future.

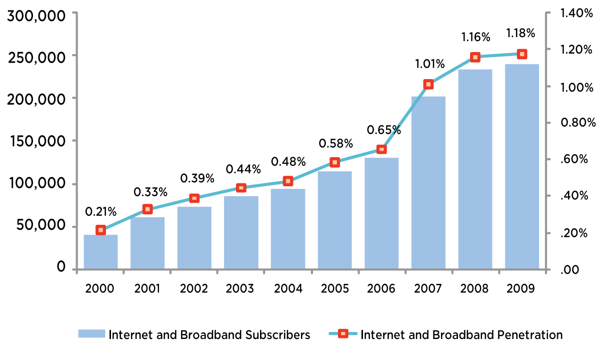


Figure 5: Cumulative Internet and e-mail subscribers: Source TRC

Broadband Business Performance Snapshot

The broadband and voice bundled products (SmartHome and BoxOffice) offered by DBN has demonstrated a significant growth in 2009. Despite broadband only subscribers growing marginally, contribution from the above product portfolio led to a robust 104 per cent YoY growth in broadband revenue. SmartHome and BoxOffice customer base grew by 162 per cent & 64 per cent respectively during the second half of 2009, significantly increasing the revenue contribution from broadband and voice bundled products compared to revenue from broadband only segment.

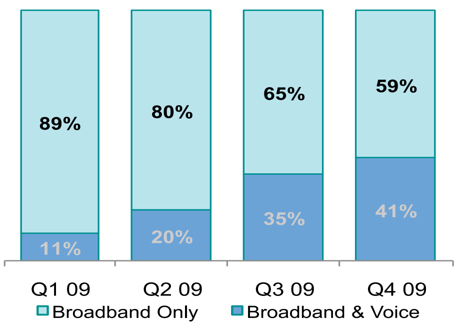


Figure 6: Revenue composition of broadband customers

Initiatives in 2009

On the backdrop of the success experienced with BoxOffice (integrated communication solution to local enterprises), DBN launched SmartHome for Residential and Small Enterprise customers in the first quarter of 2009, providing 512Kbps or 1Mbps downlink broadband speeds and the flexibility of choosing one or two direct voice lines with an array of value added services, enabling the customers to satisfy their diverse communication needs with a single solution provided through WiMAX technology. DBN witnessed a robust subscriber growth during the year consistently generating high Average Revenues per Customer from the said segment.

During the last quarter of 2009, DBN launched "Child-Safe Broadband Service" - yet another first in Sri Lanka. In addition to basic security features, with "Child-Safe Broadband Services" parents can prevent their children from accessing inappropriate content on internet.

"Hosted Manage Security" products were launched under Enterprise services, which provides the customer with a wide range of internet security features, such as Hosted Network Firewall, Hosted Intrusion Prevention System, Web Antivirus, Web Content Filtering and Data Leak Prevention. Customers have the convenience of selecting from three packages, depending on their requirements.

During the year, WiMAX network was optimized for better utilization and yield, while DBN took a rational approach in investing for coverage expansion. In 2009, WiMAX network was extended to Jaffna peninsula with five base stations covering its main townships. The extended coverage enabled DBN to aid the communication needs of the highly under-serviced northern region.

Fixed Telephony & Data Sector Performance

Sri Lanka's fixed telephone sector exhibited signs of saturation in 2009. Based on TRCSL data the fixed line customer base of Sri Lanka has declined marginally by 0.5 per cent during 2009. Along with newly liberated regions opening up for economic integration and low fixed line penetration in the region, the North and East region offers significant growth opportunities going forward.

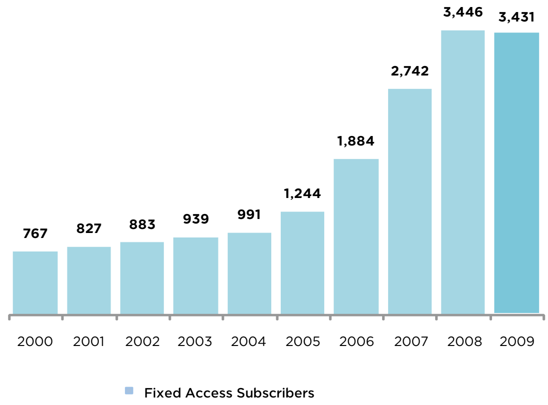


Figure 7: Fixed Access Subscribers: Source TRC

Dialog Fixed Telephony and Data Business Performance Snapshot

During 2009, amidst growing competition Dialog CDMA customer base grew by 3 per cent YoY to over 177,000 active customers. Currently Dialog fixed line offers the most economical call rates in the country with the new Rs. 2 per minute tariff scheme made available to both pre-paid and post-paid customers.

Further, in keeping with Dialog's innovative strategy, several new Value Added Services such as E-Channeling were offered to the CDMA customer base.

In mid 2009, DBN expanded the CDMA network to Jaffna peninsula with seven base stations covering a major landmass and thereby substantially increasing the customer base from the region.

Dialog Television (Pvt) Ltd (DTV)

DTV is a fully owned subsidiary of Dialog Telekom PLC and currently holds the distinction of being the single largest direct-to-home (DTH) digital television service provider in the country. DTV 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 and a wide portfolio of Sri Lankan television channels.

Pay Tv Sector Performance

Continued economic down turn witnessed during 2009 curtailed the growth in Pay Tv sector. However, DTV championed the sector as an "Inclusive brand" by, catering to the masses at affordable prices, offering an array of channels ranging from entertainment to edutainment with the convenience of easy activation.

DTV Business Performance

The year 2009 was a tough period for DTV with regard to acquisition of new subscribers. On the backdrop of innovative sales and marketing programmes offered, the subscriber base grew by 22 per cent YoY, where nearly 150,000 Sri Lankan homes were connected by end 2009. This has resulted in DTV continuing to be the undisputed leader in the Pay TV market with an estimated market share of 83 per cent in 2009. DTH Pay TV business is characterised by a substantial fixed cost base comprising of 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 costs base, leading thereafter to a positive bottom line contribution. The graph below depicts the annual growth in the active subscriber base and gross additions.

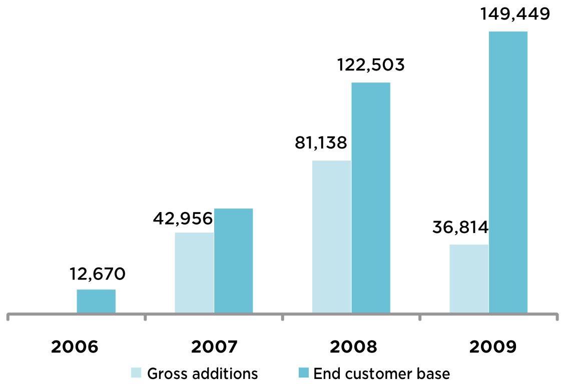


Figure 8: DTV Subscriber Growth

Content, technology and service are the pillars on which the business is built, in 2009 the Company made major strides in each.

Content Portfolio Expansion

DTV channel bouquet grew to 71 channels by end of 2009. The content acquisition strategy employed during the year resulted in several additions to the channel bouquet.

Content Portfolio	New Channels in 2009
Music	Zing
Kids	Kidsco
Entertainment	Fox Crime , Zee Tamil
Local	Heritage TV, Vasantham, Learn TV

Table 3: New Channels in 2009

DTV PLAY, is a preview channel for all DTV subscribers which will enable them to have a "taste" of all channels that DTV has at present.

Learn TV - is produced by Dharmavahini Foundation with the support of the Ministry of Education and the National Institute of Education. This channel serves as an education channel for school children from Grade 9 and beyond.

The channel bouquet is offered to the customers in a variety of packages.

The Jaffna Peninsula package was introduced exclusively to North and East Provinces of Sri Lanka from June 2009 with a Rental of Rs. 500/- (plus taxes).

In addition, sachet channels (the option to subscribe for individual channels for a minimum period of 30 days) were introduced during the year. This flexibility is expected to increase ARPU due to customers on lower packages subscribing for additional channels. Customers on lower packages also have the opportunity to activate all channels for Rs. 400/- (plus taxes) for 7 days known as "7 day pass".

Technology

DTV's services are based on cutting-edge digital video broadcasting by satellite (DVB-S) using MPEG 2 technology. Ad Insertion is a project which was carried out in 2009 to expand the simultaneous advertisement insertion facility from four channels to ten channels. This facilitates broadcasting of local advertisements on foreign channels and is expected to enhance revenue from advertising.

Value Added Services

DTV continued to provide customers with value added services and automated selfhelp via multiple access mediums. An innovative feature was developed to provide DTV customers the convenience of activating Set plans, '7 day pass' and single channels using the mobile phone, in the comfort of their homes.

Self Help via #679#

DTV customers could enter #679# from their Dialog mobile phone and obtain information related to DTV, access the Electronic Program Guide (EPG), set reminders for selected programs and activate sachet channels etc.

IVR – Interactive Voice Response

DTV customers could simply dial 456 from their Dialog mobile phone in order to get bill outstanding information. This facility has been extended to non-dialog customers via 0777679679 IVR. In addition, this service provides routing to Technical Assistance Centre (TAC) for trouble shooting on DTV error messages.

Channel activation via SMS

Under this innovative development, the satellite system, customer care and mobile communication networks are connected to one platform enabling the customer to activate a channel of his choice in just seconds via sms from any mobile connection.

A Closer Look at Our Financial Performance in 2009

Highlights

- Revenue declined marginally by 2 per cent in FY2009. However, the Company witnessed positive revenue growth trends during second half of 2009
- Direct costs increased by 11 per cent YoY, driven by increase in Levies due to rise in International Termination minutes and increase in telco depreciation
- Principal operating cost lines saw significant reduction year on year, due to on-going cost rescaling activities undertaken by the Company
- FY 2009 NPAT (Net Profit After Tax) impacted by large scale non-recurring charges arising from international best practice aligned Fixed Asset treatment

Dialog Telekom PLC– Financial Overview

(all figures in Rs. Mn. except for ratios)	Financial Year Ended 31 December		Change (%)
	2009	**2008**	
Net revenue	32,515	33,108	-2
Direct Costs	19,361	17,519	11
Gross Profit	13,154	15,589	-16
Gross Margin (%)	**40**	**47**	
OPEX	21,584	14,468	49
EBITDA	7,889	8,370	-6
EBITDA Margin (%)	**24**	**25**	
NPBT	(8,785)	138	N/M
NPAT	(9,210)	(388)	N/M
NPAT Margin (%)	**-28**	**-1**	

Table 4: Company Financial Performance
Note: Comparatives have been restated to conform to changes in the current year's presentation
N/M: Not Meaningful

Financial Performance

Revenue

The Company recorded revenue of Rs. 32,515 Mn. for FY 2009, a decrease of 2 per cent YoY, amidst continued aggressive price competition. Despite the YoY drop in revenue, improvement in macro economic trends fuelled by the return of peace during the second half of the year helped the Company to register positive revenue gains during Q3 and Q4. International voice termination grew by 57 per cent YoY primarily driven from the increased international communication needs of Sri Lankans in the Northern and Eastern Provinces. The Company also benefited from increased tourist arrivals in Q4 which positively impacted inbound roaming revenues.

Direct Costs

Total Direct costs increased by 11 per cent to Rs. 19,361 Mn. in FY 2009.

Expansion in Direct costs was predominantly due to the rise in Levies by 36 per cent YoY, driven by increased International Termination minutes during the year and increase in telco depreciation by 24 per cent YoY. Network related costs remained flat YoY while Customer related cost declined by 15 per cent YoY. Improvement in the said direct cost lines was mainly due to renegotiation of Annual Maintenance Contracts and favorable terms with suppliers/ vendors on the backdrop of company-wide cost rescaling initiatives carried out during the year.

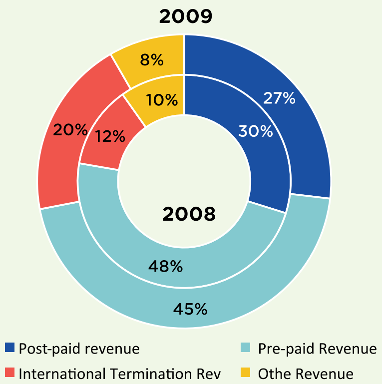


Figure 9: Revenue Mix

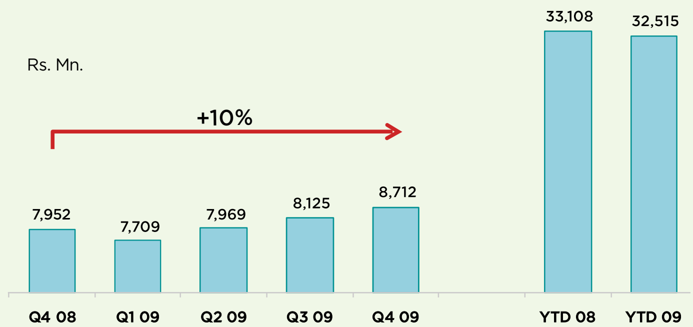


Figure 10: Revenue Growth

(all figures in Rs. Mn.)	2009	%	2008	%	YoY %
Network Related Costs	7,875	41	7,898	45	0
Telco Depreciation	6,373	33	5,137	29	24
Levies*	3,665	19	2,686	15	36
Customer Related Costs**	1,153	6	1,363	8	-15
Non-recurring charges/provisions	295	1	435	3	-32
Total Direct Costs	**19,361**	**100**	**17,519**	**100**	**11**
As a % of Revenue	**60**		**53**		

Table 5: Direct Costs

*Levies refers to International Telecommunication Levy & frequency fees

** incl. cost of phone & accessories & customer servicing cost such as sim cards, scratch cards etc.

Company's continuous commitment to focus on a prudent and a stringent approach to international best practice aligned Fixed Asset treatment resulted in a one-off correction to depreciation charge of Rs. 444 Mn. The non-recurring charges/provisions relating to direct costs totaled to Rs. 295 Mn., net of Rs. 301 Mn. accruing from a refund of Telecom Development Fund (TDF) charges.

Operating Costs

Total Operating costs increased by 49 per cent to Rs. 21,584 Mn. during FY 2009.

Principal operating cost lines saw significant reductions impacted by strategic cost rescaling initiatives undertaken by the Company during the year. Manpower cost reduced by 14 per cent YoY due to savings derived from rightsizing while energy related expenses and facilities & incidental cost dropped by 11 per cent YoY and 20 per cent YoY respectively.

Remittances to GoSL

During 2009, the Company contributed significantly to GoSL revenues with the remittance of direct and indirect levies amounting to Rs. 7,656 Mn., up 20 per cent YoY from the corresponding figure of Rs. 6,364 Mn. in FY 2008. This is attributable to the introduction of Environmental Conservation Levy of 2 per cent and Nation Building tax (NBT) of 1 per cent with effect from 5 December 2008 and 1 February 2009 respectively. On 1 May 2009 NBT was revised up from 1 per cent to 3 per cent.

(all figures in Rs. Mn.)	2009	%	2008	%	YoY %
Selling Expenses	5,365	25	5,779	40	-7
Manpower	2,799	13	3,260	22	-14
Non Telco Depreciation	1,083	5	868	6	25
Energy related expenses	885	4	999	7	-11
Facilities & Incidental	1,463	7	1,837	13	-20
VRS Provision	881	4	-	-	-
Non-recurring charges/provisions	9,108	42	1,725	12	428
Total Operating Costs	**21,584**	**100**	**14,468**	**100**	**49**
As a % of Revenue	**66**		**44**		

Table 6: Operating Costs

Non-recurring charges (inclusive of VRS provision) impacting operating costs totaled Rs. 9,989 Mn. arising mainly from a one-off provision of Rs. 6.0 Bn. for impairment made on account of network modernization and another one-off adjustment of Rs. 2,069 Mn. to align Capital Inventory/Capital Work in Progress provisioning policies in line with international best practices.

A further provision of Rs. 881 Mn. was made during the year relating to the Company's Human Resource Optimisation programme executed through the implementation of a Two-Phase Voluntary Resignation Scheme ("VRS").

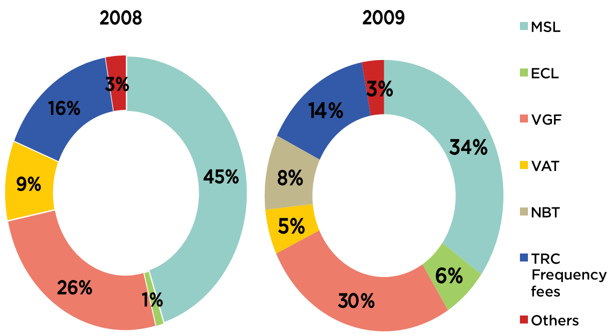


Figure 11: GoSL Payments Composition - FY 2008 and FY 2009

In 2009, the Company received Rs. 566 Mn. as refunds in relation to Telecommunication Development Charge for rural network development, of which Rs. 301 Mn. was accounted as a cost reversal to the levies paid to the Government.

Profit and loss impact of GoSL levies was recorded at approximately Rs. 3.55 Bn. in FY 2009.

Finance Costs

Net Finance costs totalled Rs. 1,246 Mn. in FY 2009, a decline of 23 per cent YoY mainly arising from an exchange gain of Rs. 8 Mn. compared to an exchange loss of approximately Rs. 784 Mn. in FY 2008 due to the appreciation of Sri Lankan rupee against other currencies during 2009 and favorable movements in foreign currency denominated assets and liabilities. Dialog pre-paid the International Finance Corporation (IFC) loan in April 2009 which was substituted with a term loan from OCBC on favorable terms and conditions, which is guaranteed by Axiata. OCBC was offered on preferential rates due to Axiata corporate guarantee.

Dialog also benefited from the general decline in interest rates given Dialog's relatively high gearing level with a Debt to Equity ratio of 0.87 as at 31 December 2009.

Taxation

Dialog 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 Axiata. The terms of the Flagship Investor agreement bestow a 15-year tax exemption period on the Company, which terminates in 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 per cent 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 per cent with effect from January 2005.

The decrease in taxation in FY 2009 is mainly due to the reversal of income tax provision of Rs. 59 Mn. provided in FY 2008 on account of refunds received from vendors on early settlements.

EBITDA & NPAT

FY 2009 EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of Rs. 7,889 Mn. declined by 6 per cent compared to FY 2008 resulting in a 24 per cent EBITDA margin, down 1 percentage point compared to FY 2008. As depicted in Figure 12 below positive margin impacts contributed by improvements in operating costs were off-set by adverse movements in direct costs due to increase in levies and provisions made on account of non-recurring charges.

