

Dialog

TELEKOM

A **TM** Company

Investor Forum

First-half 2006



Agenda

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Highlights – 1H2006

Key Financials

	Units	Six months ended 30 June		
		2006 Group	2006 Company	2005 Company
Revenue	Rs.Mn	12,280	12,031	8,138
EBITDA	Rs.Mn	6,596	6,395	4,538
Profit after Tax	Rs.Mn	4,933	4,885	3,446
EPS	Rs.	0.684	0.678	0.681

Key Financials

		Six months ended 30 June		
		2006 Group	2006 Company	2005 Company
Revenue	US\$ Mn	118	116	81
EBITDA	US\$ Mn	63	61	45
Profit after Tax	US\$ Mn	47	47	34
EPS	US\$	0.0066	0.0065	0.0068

Highlights – 1H2006

Subscriber Base

		Six months ended 30 June	
		2006	2005
		Company	
Total New Additions (Net)	000s	439	382
		As at 30 June	
		2006	2005
Total Active Subscriber Base	000s	2,562	1,757

Operational Results

		Six months ended 30 June	
		2006	2005
		Company	
Blended ARPU	Rs.	668	706
Annualised Churn	%	12.38*	5.63

*1H 06 Company initiated churn accounts for 84% of overall churn

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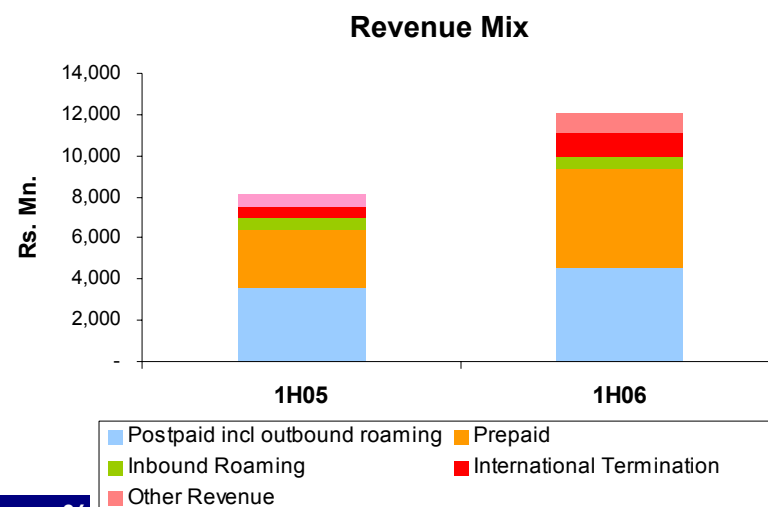
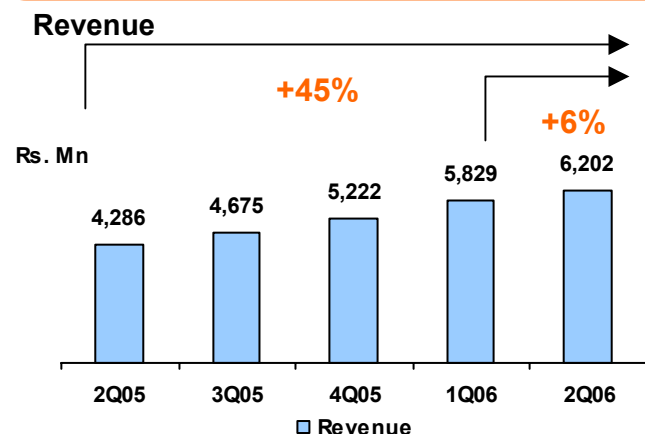
P&L Highlights

- Group 2Q06 results is after deduction of subsidiary's exceptional cost items in 2Q06.

