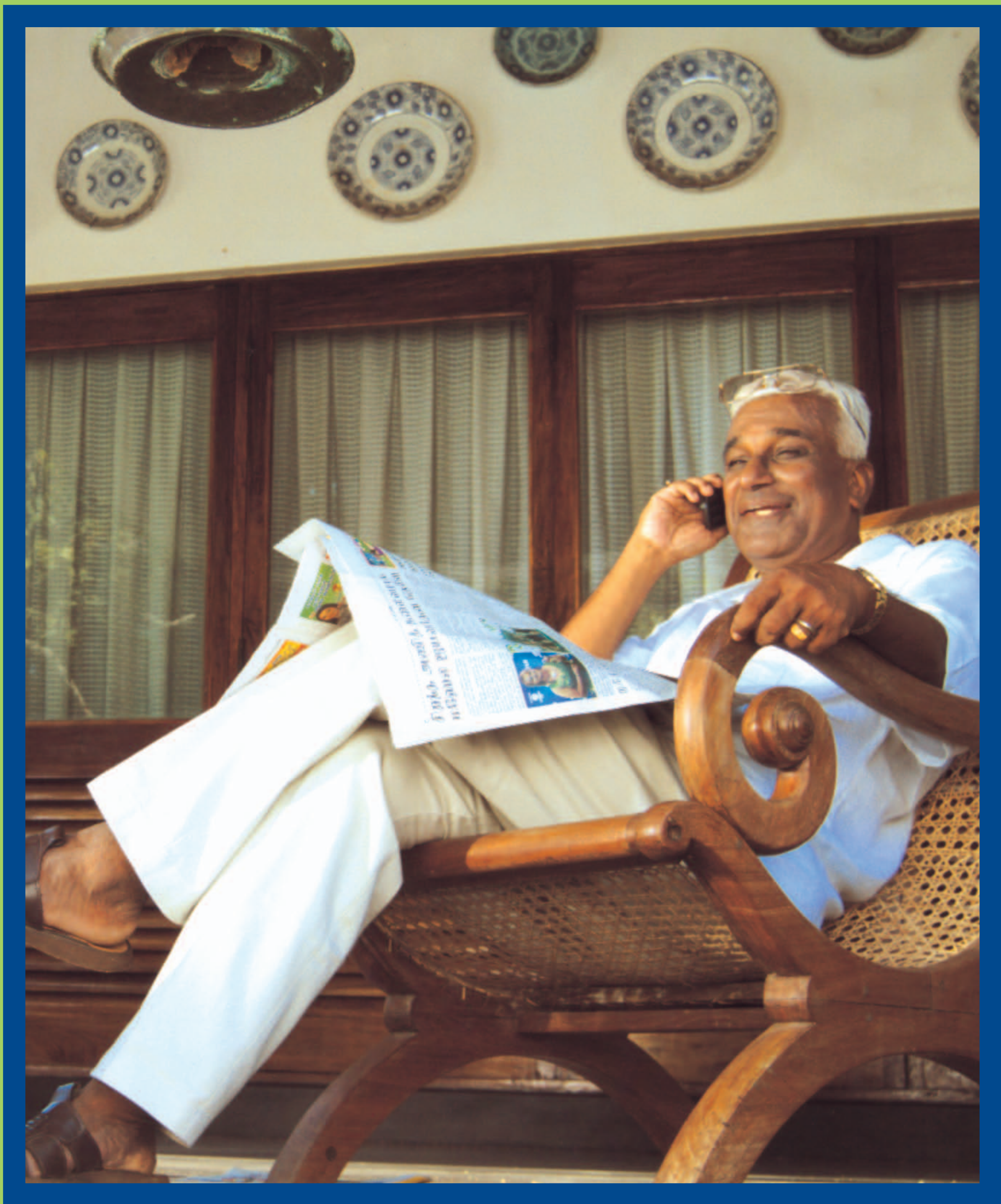
Dialog
TELEKOM

CONNECTING
SRI LANKAN LIVES
Everyday, Everywhere

ANNUAL REPORT '06

BY UNDERSTANDING AND EXCEEDING CUSTOMER EXPECTATIONS

BY CREATING CHANNELS
OF CONNECTIVITY



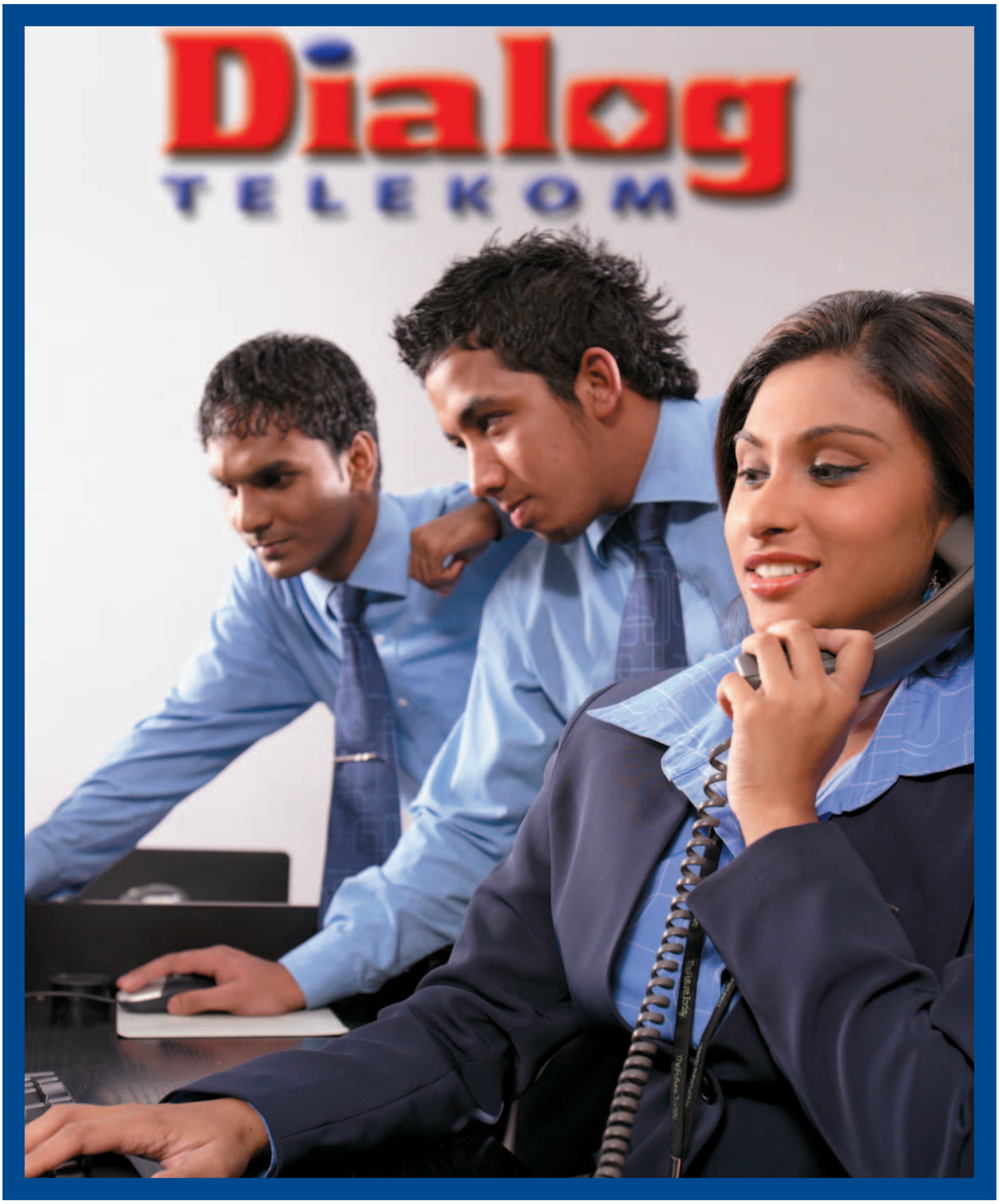
BY FOCUSING ON

OUR PRIORITIES

Dialog TELEKOM

BY DELIVERING ON OUR

BRAND PROMISE



BY UNLEASHING THE POTENTIAL OF OUR PEOPLE

OUR VISION

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 MISSION

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.

Dialog TELEKOM

INTRODUCTION TO THE COMPANY

Dialog Telekom Limited (DTL) is the largest mobile operator in Sri Lanka with over 3.2 Mn subscribers. It is also the largest listed company on the Colombo Stock Exchange in terms of Market Capitalisation (USD 1.82Bn as of 31 December 2006), representing 23.5 percent of the market value on the Colombo Stock Exchange. The Company has the distinction of becoming the first Company in Sri Lanka to achieve a market capitalisation exceeding USD 1 billion.

Dialog Telekom Limited is a subsidiary of the Telekom Malaysia Group. Dialog GSM has spearheaded the mobile industry in Sri Lanka since the late 90s, propelling it to a level of technology on par with the developed world. The Company operates a 2.5G/3G mobile network, supporting the very latest in multimedia and mobile internet services as well as International Roaming in over 190 countries. Dialog GSM is the country's largest cellular network, accounting for 60% of the mobile sector and 45% of total telecommunications subscribers.

In addition to its core mobile telephony business, the Company provides international services, supporting an International Gateway infrastructure providing retail and wholesale international voice and data services under the brand name of Dialog Global. The Company also provides internet services through Dialog Internet – a fully-fledged Internet Service Provider (ISP). Dialog Telekom also operates Dialog SAT, a mobile satellite service.

Dialog Broadband Networks (DBN) is a fully owned subsidiary of Dialog Telekom Ltd, and is a key player in Sri Lanka's ICT infrastructure sector, providing backbone and transmission infrastructure facilities and data communication services. Dialog Broadband is soon to commence the provision of fixed wireless telephony services based on CDMA technology.

Asset Media is a subsidiary of Dialog Telekom Ltd., and is licensed by the Ministry of Media to provide Television Broadcasting Services, delivery of Pay Television and Cable Television Services and the operation of a Television broadcasting station. Following the acquisition of Communiq Broadband Networks, Asset Media operates a Direct-to-Home Satellite based Pay Television service under the brand name of Dialog TV.

CONTENTS

Five Year Financial Summary	8
Corporate Milestones	10
Corporate Information	11
Achievements and Recognition	12
Board of Directors	14
Profile of Board of Directors	15
Senior Management Team	18
Profile of Senior Management Team	20
DTL – Management Team	24
DBN – Management Team	28
Message from the Chairman	29
Chief Executive's Review of Operations	32
Business Review	38
Subsidiary Review	52

COVER RATIONALE

DIALOG TELEKOM LIMITED
ANNUAL REPORT 2006

Dialog is growing beyond the numbers, connecting and enriching Sri Lankan lives in multiple ways.

CORPORATE VALUES

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

Calendar of Events for 2006	59
Corporate Responsibility	62
Management Discussion & Analysis	76
Statement of Corporate Governance	96
Report of the Audit Committee	104
Enterprise Risk Management	108
Financial Statements	114
US Dollar Financial Statements	154
Group Value Added Statement	156
Five Year Summary	157
Sri Lanka – An Economic Review	158
Notice of Annual General Meeting	160
Glossary of Terms	162
Form of Proxy	



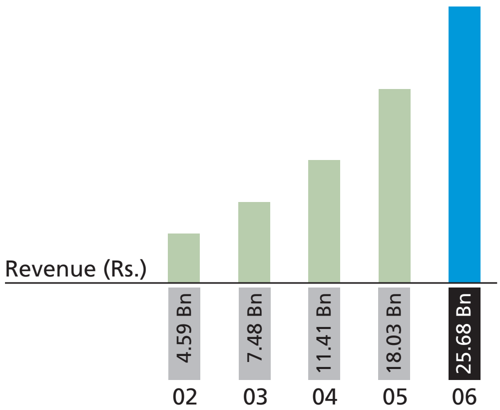

FIVE YEAR FINANCIAL SUMMARY

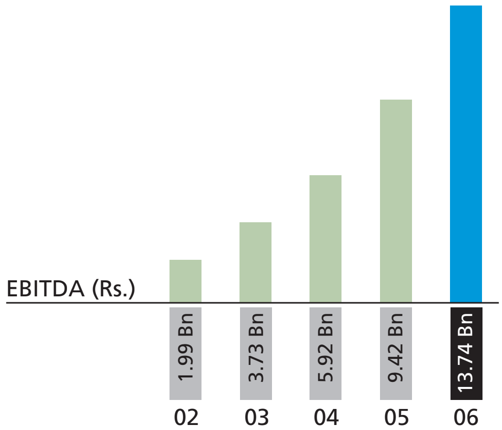
Summarised Group Income Statement (Audited) Rs. Bn.	YEAR ENDED 31 DECEMBER 2002	2003	2004	2005	**2006**
Turnover	4.59	7.48	11.41	18.03	**25.68**
Direct Costs	2.03	2.97	3.93	6.21	**8.82**
Gross Margin	2.56	4.50	7.48	11.82	**16.86**
Administration & Distribution	1.19	1.85	3.15	4.56	**6.13**
EBIDTA	1.99	3.73	5.92	9.42	**13.74**
Profit Before Tax (PBT)	1.31	2.41	4.14	7.05	**10.19**
Profit After Tax (PAT)	1.08	2.86	4.10	7.01	**10.12**

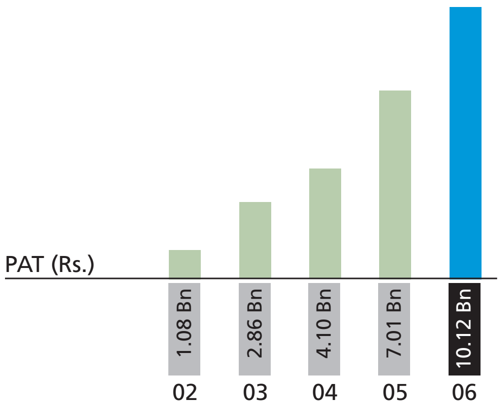
Figures may not add up due to rounding.

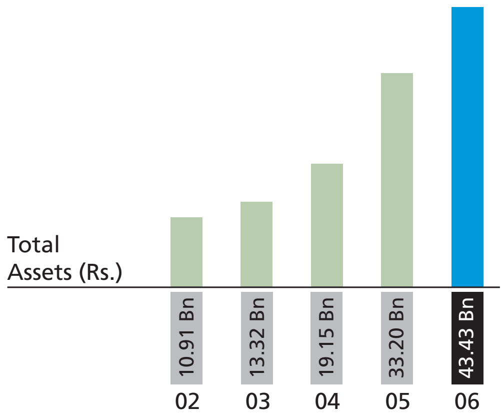
Summarised Group Balance Sheet (Audited) Rs. Bn.	AS AT 31 DECEMBER 2002	2003	2004	2005	**2006**
Non Current Assets	8.11	10.99	13.47	22.43	**33.63**
Current Assets	2.80	2.33	5.69	10.77	**9.79**
Total Assets	10.91	13.32	19.15	33.20	**43.43**
Capital & Reserves	3.11	5.48	8.71	17.20	**24.98**
Non Current Liabilities	5.68	5.79	6.60	9.13	**8.30**
Current Liabilities	2.12	2.05	3.84	6.87	**10.15**
Total Liabilities	10.91	13.32	19.15	33.20	**43.43**

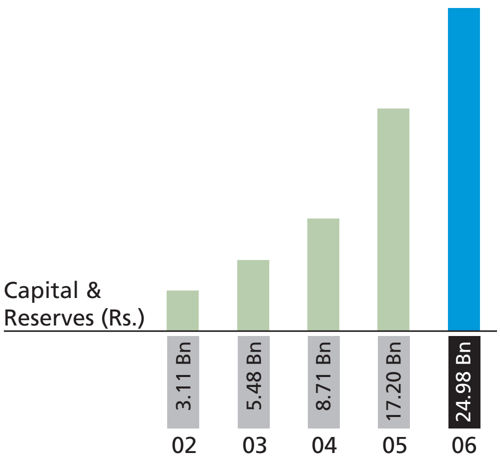
Figures may not add up due to rounding.

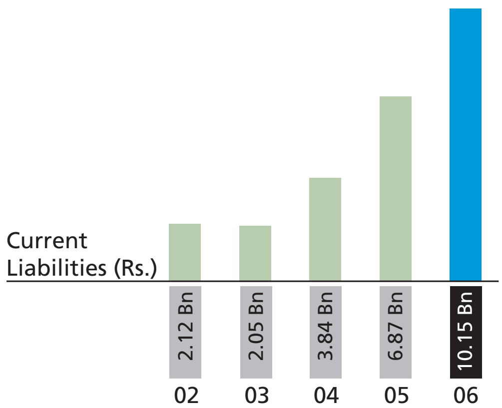

Revenue (Rs.)
4.59 Bn
7.48 Bn
11.41 Bn
18.03 Bn
25.68 Bn
02
03
04
05
06


EBITDA (Rs.)
1.99 Bn
3.73 Bn
5.92 Bn
9.42 Bn
13.74 Bn
02
03
04
05
06


PAT (Rs.)
1.08 Bn
2.86 Bn
4.10 Bn
7.01 Bn
10.12 Bn
02
03
04
05
06


Total
Assets (Rs.)
10.91 Bn
13.32 Bn
19.15 Bn
33.20 Bn
43.43 Bn
02
03
04
05
06


Capital &
Reserves (Rs.)
3.11 Bn
5.48 Bn
8.71 Bn
17.20 Bn
24.98 Bn
02
03
04
05
06


Current
Liabilities (Rs.)
2.12 Bn
2.05 Bn
3.84 Bn
6.87 Bn
10.15 Bn
02
03
04
05
06

CORPORATE MILESTONES

1993
Company incorporation

1995
Launch of commercial operations

1998
Dialog records its first profit

2000
Dialog becomes the market leader in the mobile sector

2001
Launch of Dialog Internet

2002
- Dialog SAT is launched
- Dialog becomes the undisputed leader in mobile telecommunications in Sri Lanka

2003
Dialog Global is launched

2004
Dialog's customer base reaches one million

2005
- Dialog floats the largest IPO on the Sri Lankan capital market and achieves a market capitalisation of 1 Billion US Dollars
- Completes acquisition of MTT Network (Pvt) Ltd

2006
- MTT Network becomes Dialog Broadband Networks (Pvt) Ltd
- Dialog acquires 90% of Asset Media (Pvt) Ltd and enters the Media and Pay TV sector
- Asset Media acquires Communiq Broadband Network (Pvt) Limited and CBN Sat (Pvt) Limited, a Direct-to-Home Satellite TV service

HIGHLIGHTS 2006

- **SAP implementation** – Dialog becomes the only telecommunications Company in Sri Lanka to implement the world renowned SAP Enterprise Resource Planning (ERP) System.
- **BlackBerry® launch** – The world renowned BlackBerry® platform is introduced for the first time in Sri Lanka.
- **Vodafone tie up** – With the signing of a milestone agreement with Britain's Vodafone, Dialog becomes a part of world's largest mobile community.
- **150 million USD investment** – This agreement with the Board of Investment becomes the single largest Infrastructure Investment in Sri Lanka.
- **3G commercial launch** – With Dialog 3G, Sri Lanka becomes the first country in South Asia to launch a Commercial 3rd Generation mobile service.
- **Dialog Telekom rated AAA (lka)** - Fitch Ratings awards AAA status to Dialog Telekom for the second consecutive year.
- **Entry into media business** – Dialog Telekom secures a 90% stake in Asset Media (Pvt) Ltd, a company licensed to operate Television Broadcasting and Pay Television services in Sri Lanka.
- **First SMS hotline** – With the commencement of the country's first SMS Hotline Dialog reaffirms its position as the country's only integrated multi-channel contact centre.
- **BPO service announcement** – Branded and Marketed as Dialog ECM (Enterprise Contact Management), the Company commences the provision of Business Process Outsourcing (BPO) services for Sri Lankan and Global Enterprises.
- **CBN Sat acquisition** – Dialog Telekom subsidiary Asset Media, acquires Communiq Broadband Network (Pvt) Limited and CBN Sat (Pvt) Limited, a Direct-to-Home Satellite TV service providing a head start to the Company's media business.
- **3 million customers** – Dialog's customer base reaches three million.

Dialog Telekom Limited

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' Sri Mohammed Shazalli bin Ramly
- Mr. Mohamed Vazir Muhsin

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 August 27, 1993 and subsequently converted to a public limited liability company on May 26, 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

AUDIT COMMITTEE

Mr. Moksevi Rasingh Prelis – *Chairman*

Ir. Prabahar s/o Nagalingam Kirupalasingam

Mr. Yusof Annuar bin Yaacob

Mr. Mohamed Vazir Muhsin *(appointed w.e.f. January 5, 2007)*

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

COMPANY SECRETARY

Mrs. Anoja J. Obeyesekere

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place
Colombo 02
Sri Lanka

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

REGISTERED ADDRESS

475, Union Place
Colombo 02
Sri Lanka
Tel: +94 77 7 678700
+94 11 2 678700
Website: www.DialogTelekom.com

INVESTOR RELATIONS

Tel: +94 77 7 081304
E-mail: ir@dialog.lk

AWARDS FOR EXCELLENCE IN ANNUAL REPORTS (2005/06)

TM GROUP AWARDS 2005

GSM World Awards (2001, 2002, 2003)

GSM World Award for "Change" Trust Fund initiative (2001)

GSM World Award for SMS112 (2002)

GSM World Award for SMS based Blood Donor Network (2003)

National Business Excellence Awards (2004, 2005)

GOLD AWARD
– Best Corporate Entity in Sri Lanka (2004)

GOLD AWARD
– Extra Large Category (2004)

GOLD AWARD
– Best Tech Savvy Company (2004, 2005)

GOLD AWARD
– Best Capacity Builder (2004, 2005)

GOLD AWARD
– Utilities and Infrastructure Sector (2005)

GOLD AWARD
– Best Realised Growth (2005)

Sri Lanka National Quality Award (2001)

– Large Scale Service Category

International Asia Pacific Quality Award (2002)

– Large Scale Service Category

AWARDS

AWARDS 2006

TM AWARDS 2005 (APRIL 2006)

Dialog Telekom Limited (DTL) was honoured with several awards at TM's inaugural Group Awards held in Malaysia, April 2006.

- **TM Group Award** – The "Top" Award for outstanding performance, selected from amongst all award winners.
- **OpCo of the Year** – The award for the best performing Operating Unit of TM Group.
- DTL was also the proud recipient of the award for the **Most Customer Centric Organisation** at the TM Group Awards.

DIALOG TOPS AS THE MOST VALUABLE BRAND IN SRI LANKA

The Dialog brand was rated as Sri Lanka's No. 1 brand by Brand Finance based on an evaluation of all listed companies on the Colombo Stock Exchange. The brand was valued at Rs.12.3 Billion and its future potential was rated as AA which again bills it as the most valuable brand in the country.

CUSTOMER SERVICE QUALITY STANDARD CERTIFICATION

Dialog Telekom Ltd was accredited by the Asia Pacific Customer Service Consortium (APCSC) with Customer Service Quality Standard (CSQS) certification. DTL is the first telecom operator in South Asia to receive CSQS accreditation from APCSC.

The CSQS has been developed by the *Asia Pacific Customer Service Consortium* (APCSC) and *The University of Hong Kong* (HKU) and assesses the overall customer service quality management systems, best practice compliance and performance of customer centric service organisations that excel in customer relationship excellence.

NATIONAL BEST QUALITY SOFTWARE AWARDS (2006)

Dialog Telekom together with its technology partners Microimage and the Dialog University of Moratuwa Mobile Communications Research Laboratory received the Overall Award in the Research and Development Category as well as the overall Gold Award for DEWN (Disaster Early Warning Network) at the National Best Quality Software Awards (NBQSA) 2006.

DEWN is a cost effective and multi modal mass alert system which could be deployed for the purpose of warning key stakeholders in disaster management as well as the general public in advance of the occurrence of life threatening disasters.

The NBQSA is organised by the British Computer Society (BCS) with the assistance of the Sri Lanka Association for Software Industry (SLASI), Software Exporters Association (SEA), Infotel Society (INFOTEL), University of Colombo and University of Moratuwa.

ISO 9001:2000 QUALITY MANAGEMENT SYSTEM – RECERTIFICATION (2006)

- First Certification: ISO 9002:1994 standard in 1999
- Upgrade to ISO 9001:1994 standard in 2001
- Certification under ISO 9001:2000 version in 2003
- Recertification under ISO 9001:2000 version in 2006

THE NATIONAL AWARDS FOR SCIENCE AND TECHNOLOGY (2006)

The Ministry of Science and Technology presented the "Award for Excellence in multidisciplinary team efforts in research and development" to Dialog Telekom, their technology partners Microimage and the Dialog University of Moratuwa Mobile Communications Research Laboratory for the development of DEWN.

GSM ASIA MOBILE INNOVATION AWARDS - DEWN

DEWN was shortlisted as one of three finalists for the Innovative Technology Development Award at the **GSM Asia Mobile Innovation Awards**.

Dialog's DEWN was displayed at the Innovation Zone at the GSM Asia Conference and Exhibition in Singapore (October 2006).

AWARDS FOR EXCELLENCE IN ANNUAL REPORTS (2005/06)

Winner in the Service Organisations Sector Awards for Excellence in Annual Reports, organised by the Institute of Chartered Accountants of Sri Lanka. Dialog Telekom was also the 2nd Runner up for Corporate Social Responsibility Reporting.

BOARD OF DIRECTORS

Left to Right - Mrs. Anoja Obeyesekere (Company Secretary), Dr. Shridhir Sariputta Hansa Wijayasuriya (Chief Executive), Ir. Prabahar s/o Nagalingam Kirupalasingam, Tan Sri Dato' Ir. Muhammad Radzi Bin Haji Mansor, Mr. Moksevi Rasingh Prelis, Mr. Yusof Annuar bin Yaacob, Mr. Mohamed Vazir Muhsin, Dato' Sri Mohammed Shazalli bin Ramly (not pictured)

PROFILE OF BOARD OF DIRECTORS

TAN SRI DATO' IR. MUHAMMAD RADZI BIN HAJI MANSOR
Chairman
Non-Executive Non-Independent Director

Appointed to the Board of Dialog Telekom on 6 August 1999 as Chairman and Director, Tan Sri Dato' Ir. Muhammad Radzi Bin Haji Mansor is presently the Chairman of the Board of Telekom Malaysia Berhad and also the Chairman of Celcom (Malaysia) Berhad, a wholly owned company of Telekom Malaysia.

Tan Sri Radzi served as Director General in the Telecommunications Department of Malaysia, where he had a 22-year career in various engineering and management capacities. After retiring in January 1987, upon the corporatisation of the Department, he served Telekom Malaysia Berhad from 1987 until 1996 as Top Management.

A Chartered Professional Engineer registered with the Board of Engineers, Malaysia and the Engineering Council, United Kingdom, Tan Sri Radzi graduated with a Diploma in Electrical Engineering in 1962 from Faraday House Engineering College, London. Tan Sri Radzi also holds a Masters in Science (Technological Economics) in 1975 from the University of Stirling, Scotland.

Tan Sri Radzi is a Corporate member of the Institution of Engineers, Malaysia, Institution of Engineering & Technology, UK and the Institute of Management, UK. He is also a Board Member of the Board of Engineers, Malaysia, effective from August 23, 2002.

DR. SHRIDHIR SARIPUTTA HANSA WIJAYASURIYA
Chief Executive
Non-Independent Executive Director

Appointed to the Board of Dialog Telekom on 19 January 2001, Dr. Wijayasuriya joined the Company in 1994 as a member of the founding management team, and has functioned in the capacity of the Chief Executive of Dialog Telekom, since 1997. He counts well over a decade of experience in technology related business management.

Dr. Wijayasuriya is a past Chairman of GSM Asia Pacific – the regional interest group of the GSM Association representing 22 Asia Pacific member countries, and has earned the distinction of being included in the GSM 100 Role of Honour for his contribution to GSM in the Asia Pacific Region. Dr. Wijayasuriya was also the recipient of the CIMA-Janashakthi Business Leader of the Year award in its inaugural year of presentation in 2003.

A Fellow of the Institute of Engineering Technology of the United Kingdom (IET) Dr. Wijayasuriya is a Chartered Professional Engineer registered with the IET UK. He is also a member of the Institution of Electrical and Electronic Engineers (IEEE), USA.

Dr. Wijayasuriya graduated with a degree in Electrical and Electronic Engineering from the University of Cambridge, United Kingdom in 1989. He subsequently read for and was awarded a PhD in Digital Mobile Communications at the University of Bristol, United Kingdom. Dr. Wijayasuriya also holds a Masters in Business Administration from the University of Warwick, United Kingdom.

Dr. Wijayasuriya has published widely on the subject of digital mobile communications, including research papers in publications of the IEEE (USA), Royal Society and IET (UK). He has made several keynote presentations at International conferences on digital mobile communications.

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 (ICTA) of Sri Lanka.

IR. PRABAHAR S/O NAGALINGAM KIRUPALASINGAM
Non-Independent, Non-Executive Director

Appointed to the Board of Dialog Telekom on 25 September 2000, Ir. Prabahar is an Engineer by profession. He holds a Bachelor of Science degree in Civil Engineering from Portsmouth Polytechnic, United Kingdom, and is a member of the Board of Engineers, Malaysia and the Institution of Engineers, Malaysia.

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 year 2000.

MR. MOKSEVI RASINGH PRELIS
Independent, Non-Executive Director

Appointed to the Board of Dialog Telekom on 15 September 2004, Mr. Prelis 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 this he has worked for 16 years as an Engineer and a Manager in the automobile manufacturing and steel industries. He has held the posts of Chairman – Ceylon Electricity Board, Chairman – National Institute of Business Management, Chairman – Association of Development Finance Institutions of Asia & Pacific, headquartered in Manila, and Chairman – St. Johns National Association of Sri Lanka. He has served as a Director on the boards of 20 companies and five 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 Programme of the Harvard Business School, USA. He is a Chartered Engineer of UK, a Fellow of the Institution of Engineers Sri Lanka, a (Hon) Member of the Institute of Personnel Management and a (Hon) Fellow of the Institute of Bankers Sri Lanka.

MR. YUSOF ANNUAR BIN YAACOB
Non-Independent, Non-Executive Director

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. Mr. Yusof is a Chartered Accountant by profession, a Member of the Chartered Institute of Management Accountants and the 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 including equity research as part of the Global Banking and Telecommunications Team.

In 1995, Mr Yusof joined ING Barings Securities in Singapore on the Equity Sales and Trading desk. He joined Merill Lynch & Co. (Singapore) in 1997. Before joining TM International Sdn Bhd, he was an Executive Director of OCB Berhad and a number of other public listed companies in Malaysia.

DATO' SRI MOHAMMED SHAZALLI BIN RAMLY

Non-Independent, Non-Executive Director

Appointed to the Board of Dialog Telekom on 9 September 2005, Dato' Sri Mohammed Shazalli is presently the Chief Executive Officer and a Director of Celcom (Malaysia) Berhad, a wholly owned company of Telekom Malaysia Berhad.

Dato' Sri 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.

Dato' Sri 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 eight years. Before joining NTV7, he served at Lever Brothers, followed by Malaysian Tobacco Company and British American Tobacco, both in Malaysia and the United Kingdom. Dato' Sri Mohammed Shazalli has also served as a Director in Asia Broadcasting Network (ASTRO), the Vice Chairman of the Multimedia Commission Content Forum and as a Director of Malaysian Television Broadcaster Association (MTBA).

MR. MOHAMED VAZIR MUHSIN

Independent, Non-Executive Director

Appointed to the Board of Dialog Telekom on 14 June 2006, Mr. Muhsin's experience includes working as a Strategic Management Consultant and Director on International Corporate and Foundation Boards. Prior to his retirement as the Vice President & Chief Information Officer at the World Bank, Mr. Muhsin was responsible for aligning information technology with the organisation's business strategy. He successfully implemented major reforms in global telecommunications, video conferencing, information management, and enterprise business systems.

A Chartered Accountant and a Fellow of the Institute of Chartered Accountants of Sri Lanka, Mr. Muhsin also worked in senior positions in the private sector in Sri Lanka and served for several years as an advisor to the then President of Zambia, Dr. Kenneth Kaunda on state enterprise reform and as the group financial director of Zambia's Mining and Industrial conglomerate.

SENIOR MANAGEMENT TEAM

Standing from left to right:

Pradeep de Almeida
Head – Network Operations and Fundamental Network Coordination

Nushad Perera
General Manager – Sales and Marketing

Wan Zaidan Wan Mahyudin
Chief Financial Officer

Seated:

Upali Gajanaike
General Manager – Engineering Operations and Information Technology

Standing from left to right:

Supun Weerasinghe
Head – Corporate Planning and Quality Management

Ranjeewa Kulatunga
Head – Human Resources Management and Development

Shayam Majeed
Head – Network Planning

Thivanka Rangala
Head – Corporate Finance and Internet Business

Anoja Obeyesekere
General Manager – Legal, Administration and International Business

Standing from left to right:

Chaminda Ranasinghe
Head – Information Technology and Charging Systems

Mohamed Rosman Mat Ali
General Manager – Engineering Planning and Development

Sandra de Zoysa
Head – Customer Service and Contact Management

Mothilal de Silva
General Manager – Corporate Planning, Quality Systems, Corporate Development and MIS

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 fledged 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 and has also spearheaded the introduction of New Technologies and Value Added Services (VAS) 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 seventeen years, during which he has accumulated extensive experience in Telecommunication Planning, Development and Operations in the fields of Transmission, including 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. MOTHILAL DE SILVA

Mr. de Silva functions as the General Manager, Corporate Planning, Quality Systems, Corporate Development and Management Information Systems. In addition to these functional areas, he actively gets involved in Strategic Planning, Valuation and Acquisitions, Feasibility Studies, Process Improvement, Program Management and Enterprise Risk 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, a MBA from the Post Graduate Institute of Management, University of Sri Jayewardenapura, a 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. Currently he is following a Doctorate of Business Management Program at the Asian Institute of Technology, Bangkok. His research interest is "Outsourcing in Telecommunication."

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.

4. UPALI GAJANAIKE

Mr. Gajanaike functions as the General Manager Engineering Operations and Information Technology of the Company. He is currently seconded to Dialog Broadband Networks (Pvt) Ltd, a fully owned subsidiary of Dialog Telekom, as its Chief Operating Officer (COO).

Mr. Gajanaike has over 12 years of experience in Telecommunication and has been with Dialog Telekom since the inception of the Company. He has been a key member of GSM and CDMA network rollouts and many other strategic projects and businesses initiatives. His extensive experience largely covers Planning, Project Management, Operations & Maintenance of telecom networks, and Information Technology functions. He has also gained exposure at overseas subsidiaries and business ventures of Telekom Malaysia in Africa, Malaysia and Indonesia.

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 Engineering & Technology (IET), UK, and the Australian Computer Society (ACS), Australia.

5. ANOJA OBEYESEKERE

Mrs. Obeyesekere is a result driven senior management professional with a proven track record of managing high performing teams and implementing new initiatives to achieve bottom-line growth targets. Under her leadership, Dialog Global, the Strategic Business Unit (SBU) overseeing the international business operations of the Group has consistently generated profits through the timely deployment of strategic and tactical solutions that improve competitive performance.

Her areas of expertise include strategic planning, profitable account management of high value, strategic businesses and leading cross functional teams to implement new initiatives to generate revenue. Her proven ability to multi task and maximise results with limited resources is amply demonstrated by the diverse portfolio of responsibilities falling within her purview, in her capacity as the General Manager Legal, Regulatory Affairs, Facilities Administration, International Business and as the Secretary to the Board of the Company.

Her consistent efforts to maintain cross border relations with counterparts of globally renowned international carriers and active participation at international conferences have further enhanced her experience as a facilitative business professional with a flair for excellent consensus-building and interpersonal qualities.

Mrs. Obeyesekere is a Lawyer by Profession with over 14 years experience and holds a Master of Laws in Information Technology and Telecommunication. She is the Chair designate of GSM Asia Pacific (GSMAP) and GSM South Asia (GSMSA) for 2007/2008, the Regional Interest Groups of the GSM Association.

6. NUSHAD PERERA

Mr. Nushad Perera functions as the General Manager Sales and Marketing of Dialog Telekom and heads the team that ensures strategic collaboration of the various Sales and Marketing disciplines including Sales (Corporate and Retail), Dealer Channels, Distribution, Brand Management, Marketing Communications, Loyalty, Market Development, and Enterprise Solutions.

He also heads the Management Committee of the newly acquired satellite TV operation - DialogTV.

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 and holds a certificate in Sales and Management from the Charted 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 Marketing Awards in 2001. He has over 8 years of work experience with Dialog Telekom, and 23 years of marketing and sales experience largely in the ICT and Marketing Communications industries.

PROFILE OF SENIOR MANAGEMENT TEAM

7. PRADEEP DE ALMEIDA

Mr. De Almeida functions as 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. In addition, he currently 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 Head of Customer Service & Contact Management, and the Chairperson of the Service Delivery Strategic Management Committee of Dialog Telekom.

Ms. De Zoysa counts over 15 years of cumulative experience in Customer Service Management within the mobile telecommunications industry. She is a Certified Analyst, Auditor & Certified Customer Service Manager of the Asia Pacific Customer Service Consortium. The company's service function has grown under her leadership to a proficient and reliable 24 x 7 Operation driven by a 1000 strong highly competent workforce, providing the service backbone to the Company's 3 million+ customers. Dialog's broad-based and decentralised service infrastructure spans all provinces of Sri Lanka, and is underpinned by state-of-the-art multi-modal customer contact technologies and processes.

Ms. De Zoysa has spearheaded the adoption of International Best Practices in Customer Servicing at Dialog, resulting in Dialog Telekom becoming the first company in South Asia to be awarded Customer Service Quality Standard (CSQS) certification by the Asia Pacific Customer Service Consortium (APCSC). The Company has also been honored with National & International service awards – among them are the Asia Pacific Quality Award 2002, National Quality Award 2001 and the Award for the Most Customer Centric Organisation – presented at the TM Group Awards in 2005.

9. RANJEEWA KULATUNGA

Mr. Kulatunga functions as Head of Human Resources – Management and Development of Dialog Telekom. He has been in the field of Human Resources for over 14 years holding office in senior management roles in leading multinationals and conglomerates in Sri Lanka and overseas.

Mr. Kulatunga is a member of the Society of Human Resources Management USA, a member of IPMA-HR USA, an Executive Committee member of the Human Resources Professionals Association SL., and an Advisory Committee Member to the Asia Pacific Human Resources Congress. He is also a visiting lecturer at the University of Colombo and the Sri Lankan Air Force Command College in China-Bay for Leadership Training. Mr. Kulatunga was awarded the "Young HR Professional" of the year award at the Global HR Excellence Awards amongst 60 countries in February 2006. He was awarded the Indira Super Achiever Award for Human Resources for South Asia by the Indira Institute of Management Pune, India in September 2006.

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 responsibilities include planning and optimisation of the Dual Band GSM & 3G/WCDMA Radio Networks, Site Acquisition & Regulatory Liaisons and BSS Technology Management. He was also actively involved in facilitating the expeditious introduction of 3G Technology.

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

Mr. Majeed has been with Dialog Telekom for over 9 years.

11. 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.

12. THIVANKA RANGALA

Mr. Rangala functions as Head of Corporate Finance and Internet Business. He is also the Chairperson of the Business and Finance SMC of Dialog Telekom and the Vice Chairman of the Management Committee of the recently acquired CBN.

Mr. Rangala counts over 16 years experience in the accountancy field having exposure in trading, construction, aqua culture, hospitality, manufacturing and service industries. He has also gained experience in Acquisitions, Project Management, 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 an honorary post as the Director/Treasurer of LISPA and Director of the Infotel Council.

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 from the University of Sri Jayewardenepura, Sri Lanka and a MBA (Distinction) from the University of Western Sydney, Australia. He is an Associate Member of the Chartered Institute of Management Accountants 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 Total Quality Management systems such as ISO, Six Sigma, and COPC at Dialog Telekom. He has gained international exposure by working with TM's international ventures in Asia.

DIALOG TELEKOM LIMITED MANAGEMENT TEAM

1. **Shahey Faleel** *(MIMS, MBA)*
Senior Manager – Sales
Years Of Service - 12

2. **Lalith Fernando** *(ACA, MBA)*
Chief Internal Auditor
Years Of Service - 1

3. **Lalith Imbulana** (*B.Sc. Eng)*
Senior Manager –
Switch Operations
Years Of Service - 10

4. **Pradeep Keerthiratne** *(Dip. BM, ACIM)*
Senior Manager – Distribution
Years Of Service - 7

5. **Zarina Rahim**
Senior Manager – Key Client
Relations/Chief Corporate Liaison
Years Of Service - 11

6. **Jude Tissera** *(CIM, MBA)*
Senior Manager –
Marketing Channels/Principal
Marketing Channels Officer
Years Of Service - 9

- **Dharmakeerthi Eldeniya** (*MBA)*
(Not Pictured)
Senior Manager – Projects
Years Of Service - 10

7. **Ravi Abeysekere** *(B.Sc. Eng, M.Sc)*
Manager – Internet Business
Years Of Service - 8

8. **Channa Amarasekara** *(MBA)*
Manager – Enterprise Solutions
Years Of Service - 1

9. **Muksalmina Bin Jaffar** *(B.Sc. Electrical Engineering)*
Manager – International Network Planning
Years Of Service - 6

10. **Iqbal Cassim** *(B.Sc.Eng, M.Sc., MPRM, MIET)*
Manager – Network Planning
(Radio Network Planning & Technical Assurance)
Years Of Service - 8

11. Munesh David *(MBA, FCMA, CMA)*
Manager – Corporate Finance
Years Of Service - 3

12. Indunil De Silva *(B.Sc. Eng)*
Manager – ISP Operations
Years Of Service - 8

13. Ramanan Devairakam *(B.Sc., MBA)*
Manager – Market Development & Expansion/Corporate Support Services
Years Of Service - 11

14. Nirusha Dissanayake *(B.Sc. Eng, MACS)*
Manager – ERP Systems
Years Of Service - 1

15. Samantha Epa *(B.Sc. Eng, C.Eng, MIE, MIEE)*
Manager – Network Planning
Years Of Service - 9

16. Chamila Fernando *(Dip. City & Guilds)*
Manager – Transmission Operations
Years Of Service - 11

17. Janak Fernando *(B.Sc. Eng)*
Manager – Network Operations
Years Of Service - 7

18. Trinesh Fernando *(Attorney-At-Law)*
Manager – Contract Management & Operations
Years Of Service - 2

19. Shanaka Goonatilake *(Dip. Business Admin)*
Manager – Administration
Years Of Service - 6

20. Damian Hay *(Dip. Management)*
Manager – Billing Operations
Years Of Service - 11

DIALOG TELEKOM LIMITED MANAGEMENT TEAM

21. Rifcky Jabbar *(HNDE, B.Eng)*
Manager – Switch Planning
Years Of Service - 12

22. Gayantha Mendis *(B.Sc. Eng, MBA)*
Manager – IT (Infrastructure)
Years Of Service - 1

23. Balarathnarajah Mohankumar *(Dip. IT, MBA)*
Manager – Business System Operations
Years Of Service - 10

24. Hasrath Munasinghe *(Dip. M., MCIM)*
Manager – Marketing
Years Of Service - 1

25. Kulendran Nallathamby
Manager – Arcades & Regional Operations
Years Of Service - 7

26. Suresh Penumasta *(MBA, PMP)*
Manager – Enterprise Program Management
Years Of Service - 1

27. Asela Perera *(B.Sc. Eng)*
Manager – Billing Systems
Years Of Service - 8

28. Ramal Perera *(CPM, ACPM, Dip.M., MSLIM)*
Marketing Manager – Enterprise Solutions
Years Of Service - 7

29. Navin Pieris *(M.Sc. MIS, MBA)*
Manager – International Business
Years Of Service - 2

30. Rathne Prasad *(B.Sc. Eng)*
Manager – Engineering Maintenance
Years Of Service - 6

31. Chinthaka Premaratne
Manager – HRM & Development (Resourcing & Projects)
Years Of Service - 1

32. Asanga Priyadarshana *(B.Sc. Eng, Dip.M., MIET, ACIM ACMA, ACCA, PNA, MBA)*
Manager – Corporate Planning
Years Of Service - 6

33. Sivasithamparam Ravindrah
Manager – Corporate Sales
Years Of Service - 7

34. Srinath Samaranayake *(B.Sc. Business Admin)*
Manager – Quality Systems & Process Improvement
Years Of Service - 2

35. Ahamed Shihan *(Dip. City & Guilds, B.Sc IT)*
Manager – Transmission Planning
Years Of Service - 12

36. Lasantha Thevarapperuma *(ACA, B.Sc. Accountancy)*
Manager – Finance Operations & Credit Management
Years Of Service - 3

37. Jey Vijayakumar *(B.Sc. Eng, MBA)*
Manager – Business Control
Years Of Service - 3

38. Indika Walpitage *(B.Sc. Eng, MBA, MIET, AMIE)*
Manager – International & VAS Operations
Years Of Service - 9

39. Shiran Weerakone
Manager – HRM & Development (Operations)
Years Of Service - 1

Vajira Jayasinghe - Chief Technology Officer

Mr. Jayasinghe functions as the Chief Technology Officer of Dialog Broadband Networks (Private) Limited. He has the overall responsibility for the operation of the Company's Broadband Network which includes the Backbone Transmission Network, IP/MPLS Network and the Wireless Access Network. He also spearheads the Company's latest Broadband initiatives including i.e. the development of a nationwide WiMAX Network.