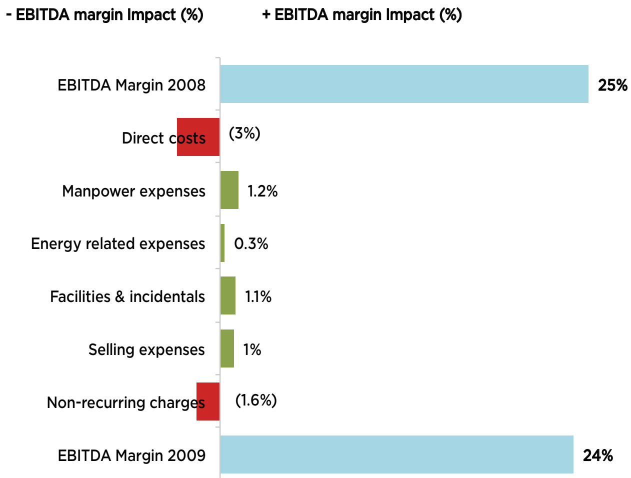


Figure 12: EBITDA margin movement FY 2008 to FY 2009

Non-recurring charges/provisions relating to FY 2009 EBITDA amounted to Rs. 1,576 Mn. FY 2009 EBIDTA excluding the said provisions amounted to Rs. 9,465 Mn.

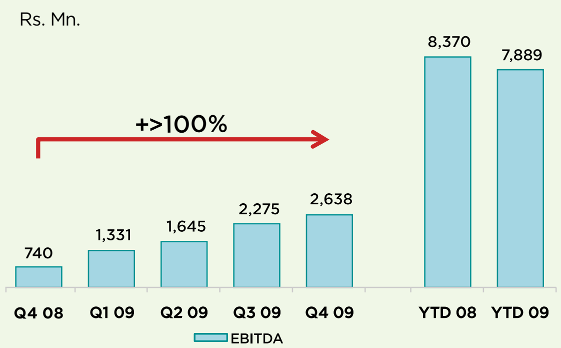


Figure 13: EBITDA

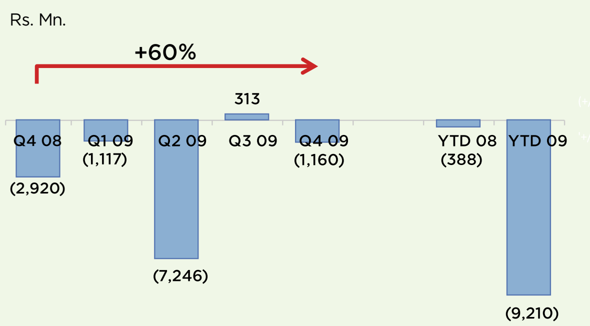


Figure 14: Net Profit After Tax (NPAT)

Company EBITDA grew over successive quarters from Q4 2008 to Q4 2009 at a compound quarterly growth rate of 37 per cent.

The Company recorded a NPAT of negative Rs. 9,210 Mn. for FY 2009 compared to a negative NPAT of Rs. 388 Mn. in FY 2008. NPAT excluding non-recurring charges /provisions was Rs. 1,129 Mn. in FY 2009 as depicted below:

Company NPAT for Q4 2009 improved by 60 per cent compared to the corresponding quarter of 2008.

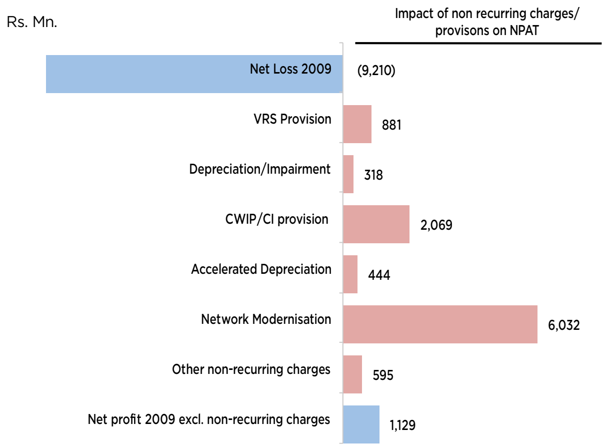


Figure 15: Impact of non-recurring charges on NPAT FY 2009

Capital Structure

The total assets of the Company, as at 31 December 2009 of Rs. 78,191 Mn. was funded by a combination of shareholders funds and short & long term creditors in the proportions of 44 per cent and 56 per cent respectively.

Gross debt increased during the year due to additional borrowings of Rs. 24,620 Mn. EBITDA to interest expenses stood at 6.33 times in FY 2009. Dialog has a credit rating of AA (lka) from Fitch Ratings.

Cash Flow Movements

Operating activities

The Company's net operating cash flow for FY 2009 was Rs. 12,285 Mn., a two-fold increase compared to FY 2008 due to re-scaling of cost structures and improvements in working capital management.

Investing Activities

The Company continued to focus Investments on Network expansion targeting near and medium term revenue and market opportunities. Cash used in investing activities decreased by 43 per cent YoY to Rs. 11,894 Mn. compared to Rs. 20,944 Mn. in FY 2008.

Financing Activities

Net Cash flow from financing activities was positive at Rs. 3,528 Mn. due to proceeds from the OCBC loan of USD 125 Mn. which was drawn down in March and December 2009. New borrowings also included advances amounting to USD 37.5 Mn. from Axiata for capital expenditure. The total repayment of borrowings amounted to Rs. 19,568 Mn. during FY 2009 as a result of repaying several commercial facilities and prepayment of USD 50 Mn. term loan from IFC.

The preference dividend is payable semi-annually (31 March & 30 September) at Average Weighted Prime Lending Rate (AWPLR) minus 0.9 per cent. Accordingly, the preference dividend paid in FY 2009 amounted to Rs. 755 Mn.

DBN Financial Review

Revenue

DBN's total revenue dropped by 7 per cent YoY mainly due to the reduction in connection fee revenue on acquisition of new CDMA subscribers. However, total revenues excluding connection fees

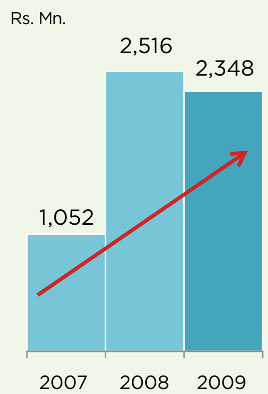


Figure 16: DBN Revenue

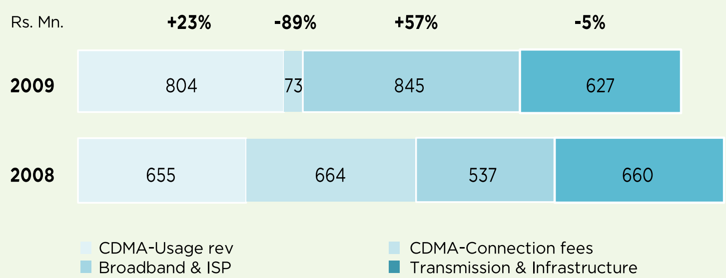


Figure 17: DBN Revenue Mix

increased by a robust 23 per cent YoY. CDMA usage and rental revenues increased by 23 per cent in FY 2009 compared to FY 2008 while the number of fixed line subscribers increased by 3 per cent YoY. DBN's broadband and internet based service segment exhibited aggressive growth with revenue increasing by 57 per cent YoY, while broadband and internet subscribers recorded a significant growth of 39 per cent YoY.

Taxation

During 2007, DBN entered into an investment agreement with the BoI, encapsulating a USD 75 Mn. investment in telecommunications infrastructure. Accordingly, the Company was awarded an exemption from income tax up to five years (ending March 2011). Upon expiry of the exemption period, the Company will be subject to a corporate tax rate of 15 per cent.

EBITDA & NPAT

DBN recorded EBITDA and NPAT of negative Rs. 406 Mn. and Rs. 2,588 Mn. in FY 2009 compared to negative Rs. 9 Mn. and Rs. 1,507 Mn. in FY 2008.

Non-recurring charges relating to DBN totalled Rs. 1,088 Mn. for FY 2009 arising primarily from best practice aligned depreciation estimates & capital inventory provisioning amounting to Rs. 591 Mn. DBN also made provisions of Rs. 257 Mn. on account of project financing cost pertaining to the Company's Fibre Optic Network Project and Rs. 220 Mn. on account of the impairment of equipment that would be fully decommissioned by the end of 2009 in line with the Dialog Group network modernisation strategy.

DTV Financial Review

Revenue

DTV recorded revenue of Rs. 1,641 Mn. in FY 2009, up 28 per cent YoY. Revenue growth was fuelled by aggressive market performance characterised by a strong subscriber growth of 22 per cent YoY.

Revenue comprises initial connection fees, subscription rentals and other revenue including revenues from advertising and miscellaneous services. The revenue generated from monthly subscriptions increased by 45 per cent YoY to Rs. 1,116 Mn. in FY 2009, accounting for 68 per cent of the total revenue (compared with 60 per cent in FY 2008).

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

Taxation

DTV was awarded a tax exemption by the BoI, in keeping with the Company's investment of USD 5 Mn. towards the development of a Digital Television Broadcasting Platform utilizing satellite-based and terrestrial UHF technologies. The tax exemption is for a period of 3 years from the first year of assessment. Upon expiry of the exemption period, the Company's profits will be subject to a tax of 20 per cent p.a.

EBITDA & NPAT

DTV recorded a negative EBITDA of Rs. 245 Mn. in FY 2009, an improvement of 61 per cent relative to FY 2008, while DTV's NPAT was a negative Rs. 769 Mn. showing a reduction in losses by 18 per cent relative to FY 2008.

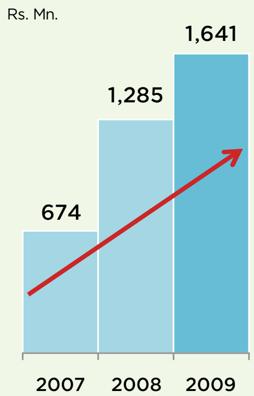


Figure 18: DTV Revenue

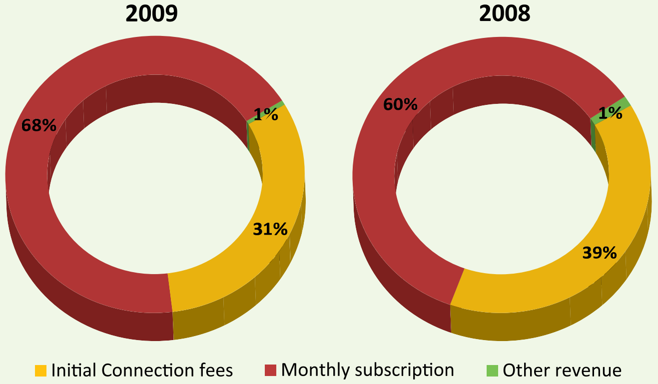


Figure 19: DTV Revenue Mix

Group Financial Review

Dialog Telekom Group's performance is derived from a consolidation of the performance of Dialog Telekom PLC (Company) and its subsidiaries DBN and DTV.

Financial Performance

(all figures in Rs.Mn. except for ratios)	Financial Year Ended 31 December		Change (%)
	2009	2008	
Net revenue	35,774	36,278	-1
Direct Costs	22,301	19,925	12
Gross Profit	13,473	16,353	-18
Gross Margin (%)	**38**	**45**	
OPEX	24,210	17,223	41
EBITDA	7,853	7,887	-0.4
EBITDA Margin (%)	**22**	**22**	
NPBT	(11,780)	(2,372)	-397
NPAT	(12,208)	(2,879)	-324
NPAT Margin (%)	**-34**	**-8**	
EPS (Rs.)	-1.64	-0.45	

Table 7: Group Financial Performance

Note : Comparatives have been restated to conform to changes in the current year's presentation

The Dialog Group recorded consolidated revenue of Rs. 35,774 Mn. during FY 2009, a marginal drop of 1 per cent YoY compared to FY 2008.

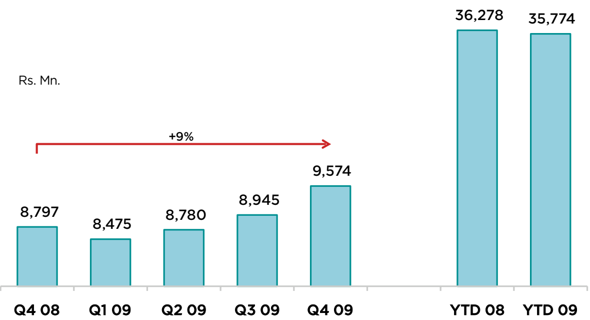


Figure 20: Group Revenue

Group revenue grew by 9 per cent in Q4 2009 compared to the corresponding quarter in 2008.

Group direct costs and operating costs grew by 12 per cent and 41 per cent YoY respectively resulting in a Group NPAT of negative Rs. 12,208 Mn. for FY 2009.

Group EBITDA for the year was recorded at Rs.7,853Mn.Total non-operating costs were recorded at Rs. 20,766 Mn. comprising of depreciation/impairment (Rs. 18,590 Mn.), finance costs (Rs. 1,748 Mn.) and charges pertaining to taxation (Rs. 428 Mn.).

Group EBITDA grew over successive quarters from Q4 2008 to Q4 2009 at a compound quarterly growth rate of 62 per cent.

As depicted below the reported NPAT was significantly impacted by non-recurring charges of Rs. 11.05 Bn. arising from one-off adjustments for international best practice aligned Fixed Asset treatment, forward looking network modernisation and a portfolio of strategic cost re-scaling initiatives.

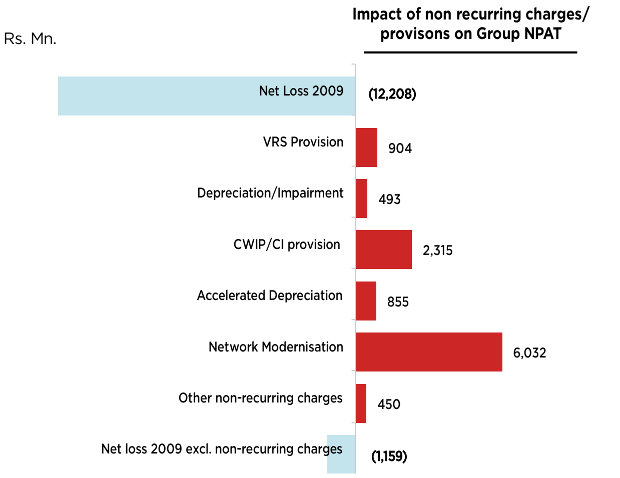


Figure 21: Impact of non-recurring charges on Group NPAT FY 2009

Group NPAT for Q4 2009 improved by 43 per cent compared to the corresponding quarter of 2008.

Both subsidiaries remained dilutive to the Dialog Group at Net Profit level, but exhibit upward trends in operational performance in line with the strong

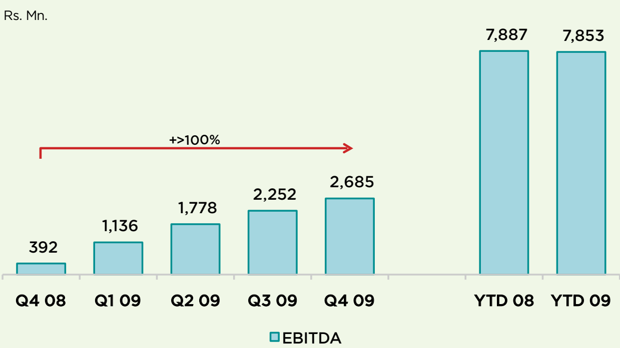


Figure 22: Group EBITDA

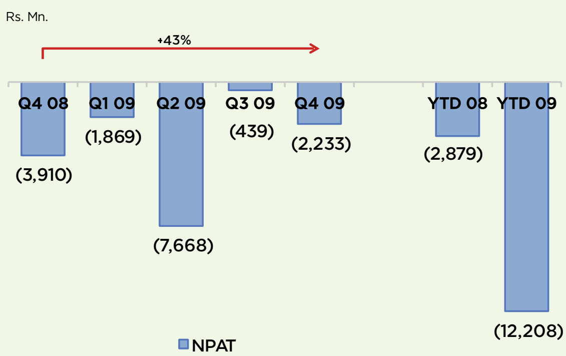


Figure 23: Group NPAT

potential of their respective markets and excelled in terms of value and revenue creation fuelled by the creation of strong subscriber segments.

Negative contributions from DBN (Rs. 2,588 Mn.) and DTV (Rs. 769 Mn.) resulted in the dilution of the Group earnings by a total of Rs. 2,998 Mn. (inclusive of consolidated adjustments), resulting in a Group loss of Rs. 12,208 Mn. for FY 2009 compared to loss of Rs. 2,879 Mn. in FY 2008.

Capital Structure

The total assets of the Group, as at 31 December 2009, of Rs. 75,009 Mn. were funded by a combination of shareholders funds and short & long term creditors in the proportions of 37 per cent and 63 per cent respectively. Long term funding of the assets was Rs. 55,102 Mn., amounting to 73 per cent of total assets.

Gross debt increased during the year due to additional borrowings of Rs. 25,039 Mn. Group EBITDA stood at approximately 4.49 times net interest expense.

Group Cash Flow Movements

Operating Activities

Group net operating cash flows increased by over 50 per cent YoY to reach Rs. 10,815 Mn. in line with improved operational performance trends exhibited in FY 2009.

Investing Activities

During the year, the Group made capital investments of Rs. 9,704 Mn. Cash used in investing activities reduced by 58 per cent YoY due to rationalising of Capex as key investments in PPE and capacity building have already taken place.

Financing Activities

Group cash flow resulting from financing activities was recorded at Rs. 2,849 Mn. Proceeds from new borrowings amounted to Rs. 25,039 Mn. while repayment of borrowings amounted to Rs. 20,638 Mn. during FY 2009.

Corporate Responsibility

Sustainability Report 2009

Dialog's 2009 Sustainability Report underscores and reaffirms the Organisation's realisation that sustainable dividends to all legitimate stakeholders of the Company are delivered when Corporate Responsibility/ Accountability is integrated in an unfeigned manner into core business strategy and its operations.

The Sustainability Report outlines Dialog's Triple Bottom Line (TBL) performance in 2009, and illustrates the building blocks of sustainability across all levels of our core 'Operations', as well as our performance in terms of value creation towards 'Development' goals. The 2009 Sustainability Report also reiterates Dialog's commitment to engage proactively with all its legitimate stakeholders, by providing a balanced and transparent account of its TBL performance on all agendas of value and materiality.

