

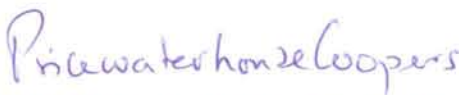
**Independent auditor's review report
To the Directors of Dialog Telekom Plc**

We have reviewed the accompanying balance sheet of Dialog Telekom Plc and its subsidiaries as at 31 December 2009, and the related statements of income and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Sri Lanka Auditing Practice Statement on Audit applicable to review engagements. This guidance requires that we plan and perform the review to obtain moderate assurances as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects in accordance with Sri Lanka Accounting Standards.

12 February 2010
COLOMBO


CHARTERED ACCOUNTANTS

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Balance sheet

(all amounts in Sri Lanka Rupees thousands)

ASSETS

Non-current assets

| | As at 31 December 2009 | | As at 31 December 2008 | |
|-------------------------------|------------------------|------------|------------------------|------------|
| | Group | Company | Group | Company |
| Property, plant and equipment | 55,979,991 | 48,200,679 | 64,698,584 | 56,718,021 |
| Intangible assets | 3,847,177 | 1,387,335 | 3,901,887 | 1,337,747 |
| Investments in subsidiaries | Nil | 10,326,010 | Nil | 8,826,010 |
| Other investments | 29,000 | 29,000 | 16,000 | 16,000 |
| Amounts due from subsidiaries | Nil | 5,823,958 | Nil | 2,779,612 |
| | 59,856,168 | 65,766,982 | 68,616,471 | 69,677,390 |

Current assets

| | | | | |
|-----------------------------|------------|------------|------------|------------|
| Inventories | 211,360 | 207,588 | 602,169 | 592,813 |
| Trade and other receivables | 9,646,493 | 7,101,573 | 10,572,985 | 8,317,913 |
| Current tax receivables | 70 | 70 | Nil | Nil |
| Cash and cash equivalents | 5,295,363 | 5,114,826 | 1,645,866 | 1,544,735 |
| | 15,153,286 | 12,424,057 | 12,821,020 | 10,455,461 |

Total assets

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 75,009,454 | 78,191,039 | 81,437,491 | 80,132,851 |
|--|-------------------|-------------------|-------------------|-------------------|

EQUITY

Capital and reserves attributable to equity holders of the company

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Stated capital | 31,806,113 | 31,806,113 | 32,556,113 | 32,556,113 |
| ESOS Trust shares | (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 | 136,471 | 101,358 | 19,913 | 19,913 |
| (Accumulated losses) / retained earnings | (2,102,401) | 4,481,458 | 10,964,118 | 14,549,916 |
| | 28,109,329 | 34,658,075 | 41,809,290 | 45,395,088 |

LIABILITIES

Non-current liabilities

| | | | | |
|---------------------------------|------------|------------|------------|------------|
| Borrowings | 24,728,797 | 23,989,375 | 13,630,786 | 12,620,802 |
| Deferred income tax liabilities | 1,133,676 | 1,131,288 | 607,437 | 605,992 |
| Retirement benefit obligations | 394,540 | 362,324 | 205,069 | 187,378 |
| Provision for other liabilities | 520,555 | 520,555 | 194,925 | 194,925 |
| Deferred revenue | 215,145 | 215,145 | Nil | Nil |
| | 26,992,713 | 26,218,687 | 14,638,217 | 13,609,097 |

Current liabilities

| | | | | |
|--------------------------------|------------|------------|------------|------------|
| Trade and other payables | 12,668,151 | 11,157,341 | 10,837,032 | 8,420,622 |
| Current income tax liabilities | 2,658 | Nil | 60,506 | 59,590 |
| Borrowings | 7,236,603 | 6,156,936 | 14,092,446 | 12,648,454 |
| | 19,907,412 | 17,314,277 | 24,989,984 | 21,128,666 |

Total liabilities

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 46,900,125 | 43,532,964 | 39,628,201 | 34,737,763 |
|--|-------------------|-------------------|-------------------|-------------------|

Total equity and liabilities

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 75,009,454 | 78,191,039 | 81,437,491 | 80,132,851 |
|--|-------------------|-------------------|-------------------|-------------------|

Net assets per share

| | | | | |
|--|-------------|-------------|-------------|-------------|
| | 3.45 | 4.26 | 5.13 | 5.57 |
|--|-------------|-------------|-------------|-------------|

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

Signed

.....
Lalith Fernando
Acting Group Chief Financial Officer

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.