Mr. Jayasinghe counts over 25 years of experience in the IT and Telecommunications industries in Sri Lanka and overseas. He has also been instrumental in setting up the first Mobile Telephone Network in South Asia. Mr. Jayasinghe is a Chartered Electrical Engineer and has a degree in Engineering from the University of Peradeniya, Sri Lanka and a MBA from Massey University, New Zealand.

Mohan Villavarayan - Chief Financial Officer

Mr. Villavarayan functions as Chief Financial Officer of Dialog Broadband Networks (Pvt) Ltd. He is also a member of the DBN Executive Committee reporting to the DBN Board of Directors. As Chief Financial Officer he is responsible for internal and external reporting, revenue assurance, procurement, financial operations, treasury management and for arranging the financing required to fund DBN's business plan.

Mr. Villavarayan counts 20 years of senior managerial experience, 10 years of which have been within the telecommunications sector. Prior to joining the telecommunications sector, he has gained extensive experience in the areas of general and financial management within the manufacturing and trading sectors. During his career he has held senior management positions in leading public quoted companies.

1 **Udaya De Silva** *(B.Sc. Eng)*
General Manager – Special Projects
Years Of Service - 1

2 **Viraj Devapriya** *(B.Sc. Eng)*
General Manager – Operations
Years Of Service - 11

3 **Methsiri Kumara** *(B.Sc. Eng)*
Head – Network Architecture
Years Of Service - 8

4 **Chanaka Liyanage** *(MBA, B. Sc. Eng)*
Head – Network Planning
Years Of Service - 10

5 **Kumudu Wasantha** *(MBA, B.Sc. Eng)*
Head – Infrastructure Delivery
Years Of Service - 1

"FACILITATING GROWTH CREATING NEW LIFESTYLES"

–ANOTHER VIRTUOSO PERFORMANCE

Once again I am pleased to report that Dialog ended the year 2006 on a high note. Our pre-tax profit of Rs 10.19 billion and our after tax profit of Rs 10.12 billion was not just a company record but the highest by a public listed company in Sri Lanka. This was an increase of 44% over last year's figure. Group revenue increased by 42% to reach Rs 25.68 billion and the Compounded Annual Growth Rate (CAGR) in revenue reached 51% over the past five years.

One million new customers joined the Dialog network in 2006. This consisted of 96% pre-paid and 4% post-paid customers. At the end of 2006, we had 3.1 million mobile customers, 60% of the country's total mobile market. The CAGR of our customer base over a five year period is 59%.

Earnings per share increased by 22% to Rs.1.40 from Rs.1.15 in 2005. Despite heavy investments in 2006, the Company was able to maintain the returns on equity at 40% and improved the return on capital employed from 26.9% in 2005 to 29.3% in 2006.

The Company now covers 70% of the land mass in 90% of inhabited Sri Lanka supported by approximately 50% increase in number of base stations. By the end of 2006, the network had eight hundred and fifty 2.5G base stations and fifty 3G base stations. There are plans for additional five hundred 2.5G base stations and two hundred 3G base stations respectively in 2007.

TAN SRI DATO' IR MUHAMMAD RADZI BIN HAJI MANSOR
Chairman

REWARDING OUR STAKEHOLDERS

I am pleased to announce that the Board has proposed a tax exempt final dividend of 55 cents per share for 2006 subject to shareholders' approval. This represents a total dividend payout of Rs. 4.05 billion or a dividend payout ratio of 40%.

On the Colombo Stock Exchange (CSE), Dialog share price rose by 60% over 2006 providing a significant return to the Shareholder in the form of capital appreciation, in addition to dividend income. The total market capitalisation of the Company increased from Rs. 122.1 billion in 2005 (US$1.2 billion) to Rs. 196.2 billion in 2006 (US$1.8 billion). Dialog continued its position as the most valuable company on the CSE accounting for 24% of the total market capitalisation of all companies listed on the CSE.

GEARING FOR CONVERGENCE

Dialog has made three strategic acquisitions which will soon transform the Company from a mobile communications company in to a provider of multi-faceted connectivity provider spanning Mobile, Fixed, Broadband Internet and Television Media services. In December 2005 we acquired MTT Network (Private) Limited, now renamed Dialog Broadband Networks (Private) Limited, and in October 2006 we acquired Asset Media (Private) Limited. Subsequently through Asset Media, we acquired Communiq Broadband Network (Private) Limited and CBN Sat (Private) Limited in December 2006.

Our pioneering entry into 3rd Generation mobile telephony as the first operator in the South Asian region is an important milestone in our journey and reiterates our slogan, which is to deliver "The Future. Today." to all Sri Lankans.

Leveraging on our incumbent strengths as the market leader in the mobile sector, we will exploit emerging opportunities in technology and media convergence to deliver an extended portfolio of products and services including broadband services, fixed line services and digital television broadcasting, to our customers.

OUR INVESTMENTS WILL CONTINUE

Dialog has consistently invested in the telecommunications sector in Sri Lanka. Our investments were directed towards infrastructure, technology, human resources and corporate systems.

An overriding feature of 2006 was the Group's aggressive investments in infrastructure and matching performance in capital project implementation. The Group invested / committed a total of Rs. 16.12 billion in infrastructure in 2006 resulting in large scale expansion of service coverage in rural areas of Sri Lanka, the establishment of a CDMA network in 8 Districts outside the western province, and the first phase of a fibre optic network in the City of Colombo.

I'm pleased to note that, with the completion of the Rs.16.12 billion investment in 2006, Dialog Telekom has invested a total of over US$450 million (Rs. 43 billion) in the development of the telecommunications infrastructure in Sri Lanka, making its principal foreign investor, Telekom Malaysia Berhad, the single largest infrastructure investor in Sri Lanka.

As we begin 2007 with aggressive plans across a broader spectrum of products and services, we will continue to invest towards the development of all the sectors in which we participate – with a single minded focus on innovation. This will be done in the interest of the Sri Lankan consumer – to make our services best in class while at the same time being affordable and available to all Sri Lankans.

BOLSTERED BY EXTERNAL RECOGNITION

In 2006, as before, we received a number of accolades, recognising our business excellence.

I am pleased to note that the Dialog brand is one of our greatest assets and was recognised as the most valuable brand in Sri Lanka in 2006 with a brand value of Rs.12.3 billion and brand strength rating of AA by Brand Finance of the UK.

Dialog won the Gold Award in the Research and Development Category at the National Software Awards of 2006 and received the Overall Gold Award for Disaster and Emergency Warning Network (DEWN).

At the National Awards for Science and Technology, we took the award for Excellence in Multidisciplinary Research and Development. We were also short listed for the Innovative Technology Development Award at the GSM Asia Mobile Innovation Awards for 2006. In addition to all that, Dialog received the Overall Commendation for 'Leveraging GSM in the Community' at the Vodafone 'World around us' workshop in Cairo.

We carry these awards and recognition with humility and knowledge that they only serve to inspire us to push the bar higher and seek even higher levels of corporate excellence.

MAINTAINING GROWTH

In 2006, economic growth and the overall performance of the national economy exceeded expectations. Among the positive signs of the relatively strong performance was a healthy GDP growth of 7%. This was mainly driven by continued strong expansion in industry and services. Output growth has also led to improvement in the labour market as a whole. Meanwhile, the progressive decline in unemployment rate has also contributed to the sustainable growth performance in 2006.

The growth in the Sri Lankan telecommunications market is being driven by the strong growth in mobile and fixed-wireless services. The mobile subscriber base of Sri Lanka has grown by 50% annually since 1996, increasing mobile penetration to around 27% by December 2006.

The mobile segment has reported impressive growth over the last few years. Since 2001, the total mobile subscriber base of Sri Lanka has reported a CAGR of 62% as at

December 2006. Dialog managed to capture 60% of the net subscriber additions during this five year period and has continued to consolidate its leadership position within the industry.

EMPOWERING DISADVANTAGED COMMUNITIES

During 2006, we continued with our efforts at empowering marginalised communities through our Corporate Responsibility activities.

Dialog's dichotomous approach to Corporate Responsibility (CR) is primed against a philosophy of inclusion, which implies our commercial operations and strategic community investments (SCI) take into account legitimate stakeholder impacts. This philosophy pervades both integral and outreach CR activities and enables Dialog to deliver on its role as a responsible telecommunications services operator and as a responsible corporate citizen, ultimately feeding into a sustainable process that supports and upholds economic, social and environmental equilibrium.

GOVERNING WITH TRANSPARENCY

Dialog is committed to achieving and maintaining the highest standards of Corporate Governance so as to increase sustainable long-term shareholder value and to ensure greater transparency.

We believe that business integrity, professionalism and ethical values are a reflection of good Corporate Governance. In furtherance of this commitment, the Company developed and adopted its own Code of Corporate Governance.

We believe 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.

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 Board has established policies on risk oversight and management that examines the roles and respective accountabilities of the Board, its committees, management and internal audit function.

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

In June 2006, Mr. Mohamed Vazir Muhsin joined the Board as an additional Independent Non Executive Director, further strengthening the independence of the Board and rights of the minority shareholders.

We will continue to refine our structures of governance to ensure the highest levels of transparency.

SHAPING LIVES AND FUTURES

Over the last decade, we have made a profound impact on the lives and future of all Sri Lankans. We have communicated with all social classes, with almost every age group and across most geographical regions. Driven by our belief in "Prosperity through Inclusion" we continue to invest without discrimination in all regions of the country, in particular without recourse to immediate profitability.

We are now ready to move into new areas of connectivity and to probe into new markets. The foundation has been laid and we anticipate a new spurt of growth for the Company over the next few years. Our goal is to combine corporate growth with national growth and a growth in peoples' opportunities.

CHANGES TO THE BOARD

On behalf of the Company, I warmly welcome Mr. Mohamed Vazir Mushin to the Board. His vast experience will be invaluable in guiding the Company to the future. His presence as an Independent Non Executive Director will strengthen the independence of the board.

OUR GRATITUDE

Here, I also want to take the opportunity to acknowledge the efforts of the Dialog team. Led with flair by the CEO, it is they who have made this virtuoso performance possible. They have blended well and shown that they can break new frontiers with their imagination and dynamism. My thanks go out to every member on the Board for their advice during the past year. I would also like to thank the Government, members at the Regulatory authorities, our customers and business partners for their continued support and guidance towards the success of the Company.

I am confident that the Company will usher in another media revolution in the coming years.

Tan Sri Dato' Ir Muhammad Radzi bin Haji Mansor
Chairman
15 March 2007

"THE ART OF THE POSSIBLE"

NEW FRONTIERS IN INNOVATION

In 2006 Dialog completed 12 years of operations in Sri Lanka. In these 12 years the Company has revolutionised Sri Lankan lifestyles enabling people from all walks of life to connect with each other in a myriad of ways. In the course of "transforming connectivity" for the citizens of Sri Lanka, Dialog has itself evolved, to become a high performing, profitable and technologically supreme company. Dialog has emerged as the largest company in terms of market capitalisation on the Colombo Stock Exchange, a position founded on the Company's consistent financial performance and returns to shareholders. In 2006, Dialog posted the highest profit recorded to date by a public listed entity. The foundation of our success lies with our customers, shareholders and a formidable "Dialog Team." They have provided a supreme illustration of the 'art of the possible' – a manifestation of Sri Lankan capability in entrepreneurship, management and innovation.

Financial performance is but the final outcome of a well orchestrated and coordinated effort to deliver growth through innovation, efficiency, speed and customer centered business practices. Our efforts in 2006 spanned a wide spectrum of objectives driven by our vision to empower and enrich Sri Lankan Lives and Enterprises. We look back with pride at the products we have created, the stakeholder relationships we have birthed and nourished, the social segments we have empowered, the human potential we have unleashed, the dreams we have transformed into reality and the social wealth we created for the larger community. Today we stand poised not just to revolutionise communications and information technology, but to continue to empower our people and enterprises through the delivery of a holistic rendition of 'connectivity,' founded on multiple media and delivered to meet the multi-sensory connectivity needs of our customers.

DR. HANS WIJAYASURIYA
Chief Executive

GROWING PHENOMENALLY

Throughout its existence Dialog has been focused on growth - growth in capability and capacity, growth in market share, growth in stakeholder returns, expansion of product portfolios, enhancement of product and service quality, and growth in accessibility and availability. Most importantly, we have been consistently focused on creating opportunity for Sri Lankan citizens and enterprises through the expansion of the utility and value we deliver through our products and services. Our focus on growth along multiple dimensions has been rewarded with our position as the undisputed market leader in the mobile communications sector in Sri Lanka, not just in terms of profitability and cutting edge technology, but as a powerhouse of new ideas, a catalyst for creative living and a model corporate citizen.

FINANCIAL RETURNS – CONSISTENT GROWTH

Profits grew by 44% in 2006 - recording the highest pre-tax and post-tax profit among all publicly listed companies in the country. Our pre-tax profit was recorded at Rs. 10.19 billion and profit after tax at Rs. 10.12 billion.

Group revenue increased by 42% to Rs. 25.68 billion in 2006, delivering a 51% CAGR over the preceding 5 year period. Mobile telecommunications revenue alone increased to Rs. 22.49 billion, representing a growth of 35%.

Our mobile customer base increased by 1 million during 2006 and by the end of 2006 we had secured in excess of 3 million customers, representing 60% of the mobile market in Sri Lanka. Our revenues account for more than 70% of Sri Lankan mobile sector revenues according to the industry revenue analysis published by the Telecommunications Regulatory Commission of Sri Lanka in September 2006.

IN 2006, DIALOG POSTED THE HIGHEST PROFIT RECORDED TO DATE BY A PUBLIC LISTED ENTITY

Our mobile telephone network covers approximately 70% of Sri Lanka's land mass and reaches over 90% of the country's population. Our service coverage is by far the most comprehensive offered by any service provider in Sri Lanka and is underpinned by our inclusive approach to the provision of service availability. It is our vision to ensure service availability to 100% of Sri Lanka's population within the course of 2007/8.

Service expansion in 2006 was underpinned by the addition of 300 Base Stations to our network enhancing our unmatched infrastructure base to 850 transmission sites distributed across all provinces of the country. Our 3G network expansion gathered momentum during the latter part of the year with 50 base stations providing commercial services in and around Colombo city.

QUADRUPLE PLAY – THE DIALOG EVOLUTION

Quadruple play is the provision of "total" connectivity via the provision of converged services across mobile, fixed, broadband internet and media domains. The past year has seen Dialog positioning itself for rapid evolution in tandem with global trends in technology and media convergence.

Dialog's strategy for evolution spans the multiple dimensions of technology evolution through the introduction of 3rd Generation networks and the adoption of Next Generation Network (NGN) Internet Protocol (IP) and network based architectures, inorganic expansion of license portfolios through corporate acquisitions, and organic expansion of internal capacities in terms of human resources, next generation skill sets and quadruple play based business constructs and service offerings.

STRATEGIC ACQUISITIONS – QUANTUM STEPS TOWARDS CONVERGENCE

The latter part of 2005 and the year 2006 showed Dialog making three significant acquisitions which will enable the Company to offer state of the art mobile, fixed, broadband and digital television based products to Sri Lanka's vibrant consumer base.

In December 2005 we completed the acquisition of MTT Networks (Pvt) Ltd., now renamed Dialog Broadband Networks (DBN). DBN facilitated our move into the fixed line business and enhanced our existing capacities in advanced data communications and multi media services. DBN provides cutting edge data communications services based on wireless technologies to large, medium and small enterprise segments while extending transmission backbone and wholesale internet services to service providers from across the telecommunications and media sectors. With 85 points of presence across the country, DBN's IP-MPLS data network provides essential connectivity to a host of advanced data communications applications – making the Company's service offering the most comprehensive in terms of coverage and accessibility to Sri Lanka's enterprise sector.

Post acquisition, Dialog has supported DBN in its aggressive service expansion programmes. In addition to the expansion of the Company's incumbent data communications and transmission backbone networks, DBN's Fixed Wireless Local Loop (WLL) network based on CDMA 450 MHz technology was implemented during the course of 2006. DBN will commence commercial Fixed WLL services in 2007.

On 29 September 2006 Dialog acquired a 90% stake in Asset Media. Asset Media provides the Dialog Group with several strategic assets in the media space, principal among which is its license to carry out television broadcast services, deliver pay television services and operate a television broadcasting station.

DIALOG IS SET TO DELIVER AN INTEGRATED MEDIA OFFERING SPANNING INFORMATION, EDUCATION AND ENTERTAINMENT VIA MULTIPLE MEDIUMS

The pay television segment of Asset Media's service provisioning potential was given instant momentum through the acquisition of a 100% stake in Communiq Broadband Network (Pvt) Ltd and CBN Sat (Pvt) Ltd (referred to collectively as CBN Sat) by Asset Media. CBN Sat is a Direct-to-Home Satellite TV service that supports a broad range of international programmes which include CNN, BBC, HBO, Cinemax, AXN, ESPN, Discovery Channel, MTV and Cartoon Network. The CBN Sat service was subsequently re-branded as DialogTV. In addition to its portfolio of international media content, DialogTV also extends several leading Sri Lankan television channels to Sri Lankan viewers island-wide. DialogTV services are based on cutting edge DVB-S digital broadcast infrastructure.

The acquisition of Asset Media and CBN Sat has placed Dialog in a position of strength within the media sector. With a strong technology foundation and unmatched customer service infrastructure, Dialog is set to deliver an integrated media offering spanning information, education and entertainment via multiple mediums.

Dialog is committed to the further development of its media operations through the introduction of cutting edge technologies which will herald the Digital Television era in Sri Lanka. Dialog's investments in this area would be focused on the multiple dimensions of satellite, terrestrial and mobile (handheld) digital television services – a family of strategies which we are confident will further empower Sri Lankan citizens through the provision of connectivity to media content in fixed and mobile environments.

TRAILBLAZING – THE FUTURE TODAY

Our desire to empower Sri Lankan consumers with the very latest in mobile communications technology drove our technology evolution strategies in 2006. The introduction of South Asia's first 3G service took centre stage with Sri Lanka beating regional countries to the milestone of supporting commercial 3G services.

Video calling, high speed video streaming and high speed mobile broadband services are set to revolutionise the 'mobile communications experience' available to Sri Lankan consumers. Dialog's Mobile TV services continued to gain consumer acceptance and popularity. The Mobile TV service along with other advanced multimedia services such as music downloads and video ring tones provide enriching extensions to the core mobile telephony offering of Dialog Telekom.

Our focus on innovation was further manifested in several new product introductions - we entered the pre-paid internet market with Kit Net, while Star Call became the country's first voice SMS service. The world renowned Blackberry platform was launched in January revolutionising mobile information management in corporate Sri Lanka.

Advancements in consumer-end services were paralleled by the introduction of new technologies and architectures (such as IP based soft-switching) at the infrastructure layer of the mobile network, and the upgrade and expansion of IP-MPLS facilities within DBN's data communications network.

GLOBAL REACH

Dialog continued to expand its International Service operations. Dialog's International Services span International Gateway services and International Roaming services, founded on a ever-expanding portfolio of partnership arrangements with global leaders in international telecommunication services.

Our International Roaming Network consolidated its position as one of the most comprehensive in the region in terms of its coverage and the portfolio of services offered to consumers. Dialog's roaming network is based on 378 partners in 191 countries. In 2006 Dialog was aggressive with respect to the expansion of its GPRS roaming network, reaching the milestone of encompassing

100 countries during the last quarter of the year.
In 2006 we entered in to a partnership agreement with Vodafone – the world's largest mobile operator, making Dialog a member of the world's largest mobile community. This partnership enabled the Company to leverage on the global reach, product portfolio and international best practices of the Vodafone group in order to further enhance the portfolio of global products and services available to our customers.

In 2006, Dialog paid significant attention to the expansion of its International Gateway and Telecommunications service infrastructure. The company secured access to the SEA-ME-WE 4 submarine cable in 2006, providing a large-scale expansion in global bandwidth capacity to its incumbent international connectivity capability based on the SEA-ME-WE 3 cable and Satellite Earthstation infrastructure.

DIALOG – SERVING OVER 3 MILLION

In 2006 we continued to give paramount importance to the expansion of our service network. Our inclusive orientation towards service delivery was manifested through quantum expansion of our Service Delivery Network and Payment Network. Following the addition of several banking partners and customer interfacing technologies (such as SMS based payment mechanisms), our online payment network continues to be the largest and the most customer friendly in the country.

Our service delivery network saw similar expansion, with the number of service outlets increasing to over 50 across the country. Dialog's service network is supplemented by the Company's business partner network which collectively accounts for over 2000 points of presence across Sri Lanka.

GROWING WITH THE MARKET

A key part of our corporate philosophy has been to create new and at times unseen markets while paying equal emphasis to expanding existing markets. Dialog has not been content to accept the status quo with respect to market definitions in terms of breadth or depth. The Dialog strategy has been to envision a market that knows no borders.

Our inclusive orientation to the multiple facets of our business enables us to deliver multiple market expansions through affordability enhancement, technology evolution and the extension of the utility and applicability of our products and services. Our promise to the Sri Lankan consumer is embodied in our brand – which in turn is subject to constant evolution and adaption in terms of its promise and affinity to multiple consumer segments from across the country.

The result has been a quantum leap in terms of the democratisation of the communications and information industry in the country. We are now well poised to extend this process of pluralisation to the fixed line, broadband and digital television sectors.

OUR ONLINE PAYMENT NETWORK CONTINUES TO BE THE LARGEST AND THE MOST CUSTOMER FRIENDLY.

THE PROMISE OF OUR BRAND

Our brand is our promise to deliver. The Dialog Brand - adjudged to be the most valued brand in Corporate Sri Lanka in 2006 - is a manifestation of a decade long commitment to deliver customer centric innovation supported with quality and excellence in customer care.

The brand is also an embodiment of our corporate desire to mould and adapt futuristic technology to meet human needs. We firmly believe that the Dialog Brand goes significantly beyond its tangible and physically assignable attributes – the Dialog Brand embodies the promise of "The Future Today" – the promise of advancement, empowerment and enrichment, available and accessible to all.

The philosophy of inclusion, which we apply with unwaivering consistency to all facets of our business, resulted in 1 million new customers joining our network in 2006. It also drove quantum enhancements in the affordability of our products and services. In 2006 we succeeded in driving a 30% reduction in the pricing of our products – a significant milestone achieved through an incessant focus on cost contraction and efficiency and delivered against the backdrop of inflation.

INVESTING IN THE FUTURE

We have led the market not just with our reach but also with our technology and our capacity to envision and invest in a "future" for our customers and the telecommunications sector as a whole. Over the past 12 years, our principal investor Telekom Malaysia Bhd has enabled us to invest Rs. 45 billion (USD 450 million) in communications related infrastructure. We will continue to be an aggressive investor and are committed to consolidating Sri Lanka's lead position on the world map of mobile telecommunications and converged quadruple play services.

Our consistent and sustained investment in infrastructure, people, technology, and internal strength has paid rich dividends not just for the Company but for the country as a whole. We are conscious and proud of the larger contribution we have made to national growth and productivity. Through our products and services we have delivered significant enhancements to Sri Lanka's communications infrastructure on an inclusive and "available to all" basis.

SUSTAINING INNOVATION

In 2006, we invested well in excess of Rs. 100 million in our team – investments targeting the expansion of skill sets, honing of competencies and the overall deepening of our human capital. The skills and flair of our human resources are key to the organisation's success.

Dialog adopts multiple strategies with respect to the development of its human capital base, encompassing international as well as domestic training, cutting edge knowledge management systems and e-learning infrastructures alongside continuous updation of technical as well as soft and leadership skills. Dialog's goal is to build a team of leaders and thinkers who will lead the Company, industry and country into a new phase of growth.

Dialog's human capital enrichment initiatives extend beyond the confines of the organisation. The company pays parity emphasis to the development of business partners skills with a view to delivering a consistently excellent service experience across all its points of presence across multiple sectors of business and provinces of the country.

DIALOG'S GOAL IS TO BUILD A TEAM OF LEADERS AND THINKERS WHO WILL LEAD THE COMPANY, INDUSTRY AND COUNTRY INTO A NEW PHASE OF GROWTH

We also became the only communications company in the country to implement the SAP Enterprise Resource Planning (ERP) System. The ERP System facilitates efficient and effective management of groupwide resources and lays the foundation for a high speed and growth oriented business.

ADDING VALUE TO THE NATION

We are proud to note that our contribution to national telecommunication penetration is a rewarding 45 percent. Our contribution to overall mobile sector growth is an equally impressive 52 percent. Dialog, through its catalytic dynamism and growth focus, continues to be the dominant contributor to growth in the country's telecommunications sector. The sector in turn, has grown at a rate of 8.1 percent in 2006 - leading the projected GDP growth rate of 7.0 percent for the same year.

Recently published macro-economic data has established that telco growth provides a pivotal contribution to national economic growth. In this sense, Dialog's most noteworthy achievement has been the extensive pluralisation of the access to telecommunication services across the country. This has resulted in a significant contribution to GDP growth and equally, the enhancement of socio-economic indices and the invigoration of rural economies.

We will continue to bring state of the art technology to the Sri Lankan consumer and integrate international best practices with our strengths and capabilities.

Our business ethic is strongly founded on the dual objectives of delivering best in category returns to our customers and shareholders while empowering and enriching the community at large, thereby adding value to the nation as whole. We are aware that our operations have had a ripple effect in every area of the economy. We are conscious of the opportunities we have unleashed, the new windows we have opened and the enhancements in the quality of life we have helped deliver.

The satisfaction and pride derived from this larger nation-building mission of our business invigorates our team and will drive us to deliver more in the years to come.

EMPOWERING THE COMMUNITY

Dialog acknowledges that its impact on society is first through its core operations or business footprint and second through its ability to contribute to national development goals as a corporate citizen. These two fundamental aspects form the crux of our two pronged approach to Corporate Responsibility (CR).

Dialog Telekom has continuously challenged the boundaries with respect to the utility of the technologies it adopts. The underlying objective is always to deliver additional value to the communities we serve. In particular, the Company has innovated services and solutions that have high social value. In 2006 Sri Lanka's first Disaster & Emergency Warning Network (DEWN) commenced pilot testing in locations across the country with the Disaster Management Centre (DMC). This culminated in a Signing of a MoU between Dialog Telekom and the DMC. DEWN also won a range of awards including the 'Overall Gold' at the National Best Quality Software Awards, conducted by the British Computer Society (Sri Lanka Chapter) this year.

Meanwhile, Dialog Telekom's outreach initiatives include flagship Social Investments with significant resource allocations, such as a state of the art audiology center for the hearing impaired at Ratmalana, the Digital Bridge project aimed at the deployment of broadband and digital media technology towards the empowerment of rural schools through a distance learning network, and a host of philanthropy driven projects under the aegis of the Change Trust Fund. Dialog's outreach projects span five themes aimed at contributing towards direct and indirect nation-building, all in alignment with the Millennium Development Goals of the United Nations.

IN LITTLE OVER A DECADE OF OPERATIONS DIALOG HAS REVOLUTIONISED THE COMMUNICATIONS INDUSTRY IN SRI LANKA

A NEW PHASE OF GROWTH

The communications industry in Sri Lanka is projected to grow at the rate of 30% in 2007. We are also likely to see technology convergence at the forefront of industry evolution. Consumers will continue to benefit from new technologies which deliver new experiences of connectivity, and from increased competition.

The capacity to innovate, to offer state of the art technology, to nourish existing stakeholder relationships and to probe new markets will be Dialog's key to growing its leadership in an industry which is competitive and heading steadily towards convergence. At Dialog, we have developed internal capacities, capabilities and technology foundations, on a backdrop of customer centricity, which will enable us to consistently outpace competition.

IN CONCLUSION

In a little over a decade of operations Dialog has revolutionised the communications industry in Sri Lanka. We have provided cutting edge, accessible and affordable products and services to every segment of Sri Lankan society and unleashed new opportunities for stakeholders spanning customers, shareholders, our Dialog people and the community at large.

We continue to lead not only in terms of financial performance and delivered growth but also with respect to the range and quality of our products, the imagination of our human resources, our commitment to socially responsive entrepreneurship and the effort to pluralise access to connectivity.

Many of the achievements of Dialog would not have been possible if not for the continued support and encouragement of the Government of Sri Lanka and its agencies - most significantly the Telecommunications Regulatory Commission of Sri Lanka, the Board of Investment of Sri Lanka, Ministry of Mass Media and Information and the Ministry of Posts and Telecommunication.

My thanks are also due to my fellow Board members for their counsel and strategic direction. The encouragement of the Board, together with the steadfast support of our principal investor Telekom Malaysia Bhd., has on many occasions made the seemingly impossible, possible.

Finally, I would like to thank my team who have made all this a reality. Their vision and commitment has created a company all Sri Lankans can be proud of. Together, we look forward to another phenomenal year.

DR. HANS WIJAYASURIYA
Chief Executive

15 March 2007

THE COMPANY WAS ABLE TO CONTINUE ITS GROWTH MOMENTUM IN ALL DIMENSIONS OF BUSINESS RANGING FROM MARKET AND FINANCIAL PERFORMANCE TO NETWORK EXPANSION AND PRODUCT INNOVATION.

BUSINESS REVIEW

SECTOR PERFORMANCE – AN YEAR OF GROWTH

The telecom industry soared in 2006 to reach 7.3 million users relative to 4.6 Million in 2005. This translates to a telephony penetration of 36.5% (9.5% fixed and 27% mobile). The growth was fuelled by a 61% increase in mobile subscribers and a 52% expansion in fixed subscribers. The rapid take off of the fixed sector during 2005/06 was due to the launch of CDMA based fixed wireless services, which served the unmet demand for fixed telephony. The mobile sector continued its growth momentum during 2006 recording a CAGR of 52% since 2001. The growth in the mobile sector was driven by increased affordability fuelled by reductions in call charges, innovative product packaging and expansion of mobile networks across most regions of the country.

DIALOG – DRIVING SECTOR GROWTH

Dialog has been successful in capturing 62% of net subscriber additions from the 5 year period from 2001 to 2006. During 2006 Dialog continued to consolidate its leadership position within the industry reaching 3.1 million subscribers (market share of approximately 60%) thereby securing the distinction of serving one in every seven Sri Lankans as at the end of 2006.

The Figure 1 below depicts the growth in Sri Lanka's telecom sector subscriber base.

The company was able to continue its growth momentum in all dimensions of business ranging from market and financial performance to Network expansion and product innovation.

Indicator	2002	2003	2004	2005	2006	CAGR
Revenue (Rs. Bn.)	4.59	7.48	11.41	18.03	**25.69**	**54%**
Net Profit (Rs. Bn.)	1.08	2.86	4.1	7.01	**10.1**	**75%**
Value Addition (Rs. Bn.)	2.68	5.63	7.43	11.75	**17.12**	**59%**
Customer Base (Mn.)	0.49	0.83	1.36	2.12	**3.1**	**59%**
Base Stations	280	370	460	575	**850**	**32%**

Table-1: Key Performance Indicators

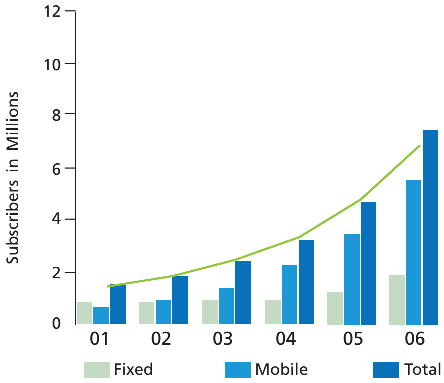


Figure-1: Growth in Telecom Sector

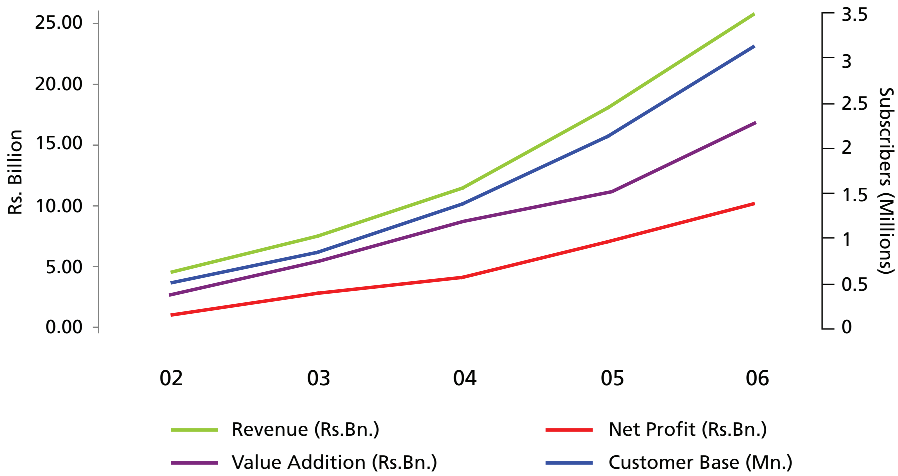


Figure-2: Key Performance Indicators

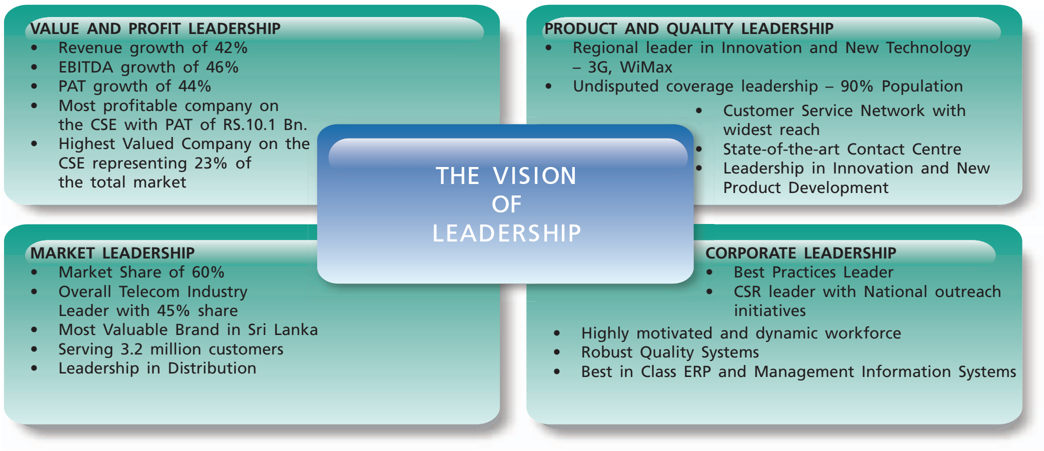


Figure-3: Multifaceted Leadership

BUSINESS REVIEW

MULTIFACETED LEADERSHIP

Consistent and multi-faceted growth was delivered through consistent focus on the delivery of the Company's Vision of Leadership along four dimensions – Profit and Value Leadership, Market Leadership, Product Leadership, and Corporate Leadership (Figure 3).

During 2006, the Company expanded rapidly on all fronts and grew by close to 50% in all areas (Table 2).

Indicator	Year on Year Growth%
Subscribers (Mn.)	**46%**
Network – Base Stations	**48%**
Revenue (Rs. Bn.)	**42%**
Net profit (Rs. Bn.)	**44%**
Market Capitalisation (Rs. Bn.)	**61%**

Table-2: Year on year Growth

TRANSFORMATION FROM A MOBILE CENTRIC TO "QUADRUPLE PLAY" CONNECTIVITY PROVIDER

Dialog has been aggressively proactive in evolving the scope and definition of its business in order to achieve a robust positioning vis-a-vis opportunities arising from the convergence of telecommunication, information and media technologies.

DTL's initiatives in the area of convergence will simplify its network architectures, enhance the customer service experience, boost flexibility and value, and accelerate the delivery of innovative multi-media based products and services at reduced cost.

The Company has positioned itself strongly in the converged technology space through a combination of organic as well as inorganic evolution strategies. The Company has adopted parallel strategies in achieving a transformation from a pure mobile player to a quadruple play operator capable of meeting consumer demands across the dimensions of Fixed and Mobile Telecommunications, Broadband Internet and Media based connectivity.

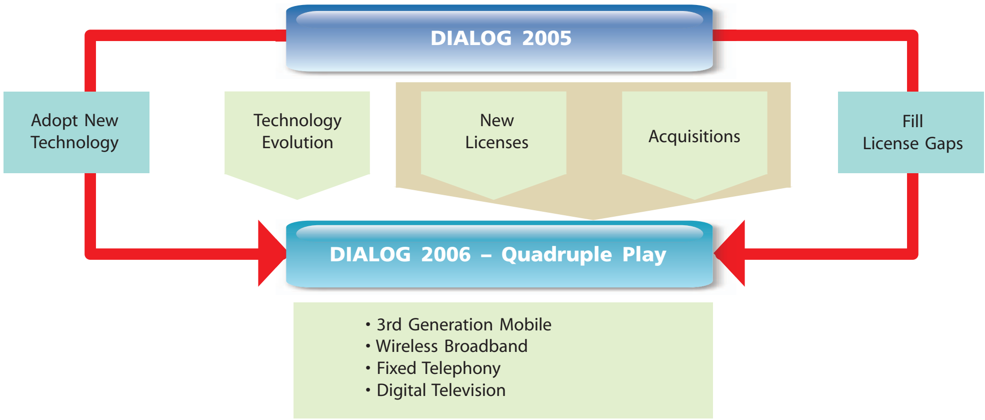


Figure-4: Dialog Quadruple Play Evolution Process

Inorganic transformation strategies were manifested in three strategic acquisitions - Dialog Broadband Networks, Asset Media and the combined operations of Communiq Broadband Networks (Pvt) Ltd and CBN Sat (Pvt) Ltd. The strategic acquisitions deliver to the Dialog Telekom group the licenses, spectrum assets and operational capacities required to deliver a comprehensive quad-play service offering. The Company accomplished equally strategic strides with respect to organic technology evolution – successfully securing a 3rd Generation Mobile license together with spectrum requisite for the provision of Mobile Broadband and other 3rd Generation mobile services.

Dialog has the distinction of being the first operator in the South Asian region to commence commercial 3rd Generation services.

Having achieved a quadruple play positioning in terms of service provisioning capability and capacity, the Company will leverage its incumbent strengths as the market leader in the mobile sector to exploit emerging opportunities in technology and media convergence. Specifically, through the delivery of an extended portfolio of products and services including broadband, fixed line telephony and digital television broadcasting.

Segment	Service	Dialog	DBN	Dialog TV	DTL Group
Mobile GSM/3G		√			√
Fixed WLL			√		√
Payphone			√		√
Media				√	√
Pay TV	DTH, DVB-H, DVB-T			√	√
ISP	Retail Internet	√			√
	Broadband Data		√		√
	Clear Channel E1		√		√
Corporate	Voice Services		√		√
International	Termination	√			√
	Origination	√			√

Table-3: Quadruple player license fulfillment

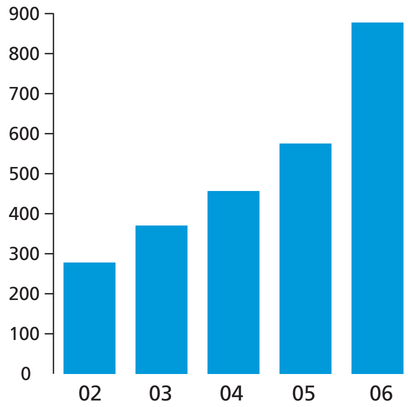


Figure 5: Culmulative Base Stations

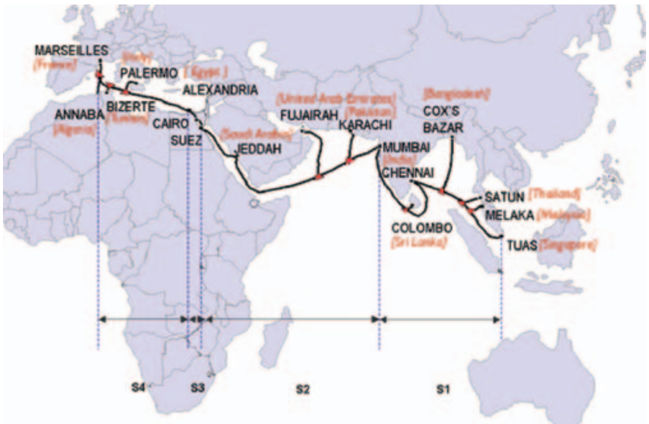


Figure-6 : SEA-ME-WE4 submarine Cable Network

BUSINESS REVIEW

TECHNOLOGY INVESTMENTS

Dialog operates an EDGE-enabled 2.5GSM network on 900/1800MHz frequencies and a 3G network on the 1900-2100 MHz frequency range. The 2.5G network coverage spans across all the provinces in Sri Lanka. As of the end of 2006, the Company operated approximately 850 2.5GSM base stations covering 70% of the country's geography and 90% of inhabited land mass.

As espoused in its tagline, "The Future. Today." the Company prides itself on its commitment to research, development, and the introduction of new technology.

In August 2006, Dialog pioneered the launch of 3G mobile services in the Asian region, covering Colombo and its suburbs. During the year, the Company entered into a hallmark investment agreement with the Board of Investments (BOI) of Sri Lanka to invest a further Rs. 15 Billion (USD 150 Million) over a period of 24 months. This investment agreement was billed as the single largest infrastructure investment agreement entered into by the BOI.

The total investments made by Dialog Telekom in 2006 exceeded Rs.16 Billion, signaling the completion of the Rs.15 Billion investment commitment one year ahead of time. With the completion of the USD 150 Million project, Dialog Telekom has invested a total of over USD 450 Mn. (Rs. 45 Billion) in the development of telecommunications infrastructure in Sri Lanka. Dialog's investment drive has been underpinned by the consistent support of the Company's principal investor Telekom Malaysia Bhd, who in turn have secured the distinction of being the single largest infrastructure investor in Sri Lanka.

The commitment of the Company's shareholders to re-invest in excess of 150% of net profits towards the development of communications infrastructure in Sri Lanka has validated Dialog's position as the undisputed market leader in telecommunications and fuelled the consistent achievement of the Company's vision to make a contribution towards the enrichment and empowerment of Sri Lankan citizens and enterprises.

Investments in 2006 were directed predominantly towards the expansion of the Company's mobile communications network across all provinces of Sri Lanka. Large investments were also directed towards the establishment of network capacity to accommodate a rapidly growing subscriber base. Substantial investments were committed towards the deployment of 3rd Generation mobile telephony services and the implementation of a fiber-optic backbone in Colombo.