Dialog benchmarks its reporting process against the Global Reporting Initiative (GRI) G3 Guidelines1. Monitoring of material performance indicators according to the GRI G3 guidelines enables the Organisation to elicit comparable information on the nexus between economic, social and environmental performance of the company.

The Company's progress against targets and other aspects of its TBL performance is subject to independent external assurance by Det Norske Veritas AS and is based on the AA1000 AS (2008) Assurance Standard. At Dialog Telekom PLC, we believe that Corporate Responsibility interpreted and delivered in this manner is a compelling management ethos that enables the Organisation to access new markets, new partnerships and product/service innovations that generate value and development that is sustainable, or the organisation as well as the environment and stakeholders within which it operates.

The 2009 Sustainability Report covers the activities of Dialog Telekom for the financial year ending 31 December 2009. The Report has been verified independently by Det Norske Veritas AS, and carries a GRI Application Level of A+ (Third party checked) rating. The 2009 Sustainability Report should be read along with this Annual Report for a complete representation of GRI core indicator information. The 2009 Sustainability Report also serves as Dialog's UN Global Compact COP (Communication on Progress) Report for the 12 month period ending 31 December 2009.

Our Approach to Corporate Responsibility Management

The CR definition pursued today at DTP was coined five years ago, in response to findings arising out of a gap analysis that was assigned pursuant to DTP's initial public offering in 2005. The model prescribed that Dialog should accredit its enabling and positive impact on society primarily through its core 'integral operations' or business footprint and secondly through its ability to 'reach out' to national development goals through its role as a corporate citizen. These two underlying features of the Company's application of CR across Dialog, frames a balanced dual pronged approach. The Company's holistic delineation of CR at that juncture drew a distinction between philanthropy and the nascent aspect of integral CR. Dialogs outreach CR thrust (philanthropic and flagship) is carried out under five thematic aspects at present.

Dialog's Outreach CR, along the five themes, focuses on projects that impact the community positively. Some of these projects are altruistic in nature and do not have a strong strategic fit with the organisations business model. Most of the smaller projects are undertaken as philanthropic initiatives under the Change Trust Fund As a company operating in the Global South there is compelling stakeholder pressure exerted on Dialog to support such initiatives.

Notwithstanding the above altruistic reach, outreach CR also constitutes a handful of strategic flagship projects that are directly linked to the organisations core competencies and that have the potential to create a strong competitive advantage. At times some of the flagship projects are also aligned with Integral CR since they have the potential to add tangible value to the organisations bottom line whilst empowering and enriching society.

The Company's integral CR constitutes our efforts to measure our impact across the triple bottom line (TBL) i.e economic, social and environmental performance. The CR stress inward falls on 'how we do business', as a responsible organization, that pervades into our business 'operations'. Traditionally this emerged as a form of measurement against compliance, but progressive organisations, have found it prudent to use CR as a management tool to identify opportunities to reinvent their organisations value propositions and to invigorate new business models that promote sustainable development whilst achieving bottom line targets.

Dialog's Integral CR performance is pegged against a best-practice derived CR performance management scorecard that records the organisations KPI's against the GRI and other indicators relevant to the organisation. In 2009, Dialog further strengthened its data capture and reporting framework by implementing a fully fledged CR Navigator and KPI dashboard. Fulfillment of sustainability KPI data compilation is linked to personal performance appraisals through the performance management process of the Organisation.

In 2009 Dialog included a trend analysis section in the Sustainability Report that tracks comparative data against its triple bottom line baseline data collated in 2008, which enhances our stakeholders understanding of our performance across the core areas of environment, social and economic parameters.

Pertinent management information derived from the CR navigator has helped to underscore the overall relevance of applying CR management checks and balances to the operations of the organisation. Findings from the CR metrics have enhanced existing performance management processes that help mitigate potential risks and identify opportunities proactively.

Our distinctive combination of external community related projects and internal business relevant systems ensure that we abide by a 'philosophy of inclusion' which means that we strive to reach out to all segments of society regardless of disproportionate social divides to provide affordable, accessible, applicable value propositions arising out of multi-sensory connectivity.

Our CR philosophy is based on our commitment to ensure that the pervasive nature and enabling potential of ICTs reach all local communities within which we operate.

Corporate Governance

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 determine 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

The Company, being listed, takes no exception to the above sentiments. Its Board is responsible to 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 2009.

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.

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 2009, which included 04 special meetings. The attendance of Directors at these meetings is set out in table 1.

Name of Director	Attendance
Datuk Azzat Kamaludin	8/8
Dr. Hans Wijayasuriya	8/8
Mr. Moksevi Prelis	8/8
Dato' Yusof Annuar Yaacob	6/8
Mr. Mohamed Muhsin	8/8
Mr. Jayantha Dhanapala	8/8
Mr. Azwan Khan Osman Khan	5/8
Mr. Roni Lihawa Abdul Wahab	7/8

Table 1- 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, 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.

Profiles of each Director are found on pages 07 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 2009 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. The activities conducted by the BAC are set out in the BAC Report on page 47.

The BAC held 08 meetings during the financial year ended 31 December 2009. Details of the attendance of the Members are as follows:

Name of Director	Attendance
Mr. Moksevi Prelis (Chairman)	8/8
Dato' Yusof Annuar Yaacob	6/8
Mr. Mohamed Muhsin	8/8
Mr. Jayantha Dhanapala	8/8
Mr. Azwan Khan Osman Khan	6/8

Table 2- BAC 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 04 meetings during the financial year ended 31 December 2009 and the attendance at these meetings are set out below.

Name of Director	Attendance
Dato' Yusof Annuar Yaacob (Chairman)	4/4
Mr. Moksevi Prelis	4/4
Mr. Mohamed Muhsin	4/4

Table 3 –NRC meeting attendance

Group Board Executive Committees

There are 5 Group Board Executive Committees (GBECs) which have been established:

i. Dialog Mobile

ii. Dialog Global / Dialog TV

iii. Dialog Fixed and Data Services / Dialog Broadband & Internet Services

iv. Dialog Tele-Infrastructures

v. Dialog Group & 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 and Group & Shared Services function prior to the same being presented to the Board, so that Board proceedings may be expedited. The GBECs also assist the Board in overlooking specific matters and the implementation of specific Board resolutions relating to the respective SBU or Group & 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 of representatives of the Board, Group Senior Management and with respect to SBU GBECs, the Chief Officers of the respective SBUs and/or Group functions and Shared Services.

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. In addition, a newly appointed Director is required to submit himself for retirement and re-election at the AGM immediately following his 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 110.

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 remuneration paid for the Board of Directors in the Annual Report.

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

The remuneration of the Executive Director, in his capacity of an employee, comprises of 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 of a monthly stipend and allowances paid in accordance with the number of meetings attended during the year 2009.

A total of Rs. 14.3 Mn. was paid to the Directors as emoluments for the financial year 2009.

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 BAC.
- a process to ensure the independence and competence of the Company's external auditors.

The CEO and the Chief Financial Officer (CFO) / Group Financial Controller 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 the Company's 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 (ERM) 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 Division ("IAD") which is independent of management. The internal auditor has access to management and the authority to seek information, records, properties and personnel relevant to the subject of audit/review. Once a audit/review is 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 ensure independence, objectivity and enhance performance of the internal audit function, the Company has created a direct reporting line from the internal audit function to 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 website at http://www.dialog.lk/about/investors/.

- **Investor Relations**

The Company's fully 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 Colombo Stock Exchange, 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 actively in more than four (04) overseas investor conferences in Hong Kong, Malaysia, Singapore and London in the year 2009. 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 website at http://www.dialog.lk/about/investors/.

The Group Chief Executive 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 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 continually 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 2010 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 ("Board"). The BAC is chaired by Mr. Moksevi Prelis, an independent non-executive director.

The members of the BAC as at 31 December 2009 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 member committee.

The Company Secretary, Ms. Anoja Obeyesekere, functioned as the Secretary to the BAC, and upon her resignation effective 31 December 2009 Ms. Viranthi Attygalle was appointed as the Company Secretary and Secretary to the BAC effective 1 January 2010.

MEETINGS

The BAC had at eight (08) meetings during the year 2009 which includes four (04) special meetings. The meeting attendance of the members is given on page 42 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 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 role and responsibilities and the 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 the 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 Group Chief Internal Auditor ("GCIA") and the Management.

In view of the special circumstances arising during the year, the BAC obtained analysis reports and held extensive discussions on the root causes for
(a) excessive and long standing capital inventory stocks
(b) network modernisation needs
(c) requirements for impairment as a result.

The BAC also deliberated on the various cost rescaling, cost reduction and revenue enhancement strategies adopted by the Company.

In addition, the following regular activities were also performed.

- reviewed and deliberated on reports and updates, including follow up actions on previous reports, as provided by the GCIA.
- reviewed Management Audit Group Governance Committee reports on the progress of the 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 the information technology related strategy and issues relating to improvements of business processes, and implementation of various related programmes

- 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 or 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 the 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 Group Chief Internal Auditor of Axiata and the PwC representatives from Axiata Corporate Audit Team.

Group Internal Audit

The BAC is strongly supported by the GIAD which has a dotted line relationship to the Axiata Group Internal Audit in order to leverage global best practices and lessons learnt though 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 process 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 35 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 of 12 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, allocating audit expertise on loan as and when required.

With effect from 1 December 2009, the GCIA, Mr. Lalith Fernando, was appointed as the Group Financial Controller of Dialog Telekom PLC, and the Deputy Chief Internal Auditor, Mr. Arjuna Bamberadeniya, was appointed as the Acting Chief Internal Auditor until such time the vacancy for the GCIA is filled.

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 and concluded in the affirmative.

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.

During the year Board, as part of the governance process, approved a new policy to review every five years the appointment of external auditors to avail itself of the highest professional standards. In this regard Requests for Proposals ("RFP") were issued and proposals were obtained from all leading audit firms in Sri Lanka, including the present auditors. The BAC carried out an extensive evaluation of the proposals received, all of which were of high quality and very competitive, and after careful consideration the BAC recommended to the Board that PwC be re-appointed as Auditors for the financial year ending 31 December 2010, subject to the approval of the shareholders at the Annual General Meeting.

Moksevi Prelis
Chairman
Board Audit Committee
30 April 2010

Shareholder Information

DIAL Share Information

The DIAL Share

The DIAL share closed at Rs. 7.25 as at 31 December 2009, recording an increase of 20.8 per cent during the year. The share traded between a high of Rs. 9.50 and a low of Rs. 4.50 during the year.

With the Government victory in the North & East of Sri Lanka, investor sentiment improved considerably as reflected in the ASPI and MPI which have increased significantly during the year.

Market Capitalisation

The total market capitalisation of Dialog Telekom was up by 20.8 per cent to Rs. 59.04 Bn. during the year compared to Rs. 48.86 Bn. in 2008, representing approximately 5 per cent of the total Colombo Stock Exchange (CSE) 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 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.13.9 Mn. in 2009 which amounted to 2.3 per cent of the average daily total market turnover.

Market information on DIAL share	FY 2009	FY 2008
Share information		
Highest Price (Rs.)	9.50	20.00
Lowest Price (Rs.)	4.50	5.75
As at the year end (Rs.)	7.25	6.00
Trading statistics		
Number of Trades	21,800	12,994
Number of Shares Traded ('000)	578,015	187,060
% of Total Shares Traded	**12.1**	**5.9**
% of Public Float*	48.2	15.6
Value of all Shares Traded (Rs. Mn.)	3,335	2,849
Average Daily Turnover (Rs. '000)	13,898	11,972
% of Total Market Turnover	**2.3**	**2.6**
Market Capitalisation (Rs. Mn.)	59,042	48,863
% of total Market Capitalisation	**5.4**	**10.0**

Table 1: Market information on DIAL share
*Excludes unexercised ESOS Shares and TM International (L) Limited holding

Total volumes traded during the year increased significantly by 3 times to 578.0 Mn. shares in 2009 compared to 187.1 Mn. shares in the previous year. The DIAL share remained liquid throughout the year and the number of shares traded as a percentage of the public float increased to 48.2 per cent in 2009 compared to 15.6 per cent in 2008.

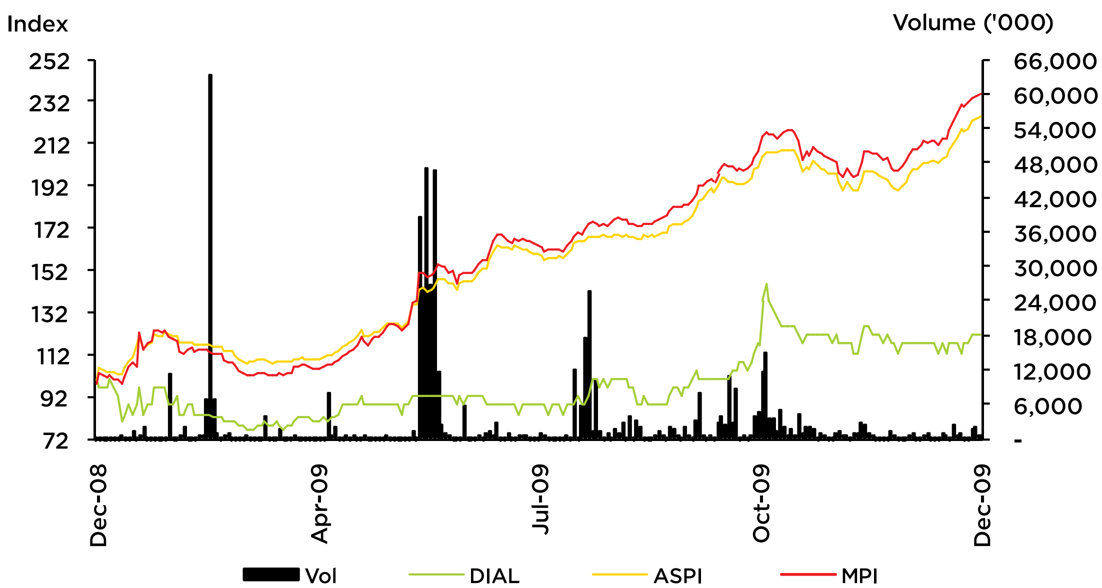


Figure 1: Share Volumes & Relative Performance vs. Market

Composition of Shareholders

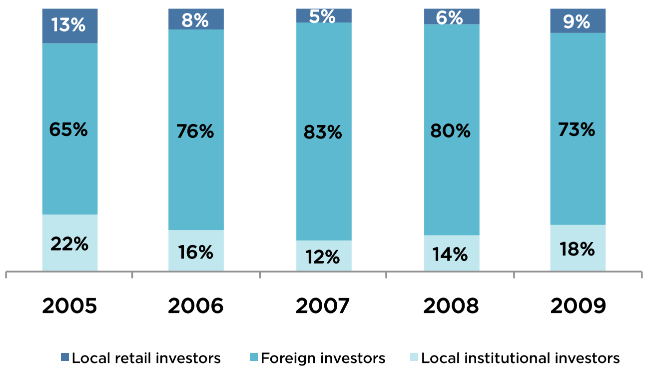


Figure 2: Composition of Shareholders

The total number of shareholders of DIAL increased to 23,112 as at 31 December 2009 compared to the 22,314 in the previous year.

The public float of DIAL remained at 14.73 per cent as at 31 December 2009. In terms of composition of the public float, foreign investors held 73 per cent of the float, 18 per cent was held by local institutional investors and 9 per cent by local retail investors.

Foreign investor composition of the public float dropped to 73 per cent compared to 80 per cent in 2008. However, as evident from Table 3, foreign investors continued their dominance among the top 20 shareholders.

Shareholders Profile

	31 December 2009				31 December 2008			
	No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1 to 1,000	10,340	44.74	6,115,256	0.08	10,148	45.48	6,040,523	0.07
1,001 to 10,000	11,281	48.81	27,437,088	0.34	11,053	49.53	25,526,740	0.31
10,001 to 100,000	1,230	5.32	36,239,302	0.44	904	4.05	24,237,706	0.30
100,001 to 1,000,000	197	0.85	57,804,635	0.71	136	0.61	38,798,375	0.48
Over 1,000,000	64	0.28	8,016,182,124	98.43	73	0.33	8,049,175,061	98.84
Total	**23,112**	**100.00**	**8,143,778,405**	**100.00**	**22,314**	**100.00**	**8,143,778,405**	**100.00**

- 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**

Table 2: Distribution of Shareholders

Twenty Largest Shareholders of the Company

		31 December 09		31 December 08	
	Name of Shareholder	No. of Shares	%	No. of Shares	%
1	TM International (L) Limited	6,785,252,765	83.32	6,785,252,765	83.32
2	HSBC - BBH - Genesis Smaller Companies	191,221,640	2.35	191,221,640	2.35
3	Dialog Telekom Employees ESOS Trust	158,572,462	1.95	158,572,462	1.95
4	HSBC - JPMCB - Emerging Markets Growth Fund	147,543,380	1.81	149,615,180	1.84
5	HSBC - JPMLU - Capital International Emerging Markets Fund	70,762,060	0.87	71,265,260	0.88
6	Sri Lanka Insurance Corporation Limited - Life Fund	68,242,720	0.84	57,486,120	0.71
7	HSBC - SSBT - International Finance Corporation	64,086,800	0.79	64,086,800	0.79
8	CitiBank London s/a RBS AS DEP for FS Asia Pacific	56,724,300	0.70	-	-
9	HSBC - BBH - Genesis Emerging Markets Opportunities Fund	55,345,900	0.68	7,101,200	0.09
10	CitiBank London s/a RBS AS DEP for FS Global Emerging	42,859,700	0.53	-	-
11	HSBC - JPMCB - Scottish ORL SML TR GTI	42,207,500	0.52	-	-
12	Employees Provident Fund	36,141,189	0.44	18,396,189	0.23
13	Bank of Ceylon A/C Ceybank Unit Trust	33,562,400	0.41	15,743,800	0.19
14	HSBC - SSBT - South Asia Portfolio	30,080,680	0.37	30,080,680	0.37
15	HSBC - JPMCB - Coal Staff Superannuation TR	22,559,900	0.28	-	-
16	Sri Lanka Insurance Corporation Limited - General Fund	21,120,360	0.26	21,120,360	0.26
17	Bank of New York - Stewart Ivory - Fifth Third Bank -OH	16,925,000	0.21	-	-
18	BNY - CF Ruffer Investment Funds	16,214,300	0.20	-	-
19	HSBC Intl Nominees Ltd - SSBT - Lloyds TSB Group Pension TR (No 1)	11,831,000	0.15	-	-
20	HSBC - JPMCB - The Wellcome Trust Ltd.	11,811,700	0.15	-	-

Table 3: 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 (collectively referred to as "the Group") for the financial year ended 31 December 2009.