Signed

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

Signed

.....
M. R. Prelis
Director

The notes on the pages 7 to 12 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income statement

(all amounts in Sri Lanka Rupees thousands)

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

The notes on the pages 7 to 12 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income statement

(all amounts in Sri Lanka Rupees thousands)

| | Three months ended 31 December 2009 | | Three months ended 31 December 2008 | |
|---|--|--------------------|--|--------------------|
| | Group | Company | Group | Company |
| Revenue | 9,574,327 | 8,711,749 | 8,797,656 | 7,952,394 |
| Direct costs | (5,967,973) | (5,001,253) | (6,103,489) | (5,298,888) |
| Gross margin | 3,606,354 | 3,710,496 | 2,694,167 | 2,653,506 |
| Other operating income | 272,483 | 320,414 | 377,964 | 411,765 |
| Administrative expenses | (4,475,769) | (3,806,220) | (3,607,348) | (3,072,587) |
| Distribution costs | (1,348,618) | (1,188,670) | (1,976,227) | (1,659,846) |
| Operating loss | (1,945,550) | (963,980) | (2,511,444) | (1,667,162) |
| Finance costs | (252,549) | (161,192) | (1,258,808) | (1,074,535) |
| Loss before tax | (2,198,099) | (1,125,172) | (3,770,252) | (2,741,697) |
| Tax | (34,895) | (34,662) | (140,090) | (178,608) |
| Loss for the period | (2,232,994) | (1,159,834) | (3,910,342) | (2,920,305) |
| Loss per share for loss attributable to the equity holders of the Company during the year (expressed in Rs per share) | | | | |
| - Basic | (0.28) | (0.15) | (0.54) | (0.41) |
| - Diluted | (0.28) | (0.15) | (0.54) | (0.42) |

The notes on the pages 7 to 12 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statement of changes in equity

(all amounts in Sri Lanka Rupees thousands)

| Group | Not e | Stated Capital | Shares in ESOS trust | Dividend reserve | Revaluation reserve | Retained earnings / (Accumulated losses) | Total |
|---|----------|-------------------|-------------------------|---------------------|------------------------|---|-------------------|
| Balance at 1 January 2008 | | | | | | | |
| As previously reported | | 33,056,413 | (2,000,439) | 172,722 | 20,377 | 19,096,588 | 50,345,661 |
| Prior year adjustment | 6 | Nil | Nil | Nil | Nil | (60,306) | (60,306) |
| As restated | | 33,056,413 | (2,000,439) | 172,722 | 20,377 | 19,036,282 | 50,285,355 |
| Net profit | | Nil | Nil | Nil | Nil | 1,642,975 | 1,642,975 |
| Change in revenue recognition policy of subsidiary | 6 | Nil | Nil | Nil | Nil | (611,974) | (611,974) |
| Redemption of preference shares | | (500,000) | Nil | Nil | Nil | Nil | (500,000) |
| Legal fee on issue of shares | | (300) | Nil | Nil | Nil | Nil | (300) |
| Dividend paid to ordinary shareholders | | Nil | Nil | Nil | Nil | (4,479,078) | (4,479,078) |
| Dividend received ESOS | | Nil | Nil | 87,345 | Nil | Nil | 87,345 |
| Shares exercised - ESOS | | Nil | 9,518 | Nil | Nil | Nil | 9,518 |
| Depreciation transfer | | Nil | Nil | Nil | (348) | 348 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | | Nil | Nil | Nil | Nil | (303,717) | (303,717) |
| Balance at 30 September 2008 | | 32,556,113 | (1,990,921) | 260,067 | 20,029 | 15,284,836 | 46,130,124 |
| Balance at 1 October 2008 | | 32,556,113 | (1,990,921) | 260,067 | 20,029 | 15,284,836 | 46,130,124 |
| Net loss | | Nil | Nil | Nil | Nil | (3,910,342) | (3,910,342) |
| Depreciation transfer | | Nil | Nil | Nil | (116) | 116 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | | Nil | Nil | Nil | Nil | (410,492) | (410,492) |
| Balance at 31 December 2008 | | 32,556,113 | (1,990,921) | 260,067 | 19,913 | 10,964,118 | 41,809,290 |
| Balance 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 | (9,975,229) | (9,975,229) |
| Redemption of preference shares | | (750,000) | Nil | Nil | Nil | Nil | (750,000) |
| Depreciation transfer | | Nil | Nil | Nil | (347) | 347 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | | Nil | Nil | Nil | Nil | (764,308) | (764,308) |
| Balance at 30 September 2009 | | 31,806,113 | (1,990,921) | 260,067 | 19,566 | 224,928 | 30,319,753 |
| Balance at 1 October 2009 | | 31,806,113 | (1,990,921) | 260,067 | 19,566 | 224,928 | 30,319,753 |
| Net loss | | Nil | Nil | Nil | Nil | (2,232,994) | (2,232,994) |
| Surplus arising from Revaluation of land and building | | Nil | Nil | Nil | 157,975 | Nil | 157,975 |
| Deferred tax attributable to revaluation surplus | | Nil | Nil | Nil | (40,954) | Nil | (40,954) |
| Depreciation transfer | | Nil | Nil | Nil | (116) | 116 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | | Nil | Nil | Nil | Nil | (94,451) | (94,451) |
| Balance at 31 December 2009 | | 31,806,113 | (1,990,921) | 260,067 | 136,471 | (2,102,401) | 28,109,329 |