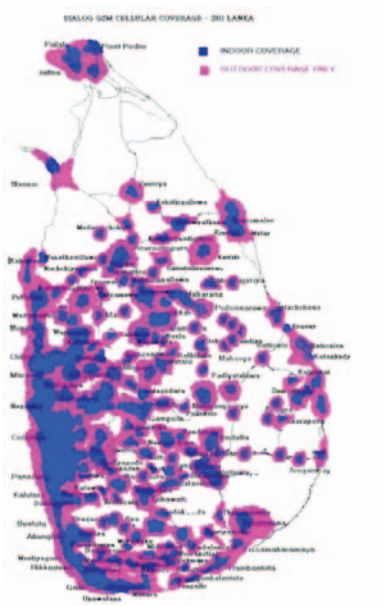


Figure 7: GSM / GPRS Coverage

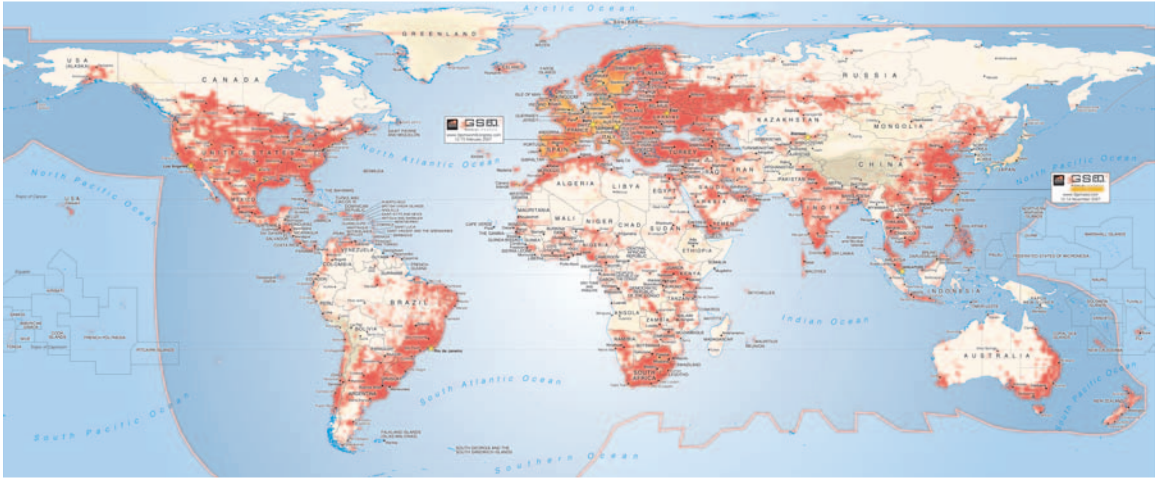


Figure 8: Roaming Coverage Map

GLOBAL REACH THROUGH PARTNERSHIPS

DIALOG – A PART OF THE WORLD'S LARGEST MOBILE COMMUNITY

In January 2006, Dialog signed a historic agreement with the Vodafone Group of UK, becoming part of the world's largest mobile community. This partnership provides Dialog with the opportunity to deliver yet another dimension in world-class mobile services to the Company's international roaming clients and domestic customers. As a consequence of the partnership, Vodafone's world class international voice and data roaming services such as GPRS and 3G Roaming alongside business solutions such as the Vodafone Mobile Connect card, Blackberry and Wireless Office product suite will be be accessible to Dialog Telekom's customers.

INTERNATIONAL SERVICES

Dialog Global – the International Services Business Unit of Dialog Telekom, provides a rich portfolio of International Telecommunication services to prospective clients – ranging from wholesale bandwidth services to retail voice/data services. Dialog Global supports network infrastructures and a portfolio of international partners on par with global leaders in the international telecommunications space.

Dialog Global plays a lead role in Sri Lanka's International Bandwidth market, with direct access to SEA-ME-WE3 and SEA-ME-WE4 sub-marine bandwidth. The company's international infrastructure includes a comprehensive configuration of satellite earth-stations which supplement undersea bandwidth capacities through connectivity to multiple satellite providers and destinations across the globe.

Internationally networked via the global presence of its parent company Telekom Malaysia BhD, and supported by Dialog Telekom Limited – the largest mobile network in Sri Lanka – Dialog Global is aggressive in growing its business and share of revenues in the international telecommunications market.

The product portfolio of Dialog Global includes International voice origination and termination services, International Private Leased Circuits (IPLC), carrier services and calling card services.

Dialog Global offers **International Direct Dialling** (IDD) facilities to over 300 destinations. In 2006 Dialog Global extended its global reach with the introduction of new PoPs (points of presence) in the UK and Australia. Dialog Global delivers a comprehensive range of high-performance voice services at highly competitive rates, which in turn have facilitated Dialog Telekom in offering the most competitive IDD rates in the market. In 2006, Dialog Global pioneered the provision of **IDD Video Calling facilities** to over 25 countries. The service is extended to 3rd Generation mobile phones, enabling 3G Mobile consumers to receive and originate International

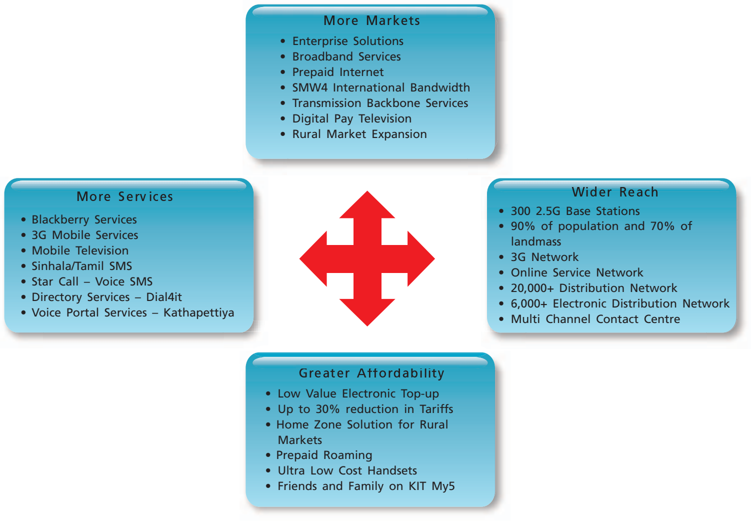


Figure 9: Technology Investment Dimensions

BUSINESS REVIEW

video calls while being on the move. **International Voice Termination** services are provided to a range of first and second tier operators. The termination partner network grew by 46% during 2006. Addition of new carriers as well as the expansion of capacity on existing routes (partners) enabled Dialog Global to achieve a 63% growth in traffic volumes during 2006 with 62% growth in termination revenues.

The Dialog Global Calling Card is a disposable prepaid IDD calling card providing consumers with the freedom to call over 300 Destinations at prices as low as Rs. 11/- per minute.

AUTOMATIC INTERNATIONAL ROAMING

Dialog enjoys a leadership position in the international roaming market through its comprehensive roaming partner network, island wide coverage and alliance partnerships. In 2006 Dialog extended its global footprint to cover a total of 191 countries supporting a choice of over 400 partner operators. (Figure 8)

The GPRS roaming network grew by 58% in 2006 and is one of the widest GPRS roaming networks in the South Asian region, covering 100 countries with a choice of 158 partner operators. GPRS roaming enables Dialog customers to access data and internet services while travelling.

INNOVATION

Dialog Telekom has the distinction of having made Sri Lanka the first country in the region to offer GSM, SMS, GPRS and MMS. In 2006, the Company added to its regional firsts, with the launch of its 3G service.

TECHNOLOGY INVESTMENT DIMENSIONS

Dialog focuses its technology investments and product development initiatives with the objective of delivering parity dividends along the dimensions of Affinity, Applicability, Affordability and Availability enhancement.

Innovations span the multiple categories of Technology Based Product innovation, Affordability enhancing consumer solutions and affinity and applicability focused Content and Value Addition Based Services (Figure 9).

	End of 2005	End of 2006
GSM Roaming		
No of Countries	185	**191**
No of Operators	357	**378**
GPRS Roaming		
No of Countries	75	**100**
No of Operators	100	**158**

Table-4: Roaming Partners

TECHNOLOGY BASED PRODUCT INTRODUCTIONS

Product	Description
Blackberry	During the year, Dialog launched the world renowned Blackberry platform in Sri Lanka. BlackBerry enables Dialog's customers to gain instant and online access to email, browse the internet, and enjoy a host of personal information management features in addition to standard mobile telephony services. BlackBerry integrates with a large spectrum of IT applications, allowing users to connect with people and data anywhere in the world.
Dialog 3G	Dialog customers are given the opportunity to experience a variety of services such as video calling, video conferencing, IDD video calls, mobile TV, high speed internet connections, streaming video, music and movie downloads. Dialog 3G will also support high speed mobile broadband at speeds in excess of 1.5Mbps using HSDPA technology.
Star Call	The Star Call voice messaging service allows customers the unique benefit of extending the SMS experience to the voice dimension. "Star Call" proved to be an immensely popular value addition amongst Dialog subscribers.
WiFi Internet	Dialog has been aggressive in expanding its network of WiFi Hotspots. Driving the convenience of broadband wireless connectivity in Sri Lanka, Dialog Telekom deployed several WiFi hot spots in locations including five star hotels, large shopping malls and restaurants.
KIT Net Prepaid Internet	Dialog's prepaid internet service, KIT Net was launched during the year, providing fast, convenient and affordable internet access for subscribers seeking the convenience of prepaid internet services. Dialog mobile users are offered the convenience of using their mobile subscription as a virtual KIT Net account to surf the internet and recharge their account using island-wide KIT retailers.
Directory Assistance	Dialog pioneered Sri Lanka's first Agent and SMS/Email supported directory information service. The service connects consumers to the Rainbow classifieds database of Sri Lanka Telecom Ltd.

Table-5: Product Introduction for 2006

BUSINESS REVIEW

TARIFF BASED PRODUCT INNOVATIONS

KIT 123 – REWARDING LOYALTY

In April 2006, prepaid subscribers of Dialog were rewarded with a special tariff, which provides up to three minutes of free air time for incoming calls, based on the subscriber's length of stay on the network.

KIT My5

A friends and family programme was launched under the brand My5. My5 enables a prepaid user to specify five frequently dialled numbers. Voice Calls and SMS to these numbers are discounted by a substantial margin providing low cost connectivity to a selected group of correspondents chosen by the subscriber.

Super 5 Friends + 2 IDD

The friends and family feature available to Postpaid users was enhanced with the option to add 2 IDD numbers. This enhancement seeks to meet the communication needs of subscribers having friends and relatives overseas, through the provision of IDD at rates as low as Rs. 7.

KIT Home Zone

Dialog re-launched KIT Home Zone in 2006, targeting rural markets. The product features a dual-line SIM card – one line provides discounted calls within a designated Home Zone and the other functions as a standard prepaid connection with island wide mobility.

CONTENT BASED SERVICES

Video Tones

Introducing a new dimension to ring tones, this service allows users to assign a video clip as a ring tone. Users can select from a range of videos available on the Dialog WAP portal, ranging from comedy to music videos.

Video Clips on Dialog 3G Portal

Offering great entertainment value, this service allows users to download video clips to their phones. Clips include sports highlights, comedy, music and fashion.

FIFA Service

Catering to global football fever, Dialog set up this special portal for the 2006 FIFA World Cup. The portal contained match updates, team information, games, wallpapers and ringtones. Subscribing users gained unfettered access to FIFA content.

MP3 Tones

3G users were provided with access to full track music downloads via the Dialog 3G portal. Content includes English, Hindi, Tamil and Sinhala full length tracks which users can download and store on their mobile phones.

SERVICE EXCELLENCE

The Company has consistently focused on the adoption of international best practices with respect to management systems, business processes and quality systems. The relentless pursuit of excellence in high technology service provision earned the Company the distinction of being the first telecommunications operator in South Asia to receive Customer Service Quality Standard (CSQS) Level III from the Asia Pacific Customer Service Consortium (APCSC) in 2006.

In 2006, Dialog continued to grow its network of service points, based on a network of 50 service centres. With able support from Dialog business partners, the online service network saw a 194% expansion during the course of 2006. (Figure 10)

The Company has a widespread dealer network, operated primarily by 11 exclusive Dialog Business Partners. This network has 650 points of presence for the Company's products and services in all major towns, including those in the Northern and Eastern provinces.

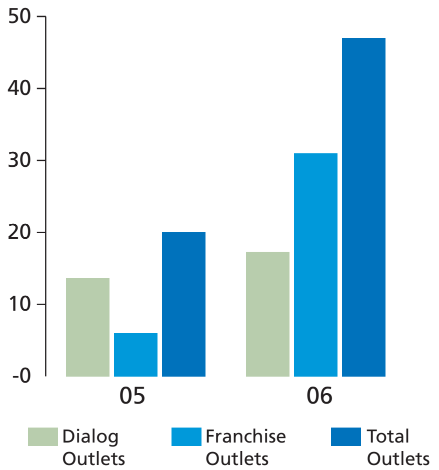
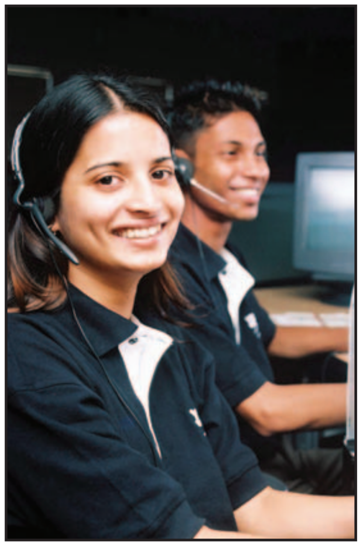


Figure 10: Dialog Outlets

The Company's tri-lingual, 24/7 contact centre was enhanced in 2006 with large scale expansion of operating seats and improved support technology.

Modern customer relationship and service management technologies are vital to Dialog's service delivery capability. Dialog has made significant investments in automated customer servicing technologies, enhancing both convenience and experience. These technologies include Interactive Voice Response platforms (IVR), Web based Service portals and online kiosks.

In October 2006, Dialog Telekom launched yet another cutting edge Customer Service initiative with the commencement of the country's first SMS Helpdesk. The inclusion of the SMS mode reaffirms dialog's position as the country's only integrated multi-channel contact centre. Dialog is among the pioneers globally, to offer helpdesk facilities via SMS in addition to phone, IVR, E mail, Fax and online chat assistance.



BUSINESS REVIEW

Dialog's service offering is tri-lingual with specialised support available in sign language for the hearing impaired. Service delivery initiatives for the differently abled also encompasse the provision of braille bills and parking and access facilities for the disable.

The Company's self-operated service network is supplemented by a network of 31 franchised service delivery points which, in turn, are subject to close developmental focus and scrutiny by Dialog Telekom. Dialog ensures maintenance of consistent service delivery standards across the network of country-wide customer touch points.

The Company also provides customers with the convenience of over 1000 payment points across the country. Payment options include ATMs, Tele-Banking, Internet and prepaid vouchers (paper and electronic). In 2006, together with HSBC, Dialog achieved a major innovation in bill payment with the launch of the 'Pay Here' SMS Bill Payment system.

DISTRIBUTION

Dialog has one of the strongest and most far reaching distribution networks in the country. The Company has over 20,000 distribution outlets for topping up (recharging) prepaid mobile accounts. The Company also has pioneered the use of SMS based top-ups with over 6000 eZ reload outlets commissioned as of December 2006.

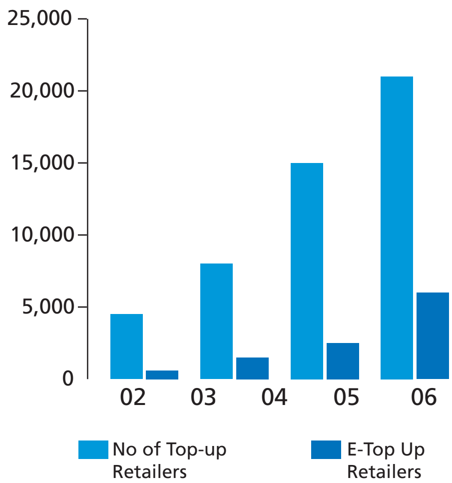


Figure 11: Recharge Card and Electronic reload distribution network

BPO SERVICES – DIALOG ENTERPRISE CONTACT MANAGEMENT

During 2006, the Company launched Business Process Outsourcing (BPO) services for Sri Lankan and Global Enterprises. In doing so, Dialog leveraged the inherent strengths of its multi-modal contact centre, rich human skills and direct sector experience to lay the foundations for a new revenue stream for the Company.

Dialog ECM's global client proposition is backed by Dialog Global's IPLC and VPN services – best-in-class global connectivity services based on SeMeWe3 and SeMeWe4 submarine connectivity.

Dialog ENTERPRISE

DIALOG ENTERPRISE SOLUTIONS

The Enterprise Solutions (ES) Unit of Dialog Telekom provides Enterprise customers with a single interface to the wide portfolio of cutting edge corporate solutions developed and marketed by the group.

Dialog ES is equipped with a highly qualified solutions development and sales team with diverse functional expertise. The Enterprise Solutions team possess technical know-how and exposure in multiple areas of cutting edge technology application and innovative service creation, spanning mobile, multimedia, broadband and media environments.

HUMAN CAPITAL

Dialog's goal is to develop a high-performing, engaged and motivated workforce who will deliver a sustainable differentiator in the delivery of an excellent service to customers and growing returns to shareholders.

During the year, the Company's staff strength grew by 34% to a total of 2,290. The staff retention ratio improved from 88% to 92%.

Description	2003	2004	2005	2006
Staff Strength	926	1,217	1,706	**2,290**
Staff Retention	87%	90%	88%	**92%**
Staff Growth %	32%	31%	40%	**34%**
Productivity (customers/employee)	897	1,118	1,244	**1,356**

Table-6: Key HR Indicators

Dialog's main source of differentiation and competitiveness is its people. The young and dynamic work force highlights Dialog's flexibility to change and aggressiveness in strategy execution.

Age	Year Range	As at 31 December		%
60-64	1942-1946	Veterans	4	0.17%
41-59	1947-1965	Boomers	68	2.97%
29-40	1966-1977	Generation X	696	30.38%
<29	>1977	Generation Y	1,523	66.48%
Total			**2,291**	**100.00%**

Table-7: Work Force Analysis

The Human Resource architecture at Dialog Telekom is strategically connected to short-term and long-term corporate objectives. Having identified the strength of human capital and its alignment with corporate objectives as key, Dialog Telekom has put together an exceptionally skilled and motivated workforce.

BUSINESS REVIEW

The dynamic and contextual approach to organisational design adopted by the Company has delivered tangible results in terms of market and financial performance.

Indicator	2003	2004	2005	2006
Profit per employee (Rs. Mn.)	3.4	2.9	4.1	**4.4**
Revenue per employee (Rs. Mn.)	9.9	7.9	10.5	**10.20**

Table-8: Productivty Indicators

MANPOWER PLANNING AND RECRUITMENT

DIALOG IS AN EMPLOYER OF CHOICE

The Company provides an empowering and invigorating environment for employees to unleash full potential, and provides unmatched career development opportunities to its workforce.

The Company follows an 'internal first' approach in order to provide career progression and development opportunities to its staff. Growing business volume and expansion of the scope of activities of the Company have however enabled the Company to extend a substantial number of employment opportunities to the Sri Lankan employment market.

Skill profile planning and manpower planning is carried out in conjunction with business planning. The specification of capability and competency requirements of potential employees is based on the forward plans of the Company across a wide spectrum of functional areas. Dialog Telekom strives to recruit the best personnel, regardless of sex, race, or religion. In the sequel, the sole criteria for selection are academic qualifications, demonstrated skills, and related experience and expertise.

Stringent assessment frameworks are implemented as part of the selection process for all positions, including psychometric, management and technical assessments. World-renowned SHL testing tools have also been introduced to make assessments more effective and up to date.

Training Activity	2001	2002	2003	2004	2005	2006
Hours of training						
Local	13,957	19,491	32,483	43,989	63,417	84,030
Overseas	3,872	4,992	4,288	5,807	14,576	17,272
No. of Programs						
Local	84	90	108	162	169	310
Overseas	18	38	92	67	144	138
Training Hours Per Employee	22	32	33	36	34	50

Table-9: Level of Training Activity

TRAINING AND DEVELOPMENT

Telecommunications is one of the most dynamic and rapidly changing industries in the world. Technologies evolve every day and organisations should be able to absorb these new developments as and when they occur.

Training opportunities are available for all employees based on needs identified via performance reviews, business plans and other training and development interventions. These requirements are reviewed and verified on a regular basis. Training and development interventions are rolled out to all levels of staff by the Dialog Academy, using diverse methods. Programmes are delivered by an expert enthusiastic team of trainers (internal and external) who inspire learning and growth. In addition to the internally delivered interventions, the Dialog Academy facilitates the provision of overseas training with the intention of optimising learning through global expertise.

LONG SERVICE AND KNOWLEDGE GROWTH

The Company continues to enrich its knowledge base with high retention of long standing employees. As of December 2006, Dialog has accumulated a knowledge base of over 2.3 million man days in the Sri Lankan Telecommunications Industry.

Service Analysis	2002	2003	2004	2005	2006
Less than 1 year	191	272	367	604	702
1-2 years	153	174	239	299	542
2-3 years	127	141	158	218	279
3-4 years	76	113	123	147	211
4-5 years	52	68	105	117	140
5-6 years	46	50	63	100	108
6-7 years	40	41	56	62	94
7-8 years	18	35	41	55	60
8-9 years	14	18	33	40	54
9-10 years		14	19	33	37
10-11 years			13	18	33
> 11 years				13	31

Table-10: Service Analysis

ACQUISITIONS HAVE PROVIDED THE DIALOG TELEKOM GROUP WITH A LICENSE PORTFOLIO, TECHNOLOGY FOOTPRINT AND SERVICE PROVISIONING CAPABILITY WHICH UNDERPINS A FULLY FLEDGED QUADRUPLE PLAY OFFERING.

SUBSIDIARY REVIEW

INTRODUCTION

Global technology trends are moving towards an era of convergence, featuring multi-media services and multiple technologies to deliver them. Dialog conceptualises this market as a quadruple play (mobile, fixed, broadband internet, and media) and has made strategic corporate acquisitions to secure a robust position within this emerging framework.

In December 2005, Dialog Telekom acquired a 100% stake in MTT Network (renamed as Dialog Broadband Networks (Pvt) Ltd). The acquisition of DBN facilitated the entry of the Dialog Group in to the sectors of Wireless Local Loop based fixed telephony, Enterprise Data Communication services and Transmission Backbone services.

In October 2006, Dialog Telekom secured a 90% stake in Asset Media (Pvt) Ltd., a company licensed to operate television broadcasting and pay television services in Sri Lanka. Asset Media possesses licenses from the Ministry of Media and the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) required to carry out the business of television broadcasting, delivery of pay television services and the operation of a television broadcasting station.

Dialog was quick to activate the pay-television segment of Asset Media's portfolio through the takeover of the CBN Sat Satellite Pay TV Service. The Dialog Telekom Group acquired (through Asset Media) Communiq Broadband Networks (Pvt) Ltd and CBN Sat (Pvt) Ltd. (collectively referred to as CBN Sat). This acquisition enabled Asset Media to bring a wide portfolio of local and international television content within the reach of Sri Lankan viewers. The entry into the television broadcasting space will result in Dialog Telekom making transformational investments in digital broadcast infrastructure targeting Digital Terrestrial Broadcast, Direct-to-Home (DTH) and Mobile Television service provisioning.

The acquisition of the above entities has provided the Dialog Telekom Group with a license portfolio, technology footprint and service provisioning capability which underpins a fully fledged quadruple-play service offering.

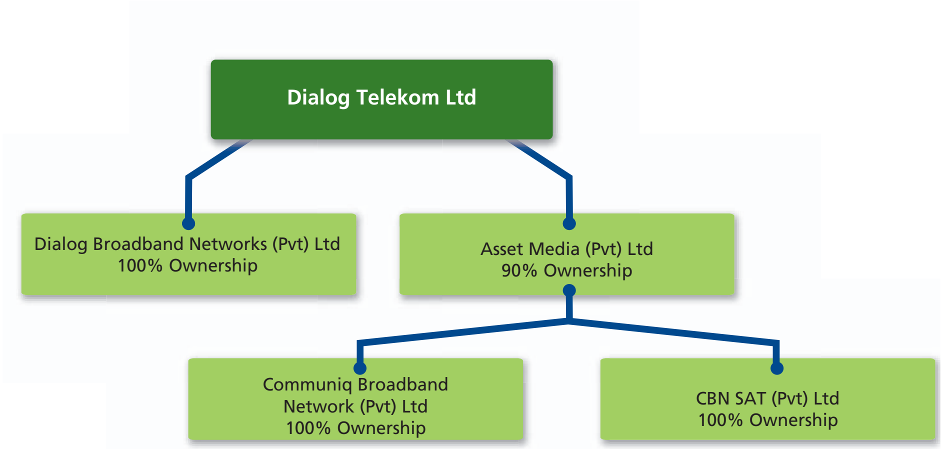


Figure-1 : DTL Group Structure

DIALOG BROADBAND NETWORKS (PVT) LTD

BUSINESS OVERVIEW AND BACKGROUND

Dialog Broadband Networks (Pvt) Ltd (DBN) - a fully owned subsidiary of Dialog Telekom Ltd - operates 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, and is also engaged in the business of Internet Service Provision (ISP).

Incorporated in 1993 under the auspices of the Board of Investment of Sri Lanka, DBN has, to–date, invested over USD 24 million towards the development of transmission and communication infrastructure in Sri Lanka. DBN infrastructure includes an island wide digital microwave transmission backbone and a broadband last-mile infrastructure.

DBN offers a variety of voice, data and video services to the Corporate and SME segments with an unmatched reach in terms of service availability and points of presence. DBN's MPLS data backbone offers the most comprehensive advanced data communications coverage in Sri Lanka with 85 Points of Presence (PoP's) distributed across every province. Built on field-proven equipment and technology, with an interconnected broadband last mile access network, MPLS service gives Dialog Broadband Networks a competitive advantage in the converged solutions market.

The Company has established an extensive transmission network and infrastructure facilities base, comprising of digital microwave transmission and communication infrastructure facilities across Central, Southern, Eastern and Western Sri Lanka. The network covers 80% of the main cities on the Island.

DBN provides services to small, medium and large corporate customers, such as leading banks, multinationals and manufacturing and distribution companies for voice, data and video communications. DBN's wholesale clientele include the majority of fixed and mobile operators, paging networks, most private television and FM radio networks, data communication networks and internet service providers.

LICENSES

DBN is licensed by the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) to establish and operate the following:

- Communication Infrastructure Services
- Digital Microwave and Fibre Optic Long-Distance Transmission Network
- Broadband Wireless Last-mile Access Network
- Switched and Non-Switched Data Communication Services
- International Inbound and Outbound Voice Services
- Internet Related Services
- Satellite Earth Station for International Data Communication
- Fixed Wireless Local Loop Telephony Services

MANAGEMENT AND ORGANISATION

DBN has consistently focused on adoption of international best practices with respect to management systems, business processes and quality systems. Led by experienced management professionals, DBN has been fortified with technical and functional guidance from Dialog Telekom, its parent company.

BOARD OF DIRECTORS

- Chairman – Mr. Yusof Annuar bin Yaacob
- Director – Dr. Shridhir Sariputta Hansa Wijayasuriya
- Director – Mr. Moksevi Rasingh Prelis
- Director – Mr. Wan Zaidan Wan Mahyudin
- Director – Mr. Mohd Rosman Mat Ali

Depicted below is the governance structure at Dialog Broadband Networks (Pvt) Ltd.

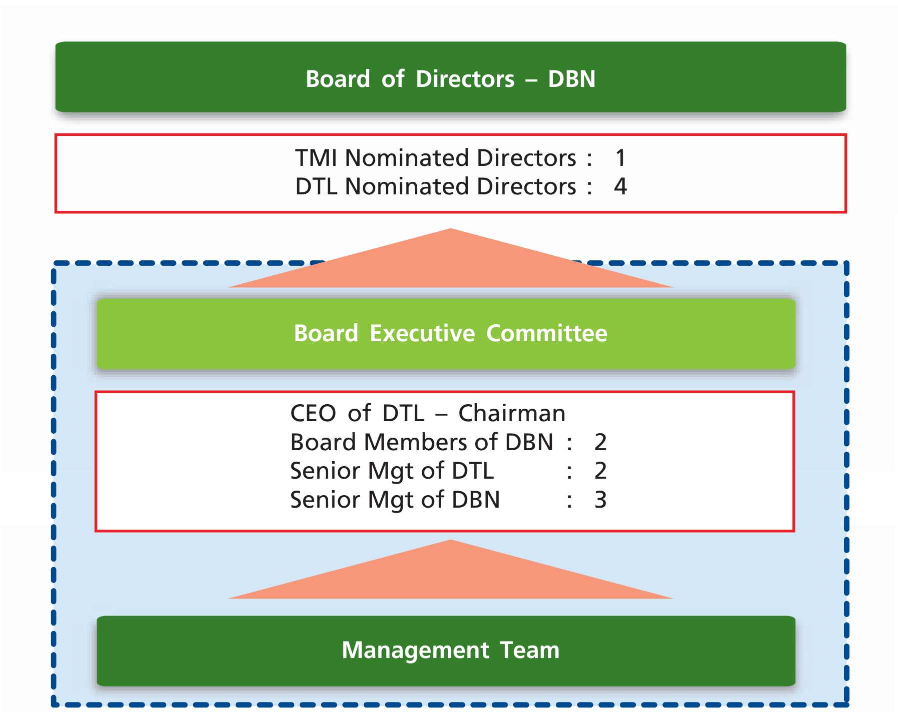


Figure-2 : Governance Structure of DBN

MANAGEMENT TEAM

Dialog Telekom inherited an experienced and dynamic incumbent management team with the acquisition of the Company. The management team has been further strengthened with the addition of key management resources seconded from DTL.

The table below indicates the different categories of staff employed as of 31 December 2006.

Category	Dec 2006
Senior Management	7
Middle Management	53
Executive	46
Officer Below	127
Total	**233**

Table-1 : DBN Staff Structure

DIALOG BROADBAND PRODUCT PORTFOLIO

DBN's product portfolio serves multiple sub-sectors within Sri Lanka's ICT industry.

a. **Data Communication**

The Company provides a wide range of data communications solutions – among which are,

- **MPLS IP VPN**
  The MPLS based IP VPN solution capitalises on the investment in DBN's Advanced Enterprise Network and leverages the strengths of its metro area networking capabilities to provide operational cost savings to customers with legacy Fast Packet or Private Line networks. IP-VPN Services provide the platform for customers to add value added services over time such as IP Telephony, Video Conferencing, Network-based Firewalls and Internet Offload capabilities.

- **Internet Services**
  Dialog Broadband's wide range of high speed solutions are designed to meet the needs of businesses of all sizes. All services offer ultra-reliable connectivity, business-class features, and high speed broadband Internet access virtually anywhere in the Island.

- **ICT Business**
  Services offered under this segment include server hosting/installations and data centre related services as listed below;
  - Web Hosting with Load Balanced Servers
  - Managed Firewall Services
  - Managed Intrusion Detection and Prevention Services
  - Managed Vulnerability Protection Services
  - Managed E-Mail Anti-Virus and Anti-Spam Protection Service

Figure 3 : DBN MPLS Coverage Map

b. Infrastructure and Transmission

DBN's digital microwave transmission network provides a common infrastructure for use by multiple stakeholders in Sri Lanka's ICT industry. The transmission network is supplemented with best-in-class infrastructure facilities and managed services, which are leased out to the Company's customers.

DBN's transmission network and infrastructure facilities are used by a broad spectrum of telecom and broadcast service providers:

- PSTN Telephone operators
- Mobile Telephone operators
- Telecasters
- Radio Broadcasters
- Paging operators
- Data Operators

Figure 4 : DBN Transmission Coverage Map

SUBSCRIBER GROWTH

a. Growth in commissioned leased lines

During 2006, the Company focused on increasing its data subscribers through aggressive expansion of network capacity and coverage. As a result, 245 additional data points have been commissioned with existing as well as new customers. This reflects growth of 37% over the count as of 31 December 2005. (Table 2)

b. Growth in commissioned Microwave links

In the area of backbone transmission the Company continues to lead as "the operators operator." A growth of 26% was achieved during 2006. (Table 3)

	31 Dec 2005	31 Dec 2006	Growth %
Total Data Points	**650**	**895**	**38%**

Table-2 : Number of Data Points

	31 Dec 2005	31 Dec 2006	Growth %
Mobile Industry	183	216	18%
Fixed WLL Industry	82	122	49%
International gateway Operators	15	15	No Change
Radio Stations	12	15	25%
Total	**292**	**368**	**26%**

Table-3 : Number of Data Subscribers

FINANCIAL PERFORMANCE

Dialog Broadband continues to deliver robust financial performance. The Profit & Loss Statement for Dialog Broadband for the year ended 31 December is summarised in Table 4. The financials for 2006 include several post-acquisition adjustments in order to achieve alignment with DTL financial policies as detailed later in this section.

In Rs. Mn	2005	2006	Growth
Net Revenue	**548**	**814**	**48%**
EBITDA	**335**	**454**	**36%**
EBITDA%	61%	56%	
NPBT	**203**	**171**	**(15%)**
NPBT%	37%	21%	
Taxation	—	(18)	
NPAT	**203**	**153**	**(25%)**
NPAT%	37%	19%	

Table-4 : Summarised Profit and Loss Statement

a. Revenue

The Company recorded a revenue of Rs. 814 Million, a 48% growth over last year. The three main revenue streams (transmission, infrastructure and data) have on average grown at approximately 43% while internet and other income have grown by 122%. Other income includes recoverable costs from operators relating to electricity and other costs associated with shared sites.

Revenue Stream	Growth
Transmission	44%
Infrastructure	43%
Data	43%
Internet	122%
Net Revenue	**48%**

Table 5 : Revenue Growth

b. Operating Costs

Operating costs have increased by 68% in 2006, largely due to increases in manpower-related costs and site-related costs, in line with the expansion of the Company's scope of business. Costs were driven by capacity building/expansion programmes implemented in 2006 to launch CDMA based fixed-wireless services and to expand the broadband product portfolio. Manpower costs have also increased in line with the expansion of the human resource base. This manpower was necessary for additional project implementation capacity, specifically, the capacity to expand infrastructure and services.

c. Depreciation

During FY 2006, Depreciation and Amortization have increased by 72% compared to FY 2005. The main contributing factors for these changes are:

1. Increase in asset base due to rapid investment in network infrastructure.
2. Adjustments made to reflect impairment of selected assets in line with DTL accounting policy.

It should be noted that obsolete stock items carried in inventory amounting to Rs. 5.5 Mn were written off during 2006 and a further provision of Rs. 6 Mn was made against slow moving items carried in inventory. These adjustments were related to previous (pre-acquisition) periods.

d. Taxation

The Company's period of exemption from income tax granted by the Board of Investment of Sri Lanka (BOI) expired at the end of December 2005. In keeping with the terms and conditions of the BOI Agreement the Company continues to enjoy a concessionary taxation regime based on 2% taxation on revenues. – a provision for income tax amounting to Rs. 18 Mn has been made accordingly.

e. Profit After Tax

Dialog Broadband recorded a PAT of Rs.153 Mn which was 25% lower than that in 2005. The decline in profitability was attributable to higher interest costs on enhanced debt financing, costs arising from capacity expansion, and the provision for taxation (non existent in 2005).

ASSET MEDIA (PVT) LIMITED

OVERVIEW

Asset Media is a subsidiary of Dialog Telekom Ltd., licensed by the Ministry of Media to provide television broadcasting services, delivery of pay television and cable television services and the operation of a television broadcasting station. In November 2006, Asset Media acquired a 100% stake in Communiq Broadband Network (Pvt) Ltd. (CBN) and CBN SAT (Pvt) Ltd (collectively referred to as CBN SAT).

CBN SAT is a Direct-to-Home Satellite TV service operated by CBN since May 2005. CBN SAT supports a broad array of International content including CNN, BBC, HBO, Cinemax, AXN, ESPN, Discovery Channel, MTV (Music Television) and Cartoon Network, in addition to a wide portfolio of Sri Lankan television channels. In February 2007, DialogTV (DTV) was launched. DTV services are based on cutting edge DVB-S digital broadcast infrastructure and reach out to over 20,000 Sri Lankan homes as of December 2006.

In line with its commitment to deliver broadcasting services of the highest quality and sophistication, DTV has invested in state-of-the-art technology in all areas of its operations. Use of digital technology ensures superior broadcast quality and wide range of services and features to the end consumer.

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Asset Media (Pvt) Ltd.

Board of Directors of Asset Media which is the holding Company of Communiq Broadband Network and CBN Sat is comprised of the following:

Mr. Yusof Annuar bin Yaacob *(Chairman)*
Dr. Shridhir Sariputta Hansa Wijayasuriya
Mr. Nihal Seneviratne Epa
Mr. Wan Zaidan Wan Mahyudin
Mr. Lasantha Milroy Pieries
Mr. Moksevi Rasingh Prelis
Mr. Mohd Rosman Mat Ali

CBN and CBN Sat (Pvt) Ltd.

The management committee of CBN reports to a board of directors which comprise of members from the board of Asset Media (Pvt) Ltd.

The Board of Directors of CBN and CBN Sat are as follows:

Mr. Yusof Annuar bin Yaacob *(Chairman)*
Dr. Shridhir Sariputta Hansa Wijayasuriya
Mr. Nihal Seneviratne Epa
Mr. Wan Zaidan Wan Mahyudin
Mr. Moksevi Rasingh Prelis

BUSINESS REVIEW

CBN SAT has been engaged in the aggressive marketing of pay TV services to Sri Lankan consumers since 2005. As at present, DTV is positioned as the number one direct-to-home pay television provider in Sri Lanka. DTV's line up of media content is designed to suit a wide spectrum of the Sri Lankan consumers. DTV's service coverage is available across the whole of Sri Lanka on the KU band Frequency.

Dialog TV would leverage on Dialog's island wide service delivery infrastructure and distribution network for sales and servicing.

Dialog Satellite TV features over 30 international channels including CNN, A1, AXN, Cartoon Network, Nickelodeon, MTV—Music Television, SET, Discovery, Animal Planet, Reality TV, National Geographic Channel, The History Channel, Star Sports, BBC, Discovery Travel & Living, POGO, ANIMAX, VH1, HBO, HBO Signature, Cinemax, ESPN, ZEE TV, Z Café, Z Studio, Z Trendz, Z Cinema, Z Music and Z Sports. Local channels aired through DTV include Rupavahini, Channel Eye, ITN, ETV, Swarnavahini and TNL.

Dialog TV promises an aggressive expansion programme which will deliver a large number of channels and value added media services to Sri Lankan viewers.

Blackberry : Acting High Commissioner for Canada Sanjeew Chowdhury (right) is presented with a Blackberry by Vice President of Asia Pacific at Research in Motion (RIM) Norm Lo, at the launch of Blackberry in Sri Lanka. Dialog Telekom Chief Executive, Dr.Hans Wijayasuriya looks on.

JANUARY 2006

LAUNCH OF BLACKBERRY HANDHELD DEVICES – ANOTHER INDUSTRY FIRST

Dialog Telekom and Research In Motion launch the world-renowned BlackBerry® handheld devices for the first time in Sri Lanka. This enables Dialog Telekom's corporate customers to access email, phone, text messaging, internet, organiser and corporate data applications from a single, integrated device.

Dato' Seri Dr. Lim Keng Yaik, Malaysian Minister of Energy, Water and Communications, Mr. Devin Brougham, Group Director for Business Development at Vodafone and Dr. Hans Wijayasuriya, Chief Executive of Dialog Telekom.

MILESTONE AGREEMENT WITH VODAFONE

Dialog Telekom becomes part of the world's largest mobile community after signing a milestone agreement with Britain's Vodafone, one of the leading mobile phone operators in the world. The move enhances the Company's capabilities in delivering world class mobile communication solutions to its customers using cutting edge technology.

MAY 2006

LANDMARK INVESTMENT IN TELECOMMUNICATIONS INFRASTRUCTURE

Dialog Telekom signs a landmark investment agreement with the Board of Investment of Sri Lanka to invest a further Rs. 15 Billion in the country's telecommunications sector during 2006/2007. The investment would be directed towards Mobile, Wireless Local Loop Fixed Telephony, broadband, fibre optic backbone and International Gateway infrastructures. .

Tan Sri Dato' IR. Muhammad Radzi Bin Haji Mansor - Chairman Dialog Telekom and Telekom Malaysia Bhd, handing over the agreement to Hon. Minister of Enterprise Development and Investment Promotion, Rohitha Bogollagama.

CALENDAR OF EVENTS FOR 2006

Dr.Hans Wijayasuriya, Chief Executive, Dialog Telekom, addresses the media at the press conference to announce the achievement of 2.5 million subscribers and the slashing of call charges.

JULY 2006

DIALOG CELEBRATES 2.5 MILLION CUSTOMERS WITH MASSIVE TARIFF REDUCTIONS

Dialog Telekom reveals a massive reduction in outgoing call charges on achieving the 2.5 million subscriber base milestone. Outgoing call charges on Prepaid and Postpaid packages were slashed with effect from 7 July 2006.

AUGUST 2006

DIALOG 3G – SOUTH ASIA'S FIRST COMMERCIAL 3G SERVICE

Dialog Telekom launches Commercial 3G services in the city of Colombo on the 16th of August. In doing so, the Company puts Sri Lanka on the map as the first country in South Asia to launch a 3rd Generation network. Dialog customers who posess 3G compatible mobile phones avail themselves of Dialog 3G services including Video Calls, IDD Video Calls, TV on the phone, high speed Internet, Video Streaming, Music and Movie downloads and Online Games.

Telecommunications Regulatory Commission (TRC) Chairman Mr. Lalith Weeratunge hands the 3G commercial license to Chief Executive, Dialog Telekom, Dr. Hans Wijayasuriya. TRC Director General Mr.Kanchana Ratwatte looks on.

Dr. Hans Wijayasuriya, Chief Executive Dialog Telekom shakes hands with Mr. Nihal Seneviratne Epa. Also pictured are Mr. Lasantha Milroy Pieries (right) and Mr. Wan Zaidan Wan Mahyudin, Chief Financial Officer, Dialog Telekom (left).

OCTOBER 2006

DIALOG ACQUIRES 90% STAKE IN ASSET MEDIA

Dialog Telekom enters into an agreement with the shareholders of Asset Media (Pvt) Ltd., for a 90% stake in the media company, which is licensed to operate Television Broadcasting and Pay Television services in Sri Lanka. The acquisition is an important milestone in the Company's strategy of achieving a quadruple play (Mobile, Fixed, Broadband, and Television Media) product proposition for Sri Lankan consumers.

COMMENCEMENT OF BPO SERVICES

Dialog Telekom commences the provision of Business Process Outsourcing (BPO) services for Sri Lankan and Global Enterprises. The BPO operation is branded and marketed as Dialog ECM (Enterprise Contact Management), and focuses on multi-modal contact management. Dialog ECM provides a wide array of contact options covering the multiple modes of Agent Voice, Automated Voice, SMS, Fax, Email and Web Chat.

BRITISH COMPUTER SOCIETY AWARDS – GOLD AWARD
MASS ALERT EARLY WARNING NETWORK

Dialog Telekom is recognised and commended for pioneering the Disaster and Emergency Warning Network (DEWN) at the National Best Quality Software Awards (NBQSA). The company together with its technology partners Microimage and the Dialog University of Moratuwa Mobile Communications Research Laboratory received the Overall Award in the Research and Development Category as well as the overall Gold Award for DEWN – a cost effective and multi modal mass alert system which could be deployed for the purpose of warning key stakeholders in disaster management as well as the general public in advance of the occurrence of life threatening disasters.

Nushad Perera, GM, Sales and Marketing at Dialog Telekom, Harsha Purasinghe, CEO, Microimage and Dr. Dileeka Dias, Director, Dialog University of Moratuwa Mobile Communications Research Laboratory receive the award from Hon. Prof Tissa Vitarana, Minister for Science and Technology. At right is Dr.. Dileepa De Silva, President, The British Computer Society.

DECEMBER 2006

ASSET MEDIA COMPLETES CBN SAT ACQUISITION

Asset Media (Private) Limited, a subsidiary of Dialog Telekom acquires Communiq Broadband Network (Private) Limited, and CBN Sat (Private) Limited, a Direct-to-Home Satellite Television service. The acquisition signals the commencement of Dialog Telekom's transformational investments in Digital Broadcast infrastructure targeting digital terrestrial broadcast, Direct-to-Home (DTH) Pay TV services and Mobile Television services.

"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."