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 Network (Private) Limited and Dialog Television (Private) Limited, mainly comprise of the provision of internet services, fixed wireless, transmission and Infrastructure services, 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 13 and 15 respectively, provide an overall assessment of the business performance of the Group and its future developments. These reports, together with 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 and presentation 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 2009 are set out on pages 60 to 109.

The Consolidated Financial Statements were approved by the Board of Directors on 12 February 2010.

AUDITORS' REPORT

The Auditors' Report on the Financial Statements is given on page 59.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given on pages 65 to 74. There have been no changes in the accounting policies adopted in the previous year for the Company and the Group.

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 contract or a proposed transaction with the Company or the Group during the year are given in Note 30 to the Financial Statements.

BOARD OF DIRECTORS

The Directors of the Company as at 31 December 2009 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 07 to 10.

In accordance with the Articles of Association of the Company, Dato' Yusof Annuar bin Yaacob and Mr. Azwan Khan bin Osman Khan retire by rotation and are eligible for re-election at the forthcoming Annual General Meeting.

Mr. Moksevi Prelis, who attained the age of 73 years on 2 July 2009 and Mr. Jayantha Dhanapala, who attained the age of 71 years on 30 December 2009, 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 21 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:

	2009	2008
Dr Shridhir Sariputta Hansa Wijayasuriya	42,570	42,570
Mr. Moksevi Rasingh Prelis	18,480	18,480
Mr. Mohamed Vazir 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 2009, the Board Audit Committee and the Nominating and Remuneration Committee comprised of 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 Muhsin

AUDITORS

The Board Audit Committee 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 Board Audit Committee is given on page 47 of the Annual Report.

The audit fees and non-audit fees paid and payable by the Group to the Auditors is given in Note 21 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, other than as Auditors and tax consultants for income tax compilation, that would impair their independence and objectivity.

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

RESULTS AND DIVIDENDS

The loss after tax of the Company was Rs. 9,210Mn. (2008 - Loss of Rs. 388Mn.) whilst the Group loss attributable to equity holders for the year was Rs.12,208Mn. (2008 - Loss of Rs. 2,879Mn.).

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 62 and 63 respectively.

Dividends were not declared or paid for the financial year ended 31 December 2008. The Directors do not recommend any dividends for the financial year ended 31 December 2009.

PROPERTY, PLANT AND EQUIPMENT

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

During the year under review, the estimated useful lives of telecommunication assets of the Company and its subsidiaries have been changed to align with depreciation estimates to International (Telecommunications Industry) best practices, in the context of technology advancement dynamics. The Group has applied similar best practice aligned policies with respect to capital inventory and capital work in progress. The impact to the Financial Statements from the initiation of the said policies is given on pages 77.

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.

The Company undertook a one-off network modernisation step aimed at converting its Core Network to 100% Next Generation Network (NGN) formulation during the year.

The decision to undertake such one-off modernisation was based on the fact that the modernisation of the Company's core network is slated to deliver a positive impact of Rs. 1.5 Bn. to the Company's P&L on an annualised basis going forward. The case for modernisation is further supported by an Internal Rate of Return (IRR) in excess of 100% and a payback period of less than one calendar year from the point of commissioning.

The decision to modernise specific elements of the Core Network required a provision for impairment of legacy network elements. The provisions made during the year under review on account of the said impairment and assets identified for impairment in the annual review is given in Note 6.

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 complies with Section 7.10 of the Listing Rules of the CSE on Corporate Governance.

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 review 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 provide reasonable assurance against material misstatement 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 employees are regarded as the key to being able to translate policies and strategies into commercial success and the employment policy of the Group embodies the principle of equal opportunity. The employee ownership in the Company is facilitated through the Employee Share Option scheme.

The Group's Human Resource Optimisation programme was carried out through the implementation of a two-phase Voluntary Resignation Scheme (VRS) aimed at rescaling of human resource costs pertaining to executive and management cadre. The first and second phases of the VRS were announced on 24 March 2009 and 12 February 2010 respectively by the Company and its subsidiaries. The compensation payable to the employees who opted to exercise their rights under this scheme and the estimated cost for the second VRS have been accounted for in the financial statements on page 94.

The number of persons employed by the Group as at 31 December 2009 was 3,435 (2008 – 4,406).

EMPLOYEE SHARE OPTION SCHEME (ESOS)

In an effort to align the interests 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 for 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 Group operates in a manner that minimizes the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Group 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 50 of the Report.

SUBSTANTIAL SHAREHOLDINGS

The parent company, TM International (L) Limited holds 83.32 per cent 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 52 of this Report.

As at 31 December 2009 the public holds 14.73 per cent of the total ordinary shares in issue of the Company.

STATED CAPITAL

The Stated Capital of the Company as at 31 December 2009 was Rs. 31,806,113,435 comprising of 8,143,778,405 ordinary shares and 3,750,000,000 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 62 and 63 to the Financial Statements.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The Contingent Liabilities and Commitments made on account of capital expenditure as at 31 December 2009 are given in Note 28 and 29 to the Financial Statements.

DONATIONS

The total donations made by the Company during the year amounted to Rs. 69,967,656 (2008 – Rs. 47,296,831).

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 except as disclosed in Note 28.

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 32 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 10 June 2010 at Waters Edge.

The Notice of Meeting relating to the 13th Annual General Meeting is given on page 112 of this Report.

For and on behalf of the Board.

Datuk Azzat bin Kamaludin
Chairman

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

Ms. Viranthi Attygalle
Company Secretary

12 February 2010

Group Chief Executive's and Group Financial Controller'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 the Group Financial Controller 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 Borad 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 have 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
12 February 2010

Lalith Fernando
Group Financial Controller

Independent Auditor's 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 sheets as at 31 December 2009, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 65 to 105.

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 2009 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 December 2009 and 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 Group's state of affairs as at 31 December 2009 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

CHARTERED ACCOUNTANTS

1 April 2010

COLOMBO

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Balance sheets

(all amounts in Sri Lanka Rupees Thousands)

	Notes	Group		Company	
		31 December		31 December	
		2009	2008	2009	2008
ASSETS					
Non-current assets					
Property, plant and equipment	6	55,979,991	64,698,584	48,200,679	56,718,021
Intangible assets	7	3,847,177	3,901,887	1,387,335	1,337,747
Investments in subsidiaries	8	Nil	Nil	10,326,010	8,826,010
Other investment	9	29,000	16,000	29,000	16,000
Amount due from subsidiaries	10	Nil	Nil	5,823,958	2,779,612
		59,856,168	68,616,471	65,766,982	69,677,390
Current assets					
Inventories	11	211,360	602,169	207,588	592,813
Trade and other receivables	10	9,646,493	10,572,985	7,101,573	8,317,913
Current tax receivables		70	Nil	70	Nil
Cash and cash equivalents	12	5,295,363	1,645,866	5,114,826	1,544,735
		15,153,286	12,821,020	12,424,057	10,455,461
Total assets		**75,009,454**	**81,437,491**	**78,191,039**	**80,132,851**
EQUITY					
Capital and reserves attributable to equity holders					
Stated capital	13	31,806,113	32,556,113	31,806,113	32,556,113
ESOS trust shares	13	(1,990,921)	(1,990,921)	(1,990,921)	(1,990,921)
Dividend reserve - ESOS		260,067	260,067	260,067	260,067
Revaluation reserve	14	136,471	19,913	101,358	19,913
(Accumulated losses) / Retained earnings		(2,102,401)	10,964,118	4,481,458	14,549,916
		28,109,329	41,809,290	34,658,075	45,395,088
Total equity		**28,109,329**	**41,809,290**	**34,658,075**	**45,395,088**
LIABILITIES					
Non - current liabilities					
Borrowings	17	24,728,797	13,630,786	23,989,375	12,620,802
Deferred income tax liabilities	18	1,133,676	607,437	1,131,288	605,992
Retirement benefit obligations	19	394,540	205,069	362,324	187,378
Provision for other liabilities	20	520,555	194,925	520,555	194,925
Deferred revenue	16	215,145	Nil	215,145	Nil
		26,992,713	14,638,217	26,218,687	13,609,097
Current liabilities					
Trade and other payables	15	12,668,151	10,837,032	11,157,341	8,420,622
Current income tax liabilities		2,658	60,506	Nil	59,590
Borrowings	17	7,236,603	14,092,446	6,156,936	12,648,454
		19,907,412	24,989,984	17,314,277	21,128,666
Total liabilities		**46,900,125**	**39,628,201**	**43,532,964**	**34,737,763**
Total equity and liabilities		**75,009,454**	**81,437,491**	**78,191,039**	**80,132,851**

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 12 February 2010.

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

Moksevi Prelis
Director

Lalith Fernando
Group Financial Controller

The notes on pages 65 to 105 form an integral part of these Financial Statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income statements

(all amounts in Sri Lanka Rupees Thousands)

	Notes	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2009	2008	2009	2008
Revenue	5	35,774,145	36,277,664	32,514,601	33,108,013
Direct costs		(22,301,461)	(19,924,842)	(19,360,548)	(17,518,965)
Gross margin		13,472,684	16,352,822	13,154,053	15,589,048
Other operating income		704,507	502,028	891,167	634,047
Administrative expenses		(18,055,918)	(10,405,358)	(16,097,984)	(8,486,106)
Distribution costs		(6,153,831)	(6,818,004)	(5,486,267)	(5,982,326)
Operating (loss) / profit	21	(10,032,558)	(368,512)	(7,539,031)	1,754,663
Finance cost - net	23	(1,747,583)	(2,003,761)	(1,246,078)	(1,617,071)
(Loss) / profit before tax		(11,780,141)	(2,372,273)	(8,785,109)	137,592
Tax	24	(428,082)	(507,068)	(425,053)	(525,534)
Loss for the year		**(12,208,223)**	**(2,879,341)**	**(9,210,162)**	**(387,942)**
Attributable to:					
Equity holders of the Company		(12,208,223)	(2,879,341)	(9,210,162)	(387,942)
Loss per share for loss attributable to the equity holders of the Company during the year (expressed in Rs per share):					
- basic	25	(1.64)	(0.45)	(1.26)	(0.14)
- diluted	25	(1.65)	(0.45)	(1.27)	(0.14)

The notes on pages 65 to 105 form an integral part of these Financial Statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statements of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Group	Notes	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings / (Accumulated losses)	Total
Balance as at 1 January 2008		33,056,413	(2,000,439)	172,722	20,377	19,036,282	50,285,355
Net loss		Nil	Nil	Nil	Nil	(2,879,341)	(2,879,341)
Legal fee on issue of shares		(300)	Nil	Nil	Nil	Nil	(300)
Redemption of cumulative redeemable preference shares	13	(500,000)	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to ordinary shareholders		Nil	Nil	Nil	Nil	(4,479,078)	(4,479,078)
Dividend 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	14	Nil	Nil	Nil	(464)	464	Nil
Shares exercised - ESOS	13	Nil	9,518	Nil	Nil	Nil	9,518
Balance as at 31 December 2008		**32,556,113**	**(1,990,921)**	**260,067**	**19,913**	**10,964,118**	**41,809,290**
Balance as at 1 January 2009		32,556,113	(1,990,921)	260,067	19,913	10,964,118	41,809,290
Net loss		Nil	Nil	Nil	Nil	(12,208,223)	(12,208,223)
Revaluation of land and building	14	Nil	Nil	Nil	157,975	Nil	157,975
Deferred tax attributable to revaluation surplus	18	Nil	Nil	Nil	(40,954)	Nil	(40,954)
Redemption of cumulative redeemable preference shares	13	(750,000)	Nil	Nil	Nil	Nil	(750,000)
Dividend to rated cumulative redeemable preference shareholders		Nil	Nil	Nil	Nil	(858,759)	(858,759)
Depreciation transfer	14	Nil	Nil	Nil	(463)	463	Nil
Balance as at 31 December 2009		**31,806,113**	**(1,990,921)**	**260,067**	**136,471**	**(2,102,401)**	**28,109,329**

The notes on pages 65 to 105 form an integral part of these Financial Statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statements of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Company	Notes	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings	Total
Balance as 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 cumulative redeemable preference shares	13	(500,000)	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to ordinary shareholders		Nil	Nil	Nil	Nil	(4,479,078)	(4,479,078)
Dividend 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	14	Nil	Nil	Nil	(464)	464	Nil
Shares exercised - ESOS	13	Nil	9,518	Nil	Nil	Nil	9,518
Balance as at 31 December 2008		**32,556,113**	**(1,990,921)**	**260,067**	**19,913**	**14,549,916**	**45,395,088**
Balance as at 1 January 2009		32,556,113	(1,990,921)	260,067	19,913	14,549,916	45,395,088
Net loss		Nil	Nil	Nil	Nil	(9,210,162)	(9,210,162)
Revaluation of land and building	14	Nil	Nil	Nil	122,862	Nil	122,862
Deferred tax attributable to revaluation surplus	18	Nil	Nil	Nil	(40,954)	Nil	(40,954)
Redemption of cumulative redeemable preference shares	13	(750,000)	Nil	Nil	Nil	Nil	(750,000)
Dividend to rated cumulative redeemable preference shareholders		Nil	Nil	Nil	Nil	(858,759)	(858,759)
Depreciation transfer	14	Nil	Nil	Nil	(463)	463	Nil
Balance as at 31 December 2009		**31,806,113**	**(1,990,921)**	**260,067**	**101,358**	**4,481,458**	**34,658,075**

The notes on pages 65 to 105 form an integral part of these Financial Statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES
Cash Flow Statements

(all amounts in Sri Lanka Rupees Thousands)

	Notes	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2009	2008	2009	2008
Cash flows from operating activities					
Cash generated from operations	27	11,936,655	7,971,169	12,933,939	7,046,778
Interest received		99,357	84,457	97,059	82,969
Interest paid		(1,667,539)	(1,196,927)	(1,196,577)	(847,309)
Tax / SRL / ESC paid		(75,848)	(60,166)	(75,504)	(60,164)
TDC disbursement received	16	566,455	Nil	566,455	Nil
Retirement benefit obligations paid	19	(44,028)	(6,613)	(40,591)	(6,363)
Net cash generated from operating activities		**10,815,052**	**6,791,920**	**12,284,781**	**6,215,911**
Cash flows from investing activities					
Purchases of property, plant and equipment		(106,826)	(315,671)	(101,962)	(243,620)
Purchases of intangible assets		(14,864)	(33,073)	(14,865)	(23,467)
Amounts advanced to subsidiaries	30 (c)	Nil	Nil	(4,347,175)	(2,847,427)
Investment installment to SLINTec	9	(13,000)	(16,000)	(13,000)	(16,000)
Expenditure incurred on capital work-in-progress		(9,609,992)	(22,699,474)	(7,445,131)	(17,836,330)
Proceeds from sale of property, plant and equipment		41,052	38,230	28,336	22,876
Net cash used in investing activities		**(9,703,630)**	**(23,025,988)**	**(11,893,797)**	**(20,943,968)**
Cash flows from financing activities					
Redemption of rated cumulative redeemable preference shares	13	(750,000)	(500,000)	(750,000)	(500,000)
Legal fee on issuing of rated cumulative redeemable preference shares	13	Nil	(300)	Nil	(300)
Proceeds from treasury shares - ESOS		Nil	9,212	Nil	9,212
Repayment of finance leases		(47,141)	(48,031)	(19,015)	(21,795)
Repayment of borrowings		(20,638,239)	(11,931,408)	(19,567,850)	(9,973,546)
Proceeds from borrowings		25,038,875	26,670,939	24,620,260	23,406,955
Dividends paid to ordinary shareholders		Nil	(4,479,078)	Nil	(4,479,078)
Dividend received - ESOS		Nil	87,345	Nil	87,345
Dividends paid to holders of rated cumulative redeemable preference shares		(754,948)	(714,209)	(754,948)	(714,209)
Net cash generated from financing activities		**2,848,547**	**9,094,470**	**3,528,447**	**7,814,584**
Net increase / (decrease) in cash and cash equivalents		3,959,969	(7,139,598)	3,919,431	(6,913,473)
Movement in cash and cash equivalents					
At start of year		(1,048,285)	6,092,069	(852,073)	6,062,156
Increase / (decrease)		3,959,969	(7,139,598)	3,919,431	(6,913,473)
Exchange gains / (losses) on cash and bank overdrafts		107,719	(756)	107,719	(756)
At end of year	**12**	**3,019,403**	**(1,048,285)**	**3,175,077**	**(852,073)**

The notes on pages 65 to 105 form an integral part of these Financial Statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement

(All amounts disclosed in notes 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 (television broadcasting generated services, pay television and cable television services, operation of a television broadcasting station and direct to home satellite TV service) related services.

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 statements were authorized for issue by the Board of Directors on 12 February 2010.

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, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Dialog Telekom PLC have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) and the Companies Act No. 07 of 2007. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and 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 considered for early adoption 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. 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.

- 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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.1 Basis of preparation (Contd)

(b) Exposure draft that is not yet effective

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 unrealized gains on transactions between Group companies are eliminated in preparing Group accounts. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The financial periods of the subsidiary undertakings are same as that of the parent Company.

A listing of the Group's principal subsidiaries is set out in Note 8.

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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

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 entities operate ('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. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the year end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents 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 recognized 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.

(b) Licenses

Separately acquired licenses are shown at historical cost. Licenses acquired in a business combination are recognized at fair value at the acquisition date. Licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives which is between 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 amortized over their estimated useful life of 2 years.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.5 Intangible assets (Contd)

(c) Computer software (Contd)

products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. These directly attributable costs include the software development employee costs and an appropriate portion of relevant overheads.

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

Costs relating to development of software is carried in capital work in progress until in is available for use.

Other development expenditures that do not meet the above criteria are recognized as an expense as incurred.

(d) Customer acquisition cost

Costs incurred to acquire pay TV 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 amortized over its useful life of 15 years.