The notes on the pages 7 to 12 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statement of changes in equity

(all amounts in Sri Lanka Rupees thousands)

Company

| | Stated capital | Shares in ESOS trust | Dividend reserve | Revaluation reserve | Retained earnings | Total |
|--|-------------------|-------------------------|---------------------|------------------------|----------------------|-------------------|
| Balance at 1 January 2008 | 33,056,413 | (2,000,439) | 172,722 | 20,377 | 20,130,681 | 51,379,754 |
| Net profit | Nil | Nil | Nil | Nil | 2,532,363 | 2,532,363 |
| Redemption of preference shares | (500,000) | Nil | Nil | Nil | Nil | (500,000) |
| Legal fee on Issue of shares | (300) | Nil | Nil | Nil | Nil | (300) |
| Dividend paid to ordinary shareholders | Nil | Nil | Nil | Nil | (4,479,078) | (4,479,078) |
| Dividend received - ESOS | Nil | Nil | 87,345 | Nil | Nil | 87,345 |
| Shares exercised - ESOS | Nil | 9,518 | Nil | Nil | Nil | 9,518 |
| Depreciation transfer | Nil | Nil | Nil | (348) | 348 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | Nil | Nil | Nil | Nil | (303,717) | (303,717) |
| Balance at 30 September 2008 | 32,556,113 | (1,990,921) | 260,067 | 20,029 | 17,880,597 | 48,725,885 |
| Balance at 1 October 2008 | 32,556,113 | (1,990,921) | 260,067 | 20,029 | 17,880,597 | 48,725,885 |
| Net loss | Nil | Nil | Nil | Nil | (2,920,305) | (2,920,305) |
| Shares exercised - ESOS | Nil | Nil | Nil | Nil | Nil | Nil |
| Depreciation transfer | Nil | Nil | Nil | (116) | 116 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | Nil | Nil | Nil | Nil | (410,492) | (410,492) |
| Balance at 31 December 2008 | 32,556,113 | (1,990,921) | 260,067 | 19,913 | 14,549,916 | 45,395,088 |
| Balance 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 | (8,050,328) | (8,050,328) |
| Redemption of preference shares | (750,000) | Nil | Nil | Nil | Nil | (750,000) |
| Depreciation transfer | Nil | Nil | Nil | (347) | 347 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | Nil | Nil | Nil | Nil | (764,307) | (764,307) |
| Balance at 30 September 2009 | 31,806,113 | (1,990,921) | 260,067 | 19,566 | 5,735,628 | 35,830,453 |
| Balance at 1 October 2009 | 31,806,113 | (1,990,921) | 260,067 | 19,566 | 5,735,628 | 35,830,453 |
| Net loss | Nil | Nil | Nil | Nil | (1,159,834) | (1,159,834) |
| Surplus arising from Revaluation of land and building | Nil | Nil | Nil | 122,862 | Nil | 122,862 |
| Deferred tax attributable to revaluation surplus | Nil | Nil | Nil | (40,954) | Nil | (40,954) |
| Depreciation transfer | Nil | Nil | Nil | (116) | 116 | Nil |
| Dividend to rated cumulative redeemable preference shareholders | Nil | Nil | Nil | Nil | (94,452) | (94,452) |
| Balance at 31 December 2009 | 31,806,113 | (1,990,921) | 260,067 | 101,358 | 4,481,458 | 34,658,075 |