CORPORATE RESPONSIBILITY

OUR APPROACH TO CORPORATE RESPONSIBILITY

Figure-1: Our approach to Corporate Responsibility

OPERATIONAL

INTEGRAL CR –

Embedding CR

Business decision making that factors stakeholder impact and brings society to the decision making table. Business integral CR 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 CR agenda.

Leveraging GSM Technology for Communities

Dialog Telekom, has continuously challenged the realm of the utility of mobile communication for communities by developing services and solutions that have high social value.

CITIZENSHIP

OUTREACH –

Strategic Community Investments

Strategic Community Investment (SCI) is sustainable long term investments in communities we operate and are closely aligned with a clear business case at Dialog Telekom.

Philanthropy

Dialog has recognised that as a company operating in the Global South we cannot omit deserving underprivileged communities even in the absence of a firm business case for the Company.

Action CR – Humanitarian

As a leading corporate entity Dialog has the resources and capability to step in at times of national need to assist in nation rebuilding and humanitarian work.

Dialog's dichotomous approach to Corporate Responsibility[1] (CR) is primed against a philosophy of inclusion, which implies our commercial operations and strategic community investments (SCI) take into account legitimate stakeholder impacts. This philosophy pervades both integral and outreach CR activities and enables Dialog to deliver on its role as a responsible telecommunication services operator and as a responsible corporate citizen, ultimately feeding into a sustainable process that supports and upholds economic, social and environmental equilibrium.

Dialog acknowledges that evidence of its impact on society is manifested primarily through its core operations or business footprint and secondly through its ability to contribute to national development goals through its role as a corporate citizen. These two fundamental aspects form the crux of our two pronged approach to CR. The first focuses inward on 'how we do business' as a responsible organisation and filters into our business 'operations', which we term **business integral CR**[2]. The second looks outward and supports national development goals through strategic community investments, which we term **outreach CR**[3]. Our commercial acumen has also helped us to acknowledge that the outreach component of our CR thrust is not sustainable unless we ensure that the integral CR aspects are factored into our daily operations.

OPERATIONAL

The challenge for Dialog's integral CR programme is to therefore inform and nurture an organisational culture that cares and respects the rights of society and those of future generations. This implies that our business must not directly or indirectly compromise the integrity of our planet and society in anyway that adversely impacts the sustainability of our business and our planet. CR applied in this way at Dialog is not a matter of choice to simply 'look good' but is an ethos that becomes second nature among all employees, who understand and uphold the principles of sustainable development.

A unique facet of Dialog's integral approach has been the Company's ability to innovate and focus its core competencies to develop services and products with high social value. In 2006 Dialog continued to build on this successful track record and invested resources in developing Sri Lanka's first interactive online learning management

1 The term Corporate Responsibility (CR) is used in this chapter to denote the holistic definition of our commitment towards our stakeholders, society and sustainable development.

For more information please visit:

2 http://www.dialog.lk/en/corporate/cr/ourapproach/csrintegration/csrintegration.html

3 http://www.dialog.lk/en/corporate/cr/ourapproach/csroutreach/csroutreach.html

network and the country's first disaster and emergency warning network, which was recognised nationally and internationally. To this end, Dialog has been associated with the University of Moratuwa since 2004 when it established the first Mobile Communications Research Laboratory in Sri Lanka in association with the University of Moratuwa. This unique private sector and tertiary education partnership has given Dialog the scope and balance required to focus its R&D efforts on societal needs as well as pursue commercial objectives. In 2006 Dialog renewed its partnership with the University of Moratuwa by extending its endowment for the research lab for another three years leading upto 2009.

CITIZENSHIP

Dialog's outreach CR efforts are linked by a common thread since all initiatives stem from a need to address fundamental human needs and national development goals. These goals are also linked to the millennium development goals espoused through the Global Compact. However, not all outreach efforts are planned and mapped against a strong strategic business case. These stand-alone donations and grants are made at times when the country faces humanitarian crisises due to manmade and natural disasters and emergency situations. At Dialog we term this '**action oriented CR**[4]'. In addition, Dialog also recognises that as a corporate operating in the Global South, it has a role to play in terms of providing philanthropic support to government approved charities and legitimate social causes. As a company operating in the developing world there is also pressure to support this type of outreach. In order to manage these types of philanthropic activities, Dialog established the Change Trust Fund[5] in 1999. Over the past few years the Change Trust fund has supported numerous charitable initiatives and touched the lives of those marginalised in Sri Lanka, equitably. Dialog conceptualised an innovative locally engineered GSM billing and relationship management system to create a unique usage based charity computation, matched 1 for 1 by the network. Under the programme, post-paid subscribers are invited to donate 0.5% of their Dialog GSM bill to the fund up to a maximum of Rs. 25/=, with Dialog making a matching donation. The funds are disbursed to disadvantaged communities of society across five thematic areas that also spill-over to the strategic community investments.

Strategic community investments at Dialog Telekom are programmes with a clearly aligned business case and are sustainable long term projects that contribute towards national development goals. Dialog supports these goals across five thematic areas including digital inclusion, empowering the differently abled, youth and education, environment and humanitarian. Dialogs flagship projects that were initiated and/or continued in 2006 included the state-of-the-art audiology center at Ratmalana, the Dialog Digital Learning Bridge, the Dialog – UOM mobile communications research laboratory, the Dialog Scholar programme and the Disaster and Emergency Warning Network. Many of these initiatives have been conferred national significance and are implemented in collaboration with the respective Government Ministries.

In 2006 Dialog joined the United Nations Global Compact in support of the UN Millennium Development Goals. Our decision to back the UN led initiative reaffirms our commitment to embed CR at Dialog as we engage directly with a majority of the issues championed through the millennium development goals as well as our national development goals.

CR ACHIEVEMENTS AND RECOGNITION 2006

Dialog Telekom has consistently been recognised as a leader in the mobile industry for its innovative spirit and focus, particularly in terms of leveraging GSM technologies for the benefit of the community. This focus has made Dialog the only company in the world to be awarded three consecutive GSM World Awards for leveraging GSM technology in the community.

In 2006, Dialog built on this impressive track record and was recognised at various national and international platforms for its cutting edge R&D efforts to develop socially inclusive services and products that help bridge the digital divide.

Following the tsunami in 2004, Dialog Telekom initiated a research and development programme together with its technology partners the Dialog - University of Moratuwa Mobile Communications Research Laboratory and Microimage (Pvt) Ltd to develop a reliable early warning system for Sri Lanka to avert losses in future disasters. In 2006 the result of this unique partnership was commended for its collaborative research and development efforts in developing Sri Lanka's first multi modal mass Disaster and Emergency Warning Network (DEWN). The main achievements of DEWN in 2006 include:

For more information please visit:

4 http://www.dialog.lk/en/corporate/cr/ourapproach/networkoflife/networkoflife.html
5 http://www.dialog.lk/en/corporate/cr/ourapproach/csroutreach/change/change.html

National Best Quality Software Awards 2006

Gold Award in the Research and Development Category
Awarded to an ICT creation that is derived from practical application of scientific and engineering knowledge to create new and improved products, processes, and services that fill market needs.

Overall Gold Award for DEWN at NBQSA 2006
Selected from 36 entries from the ICT industry.

This is the most prestigious awards competition in the ICT field in Sri Lanka, and is an annual event organised by the British Computer Society Sri Lanka (BCSSL) Section. The competition serves to showcase and benchmark Sri Lankan ICT products. The National Best Quality Software Awards (NBQSA) recognises and honors significant technological development and innovations in Sri Lanka's software industry. The NBQSA is organised by British Computer Society (BCS) with the support of Sri Lanka Association for Software Industry (SLASI), Software Exporters Association (SEA), Infotel Society (INFOTEL), University of Colombo and University of Moratuwa.

The National Awards for Science and Technology 2006

Award for Excellence in Multidisciplinary Research & Development
The awards programme recognises outstanding efforts in various scientific disciplines. It is conducted by the National Science Foundation and the Ministry of Science and Technology.

GSM Asia Mobile Innovation Awards 2006

Shortlisted for Innovative Technology Development Award
DEWN was shortlisted to the final 3 at the awards, and was displayed at the Innovation Zone at the GSM Asia Conference and Exhibition in Singapore (October 2006).

Vodafone 'World Around Us' Workshop in Cairo 2006

Overall Commendation for 'Leveraging GSM in the Community'
Dialog was selected by popular vote among subsidiaries and partner networks for innovative use of GSM technologies, including DEWN, for the community.

GSM World Awards 2001

2001 GSM World Award for the idea behind the Change Trust Fund initiative, a unique system where Dialog post-paid customers are given the opportunity to donate half a percent (0.5%) of their monthly bill up to a maximum of Rs. 25/=, with the Company matching the contribution, which would be used for charity.

GSM World Awards 2002

2002 GSM in the Community Award on Wireless Accessibility for SMS 112, a SMS based emergency call facility for the hearing and speech impaired.

GSM World Awards 2003

2003 GSM in the Community Award on Best Use of Wireless in Emergency Situations for Dialog's blood appeal, matching and donor management system.

PROVIDING ACCESS

Dialog Telekom has made concerted efforts to allay perceptions that mobile communication was an exclusive tool in Sri Lanka and to be enjoyed by a few in our society. The phenomenal growth of mobile communications in Sri Lanka, as in most other developing countries in the Global South, provides reason to acknowledge the general claim that these emerging markets are the growth markets of the future. Dialog Telekom has identified its responsibility towards these segments at the bottom of the pyramid, and has made its contribution to bridge the digital divide and improve the socioeconomic condition of individuals, communities and the nation at large.

Among the principal challenges faced in this endeavour are reach, service availability, familiarity, affordability and special needs. In order to address these pertinent ground truths in Sri Lanka, Dialog Telekom has looked at various business models, solution approaches and critical success factors including service and technology paradigms, enterprise modeling and continuous investments.

INNOVATIVE SERVICES

Dialog has systematically focused on exploiting state of the art technology to deliver the outcome of 'inclusion' i.e. the broadening of the markets and consumer groups beyond the traditional boundaries perceived to be capable of affording and having access to the products and services of the Company. These innovations towards inclusion are consistently motivated, informed and driven through the inherent understanding among the management of Dialog Telekom that we need to challenge ourselves to think beyond the traditional utility attached to mobile telephony.

This heightened discernment towards 'positive discrimination' is ingrained in Dialog's strategic business planning process and has resulted in innovative services such as local language SMS, e-Z reload/ electronic prepaid recharge (for any value) and rural home zone (limited mobility) tariffs. Many of these innovations incorporate state of the art technology capabilities to deliver services and products suited for local communities irrespective of demographical disparities across the country and are cited as examples of the overall philosophy, which has driven innovation at Dialog Telekom.

Dialog Telekom's sensitisation to the wealth at the bottom of the pyramid credits the Company as one of the first operators in the South Asian region to recognise and act to develop access to these segments. In 2006 Dialog continued to build on this focus and has been successful in sustaining and developing new 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 is seen to "take-off" considerably earlier than much larger markets in Southeast Asia. Some of the Dialog solutions to connect the unconnected include:

- **Widest Coverage** – To date Dialog GSM network provides the widest coverage in Sri Lanka and cover 70% of land mass and 90% of inhabited areas of the country.
- **Cell Based Tariffs** – Considering the low affordability Dialog pioneered Cell based tariffs for rural consumers.
- **Use of Technology to facilitate an Inclusive Philosophy** - Electronic Top Up, Local Language Services, Dial 5, Home Cell/Limited Mobility Solution.

"It helps me a lot in my job. When I reach the beach after going out to sea, I call home. This way they are not worried about me. Dialog has wide coverage. The other reason is most of my friends use Dialog. That's why I chose Dialog. The other thing is, we can reload according to the amount we have in our hands. We can talk for the amount we have. Then we don't get a massive bill."

Name : Sumith Costa
Occupation : Fisherman

EMPLOYEES

Dialog acknowledges that one of its greatest assets are it employees and thereby we take every opportunity to nurture and develop this team. The Dialog Human Resources Management & Development (HRM&D) division strives to perform as a proactive strategic business partner aimed at achieving a strategic leadership position in people management and development. We align our strategies to be the "employer of choice" by way of compensation, rewards, recognition, challenge and exposure. As an equal opportunity employer we have provided employment opportunities to a wide range of people through a transparent merit based process thereby encouraging diversity and inclusiveness within the organisation devoid of discriminatory policies and/or practices. Figures 2–5 illustrate the composition of employee categories within the Company and demonstrates the diversity dimensions within the Dialog family.

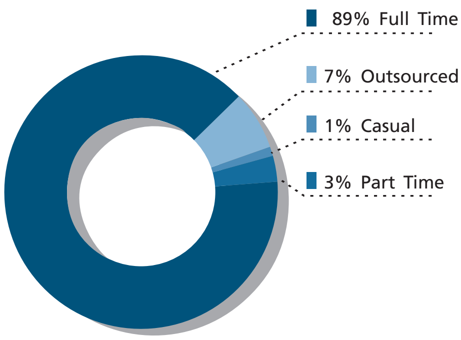


Figure-2: Categorisation of employees

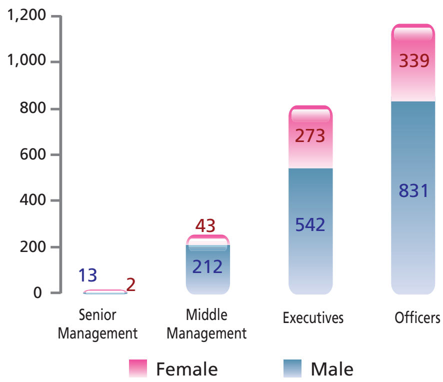


Figure-3: Gender diversity across employee category

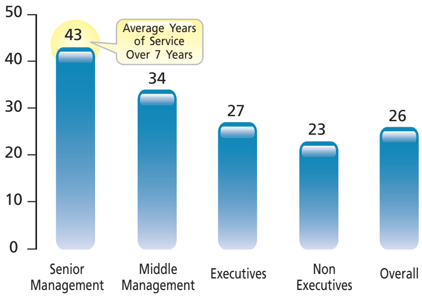


Figure-4 Average age of employees

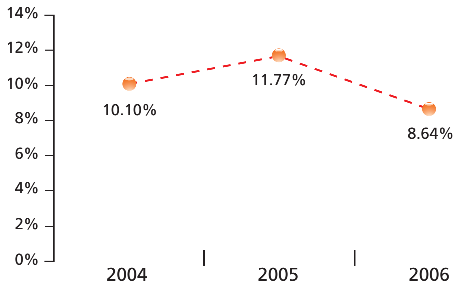


Figure-5: Labour turnover 2004-2006

All Dialog employees are governed by a code of business ethics (CBE) and a non disclosure agreement (NDA). These agreements have been designed to create awareness and clarity to prevent corruption and to preclude the disclosure of confidential information such as customer information. Employees were briefed comprehensively on these precluding guidelines and binding standards at their respective induction programmes in 2006. Good relations with our employees have been the prerequisite for Dialog Telekom's success in the market. Recognising our employees' right to freedom of association, Dialog includes employee representatives and employees in important organisational processes. the Company takes into consideration employee opinion and ideas by means of a suggestion box scheme and company-wide surveys. The suggestion box scheme in place serves as a tool for employees to come up with recommendations/complaints that are actioned by the management and the human resources division.

PERFORMANCE MANAGEMENT

Dialog Telekom employs a transparent and robust performance management system, which is linked to performance, employee and management development, promotions, increments and a performance based Employee Share Option Scheme (ESOS).

All deliverables related to projects (non business plan/business plan), key performance indicators (KPI) and service level agreements (SLA), cross-functional team assignments and behavioral competencies are established at the beginning of the year after negotiations between the relevant personnel and thereafter tracked and monitored on a monthly, quarterly and annual basis. The management information system (MIS) tools being used for the above are world renowned SAP PS system, SMART, which is an internally developed performance management tool, and the Human Resource Information System (HRIS).

This non-discriminatory system applies to all employees and ensures transparency at all levels of the appraisal process. This ensures not only the timely achievement of corporate objectives but also identifies methods to motivate the workforce via sound monetary, personal training incentive mechanisms.

As indicated in Fig.5 the labour turnover ratio has declined from 11.77% in 2005 to 8.64% in the year 2006. Thus staff retention in the year 2006 stands at 91.36%.

HEALTH & SAFETY

Dialog Telekom has made significant progress in 2006 towards enhancing its 'Health and Safety' standards and processes. the Company adheres and follows all relevant statutory provisions and all reasonable practicable measures to avoid risks to our employees or others, who may be affected by our operations.

As such, in 2006 a health and safety policy and code was established that ensures a wide spectrum of issues related to the business ranging from fitness to work on towers, manual handling/loading, posturing, working with chemicals to motor vehicle care & safe driving are now encompassed. All new recruits are also briefed on all important aspects pertaining to Health and Safety at the induction with the aim of maintaining a consistent and high standard of awareness on health and safety practices at Dialog.

TRAINING & DEVELOPMENT

Innovative leadership is essential in the dynamic telecom market, and is therefore one of our strategic objectives. Hence we provide a host of training and development measures to continuously develop the know-how at every level of the organisation. In particular, this enables us to retain our top performers and high potentials by offering them attractive prospects. DTL considers the employee as the most valuable of its assets. Hence it is important that measures are taken to improve the skills and competencies of employees to perform in a higher position.

Succession plans developed by divisional heads act as a guide to determine the training requirement of individuals to upgrade their skills and competencies. In addition, divisional training is provided in the areas of leadership, grooming and soft skills. Management development programmes are also conducted in order to further improve the skills of high performing individuals.

The table below indicates the measure of training per employee per calendar year and its relationship with productivity indicators. The positive correlation between the numbers of customers an employee has capacity to support with the amount of training hours per employee shows the benefits the Company is reaping through its strategy of enhanced training investment that augurs well in the context of a sustainability indicator. The 'Dialog Academy' is a purpose built institution focusing on providing training and development assistance to Dialog Telekom. The academy ensures that the competencies of frontline staff are constantly updated and enhanced to maximise the productivity and continuous improvement of employees.

EQUAL OPPORTUNITY

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

Training Activity	2003	2004	2005	2006
No. of Programmes				
Local	108	162	169	**310**
Overseas	92	67	144	**138**
Training Hours per Employee	33	36	34	**50.37**
Revenue per Employee (Mn)	9.9	7.9	10.5	**10.20**
Profit Per Employee (Mn)	3.4	2.9	4.1	**4.40**
Customers per Employee	1,027	1,256	1,244	**1,356**

Table 1: Human capital investment Vs. Productivity enhancement

PRODUCT RESPONSIBILITY

MOBILE PHONE ETIQUETTE AND ETHICAL ADVERTISING

Dialog Telekom ensures that all commercial advertisements and marketing and/or promotional material is truthful and acceptable within social norms and strictly abide by the legal framework of Sri Lanka, by supporting an 'Open' communication framework. Furthermore, the Company's advertisements in all media are sensitised to equally address English, Sinhala & Tamil speaking communities and have been extended even to SMS.

In 2006 Dialog Telekom made a concerted effort to provide guidance to its customers as well as the general public on the responsible use of mobile phones, with an emphasis on mobile phone etiquette and safety. As part of the awareness building campaign with the proper usage of mobile phones in society in mind, Dialog launched a mobile phone etiquette and safety campaign, entitled - 'Be Mobile Wise'. This initiative highlights a number of basics on acceptable use of mobile phones as a step in the correct direction to educate mobile phone users in the country.

Dialog's 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 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. The service is a value addition to existing services.

ENVIRONMENTAL MANAGEMENT

Dialog is committed to maintaining high standards of environmental management throughout its operations and activities, which comply with applicable environmental and social laws and regulations of Sri Lanka. Dialog also applies the 'precautionary principle' across all its investments, and undertake due diligence measures whenever deemed necessary over and above statutory compliance. In addition, Dialog Telekom adheres to and supports all relevant environmental and social regulations 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 the local laws, regulations, guidelines, and policies, Dialog Telekom limited has drawn out a detailed procedure plan that helps to mitigate and minimise the Company's ecological footprint when conducting its business affairs in a transparent and accountable manner.

COMPLIANCE AND REGULATIONS

In 2006 Dialog had no incidents of fines or non-monetary sanctions for non-compliance with applicable environmental regulations. All engineering operations including erection of base stations, towers, conducting site acquisitions etc take into consideration environmental compliance. In these instances Dialog ensures that we comply with the regulations stipulated by the Telecommunication Regulation Commission of Sri Lanka (TRCSL), Central Environmental Authority, the Ministry of Defense, the Civil Aviation Authority, Urban Development Authority, and the Consumer Affairs Authority. Dialog does not erect any of the aforementioned structures or conduct new site acquisitions without obtaining the relevant approvals from respective authorities.

A regulatory and liaisons manager acts as the main interface between the Company and local communities through scoping, project development, construction, and operating phases of tower erection. The liaisons manager is also responsible for stakeholder management and community capacity building at all Dialog's project sites. Regular site meetings between interested local communities and local authorities, health officials; metrological authorities are coordinated and facilitated by the liaison manager. A series of awareness campaigns were conducted in 2006 in collaboration with respective authorities including the Telecommunications Regulatory Commission of Sri Lanka (TRCSL), the Central Environmental Authority, the Department of Metrology and the Department of Health. Dialog has also looked at the feasibility of camouflaging base station antennas to improve the aesthetics of the towers. The first prototype structure i.e. resembling a tree is currently commissioned in Colombo. Dialog will study the feasibility of this endeavour before undertaking further installations of this nature.

ENVIRONMENT MANAGEMENT GUIDELINES

Dialog's environmental management guidelines are a formalised set of guidelines adhered to during network rollout and waste disposal. Dialog's best practices in this area ensure that Dialog 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 record applicable procedures and processes that enable the organisation to consistently and systematically apply its environmental policy and procedures.

CHALLENGES FOR DIGITAL INCLUSION IN SRI LANKA

CURRENT SITUATION

Sri Lanka being a developing country has the opportunity to accelerate national development by improving and expanding communication services. Improved communication will increase the speed and efficiency of commercial activities, and also benefit users in terms of connectivity, time saving and mobility. Communication can also improve education by opening up distance learning opportunities and by giving access to up-to-date information. Mobile communication services in particular are more widely used among the urban areas while usage is low in the rural areas. A number of factors contribute to this apparent divide, widely referred to as the 'Digital Divide'. Foremost among them are affordability, availability and special needs.

INCOME LEVELS

With the lower income levels in rural areas, phone costs and call charges can be considered high by the average rural user. Users must be shown the benefits and savings they can enjoy through mobile phone use. Most small business operators are yet to identify the competitive advantage they can gain by employing mobile communications and the internet.

LOCAL LANGUAGE SUPPORT

In order to effectively bridge the digital divide, certain special needs also require attention. In a country where a large percentage of people use local languages, Sinhala and Tamil, language support will greatly assist in the promotion of modern technology. Computer keyboards and phones in local languages are now available in the market, but awareness is limited.

LOCAL LANGUAGE CONTENT

A handful of websites, primarily the local newspaper websites, have up-to-date content available in local languages. However, very little educational content and local information in local vernacular can be found online. Availability of extensive information in a structured manner would be a wonderful draw card to interest rural folk in the use of modern technology.

DISABILITY SUPPORT

Across the globe, many technological applications have been developed to support the disabled in a variety of ways. Among them are Braille key-boards, text-to-speech programmes, customised input devices, learning aids for slow learners, etc. These could create a wonderful opportunity to promote the technologies they are based on, such as computers, the internet, mobile phones, etc. However, very few of these technologies are available in Sri Lanka.

SUPPORT FACILITIES

Mobile and internet services require facilities such as bill payment, reloading of credit, repairs and accessories to be conveniently available. The service providers themselves often provide some of these services directly or through dealer networks. Repair and other facilities are also provided by 3rd parties. The availability and affordability of these facilities can help promote the usage of the said services.

LACK OF AWARENESS

Lack of awareness and various concerns among the public are further challenges to Digital Inclusion. Failing to compare the benefits against the costs, certain people may not see the advantages mobiles and computers can bring. Due to their limited understanding of the capabilities of mobile phones and computers, many people use only the basic features. Furthermore, lack of knowledge about basic troubleshooting means that availability of support facilities, as mentioned above, becomes an important factor that will put their minds at ease.

DIGITAL INCLUSION

THE DISASTER AND EMERGENCY WARNING NETWORK (DEWN)

The Disaster Management Centre (DMC), together with Dialog Telekom Limited, is currently piloting Sri Lanka's first mass alert early warning system. The Disaster and Emergency Warning Network (DEWN) uses GSM communication technologies and devices, and transmits alerts through the GSM network. It can be used to issue customised alerts to selected recipients instantaneously, and is compliant with the internationally accepted alerting protocol – CAP. DEWN was developed by Dialog Telekom Limited, Dialog-University of Moratuwa Mobile Communications Research Laboratory, and Microimage, as a result of research and development undertaken immediately after the tsunami.

DEWN FEATURES

DEWN is a truly innovative and unique solution for Disaster and Emergency Warning. These features include:

- **Use of GSM network** – There is no known similar low cost & inclusive emergency warning network based exclusively on GSM technology / network without the need of additional infrastructure.
- **Use of Common Alert Protocol (CAP)** – A unique standard for alert dissemination on a GSM network.
- **Multi-Modal** – Audio alarm (wake sleeping subscribers), multi-lingual display, interface to external alarm devices.
- **Purpose built GSM alarm devices** – For use in the community domain interfaced to indigenous warning mechanisms.
- **Use of cell broadcast** – Provide immunity to network congestion.
- **Handset resident Java and Symbian applications** – Translate SMS and CB messages into penetrative multi-lingual screen flash messages & audible alarm tones.

DEWN is a digitally inclusive multi-modal communication protocol built on a suite of ubiquitous GSM technologies and is used to warn people of impending disasters by overcoming disparities in accessibility, affordability and availability associated with traditional warning systems/ technologies. DEWN helps bridge the digital divide by enabling disaster information to be communicated through accessible and affordable technology (GSM devices) securely and instantaneously to emergency personnel and mobile phone users based on an intelligent segmentation. DEWN, using Cell broadcast, SMS, CAP, is designed to include multiple categories of devices – ranging from standard low cost GSM handsets to purpose built community alarms – Thereby including all strata of society regardless of demographic disparities.

DEWN is a gift to the Nation from Dialog Telekom and its partners, and is deployed as a non commercial value added service. DEWN is an ideal solution for a government with a pro-poor agenda, seeking to ensure the safety of its citizens, due to the ubiquitous GSM infrastructure provided by network operators, and the deliverability of DEWN to even the most basic of GSM handsets.

HIGHLIGHTS FROM 2006

The key highlight of the year was the piloting of DEWN together with DMC in 4 districts across the island. DEWN is already generating wide interest among the public and the development community. During the year, DEWN won several prestigious awards such as the National Science Foundation award for Multi-disciplinary Research and Development, and the Overall Gold in the National Best Quality Software Awards. In addition, DEWN received international recognition by being short-listed for the GSM Asia Awards and the Asia-Pacific ICT Awards. DEWN was showcased in the Innovation Zone at GSM Asia Conference in Singapore. DEWN was also presented at several local and international forums on Disaster Management.

DIGITAL BRIDGE

The Digital Bridge enables lectures conducted at a central location to be transmitted live to remote schools, and for the teachers and students to interact, creating a virtual classroom.

A teaching hub has been established at the ministry specifically for this purpose. On the 28th of April 2006, Dialog Telekom Sri Lanka's flagship telecommunications company together with the Ministry of Education announced the commencement of a pilot interactive Distance Learning Network (Dialog DLN) between schools. The project is one of Dialogs flagship CSR initiatives aimed at bridging the digital divide in terms of providing parity access to education and learning in rural areas of the country. The pilot launch of the Dialog Distance Learning Network was held under the patronage of the Hon. Minister of Education at Royal College on the 28th of April 2006. The technological innovation is completely home grown and is a culmination of extensive consultation between Dialog Telekom Limited, The Dialog Mobile Communications Research Laboratory at the University of Moratuwa and the Ministry of Education. Research and Development focused on the development of an optimum learning management system that supports local language teaching and network based technologies. Connectivity to link the three schools is provided by Dialog Telekom together with its wholly-owned subsidiary Dialog Broadband Networks.

Upon successful pilot testing, the project was formally launched on October 05th 2006, on World Teachers' Day by the Hon. Prime Minister of Sri Lanka and the Hon. Minister of Education. This project is a 'Gift to the Nation' and is not a commercial venture of the organisation. Digital Bridge will be used to transmit :

- Revision lectures on Advanced Level subjects (in Sinhala, Tamil and English).
- Skill development programmes.
- Training programmes for teachers.
- Training for admin personnel – (an online store house for recorded lectures and other learning material).

DIALOG-UOM 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. The Laboratory explores new ideas in wireless communication, particularly cellular, with the objectives of developing innovative products and services, and more importantly developing an internationally recognised base of expertise in mobile technologies to ensure Sri Lanka's place in the challenging and evolving world of mobile technology. This well-equipped modern facility is staffed by 6 research engineers and is overseen by experienced senior academics. In less than three years it has performed beyond expectations and has produced several high-quality creations. Among these are products with commercial potential (such as the Fleet Tracking System), and those with value for the community (such as the DEWN alarm device and the Learning Management System for the Digital Bridge). Dialog also benefits greatly through research done by the laboratory on the Company's request. In 2006 several important research projects were implemented; the awards won by DEWN were a wonderful reward for the laboratory's efforts over yet another successful year.

SOCIAL INVESTMENTS AND NATION BUILDING

Dialog Telekom's strategic outreach initiatives are a re-investment in the communities we operate and reflects the Company's unfeigned commitment, assurance and desire to enrich and empower Sri Lankan lives through significant, positive economic impacts and nation building.

YOUTH AND EDUCATION

Over the past three years, Dialog Telekom Ltd has proven to be a leader in pursuing the cause of improving education for Sri Lankan youth and building a Knowledge Economy. A substantial amount of focus has been placed on empowering outstanding students from the 25 districts in Sri Lanka to accomplish their future aspirations while being given support to pursue higher studies at secondary and tertiary levels, through the Company's scholar initiatives.

THE DIALOG SCHOLAR INITIATIVE

Dialog liaises with the Ministry of Education and the University Grants Commission in Sri Lanka to identify the best performing students in the country, at the GCE Ordinary and Advanced level examinations held each year. Selection of students is based on these students' academic performance at the examinations in the 25 administrative districts. Scholarships are awarded to the top 30 students who qualify to follow mathematics at secondary level, as well as to the top 25 students who qualify to pursue undergraduate university degrees in the field of Engineering (Electronics, Electrical, and Computer). Four additional scholarships are also awarded at undergraduate level to differently-abled students, and the top female and male students in the island as per the criteria laid down by the University Grants Commission. There have been 8 batches of scholars over the past 4 years, comprising of 4 University batches with 120 students, and 4 Advanced Level batches with 120 school children. Formal training programmes, which are targeted at enhancing various competencies and soft skills in individuals, are also organised on an annual and monthly basis for the scholars.

Every year, two students are also granted two fully funded scholarships by Dialog Telekom Ltd to commence their studies at Malaysia's Multimedia University's (MMU) Cyberjaya campus, located along the Multimedia Super-Corridor. These students are selected from amongst the top 25 students in the 25 districts as well as the top 25 students in the Island, by way of an application and evaluation procedure. Currently, we have 3 batches with 2 students in each batch studying at the Multimedia University.

THE NATIONAL ART AND ESSAY COMPETITION

The National Art and Essay Competition, which has been organised and hosted by Dialog Telekom Ltd for the past two consecutive years has also formed an integral part of our initiatives to support the improvement of education in Sri Lanka. The focus of the 2006 National Art and Essay Competition was based on the theme of 'Expressions of the Future.' Children from all communities, from all provinces of the country participated in this competition, drawing in approximately 8000 entries from schools across the island. Dialog Telekom Ltd coordinated this competition with the Open University of Sri Lanka and the Ministry of Education, with entries being received, sorted, and evaluated by the Open University. 136 winners were selected in total and as before the National First Place winners were awarded educational tours to England, whilst the National second place winners were awarded educational tours to Malaysia.

EMPOWERING THE DIFFERENTLY ABLED

AUDIOLOGY CENTRE FOR THE HEARING IMPAIRED

A Gift by Dialog Telekom to the Ceylon School for the Deaf and Blind.

As a part of continuing to be a regular benefactor to individuals with hearing impairment, particularly through our sponsorships to purchase equipment, modernise existing buildings, materials, and tools, and sponsorship of Paralympics and sporting events, the Audiology Centre project further demonstrates Dialog's commitment to empowering the differently abled – in this instance, hearing impaired children. The new centre, constructed at the premises of the Ceylon School for the Deaf and Blind (CSDB) will provide end-to-end services to the hearing impaired and the general public with the help of state-of-the-art equipment. The main focus of the project will be the introduction of digital technology-driven diagnostic equipment, facilitating early detection of hearing deficiencies of infants, the profiling of hearing aids to suit the individual using special software and post therapy speech simulation.

PHILANTHROPY

CHANGE TRUST FUND

The Change Trust Fund was established in 1999 by Dialog Telekom and is the Company's key community outreach initiative. Over the past few years the Change Trust Fund has supported numerous charitable initiatives and touched the lives of those marginalised in Sri Lanka, equitably. The projects initiated under the Change Trust Fund are dispersed impartially across the island, to needy beneficiaries, within the same five thematic areas identified by Dialog Telekom. Change also provides an opportunity for customers and Dialog employees to actively participate in contributing their resources to make these initiatives meaningful and sustainable. Volunteerism is a core element of Change projects within the organisation, and enables employees from cross-functional teams to collaborate for an altruistic cause for the greater good of a particular beneficiary. Change Trust is a powerful reminder that corporates have a significant role to play in the development of the community and its welfare, through a proactive process of engagement and responsibility in the environment in which it operates.

PROJECTS CARRIED OUT BY CHANGE IN 2006

A total of 14 projects were undertaken to be completed in 2006, out of which 10 were completed, 03 are in progress due to changes in scope of the project and 01 was abandoned due circumstances limiting access to reassess of needs of the said beneficiary. A summary of these projects is illustrated in Fig below:

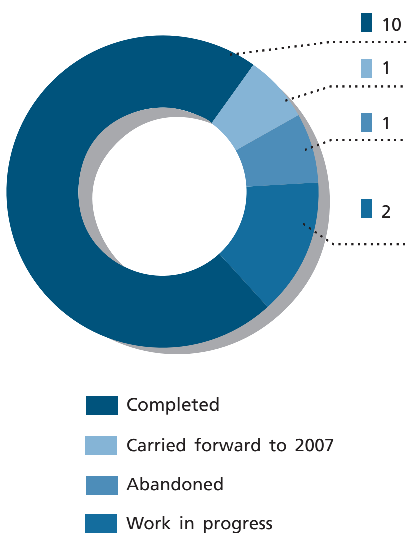


Figure-6: Change Projects 2006

THEMATIC APPROACH

The 14 projects were chosen based on the five main thematic areas, which our Corporate Responsibility focuses on. The thematic segregation and analysis of this years projects is illustrated below. (Education – 02, Humanitarian – 02, Empowering the differently-abled – 07, Digital Inclusion – 03)

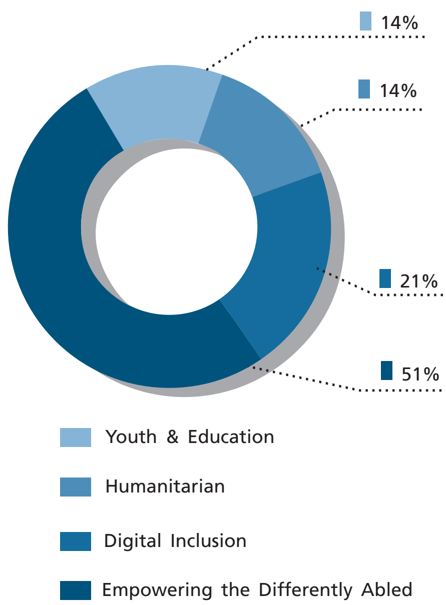


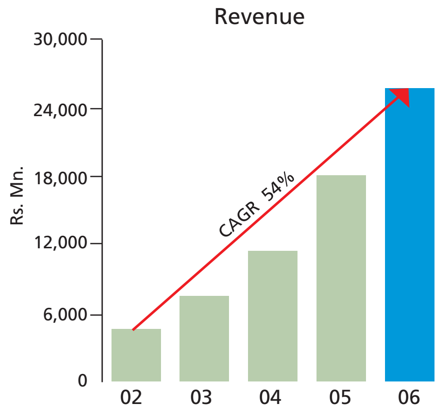
Figure-7: Thematic Segregation of Projects Carried Out in 2006

DIALOG HAS BLAZED A TRAIL FOR OTHER EMERGING MARKET OPERATORS TO FOLLOW BY ADOPTING A SUCCESSFUL MASS MARKET MODEL TO PROFITABLY SERVE AND INVIGORATE THE "WEALTH AT THE BOTTOM OF THE PYRAMID."

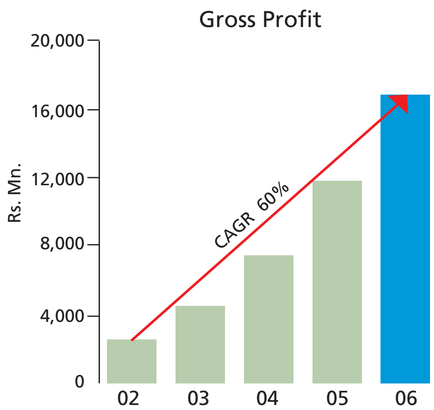
MANAGEMENT DISCUSSION & ANALYSIS

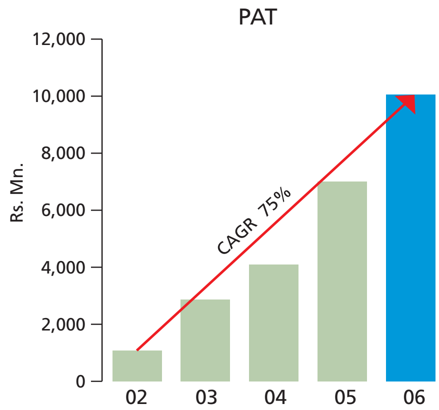
EXECUTIVE SUMMARY

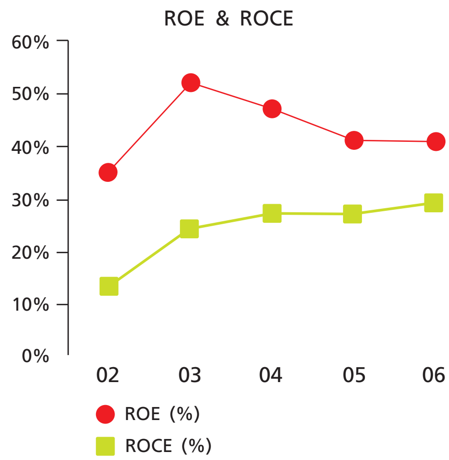
Dialog with its consistent delivery of Compound Annual Growth Rates (CAGR) in excess of 50 percent on revenue, EBITDA and Net Profit, finds itself at an elevated ranking amongst the the top performing telco operators of the world. Achieving such exceptional growth rates, despite being the 4th entrant to the Sri Lankan mobile telecommunication sector could be attributed to Dialog's inclusive approach to Technology and Innovation. Dialog has blazed a trail for other emerging market operators to follow, by adopting a successful mass market model to profitably serve the "wealth at the bottom of the pyramid".

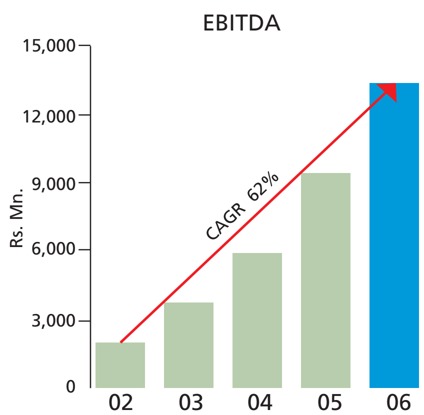


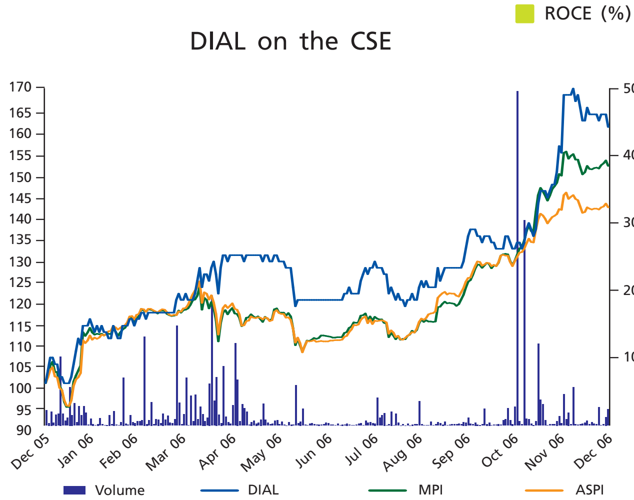
		2006	CAGR (%) (FY 2002-2006)
Cellular Subscribers	:	3.11 Mn.	59%
Group Performance			
Revenue	:	Rs. 25.68 Bn.	54%
Gross margin	:	Rs. 16.86 Bn.	60%
EBITDA	:	Rs. 13.74 Bn.	62%
PAT	:	Rs. 10.12 Bn.	75%











- DIAL share has consistently outperformed market indices.
- Value creation of Rs. 74 Bn. in 2006
- DIAL contributed to 30% of total growth in market capitalisation of the CSE in 2006

FINANCIAL PERFORMANCE

Post consolidation with subsidiary performance, Dialog recorded a Profit after Tax (PAT) of Rs. 10,119 Mn. for the FY2006, representing a robust year on year (YoY) PAT growth of 44 percent. Group Revenue increased by 42 percent to Rs. 25,679 Mn. vis-à-vis revenue reported for FY 2005 while EBITDA grew by 46 percent to Rs.13,744 Mn.

In view of the Group's strong financial performance, the Board of Directors have proposed a first and final Dividend amounting to 40% (payout) of 2006 earnings to be paid to the shareholders of the Company.

INVESTMENTS IN INFRASTRUCTURE

An overriding feature of 2006 was the Group's aggressive investments in infrastructure and matching performance in capital project implementation. The Group invested/committed a total of Rs. 16,120 Mn. in infrastructure during 2006 resulting in large scale expansion of service coverage in rural areas of Sri Lanka, the establishment of a CDMA network in 8 Districts outside the western province, and the first phase of a fibre optic network in the City of Colombo. The Company also became the first operator in South Asia to commence commercial 3G services in August 2006.

AFFORDABILITY ENHANCEMENT – CONNECTING 3 MILLION

Aggressive tariff reductions combined with rapid expansion of coverage areas across all provinces of Sri Lanka resulted in the Company reaching a subscriber base of 3 Mn in the month of November 2006, and reaching an Year-End subscriber base of 3.11 Mn.

With a concerted focus on sustaining its growth trajectory, Dialog accelerated its progress down the convergent services roadmap in 2006, by becoming the first operator in Sri Lanka to achieve a quadruple play (mobile/fixed/broadband/media) service provisioning foundation through a series of strategic acquisitions during the year. The acquisition of Asset Media (Private) Limited was followed closely by the acquisition (by Asset Media) of a 100 percent stake in Communiq Broadband Network (Private) Limited (CBN) and CBN Sat (Private) Limited in December 2006 (collectively referred to as CBN Sat). CBN Sat was engaged in the provision of Direct-to-Home Digital Satellite Television Services in Sri Lanka. The acquisitions in 2006 will result in transformational investments in Digital Broadcast infrastructure targeting digital terrestrial broadcast, Direct to Home (DTH) and Mobile Television service provisioning. The Group's Digital Broadcast operations were launched via Asset Media (Private) Limited in February 2007 under the brand name of Dialog TV.

MARKET PERFORMANCE

MARKET SHARE

In November 2006, Dialog surpassed the milestone of achieving a 3 Mn. strong subscriber base, further consolidating its market leadership position. The Company has experienced increasing growth trends in its subscriber base stemming from aggressive market expansion coupled with the mass appeal of its service offerings. Today, Dialog commands approximately 60 percent market share in the mobile sector and approximately 45 percent share in the overall telecommunications market.