2.6 Property, plant and equipment

(a) Cost and valuation

Buildings mainly comprise 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 mobile telecommunication network comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials, direct labour and related directly attributable overheads. Cost of fixed line CDMA network includes customer premises equipments, including handsets. The cost of other property, plant and equipment comprises expenditure directly attributable to the acquisition of the item. These costs include the costs of dismantling, removal and restoration, and the obligation incurred as a consequence of installing the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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 shareholders equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve. 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 asset's original cost is transferred from 'revaluation reserve' to 'retained earnings/accumulated losses'.

Depreciation on 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:

	% per annum
Buildings	2.5
Building - electrical installation	12.5
Building - leasehold property	Over lease period

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.6 Property, plant and equipment (Contd)

(a) Cost and valuation (Contd)

Computer equipment	20
Telecom equipment	5 to 20
Office equipment	20
Furniture and fittings	20
Toolkits	10
Motor vehicles	20

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 asset's 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 recognized in the income statement.

When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings / accumulated losses.

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.

(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 recognized 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 amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

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. 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 recognized 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 Group and the Company 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 recognized in the income statement within 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 to the income statement, in the year in which those monies are collected. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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 overdraft 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 stated capital.

Incremental costs directly attributable to the issue of new shares are shown in stated capital, 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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.15 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it related to items recognized directly in equity. In this case, the tax is also recognized in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantially 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 realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized 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.

2.16 Employee benefits

(a) Defined benefit plan - Gratuity

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

The liability recognized 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 unrecognized 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised using the corridor method. Accordingly, the Group recognises in the income statement a specified portion of the net cumulative actuarial gains and losses that exceeds the greater of:

i) 10 per cent of the present value of the defined benefit obligations (before deducting plan assets); and,

ii) 10 per cent of the fair value of any plan assets.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.16 Employee benefits (Contd)

(a) Defined benefit plan - Gratuity (Contd)

Past-service costs are recognized immediately in income statements, 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 amortized 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 per cent or 15 per cent and 3 per cent respectively, of the employees' basic or consolidated wage or salary. The employer 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 recognizes 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.

(e) Bonus Plans

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

2.17 Provisions

Provisions are recognized 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 recognized 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 recognized 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 Government grants

The Company is entitled to claim certain qualifying expenses in relation to Telecommunication Development Charge (TDC) from the Telecommunications Regulatory Commission of Sri Lanka (TRCSL). The TDC is recognised as government grant and is accounted where there is reasonable assurance that the grant will be received and the Company will comply with all attached

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.18 Government grants (Contd)

conditions. Government grants in respect of TDC is recognized in the income statements over the period necessary to match them with the costs they are intended to compensate to the purchase of assets. TDC received are deferred and credited to the income statement on straight line basis over the expected useful lives of the related assets.

2.19 Accounting for leases where Group and Company 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.

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 capitalized at the lesee'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 useful life of the asset. However, If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

2.20 Dividend distribution

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

2.21 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 all applicable taxes and levies, returns, rebates and discounts.

The Group recognizes 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 recognized as follows:

(a) Domestic and international call revenue and rental income

Revenue from mobile telecommunications comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Group's network.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

2 Summary of significant accounting policies (Contd)

2.21 Revenue recognition (Contd)

(a) Domestic and international call revenue and rental income (Contd)

Access charges and airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period, with unbilled revenue resulting from services already provided from the billing cycle date to the end of each period accrued. The Customers are charged government taxes at the applicable rates. the revenue is recognized 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 recognized, net of taxes, based on traffic minutes / per second rates stipulated in the relevant agreements and regulations.

(c) Connection fees

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

(d) Equipment revenue

Revenue from equipment sales is recognised when the equipment is delivered to the end customer and the sale is considered complete. For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the device are transferred to the intermediary and the intermediary has no legal right to return.

(e) Prepaid card revenue

Revenue from the sale of prepaid credit is deferred and is recognised in the income statement in the event the customer utilizes the airtime or the credit expiry.

(f) Interest income

As it accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

2.22 Comparatives

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose to variety of financial risks: market risk (including currency risk, 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 minimize potential adverse effects on the Group's financial performance.

3.1.1 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 when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

3 Financial risk management (Contd)

3.1.2 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.

3.1.3 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.

3.1.4 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.

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 within 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 future salary increase rate, mortality rate, withdrawal and disability rates and retirement age. 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 long term government bonds

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

4 Critical accounting estimates and judgements (Contd)

(b) Defined benefit plan - Gratuity (Contd)

and 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 to the financial statements.

(c) Estimation of useful life of telecommunication equipment

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives of Group assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Furthermore, network infrastructure is only depreciated over a period that extends beyond the expiry of the associated license under which the operator provides telecommunications services, if there is a reasonable expectation of renewal or an alternative future use for the asset.

(d) Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition, therefore, involves judgment regarding the future financial performance of the particular legal entity.

(e) Provisions

The Group recognizes 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.

(f) 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.

(g) 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.

5 Segment information

(a) Primary reporting format - business segments

At 31 December 2009 the Group is organised into six main business segments :

- Cellular Operations
- Global Operations
- Fixed Telephony and Data
- ISP
- Transmission and Infrastructure
- Entertainment and Media

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

5 Segment information (Contd)

(a) Primary reporting format - business segments (Contd)

• The segment results for the year ended 31 December 2009 are as follows:

	Notes	Cellular operations	Global operations	Fixed telephony & data	ISP	Transmission & infrastructure	Entertainment & media	Group
Total segmental revenue		32,039,015	11,148,012	1,370,023	350,725	627,464	1,641,286	47,176,525
Inter-segment revenue		(7,091,324)	(3,954,491)	(129,060)	(19,591)	(195,252)	(12,662)	(11,402,380)
Revenue from external customers		**24,947,691**	**7,193,521**	**1,240,963**	**331,134**	**432,212**	**1,628,624**	**35,774,145**
Operating (loss) / profit (segment result)		(9,371,533)	2,242,776	(1,175,300)	(321,054)	(708,395)	(699,052)	(10,032,558)
Finance income	23							101,941
Finance costs	23							(1,849,524)
Finance costs - net	23							(1,747,583)
Loss before income tax								(11,780,141)
Income tax expense	24							(428,082)
Loss for the year								**(12,208,223)**

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

	Notes	Cellular operations	Global operations	Fixed telephony & data	ISP	Transmission & infrastructure	Entertainment & media	Group
Depreciation charge	6	7,230,206	135,875	864,175	60,968	271,120	419,465	**8,981,809**
Impairment charge / Provision for slow moving and obsolete items and abandoned projects	6	8,394,105	5,677	244,239	34,529	226,101	33,983	**8,938,634**
Provision for slow moving trading inventory	21	81,318	Nil	Nil	Nil	Nil	2,054	**83,372**
Amortization	7	449,609	75,207	111,584	4,895	5,183	8,586	**655,064**
Voluntary resignation scheme	22	873,562	7,175	13,148	4,654	3,330	3,075	**904,944**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

5 Segment information (Contd)

(a) Primary reporting format - business segments (Contd)

• The segment assets and liabilities as at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Cellular operations	Global operations	Fixed telephony & data	ISP	Transmission & infrastructure	Entertainment & media	Unallocated	Group
Assets	51,574,682	10,472,966	3,074,045	78,832	4,229,064	2,946,537	2,633,328	**75,009,454**
Liabilities	7,090,025	5,071,075	231,053	53,650	342,279	810,848	33,301,195	**46,900,125**
Capital expenditure	7,237,699	480,452	679,550	35,596	1,004,955	433,691	13,392	**9,885,335**

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

	Notes	Cellular operations	Global operations	Fixed telephony & data	ISP	Transmission & infrastructure	Entertainment & media	Group
Total segmental revenue		32,024,965	8,363,319	1,613,221	243,111	659,235	1,285,470	44,189,321
Inter-segment revenue		(3,932,274)	(3,677,399)	(94,992)	Nil	(190,852)	(16,140)	(7,911,657)
Revenue from external customers		**28,092,691**	**4,685,920**	**1,518,229**	**243,111**	**468,383**	**1,269,330**	**36,277,664**
Operating (loss) / profit (segment result)		(272,768)	2,027,431	(1,012,494)	(268,693)	25,095	(867,083)	(368,512)
Finance income	23							67,571
Finance costs	23							(2,071,332)
Finance costs - net	23							(2,003,761)
Loss before income tax								(2,372,273)
Income tax expense	24							(507,068)
Loss for the year								**(2,879,341)**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

5 Segment information (Contd)

(a) Primary reporting format - business segments (Contd)

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

	Notes	Cellular operations	Global operations	Fixed telephony & data	ISP	Transmission & infrastructure	Entertainment & media	Group
Depreciation charge	6	5,789,257	55,157	1,018,931	17,632	95,221	219,548	**7,195,746**
Impairment charge / Provision for slow moving and obsolete items and abandoned projects	6	887,498	Nil	34,209	Nil	7,582	5,629	**934,918**
Provision for slow moving trading inventory	21	152,138	Nil	Nil	Nil	Nil	Nil	**152,138**
Amortization	7	454,028	63,317	119,391	4,352	641	15,018	**656,747**

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

	Cellular operations	Global operations	Fixed telephony & data	ISP	Transmission & infrastructure	Entertainment & media	Unallocated	Group
Assets	61,643,085	6,796,004	3,741,280	79,726	3,660,146	3,291,090	2,226,160	**81,437,491**
Liabilities	4,157,656	4,607,657	384,118	23,403	803,557	927,859	28,723,951	**39,628,201**
Capital expenditure	17,573,447	543,237	1,798,696	42,865	1,918,046	1,134,755	50,440	**23,061,486**

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 items such as taxation and borrowings.
Capital expenditure comprises additions to property, plant and equipment (Note 6) and intangible assets (Note 7),

(b) Secondary reporting format - geographical segments

All the Group's 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 Statement (Contd)

6 Property, plant and equipment

(a) Group

	Land and buildings	Computer Systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Assets under construction and capital inventory	Total
At 1 January 2008						
Cost / valuation	835,635	38,272,787	936,052	473,027	23,584,813	64,102,314
Accumulated depreciation	(118,335)	(12,614,537)	(445,278)	(258,243)	Nil	(13,436,393)
Net book amount	**717,300**	**25,658,250**	**490,774**	**214,784**	**23,584,813**	**50,665,921**
Year ended 31 December 2008						
Opening net book amount	717,300	25,658,250	490,774	214,784	23,584,813	50,665,921
Additions	2,815	247,726	76,510	1,888	22,699,474	23,028,413
Transferred from CWIP	292,191	23,845,611	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 charge	(97,231)	(6,650,293)	(356,136)	(92,086)	Nil	(7,195,746)
Adjustments to the capital work in progress	Nil	Nil	Nil	Nil	(250,452)	(250,452)
Impairment charge	Nil	(418,326)	Nil	Nil	Nil	(418,326)
Provision for slow moving and obsolete items	Nil	Nil	Nil	Nil	(516,592)	(516,592)
Closing net book amount	**915,075**	**42,682,459**	**1,530,616**	**216,605**	**19,353,829**	**64,698,584**
At 31 December 2008						
Cost / valuation	1,130,641	62,137,704	2,332,030	550,864	19,870,421	86,021,660
Accumulated depreciation / provision for impairment, slow moving and obsolete items	(215,566)	(19,455,245)	(801,414)	(334,259)	(516,592)	(21,323,076)
Net book amount	**915,075**	**42,682,459**	**1,530,616**	**216,605**	**19,353,829**	**64,698,584**
Year ended 31 December 2009						
Opening net book amount	915,075	42,682,459	1,530,616	216,605	19,353,829	64,698,584
Surplus on revaluation of land and buildings (Note 14)	157,976	Nil	Nil	Nil	Nil	157,976
Additions	820	244,877	14,150	632	9,609,992	9,870,471
Transferred from CWIP	76,811	14,183,120	537,773	363	(14,798,067)	Nil
Transferred to intangible assets (Note 7)	Nil	Nil	Nil	Nil	(589,221)	(589,221)
Asset transfers	Nil	10	88	(98)	Nil	Nil
Disposals	(1,362)	(9,515)	(2,174)	(1,558)	(7,212)	(21,821)
Depreciation charge	(140,119)	(8,153,500)	(608,209)	(79,981)	Nil	(8,981,809)
Adjustments to the capital work in progress	Nil	Nil	Nil	Nil	(215,555)	(215,555)
Impairment charge	Nil	(6,565,798)	(5,781)	(70)	(52,390)	(6,624,039)
Provision for slow moving and obsolete items	Nil	Nil	Nil	Nil	(1,424,255)	(1,424,255)
Provision for abandoned projects	Nil	Nil	Nil	Nil	(890,340)	(890,340)
Closing net book amount	**1,009,201**	**42,381,653**	**1,466,463**	**135,893**	**10,986,781**	**55,979,991**
At 31 December 2009						
Cost / valuation	1,280,030	75,691,707	2,874,500	528,658	13,817,968	94,192,863
Accumulated depreciation / provision for impairment, slow moving and obsolete items and abandoned projects	(270,829)	(33,310,054)	(1,408,037)	(392,765)	(2,831,187)	(38,212,872)
Net book amount	**1,009,201**	**42,381,653**	**1,466,463**	**135,893**	**10,986,781**	**55,979,991**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

6 Property, plant and equipment (Contd)

(b) Company

	Land and buildings	Computer Systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Assets under construction and capital inventory	Total
At 1 January 2008						
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 charge	(95,437)	(5,510,009)	(169,334)	(69,634)	Nil	(5,844,414)
Impairment charge	Nil	(400,356)	Nil	Nil	Nil	(400,356)
Provision for slow moving and obsolete items	Nil	Nil	Nil	Nil	(487,142)	(487,142)
Closing net book amount	**745,799**	**38,886,896**	**566,267**	**163,871**	**16,355,188**	**56,718,021**
At 31 December 2008						
Cost / valuation	948,380	56,425,704	1,025,844	425,383	16,842,330	75,667,641
Accumulated depreciation / provision for impairment, slow moving and obsolete items	(202,581)	(17,538,808)	(459,577)	(261,512)	(487,142)	(18,949,620)
Net book amount	**745,799**	**38,886,896**	**566,267**	**163,871**	**16,355,188**	**56,718,021**
Year ended 31 December 2009						
Opening net book amount	745,799	38,886,896	566,267	163,871	16,355,188	56,718,021
Surplus on revaluation of land and buildings (Note 14)	122,862	Nil	Nil	Nil	Nil	122,862
Additions	820	244,080	13,251	4	7,445,131	7,703,286
Transferred from CWIP	76,811	12,865,685	132,091	363	(13,074,950)	Nil
Transferred to intangible assets (Note 7)	Nil	Nil	Nil	Nil	(559,539)	(559,539)
Disposals	(1,362)	(7,354)	(2,155)	(5)	(7,212)	(18,088)
Depreciation charge	(138,296)	(6,965,192)	(201,599)	(60,994)	Nil	(7,366,081)
Impairment charge	Nil	(6,278,578)	Nil	Nil	(52,390)	(6,330,968)
Provision for slow moving and obsolete items	Nil	Nil	Nil	Nil	(1,216,027)	(1,216,027)
Provision for abandoned projects	Nil	Nil	Nil	Nil	(852,787)	(852,787)
Closing net book amount	**806,634**	**38,745,537**	**507,855**	**103,239**	**8,037,414**	**48,200,679**
At 31 December 2009						
Cost / valuation	1,077,463	68,453,073	1,167,545	423,209	10,593,370	81,714,660
Accumulated depreciation / provision for impairment, slow moving and obsolete items and abandoned projects	(270,829)	(29,707,536)	(659,690)	(319,970)	(2,555,956)	(33,513,981)
Net book amount	**806,634**	**38,745,537**	**507,855**	**103,239**	**8,037,414**	**48,200,679**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

6 Property, plant and equipment (Contd)

(c) Revision in the estimated useful lives of telecommunication assets

The estimated useful lives of telecommunication asset class of the Company and its subsidiaries have been changed during the year, to be in line with the industry best practices and taking into consideration the rapid technological advancements in the telecommunication industry. The changes proposed are in line with SLAS 18 – Property Plant and Equipment (Revised 2005) and more prudent accounting. The impact to the financial statements from the revised estimates amounted to Rs. 443,694,283 and Rs. 571,893,779 for the Company and the Group respectively and accounted in December 2009.

(d) Impairment of assets

An impairment charge of Rs 6,330,966,968 and Rs 6,624,038,356 has been made in the financial statements of the Company and the Group respectively during the year ended 31 December 2009 on account of impairment of network assets due to network modernization program adopted by the Group and assets identified for impairment in the annual impairment review.

(e) Provision for capital inventory and capital work in progress

The Company and the Group introduced a provisioning policy for capital inventory and capital work in progress during the year 2009. Accordingly, a provision of Rs 1,216,027,623 and Rs 1,424,256,619 was made on account of capital inventory in the financial statements of the Company and the Group respectively. Further, a provision of Rs 852,786,396 and Rs 890,339,599 was made in the financial statements on account of capital work in progress for the Company and the Group respectively.

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
Cost	970,437	964,216	933,341	927,120
Accumulated depreciation	(283,667)	(214,128)	(268,858)	(201,142)
Net book amount	**686,770**	**750,088**	**664,483**	**725,978**

(g) Land and buildings were last revalued on 6 December 2009 by independent valuers. The surplus arising on revaluation was credited to 'Revaluation reserve' under Shareholders' equity (Note 14).

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

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
Cost	213,946	230,868	128,110	129,250
Accumulated depreciation	(167,428)	(151,206)	(112,243)	(100,274)
Net book value	**46,518**	**79,662**	**15,867**	**28,976**

(j) At 31 December 2009, property, plant and equipment includes fully depreciated assets still in use, the cost of which amounted to Rs 3,610,050,959 (2008 - Rs 2,736,807,744) and Rs 4,942,584,462 (2008 - Rs. 3,802,926,385), for the Company and the Group respectively.

