

DIALOG TELEKOM LIMITED

Income statement

(all amounts in Sri Lanka Rupees Thousands)

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2006	2005	2006	2005
	Audited	Audited	Audited	Audited
Turnover	25,679,492	18,034,397	25,149,307	18,034,397
Direct costs	(8,821,778)	(6,213,808)	(8,536,151)	(6,213,808)
Gross margin	16,857,714	11,820,589	16,613,156	11,820,589
Other operating income	123,322	53,271	83,489	53,271
Administrative expenses	(3,064,260)	(2,222,031)	(2,981,573)	(2,222,031)
Distribution costs	(3,066,000)	(2,334,944)	(3,057,288)	(2,334,944)
Operating profit	10,850,776	7,316,885	10,657,784	7,316,885
Finance cost	(657,309)	(263,065)	(552,911)	(263,065)
Profit before tax	10,193,467	7,053,820	10,104,873	7,053,820
Tax	(74,574)	(41,949)	(56,207)	(41,949)
Profit for the year	10,118,893	7,011,871	10,048,666	7,011,871
Attributable to:				
Equity holders of the Company	10,118,893			
Minority interest	-			
	10,118,893			

Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Rs. per share)

- basic	1.40	1.15	1.39	1.15
Par value per Ordinary share (Rs.)	1	1	1	1

DIALOG TELEKOM LIMITED

Income statement

(all amounts in Sri Lanka Rupees Thousands)

	Group 3 Months ended 31 December		Company 3 Months ended 31 December	
	2006	2005	2006	2005
Turnover	6,789,119	5,221,699	6,649,222	5,221,699
Direct costs	(2,295,801)	(1,968,031)	(2,204,257)	(1,968,031)
Gross margin	4,493,318	3,253,668	4,444,965	3,253,668
Other operating income	40,505	13,033	21,035	13,033
Administrative expenses	(966,535)	(694,957)	(907,682)	(694,957)
Distribution costs	(764,448)	(604,247)	(765,110)	(604,247)
Operating profit	2,802,840	1,967,497	2,793,208	1,967,497
Finance cost	(241,580)	(90,693)	(218,065)	(90,693)
Profit before tax	2,561,260	1,876,804	2,575,143	1,876,804
Tax	8,689	(11,586)	14,530	(11,586)
Profit for the period	2,569,949	1,865,218	2,589,673	1,865,218
Attributable to:				
Equity holders of the Company	2,569,949			
Minority interest	-			
	2,569,949			

Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Rs. per share)

- basic	0.36	0.26	0.36	0.26
Par value per Ordinary share (Rs.)	1	1	1	1

DIALOG TELEKOM LIMITED

Balance sheet

(all amounts in Sri Lanka Rupees Thousands)

	Group		Company	
	31 December		31 December	
	2006	2005	2006	2005
	Audited	Audited	Audited	Audited
ASSETS				
Non - current assets				
Property, plant and equipment	30,031,500	20,801,836	28,029,423	19,598,958
Intangible assets	3,602,737	1,628,305	1,004,362	348,448
Investment in subsidiaries	Nil	Nil	2,295,844	1,970,764
	33,634,237	22,430,141	31,329,629	21,918,170
Current assets				
Inventories	580,215	350,495	519,063	350,495
Receivables and prepayments	6,910,094	3,726,080	7,709,931	3,494,222
Cash and cash equivalents	2,301,422	6,689,919	2,237,455	6,624,188
	9,791,731	10,766,494	10,466,449	10,468,905
Total assets	43,425,968	33,196,635	41,796,078	32,387,075
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares	7,403,435	7,403,435	7,403,435	7,403,435
Share premium	5,276,943	5,276,943	5,276,943	5,276,943
ESOS Trust shares	(1,925,226)	(2,385,320)	(1,925,226)	(2,385,320)
Revaluation reserve	20,840	4,896	20,840	4,896
Retained earnings	14,206,808	6,900,917	14,136,581	6,900,917
	24,982,800	17,200,871	24,912,573	17,200,871
Minority interest	(72)	Nil	Nil	Nil
Total equity	24,982,728	17,200,871	24,912,573	17,200,871
LIABILITIES				
Non - current liabilities				
Subscription in advance	1,235	Nil	1,235	Nil
Borrowings	8,144,513	9,048,749	7,425,116	8,913,470
Deferred tax liability	39,717	Nil	39,717	Nil
Retirement benefit obligations	111,997	81,833	102,635	75,190
	8,297,462	9,130,582	7,568,703	8,988,660
Current liabilities				
Trade and other payables	8,866,127	5,214,388	8,213,206	5,099,826
Current tax liabilities	63,491	35,760	44,624	35,760
Borrowings	1,216,160	1,615,034	1,056,972	1,061,958
	10,145,778	6,865,182	9,314,802	6,197,544
Total liabilities	18,443,240	15,995,764	16,883,505	15,186,204
Total equity and liabilities	43,425,968	33,196,635	41,796,078	32,387,075
Net Asset per share (Rs)	3.38	2.32	3.37	2.32

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

These financial statements were approved by the Board on 15 February 2007.