(All figures in Rs. Mn. except for ratios)	Three Months Ended 30 June			Six Months Ended 30 June		
	2006	2006	2005	2006	2006	2005
	Group	Company	Company	Group	Company	Company
Revenue	6,327	6,202	4,286	12,280	12,031	8,138
Growth (%)	48	45		51	48	
Direct Costs	2,190	2,085	1,274	4,271	4,151	2,595
Growth (%)	72	64		65	60	
Gross Profit	4,137	4,117	3,012	8,009	7,879	5,544
Growth (%)	37	37		44	42	
Gross Margin (%)	65	66	70	65	65	68
OPEX	1,450	1,429	1,177	2,777	2,747	1,985
Growth (%)	23	21		40	38	
EBITDA	3,395	3,325	2,347	6,596	6,395	4,538
Growth (%)	45	42		45	41	
EBITDA Margin (%)	54	54	55	54	53	56
PBT	2,571	2,608	1,735	4,998	4,950	3,475
Growth (%)	48	50		44	42	
PAT	2,536	2,574	1,724	4,933	4,885	3,446
Growth (%)	47	49		43	42	
PAT Margin (%)	40	42	40	40	41	42

Revenue Growth

- Steady growth in revenue– **48** per cent increase over 1H05
- Prepaid revenue becomes the dominant contributor to revenue with **40** per cent share
- Termination revenue increased by **93** per cent
- Non voice revenues continue to increase. SMS revenue accounts for approx. **6** per cent of total revenue in 1H06, and Non-SMS Data Revenue accounts for approx. **1** percent of Total Revenue .

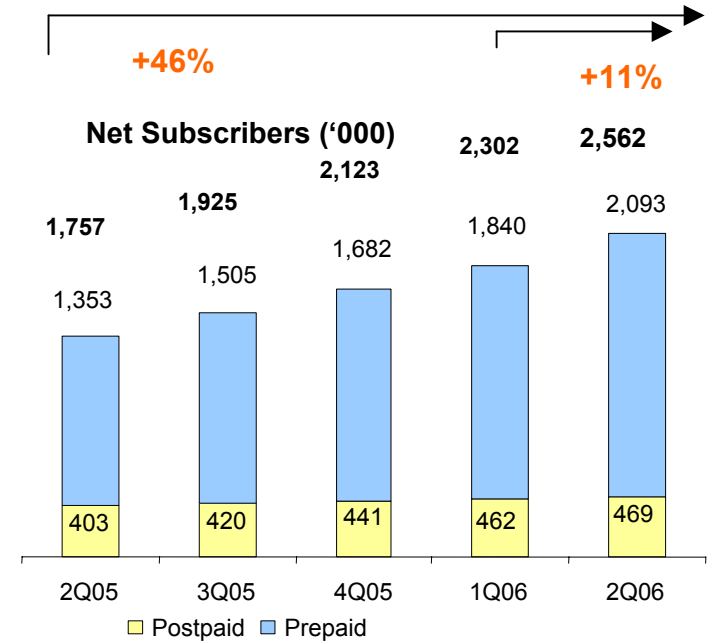


Total Revenue(in Rs. Mn)

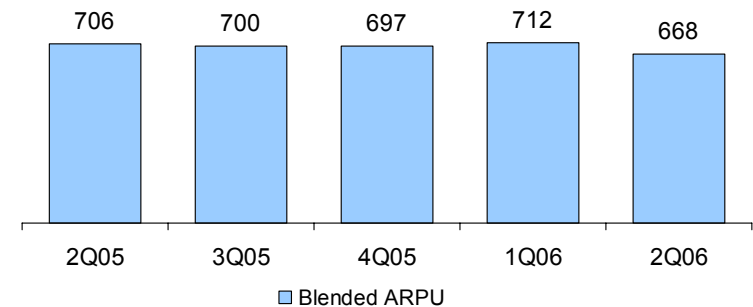
Revenue Composition	1H05	%	1H06	%	Change %
Postpaid incl outbound roaming	3,547	44	4,566	38	29
Prepaid	2,828	35	4,826	40	71
Inbound Roaming	616	8	594	5	(4)
International Termination	568	7	1,098	9	93
Other Revenue	582	6	950	8	62
Total Revenue	8,142	100	12,034	100	48

Revenue Drivers

- Market leadership with sustained growth in subscribers (**46 per cent YoY**)
- Pre/post mix:82:18
- Coverage and Quality of Service Improvements
- Blended ARPU down 5 per cent with subscriber base more skewed towards prepaid



Blended ARPU (Rs.)