(k) No borrowing costs were capitalised during the year 2009 and 2008.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

7 Intangible assets

(a) Group

	Goodwill	Licenses	Computer Software	Others	Total
At 1 January 2008					
Cost	1,894,312	1,556,416	1,308,379	380,138	5,139,245
Accumulated amortization	Nil	(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
Amortization 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 amortization	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**
Year ended 31 December 2009					
Opening net book amount	1,894,312	1,092,021	338,387	577,167	3,901,887
Additions	Nil	Nil	3,235	11,629	14,864
Transferred from CWIP (Note 6)	Nil	Nil	353,159	236,062	589,221
Retirement of intangibles	Nil	Nil	(3,731)	Nil	(3,731)
Amortization charge	Nil	(162,971)	(429,064)	(63,029)	(655,064)
Closing net book amount	**1,894,312**	**929,050**	**261,986**	**761,829**	**3,847,177**
At 31 December 2009					
Cost	1,894,312	1,556,416	2,049,739	890,290	6,390,757
Accumulated amortization	Nil	(627,366)	(1,787,753)	(128,461)	(2,543,580)
Net book amount	**1,894,312**	**929,050**	**261,986**	**761,829**	**3,847,177**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

7 Intangible assets (Contd)

(b) Company

	Licenses	Computer software	Others	Total
At 1 January 2008				
Cost	621,892	1,233,219	380,138	2,235,249
Accumulated amortization	(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
Amortization 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 amortization	(172,066)	(1,278,990)	(65,432)	(1,516,488)
Net book amount	**449,826**	**310,754**	**577,167**	**1,337,747**
Year ended 31 December 2009				
Opening net book amount	449,826	310,754	577,167	1,337,747
Additions	Nil	3,235	11,630	14,865
Transferred from CWIP (Note 6)	Nil	323,478	236,061	559,539
Amortization charge	(61,514)	(400,274)	(63,028)	(524,816)
Closing net book amount	**388,312**	**237,193**	**761,830**	**1,387,335**
At 31 December 2009				
Cost	621,892	1,916,457	890,290	3,428,639
Accumulated amortization	(233,580)	(1,679,264)	(128,460)	(2,041,304)
Net book amount	**388,312**	**237,193**	**761,830**	**1,387,335**

Other intangibles include costs incurred to acquire the indefeasible right of use of SEA-ME-WE.

Impairment tests for goodwill

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

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

	31 December	
	2009	**2008**
Entertainment and media [Dialog Television (Private) Limited]	1,504,455	1,504,455
Transmission & Infrastructure/ Fixed Telephony & Data [Dialog Broadband Networks (Private) Limited]	389,857	389,857
	1,894,312	**1,894,312**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

7 Intangible assets (Contd)

Dialog Television (Private) Limited (DTV)

The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use (VIU) calculation. This calculation uses pre-tax cash flow projections based on business plan (BP) 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 Discounted Cash Flow (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 PLC and as such it is demonstrated that there is neither a requirement to impair the quantum of goodwill reflected as of 31 December 2009 nor is there a requirement to write down the investment value as of the same date.

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

	2009	2008
Gross margin (1)	48 %	44 %
Growth rate (2)	3.5 %	1 %
Discounted rate (3)	17 %	22 %

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.

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

	2009	2008
- Expected television penetration level by the end of the forecasted period.	90 %	90 %
- Expected penetration level for DTV by the end of the forecast period.	14 %	21 %
- Average monthly rental revenue per user over the forecast period (Rs).	799	977
- Year on Year (YoY) increase in operating expenses (OPEX)	7 %	10 %
- Efficiencies in channel fees are expected with the increase in the subscriber base.		
- Transponder fees are expected to remain fixed until the agreement period and thereafter increase at 3 per cent annually		
- Capital expenditure has been projected to cater to network enhancements and new investments.		

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

7 Intangible assets (Contd)

Dialog Television (Private) Limited (DTV) (Contd)

- The management expects to achieve the forecast by implementing the strategies mentioned below amongst others:

  - Content differentiation strategies to capture different segments of the market.
  - Enhanced availability and reach.
  - Position DTV away from traditional TV.

Dialog Broadband Networks (Private) Limited

The recoverable amount of the CGU is determined based on VIU calculation. This calculation uses projections originating from BPs approved by Management covering a five (5) year period. The calculation is derived from a DCF model, where the EBITDA and capital expenditure (CAPEX) lines have been derived from the BP which in turn is based on the envisioned development of the Company with capacities of some 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 have been discounted by the WACC.

The business model shows that a significant proportion of the cumulative revenues will be earned during the initial years with the aggressive acquisition plans of the five year BP period. 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. Beyond the BP period of five years - a perpetuity growth factor of 2.5 per cent (2008 - 2 per cent) has been assumed.

The Enterprise Value (EV) thus derived is in excess of the carrying value of the investment in the books of DTP and as such it is demonstrated that there is no requirement to impair the quantum of goodwill reflected as of 31 December 2009 nor is there a requirement to write down the investment value as of the same date.

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

Factor	2009	2008
Gross margin (1)	42 %	54 %
Growth rate (2)	2.50 %	2 %
Pre-tax discount rate (3)	14.0 %	22.1 %
Marketing costs as a percentage of revenue	6 %	7 %
Average International bandwidth costs to decrease	15 %	10 %

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

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

(3) Pre-tax discount rate applied to the cash flow projections is the common rate that used by Dialog group to reflect the risk in the telecommunication industry.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

7 Intangible assets (Contd)

Dialog Broadband Networks (Private) Limited (Contd)

- Key assumptions on which forecasted cash flows are based are as follows:
  - Significant revenue share is projected from the SME segment which is currently underserved.
  - Major cash outflows has been factored in 2010 to complete the Optical Fiber Network (OFN) project.
  - Revenue on OFN expected to be available from July 2010 and grow rapidly.
  - From 2010 onwards,10 per cent reduction has been factored in leased lines rentals.
  - CDMA penetration in the country is expected to exceed 100 per cent 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.
  - It is assumed a YoY decrease of 10 per cent in the cost of all Customer Premises Equipments (CPEs) and a lower amount of acquisitions after 2012, thus CAPEX for CPEs will reduce compared to previous years.
  - Wimax CPE's to be purchased at a lower cost after 2012.

8 Investments in subsidiaries

	Holding	Market value/ directors valuation	
	%	2009	2008
Dialog Television (Private) Limited	100	3,864,746	2,364,746
Dialog Broadband Networks (Private) Limited	100	6,461,264	6,461,264
		10,326,010	**8,826,010**
At 1 January		8,826,010	2,335,510
Shares issued in lieu of the amounts advanced		1,500,000	6,490,500
At 31 December		**10,326,010**	**8,826,010**

The Director's estimate that the above value fairly reflect the carrying value of the investments.

Dialog Television (Private) Limited issued shares worth of Rs 1,500,000,000 (1,500,000,000 shares) during the financial year 2009 in lieu of the amounts advanced.

During the year 2008, the subsidiaries of the Company issued shares worth of Rs 6,490,500,000; Dialog Broadband Networks (Private) Limited (Rs 4,490,500,000 - 449,050,000 shares) and Dialog Television (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	
	%	2009	2008
Sri Lanka Institute of Nano Technology ("SLINTec")	10	29,000	16,000

The Company invested a further sum of Rs 13,000,000 during the year 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 Statement (Contd)

10 Trade and other receivables

	Group		Company	
	2009	**2008**	**2009**	**2008**
Trade receivables	4,546,580	3,801,121	3,644,934	2,805,170
Amounts due from related companies [Note 30 (f)]	137,303	10,072	137,303	10,072
Prepayments	526,435	614,817	261,004	374,278
Other receivables	4,436,175	6,146,975	3,058,332	5,128,393
	9,646,493	**10,572,985**	**7,101,573**	**8,317,913**
The amounts due from related companies are classified as follows [Note 30 (f)]				
- non current	Nil	Nil	5,823,958	2,779,612
- current	137,303	10,072	137,303	10,072
	137,303	**10,072**	**5,961,261**	**2,789,684**

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 2,502,997,623 (2008 - 3,586,853,176) and Rs. 1,435,842,335 (2008 - Rs 2,731,016,686) respectively.

11 Inventories

	Group		Company	
	2009	**2008**	**2009**	**2008**
Phone stock	104,465	325,151	104,465	325,151
Accessories and consumables	88,013	277,018	84,241	267,662
Goods in transit	18,882	Nil	18,882	Nil
	211,360	**602,169**	**207,588**	**592,813**

12 Cash and cash equivalents

	Group		Company	
	2009	**2008**	**2009**	**2008**
Cash at bank and in hand	1,814,054	1,174,071	1,633,517	1,072,940
Short term bank deposits	3,481,309	471,795	3,481,309	471,795
	5,295,363	**1,645,866**	**5,114,826**	**1,544,735**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statement (Contd)

12 Cash and cash equivalents (Contd)

Cash, cash equivalents and bank overdrafts include the following for the pruposes at the cashflow statement:

	Group		Company	
	2009	**2008**	**2009**	**2008**
Cash and bank balances	5,295,363	1,645,866	5,114,826	1,544,735
Bank overdrafts (Note 17)	(2,275,960)	(2,694,151)	(1,939,749)	(2,396,808)
	3,019,403	**(1,048,285)**	**3,175,077**	**(852,073)**

13 Stated capital

	Number of shares (thousands)	Ordinary shares	Preference shares	Stated capital	Shares in trust	Total
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)
Share options exercised during the year - ESOS	793	Nil	Nil	Nil	9,518	9,518
Legal fee for share issue	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**
At 1 January 2009	**12,494,988**	**28,056,113**	**4,500,000**	**32,556,113**	**(1,990,921)**	**30,565,192**
Redemption of preference shares	(750,000)	Nil	(750,000)	(750,000)	Nil	(750,000)
At 31 December 2009	**11,744,988**	**28,056,113**	**3,750,000**	**31,806,113**	**(1,990,921)**	**29,815,192**

The parent company, TM International (L) Limited held 83.32 per cent (2008 - 83.32 per cent) of the ordinary shares in issue as at the balance sheet date.

The rated cumulative redeemable preference shares of Rs 1 each issued by the Company during 2007 are mandatorily redeemable prior to 31 May 2012 at Rs 1 per share. The rated cumulative preference share dividend is payable semi annually, at Average Weighted Prime Lending Rate (AWPLR) minus 0.9 per cent, on 31 March and 30 September each year.

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

2007 - 10 %
2008 - 15 %
2010 - 25 %
2011 - 25 %
2012 - 25 %

Employee Share Option Scheme (ESOS)

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 interests 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 per cent of the ordinary share capital of the Company.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

13 Stated capital (Contd)

Of the total ESOS shares that were transferred to the ESOS Trust, 88,841,218 shares (44.44 per cent) were allocated to 'Tranche 0', at the point of the IPO. The balance 111,051,523 shares (56.6 per cent) 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 2009 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 per cent lower than that of the 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 employment full-time 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.

Out of the total number of share options granted under Tranche 0, 51,103,699 share options have been exercised and 35,007,419 share options remain unexercised and are exercisable before 2010. No share options have been exercised by the employees during the 2009 financial year.

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

	2009		2008	
	Average exercise price in Rs per share	**Options (Thousands)**	**Average exercise price in Rs per share**	**Options (Thousands)**
At 1 January	12	35,008	12	37,529
Forfeited	12	(5,884)	12	(1,728)
Exercised	12	Nil	12	(793)
Expired	Nil	Nil	Nil	Nil
At 31 December		**29,124**		**35,008**
Forfeited Share to be reallocated to subsequent tranches		8,614		2,730
Available for Subsequent Tranches		111,052		111,052
As 31 December		**148,790**		**148,790**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

14 Revaluation reserve on land and buildings

	Group		Company	
	2009	2008	2009	2008
At 1 January	19,913	20,377	19,913	20,377
Surplus on revaluation of land and buildings (Note 6)	157,975	Nil	122,862	Nil
Deferred tax on revaluation	(40,954)	Nil	(40,954)	Nil
Depreciation transfer to retained earnings	(463)	(464)	(463)	(464)
At 31 December	**136,471**	**19,913**	**101,358**	**19,913**

The revaluation reserve is a non-distributable reserve

15 Trade and other payables

	Group		Company	
	2009	2008	2009	2008
Trade payables	3,504,550	2,944,741	1,904,173	1,756,209
Amount due to ultimate parent company [Note 30 (g)]	210,954	122,434	210,954	122,434
Amount due to related parties [Note 30 (g)]	811,496	688,285	811,496	688,285
Deferred revenue (Note 16)	1,291,808	1,402,130	1,038,846	1,024,873
Accrued expenses	3,104,485	3,109,546	3,704,359	2,504,914
Customer deposits	1,268,368	1,130,332	1,200,389	1,050,218
Other payables	2,476,490	1,439,564	2,287,124	1,273,689
	12,668,151	**10,837,032**	**11,157,341**	**8,420,622**

As at the balance sheet date, the net current liabilities of the Company and the Group exceeded the current assets by Rs 4,890,219,329 and Rs 4,754,125,529 respectively due to trade finance facilities being 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.

16 Deferred revenue

	Group		Company	
	2009	2008	2009	2008
TDC disbursement				
At 1 January	Nil	Nil	Nil	Nil
TDC disbursement received	566,455	Nil	566,455	Nil
Released to the income statement (Note 21)	(300,717)	Nil	(300,717)	Nil
At 31 December	**265,738**	**Nil**	**265,738**	**Nil**
Others	1,241,215	1,402,130	988,253	1,024,873
At 31 December	**1,506,953**	**1,402,130**	**1,253,991**	**1,024,873**
Current (Note 15)	1,291,808	1,402,130	1,038,846	1,024,873
Non current	215,145	Nil	215,145	Nil
	1,506,953	**1,402,130**	**1,253,991**	**1,024,873**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

16 Deferred revenue (Contd)

Deferred revenue comprises of prepaid credit deferred and the amounts disbursed by Telecommunication Regulatory Commission of Sri Lanka (TRCSL) on account of repayment of the disbursement of 2/3rd of Telecommunication Development Charge (TDC) relating to periods 2003, 2004 and 2005.

17 Borrowings

	Group		Company	
	2009	**2008**	**2009**	**2008**
Current				
Bank overdrafts (Note 12)	2,275,960	2,694,151	1,939,749	2,396,808
Bank borrowings	4,935,564	11,358,899	4,211,315	10,234,188
Finance lease liabilities	25,079	39,396	5,872	17,458
	7,236,603	**14,092,446**	**6,156,936**	**12,648,454**
Non current				
Bank borrowings	15,664,517	8,797,975	14,930,850	7,812,997
Loan from TM International (L) Limited [Note 30 (e)]	9,058,347	4,802,347	9,058,347	4,802,347
Finance lease liabilities	5,933	30,464	178	5,458
	24,728,797	**13,630,786**	**23,989,375**	**12,620,802**

	Group		Company	
	2009	**2008**	**2009**	**2008**
Maturity of non current borrowings (excluding finance lease liabilities and loan from TM International (L) Limited):				
Between 1 and 2 years	3,312,115	3,381,088	3,113,115	3,176,861
Between 2 and 5 years	11,402,063	4,004,841	10,924,063	3,224,091
More than 5 years	950,339	1,412,046	893,672	1,412,045
	15,664,517	**8,797,975**	**14,930,850**	**7,812,997**

Total borrowing facililities of the Company include secured liabilities of USD 200 Mn. from Overseas-Chinese Banking Corporation Limited, Labuan Branch, Malaysia (OCBC), for the purposes of capital expenditure and general working capital requirements of the Group. The initial term loan facility of USD 100 Mn. was drawn in full in March 2009. An additional term loan facility amounting to USD 100 Mn. was offered by OCBC, of which the Company had utilised USD 25 Mn. at December 2009. These term loans (USD 200 Mn.) are secured by a Corporate Guarantee from Axiata Group Berhad.

The Company has obtained a further Rs 3.8 Bn. term loans and short term credit facilities (2008 - USD 70 Mn. term loan and Rs 4 Bn. term loan and short term credit facilities); out of which a sum of Rs. 3.5 Bn. has been utilised at December 2009. Trade borrowings, which includes the short term credit facilities, are secured by a negative pledge on assets of the Company.

TM International (L) Limited has provided advances amounting to USD 37.5 Mn., during 2009 (2008 - USD 10Mn.), to meet expenditure relating to expansion of telecommunication services industry, CDMA backbone and Pay TV services.

The Company settled the full amount due on the term loan facility obtained from International Finance Corporation to the value of USD 50 Mn. in April 2009.

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

As at 31 December 2009, a total of Rs 2,471,516,926 was drawn from the revolving credit facility offered by Standard Chartered Bank. This was to used for working capital requirements of the Company.

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)

17 Borrowing (Contd)

Gross finance lease liabilities - minimum lease payment:

	Group		Company	
	2009	2008	2009	2008
Not later than 1 year	27,980	47,153	6,298	19,333
Later than 1 year and not later than 5 years	6,244	33,854	257	5,808
	34,224	81,007	6,555	25,141
Future finance charges on finance leases	(3,212)	(11,147)	(505)	(2,225)
Present value of finance lease liabilities	**31,012**	**69,860**	**6,050**	**22,916**
The present value of finance lease liabilities is as follows:				
Not later than 1 year	25,079	39,396	5,872	17,458
Later than 1 year and not later than 5 years	5,933	30,464	178	5,458
	31,012	**69,860**	**6,050**	**22,916**

18 Deferred income tax liabilities

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rates as at the balance sheet date.

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

	Group		Company	
	2009	2008	2009	2008
At 1 January	607,437	140,084	605,992	119,823
Deferred tax attributable to revaluation surplus	40,954	Nil	40,954	Nil
Income statement charge (Note 24)	485,285	467,353	484,342	486,169
At 31 December	**1,133,676**	**607,437**	**1,131,288**	**605,992**

Deferred income tax liability and the deferred income tax charge 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)

19 Retirement benefit obligations

	Group		Company	
	2009	**2008**	**2009**	**2008**
Balance sheet obligations for:				
Retirement benefits - Gratuity	**394,540**	**205,069**	**362,324**	**187,378**
Income statement charge for (Note 22):				
Retirement benefits - Gratuity	**233,499**	**(234)**	**215,537**	**(7,813)**
The movement in the defined benefit obligation over the year is as follows:				
At 1 January	205,069	211,916	187,378	201,554
Current service cost	67,535	39,433	61,255	35,152
Interest cost	24,549	21,571	22,549	20,368
Actuarial losses / (gains)	141,415	(61,238)	131,733	(63,333)
Income statement charge	**233,499**	**(234)**	**215,537**	**(7,813)**
Benefits paid	(44,028)	(6,613)	(40,591)	(6,363)
At 31 December	**394,540**	**205,069**	**362,324**	**187,378**

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 21 December 2009. The principal actuarial valuation assumptions used were as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
Discount rate	11 %	12 %	11 %	12 %
Future salary increase	12 % - 17 %	4 % - 18 %	12 % - 17 %	4 % - 18 %

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 the valuation.

20 Provision for other liabilities

Provision for other liabilities comprise the amounts provided for asset retirement obligations.