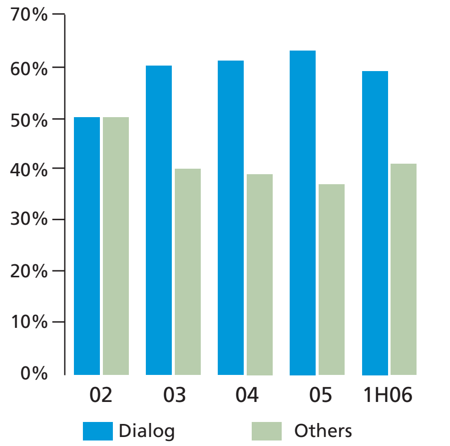


Figure-1: Dialog's Share vs Total Mobile Market
Source: TRCSL published figures

DIALOG'S CONTRIBUTION TO TELECOMMUNICATIONS PENETRATION

Dialog continues to be the driving force behind the rapid expansion in telecommunications penetration in Sri Lanka, contributing over 60 percent to market growth during the last five years (2002-2006).

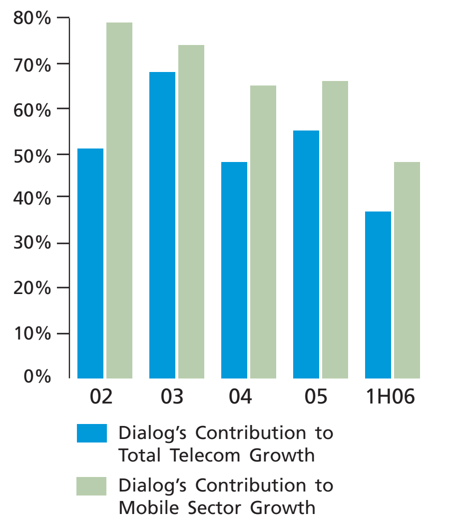


Figure-2: Dialog's contribution to total telecom growth
Source: TRCSL published figures

GROWTH OF SUBSCRIBER BASE

Dialog's decade long business focus was 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. Overall, the total subscriber base growth over the past five years recorded a CAGR of 59 percent as depicted below:

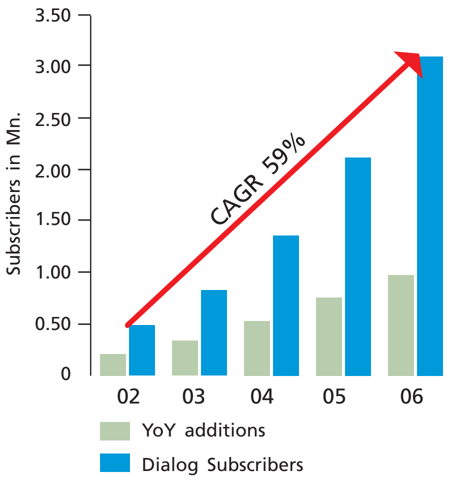


Figure-3: Growth of Subscriber Base

The prepaid subscriber base recorded an impressive CAGR of 69 percent during the 5 year period from 2002 to 2006, representing the major thrust underpinning subscriber growth momentum. The postpaid subscriber base grew at a CAGR of 31 percent over the same period.

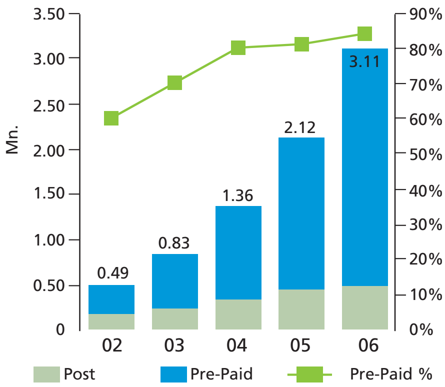


Figure-4: Subscriber mix

Dialog's strategy of providing affordable services to low income segments of the market, resulted in the creation of new markets from low ARPU prepaid subscribers. Prepaid services account for an increasing share of incremental subscriber additions. The overall subscriber mix has shifted towards a prepaid dominated profile, in line with the increasing preference for prepaid services.

Product and service offerings

Dialog has continued to stimulate growth in its revenue base by offering an expanding range of products, services and content, in tandem with aggressive tariff revisions and innovative offerings promoting customer loyalty. Dialog's product and service offering is flanked by strong brand equity and an unrivalled distribution network.

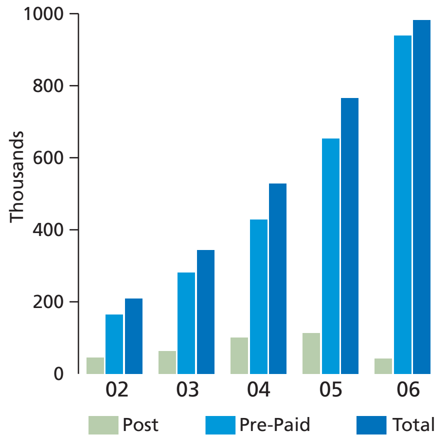


Figure-5: Subscriber Net Additions

- Value added services (VAS) revenues accounted for approximately 9 percent of total revenues. Peer-to-Peer SMS revenue continued to represent the largest component of non-voice revenue accounting for 6 percent of total revenue. The Company continues to drive its non-SMS data revenue through a wide spectrum of retail and enterprise service offerings.

SUBSCRIBERS IN THOUSANDS	2002	%	2003	%	2004	%	2005	%	2006	%	CAGR %
Postpaid	166	34	228	28	329	24	441	21	484	16	31
Prepaid	321	66	602	72	1,030	76	1,682	79	2,621	84	69
Total Subscribers	**487**	**100**	**831**	**100**	**1,359**	**100**	**2,124**	**100**	**3,106**	**100**	**59**

Table-1: Growth in Domestic Subscriber Base
(Figures in the table may not add up due to rounding)

- **Value Offerings in 2006**
  - **KIT My5**
    A friends and family programme was launched under the brand My5. My5 enables a prepaid user to specify five frequently dialed numbers, with Voice Calls and SMS to these numbers being discounted by a substantial margin over the standard rates applicable.
  - **KIT Home Zone**
    Dialog re-launched KIT Home Zone in 2006, targeting rural markets.
  - **Star Call**
    The Star Call voice messaging service allows customers the unique benefit of extending the SMS experience to the voice dimension.
  - **Super 5 Friends + 2 IDD**
    The friends and family feature available to postpaid users was enhanced with the option to add 2 IDD numbers.
  - **Directory Assistance**
    Dialog pioneered Sri Lanka's first agent and SMS/Email supported directory information service.

- Dialog commenced **commercial 3G services** with effect from August 2006, following the award of requisite spectrum by the TRCSL. 3G services are expected to gain utility and popularity during the course of 2007 with handset prices expected to de-escalate by up to USD 100 during the course of the year. 3G service offerings include mobile broadband services, video calling and video streaming. The spectral efficiency of 3G technologies would facilitate the Company in increasing its efficiency in the provision of basic voice services as well as data and video based value added services.

- Kit Net, a prepaid service for fast, convenient and affordable Internet access was introduced during 2006. Users could use a Kit prepaid card to initiate and subscribe for this service. Kit Net also enables a customer to create his or her own account using a special starter pack or virtual account.

- During the year **Dialog Plans** were introduced in partnership with Hatton National Bank, National Savings Bank and Peoples Bank to promote handset sales. Dialog Plans are designed to reduce entry barriers arising from the cost of handsets and facilitates the purchase of a handset on a 12 month payment contract which in turn is associated with specially designed tariff packages.

- The Company has established a far-reaching Dealer Network operated primarily by 10 exclusive business partners. Dialog's business partner network has over the years established 2000+ points of presence encompassing all provinces of Sri Lanka. The Company has also pioneered the use of **SMS based electronic top-up – branded 'eZ Reload' with over 6,000 eZ Reload points**. Dialog has developed a 20,000+ strong retail distribution network for the **top-up** of **prepaid** accounts. Dialog's Prepaid recharge distribution mechanism is underpinned by **35 exclusive distributors**.

- Dialog's **Service Network** experienced rapid growth in 2006 with the Company establishing 32 service points across the island. Dialog service points are on-line and provide customers with convenient access to all products and services marketed by the Company. Dialog service points are operated by Dialog or Dialog's exclusive business partners, enabling a rapid expansion of the service network to meet burgeoning demand from across the country. The Company's service promise is delivered through a highly trained team of service agents who are available and accessible 7 days a week.

- The Company has established the largest online Collection Network in Sri Lanka. The Company provides customers with the convenience of over 1,000+ payment points across the country. In addition, mechanisms such as ATMs, Tele Banking, Internet and SMS based payments have been deployed in the interests of customer convenience.

- The rapid take up of services offered by Dialog is fuelled by its strong **brand equity** synonymous with technological superiority and high quality service delivery. Dialog was ranked **Sri Lanka's Most Valuable Brand** by Brand Finance in its Brand Index 2006.

USAGE AND REVENUE TRENDS

ARPU differs widely between postpaid and prepaid segments. Postpaid ARPU was registered at Rs. 1,682 in 2006, while Prepaid ARPU was recorded at Rs. 432.

The blended ARPU (weighted average between Post and Prepaid) has remained above Rs. 600 despite the implementation of substantial tariff reductions. Over 95 percent of the net new additions were generated from the lower ARPU prepaid segment.

Figure 6 indicates the blended ARPU trend together with the percentage of pre-paid subscribers.

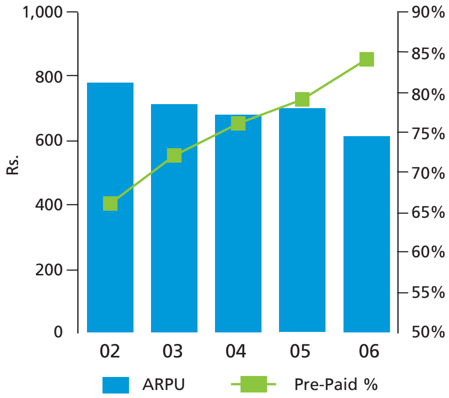


Figure-6: Blended ARPU/month

The percentage increase in MoU YoY was 19 percent for Prepaid and 7 percent for Postpaid. Profit per minute remained stable notwithstanding the tariff cuts in July 2006.

CUSTOMER RETENTION

The Company has applied specific focus to the retention of customers and the achievement of above average retention levels benchmarked against international parallels.

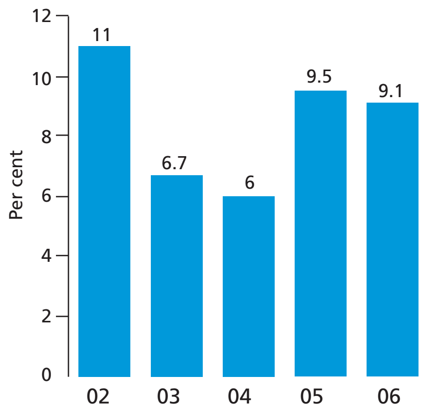


Figure-7: Annual Churn rates

The churn rate for the FY 2006 was 9.11 percent, recording an improvement in performance compared to 9.51 percent for the FY 2005.

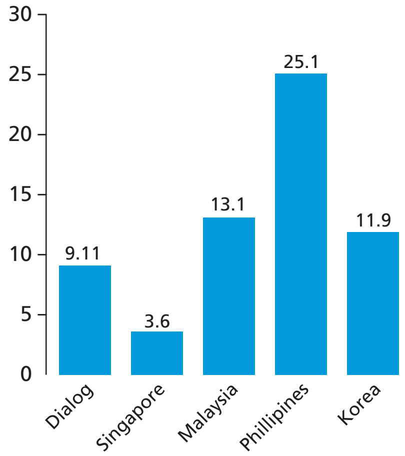


Figure-8: Regional Churn Comparison (approximate estimates)

FINANCIAL PERFORMANCE REVIEW – DIALOG TELEKOM (COMPANY)

OPERATING RESULTS

Salient extracts from the Income Statement, the Balance Sheet and Cash Flow Statements highlighting the historical performance of the Company during the five year period ended 31 December 2006 are given below.

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

INCOME STATEMENTS

(all figures in Rs. Mn.)	YEAR ENDED 31 DECEMBER 2002	2003	2004	2005	2006	CAGR % (FY 2002-2006)
Revenue	4,590	7,477	11,407	18,034	25,149	53
YoY%	43	63	53	58	39	
Direct Cost	2,032	2,973	3,932	6,214	8,536	43
YoY%	56	46	32	58	37	
Gross Profit	2,558	4,504	7,475	11,821	16,613	60
YoY%	33	76	66	58	41	
Gross Margin	56	60	66	66	66	
Administration and Distribution	1,191	1,854	3,152	4,557	6,039	50
YoY%	15	56	70	45	33	
EBITDA	1,985	3,729	5,917	9,416	13,362	61
YoY%	60	88	59	59	42	
EBITDA Margin %	43	50	52	52	53	
PBT	1,306	2,414	4,140	7,054	10,105	67
YoY%	37	85	72	70	43	
PAT	1,083	2,859	4,101	7,012	10,049	75
YoY%	48	164	43	71	43	
PAT Margin %	24	38	36	39	40	
Earnings per Share (Rs.)*	0.59	0.70	0.98	1.15	1.39	24
YoY%	-39	19	40	17	21	

Table-2: Audited Profit and Loss Statements for FY 2002-2006
** EPS has been adjusted to reflect the capital structure changes made in 2005.*

BALANCE SHEET

(all figures in Rs. Mn.)	2002	2003	AS AT 31 DECEMBER 2004	2005	2006
ASSETS					
Non Current Assets	8,106	10,985	13,466	21,918	31,330
Current Assets	2,801	2,332	5,688	10,469	10,466
Total Assets	**10,907**	**13,317**	**19,154**	**32,387**	**41,796**
EQUITY AND LIABILITIES					
Capital & Reserves	3,111	5,478	8,712	17,201	24,913
Non Current Liabilities	5,678	5,791	6,600	8,989	7,569
Current Liabilities	2,118	2,048	3,842	6,198	9,315
Total Liabilities	**10,907**	**13,317**	**19,154**	**32,387**	**41,796**

Table-3: Audited Balance Sheets for FY 2002-2006

CASH FLOW SUMMARY

(all figures in Rs. Mn.)	2002	2003	YEAR ENDED 31 DECEMBER 2004	2005	2006
Net Cash From Operating Activities	1,695	3,477	6,971	9,012	12,046
Net Cash Used in Investing Activities	(3,593)	(3,938)	(4,061)	(10,139)	(13,004)
Net Cash Used in Financing Activities	2,716	(308)	(255)	4,581	(3,429)
Increase/(Decrease) in Cash And Cash Equivalents	**818**	**(770)**	**2,655**	**3,454**	**(4,387)**
Movement in Cash and Cash Equivalents					
At Start of Year	467	1,285	515	3,170	6,624
Increase/(decrease)	818	(770)	2,655	3,454	(4,387)
At the End of Year	**1,285**	**515**	**3,170**	**6,624**	**2,237**

Table-4: Audited Cash flow Statements for FY 2002-2006

Revenue

Total operating revenue for the Company increased by 39 percent to Rs. 25,149 Mn., driven by robust growth of the cellular subscriber base delivering enhanced call revenues. The Prepaid segment contributed a major part of the growth. Other factors driving revenue growth included the growth in coverage and increased international traffic and associated revenues.

Revenue growth during the period FY 2002 to 2006 exhibits a CAGR of 53 percent.

The growth in revenue over the five-year period is depicted in figure 9.

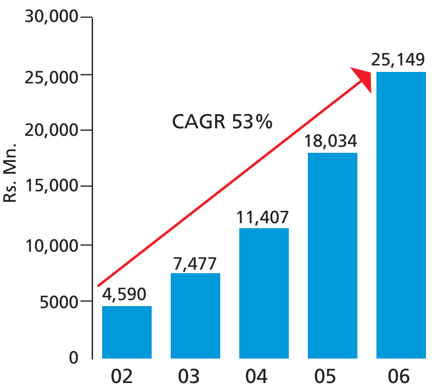


Figure-9: Revenue Growth

The revenue composition over the five-year period is depicted in figure 10.

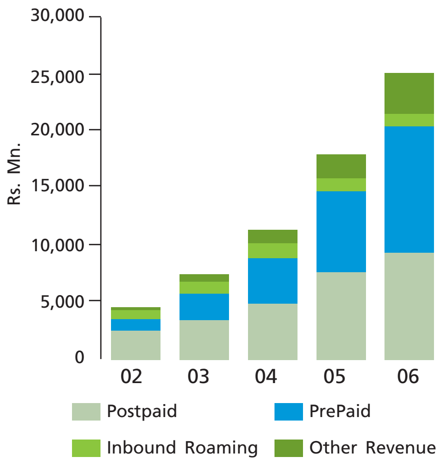


Figure-10: Revenue Composition

As depicted in figure 10, Prepaid revenue is the most significant contributor to revenue and was generated by 2.62 Mn. subscribers in FY 2006. The Postpaid segment continues to represent a steady revenue stream recording a YoY growth of 22 percent. Other revenues increased by Rs. 3,349 Bn. between FY 2002 – 2006 primarily driven by growth in international termination revenues.

Domestic revenues, which consist mainly of Prepaid and Postpaid revenue, accounted for approximately 80 percent of the Company Revenue for the year ended 31 December 2006. Termination revenues accounted for 9 percent while other revenues represented 7 percent of total revenues in FY 2006.

The revenue mix for the years ended 2005 and 2006 is depicted in Table 5.

(all figures in Rs. Mn.)	2005	%	2006	%	Change %
Postpaid incl. outbound roaming	7,737	43	9,410	37	22
Prepaid	6,603	37	10,760	43	63
Inbound Roaming	1,119	6	983	4	-12
International Termination	1,373	8	2,221	9	62
Other Revenue	1,202	7	1,775	7	48
Net Revenue	**18,034**	**100**	**25,149**	100	39

Table-5: Revenue composition
** Previous year's figures have been regrouped to conform to current period's classification*

The Company added approximately 1 Mn. subscribers during 2006 on a net basis. The Company's cellular subscriber base increased by 46 percent to reach 3.11 Mn subscribers at the end of 2006. The Prepaid segment increased by 56 percent from 1.68 Mn. to 2.62 Mn. The Postpaid subscriber base increased by 10 percent from 0.44 Mn. to 0.48 Mn.

The total subscriber base of 3.11 Mn. as at 31 December 2006 is characterised by a Postpaid: Prepaid Mix of 16:84 percent.

No. of Subscribers (Thousands)	2005	Mix %	2006	Mix %	Change %
Postpaid	441	21	484	16	10
Prepaid	1,682	79	2,621	84	56
Total	**2,124**	**100**	**3,106**	100	46

Table-6: Subscriber mix

Direct Costs

Total direct costs for the FY 2006 amounted to Rs. 8,536 Mn compared to Rs. 6,214 Mn. in the previous year, reflecting a 37 percent increase. Direct expenses as a percentage of operating revenue has remained at a constant level of 34 percent relative to 2005.

Significant components of direct costs are Network cost (29 percent), Telecom equipment depreciation (28 percent), International Telecommunication Levy (10 percent), International Origination cost (9 percent), roaming cost (7 percent) and Lease circuit rental costs (4 percent).

Direct costs for the FY 2005 & 2006 are depicted in the ensuing table below.

(all figures in Rs. Mn.)	2005	%	2006	%	Change %
Network Related Costs	**5,408**	**87.03**	**7,503**	**87.89**	**39**
As a % of Revenue	29.99		29.85		
Customer Related Costs	**790**	**12.71**	**995**	**11.65**	**26**
As a % of Revenue	4.38		3.96		
Other	**16**	**0.26**	**39**	**0.45**	**143**
As a % of Revenue	0.09		0.15		
Total Direct Costs	**6,214**	**100**	**8,536**	100	37
As a % of Revenue	34		34		

Table-7: Direct costs

The variation in direct cost over the five-year period is depicted in figure 11.

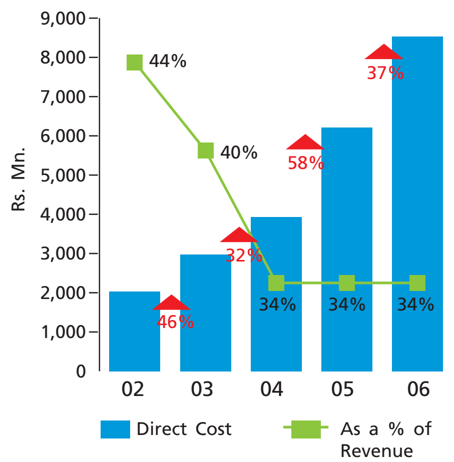


Figure-11: Direct Cost

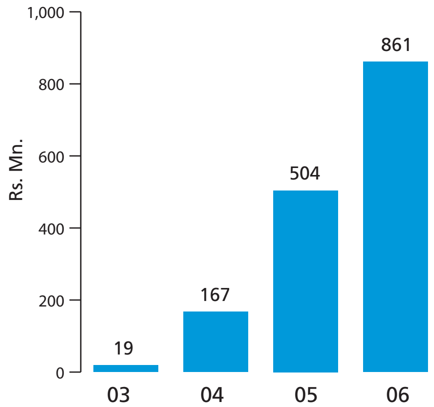


Figure-12: ITL payments

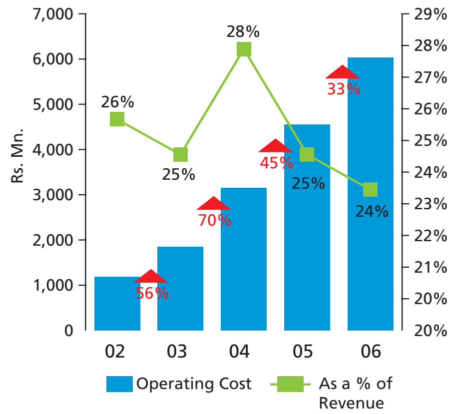


Figure-13: Operating expenses

Direct costs as a percentage of revenue has reduced drastically from 44 percent to 34 percent due to scale economies.

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 (Rs. 861 Mn.) for FY 2006. The levy is provided for and classified under direct costs. The PAT figures for FY 2005 and FY 2006 are stated after the deduction of this levy, the dues under which have been settled in full for 2006. The total levy paid in respect of FY 2005 amounted to Rs. 504 Mn. It is envisaged that the Telecommunications 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 cost reversal at a future date and has not been taken in to account at this stage.

Operating Expenses

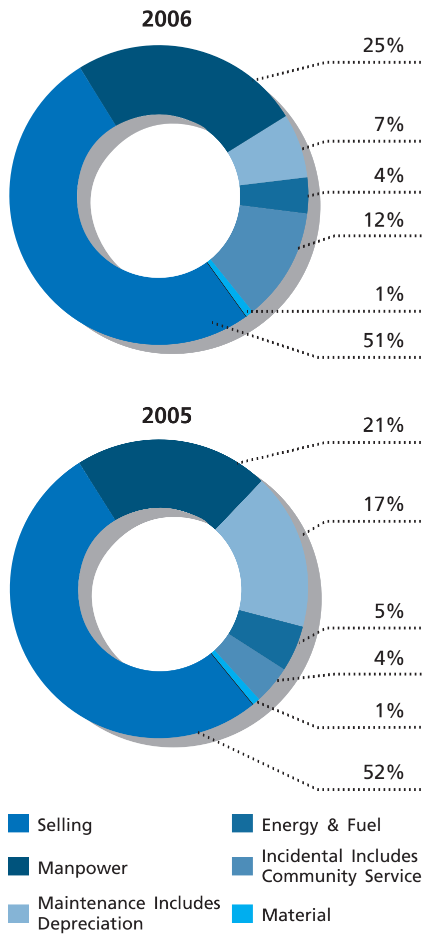
The Company's operating costs recorded at Rs. 6,039 Mn. grew by 33 percent relative to those applicable to the FY 2005. The growth rate of 33 percent is however lower than the 39 percent growth rate registered by Operating Revenues.

Operating costs comprise mainly of selling and distribution expenses, man-power and general administration costs.

Operating expenses as a percentage of operating revenue has improved to 24 percent in comparison to the ratio of 25 percent recorded during FY 2005. The improvement in cost efficiency is attributed to relative cost reductions with respect to administration and selling expenses.

Selling expenses, inclusive of sales commission, advertising & promotional expenses, were the most significant contributor to operational expenditure (51 percent).

The variation in operating expenses over the preceding five-year period is depicted in figure 13.



** Previous year's figures have been regrouped to conform to current period's classification.*

Figure-14: Operating expenses composition

Manpower cost accounted for 25 percent of total operating costs, however, as a proportion of revenue, manpower has been maintained at 6 percent. Incidental expenses increased due mainly to increase in professional & consultancy fees, office rent and security charges. Scale economies and favourable contract terms that were negotiated during the year with telco vendors, enabled savings in maintenance costs relative to FY 2005.

Depreciation

The Company has recorded a depreciation and amortisation charge of Rs. 2,788 Mn. for FY 2006 against the FY 2005 figure of Rs. 2,152 Mn., representing a 30 percent increase YoY.

Finance Costs

The net finance cost for FY 2006 amounted to Rs. 553 Mn. The composition of the net finance cost includes interest on borrowings during the period of Rs. 637 Mn. and interest income of Rs. 250 Mn.

The net finance cost also includes the impact of exchange losses via the Rupee depreciation amounting to Rs. 166 Mn., arising from the net revaluation of foreign currency denominated assets and liabilities (translational) and realised exchange loss (transactional). The net exposure on foreign currency and the depreciation of the rupee against the US Dollar by 6 percent during FY 2006 were the main causes for the exchange loss.

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 is however, liable to pay taxes on interest earnings on Rupee deposits, and is also subject to the Economic Service Charge (ESC) of 0.25 percent on Turnover with effect from January 2005.

Profitability

- **Gross Profit**

  The gross profit of Rs. 16,613 Mn. represents an increase of 41 percent relative to the Rs. 11,821 Mn. recorded for the FY 2005. Gross profit growth is recorded at 2 percentage points in excess of revenue growth, reflecting a relative shrinkage in direct costs. The Company was able to maintain its gross margins despite aggressive tariff reductions.

  The variation in annual gross profit of the Company for the past five years is presented in figure 15.

  The Company has maintained its GP margin at 66 percent over FY 2004-2006 following reductions in direct costs over the same period.

- **EBITDA**

  The Company exhibits similar growth in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as depicted in figure 16. Dialog Telekom's earning growth is underpinned by revenue growth (CAGR of 53 percent) combined with enhancements in operational efficiencies as demonstrated by the fact that Gross Profit and Profit after Tax have displayed a CAGR of 60 percent and 75 percent respectively.

  EBITDA growth delivered by the Company for the past five years is illustrated in figure 16.

  As evidenced in figure 16, the EBITDA for the Company has grown at a CAGR of 61 percent over the five year period. EBITDA was recorded at Rs. 13,362 Mn. in FY 2006 compared to Rs 9,416 Mn in FY 2005 representing a growth of 42%.

  The ensuing graph provides a reconciliation of the EBITDA margin for FY 2006 vis-à-vis FY 2005.

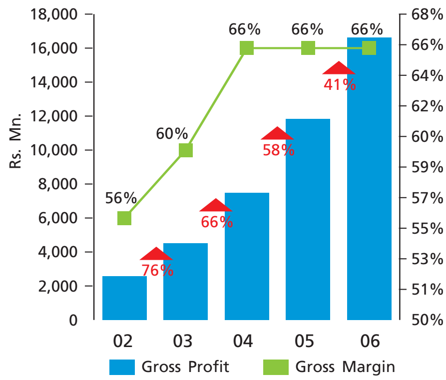


Figure-15: Gross Profit

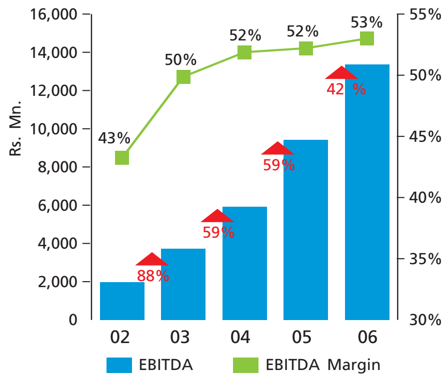
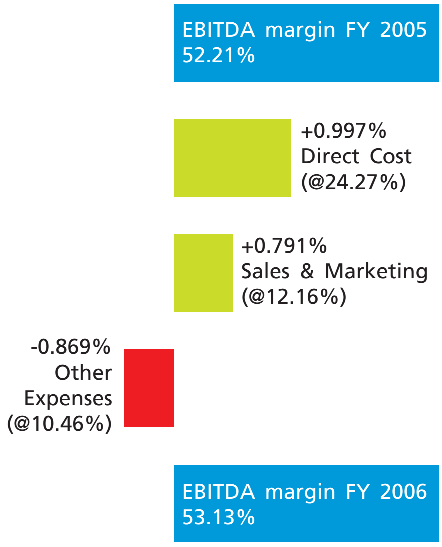


Figure-16: EBITDA

- **PAT**

  The Company recorded a profit after tax of Rs. 10,049 Mn. in FY 2006, representing a 43 percent earnings growth relative to the FY 2005 figure of Rs. 7,012 Mn. The Company has realised scale economies, enabling it to expand its profit margin from 39 percent recorded for FY 2005 to 40 percent in FY 2006 as depicted in figure 18.

  The PAT growth delivered by the Company over the past five years is given in figure 18.



@ denotes % of revenue excluding depreciation and amortisation

Figures-17: Analysis of the improvement in EBITDA margin

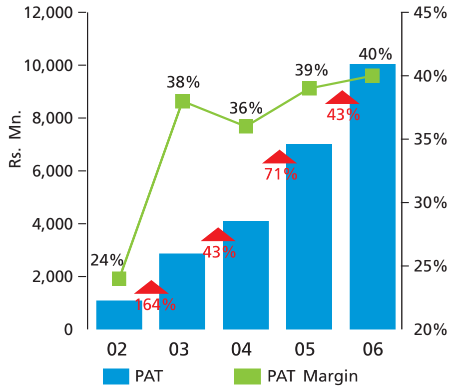


Figure-18: Profit After Tax

GROUP FINANCIAL SUMMARY

(all figures in Rs. Mn. except for ratios)	Year Ended 31 December 2005 Group	 2006 Group
Net Revenue	18,034	25,679
Growth (%)		*42*
Direct Costs	6,214	8,822
Growth (%)		*42*
Gross Profit	11,821	16,858
Growth (%)		*43*
Gross Margin (%)	66	66
Operating Expenses	4,557	6,180
Growth (%)		*36*
EBITDA	9.416	13,744
Growth (%)		*46*
EBITDA Margin (%)	52	54
PBT	7,054	10,193
Growth (%)		*44*
PAT	7,012	10,119
Growth (%)		*44*
PAT Margin (%)	39	39

Table-8: Group Profit and Loss Highlights

Revenue

For the year ended 31 December 2006, Group Revenue increased by 42 percent to Rs. 25,679 Mn. vis-à-vis revenue reported for FY 2005.

Gross Profit

Gross Profit at Group level increased to Rs. 16,858 Mn., which is a 43 percent increase over the Rs. 11,821 Mn. gross profit figure recorded in 2005.

EBITDA

The Group level EBITDA was registered at Rs. 13,744 Mn., representing a 46 percent increase from the 2005 EBITDA figure of Rs. 9,416 Mn.

PAT

The Group recorded a Profit after Tax (PAT) of Rs. 10,119 Mn., representing a 44 percent growth relative to 2005 earnings of Rs 7,012 Mn. The PAT of DTL Group, is the highest recorded to date by a Group/Company in the history of the Colombo Stock Exchange (CSE), surpassing Company's own PAT record established in FY2005.

- **Segmental Performance**
  Cellular business profit before tax (PBT) accounted for 90 percent of consolidated PBT in FY 2006 compared to 93 percent in 2005. EGO contributed 10 percent, an improvement by two percentage points compared to FY 2005. Dialog Broadband contributed 2 percent to **Group's PBT in FY 2006**. Asset Media's subsidiaries CBN and CBN Sat, which were acquired in December 2006, recorded a marginal loss due to the voluntary waiver of service charges for the month of December 2006.

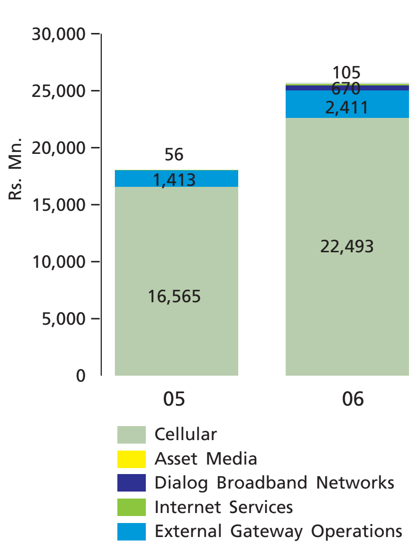


Figure-19: Revenue from Segments

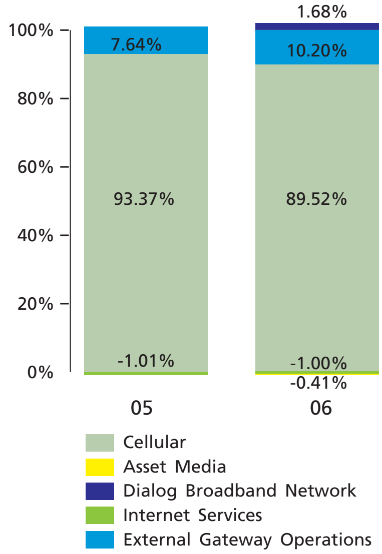


Figure-20: Profit Before Tax from Segments

BALANCE SHEET

ASSETS

Dialog Telekom's non-current assets as at 31 December 2006, stood at Rs. 31,330 Mn., representing an increase of 43 percent compared to 2005. The current assets of the Company were recorded at Rs. 10,466 Mn. as at 31 December 2006.

Short term investments, cash in hand and at bank net of bank overdraft, as at 31 December 2006, was recorded at Rs. 2,237 Mn. compared to Rs. 6,624 Mn. as at 31 December 2005 representing a reduction of Rs. 4,387 Mn. The reduction in cash position is due mainly to the heavy cash outflow in terms of capital expenditures, acquisitions and scheduled debt servicing in the absence of any significant fund raising activities vis-à-vis FY 2005.

LIABILITIES

The Company renegotiated an accelerated repayment of credit facilities obtained via vendor financing in order to mitigate exposure to foreign-currency denominated liabilities. The Company has ensured that debt servicing on all its term loans is up-to-date and current.

WORKING CAPITAL

The net working capital of the Company for FY 2006 was Rs. 1,152 Mn., a decrease of 73 percent from Rs. 4,271 Mn. for FY 2005 due mainly to vendor financing. A large part of the short-term vendor finance facilities will be refinanced with long term borrowings in due course.

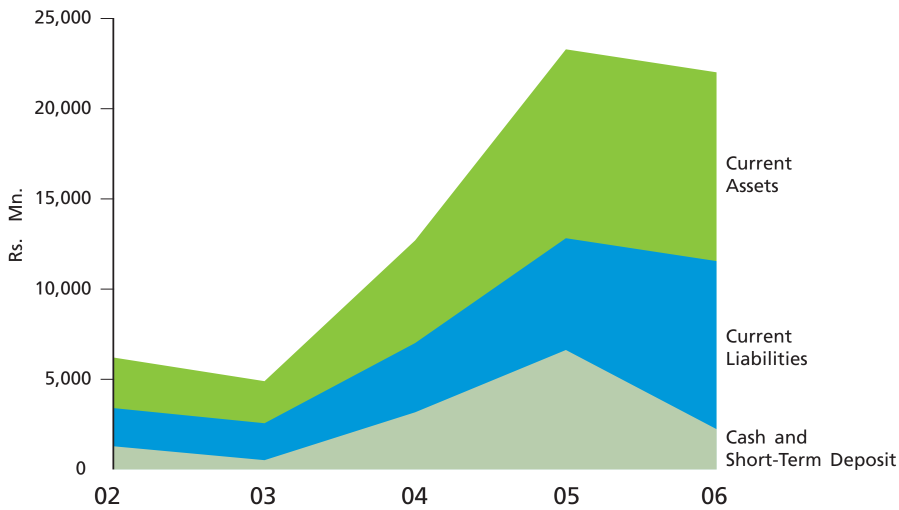


Figure-21: Working Capital Management

SHAREHOLDERS FUNDS

The strong earnings growth of 43 percent YoY helped to boost total shareholders funds from Rs. 17,201 Mn. to Rs. 24,913 Mn.

CAPITAL STRUCTURE

The total assets of the Company, as at 31 December 2006, of Rs. 41,796 Mn. were funded by a combination of shareholders funds, long term creditors and short term creditors in the proportions of 60 percent, 18 percent and 22 percent respectively. The long-term funding, accounts for 78 percent of total funding and comprises of shareholder funds (77 percent) and debt (23 percent).

The adjusted Net asset per share for 2006 is Rs 3.37, representing an YoY increase of 45 percent. Compared to FY 2005, net assets per share has increased in FY 2006 as a result of substantial growth in profit during the year.

The Gearing Ratio has improved YoY owing to scheduled principal repayments of debt (including IFC and HSBC), and strong earnings growth during the year.

Net Debt to EBITDA ratio has increased YoY, due to the increase in the net debt position, as assets held in cash equivalent form reduced over FY 2006, with the Company investing in capital expenditure and acquisitions during the year.

Return on Capital Employed YoY has increased due to growth in net profit by 43 percent and reduction in debt position.

Earnings per share improved YoY to Rs. 1.39 from Rs. 1.15 recorded in FY2005, representing an increase of 21 percent.

The current ratio has reduced from 1.69 times in FY 2005 to 1.12 times in FY 2006 mainly due to the reduction in cash position. In parallel, the quick ratio also exhibited a similar trend reducing from 1.63 times to 1.07 times.

An interest cover of 19 times is recorded as a result of a full year's interest charge pertaining to IFC and HSBC debt. In FY 2005, IFC interest costs were capitalised in full (interest applicable to project implementation period) while the HSBC facility did not accrue a full year's interest as it was drawn down in the month of August 2005.

Return on equity remains above the 40 percent mark, albeit asset turnover has exhibited a marginal reduction during 2006. (Figure 22)

KEY INDICATORS – COMPANY

KPI	Units	2002	2003	2004	2005	2006
Adjusted Net asset per share*	Rs.	1.69	1.35	2.15	2.32	3.37
Gearing Ratio	%	45.75	34.46	28.44	36.71	25.40
Total Debt to EBITDA	Times	1.32	0.77	0.59	1.06	0.91
Net debt to EBITDA	Times	0.52	0.61	0.05	0.36	0.74
Return on Equity	%	34.81	52.19	47.07	40.76	40.34
Return on Capital Employed	%	12.56	23.60	26.86	26.85	31.07
Adjusted Earnings per Share*	Rs.	0.59	0.70	0.98	1.15	1.39
Current Ratio	Times	1.32	1.14	1.48	1.69	1.12
Quick Ratio	Times	1.22	1.05	1.42	1.63	1.07
Interest cover	Times	15	10	20	28	19

Table-9: Key Indicator

** EPS and Net Assets per Share have been adjusted to reflect the capital structure changes made in 2005.*

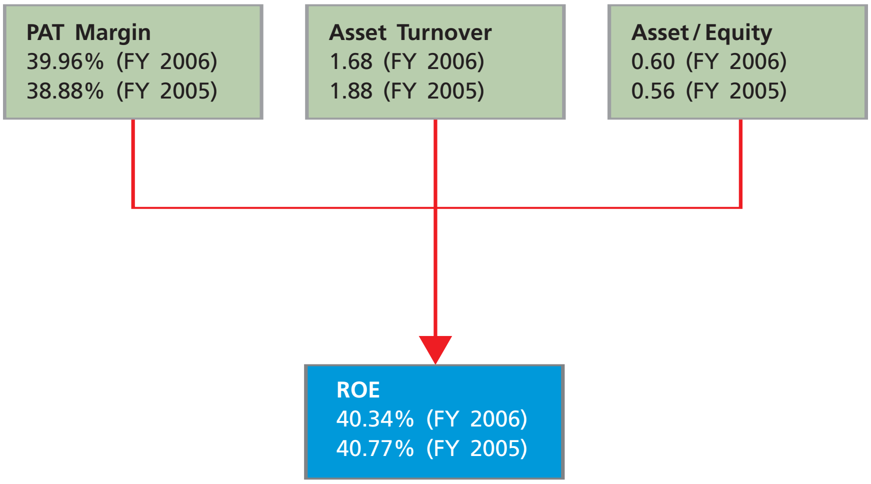


Figure-22: ROE Analysis

GROUP BALANCE SHEET HIGHLIGHTS

Some of the significant changes in the Group's balance sheet during the FY 2006 are as follows:

- Fixed asset additions during the year amounted to Rs. 11,978 Mn. compared to Rs. 8,246 Mn. in FY 2005.
- Intangible assets increased from Rs. 1,628 Mn to Rs. 3,603 Mn. mainly due to goodwill resulting from the acquistion of Asset Media (Pvt) Ltd. amount to Rs. 325 Mn. and to subsequent acquisition by Asset Media of a 100 percent stake in CBN and CBN Sat amounting to Rs. 1,084 Mn.
- As at 31 December 2006, current assets reduced to Rs. 9,792 Mn. from Rs 10,766 Mn.

CASH FLOW

OPERATING ACTIVITIES

The net cash flow generated from operating activities was recorded at Rs. 12,046 Mn. in FY 2006 compared to Rs. 9,012 Mn. in FY 2005, representing an increase of 34 percent due mainly to expansion of operations and overall improvement in margins.

INVESTING ACTIVITIES

During the year, Dialog spent Rs. 13,019 Mn. for the purchase of property, plant, equipment, licenses and acquisitions compared to Rs. 10,175 Mn. invested in FY 2005, which represent a 28 percent YoY growth in line with the Company's strategy of broadening its product and service scope.

In 2006, the Company also invested Rs. 325 Mn. for the acquisition of Asset Media (Private) Limited, Rs. 500 Mn. as 3G spectrum fees paid to the TRC.

FINANCING ACTIVITIES

Dialog's scheduled principal repayments on its loans amounted to Rs. 1,058 Mn. in FY 2006 relative to Rs. 521 Mn. in FY 2005.

- **Dividends**
  A final dividend of Rs 2,813 Mn. in respect of the previous financial year was paid during the year 2006.

STRATEGIC BUSINESS UNITS AND SUBSIDIARY PERFORMANCE

INTERNATIONAL BUSINESS

External Gateway Operations contributed 10 percent of Company profitability in 2006 (8 percent in 2005). Dialog Global plays a lead role in Sri Lanka's International Bandwidth market, with direct access to SEA-ME-WE3 and SEA-ME-WE4 sub-marine bandwidth. The Company's international infrastructure includes a comprehensive configuration of satellite earth stations which supplement under sea bandwidth capacities through connectivity to multiple satellite providers and destinations across the globe.

INTERNET BASED SERVICES

In November 2006, Dialog's ISP product portfolio was enhanced with a Prepaid offering – Kit Net, which provides fast, convenient and affordable Prepaid Internet access to subscribers purchasing accounts based on disposable Prepaid cards. Mobile Internet is also exhibiting significant growth driven by the penetration of GPRS, EDGE & 3G enabled handsets. Increased adoption of mobile email and connectivity solutions (such as Blackberry) has also contributed to increased data usage.

DIALOG BROADBAND NETWORKS (PRIVATE) LIMITED

During 2006, Dialog Broadband Networks (DBN) recorded a PAT of Rs. 153 Mn., representing a contribution of approximately 2 percent to group PAT (after fair value adjustments).

For the year ended 31 December 2006, DBN recorded revenue of Rs. 775 Mn.

The GP margin and NP margin of DBN stood at 41 percent and 20 percent respectively.

The intangibles of DBN as at 31 December 2006 have been tested for impairment.

ASSET MEDIA (PRIVATE) LIMITED

Asset Media (subsidiary of Dialog Telekom Limited) completed the acquisition of a 100 percent stake in CBN and CBN Sat on 2 December 2006 for a purchase consideration of Rs. 762 Mn. The intangible assets reflected in the Consolidated Financial Statements consists of goodwill resulting from said acquisition by Asset Media (Private) Limited, amounting to Rs. 1,084 Mn.

The intangibles of Asset Media as at 31 December 2006 have been tested for impairment.