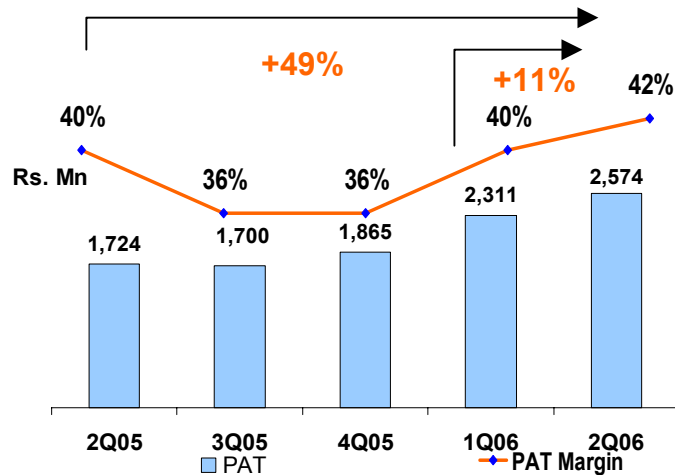
Super 5 Friends + 2 ADD



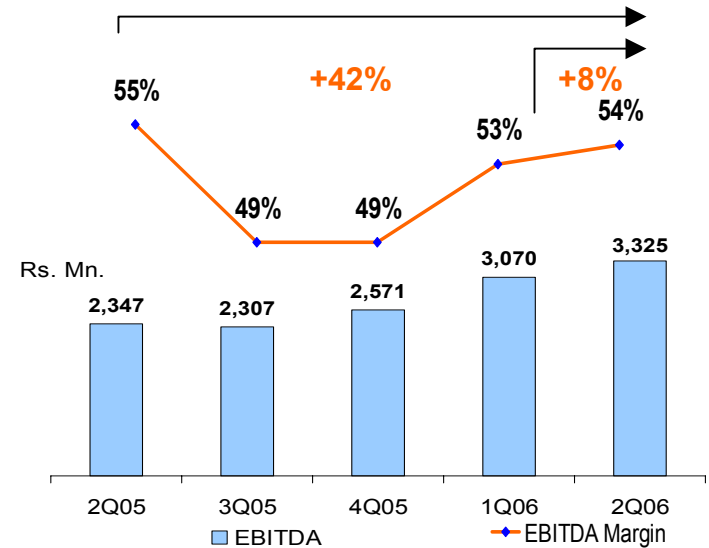
Healthy EBITDA and PAT Margins

- The spill over effect from exceptional inbound roaming revenues in the aftermath of tsunami for 1Q05, have contributed to higher margins in the 1H05 when compared to 1H06.
- The growth in contribution of the lower margin international termination revenue stream has also contributed towards the slight erosion of the overall margins.

PAT (Rs. Mn.)

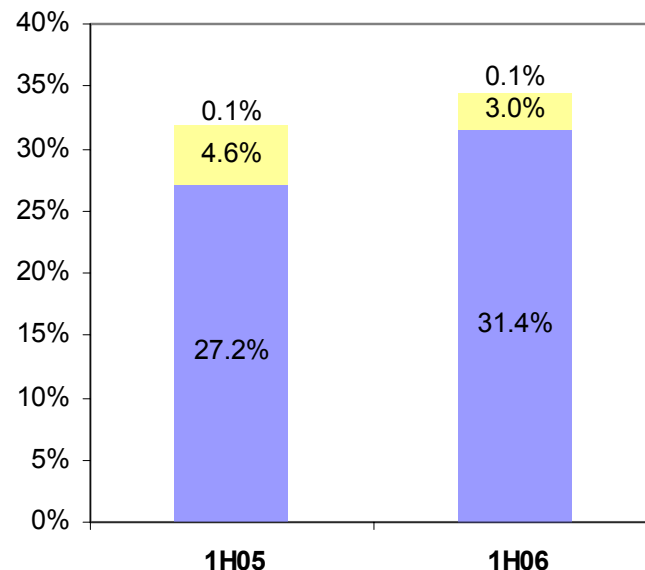
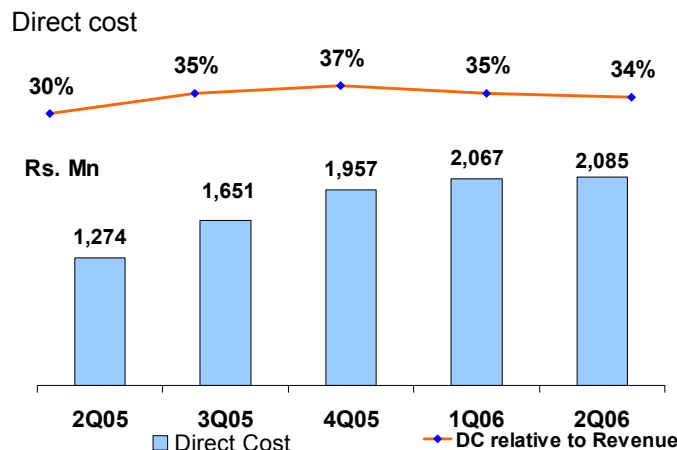