	Group		Company	
	2009	**2008**	**2009**	**2008**
At 1 January	194,925	142,979	194,925	142,979
Amounts capitalized	155,952	13,267	155,952	13,267
Income statement charge (Note 23)	169,678	38,679	169,678	38,679
At 31 December	**520,555**	**194,925**	**520,555**	**194,925**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

21 Operating (loss) / profit

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
Directors' fee	14,338	23,912	14,339	23,878
Independent auditors' fees				
- audit	7,458	6,284	4,769	4,444
- non audit	331	849	331	849
Fees for other professional services	106,408	78,910	101,832	73,683
Amortization of intangible assets (Note 7)	655,064	656,747	524,816	517,345
Depreciation on property, plant and equipment (Note 6)				
- owned assets	8,950,671	7,164,734	7,352,972	5,827,725
- leased assets under finance leases	31,138	31,012	13,109	16,689
	8,981,809	**7,195,746**	**7,366,081**	**5,844,414**
Adjustments to assets under construction (note 6)	215,555	250,452	Nil	Nil
Impairment charge (Note 6)	6,624,039	418,326	6,330,968	400,356
Provision for slow moving and obsolete items (Note 6)	1,424,255	516,592	1,216,027	487,142
Provision for abandoned projects (Note 6)	890,340	Nil	852,787	Nil
Retirement of intangibles (Note 7)	3,731	Nil	Nil	Nil
Repair and maintenance expenditure on property, plant and equipment	1,380,907	1,463,527	1,187,927	1,377,002
Provision for doubtful debts	863,066	581,342	517,794	403,363
Operating lease rentals				
- office	645,288	740,012	574,847	640,590
- base stations and lease circuits	1,372,463	864,327	1,263,137	1,006,986
Cost of inventories (included in 'direct costs')	764,441	987,221	764,441	987,221
Employee benefit expense (Note 22)	4,226,054	3,644,031	3,741,743	3,164,747
Loss on sale of property plant and equipment	(21,352)	(29,980)	(12,369)	(19,135)
Provision for slow moving inventory	83,372	152,138	81,318	152,140
Amounts released from deferred revenue (Note 16)	300,717	Nil	300,717	Nil

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

22 Employee benefit expense

	Group		Company	
	2009	**2008**	**2009**	**2008**
Wages and salaries	2,052,817	2,300,755	1,779,973	1,977,904
Social security costs	663,480	949,384	556,162	850,475
Pension costs - defined contribution plans	371,314	394,126	309,334	344,181
Pension costs - defined benefit plan (Note 19)	233,499	(234)	215,537	(7,813)
Voluntary Resignation Scheme	904,944	Nil	880,737	Nil
	4,226,054	**3,644,031**	**3,741,743**	**3,164,747**
Number of persons employed as at 31 December:				
- Full time	3,384	4,372	2,854	3,767
- Part time	51	34	51	34
	3,435	**4,406**	**2,905**	**3,801**

23 Finance income and costs

	Group		Company	
	2009	**2008**	**2009**	**2008**
Interest income on deposits	101,941	67,571	99,642	66,083
Interest expense on:				
- bank overdrafts	(112,844)	(150,499)	(59,720)	(42,510)
- term loans	(1,536,972)	(1,061,751)	(1,122,898)	(814,096)
- finance cost on asset retirement obligations (Note 20)	(169,678)	(38,679)	(169,678)	(38,679)
- finance lease	(8,227)	(14,194)	(1,916)	(4,276)
	(1,827,721)	**(1,265,123)**	**(1,354,212)**	**(899,561)**
Net foreign exchange (loss) / gain on foreign currency transactions / balances	(21,803)	(806,209)	8,492	(783,593)
	(1,747,583)	**(2,003,761)**	**(1,246,078)**	**(1,617,071)**

24 Tax

	Group		Company	
	2009	**2008**	**2009**	**2008**
Year ended 31 December				
Current tax	2,086	59,128	Nil	58,778
Reversal of overprovision	(59,289)	(19,413)	(59,289)	(19,413)
Deferred tax charge (Note 18)	485,285	467,353	484,342	486,169
	428,082	**507,068**	**425,053**	**525,534**

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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

24 Tax (Contd)

	Group		Company	
	2009	2008	2009	2008
Year ended 31 December				
(Loss) / profit before tax	(11,780,141)	(2,372,273)	(8,785,109)	137,592
Less: Amortisation of increase in fair value of license	50,286	50,286	Nil	Nil
Other consolidation adjustments	(1,019,613)	Nil	Nil	Nil
	(12,749,468)	(2,321,987)	(8,785,109)	137,592
Tax at the applicable rate	(4,315,603)	(580,846)	(2,928,078)	45,864
Tax effect of:				
Income not subject to tax	804,374	450,700	(127,283)	(176,355)
Expenses not deductible for tax purposes	3,102,581	243,903	2,967,290	216,234
Temporary differences not resulting in deferred tax asset / liability	903,286	449,263	579,680	495,622
Utilization of previously unrecognised tax losses	(7,267)	(36,539)	(7,267)	(36,418)
Overprovision of tax	(59,289)	(19,413)	(59,289)	(19,413)
	428,082	**507,068**	**425,053**	**525,534**

Tax losses available for carrying forward to the year of assessment 2008/2009 amount to Rs 914,113,001. Accordingly, the Company is entitled to set off 35 per cent of the statutory income of any year of assessment excluding income that does not form a 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 per cent (2008 - 33.75 per cent).

25 (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	
	2009	2008	2009	2008
Net loss after tax	(12,208,223)	(2,879,341)	(9,210,162)	(387,942)
Less: Preference dividend paid	(858,759)	(714,209)	(858,759)	(714,209)
Net loss attributable to ordinary shareholders	**(13,066,982)**	**(3,593,550)**	**(10,068,921)**	**(1,102,151)**
Weighted average number of ordinary shares in issue (thousands)	7,985,206	7,985,059	7,985,206	7,985,059
Basic loss per share (Rs)	**(1.64)**	**(0.45)**	**(1.26)**	**(0.14)**

(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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

(b) Diluted (Contd)

	Group		Company	
	2009	**2008**	**2009**	**2008**
Net loss after tax	(12,208,223)	(2,879,341)	(9,210,162)	(387,942)
Less: Preference dividend paid	(858,759)	(714,209)	(858,759)	(714,209)
Net loss attributable to ordinary shareholders	**(13,066,982)**	**(3,593,550)**	**(10,068,921)**	**(1,102,151)**
Weighted average number of ordinary shares in issue (thousands)	7,939,700	7,984,345	7,939,700	7,984,345
Diluted loss per share (Rs)	**(1.65)**	**(0.45)**	**(1.27)**	**(0.14)**

26 Dividends

No dividends were declared for the year under review (2008 - Nil).

27 Cash generated from operations

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
(Loss) / profit before tax	(11,780,141)	(2,372,273)	(8,785,109)	137,592
Adjustments for:				
Exchange gain / (loss)	46,848	531,824	25,095	513,907
Provision for bad debts	863,066	581,342	517,794	403,363
Bad debts written off	(318,798)	(28,151)	(729,120)	(28,151)
Loss on sale of property, plant and equipment (Note 21)	(21,352)	(29,980)	(12,369)	(19,135)
Interest expense (Note 23)	1,658,043	1,226,444	1,184,534	860,882
Finance cost on asset retirement obligations (Note 23)	169,678	38,679	169,678	38,679
Interest income (Note 23)	(101,941)	(67,571)	(99,642)	(66,083)
SRL Expenses	(882)	1,043	(882)	1,043
Amortization (Note 7)	655,064	656,747	524,816	517,345
Depreciation (Note 6)	8,981,809	7,195,746	7,366,081	5,844,414
Adjustments to assets under construction (Note 6)	215,555	250,452	Nil	Nil
Impairment charge (Note 21)	6,624,039	418,326	6,330,968	400,356
Provision for slow moving and obsolete items (Note 21)	1,424,255	516,592	1,216,027	487,142
Provision for abandoned projects (Note 21)	890,340	Nil	852,787	Nil
Retirement of intangibles (Note 21)	3,731	Nil	Nil	Nil
Amortization of deferred revenue (Note 16)	(300,717)	Nil	(300,717)	Nil
Retirement benefit obligation (Note 19)	233,499	(234)	215,537	(7,813)
Provision for slow moving inventory	83,372	152,138	81,318	152,140
Changes in working capital				
- trade and other receivables	3,325,205	(1,062,503)	1,227,807	(1,352,212)
- inventories	275,343	(101,066)	271,814	(94,548)
- payables	(989,361)	63,614	2,877,522	(742,143)
Cash generated from operations	**11,936,655**	**7,971,169**	**12,933,939**	**7,046,778**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

28 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)

Based on the Value Added Tax assessments issued by the Department of Inland Revenue in respect of Financial Year 2006, management has estimated the current VAT exposure to be approximately Rs 1,216,177,099 as at the balance sheet date. This includes penalties of Rs 353,821,168 on amounts assessed. The Company not being 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 the lawyers have 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 its subsidiary company Dialog Broadband Networks (Private) Limited and commenced an investigation into the eligibility of these items falling under the duty exemptions granted under the terms and conditions of the Agreement which the subsidiary has entered into with the Board of Investment of Sri Lanka. The shipment was cleared by submitting bank guarantees and thereafter shipments of CPE were cleared by paying duty 'under protest'. 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 and this inquiry is still in progress. No assessment has been made on the subsidiary as 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.

29 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:

	Group		Company	
	2009	2008	2009	2008
Supply of telecommunication equipments	1,652,053	6,421,452	1,352,964	6,421,452

Financial commitments

The Group has the following annual commitments:

	Currency	Amount
Annual fee to the Board of Investment of Sri Lanka	USD	2,275
Site rental for telecommunication equipments	LKR	1,557,375,549
Annual maintenance contract	LKR	978,027,720
Rental to TM International Lanka (Private) Limited for registered office	LKR	7,920,000

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd.)

29 Commitments (Contd)

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

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

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

30 Related party transactions

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

	Datuk Azzat bin Kamaludin	Dr Shridhir Sariputta Hansa Wijayasuriya	Mr Moksevi Rasingh Prelis	Dato' Yusof Annuar bin Yaacob	Mr. Jayantha Cudah Bandara Dhanapala
Axiata Group Berhad	x	-	-	x	-
Celcom Mobile Sdn. Bhd	x	-	-	-	-
Dialog Broadband Networks (Private) Limited	-	x	x	x	-
Dialog Television (Private) Limited	-	x	x	x	-
Communiq Broadband Network (Private) Limited	-	x	x	x	-
CBN Sat (Private) Limited	-	x	x	x	-
TM International Lanka (Private) Limited	-	x	-	x	-
Spice Communications Limited	-	x	-	x	-
Sri Lanka Institute of Nanotechnology (Private) Limited	-	x	-	-	-
Celcom Axiata Berhad (formerly known as Celcom (Malaysia) Berhad)	-	-	-	x	-
Telekom Malaysia International (Cambodia) (Private) Limited	-	-	-	x	-
TM International (L) Limited	-	-	-	x	-
Axiata (Bangladesh) Limited [formerly known as TM International (Bangladesh) Limited]	-	x	-	x	-
Multinet Pakistan (Private) Limited	-	-	-	x	-
PT XL Axiata Tbk (formerly known as PT Excelcomindo Pratama Tbk)	-	-	-	x	-
MobileOne Limited (Singapore)	-	-	-	x	
Cargills (Ceylon) Limited	-	-	-	-	x

'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.

Mr. Mohamed Vazir Muhsin was a director of John Keels Holdings PLC from which the Company purchased computer hardware and software amounting to Rs 132,272,544 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 64,693,978 during the year for services provided as a debt collection agent. The transactions have been carried out at arms length basis.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd.)

30 Related party transactions (contd.)

Mr Moksevi Rasingh Prelis is a shareholder of the Nations Trust Bank (NTB), to which a sum of Rs 109,393,508 was paid as overdraft interest by a subsidiary. The Company also paid to NTB, a preference dividend of Rs 70,965,110 for financial year 2009. The transactions have been carried out at arms length basis.

As at 31 December 2009, the Group Chief Executive Officer, Dr Shridhir Sariputta Hansa Wijayasuriya held options to purchase 5,424,400 ordinary shares under ESOS.

The Company invested in Sri Lanka Institute of Nano Technology ("SLINTec"); a company set up for carrying out research on technology developments. (Note 9)

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

(b) The Company is controlled by TM International (L) Limited which owns 83.32 per cent of the issued ordinary share capital of the Company. The remaining 16.68 per cent of the shares are widely held. The ultimate parent of the Company is Axiata Group Berhad.

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

	2009	2008
Sales 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	202,705	158,417
- International bandwidth revenue	180	25,603
- IPLC and satellite bandwidth revenue	222,605	188,757
- Market development, work-shop revenue, origination and others	108,929	76,303
- Local call revenue	5,425	11,282
iii) Dialog Television (Private) Limited		
- Revenue from call centre agent fee	27,573	20,668
- Satellite bandwidth service	6,006	1,633
- Local call revenue	2,624	5,178
- Connection fee	Nil	174
iv) Telekom Malaysia Berhad		
- IPLC revenue	14,136	11,106
- Interconnection revenue	300,373	214,205
v) Multinet Pakistan (Private) Limited		
- Interconnection revenue	47,812	1
vi) Spice Communications Limited		
- Interconnection revenue	157,052	126
Vii) MobileOne Limited (Singapore)		
- Interconnection revenue	10,686	4,429

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd.d)

30 Related party transactions (contd.)

Sales of Service to (contd.):	2009	2008
viii) Celcom Mobile Sdn Bhd		
- Inbound roaming	12,713	6,660
ix) PT XL Axiata Tbk (formerly known as PT Excelcomindo Pratama Tbk)		
- Inbound roaming	810	423
x) Telekom Malaysia (USA) Inc		
- Interconnection revenue	512	2,510
xi) Telekom Malaysia (UK) Limited		
- Interconnection revenue	1,076	Nil
xii) Telecom Malaysia International (Cambodia) (Private) Limited		
- SAP implementation revenue	Nil	5,880
- Interconnection revenue	1,738	7,652
xiii) Celcom Axiata Berhad [formerly known as Celcom (Malaysia) Berhad]		
- SAP implementation revenue	40,769	Nil
- Link charges	Nil	2,707
xiv) Axiata (Bangladesh) Limited		
- Share of Inbound roaming revenue	29,988	23,843
	1,196,412	**770,257**

	2009	2008
Purchase of service from:		
i) TM International Lanka (Private) Limited		
- Rental	8,103	7,920
ii) Dialog Broadband Networks (Private) Limited		
- Lease circuit rental and electricity	168,765	223,507
- Computer HW/SW maintenance	60,863	32,926
- BTS site sharing cost	49,451	Nil
- Last mile and field service	7,352	15,386
- Telephone charges and D Net	8,661	Nil
- ILAC,OLAC and IC	67,641	32,418
- Connection fee (Included under office supplies and staff welfare)	5	438
iii) Telekom Malaysia Berhad		
- Lease rental	9,225	14,232
- Acquisition cost of indefeasible right of use of Sea-Me-We	84,546	262,461
- TMCH Charges	59,164	33,928
- Operation & maintenance charges	86,391	38,062
- Local access charges	49,423	53,572
- Port & internet charges	5,520	30,026
- Restoration charges	24,587	25,142
- Voice interconnection charges	2,005	Nil
iv) Dialog Television (Private) Limited		
- Cost on initial connection given to DTP staff and others (holiday bungalows)	799	1,675
- Cost on subscription fees on connection given to DTP staff	11,082	11,370
- Cost on e-mobile, cartoon network and CNN mobile video streaming	(837)	1,261

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd.)

30 Related party transactions (contd.)

Purchase of service from (contd.):	**2009**	**2008**
- Advertising expenses	450	425
- Vehicle hiring charges	1,332	1,332
v) Multinet Pakistan (Private) Limited		
- Origination cost	21,552	622
vi) Spice Communications Limited		
- Origination cost	10,412	4,503
vii) MobileOne Limited (Singapore)		
- Origination cost	765	536
viii) Celcom Mobile Sdn Bhd		
- Outbound roaming	14,424	13,554
ix) PT XL Axiata Tbk (formerly known as PT Excelcomindo Pratama Tbk)		
- Outbound roaming	2,246	2,105
x) Telekom Malaysia (USA) Inc		
- Acquisition cost of indefeasible right of use of Sea-Me-We	156	325
- Local access charges / port and internet charges	8,015	5,608
xi) Telekom Malaysia (UK) Limited		
- Operation and maintenance charges	6,611	7,311
- Local access charges	78,146	57,957
- Port and internet charges	4,343	4,353
- Restoration charges	11,394	3,894
- Refund of charges	(691)	Nil
xii) Telekom Malaysia International (Cambodia) (Private) Limited		
- Origination cost	5	516
xiii) Celcom Axiata Berhad [formerly known as Celcom (Malaysia) Berhad]		
- Origination cost	500	2,706
xiv) Telekom Malaysia (HK) Ltd		
- Operation and maintenance charges	587	1,274
- Local access charges	15,708	10,522
xv) Axiata (Bangladesh) Limited		
- Share of Inbound roaming revenue	2,155	3,650
	880,856	**905,517**

	2009	**2008**
Funds made available to subsidiaries:		
Dialog Broadband Networks (Private) Limited	3,586,905	1,967,000
Dialog Television (Private) Limited	760,270	880,427

	4,347,175	**2,847,427**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd.)

30 Related party transactions (contd)

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

	2009	2008
Key management compensation:		
Salaries and short-term employee benefits	177,456	224,036
Termination benefits	36,215	Nil
Post employment benefits	53,995	57,037
	267,666	**281,073**

(e) Loans obtained from TM International (L) Limited (Note 17)

	2009	2008
At 31 December	**9,058,347**	**4,802,347**

TM International (L) Limited has provided advances amounting to USD 37.5 Mn., during 2009 (2008 - USD 10Mn.), to meet expenditure relating to expansion of telecommunication services industry, CDMA backbone and Pay TV services.