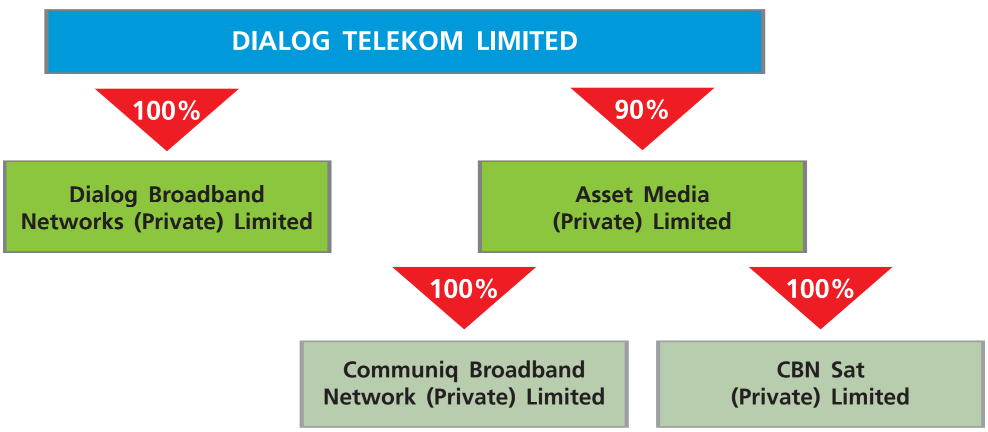


Figure-23: Ownership Structure of Subsidiaries

MARKET INFORMATION ON ORDINARY SHARES OF DIAL

	2005*	2006
Market Value		
Highest Price (Rs.)	**22.50 (4 Oct 2005)**	**29.75 (1 Dec 2006)**
Lowest Price (Rs.)	**14.00 (28 Jul 2005)**	**16.00 (16 Jan 2006)**
As at the year end (Rs.)	**16.50**	**26.50**
Trading Statistics		
Number of Trades	47,530	26,411
% of Total Market Trades	**9.4**	**2.8**
Number of Shares Trades	582,200,667	403,601,666
% of Total Shares Traded	**25.3**	**10.3**
% of Public Float**	81.7	53.7
Value of all Shares Traded (Rs. '000)	10,004,541	8,465,271
Average Daily Turnover (Rs. '000)	95,281	35,126
% of Total Market Turnover	**17.1**	**8.1**
Market Capitalisation (Rs. '000)	122,156,676	196,191,025
% of Total Market Capitalisation	**20.9**	**23.5**

* *Subsequent to 28 July 05 – date of commencement of trading at the CSE*
** *Excluding unexercised ESOS shares and TM International (L) Limited Holding*

Table-10: Market Information

THE DIAL SHARE

The Share Price of Dialog Telekom Limited (DIAL) increased by 61 percent relative to the previous year's closing price, to end the year at a closing price of Rs. 26.50 (31 December 2006). During the year, the share price ranged between a low of Rs. 16.00 and a high of Rs. 29.75.

The DIAL share outperformed the All Share Price Index (ASPI) by 19 percent and the Blue Chip Milanka Price Index (MPI) by 9 percent during the year ended 31 December 2006, reflecting high investor confidence placed in the Company based on its market leadership position and its strong earnings growth outlook.

The index representing the telco industry grew by 62 percent during the year, principally supported by the 61 percent growth in DIAL.

Figure-24: Telco Industry vs ASPI

MARKET CAPITALISATION & ENTERPRISE VALUE

The total Market Capitalisation of Dialog Telekom as at 31 December 2006 was Rs 196 Bn., 61 percent higher than the Rs. 122 Bn. as at 31 December 2005 representing, a value creation of Rs 74 Bn. for the same period.

DIAL contributed 30 percent of the growth in the total capitalisation of the CSE during the year 2006. Dialog Telekom is the largest listed company on the Colombo Stock Exchange in terms of Market Capitalisation. The Company has the distinction of having become the first Company in Sri Lanka to achieve a Market Capitalisation exceeding USD1 Bn.

	Market Value as at 31 December '05 (Rs. Mn.)	Market Value as at 31 December '06 (Rs. Mn.)	Value Gain (Rs. Mn.)
Dialog Telekom	**122,157**	**196,191**	**74,034** ↑
Total Market	**584,040**	**834,763**	**250,723** ↑

Table-11: Value of DIAL relative to market

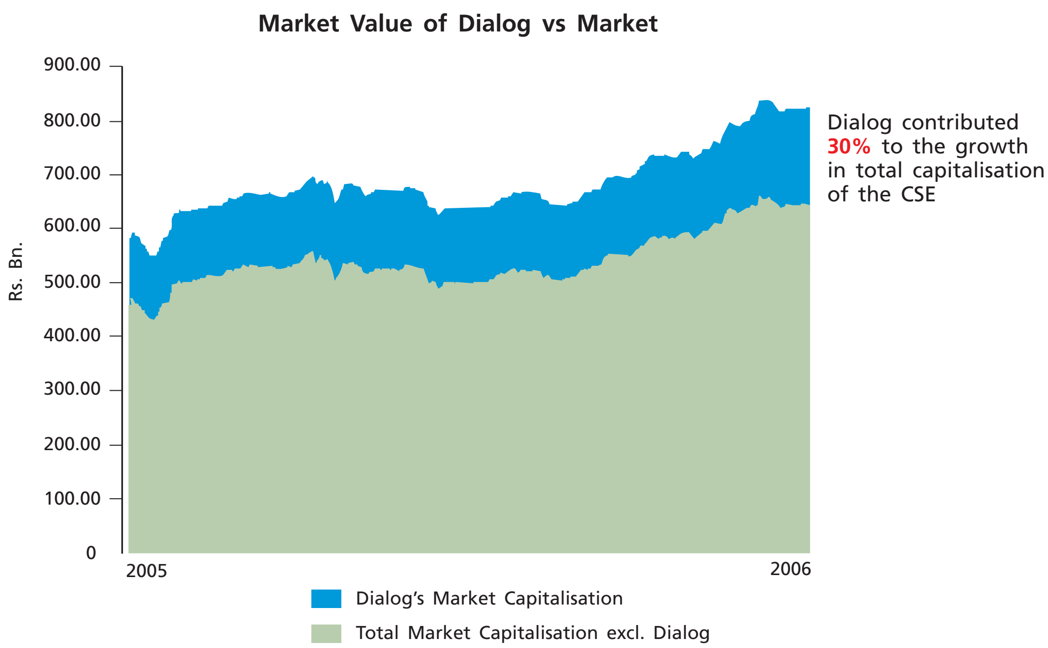


Figure-25: Market Value of Dialog vs Market

The Enterprise Value of the Company as at 31 December 2006 stood at Rs. 203 Bn. representing a 61 percent increase over the Rs. 126 Bn. recorded as at 31 December 2005.

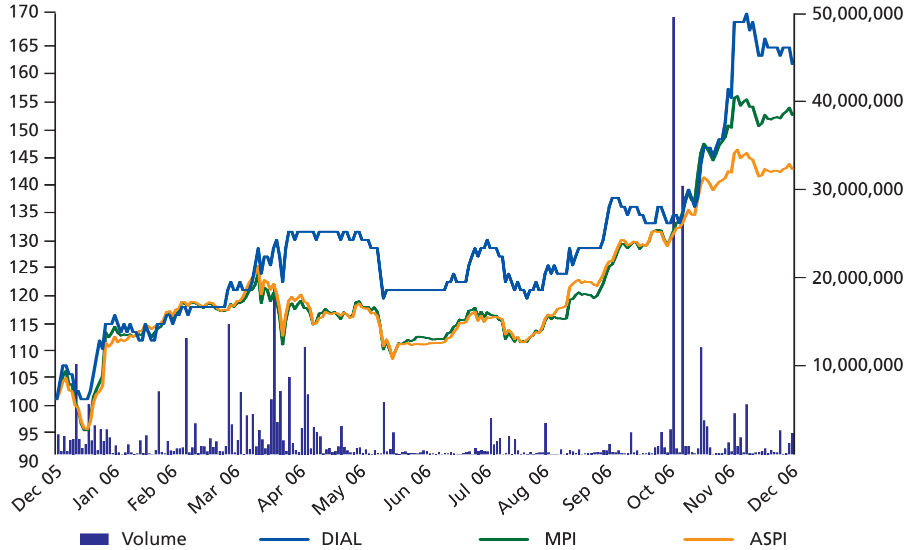


Figure-26: Share Price, Share Volumes and Market Indices

DIVIDENDS

DIAL's dividend policy seeks to maintain a 40-60 percent payout of profit subject to the fulfillment of funding requirements arising from capital expenditure projects aimed at expanding the Company's products, services and growth potential.

The Board has recommended to the shareholders of the Company, that a 40 percent final dividend based on the Profits of 2006, be approved. The proposed dividend translates to a dividend per share of Rs. 0.55 (55 cents) compared to Rs. 0.38 (38 cents) declared and paid in the previous year. The total dividend proposed in 2006 is Rs. 4,048 Mn. compared to the Rs. 2,813 Mn. paid out of the 2005 profits, representing an increase of 44 percent.

TOTAL SHAREHOLDER RETURNS

The Total Shareholder Returns (TSR) on a DIAL Share in 2006 is recorded at 63 percent, compared to the average gross return on a one year T-bill rate of 12.12 percent during the same period. TSR is derived from a 61 percentage point increase in share price and a 2 percentage point increase in dividend yield based on a DPS of Rs. 0.55 (55 cents). The latter represents an improvement over last year's TSR of 40 percent.

EARNINGS PER SHARE

The Earnings Per Share (EPS) of Rs. 1.40 recorded a growth of 22 percent over the EPS of 1.15 recorded in 2005. 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 Employee Share Options Scheme (ESOS) Trust.

PRICE EARNINGS RATIO

The Price Earnings Ratio (PER) as at 31 December 2006 is recorded at 18.9 times compared to 14.3 times as at 31 December 2005. The DIAL share has consistently traded at a premium earnings multiple to the market, which was recorded at 13.9 times as at 31 December 2006.

RETURN ON EQUITY

The Return on Equity (ROE) for the Group decreased marginally from 40.8 percent in 2005 to 40.5 percent in 2006. Return on Capital Employed (ROCE) for the Group improved from 26.9 percent to 29.3 percent. Strong earnings growth enabled the improvement in ROCE. The marginal drop in ROE is due mainly to the movement in the share capital as a result of ESOS shares being exercised by the employees.

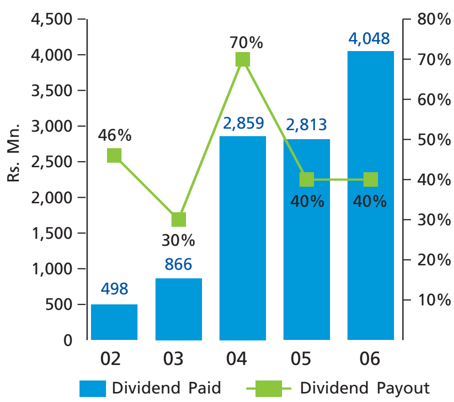


Figure-27: Dividend Payout

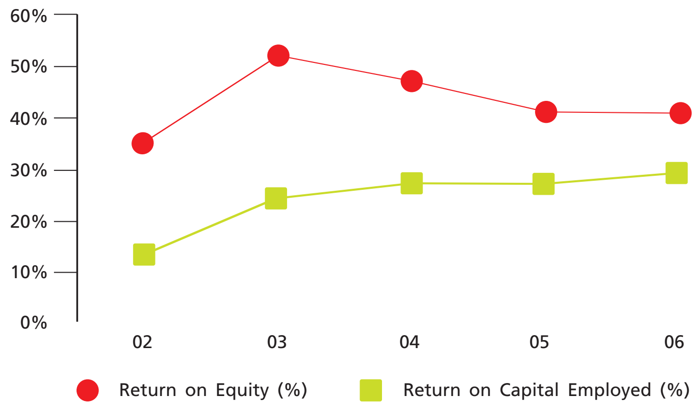


Figure-28: Return on Equity and Return on Capital Employed

PRICE TO BOOK RATIO

The Price to Book ratio as at 31 December 2006 is recorded at 7.8 times, compared to 7.1 times during the previous year, re-affirming the positive investor perception of the Group in terms of Profit, Balance Sheet strength and growth.

Valuation Yardsticks	2005	2006
P/E	14.3	**18.9**
EV/EBITDA	13.4	**14.8**
Price/Book (PBV)	7.1	**7.8**
Dividend Yield	2.3%	**2.1%**
Total Shareholder Returns	40%	**63%**

Table-12: Valuation yardsticks

LIQUIDITY

The average daily turnover of the DIAL Share was Rs. 35.1 Mn. during 2006. DIAL turnover levels represented 8.1 percent of total market turnover during 2006, which is lower than the 17.1 percent registered last year, indicating a relative decrease in liquidity levels.

In terms of volume, 1.7 Mn. shares of DIAL Shares traded on average per day exhibiting highs of 4 Mn. and 5.2 Mn. in April and November respectively, and a low of 0.2 Mn. in July 2006. However, the DIAL share has been the most liquid share during 8 months of the year 2006 as measured by the Market Impact Cost published by the CSE.

The free float of the share, being the number of shares of the issued capital freely available for trading, calculated by excluding all strategic holdings, shares held by Directors, Executives and connected parties of the Company was 8.95 percent as at 31 December 2006 compared to 8.30 percent at the end of 2005.

COMPOSITION OF SHAREHOLDING

The total number of Shareholders of DIAL decreased to 22,727 as at 31 December 2006 compared to the 30,212 as at 31 December 2005.

The public float of DIAL which excludes shares held by Directors and connected parties from the issued capital was 10.20 percent as at 31 December 2006 compared to 9.63 percent in 2005. In terms of composition of the public float, foreign investors held 76 percent of the float, 16 percent was held by local institutional investors and 8 percent by local retail investors.

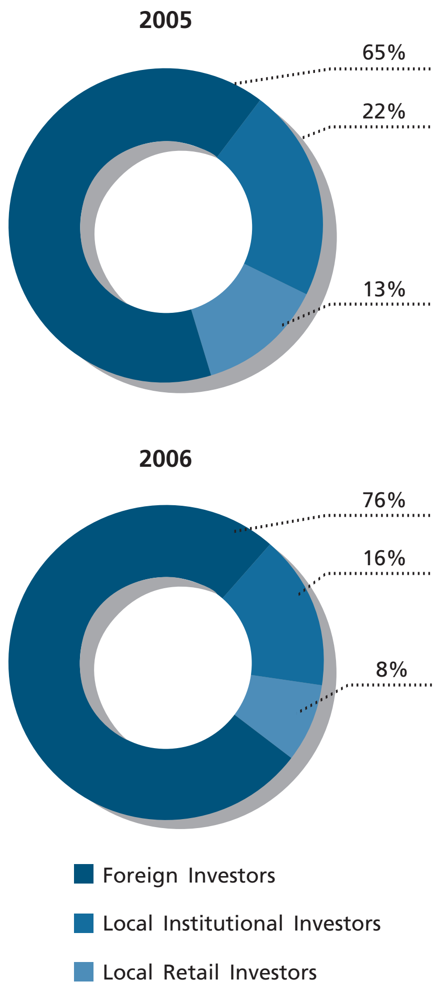


Figure-29: Composition of the Public float

SHAREHOLDER PROFILE

	31 December 2005				31 December 2006			
	No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1 to 1,000	14,232	47.11	10,589,786	0.14	11,399	50.16	7,904,184	0.11
1,001 to 5,000	13,653	45.19	27,009,800	0.37	9,737	42.84	18,957,088	0.26
5,001 to 10,000	985	3.26	7,275,310	0.10	625	2.75	4,601,100	0.06
10,001 to 50,000	999	3.30	20,392,960	0.28	690	3.04	14,262,900	0.19
50,001 to 100,000	135	0.45	10,308,090	0.14	99	0.44	7,383,600	0.10
100,001 to 500,000	120	0.40	27,813,367	0.38	97	0.43	22,771,267	0.31
500,001 to 1,000,000	15	0.05	10,707,100	0.15	20	0.09	14,319,500	0.19
Over 1,000,000	73	0.24	7,289,338,500	98.46	60	0.26	7,313,235,274	98.78
TOTAL	30,212	100.00	7,403,434,913	100.00	22,727	100.00	7,403,434,913	100.00

- **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**

Table-13: Distribution of Shareholders

TWENTY LARGEST SHAREHOLDERS OF THE COMPANY

Shareholder's Name	31 December 2005 No. of Shares	%	31 December 2006 No. of Shares	%
TM International (L) Limited	6,491,205,819	87.67	6,491,205,869	87.68
Dialog Telekom Employees ESOS Trust	198,841,991	2.69	160,435,462	2.17
HSBC Intl Nominees Ltd – JPMCB – T Rowe New Asia Fund	50,522,500	0.68	71,680,900	0.97
HSBC Intl Nominees Ltd – BPSS LUX – Aberdeen Global Asia Pacific Fund	15,056,900	0.20	68,733,000	0.93
HSBC Intl Nominees Ltd – SSBT – Daily Active Emerging Markets Securities Lending Common Trust Fund	44,108,583	0.60	45,280,983	0.61
HSBC Intl Nominees Ltd – JPMLU – Genesis Smaller Company	13,186,800	0.18	40,931,900	0.55
Investors Bank and Trust s/a South Asia Portfolio	26,026,400	0.35	34,948,800	0.47
HSBC Intl Nominees Ltd – JPMCB – T Rowe International Discovery Fund	22,308,000	0.30	34,873,200	0.47
HSBC Intl Nominee Ltd – SSBT – SSGA – Emerging Market Fund	31,536,821	0.43	34,792,821	0.47
HSBC Intl Nominees Ltd – JPMCB – Emerging Markets Growth Fund	732,400	0.01	32,493,800	0.44
Sri Lanka Insurance Corporation Limited – Life Fund	40,724,600	0.55	23,536,000	0.32
Sri Lanka Insurance Corporation Limited – General Fund	25,415,600	0.34	20,782,600	0.28
HSBC Intl Nominees Ltd – BPSS LDN – Aberdeen Asia Pacific Fund	1,020,500	0.01	20,000,000	0.27
HSBC Intl Nominees Ltd – BBH – Genesis Emerging Markets Opportunities Fund Limited	16,403,700	0.22	17,819,600	0.24
Northern Trust Co s/a Murray Johnstone International Delaware Business Trust	Nil	Nil	16,150,000	0.22
HSBC Intl Nominees Ltd – JPMLU – Capital International Emerging Markets Fund	296,300	0.00	14,786,600	0.20
HSBC Intl Nominees Ltd – HSBC FS – LG India Fund Limited	14,116,100	0.19	14,116,100	0.19
HSBC Intl Nominees Ltd – SSBT – California Public Employees Retirement System	Nil	Nil	13,901,900	0.19
Employees Provident Fund	18,661,400	0.25	13,263,400	0.18
RBC Dexia Investor Services Trust s/a Edinburg Dragon Trust PLC	3,409,500	0.05	13,097,300	0.18

Table-14: Twenty Largest Shareholders

DIALOG TELEKOM ENCOURAGES THE CREATION OF VALUE WHILE PROVIDING FOR ACCOUNTABILITY COMMENSURATE WITH THE RISKS IN THE COMPANY'S BUSINESS.

STATEMENT OF CORPORATE GOVERNANCE

OUR COMMITMENT AND APPROACH

Dialog Telekom Limited is committed to achieving and maintaining the highest standards of Corporate Governance so as to increase sustainable, long-term shareholder value and to ensure greater transparency. We believe that business integrity, professionalism and ethical values are a reflection of good Corporate Governance. In furtherance of this commitment, the Company developed and adopted its own Code of Corporate Governance, which encourages 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.

The Code was 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" which provide details on how each Principle should be applied. The Code is reviewed regularly in light of local and international laws, regulations and best practices.

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

1. Establishment of the Charter of the Board of Directors
2. Remunerate fairly and responsibly
3. Accountability, Audit & Safeguard the integrity in financial reporting
4. Promote ethical and responsible decision-making
5. Recognise and manage risk
6. Respect the rights of shareholders
7. Recognise the legitimate interests of stakeholders
8. Make timely and balanced disclosure

CORPORATE GOVERNANCE REPORT 2006

This Report describes the Company's Corporate Governance framework with specific reference to the eight principles listed above. The extent of compliance by the Company in 2006 is disclosed below.

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

Effective Board

Principle
The Company should be headed by an effective Board, which is collectively responsible for the success of the Company.

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. Matters reserved for the Board includes:-

- Providing entrepreneurial leadership of the Company
- Providing strategic guidance, evaluate, review and approve corporate strategy and the performance objectives for the Company
- Approving and monitoring financial and other reporting practices adopted by the Company
- Effectively reviewing and constructively challenging the management performance in meeting the 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. A total of four meetings were held in the financial year ended 31 December 2006. The attendance of Directors at these meetings are set out in the table below.

In accordance with our code the Company has taken measures to obtain Directors' and Officers' Liabilities Insurance cover.

Name of Director	Date of Appointment / Resignation during the year	Attendance	Percentage of Attendance
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	–	4/4	100
Dr. Shridhir Sariputta Hansa Wijayasuriya	–	4/4	100
Ir. Prabahar s/o Nagalingam Kirupalasingam	–	4/4	100
Mr. Moksevi Rasingh Prelis	–	4/4	100
Mr. Yusof Annuar bin Yaacob	–	4/4	100
Dato' Sri Mohammed Shazalli bin Ramly	–	1/4	25
Mr. Mohamed Vazir Muhsin	*Appointed on 14 June 2006*	2/2	100

Table-1: Attendance at Board meetings

BOARD COMMITTEES

The Board is supported by the Board Committees, namely, the Audit Committee and the Nominating and Remuneration Committee, which have been delegated with certain specific responsibilities. These Committees are made up of Non-Executive Directors. 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 are highlighted for approval by the Board of Directors. 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 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. Further, the Board appointed Mr. Mohamed Vazir Muhsin to the Audit Committee in January 2007.

The 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 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 2006. Details of the attendance of the Directors are as follows:

Name of Director	Attendance	%
Mr. Moksevi Rasingh Prelis	4/4	100
Ir. Prabahar s/o Nagalingam Kirupalasingam	4/4	100
Mr. Yusof Annuar bin Yaacob	4/4	100
Dato' Lim Kheng Guan	1/4	25

Table-2: Audit Committee attendance

The activities conducted by the Audit Committee are set out in the Audit Committee Report on pages 104.

NOMINATING AND REMUNERATION COMMITTEE

The Nominating and Remuneration Committee ("NRC") comprises of three (03) Non-Executive Directors, namely Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor (Chairman), Ir. Prabahar s/o Nagalingam Kirupalasingam and Mr. Moksevi Rasingh Prelis.

The role of the NRC is 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 brings to the Board an independent and objective perspective to ensure that balanced and well-considered decisions are made.

The NRC held one (01) meeting during the financial year ended 31 December 2006 and the attendance at this meeting is 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

Principle
There should be a clear division of responsibilities at the head of the Company, which will ensure balance of power and authority between the running of the Board, and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.

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 also 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.

BOARD BALANCE AND INDEPENDENCE

Principle
To be effective, Independent directors should form at least one fourth of the membership of the Board.

The Board comprises of seven (07) Directors, of which six (06) are Non-Executive Directors and one (01) is an Executive Director who is also the CEO of the Company. Of the Non-Executive Directors, two are Independent. 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 six Non-Executive Directors, four (04) directors, namey Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, Ir. Prabahar s/o Nagalingam Kirupalasingam, Dato' Sri Mohammed Shazalli bin Ramly and Mr. Yusof Annuar bin Yaacob, are Non-Independent and are nominees of the parent company, Telekom Malaysia Berhad.

Mr. Mohamed Vazir Muhsin was appointed as an Independent Non Executive Director on 14 June 2006. The two (02) Independent Non-Executive Directors, namely, Mr. Moksevi Rasingh Prelis and Mr. Mohamed Vazir Muhsin, are both independent of management and free from any business or other relationship, which could materially interfere in the exercise of their judgment.

Profiles of each Director are found on pages 15 of this report.

ACCESS TO INFORMATION

Principle
The Board and key executives should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

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

Principle
The Board should undertake a formal and rigorous annual evaluation of its own collective and individual performance

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. A formal performance evaluation and board effectiveness exercise was carried out by PricewaterhouseCoopers Advisory Services Sdn Bhd for 2006.

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

RE-ELECTION

Principle
All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

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 160.

PRINCIPLE 2: REMUNERATE FAIRLY AND RESPONSIBLY

Principle
- *Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.*
- *There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.*

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, bonuses 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 2006.

A total of Rs. 14.26 Mn was paid to the Directors as emoluments for the financial year 2006.

PRINCIPLE 3: ACCOUNTABILITY AND AUDIT

Principle

- *Formulate a structure to independently verify and safeguard the integrity of the Company's financial reporting.*
- *The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.*

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

Principle

The Company should clarify the standards of ethical behaviour required of company directors and key executives (that is, officers and employees who have the opportunity to materially influence the integrity, strategy and operation of the business and its financial performance) and encourage the observance of those standards.

The Code of Business Ethics established by the Company to actively promote ethical and responsible decision-making 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 this Code of Business Ethics:

1. Dealing with stakeholders
2. Dealing with competitors
3. Dealing with Communities
4. Dealing with Company assets
5. Conflict of interests
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 has in place a Trading Policy which concerns 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 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

Principle
Establish a sound system of Internal Control, Risk Management and Internal Audit; designed to identify, assess, monitor and manage risk, inform investors of material changes to the Company's risk profile and to enhance the environment for identifying and capitalising on opportunities to create value.

INTERNAL CONTROL

The Board ensures that a sound system of internal controls is maintained to safeguard shareholders' investment and the Company's assets.

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 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 examines the roles and respective accountabilities of the Board, audit committee (or other appropriate Board committee) and management.

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.
- Compliance and control
- Assessment of effectiveness – mechanism to review the effectiveness of the Company's implementation of the ERM and update the risk profile of the Company.

INTERNAL AUDIT

Internal audits are 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 direct 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

Principle
The Company should respect the rights of shareholders and facilitate the exercise of those rights by engaging in regular and effective communication with shareholders and encourage effective participation at general meetings.

The Company is committed to having regular and proactive communication with the investors and shareholders. The communications strategy promotes effective communication with 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 informed 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 other corporate information is made available on the Company's website at www.DialogTelekom.com/corporate/investor_relations.

INVESTOR RELATIONS

The Company's 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 20 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 with related stakeholders 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. Methods such as road shows, company visits, and one on one meetings, teleconferences, web conferences, emails and discussions are used to provide accurate and timely information.

The Company participated actively in several overseas investor conferences in Hong Kong, Malaysia and Singapore, in the year 2006 including the Bursa Malaysia's Investor Week 2006.

Dialog Telekom has established the best practice of conducting Investor Forums every quarter to brief analysts on results achieved in that quarter. These sessions not only provide analysts with a comprehensive review of the Company's financial performance but are also gives them the opportunity to clarify related queries they may have. The contents of these briefings are 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 meet 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

Principle

Recognise legal and other obligations to all legitimate stakeholders including obligations to non-shareholder stakeholders such as employees, clients/customers, the community as a whole and demonstrate its commitment to appropriate corporate practices.

The Company's Code of Business Ethics encompasses the following areas 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.

- Clear commitment by 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

Principle

The Company must put in place a mechanism designed to ensure compliance with the disclosure requirements of all laws and regulations, including those stipulated in the Listing Rules of the CSE so that:

- *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. This requires disclosure of both positive and negative information.*

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.

A commentary on the financial performance of the Company is included along with the financial results released to the CSE 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.

MEMBERS

The Audit Committee (AC) during the year 2006 was comprised of one Independent Non-Executive Director, two Non-Independent Non-Executive Directors of the Board and one representative of Telekom Malaysia Berhad (TM).

MR. MOKSEVI RASINGH PRELIS
Chairman
Independent Non-Executive Director

The AC is chaired by an Independent Non-Executive Director Mr. Moksevi Rasingh Prelis, while Mr. Yusof Annuar bin Yaacob, a Chartered Accountant, serves the AC as the financial expert.

Mr. Lalith T. Fernando, the Chief Internal Auditor (CIA) functions as the Secretary to the AC with regard to the Terms of Reference (TOR) of the AC.

Mr. Mohamed Muhsin, an Independent Director of the Company, was appointed to the AC with effect from 5 January 2007.

MEETINGS

The AC had four (04) meetings during the financial year 2006. The meeting attendance of the committee members is as follows:

Name of the Director	Attendance	Percentage
Mr. Moksevi Rasingh Prelis	4/4	100
Ir. Prabahar s/o Nagalingam Kirupalasingam	4/4	100
Mr. Yusof Annuar bin Yaacob	4/4	100
YBHG Dato' Lim Kheng Guan	1/4	25

Table-1: Audit Committee attendance

The Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the external auditors attended these meetings, upon invitation, to brief the committee on specific issues. The external auditors meet with the Chairman of the AC without the presence of the Management.

Minutes of meetings of the AC were circulated to all members of the AC and the significant issues were discussed at board meetings.

SUMMARY OF ACTIVITIES FOR 2006

Consequent to the resignation of Ms. Shiromi Mohamed (CIA), the AC appointed Mr. Lalith T. Fernando as the CIA, with effect from 3 April 2006.

The AC approved the proposals made by the CIA to strengthen the internal audit team with auditors particularly competent in IT/Information systems auditing. Four new internal audit specialists were recruited during the nine month period ended December 2006. Further, the AC approved staff promotions based on individual performance, as recommended by the CIA. Currently the internal audit division consists of 12 persons.

During the year under review, the AC reviewed and approved the implementation of the Code of Corporate Governance and the Code of Business Ethics as recommended by the Management.

The AC carried out its duties as set out in the TOR (see page 106). Apart from its duties, the AC also reviewed and deliberated on reports and updates as provided by the CIA on the following:

- Development of a detailed compliance checklist for the Company focusing on best business practices, principally in corporate governance, statutory and regulatory requirements, compliance to accounting standards and other business guidelines.

AUDIT COMMITTEE

IR.PRABAHAR S/O NAGALINGAM KIRUPALASINGAM	MR. YUSOF ANNUAR BIN YAACOB	YBHG DATO' LIM KHENG GUAN
Non-Independent Non-Executive Director	*Non-Independent Non-Executive Director*	*Representative of TM*

- Report of the Management Audit Committee on the progress of the Management`s actions to resolve significant internal control issues as highlighted by the internal and external auditors.
- Review of policy framework on Enterprise Risk Management and the report of the Risk Management steering committee submitted to the AC.
- Proposals pertaining to policy update, revisions or enhancements of the internal policies and procedures as recommended by the Management to ascertain that the improvements made are aligned to best business practices and effective internal control processes.
- Review of the effectiveness of the Company's system of internal controls, through reports furnished by the internal auditors, the external auditors and the Management.
- Proposed amendments to the Internal Audit Charter and the TOR of the AC.
- The implementation of the Automated Audit Management System to monitor and follow up management action on issues raised by internal audit.

INTERNAL AUDIT

The AC is strongly supported by an established Internal Audit Department (IAD). The CIA reports directly to the AC. The CIA periodically reports the activities and key strategic and control issues noted by internal audit to the AC.

The main focus of the Internal Audit is to provide independent assurance on the overall system of internal control, risk management and governance process by evaluating the adequacy, integrity and effectiveness of internal controls. 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
- Review of strategic plans, business processes and improvement initiatives
- Revenue assurance audits
- Information systems reviews (including pre and post implementation reviews)
- Interim financial reviews for quarterly announcements
- 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 AC or Management

The IAD undertook 26 audit assignments during the FY2006 covering the aforementioned areas. In addition, the IAD coordinated and updated the follow up review on external audit issues.

The AC reviewed and approved the IAD annual budget and the organisation structure to ensure adequacy of resources, and competent and proficient internal auditors to achieve the Company's business plan.

The IAD is comprised of 10 qualified auditors, who are experts in the disciplines of Finance, Information Technology and Network Engineering. TM group internal audit provides guidance and resources in terms of training new auditors, and providing updates of the latest developments in the profession, in addition to allocating audit expertise as and when required.

The CIA is responsible for maintaining quality assurance and improvement programmes, which include annual self assessment and external assessment as performed by the TM group internal audit, in accordance with international standards for the professional practice of internal auditing.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

The key extracts of the TOR of the AC are set out below:

(1) Composition of the AC

The Chairman of the AC will hold office so long as he serves as a Director of Dialog Telekom Ltd (DTL). The Board of Directors (BOD) must review the performance of the AC, and the term of office and performance of each of its members at least once in every 3 years, to determine whether the AC and its members have carried out their duties in accordance with the required 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 a replacement within 3 months.

(2) Members of the AC

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

The AC must be composed of no fewer than 3 members, who are Directors of DTL or its holding company, TM International Sdn Bhd (TMI) or its ultimate holding company, TM.

Members of the AC shall not have a relationship, which in the opinion of the BOD, 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 as applicable legislations and regulations.

The CEO or the CFO of DTL must be present at AC meetings, while the other functional heads are present at the meeting by invitation.

(3) Secretary of the AC

The CIA shall be the Secretary to the AC.

(4) Duties and Responsibilities of the AC

The following are the main duties and responsibilities of the AC collectively, who shall review and report the same to the BOD:

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. 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. 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 reappointment should also be considered, along with the recommendation of the audit fee payable;

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;

4.05 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;

4.06 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;

4.07 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 IAD has adequate and competent resources and the necessary authority to carry out its work;

c. That the goals and objectives of the IAD are aligned with corporate goals;

4.08 a. Review and appraise the performance and remuneration of the CIA and senior staff members of the IAD;

b. Approve the appointment or termination of the CIA and senior staff members of the IAD;

c. Keep abreast of resignations of the CIA and senior staff members of the IAD and provide the resigning staff members an opportunity to submit their reasons for resigning;

4.09 Review the adequacy and the integrity of DTL's Internal Control Systems and Management Information Systems, including systems for compliance with applicable laws, rules, directives and guidelines;

4.10 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;

4.11 Consider and review any significant transactions, which are not within the normal course of business, and any related party transactions and conflict of interest situations that may arise within the Company including any transaction, procedure or course of conduct that raises questions of Management integrity;

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

(5) Powers of the AC

In carrying out its duties and responsibilities, the AC shall have the following rights, 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 DTL.

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 DTL is at the AC's invitation and discretion and must be specific to the relevant meeting;

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 the IAD of DTL in respect of any fraud or irregularities discovered and referred to the IAD by the Management.

(6) Chief Internal Auditor

CIA reports functionally to the AC and administratively to the CEO of DTL with a dotted line relationship to the TM Group Chief Auditor.

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is a systematic and proactive identification of threats to resources and the development of appropriate strategies, which minimise downside risk and optimise upside risk across the business domain of the entity.

Dialog Telekom Limited (DTL) is committed to a risk based system of controls designed to provide reasonable assurance of achieving business objectives, safeguarding and enhancing shareholder's investment and company assets.

DTL's risk management approach is based on the guidelines of Australian/New Zealand Standard for Risk Management 4360. DTL, while adopting a customised approach to Enterprise Risk Management is closely aligned to the compliance requirements of Telekom Malaysia Berhad, which is a listed company on the Kula Lumpur Stock Exchange, in reporting and recording of risk.

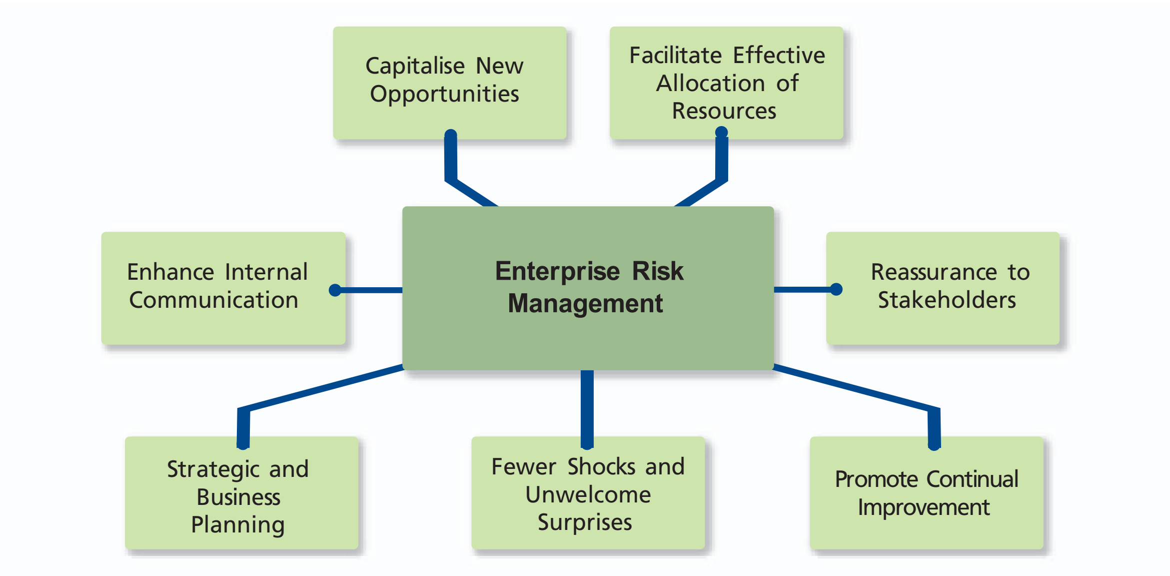


Figure-1: Outcomes of Enterprise Risk Management

BUILDING VALUE THROUGH ERM

In an extremely competitive environment, businesses continue to work towards enhancing their competitive drivers along with minimising downside risk. The holistic nature of ERM, and its ability to manage business risk through an integrated management system allows DTL to maintain its undisputed leadership position and increase shareholder wealth and value.

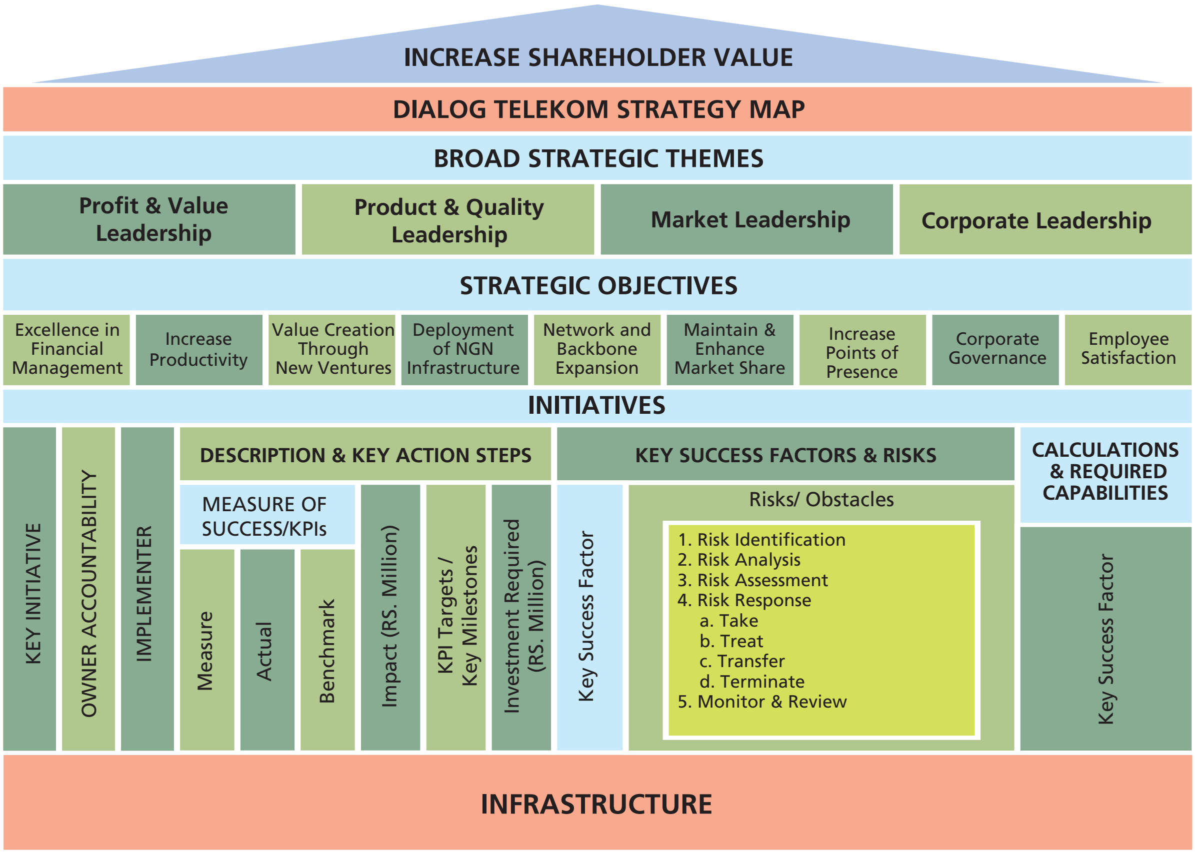


Figure-2: Building Value through ERM

ENTERPRISE RISK MANAGEMENT FRAMEWORK

DTL's customised approach to an Enterprise Risk Management framework is inline with the Balance Scorecard concept and links strategic objectives to the corresponding risk factors. This framework allows DTL to assess where earnings may be vulnerable and to develop and prioritise risk mitigation strategies.

Figure-4: ERM Process at DTL

DTL's approach is an iterative process consisting of well defined steps which are taken in sequence and support better decision making by contributing greater insight into risks and their impact. DTL has categorised Business Risk into five broad areas namely – Strategic, Compliance, System, Operational and Financial.

Figure-3: ERM Framework at DTL

STRATEGIC RISK

Strategic risk is 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' performance, and poor analysis and bad decisions on new Mergers and Acquisitions.

COMPLIANCE RISK

Compliance risk is 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 1982, Sri Lanka Accounting and Auditing standards, guidelines set by Telecommunications Regulatory Commission, Securities Exchange Commission of Sri Lanka and the Board of Investment of Sri Lanka.

SYSTEM RISK

Being the undisputed leader in the mobile telecommunication industry in Sri Lanka, the Company must manage risks associated with information management and security. The latter includes risks associated with confidentiality, integrity, availability, hardware and software, licensing, end-users, business support, system support, maintenance and system technology.

OPERATIONAL RISK

Operational risk is the potential financial loss or other damages as a result of a natural disaster or an act of god or losses arising from operational inefficiency as a result of ineffective marketing plans, weak management of networks, outlets, dealers, projects, human capital , customers, inventory or 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 processes.

FINANCIAL RISK

Financial risk is the potential loss arising from financial transactions that include 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 interest rate, inability to maintain sufficient liquid assets to meet financial commitments, poor control on accounts payable, revenue leakages, ineffective budgetory control, poor financial management, inefficient supply chain and procurement process, poor vendor management and criminal breach of trust.

ROLES AND RESPONSIBILITIES

The Board has responsibility to determine the strategic direction of the Company and to create the environment and the structure for risk management to operate effectively. This is carried out through the establishment of an Enterprise Risk Management Steering Committee (ERMSC) supported by the Enterprise Risk Management Operations Committee (ERMOC) under the stewardship of the Chief Financial Officer. ERMSC and ERMOC has the responsibility to ensure that management have established a risk management framework that includes policies and procedures to effectively identify, treat and monitor principle business risks. The committee regularly reviews the Company's risk profile.

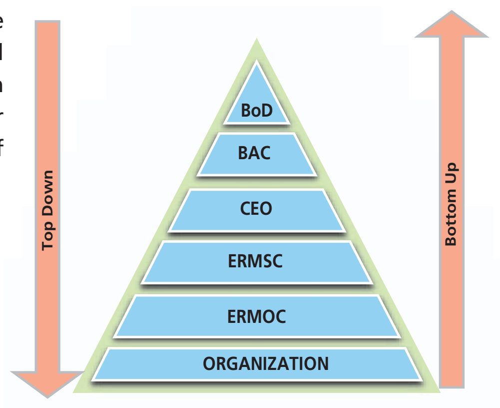


Figure-5: ERM Roles and Responsibilities

BOARD AUDIT COMMITTEE

The Board Audit Committee (BAC) has the responsibility of proposing an adequate system of risk management for management to safeguard DTL's assets.