EBITDA (Rs. Mn.)



Direct Costs

- Direct costs relative to revenue has improved by 1 point relative to performance in the immediately preceding quarter – (1Q06).



Legend: Network related (Blue), Customer related (Yellow), Others (Purple)

(All figures in Rs. Mn.)	1H 05	%	1H 06	%	Change %
Network Related Costs	2,213	85.3	3,779	91.0	71
As a % of Revenue	27.20		31.41		
Customer Related Costs	377	14.5	358	8.6	-5
As a % of Revenue	4.60		2.98		
Others	5	0.2	14	0.3	154
As a % of Revenue	0.07		0.11		
Total Direct Cost	2,595	100	4,151	100	60
As a % of Revenue	32.00		35.00		

- Network Related Costs as a % of Revenue is expected to revert back close to historical levels during the 2H06. Maintenance contract renegotiations concluded recently with notable concessions

Network Costs

(All figures in Rs. Mn.)	1H05	% of Revenue	1H06	% of Revenue
Net Revenue	8,138		12,031	
Network Related Costs				
Lease Circuit Rental	167	2.1%	175	1.5%
International Telecommunication Levy	208	2.6%	423	3.5%
Telecom equipment depreciation	757	9.3%	1,113	9.2%
International Origination Cost	191	2.3%	299	2.5%
Roaming expenditure	227	2.8%	312	2.6%
Other network costs	663	8.1%	1,456	12.1%
Total	2,213	27.2%	3,779	31.4%

*International Telecommunication Levy

- Enacted by Parliament in October 2004 - Finance Act, No 11 of 2004
- Imposed with retrospective effect dating back to March 2003 with the Liberalization of International Services via Special direction by the Minister of Telecommunications dated 21/ 02/03
- The amount to be paid under the levy for a terminated international minute

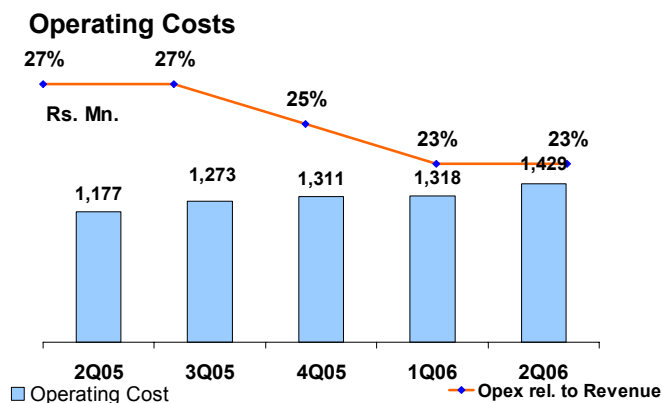
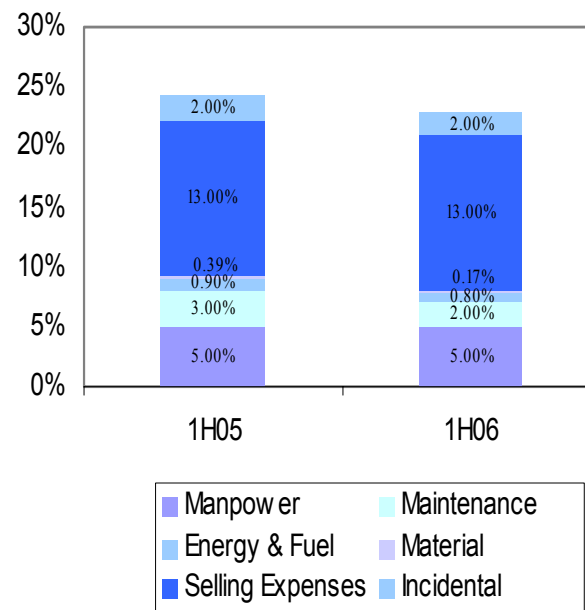
Figures in US Cents	From 04/2004
Incoming Local Access Fee	5.20
Contribution to Vishva Grama Fund	3.80
Total Network Contribution	9.00