The notes on the pages 7 to 12 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Cash flow statement

(all amounts in Sri Lanka Rupees thousands)

| | Year ended 31 December 2009 | | Year ended 31 December 2008 | |
|--|--------------------------------|---------------------|--------------------------------|---------------------|
| | Group | Company | Group | Company |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 11,958,466 | 12,975,373 | 7,978,429 | 7,054,038 |
| Interest received | 99,152 | 97,059 | 84,457 | 82,969 |
| Interest paid | (1,667,539) | (1,196,577) | (1,196,927) | (847,309) |
| Tax / SRL / ESC paid | (75,848) | (75,504) | (60,166) | (60,164) |
| TDC disbursement received | 566,455 | 566,455 | Nil | Nil |
| Retirement benefit obligations paid | (44,028) | (40,591) | (6,613) | (6,363) |
| Net cash generated from operating activities | 10,836,658 | 12,326,215 | 6,799,180 | 6,223,171 |
| Cash flows from investing activities | | | | |
| Purchases of property, plant and equipment | (9,682) | (7,358) | (315,671) | (243,620) |
| Purchases of intangible assets | (14,864) | (14,864) | (33,074) | (23,467) |
| Amount given to subsidiaries | Nil | (4,347,175) | Nil | (2,847,427) |
| Investment installment to SLINTEC | (13,000) | (13,000) | (16,000) | (16,000) |
| Expenditure incurred on capital work-in-progress | (9,728,742) | (7,581,170) | (22,706,733) | (17,843,590) |
| Proceeds from sale of property, plant and equipment | 41,052 | 28,336 | 38,230 | 22,876 |
| Net cash used in investing activities | (9,725,236) | (11,935,231) | (23,033,248) | (20,951,228) |
| Cash flows from financing activities | | | | |
| Redemption of rated cumulative redeemable preference shares | (750,000) | (750,000) | (500,000) | (500,000) |
| Legal fee on issuing of rated cumulative redeemable preference shares | Nil | Nil | (300) | (300) |
| Proceeds from treasury shares - ESOS | Nil | Nil | 9,212 | 9,212 |
| Repayment of finance leases | (47,141) | (19,015) | (48,031) | (21,795) |
| Repayment of borrowings | (20,638,239) | (19,567,850) | (11,931,408) | (9,973,546) |
| Proceeds from borrowings | 25,038,875 | 24,620,260 | 26,670,939 | 23,406,955 |
| Dividends paid to company's shareholders | Nil | Nil | (4,479,078) | (4,479,078) |
| Dividend received - ESOS | Nil | Nil | 87,345 | 87,345 |
| Dividends paid to holders of rated cumulative redeemable preference shares | (754,948) | (754,948) | (714,209) | (714,209) |
| Net cash generated from financing activities | 2,848,547 | 3,528,447 | 9,094,470 | 7,814,584 |
| Net increase / (decrease) in cash and cash equivalents | 3,959,969 | 3,919,431 | (7,139,598) | (6,913,473) |
| Movement in cash and cash equivalents | | | | |
| At start of year | (1,048,285) | (852,073) | 6,092,069 | 6,062,156 |
| Increase / (decrease) | 3,959,969 | 3,919,431 | (7,139,598) | (6,913,473) |
| Exchange gains / (losses) on cash and bank overdrafts | 107,719 | 107,719 | (756) | (756) |
| At end of period | 3,019,403 | 3,175,077 | (1,048,285) | (852,073) |

The notes on the pages 7 to 12 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts 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, Data and Backbone, Fixed wireless and Transmission infrastructure) and Media related services.

Dialog Telekom PLC is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Company is located at No. 475, Union Place, Colombo 2.

Issued ordinary shares of the Company have been listed on the Colombo Stock Exchange since 28 July 2005.

