

TheFuture.Today.

Dialog Telekoms operates Dialog GSM, the country's largest mobile telecommunications network. Dialog is a subsidiary of Telekom Malaysia International which is wholly owned by Telekom Malaysia Bhd. Dialog Telekom is the largest Company in terms of Market Capitalisation on the Colombo Stock Exchange (approx USD 1.4 Billion as at 31 December 2005). In addition to its core mobile telephony business, the Company has established a strong presence in the International Telecommunication sector, supporting an International Gateway infrastructure providing retail and wholesale international voice and data services under the brand name of Dialog Global. The Company has also ventured into Internet Services through Dialog Internet- a fully-fledged Internet Service Provider (ISP). Dialog Telekom also operates Dialog SAT, a Satellite Mobile Communications Service. The Company's fully owned subsidiary Dialog Broadband Networks (Pvt) Ltd (formerly known as MTT Networks (Pvt) Ltd) is a key player in Sri Lanka's ICT infrastructure sector, providing backbone and transmission infrastructure facilities and data communication services.



OURVISION

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.

OURMISSION

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.

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**Corporate Social
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- Total **commitment** to our **customers**
- **Dynamic** & human centered **leadership**
- **Commitment** to **task** & **excellence**
 - Uncompromising **integrity**
- **Professionalism** & **accountability**
- **Teamwork**
- Foremost **concern** for **respect** & **care**

PERFORMANCE excellence

2

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05

DIALOG TELEKOM LIMITED
ANNUAL REPORT

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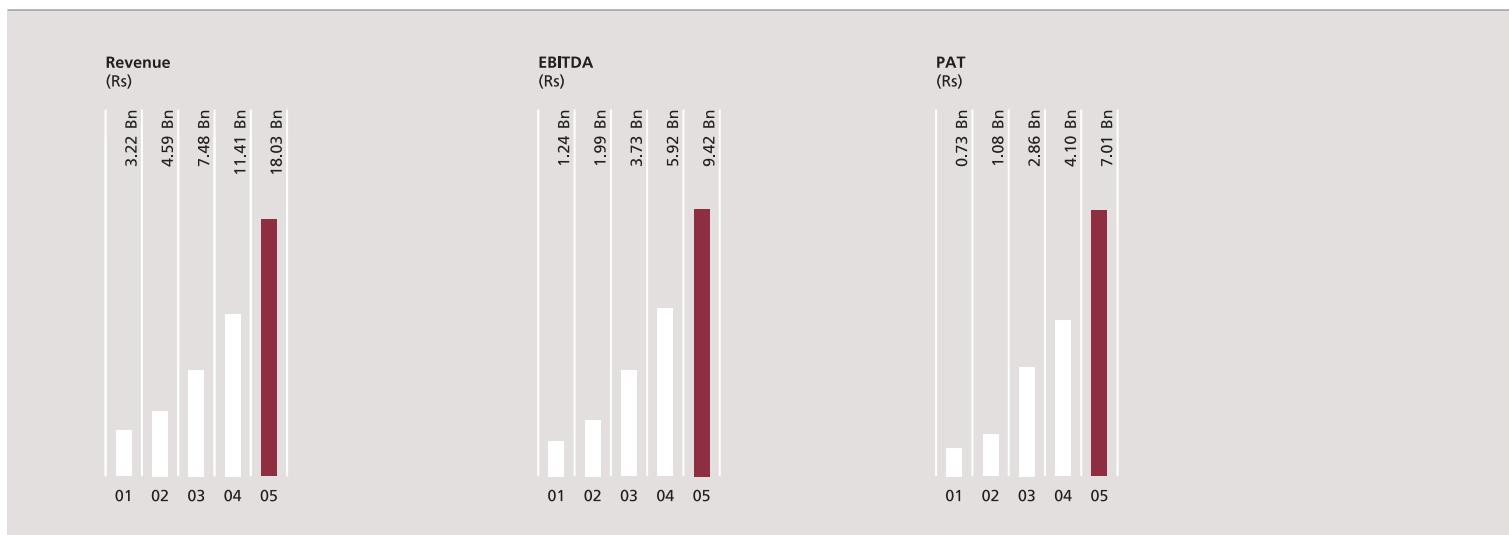
ACHIEVEMENTS AND RECOGNITION



Unwavering Leadership

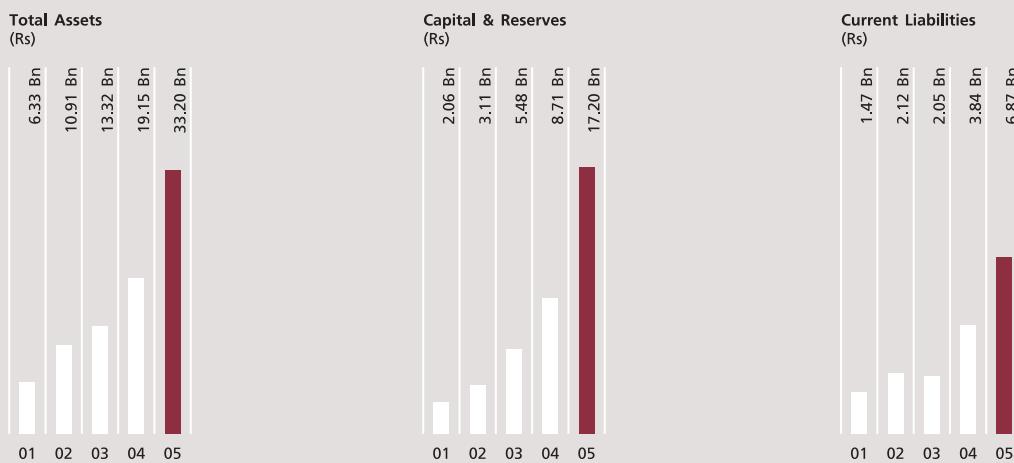
We will continue to earn undisputed leadership in terms of the innovation, quality and value we deliver to those we serve - Customers, Shareholders and our Nation and its People.

Five Year Financial Summary



		YEAR ENDED 31 DECEMBER				
Summarised Income Statement (Audited) Rs Bn		2001	2002	2003	2004	2005
Revenue		3.22 Bn	4.59 Bn	7.48 Bn	11.41 Bn	18.03 Bn
Direct Cost		1.30 Bn	2.03 Bn	2.97 Bn	3.93 Bn	6.21 Bn
Gross Profit		1.92 Bn	2.56 Bn	4.50 Bn	7.48 Bn	11.82 Bn
Administration & Distribution		1.04 Bn	1.19 Bn	1.85 Bn	3.15 Bn	4.56 Bn
EBITDA		1.24 Bn	1.99 Bn	3.73 Bn	5.92 Bn	9.42 Bn
Profit Before Tax (PBT)		0.96 Bn	1.31 Bn	2.41 Bn	4.14 Bn	7.05 Bn
Profit After Tax (PAT)		0.73 Bn	1.08 Bn	2.86 Bn	4.10 Bn	7.01 Bn

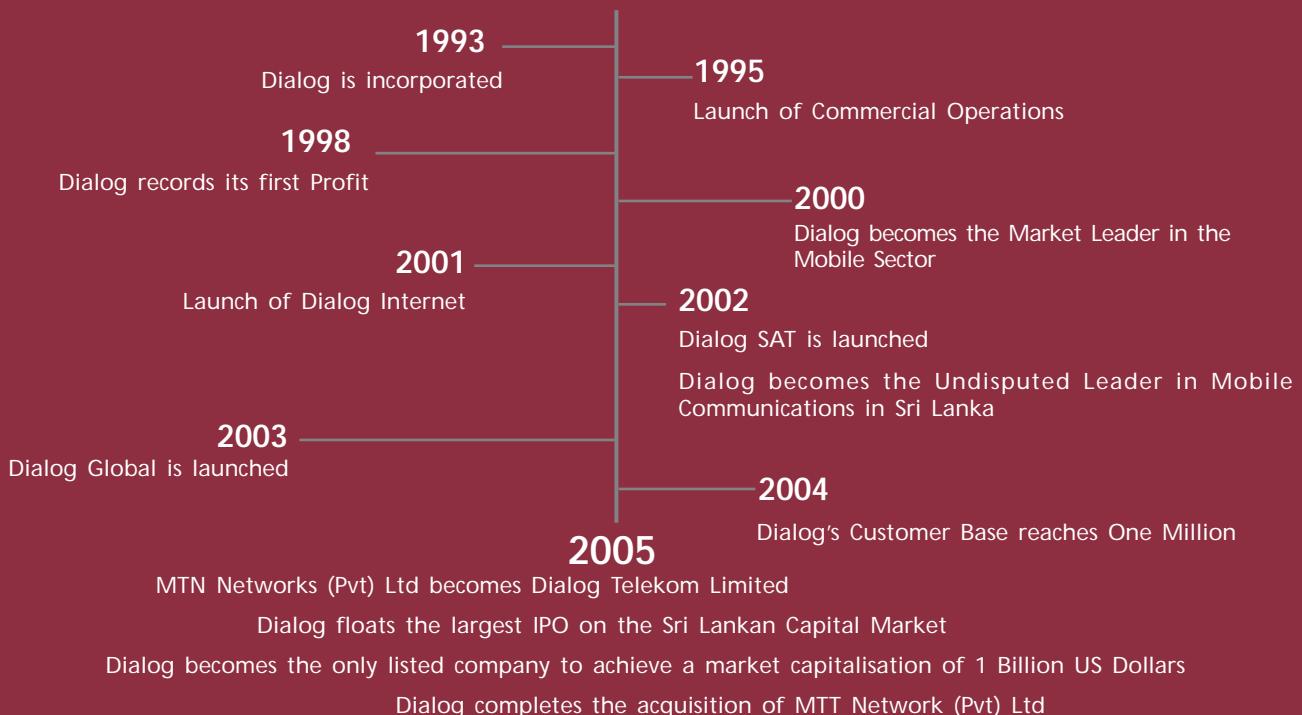
Figures may not add up due to rounding



Summarised Balance Sheet (Audited) Rs Bn	YEAR ENDED 31 DECEMBER					Group 2005
	2001	2002	2003	2004		
Non Current Assets	4.97 Bn	8.11 Bn	10.99 Bn	13.47 Bn	22.43 Bn	
Current Assets	1.36 Bn	2.80 Bn	2.33 Bn	5.69 Bn	10.77 Bn	
Total Assets	6.33 Bn	10.91 Bn	13.32 Bn	19.15 Bn	33.20 Bn	
Capital & Reserves	2.06 Bn	3.11 Bn	5.48 Bn	8.71 Bn	17.20 Bn	
Non Current Liabilities	2.80 Bn	5.68 Bn	5.79 Bn	6.60 Bn	9.13 Bn	
Current Liabilities	1.47 Bn	2.12 Bn	2.05 Bn	3.84 Bn	6.87 Bn	
Total Liabilities	6.33 Bn	10.91 Bn	13.32 Bn	19.15 Bn	33.20 Bn	

Figures may not add up due to rounding

Corporate Milestones



Highlights 2005

- **Dialog Telekom rated AAA(Sri) by Fitch Ratings**
- **2 Million customers** – Dialog's customer base reaches Two Million.
- **3G trial** – A first in the South Asian region - Dialog launches its 3G network on a non-commercial trial basis.
- **Prepaid Roaming Introduced**
- **Local Language SMS and GPRS Portal** – 1st operator in the world to introduce SMS and GPRS Portals in Sinhala and Tamil.
- **Mobile Online Share Trading** - Allowing access to the Colombo Stock Exchange for share trading via the Dialog mobile
- **Launch of DEWN** – DEWN is an integrated Disaster and Emergency Warning Network that incorporates network based as well as device based technologies to deliver an end to end disaster warning solution.
- **500th Base Station** – Dialog's rapidly growing GSM network reaches the 500 Base Station milestone

Corporate Information

NAME OF COMPANY

Dialog Telekom Limited

COMPANY REGISTRATION NO.

N(PVS) 11599 N(PBS)

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

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor – *Chairman*
Dr. Shridhir Sariputta Hansa Wijayasuriya – Chief Executive
Ir. Prabahar s/o Nagalingam Kirupalasingam
Mr. Moksevi Rasingh Prelis
Mr. Yusof Annuar bin Yaacob
Dato' Mohammed Shazalli bin Ramly

COMPANY SECRETARY

Mrs. Anoja J. Obeyesekere

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place
Colombo 02
Sri Lanka

REGISTERED ADDRESS

475, Union Place
Colombo 02
Sri Lanka
Te : +94777678700
+94112678700
Website: www.DialogTelekom.com

AUDIT COMMITTEE

Mr. Moksevi Rasingh Prelis
– *Chairman*
Ir. Prabahar s/o Nagalingam
Kirupalasingam
Mr. Yusof Annuar bin Yaacob
Dato' Lim Kheng Guan

NOMINATING & REMUNERATION COMMITTEE

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor – *Chairman*
Ir. Prabahar s/o Nagalingam
Kirupalasingam
Mr. Moksevi Rasingh Prelis

BANKERS

Citibank N.A.
Commercial Bank
of Ceylon Limited
Deutsche Bank AG
Hongkong and Shanghai Banking
Corporation Limited
Public Bank Berhad
Standard Chartered Bank Ltd

INVESTOR RELATIONS

Tel : +94777081304
E-mail : ir@dialog.lk

Achievements and Recognition

GSM World Awards (2001, 2002, 2003)

- 2001 GSM World Award for "Change" Trust Fund initiative - "Change" is the community development arm of Dialog.
- 2002 GSM World Award for SMS112 – GSM in the Community Award for Wireless Accessibility 2002 for SMS 112 a SMS based emergency call facility for the hearing and speech impaired.
- 2003 GSM World Award for SMS based Blood Donor Network – GSM in the Community Award for Best Use of Wireless in emergency situations - for Dialog's SMS blood appeal, matching and donor management system.

Sri Lanka National Quality Award (2001)

Large Scale Service Category. The SLNQA is based on the Malcolm Balridge Quality Award USA.

National Business Excellence Awards (2005)

- Gold Award - Utilities and Infrastructure Sector
- Gold Award - Best Realised Growth
- Gold Award - Best Tech Savvy Company
- Gold Award - Best Capacity Builder

National Business Excellence Awards (2004)

- Gold Award - Best Corporate Entity in Sri Lanka
- Gold Award - Extra Large category
- Gold Award - Best Tech Savvy Company
- Gold Award - Best Capacity Builder

ISO 9001:2000 Quality Management System

- **March 1999:** ISO 9002:1994 Certification – earning the distinction of being the first South Asian telecommunications operator to be awarded the certification.
- **January 2001:** ISO 9001:1994 Certification – An extension to ISO 9002 certification and included new product development within the scope of the quality management system of the Company. Dialog Telekom was the first mobile operator in the region to be accredited with ISO 9001.
- **April 2003:** ISO 9001:2000 – Dialog's quality management system which was on ISO's 1994 standard was upgraded and recertified to the current version.

Dialog was the first South Asian Company to obtain ISO 9002 and ISO 9001 certification.

International Asia Pacific Quality Award (2002)

Winner in the Large Scale Service Category. Dialog was adjudged winner in the Large Scale Service Category from amongst National Quality Award Winners in the Asia Pacific Region. Dialog Telekom is the only National Quality Award winner in Sri Lanka and only Telecom operator in the region to have won this award.



Message from the Chairman

Dear Shareholders,

10
2005

On behalf of the Board of Directors, I am pleased to present the inaugural Annual Report for Dialog Telekom Limited (Dialog). The year 2005 has proven to be a remarkable one for Dialog. I am pleased to note a year filled with milestones and achievements that every member of the management and staff can be proud of. In the 10th year of its operations, Dialog continues to be a major factor shaping the lifestyles and work habits of Sri Lankans throughout the island, revolutionising lives wherever we go.

An important aspect of this performance has been the dissemination of the latest technological innovations far and wide. Dialog provides a fundamental service to everyone from the cream of Colombo's business elite, to farmers and villagers in rural areas, and trendy teenagers everywhere. As the market leader, Dialog also provides considerable impetus to the industry, with our competitors having to respond to our innovations in products and services.

Dialog has time and again given us reason to be proud of its achievements both operationally and as a corporate entity. The Company has in the past garnered international awards for its services, and its success – clear indications of a well-run company that will no doubt, encourage investors.

In 2005, the Company took its achievements to even greater heights through its highly successful listing on the Colombo Stock Exchange. Dialog's listing is also momentous as it is TM's maiden listing of an offshore subsidiary on a local bourse. In its move towards going public, Dialog officially changed its name from MTN Networks (Private) Limited to Dialog Telekom Limited.

Trading for Dialog's historic initial public offering (IPO) began in 28 July 2005 and on the first day of trading the Company established several performance records on the Sri Lankan capital market, adding a new dimension of dynamism to the Colombo bourse. The Dialog IPO was the largest ever IPO in Sri Lanka to the value of Rs 8.5 Bn, with the highest level of subscription received at an IPO to the value of Rs 56.2 Bn, and the highest level of overseas subscription received at an IPO amounting to Rs 40 Bn.

Dialog's successful IPO, aimed to create an opportunity for public ownership in the Company, made Dialog the top Company with the largest market capitalisation on the Colombo Stock Exchange (CSE) i.e. Rs142.5 Bn (first 1 Bn US Dollar Company) in value. Congratulations to all of you who made this possible.



TAN SRI DATO' IR MUHAMMAD RADZI BIN HAJI MANSOR

Chairman

"Dialog Telekom has emerged as a major factor that shapes the lifestyles and work habits of Sri Lankans throughout the island, revolutionising lives wherever we go, time and again."

Message from the Chairman

EXCELLENT RETURN ON INVESTMENT FOR SHAREHOLDERS

The Company achieved a net profit after tax of Rs 7.01 Bn for the financial year ended 31 December 2005. This is an increase of 71% when compared to Rs 4.10 Bn in 2004.

Revenue rose 58% to Rs 18.03 Bn, as compared to Rs 11.41 Bn in the previous year. The Company's performance continued to benefit from rigorous internal cost control and focused productivity improvement efforts, resulting in the EBITDA margin of 52%.

Meanwhile, Dialog's shareholders funds increased from Rs 8,712.2 Mn as at December 2004 to Rs 17,200.9 Mn as at December 2005 while the its cash position stood at Rs 6,689.9 Mn and debt position stood at Rs 10,663.8 Mn.

The Company has provided over 50% CAGR in returns to shareholders, and is today the most valuable company on the CSE. Dialog has maintained healthy performance indicators despite heavy investments demanded by our aggressive growth, with Net Profit (5 year CAGR) of 99% and Return on Investment (5 year CAGR) of 35%.

Dialog continues to be the market leader in the mobile telecommunication industry in Sri Lanka and now commands a market share of more than 60%.

DIVIDENDS

I am also pleased to announce that the Board is proposing a tax exempt final dividend of 38 cents per share for FY 2005, subject to shareholders approval. This represents a total dividend payout for FY 2005 of Rs 2,813.3 Mn or a dividend payout ratio of 40% on our PAT which is within our dividend payout policy of between 40% and 60% of PAT.

We will continue to strive to achieve a payout ratio in line with our stated dividend policy. With this dividend strategy, the onus is on us to match dividend with corresponding performance. It also adds a measure of predictability to shareholder expectations.

ACQUISITION OF MTT NETWORK (PVT) LTD

In enhancing its business, on 22 December 2005, Dialog completed its acquisition of a 100% equity stake in MTT Network (Pvt) Ltd (MTT). On 7 March 2006, MTT has been renamed Dialog Broadband Networks (Private) Limited (DBN).

DBN is a leading infrastructure and data communications provider which deploys cutting edge technology including the provision of IP-MPLS services. As a fully owned subsidiary of Dialog, DBN will benefit from ongoing investment, capacity building, and specialised technology know-how derived from the widespread domestic and international operations of Dialog and the international operations of holding company, TM.

"The Company has provided over 50% CAGR in returns to shareholders, and is today the most valuable company on the Colombo Stock Exchange."

INDUSTRY HIGHLIGHTS

It is widely accepted that the service sector is one of the more dynamic aspects of the growth of Sri Lanka's economy, an economy which continued to perform well in 2005 with GDP growth of 5.5% and has recorded growth in excess of 4% since 2002.

We at Dialog believe that the fundamental tenet of achieving sustainability of markets is to have faith in those very markets – faith in the consumer who is the nucleus of the economy. Therefore, Dialog is proud to play its part as a driving force behind the growth of Sri Lanka's economy.

Dialog's growth is twice that of the rest of the telecom sector, which in turn is the key driver of the rapid expansion of the country's service sector. We believe Dialog has spurred the nation's socio-economic development by providing user-friendly products and services such as Local Language Services, SARU cell based solutions to rural markets, and Prepaid Services with Zero Rental for low income segments.

TECHNOLOGY & INNOVATION

Dialog is a known regional leader in introduction of new technology, being the first in South Asia to provide GSM, SMS, Roaming, GPRS, and MMS, and the first in the world to introduce a Sinhala / Tamil SMS and GPRS Portal. We also have the best International Roaming Network in the region, with 357 roaming partners.

At Dialog, we believe that advanced technologies empower us to deliver goods and services at lower cost with greater flexibility and utility, making them more affordable and useful to more people. It is worthy to note that Dialog's technology investment has delivered quantum changes in the quality of life of Sri Lankans.

INVESTING IN INFRASTRUCTURE

Dialog has invested over USD290 million in infrastructure as at end of 2005, and has now nearly 600 base stations that cover 85% of the population. The Company operates the second largest International Gateway in Sri Lanka, and has the first 3rd Generation (3G) mobile communications network in the South Asian region, currently on trial.

I am proud to note that Dialog is the single largest infrastructure investor in the North-East of the country. This growth was aided by the continuation of the peace process and the smooth political transition in the country last year.

COMMITMENT TO THE COMMUNITY

At Dialog, we challenge ourselves to look beyond the statistics of tangible growth, for evidence that we have indeed delivered growth which is internalised by people and society, and is etched into the larger agenda of national advancement. We look for evidence of whether we have indeed changed lives, invigorated commerce at all levels, bridged impasses, developed people and expanded their vision, and delivered advancement to the country in terms of national competitive advantage and international positioning.

Message from the Chairman

Dialog's community development initiatives and our holistic approach to Corporate Social Responsibility (CSR), balance our robust business growth with sustainable development. Dialog's flagship social investment initiatives have emerged as benchmark CSR externalisation programmes.

In 2005, Dialog completed twelve community development projects that demonstrated the Company's commitment and exemplary leadership in community development initiatives. Dialog's corporate leadership is further illustrated through its Flagship Community Outreach Initiatives. The Company runs the largest private sector scholarship programme in Sri Lanka, providing over 50 Scholarships for advanced level and graduate studies annually. Dialog also supports two fully funded off shore technology sponsorships annually to the Multimedia University in Malaysia. Currently six Sri Lankan students are reading for their Bachelors in Telecommunication Engineering under this programme. In partnership with the University of Moratuwa, we operate the country's only research lab for Mobile Communications Technology. As our tagline for the Change Trust Fund goes, we are "Transforming Their Future Today!"

A CORPORATE LEADER

We place great emphasis on instituting and maintaining leading edge Corporate Governance practices with respect to the operations of the Company. The Company's commitment to a strong framework of Corporate Governance is exemplified by the composition of its Board, which includes one Non-Executive Director as well.

We have resolved never to lose sight of the human development factor, as we believe that the community around us must progress as we do. A career at Dialog is a lifelong adventure in itself, as proven by the Company's more than 95% retention of its Senior Management since 1997. The Company has also registered a 3-fold growth in staff productivity, and directly employs over 1,700 staff.

THE FUTURE

As we move ahead, the company views 2006 as a year of aggressive infrastructure investment, with projected capital expenditure plans totalling to over Rs 15 Bn. The Dialog network is expected to grow by over 50% in all dimensions during the course of 2006. In addition to growing its GSM network, Dialog will invest significant capital in the development of 3rd Generation mobile services, broadband services and fibre optic infrastructure.

We also anticipate a more liberalised telecom industry which will facilitate the Company to extend its services and create value to a wider segment of Sri Lankans. Dialog expects to make aggressive additions to its customer base in the coming years to maintain its leadership position.

"At Dialog Telekom we challenge ourselves to look beyond the statistics of tangible growth, for evidence that we have indeed delivered growth which is internalised in people and society, and is etched into a larger agenda of national advancement."

CHANGES TO THE BOARD

On behalf of the Company, I warmly welcome Mr. Yusof Annuar bin Yaacob and Dato' Mohammed Shazalli bin Ramly to the Board. Their vast experience will be invaluable in assisting the Company's expansion.

Our heartfelt gratitude to Dato' Dr. Abdul Rahim Hj. Daud and Mr. Jaffa Sany bin Md Ariffin, who resigned from the Board with effect from 8 September 2005, for the guidance that they provided the Company during their tenure.

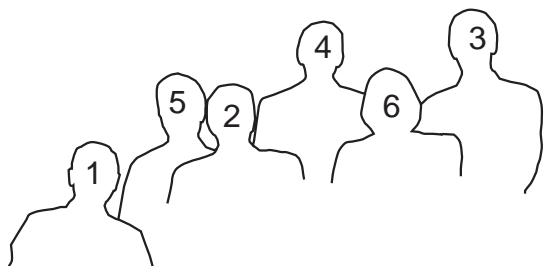
OUR GRATITUDE

The Board thanks our shareholders, the Government of Sri Lanka and regulatory authorities, our customers, business partners, and most importantly our invaluable employees for the uncompromising support shown by all.

Together, the future is in our hands.



TAN SRI DATO' IR. MUHAMMAD RADZI BIN HAJI MANSOR
Chairman
Date : 15 March 2006



Board of Directors

- | | |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| 1) TAN SRI DATO' IR. MUHAMMAD RADZI BIN HAJI MANSOR | 4) MR. MOKSEVI RASINGH PRELIS |
| 2) DR. SHRIDHIR SARIPUTTA Hansa WIJAYASURIYA | 5) MR. YUSOF ANNUAR BIN YAACOB |
| 3) IR. PRABAHAR S/O NAGALINGAM KIRUPALASINGAM | 6) MRS. ANOJA J. OBEYESEKERE (Company Secretary)
* DATO' MOHAMMED SHAZALLI BIN RAMLY (Not in the Picture) |





**TAN SRI DATO' IR.
MUHAMMAD RADZI BIN HAJI
MANSOR**

Non-Independent
Non-Executive Director/
Chairman

TAN SRI DATO' IR. MUHAMMAD RADZI BIN HAJI MANSOR was appointed to the Board of Dialog Telekom as Chairman and Director on 6 August 1999.

Tan Sri Radzi is currently the Chairman of the Board of Telekom Malaysia Berhad ("TM") and also the Chairman of Celcom (Malaysia) Berhad, a wholly owned company of TM.

He served as Director General of Telecommunication in the Telecommunications Department of Malaysia, where he had a 22-year career in various engineering and management capacities, and retired in January 1987 upon the corporatisation of the Department.

Tan Sri Radzi graduated with a Diploma in Electrical Engineering in 1962 from Faraday House Engineering College, London and a Masters in Science (Technological Economics) from the University of Stirling, Scotland in 1975. He is a Chartered Professional Engineer registered with the Board of Engineers, Malaysia and the Engineering Council, United Kingdom. He is also a corporate member of the Institution of Engineers, Malaysia, the Institution of Electrical Engineers, United Kingdom and the Institute of Management, United Kingdom. He was appointed Board Member of the Board of Engineers Malaysia, effective from 23 August 2002.

Profile of Board of Directors



**DR. SHRIDHIR SARIPUTTA
HANSA WIJAYASURIYA**

Non-Independent, Executive
Director/Chief Executive

Profile of Board of Directors

DR. SHRIDHIR SARIPUTTA HANSA WIJAYASURIYA was appointed to the Board of Dialog Telekom on 19 January 2001.

Dr. Wijayasuriya has functioned as the Chief Executive of Dialog Telekom since 1997 and counts over 12 years of experience in technology related business management.

A Chartered Engineer and Fellow of the Institute of Electrical Engineers (IEE) UK, Dr. Wijayasuriya holds a Degree in Electronic Engineering from the University of Cambridge, United Kingdom. He also holds a Doctorate in Digital Mobile Communications from the University of Bristol, United Kingdom and a Masters in Business Administration from the University of Warwick, United Kingdom.

Dr. Wijayasuriya is a past Chairman of GSM Asia Pacific – the regional interest group of the GSM Association representing 22 Asia Pacific member countries.

Dr. Wijayasuriya has also played an active role in Sri Lanka's ICT industry on an honorary basis – and has served as the Chairman of the Arthur C. Clarke Institute for Modern Technologies, and on the Board of Directors of the Sri Lanka Institute of Information Technology, and the Information and Communication Technology Agency of Sri Lanka.

IR. PRABAHR S/O NAGALINGAM KIRUPALASINGAM was appointed to the Board of Dialog Telekom on 25 September 2000.

He is an engineer by profession and graduated from Portsmouth Polytechnic, United Kingdom in 1985 with a Bachelor of Science degree in Civil Engineering. He is a member of the Board of Engineers Malaysia and the Institution of Engineers, Malaysia.

As a professional engineer, Ir. Prabahar has wide experience in the civil engineering sector, especially in the areas of consultancy, contracting, project management and project financing. He has been a Director of Telekom Malaysia Berhad since 2000.

MR. MOKSEVI RASINGH 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 his engagement at DFCC Mr. Prelis worked for 16 years as an Engineer and Manager in the automobile manufacturing and steel industries. He has held the posts of Chairman – Ceylon Electricity Board, Chairman – National Institute of Business Management and Chairman – Association of Development Finance Institutions of Asia and Pacific, headquartered in Manila. He has served as a Director on the boards of 20 companies and 5 state institutions. Currently he is the Chairman of the SME Bank Ltd.

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 Program of the Harvard Business School, USA. He is a Chartered Engineer of UK and a (Hon) Fellow of the Institute of Bankers Sri Lanka.

			
IR. PRABAHAR S/O NAGALINGAM KIRUPALASINGAM	MR. MOKSEVI RASINGH PRELIS	MR. YUSOF ANNUAR BIN YAACOB	DATO' MOHAMMED SHAZALLI BIN RAMLY
Non-Independent, Non-Executive Director	Independent Non-Executive Director	Non-Independent Non-Executive Director	Non-Independent Non-Executive Director

MR. YUSOF ANNUAR BIN YAACOB was appointed to the Board of Dialog Telekom on 9 September 2005.

Mr. Yusof Annuar is currently the Chief Executive Officer of TM International Sdn Bhd and a member of the Board of Celcom (Malaysia) Berhad, both wholly owned companies of Telekom Malaysia Berhad.

He is a Chartered Accountant by profession, and also a Member of the Chartered Institute of Management Accountants and also Malaysian Institute of Accountants. He started his career in 1988 as an Accountant with Landmarks Berhad and ultimately as the Financial Controller. He then joined S.G Warburg & Co. (now known as UBS Warburg) in 1992 as Associate Director with primary responsibilities includes equity research as part of the Global Banking and Telecommunications Team.

Three years later, in 1995, Mr Yusof joined ING Barings Securities in Singapore on the Equity Sales and Trading desk. In 1997, Mr Yusof left for Merill Lynch & Co. (Singapore) in 1997. He also serves on the Board of a public listed company in Malaysia.

DATO' MOHAMMED SHAZALLI BIN RAMLY was appointed to the Board of Dialog Telekom on 9 September 2005.

Dato' Mohammed Shazalli is presently the Chief Executive Officer and a Director of Celcom (Malaysia) Berhad, a wholly owned company of Telekom Malaysia Berhad.

Dato' Mohammed Shazalli has wide experience in broadcasting and marketing and was the Chief Executive Officer of NTV7 Malaysia, Malaysia's 7th terrestrial TV station, a position he held for 8 years. Prior to joining NTV7, he served at Lever Brothers, followed by Malaysian Tobacco Company and British American Tobacco, both in Malaysia and the United Kingdom. Dato' Mohammed Shazalli has also served as a Director in Asia Broadcasting Network (ASTRO), the Vice Chairman of the Multimedia Commission Content Forum, a Board Member of Federal Agricultural Marketing Arm, (FAMA) and as a Director of Malaysian Television Broadcaster Association (MTBA).

Dato' Mohammed Shazalli holds a Bachelor of Science (Marketing) from Indiana University, Bloomington, Indiana and a Master of Business Administration from St. Louis University, Missouri, USA.

**DR. HANS WIJAYASURIYA**

Chief Executive

Chief Executive's Review of Operations

Dialog's growth in 2005 should be viewed in a context which extends beyond absolute numbers alone, and encompasses the management and sustenance of achieved growth in terms of Service Excellence, Quality, Operational Efficiency and Bottom line contribution. Downstream of 58% growth in Revenue and 56% growth in Subscribers we ensured the delivery of parity dividends to our customers and shareholders while building capacity for future growth in 2006 and beyond.

In 2005, value to our 2.12 Mn Customers was enhanced along multiple dimensions – our products and services were made on average 24% more affordable, while utility value was enhanced through technology innovation, expansion of reach and accessibility and reduction of entry barriers.

Dialog's Net Profit After Tax of Rs. 7,012 Mn is the highest ever recorded by a company listed on the Colombo Stock Exchange. Upstream of this return to shareholders, our team delivered enhanced operating and cost margins across all major activities. The bottom line also reflects our capacity to reinvest towards the delivery of future value to all our stakeholders.



The year 2005 proved to be another banner year for Dialog, with excellent results all around, driven by our strong customer focus and operational efficiency. It gives me pride to present this report to our shareholders, on behalf of the management and staff of Dialog Telekom Ltd.

2005 HIGHLIGHTS

- In 2005 we increased revenue by 58% to Rs 18,034 Mn. Our Net Profit after Tax reached Rs 7,012 Mn, which is 71% higher than that recorded the previous year. We are indeed proud to report that our NPAT for 2005 is the highest ever recorded by a company listed on the Colombo Stock Exchange.
- In 2005, we achieved the highest recorded incremental growth in subscriber numbers in Dialog's history. Net additions were recorded at 765,160 - bringing our total customer base to 2.12 Mn.
- Our committed focus on cost optimisation and efficiency enhancement, was rewarded with across-the-board reductions in costs relative to revenue. This is reflected in our enhanced EBITDA margin of 52% - an improvement of one percentage point relative to the previous year. The Net Profit Margin recorded was 39%, which is a three percentage point improvement over 2004.
- In addition to margin enhancement, we continued to maintain strong top line fundamentals with enhanced Average Revenue Per User (ARPU) for Postpaid as well as Prepaid services. Increases in ARPU were recorded at 3% and 6% for Postpaid and Prepaid respectively. Our Coverage and Call Handling capacity grew by 100% in 2005. This enhancement of our core product was matched equally by the growth in Value Added Services with product innovation delivering over 20 new significant product and service enhancements during the course of the year. In most instances we were the first to introduce these product/service innovations to the Sri Lankan market.

Chief Executive's Review of Operations



- In 2005, our product innovation focus was rewarded with strong SMS, MMS, Mobile Internet and Value Added Service (VAS) uptake with revenue from these categories in 2005 increasing 136% over the previous year.

MOBILE SERVICES

Dialog has revolutionised communications in all regions of Sri Lanka by offering an extensive range of affordable, convenient and user-friendly services. Simultaneously, we have consistently delivered "The Future Today" in terms of ensuring that Sri Lanka's mobile telecommunications sector is second to none in the world in terms of cutting edge technology.

Competition intensified in 2005. In spite of this, we recorded the highest subscriber growth to date with net additions of 765,160 subscribers. Our share of net market subscriber addition was 64%, increasing our overall market share to 62% from 61% in the previous year. We continued to experience strong positive growth in postpaid subscribers, securing 112,655 incremental subscribers representing 34% expansion of our net Postpaid subscriber base. We delivered equally strong performance in the prepaid segment, in which we secured 652,505 net prepaid additions (representing 63% growth) bringing our composite prepaid subscriber base to 1,682,361.

Our mobile business is underpinned by an overriding focus on "inclusion". Inclusion dictates a pluralistic approach to subscriber addition, which we believe is essential for growth if not survival in a developing country market. Our inclusive approach to the market is supported by the Company's focus on bottom line key performance indicators such as "Profit per minute" and "Margin per Subscriber", as opposed to top line indicators such as ARPU.

We firmly believe that bottom line indicators reinforce pressure on operational efficiency, variabilisation of costs,

and minimisation of overheads not directly attributable to consumption. We have maintained healthy performance based on bottom line subscriber indicators with Operating Margins per subscriber of 47%, representing a 3% positive movement relative to the previous year of operations.

While our overriding operating focus has remained pinned to the bottom line, we have also delivered strong performance with respect to top line indicators. In sharp contrast with global trends, we have seen ARPUs increase in 2005 – a performance trend which is atypical of mobile operations in similar markets. Postpaid ARPU grew by 3% to Rs. 1,654 while Prepaid ARPU was enhanced by 6% to Rs. 452.

Improved performance in both top line as well as bottom line indicators have been delivered on the backdrop of an aggressive focus on "Value Enhancement" to our customers. Value enhancement encompasses the multiple dimensions of price, functionality (value added services), accessibility and service excellence. With respect to pricing we have been successful in driving down the average price per minute by 24% relative to 2004, reflecting the delivery of enhanced value per spend to our customers, while simultaneously opening new markets for our services. Our customers have consistently encouraged us in our approach to value enhancement. Consumption patterns have shown positive trends with overall Minutes of Use being enhanced by 44%.