Signed

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

Signed

M.R.Prelis
Director

The notes on page 6 form an integral part of these financial statements.

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DIALOG TELEKOM LIMITED

Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Group	Attributable to equity holders of the Company						Minority Interest	Total Equity
	Ordinary share capital	Preference share capital	Share Premium	Shares in trust	Revaluation reserve	Retained earnings		
Balance as at 1 January 2005	370,000	1,268,979	Nil	Nil	4,896	7,068,281	Nil	8,712,156
Net profit	Nil	Nil	Nil	Nil	Nil	7,011,871	Nil	7,011,871
Dividend Paid	Nil	Nil	Nil	Nil	Nil	(2,858,936)	Nil	(2,858,936)
Conversion of Preference shares to ordinary shares	1,903,468	(1,903,468)	Nil	Nil	Nil	Nil	Nil	Nil
Premium on preference shares conversion	Nil	634,489	Nil	Nil	Nil	(634,489)	Nil	Nil
Bonus share issue	3,685,810	Nil	Nil	Nil	Nil	(3,685,810)	Nil	Nil
Share issue against subscription in advance	954,190	Nil	Nil	Nil	Nil	Nil	Nil	954,190
New issue of shares - IPO	489,967	Nil	5,389,634	Nil	Nil	Nil	Nil	5,879,601
IPO cost setoff	Nil	Nil	(112,691)	Nil	Nil	Nil	Nil	(112,691)
Purchase shares - ESOS	Nil	Nil	Nil	(2,398,713)	Nil	Nil	Nil	(2,398,713)
Shares exercised - ESOS	Nil	Nil	Nil	13,393	Nil	Nil	Nil	13,393
Balance at 31 December 2005	7,403,435	Nil	5,276,943	(2,385,320)	4,896	6,900,917	Nil	17,200,871
Balance as at 1 January 2006	7,403,435	Nil	5,276,943	(2,385,320)	4,896	6,900,917	Nil	17,200,871
Net profit	Nil	Nil	Nil	Nil	Nil	10,118,893	Nil	10,118,893
Dividend paid	Nil	Nil	Nil	Nil	Nil	(2,813,305)	Nil	(2,813,305)
Revaluation of buildings	Nil	Nil	Nil	Nil	16,247	Nil	Nil	16,247
Depreciation transfer	Nil	Nil	Nil	Nil	(303)	303	Nil	Nil
Shares exercised - ESOS	Nil	Nil	Nil	461,329	Nil	Nil	Nil	461,329
Subscription in advance - ESOS	Nil	Nil	Nil	(1,235)	Nil	Nil	Nil	(1,235)
Minority interest arising on business acquisition	Nil	Nil	Nil	Nil	Nil	Nil	(72)	(72)
Balance as at 31 December 2006	7,403,435	Nil	5,276,943	(1,925,226)	20,840	14,206,808	(72)	24,982,728
Company	Ordinary share capital	Preference share capital	Share Premium	Shares in trust	Revaluation reserve	Retained earnings	Total Equity	
	Ordinary share capital	Preference share capital	Share Premium	Shares in trust	Revaluation reserve	Retained earnings	Total Equity	
Balance as at 1 January 2005	370,000	1,268,979	Nil	Nil	4,896	7,068,281	Nil	8,712,156
Net profit	Nil	Nil	Nil	Nil	Nil	7,011,871	Nil	7,011,871
Dividend Paid	Nil	Nil	Nil	Nil	Nil	(2,858,936)	Nil	(2,858,936)
Conversion of Preference shares to ordinary shares	1,903,468	(1,903,468)	Nil	Nil	Nil	Nil	Nil	Nil
Premium on preference shares conversion	Nil	634,489	Nil	Nil	Nil	(634,489)	Nil	Nil
Bonus share issue	3,685,810	Nil	Nil	Nil	Nil	(3,685,810)	Nil	Nil
Share issue against subscription in advance	954,190	Nil	Nil	Nil	Nil	Nil	Nil	954,190
New issue of shares - IPO	489,967	Nil	5,389,634	Nil	Nil	Nil	Nil	5,879,601
IPO cost setoff	Nil	Nil	(112,691)	Nil	Nil	Nil	Nil	(112,691)
Purchase shares - ESOS	Nil	Nil	Nil	(2,398,713)	Nil	Nil	Nil	(2,398,713)
Shares exercised - ESOS	Nil	Nil	Nil	13,393	Nil	Nil	Nil	13,393
Balance at 31 December 2005	7,403,435	Nil	5,276,943	(2,385,320)	4,896	6,900,917	Nil	17,200,871
Balance as at 1 January 2006	7,403,435	Nil	5,276,943	(2,385,320)	4,896	6,900,917	Nil	17,200,871
Net profit	Nil	Nil	Nil	Nil	Nil	10,048,666	Nil	10,048,666
Dividend paid	Nil	Nil	Nil	Nil	Nil	(2,813,305)	Nil	(2,813,305)
Revaluation of buildings	Nil	Nil	Nil	Nil	16,247	Nil	Nil	16,247
Depreciation transfer	Nil	Nil	Nil	Nil	(303)	303	Nil	Nil
Shares exercised - ESOS	Nil	Nil	Nil	461,329	Nil	Nil	Nil	461,329
Subscription in advance - ESOS	Nil	Nil	Nil	(1,235)	Nil	Nil	Nil	(1,235)
Balance as at 31 December 2006	7,403,435	Nil	5,276,943	(1,925,226)	20,840	14,136,581	Nil	24,912,573