2 Basis of preparation

The condensed interim consolidated financial information of Dialog Telekom PLC for the periods ended 31 December 2009 has been prepared in accordance with Sri Lanka Accounting Standard 35 "Interim Financial Reporting". The interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in Sri Lanka Rupees thousands unless otherwise stated)

4 Segment information

(a) Primary reporting format - business segments

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

| | 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 results | (9,371,533) | 2,242,776 | (1,175,300) | (321,054) | (708,395) | (699,052) | (10,032,558) |
| Finance income | | | | | | | 101,940 |
| Finance costs | | | | | | | (1,849,523) |
| Finance costs - net | | | | | | | (1,747,583) |
| Loss before income tax | | | | | | | (11,780,141) |
| Income tax expense | | | | | | | (428,082) |
| Loss for the period | | | | | | | (12,208,223) |

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

| | Cellular Operations | Global Operations | Fixed Telephony & Data | ISP | Transmission & Infrastructure | Entertainment & Media | Group |
|--|------------------------|----------------------|------------------------------|--------|----------------------------------|--------------------------|------------------|
| Depreciation | 7,259,642 | 135,875 | 864,174 | 60,968 | 271,119 | 419,465 | 9,011,243 |
| Impairment | 6,253,991 | 5,677 | 158,185 | 34,529 | 86,028 | 5,888 | 6,544,298 |
| Provision for slow moving / obsolete inventory | 2,220,915 | Nil | 83,561 | Nil | 134,263 | 24,124 | 2,462,863 |
| Amortization | 449,609 | 75,207 | 111,584 | 4,895 | 5,183 | 8,586 | 655,064 |
| Restructuring cost | 873,562 | 7,175 | 13,148 | 4,655 | 3,330 | 3,075 | 904,945 |

o The segment assets and liabilities 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 | 51,574,680 | 10,472,966 | 3,074,047 | 78,832 | 4,229,064 | 2,946,537 | 2,633,328 | 75,009,454 |
| Liabilities | 7,090,027 | 5,071,075 | 231,051 | 53,650 | 342,279 | 810,848 | 33,301,195 | 46,900,125 |
| Capital expenditure | 7,305,904 | 480,452 | 542,112 | 33,093 | 835,800 | 433,691 | 15,930 | 9,646,982 |

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in Sri Lanka Rupees thousands unless otherwise stated)

4 Segment information (Contd)

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

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

| | 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 results | (272,768) | 2,027,431 | (1,012,494) | (268,693) | 25,095 | (867,083) | (368,512) |
| Finance income | | | | | | | 67,571 |
| Finance costs | | | | | | | (2,071,332) |
| Finance costs - net | | | | | | | (2,003,761) |
| Profit before income tax | | | | | | | (2,372,273) |
| Income tax expense | | | | | | | (507,068) |
| Loss for the period | | | | | | | (2,879,341) |

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

| | Cellular Operations | Global Operations | Fixed Telephony & Data | ISP | Transmission & Infrastructure | Entertainment & Media | Group |
|--|------------------------|----------------------|------------------------------|--------|----------------------------------|--------------------------|------------------|
| Depreciation | 5,789,257 | 55,156 | 1,018,931 | 17,632 | 95,221 | 219,548 | 7,195,745 |
| Impairment | 400,356 | Nil | 15,088 | Nil | 2,882 | Nil | 418,326 |
| Provision for slow moving / obsolete inventory | 636,565 | Nil | 24,597 | Nil | 4,700 | 10,129 | 675,991 |
| Amortization | 454,028 | 63,317 | 119,391 | 4,352 | 641 | 15,018 | 656,747 |

o The segment assets and liabilities 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 | 61,643,086 | 6,796,004 | 3,741,280 | 79,726 | 3,660,146 | 3,291,090 | 2,226,159 | 81,437,491 |
| Liabilities | 4,157,658 | 4,607,657 | 384,118 | 23,403 | 803,557 | 927,859 | 28,723,949 | 39,628,201 |
| Capital expenditure | 17,573,447 | 543,237 | 1,754,287 | 42,865 | 1,918,045 | 899,263 | 50,440 | 22,781,584 |

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in Sri Lanka Rupees thousands unless otherwise stated)

5 Stated capital

Stated Capital of the Company consist of 8,143,778,405 ordinary shares and 3,750,000,000 rated cumulative redeemable preference shares.