In addition to the latter core value enhancement we have translated internal operational efficiencies and value chain structures and technologies, into the reduction and minimisation of entry barriers. For example, the introduction of electronic reload across our network reduced the minimum top-up quantum to Rs 50 representing an aggressive focus on low spend markets.

"Our mobile business is underpinned by an overriding focus on inclusion"

While delivering enhanced value with respect to the core attributes of our product we paid equal emphasis to value addition in terms of functionality and applicability. Our innovation focus was applied equally across all consumer segments with the market experiencing innovations and value additions ranging from enhanced international roaming and mobile internet services, through to innovations pertaining to Local Language interfaces to advanced mobile services.

Enhanced margins on the backdrop of reduced pricing, and increased consumption point to an overall net average increase in efficiency of 27%.

INTERNATIONAL TELECOMMUNICATIONS SERVICES

Our International Gateway operation has delivered excellent results during 2005 and is strongly positioned as the country's second largest International Service provider. Dialog Global plays an increasingly active role in Sri Lanka's International services market with a strong presence in retail as well as wholesale segments. Backed by state of the art infrastructure in terms of connectivity to the SeMeWe3 (and now the SeMeWe4) submarine cable as well as satellite earth station based international connectivity, our international services operation is set to add significant value to the country's ICT sector.

The Company's International Service operation delivered revenue growth of (63%) during 2005, contributing 1,413 Mn (8%) to the Company's top line. Net of operating expenses directly attributable to the International Operation, International Business has contributed approximately 8% to the Company's bottom line during 2005.

Our performance in the international sector has been underpinned by an aggressive approach to the development of a robust network of International Partner operators, to provide high quality access to all global markets and regions at competitive cost. Efficiencies derived through our International

Operation have enabled us to deliver IDD price reductions of up to 17% during the course of 2005.

The performance of our International operation has been achieved on the backdrop of a competitive market place and a significant presence of "illegal" International Bypass operations. It is envisaged that International Business will continue to play an increasingly significant role in our overall operations.

Internet Services

We have consistently enhanced and consolidated our infrastructure, service portfolio and internal expertise in the rapidly expanding sphere of Internet technologies and applications. In strong alignment with the overarching global technology (in particular ICT) trend towards IP (Internet Protocol), we have and will charter the transient waters with a clear view of the future.

Our internet (IP) infrastructure supports a suite of state of the art services targeted at mobile as well as fixed terminals. In the mobile arena Internet take up has been very encouraging and has been well supported by the penetration of internet capable terminals and the data carriage capabilities (GPRS, EDGE and looking forward, 3G) of our mobile network.

Penetration of fixed internet services has been somewhat hampered by the fact that our ISP license precludes the establishment of last mile connectivity to the customer. The recent acquisition of a last mile infrastructure provider opens up new avenues of growth in this area. Fixed Internet Revenues exhibited a 158% growth in 2005 primarily due to the increase in bandwidth sales, contributing just 1% to the Company's revenue – this business segment however is set to play an increasingly significant role in the company's earnings portfolio going forward.



Chief Executive's Review of Operations

NETWORK

Our Mobile Communications Network continued to be the most advanced and fastest growing in the country. Coverage reached an estimated 85% of population and 65% of landmass, supported by a 25% increase in the number of base stations to a total of approximately 600.

In terms of the level of technology deployed, our network has been maintained at the very latest technology level featuring GPRS and EDGE bearer capabilities and MMS, Video, Push2Talk, USSD and SMS core service capabilities.

In 2005, we invested over Rs 8.25 Bn (80.91 Mn US Dollars) in Infrastructure development. Investments were spread over several initiatives encompassing the expansion of capacity and coverage as well as the development and introduction of value added services and upgrades to core technologies. We continued to invest aggressively in the North and East of Sri Lanka, leaving an indelible mark on the regions infrastructure landscape. Today we are the single largest infrastructure provider in the region and provide services to around 350,000 customers.

Surveys, both independent and those commissioned by Dialog, indicate that our network quality is amongst the best in the industry. We successfully completed 3G technology trials in 2005 and will be launching 3G commercially in the year 2006 subject to obtaining regulatory approvals. 3G will allow Dialog to capitalise on the inherent efficiencies of advanced technology whilst also extending its service portfolio to mobile broadband and video-based services such as video calls, video mail, and high quality video streaming. We are keen to ensure that Sri Lanka becomes the first country in the region to provide full scale 3G services. We are thankful to the Telecommunications Regulatory Authority of Sri Lanka (TRCSL) for the opportunity granted to trial the technology last year whereby Sri Lankan consumers have had the opportunity of sampling this next generation of mobile technology ahead of their regional

counterparts. The timing of 3G introduction (in 2006) is very opportune as global 3G momentum is growing at a rapid pace, with the affordability of compatible handsets triggering adoption.

SERVICE EXCELLENCE

Our customer service operation, spanning multiple areas of support accounts for 35% of the composite Dialog Team, a statistic which underlines the emphasis the organisation applies to the delivery of excellent service to our customers. In 2005 we continued to grow our network of service points, based on a network of internal as well as franchised service centres. Ably supported by our business partners, our online service network saw a 66% expansion during the course of 2005.

Our Tri-lingual, 24x7 contact centre operation was further enhanced in 2005 in terms of operating seats and support technology as well as with respect to the enhancement of service levels and support standards.

Modern Customer Relationship and Service Management Technologies play centre stage with respect to the overall capability of the Company in the sphere of service delivery. We have invested very significantly in automated customer servicing technologies which serve to enhance customer convenience and experience.

Our service operation also applies relentless focus on the continuous upgrading of staff skills in keeping with our aim to be the "Best Service Team" in Sri Lanka.

ORGANISATIONAL DEVELOPMENT AND HUMAN RESOURCES

Our people form the most inimitable and invincible element of the Dialog formula. Over the years we have invested heavily in human resource and organisational development. In 2005, we invested more than Rs. 53 Mn to develop the skills of our

"Our Mobile Communications Network continued to be the most advanced and fastest growing in the country"

employees across a wide spectrum of functional areas. The Dialog Academy delivered more than 77,900 training hours over the year, which is an average of approximately one week of training per employee. Our expert staff received over 1,820 days of overseas training resulting in a high level of skill and competence advancement in keeping with the rapid dynamics associated with the global telecommunications sector.

In addition to technical and functional expertise development we have also concentrated on leadership development programmes, aimed at nurturing leadership potential at all levels of the company hierarchy. Our aim is to develop an ever-youthful generation of managers, thereby ensuring an ongoing optimum mix of energy and experience within the leadership team of the company.

In 2005 we extended our organisational development focus to encompass our business partners. The Dialog Academy now plays an instrumental role in developing Business Partner and Franchise operator skill levels in alignment with Dialog Telekom best practices.

INNOVATION

At Dialog, we strive to continually innovate and deliver "The Future.Today." In 2005, we continued our pioneering streak in new technology (and service) introduction. Some of the significant industry firsts were Local Language SMS, Ring back Tones, Push to Talk service and Prepaid Roaming Service. Our value added service portfolio was enhanced and expanded by approximately 23% during the year, with equal emphasis being paid to business, leisure, youth and special needs segments. The uptake of product innovations has been extremely encouraging. During the year Dialog customers sent over 500 Mn SMS messages, or an average of 24 messages per subscriber per month. SMS and VAS revenue grew 136% to Rs. 428 Mn in 2005. We were adjudged the most Innovative Company in Sri Lanka by the National Chamber of Commerce of Sri Lanka in 2004 and 2005.

Our innovation focus extended beyond the core product dimension to the development of enabling technologies targeted at customer convenience. Some of these enabling innovations include automated customer interaction management technologies, payment and top-up (reload) technologies and service management process automations.

CORPORATE DEVELOPMENT – ACQUISITION OF MTT NETWORK (PVT) LTD

In December 2005, we completed the acquisition of a 100% equity stake in MTT Network (Pvt) Limited (MTT). On March 2006 MTT was renamed as Dialog Broadband Networks (Pvt) Limited (DBN). MTT was identified as a well managed and profit making company, empowered with licenses to provide Fixed Wireless Local Loop (WLL) telephony, Data Communications Services and Radio and Cable based telecommunications backbone infrastructure services. MTT facilitates Dialog Telekom Ltd., to extend its investment potential into the fixed line arena while also building on the company's incumbent strengths in advanced data communications and multi-media services.

MTT's high-speed broadband transmission backbone uses MPLS, ATM/Frame Relay/IP transport technologies and TDMA, CDMA and FDMA wireless last-mile access technologies to provide high speed data communication and internet access throughout the Country. The core technologies deployed by DBN support the establishment of Wide Area Networks (WAN), Metropolitan Area Networks (MAN) and Local Area Networks (LAN) for data, video and voice communications users across the network's widespread footprint. DBN is also licensed to provide Fixed Voice and Data and telecommunications services based on WLL technology, with access to CDMA 450 spectrum. The company also possesses an External Gateway Operator (EGO) License and an Internet Service Provider (ISP) license.

Contribution to the Nation and Community

It gives us great pride to report that over the past 5 years

Chief Executive's Review of Operations

Dialog has contributed in excess of 55% of total telephony penetration growth in Sri Lanka. Our relative contribution to telephony growth is even more significant in the Northern and Eastern provinces where we made beach head investments in the face of risk and uncertainty. In these regions we account for more than 90% of total telephony growth.

In addition to the many South Asian firsts we have scored for Sri Lanka, we have also ensured that our Research and Development efforts are focused on localisation for our Sri Lankan market and consumer. For example, though not immediately revenue generating, we believe that empowering our consumers with local language interfaces would accelerate the internalisation of ICT within our people going forward.

Underlying the many contributions to national development the company has delivered, is a business philosophy, which ensures that national, community and social dimensions play centre stage in day to day business decisions of varying significance. We term this "Business Integral CSR" – a delivery of Corporate Social Responsibility which is not only sustainable but also integral to our business and vision for the future. We have however not limited ourselves to such big-bang community development initiatives – as detailed elsewhere in this report, our corporate philanthropy based initiatives, are well structured and are directed on a thematic basis so as to touch a wide spectrum of marginalised communities.

OUR VIEW OF THE FUTURE

We expect Sri Lanka's Telecommunications sector to grow by 30-40% in 2006. This rate of growth is likely to be sustained over the next couple of years taking the nation's telephony penetration to 35-40% by 2008. Growth opportunities would hence attract aggressive competition of market capture in the short term, whereas relative market maturity in the post 2007 period is likely to shift competitive agendas in the direction of customer retention and revenue expansion.

Sustaining and extending our leadership position will require

us to be nimble and agile as we face up to multidimensional competition both from traditional competitors as well as those seeded by the ever changing technology landscape in the telecommunications sector.

We believe that our inherent focus on customer needs and on the establishment of flexible and variabilised cost structures will hold us in good stead under all envisaged future competitive scenarios. Our competitive ethos has been to never under-estimate competition nor fail to respect its value from the point of view of honing our skills and strategies towards delivering the best value and choice to our customers. With respect to facing future competition we also take strength from our past performance – the internalised learning within our team and organisation will be leveraged to deliver growth along the multiple dimension of network build-out, regional operations, customer service excellence and entry into new businesses.

Our mobile operation is (subject to regulatory approval) poised to enter the 3G arena in 2006. This will initiate a new life cycle for our core product and also for the "utility" of mobile telephony to Sri Lankan consumers. With this all-new era of connectivity provision, we will seek to replace market saturation effects with a new growth phase necessarily involving a foray in to multimedia content, and value addition, readily facilitated by 3rd Generation Technologies.

In addition to 3G, the next couple of years are likely to exhibit technology convergence along multiple dimensions. Convergence of connectivity mediums, convergence between telecommunications and content/media delivery, and convergence in terms of core network technologies with an overarching and rapid movement towards an all-IP world. Always at the forefront of technology we will remain steadfast in our commitment to guide our nation along a "best path" with respect to technology adoption.

Technology change calls for parallel advancements in enabling infrastructures and environments. Key among these, the

"Our people form the most inimitable and invincible element of the Dialog formula"

regulatory environment encompassing ICT policies and the effectiveness of the instruments created for their implementation and enforcement. We look forward to the establishment of a future oriented ICT policy for Sri Lanka, accompanied by a sustainable interconnect regime and a well chartered, long term investment friendly, policy framework governing technology introduction and licensing. Based on the impressively progressive approach to telecommunications regulation adopted by the TRCSL over the past years, we are confident that the regulator will steer our sector along a high speed and forward directed path, capitalising on the winds of change.

OUR BUSINESS OF THE FUTURE

It is imperative that we regularly review our own perception of our business – this is especially relevant in the telecommunications sector. Hence, a recasting of our company vision from the pre-2005 articulation "To be the Undisputed Leader in Mobile Communications and its Convergence with the Internet" to a more all encompassing and people-nation centric rendition which reads as "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 business definition for the future follows – the provision of connectivity in a way, which enables empowerment of Sri Lankan people and enterprises. To achieve this we will necessarily go beyond the realms of mobile communications – a sector in which we have excelled. We will challenge ourselves to enter and compete in new business areas focused on connectivity and based on multimedia technologies aimed at connecting peoples via the multiple human sensors and faculties of sight, hearing, speech, emotion and intellect. We believe this is true and holistic convergence – a convergence which is defined from the view-point of the consumer.

We will judiciously evaluate alternative strategies in achieving our vision encompassing organic as well as inorganic growth.

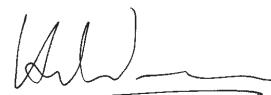
The first bold step in this direction has been consummated through the recent addition of Dialog Broadband Networks to the Company's armory of licenses and capabilities. We are confident and excited with respect to the potential of Dialog Broadband Networks and the leading edge role it will play in Sri Lanka's ICT sector going forward.

CONCLUSION

We look back on 2005 with a strong sense of pride at the many achievements of our talented and dedicated team. However, we are not standing still, and each day represents an opportunity to do things better. We will continue to strengthen our market position while seeking new growth opportunities. We will, increase investment in our people, work closely with our partners, play a leading and innovative role in technology and service deployments, reinvent our cost structures, and drive positive change across the Company. In summary, we will be more competitive and efficient year on year driven by a single-minded focus on delivering value to our customers and shareholders.

In conclusion I would like to thank our customers, the Company's Board of Directors, the TRCSL and Ministry of Telecommunications, government authorities, shareholders, business partners and last but not least my team of dedicated Dialog people, for their support and contribution towards our success in 2005.

Together we look forward to being of service to our Nation in 2006.



DR. HANS WIJAYASURIYA
Chief Executive
Date : 15 March 2006

Senior Management Team



From left to right

Supun Weerasinghe

Head of Corporate Planning and Quality Management

Chaminda Ranasinghe

*Head of Information Technology, Charging Systems and
Convergence Planning*

Thivanka Rangala

Head of Corporate Finance and Internet Business

Jacqueline Lord

Head of Human Resources Management and Development

Nushad Perera

General Manager - Sales and Marketing

Pradeep de Almeida

*Head of Network Operations and Fundamental Network
Coordination*

Vyjayantha Mothilal de Silva

*General Manager - Corporate Planning, Quality Systems,
Corporate Development, Management Information Systems and
Enterprise Risk Management*



From left to right

Dr. Hans Wijayasuriya
Executive Director/Chief Executive

Anoja Obeyesekere
General Manager - Legal, Regulatory Affairs, Administration and International Business

Wan Zaidan Wan Mahyudin
Chief Financial Officer

Shayam Majeed
Head of Network Planning

Mohamed Rosman Mat Ali
General Manager - Engineering Planning and Development

Upali Gajanaika
General Manager - Engineering Operations and Information Technology

Sandra de Zoysa
Head of Customer Service



Profile of Senior Management Team

1.

WAN ZAIDAN WAN MAHYUDIN

Mr. Wan Zaidan has rendered his expert services as the Company's Chief Financial Officer (CFO) since the year 2000. He holds a Bachelor of Science in Finance from the University of San Francisco, USA and a Masters in Business Administration (Finance) from the Golden Gate University, San Francisco, USA.

Mr. Wan Zaidan's portfolio at Dialog Telekom covers Financial Operations, Corporate Finance, Business Process Control, Financial Management and Financial Accounts, Credit Management and Billing Operations. Among the initiatives completed and in progress under his leadership

are the establishment of a full fledge Revenue Assurance Unit and Centralised Procurement Unit in line with the good corporate governance aspirations of the Company.

An employee of Telekom Malaysia Berhad, he counts twelve years of experience in the telecommunication industry with seven years of experience in the sphere of Finance & Quality Assurance in Malaysia. His career also includes exposure in the Banking Industry with Perwira Habib Bank for four years and as an Internal Auditor with Bank Bumiputra Malaysia Berhad for two years.

2.

MOHAMED ROSMAN MAT ALI

Mr Rosman Ali, was appointed as General Manager, Engineering Planning and Development of Dialog Telekom in 2001, and is responsible for the planning and development of the Company's mobile telecommunication network and international services infrastructure.

He is the chairman of the tender committees for most of the procurements of the network components. He is also the chairman of the Value Added Services(VAS) Steering Committee and has been a spear head in introducing new VAS and New Technologies such as MMS, GPRS and 3G Technology to the Dialog network.

Mr. Rosman Ali graduated with a Bachelor of Science in Electrical Engineering from the University of Missouri, Columbia, USA.

An employee of Telekom Malaysia, his tenure of service prior to his appointment at Dialog Telekom totals to seventeen (17) years during which he has accumulated extensive experience in Telecommunication Planning, Development and Operations in the fields of Transmission which includes Microwave and Fibre Optic Systems and other services such as NMT Mobile System, VHF/UHF systems and Broadcast systems. He was also an internal Auditor for ISO 9002 and Quality System Review (QSR) at Telekom Malaysia.

3.

VYJAYANTHA MOTHILAL DE SILVA

Mr. de Silva functions as the General Manager, Corporate Planning, Quality Systems, Corporate Development, Management Information Systems and Enterprise Risk Management. In addition to these functional areas, he actively get involved in Strategic Planning, Valuation and Acquisitions, Feasibility Studies, Process Improvement and Program Management.

He holds a Bachelor of Science in Production Engineering from the University of Peradeniya, a Master of Science in Information Technology from University of Keele, UK, MBA from the Post Graduate Institute of Management, University of Sri Jayewardenepura, Post Graduate Diploma in Strategic

Management from Netherlands International Institute of Management, Maastricht and a Post Graduate Diploma in Marketing from the Post Graduate Institute of Management, University of Sri Jayewardenepura.

As the Head of Quality Systems, Mr. de Silva has been instrumental in obtaining ISO 9002(1994) in 1999, ISO 9001(1994) in 2001 encompassing Product Development and ISO 9000(2000) in 2003. He also spearheaded the corporate image-building programme through community based developmental projects that enhanced the social responsibility aspects of the Company.



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4.**UPALI GAJANAIKE**

Mr. Gajanaike, General Manager Engineering Operations and Information Technology, has been recently appointed as Chief Operating Officer (COO) of Dialog Broadband Networks (Pvt) Ltd, a fully owned subsidiary of Dialog Telekom.

Mr. Gajanaike has over 11 years of experience in Telecommunication and is one of the Senior Management members who has been with Dialog Telekom since the inception of the Company. Joined in 1994, he has been a key member of the first GSM network rollout and many strategic projects and businesses initiated subsequently. His extensive

experience largely covers Planning, Project Management, Operations & Maintenance of telecom networks, and Information Technology. He has also gained exposure at overseas subsidiaries and business ventures of Dialog Telekom Malaysia in Africa, Malaysia, and Sri Lanka.

Mr Gajanaike holds a Bachelor of Science in Electronic and Telecommunication Engineering from the University of Moratuwa, Sri Lanka and also holds a MBA from the University of Colombo, Sri Lanka. He is currently a member of the Institution of Electrical Engineers (IEE), UK and the Australian Computer Society (ACS), Australia.

5.**ANOJA OBEYESEKERE**

Mrs. Obeyesekere functions as the General Manager Legal, Regulatory Affairs, Company Administration and International Business of the Company. She also functions as the Secretary to the Board of the Company.

Mrs. Obeyesekere joined Dialog Telekom as its first Manager Legal designated as General Counsel in June 1996 and she was appointed to manage the International Roaming operation in April 1997. She also functioned as the General Manager Human Resource Management of Dialog Telekom from April 1998 till February 2004.

Mrs. Obeyesekere is a Lawyer by Profession with over 12 years experience. She graduated with Honours from the Sri

Lanka Law College and was subsequently called to the Bar in November 1992. She was appointed a Commissioner for Oaths in 1993. She holds a Master of Law in Information Technology and Telecommunication from the University of Strathclyde, United Kingdom.

Presently she is the Vice Chair of GSM Asia Pacific, the regional interest group of the GSM Association.

She represents the Company as a speaker at international conferences conducted by the GSM Association and International Telecommunication Union.

6.**NUSHAD PERERA**

Mr. Perera functions as the General Manager Sales and Marketing, and heads the team that ensures strategic collaboration of the various Sales and Marketing disciplines including Sales (Corporate and Retail), Dealer Channels, Distribution, Brands, Marketing Communications, Loyalty, Market Development & Expansion, Account Management and Technology Marketing.

Mr. Perera holds a Masters Degree in Business Administration (Marketing) from the University of Leicester UK. He is also armed with a Diploma in Marketing Management (CIM UK)

and holds a Certificate in Sales Management from the Chartered Institute of Marketing (CIM). He is a Certified Professional Marketer with the Asia Pacific Marketing Federation and won the first Gold Award at the CIM Marketers Awards in 2001. He has 7 years of experience with Dialog Telekom, and 15 years of marketing and sales experience largely in the ICTA and Marketing Communications industries.



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Profile of Senior Management Team

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PRADEEP DE ALMEIDA

Mr. De Almeida functions as the Head of Network Operations and Fundamental Network Coordination of the Company. He also functions as the Chairman of the Technology Strategic Management Committee of Dialog Telekom.

Mr. De Almeida graduated with a Bachelor of Science in Electronic and Telecommunication Engineering from the University of Moratuwa and is a Member of the Institution of Engineers, Sri Lanka. He also holds the Accreditation Certificate from the Institution of Engineers Australia (IE Aust).

Mr. De Almeida has ten years experience in ensuring the smooth operations and maintenance of the Company's GSM network. Currently he heads the engineering projects, VAS, New technologies, convergence and technical project management divisions as well. He has also gained international exposure at overseas subsidiaries and business ventures of Telekom Malaysia in India Africa and Sri Lanka.

8

SANDRA DE ZOYSA

Ms. De Zoysa functions as the Head of Customer Service of the Company. Having achieved ISO 9002 certification in 1999, the Company's service function has grown under her leadership to a proficient and reliable 24 x 7 operation driven by a highly competent workforce, which provides the service backbone to the Company's 2.2 Million strong customer base.

Ms. De Zoysa has been instrumental in introducing cutting edge service delivery initiatives focused on broad basing and decentralisation of customer contact points, introduction and internalising of International best practices in Customer Relationship Management and the deployment of multimodal customer contact technologies.

Ms. De Zoysa also functions as the Chairperson of the Service Delivery Strategic Management Committee of Dialog Telekom. She counts over 14 years of cumulative experience in Customer Service Management within the mobile telecommunications industry.

9

JACQUELINE LORD

Ms. Lord functions as the Head of Human Resources Management and Development (HRM&D) of Dialog Telekom. She also holds the position of Chairperson of the Company's Strategic Management Committee for the Support Services Divisions. She has been with Dialog Telekom for 8 years.

Ms. Lord obtained a Post Graduate Diploma in Management Studies from the University of Portsmouth, UK in 1991 and is currently reading for a Master of Science in Human Resource Management at the University of Leicester, UK. She is also a member of the Executive Committee of the Association of Human Resource Professionals in Sri Lanka.

Ms Lord has over 14 years experience in the field of Human Resource Management and Development. External to the Human Resource field, she has also gained expertise in the field of infrastructure management, procurement, risk management, insurance and health and safety.

10

SHAYAM MAJEED

Mr. Majeed functions as Head of Network Planning at Dialog Telekom. He also functions as the Vice Chairperson of the Technology Strategic Management Committee of the Company. Mr Majeed's current scope of responsibilities involves radio network planning and optimisation, site acquisition and BSS procurement management.

Mr. Majeed graduated with a Master of Science in Electrical Engineering specialising in Wireless Communication from the University of Texas, Arlington, USA in 1996, and holds a Bachelor of Science in Computer Systems specialising in Telecommunication from the University of Houston, Clear Lake, USA (1991). He is a Member of the Institution of Electrical and Electronic Engineers (IEEE), USA and Institution of Electrical Engineers (IEE), UK.

Mr Majeed has been with Dialog for 8 years. Prior to joining Dialog Telekom, Mr. Majeed worked as a RF Engineer at Primeco Personal Communications, Texas, USA.



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THIVANKA RANGALA

Mr. Rangala functions as Head of Corporate Finance and Internet Business. He also functions as the Chairperson of the Business and Finance SMC of Dialog Telekom.

Mr. Rangala counts over 15 years experience in the accountancy field having exposure in Trading, Construction, Aqua Culture, Hospitality, Manufacturing and Service industries. He has also gained experience in project management, CRM, content management and general management of the Company's R & D activities.

Mr Rangala holds a MBA from the University of Western Sydney, Australia and is a direct fellow of CIMA [FCMA]. He has also followed a management programme at INSEAD [YMP] and is a Member of the IMSL. In May 2004, Mr Rangala was awarded the Pinnacle Award for 'Business Manager of the Year 2003' by CIMA, Sri Lanka. He holds external post as the Director/Treasurer of LISPA and Director of the Infotel Council.

12

CHAMINDA RANASINGHE

Mr. Ranasinghe functions as Head of Information Technology, Charging Systems and Convergence Planning. As a member of the senior management team, he is responsible for the design, execution and on-going assessment of the Company's IT strategies whilst ensuring an unhindered and secure operation of all IT systems within the Company. Further, he is responsible for Charging Systems based on pre-paid and post-paid platforms and their future convergence.

Mr Ranasinghe obtained a Bachelor of Science (Hons) Degree in Computer Science from the University of Colombo in 1997 and a Diploma in Marketing from the Chartered Institute of Marketing (UK) (DipM.ACIM) in 1995. He is presently reading for his PhD in Software Agent Technology. He is also a visiting lecturer at the IT Faculty of the University of Moratuwa and University of Colombo School of Computing.

13

SUPUN WEERASINGHE

Mr. Weerasinghe functions as Head of Corporate Planning and Quality Management. He joined Dialog Telekom in 1999. He is the Vice Chairperson of the Business and Finance Strategic Management Committee of Dialog Telekom.

Mr. Weerasinghe holds a Bachelor of Science degree in Accountancy and Financial Management (1st Class Hons) from the University of Sri Jayewardenepura, Sri Lanka and a MBA (Distinction) from the University of Western Sydney, Australia. He is a passed finalist of CIMA, UK.

Mr. Weerasinghe has wide expertise in Corporate Planning in areas such as business planning, performance management, tariff designing, investment appraisals, regulatory affairs and acquisitions. He was also instrumental in implementing in Total Quality Management systems such as ISO, Six Sigma, and COPC at Dialog Telekom. He has obtained international exposure by working with TMI's international ventures in Asia.

BUSINESS review

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BUSINESS REVIEW





Delivering on Dreams

Our ambition is to provide people with the connectivity to fulfill their dreams, ensure their success and enhance the quality of their lives and enterprises.

Business Review



Business Review

SUSTAINED GROWTH THROUGH THE YEARS

Indicator	2001	2002	2003	2004	2005	CAGR
Revenue (Rs. Bn)	3.22	4.59	7.48	11.41	18.03	54%
Net Profit (Rs.Bn)	0.73	1.08	2.86	4.10	7.01	76%
Value addition (Rs. Bn)	1.65	2.39	4.28	6.83	10.91	60%
Customer Base (Mn)	0.28	0.49	0.83	1.36	2.12	66%
Base stations	200	270	385	460	575	30%

Table 1: Key Performance Indicators

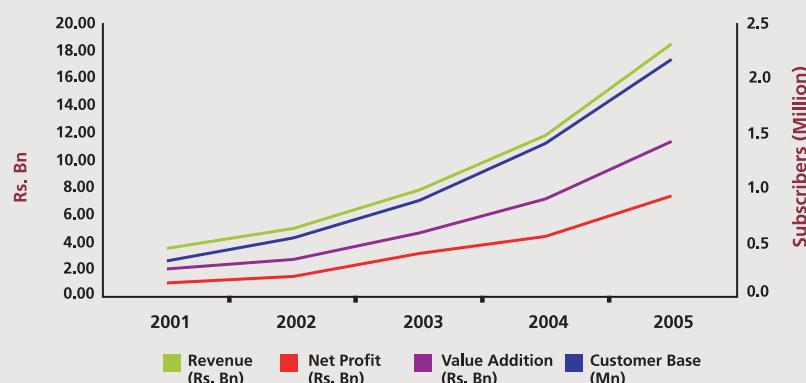


Figure 1: Key Performance Indicators

"Dialog Telekom has consistently focused on multiple dimensions of growth, resulting in the achievement of industry and in most cases commercial sector leadership in growth indicators."

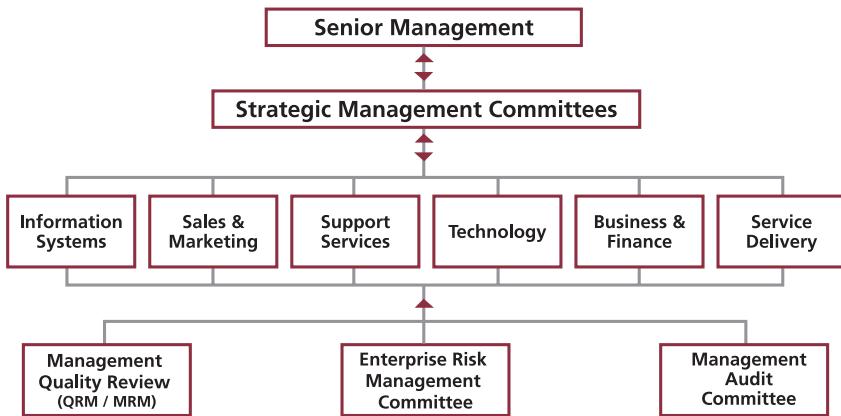


Figure 2: Strategic Management Structure

PERFORMANCE MANAGEMENT

World Class Practices at Dialog

Dialog takes great pride in being a regional leader in the adoption of Best Practices in Planning and Performance Management.

Dialog's robust foundation in planning and performance management is evidenced by its winning a large number of prestigious National and Regional Awards as listed in Achievements and Recognition on page 8.

Strategic Planning

One of the main success factors of Dialog Telekom is its extensive strategic planning process. A notable outcome of Dialog's strategic planning processes is that the Company has achieved 100% realisation of planned results since 2001.

The Company constantly improves and upgrades its strategic planning and management processes. It has adopted a formal, structured strategic planning and monitoring process since 1998. In 1999, Action Plan and Performance Reviews were introduced and in 2000, the Dialog Navigator (Balanced Score Card) was introduced as a performance-measurement tool integrated with the Business Goals and objectives of the Company.

The Company's Business process planning process is carried out annually as illustrated in Figure 3 and is founded on the delivery of the Company's Vision along four Leadership Dimensions on

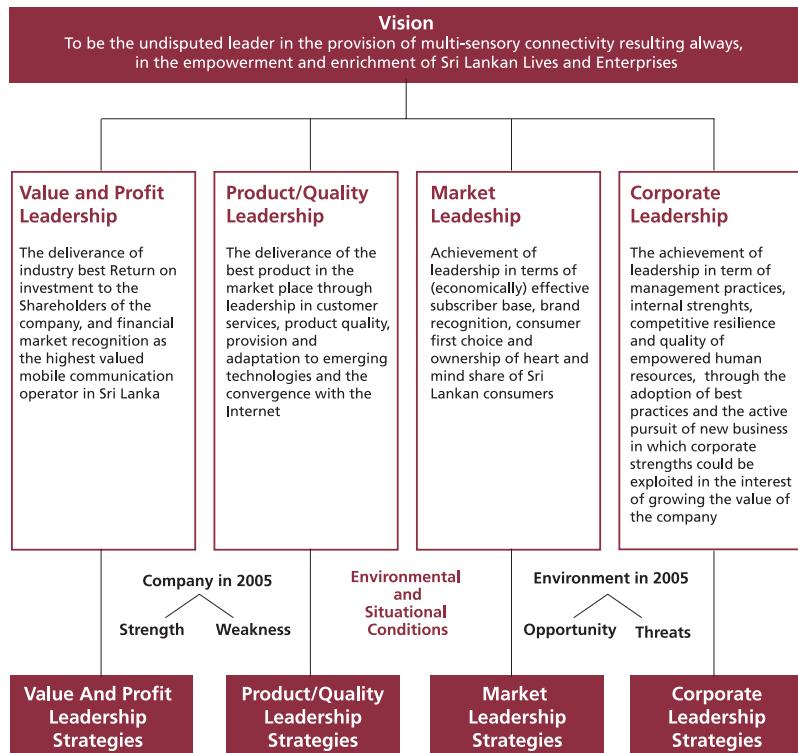


Figure 3: Dialog's Business Planning Framework

Profit & Value, Market, Product & Quality and Corporate Leadership.

Strategic Management

The operations of the Company are managed through a faculty of Strategic Management Committees (SMC), focused on the delivering of corporate targets within the core functional areas of Service Delivering, Technology, Business and Finance, Information Systems, Sales Marketing and Support Services.

The primary role of an SMC is to provide strategic and operational leadership in all functions of the Company. Strategic Management Committees are responsible for proactive and timely implementation of Business Plans and related projects.

The Strategic Management Committees are supported by the Management Quality Review (meeting) - MRM, Management Audit Committee (MAC) and the Enterprise Risk Management (ERM) Committee.

Business Review

Performance Management - Dialog Navigator

The Dialog Navigator is a performance management tool that is aligned with Dialog's 4 dimensional vision of leadership. The Dialog Navigator guides the Company in the execution of its vision and strategies and provides feedback on both internal business processes and external outcomes.

The Navigator also communicates organisation strategy to employees through measures, targets and action plans, helping them understand the balance between tangible benchmarks such as financial performance and intangible outcomes such as customer satisfaction.

At present, the Company operates 3 Navigators (Balanced Scorecards) that monitor Dialog's mobile, internet and international services. The management team has access to each of them, and all members of the staff have access to their respective key performance indicators (KPIs). This facilitates the monitoring of individual performance and individual contribution towards the achievement of corporate goals.

Benchmarking

Dialog's commitment to world class benchmarking is demonstrated by the Company being one of 55 mobile operators in the Asia Pacific region which participated in the Operational Efficiency of Asia Pacific Mobile Network Operators – Benchmark Study

2005, conducted by BARKAWI & Partner, an independent management consultancy company based in Germany. The results are used intensively used for Organisational development and Performance Programs across the Company.

ISO 9001:2000 Quality Management System

In 2001, Dialog was the first Mobile Telecom Operator in South Asia to receive ISO 9001 Certification.

In 2003, Dialog Telekom also became the first mobile Company in Sri Lanka to receive the Re-Certification of ISO 9001:2000. The certification is based on the Company's success at improving design, development and provision of mobile telephony services based on GSM standards, international telecommunications services, internet services and content delivery via mobile telephony and electronic media, including the sales and servicing of terminal equipment.

Key performance indicators have been set for all processes within the quality management system and are automated through the Dialog Navigator.

Leadership Through Staff Empowerment

A key aspect in Dialog's achievement of its leadership position in the industry is the empowerment of staff, who contribute passionately to the success of the Company.

Dialog's Cross Functional Teams (CFT) are a key means of harnessing that passion, and reflect the priority the Company places on development of second-line managers.

Quality Improvement Teams

Quality Improvement Teams (QIT) address more specific quality issues at process level. The cross functional participation enables the team to analyse the issues at hand in multiple dimensions. The QITs also serve as a vehicle for staff development as they provides an opportunity for the staff to sharpen their team work, problem solving and management skills.

GLOBAL REACH THROUGH PARTNERSHIPS

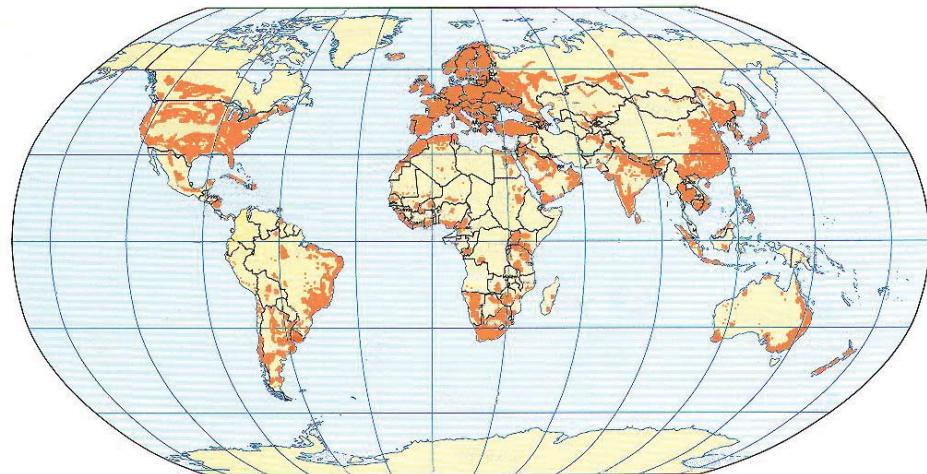
Automatic International Roaming (AIR)

Dialog Telekom made Sri Lanka the First South Asian country to support Automatic International Roaming. The advent of International Roaming in 1997 activated a previously uncharted source of foreign exchange revenue for Sri Lanka.

