

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Balance sheet

(all amounts in Sri Lanka Rupees Thousands)

	As at 31 December 2008		As at 31 December 2007	
	Group	Company	Group (Restated)	Company
ASSETS				
Non-current assets				
Property, plant and equipment	64,698,584	56,718,021	50,665,921	45,955,975
Intangible assets	3,901,887	1,337,747	3,919,177	1,236,106
Investments in subsidiaries	Nil	8,826,010	Nil	2,335,510
Other investments	16,000	16,000	Nil	Nil
Amount due from subsidiaries	Nil	2,779,612	Nil	5,332,260
	68,616,471	69,677,390	54,585,098	54,859,851
Current assets				
Inventories	655,957	646,601	707,031	704,194
Trade and other receivables	10,742,903	8,308,351	10,090,263	8,280,628
Cash and cash equivalents	1,645,866	1,544,735	6,343,121	6,062,156
	13,044,726	10,499,687	17,140,415	15,046,978
Total assets	81,661,197	80,177,077	71,725,513	69,906,829
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Stated capital	32,556,113	32,556,113	33,056,413	33,056,413
ESOS Trust shares	(1,990,921)	(1,990,921)	(2,000,439)	(2,000,439)
Dividend reserve - ESOS	260,067	260,067	172,722	172,722
Revaluation reserve	19,913	19,913	20,377	20,377
Retained earnings	10,964,118	14,549,916	19,036,282	20,130,681
	41,809,290	45,395,088	50,285,355	51,379,754
Total equity	41,809,290	45,395,088	50,285,355	51,379,754
LIABILITIES				
Non-current liabilities				
Subscription in advance	Nil	Nil	306	306
Borrowings	8,828,439	7,818,455	5,172,921	4,751,593
Deferred tax liability	607,437	605,992	140,084	119,823
Retirement benefit obligations	205,069	187,378	211,916	201,554
Provision for other liabilities	194,924	194,924	142,979	142,979
	9,835,869	8,806,749	5,668,206	5,216,255
Current liabilities				
Trade and other payables	11,060,739	8,464,849	10,929,692	9,175,605
Current income tax liabilities	60,506	59,590	19,913	19,344
Borrowings	18,894,793	17,450,801	4,822,347	4,115,871
	30,016,038	25,975,240	15,771,952	13,310,820
Total liabilities	39,851,907	34,781,989	21,440,158	18,527,075
Total equity and liabilities	81,661,197	80,177,077	71,725,513	69,906,829
Net assets per share (Rs.)	5.13	5.57	6.17	6.30

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors on 23 February 2009

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

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

Signed
M.R.Prelis
Director

Signed
Vipula M. Gunatilleka
Group Chief Financial Officer

The financial statements for the year ended 31 December 2008 have been audited by the Company's Auditors, PriceWaterhouseCoopers.

The notes on page 7 to 10 form an integral part of these financial statements.

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DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income statement

(all amounts in Sri Lanka Rupees Thousands)

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

The notes on page 7 to 10 form an integral part of these financial statements.

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DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Income Statement

(all amounts in Sri Lanka Rupees Thousands)

	Three months ended 31 December 2008		Three months ended 31 December 2007	
	Group	Company	Group (Restated)	Company
Turnover	8,782,558	7,952,394	8,999,600	8,545,657
Direct costs	(6,138,167)	(5,327,371)	(3,773,339)	(3,490,798)
Gross margin	2,644,391	2,625,023	5,226,261	5,054,859
Other operating income	393,062	411,765	154,156	187,632
Administrative expenses	(3,600,620)	(3,072,054)	(2,183,327)	(1,705,268)
Distribution costs	(1,948,277)	(1,631,896)	(1,758,985)	(1,604,285)
Operating (loss) / profit	(2,511,444)	(1,667,162)	1,438,105	1,932,938
Finance costs	(1,258,808)	(1,074,535)	136,905	165,562
(Loss) / profit before tax	(3,770,252)	(2,741,697)	1,575,010	2,098,500
Tax	(140,090)	(178,608)	27,977	44,752
(Loss) / profit for the period	(3,910,342)	(2,920,305)	1,602,987	2,143,252
Attributable to:				
Equity holders of the Company	(3,910,342)	(2,920,305)	1,602,987	2,143,252
(Loss) / earnings per share on (loss) / profit attributable to the equity holders of the Company during the period (expressed in Rs per share)				
- Basic	(0.54)	(0.41)	0.21	0.27
- Diluted	(0.54)	(0.42)	0.20	0.27

The above figures are subject to audit.