- Regulator to determine a refund of a part of this levy as compensation for rural network development.
- Any such refund would be reflected as a cost reversal at a future date -has not been taken in to account at this stage.
- **PAT for 1H 06 is stated after provisioning for ITL –Rs 423 Mn**
 - of this, Rs 348 Mn has been settled as of date.

Operating Costs

- Opex as a percentage of revenue improved by 1 percentage point over 1H05

(All figures in Rs. Mn.)	1H05	%	1H06	%	Change %
Selling Expenses	1,019	51	1,506	55	48
As a % of Revenue	13		13		
Manpower	427	22	655	24	53
As a % of Revenue	5		5		
Maintenance	272	14	185	7	(32)
As a % of Revenue	3		2		
Energy & Fuel	74	4	91	3	23
As a % of Revenue	0.9		0.8		
Material	32	1	21	1	(35)
As a % of Revenue	0.39		0.17		
Incidental	161	8	289	11	80
As a % of Revenue	2		2		
Total Operating Expenses	1,985	100	2,747	100	38
As a % of Revenue	24		23		



- Downward trend in Opex maintained.

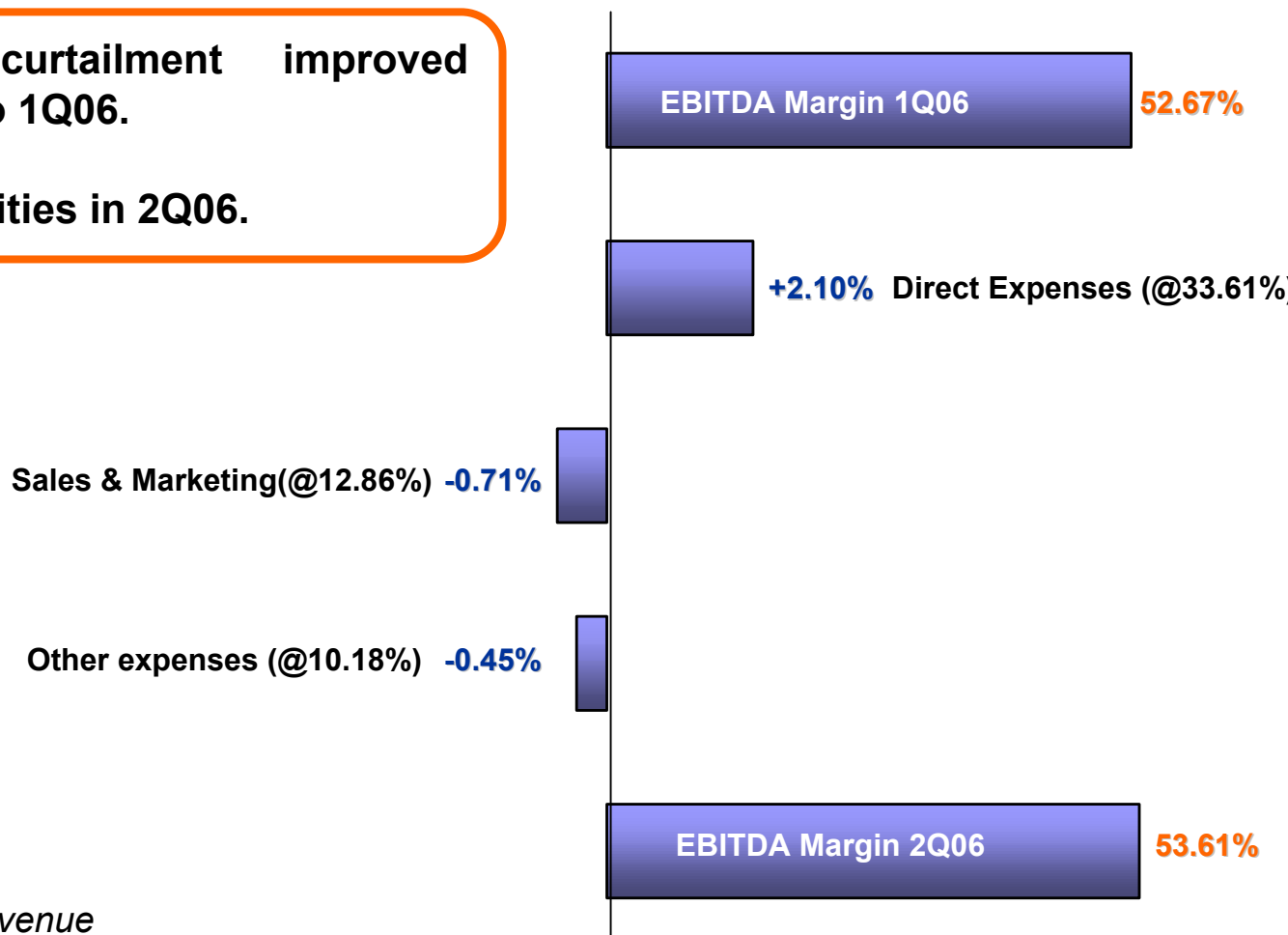
Selling Expenses

- Selling Expenses maintained below 13 per cent of Revenue despite growth in Subscriber additions over 1H05

<i>(All figures in Rs. Mn.)</i>	1H05 % of Revenue		1H06 % of Revenue	
Net Revenue	8,138		12,031	
Selling expenses:				
Sales Commission	562	6.91%	739	6.14%
Advertising	159	1.96%	204	1.70%
Sales Promotion	87	1.07%	171	1.42%
Others	211	2.59%	392	3.26%
Total	1,019	12.53%	1,506	12.52%

EBITDA Margin analysis

- Direct Expense curtailment improved EBITDA compared to 1Q06.
- Increased S&M activities in 2Q06.



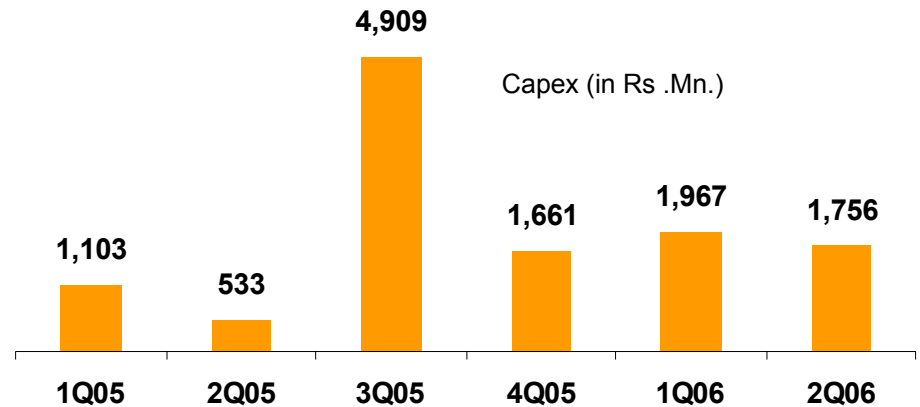
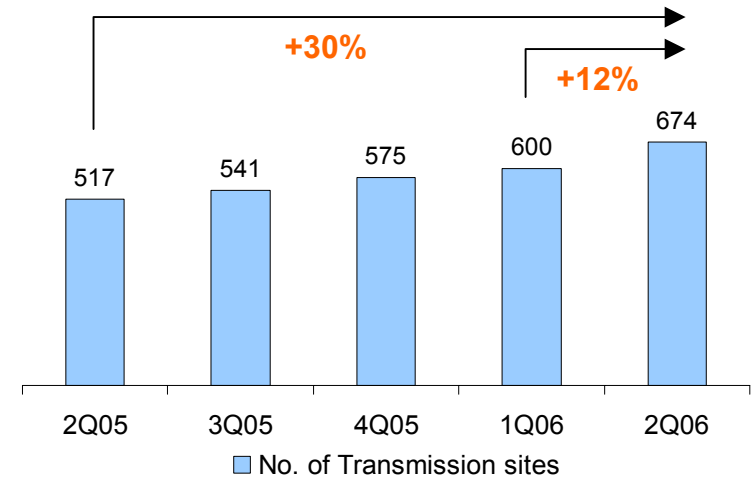
Balance Sheet