Dialog Telekom has consistently enhanced the VAS available on its international roaming network, with the objective of growing its share of usage from inbound as well as outbound clients. The extension of its roaming service to encompass GPRS roaming has

 GSM Roaming Coverage

Figure 4 : Roaming Coverage Map



facilitated subscribers to use GPRS mobile data facilities (for example internet or intranet access) as well as GPRS based value added services (such as MMS, mobile TV and Push 2 Talk) while roaming overseas. The roaming based product development efforts of the Company have also been targeted at reducing costs pertaining to international roaming services. Facilities to screen incoming calls and call Sri Lanka at preferential rates using callback, and the advent of prepaid roaming, are some of the paradigm shifting services that have extended the applicability of international roaming to a wider segment of consumers. An aggressive approach to VAS development has ensured that the Company provides a captive product proposition to inbound and outbound roamers alike.

The table below provides roaming partner statistics as of 31 December 2005.

Countries	Operators
GSM Roaming	185
GPRS Roaming	75

Table 2

International Hubbing Services for Foreign Networks

The latest foray of Dialog Telekom in the sale of its services and infrastructure to overseas operators is to provide turnkey solutions to foreign networks for the

setting up and operation of AIR. Dialog Telekom's impressive roaming client list makes it attractive for start up operators to access partner networks via the roaming hub in Sri Lanka. This emerging line of business not only helps Dialog Telekom to open up new revenue streams, but also solidly establishes the international presence of the Company.

International Services Network

Following industry liberalisation and the cessation of Sri Lankan Telekom's (SLT) monopoly on international services, Dialog Telekom made an entry in to the international services arena, providing IPLC and voice traffic origination/termination services in primary competition with SLT.

Spurred on by the singular head start achieved through being the first international operator off the block following liberalisation in 2003, Dialog Global (the Company's international services business unit) has established a comprehensive network of international linkages facilitating the flow of traffic to and from Sri Lanka to most international destinations.

Dialog Global derives significant strength and infrastructural advantages from the global network of TM. Principal among the latter synergies derived from its parent company is the access to international bandwidth on a far reaching network of submarine fibre optic cables. Other synergies have facilitated the provision of managed services and centralised traffic clearing facilities.

International Termination Facility to Foreign Operators

Dialog Global voice termination services are provided to a range of first and second tier international operators. Partner operators include British Telecom, SingTel, Telekom Malaysia, Belgacom and several others. Revenues accruing from the provision of the said services form a healthy foreign exchange stream for the Company, with each minute terminated through Dialog Telekom's international gateway infrastructure attracting a foreign exchange inflow to the Company and country.

The Company is playing an increasingly active role in the (wholesale) international bandwidth market, by virtue of its status as a service provider for SEA-ME-WE 3 and SEA-ME-WE 4 submarine cable bandwidth.

International Calling Card – Dialog Global

In order to aggregate originating international voice minutes from non Dialog GSM subscribers, the Company launched its international calling card branded as Dialog Global. These cards are distributed via Dialog Telekom's 15,000+ retail network and the mobile prepaid top-up/recharge card could be used to refill these calling card accounts.

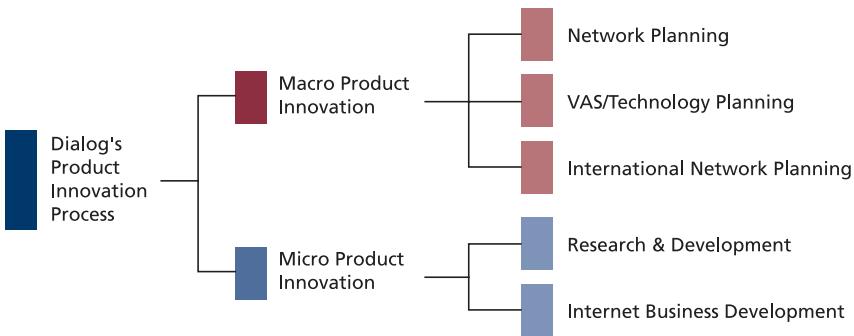


Figure 5: Product Innovation Structure

Business Review

Bandwidth for BPO Operations

Dialog Telekom envisions future demand for international bandwidth escalating due to the entry of Sri Lanka into the BPO space. Dialog Telekom's reach extends well beyond the locally connected SEA-ME-WE 3 and SEA-ME-WE 4 cable to all major submarine cables such as APCN2, TPC-5, CHINA-USA through bridging arrangements supported by TM at its multipoint global nodes situated in all major global markets.

INNOVATION

Investment for Product & Process Innovation

Dialog stays ahead of competition and the region in terms of product and process technology, continuously investing substantial financial resources in product innovation and capacity building.

- Total investment of more than US\$ 290Mn
- More than US\$ 30Mn Invested in new technologies during last 3 years
- More than US\$ 5 Mn invested during last 3 years in Research and Development/Technology Integration and Localisation

Dialog has continuously innovated in all aspects of its product/service portfolio. Most products earned the distinction of being first in Sri Lanka, and in many cases where also the first in the South Asian Region.

Applicability, Availability and Affordability are the three perspectives that govern our new products and services. An excellent example is SARU (a dual line - limited/full mobility SIM), which gives rural communities the luxury of mobile communications at affordable rates.

These innovations have gone hand in hand with Dialog's continuous increase in nationwide coverage, which now spans more than 85% of the population. Due to the dynamism of technology evolution and its impact on technology enabled services, Dialog Telekom's corporate structure features separate divisions focusing on macro product innovations involving technology integration and core network upgrades, and micro product innovations such as segment specific VAS.

MACRO PRODUCT INNOVATION

Dialog Telekom has been at the forefront of network innovation. The following is a list of technology/service classes that were introduced with large scale technological upgrading of the network, and a significant degree of localisation and integration.

- General Packet Radio Services (GPRS)
- EDGE Data Service
- Multimedia Messaging Services (MMS)
- Wireless Application Protocol (WAP)
- Instant Roaming (Prepaid Roaming)
- Dialog Global International Services
- Satellite Mobile Telephony (Dialog SAT)
- Dialog Internet - ISP Services
- Third Generation Mobile (3G)

MICRO PRODUCT INNOVATION

Some of the VAS developed based on the core above technology innovations include;

- SMS based applications such as banking, downloads, and Information on Demand services
- SMS and GPRS based Local Language (Sinhala/ Tamil) services

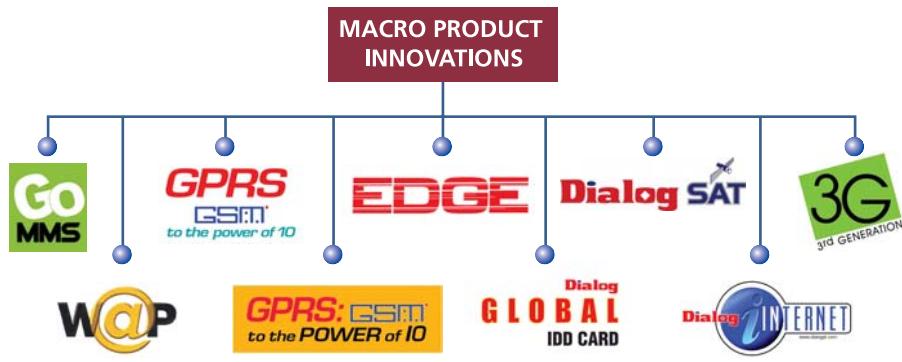


Figure 6: Macro Product Innovations

- GPRS/WAP based Applications such as WAP games, Content downloads and mobile video streaming
- Voice based applications such as greetings, sports update via IVR and voice chat
- Location Based Services and Interactive Cell Broadcasting

A comprehensive list of Micro Product Innovations are listed in Table 3.

SMS based Applications and Re-useable Content Services

SMS provides a convenient and user friendly communication medium for the delivery of a wide variety of VAS. SMS provides an underlying bearer for a range of Information on Demand (IoD) services spanning a wide spectrum of information categories ranging from financial information, through entertainment to sports and news. SMS is also used as a primary access medium for the request and delivery of reusable content services.

Download of ring tones, games, wall papers, multi media clips etc., are rapidly growing in popularity. The Company maintains a comprehensive and regularly updated content store, which provides consumers with access to a wide variety of novel and fully licensed content.

INNOVATION	PRODUCT
SMS BASED APPLICATIONS	
Local Language SMS	SMS in Sinhala and Tamil
Mobile Banking	SMS Based Mobile Banking
SMS Information on Demand	Stock Market, Foreign Exchange Rates, ATM Locator, Roaming Information, Flight Information, Bill Details, Local and Foreign News, Islamic Prayer Time, Daily Horoscope, A-Z Street Locations, Request Blood Donors via SMS, O/L & A/L Results, Cricket Scores, SLT Business Directory, TNT Courier Status, Election Results and Auspices Times, Dictionary.
Evolution SMS	SMS to e-mail or fax
Interactive SMS	SMS Chat, Match Maker Services, Customer Service Assistance.
Smart Messages on Demands	Ring Tones, CLI Icons, Sinhala and Tamil Messages, Operator Logos
Community Based	SMS 112 for the hearing impaired
SMS Games	Cricket, Kana Mutti, Trivia, Snakes and Ladders
Bulk Transmitting of SMS	Bulk SMS
SMS to Computer Terminal	SMS to TV and Radio
SMS Alerts	Alerts to corporate
WAP BASED APPLICATIONS	
WAP Gateway	Information on Demand on WAP, Mobile Yellow Pages, Email via WAP
Online Games	Games via WAP and GPRS
Sports Clip	Cricket Match Highlights
LOCATION BASED APPLICATIONS	
Interactive Cell Broadcasting	Advertising using Cell Messaging
Location Based Services	Information on nearest ATM, Hospital and Police Station
VOICE BASED APPLICATIONS	
Customer Service	Dial 456 for Audio Billing Inquiry, Kiosk (Self-help Touch Panels)
Chat	Voice Based Chat Service
Infotainment	Funky Greeting Service, Ring-in Tones
Sports	Live Updates and Interviews
Local Language Services	Infotainment Services in Sinhala and Tamil
Medical Appointments	E-Channeling

Table 3: Micro Product Innovations

Business Review

WAP & GPRS based Applications

Dialog Telekom's GPRS portal provides a mobile Internet interface to a range of infotainment services from reusable content services to information retrieval and search engine facilities.

Following on from the success of SMS, Multimedia Messaging (MMS) spearheaded a path to providing the latest method of communication. MMS enables the transmission of messages containing high-resolution colour pictures, full stereo audio sound, drawings, animations and video streaming, in any combination between mobile devices and/or related applications.

Dialog Telekom has exploited the potential of underlying GPRS (and more recently EDGE) technologies to their maximum, by providing a range of video streaming applications. Principal among the latter is the mobile TV service supporting live TV streaming to compatible mobile devices.

TECHNOLOGY INVESTMENT

Dialog Telekom believes a Technology company is one which understands technology in terms of its fundamental strengths – a company which attaches to its technology, a philosophy which is contextual and appropriate to the environment within which it operates.

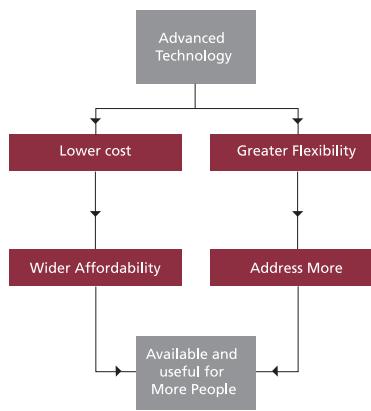


Figure 7: Inclusive Technology

Dialog Telekom attributes its growth to its inclusive approach to Technology and Innovation. The Company believes that advanced technologies are inherently capable of delivering goods and services at lower cost while possessing greater flexibility and utility – it follows that advanced technologies

empower Dialog to deliver goods and services which are more affordable and more useful to more people. Advanced Technology is hence Inclusive and not Exclusive, and their deployment should be driven by a paradigm of inclusion and not exclusion.

Dialog Telekom believes that the communities when equipped with the latest technologies will enhance their lifestyles and hence collaboratively contribute to the wealth of the country.

Multiple Dimensions to Technology Investments

The Dialog story is underpinned by an unwavering commitment to Capacity Building followed by aggressive re-investment.

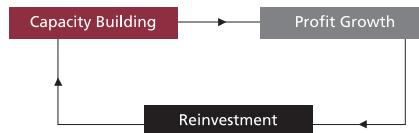


Figure 8: Reinvestment Cycle

Dialog Telekom's technology investments are focused on the key dimensions of Inclusion, Services Delivery, National Competitive Advantage and Internal Infrastructure enhancement.

“Dialog technology investment has delivered quantum changes in the quality of life of Sri Lankan people”

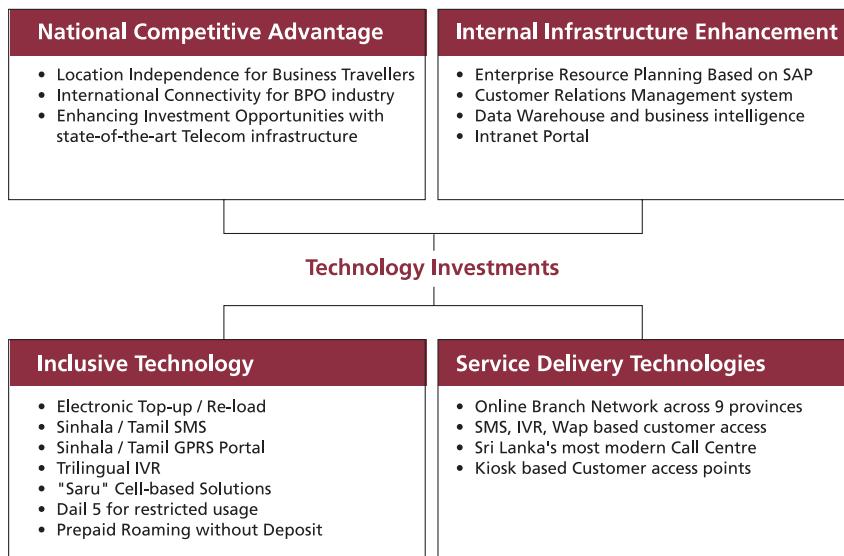


Figure 9: Technology Investments

CORE NETWORK INVESTMENTS

Dialog technology investments have delivered quantum changes in the quality of life of Sri Lankan people; in particular it is important to note that Dialog is the single largest infrastructure investor in the North and East. The provision of telecommunications services to the Northern Province shortly after the ceasefire was made possible through the introduction of cutting edge satellite based transmission technology – not commonly used for backhaul purposes on a GSM Network. A series of beachhead investments over the years have made significant successive

impacts on the living conditions of Sri Lankan society and the local telecommunication industry.

Dialog Telekom continues to forge an ever-expanding network footprint across Sri Lanka and operates approximately 600 base stations distributed across all 9 provinces of the country, on a dual band GSM 900 and 1800 spectrum configuration.

It is estimated that the Dialog Telekom network covers 65% of total land mass and 85% of populated land mass. This was achieved through continuous direct investments in coverage expansion technologies.

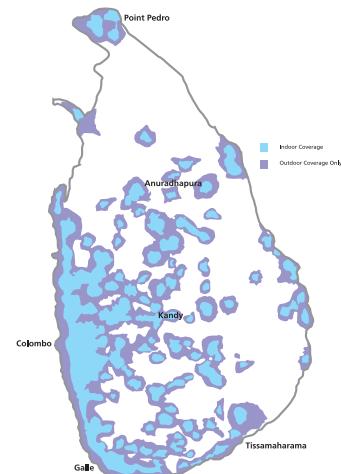


Figure 10: Current GSM Coverage

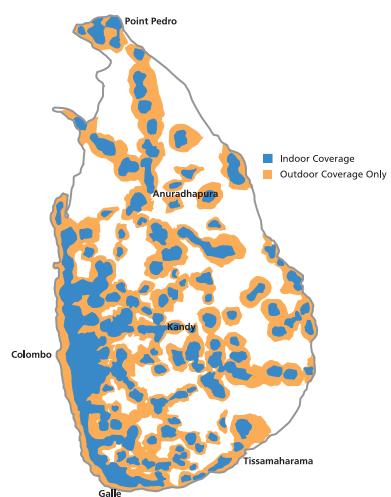


Figure 11: Predicted GSM Coverage For 2006

"Dialog is consistently focused on operational excellence"



Figure 12: Dialog's state-of-the-art Network Operations Centre

Business Review

Table 4 presents the number of mobile switching centres and base stations operated by Dialog Telekom for the period 2001-2005.

3G Trial Network

The Company has already demonstrated its commitment to the next generation of mobile technology through investment in a 3G trial consisting of 12 Base Stations (Node Bs) in the City of Colombo. The trial network set up by Dialog has already placed the country ahead of the region with respect to new technology introduction.

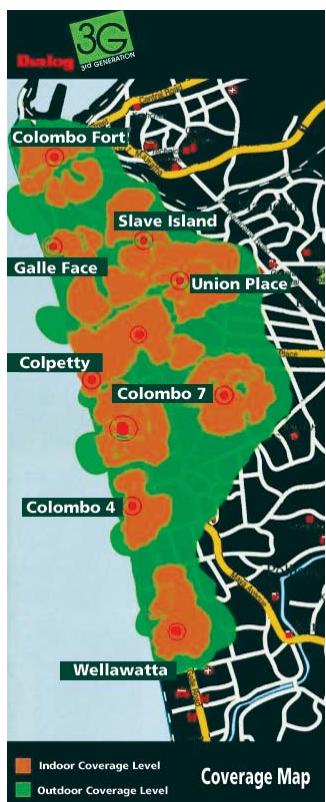


Figure 13: Trial 3G Coverage

	As at end of 31 December				
	2001	2002	2003	2004	2005
Mobile Switching Centres	3	4	5	5	6
Base Station Controllers	5	7	11	16	27
Base Stations	177	278	371	457	575

Table 4 : Network Growth - Switching and Base Station Infrastructure

SERVICE EXCELLENCE

Dialog Telekom prides itself with providing and continuously developing a service capacity to fully satisfy the needs of more than 2 million Sri Lankan consumers.

Subscribers	2.12 Million
Calls to Contact Centre	900,000/month
New Connections	75,000/month
Service Portfolio	100+
Geographic Presence	18 Branches/Arcades, 6 Franchise outlets

Table 5 : Service Indicators

Service Delivery Excellence with a Human Touch

Dialog Telekom's service front end is powered by its 550+ member service team, which accounts for 35% of the Company's workforce, an investment in human capital which emphasises the Company's commitment to maintaining close contact with its 2 million strong

customer base.

The Company's Contact Centre operation functions on a 24x7 basis and is one of the most advanced in the country. This flagship installation, which has set the pace for contact centre technology deployment in Sri Lanka, is manned by 400 strong highly trained workforce.

Dialog's product service is tri-lingual with specialised support being available in sign language for the hearing impaired and in foreign languages for international roaming clients. Service delivery initiatives for the differently able also encompass the provision of Braille bills and disabled parking and access facilities.

Franchise Service Centres to build customer support infrastructure across the country.

The Company's self operated service network is supplemented by a growing network of franchised service delivery points which in turn are subject to close developmental focus and scrutiny by Dialog Telekom, with respect to the maintenance of consistent service delivery standards.

"Dialog Telekom attributes its growth to its Inclusive approach to Technology and Innovation"

Internet Based Service and Information Delivery (Website)

The Company's multi functional website www.DialogTelekom.com provides an active interface for existing and potential customers.

In addition to a comprehensive range of information on products and services, the website provides real-time access to service delivery facilities. Customers are empowered with the facility to make payments, engage in web chat with customer care agents, download reusable content and subscribe for VAS.

Dialog's Exclusive Business Partner Network

The Company has a widespread dealer network, operated primarily by 11 exclusive Dialog Business Partners, which has established points of presence for the Company's products and services in all major towns including those in the Northern and Eastern provinces.

Business Partners account for approximately 90% of prepaid connections and 70% of postpaid new connections. Over 3000 employment opportunities have been created through the Dialog Dealer Network.

Recharge Card Distributor Network

With a prepaid subscriber base in excess of 1.6 million Dialog now has a 15,000-strong distribution outlet network for the top-up (re-charge) of

prepaid mobile phone accounts – Dialog KIT. The Company has also pioneered the use of SMS based electronic top-up, for greater consumer convenience with 3000 eZ Reload outlets as of December 2005.

payment convenience. Dialog has also partnered with its exclusive dealer, Abans, to operate an SMS-based on line payment network at 36 of its branches.

In 2005 Dialog also entered in to a strategic partnership with the largest supermarket chain in the country, Cargills to offer Dialog bill payment option through the supermarket, which will enable Dialog subscribers to pay their bills more conveniently.

In a pioneering initiative carried out in collaboration with the Commercial Bank of Sri Lanka, Dialog also facilitated the direct topup of prepaid accounts from customer's bank account.

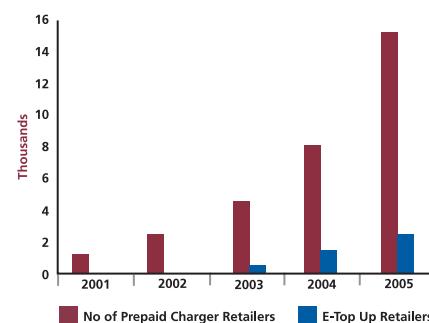


Figure 14: Recharge Card and Electronic top-up retailer Network

The Largest online Collection Network in Sri Lanka

The Company provides customers with the convenience of over 500 payment points across the country. Payment options including ATMs, Tele Banking, Internet and the use of prepaid vouchers (paper based and electronic) provide an added dimension to

HUMAN CAPITAL EXCELLENCE

The Company's Human Resource plans and related investments are aligned to the realisation of established corporate targets. This creates the foundation to sustain a strategically connected human resources architecture, which makes available the required human resources and capabilities in meeting both the short and long term goals of the organisation.

Description	2001	2002	2003	2004	2005
Staff Strength	541	703	926	1,217	1,706
Staff Retention	89%	92%	87%	90%	88%
Staff Growth %	32%	30%	32%	31%	40%
Productivity (customers/employee)	495	673	897	1,118	1,244

Table 6: Key HR Indicators

"The Company is enriched with a Knowledge base of over 1.5 Mn Man days in the Sri Lankan Telecom Industry"

Business Review

Human Capital Investment vs. Productivity Enhancement

Employee productivity and human capital investment indicators are established, monitored and aligned to the corporate goals in order to ensure improved shareholder value. The mechanism adopted by the Company ensures that the level of investment in Human Capital is relative to the increase in business growth. The Human Capital budget is planned within 5%-7% of expected revenues.

Table 8 depicts the investment and productivity levels achieved in building employee and organisational capability.

Long Service and Knowledge

The Company is enriched with a Knowledge base of over 1.5 Mn Man days in the Sri Lankan Telecom Industry as depicted in table 9.

Description	2003	2004	2005
Total HR Cost (Mns.)	455	645	821
HR cost per employee (Mn.)	.38	.54	.48
% of Revenue	3.9%	5.7%	4.5%

Table 7: *HR Investment Ratios*

Indicator	2003	2004	2005
Profit per employee (Rs. Mn)	3.4	2.9	4.1
Revenue per employee (Rs. Mn)	9.9	7.9	10.5
Customers per employee	1027	1,256	1,244
No of engineering staff per site	2.2	2.3	2.4

Table 8: *Productivity Indicators*

Service Analysis	2003	2004	2005
Less than 1 year	281	367	604
1-2 years	175	239	299
2-3 years	130	158	218
3-4 years	106	123	147
4-5 years	68	105	117
5-6 years	58	63	100
6-7 years	43	56	62
7-8 years	33	41	55
8-9 years	19	33	40
9-10 years	13	19	33
10-11 years		13	18
> 11 years			13

Table 9: *Service analysis*

"The Company offers unparalleled job enrichment opportunities and upward mobility"

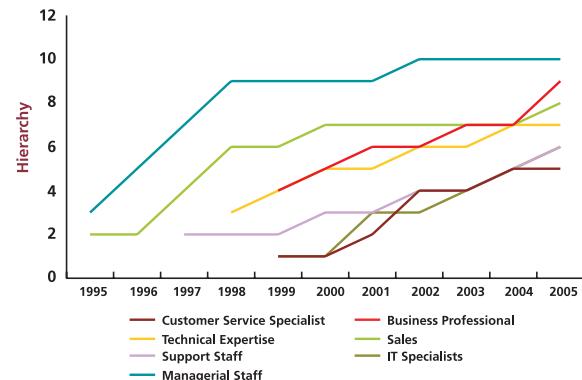


Figure 15: Career Advancement

Skills Development

Dialog recognises that their main source of differentiation and competitiveness is due to its people. Everyday more experiences are gathered so that the company orients its competitive efforts towards the strengthening of its human assets.

The organisation's training and development system instills a continuous learning climate within the Company, and provides its members with diverse learning opportunities to harness their capabilities to meet organisational objectives.

The Dialog Academy

The Dialog Academy is a purpose-built institution focusing on providing training and developmental assistance to Dialog Telekom and Business Partner human resources. The Academy ensures that the competencies of frontline staff are constantly updated.

PERFORMANCE BASED REWARDS & RECOGNITION

Employee Performance Appraisal System

The Employee Performance Review Process (PRP) is integrated into the Company's overall performance management system and plays a vital role in the management and development of the workforce.

Training Activity	2001	2002	2003	2004	2005
Hours of training					
Local	13,957	19,491	32,483	43,989	63,417
Overseas	3,872	4,992	4,288	5,807	14,576
No of Programmes					
Local	84	90	108	162	169
Overseas	18	38	92	67	144
Training Hours Per Employee	22	32	33	36	34

Table 10 : Level of Training Activity

The Company's remuneration and incentive mechanisms have been designed to reward employees based on the degree of contribution made towards the achievement of divisional and corporate goals. Performance linked incentives are granted to staff throughout the year to continuously engage staff in high performance work activities aligned to the achievement of corporate goals.

Employee Progress

The Company continually engages in creating an environment wherein employees could grow and enhance their level of employability and worth whilst being employed by the Company. Over the past five years, on average 15% of the workforce are promoted annually with annual revisions in salaries for high performers.

EMPLOYEE SHARE OPTIONS SCHEME (ESOS)

At the time the Company made its Initial Public Offering, the Board of Directors offered 199,892,741 shares amounting to 2.7% of company's share capital to the ESOS Trust to be allocated to employees. The objective of the ESOS is to reward long standing service and performance excellence and provides a tangible sense of ownership to employees. ESOS allocations are linked to the performance of the employees, which in turn reinforces Company's performance-driven culture.

Management Team



48

20
05



- 1 Fariq Cader (ACMA, ACA, CMA, MBA, BA)**
Senior Manager- Revenue Assurance
(Years of Service - 4)
- **Dharmakeerthi Eldeniya (MBA)** (Not Pictured)
Senior Manager - Projects
(Years of Service - 9)
- 2 Shahey Faleel (MIMS, MBA)**
Senior Manager Sales
(Years of Service - 11)
- 3 Lalith Imbulana (B.Sc.Eng)**
Senior Manager - Switch Operations
(Years of Service - 9)
- 4 Pradeep Keerthiratne (Dip. BM, CIM)**
Senior Manager - Distribution
(Years of Service - 6)
- 5 Zarina Rahim**
Senior Manager - Key Client Relations/Chief Corporate Liaison
(Years of Service - 10)
- 6 Jude Tissera (MBA, CIM)**
Senior Manager - Marketing Channels/
Principal Marketing Channels Officer
(Years of Service - 8)
- 7 Ravi T. Abeyesekara (B.Eng, M.Sc./Dip-IT)**
Manager - Internet Business Unit
(Years of Service - 7)
- 8 Iqbal Cassim (B.Sc.Eng., M.Sc., MIEE-UK)**
Manager - Network Planning (Radio
Network Planning & Technical Assurance)
(Years of Service - 7)
- 9 C. Munesh David (ACMA, CMA, MBA)**
Manager - Corporate Finance
(Years of Service - 2)
- 10 Indunil De Silva (B.Sc. Eng)**
Manager - ISP Operations
(Years of Service - 7)
- 11 Ramanan Devairakum (MBA)**
Manager - Internet & Key Accounts
(Years of Service - 5)
- 12 Samantha Epa (B.Sc Eng., MIE-SL, MIEE-UK,
C. Eng-IESL)**
Manager - Network Planning (Network
Quality and BSS Technology Planning)
(Years of Service - 7)
- 13 Chamila Fernando (Dip. City & Guilds)**
Manager - Transmission Operations
(Years of Service - 11)
- 14 Trinesh Fernando (Attorney-at-law)**
Manager - Contract Management &
Operations
(Years of Service - 1)
- 15 Shanaka Goonatilake (Dip. BM)**
Manager - Administration
(Years of Service - 5)
- 16 Damian Hay (Dip. Mgt)**
Manager - Billing Operations
(Years of Service - 10)



17 **Rifcky Jabbar** (*HNDE, B.Eng*)
Manager - Switch Planning
(Years of Service - 11)

18 **Muksalmina Jaffar** (*B.Sc. Eng*)
Manager - International Network Planning
(Years of Service - 5)

19 **Shiromi Mohamed** (*B. Accountancy*)
Chief Internal Auditor
(Years of Service - 8)

20 **Balarathnarajah Mohankumar** (*Dip.IT, MBA*)
Manager - Business Systems Operations
(Years of Service - 9)

21 **Kullendran Nallathamby**
Manager - Central Province
(Years of Service - 7)

22 **Navin Peiris** (*M.Sc. MIS*)
Manager - International Business
(Years of Service - 1)

23 **Asela C. Perera** (*B.Sc. Eng*)
Manager - Billing Systems
(Years of Service - 7)

24 **Rathne Prasad** (*B.Sc. Eng*)
Manager-Engineering Maintenance
(Years of Service - 5)

25 **Sivasithamparam Ravindrah**
Manager - Corporate Sales
(Years of Service - 6)

26 **Srinath Samaranayake** (*B.Sc.*)
Manager - Quality Systems & Process Improvement
(Years of Service - 1)

27 **Ahamed Shihan** (*Dip. City & Guilds, B.Sc. IT*)
Manager - Transmission Planning and Development
(Years of Service - 11)

28 **Lasantha Theverapperuma** (*ACA, B.Sc. Accountancy*)
Manager - Finance Operations
(Years of Service - 2)

29 **Jey Vijayakumar** (*B.Sc. Eng., MBA*)
Manager - Business Control
(Years of Service - 1)

30 **Varuna Walgama** (*Dip. HRM, Pg. Dip. HRM&D*)
Manager - Strategic Human Resource Management & Development
(Years of Service - 5 months)

31 **Indika Walpitage** (*B.Sc. Eng., MBA, MIEE-UK, AMIE*)
Manager- International & Value Added Services Operations
(Years of Service - 8)

Subsidiary Review



Dialog Broadband Networks (Pvt) Limited

A FULLY OWNED SUBSIDIARY OF DIALOG TELEKOM

In December 2005, Dialog Telekom acquired a 99.99% stake in MTT Network (Pvt) Ltd for US\$ 19.2 million. In March 2006 MTT was renamed as Dialog Broadband Networks (Pvt) Limited (DBN).

DBN operates one of the largest transmission and data communication network in Sri Lanka. The Company is a key player in providing backbone transmission, infrastructure facilities, and data communication services. The Company is also an Internet Service Provider (ISP).

DBN is one of the few Telecommunications Service providers in Sri Lanka to achieve a positive PAT (Profit After Tax) since FY 2001/02. DBN's Turnover for the FY ended 31 March 2005 was Rs.412 Million (USD4.12Mn) with a PAT of Rs.153Mn (USD1.53Mn) representing a healthy PAT margin of 37%. The Company estimates a 53% growth in revenue during FY 2005/06 compared to FY 2004/05.

Presently the island's largest private communication backbone operator, DBN has a 20-year license up to 2015, to offer leased line, switched and non-switched data communication services.

DBN's portfolio also includes an external gateway license and a fixed WLL PSTN licence.

In November 2005 DBN became the 8th PSTN service provider in Sri Lanka when it obtained a full facility based license to offer PSTN services based on WLL Telephony.

DBN is licensed by the TRCSL to establish and operate a Communication Infrastructure Service, a Digital Microwave and Fibre Optical Long-distance Transmission Network, a Broadband Wireless Last-mile Access Network, Switched and Non-switched Data Communication Services, International Inbound and Outbound Voice Services, Internet related Services and Satellite Earth Station Services for International Data Communication.

"DBN operates one of the largest transmission and communication network in Sri Lanka"

SERVICES

DBN has established an extensive digital microwave transmission network and communication infrastructure across central, southern, eastern and western Sri Lanka covering over 80% of the Island. DBN has also deployed a Broadband wireless last-mile access network using TDMA/CDMA/FDMA technologies operating on 3.5 GHz & 10.5 GHz and ATM/Frame Relay/IP transmission backbone for high-speed voice, data & video communication. In keeping with technology changes DBN successfully commissioned the most technologically versatile IPVPN data backbone, increasing its competitive advantage in the converged solutions market.

DBN's clientele includes most private Television and FM Radio Networks, PSTN Networks, Paging Networks, Data Communication Networks and Internet Service Providers. DBN also provides its services to small, medium to large corporate customers, such as leading banks, multinationals and manufacturing and distribution companies, for voice, data and video communications.

MANAGEMENT AND ORGANISATION

DBN has consistently focused on adoption of International best practices with respect to management systems, business processes and quality systems. Lead by experienced management professionals, DBN has been greatly strengthened in terms of technical and functional guidance from Dialog Telekom, its parent company.

Directors

Mr. Yusof Annuar Bin Yaacob (*Chairman*)
Mr. Moksevi Rasingh Prelis
Dr. Shridhir Sariputta Hansa Wijayasuriya
Mr. Wan Zaidan Wan Mahyudin
Mr. Mohamed Rosman Mat Ali

SERVICE AND SUPPORT

DBN prides itself of its customer servicing and support standards which are unrivalled by any other service provider in the country. The Company's service operation is powered by a dedicated and highly skilled technical staff. DBN provides 24-hour support for all its services and is one of the main differentiators in the Managed Solutions space.

Calendar of Events for 2005

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May 2005 – Dialog Telekom - a new identity

At an event conducted under the distinguished patronage of Chief Guest, Former Prime Minister of Malaysia Tun Dr Mahathir Mohamad the Company revealed its new corporate identity - Dialog Telekom Limited - and announced that its Initial Public Offering (IPO) would take place shortly.



June 2005 – 500th Base Station in Pallekelle

Dialog Telekom celebrated the launch of its 500th Base station, which was erected in Pallekelle. The Company marked the occasion with a donation of educational, building and playground supplies to a school in the area.

October 2005 – Fitch AAA (Sri)

Dialog Telekom receives AAA (Sri) from Fitch Ratings, cementing the Company's reputation as one of the best and most bankable corporate entities in Sri Lanka

November 2005 – 2 Million Customers

The 2,000,000th subscriber signs up with the Dialog Network. 1 in every 10 Sri Lankans are now Dialog customers.

July 2005 – Opening of Dialog IPO - 07.7.2005



On the 7 July, history was created when the Dialog Telekom IPO became the largest ever IPO in Sri Lanka. The IPO was over subscribed approximately 1 hour after its opening. The offer attracted unprecedented demand from foreign and local investors.

On the 28 July, Dialog Telekom set a new record for the fastest commencement of trading following an IPO. With the beginning of trading Dialog became the first Sri Lankan Company to achieve Billion Dollar status on the Colombo Stock Exchange.

December 2005 – Acquisition of MTT Network (Pvt) Limited

Dialog Telekom concludes an acquisition agreement to purchase leading digital telecommunications backbone and data communications provider – MTT Network (Pvt) Ltd.

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SOCIAL PERFORMANCE





Transforming Futures

Our challenge is to provide parity dividends,
resulting in the empowerment and enrichment of
Sri Lankan lives

Corporate Social Responsibility



What is CSR to us?

"A single-minded conviction that CSR should transcend social marketing and philanthropy drives our CSR commitment beyond altruism"

The ethos that drives us is a vision to empower all Sri Lankans equitably, integrating resources, values, ideals and ethics across economic, social, cultural and traditional boundaries. To us, CSR is integral to our business – in whatever we do, in whatever we plan, in whatever we believe. Our business therefore should and must add value to the empowerment process of all Sri Lankans. In essence, a single-minded conviction that CSR should transcend social marketing and philanthropy drives our CSR commitment beyond altruism.

Dialog's strategic approach to CSR was conceptualised as early as in 1999, just a few years after the organisation's inception. Our first formal foray into CSR was the establishment of the award winning community outreach initiative, The Change Trust Fund, which has the distinction of being one of the pioneering formal and institutionalised CSR efforts in Sri Lanka by a corporate entity. Dialog Telekom's long term social investments in the spheres of education and youth, accessibility and empowerment, environment and safety, ensure that our CSR ethos rises above the rhetoric, that actions speak louder than words and that we mean, what we say. The best practices we have imbued through CSR have earned us three consecutive World GSM Awards pitched against established global players.