The notes on page 7 to 10 form an integral part of these financial statements.

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DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statement of changes in equity - Group

(all amounts in Sri Lanka Rupees Thousands)

Note	Attributable to equity holders of the Company						Total
	Stated capital	Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings	Minority interest	
Balance at 1 January 2007	12,680,378	(1,925,226)	70,309	20,840	14,206,808	(72)	25,053,037
Net profit	Nil	Nil	Nil	Nil	8,967,159	Nil	8,967,159
Issue of shares	15,423,820	Nil	Nil	Nil	Nil	Nil	15,423,820
Issue of rated cumulative redeemable preference shares	5,000,000	Nil	Nil	Nil	Nil	Nil	5,000,000
Expenses related to issuance of preference shares	(47,785)	Nil	Nil	Nil	Nil	Nil	(47,785)
Dividend paid to ordinary shareholders	Nil	Nil	Nil	Nil	(4,071,889)	Nil	(4,071,889)
Dividend paid to rated cumulative redeemable preference shares	Nil	Nil	Nil	Nil	(60,988)	Nil	(60,988)
Dividend received ESOS	Nil	Nil	102,413	Nil	Nil	Nil	102,413
Depreciation transfer	Nil	Nil	Nil	(463)	463	Nil	Nil
Purchase shares - ESOS	Nil	(205,452)	Nil	Nil	Nil	Nil	(205,452)
Shares exercised - ESOS	Nil	130,545	Nil	Nil	Nil	Nil	130,545
Subscription in advance	Nil	(306)	Nil	Nil	Nil	Nil	(306)
Transfer of minority interest	Nil	Nil	Nil	Nil	55,035	72	55,107
Balance as at 31 December 2007	33,056,413	(2,000,439)	172,722	20,377	19,096,588	Nil	50,345,661
Balance at 1 January 2008							
As previously reported	33,056,413	(2,000,439)	172,722	20,377	19,096,588	Nil	50,345,661
Prior year adjustment	7 Nil	Nil	Nil	Nil	(60,306)	Nil	(60,306)
As restated	33,056,413	(2,000,439)	172,722	20,377	19,036,282	Nil	50,285,355
Net loss	Nil	Nil	Nil	Nil	(2,879,341)	Nil	(2,879,341)
Legal fee on Issue of shares	(300)	Nil	Nil	Nil	Nil	Nil	(300)
Redemption of rated cumulative redeemable preference shares	(500,000)	Nil	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to rated cumulative redeemable preference shares	Nil	Nil	Nil	Nil	(714,209)	Nil	(714,209)
Dividend paid to ordinary shareholders	Nil	Nil	Nil	Nil	(4,479,078)	Nil	(4,479,078)
Dividend received ESOS	Nil	Nil	87,345	Nil	Nil	Nil	87,345
Depreciation transfer	Nil	Nil	Nil	(464)	464	Nil	Nil
Shares exercised - ESOS	Nil	9,518	Nil	Nil	Nil	Nil	9,518
Subscription in advance	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Balance at 31 December 2008	32,556,113	(1,990,921)	260,067	19,913	10,964,118	Nil	41,809,290

The notes on page 7 to 10 form an integral part of these financial statements.

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DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Statement of changes in equity - Company

(all amounts in Sri Lanka Rupees Thousands)