The notes on page 6 form an integral part of these financial statements.

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DIALOG TELEKOM LIMITED

Cash Flow Statement

(all amounts in Sri Lanka Rupees Thousands)

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2006	2005	2006	2005
	Audited	Audited	Audited	Audited
Cash flows from operating activities				
Cash generated from operations	12,635,022	9,289,937	12,448,014	9,289,937
Interest received	246,696	165,092	242,296	165,092
Interest paid	(729,757)	(403,476)	(633,630)	(403,476)
Tax paid	(7,961)	(39,042)	(7,626)	(39,042)
Retirement benefit obligations paid	(3,804)	(989)	(3,022)	(989)
Net cash generated from operating activities	12,140,196	9,011,522	12,046,032	9,011,522
Cash flows from investing activities				
Purchase of property, plant and equipment	(151,038)	(2,043,143)	(106,895)	(2,043,143)
Purchase of intangible assets	(1,094,329)	(463,013)	(537,758)	(463,013)
Loans granted to subsidiaries	Nil	Nil	(913,596)	Nil
Expenditure incurred on capital work-in-progress	(11,135,830)	(6,162,170)	(11,135,830)	(6,162,170)
Acquisition of subsidiary, net of cash acquired	(849,444)	(1,441,026)	(325,080)	(1,506,509)
Proceeds from sale of property, plant and equipment	18,735	35,926	15,314	35,926
Net cash used in investing activities	(13,211,906)	(10,073,426)	(13,003,845)	(10,138,909)
Cash flows from financing activities				
Proceed from issue of shares	Nil	489,967	Nil	489,967
Receipts from exercising ESOS shares	460,095	13,393	460,095	13,393
Subscription in advance for Employee Share Option Scheme (ESOS) shares	1,235	Nil	1,235	Nil
Proceeds from share premium on issue of shares	Nil	5,389,634	Nil	5,389,634
IPO cost set off	Nil	(112,691)	Nil	(112,691)
Repayment of subscription in advance	Nil	(2,460,000)	Nil	(2,460,000)
Payment to Employee Share Option Scheme Trust (ESOST)	Nil	(2,398,713)	Nil	(2,398,713)
Repayment of finance leases	(22,718)	(21,882)	(19,260)	(21,882)
Repayment of long term borrowings	(1,201,304)	(520,582)	(1,057,685)	(520,582)
Proceeds from long term borrowings	142,700	7,061,050	Nil	7,061,050
Dividend paid	(2,813,305)	(2,858,936)	(2,813,305)	(2,858,936)
Net cash (used in) / generated from financing activities	(3,433,297)	4,581,240	(3,428,920)	4,581,240
Net (decrease) / increase in cash and cash equivalents	(4,505,007)	3,519,336	(4,386,733)	3,453,853
Movement in cash and cash equivalents				
At start of year	6,689,671	3,170,335	6,624,188	3,170,335
(Decrease) / increase	(4,505,007)	3,519,336	(4,386,733)	3,453,853
At end of year	2,184,664	6,689,671	2,237,455	6,624,188

DIALOG TELEKOM LIMITED

Notes to the Financial Statements

1. Market Price per Share

For the three months ended 31st December

	2006 Rs.	2005 Rs.
- Highest	29.75	22.50
- Lowest	21.50	15.00
- Last Traded	26.50	16.50

2. Accounting policies

The consolidated financial statements of Dialog Telekom Limited for the year ended 31 December 2006 have been prepared under the historical cost convention and are in accordance with Generally Accepted Accounting Principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

The accounting policies have been followed consistently from one accounting period to another. There have been no significant changes in the accounting policies adopted during the year ended 31 December 2006.