However, we are humbled by the honours bestowed on us as we believe that much more can and needs to be done to attain a cohesive multi-dimensional facet to our CSR initiatives. Building on the successes we have achieved, the CSR thrust in 2005 became much more wide and varied. It hinged on streamlining our approach, implementing strategic social investments, environmental impact management of our ecological footprint and the internalisation of CSR. By this,

“Dialog’s CSR philosophy is based on our commitment to provide parity dividends to local communities within which we operate, while mitigating adverse social and environmental impacts both directly and indirectly.”

we hoped our CSR initiatives will meaningfully touch the lives of Sri Lankans, converting our words into strong and vibrant actions that will make a difference to all our stakeholders, while advancement towards an incremental uptake of sustainability reporting will further demonstrate and reaffirm our focus towards a robust triple bottom line.

In essence, Dialog’s CSR philosophy is based on our commitment to provide parity dividends to local communities within which we operate, while mitigating adverse social and environmental impacts both directly and indirectly. While this duality presents two sides of the same coin, it is translated on the ground into real, measurable and tangible efforts through pragmatic initiatives across the spheres of economic, social and environmental performance. Our CSR initiatives are applied within a local context, implying our honesty of purpose in balancing our core business case with community needs. By leveraging our strengths, Dialog Telekom consistently demonstrates commitment through a strategic CSR approach that enables the company to internalise CSR practices to meet the realities of the external environment in which we operate. In order to sustain equilibrium between external project oriented CSR initiatives and embedding CSR across fundamental business processes internally, we pay equal and consistent focus to multiple dimensions of CSR with a view to maximising the outcomes of our efforts.



Figure 1: Four Dimensions of a Strategic CSR Thrust at Dialog Telekom Limited

These dimensions include four fundamental areas of focus.

BUSINESS INTEGRAL - Embedding CSR in how we do business

Business integral CSR implies that all Dialog’s investment decisions, business planning and processes that have a bearing on the fundamental goals and objectives of the organisation are whetted and challenged against a CSR agenda. CSR is given equal emphasis in all business planning and decision making across the company ensuring a sustainable triple bottom line focus. This unwavering and unfeigned commitment enables us to factor in relevant stakeholder views and concerns vis a vis investments that optimise mutual dividends for local communities and the organisation. The integration of CSR at annual business planning and management reviews further strengthens Dialog’s ‘licence to operate’ through a transparent and fundamentally ‘responsible’ approach to business. This focus has helped us to continuously build on our commitment

to provide parity dividends to Sri Lankan consumers in terms of accessibility, affordability and availability of products and services.

CORPORATE PHILANTHROPY - The Change Trust Fund: Transforming their future. Today

Transforming words into action and transforming the future to the present are the standard bearers to our concerted efforts in ensuring equitable contributions to the local communities we work in. We recognise that particularly in the Global South, philanthropy cannot be ignored and therefore, this constitutes one element of our CSR thrust. Our contributions in this area are channelled primarily through The Change Trust Fund. While we strongly believe that sustainable empowerment is the key to equitable development, we also realise that some segments of the community initially require a philanthropic thrust, which eventually will give them the empowerment they deserve. In 2005, eleven projects directed at the

"CSR is given equal emphasis in all business planning and decision making across the company ensuring a sustainable triple bottom line focus"

Corporate Social Responsibility

marginalised and under-privileged segments of society were completed in collaboration with approved charities.

ENABLING TECHNOLOGY - High social value of GSM

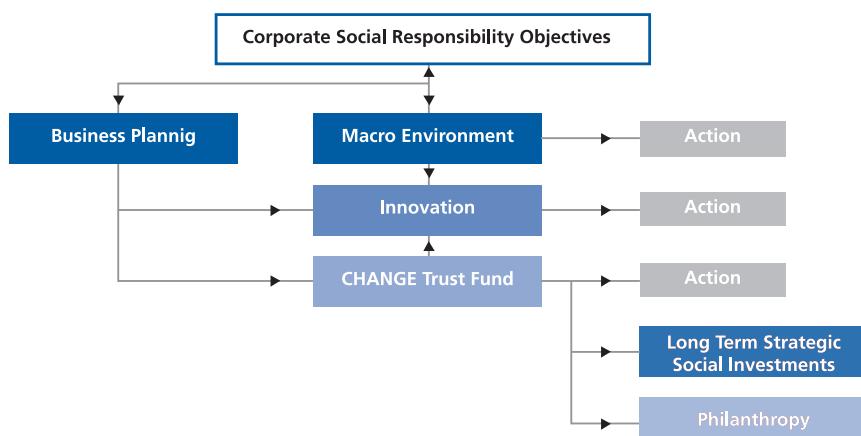
One of our CSR thrusts is the genuine need to pursue innovation, initiation and implementation of products and services that empower those deemed challenged or disadvantaged in society. Providing social dividends through our core competencies has continuously challenged the realms of mobile communication for communities, but it is a challenge that we have faced with fortitude and determination. Developing services and solutions that have high social value are a stimulus to our social cause and as such have taken us on a pioneering trail in a number of initiatives through the years. As an example, we established Sri Lanka's First Mobile Telecommunications Research Laboratory at the University of Moratuwa, the revolutionary SMS 112 services for the hearing Impaired, the Blood Donor Scheme in collaboration with the National Blood Transfusion Service are a few of these initiatives. In 2005, we continued to build on the trusses already established, with trailblazing innovations that included Sri Lanka's first all hazard Disaster and Emergency Warning Network (DEWN).

ACTION AND MOBILISATION - Leveraging our strengths in times of national crises

Strident leadership in times of national crisis is now commonplace at Dialog. Constantly translating quick decisions into speedy action and mobilising our resources to achieve solutions, we take our responsibility as a corporate leader to higher levels when the nation faces distress. There have been many times we have plunged into the entire quagmire of a disaster, armed with a cohesive action plan formulated to bring relief and speedy solutions to people in need of humanitarian assistance. One prime example of our efforts is when the tsunami struck 2/3rds of our coastline rendering a disaster of cataclysmic proportions, leaving tens of thousands dead and hundreds of thousands displaced and destitute. Our efforts post tsunami are illustrated on page 76.

The Management of CSR at Dialog Telekom

The management of CSR at Dialog is based on the interplay between social dividends and social impacts derived as a consequence of a particular business decision. The following diagram provides a schematic illustration of the process that governs Dialog's CSR.





Environmental Performance

MANAGING OUR ECOLOGICAL FOOTPRINT

We go beyond technocratic views, and firmly advocate the precautionary principle in all our investments, and continue to look for ways in which our business can be improved to mitigate our own ecological footprint. Voluntary commitment towards applying the precautionary principle is reflected across wide ranging functions of our business, such as conducting site audits and environmental assessments prior to the construction of transmission towers, to conducting due diligence audits leading to an annual monitoring report which records and informs improvements to the organisations environmental performance.

The relentless pressures exerted on the planet for its natural resources and consequent environmental degradation reaffirm the need for society to understand its actions in relation to the environment and act responsibly. As a dynamic corporate entity we are mindful of our ecological footprint and its repercussions to our fragile planet and take proactive measures to mitigate any adverse impacts through a pragmatic environmental management process.

**"We go beyond
technocratic views,
and firmly advocate
the precautionary
principle in all our
investments"**

Corporate Social Responsibility

As the leader in mobile telecommunications in Sri Lanka, we are aware that our services offer substantial benefits towards conserving our biophysical environment. Our core services provide real benefits such as minimising travel, which in turn lowers vehicle emissions and ozone depleting gasses. Dialog complies with all legal and regulatory requirements associated with its activities. Our strategic investments to conserve the environment are informed by constantly monitoring the laws of the land, benchmarking against international health and environmental standards, and by listening to our stakeholders.

DIALOG'S ENVIRONMENTAL POLICY

In 2005 Dialog prepared its first environmental management guidelines, which were submitted to the International Finance Corporation (IFC). The guidelines formalised Dialog's best practices in this area and was an attempt to place on record the manner in which Dialog Telekom Limited takes due account of its responsibility to protect the environment and the health and safety of its employees, and generally conduct its activities in a socially responsible manner towards the biophysical environment in which it

operates. The guidelines are an attempt to record applicable procedures and processes that enable the organisation to consistently and systematically apply its environmental policy and procedures. This initiative has three phases and relies on an incremental approach to achieve a formalised and robust environmental management system at Dialog Telekom Limited.

Phase one (completed in 2005) presents a road map for the uptake and implementation of a formalised environmental policy and lists all applicable local and international regulations that Dialog complies with prior to infrastructure development and expansion of its key installations. It also reflects on the company's current health, safety, and waste disposal systems, particularly from an in-situ perspective. Phase two of this undertaking encompasses blueprinting the broad areas of organisation framework and responsibilities, training, monitoring and reporting. Phase three will entail implementation and follow-up on processes which culminate in a comprehensive Annual Environmental Monitoring Report (AMR).

Dialog Telekom Limited is committed to maintaining high standards of environmental and social performance throughout all of its operations and activities, and complies with applicable environmental and social laws and regulations. Dialog also applies the precautionary principle across all its investments, and undertakes due diligence measures whenever deemed necessary. In addition, Dialog Telekom upholds all ethical and relevant environmental and social policies concerning the involuntary resettlement of people, the safeguarding of cultural property, and the protection of natural habitats. In order to ensure adherence to the standards set out in relevant laws, regulations, guidelines, and policies, Dialog Telekom Limited provides adequate personnel and other resources necessary to meet the objectives and follow due diligence in siting, planning, designing, constructing, and operating its facilities. The Dialog Due Diligence Code is applicable to all contractors and suppliers of goods and services.

“The management of CSR at Dialog is based on the interplay between social dividends and social impacts derived as a consequence of a particular business decision”

AREAS COVERED UNDER DUE DILIGENCE TO MITIGATE OUR ENVIRONMENTAL FOOTPRINT

Right-Of-Way Alignments, Land Acquisition and Tower Erection	<p>Where land is to be acquired, identify and quantify any impacts on land-based livelihoods, and fairly compensate landowners and others relying on the land.</p> <p>For new rights-of-way alignments, minimise the need for physical alteration and the impact on sensitive natural environments, cultural resources, agricultural lands, and residential and commercial areas.</p> <p>Minimise potential impacts on the natural environment, indigenous populations, and population immigration and natural resource exploitation.</p>
Solid and Liquid Wastes	<p>Recycle or reclaim all waste material where possible.</p> <p>Collect and store all liquid and solid waste materials in designated storage facilities and areas so as to prevent release of contamination to the environment.</p> <p>Transport and dispose all waste material (domestic waste, packaging waste, solvents and oils, used batteries, etc.) in an environmentally safe manner to a landfill site approved and licensed by the local authorities.</p>
Hazardous Material Uses, Handling and Storage	<p>Prevent spills/releases of all hazardous (reactive, flammable, corrosive and toxic) material present on company properties.</p> <p>Immediately clean up any leakage or spillage of hazardous materials.</p> <p>Ensure all hazardous material is stored and handled in a manner appropriate to their hazard characteristics and in accordance with international best practices.</p> <p>Provide emergency management systems to prevent fires or the release of hazardous materials to the environment and to protect people and property in the vicinity of its activities.</p> <p>Ensure that transformers and equipment containing polychlorinated biphenyls (PCBs) or PCB-contaminated oil are phased out.</p> <p>Ensure that all process equipment and central cooling systems involving the use or potential release to the environment of chlorofluorocarbons (CFCs), including halon, are not used.</p>
Occupational Health and Safety	<p>Provide a safe and healthy working environment with safe access.</p> <p>Provide appropriate protective clothing and equipment where required and enforce its personal use.</p> <p>Realise no fatalities or serious injuries.</p> <p>Minimise lost time due to accidents.</p> <p>Minimise lost workdays resulting from accidents.</p> <p>Adhere to international industry best practices and applicable safety codes and standards for worker health and safety (including any related specifications contained within MSDS's for chemicals stored and used).</p> <p>Meet all safe exposure levels for physical factors that may cause adverse health effects (e.g., ionising and non-ionising radiation, magnetic fields).</p> <p>Equip elevated platforms and walkways, and stairways and ensure ramps are with handrails, toe-boards and non-slip surfaces.</p> <p>Install signs and gates to restrict unauthorised and untrained staff from climbing towers and other structures.</p>

Corporate Social Responsibility



Economic Performance

CONNECTING THE UNCONNECTED

The increased usage of mobile communication has a significant impact on people's lives both socio economically and at the macro economic level. Mobile phones bestow benefits to users in the form of connectivity, mobility, security, entertainment etc. The overarching benefit of speed and efficiency in commerce and trade has also witnessed an unprecedented rise in economic activity at Macro and SME levels across Sri Lanka. Dialog Telekom has made every effort to allay initial perceptions that mobile communication was an exclusive tool in Sri Lanka, to be shared by few in our society.

The following section demonstrates how Dialog Telekom has made its contribution to bridge the digital divide and improve the socioeconomic condition of individuals, communities and the nation at large. Dialog continues to make mobile communication accessible and useful for rural communities, and being the leading operator in Sri Lanka, is committed to continued expansion of GSM services to all parts of the country. In 2004 Dialog Telekom apprised the GSM Association (GSMA) on its efforts to develop the rural markets in Sri Lanka and to provide connectivity to the unconnected. In order to further enhance its efforts, Dialog Telekom also enrolled for the GSMA's Emerging Market Handset initiative (EMH).

“Among the principal challenges faced in bridging the digital divide: Reach and Service Availability, Affordability, and Special Needs rank among the most pertinent”

CHALLENGES IN CONNECTING THE UNCONNECTED - *The Philosophy of Inclusion*

Among the principal challenges faced in this endeavour Reach and Service Availability, Affordability, and Special Needs rank among the most pertinent. In order to address these issues Dialog Telekom has looked at various solution approaches and critical success factors including service and technology paradigms, business modelling and continuous investments. Dialog has consistently focused on exploiting state-of-the-art technology to deliver the outcome of ‘inclusion’ i.e. the widening of the markets and consumer groups capable of affording and having access to the products and services of the Company. Inclusion motivated innovations include services such as Local Language SMS, e-Z reload/ electronic prepaid recharge (any value) and rural home zone (limited mobility) tariffs. Many of these innovations incorporate state of the art technology capabilities to deliver local adaptation, and are cited as examples of the overall philosophy, which has driven innovation at Dialog Telekom.

INNOVATIVE BUSINESS MODEL

Dialog Telekom was the first operator in the South Asian region to recognise the ‘wealth at the bottom of the pyramid’ and to be successful in devising and sustaining cost/business models to profitably enact an inclusive

approach to the market place. Dialog's pioneering status in the above is substantiated by the fact that the Sri Lankan mobile market was seen to take off considerably earlier than much larger markets in India, Bangladesh and Pakistan.

DIALOG SOLUTIONS TO CONNECT THE UNCONNECTED

Widest Coverage – To date the Dialog GSM network provides the widest coverage in Sri Lanka and covers 65% of Land Mass and 85% of inhabited areas of the country.

Cell Based Tariffs for rural communities – Focusing on affordability, Dialog pioneered Cell based tariffs for rural consumers. The initial solution launched in 1999 was handled via BTS based billing. The latest solution launched in December 2004 uses the Limited Mobility feature in the network.

Innovative use of Technology to facilitate an Inclusive Philosophy - Electronic Top Up, Local Language Services, Dial 5, Home Cell/Limited Mobility solution, are a few technology innovations that were introduced.

DIALOG RURAL OUTREACH

Investments

Dialog's investments in rural communication infrastructure development exceed USD 70 Million to date

Subscribers

- 35% of Dialog's total customer base is in rural areas
- Include 10% living in Northern and Eastern Provinces

Connectivity to North and East

- Dialog was able to provide Mobile Connectivity to the North and East within 90 days of the ceasefire. This facilitated an invaluable linkage between the citizens of Northern and Eastern Sri Lanka with the rest of the Country.
- Dialog Telekom is the single largest infrastructure investor in the North and East with an investment in excess of US\$15 MN in the North and East of Sri Lanka despite high risk factors

Inclusive Technology Applications

- Some of the services many of which incorporate state of the art technology capabilities to deliver local adaptation, are cited as examples of the overall philosophy, which has driven innovation at Dialog Telekom - Local Language, Services, Dial 5, e-Z reload, SARU - Limited Mobility

Corporate Social Responsibility

PIONEERING RURAL CONSUMER INITIATIVES

Local Language Services

- Sinhala / Tamil SMS on 2G Handsets Enabling Local Communities to Make Full Use of Mobile Technology
- Sinhala/Tamil Portal for Mobile Information and Entertainment
- A unique "controlled-usage" solution facilitating the limitation of outgoing and incoming numbers to five (or other pre-specified numbers).
- The product provides a communication solution to several niche segments including but not limited to parent-child and employer-employee controlled usage communication scenarios

E-Reload (Electronic Recharge)

- Dialog Telekom pioneered the usage of electronic recharge (top-up) technology in Sri Lanka.
- Electronic top-up served to increase distribution efficiencies through the obliteration of paper-based vouchers, and

reduce the "minimum recharge" constraints on consumers, thereby further reducing spend commitments and encouraging adoption of mobile telephony services.

Connecting the Northeast

- Connectivity of the Northeast region of Sri Lanka using satellite technology
- Dialog GSM was the first network to expand into the Jaffna peninsula; in a mere matter of three months after a ceasefire agreement was signed.
- Due to the need to create rapid connection between the two communities, Dialog resorted to routing traffic between the Jaffna peninsula and the core network via Satellite communication.
- Although the satellite method is an expensive means of expansion; Dialog opted to use this technology to achieve the rapidity that terrestrial expansion would not have allowed.

- Until Feb 2005 Dialog was the only operator present in the Jaffna peninsula and was one of the few mediums of connectivity between people in the region and the rest of the world.

SARU – Limited Mobility

The birth of the "SARU" Tariff Package was derived out of the Dialog family's desire to "Connect the Unconnected". When there was limited mobility among villagers in rural areas of the country and they were unaware of changes in technology Dialog took the initiative to bring light to the "unconnected" through the introduction of "Dialog SARU" the secret of rural connectivity, which today connects over 40,000 villagers in 50 rural villages throughout Sri Lanka. The package was designed so that it was affordable to rural low-income communities. The package also had the lowest mobile tariff and facilitated penetration to rural Sri Lanka.

“Dialog has consistently focused on exploiting state-of-the-art technology to deliver the outcome of ‘inclusion’”



GSMA and Dialog

The GSM Association (GSMA) estimates that despite 80% of the world's population having wireless access, only 25% are able to use it, with cost identified as the single biggest barrier to mobile communications usage in emerging markets.

In response to demand from emerging markets, the GSMA is forging the way toward a new 'Ultra-Low Cost' mobile handset market segment aimed initially at a sub US\$40 cost price. According to GSMA, the partnership with Motorola will aim to bridge the digital divide and

connect the unconnected in countries such as India, Philippines, Indonesia and Turkey.

Dialog Telekom was successful in gaining membership to this programme in August 2005. Accordingly Dialog Telekom is in the process of distributing the lowend handset in the rural segments of Sri Lanka (below USD50) to enhance the accessibility of telecom services.

Future Challenges

At present the cost of the handset is a considerable barrier for rural communities of Sri Lanka to operate or own a phone. Dialog Telekom plans to introduce an affordable handset below USD 40 to rural markets with GSM Associations EMH II programme. This initiative will further enhance the connecting the unconnected objective in rural Sri Lanka

Corporate Social Responsibility



Social Performance

"At Dialog Telekom we continue to work tirelessly, to make our services accessible, especially to rural populations, the elderly, low-income groups and the differently able"

Mobile Telecommunication and its associated convergence among voice, text, video and Internet technologies have an unprecedented impact on the lives of people, thereby providing real empowerment through connectivity. However, at the same time the issue of providing equal access to rural populations and the marginalised in society are our real challenges. This disparity between the two segments is referred to as the "Digital Divide" between those who have access to ICTs and those who do not. At Dialog Telekom we continue to work tirelessly, to make our services accessible, especially to rural populations, the elderly, low-income groups and the differently able. As a responsible corporate citizen Dialog is committed to providing equal access to all Sri Lankans in a non-discriminatory manner, empowering Sri Lankans to reap the benefits of economic, educational, health and entertainment opportunities, resulting from connectivity.

Dialog is the only Telecommunications Company in the World, to win three consecutive awards from the GSM Association for its technology initiatives for the community. In 2001 the company won the GSM Community Award for the establishment of the Change Trust Fund, Dialog Telekom's main community outreach initiative. In 2002 the company repeated this stellar performance, benchmarked against global giants in mobile telecommunications, for its 'SMS 112' initiative aimed at bridging the digital divide for the differently able. 2003 saw Dialog create history at the GSM Awards, when it was presented with the coveted award for best use of wireless for emergency situations, for its 'SMS based blood donor community application. All three global award-winning services and

"Dialog is the only Telecommunications Company in the World, to win three consecutive awards from the GSM Association for its technology initiatives for the community."

solutions were managed and supported through the period of review in 2005.

Dialog's social performance is reported in two sections the first focuses on the company's outreach initiatives, channelled through the Change Trust Fund and its flagship projects. The second section focuses on the internal human resources indicators.

DEVELOPMENT OF SOLUTIONS WITH HIGH SOCIAL VALUE

Disaster and Emergency Warning Network (DEWN)

Following the natural disaster that engulfed the Sri Lankan costal belt on the 26th of December 2004, Dialog Telekom Limited initiated a research and development programme in January 2005 to develop a reliable early warning system for the country, as part of its contribution towards the national effort to avert loss of life in future emergency situations. Research and development was focused on the GSM family of technologies with a view to harnessing the strengths of Cell Broadcast, SMS, Location Based Technologies and Java and Symbion based device-interfacing technologies, to meet the challenges facing the effective dissemination of disaster warnings to develop an intelligent and ubiquitous delivery mechanism for national disaster warning. This initiative

was supported by Dialog Telekoms partners - Microimage (MI) & The Dialog University of Moratuwa Mobile Communications Research Laboratory (UOM), and was soon formalised as the nation's first step towards establishing a Disaster Warning Network under the aegis of the Ministry of Public Security, Law and Order. The result of several months of development has been the realisation of a pragmatic and locally applicable warning system with high social value.

DEWN is an integrated disaster and emergency warning network that incorporates network based as well as device based technologies to deliver an end-to-end disaster warning solution through the centrally configurable carriage and dissemination of alerts. Following acceptance as a pioneering initiative on the national agenda for disaster management and preparedness, the National Emergency Center located at the former Ministry of Public Security, Law and Order (The 118 Center) was selected as the central command centre for DEWN.

The Pilot implementation of DEWN has been designed to test the network against Directed as well as Mass alert objectives within a controlled environment. In the Directed delivery case, the application has been installed in a controlled sample of relevant stakeholder handsets. Stakeholders

include those persons responsible for emergency services in the pilot area such as the Police hierarchy, Village Headman, Government Agent, Monk/ Religious Leader, Chief Medical Officer and Hospital administration. The applicability of DEWN going forward will encompass a variety of disaster situations such as flood, landslide, dam break, epidemic, chemical or bomb explosion etc. DEWN therefore adds critical value to the underlying principle whereby an affordable GSM mobile phone is converted into an alarm terminal within the national disaster-warning infrastructure.

SMS 112 Service

SMS 112 was designed to provide people with hearing and speech impairment access to emergency services. Inspired by its voice counterpart 119, SMS 112 is designed on a location sensitive rationale and functions on a text only basis. Dialog Telekom worked closely with the emergency centers of the Sri Lanka Police Department in order to provide and facilitate a new dimension to emergency services.

Blood Transfusion Service

Dialog launched another charitable initiative by providing a tailor made state of the art technological solution to enhance the services offered by the National Blood Transfusion Service [NBTS] administered by the Ministry of Health. In a country often burdened by the spread

Corporate Social Responsibility

of hemorrhagic diseases like dengue at epidemic level, the demand for blood has increased tremendously over the last couple of years. Due to inherent weaknesses in conventional blood donation campaigns, reaching donors in an emergency situation has proved to be a daunting task. Furthermore the building up of a comprehensive donor database using modern information technologies has become a priority need of the NBTS. Dialog Telekom, through the Change Trust Fund, came forward with an innovative technology solution to assist the NBTS in setting up a fully fledged modern communication network, converging complementary technologies such as mobile voice, mobile data, SMS, web and Internet. The solution was developed in Sri Lanka exclusively by Dialog Telekom's Research and Development team.

Braille Billing for the visually impaired

Dialog Telekom constantly re-examines the need to optimise facilities for individuals with visual impairments. GSM voice technology has already been established as a key access method for the blind, but there are a host of difficulties visually impaired people encounter in accessing the services of a GSM operator - not least of which are the difficulties associated with reading. Braille billing was introduced so that people who are visually impaired could have a degree of autonomy over their access to Dialog Telekom's services. With the assistance of the National Blind Council of Sri Lanka it was made possible to dispatch bills in Braille to

the visually handicapped. An interactive voice response help desk linked to the customer care and billing system of the company also supports the Braille billing function.

COMMUNITY RELATIONS AND PRODUCT RESPONSIBILITY

The impact of mobile phones on the community

The wide dispersion of mobile handsets in Sri Lanka is currently estimated to be greater than 3 Mn Out of which greater than 2 Mn people in Sri Lanka are connected to the Dialog GSM network. The popularity and success of Dialogs' network can primarily be attributed to the benefits delivered to its subscribers in terms of convenience, value for money, security, mobility and connectivity. As a responsible corporate citizen, the challenge faced by Dialog is to ensure that these benefits are made accessible to all Sri Lankans, while minimising any adverse impacts. Generic benefits of the mobile phone include: the ability to provide security in an emergency particularly for women, children, differently able, sick, and elders, provide entertainment (games) and information (news), and most importantly empowering Sri Lankans to keep in touch with family and loved ones.

Ethical advertising, content control and responsible marketing

Dialog Telekom ensures that all marketing material and advertisements are truthful and acceptable within social norms that strictly abide by the legal

framework of Sri Lanka, by espousing, always, an 'Open' communication framework. The company's advertisements are sensitised to equally address the three languages and have been extended even to SMS. Dialogs' content screening and access control assists consumers and their children to avoid inappropriate content. To this end Dialog Telekom has introduced a system to filter adult content on a customers' request. This service enables parents to restrict their children from accessing adult, and other inappropriate content, such as pornography, gambling, violence and drugs over the Internet. Dialog Telekom also offers guidance to its customers on the responsible use of mobile phones, with an emphasis on mobile phone etiquette and safety when driving.

COMMUNITY OUTREACH INITIATIVES

Dialog Telekoms Community Outreach Initiatives are grouped under five thematic areas. These include Education and Youth, Differently Abled, Empowering communities through ICT, Environment and Humanitarian based projects. These initiatives are further segregated based on projects that are implemented through the Change Trust Fund and Dialog Telekoms flagship projects. Over the years these thematically motivated initiatives have transformed and empowered marginalised communities and individuals to improve their quality of life, and continue to build on these initiatives.



"The Change Trust Fund established in 1999 by Dialog Telekom is the company's key community outreach initiative"

THE CHANGE TRUST FUND

The Change Trust Fund established in 1999 by Dialog Telekom is the company's key community outreach initiative. Dialog Telekom conceptualised an innovative locally engineered GSM customer care, billing and relationship management system to create a unique usage based charity computation, matched 1 for 1 by the network. Under the programme, subscribers are invited to donate one half of one percent (0.5%) of their Dialog GSM bill to the Fund, with Dialog making a matching donation. The money is disbursed to disadvantaged sectors of society through various Government-approved charities. Hence every GSM call makes a positive change in transforming the future, today. The Change Trust Fund initiates a wide variety of community development projects. These initiatives range from support for the hearing and speech impaired and differently able children, to sponsorship of differently abled sporting events.

Change Trust Fund – Objectives

Provide relief and empower people affected by tragedy - manmade or acts of God

Improve the standard of living and quality of life for underprivileged communities

Education of youth to empower them and help them realise their potential

Preservation of National integrity, environment and culture for future generations

CHANGE TRUST PROJECTS COMPLETED IN 2004/2005		DESCRIPTION
National Child Protection Authority		Reconstruction of home affected by flood
Asia Foundation		Donation of books to Scholar Representative schools
St. Josephs School for the Deaf		Donation of computers
Rotary Club of Colombo		Refurbishment of Municipal City Dispensary
Islamic Centre for the Physically Handicapped		Donation of computers
Jaipur Foot programme		Donation of artificial limbs
Cancer Hospital		Donation to Children's ward Maharagama
Damrivi Foundation		Construction of a computer centre
Ranawirusevana		Donation of Computer and donation to Children
Sahanaya Movement		Contribution towards training
SOS Children's Village		Contribution to Children's education
Tsunami projects		Completed – phase 1, 2 & 3

Table: Change Trust Projects in 2004/2005

FLAGSHIP COMMUNITY OUTREACH INITIATIVES - Youth and Education

Dialog Merit Scholarship Programme

In 2005, Dialog Telekom delivered on its commitment to empower outstanding scholars to pursue their future aspirations and higher studies at secondary and tertiary institutions. The Dialog scholarship programme is not a passive impersonal exercise aimed at CSR rhetoric. We go beyond this short-term gain to develop the intellectual capital of Sri Lanka's future leaders. We

support interaction between the scholars and our employees, which facilitates mentoring, internships and soft skills development to prepare these scholars for a position of community leadership and service. Formal training programmes were organised to enhance the soft skills of the students. During the period of this review, Dialog scholarships were offered as had been done in the past two years.

"The Dialog Mobile Telecommunication Research Laboratory at the University of Moratuwa specialising in Applied Mobile Telecommunication Technologies Research is the first of its kind in Sri Lanka."

Corporate Social Responsibility

Objectives of the program

To provide an incentive to deserving students Island wide who wish to continue their education and who will ultimately become future leaders.

Create greater awareness about the telecommunication industry among the youth of Sri Lanka

Elevate technical and business competencies of young people by providing assistance to acquire meaningful and marketable skills.

Provide guidance to deal with the complexities of modern life and prepare them for a position of community leadership and service

Build a talent pool in Sri Lanka to face the challenge of the 21st century.

To set up a benchmark educational scholarship programme as an example to other private sector organisations

Local Scholarship Program

Dialog liaises with the Ministry of Education and the University Grants Commission in Sri Lanka to identify the best performing students, at the GCE Ordinary and Advanced Level examinations for scholarship based on merit. Selection of students is based on the students' academic performance at the Ordinary Level and Advanced Level examination at district level. Students

qualifying to follow mathematics at secondary level education are awarded the scholarship based on their GCE Ordinary Level examination performance in each of the 25 administrative districts locally. Similarly 25 students who gain entry as undergraduates to follow degrees in Engineering (Electronics, Electrical and Computers) based on their GCE Advanced Level examination results in each of the 25 administrative districts are also awarded the scholarship for four years. Two additional scholarships are awarded annually at undergraduate level for differently able students, as per the criteria laid down by the University Grants Commission.

Overseas Scholarship program

Two fully sponsored scholarships are provided annually at the Multimedia University (MMU) Malaysia, for a four year degree programme in BSc Engineering. Selection is based on rigorous criteria developed by Dialog Telekom and Telekom Malaysia International, in conjunction with the Yayasan Foundation in Malaysia. MMU in Malaysia offers a wealth of opportunity across wide-ranging, high quality undergraduate and postgraduate programmes. It aims to produce graduates who are kept abreast of the latest developments in the IT and Multimedia industry. The University comprises an ATM-based, fully-networked twin campus where students can access its intranet, lecture

notes, submit assignments, watch a video show or borrow books from its digital library from anywhere in the world. All its courses are available online and are supported by an advanced Multimedia Learning Resource Bank. The University has an IBM digital library that stores thousands of books and journals that can be accessed from any place at any time. All its hostel rooms have free, unrestricted Internet access 24 hrs a day.

DIALOG UNIVERSITY OF MORATUWA MOBILE COMMUNICATIONS RESEARCH LABORATORY

The Dialog Research Laboratory at the University of Moratuwa specialising in Applied Mobile Telecommunication Technologies Research is the first of its kind in Sri Lanka. It is part of Dialog's social investment towards uplifting R&D capability and higher learning in Sri Lanka. The Laboratory facilitates applied research and product development that would be difficult to accomplish at Dialog due to its limited focus on detail designing, prototyping, testing and training and lower capability (relative to an University) of having technology transfer arrangements with similar research bodies. The Laboratory undertakes research projects that benefit the industry as well as being academically challenging. The Laboratory explores new ideas in wireless communication, particularly cellular, with the objectives of developing innovative products and services and more



Dialog scholars at the MMU in Cyberjaya

importantly developing an internationally recognised base of expertise in mobile technologies thereby ensuring Sri Lanka's place in the challenging and evolving world of mobile technology. Dialog Telekom's contribution is mainly (but not limited) to the project selection, payment of salaries of research personnel, purchasing any specialised equipment, software and components that may be necessary for the research projects. Dialog Telekom has also supported final year students of the Informatics Institute of Technology with funding and mobile telecommunication devices for their final year projects. Dialog will extend its support towards developing Sri Lanka's Research and Development capabilities, so that it can capitalise on globalisation and the advancements of technology

ALL ISLAND SCHOOLS ART AND ESSAY COMPETITION

The all Island schools trilingual National Art and Essay competition on the theme of fostering peace was concluded in 2004/2005. Dialog Telekom organised the programme in collaboration with the Department of Social Studies – Open University of Sri Lanka and with the assistance of the Ministry of Education. The theme of the 2004/2005 competition was aimed at actively facilitating the cause of peace and promoting attitudes conducive for national development. Entries were received from all nine provinces, with an overwhelming

response from the North and East of Sri Lanka. Over ten thousand schools were contacted across the country. The 2005 competition focused on nation building following natural disasters in the country and is woven around the theme 'Expressions of the Future'. The competition was open to all children in Sri Lanka and was launched Island wide in August 2005/2006. Over ten thousand schools were contacted and the competition generated immense interest from all corners of the Island.

FLAGSHIP COMMUNITY OUTREACH INITIATIVES – *Supporting the differently able*

The Dialog Audiology Center for the Hearing Impaired

The Dialog Audiology Center for the Hearing Impaired builds on our initiatives to extend 'access' of GSM to those less likely to take advantage of mobile technology, and was initiated under the period of review. Dialog has been a regular benefactor to individuals with hearing impairment, particularly through its sponsorships to purchase equipment, modernise existing buildings and for materials and tools. The proposed Audiology Center project further demonstrates Dialog's commitment to bridge the divide for hearing impaired children. The proposed facility supports early detection of hearing impairment in infants, and includes digital detection

systems and post therapy rehabilitation facilities. The project will be one of the regional centers with state of the art technology and will bring new life to the hearing and speech impaired. The Centre is scheduled for completion in 2006.

FLAGSHIP COMMUNITY OUTREACH INITIATIVES – *Bridging the Digital Divide*

The issue of giving access to rural communities and the marginalised continues to be a challenge in the face of a widening digital divide between those who have access to ICT and those who do not (especially the rural and low income groups, the elderly and disabled). As a responsible corporate citizen Dialog is committed to providing equal access to this wider segment of our community irrespective of geographical dispersion, income status, impairment etc. Some of the steps taken are as follows –

- Accelerating Network growth in rural Sri Lanka (currently Dialog covers more rural areas than any other Telecom network).
- Introducing special cell based tariff such as 'Shathaka' and 'Saru' to low utilised rural areas

Dialog National Art and Essay Award winners on their educational tour to the UK



Corporate Social Responsibility

- Dialog is the only mobile network to cover the war affected Northeast. Nearly 200,000 people who were cut off from the rest of the world for nearly two decades are now connected through Dialog Telekom.
- Special services were introduced for the benefit of hearing and visual impaired subscribers.
- Braille billing for visually impaired subscribers was introduced
- Introduced SMS 112 for hearing and speech-impaired subscribers to contact the closest police station in an emergency as a value added feature.
- Special packages are offered to the hearing and visual impaired making mobile telecommunication more accessible.
- Actively subscribed to "Vishwa Grama Fund" which was designed to drive 'Universal access'
- Introduced cheaper handsets through dealers to reduce the entry cost.
- Introduced lower denomination recharge cards for the benefit of low-income groups. (Recharge cards, as low Rs. 50/- are now available)

Dialog Distance Learning Network

The aim of this unique project is to link schools in rural areas (with limited resources to teach subjects in the English language) with a School or Central Centre in Colombo (with the required teaching capacity) using mobile technology. The objective is to essentially create a model classroom in Cyber Space by facilitating education in the English medium in resource starved areas by provisioning ICT.

The programme was initiated by Dialog Telekom and is supported by the Ministry of Education and the Dialog University of Moratuwa Mobile Communications Research Laboratory. The project is driven and fully funded by Dialog Telekom for the pilot phase. The project will be rolled out to encompass all resource starved schools on a national scale after the successful completion of the pilot.

The Learning Management System supports 1-way video conferencing with 2-way voice, whereby enabling a lecture by a teacher from the central streaming centre to be broadcast to the remote schools. Students at both schools can participate in question/answer sessions with the teacher, which will be facilitated by 2-way voice conferencing for students to participate in discussions with the teacher at the central streaming centre.