	Stated capital	Attributable to equity holders of the Company				Total
		Shares in ESOS trust	Dividend reserve	Revaluation reserve	Retained earnings	
Balance at 1 January 2007	12,680,378	(1,925,226)	70,309	20,840	14,136,581	24,982,882
Net profit	Nil	Nil	Nil	Nil	10,126,514	10,126,514
Issue of shares	15,423,820	Nil	Nil	Nil	Nil	15,423,820
Issue of rated cumulative redeemable preference shares	5,000,000	Nil	Nil	Nil	Nil	5,000,000
Expenses related to issuance of preference shares	(47,785)	Nil	Nil	Nil	Nil	(47,785)
Dividend paid to ordinary shareholders	Nil	Nil	Nil	Nil	(4,071,889)	(4,071,889)
Dividend paid - Rated Cumulative redeemable preference shares	Nil	Nil	Nil	Nil	(60,988)	(60,988)
Dividend received ESOS	Nil	Nil	102,413	Nil	Nil	102,413
Depreciation transfer	Nil	Nil	Nil	(463)	463	Nil
Share purchased - ESOS	Nil	(205,452)	Nil	Nil	Nil	(205,452)
Shares exercised	Nil	130,545	Nil	Nil	Nil	130,545
Subscription in advance	Nil	(306)	Nil	Nil	Nil	(306)
Balance as at 31 December 2007	33,056,413	(2,000,439)	172,722	20,377	20,130,681	51,379,754
Balance at 1 January 2008	33,056,413	(2,000,439)	172,722	20,377	20,130,681	51,379,754
Net loss	Nil	Nil	Nil	Nil	(387,942)	(387,942)
Legal fee on Issue of shares	(300)	Nil	Nil	Nil	Nil	(300)
Redemption of rated cumulative redeemable preference shares	(500,000)	Nil	Nil	Nil	Nil	(500,000)
Dividend paid to rated cumulative redeemable preference shares	Nil	Nil	Nil	Nil	(714,209)	(714,209)
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
Depreciation transfer	Nil	Nil	Nil	(464)	464	Nil
Shares exercised - ESOS	Nil	9,518	Nil	Nil	Nil	9,518
Subscription in advance	Nil	Nil	Nil	Nil	Nil	Nil
Balance at 31 December 2008	32,556,113	(1,990,921)	260,067	19,913	14,549,916	45,395,088

The notes on page 7 to 10 form an integral part of these financial statements.

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DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Cash Flow Statement

(all amounts in Sri Lanka Rupees Thousands)

	Year ended 31 December 2008		Year ended 31 December 2007	
	Group	Company	Group (Restated)	Company
Cash flows from operating activities				
Cash generated from operations	7,967,392	7,042,502	13,211,816	12,793,700
Interest received	83,958	82,969	161,375	160,202
Interest paid	(1,196,927)	(847,309)	(774,823)	(618,028)
Tax / SRL/ ESC paid	(60,166)	(60,164)	(61,532)	(60,270)
Retirement benefit obligations paid	(6,613)	(6,363)	(2,403)	(2,007)
Net cash generated from operating activities	6,787,644	6,211,635	12,534,433	12,273,597
Cash flows from investing activities				
Purchases of property, plant and equipment (PPE)	(315,671)	(243,620)	(404,165)	(193,946)
Purchases of intangible assets	(33,074)	(23,467)	(186,865)	(142,353)
Issue of shares against amount given to subsidiaries	Nil	(2,847,427)	Nil	(3,130,476)
Expenditure incurred on capital work-in-progress	(22,699,473)	(17,836,330)	(24,944,964)	(21,793,825)
Acquisition of subsidiary, net of cash acquired	Nil		(39,666)	(39,666)
Investment in SLINTEC	(16,000)	(16,000)	Nil	Nil
Proceeds from sale of PPE	38,230	22,876	76,721	30,036
Net cash used in investing activities	(23,025,988)	(20,943,968)	(25,498,939)	(25,270,230)
Cash flows from financing activities				
Proceeds from issue of shares	Nil	Nil	15,376,035	15,376,035
Proceeds from treasury shares - ESOS	9,212	9,212	129,308	129,308
Payment for purchase of ESOS shares	Nil	Nil	(205,452)	(205,452)
Proceeds from issuance of rated cumulative redeemable	Nil	Nil	5,000,000	5,000,000
Redemption of rated cumulative redeemable preference shares	(500,000)	(500,000)	Nil	Nil
Legal fee on issuing of preference shares	(300)	(300)	Nil	Nil
Repayment of finance leases	(43,755)	(17,519)	(43,705)	(18,656)
Repayment of borrowings	(11,931,408)	(9,973,546)	(12,197,706)	(11,265,833)
Proceeds from borrowings	26,670,939	23,406,955	12,736,259	11,728,760
Dividend reserved - ESOS	87,345	87,345	102,413	102,413
Ordinary Dividends paid	(4,479,078)	(4,479,078)	(4,071,889)	(4,071,889)
Preference share dividends paid	(714,209)	(714,209)	(60,988)	(60,988)
Net cash generated from financing activities	9,098,746	7,818,860	16,764,275	16,713,698
Net (decrease) / increase in cash and cash equivalents	(7,139,598)	(6,913,473)	3,799,769	3,717,065
Movement in cash and cash equivalents				
At start of year	6,092,069	6,062,156	2,184,664	2,237,455
(Decrease) / increase	(7,139,598)	(6,913,473)	3,799,769	3,717,065
Foreign exchange adjustment	(756)	(756)	107,636	107,636
At end of year	(1,048,285)	(852,073)	6,092,069	6,062,156

The notes on page 7 to 10 form an integral part of these financial statements.