- Balance Sheet remains healthy.
- Net Assets per share have improved.

(All figures in Rs. Mn.)	30 June 2006		31 Dec 2005
	Group	Company	Company
Non - current assets			
Property, plant and equipment	22,579	21,372	18,986
Intangible assets	1,676	455	348
Investment in subsidiary	0	1,971	1,971
	24,255	23,798	21,305
Current assets			
Inventories	1,127	1,127	964
Receivables and prepayments	6,602	6,343	3,494
Cash and cash equivalents	4,516	4,415	6,624
	12,245	11,885	11,082
Total assets	36,500	35,683	32,387
Capital and reserves			
Ordinary shares	7,403	7,403	7,403
ESOS Trust shares	(2,145)	(2,145)	(2,385)
Share premium	5,277	5,277	5,277
Revaluation reserve	5	5	5
Dividend Reserve	70	70	0
Retained earnings	9,020	8,973	6,901
	19,631	19,583	17,201
Non - current liabilities			
Subscription in advance	0.4	0.4	Nil
Borrowings	7,206	6,570	8,913
Deferred Tax Liability	29	29	Nil
Retirement benefit obligations	89	89	75
	7,324	6,688	8,989
Current liabilities			
Trade and other payables	8,490	8,386	5,100
Current tax liabilities	70	70	36
Borrowings	984	954	1,062
	9,544	9,411	6,198
Total liabilities	16,869	16,100	15,186
Total equity and liabilities	36,500	35,683	32,387
Net Asset per share (Rs)	2.652	2.645	2.323

Capex Trend

- Continued investment in Network Infrastructure - Rs **1.76 Bn** in 2Q06
- Capex to intensify in 2H06
- Equal focus on coverage and capacity



Cash Flow Highlights

- Strong cash flows. Net Cashflows from operating activities up **39** per cent compared to 1H05.

(All figures in Rs.Mn)	Six Months ended 30 June	
	2006	2005
	Company	
Net cash from operating activities	4,602	3,322
Net cash used in investing activities	(3,749)	(1,628)
Net cash used in financing activities	(3,062)	(2,425)
Increase/(decrease) in cash and cash equivalents	(2,209)	(732)
Movement in cash and cash equivalents		
At start of year	6,624	3,170
Increase/(decrease)	(2,209)	(732)
At end of year	4,415	2,438

Reconciliation of Cash generated from Operations

(All figures in Rs. Mn.)

Six months ended 30 June
2006 2005
Company

Profit before Tax	4,950	3,475
Adjustments for:		
Interest Expenses	128	69
Depreciation	1,185	896
Amortisation	77	84
Retirement Benefit Obligation	15	12
Other Adjustments* (incl. Changes in WC, exchange diff, Profit on sale of FA)	(1,648)	(1,094)
Cash Generated from Operations	4,707	3,441

*Other adjustments include net VAT payments of Rs. **1.02** Bn paid to the Department of Inland Revenue

Lenders

- IFC – 1st capital repayment made in June 06.