Web-based access to textual, and non-real-time audio, video resource to access multimedia lecture material to

communicate with teachers and each other via email and non-real time interactive activities such as on-line quizzes, tests etc. will be made available through the web portal.

The main objectives of this flagship project to connect the unconnected in Sri Lanka focuses on:

- Supporting the Ministry of Education to teach science in the English medium for Advance Level students
- Facilitating technology-based education in resource-starved areas.
- Establishing virtual learning centers on experimental basis using electronic communication technologies such as Voice, Data and Video conferencing.
- Using the model centers to draw support for a countrywide effort of promoting science education in the English medium.

HUMANITARIAN INITIATIVES – DIALOG TELEKOMS' DISASTER RESPONSE EFFORTS

Response to the Tsunami

As a Nation State in the global South, Sri Lanka remains vulnerable in the event of crippling disaster situations, both manmade and natural. Disasters such as flood, drought or health epidemics in Sri Lanka have invariably

“Dialog Telekom’s Tsunami Relief and Rehabilitation Programme is built on the US\$ 1 Million (LKR 100 Million) Network of Life Fund”

resulted in a shortage of basic necessities such as food, medicine, water and shelter. On several occasions Dialog Telekom as a leading corporate entity extended its support to mitigate and alleviate difficulties in disaster situations. The company has provided its core services such as telecommunication facilities to facilitate relief and rescue missions as well as humanitarian assistance in the form of medicine, food and water, shelter and clothing. In times of disaster, Dialog has worked with other disaster response organisations to consistently mitigate the effects of disasters and to provide relief to victims. Dialogs response to the Tsunami debacle illustrates this claim lucidly.

Establishment of the Network of Life fund

The Tsunami debacle on the 26th of December, proved to be a catalyst for unprecedented humanitarian caring after giant waves engulfed much of Sri Lanka's coast, leaving over 30,000 people dead, thousands injured and more than 1 Million displaced. In response to this disaster Dialog Telekom launched a relief and rehabilitation programme, under the ‘Network of Life’ initiative, to ease the suffering of those affected by the disaster, and to facilitate the rehabilitation of devastated areas. Dialog Telekom’s Tsunami Relief and Rehabilitation Programme is built on the

US\$ 1 Million (LKR 100 Million) Network of Life Fund, administered by the Trustees of the Change Trust Fund. Dialog GSM and its Parent Company Telekom Malaysia Bhd. donated a sum of USD 500,000 (LKR 50 Million) as seed investment in the Network of Life Fund. In addition to the seed investment in the fund, the company has provided immediate and spontaneous relief to the Government of Sri Lanka and miscellaneous relief agencies in the form of emergency medical supplies and telecommunications equipment and services.

The activities of the Network of Life encompassed three phases of the overall rehabilitation challenge.

- The short term (immediate medical and other therapeutic assistance for the injured and homeless)
- The medium term (psychosocial assistance in the North and South of Sri Lanka)
- The long term (reconstruction of affected areas)

Dialog Telekom also provided communication facilities for the Singaporean Medical Team based in Galle, and provided communication facilities for victims and their loved ones as part of Disaster Relief Calling Centres. Dialog established a helpline to trace the victims of the disaster with the Halo Trust through its 24 hour contacts centre. Immediate relief measures provided also included medical assistance, free communication facilities, distributing food and drinking water in the affected areas. 27 truck convoys were dispatched to the affected areas as part of these immediate relief measures.

As one of its initial short-term initiatives, Dialog Telekom collaborated with the Sri Lanka Red Cross to assist with co-ordination and rescue efforts, and provided voluntary teams that were mobilised to many parts of the affected regions. Dialog set up 52 medical camps and communication centers in collaboration with the Sri Lanka Red Cross Society, which provided essentials such as medical-aid and connectivity respectively to affected communities during the initial stages. Dialog also issued phones and provided purpose built connectivity based applications to the Red Cross, and approximately 8,000 inbound foreign roammers using the Dialog GSM Network. An Interactive Voice Response (IVR) system was also deployed encompassing most of the requirements the SLRC and the National Council for Economic Development for

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communicating with the general public. The system was designed as a toll-free service. This supported fund collections to help in the relief effort, while also being linked to the emergency service numbers.

Dialog Telekom also launched the Network of Life Website to coordinate its relief activities and to provide various stakeholders with an opportunity to join Dialog's collaborative humanitarian efforts. A few of the organisations and institutions that were supported by Dialog Telekom Limited included – The Government of Sri Lanka and its nominated agencies, The CNO and subsequently the Task Force for Rebuilding the Nation (TAFREN), The Housing Reconstruction Unit (THRU),

The Halo Trust, The Sri Lanka Red Cross, Guys Paediatric Cardiac – UK, The Singaporean Medical Team, The Damrivi Foundation and Tamil Information Technology Agency in Jaffna etc.

Recovery of Damaged Business Infrastructure and Restoration of Services

Due to the unprecedented damage caused by the Tsunami such as the disconnection of power supply from the main grid, the loss of back up generators, cabins and base station equipment which were washed away/or damaged, at base stations Dialog Telekom was unable to prioritise calls as the damage was widespread. However, the recovery of the Network was swift and within 30 minutes of the first tidal

wave hitting Sri Lanka, key members of the Dialog Crisis Management team were informed and mobilised immediately. The objectives of the Crisis Management Team were to restore the Network in order to normalise communication facilities and aid rescue efforts, trace lost persons etc and to ascertain that all employees were in a 'safe' environment. Dialog Telekom also assisted relief agencies that operated in the affected areas by providing communication facilities through Thuraya Satellite phones. Restoring the damaged areas was crucial to support the relief work that was carried out by The Armed Forces, Non-Governmental Organisations and the general public. Steps taken for the Network Restoration included

"Dialog Telekom's medium term tsunami rehabilitation efforts hinged on giving strength to rebuild"

- Replacing generators
- Refuelling the generators installed at the sites
- Relocating the sites
- Sharing of base stations with other operators

• Dialog's base stations were equipped with battery banks/generators with a capacity to run over 10 hrs. This storage capacity provided sufficient time for Refuelling and Maintenance crews to reach the sites.

- Pre-designed Continuity and Disaster Recovery Plans with guidelines for Emergency Team Deployment
- Use of Flexible Technology allowing for re-direction of calls
- Co-operation between Telecom Operators
- Timely coordination with Security Forces

	Immediate Aftermath	After 24 Hours	After 48 Hours	After 72 Hours	After 116 Hours
Recovery of Damaged Network Connection		10% High	40% Normal	66% Normal	100% Normal

The Medium Term (Psychosocial Assistance in the North and South of Sri Lanka)

The mid-term phase of the Network of Life Tsunami Relief and Rehabilitation Programme focused on identified post-trauma and psychosocial support. Dialog together with the Damrivi Foundation and the Tamil Information Technology Association launched psychosocial counselling camps called 'Giving Strength to Rebuild' in the affected areas. Dialog Telekom recognised the true cost of the recent disaster on the population in this region lies not only in the number of lives that were lost but also in the impact of this loss on survivors whose worlds have been changed - due to the loss of their loved ones, their homes,

their livelihoods and their fragile sense of security. Help was required to minimise the effect of this disaster on the wellbeing of individuals and to rehabilitate communities as part of an integrated programme of development. A critical part of this integrated program was identified as a special counselling programme focusing on Children. In light of the above Dialog GSM came forward to financially sponsor four "Mobile Counselling Teams" (MCT) focusing on Children in Jaffna, Trincomalee, Amparai and Mullaitivu Districts. Tamil Information Technology Association – TITA, a grass root level NGO working in North East using ICT for Socio Economic Development came forward to mobilise the resources and acted as an implementation partner with its 'FREE

Rural IT Centre' volunteer base. Centre for Health Care (CHC), a Kilinochchi based NGO backed by Expatriate Health Professionals and 'Shanthiyakam', a Psychological Relief Work Group in Jaffna came forward to pool their specially trained counsellors and specialised doctors for this initiative.

The beneficiaries of these camps were those affected by loss of property income, livelihood and loved ones.

Corporate Social Responsibility

A summary of the psychosocial camps funded and supported by Dialog Telekom

NORTHEAST PROVINCE	
Amparai Welfare Centres Mandaan – Estimated 675 families and 235 children Sakalakalai - Estimated 800 families and 280 children Nintavur - Estimated 75 families and 50 children Kapadaappatti – temporary resettlement village with 200 families and 85 children	Jaffna Welfare Centres Maruthankeni – Estimated 380 families and 300 children Uduththurai – Estimated 575 families and 600 children Sempiyapatru-1 - Estimated 175 families and 150 children Sempiyapatru-2 – Estimated 245 families and 200 children
Trincomalee Welfare Centres Adampodai - Estimated 150 families and 200 children Paattalipuram – Estimated 198 families and 200 children Kinniya - Estimated 200 families and 300 children Anbu Illam – 90 Orphans	Mullaitivu Welfare Centres Unnappulavu – Estimated 200 families and 270 children Vattuvakkal - Estimated 320 families and 230 children Mullaithivu MV - Estimated 344 families and 306 children Swami Thottam - Estimated 276 families and 220 children Alampil - Estimated 411 families and 300 children Salaawaththai - Estimated 357 families and 310 children
SOUTHERN PROVINCE	
Camps in Beruwela Area Counselling and Support Camp 01 Counselling and Support Camp 2	Shailabimbaramaya Counselling and Support Camp
Camps in Galle Area Manthidaramaya Counselling and Support Camp Rejjipura Counselling and Support Camp Boossa Counselling and Support Camp	Camps in Matara Area Samudratheera Viharaya Matara Ahangama Elukatiya Counselling and Support Camp
	Camps in Koggala Area Koggala Counselling and Support Camp

The Long Term – (Dialog Telekom's Long Term Response – The Way Forward)

Dialog's contribution to the long-term nation rebuilding process has been strategically motivated, and has built on the company's strengths in R&D and innovation. The result has been the realisation of two pragmatic solutions with very high social value

Disaster and Emergency Warning Network (DEWN) - Dialog Telekom identified two areas of significant importance, and has made progress in developing and launching an early warning system for multi hazards to mitigate future disasters in Sri Lanka and improve preparedness among local communities. The system is currently under pilot in two districts in Sri Lanka.

The Dialog Distance Learning Network - Dialog Telekom is working in collaboration with the Ministry of Education and the Dialog University of Moratuwa Research Laboratory to develop a Distance Learning facility for Schools affected by the Tsunami, using ICT to empower educational institutions to deliver classes in remote schools through a resource efficient method of sharing instructors.

"As an equal opportunity employer the Company has provided employment to a diverse and talented group of individuals "

OUR PEOPLE

Dialog Telekoms HR strategies are driven towards being recognised as the "Employer of Choice" by way of compensation, rewards, recognition, challenge and exposure. As an equal opportunity employer the Company has provided employment opportunities to a wide range of individuals from various disciplines, irrespective of caste, creed, colour or religion.

NET ANNUAL EMPLOYMENT CREATION

Dialog Telekom attempts to recruit the best personnel who can make the most of their potential for the company and develop their own careers to the fullest. The Company believes high productivity is enhanced by maintaining optimum recruitment levels limited to the actual requirements as determined by Human Resources.

The staff strength grew by 41% during the FY2005 relative to 2004 and recorded a 33% CAGR since 2001. In addition to the 1706 employment opportunities created at Dialog as part of its staff, the company has created close to 15,000 employment opportunities to the Sri Lankan public for provision of services that have been outsourced by the company.



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- Islandwide sale of new connections via Exclusive Dealer network
 - Distribution and sale of prepaid recharge cards to all parts of Sri Lanka
 - Construction of New Base Stations and Buildings for Dialog Telekom
 - Development of New Value Added Services and Mobile Applications on behalf of Dialog

EMPLOYEE BENEFITS

Given the challenges Dialog Telekom is facing in the Human Resources area we are mindful of employee satisfaction. Hence we have introduced various benefit schemes to maintain our employee satisfaction at peak levels. For instance in addition to the financial benefits, we have introduced flexible work time models helping our employees to improve their work – life balance.

AGE ANALYSIS

The most striking feature of the Dialog workforce is that 2/3 of the employees are less than 29 years of age, and 96% percent are under 40. The young and dynamic work force highlights Dialog's flexibility to change, and aggressiveness in strategy execution.

LABOUR MANAGEMENT RELATIONS

Good relations with our employees are the prerequisite for Dialog Telekom's success in the market. For years it has proved worthwhile to include employee representatives and employees in important organisational processes.

HEALTH AND SAFETY

It is the intention of Dialog Telekom, that the Company will achieve the highest possible standards in the area of Health and Safety Management. The Company has adopted the relevant statutory provisions and all reasonable practicable measures to avoid risks to its employees or others who may be affected by the Company's operations.

TRAINING AND EDUCATION

Training opportunities are available for all employees based on needs identified via performance reviews. To ensure that the training needs of the company are met, a cross-divisional team including all department heads meet on a regular basis. Employees who have

completed training, complete questionnaires, and are later assessed by supervisors to evaluate the efficacy of specific programmes. The total number of training programmes has increased from 224 to 313 in 2005 with an increase of Rs.40.2 Mn in training investment.

EQUAL OPPORTUNITY POLICIES

Equal opportunity is about recognising and valuing the contribution that individuals from different backgrounds, race and cultures can make in the workplace, and enabling them to make this contribution without unfair discrimination, harassment, or victimisation. Dialog's performance driven culture is uncompromisingly aligned to the equal employment policy.

Age	Year Range		As at 31 December 2005	%
64 - 60	1941 - 1945	Veterans	4	1%
59 - 41	1946 - 1964	Boomers	54	3%
40 - 29	1965 - 1976	Generation X	518	30%
< 29	> 1976	Generation Y	1130	66%
Total			1706	100%

OUR VISION FOR CSR

OUR VISION FOR CSR AT DIALOG & THE ROAD MAP TO SUSTAINABILITY REPORTING

Over the past few years the Change Trust fund has supported over 60 charitable initiatives and touched the lives of those marginalised in Sri Lanka, equitably. The Trust is a powerful reminder, of how corporate entities can empower and usher parity dividends to all Sri Lankans and improve the quality and equality of life. Dialog has also identified strategic flagship programmes across five thematic spheres that build on these philanthropic motives, and contribute to nation building and development.

At Dialog we acknowledge that the philanthropic aspect of CSR is only possible in so far that we ensure we conduct our business in a transparent and sustainable manner. Hence we are aware that our triple bottom line focus will play a pivotal role in terms of how the business is shaped into the future. Emerging global guidelines such the Global Reporting Initiative and the established AA1000 guidelines will be used to build on this commitment from 2006. Dialog will engage with its stakeholders in a proactive manner and address key issues relevant to our stakeholders, business footprint and the community at large; thereby ensuring that CSR at Dialog does not join the bandwagon of CSR marketing that supports short term brand equity gains. Instead, we undertake to focus on a transparent and sincere effort to embed CSR in all that we do and report on this performance through a sustainability report, in accordance with the GRI from 2006, while continuing to reach out to the marginalised to create equality and opportunity through our unfeigned philanthropic endeavours.

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DIALOG TELEKOM (DIAL) ON THE CSE





Sharing Success

We make sure that everything we do has a positive and far reaching outcome, so that everytime we succeed, you do too.

- Market leader 6 years in succession with > 60% share
- Dialog subscriber base growing at 66% CAGR
 - One million new subscribers in 14 months

Management Discussion and Analysis

MARKET PERFORMANCE

Market Share

Dialog, in 1995 the last entrant to Sri Lanka's mobile telecommunications industry, achieved market leadership by year 2000. Today, Dialog commands over 60% market share in the mobile sector and over 40% share in the overall telecommunications market.

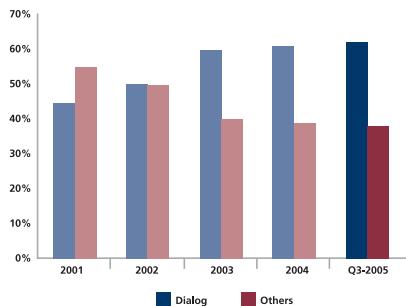


Figure 1: Dialog's Share Vs Total Mobile Market
Source TRCSL

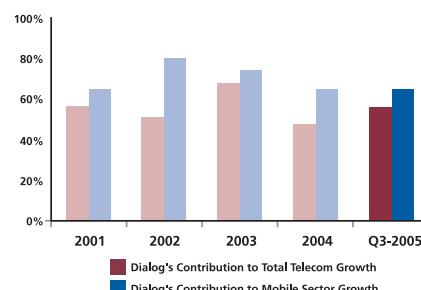


Figure 2: Dialog's contribution to total telecom growth

Source TRCSL

Growth of subscriber base

Dialog's strategy was simply to "Transform mobile telephony from its exclusive positioning in 1995 to a broad-based commodity affordable and available to citizens from all walks of life". As at 31 December 2005, Dialog serves over 2 million Sri Lankans across the country, or more than 1 in every 10 Sri Lankans. In 2005 Dialog also created another milestone by adding one million new subscribers in a mere 14 months.

Figure 3 indicates the year on year growth in the Dialog subscriber base.

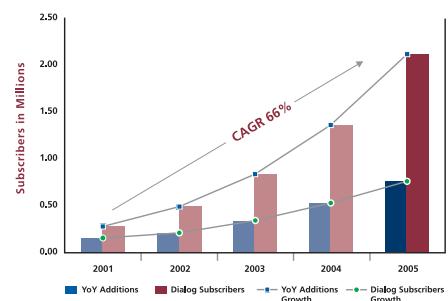


Figure 3: Growth of Subscriber Base

Subscriber growth during the period FY2001 to 2005 exhibits a CAGR (Compounded Annual Growth Rate) of 66% as depicted in Table 1. The market grew at a CAGR of 50% between FY 2001 and Q3- 2005 during which time DTL growth was at a CAGR of 68%.

Dialog's contribution to Telecommunications Penetration

Dialog continues to be the driving force behind Sri Lanka's relatively high telecommunications penetration level, contributing over 60% to market growth during the last 5 years.

SUBSCRIBERS IN THOUSANDS						CAGR				
	2001	%	2002	%	2003	%	2004	%	2005	%
Post-Paid	121	44	166	34	228	28	329	24	441	21
Pre-Paid	157	56	321	66	602	72	1,030	76	1,682	79
Total Subscribers	278 100		487 100		831 100		1,359 100		2,124 100	66

Table 1 : Growth in domestic subscriber base
Figures in the table may not add up due to rounding.

Stable blended ARPU despite growing prepaid mix

Dialog's consistent strategy of providing affordable services to low income segments of the market, resulted in the generation of new markets from higher to dormant low ARPU prepaid segment.

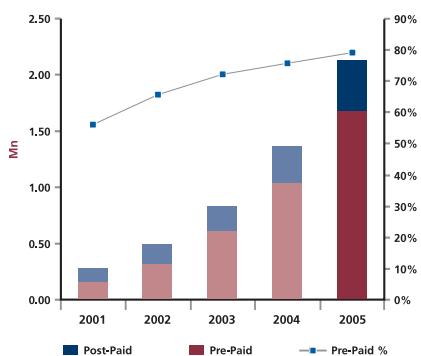


Figure 4 : Subscriber mix

Product and service offerings

Dialog has continued to expand its revenue by offering a growing range of services, content, and simplified tariff structures.

- The RingIn tone service launched for Dialog users in 2005 created a new non voice revenue stream contributing approximately 2% of total revenue from Value Added Services.
- Non-voice revenues increased by 136% to Rs. 428 Mn for the year ended 31 December 2005 compared to 2004. SMS revenue was the largest component of non voice revenue (74%). The introduction of multi-
- lingual SMS services is expected to further enhance non voice revenues.
- Other data revenues continued to increase in 2005 as the Company continued to drive its offerings through the Dialog portal. Customers can access a range of online services – Wallpapers, Polyphonic Ring-tones and Java Games. Dialog also entered into an agreement with Turner Broadcasting System Asia Pacific, Inc. (TBSAP) to provide Cartoon Network mobile content to all Dialog subscribers.
- The inbound roaming revenue segment experienced a decline during the year 2005, owing to a drop in tourist arrivals following the Tsunami in December 2004. This declining trend is likely to reverse during FY2006. Dialog's alliance with Vodafone would enhance the Company's roaming revenues in 2006.
- Tariff reductions, value additions and free value-added services such as CLI and GPRS have helped to increase market share and induce higher usage.
- During the course of 2005, IDD tariffs for 20 countries were reduced to the level of local call rates (Rs.11/- per minute) for both Postpaid and Prepaid users resulting in more than 100% increase in usage.

- During the year Dialog Plans were introduced for HSBC and Sampath Bank credit card holders to promote handset sales. Dialog plans is a facility to purchase handsets with specially designed packages that are payable over a period of 12 months, thereby reducing entry barriers.

Average Revenue Per User (ARPU)

The blended ARPU has remained above Rs. 600 despite aggressive tariff reductions and 80% of new additions being generated from the lower ARPU prepaid segment. This is attributable to the competitive packages on offer, our marketing initiatives and innovation focus that created products and services appealing to a wider segment

Figure 5 indicates the blended ARPU trend together with the percentage of pre-paid subscribers.

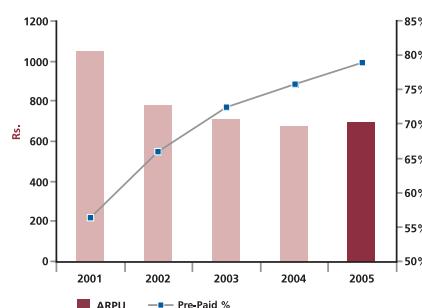


Figure 5 : Blended ARPU / month

Management Discussion and Analysis

Annual Churn Rates

The churn rate for the FY 2005 was 9.5%, recording a drop in performance by 59% compared to 6% for the FY2004. The increase in churn rate was due to stringent credit and fraud control measures and the disconnection of subscribers involved in illegal termination of international traffic.

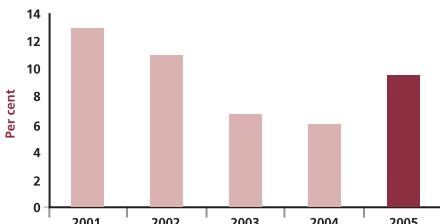


Figure 6: Annual churn rates

FINANCIAL PERFORMANCE REVIEW

Operating Results

Salient extracts from the Income Statement, the Balance Sheet and Cash Flow Statement highlighting the historical performance of the Company during the five year period ended 31 December 2005 are given below.

Figures in the Tables 2,3 and 4 may not add up due to rounding.

Income Statement

(All Figures in Rs. Mn)	YEAR ENDED 31 DECEMBER					CAGR %
	2001	2002	2003	2004	2005	
Revenue	3,218	4,590	7,477	11,407	18,034	54
YoY%		43	63	53	58	
Direct Cost	1,300	2,032	2,973	3,932	6,214	48
YoY%		56	46	32	58	
Gross Profit	1,918	2,558	4,504	7,475	11,821	58
YoY%		33	76	66	58	
Gross Margin %	60	56	60	66	66	
Administration and Distribution	1,036	1,191	1,854	3,152	4,557	45
YoY%		15	56	70	45	
EBITDA	1,239	1,985	3,729	5,917	9,416	66
YoY%		60	88	59	59	
EBITDA Margin %	38	43	50	52	52	
PBT	955	1,306	2,414	4,140	7,054	65
YoY%		37	85	72	70	
PAT	733	1,083	2,859	4,101	7,012	76
YoY%		48	164	43	71	
PAT Margin %	23	24	38	36	39	
Earnings per Share(Rs)*	0.97	0.59	0.70	0.98	1.15	4
YoY%		-39	19	40	17	

* EPS has been adjusted to reflect the capital structure changes made in 2005

Table 2: Audited Profit and Loss Statement for FY 2001-2005

Revenue growth during the period FY 2001 to 2005 exhibits a CAGR of 54% fuelled by parallel growth in the key revenue drivers

Balance Sheet

(All Figures in Rs. Mn)	AS AT 31 DECEMBER					GROUP
	2001	2002	2003	2004	2005	
ASSETS						
Non Current Assets	4,971	8,106	10,985	13,466	22,430	
Current Assets	1,363	2,801	2,332	5,688	10,766	
Total Assets	6,334	10,907	13,317	19,154	33,197	
EQUITY AND LIABILITIES						
Capital & Reserves	2,064	3,111	5,478	8,712	17,201	
Non Current Liabilities	2,802	5,678	5,791	6,600	9,131	
Current Liabilities	1,467	2,118	2,048	3,842	6,865	
Total Liabilities	6,334	10,907	13,317	19,154	33,197	

Table 3: Audited Balance Sheet for FY 2001-2005

Cash Flow Summary

(All Figures in Rs. Mn)	YEAR ENDED 31 DECEMBER					GROUP
	2001	2002	2003	2004	2005	
Net Cash from Operating Activities						
Net Cash from Operating Activities	1,430	1,695	3,477	6,970	9,011	
Net Cash used in Investing Activities						
Net Cash used in Investing Activities	(2,083)	(3,593)	(3,938)	(4,061)	(10,073)	
Net Cash used in Financing Activities						
Net Cash used in Financing Activities	481	2,716	(308)	(255)	4,581	
Increase/(Decrease) in Cash and Cash Equivalents	(171)	818	(770)	2655	3,519	
Movement in Cash and Cash Equivalents						
At Start of Year	638	467	1,285	515	3,170	
Increase/(Decrease)	(171)	818	(770)	2,655	3,519	
At the end of year	467	1,285	515	3,170	6,689	

Table 4: Audited Cash flow Statement for FY 2001-2005

Performance of Operations

Revenue

In 2005, Dialog Telekom recorded revenue of Rs. 18,034 Mn, representing a growth of 58% relative to FY 2004. Revenue growth during 2005 is representative of the Company's consistent Year on Year (YoY) revenue growth trend over the past 5 years.

Revenue growth during the period FY 2001 to 2005 exhibits a CAGR of 54% fuelled by parallel growth in the key revenue drivers of subscriber base and network reach. International Services introduced in 2003, has also helped to boost revenue.

The Domestic Revenue growth has been driven by the consistent growth in both Prepaid and Postpaid subscriber base. The postpaid active subscriber base increased by 34% from 0.33 Mn to 0.44 Mn between 2004 and 2005. In parallel, the prepaid active subscriber base increased by 63% from 1.03 Mn to 1.68 Mn.

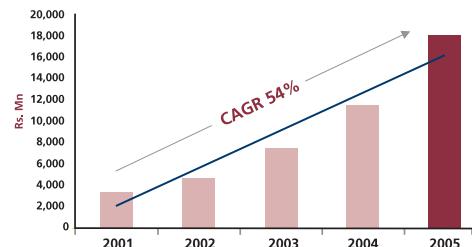


Figure 7: Revenue Growth

Management Discussion and Analysis

Revenue Composition

The key components of Revenue are pre-paid, post paid, international roaming, international termination, equipment and accessory sales and other revenue. For the FY2005, total revenue is composed of 40% from post paid revenue, 37% from prepaid revenue and 9% from international roaming revenue. Domestic revenues, which consist of prepaid and postpaid

revenue, accounted for approximately 77% of total revenue in 2005.

When compared to results of 2004, pre paid contribution has increased from 35% to 37% with a growth in subscriber base from 1.03 Mn to 1.68 Mn.

The revenue mix for the years ended 2004 and 2005 is depicted in Table 5 and Figure 8.

REVENUE COMPOSITION (Rs. Mn)	2004	%	2005	%
Post-paid Revenue	4,224	37	7,283	40
Pre-paid Revenue	4,010	35	6,593	37
International Roaming Revenue	1,703	15	1,616	9
International Termination Revenue	544	5	1,364	8
Equipment, Accessories and other revenue	925	8	1,178	6
Total Revenue	11,406	100	18,034	100

Table 5 : Revenue Mix

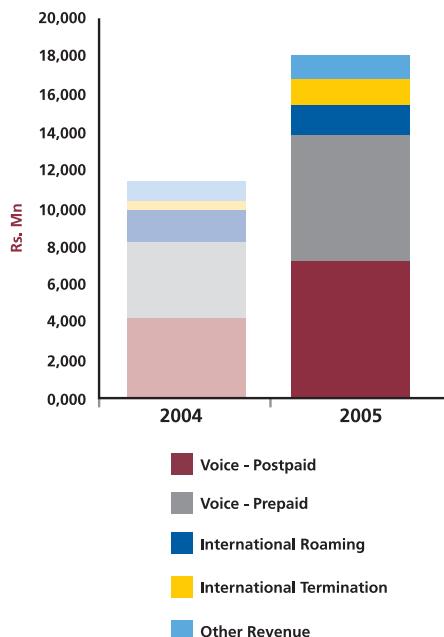


Figure: 8: Revenue Mix

Direct Costs

Total direct costs for the FY2005 amounted to Rs. 6,214 Mn compared to Rs. 3,932 Mn in the previous year, which is a 58% increase. Direct costs to revenue at 34% for the FY 2005 remained constant from the previous year.

Significant components of direct cost are telecom equipment depreciation, network cost, international origination cost, outbound roaming cost, lease circuit rental costs and International Telecommunication Levy.

Direct costs for the years 2004 and 2005 are classified below:

Description of Direct Cost (Rs. Mn)	2004	%	2005	%
Network Related Costs	3,441	87.5	5,408	87.0
Customer Related Costs	486	12.4	790	12.7
Others	5	0.1	16	0.3
Total	3,932	100	6,214	100

Table 6 : Direct cost composition

Opex relative to Revenue has dropped by 3 percentage points as a result of operational efficiencies

The direct cost over the five-year period is depicted in Figure 9.

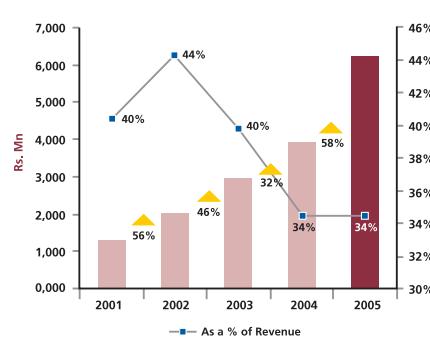


Figure 9 : Direct Cost

International Telecommunication levy
The government, through the Finance Act No. 11 of 2004, imposed a levy on International Telecommunication operators with retrospective effect dating back to March 2003. Accordingly the Company has provided for this levy in full in its financial statements under direct costs. Dialog has settled international telecommunication levies in full for FY2005 amounting to Rs. 504 Mn. (Figure 10) The PAT figures for the years ended 31 December 2004 and 2005 are stated after the deduction of this levy. It is envisaged that the Regulator would determine a refund of a part of this levy as compensation for rural network development. Any such refund would be reflected as a positive contribution to the bottom line.

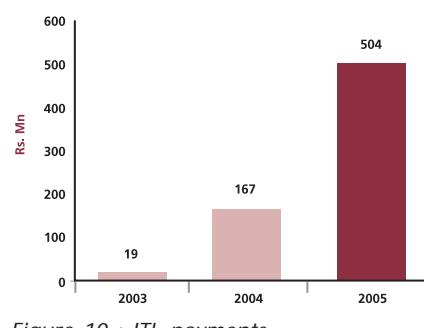


Figure 10 : ITL payments

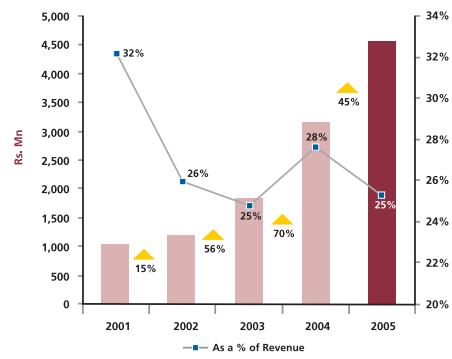


Figure 11 : Operating expenses

Operating Expenses

Operating expenses in FY 2005 amounted to Rs. 4,557 Mn in comparison to Rs 3,152 Mn in FY 2004.

Operating expenses comprise mainly of selling and distribution expenses, manpower and general administration costs.

Operating expenses relative to revenue declined to 25% from 28% recorded for FY 2004 as given in the Figure 11.

The composition of operating expenses for FY2005 is depicted Figure 12.

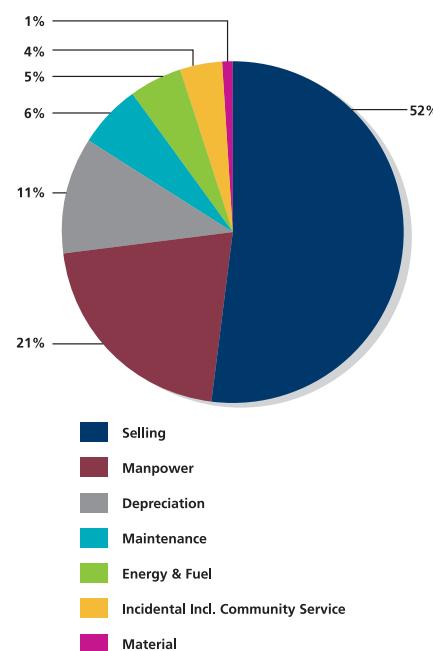


Figure 12 : Operating expenses composition - FY2005

Effective cost rationalisation has helped to grow EBITDA by 59% during FY 2005

Management Discussion and Analysis

Depreciation

The Company has recorded a depreciation charge of Rs.1,954 Mn for FY2005 against the FY2004 figure of Rs.1,452 Mn, representing a 35% increase.

ASSET CATEGORY	2004	2005	CHANGE %
(All Figures in Rs. Mn)			
Telco	1,167	1,542	32
Others	285	412	45
Total	1,452	1,954	35

Table 7: Depreciation breakdown

Finance Costs

Interest costs increased by 10% from Rs.334 Mn in 2004 to Rs.367 Mn in 2005 mainly due to loan facilities that were drawn down from the International Finance Corporation (US Dollars 15 Mn) for network expansion, and Hong Kong and Shanghai Banking Corporation (Rs 2.5 Bn) for the repayment of a shareholder loan.

Net effects of currency exchange differences amounted to a forex loss of Rs 68 Mn for the full year compared to a forex gain of Rs 15 Mn recorded for 2004.

Taxation

Dialog has been granted Flagship Investor status by the Board of Investment (BoI) of Sri Lanka by virtue of the quantum of inward infrastructure investments made by Telekom Malaysia. The terms of the Flagship Investor agreement bestow a 15-year tax exemption period on the Company, which terminates in the year 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% 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% with effect from January 2005.

Profitability

- Gross Profit**

The gross profit of Rs. 11,821 Mn has increased by 58% compared to Rs. 7,475 Mn in 2004

The Company was able to maintain its gross margins despite aggressive tariff reductions and acquisition of low revenue generating customers.

The annual gross profit of the

Company for the past five years is given in Figure 13.

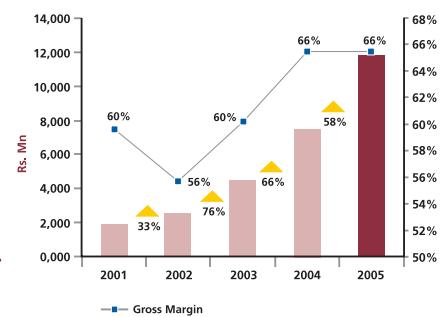


Figure 13: Gross Profit

- EBITDA**

The Company also showed similar growth in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as depicted Figure 14. Dialog Telekom's earning growth is underpinned by revenue growth (CAGR of 54%) combined with enhancements in operational efficiencies as demonstrated by the fact that Gross Profit and Profit after Tax have displayed a CAGR of 58% and 76% respectively.

EBITDA was recorded at Rs 9,416 Mn in 2005 compared to Rs 5,917 Mn in 2004 representing a growth of 59%. EBITDA for the Company has grown at a CAGR of 66% over the five year period.

Net Profit has grown at 76% CAGR since 2001

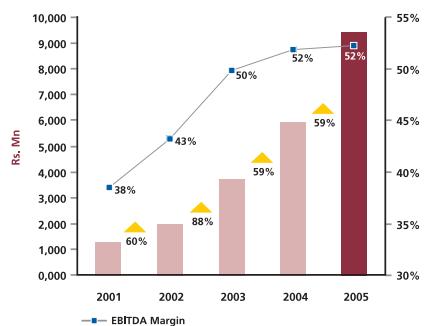


Figure 14 : EBITDA

PAT

Dialog recorded a profit after tax of Rs. 7,012 Mn in 2005, representing a 71% earnings growth relative to the 2004 figure of Rs 4,101 Mn. Profit margins have improved from 36% in 2004 to 39% in 2005 mainly due to contraction in operating expenses relative to revenue as depicted in Figure 15.

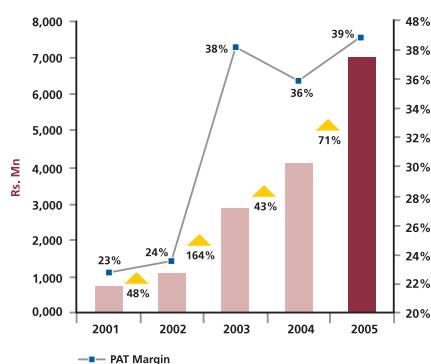


Figure 15 : Profit After Tax

BALANCE SHEET

Assets

Dialog Telekom's non-current assets (inclusive of subsidiary) as at 31 December 2005, stood at Rs. 22.43 Bn representing an increase of 67% compared to 2004.