3. Acquisition of Communiq Broadband Networks (Private) Limited and CBN Sat (Private) Limited (CBN Sat)

On the 2 December 2006, Asset Media (Private) Limited, a subsidiary of Dialog Telekom Limited, acquired a 100% stake in Communiq Broadband Networks (Private) Limited and CBN Sat (Private) Limited, for a purchase consideration of Rs. 762.40 million.

4. Earnings per Ordinary Shares (EPS)

For the purpose of calculating the basic earnings per ordinary shares for the period ended 31 December 2006, the weighted average number of ordinary shares has been determined as follows:

Description	Number of shares
Ordinary shares as at 01/01/06	7,403,434,913
Less: ESOS Shares	(160,435,462)
Weighted average number of shares exercised & issued to the employees for the period January'06 to December'06 (Weighted based on the month in which the shares were exercised)	16,677,714
Weighted average number of shares	7,221,335,936

For the year ended 31 December 2005, the weighted average number of ordinary shares has been determined as follows:

Description	Number of shares (after adjusting for the share split)	Number of months
Ordinary shares as at 01/01/05	370,000,000	12
Bonus shares issued	3,685,810,000	12
Retained profits capitalised	634,489,380	12
Conversion of Preference shares in May '05	1,268,979,000	7
Capitalisation of Subscription in Advance in May '05	954,190,000	7
Total new share issued July '05	489,966,723	5
Total new share issued for the ESOS Trust July '05	(199,892,741)	5
Weighted average number of shares	6,108,011,743	

DIALOG TELEKOM LIMITED

Notes to the Financial Statements (Contd)

5. Trade and Other receivables

	Group		Company	
	2006	2005	2006	2005
Trade receivables	2,802,786	2,195,064	2,624,857	2,136,445
Prepayments	211,722	166,306	194,562	153,560
Amount due from parent company	Nil	1,000	Nil	1,000
Amounts due from related companies	Nil	105,748	1,148,581	8,683
Other receivables	3,895,586	1,257,962	3,741,931	1,194,534
	6,910,094	3,726,080	7,709,931	3,494,222

6. Trade and other payables

	Group		Company	
	2006	2005	2006	2005
Trade payables	5,326,906	857,074	5,074,313	857,074
Amount due to parent company	41,208	259,680	41,208	259,680
Amount due to related companies	149,890	305,798	185,835	255,534
Accrued expenses	1,283,704	2,428,739	1,219,761	2,408,175
Customer deposits	1,421,870	1,068,072	1,384,238	1,034,520
Other payables	642,549	295,025	307,851	284,843
	8,866,127	5,214,388	8,213,206	5,099,826

7. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2006	2005	2006	2005
Profit before tax	10,193,467	7,053,820	10,104,873	7,053,820
Adjustments for:				
Exchange loss on borrowings	88,817	14,380	88,817	14,380
Profit on sale of property, plant and equipment	(9,644)	(1,604)	(8,001)	(1,604)
Interest expense	739,472	366,673	636,803	366,673
Interest income	(254,171)	(171,732)	(249,770)	(171,732)
Depreciation, dismantling and impairment	2,735,602	1,953,873	2,597,450	1,953,873
Depreciation of internally reclassified assets	Nil	(13,991)	Nil	(13,991)
Amortisation	237,653	198,436	190,106	198,436
Amortisation of internally reclassified assets	Nil	14,171	Nil	14,171
Retirement benefit obligation	33,224	27,682	30,467	27,682
Amortization on fair valued intangibles	43,621	Nil	Nil	Nil
Changes in working capital				
- trade and other receivables	(3,348,569)	(1,219,302)	(3,294,638)	(1,219,302)
- inventories	(189,881)	(121,086)	(168,567)	(121,086)
- payables	2,365,431	1,188,617	2,520,474	1,188,617
Cash generated from operations	12,635,022	9,289,937	12,448,014	9,289,937