ENTERPRISE RISK MANAGEMENT STEERING COMMITTEE

The primary role of the Enterprise Risk Management Steering Committee is to monitor and review the key risk areas of DTL and to advise/make recommendations to the Enterprise Risk Management Operations Committee and Enterprise Risk Management Unit (ERMU) on what actions/strategies are to be adopted to mitigate such risks. The ERMSC which consists of Senior Management spearhead the overall risk management function of the Company by providing leadership and strategic direction.

ENTERPRISE RISK MANAGEMENT OPERATIONS COMMITTEE

The primary role of the Enterprise Risk Management Operations Committee is to identify, analyze, assess, device response plans and monitor & review the key risk areas of DTL on a monthly basis.

MEMBERS OF ERMSC
Chief Financial Officer (Chief Risk Approver)
General Manager – Corporate Planning, Quality Systems, Corporate Development, Management Information Systems and Enterprise Risk Management (Chief Risk Coordinator)
General Manager – Legal, Regulatory Affairs, Administration and International Business
General Manager – Engineering Planning and Development
Head – Corporate Planning and Quality Management
Head – Corporate Finance and Internet Business
Head – Information Technology, Charging Systems and Convergence Planning
Head – Network Operations and Fundamental Network Coordination
Head – Human Resource Development
Manager – Corporate Planning
Chief Internal Auditor (by Invitation)

Table-1: Memebers of ERMSC

MEMBERS OF ERMOC
Manager – Finance Operations
Manager – Corporate Finance
Manager – Enterprise Programme Management Office
Manager – Quality Systems & Process Improvements
Manager – Corporate Planning
Assistant Manager – Human Resources Management & Development
Security Consultant
Assistant Manager – Legal and Regulatory Affairs
Assistant Manager – Administration (Premises Maintenance & Risk Management)
Specialist – Enterprise Risk Management
Senior Executive – Enterprise Risk Management

Table-2: Members of ERMOC

The CEO and the Senior Management team have put in place a number of key policies, processes and independent controls, to provide assurance to the Board and the Board Audit Committee as to the integrity of the Group's reporting and effectiveness of its systems of risk management. The Tables 3, 4 and 5 below present some of the key initiatives implemented by DTL to ensure the integrity of the ERM framework.

To support the ERM framework and continuously steer DTL towards a risk/reward culture, DTL in conjunction with Telekom Malaysia Berhad conducted a number of training sessions in the form of workshops and focus groups during the FY 2006.

	FY 06
No. of presentations of ERM Navigator to the BAC Meetings	01
No. of Board Audit Committee Meetings	04

Table-3: Presentation of ERM Navigator in BAC Meetings during FY 2006

	FY 06
No. of Enterprise Risk Management Steering Committee meetings	02
No. of Enterprise Risk Management Operations Committee meetings	04

Table-4: ERM Committee Meetings During FY 2006

	Conducted by DTL	Conducted by TM
Strategic Risk Management Workshops	X	
Process Risk Management Workshops	X	
Project Risk Management Workshops	X	
Improvement of ERM Processes and systems	X	X
Placement of Insurance	X	X
Audit of Loss Control Systems	X	X

Table-5: ERM Initiatives During FY 2006

KEY RISK AREAS

DYNAMICS IN REGULATORY ENVIRONMENT

Intensified competition for provision of communication services may propel the regulatory bodies to implement rigid controls in terms of spectrum allocation, tariffs, taxation and granting of licenses. While on one hand these changes may offer significant opportunities for growth on the other hand they may hinder the exponential growth opportunities for the Company. Any changes in policy may require a re-allocation of resources to ensure a controlled impact on business operations. DTL maintains a strong relationship with all regulatory and government bodies and continuously lobbies for regulations which facilitate better customer experience.

MAINTAINING SHARE OF NET ADDITIONS AND AGGRESSIVE COMPETITION

In general, as penetration rates rise in the market, competition intensifies. Operators invest more in retaining their existing customers whilst offering incentives to potential new customers. This leads to intense competition within the industry and the risk of losing market share.

In the event of additional spectrum or new licenses being offered and acquired by new or existing competitors, the competitive pressures in the market will increase further. It is envisaged that with intense competition, churn rates will continue to increase which would adversely affect profitability due to subscriber acquisition costs. DTL expects usage stimulation and new product and service offerings to be main drivers to sustain growth. To this end DTL has been consistently ahead of the market with respect to new product offering, tariff revisions and new product packaging aimed at acquiring and retaining customers.

COUNTRY RISK

DTL's operations and earnings may in the future be affected to varying degrees by political developments such as conflict in the North/East region and local security concerns that threaten operations and stem growth. However the probability of occurrence of such events is not predictable and their overall impact upon the Company vary greatly. Realisation of these risks could have an impact on the financial position of DTL. Apart from adopting all reasonably practicable controls, DTL continues to maintain its politically unbiased position and strives to build bridges through its outreach initiatives.

PERCEIVED HEALTH RISK

Concerns have been raised on the possible radiation exposure from mobile handsets, base stations and other telecommunications devices that generate electromagnetic fields. At present there is no scientific evidence to suggest any health risks. Any perceived risk or new scientific findings of adverse health effects of mobile communication devices and equipment could adversely affect all mobile telecom operators through a reduction in sales, customer base or average usage per customer. In addition perceived health risk may result in significant restrictions on the location and operation of base stations or could be held liable for claims for damages, any of which may have an adverse impact on the operations, profitability and image. DTL through its local and international network of partners and associates actively monitors developments in the scientific space.

EXCHANGE RATE RISK

In the recent past Sri Lanka has witnessed the continuing depreciation of the rupee against foreign denominated currencies. A significant portion of DTL's capital expenditure is in USD and continuous depreciation of the rupee will create exchange losses and cash flow volatilities. Further, adverse movement of exchange rate may impact the foreign loan liabilities and the Company's gearing level. DTL's budgeting and financial forecasting systems account for volatility in the currency markets to ensure a controlled impact to the bottom line. Further, tools such as currency matching, hedging, forward contracts and the use of USD reserves provide significant comfort to DTL's foreign exchange exposure.

KNOWLEDGE WORKERS

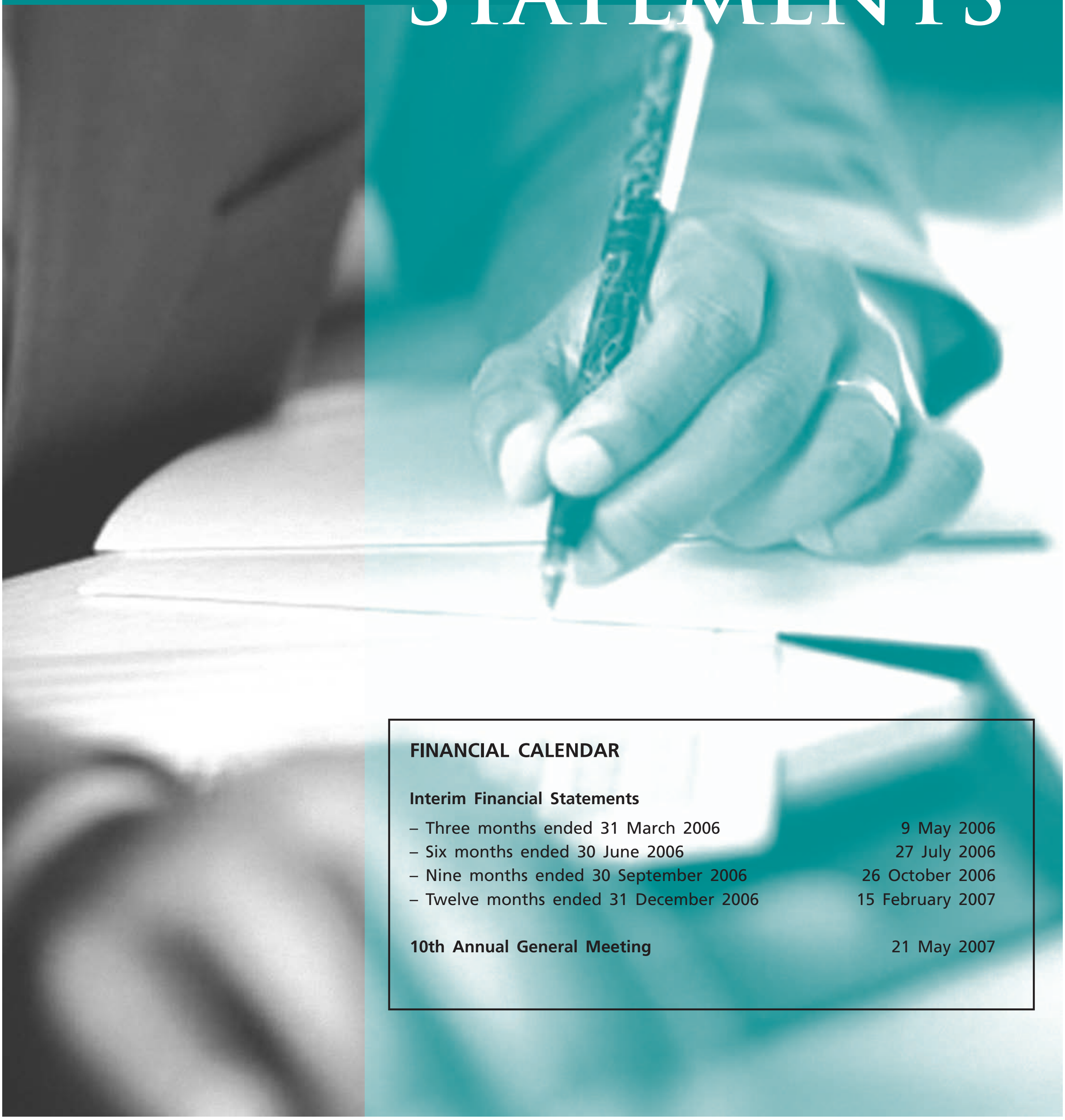
A further deterioration in the current social/political environment will pressure DTL's ability to retain and recruit knowledge workers, which will have a follow on effect on the Company's ability to maintain its current growth spurt. DTL continues to be the preferred employer in the communications sector and its innovative culture draws significant talent from both foreign and local labour markets. Significant investment has been made in the areas of training and development and DTL is in the process of overhauling its performance management system to facilitate high degree of employee development.

CONCLUSION

Risk management is the light that guides management to better understand their business and to support decisions through risk based decision making. There are always resource constraints, and DTL will consider the relative costs and benefits of decisions, including those related to risk and control.

Directors' Report 115
Chief Executive's and Chief Financial Officer's Declaration 120
Report of the Auditors 121
Income Statement 122
Balance Sheet 123
Statement of Changes in Equity 124
Cash Flow Statement 126
Notes to the Financial Statements 127

FINANCIAL STATEMENTS



FINANCIAL CALENDAR

Interim Financial Statements

– Three months ended 31 March 2006	9 May 2006
– Six months ended 30 June 2006	27 July 2006
– Nine months ended 30 September 2006	26 October 2006
– Twelve months ended 31 December 2006	15 February 2007
10th Annual General Meeting	21 May 2007

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 2006.

PRINCIPLE ACTIVITIES

Company

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

Subsidiaries

The principle activities of Dialog Broadband Networks (Private) Limited and Asset Media (Private) Limited mainly comprise of the provision of internet services, telecommunication infrastructure services facilitating switched/non-switched, data communication and television broadcasting services.

REVIEW OF BUSINESS

The Statements made by the Chairman and the CEO on pages 29 and 32 respectively provide an overall assessment of the business performance of the Group and its future developments. These reports together with audited Financial Statements reflect the state of affairs of the Company and Group.

Segmental contribution to Group results, Assets and Liabilities are provided in Note 3 to the Financial Statements on pages 133 and 134.

During the year under review the Group acquired control of Asset Media (Private) Limited, Communiq Broadband Network (Private) Limited and CBN Sat (Private) Limited. Asset Media is licensed by the Ministry of Media to provide television broadcasting services, delivery of pay television and cable television services and the operation of a television broadcasting station. CBN Sat is a Direct-to-Home Satellite TV service, the operations of which are being managed via Asset Media (Private) Ltd under the brand Dialog TV.

RESULTS AND APPROPRIATIONS

The Profit After Tax of the Company was Rs. 10,049 Mn. (2005 – Rs. 7,012 Mn.) whilst the Group profit attributable to equity holders for the year was Rs. 10,119 Mn. (2005 – Rs. 7,012 Mn.).

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 122 and 124 respectively.

The Group profit relating to the financial years are as follows:

In Rs. '000	2006	2005
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 & Equipment, contingencies and taxes	10,118,893	7,011,871
Profit brought forward from the previous year	6,900,917	7,068,281
Depreciation transfer	303	–
Dividend paid	(2,813,305)	(2,858,936)
Premium on preference shares conversion	–	(634,489)
Bonus share issue	–	(3,685,810)
Profit to be carried forward	14,206,808	6,900,917

*The Final Dividend proposed for the financial year 2006 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 Rs. 0.55 (55 cents) per share is recommended by the Directors for the year ended 31 December 2006.

The details of the Dividends paid during the year are set out in Note 10 to the Financial Statements.

CORPORATE GOVERNANCE

The Directors place great emphasis on instituting and maintaining leading edge Corporate Governance practices with respect to the operations of the Group to develop and nurture long-term relationships with our key stakeholders.

A detailed account of the corporate governance framework and its adoption is set out on pages 96 to 103 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 for reviewing 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 108.

HUMAN RESOURCES

The Group 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. Employees are regarded as the key to being able to translate policies and strategies into commercial success and the employment policy of the Group embodies the principal of equal opportunity. Employee ownership in the Company is facilitated through the Employee Share Option scheme.

The number of persons employed by the Group as at 31 December 2006 was 2,774 (2005 – 1,864).

EQUITABLE TREATMENT TO SHAREHOLDERS

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

DONATIONS

The total amount of donations made by the Group during the year amounted to Rs. 13.1 Mn. (2005 – Rs. 14 Mn.).

PROPERTY, PLANT AND EQUIPMENT

The book value of Property, Plant and Equipment as at the Balance Sheet date amounted to Rs. 28,029 Mn. (2005 – Rs. 19,599 Mn.) and Rs. 30,032 Mn. (2005 – Rs. 20,802 Mn.) for the Company and Group, respectively.

Capital expenditure for the Company and Group amounted to Rs. 12,140 Mn. (2005 – Rs. 8,688 Mn.) and Rs. 12,740 Mn. (2005 – Rs. 8,688 Mn.), respectively.

The movements in Property, Plant and Equipment during the year are set out in Note 11 to the Financial Statements.

MARKET VALUE OF PROPERTIES

During the year, the buildings of the Company were revalued by a professional independent valuer. The valuations were made on the basis of the market value for existing use. The book value of the properties was adjusted to the revalued amount and the surplus of Rs. 16.25 Mn. was credited to revaluation reserve in Shareholders' equity.

SHARE CAPITAL

The Authorised Share Capital of the Company is Rs. 10,000,000,000/– divided into 10,000,000,000 shares of Rs. 1/– each. The Issued Share Capital of the Company stood at Rs. 7,403,434,913/– divided into 7,403,434,913 shares of Rs. 1/– each.

The details are contained in Note 17 to the Financials Statements.

EMPLOYEE SHARE OPTION SCHEME (ESOS)

In an effort to align the interest of the employees of the Company with those of the shareholders, the Company introduced an ESOS scheme in 2005. The details of the options granted, options exercised, the exercise price and the options outstanding as at the year end are disclosed in Note 17 to the Financial Statements.

The Company has granted a loan to the ESOS Trust to subscribe for the ESOS shares.

RESERVES

Total Reserves as at 31 December 2006 for the Company and Group amounted to Rs. 19,434.36 Mn. (2005 – Rs. 12,182.76 Mn.) and Rs. 19,504.59 Mn. (2005 – Rs. 12,182.76 Mn.) respectively.

The movement in the Reserves is shown in the Statement of Changes in Equity on pages 124 and 125.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Contingent liabilities and commitments made on capital expenditure as at 31 December 2006 are given in Note 25 and 26 to the Financial Statements.

SHARE INFORMATION

The details relating to Earnings, Net Assets, Market Value per share and information on Share Trading are given on pages 88 and 91 of the Report.

SUBSTANTIAL SHAREHOLDINGS

The parent company, TM International (L) Limited holds 87.68 percent of the Issued Share Capital of the Company. The twenty largest Shareholders of the Company and the percentages held by each of them are disclosed on page 95.

As at 31 December 2006 the public holds 10.20 percent of the Issued Share Capital of the Company.

DIRECTORS

The Directors of the Company as at 31 December 2006 were:

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

The biographical details of the Directors are given on pages 15 to 17. In accordance with the Company's Articles of Association Tan Sri Dato’ Ir. Muhammad Radzi bin Haji Mansor shall retire by rotation and be eligible for re-election.

Mr. Moksevi Rasingh Prelis who attained the age of 70 years on 2 July 2006 retires in terms of Section 181 of the Companies Act No. 17 of 1982. Special notice has been given by a member to the Company in terms of Section 182 of the intention to propose a resolution that the age limit stipulated in Section 181 of the said Companies Act shall not be applicable to Mr. Moksevi Rasingh Prelis.

Mr. Mohamed Vazir Muhsin was appointed as a Director of the Company with effect from 14 June 2006. In accordance with the Articles of Association of the Company, Mr. Mohamed Vazir Muhsin will submit himself for retirement and re-election at the Annual General Meeting.

The remaining Directors held office throughout the year ended 31 December 2006.

DIRECTORS' INTERESTS IN CONTRACTS AND PROPOSED CONTRACTS

Except as stated in Note 28 to these Financial Statements, during and at the end of the 2006 financial year, none of the Directors were directly or indirectly interested in contracts or proposed contracts connected with the Company's business.

DIRECTORS' SHAREHOLDINGS

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

	2006	2005
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	–	10
Ir. Prabahar s/o Nagalingam Kirupalasingam	–	10
Dr. Shridhir Sariputta Hansa Wijayasuriya	38,700	38,710
Mr. Moksevi Rasingh Prelis	16,800	16,810
Mr. Mohamed Vazir Muhsin	16,400	8,400

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company and its Subsidiaries 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 COMMITTEES

The composition of the Board Audit Committee and Nominating and Remuneration Committee is as follows:

Audit Committee

Mr. Moksevi Rasingh Prelis (Chairman)
Ir. Prabahar s/o Nagalingam Kirupalasingam
Mr. Yusof Annuar bin Yaacob
Dato' Lim Kheng Guan
Mr. Mohamed Vazir Muhsin (appointed w.e.f. 5 January 2007)

Nominating & Remuneration Committee

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

ENVIRONMENTAL PROTECTION

The Group is sensitive to the needs of the environment and makes every endeavor to comply with the relevant environmental laws, regulations and best practices applicable in the country.

Specific measures taken to protect the environment are given in the CSR Review on pages 62 to 75 of this Report.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge all relevant taxes, duties, levies and all statutory payments by the Company and its subsidiaries and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its Subsidiaries 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 other than those disclosed, if any, in Note 31 to the Financial Statements.

GOING CONCERN

The Directors confirm that the Company and its Subsidiaries have 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.

The Audit Committee reviews the appointment of the Auditor, its effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the Auditor.

The report of the Audit Committee is given on pages 104 to 107 of this Report.

ANNUAL REPORT

The Board of Directors approved the Consolidated Financial Statements on 15 February 2007. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

ANNUAL GENERAL MEETING

In compliance with good governance practices, The Annual General Meeting is held as soon as possible after the end of the financial year and completion of the audit. The Annual General Meeting will be held on Monday, 21 May 2007 at the Grand Ballroom, Waters Edge, Battaramulla.

The Notice of Meeting relating to the 10th Annual General Meeting is given on page 160.

By Order of the Board,

Mrs Anoja Obeyesekere
Company Secretary
15 February 2007

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 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 reasonable basis after making all reasonable enquires 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 the 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 discharging 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 matters of substance.

It is also declared and confirmed that after making all reasonable enquires 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: 15 February 2007

Wan Zaidan Wan Mahyudin
Chief Financial Officer
Date: 15 February 2007

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

1 We have audited the accompanying balance sheet of Dialog Telekom Limited as at 31 December 2006, the consolidated balance sheet of the Company and its subsidiaries 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 127 to 153.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

2 The directors are responsible for preparing and presenting these financial statements in accordance with the 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 the 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 the 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 2006 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 2006 and of the results of its operations, its changes in equity and its cash flows for the year then ended.

5 In our opinion, the consolidated balance sheet and the related statements of income, 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 2006 and the results of its operations, its changes in equity and its cash flows for the year then ended of the Company and its subsidiaries 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 2006, except as stated in Note 28 to these financial statements.

Pricewaterhouse Coopers

15 February 2007
COLOMBO

CHARTERED ACCOUNTANTS

Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, S. Manoharan ACA, N. R. Gunasekara ACA, S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA,

INCOME STATEMENT

(ALL AMOUNTS IN SRI LANKAN RUPEES THOUSANDS)

	Notes	Group year Ended 31 December		Company Year Ended 31 December	
		2006	2005	2006	2005
Turnover	3	25,679,492	18,034,397	25,149,307	18,034,397
Direct costs		(8,821,778)	(6,213,808)	(8,536,151)	(6,213,808)
Gross margin		16,857,714	11,820,589	16,613,156	11,820,589
Other operating income		123,322	53,271	83,489	53,271
Administrative expenses		(3,064,260)	(2,222,031)	(2,981,573)	(2,222,031)
Distribution costs		(3,066,000)	(2,334,944)	(3,057,288)	(2,334,944)
Operating profit		10,850,776	7,316,885	10,657,784	7,316,885
Finance costs	6	(657,309)	(263,065)	(552,911)	(263,065)
Profit before tax		10,193,467	7,053,820	10,104,873	7,053,820
Tax	7	(74,574)	(41,949)	(56,207)	(41,949)
Profit for the year		10,118,893	7,011,871	10,048,666	7,011,871
Attributable to:					
Equity holders of the Company		10,118,893	7,011,871	10,048,666	7,011,871
Minority interest	8	–	Nil	Nil	Nil
		10,118,893	7,011,871	10,048,666	7,011,871
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Rs. per share)					
– basic	9	1.40	1.15	1.39	1.15

The notes on pages 127 to 153 form an integral part of these financial statements.

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Notes	Group 31 December		Company 31 December	
		2006	2005	2006	2005
ASSETS					
Non-current assets					
Property, plant and equipment	11	30,031,500	20,801,836	28,029,423	19,598,958
Intangible assets	12	3,602,737	1,628,305	1,004,362	348,448
Investments in subsidiaries	13	Nil	Nil	2,295,844	1,970,764
		33,634,237	22,430,141	31,329,629	21,918,170
Current assets					
Inventories	15	580,215	350,495	519,063	350,495
Trade and other receivables	14	6,910,094	3,726,080	7,709,931	3,494,222
Cash and cash equivalents	16	2,301,422	6,689,919	2,237,455	6,624,188
		9,791,731	10,766,494	10,466,449	10,468,905
Total assets		43,425,968	33,196,635	41,796,078	32,387,075
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Ordinary shares	17	7,403,435	7,403,435	7,403,435	7,403,435
Share premium	17	5,276,943	5,276,943	5,276,943	5,276,943
ESOS Trust shares	17	(1,925,226)	(2,385,320)	(1,925,226)	(2,385,320)
Revaluation reserve	18	20,840	4,896	20,840	4,896
Retained earnings		14,206,808	6,900,917	14,136,581	6,900,917
		24,982,800	17,200,871	24,912,573	17,200,871
Minority interest	27	(72)	Nil	Nil	Nil
Total Equity		24,982,728	17,200,871	24,912,573	17,200,871
Non – current liabilities					
Subscription in advance	22	1,235	Nil	1,235	Nil
Borrowings	20	8,144,513	9,048,749	7,425,116	8,913,470
Deferred tax liability	21	39,717	Nil	39,717	Nil
Retirement benefit obligations	23	111,997	81,833	102,635	75,190
		8,297,462	9,130,582	7,568,703	8,988,660
Current liabilities					
Trade and other payables	19	8,866,127	5,214,388	8,213,206	5,099,826
Current income tax liabilities		63,491,	35,760	44,624	35,760
Borrowings	20	1,216,160	1,615,034	1,056,972	1,061,958
		10,145,778	6,865,182	9,314,802	6,197,544
Total liabilities		18,443,240	15,995,764	16,883,505	15,186,204
Total equity and liabilities		43,425,968	33,196,635	41,796,078	32,387,075

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

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

....

Dr. Shridhir Sariputta Hansa Wijayasuriya
Director/Chief Executive

....

Mr. Moksevi Rasingh Prelis
Director

The notes on pages 127 to 153 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY - GROUP

(All amounts in Sri Lankan Rupees Thousands)

Group	Note	Ordinary Share Capital	Preference Share Capital	Share Premium	Shares in ESOS Trust	Revaluation Reserve	Retained Earnings	Minority Interest	Total
		Attributable to Equity Holders of the Company							
Balance at 1 January 2005		370,000	1,268,979	Nil	Nil	4,896	7,068,281	Nil	8,712,156
Net Profit		Nil	Nil	Nil	Nil	Nil	7,011,871	Nil	7,011,871
Dividend paid	10	Nil	Nil	Nil	Nil	Nil	(2,858,936)	Nil	(2,858,936)
Conversion of preference shares to ordinary shares		1,903,468	(1,903,468)	Nil	Nil	Nil	Nil	Nil	Nil
Premium on preference shares conversion		Nil	634,489	Nil	Nil	Nil	(634,489)	Nil	Nil
Bonus share issue		3,685,810	Nil	Nil	Nil	Nil	(3,685,810)	Nil	Nil
Share issue against subscription in advance	22	954,190	Nil	Nil	Nil	Nil	Nil	Nil	954,190
New issue of shares – IPO	17	489,967	Nil	5,389,634	Nil	Nil	Nil	Nil	5,879,601
Purchase shares – ESOS	17	Nil	Nil	Nil	(2,398,713)	Nil	Nil	Nil	(2,398,713)
Shares exercised – ESOS		Nil	Nil	Nil	13,393	Nil	Nil	Nil	13,393
IPO cost set off		Nil	Nil	(112,691)	Nil	Nil	Nil	Nil	(112,691)
Balance at 31 December 2005		**7,403,435**	**Nil**	**5,276,943**	**(2,385,320)**	**4,896**	**6,900,917**	**Nil**	**17,200,871**
Balance at 1 January 2006		7,403,435	Nil	5,276,943	(2,385,320)	4,896	6,900,917	Nil	17,200,871
Net Profit		Nil	Nil	Nil	Nil	Nil	10,118,893	Nil	10,118,893
Dividend paid	10	Nil	Nil	Nil	Nil	Nil	(2,813,305)	Nil	(2,813,305)
Revaluation of buildings	18	Nil	Nil	Nil	Nil	16,247	Nil	Nil	16,247
Depreciation transfer	18	Nil	Nil	Nil	Nil	(303)	303	Nil	Nil
Shares exercised – ESOS	17	Nil	Nil	Nil	461,329	Nil	Nil	Nil	461,329
Subscription in advance	22	Nil	Nil	Nil	(1,235)	Nil	Nil	Nil	(1,235)
Minority interest arising on business acquisition	27	Nil	Nil	Nil	Nil	Nil	Nil	(72)	(72)
Balance at 31 December 2006		**7,403,435**	**Nil**	**5,276,943**	**(1,925,226)**	**20,840**	**14,206,808**	**(72)**	**24,982,728**

The notes on pages 127 to 153 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY - COMPANY

(All amounts in Sri Lankan Rupees Thousands)

Company	Note	Ordinary Share Capital	Preference Share Capital	Share Premium	Shares in ESOS Trust	Revaluation Reserve	Retained Earnings	Total
		Attributable to Equity Holders of the Company						
Balance at 1 January 2005		370,000	1,268,979	Nil	Nil	4,896	7,068,281	8,712,156
Net Profit		Nil	Nil	Nil	Nil	Nil	7,011,871	7,011,871
Dividend paid	10	Nil	Nil	Nil	Nil	Nil	(2,858,936)	(2,858,936)
Conversion of Preference shares to ordinary shares		1,903,468	(1,903,468)	Nil	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	22	954,190	Nil	Nil	Nil	Nil	Nil	954,190
New issue of shares – IPO	17	489,967	Nil	5,389,634	Nil	Nil	Nil	5,879,601
Purchase shares – ESOS	17	Nil	Nil	Nil	(2,398,713)	Nil	Nil	(2,398,713)
Shares exercised – ESOS		Nil	Nil	Nil	13,393	Nil	Nil	13,393
IPO cost set off		Nil	Nil	(112,691)	Nil	Nil	Nil	(112,691)
Balance at 31 December 2005		**7,403,435**	**Nil**	**5,276,943**	**(2,385,320)**	**4,896**	**6,900,917**	**17,200,871**
Balance at 1 January 2006		7,403,435	Nil	5,276,943	(2,385,320)	4,896	6,900,917	17,200,871
Net Profit		Nil	Nil	Nil	Nil	Nil	10,048,666	10,048,666
Dividend paid	10	Nil	Nil	Nil	Nil	Nil	(2,813,305)	(2,813,305)
Revaluation of buildings	18	Nil	Nil	Nil	Nil	16,247	Nil	16,247
Depreciation transfer	18	Nil	Nil	Nil	Nil	(303)	303	Nil
Shares exercised – ESOS	17	Nil	Nil	Nil	461,329	Nil	Nil	461,329
Subscription in advance	22	Nil	Nil	Nil	(1,235)	Nil	Nil	(1,235)
Balance at 31 December 2006		**7,403,435**	**Nil**	**5,276,943**	**(1,925,226)**	**20,840**	**14,136,581**	**24,912,573**

The notes on pages 127 to 153 form an integral part of these financial statements.

CASH FLOW STATEMENT

(ALL AMOUNTS IN SRI LANKAN RUPEES THOUSANDS)

	Notes	Group Year Ended 31 December		Company Year Ended 31 December	
		2006	2005	2006	2005
Cash flows from operating activities					
Cash generated from operations	24	12,590,889	9,289,937	12,448,014	9,289,937
Interest received		242,294	165,092	242,296	165,092
Interest paid		(731,338)	(403,476)	(633,630)	(403,476)
Income tax paid		(7,961)	(39,042)	(7,626)	(39,042)
Retirement benefit obligations paid	23	(3,804)	(989)	(3,022)	(989)
Net cash generated from operating activities		12,090,080	9,011,522	12,046,032	9,011,522
Cash flows from investing activities					
Purchases of property, plant and equipment		(185,746)	(2,043,143)	(141,601)	(2,043,143)
Purchase of intangible assets		(503,050)	(463,013)	(503,050)	(463,013)
Amounts advanced to subsidiaries	28	Nil	Nil	(913,536)	Nil
Expenditure incurred on capital work-in-progress		(11,692,401)	(6,162,170)	(11,135,832)	(6,162,170)
Acquisition of subsidiary, net of cash acquired	27	(849,444)	(1,441,026)	(325,079)	(1,506,509)
Proceeds from sale of property, plant and equipment		18,735	35,926	15,313	35,926
Net cash used in investing activities		13,211,906	(10,073,426)	(13,003,845)	(10,138,909)
Cash flows from financing activities					
Proceeds from issue of shares		Nil	489,967	Nil	489,967
Proceeds from ESOS shares	17	460,094	13,393	460,094	13,393
Subscription in advance – ESOS		1,235	Nil	1,235	Nil
Proceeds from share premium on issues of shares		Nil	5,389,634	Nil	5,389,634
IPO cost set off		Nil	(112,691)	Nil	(112,691)
Repayment of subscription in advance		Nil	(2,460,000)	Nil	(2,460,000)
Payment to – Employee Share Option Scheme Trust (ESOST)		Nil	(2,398,713)	Nil	(2,398,713)
Repayment of finance leases		(22,864)	(21,882)	(19,259)	(21,882)
Repayment of long term borrowings		(1,151,041)	(520,582)	(1,057,685)	(520,582)
Proceeds from long term borrowings		142,700	7,061,050	Nil	7,061,050
Dividend paid		(2,813,305)	(2,858,936)	(2,813,305)	(2,858,936)
Net cash (used in)/generated from financing activities		(3,383,181)	4,581,240	(3,428,920)	4,581,240
Net (decrease)/increase in cash and cash equivalents		(4,505,007)	3,519,336	(4,386,733)	3,453,853
Movement in cash and cash equivalents					
At start of year		6,689,671	3,170,335	6,624,188	3,170,335
(Decrease)/increase		(4,505,007)	3,519,336	(4,386,733)	3,453,853
At end of year	16	2,184,664	6,689,671	2,237,455	6,624,188

The notes on pages 127 to 153 form an integral part of these financial statements.

(IN THE NOTES ALL AMOUNTS ARE SHOWN IN SRI LANKAN RUPEES THOUSANDS UNLESS OTHERWISE STATED)

1. GENERAL INFORMATION

Dialog Telekom Limited (the "Company") and its subsidiaries (together the "Group") provides Communication (Mobile, Internet, International, Data and backbone and Transmission infrastructure) and Media related services. During the year, the Group acquired control of Asset Media (Private) Limited (AML), Communiq Broadband Networks (Private) Limited (CBNL) and CBN Sat (Private) Limited (CBNSL). AML is licensed by the Ministry of Media to provide Television Broadcasting services, delivery of Pay Television and Cable Television Services and the operation of a Television broadcasting station. CBNL is a Direct-to-Home Satellite TV service, the operations of which are being managed via Asset Media (Private) Ltd under the brand Dialog TV.

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 have been listed on the Colombo Stock Exchange since 28 July 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 modified by the revaluation of buildings.

2.2 Consolidation

(a) Subsidiaries

Subsidiary undertakings, being 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 inter company 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 subsidiaries included in the consolidation are shown in the consolidated balance sheet.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.5).

The subsidiary undertakings financial years are conterminous with that of the Company.

(b) Transactions and minority interests

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquired entity. Separate disclosure is made of minority interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Consolidation (cont'd.)

(b) Transactions and Minority interests (cont'd.)

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign Currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

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.

2.5 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 losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Licences

Licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 5 to 10 years.

(c) *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 life of 2 years.

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.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(d) Other intangibles

Other intangibles solely consist of the costs incurred to acquire Sea-Me-We 3 usage right and, is amortised over its useful life of 15 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 Property, Plant and Equipment

(a) 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.

Cost of telecommunication network comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials, direct labour and related overheads. The cost of other property, plant and equipment comprises their purchase cost and any incidental cost of acquisition. These costs include the costs of dismantling, removal and restoration, the obligation incurred as a consequence of installing the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to the 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 the revaluation reserve 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 – 2.9
Building – electrical installation	12.5
Building – leasehold property	33⅓
Computer equipment	20
Telecom equipment – other than prepaid system	10
Telecom equipment – prepaid system	10 and 20
Office equipment	20
Furniture and fittings	20
Toolkits	10
Motor vehicles	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 Property, Plant and Equipment (Cont'd.)

(a) Cost and valuation (cont'd.)

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.

(b) 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.

2.7 Impairment of Non-Financial Assets

Intangibles that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investments

Investments in subsidiaries, associates and jointly controlled entities are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

2.9 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.

2.10 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. The amount of the provision is recognised in the income statement within selling and distribution costs.

2.11 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.

2.12 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.13 Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 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, 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 liability 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 subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Defined Benefit Plan – Gratuity

The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC). The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The gratuity liability was based on the acturial valuation carried out for the first time during the current accounting period.

The assumptions based on which the results of the auctuarial valuation was determined, are included in note 23 to financial statements.

2.16 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.

2.17 Short Term Employee Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

2.18 Provisions

Provisions 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. 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.19 Revenue Recognition

(a) Revenues from provision of telecom services.

These recurring revenues consists of monthly rental income, airtime usage fees, interconnection revenue, roaming revenue, external gateway operations and other telecommunications services such as internet service, providing data services, connection fees and value added services. Recurring revenues are recognised on an accrued basis, i.e. as the related services are rendered. Unbilled revenues for airtime usage resulting from services provided from the billing cycle date to the end of each month are estimated and recorded.

(b) Equipment revenue

These revenues consist of the sale of phones and accessories. Revenues from these sales are recognised at the time that the item is delivered to the customer.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.20 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 provisions of the Inland Revenue Act.

2.21 Contingent Liabilities and Contingent Assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.22 Accounting for leases

Leases of property, plant and equipment where the Group 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 short term and long term payables. The interest element of the finance cost 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.

2.23 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.24 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Estimated impairment of non-current assets

The Group tests annually the indicators to ascertain whether non-current assets (including intangibles) have suffered any impairment, in accordance with the accounting policy stated in policy 2.6 (b) and 2.7. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

3. SEGMENTAL ANALYSIS

(a) Primary reporting format – business segments

At 31 December 2006, the qualifying segments under business segment reporting are as follows:

1 Cellular mobile telephone network

2 External gateway operations

Other group operations mainly comprise internet services, telecommunication infrastructure provision facilitating switched/non-switched data communication, television broadcasting and media related businesses. None of these constitute a separate segment since revenue from external customers and from transactions with other segments is not 10 percent or more of the total revenue of all segments; or segment result, whether profit or loss, is not 10 percent or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or assets are not 10 percent or more of the total assets of all segments.

The segment results for the year ended 31 December 2006 are as follows:

	Cellular Operations	External Gateway Operations	Other	Unallocated	Group
Total segmental revenue	23,624,815	4,248,523	994,990	Nil	28,868,328
Inter-segment revenue	(1,131,975)	(1,837,036)	(219,825)		(3,188,836)
Revenue	22,492,840	2,411,487	775,165	Nil	25,679,492
Operating profit/segment results	9,640,152	1,017,012	237,232	(43620)	10,850,776
Finance income					249,770
Finance cost					(907,079)
Finance cost – net					(657,309)
Profit before income tax					10,193,467
Income tax expense					(74,574)
Profit for the year					**10,118,893**

3. SEGMENTAL ANALYSIS (CONT'D.)

(a) Primary reporting format – business segments (cont'd.)

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

	Cellular Operations	External Gateway Operations	Other	Group
Depreciation	2,578,639	20,604	136,359	2,735,602
Amortisation	167,071	17,684	96,517	281,272

During 2005, External Gateway Operations did not qualify as a separate segment.

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

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

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise the items of taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 11) and intangible assets (Note 12), including additions resulting from acquisitions through business combinations (Note 11, 12 and 27)

	Cellular Operations	External Gateway Operations	Other	Unallocated	Group
Assets	39,925,635	1,204,541	2,295,792	Nil	43,425,968
Liabilities	8,317,075	9,507	652,777	9,463,881	18,443,240
Capital expenditure	14,127,518	129,821	315,691	Nil	14,573,030

(b) Secondary reporting format – geographical segments

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

4. OPERATING PROFIT

The following items have been charged/(credited) in arriving at operating profit:

	Group		Company	
	2006	2005	2006	2005
Directors' fee	14,261	11,052	14,261	11,052
Auditors' emoluments				
– audit fees	5,455	3,700	4,355	3,700
– other	2,575	3,395	2,575	3,395
Other professional services	63,420	17,707	62,011	17,707
Amortisation of intangible assets (Note 12)	281,272	198,436	190,106	198,436
Depreciation on property, plant and equipment (Note 11)				
– owned assets	2,703,528	1,948,554	2,573,605	1,948,554
– leased assets under finance leases	32,074	5,319	23,845	5,319

4. OPERATING PROFIT (CONT'D.)

The following items have been charged/(credited) in arriving at operating profit (cont'd.):

	Group		Company	
	2006	2005	2006	2005
Repair and maintenance expenditure on property, plant and equipment	564,631	905,542	536,183	905,542
Operating lease rentals				
– office	235,692	119,060	233,975	119,060
– base stations and lease circuits	618,055	762,125	591,385	762,125
Cost of inventories (included in 'direct costs')	732,032	576,191	732,032	576,191
Employee benefit expense (Note 5)	1,086,760	617,012	998,783	617,012
Profit on disposal of property, plant and equipment	(9,643)	(1,604)	(8,001)	(1,604)

5. EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2006	2005	2006	2005
Wages and salaries	864,317	501,685	781,854	501,685
Social security costs	34,078	24,670	34,078	24,670
Pension costs – defined contribution plans	155,141	62,975	152,384	62,975
Pension costs – defined benefit plan (Note 23)	33,224	27,682	30,467	27,682
	1,086,760	617,012	998,783	617,012
Number of persons employed as at 31 December:				
– Full time	2,686	1,822	2,291	1,706
– Part time	88	42	88	42

6. FINANCE COST

	Group		Company	
	2006	2005	2006	2005
Interest income on deposits	249,770	171,732	249,770	171,732
Interest expense on:				
– bank overdrafts	(4,106)	(15)	(175)	(15)
– term loans	(726,707)	(359,317)	(628,026)	(359,317)
– parent company loan	(828)	(1,402)	(828)	(1,402)
– finance leases charges	(9,560)	(5,939)	(7,774)	(5,939)
	(741,201)	(366,673)	(636,803)	(366,673)
Net foreign exchange transaction loss	(165,873)	(68,124)	(165,878)	(68,124)
	(657,309)	(263,065)	(552,911)	(263,065)

7. TAX

Year ended 31 December	Group		Company	
	2006	2005	2006	2005
Current tax	39,271	41,949	20,904	41,949
Deferred tax charge (Note 21)	39,717	Nil	39,717	Nil
Economic service charge	(4,414)	Nil	(4,414)	Nil
	74,574	41,949	56,207	41,949

Under the agreement entered into between the Company and the Board Of Investment of Sri Lanka (BOI), the main source of 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 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 is currently liable to pay income tax only on the interest income earned from fixed and call deposits maintained in Sri Lanka Rupees.

Year ended 31 December	Group		Company	
	2006	2005	2006	2005
Profit before tax	10,193,467	7,053,820	10,104,873	7,053,820
Tax at the applicable rate	3,428,240	2,292,492	3,368,291	2,292,492
Income not subject to tax	(6,139,301)	(2,237,762)	(6,097,207)	(2,237,762)
Expenses not deductible for tax purposes	2,812,687	Nil	2,812,687	Nil
Utilisation of tax losses	(16,008)	(19,155)	(16,008)	(19,155)
(Under)/overprovision of tax	(6,630)	6,374	(7,142)	6,374
Adjustment on economic service charge	(4,414)	Nil	(4,414)	Nil
	74,574	41,949	56,207	41,949

Tax losses available for carry forward to the year of assessment 2007/2008 amount to Rs. 944,588,270. 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 future years.

8. MINORITY INTEREST

Asset Media (Private) Limited the Company's subsidiary, incurred a loss of Rs. 39 Mn. during the post acquisition 1 month period ended 31 December 2006. In accordance with SLAS 26, the minority interest of 10% amounting to Rs. 3.9 Mn. has been allocated against the majority interest.

9. EARNINGS PER SHARE

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 17).

	Group		Company	
	2006	2005	2006	2005
Net profit after tax	10,118,893	7,011,871	10,048,666	7,011,871
Net profit attributable to ordinary shareholders	10,118,893	7,011,871	10,048,666	7,011,871
Weighted average number of ordinary shares in issue (thousands)	7,221,336	6,108,012	7,221,336	6,108,012
Par value (Rs.)	1.00	1.00	1.00	1.00
Basic earnings per share (Rs.)	1.40	1.15	1.39	1.15

10. DIVIDENS

Dividends for the year ended 31 December 2006 is to be proposed at the Annual General Meeting. Ordinary share dividends for the year ended 31 December 2005 were declared and paid amounting to Rs. 2,813,305,267 (Rs. 0.38 per share having a par value of Rs. 1) during the year (2005 – Rs. 2,858,936,000).