Some of the significant changes during the FY 2005 are as follows

- Fixed asset additions during the year amounted to Rs. 8.25 Bn.
- Intangible assets increased from Rs. 82 Mn to Rs. 1,628 Mn due mainly to the goodwill resulting from the acquisition of Dialog Broadband Networks (Pvt) Limited (formerly known as MTT Network Private Limited), amounting to Rs 390 Mn and licenses held by Dialog Broadband Networks valued at Rs. 890 Mn. The above goodwill and intangible assets held by Dialog Broadband Networks has been tested for impairment.
- The Company's investment in Dialog Broadband Networks (Pvt) Ltd amounted to Rs. 1.97 Bn.
- As at 31 December 2005, current assets increased to Rs. 10.77 Bn mainly due to an increase in the cash and cash equivalents position.

Liabilities

New debt secured in 2005 include borrowings from International Finance Corporation (15 Mn US Dollars) for network expansion and Hongkong

and Shanghai Banking Corporation (Rs 2.50 Bn) for the repayment of shareholder loan. Please refer note 15 of the audited financial statements (page 137) for details on borrowings.

Working capital

Net working capital for the FY 2005 was Rs. 3.90 Bn, an increase of 111% from Rs.1.85 Bn for FY2004.

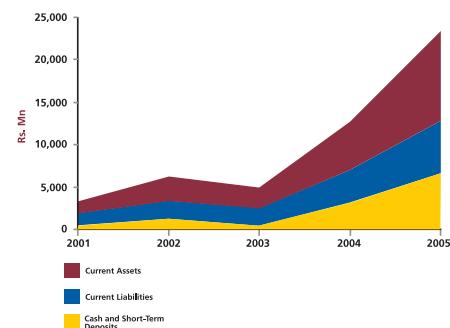


Figure 16 : Working Capital Management

Short term investments, cash in hand and at bank, net of bank overdraft, as at 31 December 2005, was Rs. 6.69 Bn compared to Rs. 3.19 Bn as at 31 December 2004. The increase in short term bank borrowings by Rs. 1,302 Mn is mainly due to the HSBC, IFC and subsidiary term loan installments falling due in 2006.

Management Discussion and Analysis

Trade and other receivables increased by 66% whereas trade and other payables increased by 43% only.

The liquidity ratios have been analysed in Table 8.

The current ratio has improved from 1.48x in FY 2004 to 1.57x in FY2005 mainly due to the improvement in the cash position. In parallel, quick ratio also exhibited a similar trend improving from 1.42x to 1.52x.

Shareholders Funds

Total shareholder funds increased from Rs. 8,712 Mn to Rs 17,201 Mn via the net profit earned during the year and the issue of new share capital (offer for subscription during the IPO) amounting to Rs. 3,480 Mn

Capital Structure

The total assets of Dialog Telekom, as at 31 December 2005, of Rs. 33.20 Bn was funded by a combination of shareholders funds, long term creditors and short term creditors in the proportions of 52%, 28% and 20% respectively. The long term portion of the aforesaid funding is 81% which in turn is made up of shareholder funding (65%) and debt (35%).

LIQUIDITY MEASURES	2001	2002	2003	2004	2005
Current Ratio	0.93	1.32	1.14	1.48	1.57
Quick Ratio	0.85	1.22	1.05	1.42	1.52

Table 8: Liquidity Measures

3.6 Key Indicators

KPI	2004	2005
Net asset per share (Rs.)	201.17	2.32
Adjusted Net asset per share (Rs.)	2.15	
Gearing Ratio (%)	22	37
Debt to EBITDA ratio (times)	0.59	1.06
Return on Equity (%)	47.07	40.76
Return on Capital Employed (%)	26.86	26.85
Earnings per Share (Rs.)	0.98	1.15

Table 9: Key Indicators

The change in the net asset per share ratio was mainly due to the issuing of new shares prior to IPO via the capitalisation of reserves (resultant number of shares 4,640 Mn) and the conversion of preference shares (resultant number of shares 1,903 Mn). Also new shares issued during the IPO and change in the par value from Rs 10/- to Rs 1/- per share contributed towards a significant drop in the Net asset per share. The adjusted Net asset per share for 2004 is Rs 2.15, thus reflecting an YoY increase of 8%.

The Gearing Ratio and Debt to EBITDA has increased due mainly to the increase in Debt secured during the period.

Although the Net Profit has grown YoY at 71%, the Return on Equity and Return on Capital Employed have marginally declined due to the increase in the shareholders funds following the IPO. The shareholders funds have increased YoY by 97% while the Capital Employed has increased by 71%.

EPS is calculated by dividing the net 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 (see Note 20 of the Audited Financial Statements on page 141). Earnings per share improved to Rs 1.15 from 98 cents recorded for FY 2004 representing an increase of 17%.

Rs 9 Bn cash generated from operations during FY 2005

Interest cover at 27.6x is a marked improvement compared to 2004 figure of 20.4x

Interest Cover

Interest cover over the five year period is presented in Figure 17.

Interest cover at 27.6x is a marked improvement compared to the 2004 figure of 20.4x. (Table 10) Although the debt to equity ratio has increased to 0.37x, earnings have improved significantly reflecting the Company's ability to repay its debts.

	2001	2002	2003	2004	2005
Interest Cover	17.0	14.7	10.5	20.4	27.6

Table 10 : Interest Cover

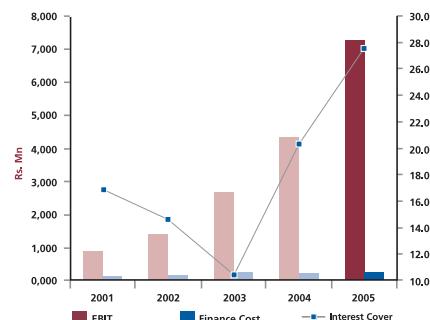


Figure 17:Interest Cover

CASH FLOW

Operating activities

The net cash flow generated from operating activities was Rs.9,011 Mn in FY2005 compared to Rs.6,970 Mn in FY2004, representing an increase of 29% mainly due to expansion of operations, and overall improvement in net margins.

Investing Activities

During the year, Dialog spent Rs. 8.21 Bn for the purchase of property, plant and equipment compared to Rs. 3.93 Bn invested in FY 2004

In 2005, Dialog set aside 19.2 Mn US Dollars for the acquisition of Dialog Broadband Networks Pvt Ltd., of which 15.6 Mn US Dollars was paid in the fourth quarter of 2005.

Financing Activities

Dialog raised Rs 3.48 Bn via the offer for subscription of 290 Mn ordinary shares, which were subscribed at a share offer price of Rs 12/- per share. During the year, 15 Mn US Dollars was drawn-down out of the 30 Mn US Dollars IFC facility which provides the option to increase borrowing up to 50 Mn US Dollars .

• Dividends

A final dividend of Rs 2.86 Bn in respect of the previous financial year was paid during the year 2005 as follows:

- Cumulative preference share dividends of Rs. 107.86 Mn declared for FY 2004
- Ordinary share dividends of Rs 2,751 Mn declared for FY 2004

STRATEGIC BUSINESS UNITS AND SUBSIDIARY PERFORMANCE

International Business

Dialog Global provides a rich portfolio of International Telecommunication services to prospective clients, ranging from

wholesale bandwidth services to retail voice/data services.

DTL has been assigned cable capacity on the SEA-ME-WE 3 submarine cable and SEA-ME-WE 4 under a capacity transfer agreement with TM. The availability of capacity via this arrangement is expected to augur well for the Company's International operations.

The International Services Operation contributed approximately 8% to Dialog's bottom line during the FY 2005. During the FY2005 both origination and termination minutes increased by 104% and 204% respectively relative to FY2004. Global calling card revenue grew YoY at 166%. External Gateway Operations (EGO) revenue grew by 63% during FY2005 compared to FY 2004. These revenue streams have formed a healthy source of foreign exchange income to the Company.

At Rs 122 Bn the largest Market capitalised Company Listed on the CSE - representing 21% of the Market Capitalisation of the Colombo Stock Exchange

Management Discussion and Analysis

Internet Based services

During FY2005 ISP revenue (retail and corporate) has witnessed an increase of 158%. Additionally the net active subscribers has experienced an 81% growth YoY.

Dialog's ISP also serves as a facility provider for the 2.5/ 3G operations of the Dialog GSM network.

The Company ventured into internet bandwidth sales more aggressively recording revenue increase of 20.9x compared to FY 2004

Dialog's ISP operations have been restricted by its non-facilities based license. The Company was compelled to rely on other last-mile providers to reach subscribers. However, the key licenses provided through the acquisition of Dialog Broadband Networks (Pvt) Ltd will facilitate the expansion of Internet Services going forward.

Dialog Broadband Networks (Pvt) Limited

The acquisition of Dialog Broadband is seen as a key element of Dialog Telekom's ongoing Infrastructure development strategy. Key assets (spectrum resources and networks) and licenses provided through the acquisition of Dialog Broadband will enable Dialog Telekom to play an increasingly active role in a wider spectrum of markets spanning fixed line telephony, data communications and broadband services.

During the nine months ended 31 December 2005 Dialog Broadband revenue has grown by 45% and net profit by 57%.

DIALOG TELEKOM (DIAL) ON THE CSE

Market Capitalisation & Shares in Issue

The Market Capitalisation of DTL as at 31 December 2005 was Rs. 122.16 Bn (7,403.43 Mn Shares in Issue valued at the market price Rs.16.50 per share), representing 21% of the Market

Capitalisation on the Colombo Stock Exchange. (Table 11)

During the year under review 199.89 Mn ordinary shares of Rs.1/- each were issued to an Employee Share Trust to be held in trust on behalf of employees of the Company. The ESOS shares are eligible for exercise over a period of five years.

As at 31 December 2005 total of 1,116,050 shares were exercised by employees and transferred from the ESOS Trust account (see note 20 of the Audited Financial Statements on page 141)

Market Information on Ordinary Shares of the Company

Subsequent to 28 July 2005 date of commencement of trading at the CSE

31 Dec 2005

Market Value

Highest Price (Rs.)	22.50 (04 Oct 2005)
Lowest Price (Rs.)	14.00 (28 Jul 2005)
As at the year end (Rs.)	16.50

Trading Statistics

Number of Trades	47,530
as a % of Total Market trades	9
Number of Shares Trades	582,200,667
as a % of Total Shares Traded	25
as a % of Total Shares Issue*	82
Value of all Shares Traded (Rs. '000)	10,004,541
Average Daily Turnover (Rs. '000)	95,281
as a % of Total Market Turnover	17

Market Capitalisation (Rs. '000)

% of Total Market Capitalisation	21
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*Excluding ESOS shares and TM International (L) Limited Holding

Table 11: Market information

First and only One Billion Dollar Company on the CSE

DIAL recorded the highest number of trades at 13,254 on 28 July 2005

During the period under review the DIAL share price ranged between a low of Rs. 14.00 and a high of Rs. 22.50 and closed the year at Rs. 16.50.

The DIAL share price appreciated by 37.5% from 28 July 2005 (IPO date) to December 2005 while the All Share Price Index recorded a 1.3% decrease during the same period.

Earnings Per Share

Earnings Per Share (EPS) during the period under review was Rs. 1.15 which is an increase of 17% over the 98 cents recorded in 2004. (see Note 20 of the Audited Financial Statements).

Price Earnings Ratio

The Price Earnings Ratio as at 31 December 2005 was 14.3x. The DIAL share was trading at a premium to the Market PER, which was estimated at 12.4x on 31 December 2005.

Telco industry vs ASPI

Subsequent to the listing of Dialog Telekom, both ASPI & Telco industry indices have shown a significant growth (Figure 19).

Price to Book Ratio

The Price to Book ratio as at 31 December 2005 was 7.11x reflecting the positive investor perception of the Company in terms of profit, balance sheet strength and growth.

DIAL Share Volume and Relative Performance VS Market

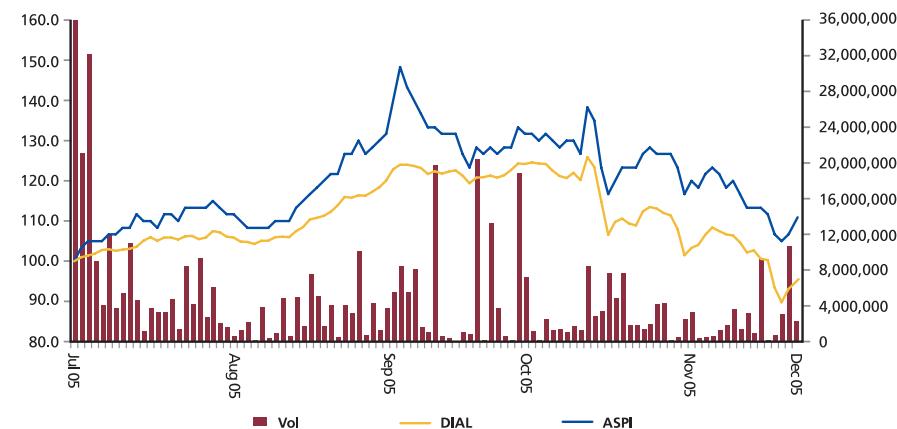


Figure 18 : Share Price, Share Volumes and Market Indices

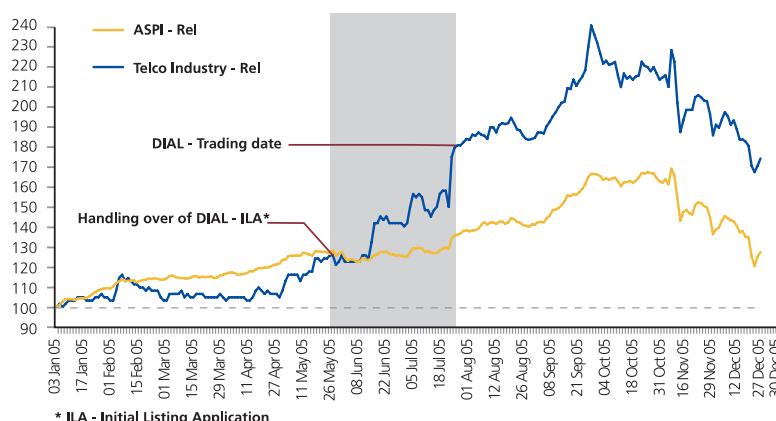


Figure 19 : Telco industry vs ASPI

Largest ever IPO in Sri Lanka - Rs 8.5 Bn raised

Management Discussion and Analysis

Return on Equity

The Return on Equity decreased by 13% from 47.07% in 2004 to 40.76% in 2005. The drop in ROE is due mainly to the increase in the share capital as a result of the new shares issued in 2005. (Figure 20)

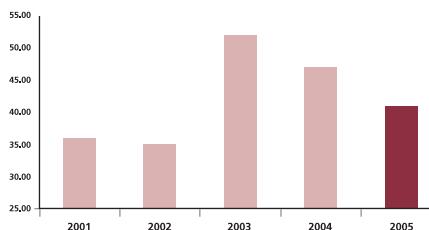


Figure 20: Return on Equity

Liquidity

The average Daily Turnover of the DIAL Share was Rs. 95 Mn, which is 17% of the Daily Turnover of the Market. In terms of volume, 4 Mn shares of DIAL traded on average each day ranging from highs of 6.14 Mn and 5.88 Mn in August and October to a low of 2.53 Mn in December 2005 (for the computation of high-low volumes, 133.28 Mn and 21.07 Mn shares traded on 28 and 29 July 2005 have been excluded).

Distribution of Shareholders

The total number of Shareholders as at 31 December 2005 was 30,212 compared to the 50,828 recorded as at the allotment date of 25 July 2005. The distribution of shareholders based on the number of shares held as at 31 December 2005 is given in Table 12.

Composition of the Public Float

In terms of composition 9.63% of the shares in issue as at 31 December 2005 was held by the public and this excludes shares held by Directors and connected parties. The Public Float amounted to 713.28 Mn shares which is made up of shares issued at the IPO and ESOS shares already exercised by eligible employees. The composition of the public float as at 31 December 2005 is represented in Figure 21. The public float is seen to be held 65% held by foreign investors, 22% held by local institutional investors and 13% held by local retail investors.

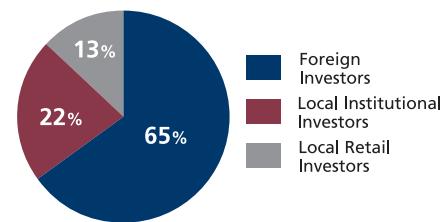


Figure 21: Composition of the Public Float

DISTRIBUTION OF SHAREHOLDERS

			31 DECEMBER 2005			
			NO OF SHAREHOLDERS	%	NO OF SHARES HELD	%
1	to	1,000	14,232	47.11	10,589,786	0.14
1,001	to	5,000	13,653	45.19	27,009,800	0.37
5,001	to	10,000	985	3.26	7,275,310	0.10
10,000	to	50,000	999	3.30	20,392,960	0.28
50,001	to	100,000	135	0.45	10,308,090	0.14
100,001	to	500,000	120	0.40	27,813,367	0.38
500,001	to	1,000,000	15	0.05	10,707,100	0.15
Over 1,000,000			73	0.24	7,289,338,500	98.46
TOTAL			30,212	100.00	7,403,434,913	100.00

Table 12 : Distribution of Shareholders

- The issued Ordinary Shares of Dialog Telekom Limited 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

Highest level of Overseas Subscription Received at an IPO - Rs 40 Bn

Twenty Largest Shareholders of the Company

SHAREHOLDER'S NAME	31 DECEMBER 2005 NO. OF SHARES	%
TM International (L) Limited	6,491,205,819	87.67%
Dialog Telekom Employees ESOS Trust	198,841,991	2.69%
HSBC Intl Nominees Ltd - JPMCB - T Rowe New Asia Fund	50,522,500	0.68%
HSBC Intl Nominees Ltd - SSBT - Daily Active Emerging Markets Securities Lending Common Trust Fund	44,108,583	0.60%
Sri Lanka Insurance Corporation Limited - Life Fund	40,724,600	0.55%
HSBC Intl Nominees Ltd - SSBT - SSGA - Emerging Market Fund	31,536,821	0.43%
Investors Bank and Trust s/a South Asia Portfolio	26,026,400	0.35%
Sri Lanka Insurance Corporation Limited - General Fund	25,415,600	0.34%
HSBC Intl Nominees Ltd - JPMCB - T Rowe International Discovery Fund	22,308,000	0.30%
Citibank London s/a RBS AS DEP for FS Global Emerging	20,978,400	0.28%
Bank of New York - Stewart Ivory - Fifth Third Bank - Ohio State Teachers Retirement System	19,850,200	0.27%
Employees Provident Fund	18,661,400	0.25%
Galleon Technology Offshore Limited	16,929,800	0.23%
HSBC Intl Nominees Ltd - BBH - Genesis Emerging Markets Opportunities Fund Limited	16,403,700	0.22%
HSBC Intl Nominees Ltd - BPSS LUX - Aberdeen Global Asia Pacific Fund	15,056,900	0.20%
HSBC Intl Nominees Ltd - HSBC FS - LG India Fund Limited	14,116,100	0.19%
I/N/O CBHK s/a CFSIL RE CFS WS Global Emerging Markets Fund	13,244,900	0.18%
HSBC Intl Nominees Ltd - JPMLU - Genesis Smaller Company	13,186,800	0.18%
HSBC Intl Nominees Ltd - SSBT - Global Advantage Emerging Market Fund	13,016,700	0.18%
HSBC Intl Nominees Ltd - SNFE - CMG First State Global Umbrella Fund PLC - CMG - First State Indian Subcontinent Fund	10,000,000	0.14%

CORPORATE governance

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STATEMENT OF CORPORATE GOVERNANCE



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REPORT OF THE AUDIT COMMITTEE

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ENTERPRISE RISK MANAGEMENT





Transcending Boundaries

Technology that is more human than you think,
stimulating the multi sensory facets of expression,
emotion, experience, learning and intellect.

Statement of Corporate Governance

In demonstrating its commitment to achieve and maintain the highest standards of business integrity, professionalism and ethical values,

Dialog Telekom Limited has developed a Code of Corporate Governance. The Governance framework is designed to encourage 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 Company's business operations.

Principles of the Code of Corporate Governance

- The Establishment of the Charter of the Board of Directors
- Remunerate Fairly and Responsibly
- Accountability, Audit and Safeguard Integrity in Financial Reporting
- Actively Promote Ethical and Responsible Decision-Making
- Recognise and Manage Risk
- Respects the Rights of Shareholders
- Recognise the Legitimate Interests of Stakeholders
- Promote Timely and Balanced Disclosure of All Material Matters Concerning the Company

The Code is developed after taking into consideration the internationally accepted standards prevalent in other jurisdictions on corporate governance and as such is structured in the form of "Principles and "Best Practices" providing details on how each Principle should be applied.

The governance framework is underpinned by eight (08) core principles within which the business is conducted.

Figure 1: Principles of Corporate Governance

PRINCIPLE 1 : ESTABLISHMENT OF THE CHARTER OF THE BOARD OF DIRECTORS

Effective Board

The Company's business and operations are managed under the supervision of the Board, which consists of members with experience and knowledge in the areas of business, financial and technical expertise, particularly in relation to telecommunication.

The Board's principal focus is to provide

- entrepreneurial leadership of the Company
- strategic guidance, evaluate, review and approve corporate strategy and the performance objectives of the Company
- effectively review and constructively challenge the management performance in meeting agreed goals, monitor the reporting of performance and ensure 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. The Board held seven (07) meetings during the financial year ended 31 December 2005 and the attendance at these meetings are set out below.

Name of Director	Date of Appointment / Resignation during the year	Attendance	Percentage of Attendance
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor		7/7	100
Dato' Dr. Abdul Rahim Hj. Daud	Resigned on 8 September 2005	6/6	100
Ir. Prabahar s/o Nagalingam Kirupalasingam		7/7	100
Mr. Moksevi Rasingh Prelis		7/7	100
Mr. Jaffa Sany bin Md Ariffin	Resigned on 8 September 2005	5/6*	83
Mr. Yusof Annuar bin Yaacob	Appointed on 9 September 2005	1/1	100
Dato' Mohammed Shazalli bin Ramly	Appointed on 9 September 2005	1/1*	100
Dr. Shridhir Sariputta Hansa Wijayasuriya		7/7	100

* Includes meetings attended by the Alternate Director on Director's behalf.

Table 1 : Attendance at board meetings

Board Committees

The Board delegates certain responsibilities to Board Committees, namely, the Audit Committee and the Nominating and Remuneration Committee. All committees have written terms of reference 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 would be highlighted for the Board of Directors' approval. 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 of Directors' meetings.

Audit Committee

The Board Audit Committee 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 Committee are required to exercise independent judgment in carrying out their functions.

The Audit Committee consists of three (03) Non-Executive Directors and one (01) representative of Telekom Malaysia Berhad. The members are Mr. Moksevi Rasingh Prelis (Chairman), Ir. Prabahar s/o Nagalingam Kirupalasingam, Mr. Yusof Annuar bin Yaacob and Dato' Lim Kheng Guan.

The Audit Committee has a specific set of Terms of Reference defining its scope of authority, which includes review of the internal and external audit process, the adequacy of internal controls, accounting policies and compliance with accounting standards. It also reviews and approves the quarterly and annual financial statements and recommends to the Board the appointment and re-appointment of Auditors.

The Audit Committee held four (04) meetings during the financial year ended 31 December 2005. Details of the attendance of the Directors are as follows:

Statement on Corporate Governance

Name of Director	Date of Appointment / Resignation during the year	Attendance	%
Dato' Dr. Abdul Rahim Hj. Daud	Resigned on 8 September 2005	3/3	100
Ir. Prabahar s/o Nagalingam Kirupalasingam		4/4	100
Mr. Moksevi Rasingh Prelis		4/4	100
Mr. Jaffa Sany bin Md Ariffin	Resigned on 8 September 2005	3/3*	100
Mr. Yusof Annuar bin Yaacob	Appointed on 11 November 2005	1/1	100
Dato' Lim Kheng Guan (nominee of Telekom Malaysia Berhad)		3/4	75

* Includes meetings attended by the Alternate Director on Director's behalf.

Table 2 : Audit Committee attendance

The activities conducted by the Audit Committee are set out in the Audit Committee Report on pages 106.

Nominating and Remuneration Committee

The Board established a Nominating and Remuneration Committee (NRC) in 2005 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 of 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 on the Board and also to ensure that each Director with his special contributions brings to the Board an independent and objective perspective to ensure that balanced and well-considered decisions are made.

The NRC, which comprises of three (03) Non-Executive Directors, namely Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor (Chairman), Ir. Prabahar N.K. Singam and Mr. Moksevi Rasingh Prelis, held one (01) meeting during the financial year ended 31 December 2005 and the attendance at this meeting are set out below.

Name of Director	Attendance	%
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	1/1	100
Ir. Prabahar s/o Nagalingam Kirupalasingam	1/1	100
Mr. Moksevi Rasingh Prelis	1/1	100

Table 3: Attendance at NRC

Constitution of the Board

The roles of the Chairman and CEO 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, Tan Sri Dato' Ir Muhammad Radzi Haji Mansor, who is a Non-Executive director, is responsible for providing leadership to the Board, for the efficient organisation 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 CEO, Dr. Hans Wijayasuriya, who is 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.

The Board Balance and Independence

The Board comprises of six (06) Directors, of which five (05) are Non-Executive Directors and one (01) is an Executive Director who is also the CEO

of the Company. 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 five Non-Executive Directors, four (04) directors are Non-Independent and are nominees of the parent company, Telekom Malaysia Berhad. These four (04) Directors are Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, Ir. Prabahar s/o Nagalingam Kirupalasingam, Dato' Mohammed Shazalli bin Ramly and Mr. Yusof Annuar bin Yaacob.

The Independent Non-Executive Director, Mr. Moksevi Rasingh Prelis, is independent of management and free from any business or other relationship, which could materially interfere in the exercise of his judgment. An additional Independent Director will be appointed in 2006.

Profiles of each Director are found on pages 17 of this report.

Access to Information

The Board is provided in a timely manner with information in a form and of quality appropriate to enable them to discharge their duties effectively.

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 monthly 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.

Performance evaluation & 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. The NRC is presently in the process of formulating and implementing a formal Performance Evaluation framework.

Induction programmes are provided to new Board directors where they are fully briefed on the business and performance of the Company.

Statement of Corporate Governance

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. 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 Annual General Meeting 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 AGM on page 148.

PRINCIPLE 2 : REMUNERATE FAIRLY AND RESPONSIBLY

The company believes that the levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully. Further the performance-related elements of remuneration have been designed to

align the interests of Executive Directors with those of shareholders and link rewards to corporate and individual performance.

The remuneration of the Executive Director, in his capacity as an employee, comprises of a salary, allowances, bonuses, share options 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.

A total of Rs. 11.05 Mn was paid to the Directors as emoluments for the 2005 financial year.

PRINCIPLE 3 : ACCOUNTABILITY AND AUDIT

The Company believes that in order to achieve an excellent business environment and to deliver best value to the shareholders, best practices should be promoted and practiced.

Audit Committee

Details of the Audit Committee is set out in pages 106 of this report.

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

The CEO and the Chief Financial Officer 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.

PRINCIPLE 4 : ACTIVELY PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Company in its commitment to actively promote ethical and responsible decision-making established and implemented a Code of Business Ethics in 2005. The Code of Business Ethics endeavours to influence and guide the directors, employees and other representatives to the practices necessary to maintain confidence in the company's integrity and to demonstrate the commitment of the company to ethical practices. The following is a summary of the content of the Code:

1. Dealing with stakeholders
2. Dealing with competitors
3. Dealing with Communities
4. Dealing with Company assets
5. Conflicts of interest
6. Confidentiality – restricting the use of non-public information except where disclosure is authorised or legally mandated.
7. Fair dealing – by all employees with the Company's customers, suppliers, competitors and employees.
8. Compliance with laws and regulations, active promotion of compliance.

9. Whistle-blowing policy
10. Internal Notification procedure
11. Encouraging the reporting of unlawful/unethical behaviour, active promotion of ethical behaviour and protection for those who report violations in good faith.

The Company further established and implemented a Trading Policy in 2005, concerning trading practices in Company securities by directors, officers and employees of the company. The Trading Policy contains the following:

1. Identify and raise awareness about the prohibitions under the law and the requirements of the policy.
2. Specify whether there is any restriction to permit trading by designated officers in specific circumstances, details of such circumstances, and the basis upon which discretion is applied.

PRINCIPLE 5 : 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 Audit Committee conducts a review of the effectiveness of the group'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 acknowledge is overall responsibility and ensures that a sound system of internal controls is maintained to safeguard shareholders' investment and the Company's assets.

The Audit Committee 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 examine the roles and respective accountabilities of the Board, audit committee (or other appropriate Board committee), management and any internal audit function.

Statement of Corporate Governance

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DIALOG TELEKOM LIMITED
ANNUAL REPORT

The Company has established and implemented an Enterprise Risk Management System (ERM) for identifying, assessing, monitoring and managing material risk throughout the organisation, 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

The internal audit is conducted by the internal audit unit which is independent of management. The internal auditor has access to management and the authority to seek information and explanations. Once completed, a report is submitted to the Board Audit Committee.

The Audit Committee oversees the scope of the internal audit and has access to the internal audit without the presence of management.

In order to enhance the objectivity and performance of the internal audit function, the Company has created a second reporting line from the internal audit function to the Board or Audit Committee. The Audit Committee recommends to the Board the appointment and dismissal of any chief internal audit executive.

PRINCIPLE 6 : 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 Annual General Meeting will be used to effectively communicate with shareholders and allow reasonable opportunity for 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 are made available on the Company's website at www.dialogtelekom.com/corporate/investor_relations.

Investor Relations

In line with best practices, 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 with regular tracking by the 15 member firms, 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. The following methods are used to provide accurate and timely information such as road shows, company visits, and one on one meetings, teleconferences and emails.

The Company participated actively in more than 02 overseas investor conferences in Hong Kong and Singapore, in the year 2005 including the Bursa Malaysia's Investor Week 2005.

Currently Dialog Telekom is the only company in Sri Lanka that conducts Investor Forums every quarter to brief analysts on results achieved in that quarter. At these sessions, analysts are not only given a comprehensive review of the Company's financial performance but are also given the opportunity to clarify whatever queries they may have. The content of these briefings is posted on the Company's website http://www.dialogtelekom.com/corporate/investor_relations.

The CEO and the Chief Financial Officer, are actively involved in IR activities and meeting fund managers and analysts regularly. 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 without first making an official announcement to the CSE for public release.

PRINCIPLE 7 : RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

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 a Code of Business Ethics encompassing the following areas was established in 2005.

- Clear commitment by the 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

PRINCIPLE 8 : PROMOTE TIMELY AND BALANCED DISCLOSURE

The Company's established policies and procedures ensure compliance with the disclosure requirements of all laws and regulations, including those stipulated in the Listing Rules of the CSE to ensure:

- all investors have adequate and timely access to material information concerning the company, including its financial situation, performance, ownership and governance;
- company announcements are factual and presented in a clear and balanced way. "Balance" requires disclosure of both positive and negative information.

In the Company's commitment to provide the shareholders with balanced information, a commentary on the financial results is included to enhance the clarity and balance of reporting. This commentary includes information relevant to an investor to make an informed assessment of the Company's activities and results.

Report of the Audit Committee

MEMBERSHIP

The Audit Committee comprises of one Independent Non-Executive Director, two Non-Independent Non-Executive Directors of the Board and one representative of Telekom Malaysia Berhad ("TM") as follows:

DATO' DR. ABDUL RAHIM BIN HAJI DAUD

(resigned as Chairman on 8 September 2005)
Non-Independent Non-Executive Director

MR. MOKSEVI RASINGH PRELIS

(appointed as Chairman on 11 November 2005)
Chairman
Independent Non-Executive Director

IR. PRABAHAR S/O NAGALINGAM KIRUPALASINGAM

Non-Independent Non-Executive Director

MR. JAFFA SANY BIN MD ARIFFIN

(resigned on 8 September 2005)
Non-Independent Non Executive Director

MR. YUSOF ANNUAR BIN YAACOB

(appointed on 11 November 2005)
Non-Independent Non-Executive Director

YBHG DATO' LIM KHENG GUAN

(Representative of TM)

MS. SHIROMI MAHAREEN MOHAMED

Chief Internal Auditor/Secretary to the Audit Committee

The Audit Committee is now chaired by an Independent Non-Executive director Mr. Moksevi Rasingh Prelis. The Audit Committee member designated, as the financial expert is Mr. Yusof Annuar bin Yaacob who took over from Mr. Jaffa Sany bin Md Ariffin.

The Audit Committee members who have wide knowledge and experience in the Telecommunications industry, as well as in the finance and general management fields are well equipped to undertake the tasks expected of them. This was a key factor in the effective functioning of the Audit Committee for the year 2005. The Committee further ensured that the Company's External Auditors acted professionally and independently.

MEETINGS

The Audit Committee had four (04) meetings in the financial year 2005. The meeting attendance of the Committee members is set out in page 100 of the Statement of Corporate Governance.

The Chief Executive Officer, Chief Financial Officer and the External Auditors attended these meetings upon invitation to brief the Committee on specific issues. The External Auditors met with the Chairman of the Audit Committee without the presence of Management annually.

Minutes of, meetings of the Audit Committee circulated to all members of the Audit Committee and significant

issues were discussed at Board Meetings.

SUMMARY OF ACTIVITIES IN THIS FINANCIAL YEAR

The Audit Committee carried out its duties as set out in page 109 in the Terms of Reference. Apart from its duties as set out in its Terms of Reference, the Audit Committee also reviewed and deliberated on reports by the Chief Internal Auditor on the followings

- Updating and developing of best business practices and exposure drafts, principally on Corporate Governance, statutory and regulatory requirements, compliance

to accounting standards and other business guidelines.

- The planning, implementation and progress of enterprise-wide risk management programs were identified and implemented at various major divisions to institute risk management, control and governance practices by the Management to achieve business excellence.
- Review and recommend the Risk and Internal Control Policy for the Audit Committee's approval.
- Review and deliberate on new policy updates, revisions or enhancements of the Internal Policy Procedures and Subsidiary policies as recommended by the Management to ascertain that the improvements made are aligned to best business practices and effective internal control processes.
- Monitoring and coordinating reviews on the effectiveness of the Company's system of internal controls, through reports furnished by the Internal Auditors, the External Auditors and the Management.
- The implementation of the Enhanced Telecom Operation Maps (eTOM) as the telecommunications industry business framework and

best practices to be used for reference by Management and internal auditors to benchmark against the industry standards.

The Management Audit Committee was established in order to review and implement audit issues as well as to update the Audit Committee on the progress of:

- Management actions to resolve significant internal controls and accounting issues as highlighted by the Internal and External Auditors.
- Any other recommendations made by the Audit Committee for Management actions.

During the year, the Audit Committee also reviewed and monitored reports from the Management, on the following:

- The initial implementation of the Code of Corporate Governance and the Code of Business Ethics.
- The progress and implementation of the Disaster Recovery Plan.

INTERNAL AUDIT DEPARTMENT

The Audit Committee is strongly supported by an established Internal Audit Department with a dotted line relationship to the Telekom Malaysia

Group Internal Audit. The Chief Internal Auditor reports directly to the Audit Committee. The Chief Internal Auditor periodically reports the activities and key strategic and control issues noted by Internal Audit to the Audit Committee.

The Internal Audit Department's main focus is to independently and objectively evaluate and report on the adequacy, integrity and effectiveness of the overall system of internal control, risk management and governance for assurance. 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 Company. The audit activities include:

- Governance and Management Control Reviews
- Reviews of strategic plans, business processes and process improvement initiatives
- Revenue Assurance Audits
- Information Technology and Systems Reviews (including pre and post implementation reviews)
- Interim Financial Reporting and Controls Reviews

Report of the Audit Committee

- Facilitations of Control Self Assessment (CSA) Workshops
- Post Implementation Reviews of CSAs and Enterprise Risk Management (ERM) Workshops
- Special reviews as requested either by the Board, Audit Committee or Management

The Internal Audit Department is staffed by 8 internal auditors comprising of a multi discipline team in Finance, Information Technology and Network. TM Group Internal Audit also provides specialised internal audit resources when required.

The Chief Internal Auditor maintains quality management systems in the conduct of its practices and annual assessment in its performed by TM Group Internal Audit, to meet the International Standards for the Professional Practice of Internal Auditing.



Mr. Moksevi Prelis
Chairman, Audit Committee
Date: 15 March 2006

TERMS OF REFERENCE OF AUDIT COMMITTEE

1.0 Composition of the Audit Committee

The Chairman of the Audit Committee (AC) will hold office only so long as he serves as a Director of Dialog Telekom Ltd (Dialog). The Board of Directors (BOD) must review the term of office and performance of the AC and each of its members at least once every 3 years to determine whether such AC has carried out their duties in accordance with their terms of reference.

Members of the AC may relinquish their membership in the AC with prior written notice to the Company Secretary. In the event of any vacancy in the AC, the BOD will consider and approve the new appointment, in replacement thereof within 3 months.

2.0 Members of the AC

The AC shall be appointed by the BOD of Dialog Telekom. No alternate director shall be appointed as a member of the AC.

Chairman

The Members of the AC shall elect

a Chairman from among themselves who shall be a Non-Executive Director of Dialog Telekom.