(f) Outstanding receivable balances arising from inter-company transactions:

	Group		Company	
	2009	2008	2009	2008
Non - current receivables (Note 10)				
-Dialog Broadband Networks (Private) Limited	Nil	Nil	5,229,480	1,062,669
-Dialog Television (Private) Limited	Nil	Nil	594,478	1,306,621
-CBN. Sat (Private) Limited	Nil	Nil	Nil	112,700
-Communiq Broadband Network (Private) Limited	Nil	Nil	Nil	297,622
	Nil	**Nil**	**5,823,958**	**2,779,612**
Current receivables (Note 10)				
-Change Trust Fund	2,878	501	2,878	501
-Multinet Pakistan (Private) Limited	14,769	1	14,769	1
-Spice Communications Limited	69,802	126	69,802	126
-MobileOne Limited (Singapore)	1,762	2,615	1,762	2,615
-Celcom Axiata Berhad [formerly known as Celcom (Malaysia) Berhad]	48,092	Nil	48,092	Nil
-Telekom Malaysia (USA) Inc	Nil	39	Nil	39

-Telecom Malaysia International (Cambodia) (Private) Limited	13	6,790	13	6,790
	137,303	**10,072**	**137,303**	**10,072**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the Financial Statements (Contd)

30 Related party transactions (contd)

(g) Outstanding payable balances arising from inter-company transactions:

	Group		Company	
	2009	2008	2009	2008
Amount due to ultimate parent company (Note 15)				
- Axiata Group Berhad	**210,954**	**122,434**	**210,954**	**122,434**
Amount due to related companies (Note 15)				
- TM International Lanka (Private) Limited	4,514	484	4,514	484
- Telekom Malaysia Berhad	699,013	596,815	699,013	596,815
- Telekom Malaysia (USA) Inc	1,875	Nil	1,875	Nil
- Telekom Malaysia (UK) Limited	36,842	27,741	36,842	27,741
- PT XL Axiata Tbk (formerly known as PT Excelcomindo Pratama Tbk)	338	1,048	338	1,048
- Telekom Malaysia (HK) Ltd	5,068	3,992	5,068	3,992
- Celcom Axiata Berhad [formerly known as Celcom (Malaysia) Berhad]	Nil	1,187	Nil	1,187
- Axiata (Bangladesh) Limited [formerly known as TM International (Bangladesh) Limited]	63,846	57,018	63,846	57,018
	811,496	**688,285**	**811,496**	**688,285**

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

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

31 Parent Company

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

32 Events after the balance sheet date

(a) Voluntary resignation scheme (VRS)

The first and second phases of the voluntary resignation scheme were announced on 24 March 2009 and 12 February 2010 respectively by the Company and its subsidiaries. The compensation payable to the employees who opted to exercise their rights under the VRS has been accounted for in the financial statements.

Management has estimated that the cost of the second phase of VRS as Rs 610,031,518 and adjusted the financial statements for the year ended 31 December 2009 as per SLAS 12 – Events after balance sheet date (Revised 2005).

Accordingly an amount of Rs 880,736,571 and Rs 904,943,881 was accounted for in the financial statements of the Company and the Group respectively.

US Dollar Financial Statements

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Balance Sheet

For Information Purpose Only

In USD '000

	As at 31 December 2009		As at 31 December 2008	
	Group	**Company**	**Group**	**Company**
ASSETS				
Non-current assets				
Property, plant and equipment	489,978	421,888	574,078	503,265
Intangible assets	33,673	12,143	34,622	11,870
Investments in subsidiaries	Nil	90,381	Nil	78,314
Other investments	254	254	142	142
Amounts due from subsidiaries	Nil	50,975	Nil	24,664
	523,905	575,641	608,842	618,255
Current assets				
Inventories	1,850	1,817	5,343	5,260
Trade and other receivables	84,433	62,158	93,815	73,806
Current tax receivables	1	1	Nil	Nil
Cash and cash equivalents	46,349	44,768	14,604	13,707
	132,633	108,744	113,762	92,773
Total assets	**656,538**	**684,385**	**722,604**	**711,028**
EQUITY				
Capital and reserves attributable to equity holders of the company				
Stated capital	278,390	278,390	288,874	288,874
ESOS Trust shares	(17,426)	(17,426)	(17,666)	(17,666)
Dividend reserve - ESOS	2,276	2,276	2,308	2,308
Revaluation reserve	1,194	887	177	177
(Accumulated losses) / retained earnings	(18,402)	39,225	97,286	129,103
Total equity	**246,034**	**303,352**	**370,979**	**402,796**
LIABILITIES				
Non-current liabilities				
Borrowings	216,445	209,973	120,948	111,986
Deferred income tax liabilities	9,923	9,902	5,390	5,377
Retirement benefit obligations	3,453	3,171	1,820	1,663
Provision for other liabilities	4,556	4,556	1,729	1,729
Deferred revenue	1,883	1,883	Nil	Nil
	236,260	229,485	129,887	120,755
Current liabilities				
Trade and other payables	110,881	97,657	96,158	74,717
Current income tax liabilities	23	Nil	536	529
Borrowings	63,340	53,890	125,044	112,231
	174,244	151,547	221,738	187,477
Total liabilities	**410,504**	**381,033**	**351,625**	**308,232**
Total equity and liabilities	**656,538**	**684,385**	**722,604**	**711,028**
Exchange Rates	**114.25**	**114.25**	**112.70**	**112.70**

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income Statement

For Information Purpose Only

In USD '000

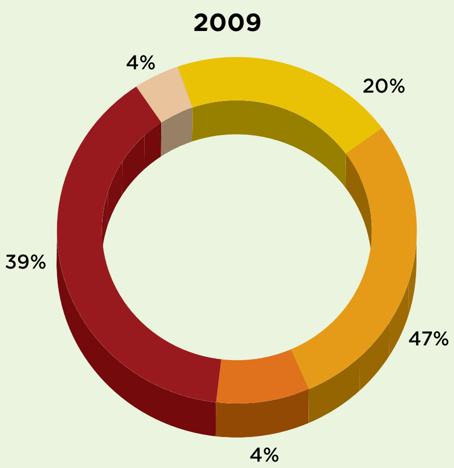
	Year ended 31 December 2009		Year ended 31 December 2008	
	Group	**Company**	**Group**	**Company**
Revenue	313,122	284,592	321,896	293,771
Direct costs	(195,199)	(169,458)	(176,795)	(155,448)
Gross margin	117,923	115,134	145,101	138,323
Other operating income	6,166	7,800	4,455	5,626
Administrative expenses	(158,039)	(140,901)	(92,328)	(75,298)
Distribution costs	(53,863)	(48,020)	(60,497)	(53,082)
Operating (loss) / profit	(87,813)	(65,987)	(3,269)	15,569
Finance costs	(15,296)	(10,907)	(17,780)	(14,348)
(Loss) / profit before tax	(103,109)	(76,894)	(21,049)	1,221
Tax	(3,746)	(3,720)	(4,499)	(4,663)
Loss for the year	**(106,855)**	**(80,614)**	**(25,548)**	**(3,442)**
Exchange Rates	**114.25**	**114.25**	**112.70**	**112.70**

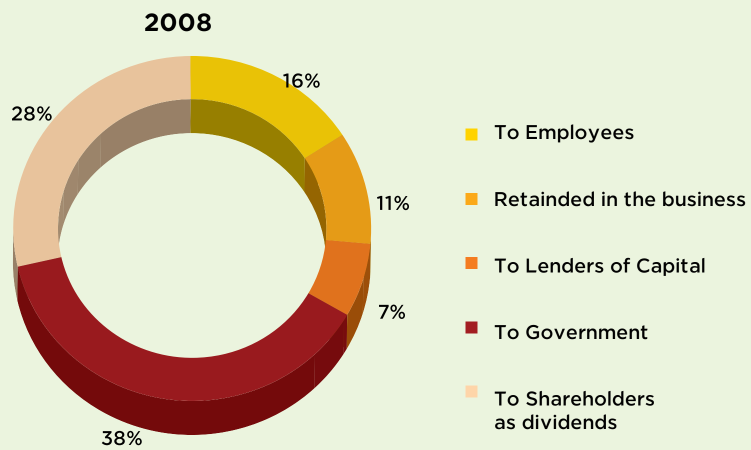
This information does not constitute a full set of Financial Statement in compliance with SLAS. The Financial Statements should be read together with the Auditors opinion and the Financial Statements from pages 57 to 103.

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	2009	2008
In Rs. 000s		
Value Added		
Revenue	35,774,145	36,277,664
Other Operating Income	704,507	610,862
	36,478,652	36,888,526
Cost of Materials and Services bought in	(15,647,654)	(18,604,818)
	20,830,998	**18,283,708**
Distribution of Value Added To Employees		
Salaries and Other Benefits	4,226,054	2,930,787
To Government		
Taxes	8,061,994	6,963,472
To Lenders of Capital		
Interest on Borrowings	1,747,583	1,265,123
To Shareholders as dividends		
Dividend to Shareholders	-	4,479,078
Dividend to Rated Cumulative Redeemable Preference Shareholders	858,759	714,209
	858,759	5,193,287
Retained in the business		
Profit Retained	(12,638,899)	(6,826,922)
Depreciation	18,575,507	8,757,961
	5,936,608	1,931,039
	20,830,998	**18,283,708**





5 YEAR SUMMARY

	Group				
31st December	**2009**	**2008**	**2007**	**2006**	**2005**
Rs. 000s			Restated		
OPERATING RESULTS					
Turnover	35,774,145	36,277,664	34,127,050	27,075,003	18,922,606
EBIT	(10,032,558)	(368,512)	9,582,173	10,850,776	7,316,885
Finance Cost	(1,747,583)	(2,003,761)	(630,018)	(657,309)	(263,065)
Profit Before Tax	(11,780,141)	(2,372,273)	8,952,155	10,193,467	7,053,820
Profit After Tax	(12,208,223)	(2,879,341)	8,906,853	10,118,893	7,011,871
CAPITAL EMPLOYED					
Stated Capital	31,806,113	32,556,113	33,056,413	12,680,378	12,680,378
ESOS Trust Shares	(1,990,921)	(1,990,921)	(2,000,439)	(1,925,226)	(2,385,320)
Dividend Reserve -ESOS	260,067	260,067	172,722	70,309	NIL
Revaluation Reserve	136,471	19,913	20,377	20,840	4,896
Accumulated Losses / Retained Earnings	(2,102,401)	10,964,118	19,036,282	14,206,808	6,900,917
Shareholders Fund	28,109,329	41,809,290	50,285,355	25,053,109	17,200,871
Minority Interest	NIL	NIL	NIL	(72)	NIL
Subscription in Advance	NIL	NIL	306	1,235	NIL
Total Debt	31,965,400	27,723,232	10,490,553	13,160,736	10,745,616
	60,074,729	**69,532,522**	**60,776,214**	**38,215,008**	**27,946,487**
ASSETS EMPLOYED					
Property, Plant & Equipment	55,979,991	64,698,584	50,665,921	30,031,500	20,801,836
Other Non Current Assets	3,876,177	3,917,887	3,919,177	3,602,737	1,628,305
Current Assets	15,153,286	12,821,020	17,140,415	9,791,731	10,766,494
Liabilities Net of Debt	(14,934,725)	(11,904,969)	(10,949,299)	(5,210,960)	(5,250,148)
	60,074,729	**69,532,522**	**60,776,214**	**38,215,008**	**27,946,487**
CASH FLOW					
Cash flow from Operating Activities	10,815,052	6,791,920	12,534,433	12,090,080	9,011,522
Net Cash Flows from Investing Activities	(9,703,630)	(23,025,988)	(25,498,939)	(13,211,906)	(10,073,426)
Net Cash Flows from Financing Activities	2,848,547	9,094,470	16,764,275	(3,383,181)	4,581,240
Net Increase / (Decrease) in Cash and Cash Equivalents	3,959,969	(7,139,598)	3,799,769	(4,505,007)	3,519,336
KEY INDICATORS					
Basic Earnings Per Share (Rs.)	(1.64)	(0.45)	1.15	1.38	1.15
Interest Cover (No. of times)	(5.74)	(0.18)	15.21	16.51	27.81
Adjusted Net Asset Per Share (Rs.)	3.45	5.13	6.17	3.08	2.32
Current Ratio (No. of Times)	0.76	0.51	1.09	0.97	1.57
Price Earnings Ratio (Times)	N/M	N/M	17.40	18.90	14.30
Dividend Per Share	NIL	NIL	0.55	0.55	0.38
Dividend Yeild %	NIL	NIL	2.80	2.10	2.30
Market Price Per Share (Rs.)	7.25	6.00	20.00	26.50	16.50

N/M - Not meaningful

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

Economic Overview

The Sri Lankan economy demonstrated its resilience by growing at 3.5 per cent in 2009 amidst challenging domestic and external conditions. This performance was largely due to the steady recovery in the economy since the second quarter, resulting in a notable growth of 6.2 per cent in the final quarter.

Sri Lanka continued to be impacted by the spill-over effects of the global financial crisis. The sudden withdrawal of capital by foreign investors resulting from adverse global conditions placed an enormous strain on the country's foreign reserves and the management of liquidity. The slump in global demand and the consequent contraction in external trade as well as the slowdown in domestic economic activity had a negative impact on domestic revenue. The end to the prolonged conflict and the policy actions of the Central Bank of Sri Lanka and the government, including the securing of the Stand-by Arrangement (SBA) from the International Monetary Fund (IMF) and measures taken to preserve financial system stability, were instrumental in turning around the domestic economy. Enhanced investor confidence in the economy saw a sharp reversal in foreign financial flows helping the country to record a surplus in the balance of payments of US dollars 2.7 billion by end 2009, and raising foreign exchange reserves to a high of US dollars 5.1 billion by end 2009.

A notable achievement in 2009 was the deceleration in inflation. Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI), which reached 28.2 per cent in June 2008, declined sharply to 4.8 per cent by end of 2009, recording an overall average rate of 3.4 per cent in 2009, the lowest since 1985.

The Agriculture sector recorded a low growth of 3.2 per cent compared to a high growth of 7.5 per cent in 2008, mainly owing to the contraction in the output of tea and paddy. The Industry sector slowed down registering a growth rate of 4.2 per cent compared to a growth of 5.9 per cent in 2008. All sub-sectors of the Industry sector, except for electricity, gas and water, recorded low growth rates compared to the previous year, largely as a result of the drop in demand in both international and domestic markets. The Services sector grew by 3.3 per cent in 2009 contributing 55 per cent to the overall economic growth. The transport and communication sub-sector also slowed down considerably due to the low growth in telecommunication services and cargo handling. Private investment declined significantly to 17.9 per cent of GDP from 21.1 per cent in the previous year, while public investment increased marginally to 6.6 per cent. As a result, total investment as a percentage of GDP declined to 24.5 in 2009 from 27.6 in 2008.

The improved macroeconomic environment, increased investor confidence, new investment opportunities created with the end of conflict, together with the commitment shown by policymakers to implement appropriate strategies, speedy implementation of several major infrastructure projects, as well as the expected recovery of the global economy would provide the required impetus for high growth. A higher growth of 7-8 per cent is expected in the medium-term. The required investment of around 30 per cent of GDP to achieve such a growth target is expected mainly from domestic savings though there will be considerable inflows of foreign resources as well. The increase in domestic savings to enhance investments in the medium term is expected from both the government and the private sector. This would require a generation of a surplus in the current account of the budget, and maintaining a conducive macroeconomic environment with low inflation to encourage private savings. Hence, it is expected that the fiscal policy in 2010 and beyond will be directed towards strengthening the fiscal consolidation process through enhancing government revenue and rationalising recurrent expenditure. Inflation in the medium term is expected to be maintained at a single digit level. The external sector is expected to improve further in the medium-term, maintaining reserves equivalent to over five months of imports.

Public-Private Partnerships (PPP) have been identified as an alternative mode of attracting capital and entrepreneurship. The promotion of PPP has been particularly emphasised in implementing various infrastructure projects, as against the continuation of the existing practice of financing them through the government budget. Further liberalisation of exchange control restrictions relating to capital account transactions are to be undertaken, as announced in Road Map, to deepen the domestic financial system and promote greater integration of the Sri Lankan economy with global markets.

Without doubt Sri Lanka is poised for an era of peace, stability and prosperity. An end to armed conflict, a stable government, a popular and credible presidency and administration; it is a window of opportunity the likes of which this country has not seen in three decades.

Source: Central Bank of Sri Lanka, 2009 Annual Report

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE THIRTEENTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON THURSDAY, 10 JUNE 2010 AT 10:00AM AT THE GRAND BALLROOM, WATERSEDGE, 316, ETHUL KOTTE ROAD, BATTARAMULLA.

1. To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2009 and the Auditors' Report thereon.
2. To re-elect as a Director, **Dato' Yusof Annuar bin Yaacob** who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.
3. To re-elect as a Director, **Mr. Azwan Khan bin Osman Khan** who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.
4. To re-elect as a Director, **Mr. Moksevi Rasingh Prelis**, who attained the age of 73 years on 2 July 2009 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.**
5. To re-elect as a Director, **Mr. Jayantha Cudah Bandara Dhanapala,** who attained the age of 71 years on 30 December 2009 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.**
6. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.
7. To authorise the Directors to determine and make donations.
8. To consider and adopt the following resolution as a special resolution :

   (a) THAT the name of the Company be changed to "Dialog Axiata PLC"
9. To consider any other business of which due notice has been given.

By Order of the Board

Ms. Viranthi Attygalle
Company Secretary
30 April 2010
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.

iv) 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...
(holder of NIC/ Passport/ Company registration No/s...)
of...being a shareholder/s of
Dialog Telekom PLC, hereby appoint ....
....
(holder of NIC/ Passport No/s...)
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 in accordance with the preference as indicated below at the Thirteenth Annual General Meeting of the Company to be held on **10 June 2010** at 10:00AM and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
Resolution 1		
To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2009 and the Auditors' Report thereon.		
Resolution 2		
To re-elect as a Director, Dato' Yusof Annuar bin Yaacob who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.		
Resolution 3		
To re-elect as a Director, Mr. Azwan Khan bin Osman Khan who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.		
Resolution 4		
To re-elect as a Director, Mr. Moksevi Rasingh Prelis, who attained the age of 73 years on 2 July 2009 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 5		
To re-elect as a Director, Mr. Jayantha Cudah Bandara Dhanapala, who attained the age of 71 years on 30 December 2009 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 6		
To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.		
Resolution 7		
To authorise the Directors to determine and make donations.		
Resolution 8		
To consider and adopt the following resolution as a special resolution : **(a) THAT the name of the Company be changed to "Dialog Axiata PLC"**		

(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 .... 2010..

Signature/s of Shareholder/s

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

Notes

Notes

Dialog Telekom PLC
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Colombo 02,
Sri Lanka.
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F + 94 (0) 11 2 669 701
W www.dialog.lk

Dialog Telekom PLC Annual Report 2009

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