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computer systems & telecom equipment	Furniture, fittings & other equipment	Motor vehicles	Assets in the course of construction (CWIP)	Total
(a) Group						
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 CWIP	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**

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Land and Buildings	Computer Systems & Telecom Equipment	Furniture, Fittings & Other Equipment	Motor vehicles	Assets in the Course of Construction (CWIP)	Total
(a) Group (cont'd.)						
Year ended 31 December 2006						
Opening net book amount	465,243	15,937,903	232,806	160,203	4,005,681	20,801,836
Additions	31,598	191,407	11,414	86,934	11,657,557	11,978,910
Acquisition of subsidiary	Nil	291,411	23,432	23,573	Nil	338,416
Transferred from CWIP	37,424	6,437,158	122,303	Nil	(6,596,885)	Nil
Transferred to intangible assets (Note 12)	Nil	(34,707)	Nil	Nil	(308,261)	(342,968)
Disposals	(2,228)	(2,178)	(1,628)	(3,058)	Nil	(9,092)
Depreciation charge	(19,433)	(2,585,143)	(75,275)	(55,751)	Nil	(2,735,602)
Closing net book amount	**512,604**	**20,235,851**	**313,052**	**211,901**	**8,758,092**	**30,031,500**
At 31 December 2006						
Cost / valuation	619,966	29,009,099	515,506	407,205	8,758,092	39,309,868
Accumulated depreciation	(107,362)	(8,773,248)	(202,454)	(195,304)	Nil	(9,278,368)
Net book amount	**512,604**	**20,235,851**	**313,052**	**211,901**	**8,758,092**	**30,031,500**
(b) Company						
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 CWIP	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 4)	(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**

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Land and Buildings	Computer Systems & Telecom Equipment	Furniture, Fittings & Other Equipment	Motor Vehicles	Assets in the Course of Construction (CWIP)	Total
(b) Company (cont'd.)						
Year ended 31 December 2006						
Opening net book amount	392,932	14,915,280	227,447	147,266	3,916,033	19,598,958
Additions	17,123	139,085	3,988	82,169	11,135,832	11,378,197
Transferred from CWIP	37,424	6,267,042	120,634	Nil	(6,425,100)	Nil
Transferred to intangible assets (Note 12)	Nil	(34,707)	Nil	Nil	(308,261)	(342,968)
Disposals	(2,228)	(317)	(1,628)	(3,141)	Nil	(7,314)
Depreciation charge (Note 4)	(14,845)	(2,460,853)	(72,962)	(48,790)	Nil	(2,597,450)
Closing net book amount	**430,406**	**18,825,530**	**277,479**	**177,504**	**8,318,504**	**28,029,423**
At 31 December 2006						
Cost/valuation	503,080	27,059,753	460,197	342,312	8,318,504	36,683,846
Accumulated depreciation	(72,674)	(8,234,223)	(182,718)	(164,808)	Nil	(8,654,423)
Net book amount	**430,406**	**18,825,530**	**277,479**	**177,504**	**8,318,504**	**28,029,423**

(c) The Company's buildings were revalued during the current year 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 the revaluation reserve in shareholders' equity.

If the buildings were stated on the historical cost basis, the amount would be as follows:

	Group		Company	
	2006	2005	2006	2005
Cost	489,307	451,007	489,307	451,007
Accumulated depreciation	(75,072)	(62,839)	(75,072)	(62,839)
Net book amount	414,235	388,168	414,235	388,168

(d) Property, plant and equipment includes motor vehicles acquired under finance leases, the net book value of which is made up as follows:

	Group		Company	
	2006	2005	2006	2005
Cost	173,675	154,257	120,366	130,370
Accumulated depreciation	(90,237)	(58,163)	(69,098)	(45,253)
Net book value	83,438	96,094	51,268	85,117

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(e) Property, plant and equipment includes fully depreciated assets still in use, the cost of which amounted to Rs. 1,172,359,631 (2005 – Rs. 423,969,524) and Rs. 1,242,431,435 (2005 – Rs. 500,006,432), for Company and Group as at the balance sheet date, respectively.

(f) Borrowing costs of Rs. 43,782,708 arising on financing specifically for the construction of telecom equipment were capitalised during the year and are included in additions to property, plant and equipment.

12. INTANGIBLE ASSETS

Group	Goodwill	Licences	Computer software	Others	Total
Year ended 31 December 2005					
Opening net book amount	Nil	Nil	82,300	Nil	82,300
Additions	Nil	Nil	191,671	232,677	424,348
Acquisition of subsidiary	389,857	890,000	Nil	Nil	1,279,857
Transferred from capital WIP	Nil	Nil	17,257	Nil	17,257
Internal transfer	Nil	Nil	24,493	Nil	24,493
Net book value of written-off assets	Nil	Nil	(1,514)	Nil	(1,514)
Amortisation charge	Nil	Nil	(194,609)	(3,827)	(198,436)
Closing net book amount	**389,857**	**890,000**	**119,598**	**228,850**	**1,628,305**
At 31 December 2005					
Cost	389,857	890,000	533,932	232,677	2,046,466
Accumulated amortisation charge	Nil	Nil	(414,334)	(3,827)	(418,161)
Net book amount	**389,857**	**890,000**	**119,598**	**228,850**	**1,628,305**
Year ended 31 December 2006					
Opening net book amount	389,857	890,000	119,598	228,850	1,628,305
Additions	Nil	503,053	Nil	Nil	503,053
Acquisition of subsidiary	1,409,683	Nil	Nil	Nil	1,409,683
Transferred from capital WIP (Note 11)	Nil	44,666	285,293	13,009	342,968
Amortisation charge	Nil	(111,554)	(154,073)	(15,645)	(281,272)
Closing net book amount	**1,799,540**	**1,326,165**	**250,818**	**226,214**	**3,602,737**
At 31 December 2006					
Cost	1,799,540	1,450,438	819,225	245,686	4,314,889
Accumulated amortisation charge	Nil	(124,273)	(568,407)	(19,472)	(712,152)
Net book amount	**1,799,540**	**1,326,165**	**250,818**	**226,214**	**3,602,737**

Key assumptions applied in the valuation model	**AML Forecast Period 2007 to 2016**	**CBNL/CBNSL Forecast Period 2007 to 2016**
Implied Revenue growth	15.30%	11.23%
Implied growth in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	14.21%	11.99%

Provided above are some of the key assumptions made in connection with the fair valuation of the newly acquired subsidiaries, AML, CBNL and CBNSL. 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 entities. The discount rates used for the purpose of valuing Asset Media (Private) Limited reflect the specific risks along with market risk premiums which have been based on management expectations.

12. INTANGIBLE ASSETS (CONT'D.)

Company

	Licences	Computer Software	Others	Total
Year ended 31 December 2005				
Opening net book amount	Nil	82,300	Nil	82,300
Additions	Nil	191,671	232,677	424,348
Transferred from capital WIP	Nil	17,257	Nil	17,257
Internal transfer	Nil	24,493	Nil	24,493
Net book value of written-off assets	Nil	(1,514)	Nil	(1,514)
Amortisation charge	Nil	(194,609)	(3,827)	(198,436)
Closing net book amount	**Nil**	**119,598**	**228,850**	**348,448**
At 31 December 2005				
Cost	Nil	533,932	232,677	766,609
Accumulated amortisation charge	Nil	(414,334)	(3,827)	(418,161)
Net book amount	**Nil**	**119,598**	**228,850**	**348,448**
Year ended 31 December 2006				
Opening net book amount	Nil	119,598	228,850	348,448
Additions	503,052	Nil	Nil	503,052
Transferred from capital WIP	44,666	285,293	13,009	342,968
Amortisation charge	(20,388)	(154,073)	(15,645)	(190,106)
Closing net book amount	**527,330**	**250,818**	**226,214**	**1,004,362**
At 31 December 2006				
Cost	547,718	819,224	245,686	1,612,628
Accumulated amortisation charge	(20,388)	(568,406)	(19,472)	(608,266)
Net book amount	**527,330**	**250,818**	**226,214**	**1,004,362**

13. INVESTMENT IN SUBSIDIARIES

	Holding %	Market Value/ Direct Valuations 2006	2005
Asset Media (Private) Limited (Note 27)	90%	325,080	Nil
Dialog Broadband Networks (Private) Limited	100%	1,970,764	1,970,764
		2,295,844	1,970,764

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
Trade receivables	2,802,786	2,195,064	2,624,857	2,136,445
Prepayments	211,722	166,306	194,562	153,560
Amounts due from related companies (Note 29)	5,993	106,748	1,148,581	9,683
Other receivables	3,889,593	1,257,962	3,741,931	1,194,534
	6,910,094	3,726,080	7,709,931	3,494,222

Other receivables mainly include advances to creditors amounting to Rs. 2,302 Mn. in respect of purchase of telecom equipment.

15. INVENTORIES

	Group		Company	
	2006	2005	2006	2005
Phone stock	120,453	48,236	120,453	48,236
Accessories and consumables	459,762	302,259	398,610	302,259
	580,215	350,495	519,063	350,495

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
Cash at bank and in hand	686,325	2,826,040	623,188	2,774,448
Short term bank deposits	1,615,097	3,863,879	1,614,267	3,849,740
	2,301,422	6,689,919	2,237,455	6,624,188

The weighted average effective interest rate on short term foreign currency bank deposits was 5.47% p.a. while the effective earnings on LKR deposits was 13.37% p.a. For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2006	2005	2006	2005
Cash and bank balances	2,301,422	6,689,919	2,237,455	6,624,188
Bank overdrafts (Note 20)	(116,758)	(248)	Nil	Nil
	2,184,664	6,689,671	2,237,455	6,624,188

17. SHARE CAPITAL

	Number of Shares (thousands)	Ordinary Shares	Share Premium	Shares in Trust	Total
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 shares – ESOS	(199,893)	Nil	Nil	(2,398,713)	(2,398,713)
Shares exercised – ESOS	1,116	Nil	Nil	13,393	13,393
As 31 December 2005	**7,204,658**	**7,403,435**	**5,276,943**	**(2,385,320)**	**10,295,058**
Shares exercised during the year – ESOS	38,341	Nil	Nil	460,094	460,094
As 31 December 2006	**7,242,999**	**7,403,435**	**5,276,943**	**(1,925,226)**	**10,755,152**

The total authorised number of ordinary shares is 10,000,000,000 shares (2005 – 10,000,000,000) with a par value of Rs. 1 per share (2005 – Rs. 1 per share). All issued shares are fully paid.

The parent company, TM International (L) Limited held 87.68% 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.

Of the total ESOS shares that was transferred to the ESOS Trust, 88,841,218 shares (44.44%) were allocated to 'Tranche 0', at the point of the IPO. The balance 111,051,523 shares (56.6%) shall be allocated to employees as an ongoing performance incentive mechanism in subsequent tranches.

The Trustees of the ESOS Trust as at 31 December 2006 were as follows:

Mr Prabahar s/o Nagalingam Kirupalasingam
Mr Moksevi Rasingh Prelis
Mr Arittha Rahula Wikramanayake
Mr Yusof Annuar Bin Yaacob *(Appointed on 20 May 2006)*

ESOS shares are granted to eligible employees. The exercise price of the granted ESOS shares will be based on the five (5) days weighted average market price of the Company's shares immediately preceding the offer date for options, with the 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 an employee 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.

17. SHARE CAPITAL (CONT'D.)

Employee Share Option Scheme (ESOS) (cont'd.)

The total number of shares granted under Tranche 0 was 88,841,218. As at 31 December 2006, 39,457,279 shares (inclusive of 1,116,050 shares as at 31 December 2005) have been exercised and 48,734,539 shares remain unexercised and are exercisable before 2010.

The movement in the number of ESOS shares and their related weighted average exercised price is as follows:

	2006		2005	
	Average exercise price in Rs per share	Options (thousands)	Average exercise price in Rs per share	Options (thousands)
At 1 January	12	87,725	12	Nil
Allocated to Tranche 0	12	Nil	12	88,841
Forfeited	12	(649)	Nil	Nil
Exercised	12	(38,341)	12	(1,116)
Expired	Nil	Nil	Nil	Nil
At 31 December		48,735		87,725
Forfeited shares to be reallocated to Tranches 1 – 4		649		Nil
Available for Tranches 1 – 4		111,052		111,052
At 31 December		160,436		198,777

18. REVALUATION RESERVE

	Group		Company	
	2006	2005	2006	2005
Buildings:				
At beginning of year	4,896	4,896	4,896	4,896
Revaluation additions during the year	16,247	Nil	16,247	Nil
Transfer of depreciation to retained earnings	(303)	Nil	(303)	Nil
At end of year	20,840	4,896	20,840	4,896

The revaluation reserve is non-distributable.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
Trade payables	942,292	857,074	689,699	857,074
Amount due to related companies (Note 29)	188,456	565,478	227,043	515,214
Accrued expenses	1,283,704	2,428,739	1,219,761	2,408,175
Customer deposits	1,421,870	1,068,072	1,384,238	1,034,520
Other payables	5,029,805	295,025	4,692,465	284,843
	8,866,127	5,214,388	8,213,206	5,099,826

20. BORROWINGS

	Group		Company	
	2006	2005	2006	2005
Current				
Bank overdrafts (Note 16)	116,758	248	Nil	Nil
Bank borrowings	1,070,293	1,571,566	1,040,293	1,023,721
Loan from ultimate parent company	Nil	12,468	Nil	12,468
Lease liabilities	29,109	30,752	16,679	25,769
	1,216,160	1,615,034	1,056,972	1,061,958
Non current				
Bank borrowings	8,098,478	8,998,856	7,400,527	8,868,094
Loan from ultimate parent company	Nil	9,793	Nil	9,793
Lease liabilities	46,035	40,100	24,589	35,583
	8,144,513	9,048,749	7,425,116	8,913,470
Maturity of non current borrowings (excluding finance lease liabilities):				
Between 1 and 2 years	5,920,824	1,134,664	5,583,594	1,033,514
Between 2 and 5 years	2,177,654	7,618,485	1,816,933	7,588,873
More than 5 years	Nil	255,500	Nil	255,500
	8,098,478	9,008,649	7,400,527	8,877,887

A syndicated loan was obtained in 2002 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. 679,299,180 (2005 – Rs. 888,314,360) and USD 1,882,764 (2005 – USD 2,462,069). The loans are being settled in 29 quarterly instalments commencing from March 2003.

A loan was secured in 2003 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 amount outstanding as at the balance sheet date amounted to Rs. 2,500,000,000 (2005 – Rs. 2,500,000,000). The loan will be repaid at maturity.

20. BORROWINGS (CONT'D.)

The loan obtained from Telekom Malaysia Berhad, the ultimate parent company was repaid in full during the year. Thus there is no outstanding balance as at 31 December 2006 (2005 – Rs. 22,261,577).

The Company has obtained a loan facility from International Financial Corporation, mainly for the purposes of expanding the GSM telecommunication network. The loan is repayable in US Dollars and the balance outstanding as at 31 December 2006 amounted to USD 12.5 million (2005 – USD 15 million). The loan is repayable in twelve equal semi-annual instalments commencing from June 2006. The loan is secured on the movable telecommunication equipment as a first priority charge.

A term loan has been obtained from HSBC. The balance outstanding as at 31 December 2006 amounted to Rs. 1,726,011,000 (2005 – Rs. 2,226,011,000). The loan is repayable in semi annual instalments over five years.

	2006	2005
Weighted average effective interest rates:		
– bank overdrafts	N/A	13%
– bank borrowings-term loan	SLIBOR + 1%	SIBOR + 1.00%
– lease liabilities	13.11%	12.61%
– bank borrowings-Standard Chartered Bank	AWPLR + 0.35%	AWPLR + 0.35%
– bank borrowings-syndicated Rupee loan	AWPLR + 1.25%	AWPLR + 1.25%
– bank borrowings-syndicated USD loan	3M USD LIBOR + 1.625%	LIBOR + 1.625%
– loan obtained from ultimate parent company	N/A	LIBOR + 3.5%
– IFC Borrowings	6M USD LIBOR + 3.25%	LIBOR + 3.25%

Finance lease liabilities-minimum lease payments:

	Group		Company	
	2006	2005	2006	2005
Not later than one year	34,657	41,126	21,259	34,938
Later than 1 year and not later than 5 years	56,494	44,467	27,668	39,141
	91,151	85,593	48,927	74,079
Future finance charges on finance leases	(16,007)	(14,741)	(7,659)	(12,727)
Present value of finance lease liabilities	75,144	70,852	41,268	61,352
Representing lease liabilities:				
– current	29,109	30,752	16,679	25,769
– non current	46,035	40,100	24,589	35,583
	75,144	70,852	41,268	61,352

21. DEFERRED TAX LIABILITIES

Deferred income taxes are calculated on all temporary differences under the liability method using the tax rate of 33 1/3%.

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2006	2005	2006	2005
At the Beginning of the year	Nil	Nil	Nil	Nil
Income statement charge (Note 7)	39,717	Nil	39,717	Nil
At the end of the year	39,717	Nil	39,717	Nil

Deferred tax liability and the deferred tax charge/(release) in the income statement are attributable to accelerated tax depreciation and provision for defined benefit obligations, to the extent that they are likely to result in an actual liability or an asset in the foreseeable future.

22. SUBSCRIPTION IN ADVANCE

	Group		Company	
	2006	2005	2006	2005
At beginning of year	Nil	3,414,190	Nil	3,414,190
Additions during the year – ESOS shares	1,235	Nil	1,235	Nil
Shares issued during the year	Nil	(954,190)	Nil	(954,190)
Repayment during the year	Nil	(2,460,000)	Nil	(2,460,000)
At end of year	1,235	Nil	1,235	Nil

The current year additions relate to subscriptions in advance for cash received by the ESOS Trust on exercise of shares for which the share certificates had not been issued at the year end.

23. RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	2006	2005	2006	2005
At beginning of year	81,833	48,497	75,190	48,497
Current service cost (Note 5)	33,224	27,682	30,467	27,682
Acquisition of subsidiary	744	6,643	Nil	Nil
Contributions paid	(3,804)	(989)	(3,022)	(989)
At end of year	111,997	81,833	102,635	75,190

This obligation is not externally funded.

23. RETIREMENT BENEFIT OBLIGATIONS (CONT'D.)

The Gratuity liability of the Company is based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Private) Limited, Actuaries, on 14 December 2006. The principal actuarial valuation assumptions used were as follows:

	2006
1. Discount Rate	10%
2. Future salary increase	10%

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. The 2006 mortality table issued by the Institute of Actuaries London (A 67/70 mortality table) was taken as the base for the valuation.

24. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2006	2005	2006	2005
Profit before tax	10,193,467	7,053,820	10,104,873	7,053,820
Adjustments for:				
Exchange loss on borrowings	88,817	14,380	88,817	14,380
Profit on sale of property, plant and equipment (Note 4)	(9,643)	(1,604)	(8,001)	(1,604)
Interest expense (Note 6)	741,201	366,673	636,803	366,673
Interest income (Note 6)	(249,770)	(171,732)	(249,770)	(171,732)
Depreciation charge (Note 11)	2,735,602	1,953,873	2,597,450	1,953,873
Depreciation of internally reclassified assets	Nil	(13,991)	Nil	(13,991)
Amortisation (Note 12)	281,273	198,436	190,106	198,436
Amortisation of internally reclassified assets	Nil	14,171	Nil	14,171
Retirement benefit obligation (Note 23)	33,224	27,682	30,467	27,682
Changes in working capital				
– trade and other receivables	(3,359,417)	(1,219,302)	(3,294,638)	(1,219,302)
– inventories	(189,880)	(121,086)	(168,567)	(121,086)
– payables	2,326,015	1,188,617	2,520,474	1,188,617
Cash generated from operations	12,590,889	9,289,937	12,448,014	9,289,937

25. CONTINGENCIES

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, nor are additional payments anticipated at the date of these financial statements.

26. COMMITMENTS

Capital commitments
Capital commitments that were approved and contracted for the supply of Telecommunication equipment and services are as follows:

Capital expenditure contracted for at the balance sheet date but, not yet incurred is as follows:

	Group		Company	
	2006	2005	2006	2005
Supply of telecom equipment	3,379,593	3,217,021	2,984,660	3,217,021

Financial commitments
The Group 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 Group has an annual commitments to pay Rs. 157,779,313 as rent to Base Station site owners.

The Group has annual commitments to pay Rs. 7,920,000 as rent to TMI Lanka (Private) Limited.

The Group 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 Commission of Sri Lanka.

The Group has to pay Rs. 332,572,573 to the previous shareholders of CBNL and CBNSL as deferred purchase consideration.

The Company has to pay Change Trust Fund an amount equivalent to the contribution received from its customers.

There were no other material financial commitments outstanding at the balance sheet date.

27. BUSINESS ACQUISITIONS

Acquisition of Asset Media (Private) Ltd.

On 29 September 2006, the Company acquired 90% of the share capital of Asset Media (Private) Limited (AML), a company which provides television broadcasting services. The assets and liabilities of the acquired business as at 29 September 2006 were, Rs. 721 and Rs. 722,660, respectively.

Details of net assets acquired and goodwill are as follows:

	Company
Purchase consideration:	
Cash paid	325,080
Total purchase consideration	325,080
Fair value of net liabilities acquired	649
Goodwill	**325,729**

The fair value on the net liabilities approximated to the book value of the net liabilities acquired.

27. BUSINESS ACQUISITIONS (CONT'D.)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's Carrying Amount	Fair Value
Cash and cash equivalents	1	1
Trade and other payables	(722)	(722)
Net liabilities	(721)	(721)
Minority interest 10%		72
Net liabilities acquired		(649)
Purchased consideration settled in cash		325,080
Cash and cash equivalents in subsidiary acquired		(1)
Cash outflow on acquisition		**325,079**

AML acquisition of CBNL and CBNSL

On 2 December 2006, the AML acquired 100% of the share capital of Communiq Broadband Network (Private) Limited (CBNL) and CBN Sat (Private) Limited (CBNSL), companies which provides infrastructure facilities for satellite television and transmission. The assets and liabilities of the acquired businesses at 2 December 2006 were Rs. 463,737,069 and Rs. 785,286,116, respectively.

Since the acquisition date was 2 December 2006, the income of the subsidiaries for the 29 days ended 31 December 2006 have been consolidated.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	429,832
Deferred consideration	332,573
Total purchase consideration	762,405
Fair value of net liabilities acquired	321,550
Goodwill	**1,083,955**

The fair value on the net liabilities approximated to the book value of the net liabilities acquired.

27. BUSINESS ACQUISITIONS (CONT'D.)

The assets and liabilities arising from the acquisition are as follows:

	CBNL's Carrying Amount	CBNSL's Carrying Amount	Total Carrying Amount	Fair Value
Cash and cash equivalents	727	53	780	780
Property, plant and equipment	332,650	5,765	338,415	338,415
Receivables	58,580	26,124	84,704	84,704
Capital inventory	Nil	39,838	39,838	39,838
Borrowings	(144,928)	(41,074)	(186,002)	(186,002)
Provision for Deferred Taxation	(833)	Nil	(833)	(833)
Retirement benefit obligations	(744)	Nil	(744)	(744)
Trade and other payables	(540,346)	(57,362)	(597,708)	(597,708)
	(294,894)	**(26,656)**	**(321,550)**	**(321,550)**

Goodwill	1,083,955
Total purchase consideration	762,405
Less:	
Cash and cash equivalents in subsidiaries acquired	(780)
Bank overdraft in subsidiaries acquired	95,312
Deferred consideration	(332,573)
Cash outflow on acquisition	**524,364**

If the above acquisitions had occurred on 1 January 2006, Group revenue for the year would have been Rs. 25,844 Mn. and Group profit for the year would have been Rs. 9,808 Mn.

28. DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

The directors of the Company are also directors of the following companies.

	CBN Sat (Private) Limited	Communiq Broadband Network (Private) Limited	Asset Media (Private) Limited	Dialog Broadband Networks (Private) Limited	Telekom Malaysia Bhd	TM International (L) Limited	TM International Lanka (Private) Limited	TM International Sdn. Bhd.
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	–	–	–	–	X	–	–	X
Ir. Prabahar s/o Nagalingam Kirupalasingam	–	–	–	–	X	–	–	–
Dr. Shridhir Sariputta Hansa Wijayasuriya	X	X	X	X	–	–	X	–
Mr. Moksevi Rasingh Prelis	X	X	X	X	–	–	–	–
Mr. Yusof Annuar bin Yaacob	X	X	X	X	–	X	–	X
Dato' Sri Mohammed Shazalli bin Ramly	–	–	–	–	–	–	–	–
Mr. Mohamed Vazir Muhsin	–	–	–	–	–	–	–	–

x' denotes the companies in which each of the persons mentioned was a Director

Dr. Shridhir Sariputta Hansa Wijayasuriya is a trustee of the Change Trust Fund.

The nature of the transactions are summarised below:

	Company 2006	Company 2005
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	38,119	40,396
iv) Dialog Broadband Networks (Private) Limited – Lease circuit rental and electricity	224,168	Nil
v) Amounts advanced to Asset Media (Private) Limited	913,596	Nil

The above transactions were carried out on commercial terms and conditions and at a price agreed upon by the management.

29. RELATED PARTY TRANSACTIONS

Related party disclosures, other than those disclosed in Note 28 to the financial statements are as follows:

The Company is a subsidiary of TM International (L) Limited. TM International Lanka (Private) Limited is also a subsidiary of TM International (L) Limited. The ultimate parent company is Telekom Malaysia Berhad.

Outstanding balances arising from related party transactions are as follows:

	2006	2005
Amounts due from related companies (Note 14)		
– Asset Media (Private) Limited	910,954	Nil
– Communiq Broadband Network (Private) Limited	173,934	Nil
– CBN SAT (Private) Limited	57,700	Nil
– Telekom Malaysia Berhad	261	Nil
– TM International Lanka (Private) Limited	5,732	8,683
– TM Internatoinal Sdn. Bhd.	Nil	1,000
	1,148,581	9,683
Amounts due to related companies (Note 19)		
– Telekom Malaysia Berhad	Nil	340,062
– Dialog Broadband Networks (Private) Limited	38,587	Nil
– Change Trust Fund	95,077	93,299
– TM International (Bangladesh) Limited	52,171	49,604
– TM Internatoinal Sdn. Bhd.	41,208	32,248
	227,043	515,213
Loan from ultimate parent company, Telekom Malaysia Berhad (Note 20)	Nil	22,261

30. PARENT COMPANY

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. Telekom Malaysia Berhad is the parent company of TM International Sdn Bhd. Accordingly the ultimate parent company of Dialog Telekom Limited is Telekom Malaysia Berhad.

31. POST BALANCE SHEET EVENTS

No material events have occurred since the balance sheet date which require adjustments to, or disclosure in, the financial statements.

INCOME STATEMENT
For Information Purpose Only

For the year ended 31 December
In USD '000

	Group		Company	
	2006	2005	2006	2005
Turnover	238,635	176,462	233,708	176,462
Direct costs	(81,979)	(60,800)	(79,325)	(60,800)
Gross margin	156,656	115,662	154,383	115,662
Other operating income	1,146	521	776	521
Administrative expenses	(28,476)	(21,742)	(27,707)	(21,742)
Distribution costs	(28,492)	(22,847)	(28,411)	(22,847)
Operating profit	100,834	71,594	99,041	71,594
Finance costs	(6,108)	(2,574)	(5,138)	(2,574)
Profit before tax	94,726	69,020	93,903	69,020
Tax	(693)	(410)	(522)	(410)
Profit for the year	94,033	68,610	93,381	68,610
Attributable to				
Equity holders of the Company	94,033	68,610	93,381	68,610
Minority interest	–	Nil	Nil	Nil
	94,033	68,610	93,381	68,610
Exchange Rates	107.61	102.20	107.61	102.20

BALANCE SHEET
For Information Purpose Only

As at 31 December
In USD '000

	Group		Company	
	2006	2005	2006	2005
ASSETS				
Non-current assets				
Property, plant and equipment	279,077	203,540	260,472	191,771
Intangible assets	33,480	15,933	9,333	3,409
Investments in subsidiaries	Nil	Nil	21,335	19,283
	312,557	219,473	291,140	214,463
Current assets				
Inventories	5,392	3,430	4,824	3,430
Trade and other receivables	64,214	36,458	71,647	34,190
Cash and cash equivalents	21,387	65,459	20,792	64,816
	90,993	105,347	97,263	102,436
Total assets	403,550	324,820	388,403	316,899
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares	68,799	72,441	68,799	72,441
Share premium	49,038	51,633	49,038	51,633
ESOS trust shares	(17,891)	(23,340)	(17,891)	(23,340)
Revaluation reserve	194	48	194	48
Retained earnings	132,021	67,524	131,368	67,524
	232,161	168,306	231,508	168,306
Minority interest	(1)	Nil	Nil	Nil
Total equity	232,160	168,306	231,508	168,306
Non-current liabilities				
Subscription in advance	11	Nil	11	Nil
Borrowings	75,685	88,540	69,000	87,216
Deferred tax liability	369	Nil	369	Nil
Retirement benefit obligations	1,042	800	954	736
	77,107	89,340	70,334	87,952
Current liabilities				
Trade and other payables	82,391	51,021	76,324	49,900
Current income tax liabilities	590	350	415	350
Borrowings	11,302	15,803	9,822	10,391
	94,283	67,174	86,561	60,641
Total liabilities	171,390	156,514	156,895	148,593
Total equity and liabilities	403,550	324,820	388,403	316,899
Exchange Rates	107.61	102.20	107.61	102.20

This information does not constitute a full set of Financial Statements in compliance with SLAS.

Exchange rates prevailing at each year end have been used to convert the income statement and balance sheet.

GROUP VALUE ADDED STATEMENT

For the year ended 31 December
In Rs. 000s

	Group	Company			
	2006	2005	2004	2003	2002
Value Added					
Turnover	25,679,492	18,034,397	11,406,685	7,476,924	4,589,909
Other Operating Income	123,322	53,271	30,092	16,994	31,539
	25,802,814	18,087,668	11,436,777	7,493,918	4,621,448
Cost of Materials and Services	(8,677,685)	(6,336,615)	(4,002,879)	(1,855,058)	(1,939,575)
	17,125,129	**11,751,053**	**7,433,898**	**5,638,860**	**2,681,873**
Distribution of Value Added					
To Employees					
Salaries and Other Benefits	1,086,760	617,012	420,760	260,624	175,351
To Government Revenue					
Taxes	2,245,062	1,706,796	1,104,987	1,186,817	712,808
To Providers of Capital					
Dividend to Shareholders	2,813,305	2,858,936	866,285	497,474	NIL
Minority Interest	(72)	NIL	NIL	NIL	NIL
Interest on Borrowings	657,309	263,065	212,464	252,881	92,620
To Main Operations					
Depreciation	3,016,874	2,152,309	1,594,947	1,079,601	617,931
Retained within the Business					
Reserves	7,305,891	4,152,935	3,234,455	2,361,463	1,083,163
	17,125,129	**11,751,053**	**7,433,898**	**5,638,860**	**2,681,873**

FIVE YEAR SUMMARY

31 December In Rs. 000s	Group		Company		
	2006	2005	2004	2003	2002
OPERATING RESULTS					
Turnover	25,679,492	18,034,397	11,406,685	7,476,924	4,589,909
EBIT	10,850,776	7,316,885	4,352,365	2,666,668	1,398,358
Finance Costs	(657,309)	(263,065)	(212,464)	(252,881)	(92,620)
Profit Before Tax	10,193,467	7,053,820	4,139,901	2,413,787	1,305,738
Profit After Tax	10,118,893	7,011,871	4,100,519	2,858,937	1,083,163
CAPITAL EMPLOYED					
Ordinary Shares	7,403,435	7,403,435	370,000	370,000	370,000
ESOS Trust Shares	(1,925,226)	(2,385,320)	NIL	NIL	NIL
Preference Shares	NIL	NIL	1,268,979	1,268,979	1,268,979
Share Premium	5,276,943	5,276,943	NIL	NIL	NIL
Revaluation Reserve	20,840	4,896	4,896	5,117	NIL
Retained Earnings	14,206,808	6,900,917	7,068,281	3,833,826	1,472,363
Shareholders Fund	24,982,800	17,200,871	8,712,156	5,477,922	3,111,342
Minority Interest	(72)	NIL	NIL	NIL	NIL
Subscription in Advance	1,235	NIL	3,414,190	3,414,190	3,414,190
Total Debt	9,512,387	10,745,616	3,511,370	2,909,577	3,087,249
	34,496,350	**27,946,487**	**15,637,716**	**11,801,689**	**9,612,781**
ASSETS EMPLOYED					
Property, Plant & Equipment	30,031,500	20,801,836	13,383,592	10,908,478	8,078,772
Other Non Current Assets	3,602,737	1,628,305	82,300	76,655	27,368
Current Assets	9,791,731	10,766,494	5,688,435	2,331,898	2,801,276
Liabilities Net of Debt	(8,929,618)	(5,250,148)	(3,516,611)	(1,515,342)	(1,294,635)
	34,496,350	**27,946,487**	**15,637,716**	**11,801,689**	**9,612,781**
CASH FLOW					
Net Cash Flow from Operating Activities	12,090,080	9,011,522	6,970,083	3,476,548	1,695,249
Net Cash Flows from Investing Activities	(13,211,906)	10,073,426	(4,060,628)	(3,937,770)	(3,593,317)
Net Cash Flows from Financing Activities	(3,383,181)	4,581,240	(254,610)	(308,434)	2,716,441
Net Increase/(Decrease) in Cash and Cash Equivalents	(4,505,007)	3,519,336	2,654,845	(769,656)	818,373
KEY INDICATORS					
Basic Earnings Per Share (Rs)*	1.40	1.15	0.98	0.70	0.59
Interest Cover (No. of times)	16.51	27.81	20.40	10.50	14.70
Adjusted Net Asset Per Share (Rs)*	3.38	2.32	2.15	1.35	1.69
Gearing Ratio (%)	27.26	38.27	28.44	34.46	45.75
Return on Equity (%)	40.50	40.76	47.07	52.19	34.81
Return on Capital Employed (%)	29.33	26.85	26.86	23.60	12.56
Current Ratio (No. of Times)	0.97	1.57	1.48	1.14	1.32
Market Price Per Share (Rs)	26.50	16.50	NIL	NIL	NIL

*EPS and Net Assets per Share have been adjusted to reflect the capital structure changes made in 2005.

SRI LANKA – AN ECONOMIC OVERVIEW

Sri Lanka is a teardrop shaped island in the Indian Ocean, separated from India by the Gulf of Mannar. It has a diverse climate, ranging from sunny beaches along the coast to cool mountains in the Central South. Sri Lanka consists of nine provinces and 25 districts. The commercial center of Sri Lanka is Colombo, while the nearby Sri Jayawardenapura Kotte is the legislative capital.

The 20 million people of Sri Lanka are similarily diverse, made up of many cultures, religions and languages. Sinhalese make up 74% of the population while Tamils (18%), Muslims (7%) and Burghers (1%) account for the balance.

GROWTH AND PERFORMANCE

In economic terms, Sri Lanka consolidated its strong growth and performance in 2006 with a healthy GDP growth of 7%. Continued expansion in industry and services were a major driver and this, in turn, led to an improvement in the labour market as a whole. The progressive decline of the unemployment rate also contributed to a sustainable growth performance in 2006.

On the external front, merchandise exports and imports grew by 8.4% and 15.7%, respectively. Imports of Petroleum accounted for 20% (USD $2,070 million) of the latter total. Overall tourism arrivals recorded an improvement of 2% despite a setback during the latter part of the year.

Sri Lanka exported a surplus of US $321 million in services. Foreign Direct Investment (FDI) increased to a record of US $500 million while worker remittances increased to US $2,326 million. The overall Balance of Payments recorded a surplus of US $193 million. Total foreign reserves at end 2006 were sufficient to finance 4.3 months of imports.

The Rupee grew stronger against the US dollar in early 2005 because higher aid inflows for post tsunami reconstruction were expected. The rate of depreciation of the rupee against the dollar during 2006 was modest at 5.3%. Over the year, the rupee/dollar exchange rate remained at an average of Rs 104.38 per $1 with a lower and upper bound of Rs.102.02 and Rs.108.21.

The unemployment rate was estimated to be 6.3 percent by end 2006. Inflation has been high during 2006 and thus far in 2007. This is mainly due to the high aggregate demand, increased oil prices, extreme weather fluctuations and higher import prices.

The fiscal front improved in that government revenue increased to 17.3% of GDP while the overall budget deficit was contained at 8.7 percent of GDP. Total government debt declined to 92.9 percent of GDP.

The major objectives of macroeconomic management have been to sustain high economic growth, address regional disparities, contain inflationary pressures and improve fiscal performance. All of this has to be done while facing the challenges posed by the security situation and external shocks. The impact of 'terrorism' has been largely mitigated by intensified security while adverse external shocks - especially the oil price shock - are being addressed by hedging mechanisms.

The planned investment in infrastructure by the government and private/public partnerships facilitates regional growth, while fiscal consolidation continues to minimise the undue recurrent expenditure and increase public investment. Monetary policy continues to address inflation by maintaining an appropriately tight policy stance. As a result, the growth momentum in the economy may continue, regional disparities may reduce, and macroeconomic stability will be strengthened.

THE EQUITY MARKET

The market recovered in 2006 from a sharp decline in the latter part of 2005, due to improved corporate sector performance and positive developments on the peace front, particularly in the first quarter of 2006. In the second quarter, however, the volatility increased with negative developments on the peace front. The annual returns implied by the All Share and Milanka price indices were 42% and 51%, respectively by the end of 2006. The telecommunications sub-index grew by 62% on a point-to-point basis. Market capitalisation increased by 43% to Rs. 834 billion and stood at about 30% of GDP by end of 2006.

THE SERVICE SECTOR

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 56% of GDP. Telecommunications is the most dynamic sub-sector, recording double-digit growth. The financial services sector has also seen a healthy growth.

STRONG CONTRIBUTION FROM TELECOM SECTOR

The Post and Telecommunication sector grew by 18.9% during 2006, contributing over 20% to the GDP.

New fixed-line telephone connections increased more than seven fold, mainly due to the use of Code Divisions Multiple Access (CDMA) technology. With these developments, the teledensity (telephones per 100 persons, including mobiles) increased to 36.7% by end 2006 from 24% at end 2005. The total telephones numbered over 7.3 million (including mobile).

The mobile segment has reported an impressive growth of 61%, making a significant contribution towards the telecom sector. A near 27% penetration has resulted in a mobile subscriber base pushing 5.4 million at the end of 2006.

Several telecommunications projects were in progress in the first half of 2006 to improve service quality and expand coverage. In August 2006 Third Generation (3G) mobile technology was introduced to offer high-speed voice and data transmission, adding value and growth momentum to the sector as a whole.

Increased investment, expansion of coverage, new technology and increasing value added services contributed to this expansion. Projects in the services sector - especially telecommunications and infrastructure - received the largest share of FDI. Out of this, Dialog Telekom invested approximately US $150 million.

THE INDUSTRY SECTOR

The industry sector grew by 6.3% during 2006 with contributions from all four sub-sectors - manufacturing, construction, electricity and water and mining and quarrying.

Factory industries - the largest sub-sector in the manufacturing sector - expanded by 5.0%. This growth was achieved despite challenges posed by high oil prices, intensified global competition in the apparel industry and the deceleration of economic activities in the North and East. The industrial sector benefited from healthy external and domestic demand and expansions in capacity. The establishment of new industries and relocation of old under the 'Nipayum Sri Lanka' 300 Enterprises Programme and development of the Thulhiriya Textile Complex is expected to expand production capacity further.

THE AGRICULTURAL SECTOR

The agricultural sector continued to grow steadily, benefiting from favourable weather during 2006. The record paddy harvest in the 2005/06 'Maha' season, significant increases in rubber and coconut production and recovery of fish production contributed to this growth. However, production of tea and some subsidiary food crops and vegetables reported a marginal decline during the first half of the year. However, a second half surplus finished the year with an outstanding performance.

Tea production declined by 2% to 310 million kg during the year compared to the peak tea production recorded in 2005. Rubber production rose by 4.6% to 109.2 million kg during the year. Coconut production also increased by 7.5% to 2,436 million in 2006. Paddy production increased by 6.1% to 2.1 million metric tons due to favorable weather and the availability of fertiliser at a highly subsidised price. The yields have also increased compared to the previous 'Maha' season.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE TENTH ANNUAL GENERAL MEETING OF DIALOG TELEKOM LIMITED WILL BE HELD ON MONDAY, 21 MAY 2007 AT 10.00 A.M. AT THE GRAND BALLROOM, WATER'S EDGE, 316 ETHUL KOTTE RD, BATTARAMULLA :

VENUE
THE GRAND BALLROOM, WATER'S EDGE, 316, ETHUL KOTTE, BATTARAMULLA.

DATE
21 MAY 2007

TIME
10:00 AM

1. To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2006 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, Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.

4. To re-elect as a Director, Mr. Mohamed Vazir Muhsin who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.

5. To re-elect as a Director, Mr. Moksevi Rasingh Prelis who has attained the age of seventy years and retires pursuant to Section 181 of the Companies Act No. 17 of 1982, special notice of the following resolution having been given by a member for the purpose.

   "THAT the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable to Mr. Moksevi Rasingh Prelis who attained the age of 70 years on 2 July 2006 and that he be re-elected a Director of the Company."

6. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

7. To authorise the Directors to determine and make donations for 2007.

8. To consider any other business of which due notice has been given.

Mrs. Anoja J Obeyesekere
Company Secretary

20 March 2007
Colombo

Notes:

(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

A

AIR	Automatic International Roaming
AC	Audit Committee refers to Board Audit Committee
ARPU	Average Revenue per User
APCSC	Asia Pacific Customer Service Consortium
APQA	Asia Pacific Quality Award

B

BAC	Board Audit Committee
BHAR	Busy Hour Answer Ratio
BOI	Board of Investment of Sri Lanka
BPO	Business Process Outsourcing
BSS	Base Station Sub System
BTS	Base Transceiver Station

C

CAGR	Compounded Annual Growth Rate
CDMA	Code Division Multiple Access
CLI	Caller Line Identification
CIM	Chartered Institute of Marketing
CIMA	Chartered Institute of Management Accountants
CSE	Colombo Stock Exchange
CSQS	Customer Service Quality Standard
CSR	Corporate Social Responsibility

D

DBN	Dialog Broadband Networks
DNV	Det Norske Veritas
DR	Disaster Recovery
DTL	Dialog Telekom Limited
DVB-S	Digital Video Broadcasting – Satellite

E

EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization -
ECM	Enterprise Contact Management
EDGE	Enhance Data Rate for GSM Evolution
EGO	External Gateway Operator
EPS	Earnings Per Share
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ESOS	Employee Share Options Scheme
EV	Enterprise Value

F

FDD	Frequency Division Duplexing
FY	Financial Year

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

HRIS	Human Resource Information System
HRM&D	Human Resource Management and Development
HSDPA	High Speed Downlink Packet Access

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

L

LBS	Location Based Services

M

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
NGN	Next Generation Network
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
PE	Price Earning Ratio
PoP	Point of Presence
PSTN	Public Switched Telephone Network
PTT/PnT	Push to Talk

Q

QoS	Quality of Service

R

R&D	Research and Development
RM	Risk Management
ROCE	Return on Capital Employed
ROE	Return on Equity
ROI	Return on Investment

S

SBU	Strategic Business Unit
SEA–ME-WE3/SEA-ME-WE4	South East Asia, Middle East, Western Europe Fibre Optic Cable
SIA	Subscription In Advance
SIM	Subscriber Identification Module
SL	Sri Lanka
SLA	Service Level Agreement
SLNQA	Sri Lanka National Quality Award
SMART	Internal performance Management System
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
TSR	Total Shareholder Returns

U

UMTS	Universal Mobile Telecommunications System
UOM	University of Moratuwa

V

VAS	Value Added Services
VAT	Value Added Tax
VOIP	Voice Over Internet Protocol

W

WAP	Wireless Application Protocol
WiFi	Wireless Fidelity
WiMax	World Interoperability for Microwave Access
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' Sri Mohammed Shazalli bin Ramly *or failing him*
Mr. Mohamed Vazir Muhsin

as my/our proxy to represent me/us and vote on my/our behalf at the Tenth Annual General Meeting of the Company to be held on **Monday, 21 May 2007** at **10:00 AM** 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 2006 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, Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.		
4.	To re-elect as a Director, Mr. Mohamed Vazir Muhsin who was appointed to the Board during the year and retires pursuant to Article115 of the Articles of Association of the Company.		
5.	That the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable to Mr. Moksevi Rasingh Prelis who attained the age of 70 years on 2 July 2006 and that he be re-elected a Director of the Company		
6.	To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.		
7.	To authorise the Directors to determine and make donations for 2007.		

(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 ______________ , 2007.

____

Signature/s of Shareholder

FORM OF PROXY

Note:
Instructions as to completion of the Form of Proxy are noted on the reverse hereof.

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, a certified copy of 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)