Member

The AC must be composed of no fewer than 3 members whom are Directors of either Dialog, its holding company, TM International Sdn Bhd (TMI) or its ultimate holding company, Telekom Malaysia Berhad (TM).

Members of the AC shall not have a relationship, which, in the opinion of the BODs, would interfere with the exercise of independent judgment in carrying out the functions of the AC.

Members of the AC shall possess sound judgment, objectivity, independent attitude, management experience and knowledge of the industry.

At least one AC member shall be designated as the "financial expert," as defined by applicable legislation and regulation.

At least the Chief Executive officer or the General Manager Finance of Dialog Telekom Ltd to be present at the AC meeting while the other function heads shall be present at the meeting on the invitation of the AC.

3.0 Secretary of the AC

The Chief Internal Auditor shall be the Secretary of the AC.

4.0 DUTIES AND RESPONSIBILITIES OF THE AC

The following are the main duties and responsibilities of the AC collectively, (and shall review and report the same to the Board of Directors)

4.01 To approve the Internal Audit Charter, which defines the independent purposes, authority, scope and responsibility of the internal audit function in the Company.

4.02 Consider the appointment of a suitable accounting firm to act as External Auditors and amongst the factors to be considered for the appointment are the adequacy of the experience and resources of the firm and the persons assigned to the audit, to consider any question of resignation (including any letter of resignation) or removal and whether there is a reason (supported by grounds) to

believe that the External Auditors are not suitable for re-appointment and to recommend the audit fee payable thereof;

4.03 Discuss with the External Auditors before the audit commences, the audit plan, nature, approach and scope of the audit and ensure co-ordination where more than one audit firm is involved.

4.04 Review the quarterly interim results, half-year and annual financial statements of the Company, focusing particularly on:

- a) Any changes in accounting policies and practices;
- b) Significant adjustments arising from the audit;
- c) The going concern assumption;
- d) Compliance with accounting standards and other legal requirements.

4.05 Review with the External Auditors the financial statements for the purpose of

approval before the audited financial statements are presented to the Board for adoption including:

- a) Whether the auditors' report contained any qualifications which must be properly discussed and acted upon for purposes of resolving the contentious point of disputes in the current audits and to remove the cause of the auditors' concern in the conduct of future audits.
- b) Significant changes and adjustments in the presentation of financial statements.
- c) Compliance with laws and local and international accounting standards.
- d) Material fluctuations in balances in the financial statements.
- e) Significant variations in audit scope and approach.
- f) Significant commitments or contingent liabilities.

Report of the Audit Committee

4.06 Discuss problems and reservations arising from the interim and final audits and any matter the auditor may wish to discuss in the absence of the Management where necessary;

4.07 Review the follow-up actions by Management on the weaknesses of internal accounting procedures and controls as highlighted by the External and Internal Auditors as per management letters;

4.08 Review the assistance and co-operation given by Dialog and its officers to the External and Internal Auditors.

4.09 Review the Internal Audit Programme and results of the internal audit process and where necessary to ensure:

a) That appropriate action is taken on the recommendations of the internal audit function;

b) That Internal Audit Department has adequate and competent resources and that it has the necessary authority to carry out its work;

c) That the goals and objectives of the Internal Audit Department commensurate with corporate goals.

4.10 (a) Review and appraise the performance and remuneration of the Chief Internal Auditor and senior staff members of the Internal Audit Department;

(b) Approve the appointment or termination of the Chief Internal Auditor and senior staff members of Internal Audit Department;

(c) Inform itself of resignations of the Chief Internal Auditor and senior staff members of Internal Audit Department and provide the resigning staff member an opportunity to submit his reasons for resigning

(d) AC must be informed, referred to and agree on the initiation, commencement and mechanism of any disciplinary proceedings/

investigations, including the nature and reasons to the said disciplinary proceedings/investigations, as well as the subsequent findings and proposed disciplinary actions against the Chief Internal Auditor and the senior staff members of Internal Audit Department. As employees of Dialog Telekom, the Chief Internal Auditor and senior staff members of Internal Audit Department are subject to Dialog Telekom's human resource policies and guidelines including disciplinary proceedings/investigations and actions

4.11 Review the adequacy and the integrity Dialog Telekom's internal control systems and management information systems, including systems for compliance with applicable laws, rules, directives and guidelines;

4.12 Propose best practices on disclosures in financial results and annual reports of the Company in line with the principles set out in the Code

- of Corporate Governance, other applicable laws, rules, directives and guidelines;
- 4.13 Propose an adequate system of risk management for Management to safeguard Dialog Telekom's assets;
- 4.14 Consider and review any significant transactions which are not within the normal course of business and any related party transactions and conflict of interest situation that may arise within the Company including any transaction, procedure or course of conduct that raises questions of management integrity;
- 4.15 To report to the relevant authorities may need to change to Sri Lanka Stock Exchange, if the AC views that a matter resulting in a breach of the law or regulations reported by the AC to the Board has not been satisfactorily resolved by the Board; and
- 4.16 Consider other topics as defined by the Board.

4.17 The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care. The Board or AC should determine the remit of the internal audit function.

5.0 POWERS OF THE AC

In carrying out its duties and responsibilities, the AC shall have the following right, in accordance with the procedures to be determined by the BOD and at the cost to the Company:

- a) Have explicit authority to investigate any matter within its terms of reference;
- b) Have the resources which are required to perform its duties;
- c) Have full, free and unrestricted access to any information, records, properties and personnel of Dialog Telekom.
- d) Have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any);
- e) Be able to obtain independent professional or other advice and to invite outsiders with relevant experience to attend the AC's meetings (if required) and to brief the AC thereof;
- f) The attendance of any particular AC meeting by other Directors and employees of Dialog Telekom at the AC's invitation and discretion and must be specific to the relevant meeting and;
- g) Be able to convene meetings with External Auditors, excluding the attendance of the executive members of the AC, whenever deemed necessary.
- h) Have immediate access to reports on findings and recommendations from Internal Audit Department of Dialog Telekom in respect of any fraud or irregularities discovered and referred to Internal Audit Department by the Management.

6.0 CHIEF INTERNAL AUDITOR

Chief Internal Auditor reports functionally to the AC and dotted line reporting to the TM Group Chief Auditor.

Enterprise Risk Management

Dialog Telekom recognises that managing risk is one of the most critical determinants of Company's ability to capitalise on business opportunities and to negate unexpected outcomes in the turbulent telecommunication industry.

Risk Management is the systematic, proactive identification of threats to resources, and the development of appropriate strategies, which will minimise downside risk and maximise upside risk.

Dialog has broadly categorised Business Risk into five dimensions - Strategic, Compliance, System, Operational and Financial risk.

Strategic Risk

Strategic risk is defined as "the potential financial loss or other damage from changes in the economic and political environment, bad or poor management decisions, dissatisfied stakeholders, changes in the regulatory environment, changes to applicable legislation, increased competition, technology change, infringement of intellectual property rights or failure to

register or protect own intellectual property, unclear setting of business plans, ineffective monitoring or measurement of the Company's performance, and poor analysis and bad decision on new Mergers and Acquisitions".

Compliance Risk

Compliance risk is defined as "the potential financial loss or other damages arising from the failure to adhere to any law or regulatory requirement applicable to the Company, such as the Companies Act of 1982, Sri Lanka Accounting and Auditing standards, guidelines set by the Telecommunications Regulatory Commission and the Securities Exchange Commission of Sri Lanka".

System Risk

Being the undisputed leader in the mobile telecommunications industry in the country, the Company must manage all risk associated with information technology, in areas such as information management and security. This includes managing confidentiality, integrity, availability, hardware & software licensing, support & maintenance and system technology.

Operational Risk

Operational risk is defined as "the potential financial loss or other damages which could arise as a result of natural disaster or an act of god or losses arising from operational inefficiency as a result of ineffective market planning, poor network management, poor outlet/dealer management, poor project management, poor human capital management, poor customer management, poor inventory management, lack of product innovation, lack of research and development, loss of reputation and image, poor branding and market positioning, legal action, technological obsolescence, breach of physical security, vandalism, fraudulent acts, or poor business process".

Financial Risk

Financial risk is defined as "the potential loss arising from financial transactions that suffer from poor investment control, poor credit control procedures, inability to generate funds for business expansions, adverse movements in the money market, foreign currency exchange rate and/or interest rate, inability to maintain sufficient liquid assets to meet financial commitments, poor control on accounts payables, revenue leakages, ineffective budgeting control, poor financial management, in efficient supply chain and procurement process, poor vendor management and financial criminal breach of trust".

“Dialog Telekom recognises that managing risk is one of the most critical determinants of Company’s ability to capitalise on business opportunities and to negate unexpected outcomes in the turbulent telecommunication industry.”

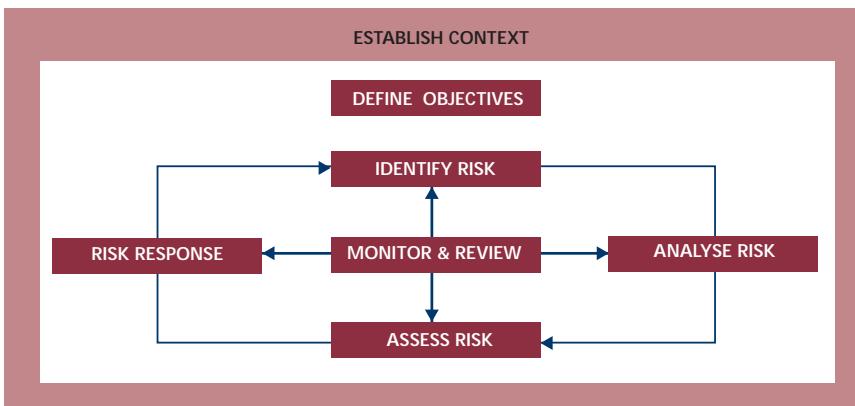


Figure 1 : Enterprise Risk Management Framework

Enterprise Risk Management Unit (ERMU)

Dialog Telekom Limited is committed to providing a reasonable assurance of achieving business objectives, safeguarding and enhancing shareholder's investment and Company assets through successful management of risk. To achieve this, an Enterprise Risk Management Unit (ERMU) under the purview of the Corporate Planning Division and an Enterprise Risk Management Committee (ERMC) has been institutionalised within the management frame work of the Company.

The prime task of the ERMU is to identify the areas which are most vulnerable to external and internal threats, hazards or opportunities, assess current level of controls and to advise senior management of the Company on the strategies that should be followed in order to minimise the impacts of such risk for business continuity.

The risk monitoring process is classified under three major areas namely Strategic risk, Process risk and Project related risk. Three scorecards have been introduced under the Dialog ERM Navigator to facilitate the monthly monitoring of the above areas. The Strategic, Process and Project key risk areas are identified through the following processes.

Strategic Risk – Business Plan Process Risk – Critical Business Processes Project Risk – Annual Project Plan

The ERMU is also responsible for compilation and maintenance of a Risk Register containing type of risks, ranking of risk, mitigating controls and risk owners.

The Enterprise Risk Management Committee (ERMC), which comprises of divisional heads and managers from all business functions of the Company, monitors the Risk Register on an on going basis. In addition each divisional representative is also responsible for evaluating the control effectiveness of the identified risk areas and is also tasked with identifying new risk areas related to the division.

The ERMU has the prime responsibility in performing a comprehensive Enterprise Risk Management process in the Company. The results of the Risk Management process are periodically reported to the Enterprise Risk Management Committee (ERMC) consisting of the Senior Management of the Company. Through a detailed evaluation of the contents of the report, the ERMC submits the results to the Group Risk Management Committee (GRMC) of Telekom Malaysia. This committee will present the report findings to the Board Audit Committee and to the Board of Directors to condition future business planning and decision-making .

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Financial Statements '05

Financial Calendar

Initial Public Offering on	7 July 2005
Commenced trading on the CSE	28 July 2005
Six months ended 30 June 2005	23 August 2005
Nine months ended 30 September 2005	25 November 2005
Twelve months ended 31 December 2005	23 February 2006
9th Annual General Meeting.....	19 May 2006

Directors' Report

The Directors are pleased to submit herewith their report and the audited consolidated financial statements of Dialog Telekom Limited for the financial year ended 31 December 2005.

PRINCIPLE ACTIVITIES

The principle activities of the Company include the provision of mobile telephony services, internet services and external gateway operations.

SIGNIFICANT ACQUISITIONS

On 22 December 2005, for a purchase consideration of Rs. 1.97 Bn, the Company acquired 100% of the share capital of MTT Network (Private) Limited from its shareholders namely Sunpower Systems (Pvt) Ltd., Sipson Investments Ltd., and Mr. R Maharaja.

RESULTS

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 121 and 123 respectively.

The profit relating to the financial year of 2005 is as follows:

In Rs. '000	2005	2004
Profit for the year after making provision for bad and doubtful debts and for all known liabilities and after providing for depreciation on Property, Plant and Equipment, contingencies and tax	7,011,871	4,100,519
Profit brought forward from the previous year	7,068,281	3,833,826
Depreciation transfer	-	221
Dividend paid	(2,858,936)	(866,285)
Premium on preference shares conversion	(634,489)	-
Bonus share issue	(3,685,810)	-
Profit to be carried forward	6,900,917	7,068,281

* The Final Dividend proposed for the financial year 2005 has not been recognised as at the Balance Sheet date in compliance with SLAS 12 (Revised) - Events after the Balance Sheet date

DIVIDENDS

The Dividend payable has not been accounted for until the same is ratified at the Annual General Meeting. Subject to the approval of the shareholders at the Annual General Meeting a final withholding tax-free dividend of 0.38 per share is recommended by the Directors for the year ended 31 December 2005.

The details of the Dividends paid during the year are set out in Note 8 to the Financial Statements.

STATE OF AFFAIRS

The state of affairs of the Company as at 31 December 2005 is set out in the balance sheet on page 122.

REVIEW OF BUSINESS

The Statements made by the Chairman and the CEO on pages 10 and 20 respectively provide an overall assessment of the business performance of the Company and its future developments. The said Statements form an integral part of the Directors' Report.

FUTURE DEVELOPMENTS

The details of the businesses, the development of the company, its subsidiary and likely future developments are given in the Business Review on pages 34.

Directors' Report

CORPORATE GOVERNANCE

A detailed account of the corporate governance framework and its adoption is set out on page 98 of this Report.

SYSTEM OF INTERNAL CONTROLS

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 to provide reasonable assurance against material misstatement or loss. The Board further confirms that there is an ongoing process allowing for the identification, evaluation and management of significant business risks. A detailed account of the system of internal controls is set out on page 112.

HUMAN RESOURCES

The number of persons employed by the Company as at 31 December 2005 was 1,748 (representing 1,706 full time and 42 part time staff) (31 December 2004 – 1,275).

The company 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.

EQUITABLE TREATMENT TO SHAREHOLDERS

The Company endeavours at all times to ensure equitable treatment to all shareholders.

DONATIONS

The total donations made by the Company during the year amounted to Rs. 14 Mn (2004 – Rs. 107.42 Mn).

PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in Note 9 to the Financial Statements.

SHARE CAPITAL

During the financial year under review the authorized share capital of the company was increased from Rs.6,000,000,000 to Rs.10,000,000,000, with effect from 20 May 2005.

The Company raised Rs. 3.48 Bn through the issue of 290,073,982 ordinary shares of Rs.1/- each at Rs. 12/- per share inclusive of a premium of Rs.11/- per share. The funds raised from these shares have been utilised to expand the Company's core GSM Network.

The details of the issue of bonus shares and the Initial Public Issue are contained in Note 20 to the Financials Statements.

The shares of the Company were first traded on the Colombo Stock Exchange on 28 July 2005.

EMPLOYEE SHARE OPTION SCHEME (ESOS)

A detailed account of the ESOS introduced during the year is disclosed in Note 20 to the Financial Statements. The Company has granted an interest free loan to the Trustees who hold Dialog shares for and on behalf of the eligible employees. This loan is repayable by 31 December 2015.

RESERVES

The movement in the reserves is shown in the Statement of Changes in equity on page 123.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Contingent Liabilities and Commitments made on capital expenditure as at 31 December 2005 are given in Note 18 and 19 to the Financial Statements.

SHARE INFORMATION

The details relating to earnings and net assets per share is contained in Management Discussion and Analysis on page 90 of the Report. Market price per share and information on share trading is given on page 92 of the Report.

SUBSTANTIAL SHAREHOLDINGS

The parent company, TM International (L) Limited holds 87.67% of the issued share capital of the Company. The twenty largest shareholders and the percentage of their total holdings are disclosed on page 95 .

On 07 July 2005, by way of an offer for sale, 422,262,311 (5.70%) shares with a par value of Rs. 1/- each were divested by TM International (L) Limited for Rs.12/- each, inclusive of a premium of Rs.11/- per share.

As at 31 December 2005 the public holds 9.63% of the issued share capital of the Company.

DIRECTORS

The Directors of the Company as at 31 December 2005 were:

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor
 Ir. Prabahar s/o Nagalingam Kirupalasingam
 Mr. Moksevi Rasingh Prelis
 Mr. Yusof Annuar bin Yaacob
 Dr. Shridhir Sariputta Hansa Wijayasuriya
 Dato' Mohammed Shazalli bin Ramly

The biographical details of the Directors are given on pages 17 and 19. In accordance with the Company's Articles of Association Ir. Prabahar s/o Nagalingam Kirupalasingam and Mr. Moksevi Rasingh Prelis shall retire by rotation and be eligible for re-election.

Two Directors namely, Dato' Dr. Abdul Rahim bin Haji Daud and Mr. Jaffa Sany bin Md Ariffin, resigned with effect from 8 September 2005. Mr. Yusof Annuar bin Yaacob and Dato' Mohammed Shazalli bin Ramly were appointed in place thereof as Directors of the Company with effect from 9 September 2005.

The remaining Directors held office through out the year ended 31 December 2005.

DIRECTORS' INTERESTS IN CONTRACTS AND PROPOSED CONTRACTS

Except as stated in Note 25 to these financial statements, during and at the end of the 2005 financial year, none of the Directors was directly or indirectly interested in contracts or proposed contracts connected with the Company's business.

DIRECTORS' INTEREST IN ORDINARY SHARES

The details of shares held by the Directors as at the end of the year are as follows:

	2005	2004
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	10	Nil
Ir. Prabahar s/o Nagalingam Kirupalasingam	10	Nil
Dr Shridhir Sariputta Hansa Wijayasuriya	38,710	Nil
Mr. Moksevi Rasingh Prelis	16,810	Nil

No Directors other than those disclosed above hold any shares in the Company.

Directors' Report

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company 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, Companies Act No. 17 of 1982 and the Listing Rules of the Colombo Stock Exchange.

BOARD AUDIT COMMITTEE

The following non-executive Directors of the Board serve as members of the Board Audit Committee:

Mr. Moksevi Rasingh Prelis (Chairman)
Ir. Prabahar s/o Nagalingam Kirupalasingam
Mr. Yusof Annuar bin Yaacob
Dato' Lim Kheng Guan.

The report of the Audit Committee is given on page 106 of this Report.

ENVIRONMENTAL PROTECTION

The Company has not engaged in any activity, which is harmful to the environment. Specific measures taken to protect the environment are given in the CSR Review on page 56 of this Report.

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DIALOG TELEKOM LIMITED
ANNUAL REPORT

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge all taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the Balance Sheet date have been paid, or where relevant provided for.

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.

GOING CONCERN

The Directors confirm that the company has adequate resources to continue as a going concern for the foreseeable future. As such the Financial Statements have been prepared on that basis.

AUDITORS

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

NOTICE OF MEETING

The Notice of Meeting relating to the 9th Annual General Meeting is given on page 148 .

By Order of the Board,

Mrs Anoja J. Obeyesekere
Company Secretary
Date : 23 February 2006

Chief Executive's and Chief Financial Officer'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 the requirements of the Companies Act No: 17 of 1982 and any other applicable statutes to the extent applicable to the Company. 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 except where otherwise stated in the notes accompanying the Financial Statements.

We the Chief Executive Officer and Chief Financial Officer 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 manner, the form and substance of transactions, and reasonably present the Company's state of affairs. To ensure this, Dialog Telekom Ltd., has taken proper and sufficient care in implementing a system of internal control and accounting records, for safeguarding assets, and preventing and detecting of fraud as well as other irregularities. Internal controls are reviewed, evaluated and updated on an ongoing basis.

The Financial Statements were audited by Messrs. PricewaterhouseCoopers Chartered Accountants, the independent auditors.

The Company's Audit Committee meets periodically with the independent auditors to review the manner in which they are performing their responsibilities, 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 Audit Committee to discuss any matter of substance.

It is also declared and confirmed that after making all reasonable enquiries and to the best of our knowledge the Company has 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.

COMPLIANCE REPORT

We also confirm that to the best of our knowledge all taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the Balance Sheet date have been paid, or where relevant provided for.



Dr. Hans Wijayasuriya
Chief Executive
Date : 23 February 2006



Wan Zaidan Wan Mahyudin
Chief Financial Officer
Date : 23 February 2006

Report of the Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
P.O. Box 918
100, Braybrooke Place
COLOMBO 00200
SRI LANKA
Telephone : +94-11-4-719838 (Hunting)
Facsimile : +94-11-2303197

TO THE MEMBERS OF DIALOG TELEKOM LIMITED (FORMERLY KNOWN AS MTN NETWORKS (PRIVATE) LIMITED) AND ITS SUBSIDIARY

1. We have audited the accompanying balance sheet of Dialog Telekom Limited (formerly known as MTN Networks (Private) Limited) as at 31 December 2005, the consolidated balance sheet of the Company and its subsidiary as at that date, and the related statements of income, changes in equity and cash flows for the year then ended, together with the accounting policies and notes as set out on pages 125 to 145.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

2. The directors are responsible for preparing and presenting these financial statements in accordance with Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

BASIS OF OPINION

3. We conducted our audit in accordance with Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements and determining whether the said financial statements are prepared and presented in accordance with Sri Lanka Accounting Standards. 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

4. In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31 December 2005 and to the best of our information and according to the explanations given to us, the said balance sheet and the related statements of income, changes in equity and cash flows and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with Sri Lanka Accounting Standards, provide the information required by the Companies Act, No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 December 2005 and of the results of its operations, and its cash flows and changes in equity for the year then ended.
5. In our opinion, the consolidated balance sheet, changes in equity and cash flows and the accounting policies and notes thereto, have been properly prepared and presented in accordance with the Companies Act, No. 17 of 1982 and the Sri Lanka Accounting Standards and give a true and fair view of the state of Affairs as at 31 December 2005 of the Company and its subsidiary dealt with thereby, so far as concerns the members of the Company.

DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

6. According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 December 2005, except as stated in Note 25 to these financial statements.

23 February 2006
COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

Income Statement

(All amounts in Sri Lanka Rupees Thousands)

Company

Note Year ended 31 December

2005

2004

Turnover	2	18,034,397	11,406,685
Direct cost		(6,213,808)	(3,931,917)
Gross margin		11,820,589	7,474,768
Other operating income		53,271	30,092
Administrative expenses		(2,222,031)	(1,597,415)
Distribution costs		(2,334,944)	(1,555,080)
Operating profit	3	7,316,885	4,352,365
Finance cost	5	(263,065)	(212,464)
Profit before tax		7,053,820	4,139,901
Tax	6	(41,949)	(39,382)
Profit attributable to the shareholders		7,011,871	4,100,519
Basic earnings per share (Rs)	7	1.15	0.98

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DIALOG TELEKOM LIMITED
ANNUAL REPORT

The accounting policies on pages 125 to 128 and the notes on pages 129 to 145 form an integral part of these financial statements.

Consolidated Balance Sheet

(All amounts in Sri Lanka Rupees Thousands)

	Group Note	31 December 2005	Company 31 December 2005	2004
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ASSETS

Non-current assets

Property, plant and equipment	9	20,801,836	19,598,958	13,383,592
Intangible assets	10	1,628,305	348,448	82,300
Investment in subsidiary		Nil	1,970,764	Nil
		22,430,141	21,918,170	13,465,892

Current assets

Inventories	11	350,495	350,495	229,410
Receivables and prepayments	12	3,726,080	3,494,222	2,268,281
Cash and cash equivalents	13	6,689,919	6,624,188	3,190,744
		10,766,494	10,468,905	5,688,435

Total assets

33,196,635	32,387,075	19,154,327
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EQUITY AND LIABILITIES

Capital and reserves

Ordinary shares	20	7,403,435	7,403,435	370,000
ESOS Trust shares		(2,385,320)	(2,385,320)	Nil
Preference shares	21	Nil	Nil	1,268,979
Share premium		5,276,943	5,276,943	Nil
Revaluation reserve	22	4,896	4,896	4,896
Retained earnings		6,900,917	6,900,917	7,068,281
		17,200,871	17,200,871	8,712,156

Non - current liabilities

Subscription in advance	16	Nil	Nil	3,414,190
Borrowings	15	9,048,749	8,913,470	3,137,717
Retirement benefit obligations	17	81,833	75,190	48,497
		9,130,582	8,988,660	6,600,404

Current liabilities

Trade and other payables	14	5,214,388	5,099,826	3,483,757
Current tax liabilities		35,760	35,760	32,854
Borrowings	15	1,615,034	1,061,958	325,156
		6,865,182	6,197,544	3,841,767

Total liabilities

15,995,764	15,186,204	10,442,171
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Total equity and liabilities

33,196,635	32,387,075	19,154,327
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The Board of Directors is responsible for the preparation and presentation of these financial statements.

These financial statements were approved by the Board on 23 February 2006

Tan Sri Dato' Ir Muhammad Radzi bin Haji Mansor
Chairman

Dr. Shridhir Sariputta Hansa Wijayasuriya
Director/Chief Executive

The accounting policies on pages 125 to 128 and the notes on pages 129 to 145 form an integral part of these financial statements.

Statement of Changes in Equity

(All amounts in Sri Lanka Rupees Thousands)

Group	Note	Ordinary share capital	Share premium	Preference share capital	Shares in trust	Re-valuation reserve	Retained earnings	Total
Balance at 1 January 2004		370,000	Nil	1,268,979	Nil	5,117	3,833,826	5,477,922
Depreciation transfer		Nil	Nil	Nil	Nil	(221)	221	Nil
Net Profit		Nil	Nil	Nil	Nil	Nil	4,100,519	4,100,519
Dividend paid		Nil	Nil	Nil	Nil	Nil	(866,285)	(866,285)
Balance at 31 December 2004		370,000	Nil	1,268,979	Nil	4,896	7,068,281	8,712,156
Balance at 1 January 2005		370,000	Nil	1,268,979	Nil	4,896	7,068,281	8,712,156
Net Profit		Nil	Nil	Nil	Nil	Nil	7,011,871	7,011,871
Dividend paid	8	Nil	Nil	Nil	Nil	Nil	(2,858,936)	(2,858,936)
Conversion of Preference shares to ordinary shares	21	1,903,468	Nil	(1,903,468)	Nil	Nil	Nil	Nil
Premium on preference shares conversion		Nil	634,489	Nil	Nil	Nil	(634,489)	Nil
Bonus share issue		3,685,810	Nil	Nil	Nil	Nil	(3,685,810)	Nil
Share issue against subscription in advance	16	954,190	Nil	Nil	Nil	Nil	Nil	954,190
New issue of shares – IPO	20	489,967	5,389,634	Nil	Nil	Nil	Nil	5,879,601
Purchase shares – Employee Share Option Scheme	20	Nil	Nil	(2,385,320)	Nil	Nil	Nil	(2,385,320)
IPO cost set off		Nil	(112,691)	Nil	Nil	Nil	Nil	(112,691)
Balance at 31 December 2005		7,403,435	5,276,943	Nil	(2,385,320)	4,896	6,900,917	17,200,871

The accounting policies on pages 125 to 128 and the notes on pages 129 to 145 form an integral part of these financial statements.

Cash Flow Statement

(All amounts in Sri Lanka Rupees Thousands)

	Note	Group Year ended 31 December 2005	Company Year ended 31 December 2004
Operating activities			
Cash generated from operations	23	9,289,937	7,151,974
Interest received		165,092	100,914
Interest paid		(403,476)	(276,112)
Tax paid		(39,042)	(6,528)
Retirement benefit obligations paid	17	(989)	(165)
Net cash from operating activities		9,011,522	6,970,083
Investing activities			
Purchases of property, plant and equipment		(2,043,143)	(645,310)
Purchase of intangible assets		(463,013)	(136,830)
Expenditure incurred on capital work-in-progress		(6,162,170)	(3,285,736)
Acquisition of subsidiary, net of cash acquired	24	(1,441,026)	Nil
Proceeds from sale of property, plant and equipment		35,926	7,248
Net cash used in investing activities		(10,073,426)	(4,060,628)
Financing activities			
Proceeds from Issue of shares		491,083	Nil
Proceeds from share premium on Issue of Shares		5,401,911	Nil
IPO cost set off		(112,691)	Nil
Repayment of Subscription in advance		(2,460,000)	Nil
Payment to - Employee Share Option Scheme Trust (ESOST)		(2,398,713)	Nil
Repayment of finance leases		(21,882)	(18,564)
Repayment of long term borrowings		(520,582)	(424,498)
Proceeds from long term borrowings		7,061,050	1,054,737
Dividend paid		(2,858,936)	(866,285)
Net cash generated/(used) in financing activities		4,581,240	(254,610)
Net increase in cash and cash equivalents		3,519,336	2,654,845
Movement in cash and cash equivalents			
At start of year		3,170,335	515,490
Increase/(decrease)		3,519,336	2,654,845
At end of year	13	6,689,671	3,170,335

The accounting policies on pages 125 to 128 and the notes on pages 129 to 145 form an integral part of these financial statements.

Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

1 BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards. These financial statements have been prepared under the historical cost convention, as mentioned by the revaluation of buildings.

2 CONSOLIDATION

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All assets and liabilities of the Company and its subsidiary included in the consolidation are shown in consolidated balance sheet.

The subsidiary undertakings financial year is conterminous with the Company.

3 FOREIGN CURRENCIES

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Such balances are translated at year-end exchange rates.

4 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 in 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. Impairment loss on goodwill are not reversed.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development cost recognised as assets are amortised over their estimated useful lives.

(c) Other intangibles

Licence fees paid to government and other, which permit telecommunication activities to be operated for defined periods, are amortised from the latter of the start of the licence period or launch of service to the end of the licence period on a straight-line basis.

5 PROPERTY, PLANT AND EQUIPMENT

Cost and valuation

All property, plant and equipment is initially recorded at cost. Buildings are subsequently shown at market value, based on triennial valuations by external independent valuers, less subsequent depreciation for property. 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.

Summary of Significant Accounting Policies

5 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Cost and valuation

Increase in the carrying amount arising on revaluation are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the 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 (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from revaluation and other reserves to retained earnings.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment on a straight line basis over the expected useful lives of assets concerned.

The principal annual depreciation rates used are:

	% per annum
Buildings	2.5 – 2.59
Building – electrical installation	12.5
Building – leasehold property	33 1/3
Computer equipment	20
Telecom equipment – other than prepaid system	10
– Prepaid system	10 and 20
Office equipment	20
Furniture and fittings	20
Toolkits	10
Motor vehicles	20

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use.

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 recognised in the income statement unless it reverses a previous revaluation surplus for the same asset.

6 ACCOUNTING FOR LEASES WHERE COMPANY IS THE LESSEE

Leases of property, plant and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying 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 charges is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

7 INVENTORIES

Inventories are stated at the lower of cost and net realisable 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 realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

8 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 reorganisation, 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 present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'selling and distribution' costs.

9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

10 PROVISIONS

Provisions for environmental restoration, restructuring costs and legal claims are recognised 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. Restructuring provisions comprise lease termination penalties and employee termination payments. Provision are not recognised for future operation 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 recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

11 CURRENT TAXES

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act.

12 DEFERRED INCOME TAXES

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, the 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 realised or the deferred income tax is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiary except where the timing of the reversal of the temporary difference is controlled by Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

14 DEFINED BENEFIT PLAN

Terminal benefits are provided for all employees of the Company at the rate of one half of the basic or consolidated wage or salary, applicable to the last month of the financial year, for each year of completed service.

Summary of Significant Accounting Policies

15 DEFINED CONTRIBUTION PLANS

All employees of the Company are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 12% or 15% and 3% respectively, of such employees' basic or consolidated wage or salary.

16 REVENUErecognition

Group turnover net of discounts, which excludes Value Added Tax and other sales taxes, comprises the value of services provided and equipment sales. Turnover from rental lease recognised at the point of sale. Pre-paid call card sales are deferred until the customer uses the stored value in the card to pay for the relevant calls. Turnover arising from the provision of other services, including maintenance contracts, is recognised evenly over the periods in which the service is provided to the customer. Turnover from installation and connection activities is recognised in the period in which it is earned.

Other revenues earned by the Company are recognised on the following bases:

- | | |
|-----------------|-----------------------------------------------------------------------------------------------------------|
| Interest income | – as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt. |
| Rental income | – on an accrual basis. |

17 DIVIDEND DISTRIBUTION

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

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lanka Rupees Thousands unless otherwise stated)

GENERAL INFORMATION

1 Dialog Telekom Limited 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 are listed on the Colombo Stock Exchange since 28 July 2005.

In the financial statements "The Company" refers to Dialog Telekom Limited as the holding company and "The Group" refers to the company whose account has been consolidated therein.

SEGMENTAL ANALYSIS

2 The Company provides telecommunication services, principally in the Sri Lanka, and essentially operates as a unitary business. The main activities are to establish, maintain and operate an island wide cellular mobile telephone network, internet services and external gateway operations and to deal in connected activities.

The result for the year ended 31 December 2005 as follows:

	Company	
	2005	2004
Cellular mobile telephone operation	16,650,384	10,526,680
External gateway operation (EGO)	1,413,089	864,974
Internet service (ISP)	18,201	20,098
	18,081,674	11,411,752
Less : Turnover tax	(7,514)	(5,067)
Economic service charge	(39,763)	Nil
	18,034,397	11,406,685

During 2005, operations of EGO and ISP did not qualify as a separate segment.

OPERATING PROFIT

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

	Company	
	2005	2004
Directors' emoluments	11,052	6,041

Notes to the Financial Statements

OPERATING PROFIT (CONT'D)

3		Company	
		2005	2004
Auditors' emoluments			
– Audit fees	1,400	750	
– Others	3,625	1,275	
Other professional services	17,707	1,275	
Amortisation of intangible assets (Note 10)	198,436	142,706	
Depreciation on property, plant and equipment (Note 9)			
– owned assets	1,948,554	1,433,305	
– leased assets under finance leases	5,319	18,936	
Repair and maintenance expenditure on property, plant and equipment	905,542	454,317	
Provision for bad debts	483,958	277,919	
Operating lease rentals			
– office	119,060	49,572	
– base stations and lease circuits	762,125	547,004	
Cost of inventories (included in 'direct cost')	576,191	403,821	
Employee benefit expense (Note 4)	617,012	420,760	
Profit on disposal of property, plant and equipment	(1,604)	(3,153)	
Inventory write-off	Nil	4,317	

STAFF COSTS

4		Company	
		2005	2004
Wages and salaries		501,685	338,035
Social security costs		24,670	20,589
Pension costs – defined contribution plans		62,975	42,923
Pension costs – defined benefit plan (Note 17)		27,682	19,213
		617,012	420,760
Number of persons employed as at 31 December		2005	2004
– Full time		1,706	1,215
– Part time		42	60

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20
05

FINANCE COST

5

	Company	
	2005	2004
Interest income on deposits	171,732	107,005
Interest expense on:		
– bank overdrafts	(15)	(250)
– term loans	(359,317)	(319,289)
– parent company loan	(1,402)	(2,128)
– finance leases charges	(5,939)	(12,514)
	(366,673)	(334,181)
Net foreign exchange transaction (loss)/gain	(68,124)	14,712
	(263,065)	(212,464)

TAX

- 6 Under the agreement entered into between the Company and the Board of Investment of Sri Lanka (BOI), the main source of the 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 the year 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 has current tax liability only on the interest income earned from fixed and call deposits include in Sri Lanka Rupees for the year under review.

	Company	
	2005	2004
Current tax	41,949	39,382

Current tax losses available to carry forward for the year 2005 are amounting to Rs 1,051,551,676. Accordingly the Company is entitled to set off 35% of the statutory income of any year of assessment excluding income that does not form part of the assessable income from the aforementioned brought forward loss. Any balance loss could be carried forward to the future years.

EARNINGS PER SHARE

- 7 Basic earning per share is calculated by dividing the net 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 (see Note 20).

	Company	
	2005	2004
Net profit after tax	7,011,871	4,100,519
Preference share dividend (8.5%)	Nil	(107,863)
Net profit attributable to ordinary shareholders	7,011,871	3,992,656
Weighted average number of ordinary shares in issue (thousands)	6,108,012	4,055,810
Par value (Rs)	1	1
Basic earnings per share (Rs)	1.15	0.98

With effect from 20 May 2005, the authorised share capital of 1,000,000,000 having par value of Rs 10 each was subdivided into 10,000,000,000 shares of Rs 1 each. Accordingly the number of ordinary shares in issue in 2004 is restated at the par value of Rs 1 each.

Notes to the Financial Statements

DIVIDENDS

8 Dividends for the year ended 31 December 2005 is to be proposed at the Annual General Meeting. Dividends for the year ended 31 December 2004 were declared and paid during the year are as follows:

Ordinary share dividends of Rs 2,751,072,805 (Rs 74 per share having a par value of Rs 10).