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements

(in the notes 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 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 period ended 31 December 2008 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 2007.

3 Accounting policies

Except as disclosed in Note 7, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007.

4 Segment information

(a) Primary reporting format - business segments

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

	Cellular Operations	Global Operations	Other	Unallocated	Group
Total segmental revenue	32,024,966	8,363,319	3,692,203	Nil	44,080,488
Inter-segment revenue	(3,869,565)	(3,410,706)	(631,387)	Nil	(7,911,658)
Revenue from external customers	28,155,401	4,952,613	3,060,816	Nil	36,168,830
Operating profit / (loss) segment results	3,780,513	(2,025,850)	(2,072,889)	(50,286)	(368,512)
Finance income					67,571
Finance costs					(2,071,332)
Loss before income tax					(2,372,273)
Income tax expense					(507,068)
Loss for the year					(2,879,341)

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements (contd)

4 Segment information (contd)

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

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

	Cellular Operations	Global Operations	Other	Unallocated	Group
Assets	73,381,072	6,796,004	1,484,121	Nil	81,661,197
Liabilities	7,085,136	1,762,015	2,612,638	28,392,118	39,851,907
Capital expenditure	17,573,447	543,237	4,949,043	Nil	23,065,727

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

	Cellular Operations	External gateway operations	Other	Unallocated	Group
Total segmental revenue	30,268,240	6,214,752	2,337,453	Nil	38,820,445
Inter-segment revenue	(1,723,170)	(2,583,061)	(387,164)	Nil	(4,693,395)
Revenue from external customers	28,545,070	3,631,691	1,950,289	Nil	34,127,050
Operating profit / (loss)					
segment results	9,906,823	596,823	(868,611)	(52,862)	9,582,173
Finance income					169,817
Finance costs					(799,835)
Profit before income tax					8,952,155
Income tax expense					(45,302)
Profit for the year					8,906,853

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

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

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

	Cellular Operations	External gateway operations	Other	Unallocated	Group
Assets	65,781,937	3,617,869	2,325,707	Nil	71,725,513
Liabilities	11,974,408	569,493	2,683,924	6,212,333	21,440,158
Capital expenditure	21,595,041	209,280	3,455,678	Nil	25,259,999

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements (contd)

4 Segment information (contd)

Inter segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, intangible assets, capital work in progress, inventories, trade and other receivables, and cash and cash equivalents.

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

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

(b) Secondary reporting format - geographical segments

The Group's two business segments operate in one main geographical area, hence they do not qualify for secondary reporting.

5 Stated capital

Stated Capital of the Company consist of 8,143,778,405 ordinary shares and 4,500,000,000 rated cumulative redeemable preference shares.

6 Loan facility from TM International Bhd

Dialog Telekom PLC has obtained a short term loan amounting Rs 3,724,346,816 as a bridging facility from the ultimate parent Company TM International Bhd. TM International Bhd also provided short term advance amounting to USD 10 Mn for expenditure related to telecommunication expansion, launch of CDMA & Pay TV services.

7 Prior year adjustment

The policy followed by subsidiary in respect of revenue recognition was changed during the year. The revenue which was previously recognized up front 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 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.

8 Subsequent events

Refund of telecommunication development charge

The Company lodged an application for the refund of telecommunication development charges paid in previous years to the Telecommunication Regulatory Commission on termination revenue. Following a review carried out by the Commission on the network rollout of specified areas, the Commission has confirmed a refund of Rs 497,551,143.

9 Comparatives

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

DIALOG TELEKOM PLC AND ITS SUBSIDIARIES

Notes to the financial statements (contd)

10 Market price per share

	2008	2007
For the three months ended 31 December		
- Highest	8.25	24.50
- Lowest	5.75	19.75
- Last traded	6.00	20.00

11 Contingent liabilities

(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 contingent liabilities, with no additional payment being anticipated as of date. Accordingly, no provision has been made for legal claims in the financial statements.

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

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

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

(c) Enquiry by Sri Lanka Customs

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

No assessment has been made on the Subsidiary 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 from the inquiry.