(All figures in US \$ Mn.)	Facility Type			Period		Outstanding as at 30 June 2006
	USD	SLR	Total	<12 months	> 12 months	
Citi/Commercial Syndicated loan	4.20	16.80	21.00	2.02	7.65	9.67
Standard Chartered Bank	-	25.00	25.00	-	24.06	24.06
International Finance Corporation	30.00	-	30.00	2.50	11.25	13.75
HSBC	-	25.00	25.00	4.81	14.21	19.02
Total	34.20	66.80	101.00	9.32	57.18	66.50

(An agreement was signed with IFC in 2004 for a loan facility of US\$30Mn, with an option of increasing up to US\$50Mn)

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Dialog Broadband Networks (Pvt) Ltd.(DBN)

Revenue, EBITDA and PAT

- For 2Q06, DBN recorded a revenue of Rs. **183.99** Mn which is line with the revenue recorded in 1Q06.
- The **EBITDA** for 2Q06 recorded at Rs. **103.53** Mn is down by Rs. 26.86 Mn relative to 1Q06.
- PAT for 2Q06 was a loss of **Rs 5 Mn** relative to the PAT of Rs 85.2 Mn recorded for 1Q06.
- The adverse performance in profitability was mainly due to a few exceptional costs lines incurred in 2Q06 : asset impairment (envisaged at the time of acquisition), amortisation charge pertaining to the PSTN license and finance cost on term loan accruing from the previous period

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Earnings per Share

Description	Units	Six months ended 30 June	
		2006	2005
Company			
Net Income Applicable to ordinary shares	Rs. Mn	4,885	3,446
Par Value	Rs.	1	10
Ordinary Shares at the beginning	Mn	370	37
Issuance of shares during the period	Mn	7,403	-
Weighted average number of shares			
Ordinary Shares	Mn	7,403	370
Bonus Shares	Mn	-	3,686
Retained Profits Capitalised	Mn	-	634
Conversion of preference shares on 20 May 2005 (1269 Mn shares *1/12)	Mn	-	211
Capitalisation of subscription in advance on 20 May 2005 (954 Mn shares *1/12)	Mn	-	159
Shares exercised and issued to employees	Mn	5	-
Less: ESOS Shares issued	Mn	(199)	-
Weighted average number of shares, end of period	Mn	7,210	5,061
EPS	Rs.	0.678	0.681

KPIs

- Key ratios indicate Financial Flexibility above average return generation

	31 Dec 2005 Company	1H2006 Company
Net tangible assets per share(Rs.)	2.32	2.65
Gearing Ratio (times)	0.37	0.33
Net Debt to EBITDA ratio (times)	0.36	0.42
Total Debt to equity (times)	0.58	0.50
Return on Equity (%)	41	50
Return on Capital Employed (%)	26	33
Earnings per Share (Rs.)	1.15	0.68
Current Ratio (times)	1.79	1.26

[^]1H06 EPS computed for six months earnings only.

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Recent Key Initiatives & Developments



- To reward loyalty and promote Customer retention **Kit 123** was launched. A Dialog KIT Customer can enjoy up to **3 minutes incoming free** based on the number of years on the Dialog network
- Launch of **Star Call** – An **alternative** for text messages in **Sinhala** and **Tamil**.
- People's Bank promotion **a mobile and a connection for only Rs. 475** for People's bank customers with the balance payable in 12 months
- Dialog signed a hallmark investment agreement with Board of Investment (**BOI**) for **US\$ 150 Mn.**
- **Hello** awareness campaign.
- The regulator has indicated that it would offer 3G licenses to all 4 operators (**upto 10MHz of FDD and upto 5MHz of TDD spectrum**). The Company is targeting to Launch 3G commercially in 3Q06 subject to availability of license.
- Expected to obtain **part of the** spectrum cleared in 3Q06 from the regulator to offer Fixed Telephony using the **CDMA** license (Fixed WLL).
- The regulator plans to offer a **fifth mobile** license.

Corporate Governance



- Appointment of **Mr. Mohamed V. Muhsin**, Former Vice President and Chief Information Officer (CIO) of the World Bank Group, as an **Independent Non-Executive Director**.

- Continuing efforts to enhance internal controls over financial reporting as well as to improve quality of other key processes - **quarterly limited reviews** by external auditors and continuous internal audits.

Thank you