Cumulative preference share dividends of Rs 107,863,195 (Rs 5.10 per share).

PROPERTY, PLANT AND EQUIPMENT – GROUP

9 (a)	Land & buildings	Computer systems & telecom equipment	Furniture, fittings & other equipment	Motor vehicles	Assets in the course of construction	Total
Year ended						
31 December 2005						
Opening net book amount	351,769	11,132,625	150,335	98,535	1,650,328	13,383,592
Additions	21,092	1,858,373	118,588	86,099	6,161,993	8,246,145
Acquisition of subsidiary	72,311	1,022,623	5,359	12,937	89,648	1,202,878
Transferred from capital WIP	39,986	3,791,733	47,312	Nil	(3,879,031)	Nil
Transferred to intangible assets	Nil	Nil	Nil	Nil	(17,257)	(17,257)
Internal transfers	Nil	(9,949)	(16,890)	Nil	Nil	(26,839)
Disposals	Nil	(24,856)	(7,954)	Nil	Nil	(32,810)
Depreciation charge	(19,915)	(1,832,646)	(63,944)	(37,368)	Nil	(1,953,873)
Closing net book amount	465,243	15,937,903	232,806	160,203	4,005,681	20,801,836
At 31 December 2005						
Cost / valuation	523,422	21,724,851	344,042	287,098	4,005,681	26,885,094
Accumulated depreciation	(58,179)	(5,786,948)	(111,236)	(126,895)	Nil	(6,083,258)
Net book amount	465,243	15,937,903	232,806	160,203	4,005,681	20,801,836

PROPERTY, PLANT AND EQUIPMENT – COMPANY

9. (b)	Buildings	Computer systems & telecom equipment	Furniture, fittings & other equipment	Motor vehicles	Assets in the course of construction	Total
Year ended						
31 December 2004						
Opening net book amount	279,716	9,238,099	100,782	63,732	1,226,149	10,908,478
Additions	90,753	414,355	87,070	65,057	3,285,736	3,942,971
Transferred from capital WIP	Nil	2,850,036	Nil	Nil	(2,850,036)	Nil
Transferred to intangible assets	Nil	Nil	Nil	Nil	(11,521)	(11,521)
Disposals	Nil	(2,036)	(196)	(1,863)	Nil	(4,095)
Depreciation charge (Note 3)	(18,700)	(1,367,829)	(37,321)	(28,391)	Nil	(1,452,241)
Closing net book amount	351,769	11,132,625	150,335	98,535	1,650,328	13,383,592

PROPERTY, PLANT AND EQUIPMENT – COMPANY (CONT'D.)

9. (b) (Cont'd.)

	Buildings	Computer systems & telecom equipment	Furniture, fittings & other equipment	Motor vehicles	Assets in the course of construction	Total
At 31 December 2004						
Cost / valuation	390,033	15,103,193	242,832	192,107	1,650,328	17,578,493
Accumulated depreciation	(38,264)	(3,970,568)	(92,497)	(93,572)	Nil	(4,194,901)
Net book amount	351,769	11,132,625	150,335	98,535	1,650,328	13,383,592
Year ended						
31 December 2005						
Opening net book amount	351,769	11,132,625	150,335	98,535	1,650,328	13,383,592
Additions	21,092	1,858,373	118,588	86,099	6,161,993	8,246,145
Transferred from capital WIP	39,986	3,791,733	47,312	Nil	(3,879,031)	Nil
Transferred to intangible assets	Nil	Nil	Nil	Nil	(17,257)	(17,257)
Internal transfers	Nil	(9,949)	(16,890)	Nil	Nil	(26,839)
Disposals	Nil	(24,856)	(7,954)	Nil	Nil	(32,810)
Depreciation charge (Note 3)	(19,915)	(1,832,646)	(63,944)	(37,368)	Nil	(1,953,873)
Closing net book amount	392,932	14,915,280	227,447	147,266	3,916,033	19,598,958
At 31 December 2005						
Cost / valuation	451,111	20,702,228	338,683	274,161	3,916,033	25,682,216
Accumulated depreciation	(58,179)	(5,786,948)	(111,236)	(126,895)	Nil	(6,083,258)
Net book amount	392,932	14,915,280	227,447	147,266	3,916,033	19,598,958

- (c) An asset verification was carried out during the year and some of the assets were reclassified. Accordingly cost and accumulated depreciation of property, plant and equipment were reclassified within the assets categories.
- (d) The Company's buildings were revalued during the year ended 31 December 2003, by a professional independent valuer. Valuations were made on the basis of the market value for existing use. The book value of the properties were adjusted to the revalued amount and the surplus arising was credited to revaluation reserve in shareholders' equity.

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

	Company	
	2005	2004
Cost	451,007	389,928
Accumulated depreciation	(62,839)	(43,055)
Net book amount	388,168	346,873

Notes to the Financial Statements

PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

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

	Group 2005	Company 2005	Company 2004
Cost	154,257	130,370	91,497
Accumulated depreciation	(58,163)	(45,253)	(39,934)
Net book value	96,094	85,117	51,563

(f) Property, plant and equipment includes fully depreciated assets still in use, the cost of which amounted to Rs 423,969,524 (2004 – Rs 398,366,185) at the balance sheet date (Group Rs 500,006,432).

INTANGIBLE ASSETS

10

Group	Goodwill	Licence cost	Sea-Me-We 3 usage right	Computer software	Total
Year ended 31 December					
Opening net book amount	Nil	Nil	Nil	82,300	82,300
Additions	Nil	Nil	232,677	191,671	424,348
Acquisition of subsidiary (Note 24)	389,857	890,000	Nil	Nil	1,279,857
Transferred from capital WIP	Nil	Nil	Nil	17,257	17,257
Internal transfer	Nil	Nil	Nil	24,493	24,493
Net book value of written-off assets	Nil	Nil	Nil	(1,514)	(1,514)
Amortisation charge	Nil	Nil	(3,827)	(194,609)	(198,436)
Closing net book amount	389,857	890,000	228,850	119,598	1,628,305
At 31 December					
Cost	389,857	890,000	232,677	533,932	2,046,466
Accumulated amortisation charge	Nil	Nil	(3,827)	(414,334)	(418,161)
Net book amount	389,857	890,000	228,850	119,598	1,628,305

Company	Computer software	Total
Year ended 31 December 2004		
Opening net book amount	76,655	76,655
Additions	136,830	136,830
Transferred from capital WIP	11,521	11,521
Amortisation charge	(142,706)	(142,706)
Closing net book amount	82,300	82,300

INTANGIBLE ASSETS (CONT'D.)

10

Company	Computer software	Total	
At 31 December 2004			
Cost	329,474	329,474	
Accumulated amortisation charge	(247,174)	(247,174)	
Net book amount	82,300	82,300	
Year ended 31 December 2005			
	Sea-Me-We 3 usage right	Computer software	Total
Opening net book amount	Nil	82,300	82,300
Additions	232,677	191,671	424,348
Transferred from capital WIP	Nil	17,257	17,257
Internal transfer	Nil	24,493	24,493
Net book value of written-off assets	Nil	(1,514)	(1,514)
Amortisation charge	(3,827)	(194,609)	(198,436)
Closing net book amount	228,850	119,598	348,448
At 31 December 2005			
Cost	232,677	533,932	766,609
Accumulated amortisation charge	(3,827)	(414,334)	(418,161)
Net book amount	228,850	119,598	348,448
Key assumptions applied in the valuation model			
	Forecasted period 2007 to 2015		
Implied Revenue growth	10.15%		
Implied growth in Earnings before interest, tax, depreciation and amortisation (EBITDA)	11.98%		

Provided above are some of the key assumptions made in connection with the fair valuation of the newly acquired subsidiary, MTT Network (Private) Limited. The implied Revenue and EBITDA growth depicted above refers to the Compound Annual Growth Rate (CAGR) over the forecast period. These have been essentially based on industry information and management expectations for the newly acquired entity. The discount rates used for the purpose of valuing MTT reflect the specific risks along with market risk premiums which have been based on management expectations.

Notes to the Financial Statements

INVENTORIES

11	Group 2005	Company 2005	Company 2004
Phone stock	48,236	48,236	48,916
Accessories and consumables	302,259	302,259	180,494
	350,495	350,495	229,410

RECEIVABLES AND PREPAYMENTS

12	Group 2005	Company 2005	Company 2004
Trade receivables	2,195,064	2,136,445	1,748,525
Prepayments	166,306	153,560	170,406
Amount due from parent company (Note 26)	1,000	1,000	1,000
Amounts due from related companies (Note 26)	105,748	8,683	12,740
Other receivables	1,257,962	1,194,534	335,610
	3,726,080	3,494,222	2,268,281

Other receivables mainly include advances to Alcatel CIT – France Rs 350 million and advances to local suppliers Rs 366 million in respect of purchases of telecom equipment.

CASH AND CASH EQUIVALENTS

13	Group 2005	Company 2005	Company 2004
Cash at bank and in hand	2,826,040	2,774,448	884,399
Short term bank deposits	3,863,879	3,849,740	2,306,345
	6,689,919	6,624,188	3,190,744

The weighted average effective interest rate on short term bank deposits was 5.98%. For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	Group 2005	Company 2005	Company 2004
Cash and bank balances	6,689,919	6,624,188	3,190,744
Bank overdrafts (Note 15)	(248)	Nil	(20,409)
	6,689,671	6,624,188	3,170,335

TRADE AND OTHER PAYABLES

14	Group 2005	Company 2005	Company 2004
Trade payables	857,074	857,074	596,546
Amount due to parent company (Note 26)	259,680	259,680	24,461
Amount due to related companies (Note 26)	305,798	255,534	264,845
Accrued expenses	2,428,739	2,408,175	1,607,233
Customer deposits	1,068,072	1,034,520	780,170
Other payables	295,025	284,843	210,502
	5,214,388	5,099,826	3,483,757

Amount due to parent company is unsecured, interest free and is payable on demand.

BORROWINGS

15	Group 2005	Company 2005	Company 2004
Current			
Bank overdrafts (Note13)	248	Nil	20,409
Bank borrowings	1,571,566	1,023,721	269,698
Loan from ultimate parent company	12,468	12,468	12,780
Lease liabilities	30,752	25,769	22,269
	1,615,034	1,061,958	325,156
Non-current			
Bank borrowings	8,998,856	8,868,094	3,102,216
Loan from ultimate parent company	9,793	9,793	13,408
Lease liabilities	40,100	35,583	22,093
	9,048,749	8,913,470	3,137,717
Maturity of non-current borrowings (excluding finance lease liabilities):			
Between 1 and 2 years	1,134,664	1,033,514	2,235,754
Between 2 and 5 years	7,618,485	7,588,873	812,446
More than 5 years	255,500	255,500	67,424
	9,008,649	8,877,887	3,115,624

A syndicated loan has been obtained from commercial banks in order to purchase and construct telecommunication equipment and network. Facilities have been obtained on Rupee and Dollar terms. The balance outstanding as at the balance sheet date amounted to Rs 888,314,360 and USD 2,462,069. The loans will be settled in 29 quarterly installments commencing from March 2003.

A loan has been obtained from Standard Chartered Bank in order to meet working capital requirements including licensing and other related acquisition costs in relation to the international gateway licence. The balance outstanding as at the balance sheet date amounted to Rs 2,500,000,000. Loan will be repaid at maturity.

Notes to the Financial Statements

BORROWINGS (CONT'D.)

15

The loan obtained from Telekom Malaysia Berhad, the ultimate parent company is repayable in US Dollars and the balance outstanding as at 31 December 2005 amounted to USD 218,000 (2004 – USD 250,000). The loan is repayable in five equal annual installments commencing 24 months from the first draw down on 19 August 1999.

The Company has obtained a loan from International Financial Corporation, mainly for the purposes of expanding the GSM telecommunication network, internet service provider activities and the international gateway activities. The loan is repayable in US Dollars and the balance outstanding as at 31 December 2005 amounted to USD 15 million. The loan is repayable in twelve equal semi-annual installments commencing from June 2006. The loan is secured by the movable telecommunication equipment as a first priority charge.

The term loan has been obtained from HSBC. The balance outstanding as at 31 December 2005 amounted to Rs 2,226,011,000. The loan is repayable in semi annual installments over five years.

	2005	2004
Weighted average effective interest rates:		
– bank overdrafts	13%	12%
– bank borrowings – term loan	SIBOR + 1.00%	SIBOR + 1.25%
– lease liabilities	12.61%	12.61%
– bank borrowings – syndicated rupee loan	AWPLR + 1.25%	AWPLR + 0.10%
– bank borrowings – syndicated USD loan	LIBOR + 1.625%	LIBOR + 0.700%
– loan obtained from ultimate parent company	LIBOR + 3.5%	LIBOR + 3.5%
– IFC Borrowings	LIBOR + 3.25%	Nil

Finance lease liabilities – minimum lease payments:

	Group 2005	Company 2005	2004
Not later than one year	41,126	34,938	26,844
Later than one year and not later than five years	44,467	39,141	24,397
	85,593	74,079	51,241
<hr/>			
Future finance charges on finance leases	(14,741)	(12,727)	(6,879)
Present value of finance lease liabilities	70,852	61,352	44,362

Representing lease liabilities:

– current	30,752	25,769	22,269
– non-current	40,100	35,583	22,093
	70,852	61,352	44,362

SUBSCRIPTION IN ADVANCE

16

	Company	
	2005	2004

At beginning of year	3,414,190	3,414,190
Shares issued during the year	(954,190)	Nil
Repayment during the year	(2,460,000)	Nil
At end of year	Nil	3,414,190

Ordinary shares amounting to Rs 954,190,000 (95,419,000 shares of Rs 10 each at par) were issued on 20 May 2005 against the subscription in advance of Rs 3,414,190,000, received from TM International Sdn. Bhd. On the same date the Board resolved and refunded the balance in the subscription in advance account amounted to Rs 2,460,000,000 following the issue of ordinary shares by obtaining a facility from a commercial bank.

RETIREMENT BENEFIT OBLIGATIONS

17

	Group	Company	
	2005	2005	2004

At beginning of year	48,497	48,497	29,449
Current service cost (Note 4)	27,682	27,682	19,213
Acquisition of subsidiary	6,643	Nil	Nil
Contributions paid	(989)	(989)	(165)
At end of year	81,833	75,190	48,497

This obligation is not externally funded nor actuarially valued.

CONTINGENCIES

18

Contingent liabilities

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. No additional payments are anticipated at the date of these financial statements.

COMMITMENTS

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Capital commitments

The Company has following commitments to pay for the supply of telecommunication equipment and services.

Name of the Company	2005	2004
	Rs	Rs
Alcatel CIT – France	1,564,000,656	2,239,574,764
Ericson AB – Sweden	1,043,080,903	888,853,801
Stratex Networks	233,807,415	111,620,483
Ericson Telecommunication Lanka	181,031,819	Nil

Notes to the Financial Statements

COMMITMENTS (CONT'D.)

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Capital commitments (Cont'd.)

Name of the Company	2005	2004
HAZE Company Limited – China	32,616,132	4,820,376
Delta Energy Systems	3,597,696	16,618,498
Acterna Eningen	816,000	Nil
Dynac Sdn Bhd	27,380,880	Nil
Eaton Power Quality (Private) Limited	34,585,650	Nil
Kathrein Werak	15,525,502	Nil
L3 Communication	4,908,240	Nil
Nec Corporation	33,244,656	Nil
Poly Qual (India) Private Limited	4,948,020	Nil
Rohas – Euco Industries Bhd	17,406,944	Nil
Trylon SSS – Sdn	7,011,868	Nil
Zelleco Engineering Sdn Bhd	13,056,000	Nil
ETA Melco – UAE	Nil	2,403,500
ERICO	Nil	19,077,625
DANCOM – Malaysia	Nil	39,744,799
Shayam Telecom – India	Nil	5,656,794
Powerware Intl – India	Nil	673,691
Gemplus – Singapore	Nil	15,152,500
Avitec – Sweden	Nil	10,042,868
Comba Telecom – Hong Kong	Nil	1,567,500
LPG Allogan – Sweden	Nil	18,162,100
Carmanah Technology	Nil	8,757,100
Microqual Techno – India	Nil	682,239
Eagle Press – India	Nil	10,841,875
ESTA France	Nil	11,110,492
Richardson	Nil	23,742,424
NAPS Systems – Finland	Nil	9,496,876
Allam Marine – UK	Nil	3,060,410
	3,217,018,381	3,441,660,715

Financial commitments

The Company has an annual commitment to pay Sri Lanka Rupees equivalent to USD 4,000 as annual fee to the Board of Investment of Sri Lanka.

The Company has an annual commitment to pay Rs 157,779,313 as rent to Base Station site owners.

The Company has annual commitment to pay Rs 7,920,000 as rent to TMI Lanka (Private) Limited.

The Company has an annual commitment to pay 1% on the value of all the additions to Fixed Assets and 0.3% of the annual turnover to Telecom Regulatory Commissioner of Sri Lanka.

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

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ORDINARY SHARES

20	Number of shares (thousands)	Ordinary shares	Share premium	Shares in trust	Total
As 31 December 2003	37,000	370,000	Nil	Nil	370,000
As 31 December 2004	37,000	370,000	Nil	Nil	370,000
Sub division of shares	333,000	Nil	Nil	Nil	Nil
New share issue – IPO	489,967	489,967	5,389,634	Nil	5,879,601
Conversion of Preference shares to ordinary shares	1,903,468	1,903,468	Nil	Nil	1,903,468
Bonus share issue	3,685,810	3,685,810	Nil	Nil	3,685,810
Share issue against subscription in advance	954,190	954,190	Nil	Nil	954,190
IPO Cost setoff	Nil	Nil	(112,691)	Nil	(112,691)
Purchase of ESOS Trust shares	(198,777)	Nil	Nil	(2,385,320)	(2,385,320)
As 31 December 2005	7,204,658	7,403,435	5,276,943	(2,385,320)	10,295,058

The total authorised number of ordinary shares is 10,000,000,000 shares (2004 – 469,442,124) with a par value of Rs 1 per share (2004 – Rs 10 per share). All issued shares are fully paid.

The parent company, TM International (L) Limited held 87.67% of the Ordinary shares in issue as at the balance sheet date.

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 interest 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% of the issued share capital of the Company.

The Board of Directors on 8 June 2005 appointed the following Trustees to the office of the ESOS Trust.

Mr. Prabahar s/o Nagalingam Kirupalasingam
 Mr. Moksevi Rasingh Prelis
 Mr. Arittha Rahula Wikramanayake

ESOS is granted to the eligible employees. The exercise price of the granted ESOS shares be based on the five (5) days weighted average market price of the Company's shares immediately preceding the offer date for options, with ESOS committee having the discretion to set an exercise price up to 10% lower than that derived weighted average market price. Options are conditional on the employees satisfying the following:

- has attained the age of eighteen (18) years;
- is employed full-time by and on the payroll of a company within the Group; and
- has been 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.

Movement in the number of ESOS shares outstanding and their related weighted average exercise price as follows:

	Company	
	Average exercise price in Rs per share	Options (thousands)
At 1 January		Nil
Granted	12	199,893
Exercised	12	(1,116)
At 31 December		198,777

Notes to the Financial Statements

PREFERENCE SHARES

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The total authorised number of redeemable, cumulative and convertible preference shares were 21,759,646 with a par value of Rs 60 per share. These shares were redeemable at par or convertible into fully paid ordinary shares of Rs 10 each of the Company.

All preference shares were converted into ordinary shares on 20 May 2005.

REVALUATION RESERVE

22

	Company	
	2005	2004
Buildings:		
At beginning of year	4,896	5,117
Transfer of depreciation to retained earnings	Nil	(221)
At end of year	4,896	4,896

The revaluation reserve is non-distributable.

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CASH GENERATED FROM OPERATIONS

23 Reconciliation of profit before tax to cash generated from operations:

	Group	Company
	2005	2004
Profit before tax	7,053,820	4,139,901
Adjustments for:		
Exchange loss on borrowings	14,380	35,167
Profit on sale of property, plant and equipment (Note 3)	(1,604)	(3,153)
Interest expense (Note 5)	366,673	334,181
Interest income (Note 5)	(171,732)	(107,005)
Depreciation (Note 9)	1,953,873	1,452,241
Depreciation of internally reclassified assets [Note 9(c)]	(13,991)	Nil
Amortisation (Note 10)	198,436	142,706
Amortisation of internally reclassified assets [Note 9(c)]	14,171	Nil
Retirement benefit obligation (Note 19)	27,682	19,213
Changes in working capital		
– trade and other receivables	(1,219,302)	(715,793)
– inventories	(121,086)	(55,830)
– payables	1,188,617	1,910,346
Cash generated from operations	9,289,937	7,151,974

BUSINESS ACQUISITION

24

On 22 December 2005, the Company acquired 99.9% of the share capital of MTT Network (Private) Limited, a company which provides communication infrastructure facilities for data communication and transmission. The assets and liabilities of acquired business at 31 December 2005 were respectively Rs 1,902,651,560 and Rs 809,558,491.

Since the acquisition date was 22 December 2005, the income of the subsidiary for the 6 market days ended 31 December 2005 has not been consolidated.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

Cash paid	1,506,509
Cash payable	464,255
Total purchase consideration	1,970,764
Fair value of net assets acquired	(1,580,907)
Goodwill	389,857

Other than license, the fair value on the net assets approximated to the book value of the net assets acquired.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
Cash and cash equivalent	65,731	65,731
Property, plant and equipment	1,113,230	1,113,230
Receivables	231,857	231,857
Capital inventory	89,648	89,648
Intangible assets	402,187	890,000
Borrowings	(688,355)	(688,355)
Retirement benefit obligations	(6,643)	(6,643)
Trade and other payables	(114,561)	(114,561)
	1,093,094	1,580,907
Goodwill		389,857
Total purchase consideration		1,970,764
Less:		
Cash and cash equivalent in subsidiary acquired		(65,731)
Bank overdraft in subsidiary acquired		248
Other payable		(464,255)
Cash outflow on acquisition		1,441,026

Notes to the Financial Statements

DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

25

The directors of the Company are also directors of the following companies.

	MTT Network (Private) Limited	Telekom Malaysia Bhd	T M International (L) Limited	T M International Lanka (Private) Limited	T M International Sdn Bhd
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	-	X	-	-	X
Dato' Dr Abdul Rahim bin Haji Daud	-	X	-	-	-
Ir. Prabahar s/o Nagalingam Kirupalasingam	-	X	-	-	-
Dr Shridhir Sariputta Hansa Wijayasuriya	X	-	-	X	-
Mr. Jaffa Sany bin Md Ariffin	-	-	-	-	-
Mr. Moksevi Rasingh Prelis	X	-	-	-	-
Mr. Yusof Annuar bin Yaacob	X	-	X	-	X
Dato' Mohammed Shazalli bin Ramly	-	-	-	-	-

'x' denotes the companies of which each of the persons mentioned was a Director.

Dr Shridhir Sariputta Hansa Wijayasuriya is a trustee of Change Trust Fund.

The nature of the transactions are summarised below:

	Company	
	2005	2004
i) Sales of services TM International Lanka (Private) Limited – Management Services	2,700	2,700
ii) Purchase of services TM International Lanka (Private) Limited – Rental	7,920	7,920
iii) Telekom Malaysia Berhad – Lease rental	40,396	67,587

The above transactions were carried out on commercial terms and conditions and at a price agreed upon by the management.

RELATED PARTY TRANSACTIONS

26 Related party disclosures, other than those disclosed in Note 25 to the financial statements are as follows:

The Company is a fully owned subsidiary of TM International (L) Limited. TM International Lanka (Private) Limited is also a fully owned subsidiary of TM International (L) Limited. The ultimate parent company is Telekom Malaysia Berhad.

Outstanding balances arising from related party transactions are as follows:

	Company	
	2005	2004
Amount due from parent company TM International Sdn Bhd (Note 12)	1,000	1,000
Amounts due from related companies (Note 12)		
– Sotelgui S.A.	Nil	140
– TM International Lanka (Private) Limited	8,683	12,062
– TM International (Bangladesh) Limited	Nil	538
	8,683	12,740

RELATED PARTY TRANSACTIONS (CONT'D.)

26

	Company	
	2005	2004
Amount due to parent company TM International Sdn Bhd (Note 14)	32,248	24,461
Amounts due to related companies (Note 14)		
– Telekom Malaysia Berhad	340,062	162,698
– Change Trust Fund	93,299	102,147
– TM International (Bangladesh) Limited	49,604	Nil
	482,965	264,845
Loan from ultimate parent company, Telekom Malaysia Berhad (Note 15)	22,261	26,188

PARENT COMPANY

27 TM International (L) Limited is the parent company of Dialog Telekom Limited. TM International Sdn. Bhd. is the parent company of TM International (L) Limited. Accordingly the ultimate parent company of Dialog Telekom Limited is Telekom Malaysia Berhad.

POST BALANCE SHEET EVENTS

28 No material events have occurred since the balance sheet date which require adjustments to, or disclosure in, the financial statements.

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An overview of the Sri Lankan Economy

Sri Lanka has a population of 19.5 Mn of whom the majority are Sinhalese. Other ethnic groups are made up of Sri Lankan Tamils, Indian Tamils, Moors, Malays, Burghers (of Portuguese and Dutch descent) and others. Population growth rate remains at 1.1%. Although a multi-religious country, Buddhists constitute the majority. Other religious groups are Hindus, Muslims and Christians.

Sri Lanka's literacy rate is 92.5%, and is one of the highest in Asia. The male and female literacy rate is 94.5% and 90.6% respectively. The infant mortality rate per 1000 live births is 11.1. The expectation of life at birth for male is 71.7 and 76.4 for females in 2001.

Since regaining of independence, policies adopted in Sri Lanka helped maintain a high standard in the quality of life of its people, despite the lower level of per capita income. The educational and health indicators of the country have compared well with most middle income countries.

BUSINESS AND INVESTMENT CLIMATE

The country is governed by a multi-party democracy, whose policies offer among the most liberal business environments in Asia. Sri Lanka ranks well on a variety of international indicators that seek to measure the climate for doing business, including governance, rule of law, institutional strength and the incidence of corruption.

GROWTH AND PERFORMANCE

The Sri Lankan economy has shown commendable power of endurance recording an impressive growth in national output in 2005 in the aftermath of the tsunami disaster.

During the first three quarters, the economy continued to grow at healthy rates of 4.4%, 6.0% and 6.4% respectively with all major sectors contributing to growth. The overall growth would be about 5.5-6.0 %, with encouraging expansion in agricultural output including plantation crops and strong performance in the manufacturing sectors. Exports have grown by 10.2% benefiting the sustained external demand notwithstanding the net appreciation of the rupee during the year. The Sri Lankan garment sector continued recording strong results despite fears of a downturn in 2005 consequent to the abolishing of the global multi-fiber agreement.

The most important market of Sri Lanka's exports is the United States which demands a large portion of garments while the largest supplier of the country is Japan. India is the second-largest source of Sri Lanka imports. Other leading suppliers of Sri Lanka are Hong Kong, Singapore, Taiwan and South Korea.

The cumulative imports also grew by 10.8% during 2005 mainly due to the increased expenditure on crude oil, fertilizer and other essential commodities.

Higher inflows of remittances and inflows to the financial accounts have resulted in a surplus in the balance of payments in 2005. The Sri Lanka rupee reached 102.12 per US Dollar by end 2005 compared to Rs. 101.2 by end 2004.

The gross official reserves increased from 2,196 Mn US Dollars at end 2004 to 2,517 Mn US Dollars by end November 2005.

The overall budget deficit in 2005 is estimated at 8.5% of GDP including tsunami expenditure of 1.4% of GDP. Therefore deficit excluding tsunami expenditure is estimated at 7.1% of GDP.

Inflation was moderate in 2005. Accordingly, inflation measured by the point to point change in Colombo Consumer's Price Index (CCPI) declined from 13.8% by end December 2004 to 8.0% by end December 2005. However annual average inflation increased from 7.6% to 11.6% during the same period. Inflation further declined to 11.1% in January 2006. Considering the necessity for reducing the high growth in monetary aggregates through curtailing the excessive expansion in the demand for credit and reducing demand driver inflationary measures the Central Bank increased its policy interest rates and conducted Open Market Operations more aggressively.

The monetary policy measures thus far have been instrumental in restraining the excessive growth in money supply. As a result growth in reserve money decelerated. The year end reserve money was Rs. 197.9 Bn compared to a target of Rs. 196.5 Bn. Broad money also marginally decelerated from 19.6% in December 2004 to 19.1% in December 2005.



Nonetheless, with its vicissitudes of economic growth, Sri Lanka is still considerably dependant on foreign aid and assistance in recent years with Japan the biggest donor. Foreign financial aid mostly focus on education, health, legal reform, environment, and other infrastructure developments.

ECONOMIC STRUCTURE

Macroeconomic indicators, 2005

Real GDP growth (%)	5.5
Consumer price inflation (%)	11.6
Average exchange rate (SLRs:US\$)	102.12
Population (Mn)	19.5

Source: Central Bank of Sri Lanka

THE SERVICES SECTOR DOMINATES THE ECONOMY

Sri Lanka's economy is highly dependant on the growth of the service sector. The combined services sector, which also includes transport, communications, financial services and tourism, generates more than 57% of GDP. Telecommunications is the most dynamic sub-sector, recording double-digit growth. The financial services sector has also seen a healthy growth.

INDUSTRY THE MOST DYNAMIC SECTOR

Manufacturing is generally the leading growth area in the industrial sector contributing to 27% of GDP. Privately-owned export-oriented factories produce over 95% of industry output. The manufacturing base is dominated by the garment industry, although the production of food and beverages, as well as that of chemical and rubber-based goods, is also significant.

THE AGRICULTURAL SECTOR IS THE LARGEST EMPLOYER

Although its significance has declined in recent years, the agricultural sector is an important determinant of GDP contributing 16% of national output and employing over

one-third of the work force. Indirectly, its importance is larger than these figures indicate because of links between agriculture, manufacturing and services.

Although privatisation in the past has reduced the size of the public sector in manufacturing, the state continues to dominate the financial sector and the utilities, and has a quasi-monopoly in health and education. The labour force is about 7.9 Mn and the participation is increasing. The unemployment and under employment is 8.4% in 2004 of which the unemployment among the youth is rising to the level of 21.4% between the age group of 20-29.

THE EQUITIES MARKET

As at end December 2005, 239 companies were listed on the Colombo Stock Exchange. Their market capitalisation was Rs.584 Bn, 25% of estimated GDP for 2005.

Share market activities increased and grew at a rapid rate in the first nine months of 2005 and slowed down thereafter. A notable event during the period was the inclusion of Sri Lanka by the California Public Employees' Retirement System (CALPERS), the largest public pension fund in the USA, in its emerging markets investment eligibility list. All indicators such as price indices, market capitalisation, daily turnover and net foreign purchases increased during the period. On a point-to-point basis the market produced a rate of return of 28% and 18% on the All Share Price Index (ASPI) and Milanka Price Index (MPI), respectively. The average daily turnover increased from Rs.240 Mn in 2004 to Rs.482 Mn in 2005. The market capitalisation, which increased to Rs.762 Bn by end-October 2005 from Rs.382 Bn at end-2004, decreased to Rs.584 Bn at end 2005.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE NINTH ANNUAL GENERAL MEETING OF DIALOG TELEKOM LIMITED WILL BE HELD ON FRIDAY, 19TH MAY 2006 AT 2.00 P.M. AT WATERS EDGE:

AT THE GRAND BALL ROOM
WATERS EDGE
NO 316, ETHUL KOTTE
BATTARAMULLA

19 MAY 2006, FRIDAY

AT 2.00 P.M.

THE BUSINESS TO BE BROUGHT BEFORE THE MEETING WILL BE:

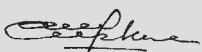
1. To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2005 and the Auditors' Report thereon.
2. To declare a final dividend as recommended by the Board of Directors
3. To re-elect as a Director, Ir. Prabahar s/o Nagalingam Kirupalasingam who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.
4. To re-elect as Director, Mr. Moksevi Rasingh Prelis who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.
5. To re-elect as a Director, Mr. Yusof Annuar bin Yaacob who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.
6. To re-elect as a Director, Dato' Mohammed Shazalli bin Ramly who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.

7. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

8. To authorise the Directors to determine and make donations for 2006.

9. To consider any other business of which due notice has been given.

By Order of the Board



Mrs. Anoja J Obeyesekere

Company Secretary

Date : 10 April 2006

Colombo

Note

- i) A member entitled to attend and vote at the above meeting is entitled to appoint a Proxy to attend and vote in his/her place.
- ii) A Proxy need not be a member of the Company. The Form of Proxy is enclosed.
- 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.
- vi) For security reasons, 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.

Glossary of Terms

Annex A Other abbreviations used in the Annual Report

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A	AIR Automatic International Roaming AC Audit Committee refers to Board Audit Committee ARPU Average Revenue per User APQA Asia Pacific Quality Assurance
B	BAC Board Audit Committee BHAR Busy Hour Answer Ratio BPO Business Process Outsourcing BSS Base Station Sub System BTS Base Transceiver Station
C	CAGR Compounded Annual Growth Rate CLI Caller Line Identification CIM Chartered Institute of Marketing CIMA Chartered Institute of Management Accountants
D	DNV Det Norske Veritas DR Disaster Recovery DTL Dialog Telekom Limited
E	EBIT Earnings Before Interest and Tax EDGE Enhance Data Rate for GSM Evolution EGO External Gateway Operator ERM Enterprise Risk Management ERP Enterprise Resource Planning ESOS Employee Share Options Scheme
G	GDP Gross Domestic Product GMPCS Global Mobile Personal Communications Systems GOSL Government of Sri Lanka GPRS General Packet Radio Service GSM Global System for Mobile Communications GP Gross Profit
H	HRM & D Human Resource Management and Development
I	ICT Information Communication Technology IDD International Direct Dialling IEE Institute of Electrical Engineers IEEE Institute of Electrical and Electronic Engineers IESL Institute of Engineers Sri Lanka IFC International Finance Corporation IN Intelligent Network IOD Information on Demand IP Internet Protocol IPLC International Private Leased Circuit ISP Internet Service Provider ISO International Organisation for Standardisation IT Information Technology IVR Interactive Voice Response
K	KIT Keep In Touch KPI Key Performance Indicator
L	LBS Location Based Services
M	MBA Master of Business Administration MHz Million Hz. A measure of radio frequency MIS Management Information Systems MMS Multimedia Messaging Services MOU Minutes of Use per subscriber per Month
N	NBE National Business Excellence Award NRC Nominating and Remuneration Committee NSS Network Sub System NCCSL National Chamber of Commerce Sri Lanka
P	PAT Profit After Tax PBT Profit Before Tax PSTN Public Switched Telephone Network PTT/PnT Push to Talk
Q	QoS Quality of Service
R	R&D Research and Development RM Risk Management ROI Return on Investment
S	SBU Strategic Business Unit SEA -ME- WE3/ SE-ME-WE 3 South East Asia, Middle East, Western Europe Fiber Optic Cable SIM Subscriber Identification Module SL Sri Lanka SLNQA Sri Lanka National Quality Award SMC Strategic Management Committee SME Small and Medium Enterprise SMS Short Message Service
T	TM Telekom Malaysia TMCH Telekom Malaysia Clearing House TMI Telekom Malaysia International TRCSL Telecommunications Regulatory Commission of Sri Lanka
U	UMTS Universal Mobile Telecommunications System
V	VAS Value Added Services VAT Value Added Tax VOIP Voice Over Internet Protocol
W	WAP Wireless Application Protocol WLL Wireless Local Loop
Y	YoY Year on Year
	3G Third Generation (Wireless Technology)

Form of Proxy

I/We _____

of _____

_____ being a member/s of Dialog Telekom Limited hereby appoint _____

of _____ or failing him/her

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, or failing him

Dr. Shridhir Sariputta Hansa Wijayasuriya, or failing him

Ir. Prabahar s/o Nagalingam Kirupalasingam, or failing him

Mr. Moksevi Rasingh Prelis, or failing him

Mr. Yusof Annuar bin Yaacob, or failing him

Dato' Mohammed Shazalli bin Ramly

as my/our proxy to represent me/us and vote on my/our behalf at the Ninth Annual General Meeting of the Company to be held on **Friday, 19th May 2006** at **2.00p.m.** and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	Resolutions	For	Against
1.	To receive and consider the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2005 and the Auditors' Report thereon.		
2.	To declare a final dividend as recommended by the Board of Directors		
3.	To re-elect as a Director Ir. Prabahar s/o Nagalingam Kirupalasingam , who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.		
4.	To re-elect as a Director Mr. Moksevi Rasingh Prelis, who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.		
5.	To re-elect as a Director Mr. Yusof Annuar bin Yaacob, who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.		
6.	To re-elect as a Director Dato' Mohammed Shazalli bin Ramly who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.		
7.	To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.		
8.	To authorise the Directors to determine and make donations for 2006.		

(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 _____, 2006.

Signature/s of Shareholders

NOTE:

Instructions as to completion of the Form of Proxy are noted on the reverse hereof.

Proxy Form

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.

Please provide the following details:

Shareholders NIC/ Passport/ Company registration No.	Shareholder's Folio No.	Number of shares held	Proxy Holders NIC No. (if not a Director)