6 Prior year adjustment

The policy followed by subsidiary in respect of revenue recognition was changed during the year ended 31 December 2008. The revenue which was previously recognized in full at the time of granting the connection is now recognized over the subscriber churn. This change in accounting policy has been accounted for as a prior year adjustment, in accordance with Sri Lanka Accounting Standard SLAS 10 – Accounting Policies, Changes in Accounting Estimates and Errors, by restating comparative figures and adjusting the opening balance of retained earnings. The change, in the opinion of the directors, is considered to give a fairer representation of the results for the period and the status of the assets and liabilities at the end of the period.

7 Revision in the estimated useful lives of telecommunication assets

The estimated useful lives of telecommunication assets of the Company and its subsidiaries have been changed during the period, to be in line with the industry best practices and taking into consideration the rapid technological developments in the telecommunication industry. The changes proposed are in line with SLAS 18 – Property, Plant and Equipment (Revised 2005) and SLAS 10 - Accounting policies, changes in estimates and errors (Revised 2005). The impact to the financial statements of the Company and Group as a result of the revision of estimated useful lives amounted to Rs 443,694,283 and Rs 571,893,779 respectively and accounted for during the quarter ended 31 December 2009.

8 Impairment of network assets

Provision of Rs 6,282,457,631 has been made during the year ended 31 December 2009 on account of impairment of network assets due to network modernization program adopted by the Company and assets identified for impairment in the annual impairment review.

9 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 1,221,479,646 and Rs 1,439,303,375 was made on account of capital inventory in the financial statements of the Company and the Group respectively. Further, a provision of Rs 895,327,784 and Rs 923,286,254 was made in the financial statements on account of capital work in progress for the Company and the Group respectively.

10 Comparatives

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

11 Market price per share

For the three months ended 31 December

| | 2009 | 2008 |
|---------------|------|------|
| - Highest | 9.50 | 8.25 |
| - Lowest | 6.25 | 5.75 |
| - Last traded | 7.25 | 6.00 |

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in Sri Lanka Rupees thousands unless otherwise stated)

12 20 largest shareholders of the Company

| | Name of Shareholder | No. of Shares | % Holding |
|----|--|---------------|-----------|
| 1 | TM International (L) Limited | 6,785,252,765 | 83.32% |
| 2 | HSBC - BBH - Genesis Smaller Companies | 191,221,640 | 2.35% |
| 3 | Dialog Telekom Employees ESOS Trust | 158,572,462 | 1.95% |
| 4 | HSBC - JPMCB - Emerging Markets Growth Fund | 147,543,380 | 1.81% |
| 5 | HSBC - JPMLU - Capital International Emerging Markets Fund | 70,762,060 | 0.87% |
| 6 | Sri Lanka Insurance Corporation Limited - Life Fund | 68,242,720 | 0.84% |
| 7 | HSBC - SSBT - International Finance Corporation | 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% |
| 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% |
| 13 | Bank of Ceylon A/C Ceybank Unit Trust | 33,562,400 | 0.41% |
| 14 | HSBC - SSBT - South Asia Portfolio | 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% |
| 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 Welcome Trust Ltd. | 11,811,700 | 0.15% |

13 Public shareholding

The percentage of public shareholding as at 31 December 2009 was 14.73% (14.73% as at 31 December 2008), calculated as per the listing rules of the Colombo Stock Exchange.

14 Directors' Shareholdings

The details of shares held by the Directors and their spouses as at 31 December 2009 are as follows:

| | |
|--|--------|
| Dr Shridhir Sariputta Hansa Wijayasuriya | 42,570 |
| Mr. Moksevi Rasingh Prelis | 18,480 |
| Mr. Mohamed Vazir Muhsin | 18,040 |

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

15 Contingencies

(a) Pending litigation

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

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

The Company has been issued with Value Added Tax assessments for Rs 862,355,931 and penalties of Rs 355,821,168 in respect of financial year 2006 (year of assessment 2006/07). 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.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in Sri Lanka Rupees thousands unless otherwise stated)

15 Contingencies (Contd)

(c) Enquiry 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 (Pvt) Ltd 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.

No assessment has been made on the subsidiary as at the date of the balance sheet. Management has sought the opinion of external legal counsel who is of the view that no material liability would result in from the enquiry.

16 Events after the Balance sheet date

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 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.